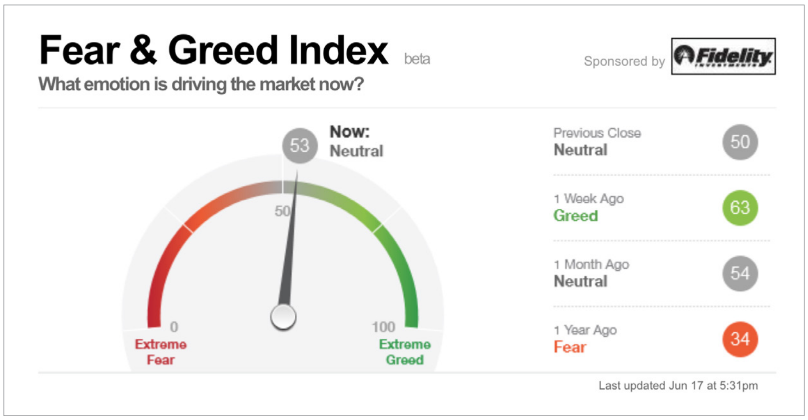
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF JUNE 20, 2016

We saw a sizable shift last week in stock market sentiment, which in our view was nicely captured in the **CNN Money Fear & Greed Index**. At the start of the week the index was firmly in "Greed mode" at 63; however it dropped significantly through out the week and heading into the weekend, the index stood at 53.



Part of the drop in the index reflected weakening economic data that came in last week. First, we received the **May Industrial Production Report** that showed manufacturing activity once again contracted, and then Friday's **May housing data** showed the biggest decline in Building Permits since October 2009.

On their own, those two reports would normally weigh on the Fear & Greed Index, but there was another factor that led to the switch from greed to fear — the shift in Brexit polls to favor "Leave" over "Stay." (For those who aren't clear on what the EU/UK thing is all about, the Financial Times has a **great short video** that explains the various European economic and political unions.) That shift, appeared to reverse back on Thursday (depending on which poll you believe), which led the market to recover somewhat, before resuming its move lower on Friday.

Thematic Signals

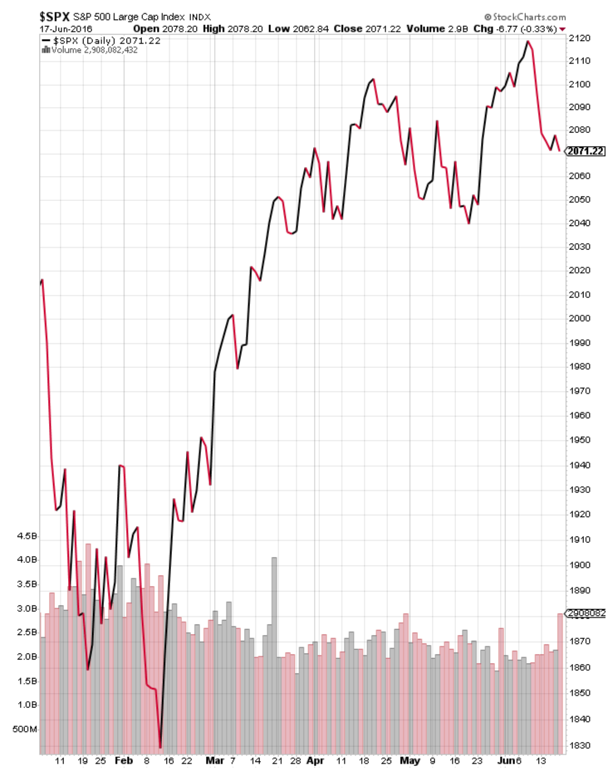
A look behind the curtains at Netflix ($NFLX) and what's at stake with our Content is King thematic
Connected Society

Gun control debate driving up sales and creating a scarce resource *Safety & Security / Scarce Resources*

Disney Seeks to Cater to China's Growing Middle Class *Content is King / Rise & Fall of the Middle Class*

To Prevent a Cybersecurity Workforce Crisis, Education is Key *Safety & Security*

The Connected Society and growing Cashless Consumption comfort are enabling BofA to cut jobs *Cashless Consumption / Connected Society*



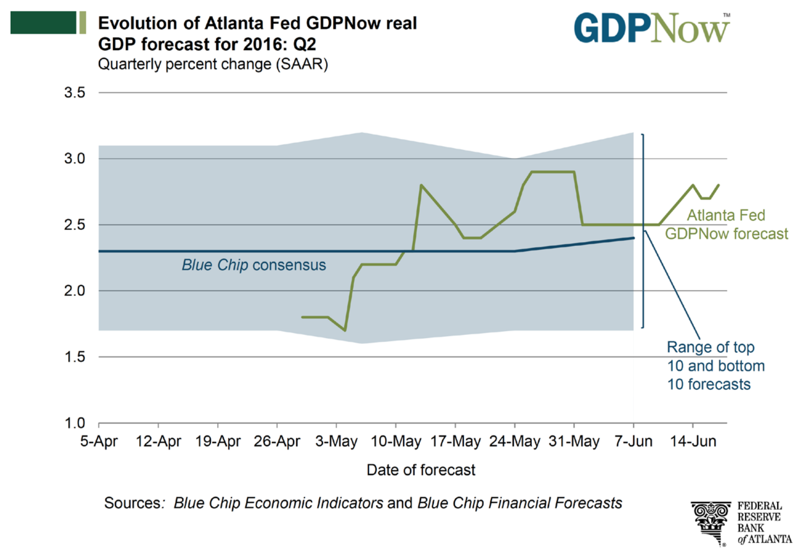
ABOUT THE MONDAY MORNING KICKOFF

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.

With the Brexit vote slated for this Thursday (June 23), it's rather likely the next few days will be volatile as investors not only size up the odds of the Brexit occurring, but also do the calculus on what the impact could be.

