

MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

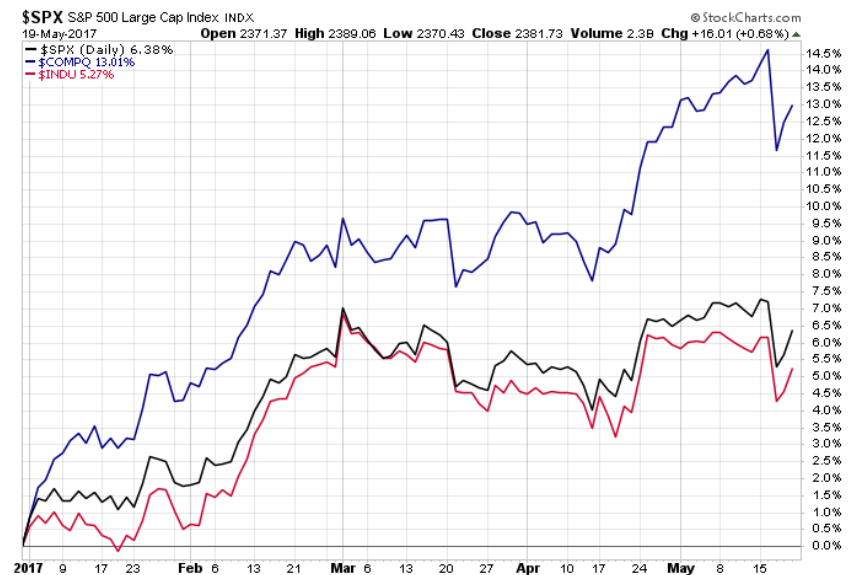
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More Downside Risk for GDP and Earnings Expectations Than Potential Upside for the Back Half Of 2017

As hard as it may be to believe, we are past the halfway mark for 2Q 2017. If upon hearing that, you're asking yourself "where does the time go?" we're right there with you as we eye the Memorial Day holiday weekend that is quickly approaching.

As we shared in [last week's Monday Morning Kickoff](#), the current quarter has taken on a far different tone from how 2016 came to a close and 2017 kicked off. Even though the tech-heavy Nasdaq Composite Index has powered higher thus far in 2Q 2017, both the S&P 500 and Dow Jones Industrial Average have gained and lost ground in recent weeks.



As we see it, the last several weeks have been a combination of frenetic earnings activity, a flow of economic data that could be described as being at best "mixed", and a "risk-on" "risk-off" vibe in the market. The schizophrenic risk profile of the market is increasing due to the impeachment fueled headlines from the Washington news cycle that is once again pushing out timing expectations for Team Trump's reforms and stimulative plans. We've also seen the continued creative destruction impact that our [Connected Society](#) investing theme is having on brick & mortar retail.

All told, the entire combination has taken its toll on the market, bringing volatility back into the equation and likely led to a growing number of investors to question growth prospects for the economy and earnings. We were right there alongside that group as we saw the stock market have its worst day in several months last week, only to shake it off as DC-led concerns subsided. As we headed into the weekend, we learned that former FBI Director James

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.

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Comey is expected to testify before the Senate Intelligence committee after Memorial Day, so expect the headline circus to come back to town before too long.

In the meantime, Trump is looking to get his agenda back on track and the weekend's news that Saudi Arabia's sovereign wealth fund had committed \$20 billion to a new investment fund aimed at infrastructure projects, primarily in the United States. Alongside that announcement, **General Electric (GE)** said it had agreements for \$15 billion worth of projects, and as part of \$110 billion in arms deals aided by the Trump administration, **Lockheed Martin (LMT)** announced several deals, including a \$6 billion commitment to building 150 Black Hawk helicopters in Saudi Arabia.



For us, the areas to watch in the next few weeks will include Comey led DC happenings, the Fed and of course expectations for the second half of the year. Should more DC related timing push outs occur, like say tax reform not getting done until late 2017-early 2018, we could see downside revisions to expectations for both GDP and earnings. With the 2017 election cycle soon upon us, we suspect Democrats that are vying for re-election will be emboldened by Trump's low approval rating, and in our view, this reduces the likelihood of progress near-term for Team Trump. In a nutshell, we see more risk to the downside for GDP and earnings expectations in the back half of 2017 than potential upside.

In case all of that wasn't enough, we started the week off with one of the more high-profile ransomware attacks, Wannacry, that hit more than 200,000 computing points across more than 150 countries. While the attack was not a monetary success, odds are it exposed more vulnerabilities that will only embolden the use of ransomware by other cyber attackers in the coming months.


