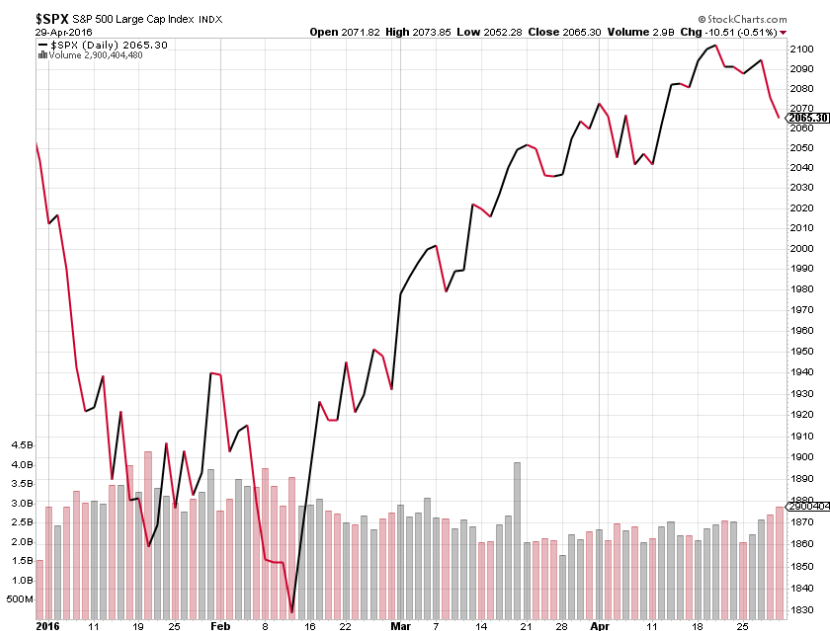


MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF MAY 2, 2016

Even after the S&P 500 staged a late Friday rally, the index closed down 1.25% for the week. All told, the S&P500 closed out the month of April up just 0.3 percent — well below its month high of up 2.5 percent. The reversal of late in the market can be contributed to several factors that we have been warning would come to roost over the last few months: the impact of slower global growth; and the need for earnings expectations to catch up to the current economic reality. Closing the books on April, we find the S&P 500 ended the first four months of 2016 up just over 1% and sets the state for that much touted “sell in May.”



Our forward looking view allowed us to position the [Tematica Select List](#) accordingly, and we saw this pay off last week when every position on the list outperformed the S&P 500 index on either an absolute basis or a relative one. And for those wondering, we’re not just talking about the insurance or hedging inverse ETF positions. We added those positions as the market continued to melt higher in



[Selling Bottled Water That’s Better for the Planet](#)

Scarce Resources / Foods with Integrity

[Household income inequality: ladders to climb](#)

Rise & Fall of the Middle Class

[Anemic Wage Growth Restraining Economy](#)

Rise & Fall of the Middle Class

[Chipotle To Expand Chorizo, Consider Loyalty Program To Bring In New And ‘Lapsed’ Customers](#)

Foods with Integrity

[Help! My building has been hacked](#)

Safety & Security

[Intelligent cars will be able to head off congestion problems before they happen.](#)

Connected Society / Disruptive Technology



ABOUT THE MONDAY MORNING KICKOFF

In order to get ready for the week ahead, the team at Tematica traces the key happenings of the past week and looks at the economic and earnings calendars slated to come out for the coming week in order to identify key catalysts that are bound to shape the market in the near-term, and in-turn impact our tematics.

March and the mismatch between valuation, value and earnings became increasingly apparent.

Last week we once again heard from the Fed, and those central bankers left interest rates unchanged exiting its April Federal Open Market Committee meeting. The Fed met our expectation for them to do nothing as they have come around to share the same perspective we've had for some time now. Within the first few lines of the press release, the Fed said "growth in economic activity appears to have slowed" and "growth in household spending has moderated." That rings of our **Economic Acceleration/Deceleration** and **Cash Strapped Consumer** investing themes.

