Q2 2016 MACRO THEMES
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PLEASE SUBMIT QUESTIONS TO

QA@HEDGEYE.COM

TO BE ANSWERED AT THE END OF THE CALL
Differeniated from the Herd

Macroeconomics and Global Macro Risk Management are two very different fields. We specialize in the latter.

We Focus on the Slopes

Everything that matters in Global Macro occurs on the margin.
SPECIFICALLY, OUR BACKTEST DATA SHOWS THAT A LARGE DEGREE OF INTER AND INTRA ASSET CLASS RETURNS CAN BE EXPLAINED BY CHANGES IN GROWTH, INFLATION AND POLICY EXPECTATIONS. REFER TO THE FOLLOWING SLIDE FOR MORE DETAILS.

<table>
<thead>
<tr>
<th>UNITED STATES</th>
<th>1Q13</th>
<th>2Q13</th>
<th>3Q13</th>
<th>4Q13</th>
<th>1Q14</th>
<th>2Q14</th>
<th>3Q14</th>
<th>4Q14</th>
<th>1Q15</th>
<th>2Q15</th>
<th>3Q15</th>
<th>4Q15</th>
<th>1Q16</th>
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<tbody>
<tr>
<td>Real GDP QoQ SAAR</td>
<td>1.9%</td>
<td>1.1%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.1%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>1.4%</td>
<td>0.8%</td>
<td>0.8%</td>
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<tr>
<td>Real GDP YoY</td>
<td>1.1%</td>
<td>0.5%</td>
<td>1.5%</td>
<td>2.5%</td>
<td>1.7%</td>
<td>2.6%</td>
<td>2.9%</td>
<td>2.5%</td>
<td>2.9%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>2.0%</td>
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<tr>
<td>2Y Average</td>
<td>2.0%</td>
<td>1.7%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>1.4%</td>
<td>1.8%</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.3%</td>
<td>2.7%</td>
<td>2.5%</td>
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<tr>
<td>3Y Average</td>
<td>1.9%</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.0%</td>
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<td>2.1%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>2.3%</td>
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<tr>
<td>CAGR (3Y)</td>
<td>1.93%</td>
<td>1.70%</td>
<td>1.70%</td>
<td>1.83%</td>
<td>1.86%</td>
<td>2.00%</td>
<td>2.27%</td>
<td>2.10%</td>
<td>1.90%</td>
<td>2.06%</td>
<td>2.17%</td>
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<td>CPI YoY</td>
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<td>1.6%</td>
<td>1.2%</td>
<td>1.4%</td>
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<tr>
<td>2Y Average</td>
<td>2.3%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>1.7%</td>
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<td>3Y Average</td>
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<td>2.3%</td>
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<td>2.0%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.5%</td>
<td>1.0%</td>
<td>1.2%</td>
<td>1.2%</td>
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<tr>
<td>CAGR (3Y)</td>
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<td>2.34%</td>
<td>2.14%</td>
<td>1.98%</td>
<td>1.80%</td>
<td>1.69%</td>
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<td>1.01%</td>
<td>1.15%</td>
<td>1.16%</td>
<td>0.99%</td>
<td>0.63%</td>
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**Hedgeye Macro GIP Model**

<table>
<thead>
<tr>
<th>GIP = Growth/Inflation/Policy</th>
<th>Full-year Estimates</th>
<th>2015</th>
<th>2016E</th>
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<tr>
<td>Hedgeye Predictive Tracking Algorithm</td>
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<td>1.7%</td>
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<tr>
<td>Bloomberg Consensus Estimate</td>
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<tr>
<td>Central Bank Forecast</td>
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<td>2.2%</td>
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</table>

**Data Source:** Bloomberg
WHY DOES THE 2ND DERATIVE MATTER?

BECAUSE FINANCIAL ASSET RETURNS HAVE HISTORICALLY ANCHORED ON THE MARGINAL RATE OF CHANGE IN BOTH GROWTH AND INFLATION – ESPECIALLY WHEN THESE DELTAS ARE COUNTER TO CONSENSUS EXPECTATIONS.