We see the WannaCry attack as a reminder of the downside of our increasingly connected society, and that pain point is likely to spur incremental spending above and beyond the \$1 trillion slated to be spent in 2020 on cyber security. Tematica's Chris Versace and Lenore Hawkins discussed all of that and much more with Yong-Gon Chon, the CEO of Focal Point Data Risk on [last week's Cocktail Investing Podcast](#). If you missed it — and shame on you if you did — you can [find it here](#), or on [iTunes](#). In our view, the smart thing to do would be to subscribe on iTunes so you don't miss this weekly deep dive, but hey that's us.



The Good News / Bad News Story Emerging From Last Week

Before we get to what’s on tap over the coming days, let’s recap the economic data received last week, which included the May reading on manufacturing under the purview of the NY Fed, as well as April data for Housing Starts and Industrial Production. Let’s start with the good news, which was manufacturing activity per the April Industrial Production report ticked higher month over month, but even though this took a bite out of excess manufacturing capacity, manufacturing capacity remains under-utilized.

Moving over the April Housing Starts, single-family homes were flat month over month, while multifamily units fell more than 9 percent compared to March. The real revelation in the data, however, was found in the drop for single-family housing permits, which suggests we will continue to see a supply shortage — good for sellers as housing prices should continue to tick higher. Not so good for buyers that are facing the potential for two more interest rate hikes from the Fed this year.



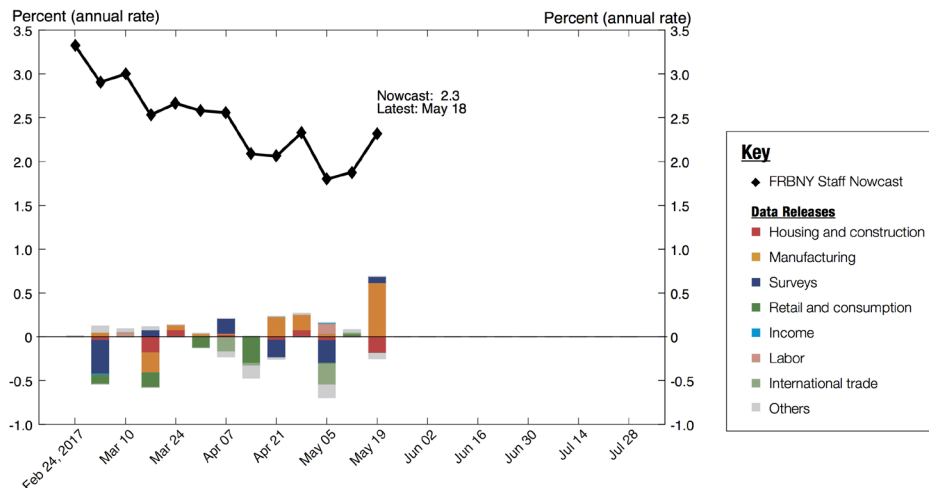
NEW RESIDENTIAL CONSTRUCTION APRIL 2017

Building Permits:	1,229,000
Housing Starts:	1,172,000
Housing Completions:	1,106,000
Next Release: June 16, 2017	

Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau, HUD, May 16, 2017

On the back of last week’s data, the Atlanta Fed boosted its 2Q 2017 GDP reading to 4.1 percent from the prior 3.6 percent reading. Then we received the Empire Manufacturing Index for May, which clocked in at -1.0, well below the expected 7.5 reading and down compared to April’s 5.2 showing. That was offset by the stronger than expected Philly Fed index.

We see the mish-mash of data running counter to the Atlanta Fed’s exuberance for a rebound in the economy, and our thinking is more in tune with the NY Fed’s Nowcasting GDP forecast of 2.3 percent for the current quarter — better than 1Q 2017, but largely due to inventory builds. As we noted above, as we continue to assess the timing for Team Trump’s reform and stimulative plans, we’ll continue to keep an eye on GDP and subsequently earnings expectations for the second half of 2017.



Turning to the Week Ahead

On the economic front this week we'll get some more April housing data in the form of New Home Sales and Existing Home Sales as well as Durable Orders for the month. We'll also get the second estimate for 1Q 2017 GDP, which came in at a disappointing 0.7 percent. Helping to triangulate on the current state of the economy, we'll look to the Chicago Fed National Activity Index that is out on Monday.

As we closed the books on last week, roughly 95 percent of the S&P 500 companies have reported quarterly earnings. In the coming week, 17 S&P 500 companies will report, but from a thematic perspective there are still quite a number of companies to keep tabs on - we've shared them in the calendar below.

