

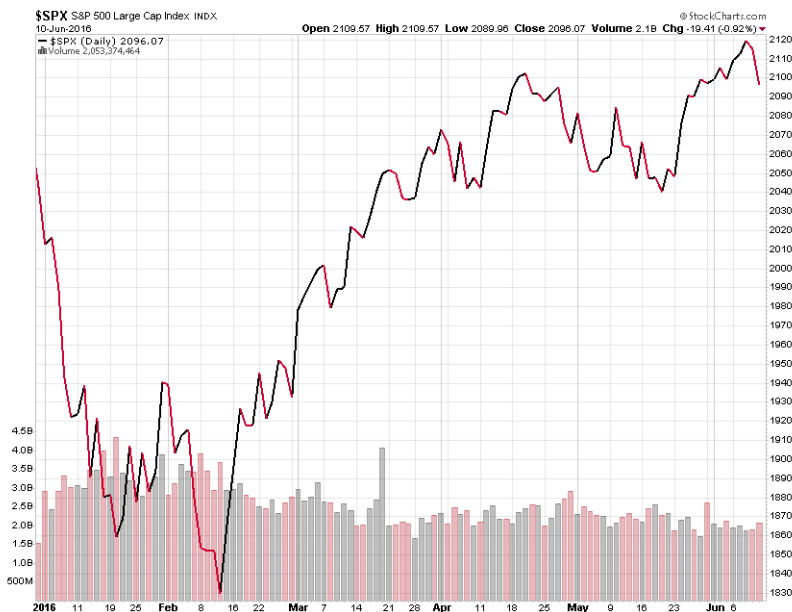
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF JUNE 13, 2016

Last week started off with a bang. The S&P 500 melted up yet again following dovish commentary by Fed Chairwoman Janet Yellen, which led to a run up against heavy resistance levels registered over the last several months.

Later in the week, however, once Yellen's comments were digested properly — including the bit about once again wobbly economic data — the herd mentality on Wall Street turned to the issues that we've been talking about during the last several weeks. In a nutshell: the growing disconnect between the global economy, falling earnings in the current quarter and aggressive earnings expectations in the back half of 2016 with a stretched stock market valuation.



In our view, confirmation over the market mood becoming far more nervous than a few weeks ago was had in the better than 6 percent rise in **iShares Barclays 20+ Yr Treasury Bond ETF (TLT)** last week. Utility stocks, given their inelastic business model and dividend yields, were also solid performers last week, making

Thematic Signals

Target new in-store pilot signals the Connected Home nears the tipping point *Connected Society*

Don't underestimate Amazon move into apparel
Connected Society / Cash-Strapped Consumer

China will be bigger for the movie box office in 2017 than the US *Content is King*

Starbucks "cashing-in" on more than just frappuccinos these days *Cashless Consumption*

Diet beverages no longer getting the pass on "soda-tax" *Foods with Integrity*



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.

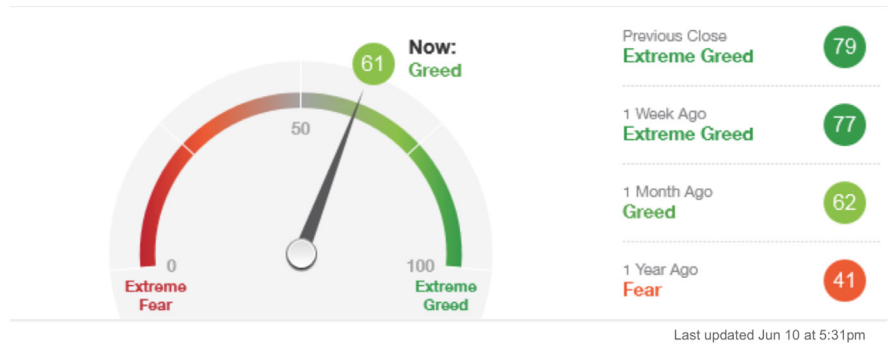
them one of the top performers of the market over the last year.

