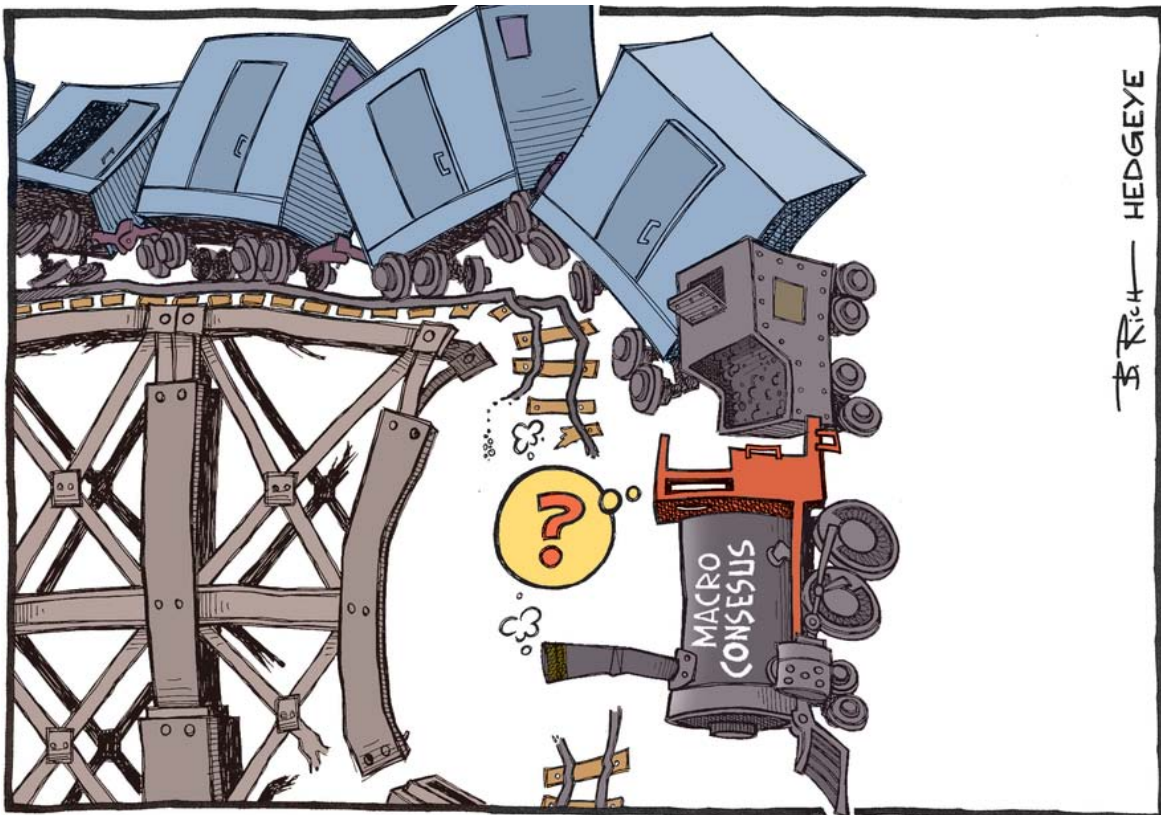




# Q4 2015 MACRO THEMES

CONFERENCE CALL

OCTOBER 8<sup>th</sup>, 2015



## **DISCLAIMER**

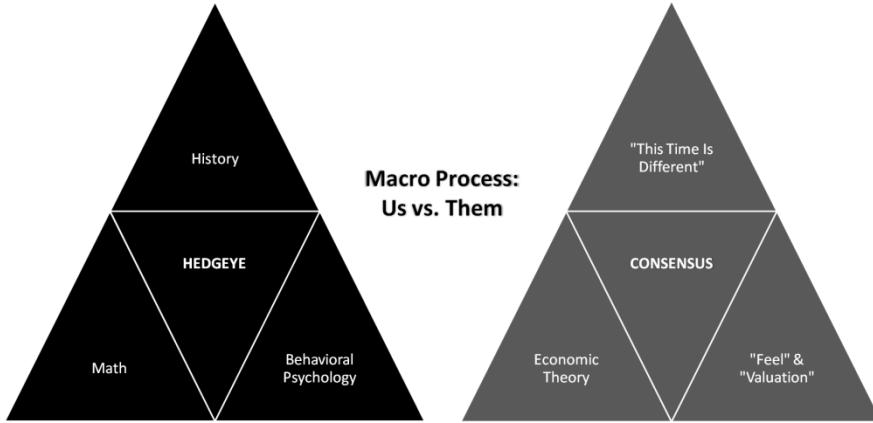
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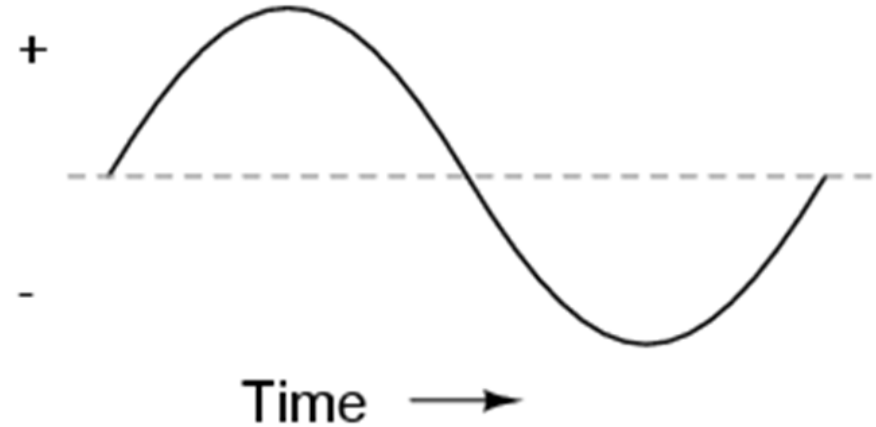
PLEASE SUBMIT QUESTIONS TO  
**QA@HEDGEYE.COM**  
TO BE ANSWERED AT THE END OF THE CALL

# PROCESS SLIDE #1



## DIFFERENTIATED FROM THE HERD

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



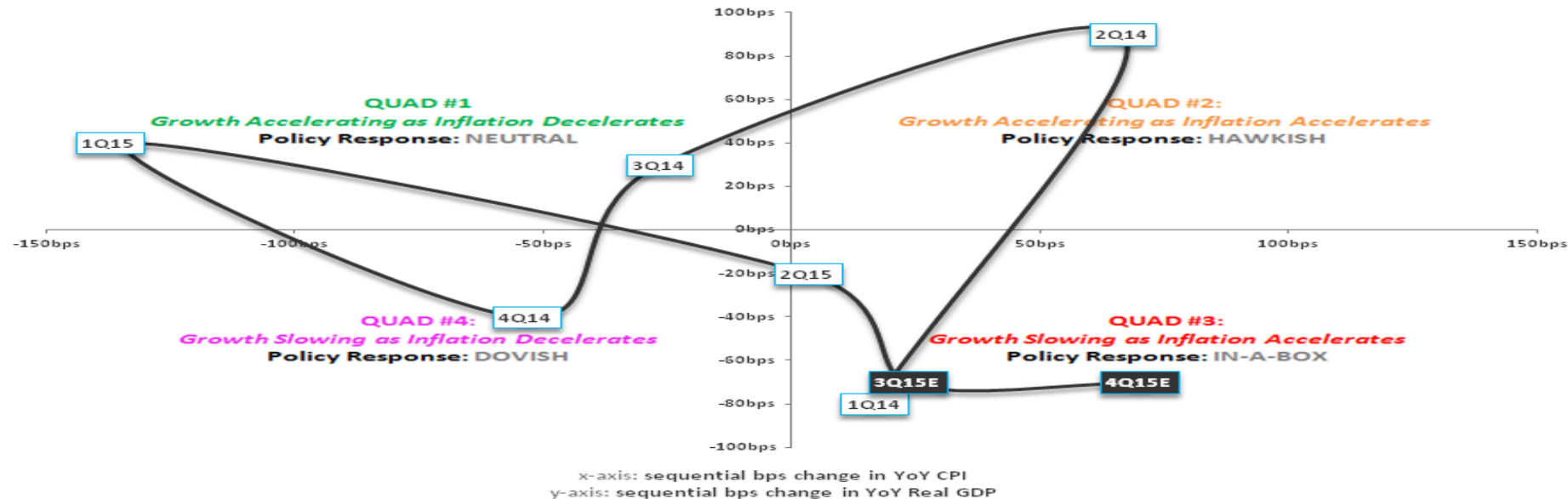
## WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin.

# PROCESS SLIDE #2

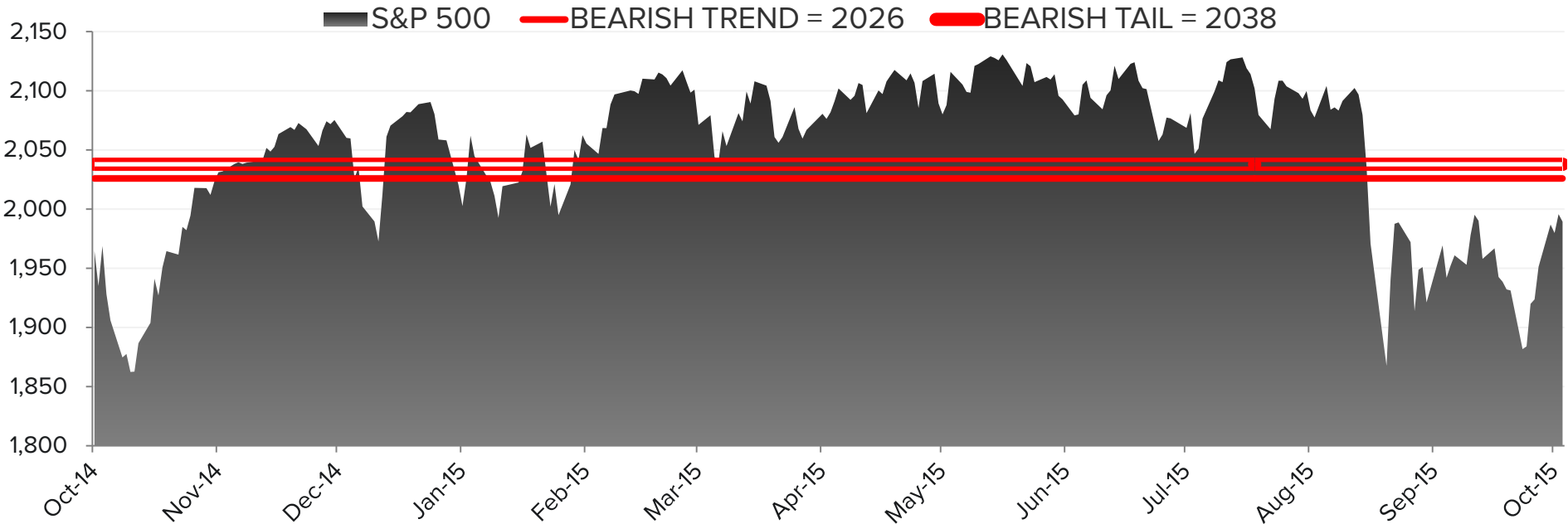
SPECIFICALLY, OUR BACKTEST DATA SHOWS THAT A LARGE DEGREE OF INTER AND INTRA ASSET CLASS RETURNS CAN BE EXPLAINED BY CHANGES IN GROWTH, INFLATION AND POLICY EXPECTATIONS. SEE SLIDES 67-68 FOR MORE DETAILS.

UNITED STATES	2012	3Q12	4Q12	1Q13	2013	3Q13	4Q13	1Q14	2014	3Q14	4Q14	1Q15	2015	Hedgeye Macro GIP Model		
Real GDP QoQ SAAR	1.9%	0.5%	0.1%	1.9%	1.1%	3.0%	3.8%	-0.9%	4.6%	4.3%	2.1%	0.6%	3.9%	GIP = Growth/Inflation/Policy		
Real GDP YoY	2.5%	2.4%	1.3%	1.1%	0.9%	1.5%	2.5%	1.7%	2.6%	2.9%	2.5%	2.9%	2.7%	Full-year Estimates		
2Y Average	2.1%	1.8%	1.5%	2.0%	1.7%	2.0%	1.9%	1.4%	1.8%	2.2%	2.5%	2.3%	2.7%	Hedgeye Predictive Tracking Algorithm	2.4%	2.2%
3Y Average	2.3%	2.2%	1.9%	1.9%	1.7%	1.7%	1.8%	1.9%	2.0%	2.3%	2.1%	1.9%	2.1%	Bloomberg Consensus Estimate	2.4%	2.5%
CAGR (3Y)	2.30%	2.23%	1.90%	1.93%	1.70%	1.70%	1.83%	1.86%	2.00%	2.27%	2.10%	1.90%	2.06%	Central Bank Forecast	2.4%	2.1%
CPI YoY	1.9%	1.7%	1.9%	1.7%	1.4%	1.6%	1.2%	1.4%	2.1%	1.8%	1.3%	-0.1%	0.0%	Full-year Estimates		
2Y Average	2.7%	2.7%	2.6%	2.3%	1.7%	1.6%	1.6%	1.6%	1.8%	1.7%	1.3%	0.7%	1.0%	Hedgeye Predictive Tracking Algorithm	1.6%	0.3%
3Y Average	2.4%	2.2%	2.2%	2.2%	2.3%	2.3%	2.1%	2.0%	1.8%	1.7%	1.5%	1.0%	1.2%	Bloomberg Consensus Estimate	1.6%	0.3%
CAGR (3Y)	2.37%	2.19%	2.15%	2.22%	2.26%	2.34%	2.14%	1.98%	1.80%	1.69%	1.47%	1.01%	1.15%	Central Bank Forecast	1.6%	1.4%



# PROCESS SLIDE #3

## HEDGEYE QUANTITATIVE SETUP: US EQUITIES



## 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)

# Q3 2015 MACRO THEMES

1

## #SECULARSTAGNATION

Amid consensus expectations for a return to “normal” economic conditions, our analysis shows ample evidence of secular stagnation. In light of that, we reiterate our “lower-for-longer” thesis on growth, inflation and interest rates and continue to find the FOMC’s hawkish guidance wholly misplaced.

2

## #EUROPESLOWING

With our proprietary GIP (growth, inflation, policy) model we’ll outline the top 6 European economies that will be most impacted by real GDP growth slowing as inflation accelerates in the back half of 2015. The timing of ECB head Mario Draghi’s eventual response will be critical in terms of risk managing the EUR/USD exchange rate, as well as any associated spillover risks.

3

## #CONSUMERSLOWING

Consumption peaks late cycle and with domestic and global growth set to slow alongside easing inflation comps in 2H15, it looks increasingly likely 1H15 marked the current cycle peak in household spending growth. We'll contextualize the current cycle, discuss the implications and detail how best to be counter-cyclically positioned as the consumer cycle enters its twilight.

# Q4 2015 MACRO THEMES

1

## #SUPERLATECYCLE (USA)

Slowing growth typifies the twilight of an economic expansion and negative 2nd derivative trends are creeping in across much of the domestic fundamental data. From labor and manufacturing markets to consumer and business confidence, leading indicators are beginning to roll as the late-cycle moves past peak. We'll detail why Slower-And-Lower-For-Longer remains the call.

2

## #GAMEOFSLOWING

With the Street, IMF, World Bank and OECD all still forecasting global growth of around 3% for 2015, we find it appropriate to reiterate our call for global growth to come in at or below half that rate. Moreover, while China's August CNY devaluation effectively made our #EmergingOutflows theme a consensus bearish cog in the global economic outlook, we do not think investors are appropriately positioned for a likely trend of negative revisions to the respective growth outlooks in the U.S., Eurozone and Japan throughout the balance of the year.

3

## #CRASHING

Definitive crashes have occurred across many global macro markets in recent months. Those market participants on the wrong side of growth slowing and deflation are feeling the most pain. Crashing inflation expectations are perpetuating the pain across all asset classes and sectors levered to unrealistic growth expectations (energy, industrials, materials), as well as across the high-yield bond market, commodity markets, commodity currencies. Is the U.S. equity market next in line?

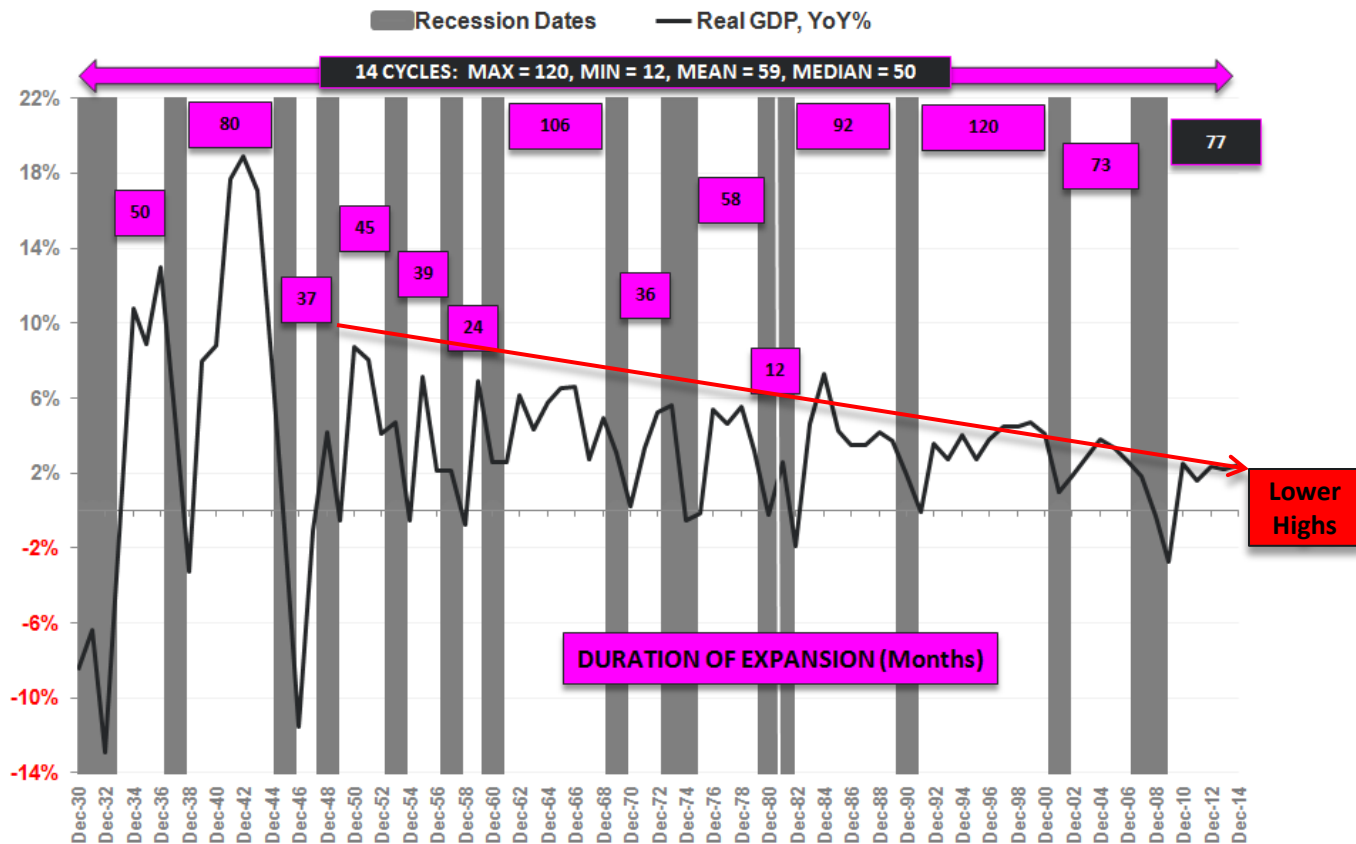




THE LATE LATE SHOW

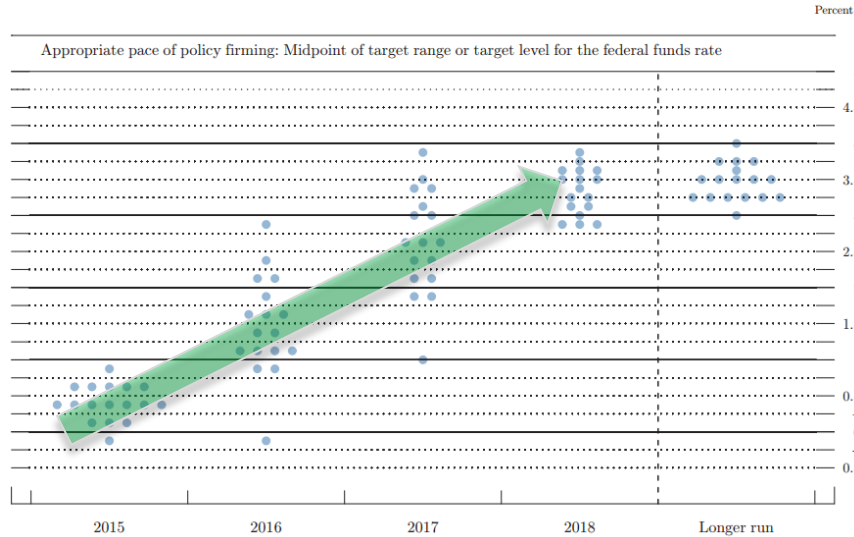
**#SUPERLATECYCLE (USA)**

# A CENTURY OF CYCLES



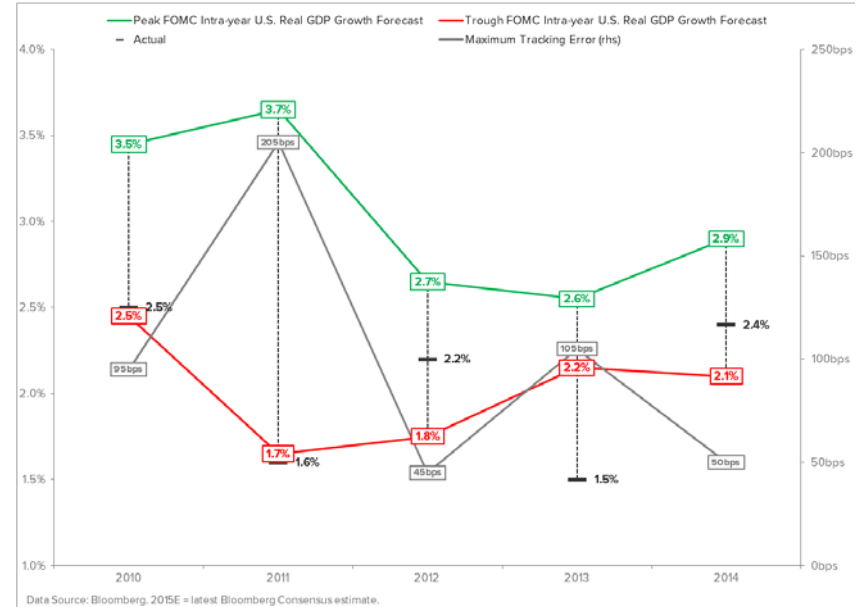
DATA SOURCE: BLOOMBERG, BEA, HRM

# THE LONGEST EXPANSION EVER?



## FOMC: SEPTEMBER SFP

With an expectation for rising rates through 2018, the Fed continues to implicitly forecast one of the longest expansions ever.