<table>
<thead>
<tr>
<th>Hedgeye Macro U.S. G.P Model (Revised)</th>
<th>Weighted Average Gdp's Change, by Quadrant</th>
<th>Percentage of Weighted Average Gdp's Change, by Asset Class</th>
<th>Potential of Weighted Average Gdp’s Change, by Quadrant</th>
<th>Potential for Rate [solver by Asset Class &amp; Quadrant]</th>
<th>Total Quarterly Performance Observations</th>
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<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>3.1%</td>
<td>-1.1%</td>
<td>-1.4%</td>
<td>-0.6%</td>
<td>12%</td>
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<tr>
<td>S&amp;P 500 Consumer Discretionary Sector Index</td>
<td>4.4%</td>
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<td>-0.4%</td>
<td>-0.3%</td>
<td>13%</td>
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<tr>
<td>S&amp;P 500 Consumer Staples Sector Index</td>
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<td>-0.0%</td>
<td>13%</td>
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<tr>
<td>S&amp;P 500 Energy Sector Index</td>
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<td>-1.3%</td>
<td>-0.0%</td>
<td>-1.6%</td>
<td>13%</td>
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<tr>
<td>S&amp;P 500 Financial Sector Index</td>
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<tr>
<td>S&amp;P 500 Industrial Sector Index</td>
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<tr>
<td>S&amp;P 500 Information Technology Sector Index</td>
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<td>S&amp;P 500 Utilities Sector Index</td>
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<td>Russell 2000 Index</td>
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<tr>
<td>Dow Jones Industrial Average</td>
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<td>Nasdaq Emerging Markets Index</td>
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<tr>
<td>FTSE MARKET Equity REITs Tomor Index</td>
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<td>0.0%</td>
<td>-0.5%</td>
<td>13%</td>
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<tr>
<td>Barclays US Corporate Average Yield To Worst</td>
<td>-1.7%</td>
<td>1.2%</td>
<td>-2.2%</td>
<td>-1.0%</td>
<td>13%</td>
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<tr>
<td>Barclays US High Yield Average Yield To Worst</td>
<td>-2.3%</td>
<td>1.2%</td>
<td>-2.0%</td>
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<td>13%</td>
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<tr>
<td>Barclays US Corporate Average OAS</td>
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<td>0.7%</td>
<td>-1.3%</td>
<td>-0.6%</td>
<td>13%</td>
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<tr>
<td>Barclays US High Yield Average OAS</td>
<td>-1.4%</td>
<td>0.4%</td>
<td>-0.4%</td>
<td>-0.2%</td>
<td>13%</td>
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<tr>
<td>US Treasury 2Y Yield</td>
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<td>0.3%</td>
<td>1.2%</td>
<td>2.4%</td>
<td>13%</td>
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<tr>
<td>US Treasury 5Y Yield</td>
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<td>-0.0%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>13%</td>
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<tr>
<td>US Treasury 10Y Yield</td>
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<td>-0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>13%</td>
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<tr>
<td>Bond Buyer US Municipal Bond YTM</td>
<td>-0.1%</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.3%</td>
<td>13%</td>
</tr>
<tr>
<td>Thomson Reuters/Commodity CRM Commodity Index</td>
<td>1.0%</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>13%</td>
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<tr>
<td>Commodity Research Bureau/US Spot Raw-Indicators Index</td>
<td>1.2%</td>
<td>-1.5%</td>
<td>-0.4%</td>
<td>5.0%</td>
<td>13%</td>
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<tr>
<td>Commodity Research Bureau/US Spot Feedstock Index</td>
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<td>0.2%</td>
<td>1.7%</td>
<td>4.8%</td>
<td>13%</td>
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<tr>
<td>Frontpoint Basic Crude Oil</td>
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<td>3.7%</td>
<td>1.1%</td>
<td>4.4%</td>
<td>13%</td>
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<tr>
<td>Goldman Sachs</td>
<td>2.6%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.6%</td>
<td>13%</td>
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<tr>
<td>U.S. Dollar Index</td>
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<td>0.4%</td>
<td>0.1%</td>
<td>0.4%</td>
<td>13%</td>
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<tr>
<td>AUD/USD</td>
<td>1.0%</td>
<td>0.5%</td>
<td>-0.8%</td>
<td>-0.5%</td>
<td>13%</td>
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<tr>
<td>CAD/USD</td>
<td>0.4%</td>
<td>0.7%</td>
<td>0.0%</td>
<td>-0.6%</td>
<td>13%</td>
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<tr>
<td>CHF/USD</td>
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<td>0.1%</td>
<td>13%</td>
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<tr>
<td>EUR/USD</td>
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<td>-0.8%</td>
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<tr>
<td>GBP/USD</td>
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<tr>
<td>JPY/USD</td>
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<tr>
<td>JPMorgan EM PI Index</td>
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</tr>
</tbody>
</table>

DATA SOURCE: BLOOMBERG. THE AVERAGE QUARTERLY RETURN DATA IS WEIGHTED BY DELTA INTO RESPECTIVE QUADRANT.
PROCESS SLIDE #3

HEDGEYE QUANTITATIVE SETUP: US EQUITIES

- S&P 500
- TREND = 2059
- TAIL = 2066

ALL BACKSTOPPED BY A PROVEN QUANTITATIVE OVERLAY

Multi-factor: Price, Volume and Volatility
Multi-duration: TRADE (3 weeks or less), TREND (3 months or more) and TAIL (3 years or less)

DATA SOURCE: BLOOMBERG
Q1 2016 MACRO THEMES

**U.S. #RECESSION**
Industrial activity and corporate profitability are already trending at recessionary levels. Meanwhile, domestic employment, consumption and income growth are all past peak and policy-driven deflationary pressures should persist in perpetuating soft external demand, EM distress, weak import pricing, HY credit risk and further flagging in corporate capex. We’ll contextualize the current macro data and handicap the probability of recession as the late-cycle U.S. economy traverses its steepest GDP base effects of the cycle.

**#CREDITCYCLE**
An extended breakout in corporate credit spreads has preceded recessionary periods in prior cycles, and since we introduced our deflation theme in 2H14, both high yield and investment grade spreads have marched higher off all-time lows in cross-asset volatility and all-time highs in corporate credit outstanding. In effect, we are loudly reiterating our call that the unwind of ZIRP and QE will continue to deflate the easy money credit boom it fabricated in the form of continued recessionary earnings growth as the business cycle gets dangerously long in the tooth.

**#CURRENCYWAR**
Historically, Fed tightening cycles, #LateCycle slowdowns and #Quad3 outcomes have all been independently been bearish for the USD. As such, our expectation for a continuation of #StrongDollar commodity and asset price deflation appears misguided in the context of our dour fundamental outlook for the U.S. economy. That said, however, currencies cannot be analyzed in isolation and our proprietary analysis of the world’s top-10 economies renders the [dollar-bullish] global monetary policy divergence theme we authored well intact.
**#THECYCLE**

With the recessionary industrial data ongoing, employment, income and consumption growth decelerating, corporate profits facing a 3rd quarter of negative growth and Commercial and Industrial credit tightening, the domestic economic, profit and credit cycles are all past peak and continue to traverse their downslope. We’ll update our cycle view and detail why growth slowing – and its associated allocations – remains the call as the U.S. economy faces its toughest GDP comp of the cycle in 2Q16.

**#BELIEFSYSTEM**

The notion that central bankers are increasingly pushing on a string is being progressively priced into global financial markets – with one lone holdout: U.S. equities. While we admire the blind faith of domestic stock market operators in Yellen’s ability to keep “the game” going, we are keen to cite specific risks that marginally dovish policy in the U.S. will fail to overcome the depths of the domestic economic, credit and corporate profit cycles.

**#DEMOGRAPHYDEBATES**

We’re entering an election season that could hugely impact markets - and probably not in a good way! What's the impact of a Clinton or Trump victory and how will market practitioners react? We'll also discuss housing and the impact of millennials and immigrants in shifting demand. Finally, we'll examine a recurring theme of U.S. growth slowing - what's under the hood for earnings and inflation expectations in 2016?
Have you seen corporate profits?

No.

