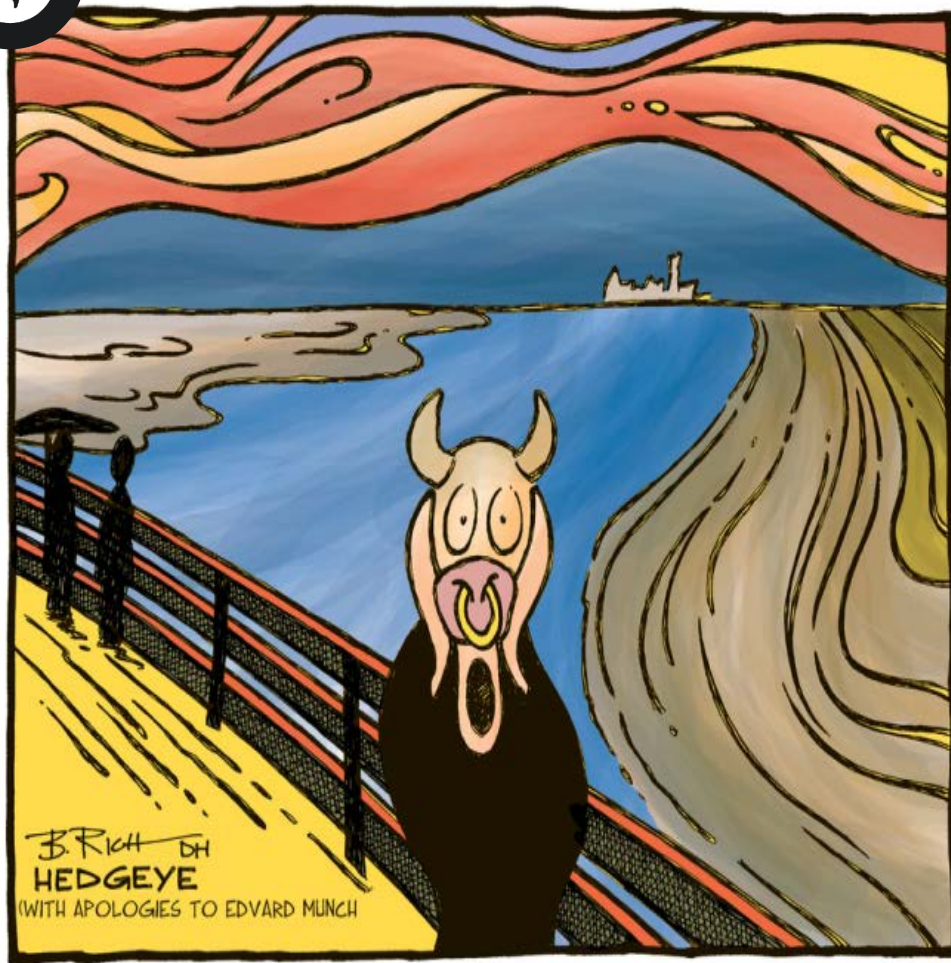




Q2 2016 MACRO THEMES

APRIL 7TH 2016



DISCLAIMER

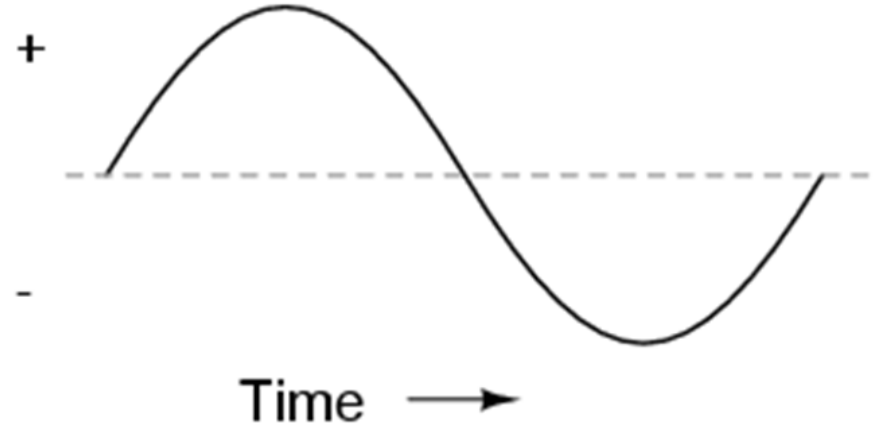
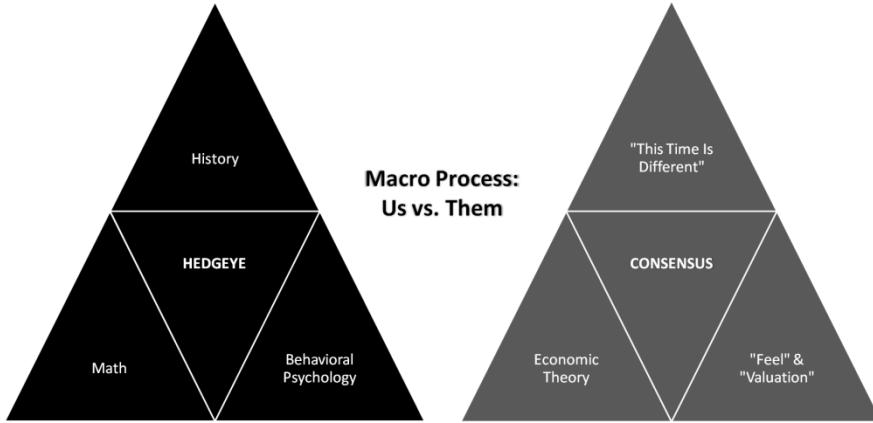
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PLEASE SUBMIT QUESTIONS TO
QA@HEDGEYE.COM
TO BE ANSWERED AT THE END OF THE CALL

PROCESS SLIDE #1



DIFFERENTIATED FROM THE HERD

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

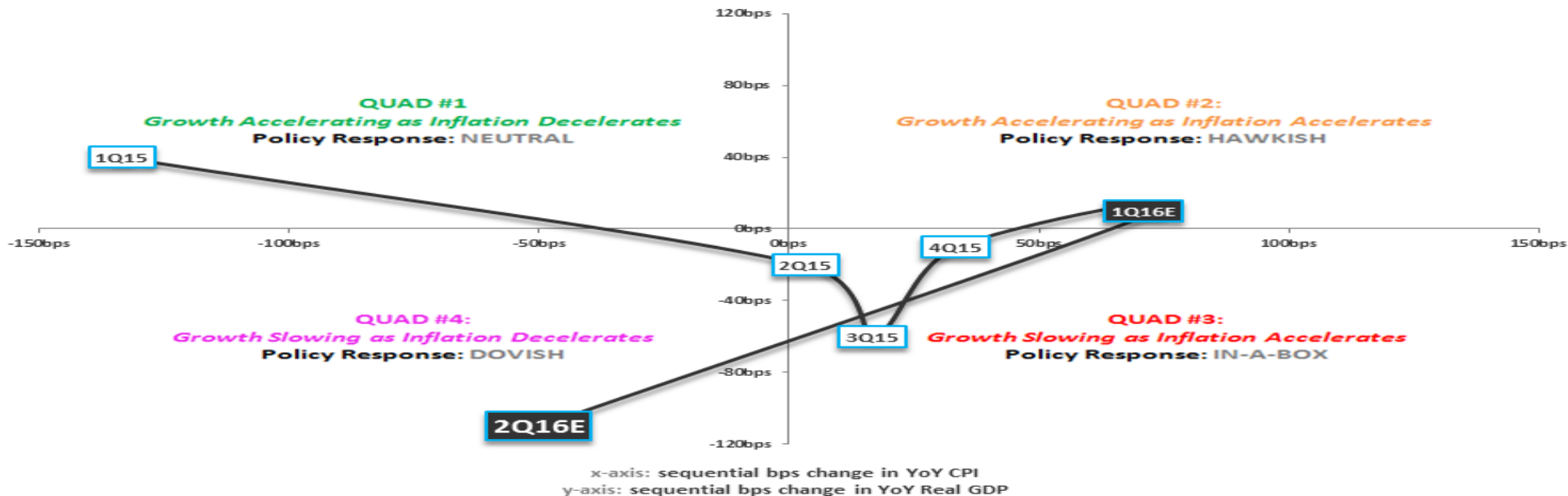
WE FOCUS ON THE SLOPES

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. REFER TO THE FOLLOWING SLIDE FOR MORE DETAILS.

UNITED STATES	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	Hedgeye Macro GIP Model			
Real GDP QoQ SAAR	0.1%	1.9%	1.1%	3.0%	3.8%	-0.9%	4.6%	4.3%	2.1%	0.6%	3.9%	2.0%	1.4%	GIP = Growth/Inflation/Policy			
Real GDP YoY	1.3%	1.1%	0.9%	1.5%	2.5%	1.7%	2.6%	2.9%	2.5%	2.9%	2.7%	2.1%	2.0%	Full-year Estimates		2015A	2016E
2Y Average	1.5%	2.0%	1.7%	2.0%	1.9%	1.4%	1.8%	2.2%	2.5%	2.3%	2.7%	2.5%	2.3%	Hedgeye Predictive Tracking Algorithm		2.4%	1.4%
3Y Average	1.9%	1.9%	1.7%	1.7%	1.8%	1.9%	2.0%	2.3%	2.1%	1.9%	2.1%	2.2%	2.3%	Bloomberg Consensus Estimate		2.4%	2.1%
CAGR (3Y)	1.90%	1.93%	1.70%	1.70%	1.83%	1.86%	2.00%	2.27%	2.10%	1.90%	2.06%	2.17%	2.33%	Central Bank Forecast		2.1%	2.2%
CPI YoY	1.9%	1.7%	1.4%	1.6%	1.2%	1.4%	2.1%	1.8%	1.3%	-0.1%	0.0%	0.1%	0.5%	Full-year Estimates		2015A	2016E
2Y Average	2.6%	2.3%	1.7%	1.6%	1.6%	1.6%	1.8%	1.7%	1.3%	0.7%	1.0%	1.0%	0.9%	Hedgeye Predictive Tracking Algorithm		0.1%	0.9%
3Y Average	2.2%	2.2%	2.3%	2.3%	2.1%	2.0%	1.8%	1.7%	1.5%	1.0%	1.2%	1.2%	1.0%	Bloomberg Consensus Estimate		0.1%	1.3%
CAGR (3Y)	2.15%	2.22%	2.26%	2.34%	2.14%	1.98%	1.80%	1.69%	1.47%	1.01%	1.15%	1.16%	0.99%	Central Bank Forecast		1.3%	1.6%



WHY DOES THE 2ND 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	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			
Exposure	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
S&P 500 Index	3.4%	1.1%	-0.2%	-0.5%	38%	38%	31%	46%	76%	62%	29%	50%	76%	77%	48%	58%	21	13	27	19
S&P 500 Consumer Discretionary Sector Index	4.4%	1.3%	-0.4%	-0.1%	85%	46%	23%	85%	94%	65%	26%	76%	71%	69%	41%	53%	21	13	27	19
S&P 500 Consumer Staples Sector Index	2.8%	1.6%	-0.2%	0.9%	15%	69%	38%	92%	68%	76%	32%	91%	81%	85%	52%	58%	21	13	27	19
S&P 500 Energy Sector Index	3.3%	1.3%	0.4%	-1.6%	23%	54%	85%	0%	71%	68%	68%	18%	76%	85%	56%	42%	21	13	27	19
S&P 500 Financials Sector Index	3.8%	0.5%	-0.5%	-0.8%	46%	15%	15%	15%	79%	44%	12%	35%	71%	69%	52%	63%	21	13	27	19
S&P 500 Health Care Sector Index	2.5%	2.0%	0.3%	1.4%	8%	85%	69%	100%	65%	88%	59%	94%	71%	77%	52%	74%	21	13	27	19
S&P 500 Industrials Sector Index	3.9%	1.8%	-0.1%	-1.0%	54%	77%	54%	8%	82%	82%	38%	32%	62%	77%	44%	42%	21	13	27	19
S&P 500 Information Technology Sector Index	4.2%	2.0%	0.4%	-0.6%	77%	92%	77%	38%	91%	91%	65%	47%	76%	77%	48%	58%	21	13	27	19
S&P 500 Materials Sector Index	4.5%	0.1%	-0.9%	-0.6%	92%	8%	8%	31%	97%	29%	3%	44%	81%	69%	48%	42%	21	13	27	19
S&P 500 Utilities Sector Index	1.8%	-0.5%	1.4%	-0.2%	0%	0%	100%	77%	56%	15%	91%	74%	62%	38%	59%	53%	21	13	27	19
Russell 2000 Index	4.1%	1.1%	0.1%	-0.8%	69%	31%	62%	23%	88%	59%	50%	38%	67%	69%	56%	53%	21	13	27	19
Dow Jones Industrial Average	3.4%	1.0%	-0.1%	-0.5%	31%	23%	46%	62%	74%	56%	35%	56%	76%	77%	48%	53%	21	13	27	19
MSCI Emerging Markets Index	5.0%	1.5%	-1.3%	-0.4%	100%	62%	0%	69%	100%	71%	0%	62%	76%	62%	44%	47%	21	13	27	19
FTSE NAREIT Equity REITs Total Return Index	4.1%	2.5%	0.7%	-0.5%	62%	100%	92%	54%	85%	97%	76%	53%	62%	62%	63%	68%	21	13	27	19
Barclays US Corporate Average Yield To Worst	-1.7%	-1.1%	1.2%	-2.2%	43%	43%	43%	14%	9%	9%	82%	9%	38%	38%	52%	26%	21	13	27	19
Barclays US High Yield Average Yield To Worst	-2.9%	-1.5%	2.0%	0.3%	14%	14%	71%	71%	3%	3%	94%	85%	29%	38%	59%	42%	21	13	27	19
Barclays US Corporate Average OAS	-1.7%	-1.9%	4.6%	1.5%	29%	0%	100%	86%	6%	0%	100%	97%	29%	23%	48%	42%	21	13	27	19
Barclays US High Yield Average OAS	-3.4%	-1.4%	4.0%	3.0%	0%	29%	86%	100%	0%	6%	97%	100%	19%	23%	44%	53%	21	13	27	19
US Treasury 2Y Yield	0.5%	-0.3%	1.3%	-2.4%	100%	57%	57%	0%	41%	24%	88%	6%	48%	46%	52%	32%	21	13	27	19
US Treasury 10Y Yield	-0.5%	0.5%	-0.4%	-2.0%	86%	86%	14%	29%	18%	41%	24%	12%	43%	54%	48%	32%	21	13	27	19
US Treasury 30Y Yield	-0.5%	0.8%	-0.6%	-1.4%	71%	100%	0%	43%	15%	53%	6%	21%	43%	69%	52%	32%	21	13	27	19
Bond Buyer US 40 Municipal Bond YTM	-1.0%	0.2%	0.5%	-1.3%	57%	71%	29%	57%	12%	32%	71%	24%	24%	46%	44%	16%	21	13	27	19
Thomson Reuters/CoreCommodity CRB Commodity Index	1.0%	2.0%	0.3%	-3.3%	25%	50%	25%	25%	47%	85%	62%	3%	62%	77%	59%	26%	21	13	27	19
Commodity Research Bureau BLS/US Spot Raw Industrials Index	1.2%	1.5%	-0.4%	-1.0%	50%	0%	0%	75%	50%	74%	21%	26%	62%	62%	37%	37%	21	13	27	19
Commodity Research Bureau BLS/US Spot Foodstuff Index	-0.1%	2.1%	0.7%	-1.8%	0%	75%	75%	50%	24%	94%	79%	15%	48%	46%	48%	26%	21	13	27	19
Front-month Brent Crude Oil	2.4%	3.7%	1.2%	-4.0%	100%	100%	100%	0%	62%	100%	85%	0%	52%	77%	44%	26%	21	13	27	19
Gold Spot	2.0%	1.6%	0.6%	-0.3%	75%	25%	50%	100%	59%	79%	74%	68%	57%	54%	48%	42%	21	13	27	19
US Dollar Index	-0.1%	0.4%	0.1%	0.4%	0%	57%	86%	100%	21%	35%	53%	88%	43%	62%	48%	63%	21	13	27	19
AUD/USD	1.4%	0.5%	-0.6%	-0.5%	100%	86%	0%	29%	53%	47%	9%	59%	52%	77%	59%	37%	21	13	27	19
CAD/USD	0.4%	0.7%	0.0%	-0.8%	57%	100%	57%	14%	35%	50%	44%	41%	38%	54%	48%	32%	21	13	27	19
CHF/USD	0.7%	-0.3%	0.2%	0.1%	86%	29%	100%	86%	44%	21%	56%	82%	57%	38%	56%	37%	21	13	27	19
EUR/USD	0.1%	-0.6%	0.0%	-0.2%	14%	0%	43%	57%	26%	12%	41%	71%	48%	23%	52%	32%	21	13	27	19
GBP/USD	0.4%	0.5%	-0.4%	-0.3%	29%	71%	29%	43%	29%	38%	18%	65%	43%	69%	37%	42%	21	13	27	19
JPY/USD	0.4%	-0.4%	0.1%	-0.1%	43%	14%	71%	71%	32%	18%	47%	79%	33%	31%	48%	32%	21	13	27	19
JPMorgan EM FX Index	0.5%	-0.1%	-0.4%	-1.0%	71%	43%	14%	0%	38%	26%	15%	29%	53%	63%	52%	35%	17	8	21	17