The International Monetary Fund's (IMF) view is the U.K. could slide into a recession if it quits the European Union and "would likely be worse off economically in the long run." The IMF also warned of a potential credit squeeze if liquidity markets dry up, which could stymie spending and investment. With polls running neck and neck on both sides of the vote, this is bound to be something of a nail biter, and we suspect the market will brace for the worst even as it hopes for the best.

Also last week, we had the Fed's latest monetary policy meeting. The announcement of no rate hike was hardly a surprise, given the economic data we've been pouring over for several weeks. Recently global growth forecasts by the Organization for Economic Co-operation and Development and the World Bank were trimmed, and the Fed joined that party as well last week. While the Fed didn't boost interest rates, it cut its GDP projection for 2016 from 2.2 percent down to 2.0 percent. The Fed also trimmed its 2017 GDP forecast to 2.0 percent from the prior 2.1 percent.



What this tells us is, even the ever-optimistic economic cheerleader that it is, the Fed sees global headwinds fostering a slower economy despite its continued easy monetary policy. If the Fed is taking this position, it is rather likely growth will remain spotty, at least in the near-term.

Inflation remains well below the Fed's 2.0 percent target.

Again, diving into the Fed's updated economic projections, it does not see annual inflation hitting 2.0 percent until 2018. With just one more month of data before the Fed's July meeting, we rather doubt we will see such a meaningful improvement that it will prompt the Fed to boost rates at that meeting. The Fed is pretty much telling us that and signaling any eventual move upward in rates will be "gradual" when it says:

> *"The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."*

Before we switch out of economist mode and over to investor mode, let's remember that we are in the middle of one of the most interesting presidential elections in memory. Until Corporate America has a better understanding of which candidate will be in the White House in 2017 and what his or her policies will be, we see it keeping the purse strings shut when it comes to business investment. Another sign that the odds of a big uptick in the economy is rather low over the next several months.

Trading our economist hat for our investor one

The likely push out in rate hike timing into late 2016 (given the Fed's next meeting after July is September) will continue to weigh on interest rate expectations for financials. We started to see this in recent weeks, as more evidence suggested the Fed would not boost interest rates and for those that continue to invest in sectors over our preferred thematic approach, financials are likely to be range bound once again. This latest push-out, combined with the slowing economy and disconnect between the current stock market valuation and expected earnings growth, has a high probability of rekindling investor appetite for safe-haven investments. That means more inelastic business models, as well higher dividend yielding stock, like those we have on the **Tematica Select List** will remain in favor.

As you can probably guess given the above, the Fear & Greed index wasn't the only thing to drop last week. After a six week string without a 1 percent drop in the S&P 500, the index fell 1.2 percent last week putting it just slightly ahead of break even status year to date.

Turning to the Week Ahead

The big agenda item this week will be Thursday's Brexit decision. We expect the level of anxiety to climb in advance of the vote, but we see a high probability that Britain will remain in the Eurozone. While we can understand the reasons that started the Brexit conversation, we see longer-term risk in Britain's voice in the geopolitical world being lost as a stand alone entity than part of the larger Eurozone.

Our thinking is it is probably better for Britain to influence the Eurozone rather than not be heard at all at a table filled with the US, Eurozone, China, Russia and the like. That said, it is likely to be a close vote and that will keep the stock market on its toes this week.

ECONOMIC CALENDAR, JUNE 20 - 25, 2016		
DATE	REPORT / SPEECH	DATA
22-Jun	**MBA Mortgage Index**	18-Jun
22-Jun	**FHFA Housing Price Index**	Apr
22-Jun	**Existing Home Sales**	May
22-Jun	**Crude Inventories**	18-Jun
23-Jun	**Initial Claims**	18-Jun
23-Jun	**Continuing Claims**	11-Jun
23-Jun	**New Home Sales**	May
23-Jun	**Natural Gas Inventories**	18-Jun
24-Jun	**Durable Orders**	May
24-Jun	**Durable Orders, ex-**	May
24-Jun	**Michigan Sentiment - Final**	Jun

At Tematica, we have our Contender List and we'll be keeping close tabs on it this week, as well as those positions on the Tematica Select List that we'd like to scale into a better prices.

Aside from the Brexit vote, we also have **May Existing Home Sales Data,** as well as **May New Home Sales** coming this week. We will also get the **May Durable Orders** report. As usual with the Durable Order Report, we will be focused on the core capital goods line, which has contracted the last three reported months. Given the ISM, Market Economics as well as this week's **May Industrial Production** report, we are not expecting a significant rebound.

Earnings on Tap for the Week of June 20, 2016:

We will continue to have some earnings stragglers next week, but with 9 trading days left in June, we'll be more tuned to earnings pre-announcements over the coming days.

AGING OF THE POPULATION

- Winnebago Industries Inc (WGO)

ASSET-LITE

- Accenture PLC (ACN)
- e.Digital Corp (EDIG)

CONNECTED SOCIETY

- FedEx Corp (FDX)
- BlackBerry Ltd (BB.TO)

CONTENT IS KING

- Adobe Systems Inc (ADBE)
- Carnival Corp (CCL)
- Barnes & Noble Inc (BKS)

FATTENING OF THE POPULATION

- Sonic Corp (SONC)

RISE & FALL OF THE MIDDLE CLASS

- Carmax Inc (KMX)
- KB Home (KBH)
- La-Z-Boy Inc (LZB)
- Lennar Corp (LEN)
- Finish Line Inc (FINL)

No Monday Morning Kickoff Next Week

On a publishing note, we wanted to let you know that we'll be taking a cycle off next week and there will be no Monday Morning Kickoff on Monday June 27th. We will return after the 4th of July Holiday.