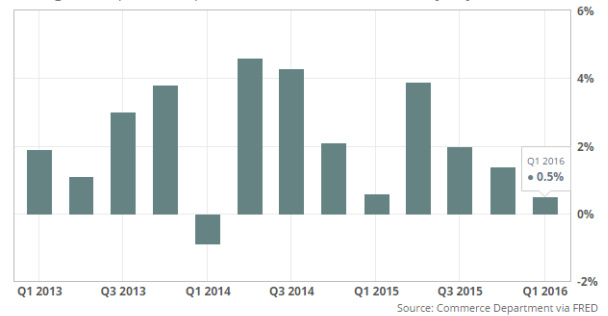
From our perspective, it sounds like the Fed saw the same rash of economic data that we have since Fed Chairwoman Janet Yellen last discussed monetary policy, with the data pointing to a slowing domestic economy. In our view, nothing shows more clearly than the quarter over quarter comparisons for GDP, which came in at just 0.5% for 1Q 2016 down from 1.4% in 4Q 2015 and 2.0% in 3Q 2015. As that data illustrates, the vector and velocity are moving in the wrong direction compared to the recent move in the stock market. That was reinforced with the flat core capital goods order reading for March and last week's March Personal Income & Spending report that showed consumers continue to favor saving over spending.

Moving deeper into the current quarter (2Q 2016) we are now starting to get first impressions on how strong (or not) the economy is expected to be over the next few months. To say the range is wide enough to drive a Class 8 truck through it would be an understatement. The ever-optimistic "Blue Chip" forecasters lead the way, expecting GDP will rise by 2.3% in the second quarter, while the initial reading from Atlanta Fed's GDPNow is 1.8%. By comparison, the NY Fed's Nowcast calls for 0.8%

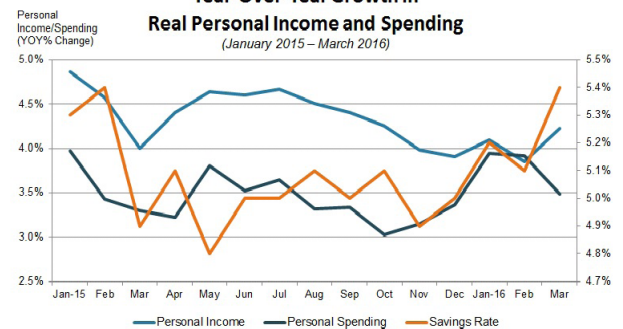
Certainly not a robust improvement from 1Q 2016 and one that will likely keep market returns capped, particularly as the talking heads pontificate "sell in May." As astute investors of the market have come to realize, often times in the short-term perception is reality.

Real GDP

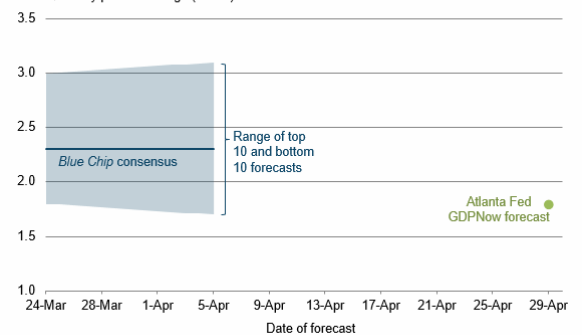
Change from previous quarter at annual rate, seasonally adjusted



Year-Over-Year Growth in Real Personal Income and Spending
(January 2015 – March 2016)



Evolution of Atlanta Fed GDPNow real GDP forecast for 2016: Q2
Quarterly percent change (SAAR)



While the Fed is not likely to do anything in our view until the back half of 2016 at the soonest, we will continue to churn through all the coming data to keep a pulse on what the Fed may do or say in the coming weeks. As we've seen more often than not lately, Fed jawboning can whip the market up or down, despite what the data is really telling us. We'll continue to listen to the Fed, but let the data talk to us.

Turning to the week ahead

On tap for this week, we have both the April ISM manufacturing and services as well as the full PMI reports from Markit Economics. We'll pour through these reports to assess the strength in recent order trends and what that means for May. We'll also get the April performance of car and truck sales, which increasingly look to have peaked, as well as March Factory orders. New orders for manufactured goods in February declined 1.7%, marking the third time in the last four months that they have been down. Seeing as how we already have the first reading on 1Q 2016 GDP, this report will be more or less rear-view mirror nature, but the report will still likely offer confirmation of a slow domestic economy and weak manufacturing environment.

Rounding out the week as it usually does when its released, will be the Employment Report for April. As we enter the week, the current consensus calls for 207K jobs to have been created during the month, but no doubt that will be fine tuned on the heels of the ISM reports and ADP's own monthly job creation report for the private sector. Also on Friday, we get the March read on Consumer Credit. After trending down in 2015, total outstanding consumer credit increased by \$17.3 billion in February after increasing \$14.8 billion in January. This strong reversal speaks to our **Cash Strapped Consumer** theme and the March report should help reveal what lays ahead in the April Retail Sales and Personal Spending reports.

Given the impact of the consumer on the overall economy, it's hard to see a sharp rebound if the consumer remains under pressure.