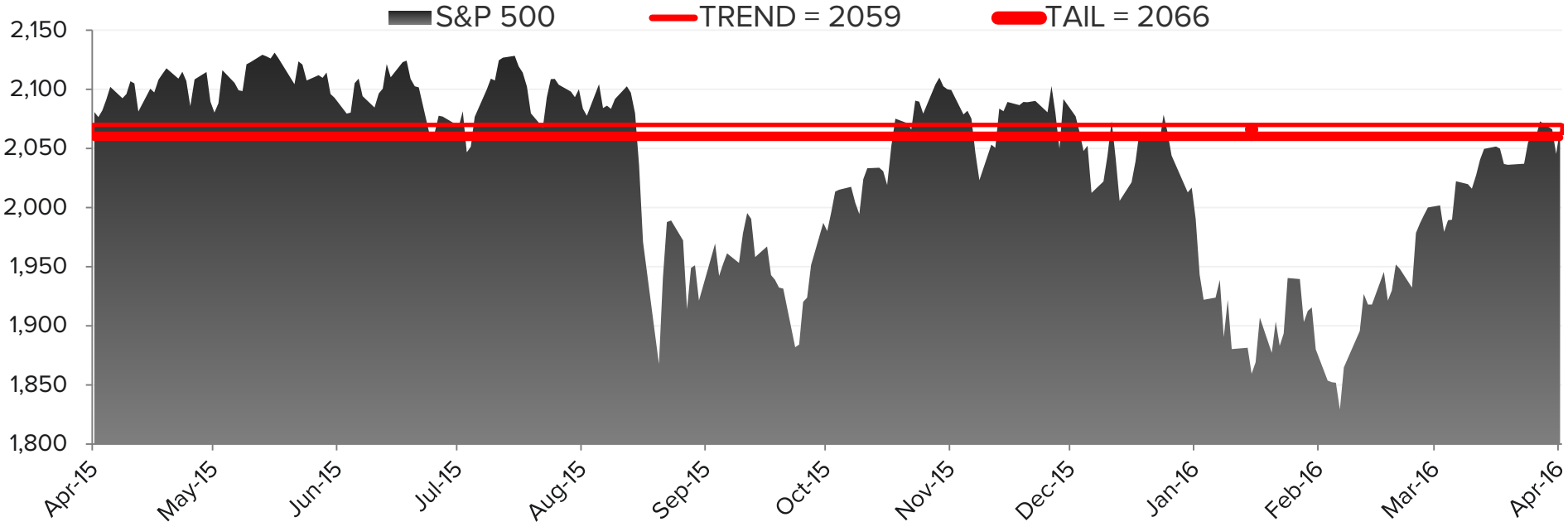
Source: Bloomberg data; Hedgeye calculations. Trailing 20 years.

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

HEDGEYE 6

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)

Q1 2016 MACRO THEMES

1

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.

2

#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.

3

#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.

Q2 2016 MACRO THEMES

1

#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.

2

#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.

3

#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.

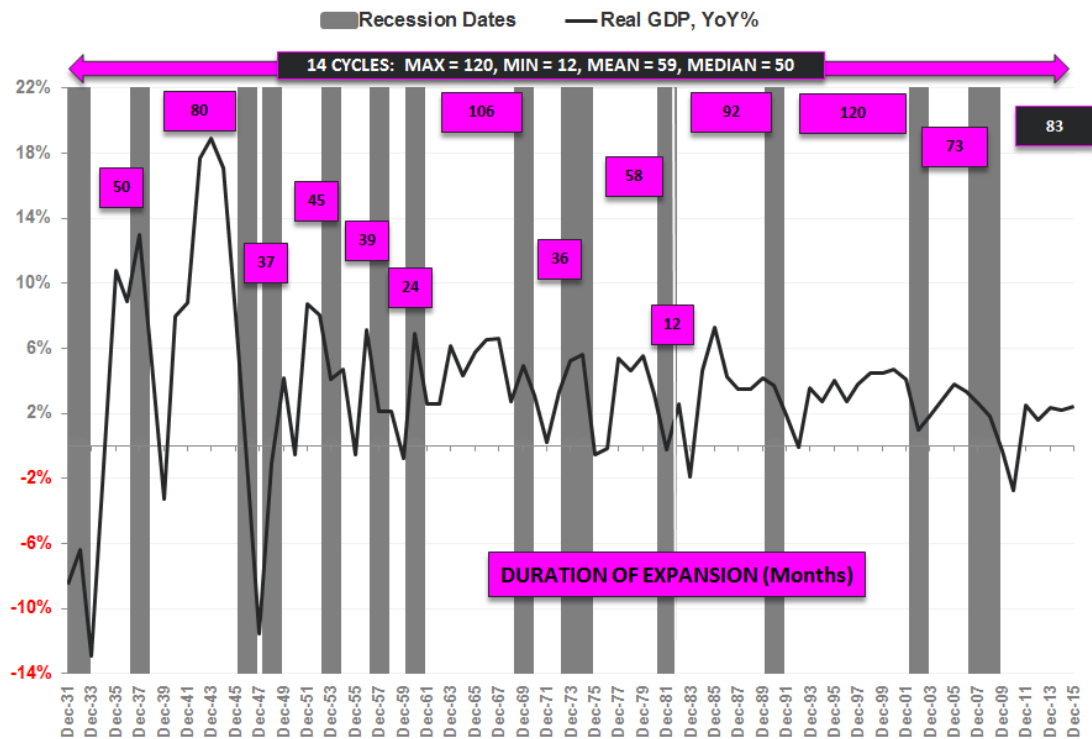


B. Rich
HEDGEYE

#THECYCLE

FOUR SCORE & 3 MONTHS AGO ...

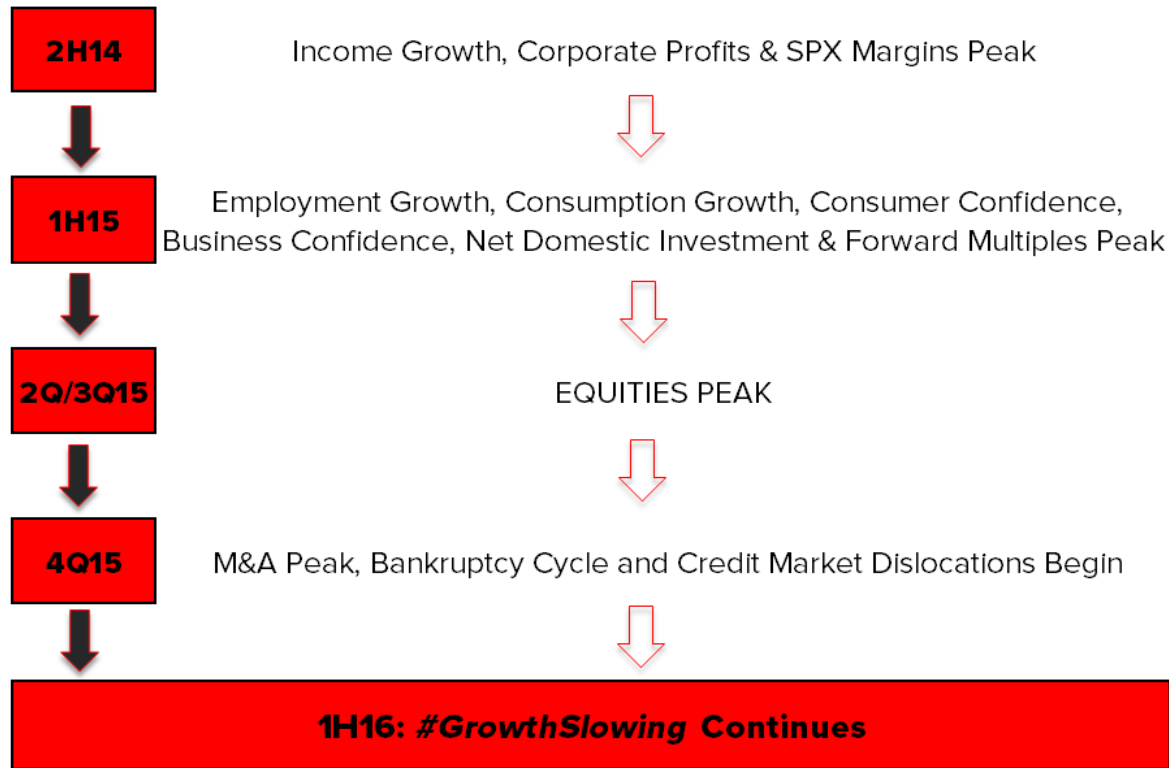
..... OUR CENTRAL PLANNING FATHERS BROUGHT FORTH ON THIS CYCLE, A NEW PLAN, CONCEIVED IN ACADEMIA AND DEDICATED TO THE PROPOSITION THAT ALL ECONOMIC GRAVITY CAN, IN FACT, BE SMOOTHED.