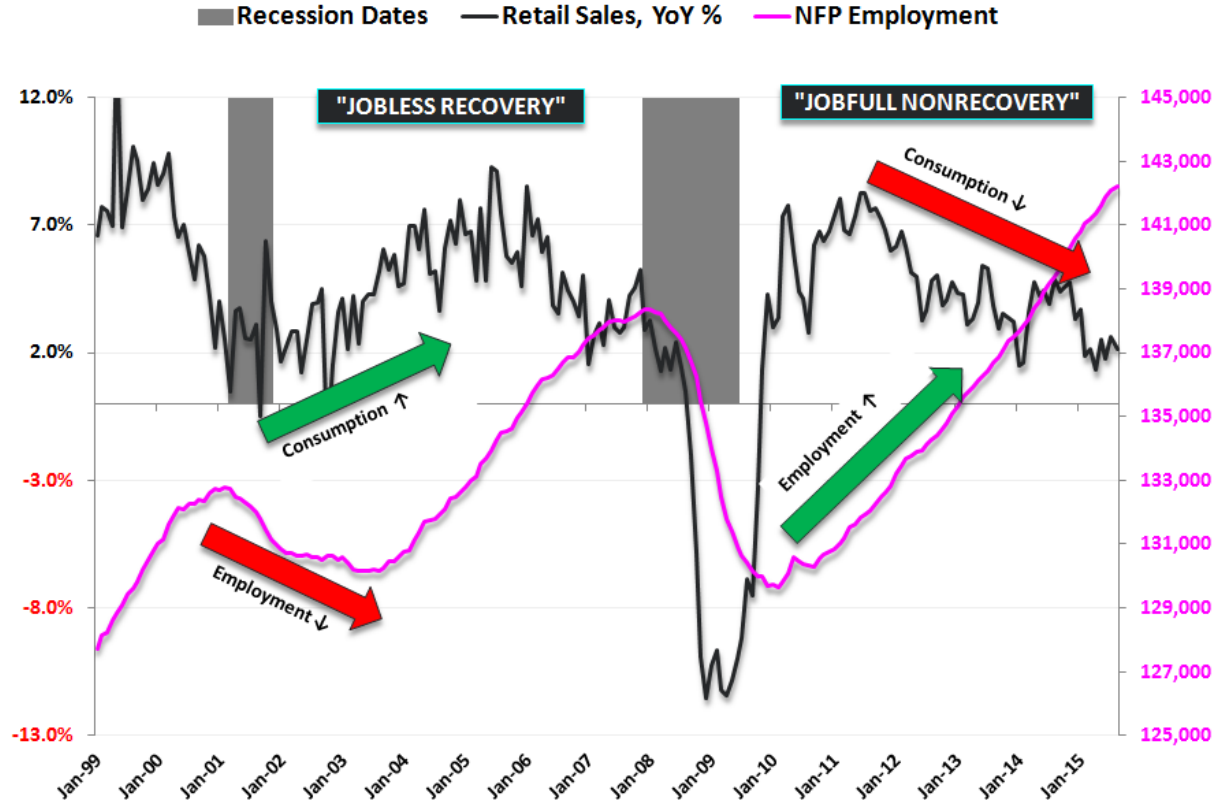


## FORECAST RISK

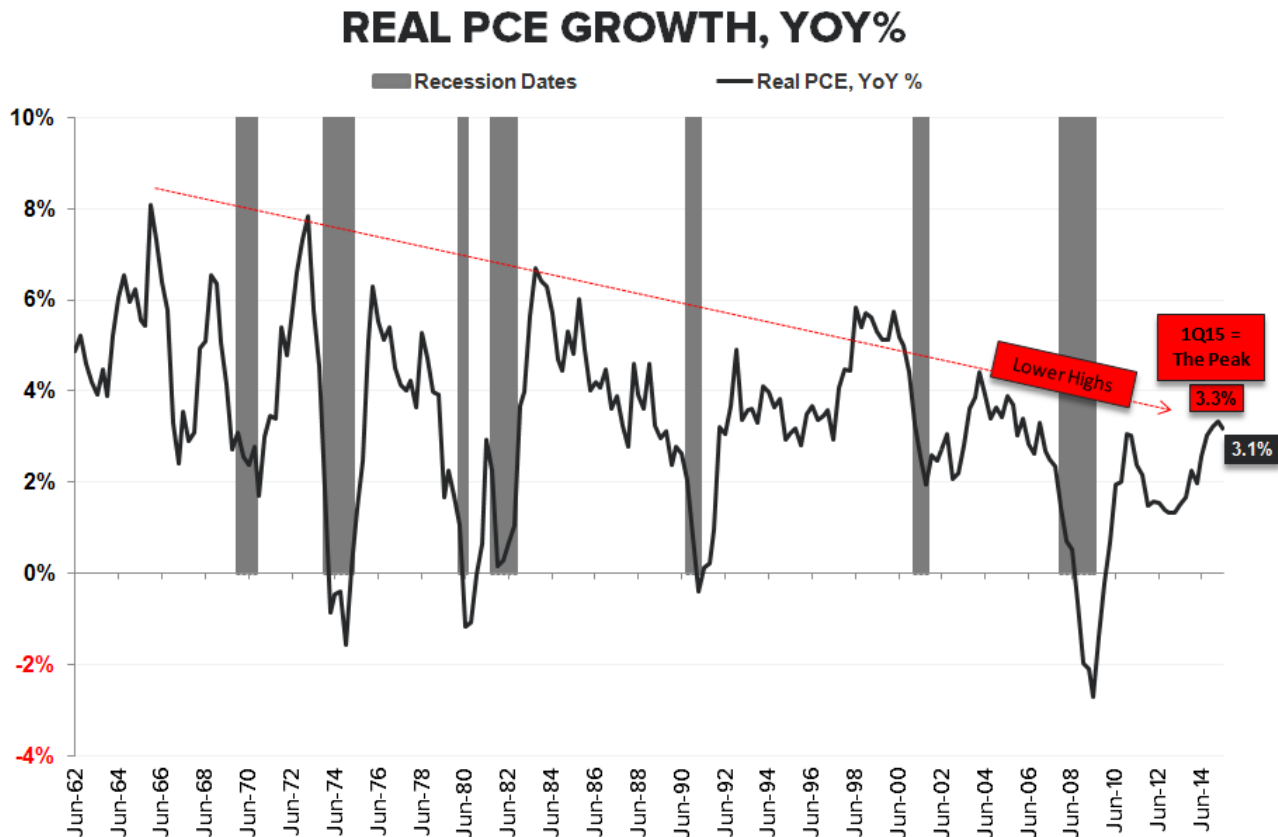
**Serial Over-Optimism:** The Fed has overestimated growth by ~100bps every year.

# NOT 4% GDP: A TALE OF 2 EXPANSIONS

FROM THE **JOBLESS RECOVERY** → TO THE **JOBFULL NONRECOVERY**



# PAST PEAK: CONSUMPTION #SLOWING

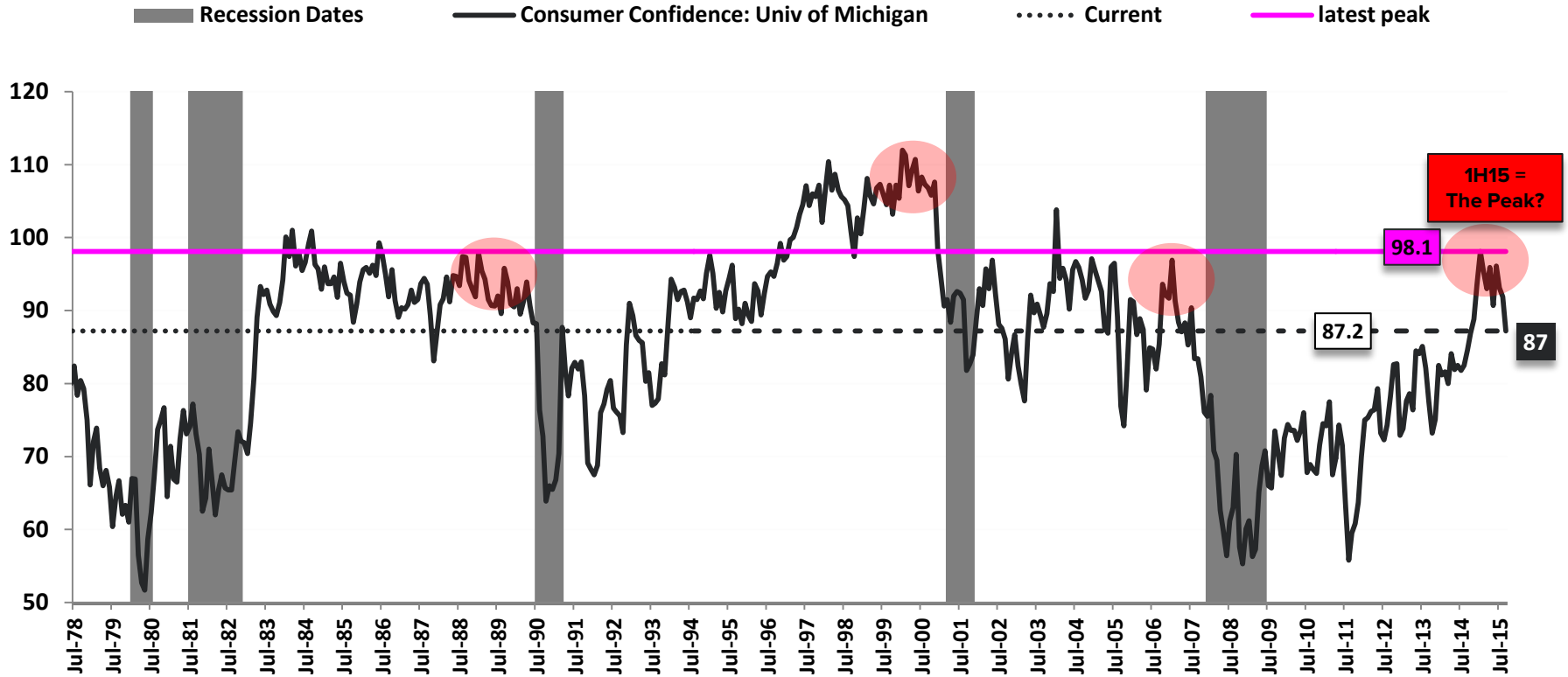


Lower Highs in the Post-War period has been the trend and past-peak demographics, softness in real income growth and little runway for incremental HH leverage remain the secular reality.

Indeed, 1Q15 appears to have been the peak in household spending growth

# PAST PEAK: CONFIDENCE #SLOWING

CONSUMER CONFIDENCE IS A HISTORICALLY CONSISTENT LATE-CYCLE INDICATOR AND 1H15 LOOKS LIKE IT MAY HAVE BEEN THE TOP.

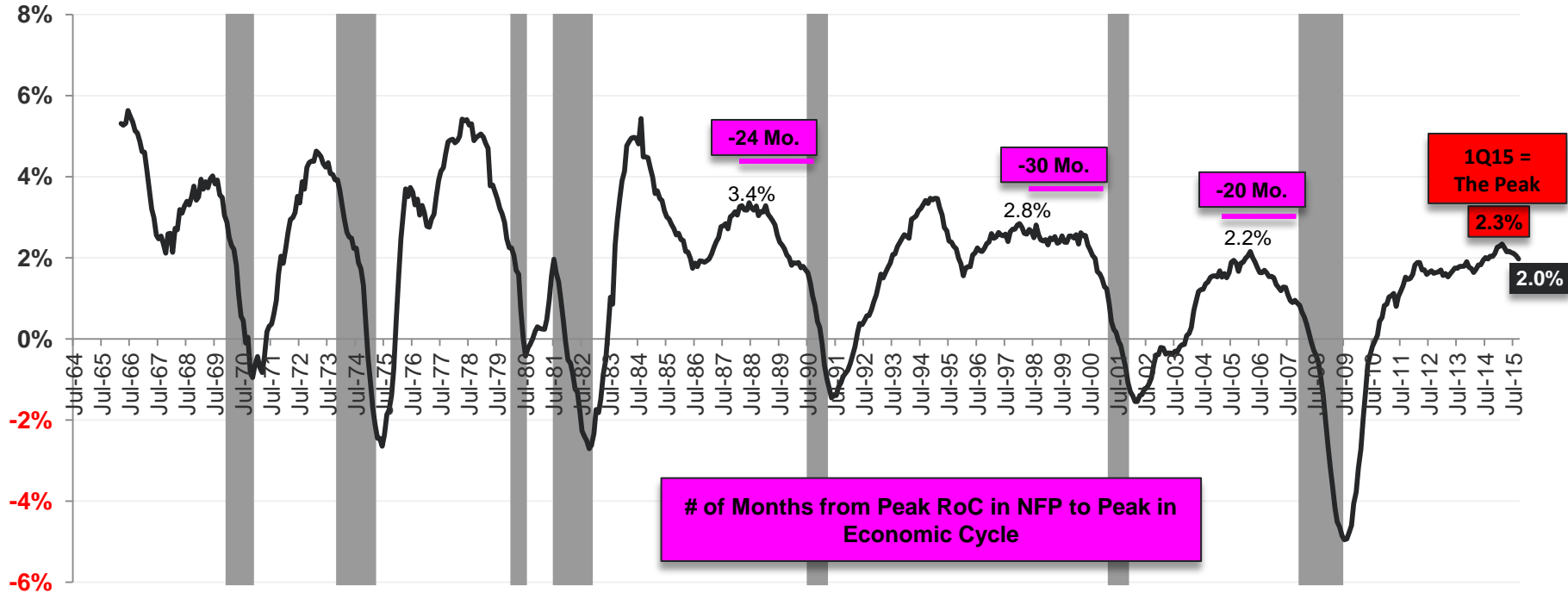


# PAST PEAK: PAYROLLS #SLOWING

## NONFARM PAYROLL GROWTH, YOY

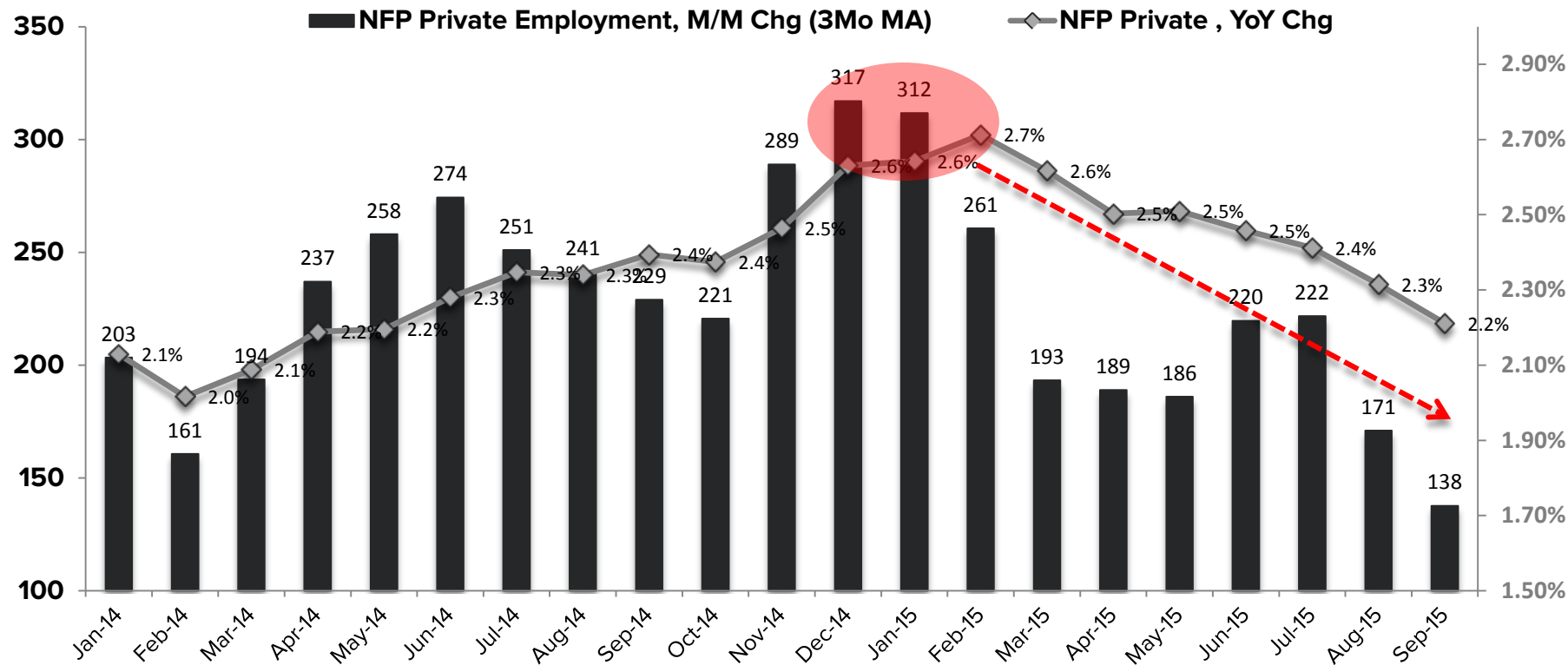
■ Recession Dates

— NFP, YoY %



# AGAIN! TREND **#SLOWING**

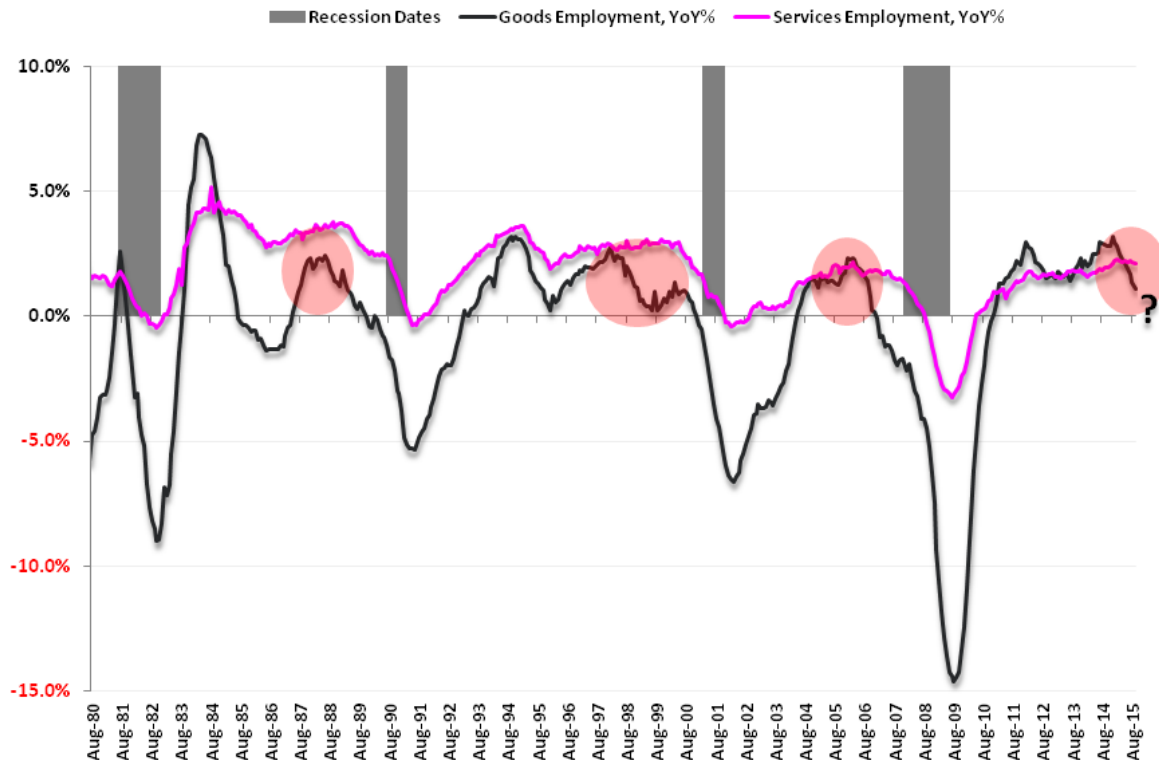
3M AVE < 6M AVE < 2015 AVE < 2014 AVE





# GOODS IS LEADING ... & ROLLING

## NFP: Goods vs Services Employment

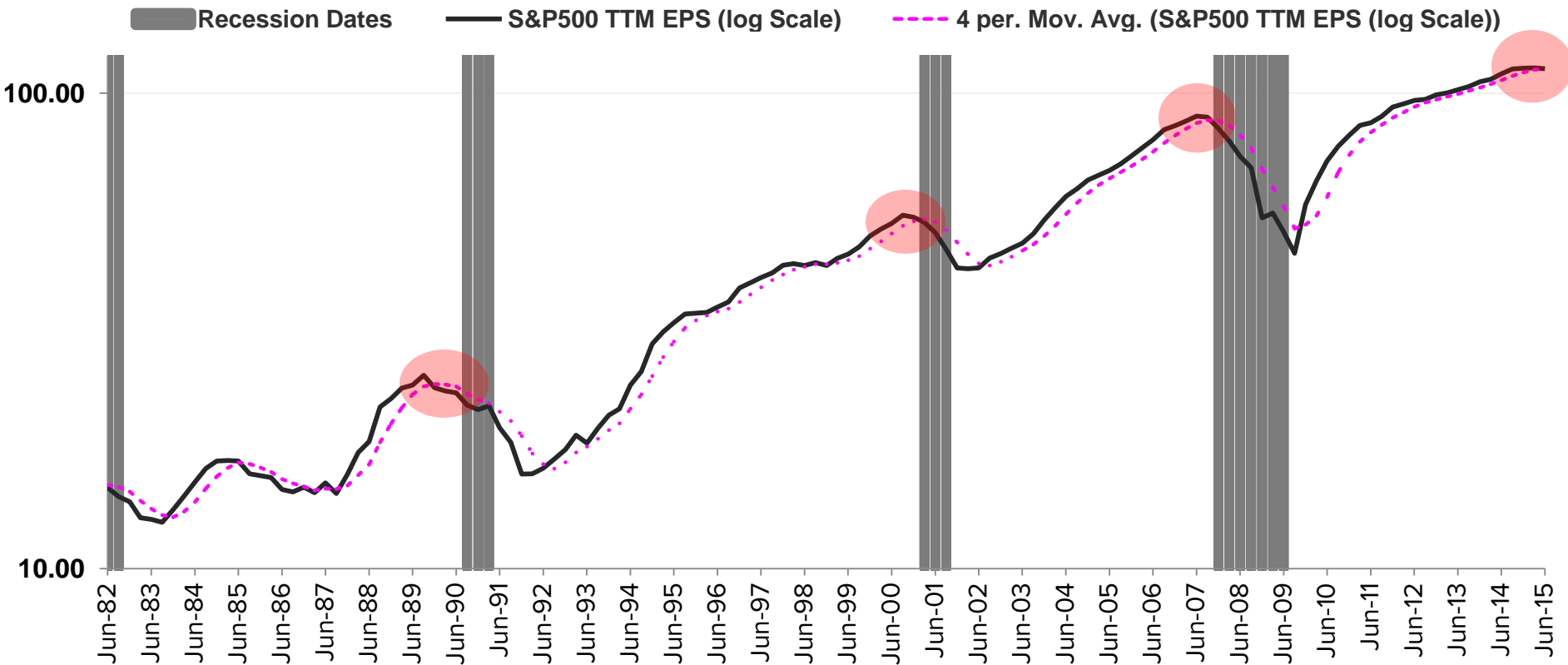


Goods consumption is more cyclical and goods employment has served as a good lead indicator for services and broader payroll trends nationally.

**... & its rolling over.**

# EPS (E) INFLECTING, IN RATE OF CHANGE TERMS

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 2Q15



# OPERATING MOMENTUM

## HEDGEYE S&P500 EARNINGS SCORECARD: 2Q15

### SECTOR LEVEL OPERATING PERFORMANCE\*

	SALES Growth, YoY			EPS Growth, YoY**			OPERATING MARGIN		
	Accelerating	Decelerating	% Accelerating	Accelerating	Decelerating	% Accelerating	Expanding	Contracting	% Expanding
Health Care	21	30	41%	26	22	54%	26	22	54%
Materials	10	17	37%	11	16	41%	13	13	50%
Tech	21	43	33%	27	34	44%	37	24	61%
Financials	35	52	40%	41	44	48%	47	39	55%
Consumer Staples	8	22	27%	8	22	27%	15	15	50%
Industrials	15	48	24%	24	39	38%	42	20	68%
Utilities	17	12	59%	15	13	54%	13	16	45%
Energy	20	19	51%	11	19	37%	7	18	28%
Consumer Discretionary	23	42	35%	25	39	39%	45	19	70%

#### SPX AGGREGATE

37%

43%

57%

#### SPX CONSTITUENT SUMMARY

Sales Growth Accelerating, %	37%
EPS Growth Accelerating, %	43%
OM Margins Expanding, %	57%

\*Acceleration/Deceleration is vs the prior quarter for the given operating metric

\*\*Negative earnings excluded

Source: Bloomberg, Hedgeye Calculations



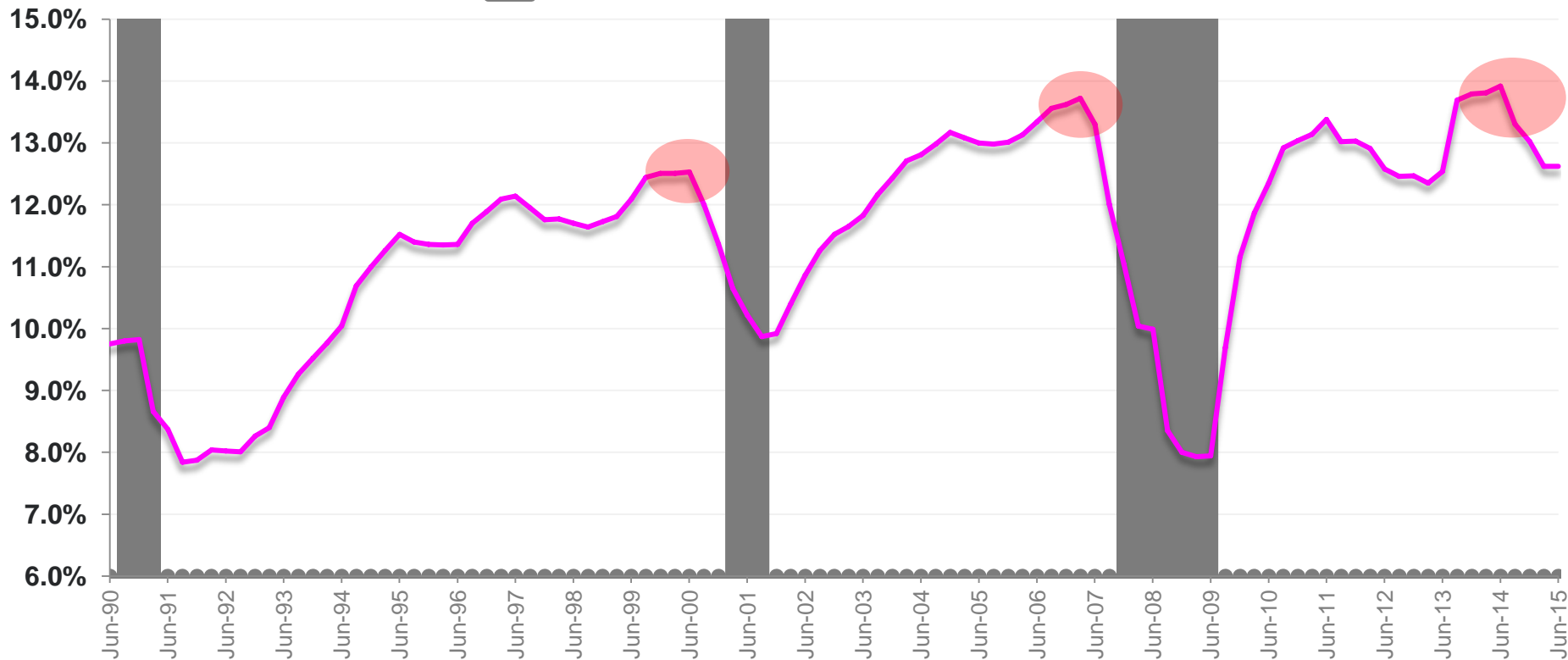
Just 37% and 43% of S&P 500 companies recorded sequential acceleration in sales and earnings growth, respectively, in the latest quarter

