MONDAY MORNING KICKOFF

YOUR MARKET PRIMER FOR THE WEEK AHEAD

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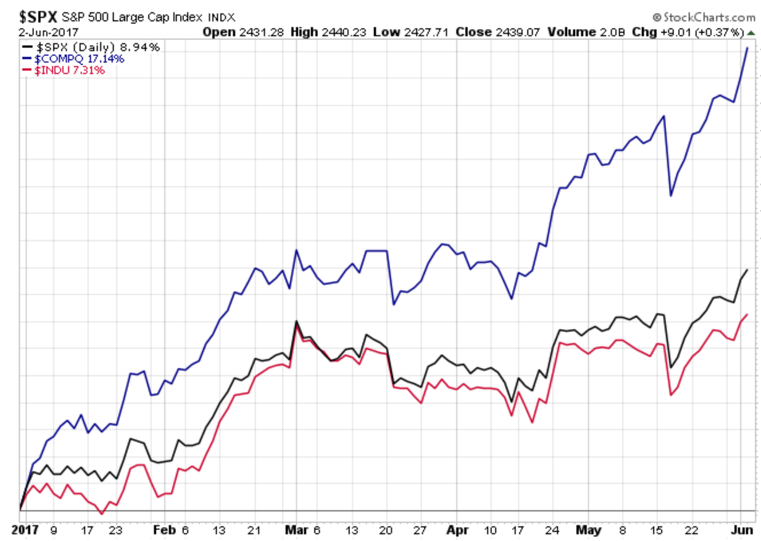
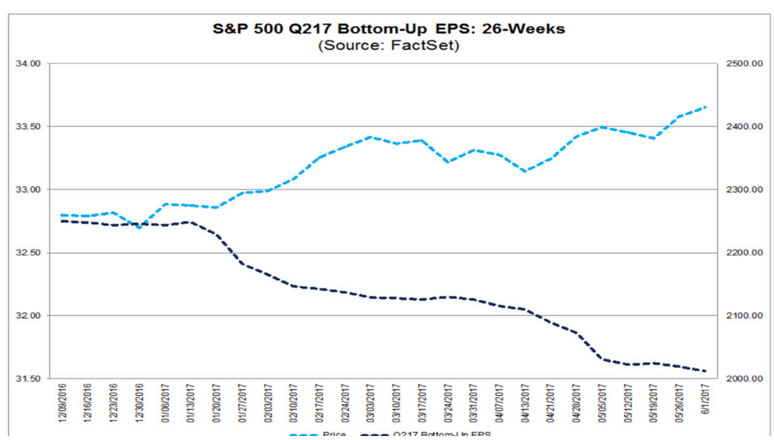
No Matter How You Slice It, Nothing But Headwinds Ahead for the Market

Last week we closed the books on May and tip-toed into the last month of the current quarter. With all the major market indices once again inching higher last week, 2Q 2017 to date returns now range between 2.6 and 3.2 percent for the Dow Jones Industrial Average and S&P 500, with the standout being the Nasdaq Composite Index at up 6.8 percent.



The Nasdaq continues to be fueled by the model horsemen of the *Connected Society* and *Asset-Lite Business* investment themes: **Amazon (AMZN), Facebook (FB), Apple (AAPL), Alphabet (GOOGL)** and **Microsoft (MSFT)**. With several of those stocks are now in overbought territory — yes we mean you Amazon, Microsoft and Alphabet — we have to question how much further the Nasdaq will climb in the near-term, especially as it too has entered overbought territory.



The S&P 500 is on the cusp of overbought territory as well. When that's happened in the recent past that index has either traded sideways for several weeks — as we saw over the December 9, 2016 – January 23, 2017 period — or it has soon peaked and traded off as evidenced by the move in late February and the first half of March. Now for the sobering thought . . . this continued move higher quarter to date in the S&P 500 has come even though EPS expectations for the current quarter

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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.

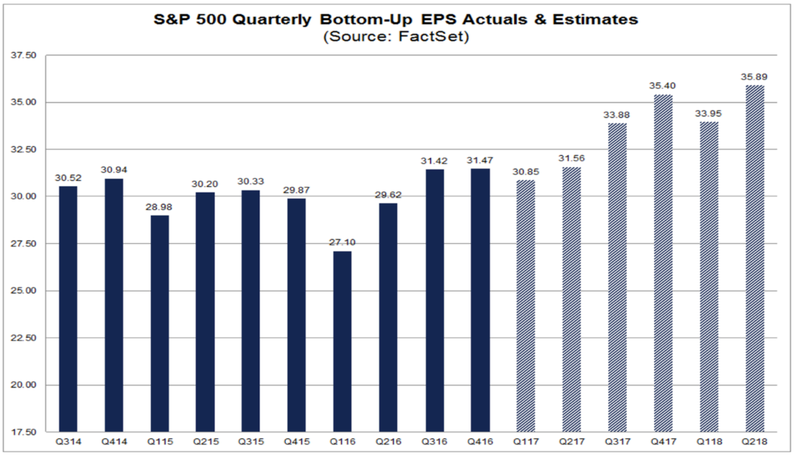
have been trimmed as have those for all of 2017. During the first two months of the current quarter, analysts lowered earnings estimates for the S&P 500 group of companies 1.7 percent to $31.58 from $32.13 during this period. With some modest tinkering to expectations in the back half of 2017 – yes, lower as you might have guessed — the wind up was the S&P 500 traded at 18.5x expected 2017 earnings as we exited last week.

