

# MONDAY MORNING KICKOFF

## YOUR MARKET PRIMER FOR THE WEEK AHEAD

### A New Service from Tematica Research

Before we get started with our usual review of what happened in the markets and economy last week as well as key items to watch in the week ahead, we'd like to share that we are back podcasting!

That's right, last week we finally returned with the [Cocktail Investing](#) podcast, a weekly conversation about all things and happenings that impact the economy and investing. Much like the book that we authored by the same name, with the podcast we'll look to distil clear signals among all the noise be it company news, economic data or as we have seen in recent months are seeing political tweets and other Washington drama.

We aim to have some fun and laughs along the way along with some special guests from time to time, so be sure to check it out on the Tematica website, and if you're a Donald Trump-like yuuuuuuuge fan of podcasts like we are, [iTunes](#), SoundCloud or Stitcher.

### Dow 20K . . . Finally

As the velocity of earnings picked up last week during the first full week of Donald Trump's presidential term, the long awaited and much prognosticated Dow 20K finally happened. The party hats were broken out on the floor of the NYSE, and as that grouping of 30 stocks moved higher so too did the S&P 500 and Nasdaq Composite Index.

On the one hand, we too share the cautious optimism of the growing market view that perhaps, finally, the economy will break out of its tepid malaise. On the other, however, we've often talked about the dangers of relying on group-think that can lead investors to be a tad too complacent.

FOLLOW US:



#### Thematic Signals

[Apple, Amazon and Google each attacking the smart home market with a unique approach](#)

[McDonald's Big Mac ATM Is No Joke As Restaurants Deal With Rising Minimum Wages](#)

[Adverse Weather Conditions Have Europe Importing US Vegetables](#)

[NAFTA is in the hot seat, but trade isn't as simple as America wins](#)

[Death of Cash and Check-based payments a matter of time, literally](#)

[READ MORE](#)

#### COCKTAIL INVESTING PODCAST

The end of week wrap up of all things in the Markets, News and whatever we find funny and entertaining.

**As the Trump Trade resumes we consider the likelihood of the Dow staying above 20K**

We're back on the podcast wagon! In this new episode, we talk about the DJIA hitting 20K and the resumption of the Trump Trade, but also share our view on some of the headwinds ahead.

Listen Now



#### 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.

Unlike the over reliance by the Fed on the Unemployment Rate, when looking at the Dow20K as it's being called, it's also prudent to assess at the same time our preferred metric for the overall market, the S&P 500, to get a gauge for how much more runway the market has. The S&P, like the DC Comics superhero Plastic Man toy, has seen its valuation continued to stretch and stretch and now sits at more than 19x consensus 2016 earnings. Need we remind you that we're hip deep in the middle of 4Q 2016 earnings, which once again is a mixed bag with companies ranging from **Verizon (VZ)** and **AT&T (T)** to **Alcoa (AA)**, **Mattel (MAT)** and **Alphabet (GOOGL)** either missing on the top or bottom line, and in some bases both.

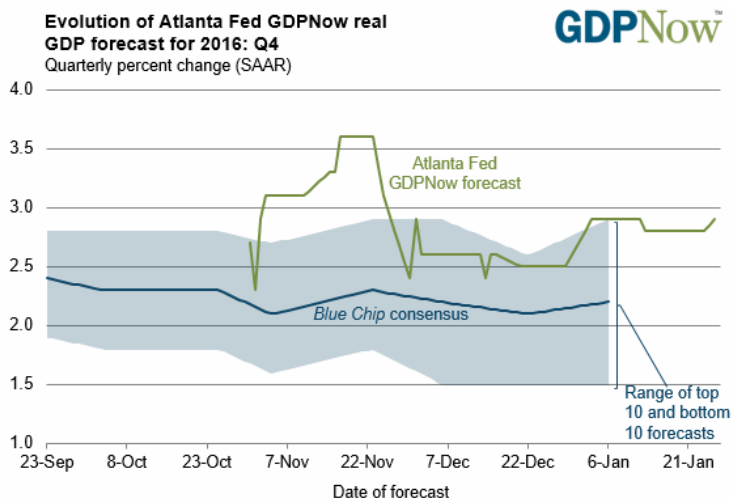


Now, it's the earnings news hasn't been all bad news. There are a number of companies, most of which we would argue are benefiting from thematic tailwinds, that are delivering better than expected results. We're talking about **Scarce Resources** company **Waters (WAT)**, **Disruptive Technologies** candidate **Cree (CREE)**, **Rise & Fall of the Middle-Class Boeing (BA)**, **Asset-lite Business Model** play **Dolby Labs (DLB)** and **Economic Acceleration/Deceleration** candidate **United Rentals (URI)**. We could keep going, but we suspect you get the idea.

