



Monday Morning Research Notes

June 19, 2017

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Major economic & market developments for the week ended 6/16/17

- **Retail sales slow in May; electronics, appliances & department stores weakest – online strong**
- **Contrasting momentum in regional economies, led by Eastern Europe; No. America moderating**
- **Crude oil breaks through 6 month lows on continuing supply glut**
- **Big news of the week: Amazon to buy Whole Foods in \$13.7 billion deal; Will Trump prevent it?**
- **Trump Administration expected to announce Exec Order on Pharma pricing soon**
- **S & P 500: Uptrend remains in-tact, with two week period of consolidation**
- **Group Rotation: Healthcare strengthens; Technology moderates**
- **Will Congress break with tradition?**

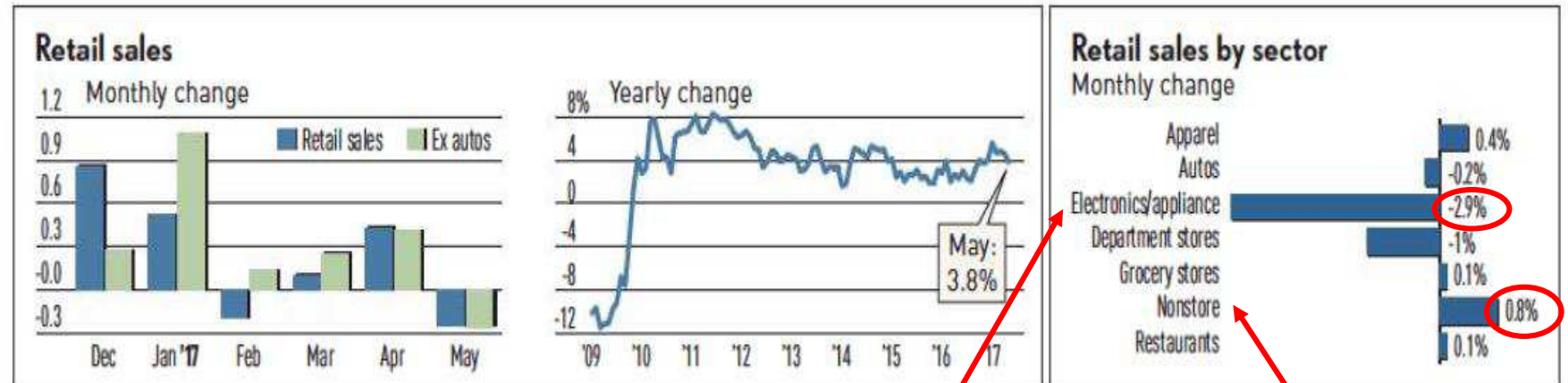
Overall retail sales slow in May; online continues strong

VITAL SIGNS

Retail Sales Slump

Retail sales unexpectedly fell 0.3% in May, the worst drop since January 2016. Year over year, sales are rising at a slower pace. E-commerce and other nonstore sales are strong, while electronics and department stores slumped.

