MONDAY MORNING KICKOFF
YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF MAY 23, 2016

What started off on a strong note last Monday soon gave way to a downward move in the market due to more retailer woes, the impact of the Fed's April FOMC minutes and initial indications the economy has not rebounded in May.

Friday's market rally made the week's chart of the S&P 500 look more like the quick roller coaster ride it was. Unlike one of those rides, the S&P 500 didn't finish the week where it started as it closed up 0.3 percent for the week. This modestly reversed the course of the prior few weeks that saw the index move lower. With just a week to go before we shut the books on the second month of the second quarter, the S&P 500 is "all of" 0.4 percent so far in 2016.

While last week snapped the prior three-week losing streak in the market, we'd remind investors that the market still faces several unknowns in the coming weeks. These include:

- The fall out of the weekend's G7 economic summit;
- Current events in South America;
- The looming Brexit vote and potential new Greek standoff;
- The market's thought the Fed may raise interest rates as early as June (more on that in a minute); and
- More data that leads us to believe second half expectations for the economy and earnings are overly robust.

Not exactly a short list and one that continues to weigh both on the mind of investors as well as the market.

Thematic Signals

Samsung Leads $20 Million Investment In Internet Of Things Platform Startup Afero *Connected Devices*

F.D.A. Finishes Food Labels for How We Eat Now
Fattening of the Population

How the West (and the Rest) Got Rich
Rise & Fall of the Middle Class

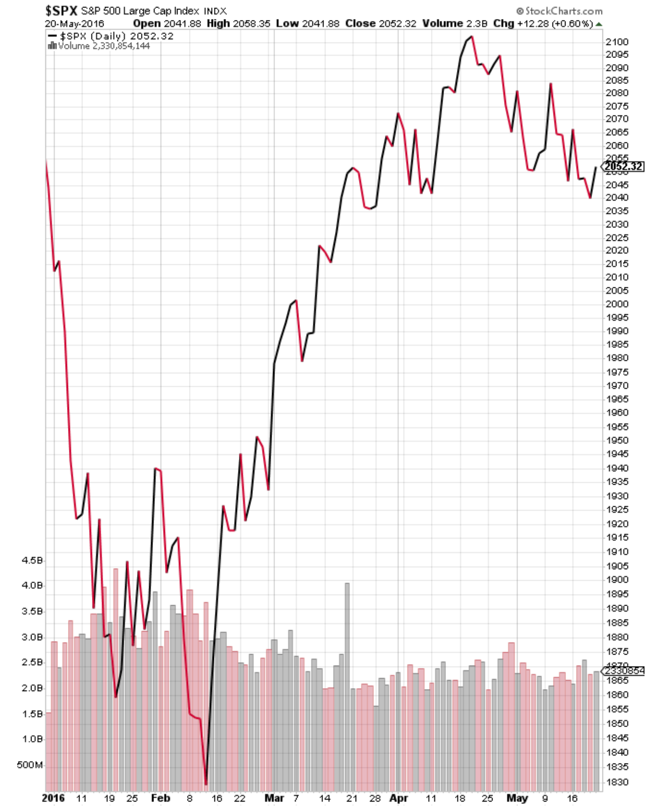
New And Improved Version Of Popular ATM Malware Spotted In The Wild *Safety & Security*

Digital Currencies Show Potential To Be New Asset Class As Demand For Bitcoin Rival Ethereum Rises *Cashless Consumption*

Google And Levi's Introduce Smart Jacket Commuter With Project Jacquard Technology
Connected Devices:

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 the shape the market in the near-term, and in-turn impact our tematics.



On Thursday last week, fresh data from Lipper showed investors pulled another $3.9 billion from U.S.-based stock funds during the week that ended May 18. What this tells us is the trend of outflows that has persisted for most of this year has continued. Year-to-date outflows from U.S.-based stock funds now total $45 billion, rivaling the $50 billion in outflows for all of 2011, the last year of major cash withdrawals.

When it comes to looking at investments, we prefer to be ahead of the herd, but when we see a stampede situation like that, it's hard to ignore. We will continue to be cautious and prudent with the **Tematica Select List**, looking to take advantage of misplaced securities that have pronounced thematic tailwinds pushing their businesses along.

