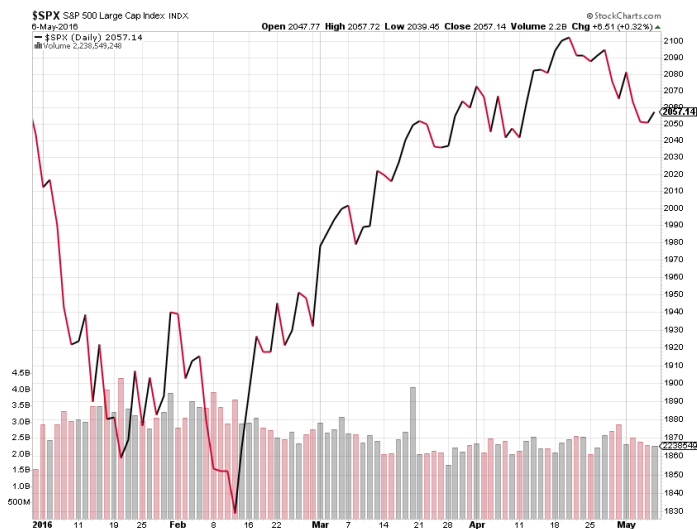


MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF MAY 9, 2016

While the market rallied back Friday after a weaker than expected April Employment Report, the S&P 500 still finished down for the week, marking the third consecutive week that index has moved lower.




Even with that additional step down, the S&P 500 remains in modestly positive territory for 2016 on a year-to-date basis. By comparison, the **Tematica Investing Select List** handily outperformed the market due to moves in several key positions.

So what pressured the overall market again last week?

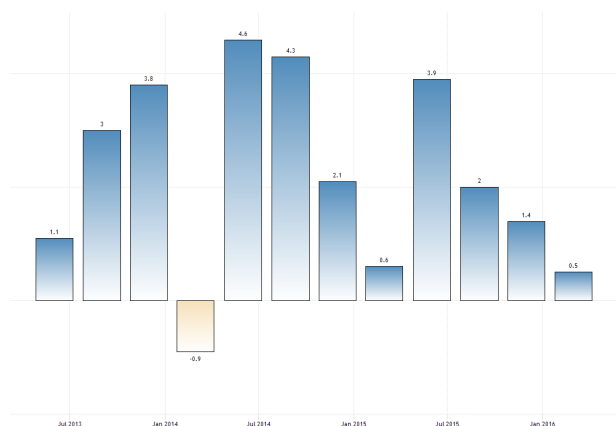
Simply put, it's the continued realization that the global economy is on softer footing than previously thought than just a few months ago. This ongoing realization is reverberating through corporate growth expectations and that reset is weighing on stock prices that have melted up significantly in February, March and early April.

As we shared last week, the initial reading on 1Q 2016 GDP came in at 0.5 percent, well below the better than 2 percent estimate by the Atlanta Fed's GDPNow as late as mid March.



- Meet The Billionaire With The Drug To Fix Baldness** *Fountain of Youth*
- The Job Market's Missing** *Middle Rise & Fall of the Middle Class*
- The New Comedy Economy: Stand-Up Specials Proliferate on Streaming Services** *Connected Society / Content is King*
- Canadian Wildfires Curtail Oil Sands Production** *Scarce Resources*
- Facebook Has 50 Minutes of Your Time Each Day. It Wants More.** *Connected Society*
- Meet the Watchers of the Web** *Connected Society / Safety & Security*

US GDP GROWTH RATE



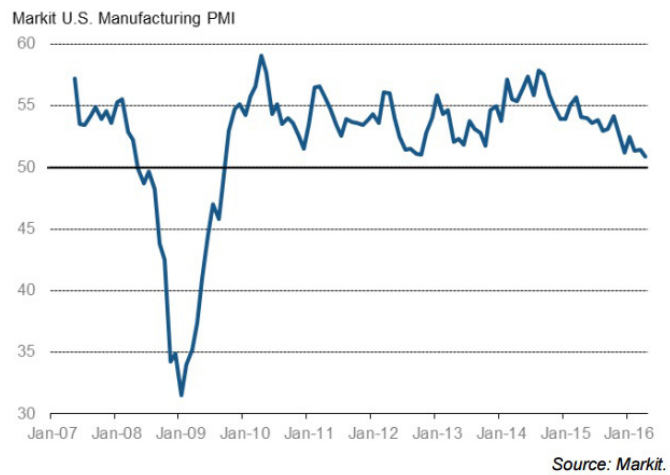
ABOUT THE MONDAY MORNING KICKOFF

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.