# OH, AND PROFITABILITY IS PAST PEAK TOO

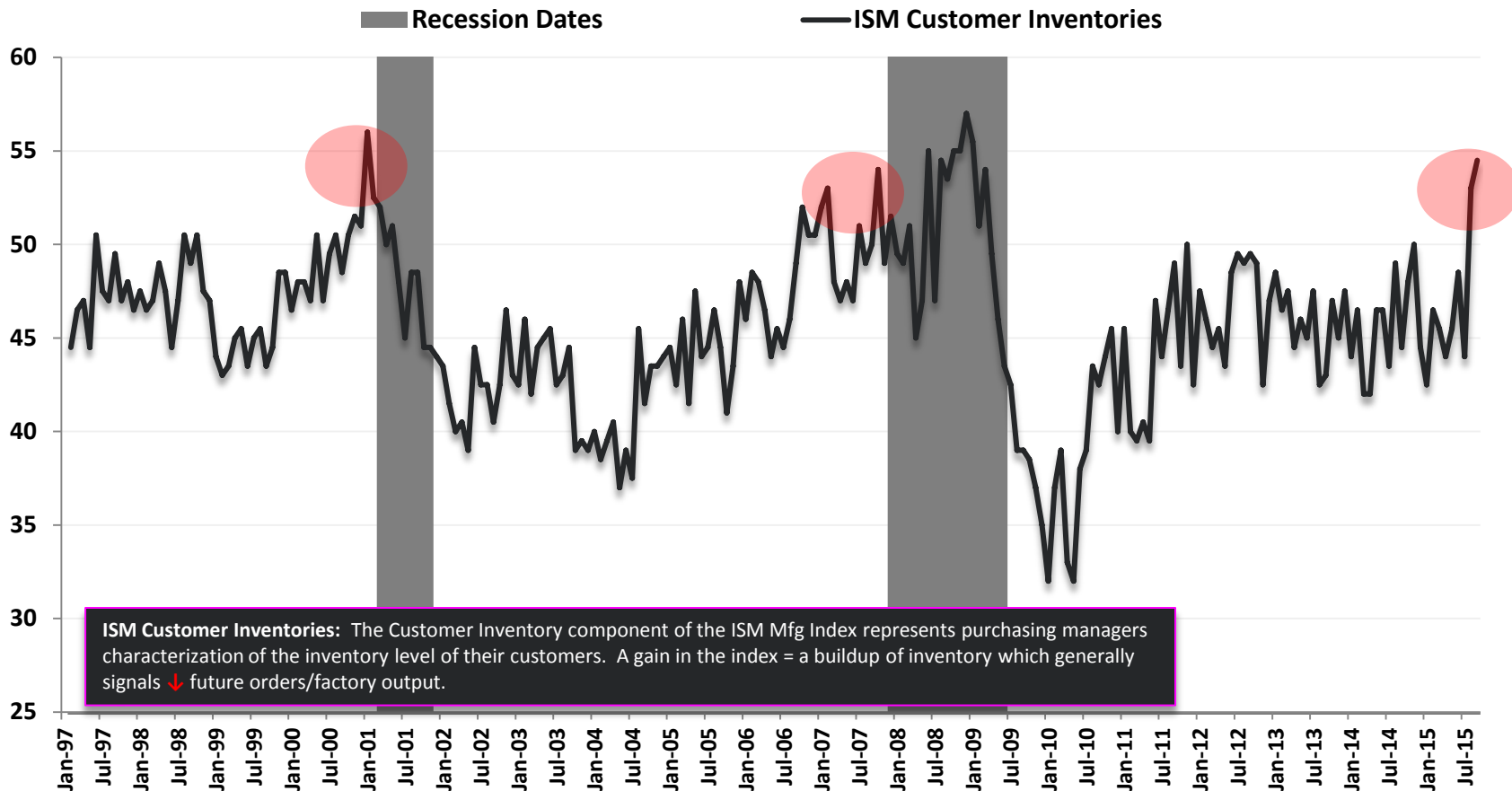
## S&P 500 OPERATING MARGIN

Recession Dates

S&P 500 OPERATING MARGIN

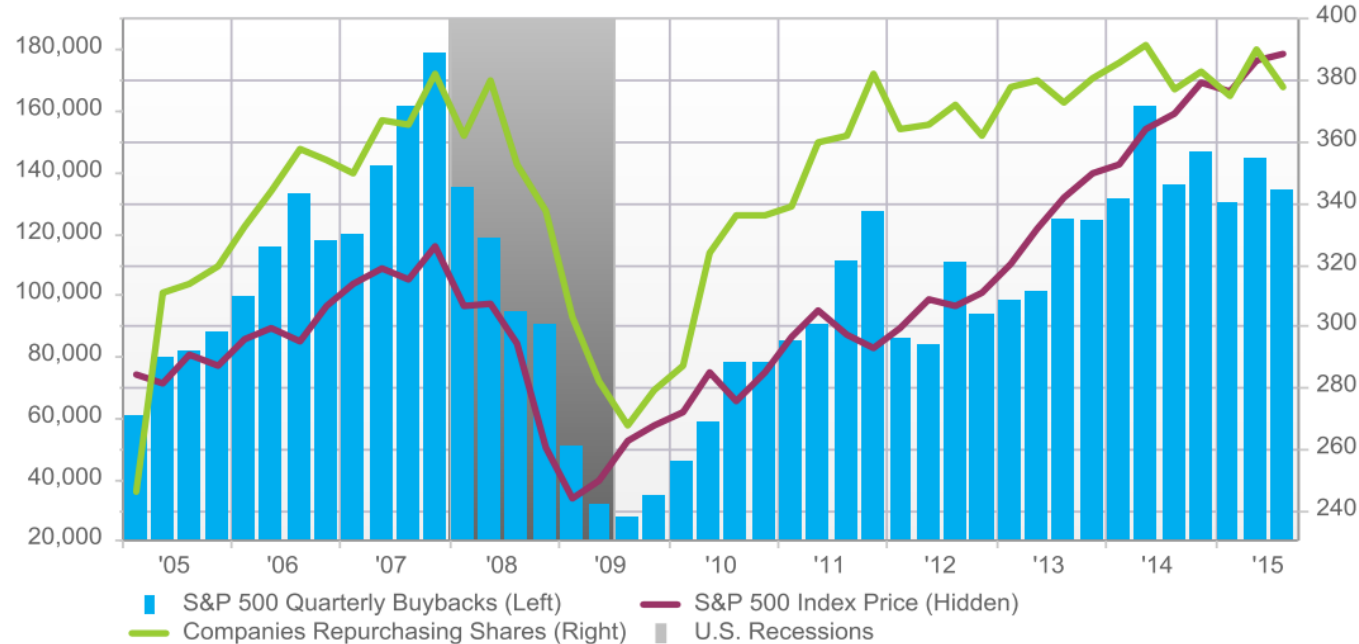


# SALES ↓, INVENTORY ↑



# BUYBACKS > FREE CASH FLOW

Quarterly Share Repurchases (\$M) and No. of Companies Repurchasing Shares



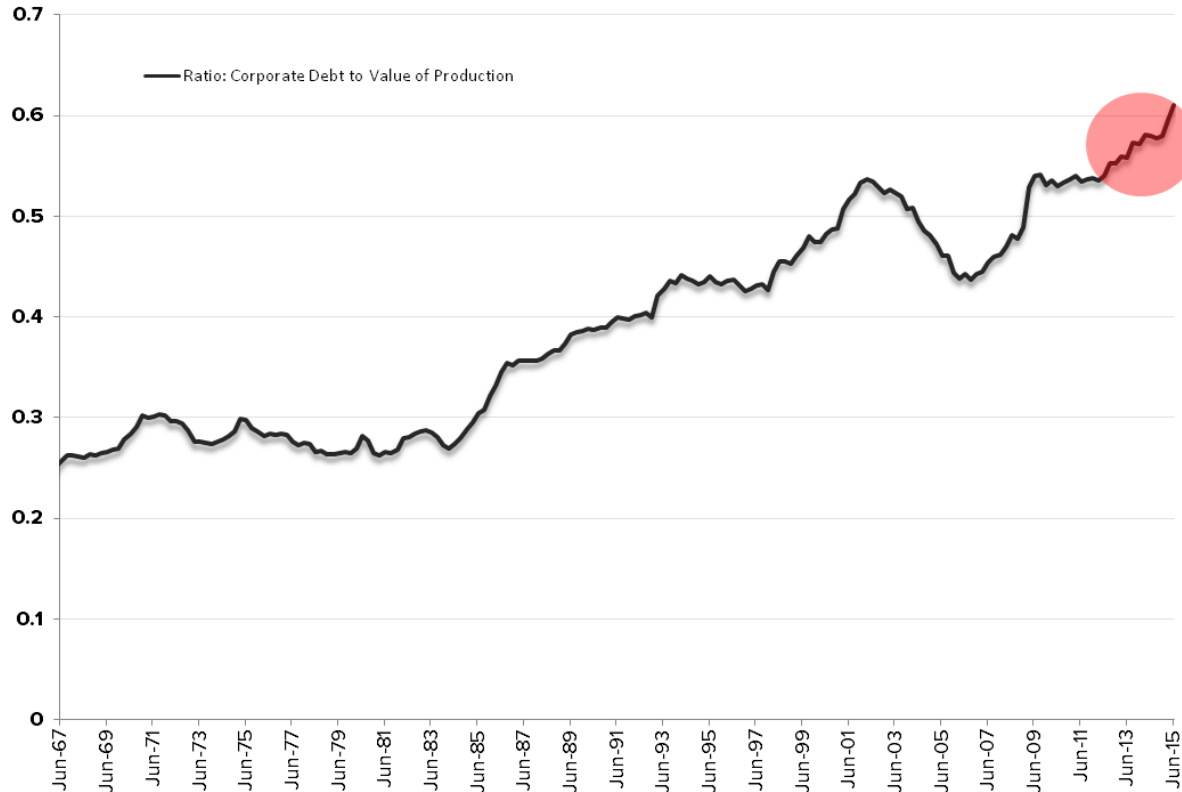
Source: FactSet Fundamentals

Buyback Trends are a classic contra-indicator with activity peaking at the end of the cycle.

Not only have total buybacks reached prior cycle highs, the aggregate Buyback to Free Cash Flow ratio for the S&P 500 exceeded 100% for the first time since October 2009 at 108% on a TTM basis in Q2

# REPO: LEVERAGING UP AT THE TOP

## Corporate Debt to Value of Production

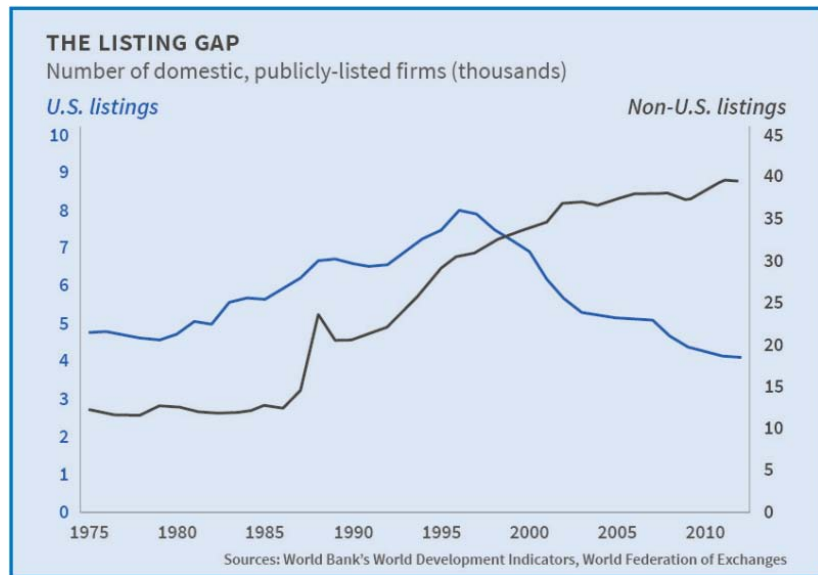


Debt-financed buybacks at peak valuations, peak margins and at new highs in corporate leverage does not = long-term shareholder value creation.

Remember ....

Leverage works both ways.

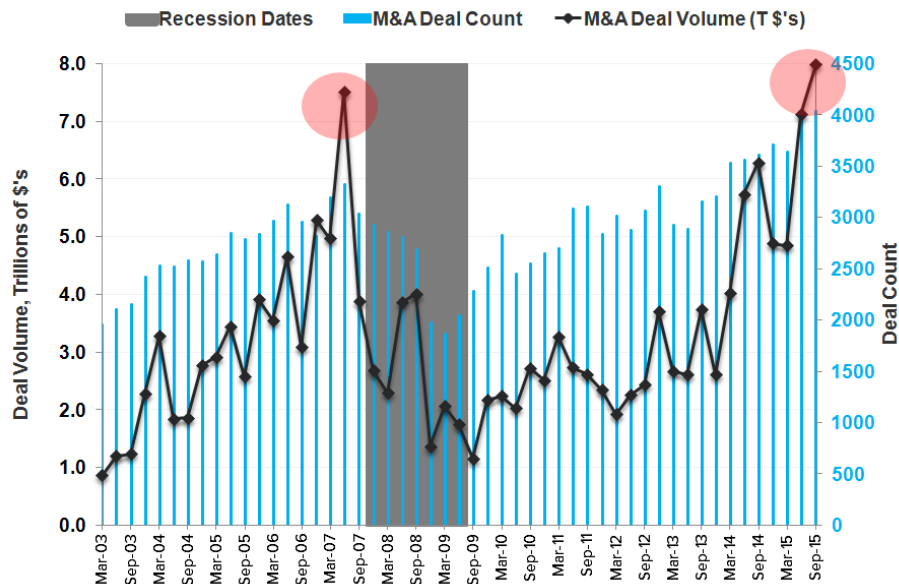
# NO SURPRISE: BUYING GROWTH ↑



## THE LISTING GAP

The total number of listed companies fell from **8,000 to 4,100** from 1996 to 2012, while the rest of the world saw an increase from 30,700 to 39,400.

- NBER



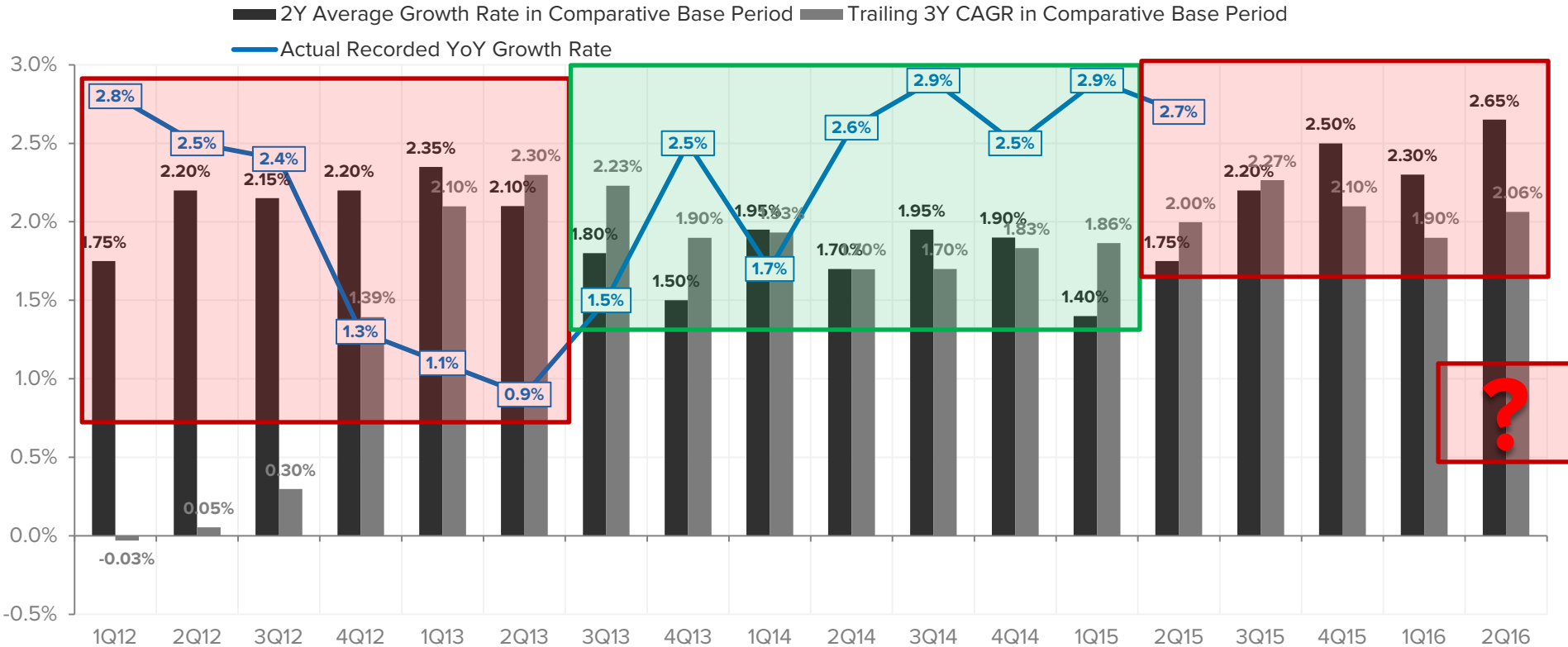
## M&A PEAKING

When growth slows, buy accretion. Rising transaction volume typifies the late-cycle



# ... & COMPS ONLY GET TOUGHER

## COMPARATIVE BASE EFFECT FOR THE RESPECTIVE GDP REPORTING PERIOD



# CONCLUSION (STILL): **SLOWER FOR LONGER**





**#GAMEOFSLOWING**

**WINTER IS COMING**

STARRING:

CHINA/EM AS  
EDDARD STARK



STARRING:



EUROPE AS JOFFREY  
TARGARYEN



STARRING:



JAPAN AS JOHN  
SNOW

STARRING:

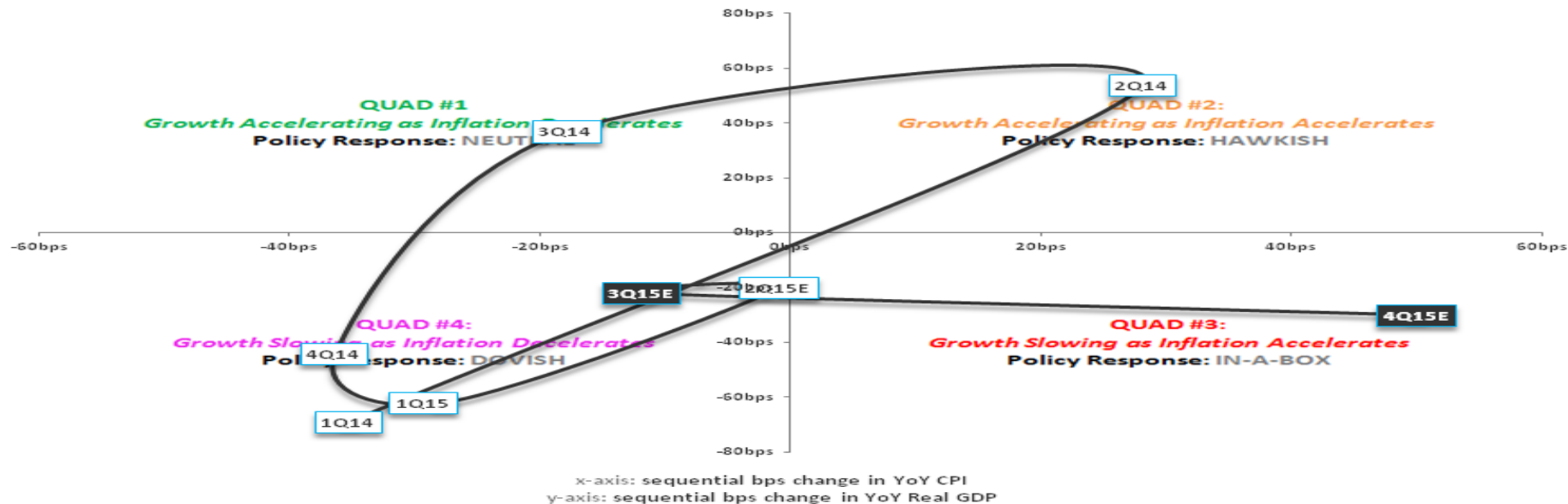


AND THE U.S. AS  
DAENERYS  
TARGARYEN

# GLOBAL GROWTH IS SLOWING

OUR 2015 GLOBAL REAL GDP GROWTH ESTIMATE IS **HALF** THAT OF THE STREET.

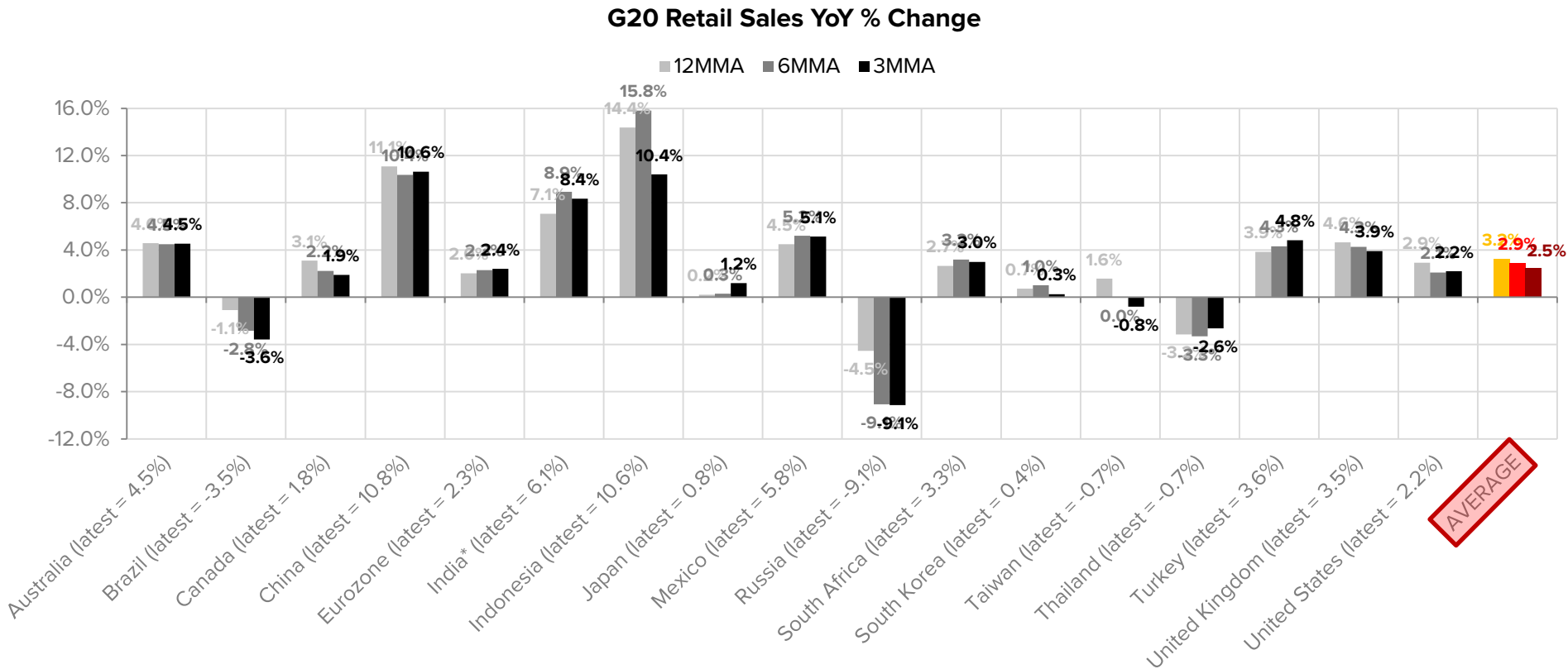
WORLD	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	Hedgeye Macro GIP Model		
Real GDP YoY	1.5%	1.8%	1.3%	2.0%	2.1%	2.7%	2.6%	1.9%	2.4%	2.8%	2.3%	1.7%	1.5%	1.3%	1.0%	Full-year Estimates		2014A
2Y Average	2.2%	2.7%	2.1%	2.2%	1.8%	2.2%	1.9%	2.0%	2.2%	2.7%	2.5%	1.8%	2.0%	2.0%	1.7%	Hedgeye Predictive Tracking Algorithm		2.4%
3Y Average	2.9%	3.1%	2.6%	2.2%	2.2%	2.7%	2.3%	2.1%	2.0%	2.4%	2.1%	1.9%	2.0%	2.3%	2.0%	Bloomberg Consensus Estimate		2.4%
CAGR (3Y)	2.90%	3.09%	2.55%	2.21%	2.15%	2.68%	2.26%	2.06%	1.98%	2.42%	2.05%	1.88%	2.00%	2.26%	1.96%	Central Bank Forecast		n/a
CPI YoY	3.8%	3.6%	3.7%	3.7%	3.6%	3.8%	3.5%	3.2%	3.5%	3.3%	2.9%	2.7%	2.6%	2.5%	3.0%	Full-year Estimates		2014A
2Y Average	4.4%	4.4%	4.2%	4.0%	3.7%	3.7%	3.6%	3.5%	3.5%	3.5%	3.2%	2.9%	3.1%	2.9%	3.0%	Hedgeye Predictive Tracking Algorithm		3.2%
3Y Average	4.1%	4.0%	4.1%	4.1%	4.1%	4.2%	4.0%	3.7%	3.6%	3.6%	3.4%	3.2%	3.2%	3.2%	3.2%	Bloomberg Consensus Estimate		2.3%
CAGR (3Y)	4.12%	4.04%	4.08%	4.09%	4.11%	4.17%	3.98%	3.70%	3.62%	3.55%	3.39%	3.19%	3.23%	3.19%	3.17%	Central Bank Forecast		n/a
																2015E		2015E