Over the last several trading days, we've heard warnings from **Macy's (M), Nordstrom (JWN)**, and other retailers over weak consumer traffic and spending as well as the continued shift to digital commerce. The latter is of course very good for delivery companies like **United Parcel Service (UPS)** and yes, recent retailer earnings have shown the continued emphasis on what they call Direct to Consumer, or what we would call digital commerce. In a surprise move, **Gap (GPS)** said it would be open to partnering with **Amazon (AMZN)** as a way to re-jigger its floundering business. It would seem Gap management is pondering the enemy of my enemy could be my friend. More to watch on this.

The commentary from department store and clothing retailers are not surprising when matched up against the recent April Retail Sales Report. There were however a number of positives to be had in the same report. With **Walmart's (WMT)** earnings report this week, we could say a beacon of light has been shown on the retail landscape, shedding light on the fact that consumers continue to spend, just far less on clothing than they have in the past. As we shared with **Tematica Investing subscribers last week**, consumers —particularly Millennials — have shifted their spending not only online, but toward the "experience economy."

Turning to the Fed

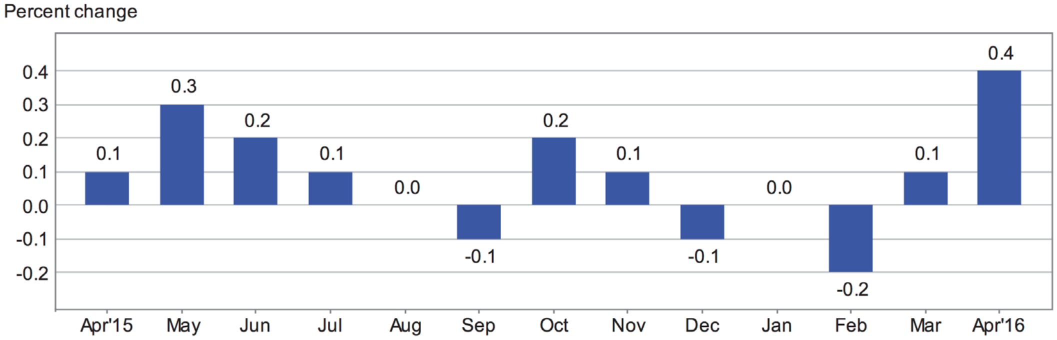
Fed Chair Janet Yellen and the rest of the FOMC effectively poured a hefty dose of cold water on the market last week. Based on the stock market's reaction to the release of the minutes — a 25-point or 1 percent drop in the S&P 500 — a casual observer would think the Fed had set a firm timetable for boosting rates. What the always upbeat central bank said, however, was an interest-rate increase in June was just ***possible if*** incoming data showed an improving economy.

The two key words in that statement are "possible" and "if." As we've seen from much of the recent data, the likelihood of that is rather low.

Meanwhile, while the headline figure for this week's April Industrial Production was better than expected, the upside came almost entirely due to a surge in Utilities and a modest improvement in manufacturing. Before one gets his or her hopes up, however, the utilities index spiked 5.8 percent as demand for electricity and natural gas returned to a more normal level after being suppressed by warmer- than-usual weather in March — hardly something that points to a sustainable improvement in the industrial economy. Deep misses in both the May Empire Manufacturing and May Philly Fed Index do not point to a pronounced rebound in the domestic industrial economy.

On the inflation front, much was made about the "hotter"- than-expected April CPI figure of 0.4 percent. Let's remember, though, the CPI figure includes both gas and food. In the last month alone, gas prices jumped more than 10 percent on the continued lift in oil prices. Examining the core CPI reading of 0.2 percent for April, it was in line with expectations. Moreover, as we pointed out last week, year-over-year comparisons dipped in April compared to March for the CPI, meaning that inflation actually cooled month over month.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Apr. 2015 - Apr. 2016



Put it all together and it seems the stock market has once again jumped the gun when interpreting what the Fed said. We've seen it before, and odds are we will see it again. While we suspect calmer heads will prevail, in the short term we continue to see the various factors mentioned above making for a choppy market.