What propelled the market to record highs last week was the re-embrace of what's been called the Trump Trade — the notion that President Trump will cut taxes, spend on infrastructure, build back up the military and court more jobs back to the US. As we have said, all good things in theory, but we've also been saying that these policies have yet to have been fully revealed by the Administration and they will also have a lag effect on the economy if and when they are implemented.

Between now and then we still have to deal with reality, and that reality is at best a tepid economy. Don't believe us? Well, a heavy dose of reality came at us last Friday when we received the first look at GDP for 4Q 2016, which came in at 1.9 percent, well below 3.5 percent in 3Q 2016 and missing the consensus forecast of 2.2 percent.

For those that might have thought our past comments that the Fed is a cheerleader for the economy were a bit off, we have no other way to explain how the Atlanta Fed's GDPNow missed the GDP market for 4Q 2016 by so much. No offense to Pat Higgins, the Atlanta Fed economist that created GDPNow, but just one day before we received the first take on 4Q 2016 GDP, the Atlanta Fed GDPNow was still at 2.9 percent. This marks the second time in 2016, this metric has meaningfully missed the real economic picture. Again, no offense Pat.



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

All of this serves to remind us that some economic forecasters are brothers once removed from weather forecasters and we know how even after all the technology upgrades and radar this and that how often weather forecasters are right. For a more detailed review and context for 4Q 2016 GDP, be sure to check comments from Tematica's Lenore Hawkins.

Yes, what Friday's disappointing GDP print proves is that despite all the pro-business rhetoric coming from President Trump, as we stated earlier it is indeed going to take time for those pending and potential policies to have an impact on the economy. In some respects that mismatch is clearly defined between the juxtaposition of 4Q 2016 GDP, the University of Michigan's latest consumer sentiment survey sitting at the highest level in a decade and CNN Money's Fear & Greed Index that has risen back to Greed from Neutral last week. While we are excited and optimistic, we continue to think the benefits will likely start to be felt in the back half of 2017. Looking at the current view offered by the Wall Street Journal's survey of more than 60 economists that see GDP in the first half of 2017 between 2.2-2.4 percent.

## The other side of the coin of President Trump and the Markets.

As we mentioned above, for the most part, the stock market continued to grind higher last week with all three major marked indices moving upwards as we get ready to close the books on January in a few days. As amazing as it is to realize, we are nearly 1/12th of the way through 2017!

We must acknowledge, however, that while the expected pro-business policies of the Trump Administration have driven the market higher, the political movements by President Trump are also causing a great deal of uncertainty. For most, the current brouhaha with Mexico or refugee ban quickly come to mind — both of which are likely raising the neck hairs on tech, industrial and auto companies. But what we're talking about is the planned repeal and replacement of the Affordable Care Act.

One interesting comment regarding the Affordable Care Act was had from **Johnson & Johnson (JNJ)** this week:

*"We did not see any significant impact uptick in business as a result of the implementation of the Affordable Care Act . . . So therefore, any change going in the opposite direction, we don't think will be negative."*

Perhaps this means expectations over the pain to be had in the repeal and replace process may not be as bad as the market is expecting, given the move lower in healthcare and related stocks like **CVS Health (CVS)**, **McKesson Corp. (MCK)**, and **AMN Healthcare (AMN)**. Rather than speculate, we'll wait to see the proposed plan details when they are put forth.

In keeping with our previous statements, when it comes to the ACA, we hope a cohesive and forward-thinking approach is being utilized, lest the repeal and replacement process becomes one similar to the less than presidential dialog we've seen between Trump and Enrique Peña Nieto, not to mention the obscenity-filled rant by former Mexican President Vincent Fox regarding "the wall."

One potential scenario has Trump considering "a 20% tax on imports from Mexico to pay for a southern border

wall.” That led to several Republicans expressing concerns over a potential trade war with one of the US’s most significant trading partners. We have our fingers crossed that we are seeing Trump “the deal maker” make his initial mark. But as with pending tax reform as well as healthcare reform, we continue to wait for more specifics before jumping to any conclusions.

## Turning to the Week Ahead

We have more than 500 companies reporting earnings this week, including 103 S&P 500 companies (including 5 Dow 30 components). Once that 20 percent of the index is done reporting, we’ll have heard from roughly 55 percent of those 500 companies. While not quite enough to bring a crystal clear picture of 2017 earnings into view, it should start to give us a feel for how likely consensus expectations are for 2017. Obviously, as more companies in the index report, that view will become even sharper.