Yeah, me neither.
FOUR SCORE & 5 MONTHS AGO …

….. OUR CENTRAL PLANNING FATHERS BROUGHT FORTH ON THIS CYCLE, A NEW PLAN, CONCEIVED IN ACADEMIA AND DEDICATED TO THE PROPOSITION THAT ALL ECONOMIC GRAVITY CAN, IN FACT, BE SMOOTHED.

DATA SOURCE: BLOOMBERG, NBER, BEA, HEDGEYE
A CYCLE, NOT A MYSTERY

SEQUENCING THE CYCLE

2H14

Income Growth, Corporate Profits & SPX Margins Peak

1H15

Employment Growth, Consumption Growth, Consumer Confidence, Business Confidence, Net Domestic Investment & Forward Multiples Peak

2Q/3Q15

EQUITIES PEAK

4Q15

M&A Peak, Bankruptcy Cycle and Credit Market Dislocations Begin

1H16: #GrowthSlowing Continues

DATA SOURCE: BLOOMBERG, HEDGEYE
**2H14: INCOME GROWTH PEAK**

INCOME GROWTH DRIVES THE CAPACITY FOR CONSUMPTION GROWTH AND WITH EMPLOYMENT GROWTH SLOWING AND WAGE INFLATION FLAT, INCOME GROWTH CONTINUES TO DECELERATE

**AGGREGATE SALARY & WAGE INCOME**

- **Recession Dates**
- **Aggregate Private Sector Salary & Wages, YoY %**

DATA SOURCE: BLOOMBERG, BEA, HEDGEYE

4Q14 = The Peak

“Fiscal Cliff” Related Distortion

<table>
<thead>
<tr>
<th>Month</th>
<th>YoY %</th>
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<tbody>
<tr>
<td>Mar-90</td>
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<td>Mar-10</td>
<td>-42%</td>
</tr>
<tr>
<td>Sep-10</td>
<td>-44%</td>
</tr>
<tr>
<td>Mar-11</td>
<td>-46%</td>
</tr>
<tr>
<td>Sep-11</td>
<td>-48%</td>
</tr>
<tr>
<td>Mar-12</td>
<td>-50%</td>
</tr>
<tr>
<td>Sep-12</td>
<td>-52%</td>
</tr>
<tr>
<td>Mar-13</td>
<td>-54%</td>
</tr>
<tr>
<td>Sep-13</td>
<td>-56%</td>
</tr>
<tr>
<td>Mar-14</td>
<td>-58%</td>
</tr>
<tr>
<td>Sep-14</td>
<td>-60%</td>
</tr>
<tr>
<td>Mar-15</td>
<td>-62%</td>
</tr>
<tr>
<td>Sep-15</td>
<td>-64%</td>
</tr>
<tr>
<td>Mar-16</td>
<td>-66%</td>
</tr>
</tbody>
</table>
**2H14: PROFITS & MARGINS PEAK**

SPX MARGINS & AGGREGATE CORPORATE PROFITS

- **Recession Dates**
- **Corp Profits with IVA & CCA (Bil $'s)**
- **S&P 500 OPERATING MARGIN**

**DATA SOURCE: BLOOMBERG**

---

**2H14 = The Peak**
EMPLOYMENT GROWTH PEAKED AT +2.28% YOY IN FEBRUARY 2015. THE LAW OF LARGE NUMBERS AND DECLINING LABOR SUPPLY ENSURE 1Q15 WAS THE RATE OF CHANGE PEAK. WHILE IT TAKES TIME FOR THE CYCLE TO PLAY ITSELF OUT, HISTORICALLY, GROWTH HAS ALWAYS TRENDED TO NEGATIVE AFTER PEAKING.
1Q15: CONSUMPTION GROWTH PEAK

REAL PCE GROWTH, YOY%

Recession Dates

Real PCE, YoY %

DATA SOURCE: BLOOMBERG

1Q15 = The Peak

3.3%

2.7%
1Q15: CONSUMER CONFIDENCE PEAK

CONSUMER CONFIDENCE

- Recession Dates
- Consumer Confidence: Univ of Michigan
- Current
- latest peak

1Q15 = The Peak

98.1

94.7

DATA SOURCE: BLOOMBERG
**1Q15: BUSINESS CONFIDENCE PEAK**

**NFIB SMALL BUSINESS OPTIMISM**

- **Recession Dates**
- **NFIB Small Business Confidence**

DATA SOURCE: BLOOMBERG, NFIB
WITH FORWARD EARNINGS ESTIMATES STILL JUST +1.5% OFF THE LOWS, MULTIPLE EXPANSION HAS DRIVEN THE RECENT REBOUND IN PRICES. UPSIDE TO CYCLE PEAK VALUATION IMPLIES +68 SPX HANDLES (+3.3%) FROM CURRENT LEVELS*.

SPX: NTM PE

Valuation Peak = 17.3X
Current PE = 16.8X

DATA SOURCE: BLOOMBERG, HEDGEYE *PRICES AS OF 5/25/16
2Q15: PRIVATE INVESTMENT PEAK

NET DOMESTIC PRIVATE INVESTMENT, % OF GDP

Recession Dates

DATA SOURCE: BLOOMBERG
NO SURPRISE! EQUITIES PEAKED ON A SHORT LAG TO THE PEAK IN CONFIDENCE, CORPORATE MARGINS AND PROFITABILITY AND PEAK RATE-OF-CHANGE IN INCOME, EMPLOYMENT AND CONSUMPTION GROWTH


DATA SOURCE: BLOOMBERG, HEDGEYE
4Q15: M&A PEAKS (THEN PANICS)

WITH GROWTH SLOWING AND PROFITABILITY PAST PEAK, THE LATE-CYCLE PLAYBOOK SAYS TO BUY ACCRETION.

CORPORATE PROFITS VS M&A ACTIVITY

- Recession Dates
- Corp Profits with IVA & CCA (Bil $’s)
- M&A Deal Volume (T $’s)

Profits Peak --> Then M&A Accelerates

DATA SOURCE: BLOOMBERG
MEANWHILE ... ISM = STABILIZING

ISM Manufacturing

- Recession Dates
- ISM Mfg
- ISM Expansion-Contraction Line

DATA SOURCE: BLOOMBERG, ISM
BUT SERVICES = SLOWING

ISM Services

Recession Dates

ISM Services

DATA SOURCE: BLOOMBERG, ISM
UNIT LABOR COSTS ARE GROWING AT A PREMIUM TO OUTPUT PRICES. IN OTHER WORDS, IF THE PRICE TO PRODUCE SOMETHING IS GROWING FASTER THAN THE SELLING PRICE, MARGIN PRESSURE WON’T ABATE.