ECONOMIC CALENDAR, MAY 2 - 6, 2016		
DATE	REPORT / SPEECH	DATA
2-May	ISM Index	Apr
2-May	Construction Spending	Mar
3-May	Auto Sales	Apr
3-May	Truck Sales	Apr
4-May	MBA Mortgage Index	30-Apr
4-May	ADP Employment Change	Apr
4-May	Productivity-Prel	Q1
4-May	Unit Labor Costs - Prel	Q1
4-May	Trade Balance	Mar
4-May	Factory Orders	Mar
4-May	ISM Services	Apr
4-May	Crude Inventories	30-Apr
5-May	Challenger Job Cuts	Apr
5-May	Initial Claims	30-Apr
5-May	Continuing Claims	23-Apr
5-May	Natural Gas Inventories	30-Apr
6-May	Nonfarm Payrolls	Apr
6-May	Nonfarm Private Payrolls	Apr
6-May	Unemployment Rate	Apr
6-May	Hourly Earnings	Apr
6-May	Average Workweek	Apr
6-May	Consumer Credit	Mar

Lest we forget, we are waist deep in March quarter earnings and there will be more than 1,400 companies reporting this week — a 40% increase compared to last week. Mixed in that horde will be 124 S&P 500 companies (including 2 DJIA components) reporting. By the end of the week that will mean 87% of the S&P 500 group of companies will have reported March quarter results. As the results are tabulated, we plan on dissecting the revised expectations for the June quarter as well as the back half of 2016. As we've shared with you thus far, overall earnings expectations for the S&P 500 group of companies has continued to trend lower since the end of 3Q 2015.

Despite some high profile and stellar results from **Amazon (AMZN)**, **Facebook (FB)** and others, expectations exiting this week call for that group of companies to deliver just 1% earnings growth in 2016 over 2015. Keep in mind, that includes the cosmetic effect of stock repurchase plans on bottom line performance. We still see the expected 13% forecasted improvement in the second half of 2016 relative to the first half as aggressive given the current economic backdrop. Again, we'll have more on this and what it means once we navigate this week's earnings and have a more complete reading on the S&P 500 group of companies.

Exhibit 2A. S&P 500: Q1 2016 Earnings vs. Expectations – Companies Reporting April 25-29

Sector	Above %	Match %	Below %	Reported This Week	Reported Total #	Index Total #
Consumer Discretionary	86%	0%	14%	21	46	84
Consumer Staples	80%	20%	0%	10	20	37
Energy	69%	0%	31%	13	16	38
Financials	64%	6%	31%	36	68	90
Health Care	80%	4%	16%	25	33	57
Industrials	75%	11%	14%	28	53	65
Materials	91%	0%	9%	11	18	27
Technology	62%	5%	33%	21	43	68
Telecom Services	100%	0%	0%	2	3	5
Utilities	55%	9%	36%	11	11	29
S&P 500	73.0%	5.6%	21.3%	178	311	500

Source: Thomson Reuters I/B/E/S

Thematic Earnings on our Radar

We hope you got some rest this weekend, it's going to be even busier several days than we saw last week. Rest assured we will be here to help get you through it.

Aging Population

- **Allscripts (MDRX)**
- **Almost Family (AFAM)**
- **Dentsply Sirona (XRAY)**
- **Cardiovascular Systems (CSII)**
- **Cerner Corp. (CERN)**
- **CVS Health (CVS)**
- **Health Net (HNT)**
- **Henry Schein (HSIC)**
- **K2M Group Holdings (KTWO)**
- **Merk & Co. (MRK)**
- **Omega Healthcare (OHI)**
- **Owens & Minor (OMI)**
- **PetMeds Express (PETS)**
- **Physicians Realty Trust (DOC)**

Asset Lite

- **Ceva Inc. (CEVA)**
- **INC Research Holdings (INCR)**
- **Mitel Networks (MITL)**
- **RPX Corp. (RPXC)**

Cash-Strapped Consumer

- **Church & Dwight (CHD)**
- **Kellogg Co. (K)**
- **Kraft Heinz (KHC)**
- **Overstock.com (OSTK)**
- **Post Holding (POST)**

Cashless Consumption

- Fiserv Inc. (FISV)
- Planet Payment (PLPM)
- Square (SQ)
- Western Union (WU)