The bottom line is investors have been in “greed” mode the last several weeks with an “extreme greed” reading of 79 recently on [CNN’s Fear & Greed Index](#). With Friday’s market fall, the index fell to a 61 reading or just “greed.” Clearly the vector and velocity of that drop tells us there is a renewed sense of fear in the market.

Fear & Greed Index beta

What emotion is driving the market now?

Sponsored by 



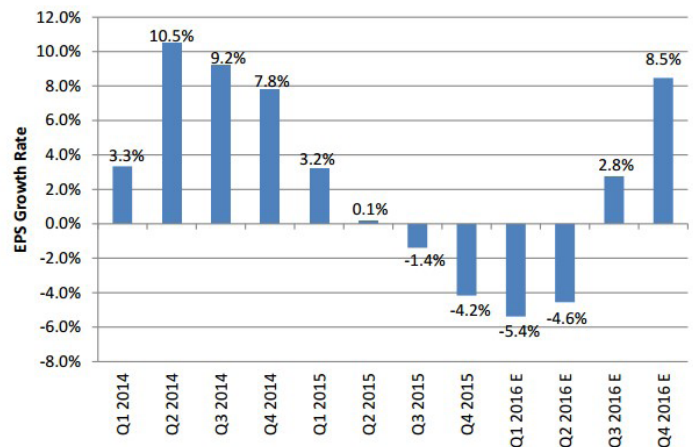
CNN Money Fear & Greed Index

On the earnings front

Thus far in the current (June quarter), 112 companies in the S&P 500 have issued EPS guidance for the current quarter. Of those companies, 81 (72 percent) have issued negative EPS guidance. While that is slightly below the 5-year average of 74 percent, the magnitude of those revisions has had a pronounced impact on current quarter expectations. With just a few weeks to go in the current (June) quarter, the estimated year-over-year earnings decline for the S&P 500 group of companies in 2Q 2016 now stands at -4.9 percent. This is much lower than the -2.7 percent decline expected at the start of the quarter. Much like the negative revisions to earnings expectations, sales for the current quarter are now expected to fall 0.8 percent in aggregate, larger than the expected decline of 0.5 percent at the start of the quarter.

Here’s the thing, over the next few weeks companies will be exiting the conference stage and entering their end of quarter quiet periods. That’s right, even though summer is starting to kick into gear, another round of quarterly earnings is approaching. What this means is before too long we’re likely to start hearing earnings pre announcements, and odds are more of them will be negative than positive. Not something that is bound to inspire the market to move higher when its valuation is stretched and earnings growth is slowing... at least for the S&P 500... and the mood has shifted from greed to fear.

Chart 1: S&P 500 Growth Estimates by Quarter



Source: S&P Global Market Intelligence.

Despite the earnings revisions we described above for the current quarter, the analyst community is still calling for S&P 500 earnings to be up just under 1 percent and revenue to climb just shy of 2 percent for the S&P 500 this year. This is resulting in investors now starting to ask the question that we’ve raised more than a few times over the last several weeks — how will the S&P 500 group of companies deliver nearly 13 percent earnings growth in the second half of the year compared to the first half given the developing economic picture and related headwinds?

We see that question coming to the forefront on the investor cranial lobe over the next few weeks, and as those

brains come to the conclusion that expectations will need to be revised lower, odds are we will see the recent froth in the market come off. Add in the low trading volumes we typically experience during the summer months, and we could be looking at a highly volatile market with massive swings.

Here at Tematica, we see investing much like a doctor, and that means first and foremost doing no harm. We will continue to be prudent in the coming weeks when it comes to the ***Tematica Select List***, and we'll be sure to let [Tematica Investing subscribers](#) know if and when it's time to "Run to the hills", to quote the modern British poets Iron Maiden.