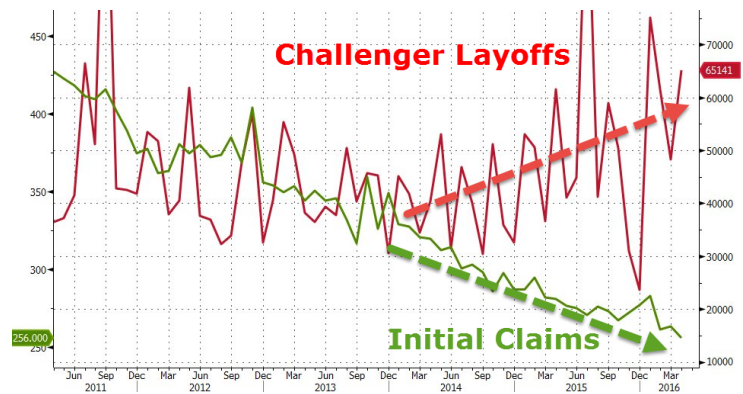
In last week's [Monday Morning Kickoff](#) we outlined how the week's data dump would provide us with the first real look at how the current (June) quarter is shaping up. Well, the quick take is it's looking like more of the same:

- The J.P.Morgan Global All-Industry Output Index hit 51.6 in April, up further from February's 40-month low. Although an improvement on recent months, the rate of expansion remains weak by historical standards (as signified by the long-run index average of 53.8).
- Caixin China Composite PMI data (for both manufacturing and services) indicated a second successive monthly expansion of overall business activity in China during April. That's the good news. The bad news is the rate of activity growth eased compared to 50.8 in April from 51.3 in March.

- Markit's April US Manufacturing PMI points to weakest performance since September 2009. At 50.8 for the month (down from 51.5 in March), manufacturing activity in the current quarter is starting off at an even slower pace than the 1Q 2016 average of 51.7. Markit's April US Services Business Activity Index rose to 52.8 in April, up from 51.3 in March, but we'd caution excitement as it was only the second month above the expansion/contraction line at 50.0. Despite the falling dollar, US export demand continued to slump in April as "new work from abroad decreasing at the fastest pace for nearly one-and-a-half years."



- Both the ADP and Bureau of Labor April job creation figures were well below expectations. According to the Challenger Grey data on layoffs, the pace of downsizing in April rose by 35% percent to 65,141, from the 48,207 layoff announcements in March. In the first four months of 2016, employers have announced a total of 250,061 planned job cuts, up 24% from the 201,796 job cuts tracked during the same period a year ago. Keep in mind too, given the low to no growth environment and low interest rates, companies are likely to utilize M&A activity to bolster revenue and profits. The issue there is layoffs are one of the quickest means to achieve cost savings, or "synergies" to use the finance lingo.



- The Markit Eurozone PMI Composite Output Index posted 53.0 in April, down ever so slightly from March's 53.1.

In sum, the global economy remained in low gear in April and company commentary last week was more confirming than not:

“According to the National Restaurant Association, restaurant sales have been uneven during the first three months of 2016 after steadily rising throughout 2015. Both NPD and KNAPP-TRACK have also shown recent traffic and sales declines... we may be seeing a little bit of a softening out there right now”

— Sysco Corp. (SYY) CEO Bill Delaney

“We’ve been mentioning that the macro’s been soft...for at least three quarters. We continue to see the same kind of softness...we don’t see the market getting stronger, but we see it somewhat stable. We don’t see a significant downside. We just see it very slow and very weak.”