Source: Commerce Department



Electronics & appliances weak

Online strong

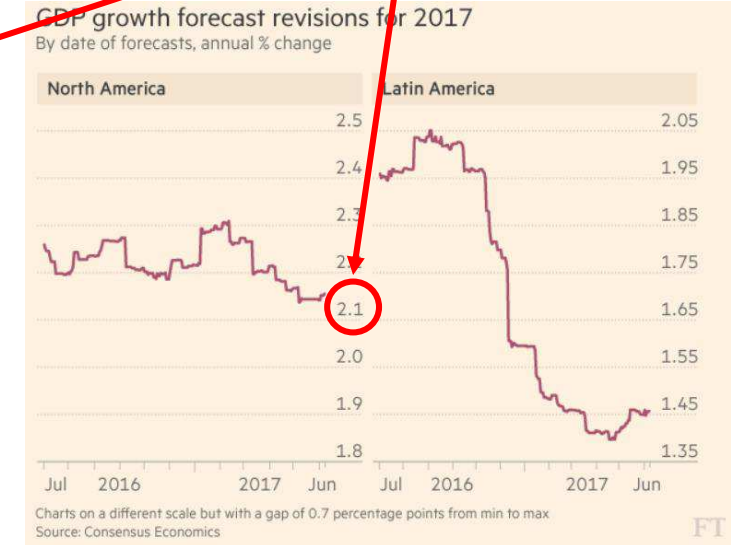
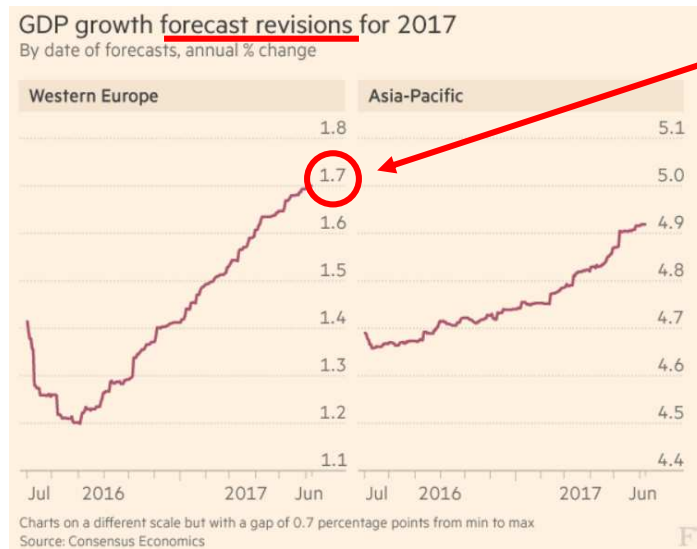
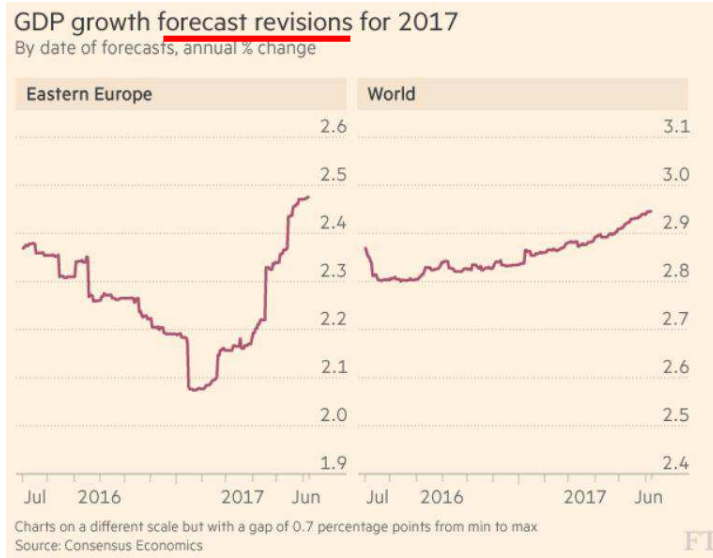
Contrasting growth momentum in regional economies

FINANCIAL TIMES

Central and eastern Europe show way on growth

Rapidly improving picture due to exports, tight labour market and foreign investment

North America still growing faster than Western Europe



Accelerating in Western & Eastern Europe, Asia and World overall

Decelerating in No. & So. America

Crude oil breaks through 6 month low on continuing supply glut

Oil prices dive amid global glut

U.S. crude futures sank 2.4% to \$44.74 a barrel, hitting seven-month lows, amid more evidence that a global supply glut continues despite the OPEC production cut. Crude stockpiles jumped by 18.6 million barrels in OECD countries in April, the International Energy Agency said, pushing the five-year average higher than before OPEC's production deal in November. U.S. crude supplies fell in the latest week, the Energy Information Administration said, but by less than expected. Gasoline supplies unexpectedly rose. Domestic production rose to 9.33 million barrels per day, up from 9.318 million barrels.

