

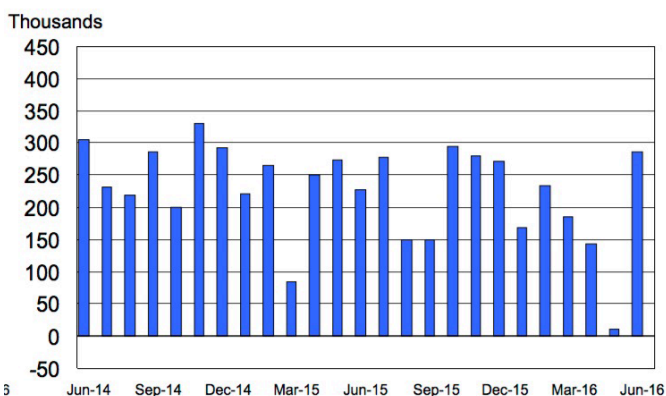
MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

WEEK OF JULY 11, 2016

No two ways about it, Friday's June Employment Report issued by the Bureau of Labor Statistics was a positive headline shock — with far better-than-expected job creation during the month — that pushed the market higher in the shortened week. While that move advanced both the S&P 500 and Dow Jones Industrial Average further into the green on a year to date basis, the growth heavy Nasdaq Composite Index remained in the red on that basis as we exited last week.

Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, June 2014 – June 2016

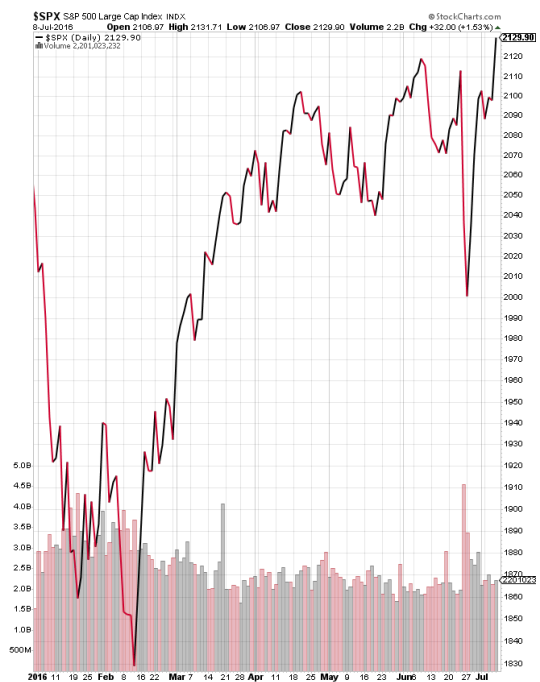


Mulling over the June Employment Report, it showed 287,000 jobs created in June, up dramatically from the downwardly revised 11,000 jobs in May (from the prior reading of 38,000) and the 175,000 jobs that were expected for June. When we average the dismal May and surprisingly strong June jobs report, 149,000 jobs were created during the two months, which is pretty much in line with April job creation (+144,000).

Our take on this report is that many people, including those at the Fed, will look to see if this was a one-time snap back after

Thematic Signals

- The Rise & Fall of the Middle Class impacted by Automation in SE Asia** *Rise & Fall of Middle Class*
- Local airports getting squeezed on routes due to scarcity of pilots** *Scarce Resources*
- Are Car Thieves Hacking Your Car?** *Safety and Security*
- Furniture — yet another component of the Aging of the Population** *thematic investing lens*
- Can Hackers Track Movement Of Wearable Devices To Figure Out PINs & Passwords?** *Safety & Security*



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 thematic.

the abysmal May report. The June jobs report aside, we continue to see many uncertainties (Brexit fallout, stronger dollar, Italian bank risk, 2016 presidential election, etc.) that are likely to restrain overall business spending and economic growth in the back half of 2016. We suspect that means job creation is not likely to be substantially higher than the April-to-June average of 147,000 jobs per month.

Now for the not-so-good news in the June Employment Report, it notes:

“Employment in other major industries, including construction, manufacturing, wholesale trade, transportation and warehousing, and government, showed little or no change in June.”

What this tells us is that job gains continue to be mostly in the lower-paying sectors, such as hospitality, leisure and healthcare. Combined with the rebound in gas prices over the last few months, this suggests consumer spending, which accounts for nearly two-thirds of the domestic economy, is not likely to become robust in the coming months. Another reason we see more sub-par growth ahead.

Peering even deeper into the report, and below the bluster of the headline jobs figure, we found that both the labor force participation rate and payroll to population were little changed, at 62.7 percent and 59.6 percent, respectively. We see Fed Chairwoman Janet Yellen and crew focusing more on these numbers, as we look to see if the June jobs report was yet another aberration.

Here’s the thing: In our view, Friday’s better than expected Employment Report is not one that will lead to a near-term Fed rate hike given the lack of movement in the labor force participation rate and payroll to population data.