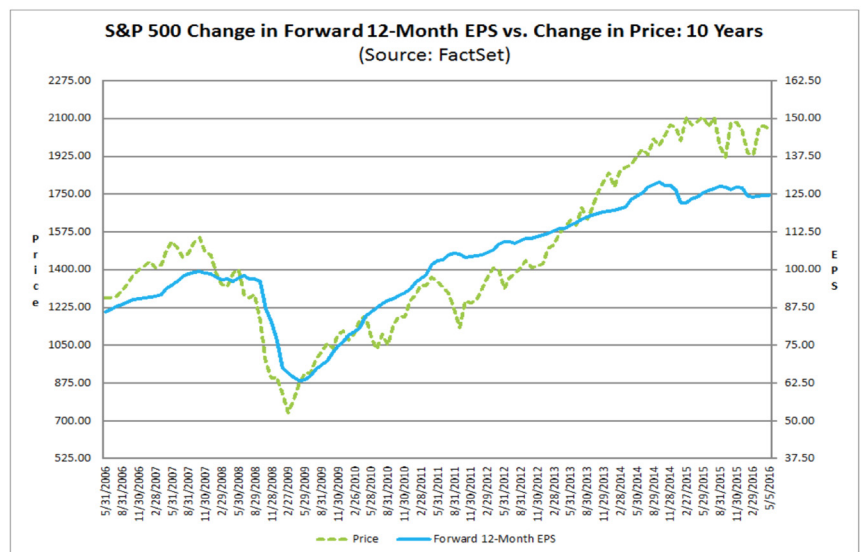
— Flextronics International (FLEX) CEO Mike McNamara

This says there is a high probability the recent pressures in the market will continue for a while longer. No doubt this will help fuel the “sell in May” notion that many talking heads are already espousing.

At Tematica, however, we have reason to think these pressures could continue well into the summer. With roughly 87 percent of S&P 500 companies having reporting their March quarter results, we continue to see second half 2016 earnings expectations for the S&P 500 group of companies as aggressive, compared to first half expectations.

As of Friday, expectations tracked by FactSet has second half 2016 earnings for the S&P 500 rising 13% compared to the first half of the year. That’s one of the strongest levels of earnings growth not coming out of a recessionary period! In our view, given the current economic landscape, it calls for a hefty dose of skepticism. Much like what we saw with 1Q 2016 expectations, over the coming weeks we anticipate these earnings expectation to do a pretty good impression of a balloon leaking air.

Add in the fact as of the close on Friday, the S&P 500 stood at 17.2x 2016 earnings expectations — growing all of 1 percent year over year to \$119.18 per share — and it means we will continue to tread cautiously with the **Tematica Investing Select List**. We expect the **Tematica Investing Contender List** will be far more active as we build our shopping list for when the time is right to pounce.



Turning to the Week Ahead

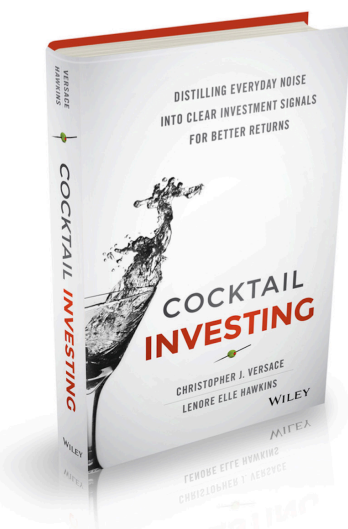
Looking ahead over the coming days, we have a less action packed week with only a few major economic reports, and “only” 835 companies reporting quarterly results. Out of those 835 companies, 20 are in the S&P 500, including one Dow Jones Industrial Average component.

While the number of economic reports will be far fewer, they will nonetheless be rather important in gauging both the tone of the economy in the current quarter and what the Fed may be thinking when it comes to interest rates. We continue to see the soonest opportunity for the Fed to boost rates coming late in the second half of 2016 given the data, the pending Brexit vote and of course the US presidential election.

This week we get the April Retail Sales report, which should offer some perspective on **Costco Wholesale's (COST)** April same-store sales — we

continue to see Costco as a share gainer when it comes to consumer wallets. Retail sales reports over the last few months have been disappointing as consumers have focused more on saving, but again to us that means they are looking to stretch the dollars they are spending.

Also this week we will get the latest inflation reading in the April Producer Price Index report. Given the move in oil prices, we will be looking at the data ex-food and energy, but given the 9% rise in gas prices over the last month it's another reason we see the consumer continuing to be cautious. We doubt all the recent talk of even higher healthcare premiums on the horizon will help assuage consumers when it comes to spending.