# GLOBAL CONSUMPTION GROWTH

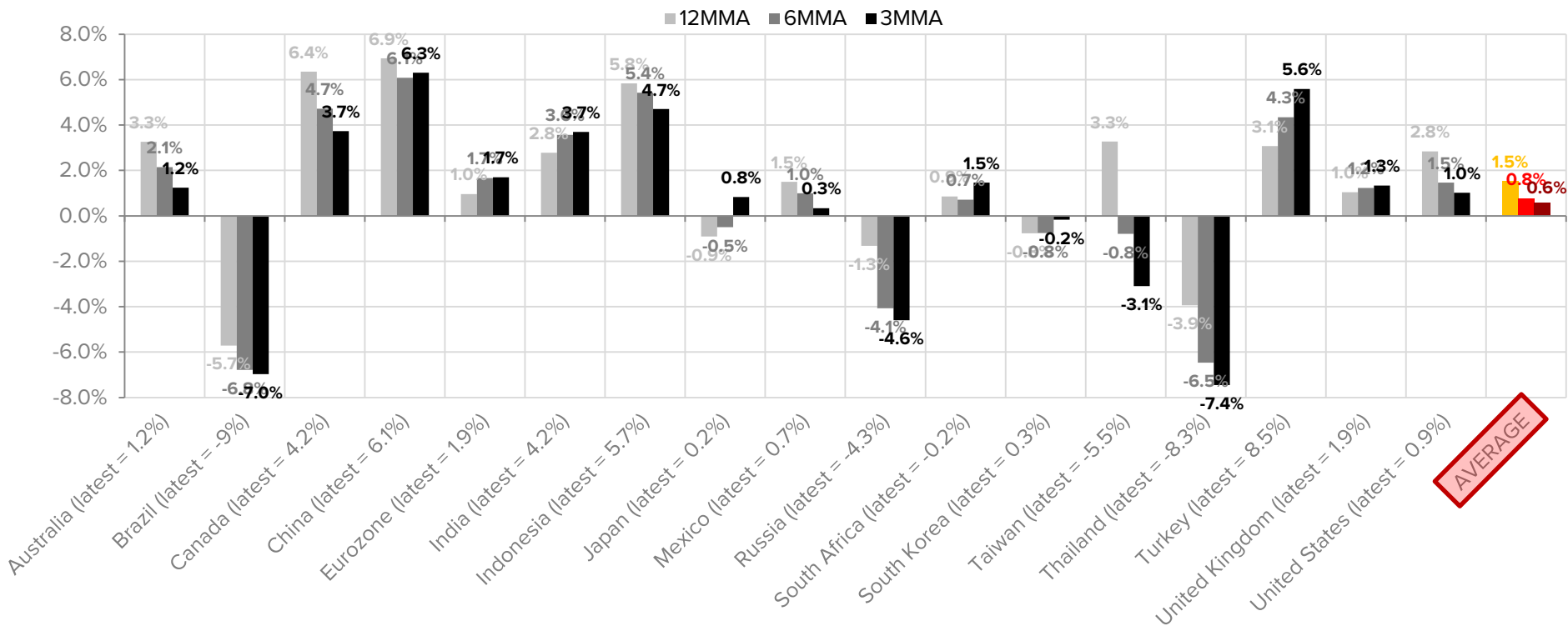
IS **SLOWING** ON A TRENDING BASIS:



# GLOBAL PRODUCTION GROWTH

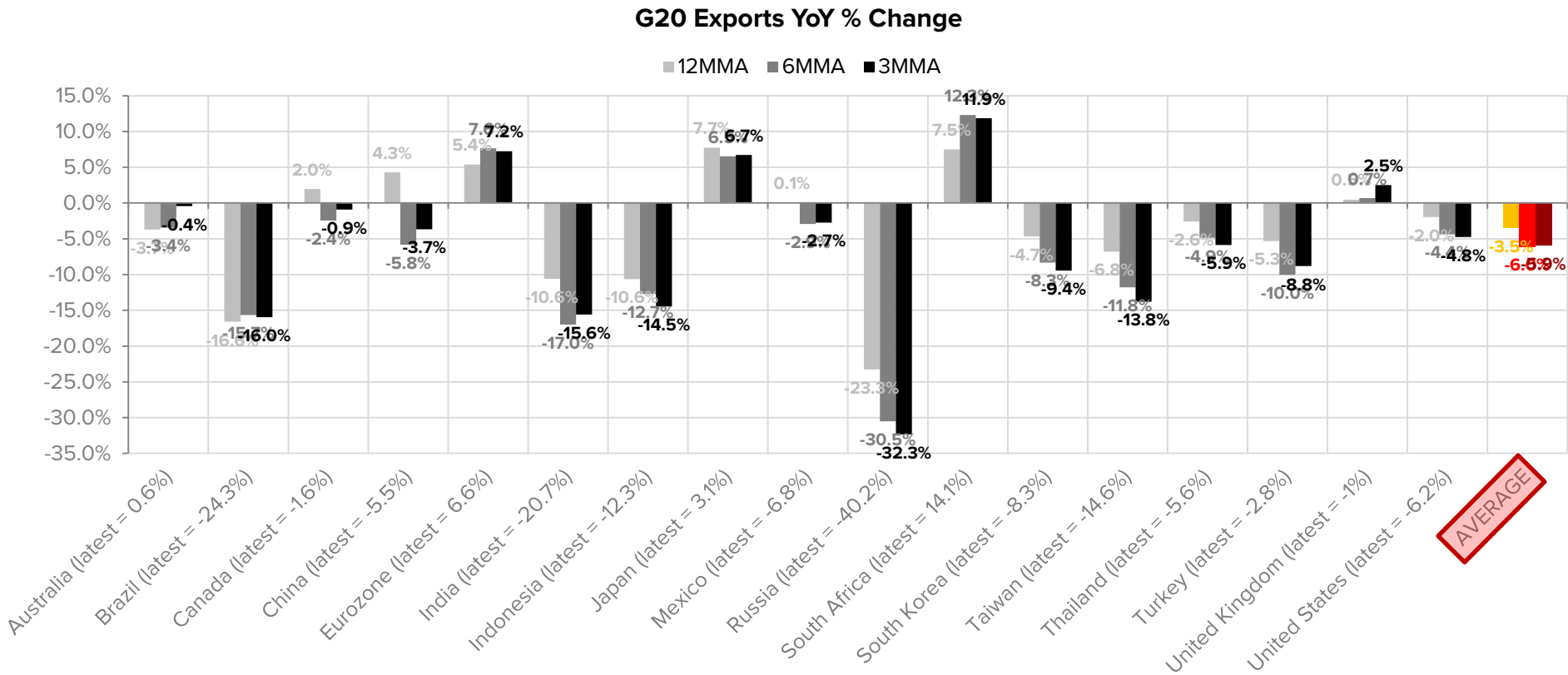
IS **SLOWING** ON A TRENDING BASIS:

G20 Industrial Production YoY % Change



# GLOBAL EXPORT GROWTH

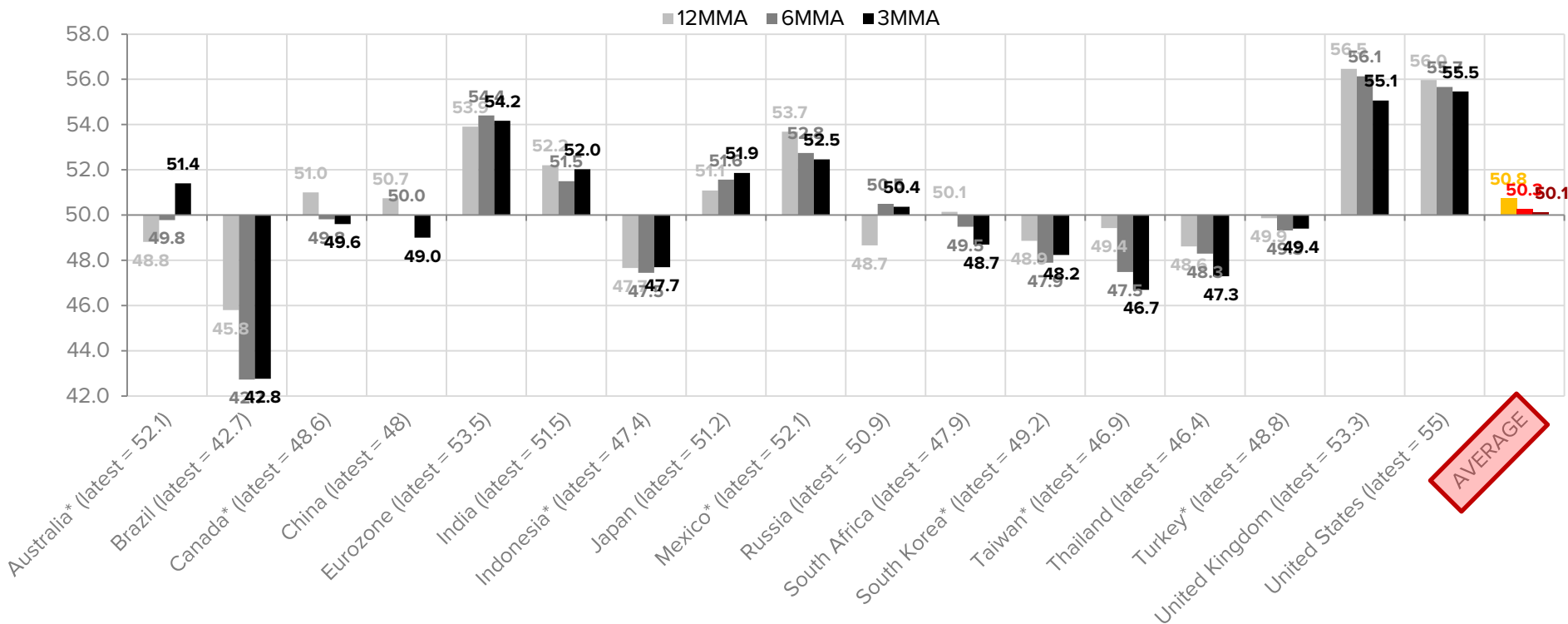
IS **SLOWING** ON A TRENDING BASIS:



# CONFIRMATION

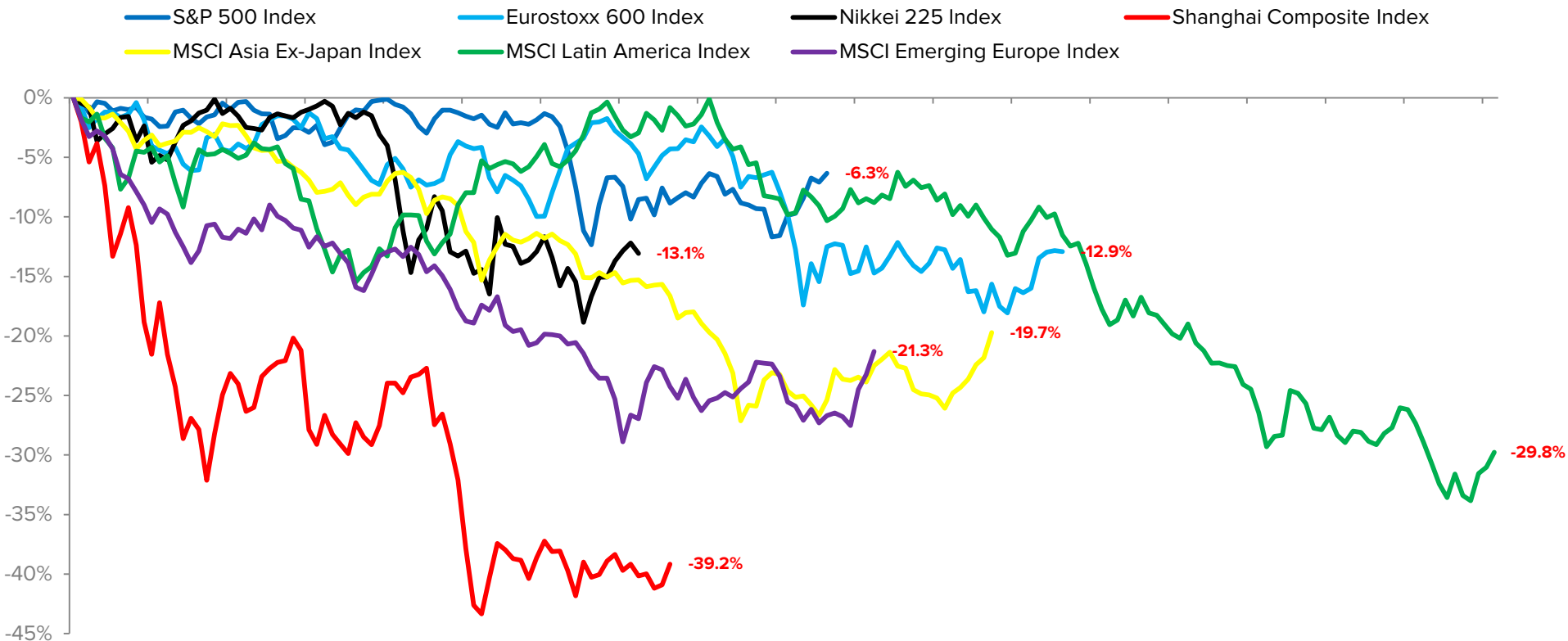
LOOK NO FURTHER THAN THE **PERVASIVE SLOWING** ACROSS GLOBAL COMPOSITE PMIS READINGS FOR CONFIRMATION THAT HEDGEYE IS RIGHT ON GLOBAL GROWTH.

G20 Markit Composite PMI SA



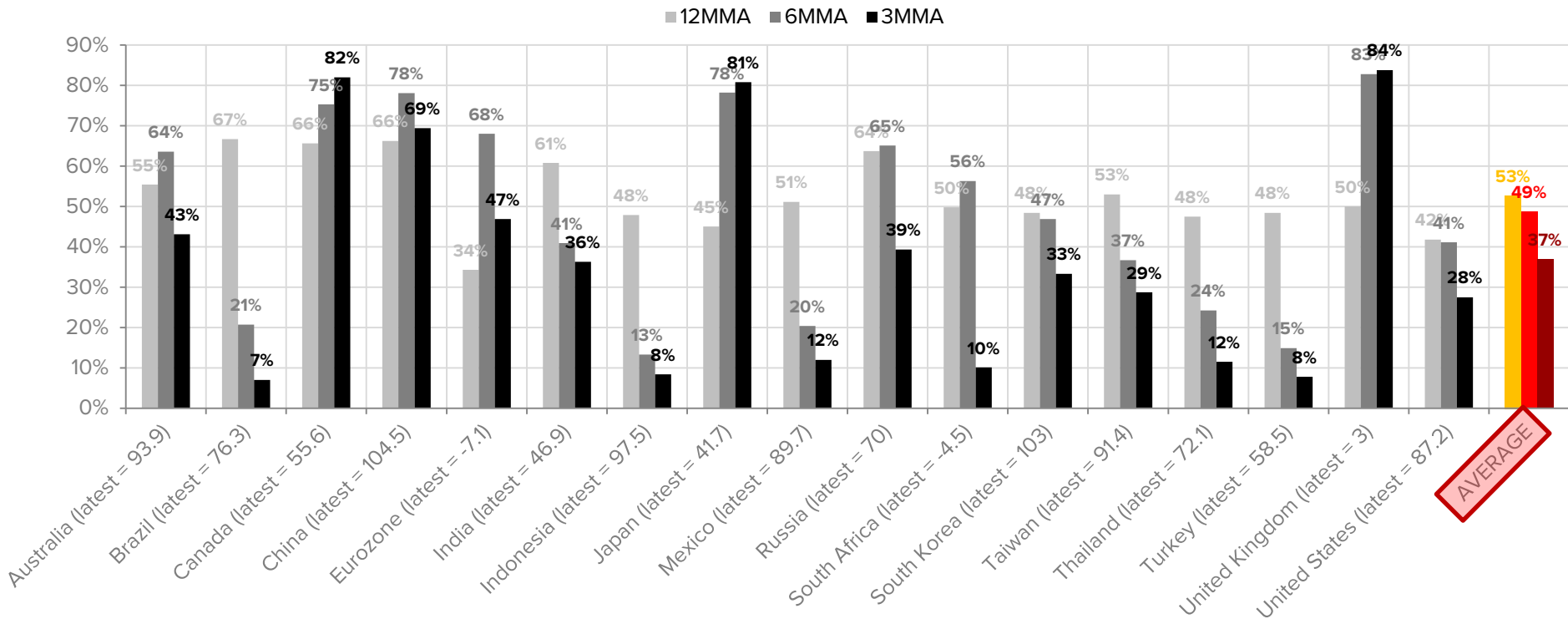
# ARE CRASHING STOCK MARKETS REFLEXIVE?

YTD Peak-to-Present Decline



CONSUMER CONFIDENCE READINGS ACROSS THE GLOBE ARE **SLOWING** ON A TRENDING BASIS:

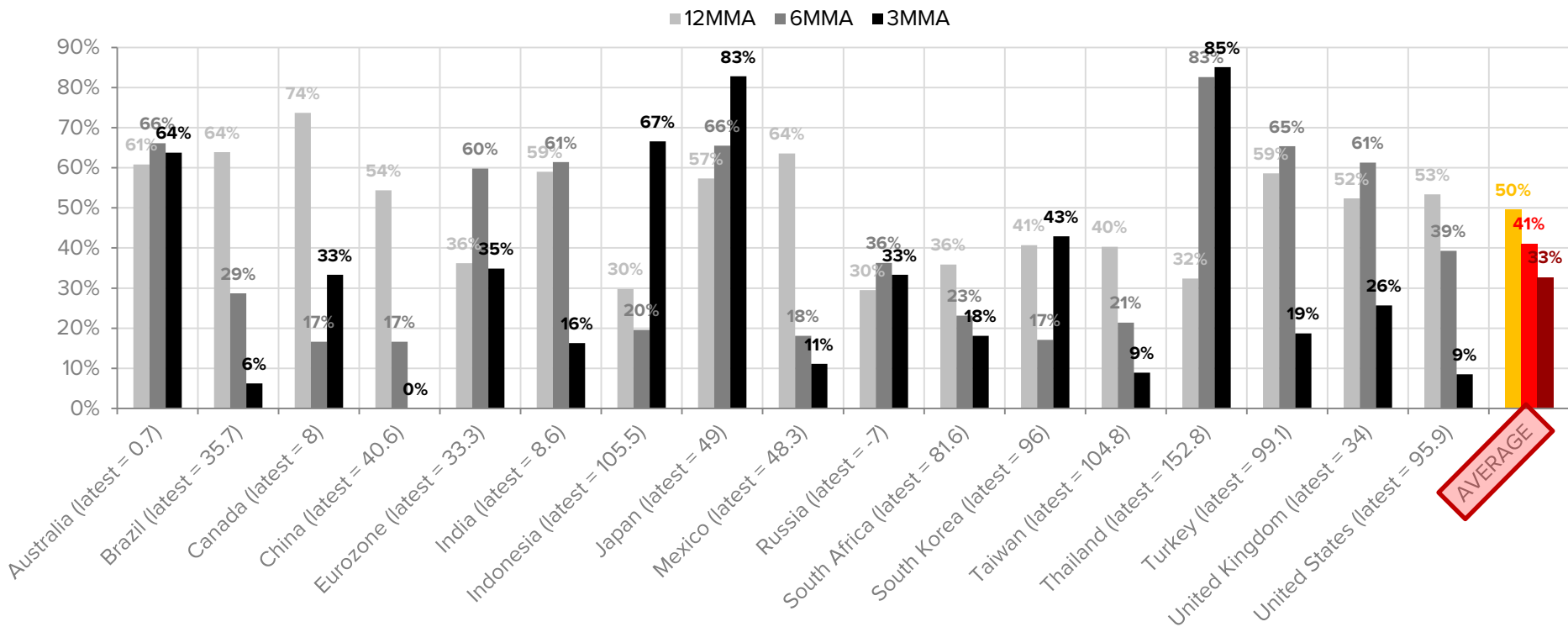
## G20 Benchmark Consumer Confidence Index\*



# GLOBAL BUSINESS CONFIDENCE

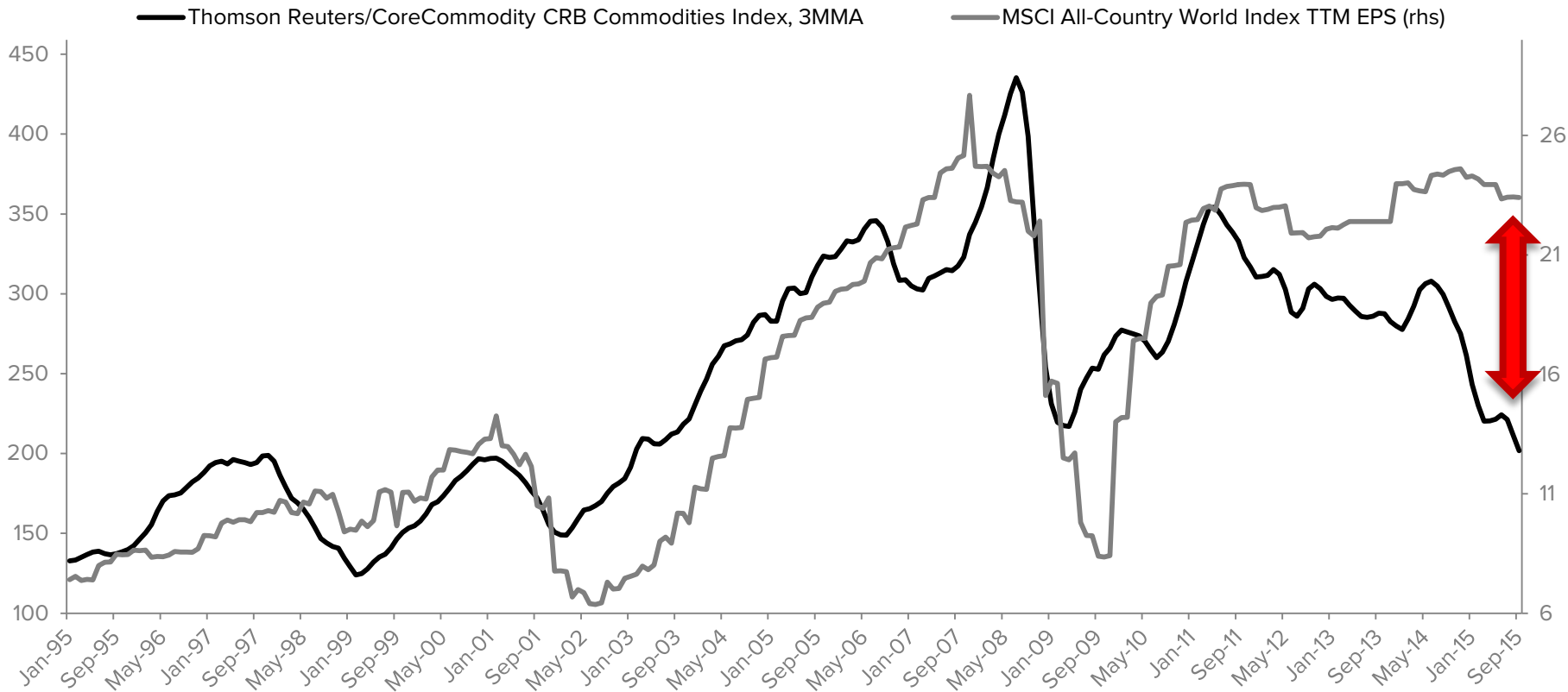
IS ALSO **SLOWING** ON A TRENDING BASIS:

G20 Benchmark Business Confidence Index\*



# WHY?

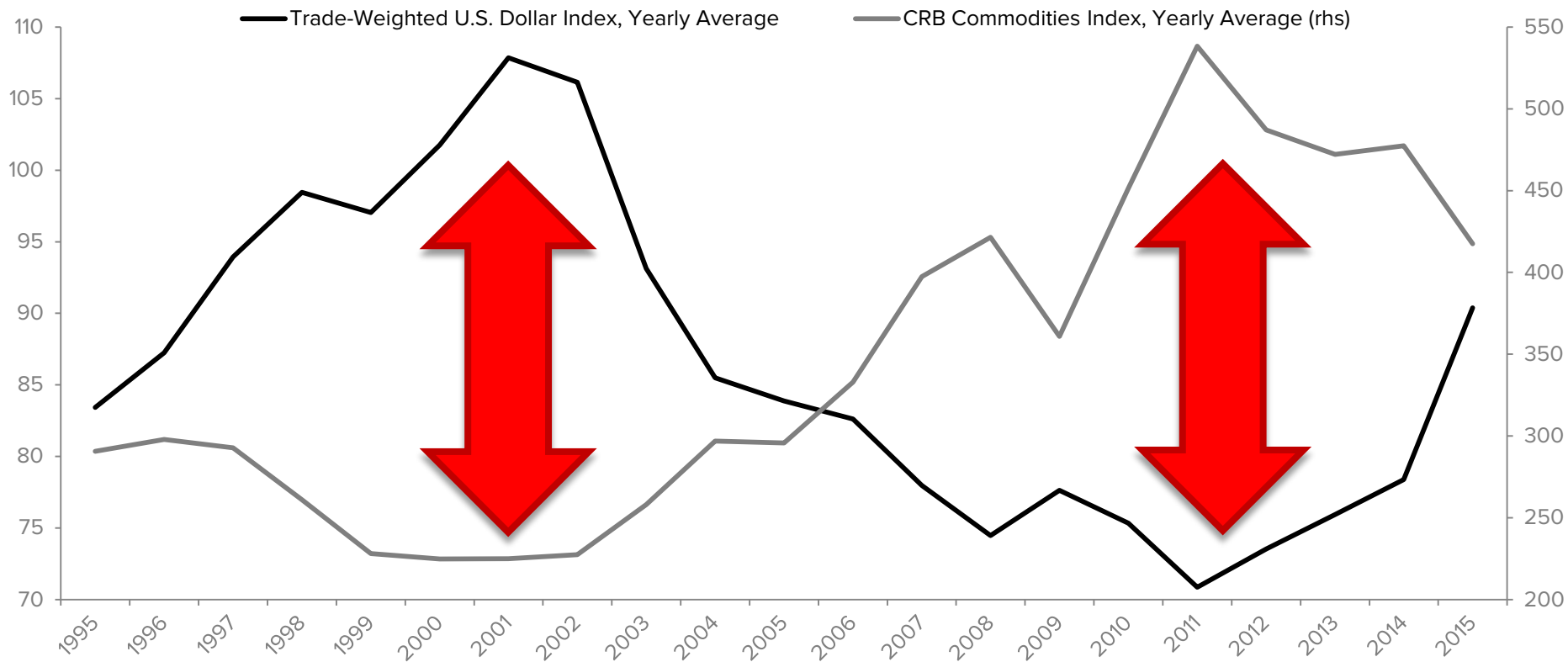
**BECAUSE MANAGEMENT TEAMS ACROSS THE EMERGING AND DEVELOPED WORLD ARE WELL AWARE OF THE [NOW OBVIOUS] DOUR OUTLOOK FOR EARNINGS GROWTH – WHICH HAS BEEN LARGELY DRIVEN BY COMMODITY INFLATION.**