INPUT COST > OUTPUT PRICE

- Recession Dates
- GDP Deflator less Unit Cost Growth
- 6 per. Mov. Avg. (GDP Deflator less Unit Cost Growth)

Input Costs > Output Price = ▼ Margins
PRIVATE PAYROLL GROWTH IS SLOWING BUT IT’S STILL GROWING AT A PREMIUM TO OUTPUT GROWTH. A POSITIVE SPREAD IS A DRAG ON PRODUCTIVITY

LABOR VS OUTPUT

Labor Growth > Output Growth = ▼ Productivity

Labor Growth < Output Growth = ▲ Productivity

DATA SOURCE: BLOOMBERG, HEDGEYE
PRODUCTIVITY ↓ = REAL EARNINGS ↓

OVER THE LONGER-TERM, THE TRENDS IN PRODUCTIVITY DRIVES THE TREND IN REAL EARNINGS GROWTH

PRODUCTIVITY GROWTH VS REAL EARNINGS GROWTH

- Recession Dates
- 3 per. Mov. Avg. (Real Earnings Growth)
- 3 per. Mov. Avg. (Productivity Growth)

DATA SOURCE: BLOOMBERG, ECONOMIC REPORT OF THE PRESIDENT, HEDGEYE
NATIONWIDE CREDIT CONDITIONS WOULD IMPLY WE’RE SOMEWHERE BETWEEN THE TOP OF THE 8TH AND BOTTOM OF THE 9TH INNING WITH RESPECT TO THE CURRENT ECONOMIC EXPANSION.

Our proprietary Bank Credit Cycle Indicator is an equal-weighted average of the following time series, each derived from the Fed’s Senior Loan Officer Survey data:

1. Net % of Domestic Respondents Tightening Lending Standards for C&I Loans (All Firms)
2. Net % of Domestic Respondents Increasing Spreads of Loan Rates Over the Banks’ Cost of Financing (All Firms)
3. Net % of Domestic Respondents Increasing the Cost of Credit Lines (All Firms)
4. Net % of Domestic Respondents Tightening Loan Covenants (All Firms)
5. Net % of Domestic Respondents Reporting Increased Willingness to Make Consumer Installment Loans (Inverted)

Our proprietary bank credit cycle indicator broke out above the latest reading of +1 79% into the APR ’91-FEB ’01 expansion. This historical corollary would imply we are in the top of the 8th inning with respect to the current expansion.

Our proprietary bank credit cycle indicator broke out above the latest reading of +1 at the tail end of the DEC ’01-NOV ’07 expansion. This historical corollary would imply a recession is imminent.

Our proprietary bank credit cycle indicator broke out above the latest reading of +1 at the tail end of the DEC ’82-JUN ’90 expansion. This historical corollary would imply a recession is imminent.

DATA SOURCE: BLOOMBERG; FEDERAL RESERVE SENIOR LOAN OFFICER SURVEY
YIELD SPREAD = FLATTENING

FLATTENING ≠ BULLISH. THE YIELD CURVE FLATTENS AS THE ECONOMY SLOWS WITH POLICY AND/OR LIQUIDITY MANAGEMENT DRIVING THE SHORT-END HIGHER AND DEFENSIVE POSITIONING AND/OR DISCOUNTING OF LOWER FUTURE GROWTH/INFLATION DRIVING THE LONG END LOWER.

DATA SOURCE: BLOOMBERG, HEDGEYE

YIELD SPREAD: 10Y - 2Y

Recession Dates

Yield Spread (10-2)

DATA SOURCE: BLOOMBERG, HEDGEYE
PEAK LEVERAGING OPPORTUNITY ALREADY IN

ZIRP AND QE HAVE CONTRIBUTED TO THE HIGHEST RATES OF HIGH-YIELD BOND ISSUANCE EVER. WE’RE NOW AT A CYCLE PEAK IN CORPORATE CREDIT AS A % OF GDP

The Barclays High Yield Average OAS is still trading +~60 bps higher y/y (% Yield) even with the pullback in spreads since mid-February.

DATA SOURCE: FEDERAL RESERVE, CONFERENCE BOARD
CREDIT MARKETS ACTIVITY = ↓

**WEAKNESS IN CMBS ISSUANCE**
CMBS issuance is down -52% Y/Y YTD in 2016 and total, mortgage-related issuance is down -10% Y/Y

**HIGH YIELD MARKETS DRYING-UP**
High-Yield Issuance is down -48% Y/Y YTD and total corporate issuance is down -22% Y/Y

DATA SOURCE: SIFMA
RELIEF IN BLOWN-OUT SPREADS

The temporary relief in credit spreads since February doesn’t change the cyclical picture that spreads remain much wider vs. the 2014 trough:

Spread (bps) off 2015 avg:
- HY Energy: -130
- HY Matrls: +20
- HY Industrls: +112
- HY Aggte: +60

FINANCING REMAINS MUCH MORE EXPENSIVE Y/Y DESPITE THE TEMPORARY PULLBACK IN HIGH YIELD SPREADS, PARTICULARLY IN THE COMMODITY SPACE

DATA SOURCE: BLOOMBERG
Q4 2015 Earnings Season Was Ugly, But Remember That Q1 of 2015 Saw Positive Comps in 8 Out of 10 Sectors