DATA SOURCE: BLOOMBERG, BEA, HRM

A CYCLE, NOT A MYSTERY

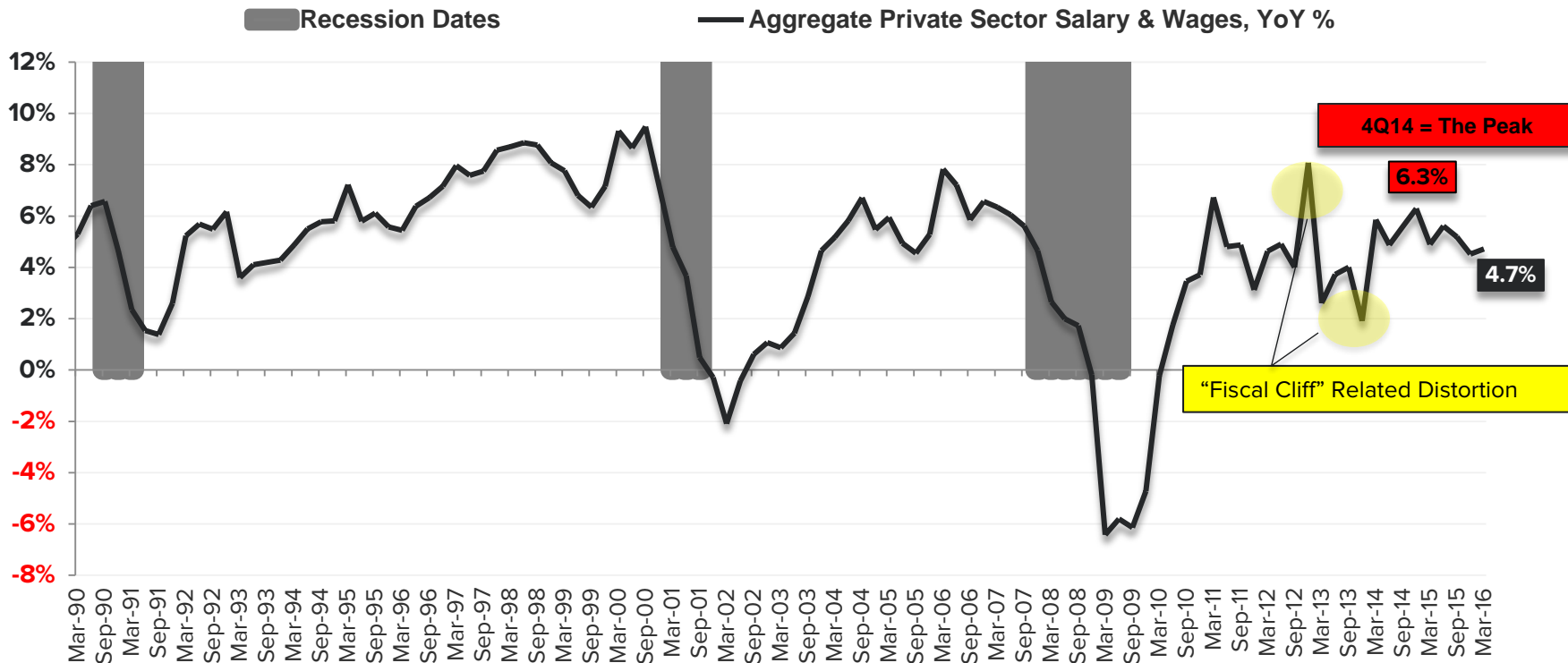
SEQUENCING THE CYCLE



2H14: INCOME GROWTH PEAK

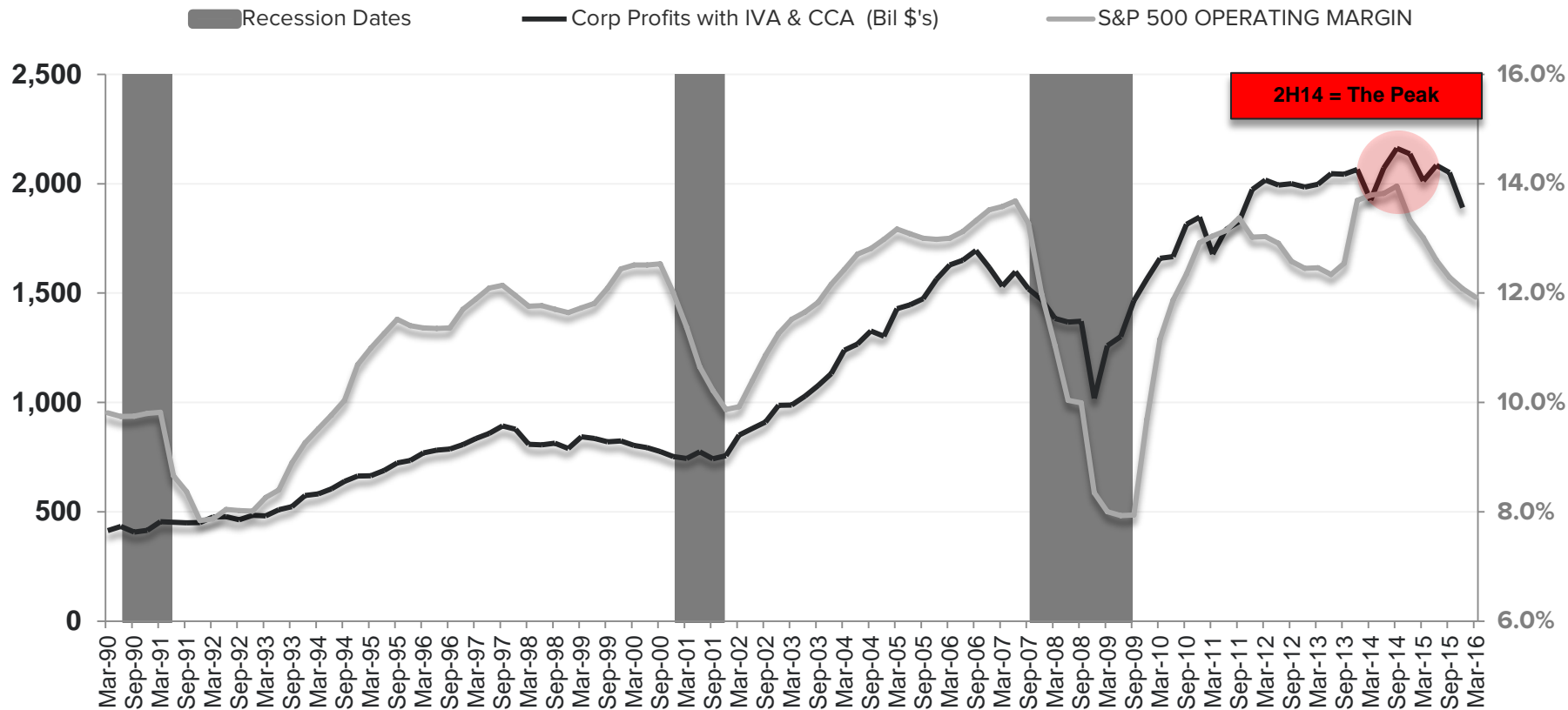
INCOME GROWTH DRIVES THE CAPACITY FOR CONSUMPTION GROWTH AND WITH EMPLOYMENT GROWTH SLOWING AND WAGE INFLATION FLAT, INCOME GROWTH CONTINUES TO DECELERATE