Even after those revisions, consensus expectations still have the S&P delivering more than 10 percent earnings growth year over year.

This makes team Tematica go "Hmm" especially given the pairing back of GDP forecasts for the current quarter by both the Atlanta Fed as well as the New York Fed. Tematica's Chris Versace and Lenore Hawkins talked about the factors behind those moves on last week's *Cocktail Investing* podcast, which if you missed it you **can listen to it here**.

Following the taping of that podcast, we received the May data for both ISM Manufacturing as well as the Employment Report, neither of which pointed to an uptick in economic activity during the month. The result was the Atlanta Fed revised its 2Q 2017 GDP forecast down to 3.4 percent, from 3.7 percent a week prior. At the same time, the New York Fed kept its 2Q 217 GDP forecast intact at 2.2 percent, but trimmed its 3Q 2107 GDP forecast from 2.0 percent down to 1.8 percent.

That 3Q 2017 GDP trimming is not only in keeping with the economic data we've been seeing of late, but also the likely reality that President Trump's economic agenda will more or less stall during the summer months with Congress out of session more than it is in session. We've written on this previously and discussed it several times on the weekly podcast, but for those that may have missed it, we increasingly expect to see Trump's economic agenda and reforms getting pushed back to late 2017 at the earliest and maybe even into 2018, due to the pending 2017 election season and Trump's dwindling popularity. That combination will more than likely embolden Democrats seeking re-election to push back on or at least endeavor to forestall any and all of Trump's maneuverings.



As we see it, we're likely to see more GDP cuts for the second half of 2017 and that calls into question the probability that 3Q and 4Q 2017 earnings expectations for the S&P 500 will also be reduced further. As we mentioned earlier, the current EPS expectations for the S&P 500 call for just over 10 percent growth, but if those forecasts get cut back to between 6-8 percent year over year, we could see a 5 to 8 percent pullback in the market from last Friday's close. That's assuming the current market P/E multiple of 18/.5x forward earnings remains intact. Odds are, if EPS expectations come down, so too will that market multiple.

The bottom line, no matter how we slice it, it seems the overall market is bound to hit some headwinds over the coming weeks, particularly as the typical lower summer trading volumes kick in, and thus increase volatility. Embracing the idea that U.S. equities may have gotten overheated, investors pulled $1.6 billion out of ETFs tied to the space, according to the latest monthly data from FactSet and **we discussed two bond ETFs** that are reaping the benefits on last week's podcast. With temperatures heating up, it looks like we're in for a sideways market at best over the summer months.

Turning to the Week Ahead

Following last week's ISM Manufacturing Report, which suggested some pick up in the economy and conflicted with Markit's May Manufacturing PMI for the US that reported a downtick in activity, this week we'll get ISM's read on the service sector for May. We'll also get April Factory Orders as well as 1Q 2017 Productivity figures.

ECONOMIC CALENDAR	JUN 06-10, 2017
MONDAY, JUNE 06	
Factory Orders	Apr
ISM Services	May
Unit Labor Costs - Rev.	Q1
Productivity-Rev.	Q1
TUESDAY, JUNE 07	
JOLTS - Job Openings	April
WEDNESDAY, JUNE 08	
Consumer Credit	April
Crude Inventories	06/03
MBA Mortgage Applications Index	06/03
THURSDAY, JUNE 09	
Natural Gas Inventories	3-Jun
Continuing Claims	27-May
Initial Claims	3-Jun
FRIDAY, JUNE 10	
Wholesale Inventories	April

Following Friday's disappointing May Employment Report, which widely missed expectations and showed more than 600,000 people fell out of the labor force over the last 12 months, this weeks' April JOLTS Report data should help square things up. In the May jobs report, we'd note the Labor Force Participation rate dropped from 62.9 percent to 62.7 percent and to add insult to injury, the BLS revised the April job creation numbers down from 211,000 to 174,000.

Here's the thing, despite the wide miss relative to expectations, the reality is to keep up with growth in the working-age population the Fed likely need to see the economy create 75,000-100,000 jobs in May to stay on course for boosting rates at its next FOMC meeting, which will be held next week on June 13-14.