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Sales Growth (% CHG)</th>
<th>Earnings Growth (% CHG)</th>
<th>#Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 (Aggregate)</td>
<td>-4.0%</td>
<td>-6.9%</td>
<td>500 / 500</td>
</tr>
<tr>
<td>Energy</td>
<td>-34.2%</td>
<td>-72.6%</td>
<td>40 / 40</td>
</tr>
<tr>
<td>Materials</td>
<td>-15.3%</td>
<td>-17.9%</td>
<td>27 / 27</td>
</tr>
<tr>
<td>Industrials</td>
<td>-7.3%</td>
<td>-5.9%</td>
<td>65 / 65</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>4.3%</td>
<td>9.2%</td>
<td>83 / 83</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>0.7%</td>
<td>0.8%</td>
<td>37 / 37</td>
</tr>
<tr>
<td>Healthcare</td>
<td>9.4%</td>
<td>10.7%</td>
<td>56 / 56</td>
</tr>
<tr>
<td>Financials</td>
<td>0.9%</td>
<td>-5.4%</td>
<td>90 / 90</td>
</tr>
<tr>
<td>Information Technology</td>
<td>-5.2%</td>
<td>-3.4%</td>
<td>67 / 67</td>
</tr>
<tr>
<td>Telecom</td>
<td>12.0%</td>
<td>25.6%</td>
<td>5 / 5</td>
</tr>
<tr>
<td>Utilities</td>
<td>-12.5%</td>
<td>-48.1%</td>
<td>30 / 30</td>
</tr>
</tbody>
</table>

Source: BBC
ONLY ENERGY AND MATERIALS SAW Y/Y EARNINGS DECLINE IN Q1 2015, A QUARTER WHERE THE AVERAGE PRICE OF WTI CRUDE OIL WAS $48.57 VS. $33.63 IN Q1 2016

S&P 500 Earnings Growth

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>SALES GROWTH (% CHG)</th>
<th>EARNINGS GROWTH (% CHG)</th>
<th>#REPORTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 (Aggregate)</td>
<td>-2.2%</td>
<td>-8.4%</td>
<td>493 / 498</td>
</tr>
</tbody>
</table>

Source: BBG

Avg. Price of WTI in Q1 2015: $48.57
THINK WE’RE LAPPING BAD COMPS BY Q2?

THINK AGAIN. ONLY ENERGY AND INDUSTRIALS SAW Y/Y EARNINGS DECLINE IN Q2 2015, A QUARTER WHERE THE AVERAGE PRICE OF WTI CRUDE OIL WAS $57.95

DATA SOURCE: BLOOMBERG
2Q COMPS = HARDEST OF THE CYCLE

U.S. 2Y Average Real GDP Growth Rate in Comparative Base Period
U.S. Real GDP YoY
Hedgeye Macro GIP Model Forecasts

DATA SOURCE: BLOOMBERG

HEDGEYE 36
YOUR PROBLEM IS YOU TWO ARE CODEPENDENT.
Q: WHAT HAPPENS WHEN YOU COMBINE...
QUANTITATIVE & QUALITATIVE EASING

ECB Balance Sheet, billions of EUR (YoY $ Change = $764B)  
BoJ Balance Sheet, billions of JPY (YoY $ Change = $1005B)

DATA SOURCE: BLOOMBERG
... AND FORWARD GUIDANCE?

- Eurozone 2Y OIS Rate (TTM Peak-to-Present Decline = -35bps)
- Japan 2Y OIS Rate (TTM Peak-to-Present Decline = -33bps)

DATA SOURCE: BLOOMBERG
SLOWING CONSUMPTION GROWTH?

Retail sales growth is decelerating on a trending basis in both the eurozone and Japan. That is not part of the agreed upon #beliefsystem.

Retail Sales YoY % Change (Values Shown as a Percentile of Trailing 3Y Sample)

- Eurozone (Latest = 2.1%)
- Japan (Latest = -0.8%)

Data Source: Bloomberg
INDUSTRIAL PRODUCTION GROWTH IS DECELERATING ON A TRENDING BASIS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

Industrial Production YoY % Change (Values Shown as a Percentile of the Trailing 3Y Sample)

- Eurozone (Latest = 0.2%)
- Japan (Latest = -3.5%)
- Linear (Eurozone (Latest = 0.2%))
- Linear (Japan (Latest = -3.5%))
SLOWING EXPORT GROWTH?

EXPORT GROWTH IS DECELERATING ON A TRENDING BASIS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

Exports YoY % Change (Values Shown as a Percentile of the Trailing 3Y Sample)

Eurozone (Latest = -2.7%) | Japan (Latest = -10.1%) | Linear (Eurozone (Latest = -2.7%)) | Linear (Japan (Latest = -10.1%))

12MMA: 65% (Eurozone), 22% (Japan)  
6MMA: 46% (Eurozone), 7% (Japan)  
3MMA: 19% (Eurozone), 8% (Japan)  

DATA SOURCE: BLOOMBERG
DECLINING CONSUMER CONFIDENCE?

CONSUMER CONFIDENCE IS DECELERATING ON A TRENDING BASIS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

Consumer Confidence Index (Values Shown as a Percentile of the Trailing 3Y Sample)

- Eurozone - European Commission Survey (Latest = -7)
- Japan - ESRI Survey (Latest = 40.2)
- Linear (Eurozone - European Commission Survey (Latest = -7))
- Linear (Japan - ESRI Survey (Latest = 40.2))
BUSINESS CONFIDENCE IS DECELERATING ON A TRENDING BASIS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

Business Confidence Index (Values Shown as a Percentile of the Trailing 3Y Sample)

Eurozone - ZEW Survey (Latest = 16.8)
Japan - Tankan Survey (Latest = 6)

Linear (Eurozone - ZEW Survey (Latest = 16.8))
Linear (Japan - Tankan Survey (Latest = 6))

DATA SOURCE: BLOOMBERG
FALLING INFLATION EXPECTATIONS?

Core inflation in both the Eurozone and Japan is tracking considerably below target, while measures of inflation expectations continue to trend lower. That is not part of the agreed upon #beliefsystem.

- Eurozone CPI ex-Food & Energy YoY % Change (Number of Months Below +2% Price Stability Target = 98)
- Eurozone 5Y 5Y-Forward Inflation Swap Rate - Monthly Average
- Japan Nationwide CPI ex-Food & Energy YoY % Change (Number of Months Below +2% Price Stability Target = 13)
- Japan 5Y 5Y-Forward Inflation Swap Rate - Monthly Average
- ECB and BoJ "Price Stability" Target

DATA SOURCE: BLOOMBERG
WANING CORPORATE PROFITABILITY?