OPEC can no longer control the market

Crude Oil

WTI (NYMEX) Price

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)

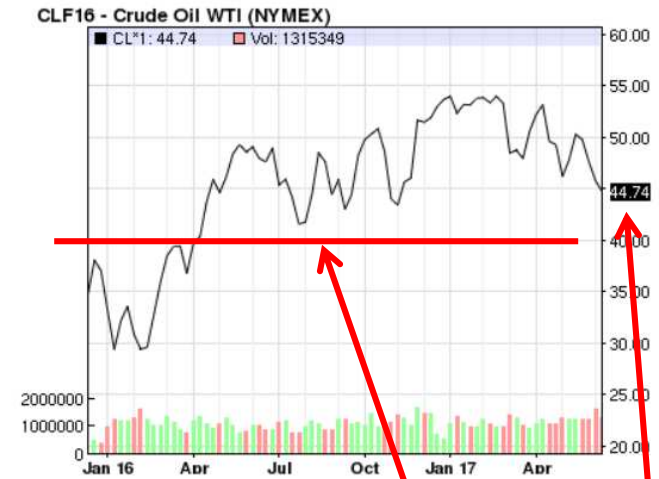


U.S. output from 7 major shale basins will jump by 127,000 barrels a day in July, EIA said, with the biggest increase coming from the Permian basin.

Crude Oil

WTI (NYMEX) Price

End of day Commodity Futures Price Quotes for Crude Oil WTI (NYMEX)



OPEC's own production rose 1% to 32.14 million barrels in May on increases from Libya, Nigeria and Iraq. Domestic production rose to 9.33 million barrels per day, up from 9.318 million barrels.

How low will it go? \$40 is our January '17 outlook

Big news of the week: Amazon to buy Whole Foods for \$13.7 billion

Amazon Rattles E-Commerce, Retail With Whole Foods Deal

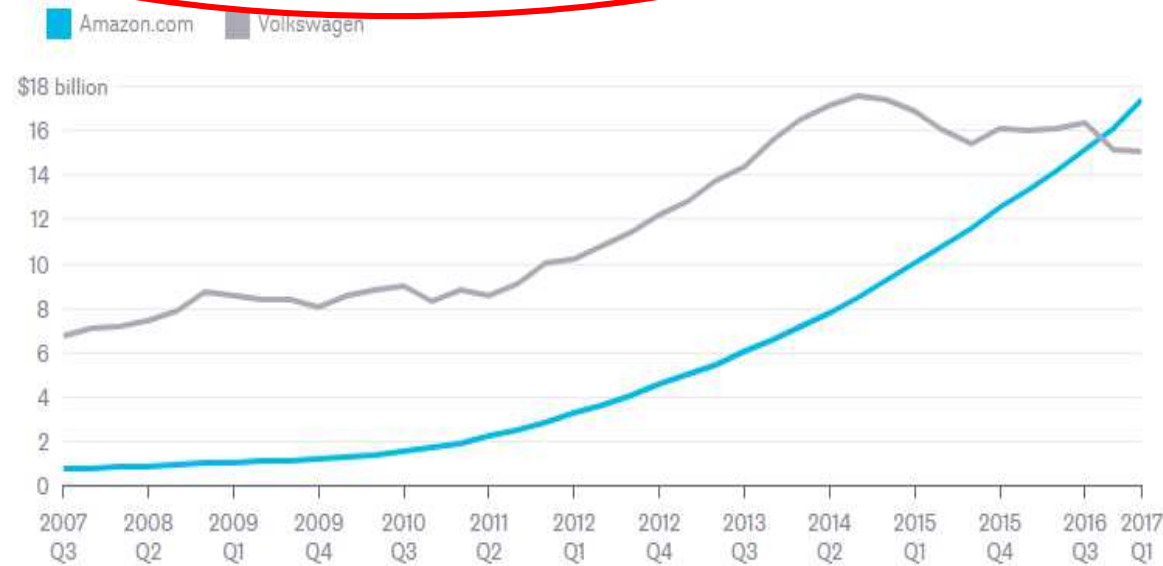
- Acquisition will create #5 grocery retailer - behind Wal-Mart, Kroger, Costco & Albertsons/Safeway
- Adds 460 additional stores to Amazon
- Could increase Prime Now offerings and expand curbside pick-up
- Could incorporate private label offerings, removing differentiation with other online grocery companies
- Could increase Prime subscribership – of which only 13% buy groceries, but leads all other online grocery companies
- Some analysts see a potential competing bid above \$43
- Will Trump Administration prevent on grounds of anti-trust? (Trump has made comments on Amazon in past)
- Potential additional sectors: Drugs, Industrial Supplies, Auto Parts, Business Lending