Given the consumer is directly or indirectly responsible for roughly two-third of the economy, a more restrained consumer is more reason we are not likely to see a pick up in the economy near term. In other words, the **Cash Strapped Consumer** that Tematica CIO Chris Versace writes about in his new book **Cocktail Investing: Distilling Everyday Noise into Clear Investment Signals for Better Returns** remains very much alive and well.

| ECONOMIC CALENDAR, MAY 9 - 13, 2016 | | |
|-------------------------------------|--------------------------------|--------|
| DATE | REPORT / SPEECH | DATA |
| 10-May | JOLTS - Job Openings | Mar |
| 10-May | Wholesale Inventories | Mar |
| 11-May | MBA Mortgage Index | 7-May |
| 11-May | Crude Inventories | 7-May |
| 11-May | Treasury Budget | Apr |
| 12-May | Initial Claims | 7-May |
| 12-May | Continuing Claims | 30-Apr |
| 12-May | Import Prices ex-oil | Apr |
| 12-May | Export Prices ex-ag. | Apr |
| 12-May | Natural Gas Inventories | 7-May |
| 13-May | PPI | Apr |
| 13-May | Core PPI | Apr |
| 13-May | Retail Sales | Apr |
| 13-May | Retail Sales ex-auto | Apr |
| 13-May | Business Inventories | Mar |
| 13-May | Mich Sentiment | May |

Thematic Earnings on our Radar

As we have said previously, our view is that sector investing is dead and following the herd in that endeavor means you are more likely to get trampled.

Instead it is thematic tailwinds that are the catalysts that drive companies and their business models. Each week, we examine the earnings reports to be had from a thematic perspective to gather data points and other information to determine if each theme is on track, strengthening or cooling. Here's our thematic perspective on corporate earnings ahead this week:

Affordable Luxury

- Sotheby's (BID)
- Inter Parfums (IPAR)
- Ralph Lauren (RL)

Aging Population

- Arena Pharmaceuticals (ARNA)
- HCP Inc. (HCP)
- PetMeds Express (PETS)
- Premier Inc. (PINC)
- STAAR Surgical (STAA)
- Birner Dental (BDMS)

Asset Lite

- Sigma Labs (SGLB)

Cash-Strapped Consumer

- Murphy USA (MUSA)
- US Auto Parts (PRTS)
- Kohl's (KSS)
- Prestige Brands (PBH)

Cashless Consumption

- Evertec (EVTC)
- USA Technologies (USAT)

Connected Society

- Rackspace Hosting (RAX)
- Stamps.com (STMP)
- Alarm.com (ALRM)
- Comscore (SCOR)
- Zebra Technologies (ZBRA)
- Asure Software (ASUR)
- Nvidia (NVDA)

Content is King

- Liberty Media (LMCA)
- Cinemark Holdings (CNK)
- Remark Media (MARK)
- Tribune Media (TRCO)

Disruptive Technologies

- InvenSense (INVN)
- Robin Sinar (RSTI)
- Mazur Robotics (MZOR)
- Sunworks (SUNW)
- eMagin Corp. (EMAN)

Economic Acceleration/ Deceleration

- Armstrong World (AWI)
- Ply Gem Holdings (PGEM)
- Ritchie Brothers (RBA)

- Regal Beloit (TBC)
- Air Transport Systems (ATSG)
- Kubota Corp. (KUBY)
- Applied Materials (AMAT)

Fattening of the Population

- Fiesta Restaurant (FRGI)
- Snyders -Lance (LNCE)
- Planet Fitness (PLNT)
- Sodastream International (SODA)
- Jack in the Box (JACK)
- Wendy's (WEN)
- Shake Shack (SHAK)

Foods with Integrity

- Phibro Animal Health (PAHC)
- Blue Buffalo (BUFF)
- Nature's Sun Products (NATR)
- White Wave Foods (WWAV)

Fountain of Youth

- Nautilus Inc. (NLS)
- Youngevity International (YGYI)

Guilty Pleasure

- Red Rock Resorts (RRR)

Rise & Fall of the Middle Class

- International Flavors & Fragrances (IFF)
- Hertz Global (HTZ)
- Tyson Foods (TSN)
- Dean Foods (DF)
- Norwegian Cruise (NCLH)
- RCI Hospitality (RICK)
- Macy's (M)
- Darling Ingredients (DAR)
- Nordstrom (JWM)
- Honda Motor Co. (HMC)

Safety & Security

- KEYW Holdings (KEYW)
- Intellicheck Mobilisa (IDN)

Scarce Resources

- Canadian Solar (CSIQ)
- Consolidated Water (CWCO)

Tooling & Retooling

- American Public Education (APEI)
- Ebix (EBIX)
- Grand Canyon Education (LOPE)
- Examwork Group (EXAM)
- Learning Tree (LTRE)
- CA, Inc. (CA)
- Kelly Services (KELYA)

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