TRAILING 12-MONTH RETURN ON EQUITY AND FORWARD EARNINGS EXPECTATIONS ARE DECLINING IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

DATA SOURCE: BLOOMBERG
BROAD EQUITY INDICES HAVE CRASHED FROM THEIR RESPECTIVE 52-WEEK HIGHS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

DATA SOURCE: BLOOMBERG
#NIRP CERTAINLY HAS BEEN AN OVERWHELMINGLY NEGATIVE FACTOR FOR BANK STOCKS IN BOTH ECONOMIES.

Eurostoxx Banks Index (Indexed to the ECB’s 6/5/14 Adoption of NIRP)  
TOPIX Banks Index (Indexed to the BoJ’s 1/29/16 Adoption of NIRP)

DATA SOURCE: BLOOMBERG
WILL THE CONFLUENCE OF NIRP, QE AND FORWARD GUIDANCE OFFSET THE EUROZONE'S TOUGHEST GDP COMPARES IN FOUR YEARS, ALLOWING THE EUROZONE ECONOMY TO MAINTAIN PEAK GROWTH RATES IN THE PROCESS? WE DOUBT IT.

**Eurozone 2Y Average Real GDP Growth Rate in Comparative Base Period**

**Eurozone Real GDP YoY**

**Hedgeye Macro GIP Model Forecasts**

**DATA SOURCE: BLOOMBERG**
WILL THE CONFLUENCE OF NIRP, QQE AND FORWARD GUIDANCE OFFSET INVESTORS’ PILING INTO THE PERCEIVED SAFETY OF THE JAPANESE YEN AMID GLOBAL UNCERTAINTY, THUS PERPETUATING A RECOVERY IN MANUFACTURING IN JAPAN? PROBABLY NOT.
As do secular headwinds 

Burgingoning public sector debt is increasingly crowding out private sector leverage in both the Eurozone and Japan amid the secular trend of waning aggregate demand in both economies.

Data Source: BIS
PUSHING ON A STRING?

Perhaps Eurozone and Japanese financial markets are arriving at the conclusion that no amount of monetary easing can offset the structural headwind that is negatively compounding organic demand.

35-54 Year-Old Population Cohort YoY % Change

DATA SOURCE: OECD

Eurozone, Japan
THE U.S. ISN’T ANY DIFFERENT


35-54 Year-Old Population Cohort YoY % Change

DATA SOURCE: BLOOMBERG
SIMILAR STRUCTURAL HEADWINDS

LIKE IN THE EUROZONE AND JAPAN, PRIVATE SECTOR DELEVERAGING HAS WEIGHED ON TREND GDP GROWTH RATES IN THE U.S., SULLYING THE PUBLIC SECTOR'S BALANCE SHEET IN THE PROCESS.

DATA SOURCE: BIS
WELCOME BACK TO #QUAD4

REMEMBER THE SECOND HALF OF 2014? THAT’S TYPICALLY WHAT #QUAD4 LOOKS LIKE IN ASSET PRICE TERMS.

DATA SOURCE: BLOOMBERG
HISTORICALLY SPEAKING, WHENEVER THE CYCLE HAS BEEN MET WITH MONETARY EASING, IT IS THE CYCLE THAT HAS LEFT WITH ITS REPUTATION INTACT. IF THE FIRST SIX WEEKS OF 2016 IS ANY INDICATION, THE BELIEFSYSTEM BREAKS DOWN WHEN THE ECONOMY DOES.

<table>
<thead>
<tr>
<th>Early 1990s Recession</th>
<th>Early 2000s Recession</th>
<th>The Great Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak-to-Trough bps Change in Fed Funds Rate</td>
<td>-125bps</td>
<td>-525bps</td>
</tr>
<tr>
<td>Peak-to-Trough Drawdown in S&amp;P 500 Index (rhs)</td>
<td>-19.92%</td>
<td>-49.15%</td>
</tr>
<tr>
<td>DATA SOURCE: BLOOMBERG</td>
<td>-500bps</td>
<td>-56.78%</td>
</tr>
</tbody>
</table>

CAN THE FED BEND GRAVITY?
WHILE DOMESTIC CAPITAL MARKETS ACTIVITY HAS BEEN IN CYCLICAL DECLINE SINCE VOLATILITY BROKE OUT IN 2H14, THE COLLAPSE IN HIGH YIELD CREDIT AND EQUITY ISSUANCE THROUGHOUT THE YTD IMPLIES A DRAMATIC LOSS OF CONFIDENCE IN THE #BELIEFSYSTEM.

**Data Source: Bloomberg**

![Bar chart showing YoY % change in U.S. High Yield Bond Issuance and U.S. Public Equity Issuance from 2009 to 2016 YTD.](image-url)
BUSTED #BELIEFSYSTEM = DEFLATION

DOLLAR UP

US Dollar Index

- Weighted Average QoQ % Change, by Hedgeye Macro GQ Quadrant
- Percentile of Weighted Average QoQ % Change, by Asset Class (ths)
- Percentile of Weighted Average QoQ % Change, by Quadrant (ths)
- Positive Hit Rate (ths)

Rates Down

US Treasury 10Y Yield

- Weighted Average QoQ % Change, by Hedgeye Macro GQ Quadrant
- Percentile of Weighted Average QoQ % Change, by Asset Class (ths)
- Percentile of Weighted Average QoQ % Change, by Quadrant (ths)
- Positive Hit Rate (ths)

Data Source: Bloomberg. Asset classes include equities, fixed income, currencies, and commodities. Trailing 20Y. Weighted averages based on magnitude of delta into quadrant.

HEDGEYE 60
DOLLAR UP = YUAN DOWN

TO THE EXTENT BEIJING MAINTAINS ITS POLICY OF KEEPING THE YUAN “BASICALLY STABLE VS. A BASKET OF [PEER] CURRENCIES”, A SERIES OF HIGHER-LOWS IN THE DXY FROM HERE SHOULD REIGNITE CNY DEVALUATION FEARS.

DATA SOURCE: BLOOMBERG
In line with our expectations, the Chinese economy has stabilized in the YTD. That being said, don’t disrespect the potential negative impact renewed capital outflow pressures in China will have on the global reflation trade.