AGGREGATE SALARY & WAGE INCOME



2H14: PROFITS & MARGINS PEAK

SPX MARGINS & AGGREGATE CORPORATE PROFITS



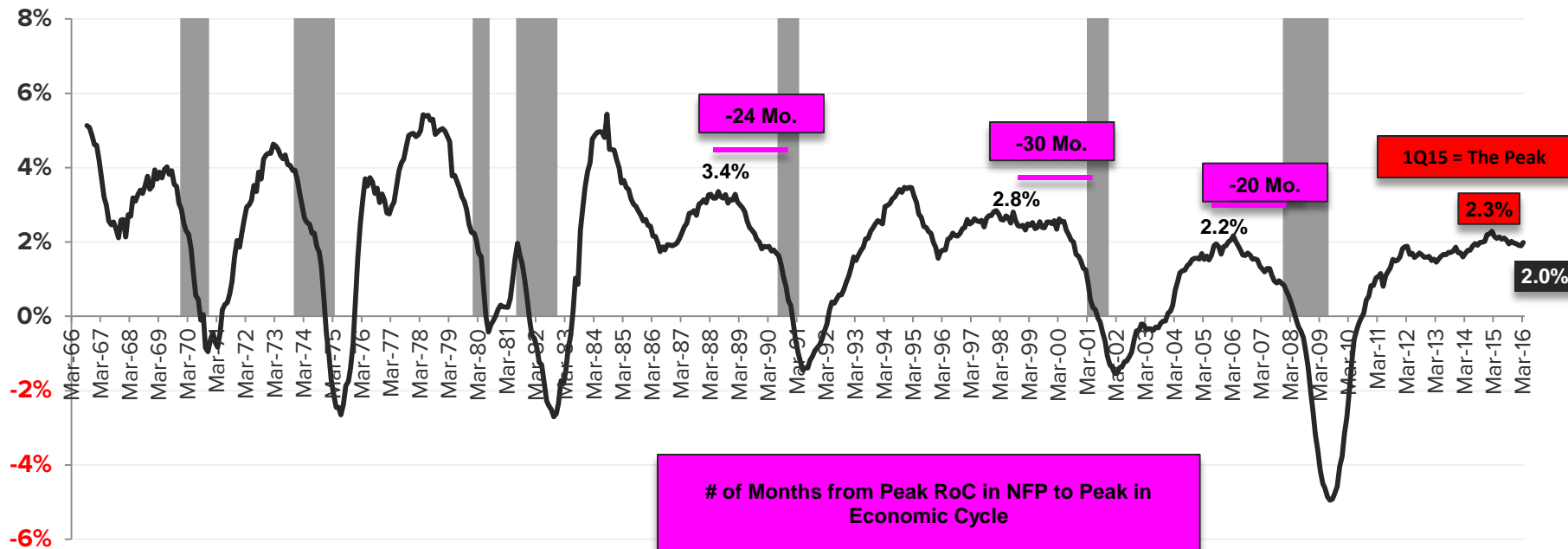
1Q15: EMPLOYMENT GROWTH PEAK

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

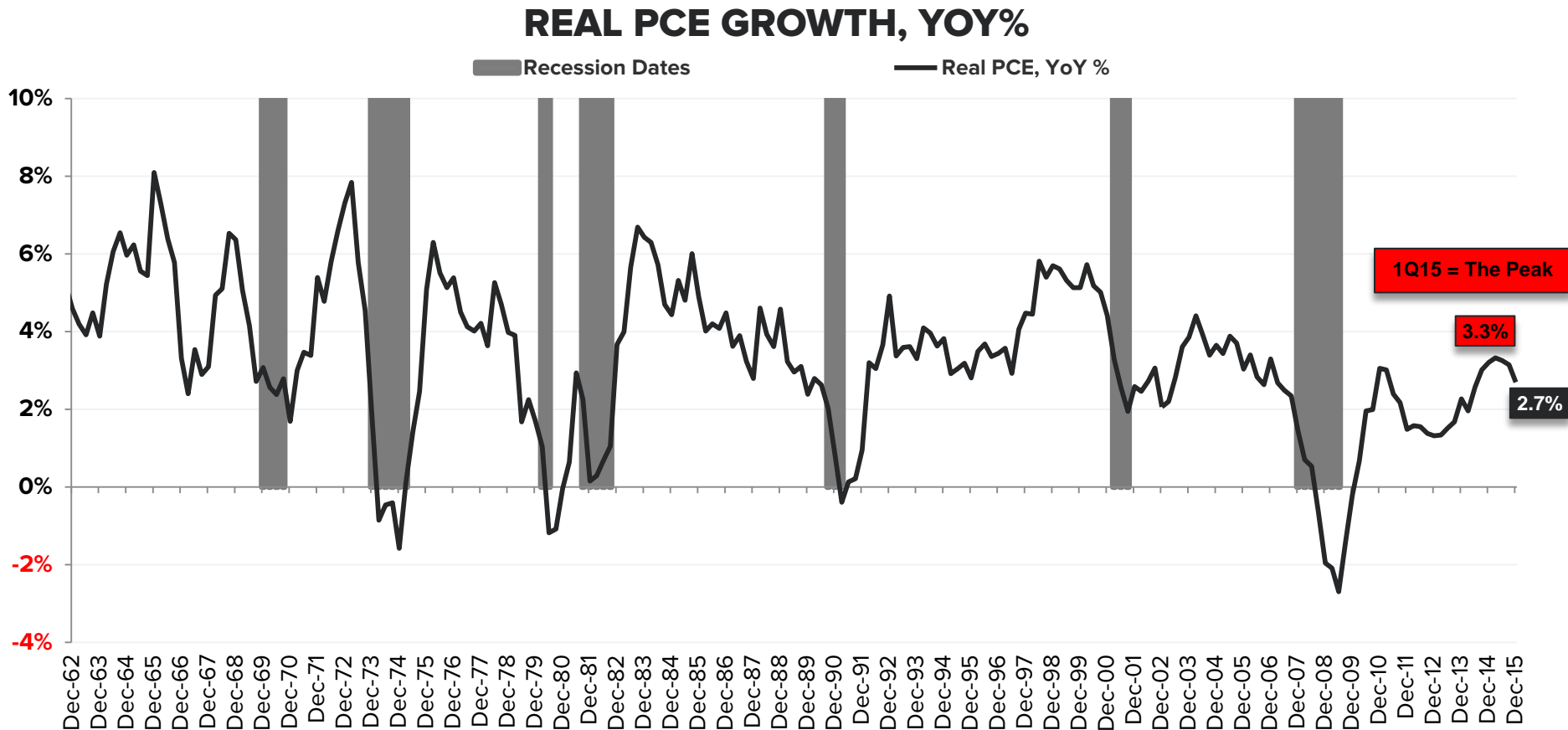
NONFARM PAYROLL GROWTH, YOY

■ Recession Dates

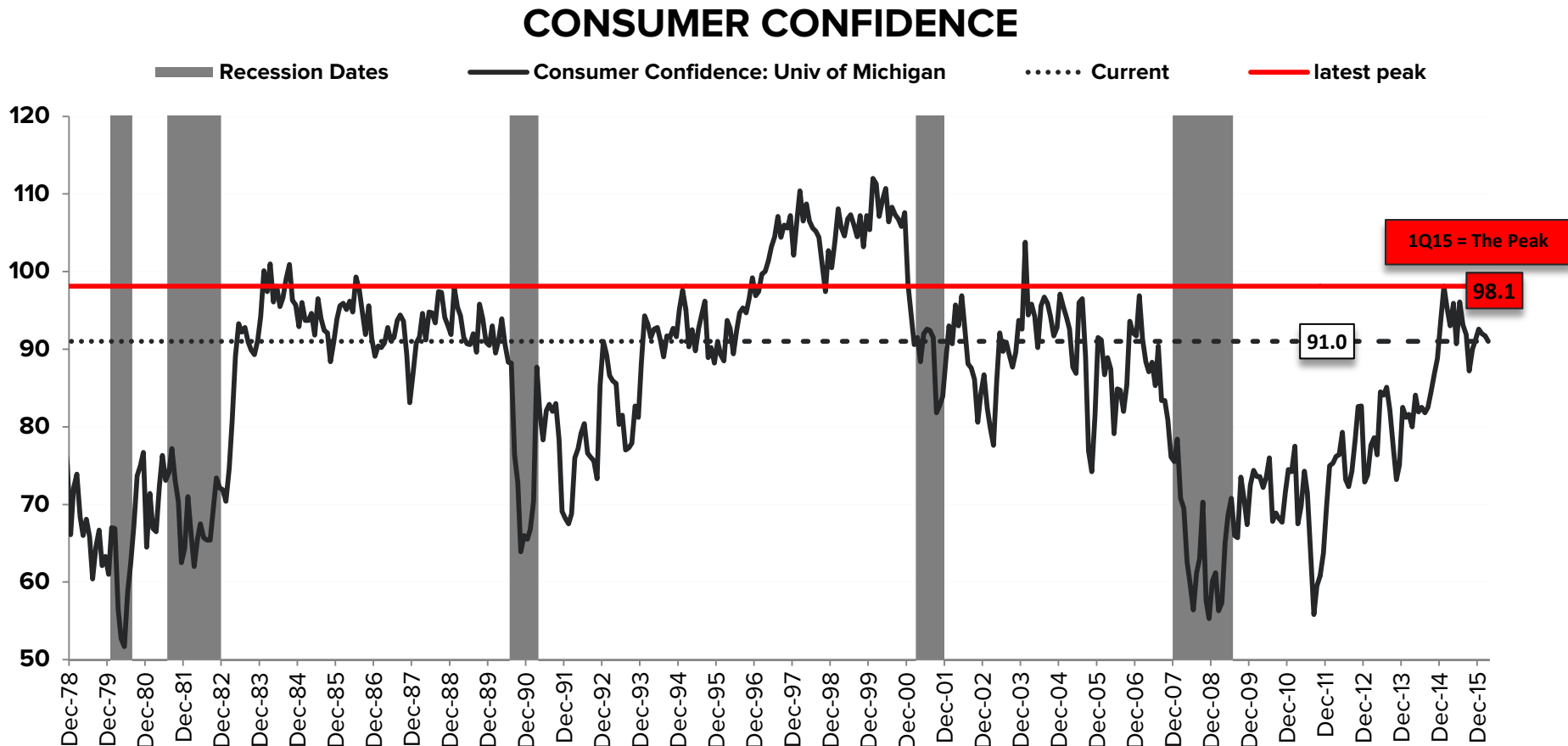
— NFP, YoY %



1Q15: CONSUMPTION GROWTH PEAK

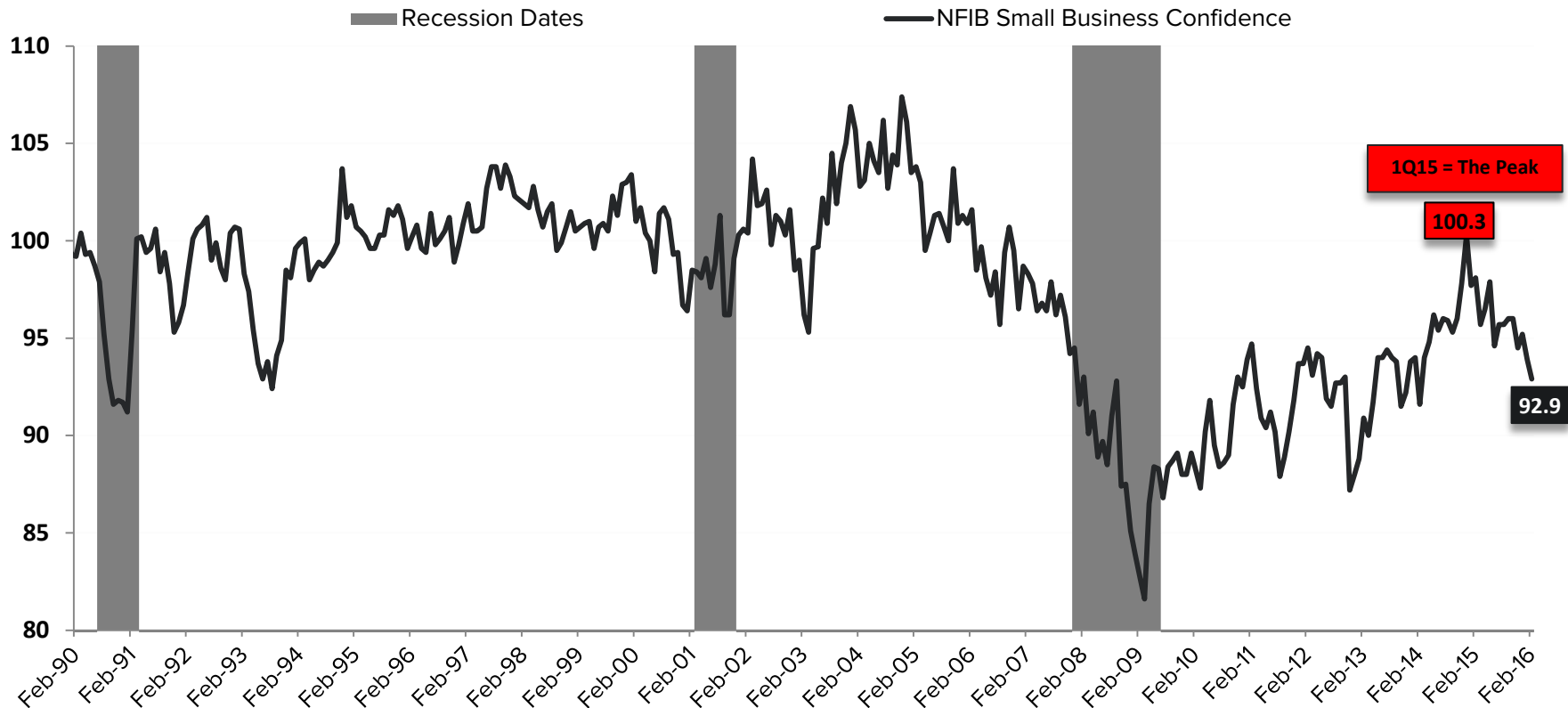


1Q15: CONSUMER CONFIDENCE PEAK



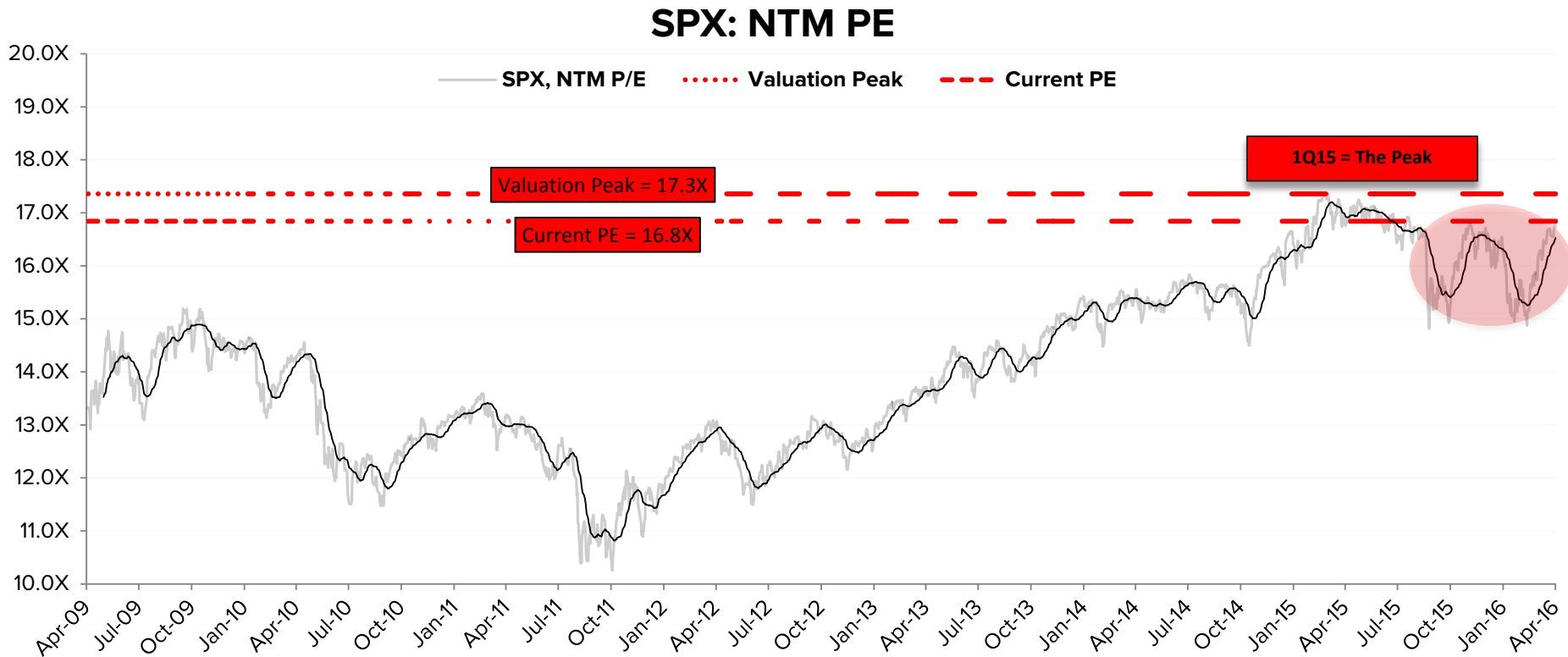
1Q15: BUSINESS CONFIDENCE PEAK

NFIB SMALL BUSINESS OPTIMISM



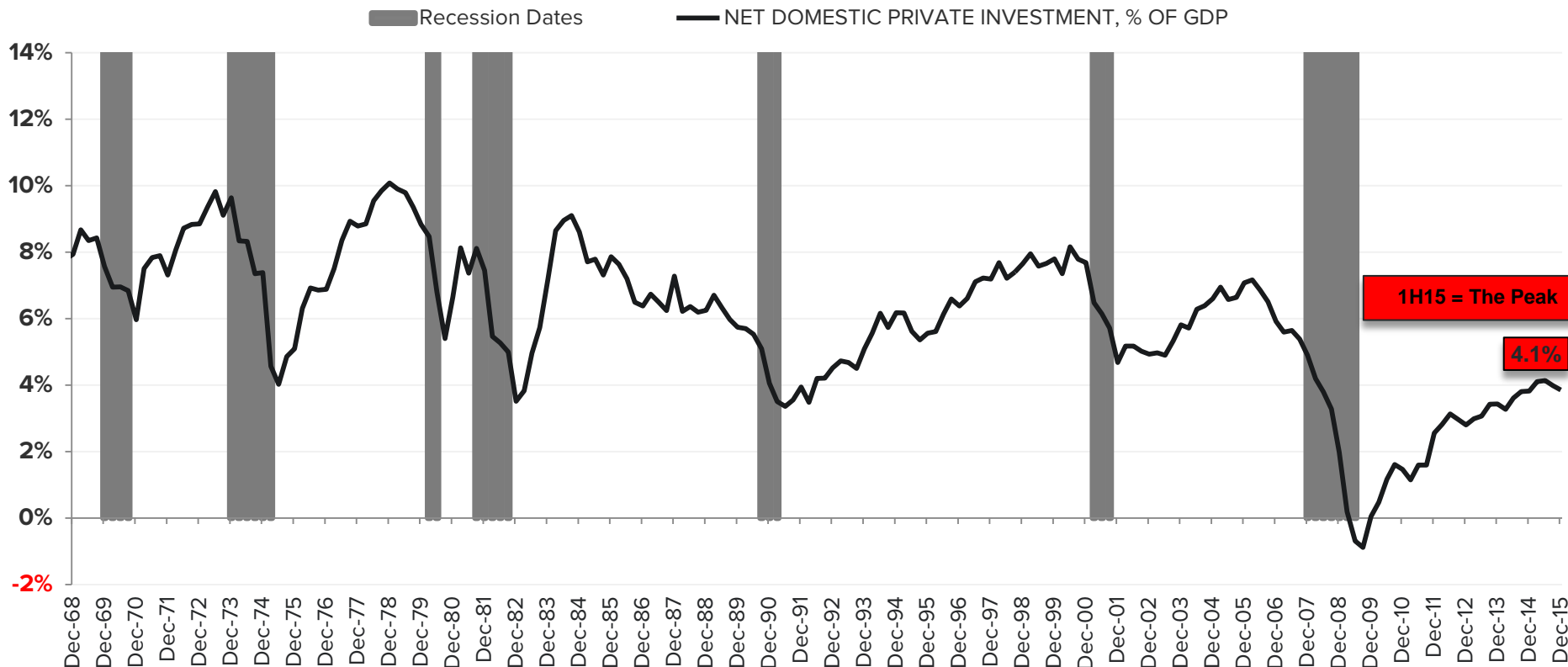
1Q15: FORWARD MULTIPLES PEAK

WITH FORWARD EARNINGS ESTIMATES STILL ON THE LOWS, MULTIPLE EXPANSION HAS DRIVEN THE RECENT REBOUND IN PRICES. UPSIDE TO PEAK VALUATION IMPLIES +63 SPX HANDLES (+3.0%) FROM CURRENT LEVELS.



2Q15: PRIVATE INVESTMENT PEAK

NET DOMESTIC PRIVATE INVESTMENT, % OF GDP



2Q/3Q15: EQUITIES PEAK

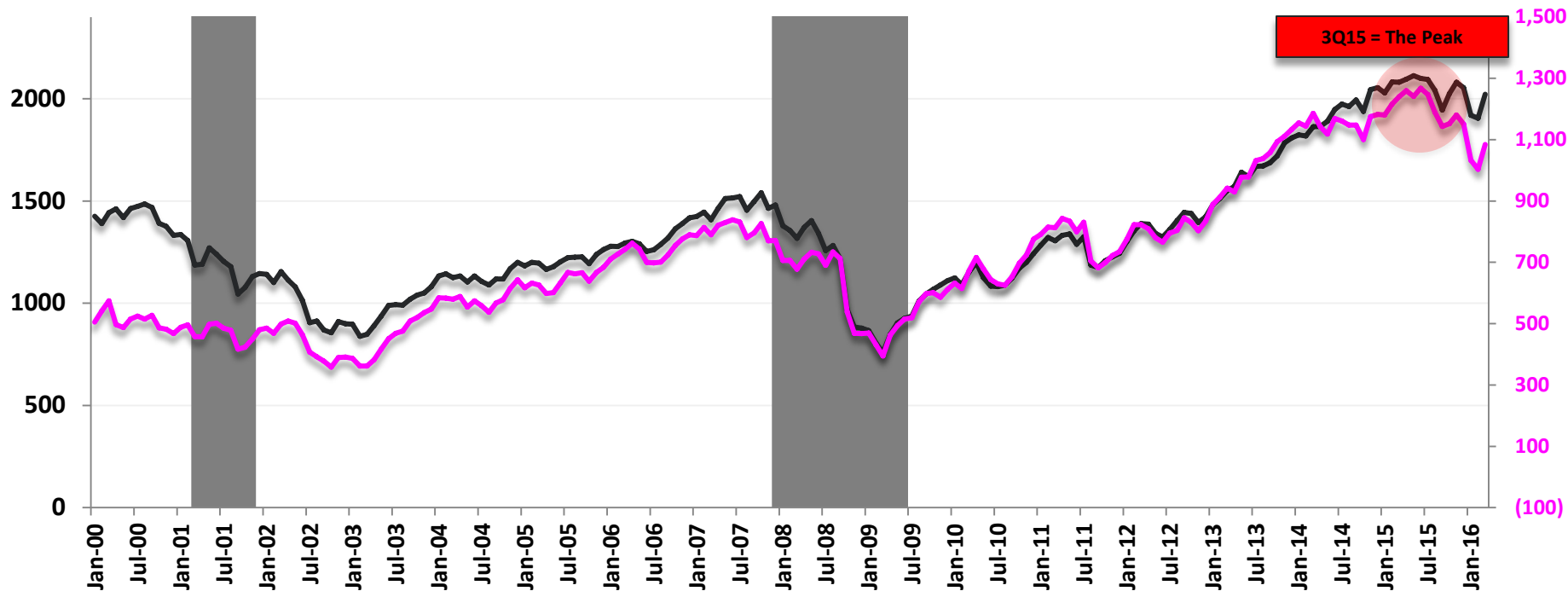
NO SURPRISE! EQUITIES PEAKED ON A SHORT LAG TO THE PEAK IN CONFIDENCE, CORPORATE MARGINS AND PROFITABILITY AND PEAK RATE-OF-CHANGE IN INCOME, EMPLOYMENT AND CONSUMPTION GROWTH