Connected Society

- Alibaba Group (BABA)
- Centurylong (CTL)
- Comscore (SCOR)
- Equinix (EQIX)
- Fitbit (FIT)
- GoPro (GPRO)
- Grubhub Inc (GRUB)
- Match Group (MTCH)
- Qorvo (QRVO)
- Shopify (SHOP)
- Shutterstock (SSTK)
- Sprint (S)
- Tripadvisor (TRIP)
- Web.com (WEB)
- WebMD Health (WBMD)
- Yelp Inc. (YELP)
- Zillow (Z)

Content is King

- AMC Networks (AMCX)
- Activision Blizzard (ATVI)
- Carmike Cinema (CKEC)
- Discovery Communications (DISCA)
- EW Scripps (SSP)
- Gluu Mobile (GLUU)
- IAC/Interactive (IAC)
- Live Nation (LYV)
- Madison Square Networks (MSG)
- New York Times (NYT)
- Time Inc. (TIME)
- Time Warner (TWX)
- Twenty-first Century Fox (FOX)

Disruptive Technologies

- 3D Systems (DDD)Cuttera Inc. (CUTR)
- FARO Technologies (FARO)
- Green Dot Corp. (GDOT)
- Immersion (IMMR)
- Mobileye NV (MBLY)
- Rofin-Sinar (RSTI)
- Tesla Motors (TSLA)
- Universal Display (OLED)

**Economic Acceleration/
Deceleration**

- American Axle & Manufacturing
- Emerson Electric (EMR)
- ESCO Technologies (ESE)
- Freightcar America (RAIL)
- Headwaters (HW)
- Kennametal (KMT)
- Rogers Corp. (ROG)

Fattening of the Population

- Adidas AG (ADDYY)
- Cott Corp. (COT)
- Denny's (DENN)
- Dine Equity (DIN)
- Sysco Corp. (SYU)
- Del Taco Restaurant (TACO)
- Gildan Activewear (GIL)
- Habit Restaurants (HABT)
- Medifast (FAST)
- Nutri/System (NTRI)
- Papa Johns (PZZA)
- Papa Murphy's (FRSH)
- Potbelly Corp. (PBPB)
- Vivus Inc. (VVUS)
- Weight Watchers (WTW)
- Wingstop (WING)

Foods with Integrity

- Amplify Snack (BETR)
- Farmer Brothers (FARM)
- Freshpet Inc. (FRPT)
- Hain Celestial (HAIN)
- Herbalife (HLF)
- Jones Soda (JSDA)
- Omega Protein (OME)
- Natural Grocers (NGVC)
- Sprouts Farmers Market (SFM)
- Whole Foods (WFM)
- Vitamin Shoppe (VSI)

Fountain of Youth

- Avon Products (AVP)
- Elizabeth Arden (RDEN)
- Estee Lauder (EL)
- Revlon (REV)
- Sally Beauty (SBH)

Guilty Pleasure/Affordable Luxury

- Anheuser Busch Inbev (BUD)
- Big 5 Sporting Goods (BGFV)
- Caesar Entertainment (CZR)
- Craft Brew Alliance (BREW)
- Famous Daves (DAVE)
- Fossil Group (FOSL)
- Molson Coors (TAP)
- Tumi Holdings (TUMI)
- Wynn Resorts (WYNN)

Rise & Fall of the Middle Class

- **Agrium Inc. (AGU)**
- **Astronics Corp. (ATRO)**
- **CF Industries (CF)**
- **Kate Spade (KATE)**
- **Hyatt Hotels (H)**
- **Starwood Hotels (HOT)**

Safety & Security

- **ADT Corp. (ADT)**
- **Brinks Co. (BCO)**
- **Corrections Corp. (CXW)**
- **Cyber-ark Software (CYBR)**
- **Fireeye Inc. (FEYE)**
- **ID Systems (IDSY)**
- **Imperva (IMPR)**
- **Radware (RDWR)**
- **Taser International (TASR)**

Scarce Resources

- **American Water Works (AWK)**
- **Aqua America (WTR)**
- **Canadian Solar (CSIQ)**
- **Green Plains (GPRE)**
- **Primo Water (PRMW)**
- **Royal Dutch Shell (RDS.A)**
- **Watts Water (WTS)**
- **Xylem (XYL)**
- **Yamana Gold (AUY)**

Tooling & Retooling

- **51job Inc. (JOBS)**
- **Alexandria Real Estate Equities (ARE)**
- **Career Education Corp. (CECO)**
- **Cheng Inc. (CHGG)**
- **Education Realty Trust (EDR)**
- **Examworkq Group (EXAM)**
- **Insperty (NSP)**
- **Paylocity Holdings (PCTY)**
- **Rosetta Stone (RST)**
- **Strayer Education (STRA)**
- **Wageworks Inc. (WAGE)**

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