Several other uncertainties remain in place that will challenge growth and could make for a bumpy 2Q 2016 earnings season. As we have said previously, we rather doubt companies factored the Brexit happening as well as the potential Italian bank ripple effect in their revenue and earnings guidance this past January and April.

Another reason to think companies will issue cautious guidance over the coming weeks, the weakening global economy — thank you China and Japan.



Back to the market, exiting Friday the S&P 500 closed at 17.9x 2016 earnings expectations that now call for a whopping increase of just 0.8 percent year over year. Despite that revision from forecasts calling for 2 percent year over year earnings growth for the index just a few weeks ago, expectations still call for a near 13 percent increase in S&P 500 earnings in the second half of 2016 compared to the first half. Given the number of uncertainties, we continue to question the ability of the S&P 500 companies to deliver that level of earnings growth. The silver lining, however, is that as this dawns on the investment community, we expect the ensuing expectation reset will offer Tematica Investing subscribers several opportunities that we've been waiting for.

The Week Ahead

As we said above, the velocity of earnings reports will pick up considerably this week, with more than 50 such reports coming our way. As usual, Alcoa will kick things off after tonight's market close, but we'll also be listening to both **Fastenal (FAST)** and **CSX (CSX)** this week as part of our **Economic Acceleration/Deceleration** investing theme.

Later in the week, a slew of banks and financial institutions, such as **Citigroup (C)**, **US Bancorp (USB)**, **Wells-Fargo (WFC)**, and **JPMorgan Chase (JPM)** will be reporting. Their commentary on loan activity and thoughts on the Brexit impact will be closely watched now that we know the odds of a rate hike by the Fed until later in year at the soonest are rather low. Also on the docket is **Delta Air Lines (DAL)**, a beneficiary of our **Rise & Fall of the Middle Class** as emerging market air travel growth outstrips that in the US and Eurozone.

Finally, two hard hit retailers — **Aeropostale (AROPQ)** and **Pacific Sunwear (PSUNQ)** — should give us the latest on consumer spending preference as well as confirm our view that the mall as we know it is dead, and that's bad news for a number of REIT companies.

Casting our gaze on the economic data for the next few days, aside from the Fed's next Beige Book edition, the data will be heavily weighted on the back end of the week. The June Retail reports for PPI, CPI, Retail Sales and Industrial Production all hit this Thursday and Friday. All of those report should help put some perspective around the better than expected June Employment Report headline. Excluding the rebound in oil and gas prices, we do not expect a major move in either of the inflation indices.

ECONOMIC CALENDAR, JULY 5 - 9, 2016		
DATE	REPORT / SPEECH	DATA
12-Jul	Wholesale Inventories	May
13-Jul	MBA Mortgage Index	9-Jul
13-Jul	Export Prices ex-ag.	Jun
13-Jul	Import Prices ex-oil	Jun
13-Jul	Crude Inventories	9-Jul
13-Jul	Fed's Beige Book	Jul
13-Jul	Treasury Budget	Jun
14-Jul	Initial Claims	9-Jul
14-Jul	Continuing Claims	2-Jul
14-Jul	PPI	Jun
14-Jul	Core PPI	Jun
14-Jul	Natural Gas Inventories	9-Jul
15-Jul	Empire Manufacturing	Jul
15-Jul	Retail Sales	Jun
15-Jul	Retail Sales ex-auto	Jun
15-Jul	CPI	Jun
15-Jul	Core CPI	Jun
15-Jul	Capacity Utilization	Jun
15-Jul	Industrial Production	Jun
15-Jul	Business Inventories	May
15-Jul	Mich Sentiment	Jul

When we look at the June Retail Sales Report, we'll be looking as much at where and how consumers are spending, as what they are spending on. In other words, we expect the report to show the continued shift to digital commerce that is part of our **Connected Society** investing theme as well as more cautious spending that is part of our **Cash-strapped Consumer** theme.

Additional earnings reports on tap this week we'll be watching through out thematic lens:

AGING OF THE POPULATION

- Healthcare Services Group (HCSG)

FATTENING OF THE POPULATION

- Yum! Brands (YUM)

CONNECTED SOCIETY

- Marvell Technology (MRVL)
- Shaw Communications (SJR)

RISE & FALL OF THE MIDDLE CLASS

- Delta Air Lines (DAL)

CONTENT IS KING

- Grupo Telvisa (TV)

TOOLING & RETOOLING

- Staffing 360 (STAF)
- JPMorgan Chase (JPM)
- US Bancorp (USB)
- Wells-Fargo (WFC)

ECONOMIC ACCELERATION/DECELERATION

- Alcoa (AA)
- CSX (CSX)
- Fastenal (FAST)
- GMS Inc. (GMS)
- JB Hunt Transportation (JBHT)

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.