U.S. EQUITIES: S&P500 & RUSSELL 2000

Recession Dates

SPX Index

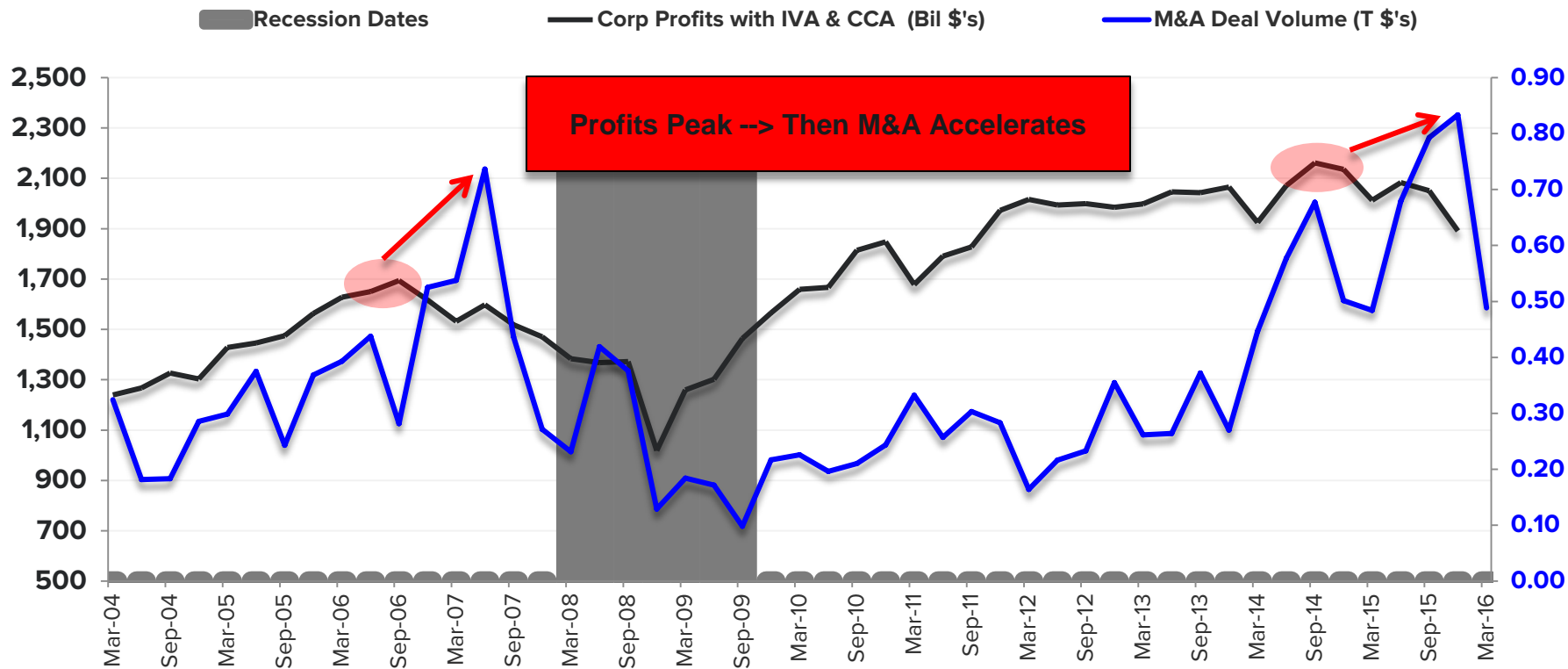
Russell 2000



4Q15: M&A PEAKS (THEN PANICS)

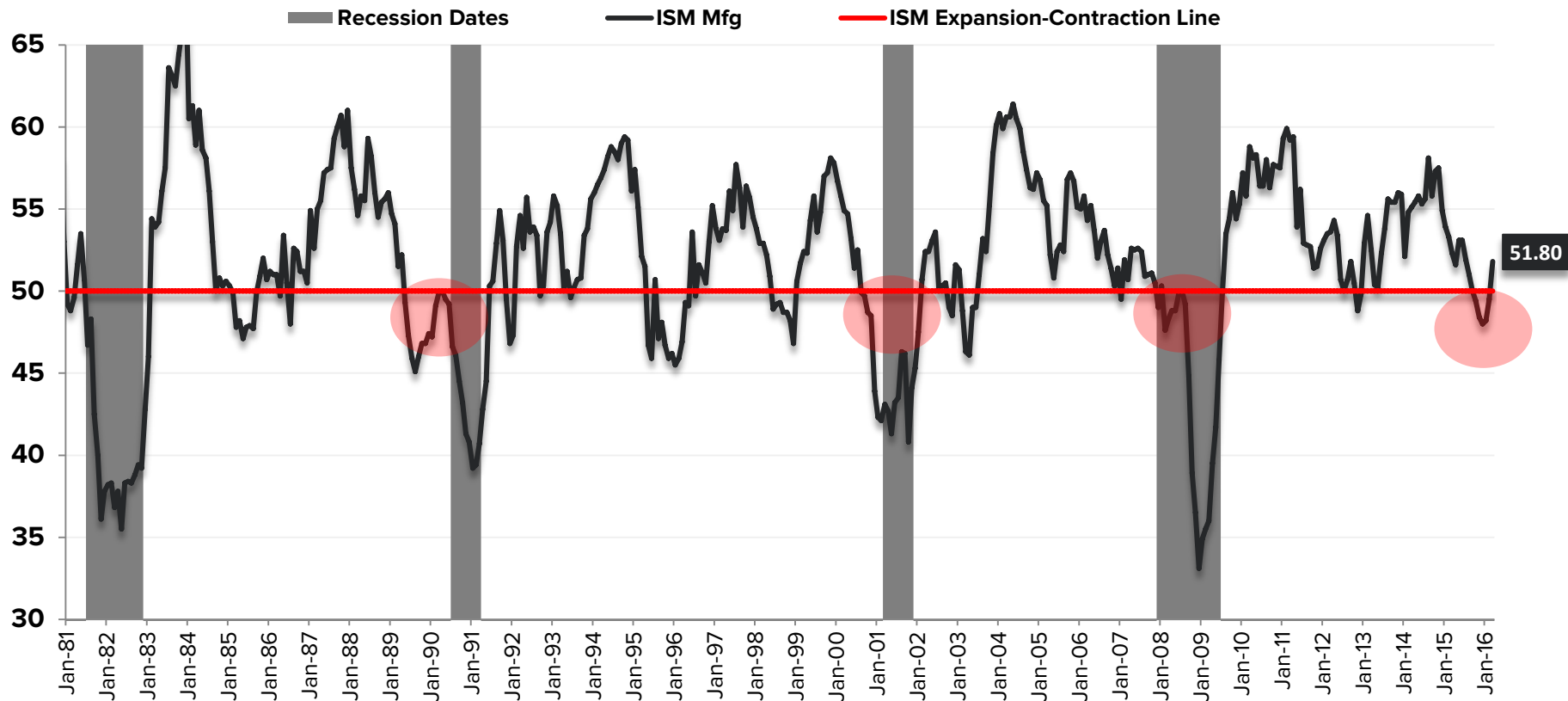
WITH GROWTH SLOWING AND PROFITABILITY PAST PEAK, THE LATE-CYCLE PLAYBOOK SAYS TO BUY ACCRETION.