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Amazon Passes VW

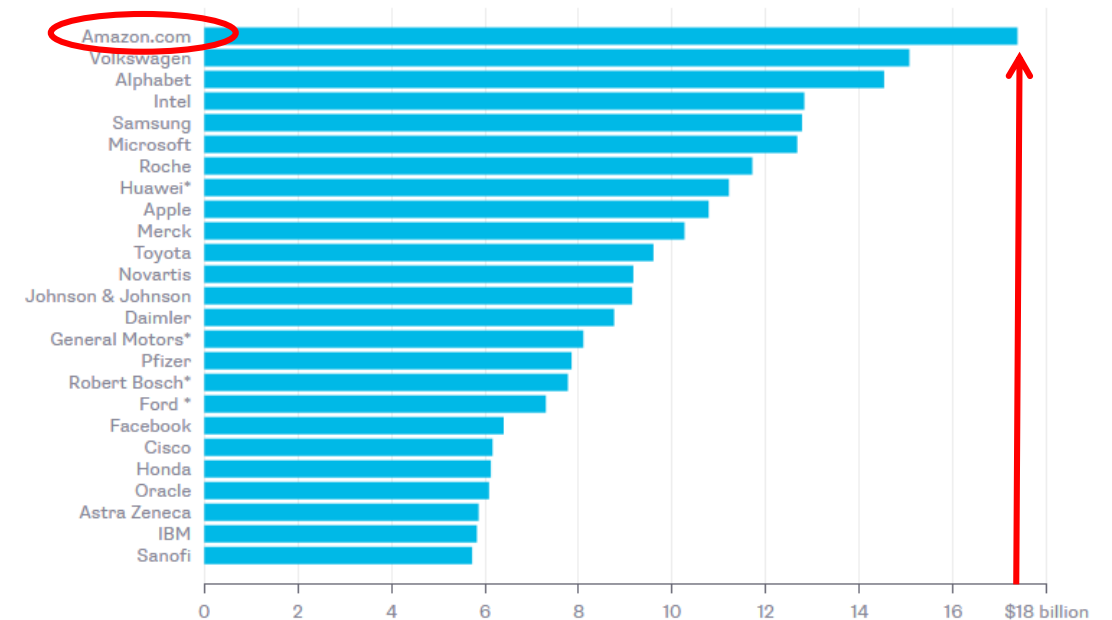
Research and development spending, trailing 12 months



Source: Bloomberg

The Top Corporate R&D Spenders

Research and development spending, trailing 12 months



Sources: Bloomberg, company reports



Big news of the week: Amazon to buy Whole Foods for \$13.7 billion

Amazon Said to Plan Cuts to Shed Whole Foods' Pricey Image



amazon.com

Are restaurants next to feel the heat?

BloombergView

Amazon Puts Restaurant Industry on Notice

Lower prices at Whole Foods would speed up a trend that makes the dining industry nervous.

The price of meals away from home rose 2.6 percent last year, while grocery prices fell 1.3 percent, reports the Bureau of Labor Statistics. The gap was especially wide for meat, poultry, and fish prices (down 3.5 percent, led by beef and veal, which were down 6.3 percent) and eggs (down a whopping 21.1 percent -- so much for breakfast out). Cheaper main dishes make it more likely that consumers will stay home.