Correlation w/ CNH 1Y NDF % Spread vs. Spot CNH Since January 18th YTD Trough

- Brent Crude Oil: 0.79
- U.S. High-Yield OAS: -0.84
- S&P 500 Energy Index: 0.86
- S&P 500 Industrials Index: 0.94
- MSCI Emerging Markets Index: 0.90
- JPMorgan EM FX Index: 0.90

Data Source: Bloomberg
THE U.S. DOLLAR’S ASCENT FROM ITS ALL-TIME LOWS HAS PETERED OUT AT A VERY IMPORTANT RETRACEMENT LEVEL, IMPLYING A SERIES OF LOWER-HIGHS FROM HERE.

Important Long-term TAIL Duration Breakdown/Breakout Levels to Watch:

- **U.S. Dollar Index:** 93.07 Support
- **Crude Oil (WTI):** 45.44 Resistance
- **S&P 500:** 2066 Resistance
- **VIX:** 11.71 Support

DATA SOURCE: BLOOMBERG
According to this demographics chart we're moving from "boomer" to "bummer."
THE RUMORED RETURN OF INFLATION
CONSUMER INFLATION, SUBDUED

3M MOVING AVERAGE FOR CPI & PCE DEFLATOR ARE TRENDING BELOW YOY VALUES.

DATA SOURCE: BLS, BEA
WAGES OR ABROAD: LITTLE PRESSURE

Remarkably, big recent jump in real wages has had little impact on nominal wages.

DATA SOURCE: BLS, FACTSET
BUT NFP WORRIES INFLATION HAWKS

THE EXPECTATIONS MARKETS ARE APPARENTLY REACTING TO HEALTHY GAINS IN REPORTED EMPLOYMENT.

DATA SOURCE: BLS, FACTSET
IS NFP HIDING RISE OF GIG ECONOMY?

DEEPER STORY BEHIND NFP GAINS: DECLINING AVG. WEEKLY HOURS & RISING PART-TIME EMPLOYMENT.

DATA SOURCE: BLS
SHARP FALL IN JANET’S FAVORITE INDEX


DATA SOURCE: FEDERAL RESERVE
WHITHER HOUSING
STARTS VS. NEW HOME SALES

MOST HOME DATA (INC. SALES) SHOW DECELERATION, THOUGH STARTS REMAIN STRONG

DATA SOURCE: CENSUS BUREAU
DEMO ALERT: MILLENNIALS HIT THEIR 30S

Projected Changes in Population by Age Bracket

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>2016 to 2021</th>
<th>2021 to 2026</th>
<th>2026 to 2031</th>
</tr>
</thead>
<tbody>
<tr>
<td>20- to 29-year-olds</td>
<td>0.2%</td>
<td>0.4%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>30- to 39-year-olds</td>
<td>-0.7%</td>
<td>5.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td>40- to 49-year-olds</td>
<td>0.3%</td>
<td>6.8%</td>
<td>7.7%</td>
</tr>
<tr>
<td>50- to 64-year-olds</td>
<td>4.2%</td>
<td>-1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>65 and older</td>
<td>18.0%</td>
<td>16.2%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2016)

IF THE PENT-UP MILLENNIAL WAVE IS GOING TO HIT HOUSING, THE TIME IS NOW.

Data source: Census Bureau
KEEP AN EYE ON THESE 3 INDICATORS

POP GROWTH & JOB GROWTH AMONG YOUNG ADULTS NOW BOTH ABOVE-AVERAGE.

DATA SOURCE: CENSUS, BLS, DEPT. OF HOMELAND SECURITY
WHY THE ELECTION WILL MOVE MARKETS IN Q2
FORWARD EXPECTATIONS GETTING GLOOMIER

In past cycles, when the index of forward looking economic expectations have crossed below the index measuring the current situation, a downturn has followed.

Data Source: Conference Board
POLITICAL POLARIZATION IN CONGRESS

Each member of the house in a given year represents a dot. Blue is Democrat; red is Republican.

Edges between nodes (right and left) are drawn if each member agrees with another member more often than the "threshold value" of votes specific to that particular Congress (threshold value is # of agreements where any pair exhibiting this number of agreements is equally likely to be comprised of two members of the same party.)

Each node is made bigger or smaller based on the number of connections it has. Edges are thicker if the pair agrees on more votes.

DATA SOURCE: MAMARTINO
# 2017 Policy Direction: Anywhere!

<table>
<thead>
<tr>
<th>Likely Intentions Relative to Current Policy</th>
<th>Clinton</th>
<th>Trump</th>
<th>Sanders</th>
<th>Cruz</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted.com Future Probabilities</td>
<td>59%</td>
<td>19%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Defense $</td>
<td>modest increase</td>
<td>large increase</td>
<td>large cut</td>
<td>large increase</td>
</tr>
<tr>
<td>Entitlements $</td>
<td>modest increase</td>
<td>modest increase</td>
<td>very large increase</td>
<td>modest cut</td>
</tr>
<tr>
<td>Discretionary $</td>
<td>some increase</td>
<td>some increase</td>
<td>large increase</td>
<td>large cut</td>
</tr>
<tr>
<td>Total Tax $</td>
<td>modest increase</td>
<td>large cut</td>
<td>large increase</td>
<td>large cut</td>
</tr>
<tr>
<td>Net Fiscal Stance</td>
<td>little change</td>
<td>large stimulus</td>
<td>some stimulus</td>
<td>contractionary (?)</td>
</tr>
<tr>
<td>Marginal Tax Rates</td>
<td>small increase</td>
<td>small cut</td>
<td>large increase</td>
<td>large cut</td>
</tr>
<tr>
<td>Healthcare</td>
<td>tinker with ACA</td>
<td>replace ACA</td>
<td>move to single payer</td>
<td>destroy ACA</td>
</tr>
<tr>
<td>Trade</td>
<td>little change</td>
<td>protectionist</td>
<td>protectionist</td>
<td>little change</td>
</tr>
<tr>
<td>Immigration</td>
<td>little change</td>
<td>hard line</td>
<td>little change</td>
<td>hard line</td>
</tr>
</tbody>
</table>

DATA SOURCE: HRM, *PREDICTED.COM AS OF 4/6/16
THEMATIC INVESTMENT CONCLUSIONS

TRADE (3 WEEKS OR LESS)