CORPORATE PROFITS VS M&A ACTIVITY



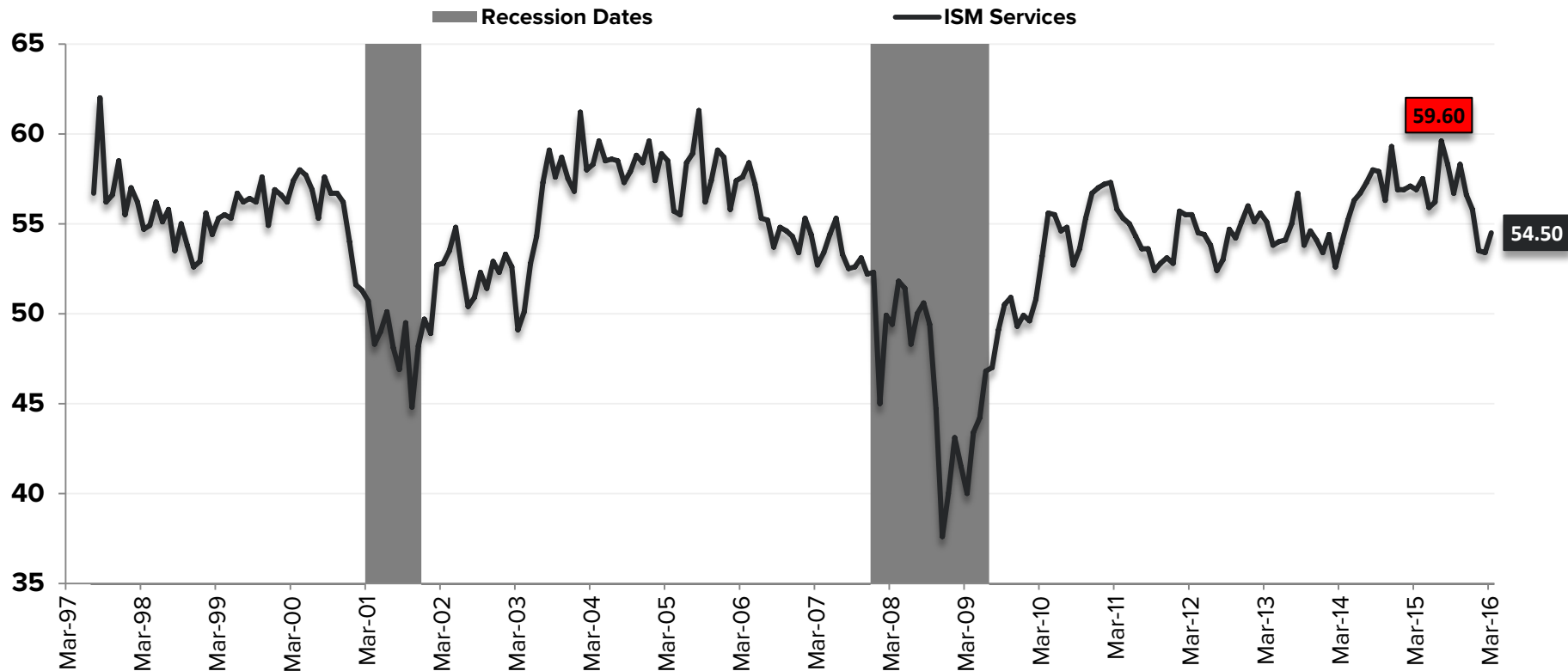
MEANWHILE ... ISM = STABILIZING

ISM Manufacturing



BUT SERVICES = SLOWING

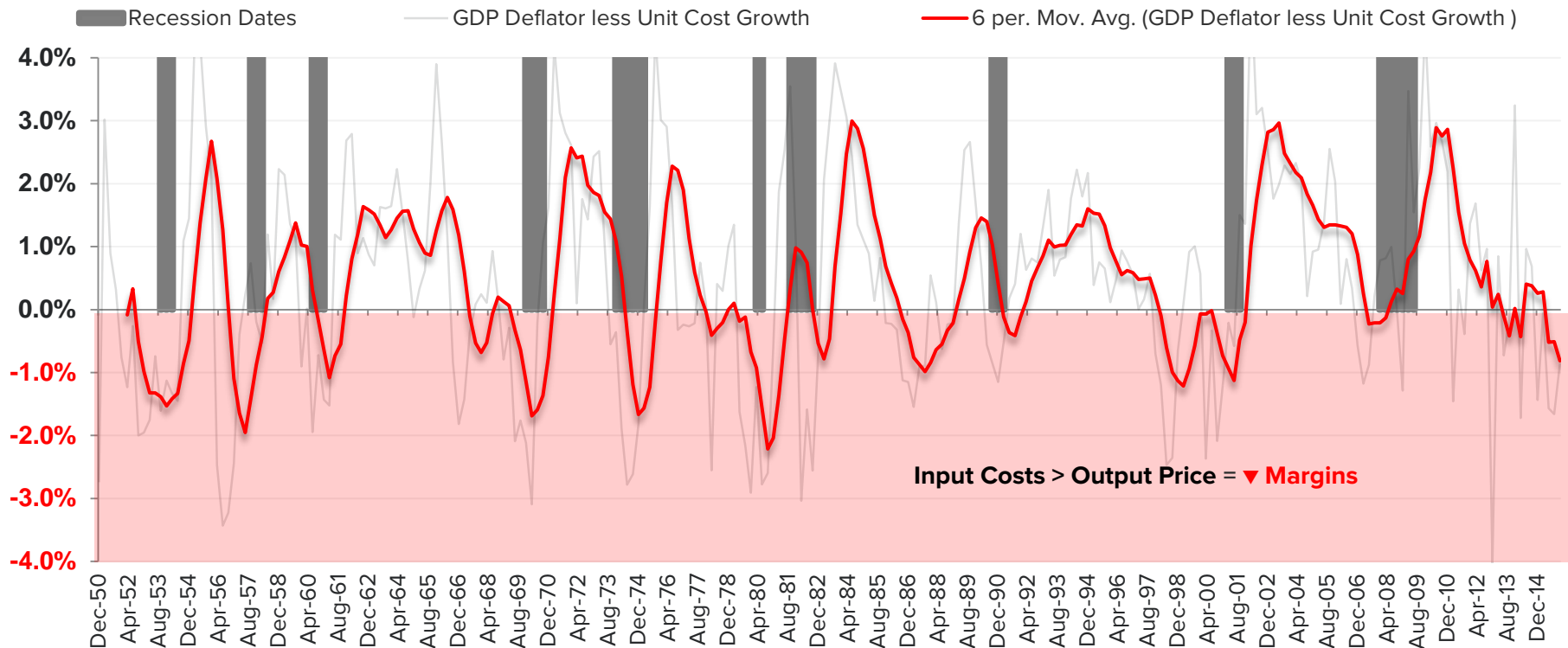
ISM Services



MARGIN PRESSURE

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

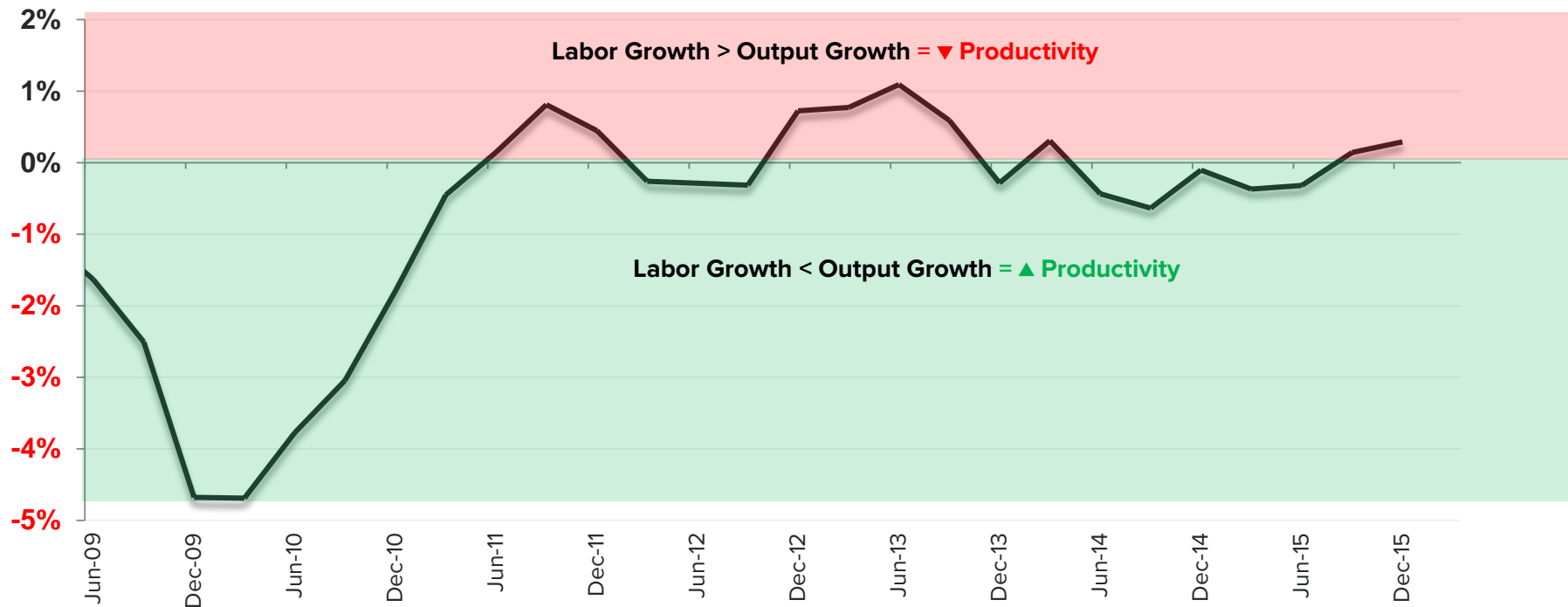


PRODUCTIVITY = ↓

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 less Output Growth

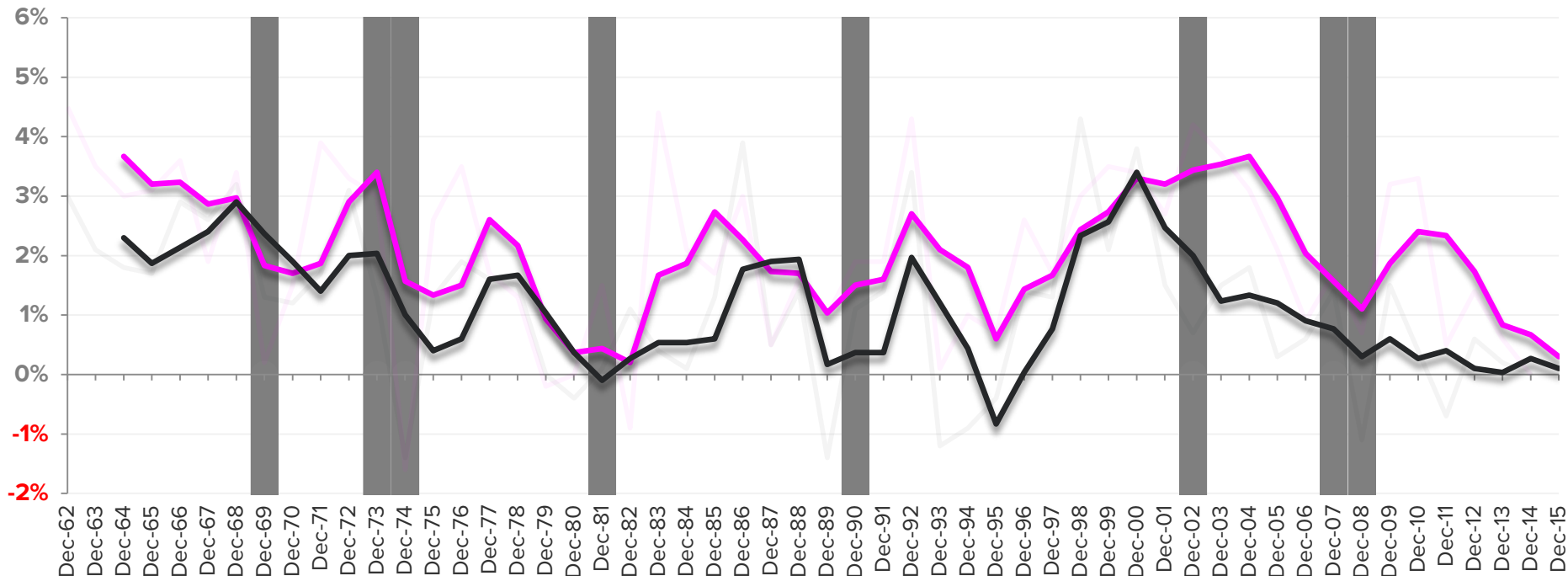


PRODUCTIVITY ↓ = REAL EARNINGS ↓

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

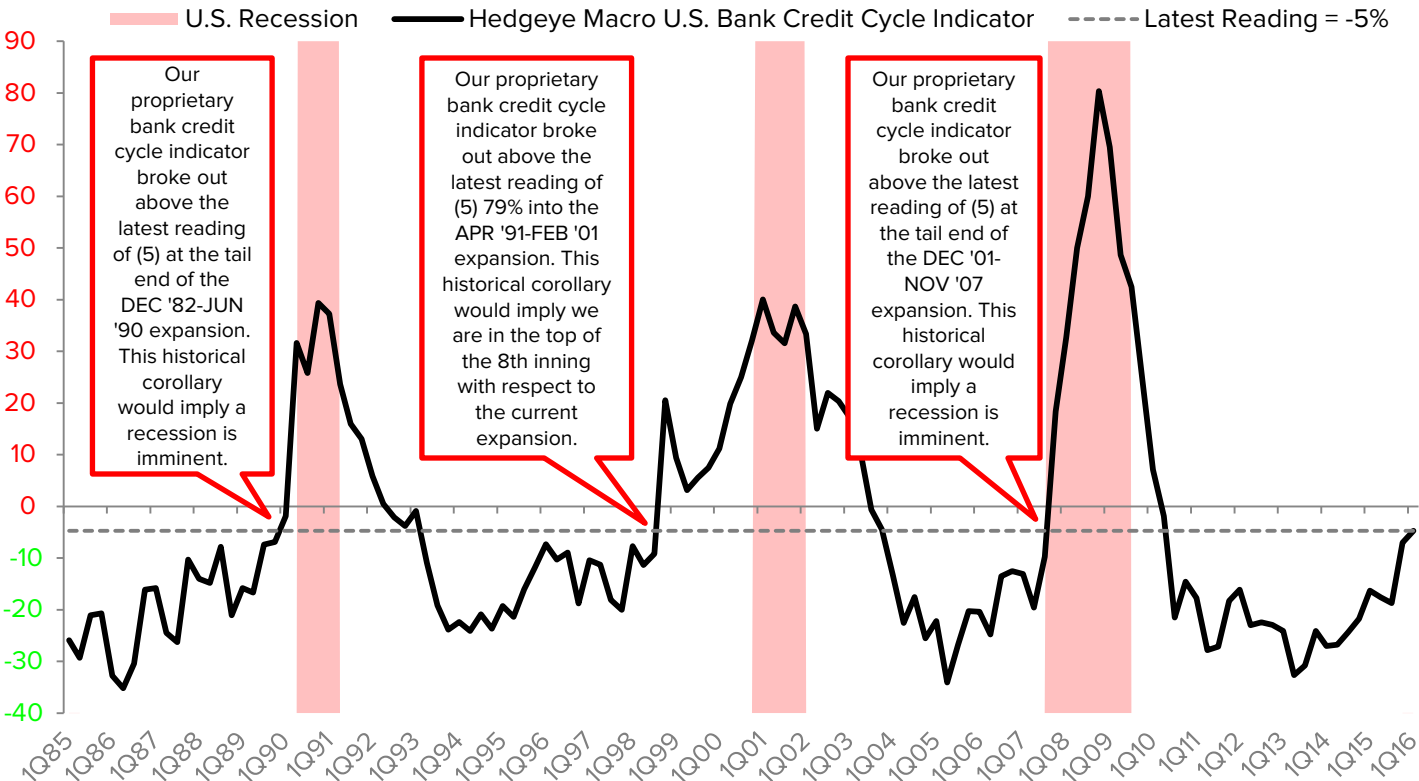
PRODUCTIVITY GROWTH VS REAL EARNINGS GROWTH

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



CREDIT CYCLE = PAST PEAK

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.



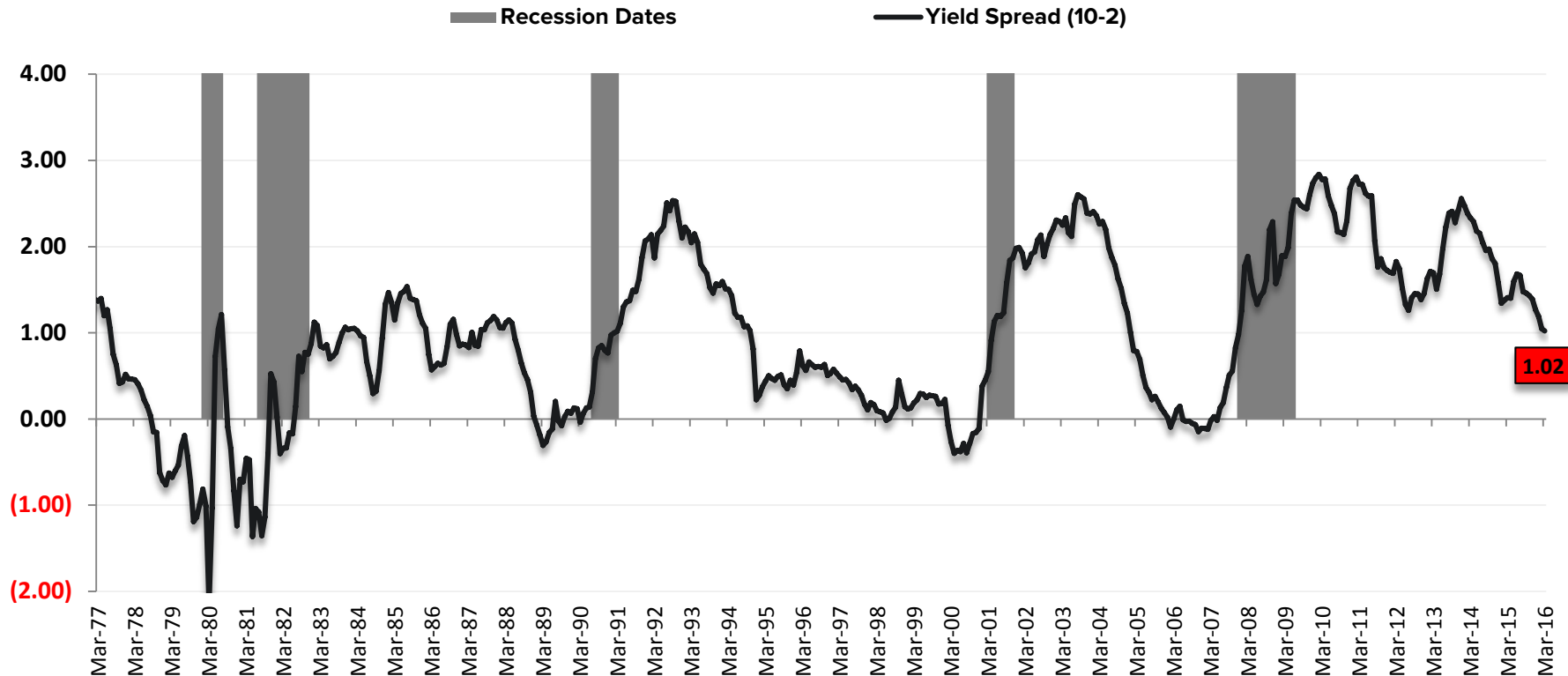
Our **proprietary Bank Credit Cycle Indicator** is an equal-weighted average of the following time series, each derived from the Fed's Senior Loan Officer Survey data:

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)