One of the sectors that we’ll be focusing on will be Energy not only because it was a huge drag on earnings of late, but also because that group is forecasted to deliver just under 30 percent revenue growth in 2017 vs. 2 to 7 percent for the other 11 S&P 500 industry categories. Oil prices are up some 20 percent from November-December levels due to slated production cuts and this has led to a continued rebound in the number of US oil rigs. Per weekly data published by **Baker Hughes (BJI)**, as of last week, the US rig count stood at 712, up 93 compared to a year ago. Week over week 18 more came back on line. Again, even with this favorable forward-looking data, Baker Hughes, however, missed earnings expectations for the December quarter on revenue that fell 29 percent year over year.

In the coming week we have **Exxon Mobile (XOM)** and before too long **Royal Dutch Shell (RDS.A)** reporting and we’ll be scrutinizing those reports to gauge when revenue and earnings for these Scarce Resource companies are likely to turn. Near-term, we will tread cautiously because any significant shortfall relative to expectations and we are likely to see a major revision to the current EPS growth forecast of +11.8 percent year over year in 2017 for the S&P 500 group of companies.

Looking across our 17 investment themes, the coming week will be a busy one as several companies across each of those themes will be reporting. The full list of the ones we’ll be watching is at the end of this report, but a few of the highlights include:

- **Cashless Consumption** — **MasterCard (MA)**, **Visa (V)** and **Vanity (VNTV)**
- **Connected Society** — **Apple (AAPL)**, **Facebook (FB)** and **Amazon (AMZN)**
- **Content is King** — **Electronic Arts (EA)**
- **Economic Acceleration/Deceleration** - **CNH Industrial (CNHI)**, **Eaton (ETN)**, **Paccar (PCAR)** and **Parker Hannifin (PH)**
- **Food with Integrity** - **Chipotle Mexican Grill (CMG)**
- **Guilty Pleasure** - **Hershey Foods (HSY)\***
- **Safety & Security** - **Fortune Brands Home & Security (FBHS)** and **FireEye (FEYE)**

\* We'd like to call out how Hershey has changed its name from The Hershey Company to Hershey Foods. Much like when Apple Computer became Apple, this name change likely signals a wider view of what Hershey will be in the coming quarters and years. As we've discussed before with [subscribers to Tematica Investing](#), feeling the headwinds associated with sugar and our **Fattening of the Population** theme, Hershey has already ventured into meat snacks as it looks to pick up some lift from our **Food with Integrity** investing theme.

## On the economic data side

This week we have the usual combination of end of month data, like the December Personal Income & Spending report, and the start of the month data, which once again includes the PMI data from Markit Economics as well as the ISM Manufacturing and Services Indices, auto sales and of course a few different looks at job creation during January.

While we tend to mine these reports every month, following the disappointing 1.9 percent print for 4Q 2016 GDP we dug into earlier, we'll be looking for indications of a pick up in the economy over the last few weeks to determine if there has been any turning of the tide as of late. Based on the most recent railcar loading and truck tonnage data, however, we have to say it looks more like the domestic economy has continued to bump along.

Adding to the potential market headwinds, Greece and its creditors failed to resolve their differences over finding a solution for the country's deadlocked bailout. As a reminder, the Greek government has been caught for months between the IMF's demands for more austerity and Germany's refusal to discuss major debt relief, while the country's debt stands at about 180 percent of its GDP. The question remains if a workable solution can be reached before Europe's coming election season. Here's a short list of several up and coming elections:

- The Netherlands's General Election, March 15
- France's Presidential Election, First Round on April 23, Second Round on May 7
- Germany's Federal Election, October 22

ECONOMIC CALENDAR JAN 30 - FEB 3, 2017		
DATE	REPORT / SPEECH	DATA
30-Jan	<b>Personal Income</b>	Dec
30-Jan	<b>Personal Spending</b>	Dec
30-Jan	<b>PCE Prices - Core</b>	Dec
30-Jan	<b>Pending Home Sales</b>	Dec
31-Jan	<b>Employment Cost Index</b>	Q4
31-Jan	<b>S&amp;P Case Shiller Home</b>	Nov
31-Jan	<b>Chicago PMI</b>	Jan
31-Jan	<b>Consumer Confidence</b>	Jan
1-Feb	<b>MBA Mortgage</b>	28-Jan
1-Feb	<b>MBA Mortgage</b>	28-Jan
1-Feb	<b>ADP Employment</b>	Jan
1-Feb	<b>ISM Index</b>	Jan
1-Feb	<b>Construction Spending</b>	Dec
1-Feb	<b>Crude Inventories</b>	28-Jan
1-Feb	<b>FOMC Rate Decision</b>	Feb
1-Feb	<b>Auto Sales</b>	Jan
1-Feb	<b>Truck Sales</b>	Jan
2-Feb	<b>Challenger Job Cuts</b>	Jan
2-Feb	<b>Initial Claims</b>	28-Jan
2-Feb	<b>Continuing Claims</b>	28-Jan
2-Feb	<b>Productivity-Prel</b>	Q4
2-Feb	<b>Unit Labor Costs</b>	Q4
2-Feb	<b>Natural Gas Inventories</b>	28-Jan
3-Feb	<b>Nonfarm Payrolls</b>	Jan
3-Feb	<b>Nonfarm Private</b>	Jan
3-Feb	<b>Unemployment Rate</b>	Jan
3-Feb	<b>Avg. Hourly Earnings</b>	Jan
3-Feb	<b>Average Workweek</b>	Jan
3-Feb	<b>Factory Orders</b>	Dec
3-Feb	<b>ISM Services</b>	Jan