WHOLE
FOODS
MARKET

Administration working on drug-price initiative

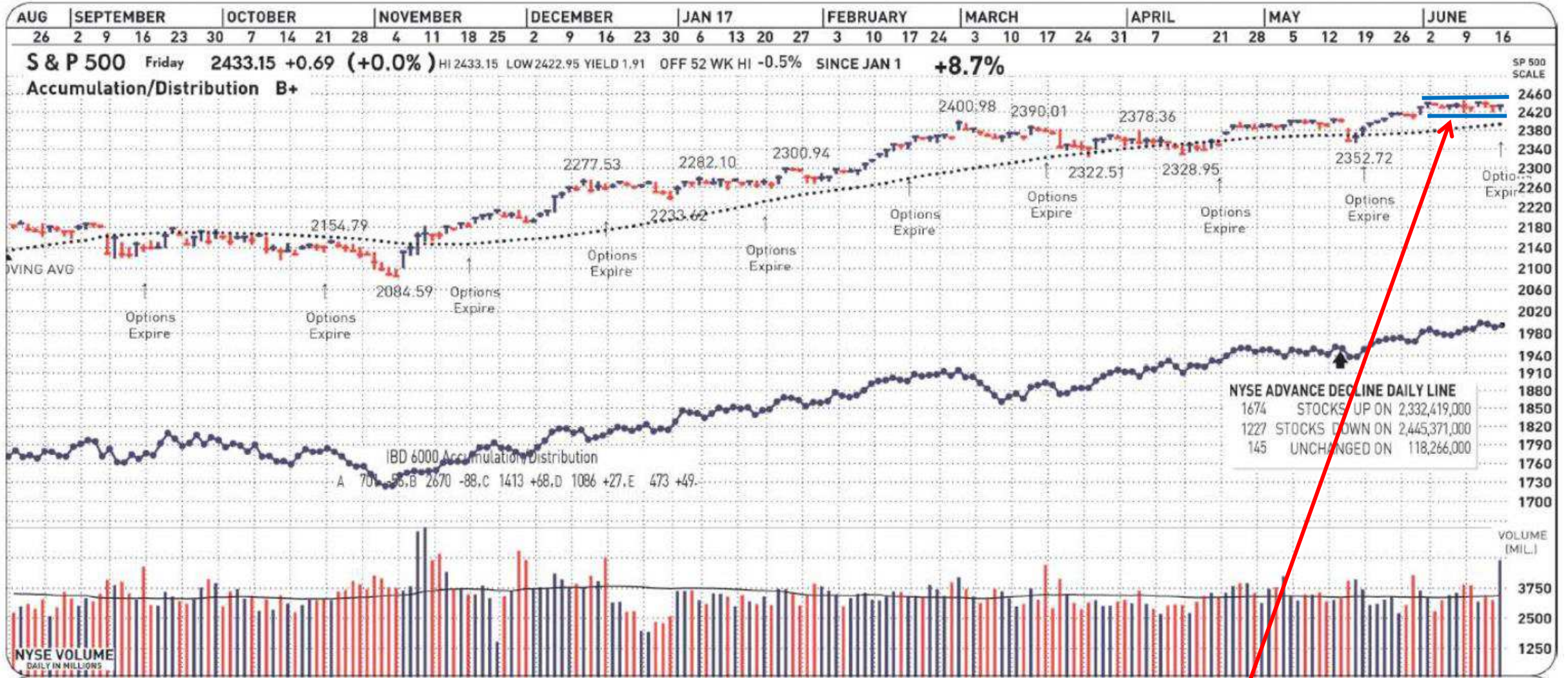


Trump Expected To Seek Order That Would Tackle Drug Prices



- **Generally, the Administration can only act on the margin without Congressional action**
- **Trump may seek cooperation from pharma industry to hold prices – like JFK did with steel industry in 1962**
- **Evercore says Admin will look for “low hanging fruit” like co-pay assistance, greater rebates to customers**
- **May look to establish “value pricing” where insurers agree to pay for drugs based on effectiveness**
- **Trump’s tweet about “more competition” created more speculation about expedited review of 4,000 generic drug applications now waiting approval at the FDA**
- **Look for Administration action within the next several weeks**