YIELD SPREAD = **FLATTENING**

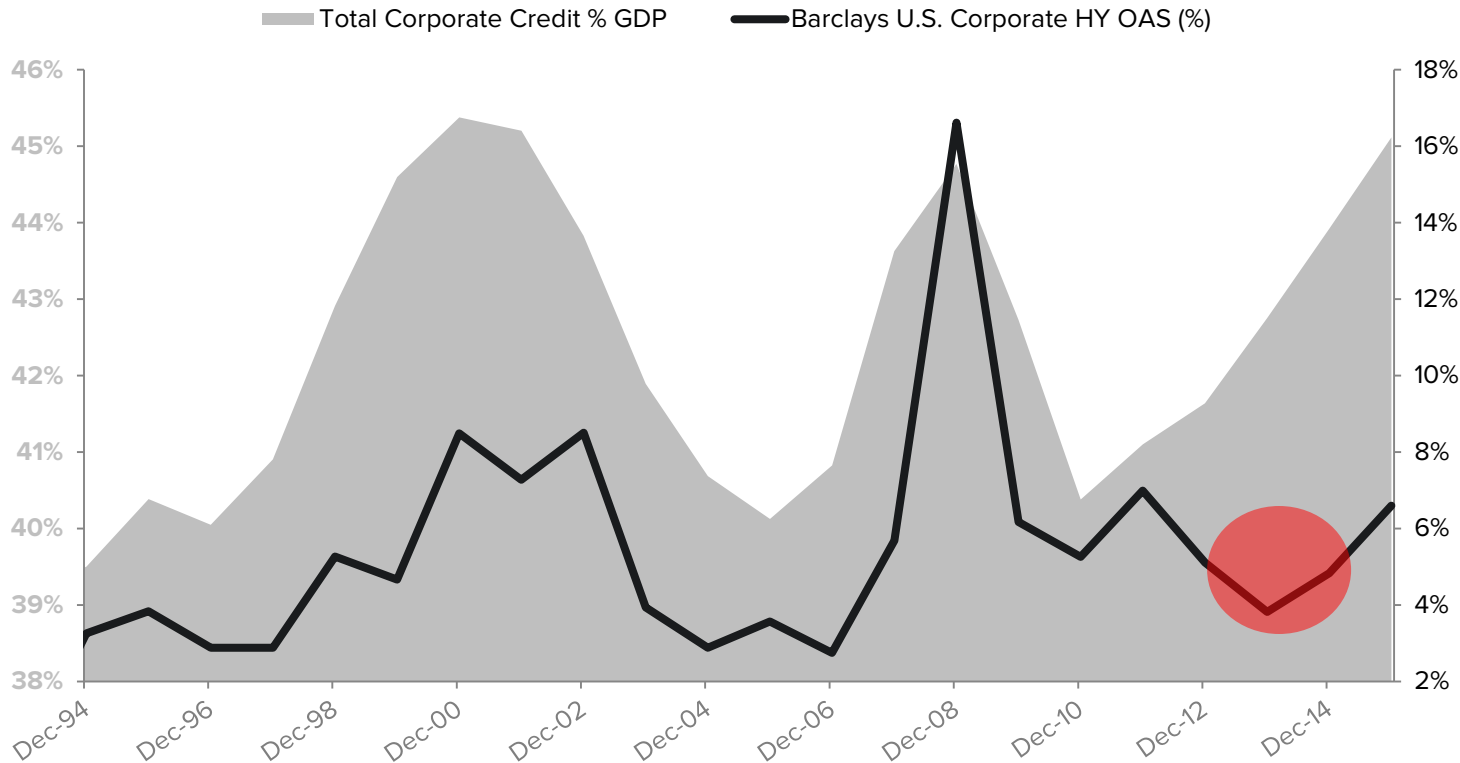
FLATTENING \neq BULLISH. THE YIELD CURVE FLATTENS AS THE ECONOMY SLOWS WITH POLICY AND/OR LIQUIDITY MANAGEMENT DRIVING THE SHORT-END HIGHER AND DEFENSIVE POSITIONING AND/OR DISCOUNTING OF LOWER FUTURE GROWTH/INFLATION DRIVING THE LONG END LOWER.

YIELD SPREAD: 10Y - 2Y



PEAK LEVERAGING OPPORTUNITY ALREADY IN

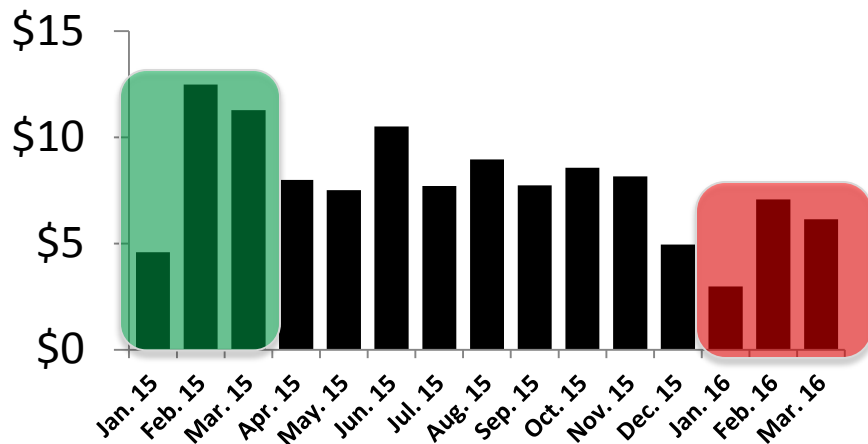
ZIRP AND QE HAVE CONTRIBUTED TO THE HIGHEST RATES OF HIGH-YIELD BOND ISSUANCE EVER. WE'RE NOW AT A CYCLE PEAK IN CORPORATE CREDIT AS A % OF GDP



The Barclays High Yield Average OAS is still trading +~200 bps higher y/y (% Yield) even with the ~100bps pullback in spreads since mid-February

CAPITAL MARKETS ACTIVITY = ↓

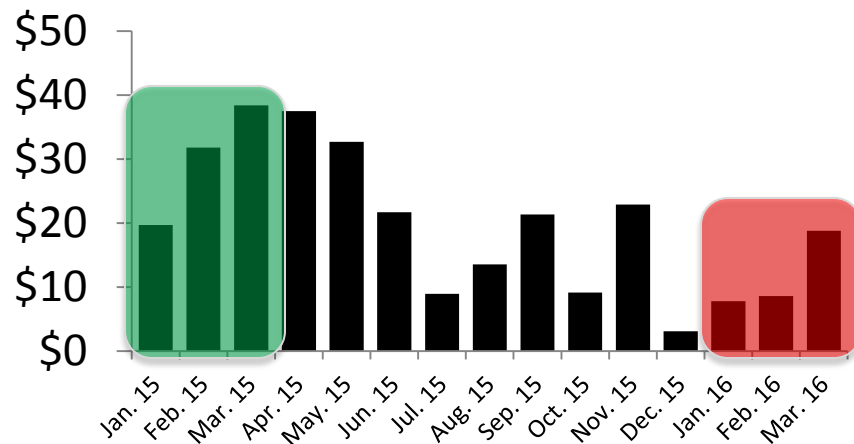
CMBS Issuance (\$Bn)



WEAKNESS IN CMBS ISSUANCE

CMBS issuance is down **-43% Y/Y** YTD in 2016 and total, mortgage-related issuance is down **-10% Y/Y**

High Yield Issuance (\$Bn)

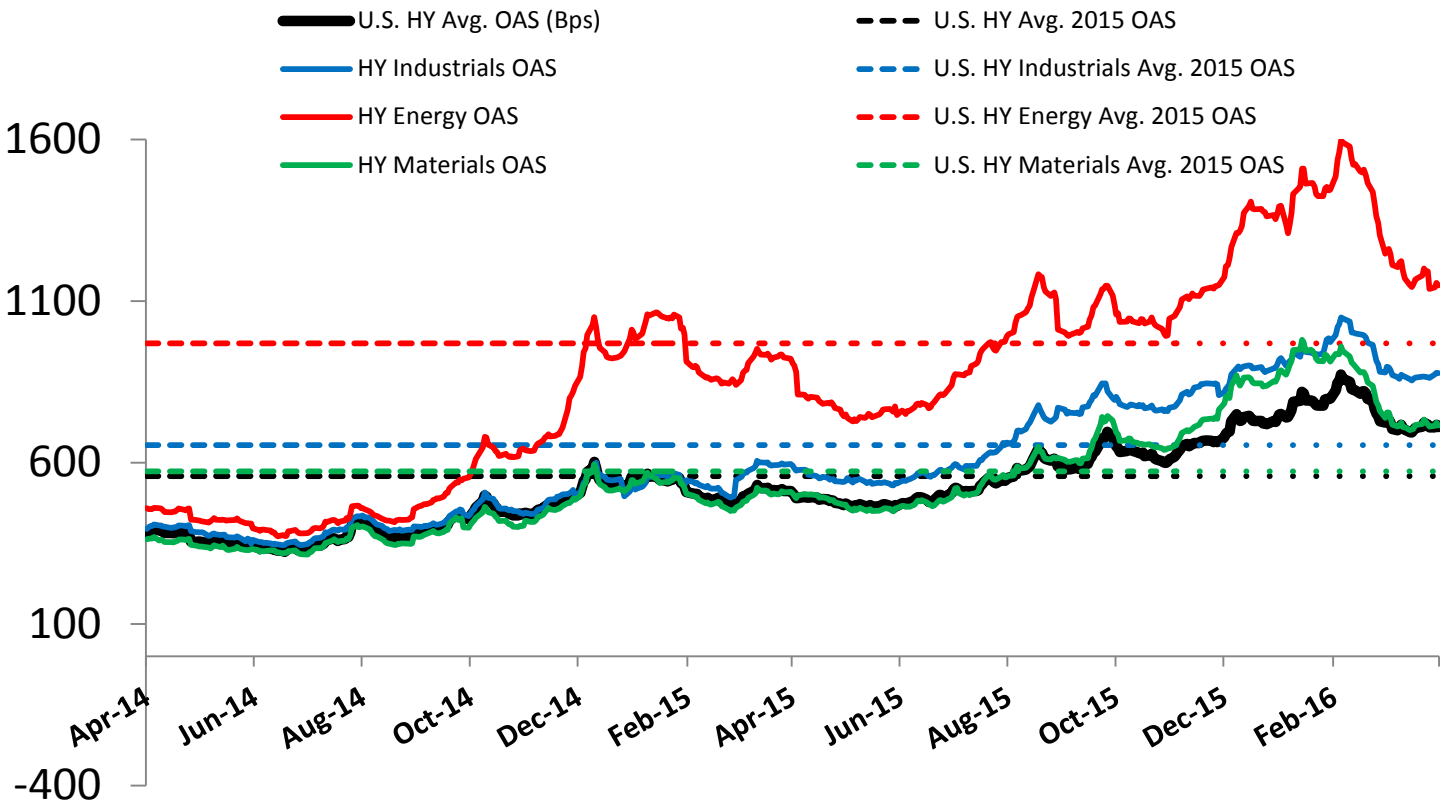


HIGH YIELD MARKETS DRYING-UP

High-Yield Issuance is down **-61% Y/Y** YTD and total corporate issuance is down **-10% Y/Y**

RELIEF IN BLOWN-OUT SPREADS

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



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

Spread (bps) off 2015 avg:

HY Energy: +180

HY Matrils: +140

HY Industrls: +220

HY Aggte: +150

Q4 WAS UGLY.....

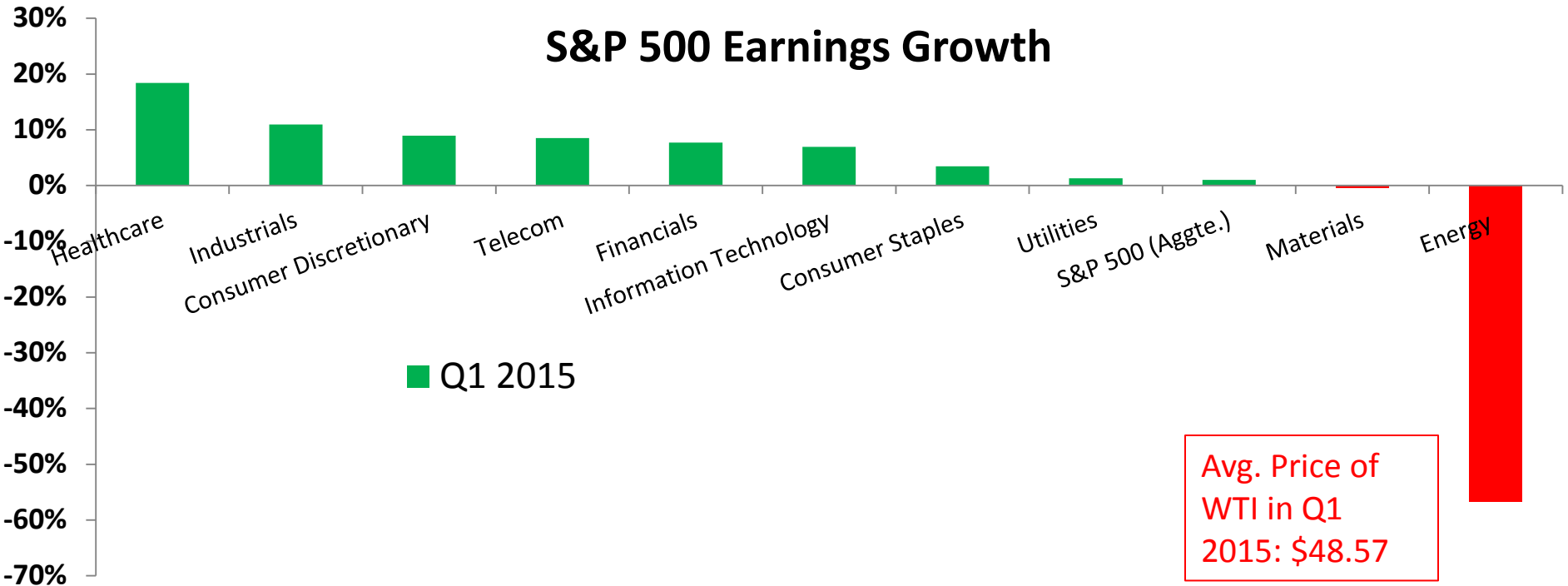
Q4 2015 EARNINGS SEASON WAS UGLY, BUT REMEMBER THAT Q1 OF 2015 SAW POSITIVE COMPS IN 8 OUT OF 10 SECTORS