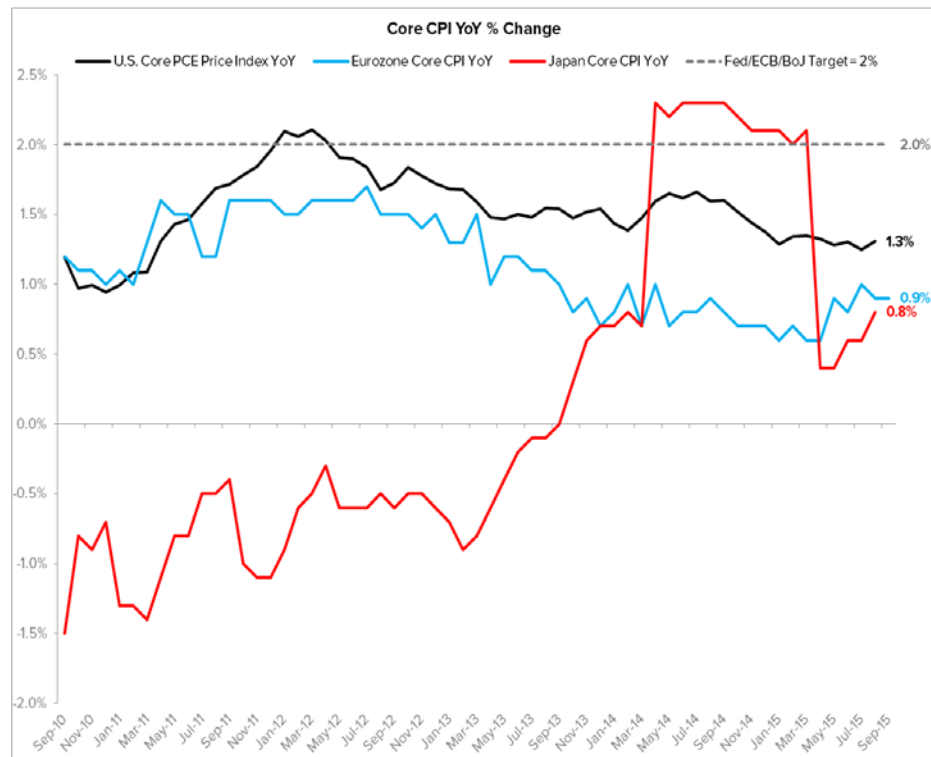
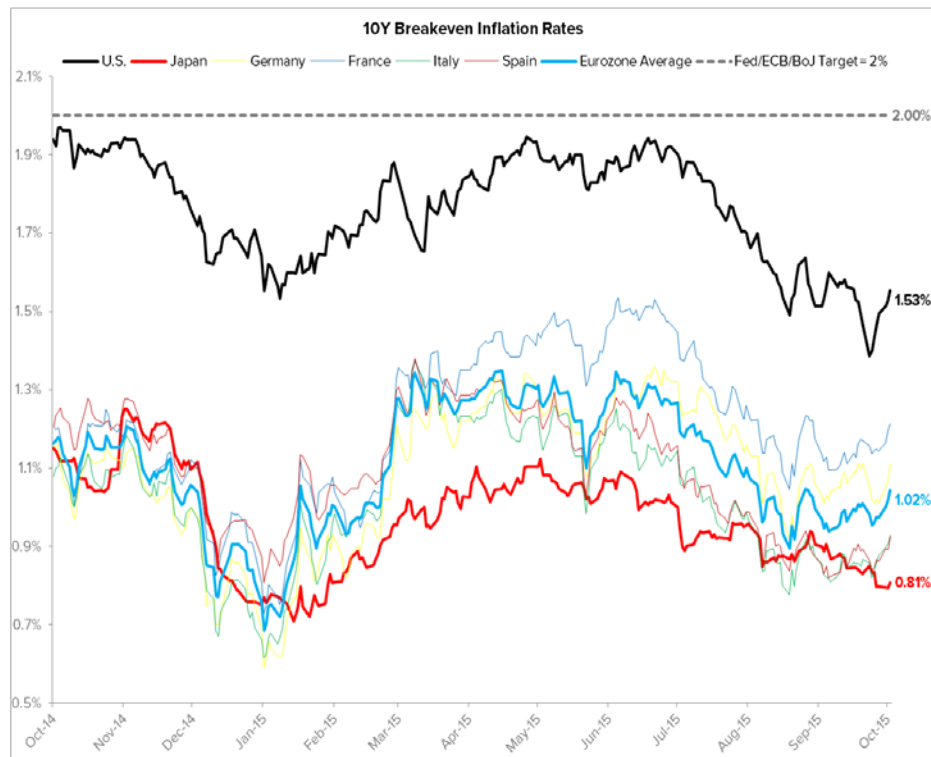
# #STRONGDOLLAR IS BEARISH FOR CORPORATE PROFITS

**THE COMMODITY PRICE SUPER-CYCLE SHOULD CONTINUE TO UNWIND AS THE DOLLAR CONTINUES ITS STRUCTURAL APPRECIATION AGAINST PEER CURRENCIES.**



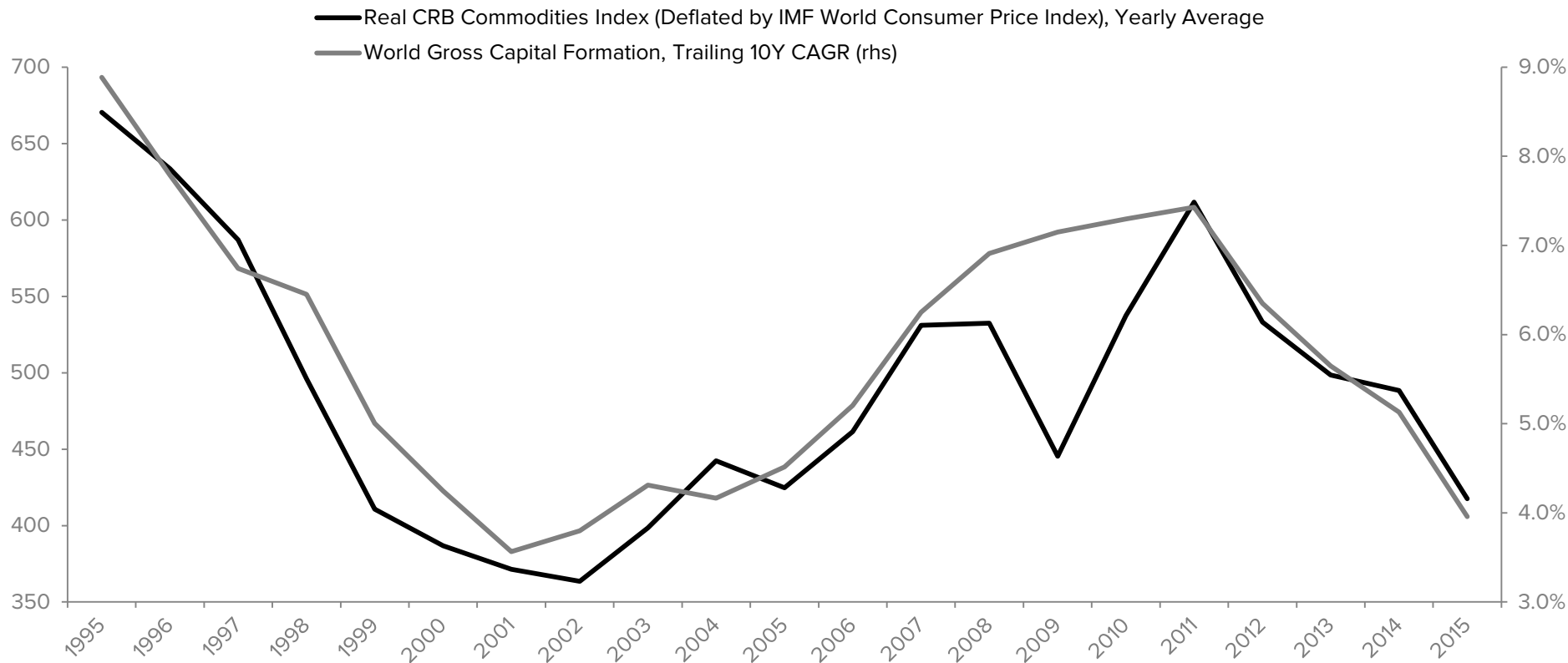
# #STRONGDOLLAR CATALYSTS

WHETHER YOU'RE OBSERVING TRENDS ACROSS STRUCTURAL INFLATION EXPECTATIONS OR TRACKING REPORTED INFLATION RATES, IT'S CLEAR THAT THE ECB AND BOJ MONETARY POLICY IS LIKELY TO REMAIN RELATIVELY MORE LOOSE THAN THE FED ON A SUSTAINABLE BASIS.



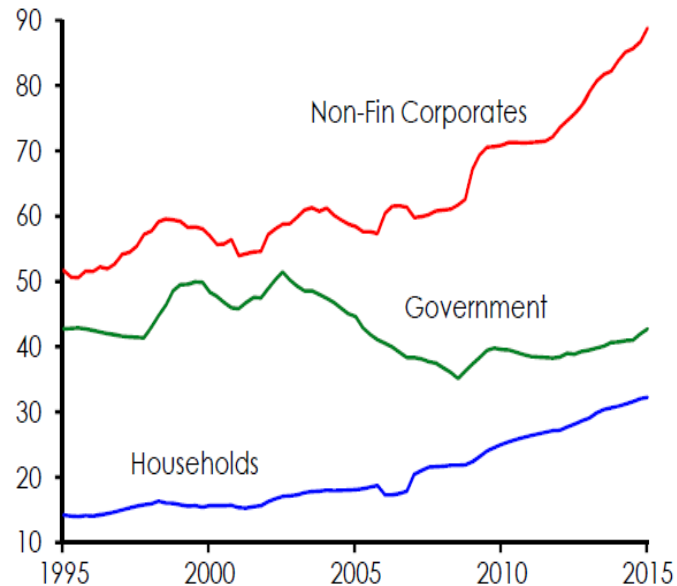
# GLOBAL INVESTMENT UNDER PRESSURE

**AS LONG AS #STRONGDOLLAR DEFLATION PERSISTS, THE OUTLOOK FOR GLOBAL BUSINESS INVESTMENT SHOULD CONTINUE TO DETERIORATE – ESPECIALLY IN EMERGING MARKET ECONOMIES RELIANT ON COMMODITY EXPORTS.**



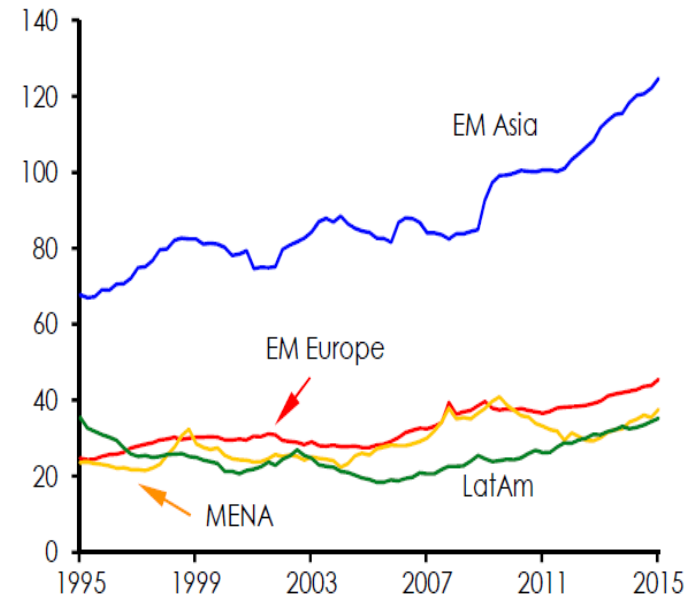
# EM SPILLOVER RISK: ↑ INDEBTEDNESS

Emerging Markets: Non-Financial Sector Debt  
percent of GDP



Source: BIS, IIF.

Emerging Markets: Non-Financial Corporate Debt  
percent of GDP



Source: BIS, IIF.

*“Non-financial corporate indebtedness [in EM economies] has increased more than five-fold over the past decade, surpassing \$23.7 trillion (nearly 90% of GDP) in early 2015. The debt buildup has been particularly pronounced since the 2008-09 crisis as many emerging market corporates took advantage of monetary policy easing and ultra-low interest rates to raise debt in both local and foreign currency.*

*Almost all of the countries in our sample have seen an increase in their debt-to-GDP ratios, but the increase has been mostly concentrated in emerging Asia, with the debt-to-GDP ratio increasing to 125% in 2015Q1 from around 100% in 2010Q4...*

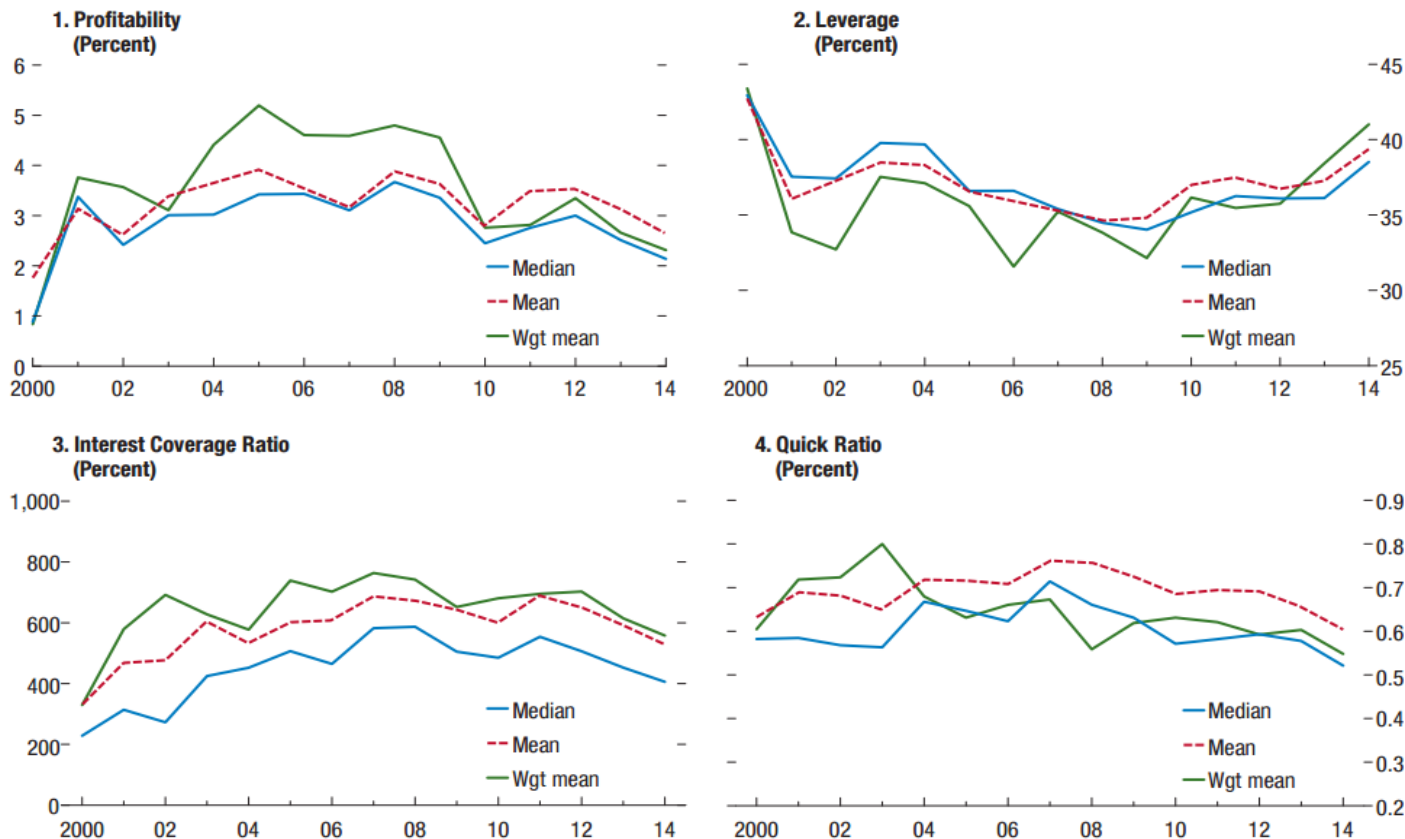
*... Foreign currency-denominated debt rose from 12% of GDP in 2008 to 16% of GDP in 2015Q1, and now accounts for close to 18% of all non-financial corporate debt in emerging markets. Of note, the bulk of the rise in foreign currency-denominated debt was attributable to USD debt – which has reached 12% of GDP (or \$3.3 trillion) in 2015, up from 8% in 2008.”*

IIF Monthly Capital Flows to Emerging Markets Report (10/1/15)

<sup>1</sup> Our sample includes Argentina, Brazil, China, Czech Republic, Hong Kong, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand, and Turkey.

# EM SPILLOVER RISK: CREDIT QUALITY

Figure 3.13. Deteriorating Firm-Specific Fundamentals for Bond-Issuing Firms



"The corporate debt of nonfinancial firms across major emerging market economies quadrupled between 2004 and 2014. At the same time, the composition of that corporate debt has been shifting away from loans and toward bonds. Although greater leverage can be used for investment, thereby boosting growth, the upward trend in recent years naturally raises concerns because many financial crises in emerging markets have been preceded by rapid leverage growth...

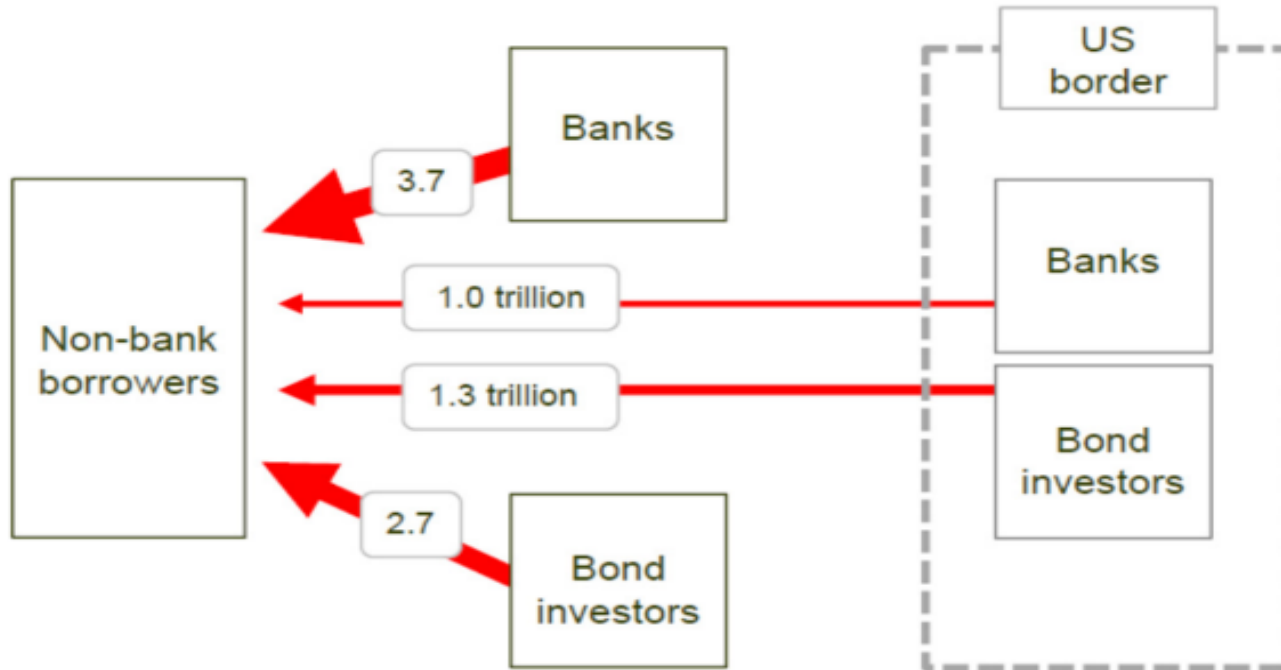
Second, leverage has risen more in cyclical sectors and it has grown most in construction. Higher leverage has also been associated with, on average, rising foreign currency exposures. Third, despite weaker balance sheets, emerging market firms have managed to issue bonds at better terms (lower yields and longer maturities), with many issuers taking advantage of favorable financial conditions to refinance their debt."

-IMF Semiannual Global Financial Stability Report (October 2015)

# THE \$9 TRILLION DOLLAR PROBLEM

US dollar-denominated credit to non-bank borrowers outside the US, end-2013

Graph 3



Sources: US Department of the Treasury (2014); BIS; authors' estimates.

*"Of the \$4.0 trillion outstanding dollar bonds issued at end-2013 by non-US resident non-banks, U.S. residents held \$1.3 trillion. If U.S. based investors hold a third of dollar bonds issued by non-U.S. residents, the ease of financing in the international bond market could well be affected by the common element in U.S. bond flows identified by Feroli et al (2014)."*

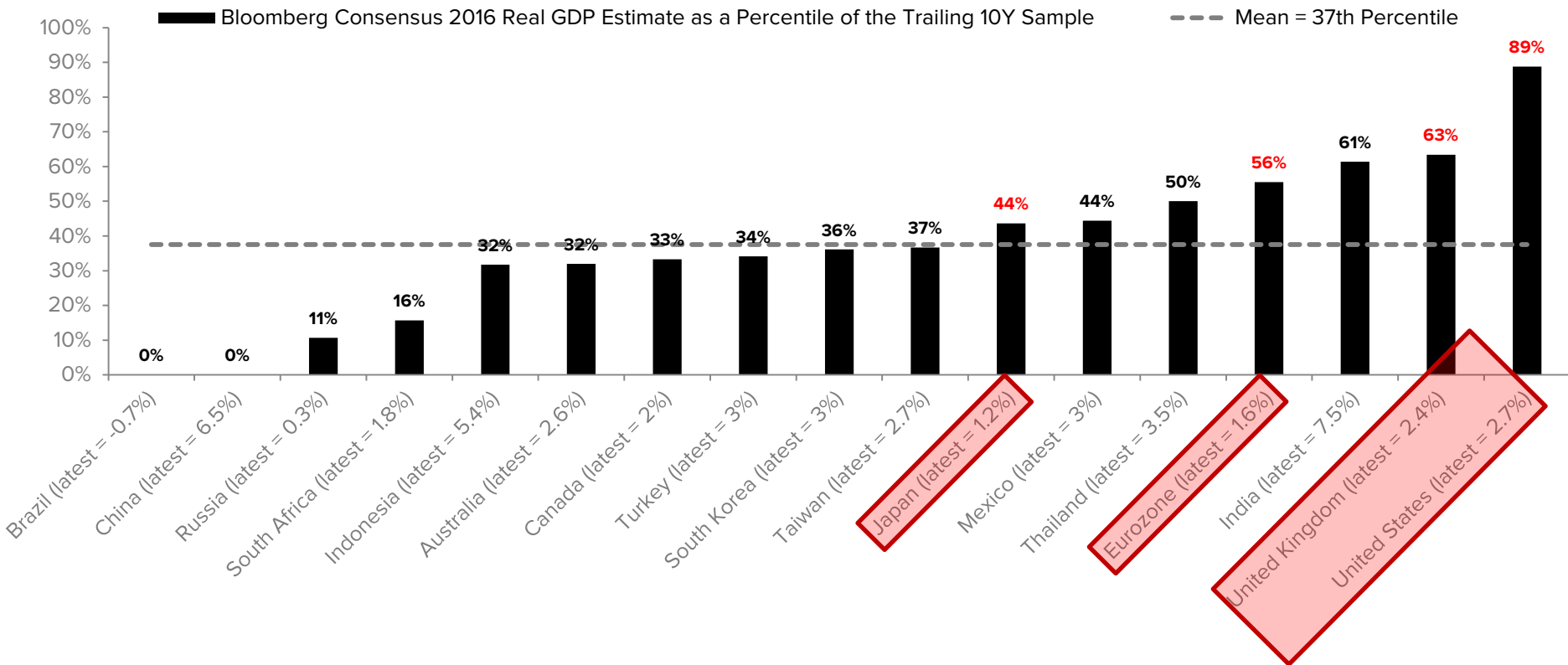
*-Global Dollar Credit: Links to U.S. Monetary Policy and Leverage (BIS; January 2015)*

*"Events such as the October 2014 Treasury Bond flash rally in the United States or the April 2015 Bund tantrum in Europe have reminded us that market liquidity is fickle and that market dislocations can occur even for some of the most liquid assets... As banks have been changing their business models and shrinking their inventories, market-making services seem to have become concentrated in fewer clients... Another key development has been the rise of larger, but more homogenous buy-side institutions."*

*-IMF Semiannual Global Financial Stability Report (October 2015)*

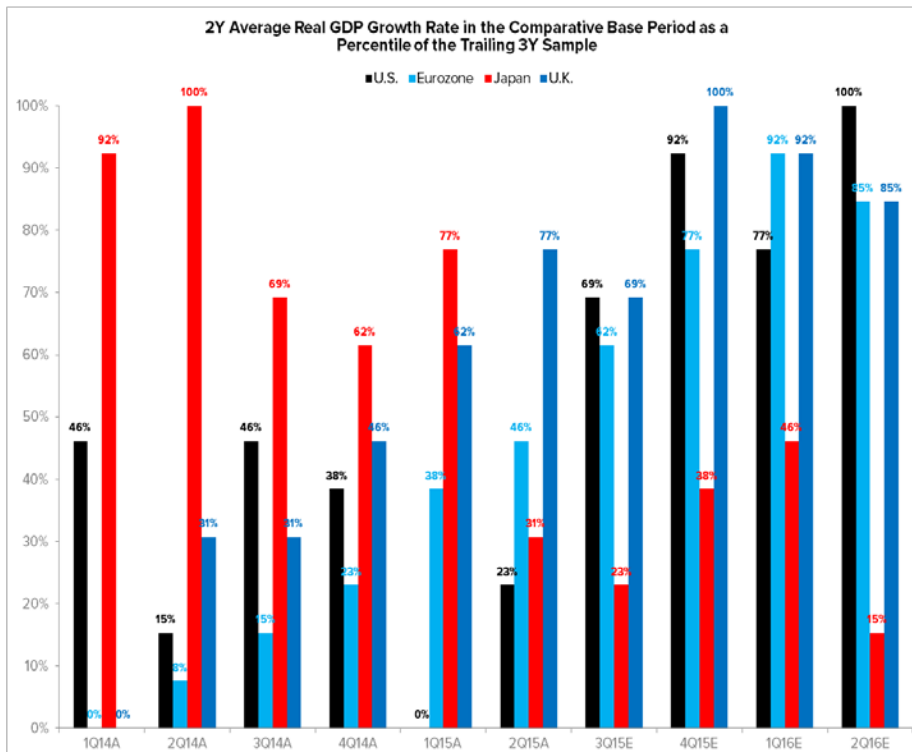
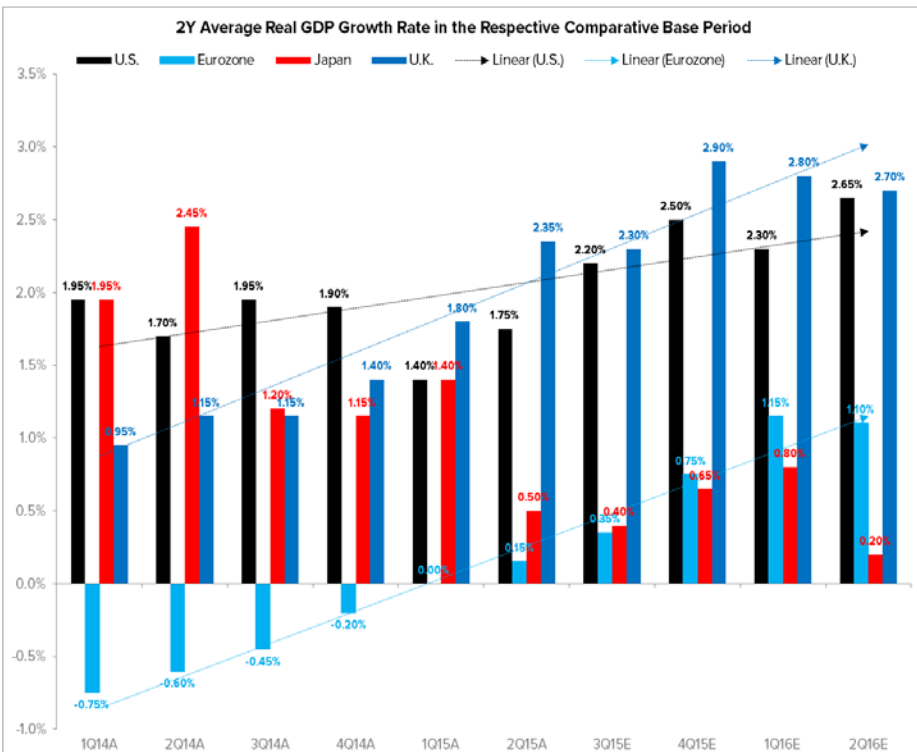
# EM HEADWINDS ARE WELL-KNOWN, RIGHT?