We also have Italy's largest parties — Renzi's Democratic Party and the anti-establishment 5-Star Movement — both calling for an election by the summer, about a year ahead of schedule. Let's not forget the pending Brexit and now Frexit talk, which when combined with the above could lead to more uncertainty and make for a rebound in the dollar. We've had ample companies report missed revenue expectations, citing foreign currency and even recently saw Apple adjust its iTunes and App Store prices due to currency movements. Another leg higher would mean an even greater headwind to revenue expectations and domestic economic growth in the coming months.

As we navigate through the week ahead, which is likely to be the high point for earnings reports, offer our first look at the economy in 2017 and could have more Washington drama, we'll continue to triangulate the data and sharpen our thematic mosaic to determine our next moves with the Tematica Select List.

## Earnings on Tap This Week

The following are just some of the earnings announcements we'll have our eye on for thematic confirmation data points:

### *AFFORDABLE LUXURY*

- Callaway Golf (ELY)
- Coach (COH)
- Malibu Boats (MBUU)
- Ralph Lauren (RL)

### *CASH-STRAPPED CONSUMER*

- EZCORP (EZPW)
- FirstCash (FCFS)
- Hanes Brands (HBI)
- Regis Corp. (RGS)

### *AGING POPULATION*

- Ameriprise Financial (AMP)
- Hologic (HOLX)
- Vascular Solutions (VASC)
- Zimmer Biomet (ZBH)

### *CONNECTED SOCIETY*

- Amazon (AMZN)
- Apple (AAPL)
- Cavium Networks (CAVM)
- Facebook (FB)
- GoPro (GPRO)
- NXP Semiconductor (NXPI)
- Nokia (NOK)
- Shutterfly (SFLY)
- Sony (SNE)

### *ASSET-LITE BUSINESS MODELS*

- Booz Allen Hamilton (BAH)
- Ceva (CEVA)
- Gartner (IT)
- Rambus (RMBS)

### *CASHLESS CONSUMPTION*

- Automatic Data (ADP)
- Heartland Financial (HTLF)
- MasterCard (MA)
- Paylocity (PCTY)
- Vantiv (VNTV)
- Visa (V)

### *CONTENT IS KING*

- Electronic Arts (EA)
- Madison Square Garden (MSG)
- Sirius XM Radio (SIRI)

### *DISRUPTIVE TECHNOLOGIES*

- Sensata Technologies (ST)



***ECONOMIC ACCELERATION/DECELERATION***

- Celanese Corp. (CE)
- CH Robinson Worldwide (CHRW)
- CNH Industrial (CNHI)
- Danaher (DHR)
- Eaton (ETN)
- Headwaters (HW)
- Paccar (PCAR)
- Parker Hannifin (PH)

***FATTENING OF THE POPULATION***

- Ingredion (INGR)
- Post (POST)

***FOOD WITH INTEGRITY***

- Chipotle Mexican Grill (CMG)
- Hain Celestial (HAIN)
- Natural Grocers (NGVC)

***FOUNTAIN OF YOUTH***

- Estee Lauder (EL)
- Sally Beauty (SBH)

***GUILTY PLEASURE***

- Altria
- Harley Davidson (HOG)
- Hershey Foods (HSY)
- Match Group (MTCH)
- Penn National Gaming (PENN)

***RISE & FALL OF THE MIDDLE CLASS***

- Align Technology (ALGN)
- Aetna (AET)
- AutoNation (AN)
- Aflac (AFL)
- Clorox (CLX)
- Deckers Outdoor (DECK)
- Honda Motor (HMC)
- MakeMyTrip (MMYT)
- Tupperware (TUP)
- Under Armour (UAA)
- USG (USG)

***SAFETY & SECURITY***

- Carbonite (CARB)
- CACI International (CACI)
- Fortune Brands Home & Security (FBHS)
- Fortinet (FTNT)
- FireEye (FEYE)
- Symantec (SYMC)

***SCARCE RESOURCES***

- Exxon Mobil (XOM)
- Mueller Water (MWA)
- Xylem (XYL)

***TOOLING & RE-TOOLING***

- DeVry Education (DV)
- Manpower (MAN)

**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.