Despite weaker inflation data last week and the weaker jobs report, the CME fed fund futures market is still predicting, with over 90 percent probability, that the Fed will raise rates at the June meeting to a target of between 100 and 125 basis points. Thus far in 2017, Financials have lagged the overall market given the drop in loan activity, mortgage applications and trading volumes, and while the tepid economy is likely to keep that the norm, we'll be sure to keep an open mind when it comes to the Tematica Select List, which is part of our premium product, **Tematica Investing** .

In addition to the Fed's forthcoming policy meeting, there are two big meetings occurring this week – **Apple's (AAPL)** 2017 WWDC event later today and the European Central Bank's (ECB) June 8th policy meeting. While we've seen favorable data on overall Eurozone economic activity of late, with issues like Greece once again rearing their head, odds are the ECB will keep the stimulus peddle to the metal a bit longer. Perhaps we will hear some "contemplation" over when the ECB may boost rates, but with the Fed likely to inch rates up, we suspect the ECB would rather capture incremental export orders to further shore up its economy. We expect the ECB meeting to pretty much be a non-event event.

While Apple shares aren't currently on the **Tematica Select List**, what the company announces at WWDC will impact several select list positions and the entire ***Connected Society*** investment theme for that matter. For that reason, we'll, of course, be tuning into the event to see how Apple pivots its software and products. We may even be tweeting, so for those on Twitter, you may want to follow **@_ChrisVersace** or **@EllesEconomy**.

We expect Apple to unveil its next iOS iteration and potentially its own version of the connected assistant/ speaker, and perhaps some new hardware. We are not expecting anything pertaining to the next iPhone iteration, but we can't rule out some chatter that could impact the Tematica Select List's **Universal Display (OLED)** shares one way or another. That's been a great performer for Tematica Investing subscribers, up more than 120 percent since we first added it to the Select List last October.

While there are some companies slated to report earnings this week — see our Thematic Earnings Calendar below for more on what we'll be watching – there are several investment conferences to be had this week. With just a few weeks until companies enter their "quiet period" we expect investors will parse management comments made during these upcoming presentations rather carefully. Across these conferences, we'll be looking for data points and commentary that we can parse through our thematic lens for our ***Connected Society, Aging of the Population, Cashless Consumption, Disruptive Technology and Economic Acceleration/Deceleration*** investing themes.

- Stifel Technology Conference
- NAREIT REITWeek Investor Forum 2017
- Stephens Spring Investor Conference 2017
- Jefferies Global Healthcare Conference 2017
- Baird Global Consumer, Technology & Services Conference
- Bank of America Merrill Lynch Global Technology Conference 2017
- Wells Fargo Securities Financial Services Investors Forum 2017
- Deutsche Bank dbAccess Global Industrials and Materials Summit
- Citi Global Markets, Small & Mid Cap Conference 2017

Several paragraphs above we mentioned investors pulled $1.6 billion out of US equity ETFs during May, and given the above short list of conferences the ETFs to watch this week will include:

- **Technology Select Sector SPDR Fund (XLK)**
- **Vanguard Information Technology ETF (VGT)**
- **Financial Select Sector SPDR Fund (XLF)**
- **Vanguard Financials ETF (VFH)**
- **Health Care Select Sector SPDR Fund (XLV)**
- **iShares US Healthcare ETF (IYH)**
- **Industrial Select Sector SPDR Fund (XLI)**
- **First Trust Industrials/Producer Durables AlphaDEX Fund (FXR)**
- **Consumer Discretionary Select Sector SPDR Fund (XLY)**
- **Vanguard Small-Cap Value ETF (VBR)**

While we are focused on those companies that are benefitting from multi-year thematic tailwinds, we'll continue to monitor ETF fund flows as a barometer of investor appetite as we construct our own set of thematically focused indices.

Thematic Earnings Reports to Watch:

AFFORDABLE LUXURY
- Vail Resorts (MTN)

ASSET LITE BUSINESS MODELS
- Sigma Designs (SIGM)

CASH-STRAPPED CONSUMER
- Tailored Brands (TLRD)
- JM Smucker (SJM)

CASHLESS CONSUMPTION
- CardConnect Corp. (CCN)
- Verifone (PAY)

DISRUPTIVE TECHNOLOGY
- Ambarella (AMBA)

ECONOMIC ACCELERATION/ DECELERATION
- HD Supply (HDS)
- Navistar (NAV)

FOOD WITH INTEGRITY
- United Natural Foods (UNFI)

GUILTY PLEASURE
- Brown Forman (BG.B)
- Dave & Busters (PLAY)

RISE & FALL OF THE MIDDLE CLASS
- At Home Group (HOME)
- G-III Apparel (GIII)

SAFETY & SECURITY
- Secureworks Corp. (SCWX)

SCARCE RESOURCES
- Canadian Solar (CSIQ)