YES, WHICH IS WHY THE GLOBAL GROWTH OUTLOOK IS INCREASINGLY DEPENDENT ON ADVANCED ECONOMIES CONTINUING THEIR RECENT TREND OF OUTPERFORMANCE.



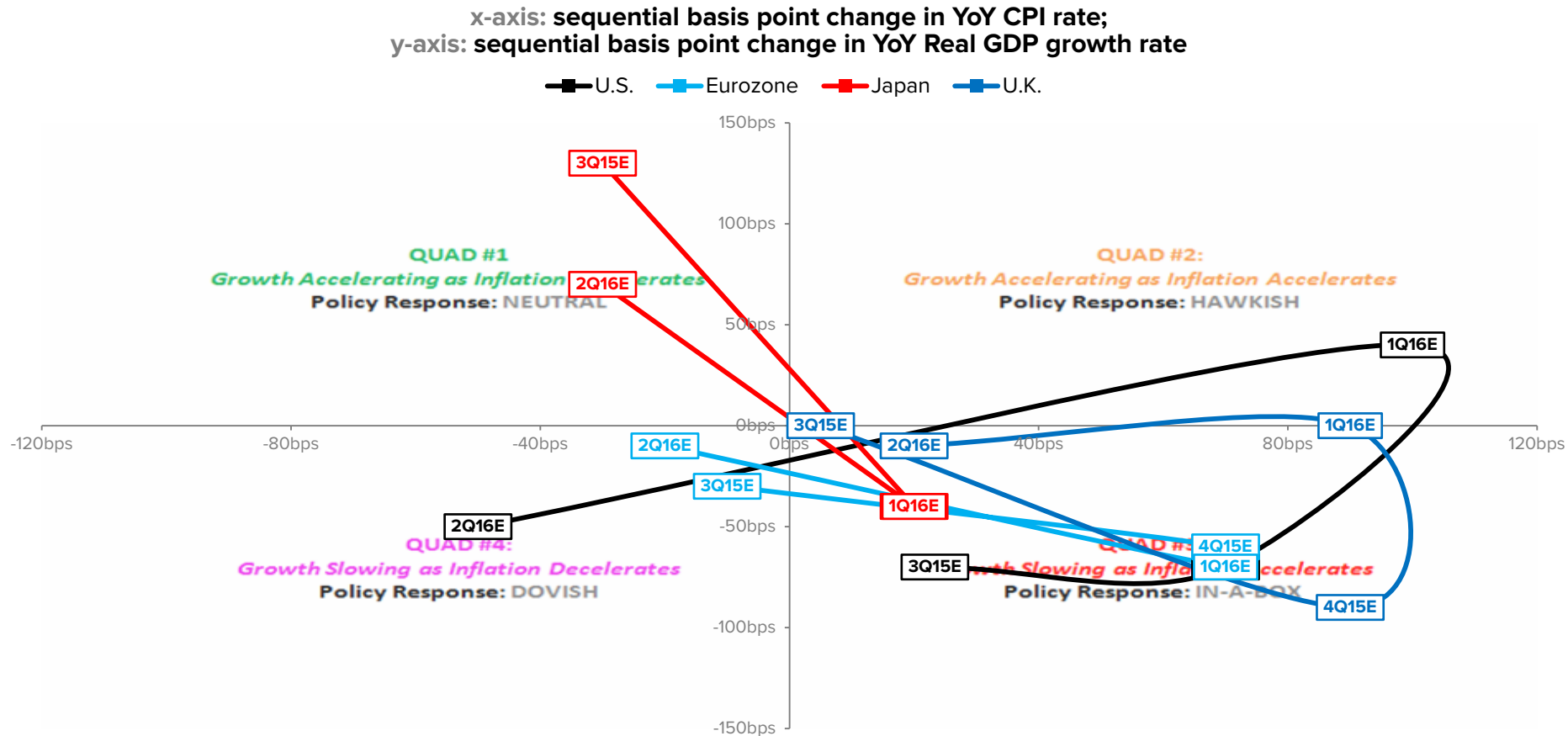
# BUT WILL THEY “COMP THE COMPS”?

BASE EFFECTS ARE STEEPENING IN A MATERIAL WAY ACROSS THE DEVELOPED WORLD OVER THE NEXT 2-3 QUARTERS. MOREOVER, THE U.S. AND U.K. ARE “COMPING” AGAINST THEIR TOUGHEST “COMPS” OF THEIR RESPECTIVE CYCLES DURING THE AFOREMENTIONED FORECAST PERIOD.





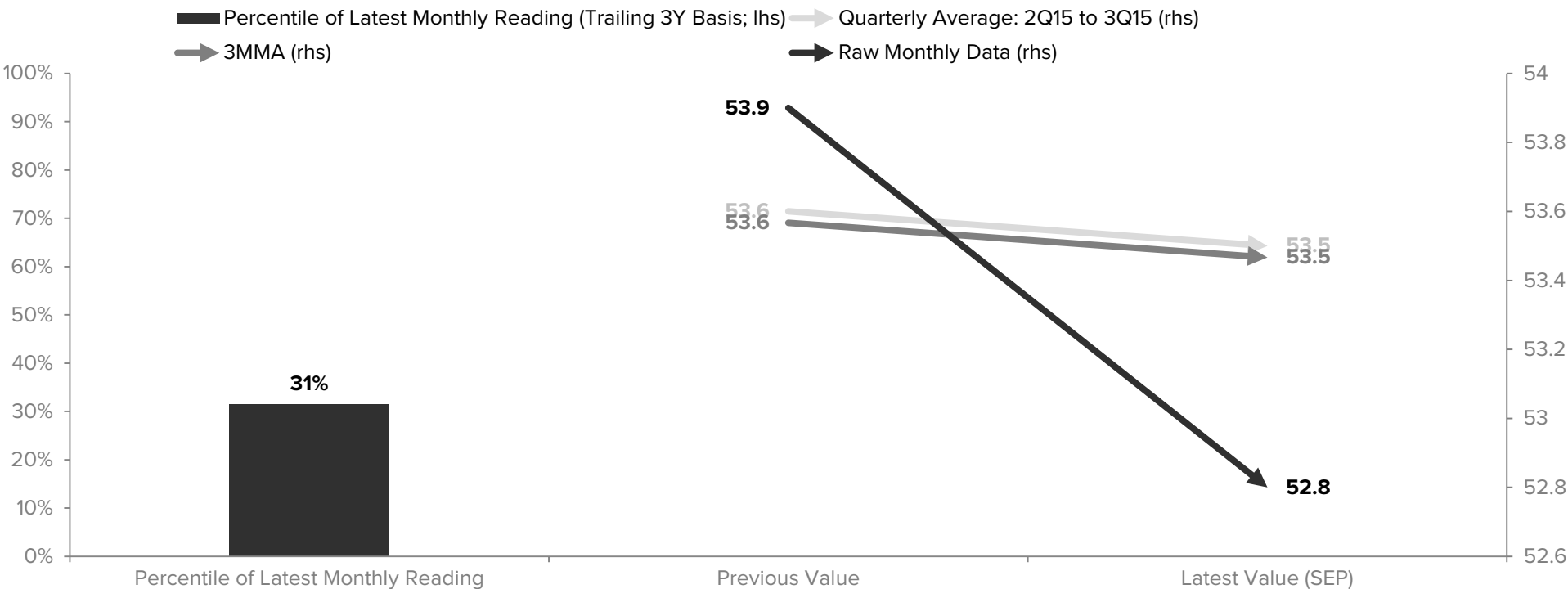
# CONCLUSION: GET USED TO QUADS 3 & 4



# WHY?

BECAUSE GLOBAL GROWTH IS **SLOWING** ON A SEQUENTIAL AND TRENDING BASIS:

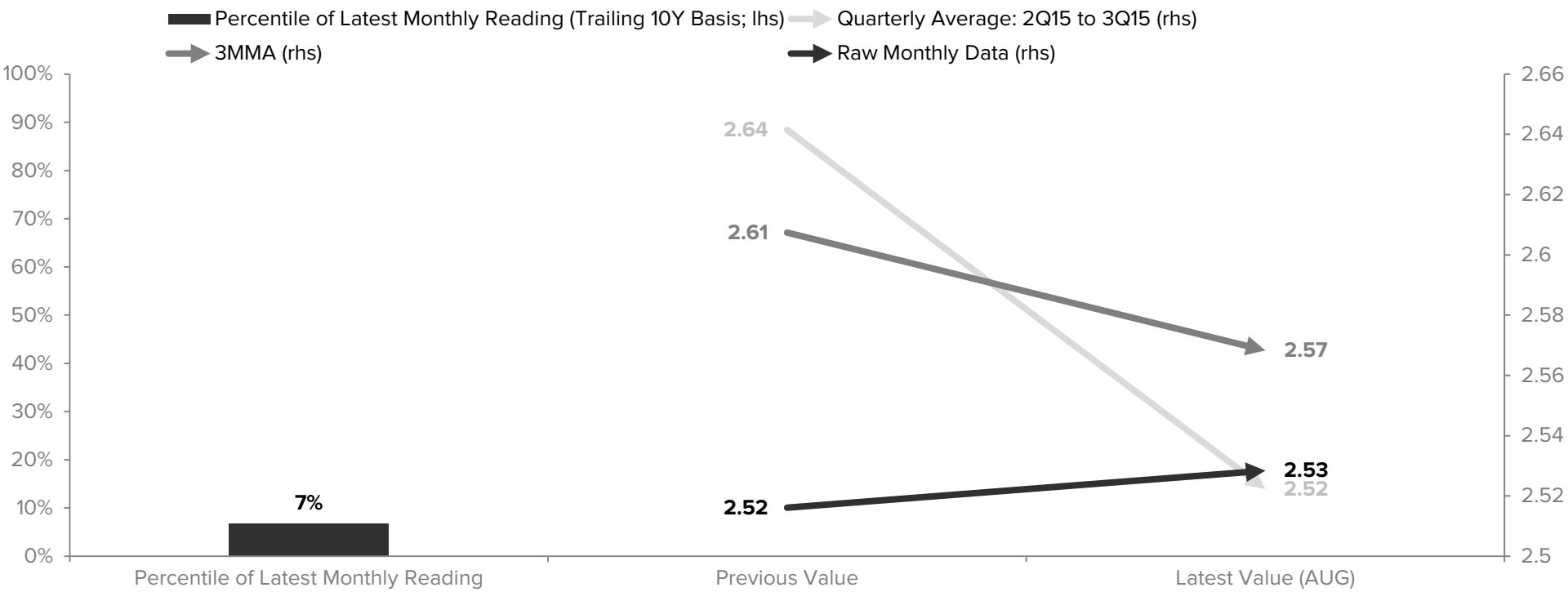
## JPMorgan Global Composite PMI SA



AND...

BECAUSE **REPORTED** INFLATION READINGS ARE IN A BOTTOMING PROCESS GLOBALLY – FOR NOW AT LEAST – AS WE TRAVERSE EASY “COMPS” THROUGH 1Q16. “NO DISINFLATION WITHOUT INCREMENTAL COMMODITY DEFLATION FROM ECB AND BOJ CURRENCY DEVALUATION!”

IMF World CPI YoY % Change



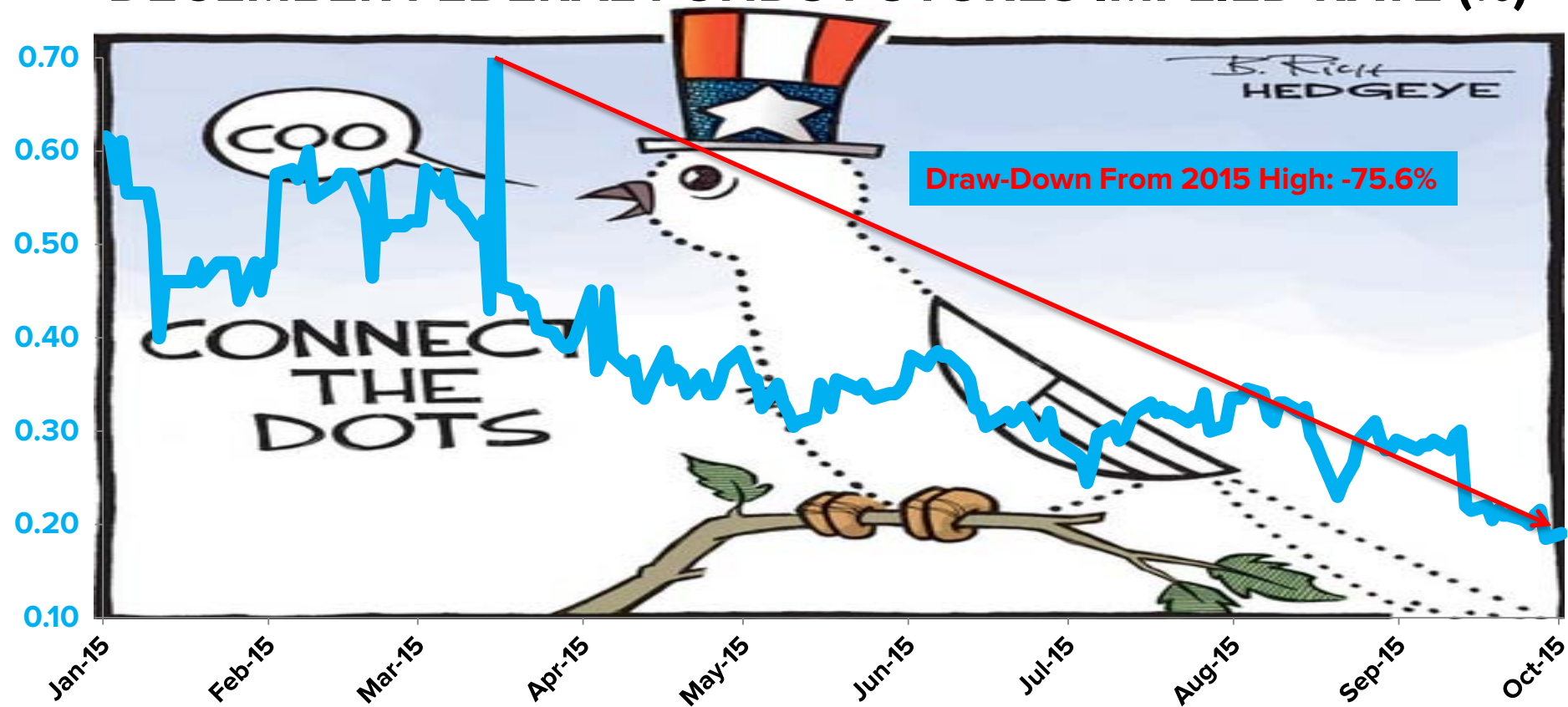


**#CRASHING**



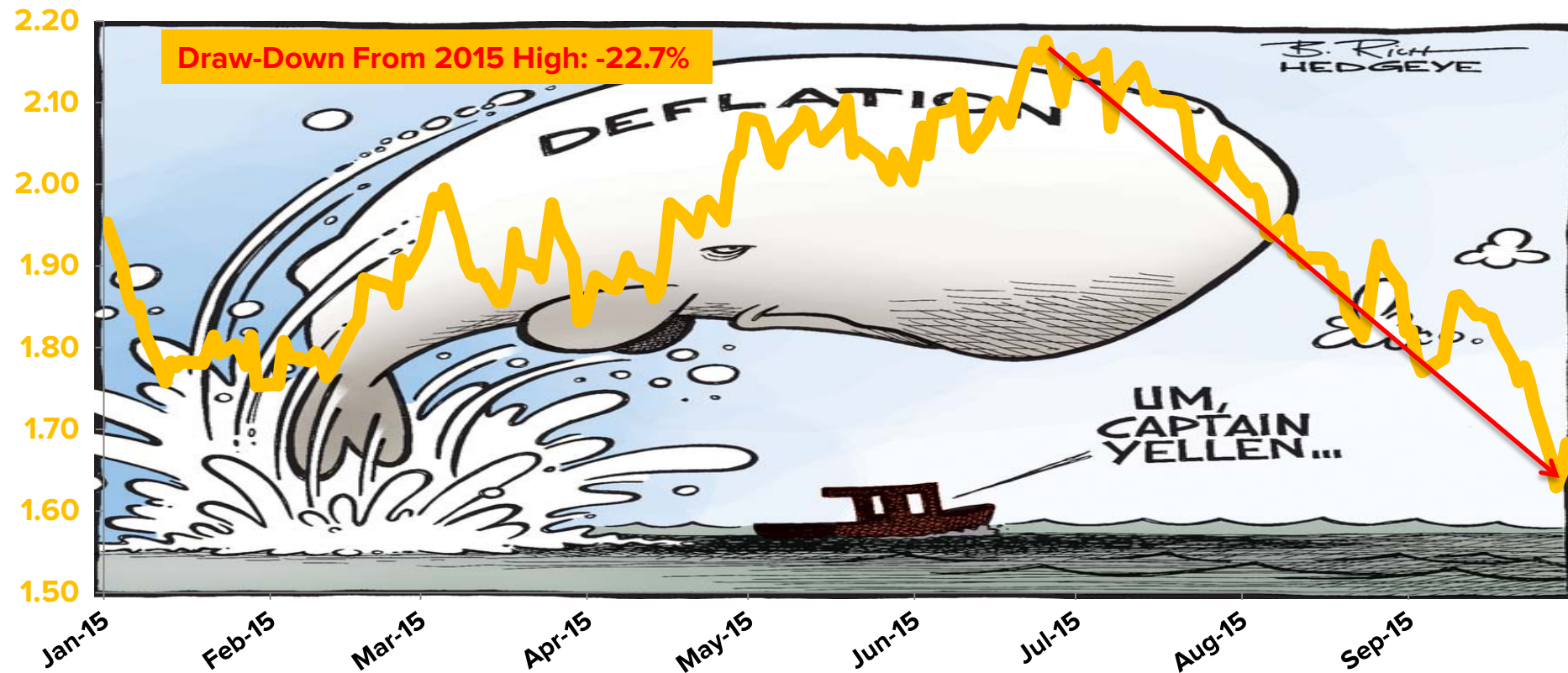
# RATE-HIKE EXPECTATIONS

DECEMBER FEDERAL FUNDS FUTURES IMPLIED RATE (%)