S&P 500 Index

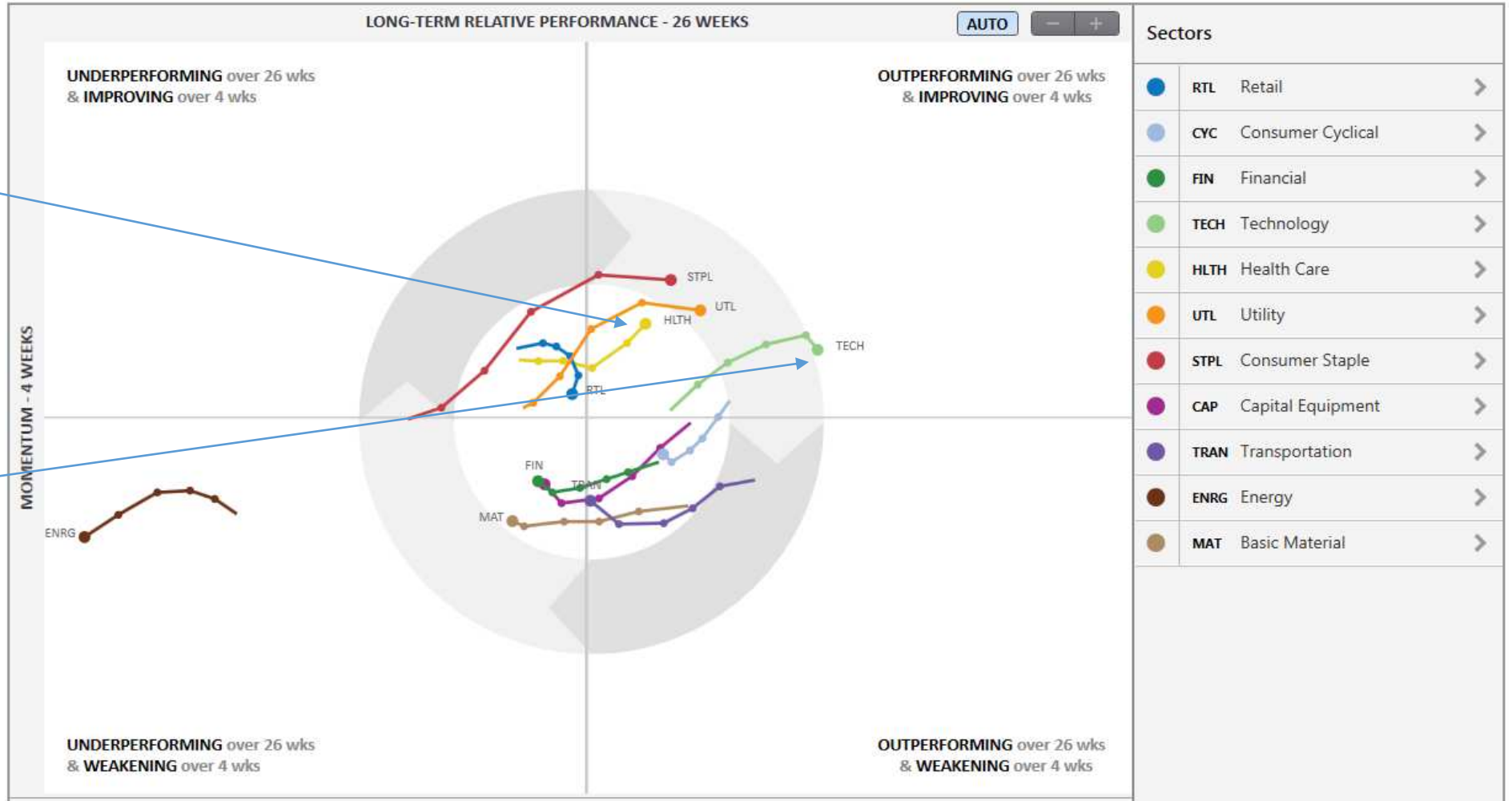


Working on two weeks of consolidation

Group Rotation

Healthcare strengthening

Technology moderating



Will McConnell & Ryan break from tradition this year?



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