Turning to the Week Ahead

The economic data picks back up in full force this week. May Retail Sales, the Producer Price Index, Industrial Production, and Housing Starts are all due this week. Also on deck are a number of regional Fed manufacturing indices, as well as the Fed's next FOMC meeting (June 14-15).

As we've shared with [Tematica Investing subscribers](#) over the last few weeks, we see the odds of the Fed hiking rates as extremely low given economic data, and the pending Brexit vote. We also see Wall Street digging into the Fed statement to double check its thinking that a Fed rate hike in July is likely off the table. We are of that mindset, but will continue to watch the data as it comes in, sticking with our preferred strategy of letting the data talk to us.

This week's data will likely lead to a recalculation of the Atlanta Fed's GDPNow forecast, which currently sits at 2.5 percent, with a downward bias, giving the Fed ample cushion to once again keep their finger off the trigger. We suspect the May Retail Sales Report will put some favorable perspective around the department store as well as brick & mortar retail sales commentary.

Much like the recent Personal Income & Spending data, we continue to see the consumer and shoppers embracing the "experience economy" and digital commerce. Seeing those storm clouds coming, we've positioned the ***Tematica Select List*** accordingly.

ECONOMIC CALENDAR, JUNE 13 - 17, 2016		
DATE	REPORT / SPEECH	DATA
14-Jun	Export Prices ex-ag.	May
14-Jun	Import Prices ex-oil	May
14-Jun	Retail Sales	May
14-Jun	Retail Sales ex-auto	May
14-Jun	Business Inventories	Apr
15-Jun	MBA Mortgage Index	11-Jun
15-Jun	PPI	May
15-Jun	Core PPI	May
15-Jun	Empire Manufacturing	Jun
15-Jun	Capacity Utilization	May
15-Jun	Industrial Production	May
15-Jun	Capacity Utilization	May
15-Jun	Crude Inventories	11-Jun
15-Jun	FOMC Rate Decision	Jun
15-Jun	Net Long-Term TIC Flows	Apr
16-Jun	CPI	May
16-Jun	Core CPI	May
16-Jun	Initial Claims	11-Jun
16-Jun	Continuing Claims	4-Jun
16-Jun	Philadelphia Fed	Jun
16-Jun	Current Account Balance	Q1
16-Jun	NAHB Housing Market Index	Jun
16-Jun	Natural Gas Inventories	11-Jun
17-Jun	Building Permits	May
17-Jun	Housing Starts	May
17-Jun	Building Permits	May

On the Corporate Earnings Front

We have no companies on our **Tematica Select List** reporting quarterly results next week, but we will be tuning into results at **Rite-Aid (RAD)** for some insight into the **Aging of the Population** thematic, and **Kroger (KR)** to get a better understanding on food deflation and a check-in on the **Cash-Strapped Consumer** as well as **Food with Integrity** investing themes. Also, we'll look to **Oracle's (ORCL)** comments on enterprises spending and **Connected Society** data points.

AGING OF THE POPULATION

- Rite Aid (RAD)

FATTENING OF THE POPULATION

- Bob Evans Farms (BOBE)

ASSET-LITE

- Liberty Tax (TAX)
- Jabil Circuit (JBL)

GUILTY PLEASURE

- Isle of Capri Casinos (ISLE)

CASH-STRAPPED CONSUMER

- Kroger (KR)

SAFETY & SECURITY

- Smith & Wesson (SWHC)

CONNECTED SOCIETY

- Finisar (FNSR)
- Oracle (ORCL)

TOOLING & RETOOLING

- John Wiley (JW.B)

ECONOMIC ACCELERATION/DECELERATION

- Lakeland Industries (LAKE)
- Actuant Corp. (ATU)
- Clarcor Inc. (CLC)

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/ her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

This research report is provided for informational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities. The information described herein is taken from sources, which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This firm, its officers, directors, employees, third party data providers or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market.