# INFLATION EXPECTATIONS...CRASH

## FEDERAL RESERVE 5-YEAR FORWARD BREAKEVEN RATE





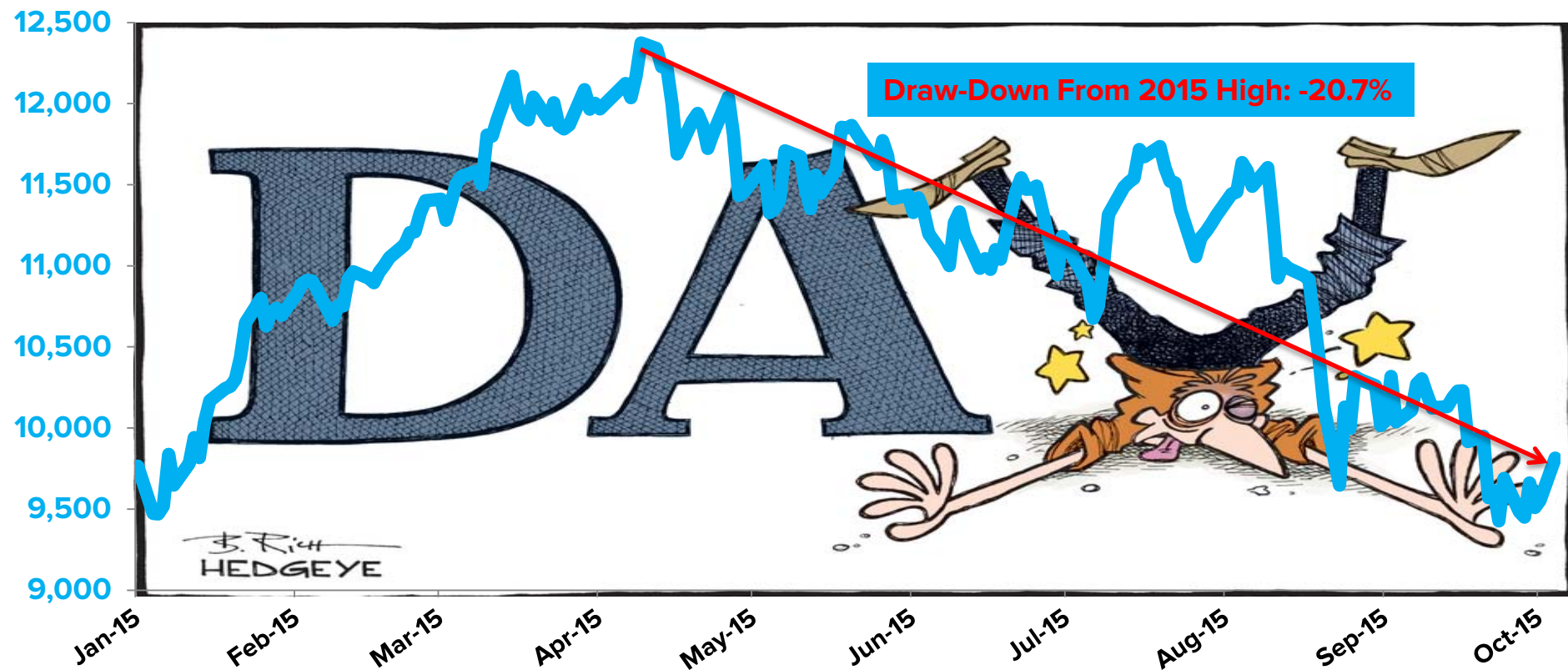
# CHINESE EQUITIES.... BLOW-UP

## SHANGHAI COMPOSITE INDEX



# GERMAN EQUITIES... BIG INTRA-YEAR CRASH

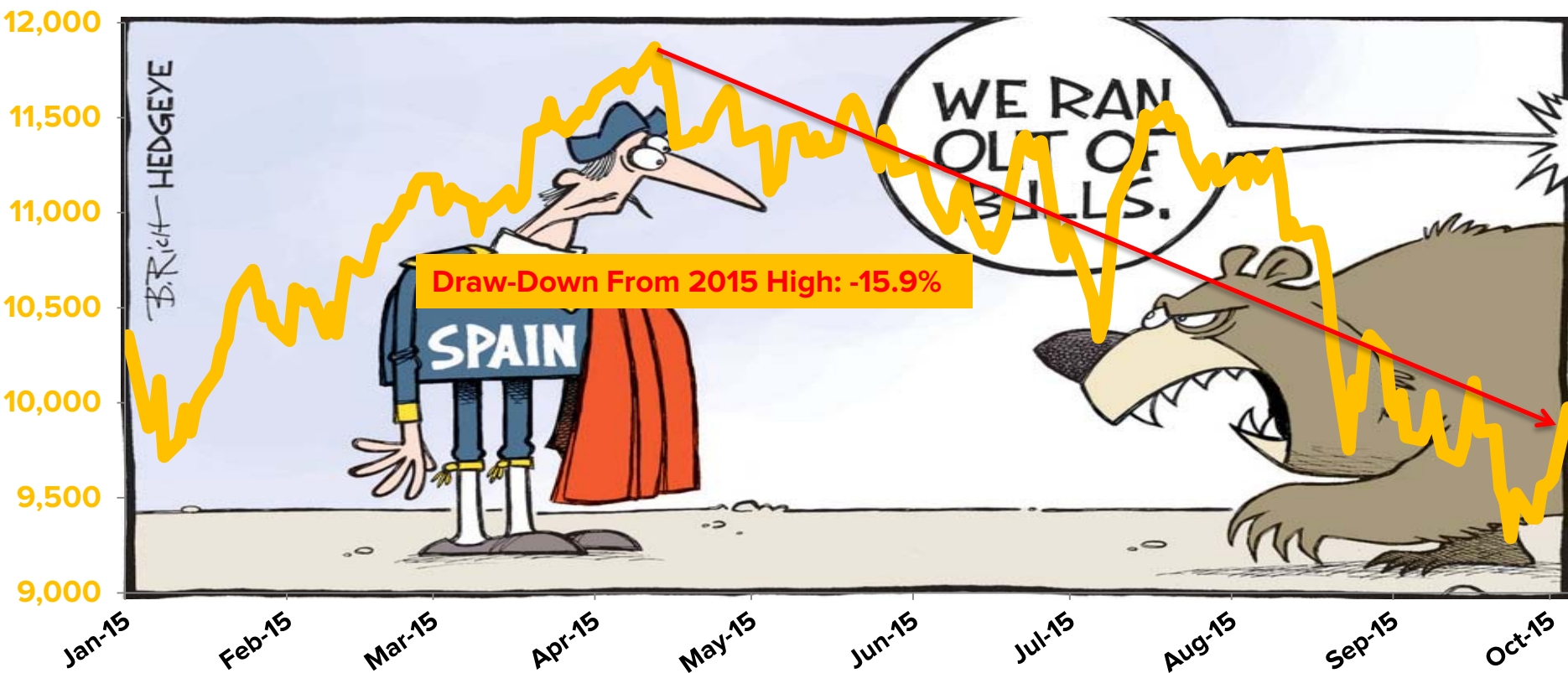
## GERMAN DAX INDEX





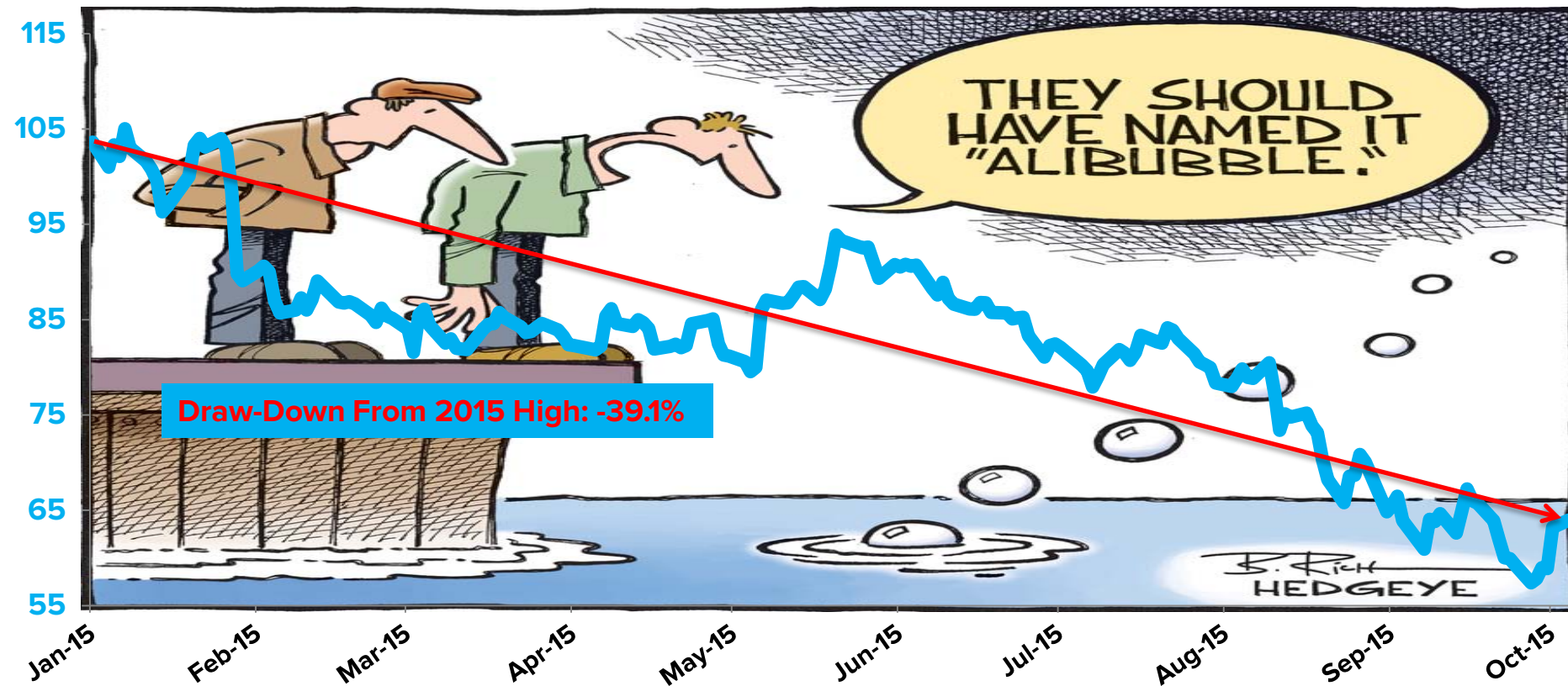
# SPANISH EQUITIES... CRUSHED

## SPANISH IBEX 35 INDEX



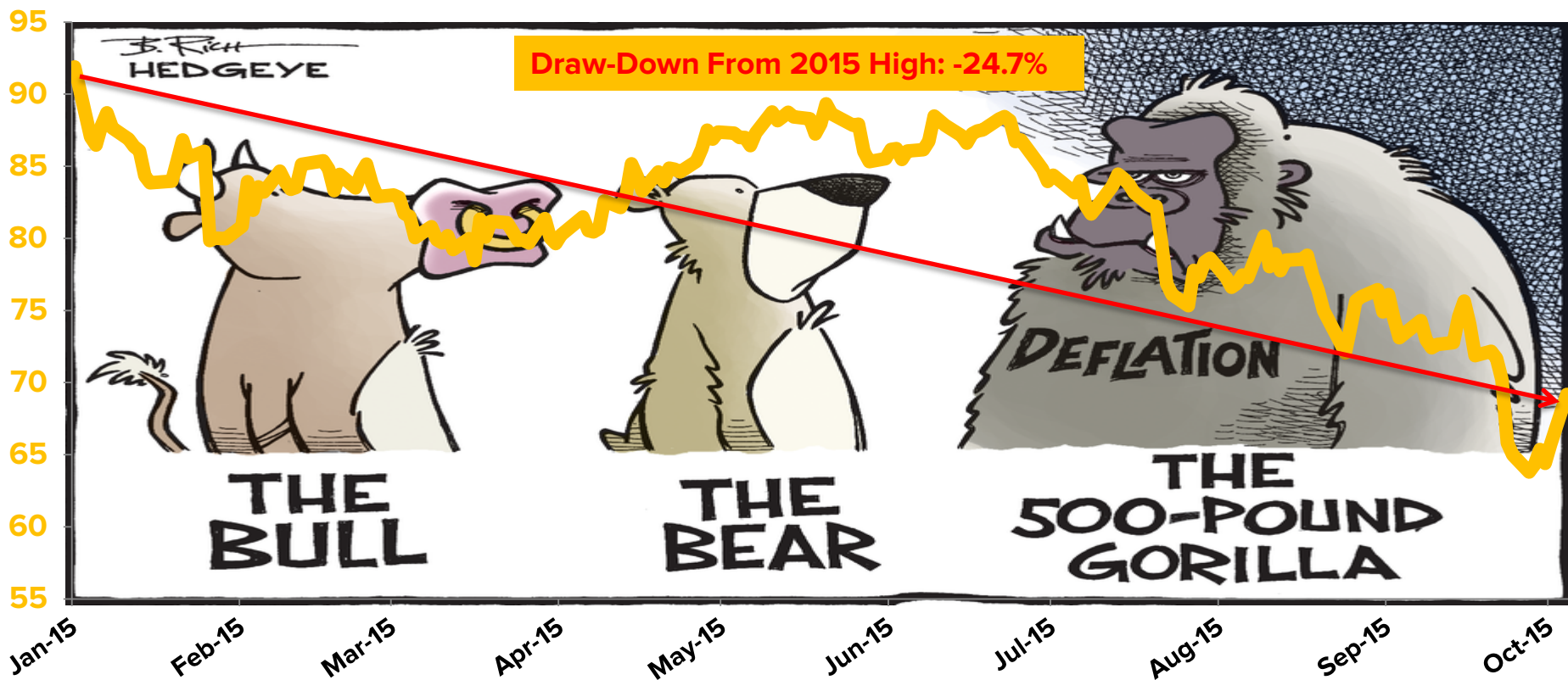
# THE BABA BUBBLE POPS...

## ALIBABA – LARGEST IPO IN HISTORY



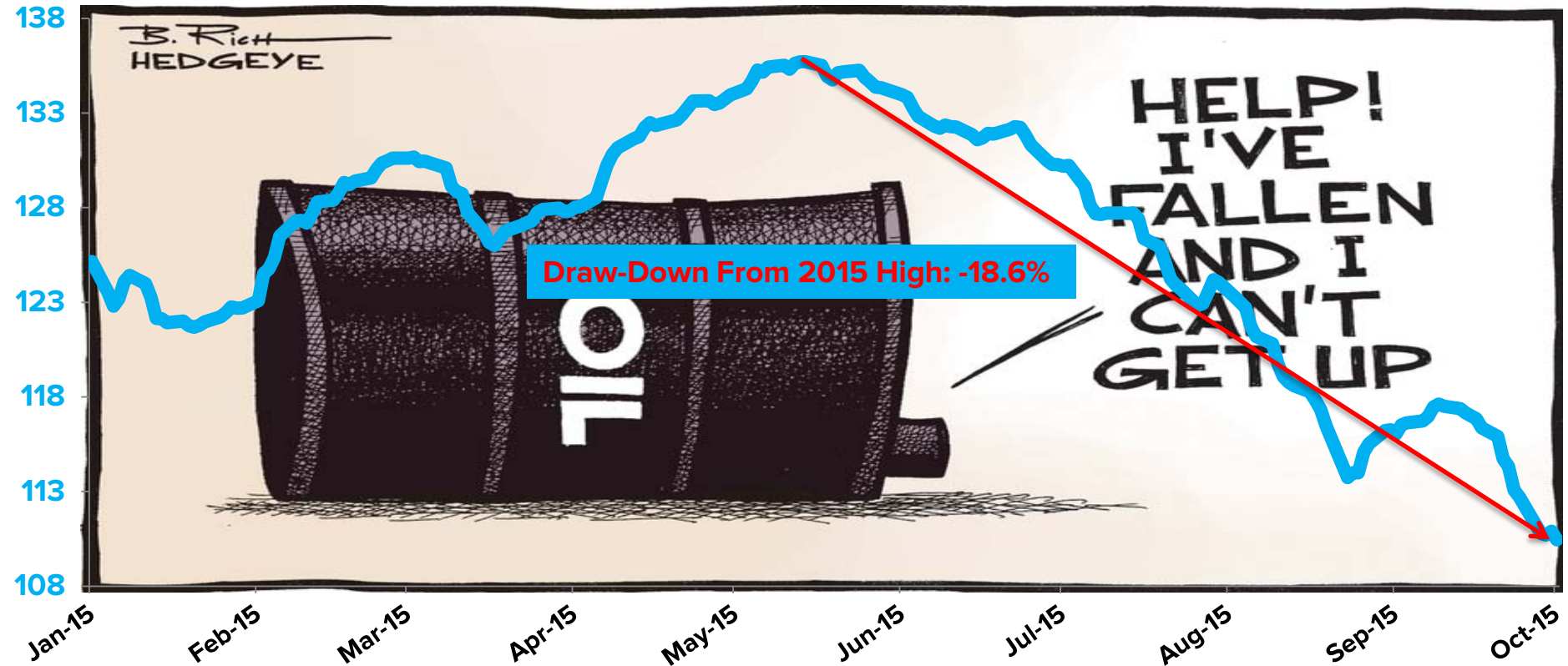
# WRONG SIDE OF DEFLATION

CATERPILLAR (CAT) IS THE ULTIMATE CYCLICAL



# HIGH YIELD ENERGY BONDS.... HOW ABOUT MARKED-TO-MARKET?

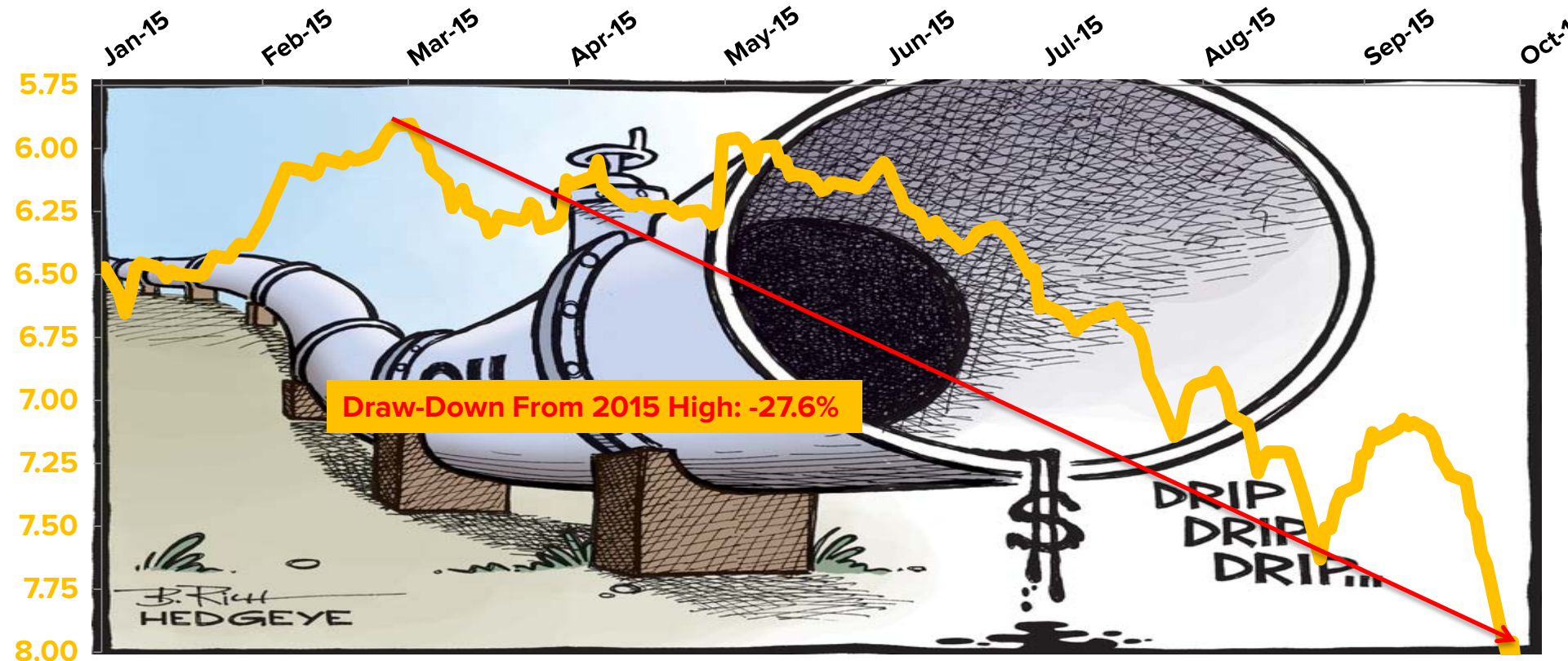
## BLOOMBERG HIGH-YIELD ENERGY INDEX





# HIGH YIELD SPREADS.... BLOWN OUT

FINRA BLP ACTIVE HY CORPORATE BOND INDEX –YTM (INVERTED)

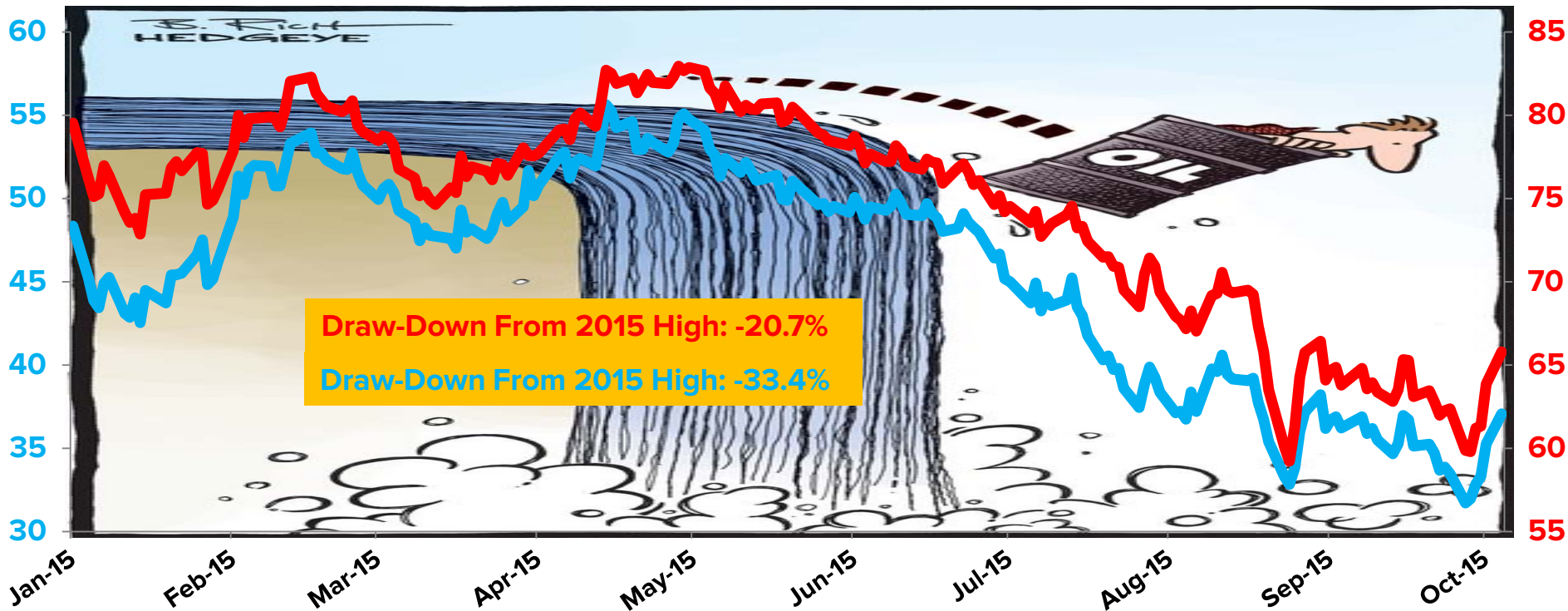


# THOSE LEVERED TO INFLATION EXPECTATIONS...

## XOP (E&PS), XLE (ENERGY SELECT SPIDER INDEX)

— XOP (E&Ps)

— XLE (Energy Select Sector Index)

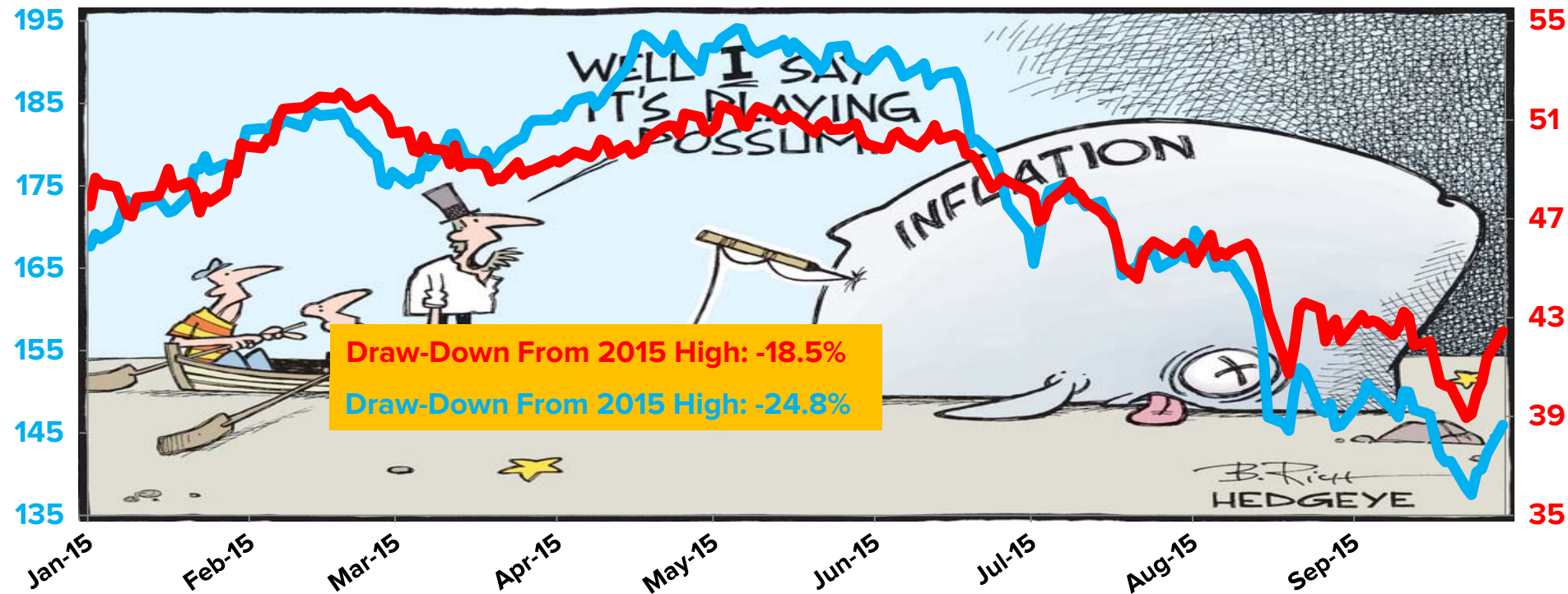


# OTHERS LONG OF INFLATION EXPECTATIONS...

## XLB (BASIC MATERIALS), BLOOMBERG WORLD MATERIALS INDEX

— Bloomberg World Basic Materials Index

— XLB (Basic Materials)

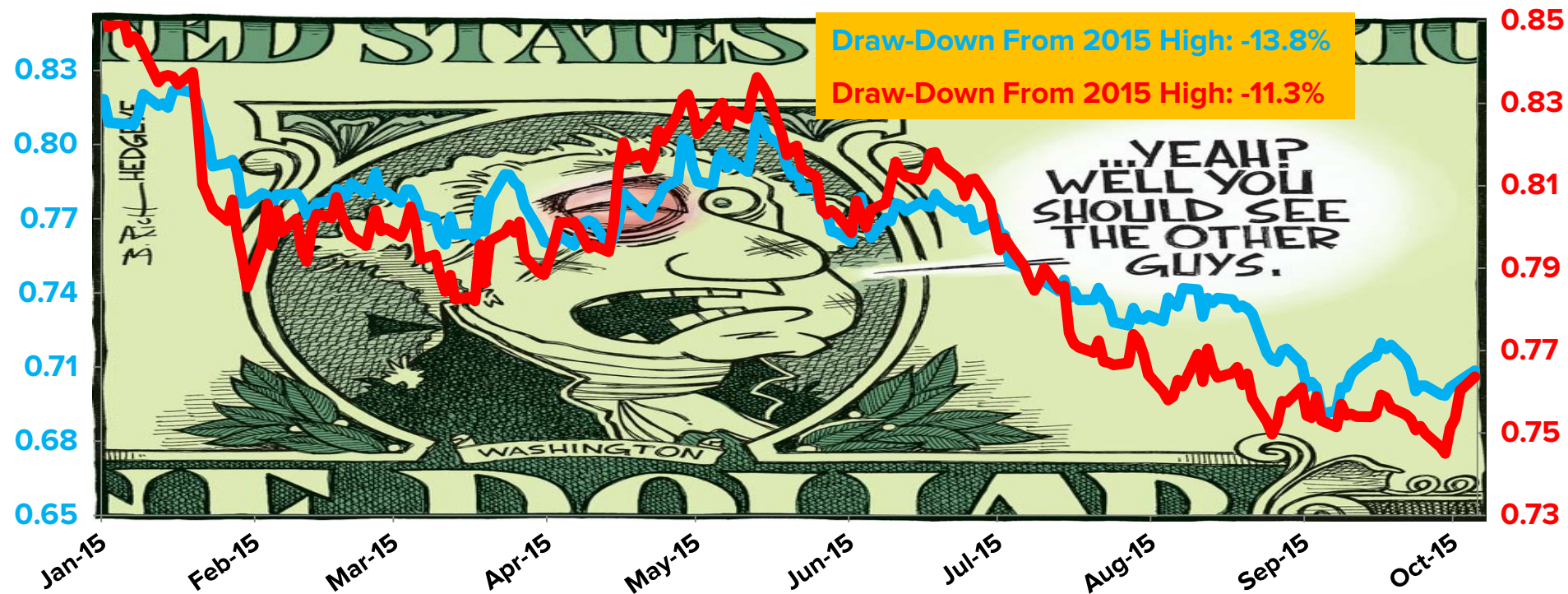




# COMMODITY CURRENCIES...

## AUSTRALIAN DOLLAR, CANADIAN DOLLAR

—(AUD/USD) —(CAD/USD)