**LONGS:** Long-term Treasuries (TLT), Utilities (XLU), Gold (GLD)

**SHORTS:** S&P 500 (SPY), Healthcare (XLV), Financials (XLF)

TREND (3 MONTHS OR MORE)

**LONGS:** Long-term Treasuries (TLT), Muni Bonds (MUB), Ultra Long-term Treasuries (EDV), U.S. Equity Volatility (VXX)

**SHORTS:** S&P 500 (SPY), Retailers (XRT), Financials (XLF), Russell 2000 (IWM), Spain (EWP)

TAIL (3 YEARS OR LESS)

**LONGS:** U.S. Dollar (UUP), Long-term Treasuries (TLT), Muni Bonds (MUB)

**SHORTS:** Financials (XLF), High-Yield Credit (JNK), Russell 2000 (IWM)
THE CONSUMER FACES DIFFICULT COMPS

Quantitatively speaking, 65% of the time the 2nd derivative in the forecast period carries an opposite sign (+ or -) to the 2nd derivative in the comparative base period, which provides a good starting point for directional adjustments to the base rate.

Comparative Base Effect for the Respective Real PCE Reporting Period

- 2Y Average Growth Rate in Comparative Base Period
- Trailing 3Y CAGR in Comparative Base Period
- Actual Recorded YoY Growth Rate
AND SECULAR STAGNATION PERSISTS

GIVEN THE DISAPPOINTING TREND IN U.S. GROWTH SINCE 2007, IT’S NOT AT ALL IRONIC THAT GROWTH IN THE U.S.’S CORE CONSUMPTION DEMOGRAPHIC WENT NEGATIVE IN 2008 AND IS PROJECTED TO CONTINUE CONTRACTING THOUGH 2019

DATA SOURCE: OECD
WHY DO 35-54 YEAR-OLDS MATTER?

Because according to both empirical evidence and life-cycle economics theory, this is the world’s core end consumption demand demographic.

U.S. Average Annual Disposable Income by Age Bracket

Poly. (U.S. Average Annual Disposable Income by Age Bracket)

U.S. Average Annual Expenditures by Age Bracket

Poly. (U.S. Average Annual Expenditures by Age Bracket)

DATA SOURCE: 2014 BLS CONSUMER EXPENDITURE SURVEY
The “Wealth Effect” Is Tapped Out

We expect a meaningful mean reversion in the spread between the “haves” and the “have nots” as asset price deflation continues amid what we see as elevated risk of a repudiation of “trickle down” monetary policy.

Data Source: Federal Reserve, BEA
HOW IS U.S. WEALTH DISTRIBUTED?

**Distribution of U.S. Household Wealth, by Percentile**
- Top 3%: 25%
- Next 7%: 21%
- Bottom 90%

**Ownership of U.S. Financial Assets, by Household Wealth Distribution**
- Top 10%: 84.5%
- Next 15%: 11.5%
- Next 25%: 3.0%
- Bottom 50%

DATA SOURCE: FEDERAL RESERVE 2014 CONSUMER EXPENDITURE SURVEY
CORPORATE LEVERAGE IS PEAKING

As a ratio to the economy, U.S. companies are as levered as they’ve ever been outside of the depths of the Great Recession.

DATA SOURCE: BLOOMBERG
DOMESTIC COMMODITY PRODUCERS HAVE ESPECIALLY PIGGED OUT ON THE HIGH-YIELD CREDIT BINGE TO FINANCE CAPEX DESIGNED TO CHASE THE ALL-TIME HIGHS IN COMMODITY PRICES (2011).

The total debt of this sample of 34 commodity producers has gone from 5% of total corporate credit outstanding in 2003 to 14% of corporate credit outstanding by year-end 2014.
BALANCE SHEET HEALTH IS DETERIORATING

AT BEST, THE VIEW THAT U.S. CORPORATE BALANCE SHEETS ARE HEALTHY IS A NARRATIVE FALLACY. AT WORST, IT IS THE SOURCE OF A LARGE DEGREE OF FINANCIAL MARKET RISK AS THE DOMESTIC BANKRUPTCY CYCLE HAS ALREADY ACCELERATED TO POST-CRISIS HIGHS.

DATA SOURCE: BLOOMBERG
HY SPREAD WIDENING = RECESSSION SIGNAL

THE HORSE HAS OFFICIALLY LEFT THE BARN WITH RESPECT TO THE DOMESTIC CREDIT CYCLE.

DATA SOURCE: BLOOMBERG
**RECESSIONS PERPETUATE RED DOTS**

*ONCE THE HORSE LEAVES THE BARN ON THE DOMESTIC CREDIT CYCLE, THERE’S NO TURNING BACK; YOU ALWAYS END UP WITH A RED BUBBLE THAT APPROACHES THE TOP RIGHT OF THE CHART.*

- **x-axis:** Merrill Lynch Treasury Bond Option Volatility Index (MOVE)
- **y-axis:** Barclays U.S. High Yield Credit Index - Yield To Worst, bps Spread Over 10Y U.S. Treasury Yield
- **bubble size:** U.S. Non-Financial Corporate Credit Outstanding as a % of GDP (percentile basis)

DATA SOURCE: BLOOMBERG
RECESSION WATCH: CONSUMER CONFIDENCE


DATA SOURCE: BLOOMBERG
RECESSION WATCH: JOBLESS CLAIMS

The trend in initial jobless claims suggests the current economic expansion may only have about 3-6 more months left.

DATA SOURCE: BLOOMBERG
THERE IS PERHAPS NO SUCH THING AS AN “EARNINGS RECESSION” WITHOUT AN ACTUAL RECESSION; THE LAST THREE RECESSIONS HAVE BEEN PRECEDED BY S&P 500 TTM EPS BREAKING DOWN BELOW ITS TTM AVERAGE – AN EVENT THAT OCCURRED IN JUNE OF 2015.

DATA SOURCE: BLOOMBERG
While 2+ consecutive quarters of declining corporate profits haven’t always signaled recession, such occurrences have always signaled stock market crashes in the subsequent year.

**U.S. Corporate Profits Before Tax w/ Inventory Valuation and Capital Consumption Adjustments - YoY % Change**

**S&P 500: NTM-Forward Max Drawdown (rhs)**

Data Source: Bloomberg, Federal Reserve Flow of Funds Report
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