Turning to The Week Ahead

There are three major economic items of note that we will be watching in the coming days. Today, we'll get the May Flash PMI reports from Markit Economics, which once digested should help us get a better feel for how the current quarter is shaping up. Currently the AtlantaFed's GDPNow is looking for a pronounced rebound compared to the March quarter, but recent data casts some doubt on that. Markit's initial May reading should help sharpen, if not clarify expectations of the June quarter.

Helping fill in between those expectation lines, we'll also get the April Durable Orders data. The line item we'll be watching — core capital goods orders, which excludes defense and aircraft orders — has been weak in February and March.

ECONOMIC CALENDAR, MAY 23 - 27, 2016

DATE	REPORT / SPEECH	DATA
24-May	**New Home Sales**	Apr
25-May	**MBA Mortgage Index**	21-May
25-May	**International Trade in Goods**	Apr
25-May	**FHFA Housing Price Index**	Mar
25-May	**Crude Inventories**	21-May
26-May	**Initial Claims**	21-May
26-May	**Continuing Claims**	14-May
26-May	**Durable Orders**	Apr
26-May	**Durable Orders, ex-**	Apr
26-May	**Pending Home Sales**	Apr
26-May	**Natural Gas Inventories**	21-May
27-May	**GDP - Second Estimate**	Q1
27-May	**GDP Deflator - Second**	Q1
27-May	**GDP Deflator - Second**	Q1
27-May	**Michigan Sentiment - Final**	May

Given the off-again, on-again focus on the Fed, which after last week's April FOMC minutes is once again on, odds are high this data will be receiving even more scrutiny than usual.

While some may think the third major item to watch for is this Friday's second print on 1Q 2016 GDP, it's not. Rather it is the Corporate Profits report, better known as a company's income, and this report from the Bureau of Economic Analysis should shed some light on the overall health of the corporate sector and its willingness to spend. The last iteration of this report published in March showed corporate profits were falling in the back half of 2015 and Friday's report for 1Q 2016 is likely to keep that trend alive. Our thinking is the continued decline in corporate earnings during 1Q 2016 makes it a pretty safe bet.

With 95 percent of the S&P 500 companies having reported quarterly earnings, you'll notice the barrage of such press releases and conference calls finally starts to drop this week. Only 13 S&P 500 companies, or roughly 2.6 percent of the index, reports this week. While some might reference the law of diminishing margins returns (and we too doubt the last 5 percent of S&P 500 companies will turn the tide on the blended 6.8 percent decline in 1Q 2016 earnings), our thematic perspective means there are bound to be data points and nuggets we can use to our investing advantage. Here's what will be zeroing in on this week:

Affordable Luxury
- **PVH Corp. (PVH)**
- **Tiffany & Co (TIF)**
- **William-Sonoma (WSM)**
- **Movado Group (MOV)**

Aging Population
- **Patterson Co. (PDCO)**

Asset Lite
- **Computer Sciences Corp. (CSC)**
- **Hewlett Packard Enterprise (HPE)**
- **ePlus (PLUS)**

Cash-Strapped Consumer
- **Dollar General (DG)**
- **Big Lots (BIG)**

Cashless Consumption
- **Intuit Inc (INTU)**

Connected Society
- **58.com Inc (WUBA)**
- **Comscore (SCOR)**
- **Liberty Tripadvisor Holdings (LTRPA)**

Disruptive Technologies
- **Alliance Fiber Optic Products (AFOP)**

Economic Acceleration/Deceleration
- **Toll Brothers (TOL)**
- **Valspar Corp. (VAL)**
- **RBC Bearings Inc. (ROLL)**
- **Southern Copper (SCCO)**

Fattening of the Population

- Popeye's Louisiana Kitchen (PLKI)
- Tilly's Inc. (TLYS)

Fountain of Youth

- Ulta Salon, Cosmetics & Fragrance (ULTA)

Rise & Fall of the Middle Class

- America's Car Mart (CRMT)
- Autozone (AZO)
- DSW Inc. (DSW)
- Express Inc. (EXPR)
- Guess Inc. (GES)
- Heico Corp. (HEI)
- Abercrombie (ANF)
- Burlington Stores (BURL)
- Freds Inc. (FRED)
- Deckers Outdoor (DECK)
- Sanderson Farms (SAFM)

Safety & Security

- Palo Alto Networks (PANW)
- Splunk (SPLK)

Tooling & Retooling

- Multi-Color Corp. (LABL)