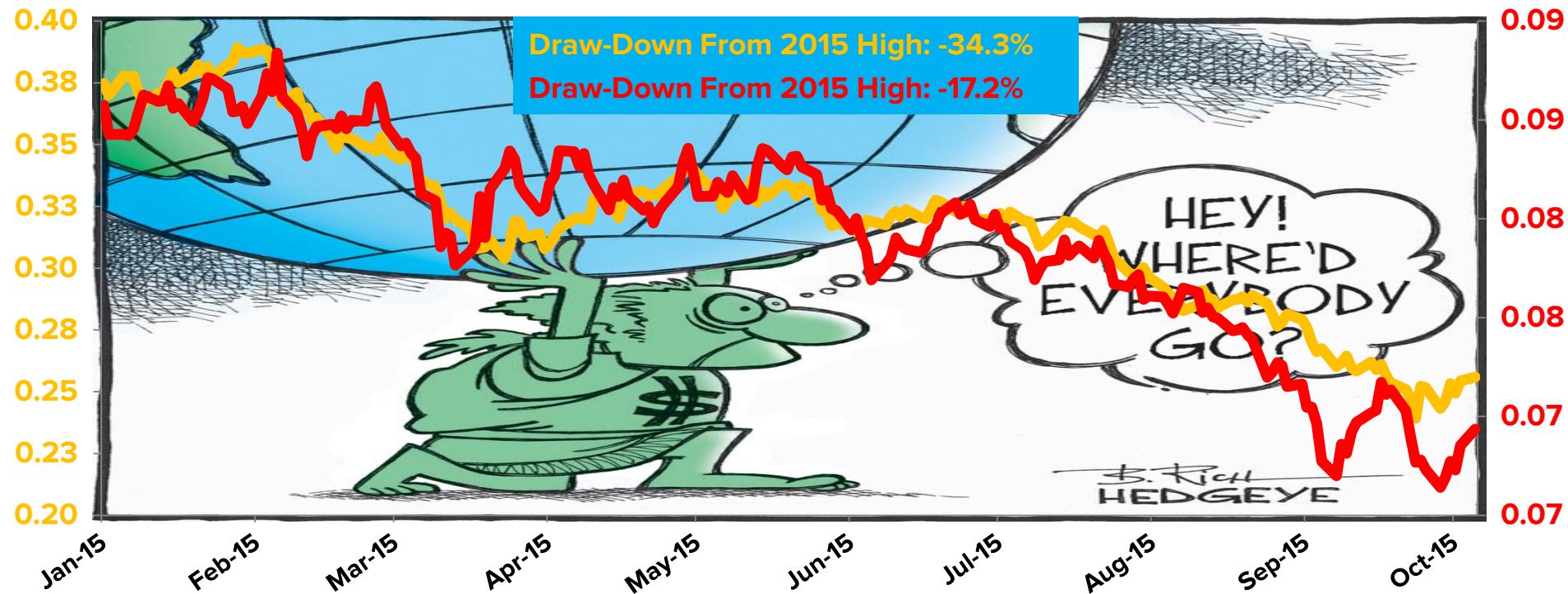




# MORE COMMODITY CURRENCIES

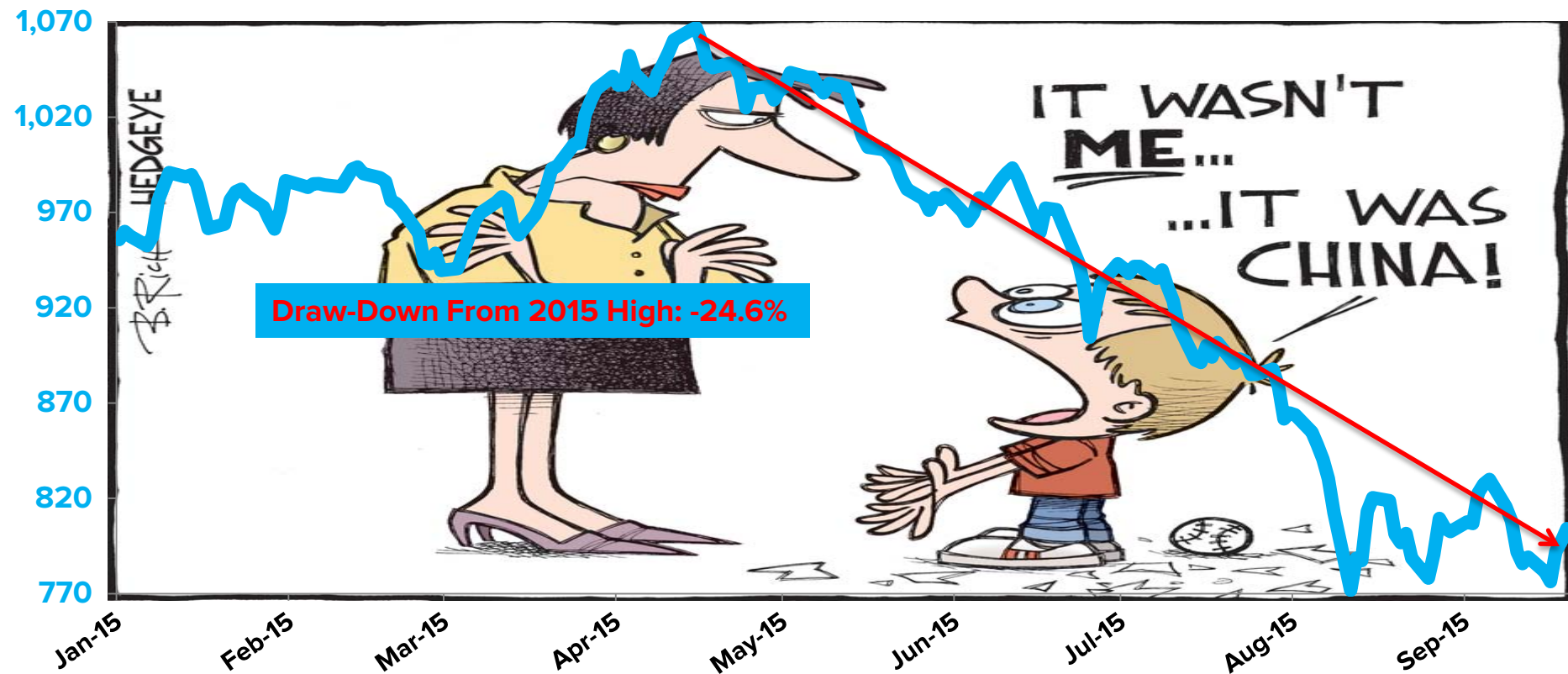
## BRAZILIAN REAL, SOUTH AFRICAN RAND

—(BRL/USD) —(ZAR/USD)



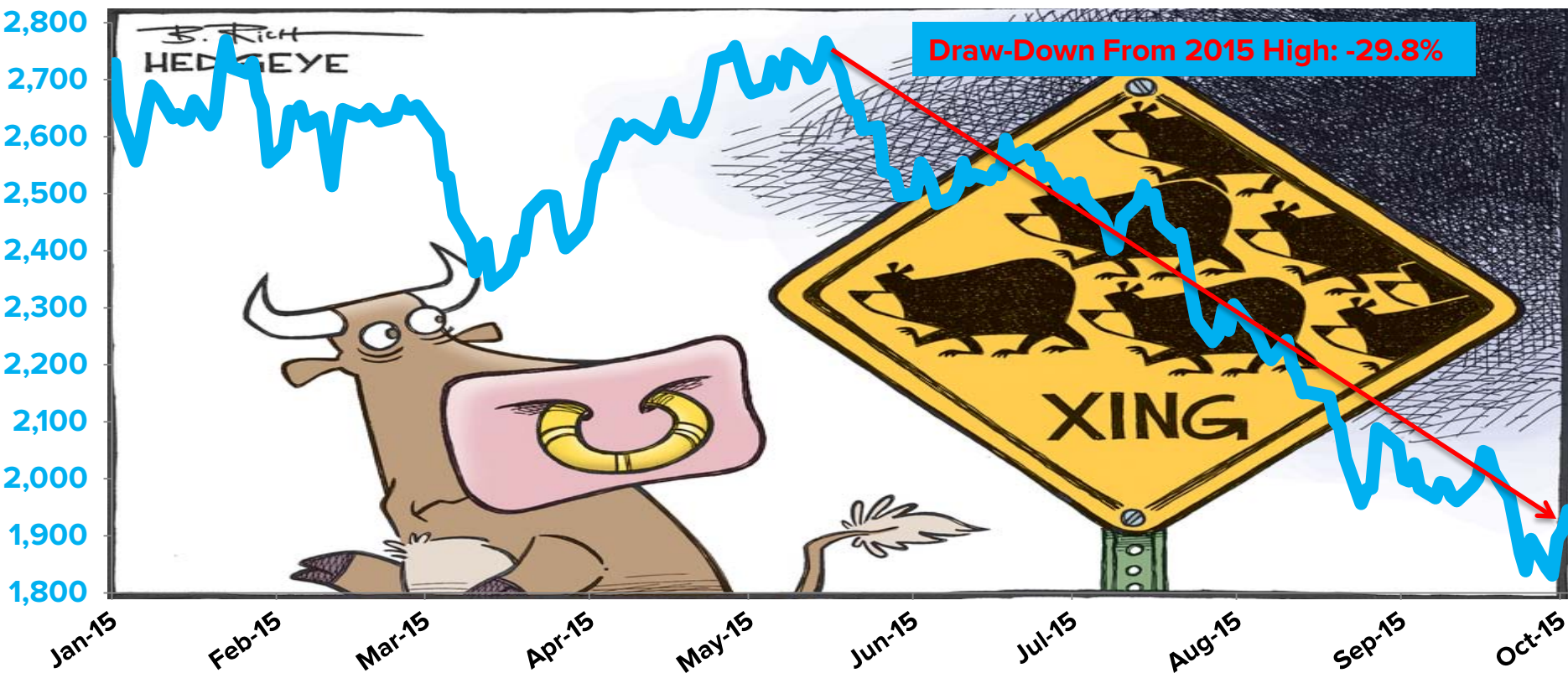
# EMERGING MARKETS BLOOD-BATH

## MSCI EMERGING MARKETS INDEX



# DISASTER IN LATIN AMERICA

## MSCI LATIN AMERICA INDEX



# THEMATIC INVESTMENT CONCLUSIONS



## TRADE (3 WEEKS OR LESS)

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

**SHORTS:** S&P 500 (SPY), Financials (XLF), Retailers (XRT)



## TREND (3 MONTHS OR MORE)

**LONGS:** Long-term Treasuries (TLT), Homebuilders (ITB), Utilities (XLU), Muni Bonds (MUB)

**SHORTS:** Spain (EWP), S&P 500 (SPY), Financials (XLF), Industrials (XLI), Retailers (XRT)



## TAIL (3 YEARS OR LESS)

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

**SHORTS:** Euro (FXE), High-Yield Credit (JNK), Crude Oil (USO)



# APPENDIX



# WHY DOES THE 2<sup>ND</sup> DERIVATIVE 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.

Hedgeye Macro U.S. GIP Model Backtest Exposure	Weighted Average QoQ % Change, by Quadrant				Percentile of Weighted Average QoQ % Change, by Asset Class				Percentile of Weighted Average QoQ % Change, by Quadrant				Positive Hit Rate (color-coding by Asset Class & Quadrant)				Total Quarterly Performance Observations			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
S&P 500 Index	3.8%	1.2%	-0.2%	-0.6%	38%	38%	38%	46%	76%	61%	33%	55%	85%	83%	54%	65%	20	12	24	17
S&P 500 Consumer Discretionary Sector Index	4.7%	1.3%	-0.4%	-0.1%	85%	46%	23%	85%	94%	64%	15%	82%	80%	75%	46%	59%	20	12	24	17
S&P 500 Consumer Staples Sector Index	3.1%	1.6%	-0.2%	1.0%	15%	69%	31%	92%	67%	76%	30%	94%	90%	92%	58%	65%	20	12	24	17
S&P 500 Energy Sector Index	3.5%	1.4%	0.7%	-1.8%	23%	54%	92%	0%	70%	67%	76%	18%	85%	92%	67%	47%	20	12	24	17
S&P 500 Financials Sector Index	4.3%	0.5%	-0.6%	-0.9%	54%	15%	15%	15%	82%	42%	12%	39%	80%	75%	58%	71%	20	12	24	17
S&P 500 Health Care Sector Index	3.0%	2.1%	0.5%	1.5%	8%	92%	77%	100%	64%	91%	64%	97%	80%	83%	58%	82%	20	12	24	17
S&P 500 Industrials Sector Index	4.2%	1.9%	-0.1%	-1.1%	46%	77%	54%	8%	79%	82%	39%	36%	70%	83%	50%	47%	20	12	24	17
S&P 500 Information Technology Sector Index	4.5%	2.1%	0.3%	-0.6%	77%	85%	69%	54%	91%	85%	58%	58%	85%	83%	50%	65%	20	12	24	17
S&P 500 Materials Sector Index	4.7%	0.1%	-1.0%	-0.7%	92%	8%	8%	31%	97%	27%	3%	48%	90%	75%	50%	47%	20	12	24	17
S&P 500 Utilities Sector Index	2.0%	-0.5%	1.5%	-0.2%	0%	0%	100%	77%	55%	9%	88%	76%	70%	42%	63%	59%	20	12	24	17
Russell 2000 Index	4.5%	1.1%	0.2%	-0.9%	69%	31%	62%	23%	88%	58%	55%	42%	75%	75%	63%	59%	20	12	24	17
Dow Jones Industrial Average	3.7%	1.0%	-0.1%	-0.5%	31%	23%	46%	62%	73%	55%	36%	61%	85%	83%	54%	59%	20	12	24	17
MSCI Emerging Markets Index	5.2%	1.6%	-1.3%	-0.4%	100%	62%	0%	69%	100%	70%	0%	67%	80%	67%	46%	53%	20	12	24	17
FTSE NAREIT Equity REITs Total Return Index	4.4%	2.7%	0.7%	-0.6%	62%	100%	85%	38%	85%	97%	73%	52%	70%	67%	67%	76%	20	12	24	17
FINRA - BLP Active Investment Grade US Corporate Bond Average Yield to Maturity	-3.1%	-0.4%	2.7%	-3.0%	33%	33%	67%	0%	6%	15%	94%	33%	6%	36%	67%	71%	14	6	17	12
FINRA - BLP Active HY US Corporate Bond Index Average Yield to Maturity	-3.5%	-3.6%	2.9%	-1.7%	17%	0%	83%	50%	3%	0%	97%	21%	36%	17%	65%	42%	14	6	17	12
Barclays US Corporate High Yield Average OAS	-3.6%	-1.5%	4.2%	3.3%	0%	17%	100%	100%	0%	3%	100%	100%	20%	25%	46%	59%	20	12	24	17
US Treasury 2Y Yield	0.5%	-0.4%	0.6%	-2.6%	100%	50%	33%	17%	36%	18%	67%	9%	55%	50%	54%	35%	20	12	24	17
US Treasury 10Y Yield	-0.5%	0.5%	-0.4%	-2.2%	83%	83%	17%	33%	15%	36%	18%	12%	45%	58%	50%	35%	20	12	24	17
US Treasury 30Y Yield	-0.6%	0.8%	-0.6%	-1.5%	67%	100%	0%	67%	12%	52%	9%	24%	45%	75%	54%	35%	20	12	24	17
Bond Buyer US 40 Municipal Bond YTM	-1.1%	0.2%	0.6%	-1.5%	50%	67%	50%	83%	9%	30%	70%	27%	25%	50%	50%	18%	20	12	24	17
Thomson Reuters/CoreCommodity CRB Commodity Index	1.2%	2.1%	0.7%	-3.6%	50%	50%	25%	25%	48%	88%	79%	3%	70%	83%	71%	29%	20	12	24	17
Commodity Research Bureau BLS/US Spot Raw Industrials Index	1.1%	1.6%	-0.3%	-1.2%	25%	0%	0%	75%	45%	73%	27%	30%	65%	67%	42%	41%	20	12	24	17
Commodity Research Bureau BLS/US Spot Foodstuff Index	0.1%	2.3%	1.0%	-2.0%	0%	75%	75%	50%	24%	94%	85%	15%	55%	50%	54%	29%	20	12	24	17
Front-month Brent Crude Oil	2.5%	3.9%	2.1%	-4.5%	100%	100%	100%	0%	61%	100%	91%	0%	55%	83%	54%	29%	20	12	24	17
Gold Spot	2.1%	1.7%	0.8%	-0.4%	75%	25%	50%	100%	58%	79%	82%	73%	60%	58%	58%	47%	20	12	24	17
US Dollar Index	0.0%	0.4%	0.1%	0.4%	0%	57%	71%	100%	18%	33%	48%	91%	70%	67%	50%	71%	20	12	24	17
AUD/USD	1.7%	0.5%	-0.6%	-0.5%	100%	86%	0%	29%	52%	45%	6%	64%	60%	83%	63%	41%	20	12	24	17
CAD/USD	0.5%	0.7%	0.1%	-0.8%	57%	100%	86%	14%	33%	48%	52%	45%	45%	58%	54%	35%	20	12	24	17
CHF/USD	0.7%	-0.4%	0.4%	0.2%	86%	29%	100%	86%	42%	21%	61%	88%	60%	42%	63%	41%	20	12	24	17
EUR/USD	0.1%	-0.7%	0.1%	-0.2%	29%	0%	57%	57%	27%	6%	45%	79%	50%	25%	58%	35%	20	12	24	17
GBP/USD	0.4%	0.5%	-0.4%	-0.4%	43%	71%	14%	43%	30%	39%	21%	70%	45%	75%	42%	47%	20	12	24	17
JPY/USD	0.0%	-0.5%	0.0%	-0.1%	14%	14%	43%	71%	21%	12%	42%	85%	35%	33%	50%	35%	20	12	24	17
JPMorgan EM FX Index	0.6%	-0.1%	-0.3%	-1.1%	71%	43%	29%	0%	39%	24%	24%	33%	60%	63%	58%	40%	15	8	19	15

Source: Bloomberg data; Hedgeye calculations. Trailing 20 years.

# U.S. ECONOMIC SUMMARY TABLE

HEADLINE INFLATION APPEARS TO HAVE BOTTOMED, WHILE THE MANUFACTURING, EXPORT AND INVESTMENT SIDE OF THE U.S. ECONOMY CONTINUES TO SLOW AND/OR CONTRACT ON A SEQUENTIAL AND TRENDING BASIS. IS CONSUMPTION GROWTH NEXT?

HIGH-FREQUENCY INDICATOR		QUARTERLY AVERAGE		3MMA		RAW MONTHLY DATA		PERCENTILE OF LATEST READING (TRAILING 10Y)	
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
CONSUMPTION	UNITED STATES Real PCE YoY % Change	3.30	3.30	3.37	3.27	3.40	3.20	91%	84%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Retail Sales YoY % Change	2.80	3.50	3.17	3.23	3.50	3.50	40%	48%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES Average Hourly Earnings YoY % Change	2.20	2.20	2.13	2.20	2.20	2.20	57%	57%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Real Average Weekly Earnings YoY % Change	2.10	2.30	2.10	2.13	2.30	2.30	90%	95%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Real Disposable Personal Income YoY % Change	3.10	3.30	3.17	3.17	3.30	3.20	78%	78%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Personal Savings Rate (%)	4.60	4.70	4.57	4.60	4.70	4.60	34%	34%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES Nonfarm Payrolls MoM Nominal Change ('000)	231.00	167.00	201.33	167.00	136.00	142.00	57%	48%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES Fed Labor Market Conditions Index (19 Indicator Composite)	0.90	0.80	1.27	0.77	1.20	0.00	33%	27%
		2Q15	3Q15	Prior	Latest (week-ended OCT 2)	Prior	Latest (week-ended OCT 2)	3MMA	Latest Reading
	UNITED STATES Initial Jobless Claims NSA, Rolling 4wk Average, YoY % Change	-12.43	-8.89	-8.89	-8.89	-8.33	-10.98	41%	42%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES University of Michigan Consumer Sentiment Index	94.20	90.70	93.70	90.73	91.90	87.20	87%	82%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
INVESTMENT	UNITED STATES Industrial Production YoY % Change	1.37	1.12	1.13	1.01	1.33	0.91	22%	20%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Durable Goods New Orders NSA YoY % Change	-3.10	-11.10	-8.80	-7.57	-20.00	-2.30	14%	23%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Capital Goods New Orders Non-Defense, Ex-Aircraft & Parts NSA YoY % Change	-3.60	-4.40	-4.23	-4.50	-4.00	-4.70	15%	14%
SURVEYS		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Factory Orders SA YoY % Change	-6.30	-10.70	-9.07	-9.10	-14.90	-6.50	11%	13%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES ISM Manufacturing PMI SA	52.60	51.30	52.43	51.33	51.10	50.20	31%	20%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES ISM Services PMI SA	56.50	58.70	58.43	58.73	59.00	56.90	97%	83%
		2Q15	3Q15	Prior	Latest (SEP)	Prior	Latest (SEP)	3MMA	Latest Reading
	UNITED STATES ISM GDP-Weighted Composite PMI SA	56.00	57.80	57.70	57.83	58.00	56.10	94%	79%
NET EXPORTS		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES NFIB Small Business Optimism Index	96.40	95.70	95.93	95.13	95.40	95.90	66%	71%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES Exports YoY % Change	-3.90	-5.20	-4.30	-4.77	-4.10	-6.20	10%	9%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
INFLATION	UNITED STATES Imports YoY % Change	-3.10	-2.70	-3.00	-2.50	-3.20	-2.20	15%	15%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES CPI YoY % Change	0.00	0.20	0.10	0.17	0.20	0.20	13%	13%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES US Personal Consumption Expenditure Core Price Index YoY SA	1.30	1.28	1.28	1.29	1.25	1.31	15%	17%
		2Q15	3Q15	Prior	Latest (AUG)	Prior	Latest (AUG)	3MMA	Latest Reading
	UNITED STATES US PPI Final Demand YoY NSA	-1.00	-0.80	-0.87	-0.77	-0.80	-0.80	8%	4%

# GLOBAL ECONOMIC SUMMARY TABLE

PER COMPOSITE PMI DATA, GLOBAL GROWTH STALLED IN AUGUST. WILL EMERGING MARKET GROWTH HEADWINDS SPILLOVER INTO THE DEVELOPED ECONOMIES?

COUNTRY/REGION		QUARTERLY AVERAGE		3MMA	RAW MONTHLY DATA		PERCENTILE OF LATEST READING (TTM)		
	Country	2015	3Q15	Previous Value	Latest Reading	Previous Value	Latest Reading	3MMA	Latest Reading
C O M P O S I T E  P M I	Australia (SEP; AIG Manufacturing Index)	48.2	51.4	48.8	51.4	51.7	52.1	<div><div></div></div> 80%	<div><div></div></div> 91%
	Brazil (SEP)	42.7	42.8	42.2	42.8	44.8	42.7	<div><div></div></div> 21%	<div><div></div></div> 18%
	Canada (SEP; Markit Manufacturing PMI)	50.0	49.6	50.5	49.6	49.4	48.6	<div><div></div></div> 41%	<div><div></div></div> 0%
	China (SEP; Official NFLPM Index)	51.0	49.0	49.9	49.0	48.8	48.0	<div><div></div></div> 10%	<div><div></div></div> 0%
	Eurozone (SEP)	54.6	54.2	54.6	54.2	54.5	53.5	<div><div></div></div> 56%	<div><div></div></div> 27%
	France (SEP)	52.0	51.2	51.7	51.2	50.2	51.9	<div><div></div></div> 52%	<div><div></div></div> 73%
	Germany (SEP)	53.5	54.3	54.1	54.3	55.0	54.1	<div><div></div></div> 84%	<div><div></div></div> 73%
	India (SEP)	51.0	52.0	51.3	52.0	52.6	51.5	<div><div></div></div> 37%	<div><div></div></div> 27%
	Indonesia (SEP; Markit Manufacturing PMI)	47.2	47.7	47.8	47.7	48.4	47.4	<div><div></div></div> 59%	<div><div></div></div> 36%
	Italy (SEP)	53.9	54.0	54.2	54.0	55.0	53.4	<div><div></div></div> 88%	<div><div></div></div> 55%
	Japan (SEP)	51.3	51.9	52.0	51.9	52.9	51.2	<div><div></div></div> 89%	<div><div></div></div> 36%
	Mexico (SEP; IMEF Manufacturing PMI)	52.5	51.4	52.4	51.4	51.7	50.1	<div><div></div></div> 42%	<div><div></div></div> 9%
	Russia (SEP)	50.6	50.4	49.9	50.4	49.3	50.9	<div><div></div></div> 70%	<div><div></div></div> 82%
	South Africa (SEP)	50.3	48.7	49.1	48.7	49.3	47.9	<div><div></div></div> 7%	<div><div></div></div> 0%
	South Korea (SEP; Markit Manufacturing PMI)	47.6	48.2	47.2	48.2	47.9	49.2	<div><div></div></div> 31%	<div><div></div></div> 64%
	Turkey (SEP; Markit Manufacturing PMI)	49.2	49.4	49.5	49.4	49.3	48.8	<div><div></div></div> 39%	<div><div></div></div> 18%
	United Kingdom (SEP)	57.2	55.1	56.4	55.1	55.2	53.3	<div><div></div></div> 8%	<div><div></div></div> 0%
	United States (SEP)	56.0	57.8	57.7	57.8	58.0	56.1	<div><div></div></div> 80%	<div><div></div></div> 27%
	Developed Markets (AUG)	54.6	54.8	54.4	54.6	54.7	54.8	<div><div></div></div> 53%	<div><div></div></div> 73%
	Emerging Markets (SEP)	50.5	49.6	49.8	49.6	49.6	49.0	<div><div></div></div> 9%	<div><div></div></div> 0%
	World (SEP)	53.6	53.5	53.6	53.5	53.9	52.8	<div><div></div></div> 44%	<div><div></div></div> 9%
S T A T S	Average	51.3		51.3		50.8		48%	34%
	Median	51.4		51.4		51.2		44%	27%
	% Expanding & Accelerating	33%		29%		19%		Markit Composite PMI series unless otherwise noted. Data Source: Bloomberg.	
	% Expanding & Decelerating	29%		33%		43%			
	% Contracting & Accelerating	19%		10%		5%			
	% Contracting & Decelerating	19%		29%		33%			



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