With earnings season winding down, we are starting to see a pick back up in investor conferences and other industry events. These include:

- The National Restaurant Association Show for 2017** - There will be a number of companies to watch from **McDonald's (MCD)** and **Wendy's (WEN)** to **Jack in the Box (JACK)** and **Del Taco Restaurants (TACO)**, but for ETF investors it's **USCF Restaurant Leaders Fund (MENU)** you'll want to size up on your plate. For us, we'll be watching these *Fattening of the Population* plays to see if they are indeed focused on adoption aspects of our *Food with Integrity* investing theme.
- JPMorgan will hold its 45th Annual Technology Media and Telecom Conference** - this will be a who's who for our *Connected Society* and *Content is King* investing themes. Investors looking for ETFs that may benefit from the conference should consider **PowerShares Dynamic Media Portfolio ETF (PBS)** and **iShares Dow Jones US Technology ETF (IYW)** among others.
- Wolfe Research 10th Annual Global Transportation Conference 2017** - as we always say, the movement of goods is a key indicator to the economy's health and the ETF we'll be following this event as part of our *Economic Acceleration/Deceleration* theme as will investors in the **iShares Dow Jones Transportation ETF (IYT)**.
- The reception of **Canaccord Genuity Consumer 1x1 Consumer Day** will be gauged by both the **Consumer Staples Select Sect. SPDR ETF (XLP)** as well as **Consumer Discretionary SPDR ETF (XLY)**.

This week there will be three initial public offerings (IPOs) and while we tend to shy away from new issues as investors, we see the debut of software development company **Appian (APPN)** that focuses on app creation as

ECONOMIC CALENDAR		MAY 22-26, 2017
MONDAY, MAY 22		
Chicago national activity index		April
TUESDAY, MAY 23		
New home sales		April
WEDNESDAY, MAY 24		
Markit manufacturing PMI (flash)		May
Markit services PMI (flash)		May
Existing home sales		April
FOMC minutes		3-May
THURSDAY, MAY 25		
Weekly jobless claims		20-May
Advance trade in goods		April
FRIDAY, MAY 26		
Gross domestic product revision		Q1
Durable goods orders		April
Core capital equipment orders		April
Consumer sentiment (final)		May

very much in tune with our *Connected Society*. The two other offerings include **SMART Global Holdings (SGH)**, which focused on specialty memory technology for the electronics industry and bears watching as part of our *Connected Society* investing theme and **WideOpenWest (WOW)**, which is the sixth largest cable operator in the US. Regarding WideOpenWest, we see the moves by **AT&T (T)** into our *Content is King* investing theme and **Comcast (CMCSA)** into mobile service as indications of a rougher competitive cable landscape given both chord-cutters and the growing preference for content consumption where and when consumers want it. In our view, that bodes well for mobile content consumption, not traditional cable content service.

Rounding out the week, we have a smattering of Fed heads making the rounds, and we'll be parsing their comments as investors soon focus on the Fed's next FOMC meeting on June 13-14.

Looks like we'll all be ready for the coming three-day weekend, which also means **the next edition of the Monday Morning Kickoff will be published on Monday, June 5**. Be sure to check back on Tematica Research before then for the next installment of the Cocktail Investing Podcast as well as other commentary from Lenore Hawkins and Chris Versace.

Thematic Earnings Reports to Watch:

AFFORDABLE LUXURY

- Tiffany's (TIF)
- Movado Group (MOV)
- Williams-Sonoma (WSM)
- Ulta Beauty (ULTA)

AGING OF THE POPULATION

- Medtronic (MDT)
- US Physical Therapy (USPH)

ASSET-LITE BUSINESS MODELS

- Booz Allen Hamilton (BAH)
- Intuit (INTU)
- PVH (PVH)

CASH-STRAPPED CONSUMER

- Autozone (AZO)
- Big Lots (BIG)
- Burlington Stores (BURL)
- Cavco Industries (CVCO)
- Costco (COST)
- DSW Inc. (DSW)

- Dollar Tree (DLTR)
- Nomad Foods (MOMD)
- Sears (SHLD)
- Shoe Carnival (SCVL)
- Signet Jewelers (SIG)

CONNECTED SOCIETY

- Dycom (DY)
- Marvell (MRVL)
- Momo Inc. (MOMO)

CONTENT IS KING

- GameStop (GME)
- Lions Gate Ent. (LGF.A)
- Take-Two (TTWO)

FATTENING OF THE POPULATION

- Cracker Barrel (CBRL)
- Hormel Foods (HRL)

GUILTY PLEASURE

- International Gaming Tech. (IGT)

RISE & FALL OF THE MIDDLE CLASS

- Abercrombie & Fitch (ANF)
- Chico's (CHS)
- Guess
- Patterson Co. (PDCO)
- Sanderson Farms (SAFM)
- Toll Brothers (TOL)
- Yirendai (YRD)

SAFETY & SECURITY

- CSRA Inc. (CSRA)
- Splunk (SPLK)

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