SECTOR	SALES GROWTH (% CHG)	EARNINGS GROWTH (% CHG)	#REPORTED
S&P 500 (Aggregate)	-4.0%	-6.9%	500 / 500
Energy	-34.2%	-72.6%	40 / 40
Materials	-15.3%	-17.9%	27 / 27
Industrials	-7.3%	-5.9%	65 / 65
Consumer Discretionary	4.3%	9.2%	83 / 83
Consumer Staples	0.7%	0.8%	37 / 37
Healthcare	9.4%	10.7%	56 / 56
Financials	0.9%	-5.4%	90 / 90
Information Technology	-5.2%	-3.4%	67 / 67
Telecom	12.0%	25.6%	5 / 5
Utilities	-12.5%	-48.1%	30 / 30

Source: BBG

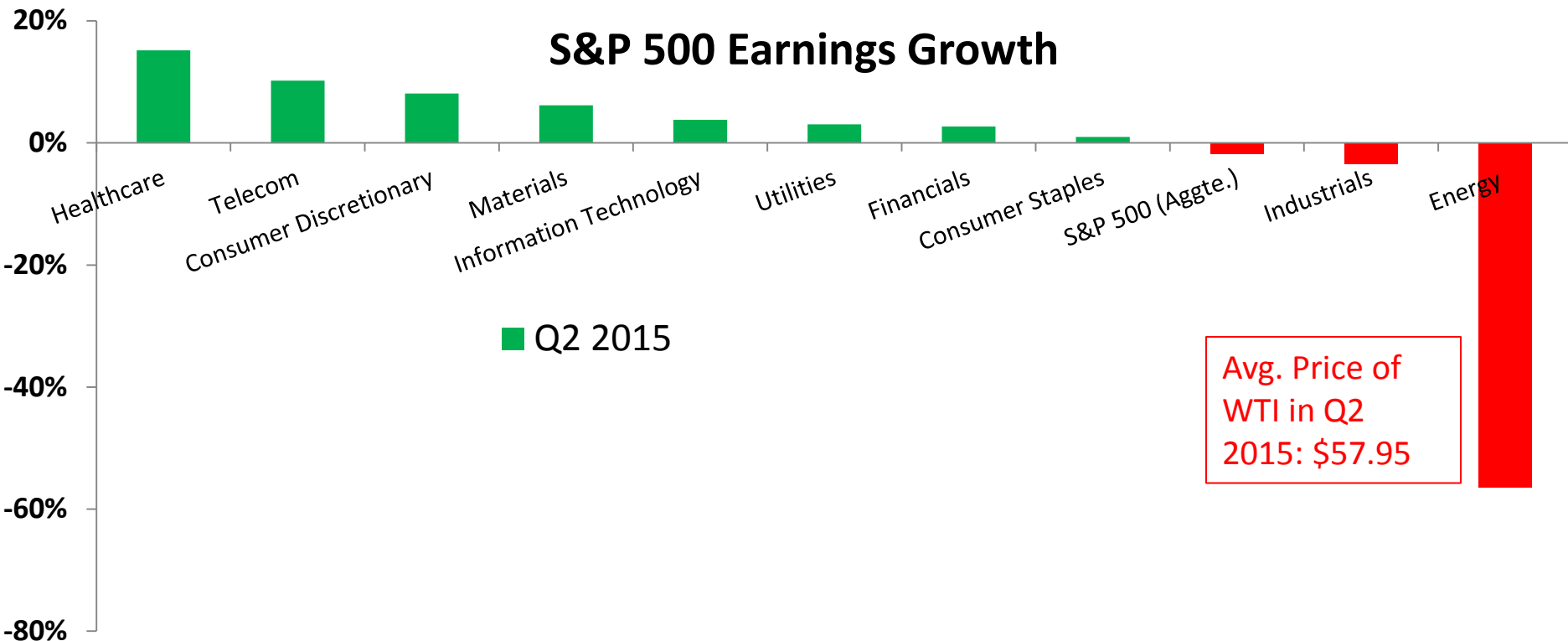
AND Q1 WILL BE TOO.....

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



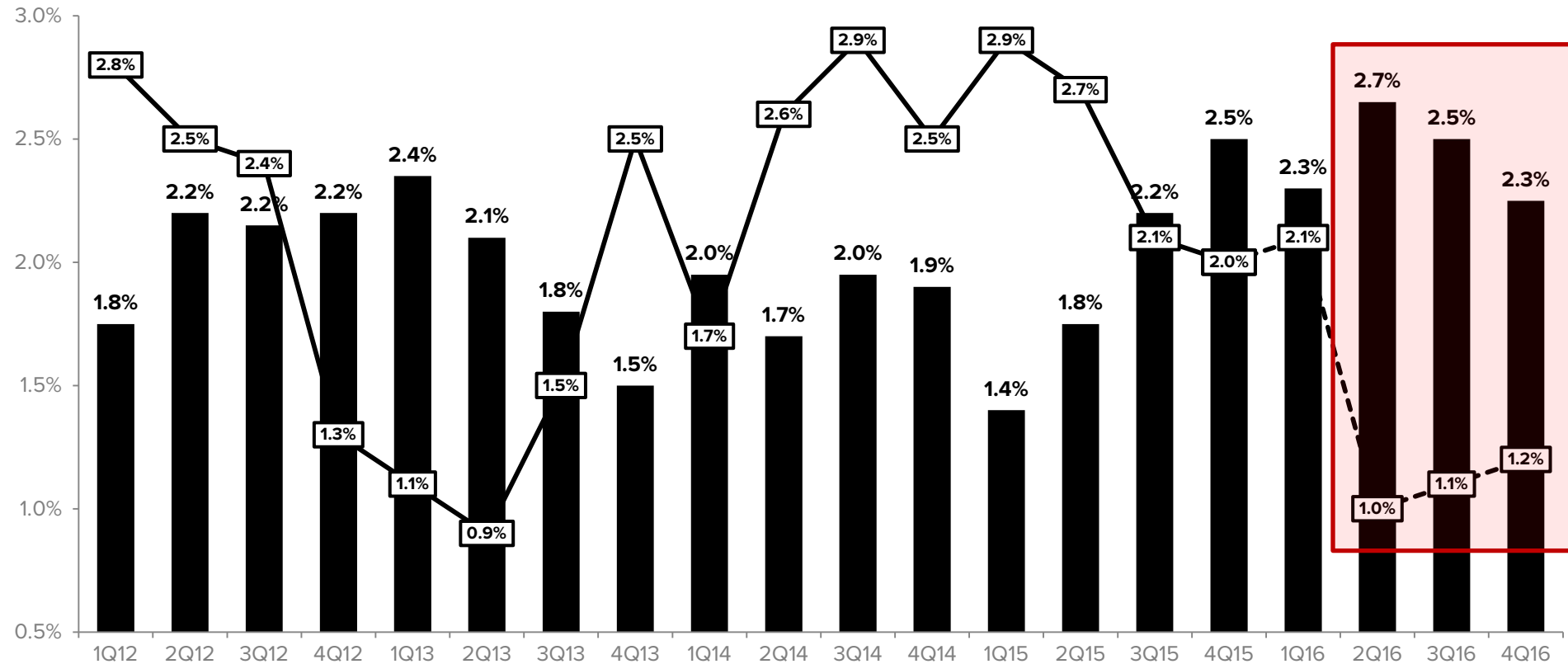
THINK WE'RE LAPPING BAD COMPS BY Q2?

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



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

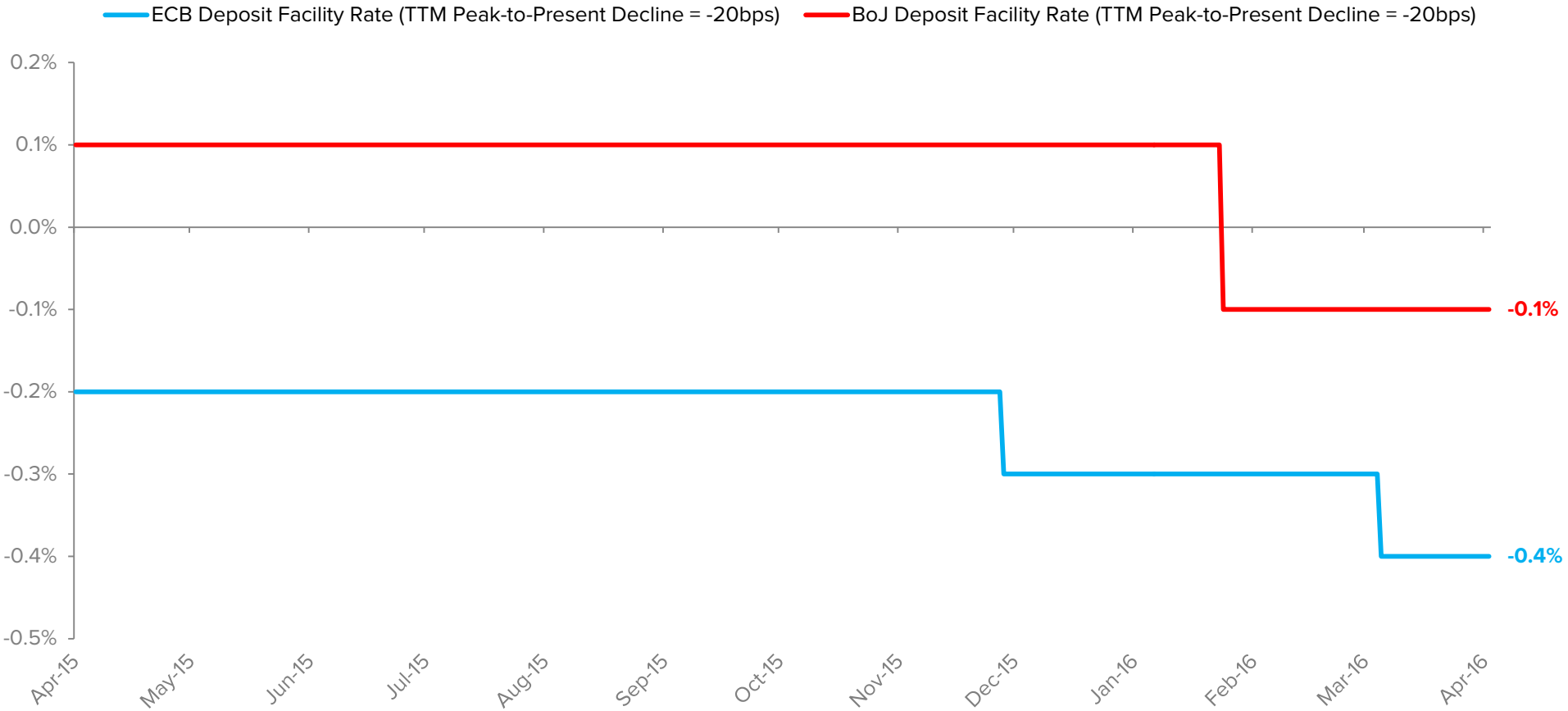




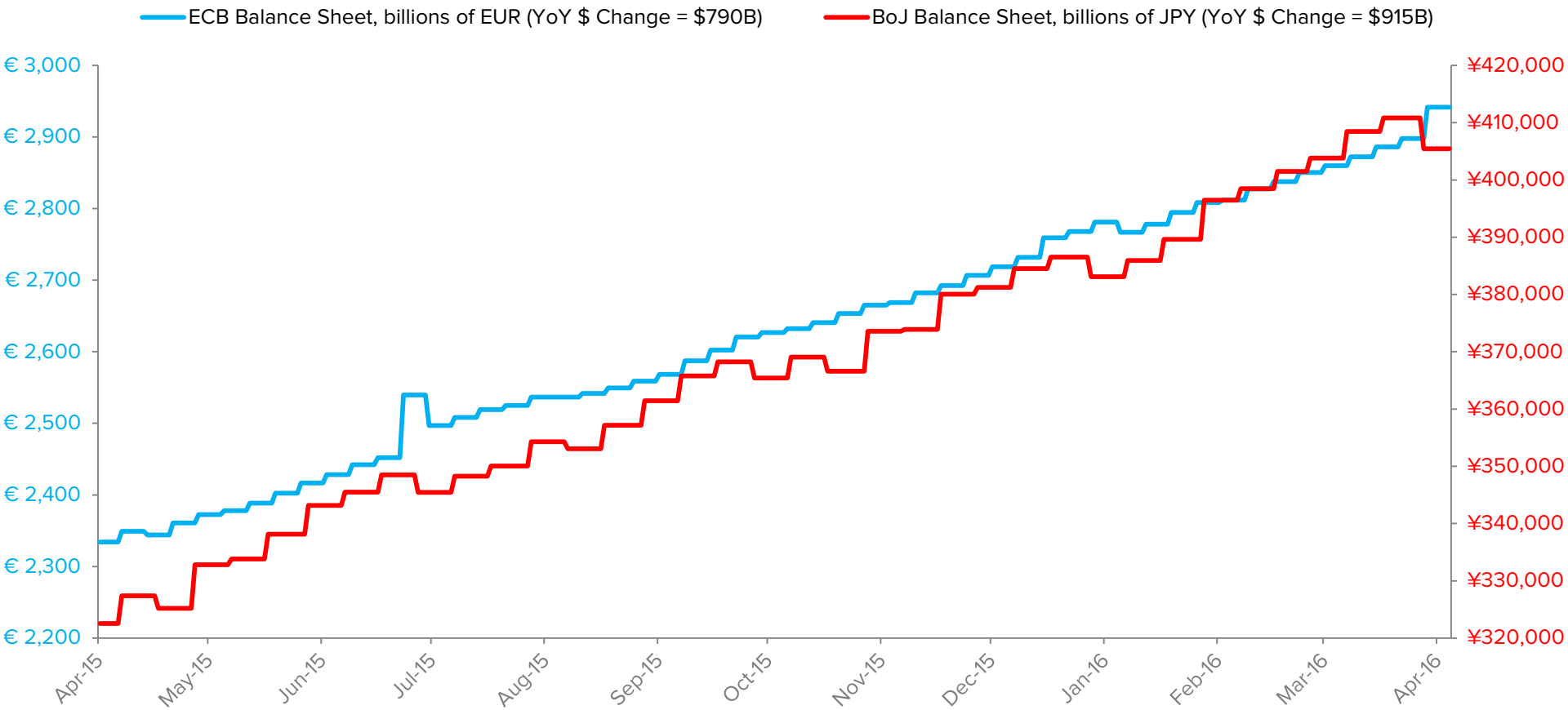
#BELIEFSYSTEM

Q: WHAT HAPPENS WHEN YOU COMBINE...

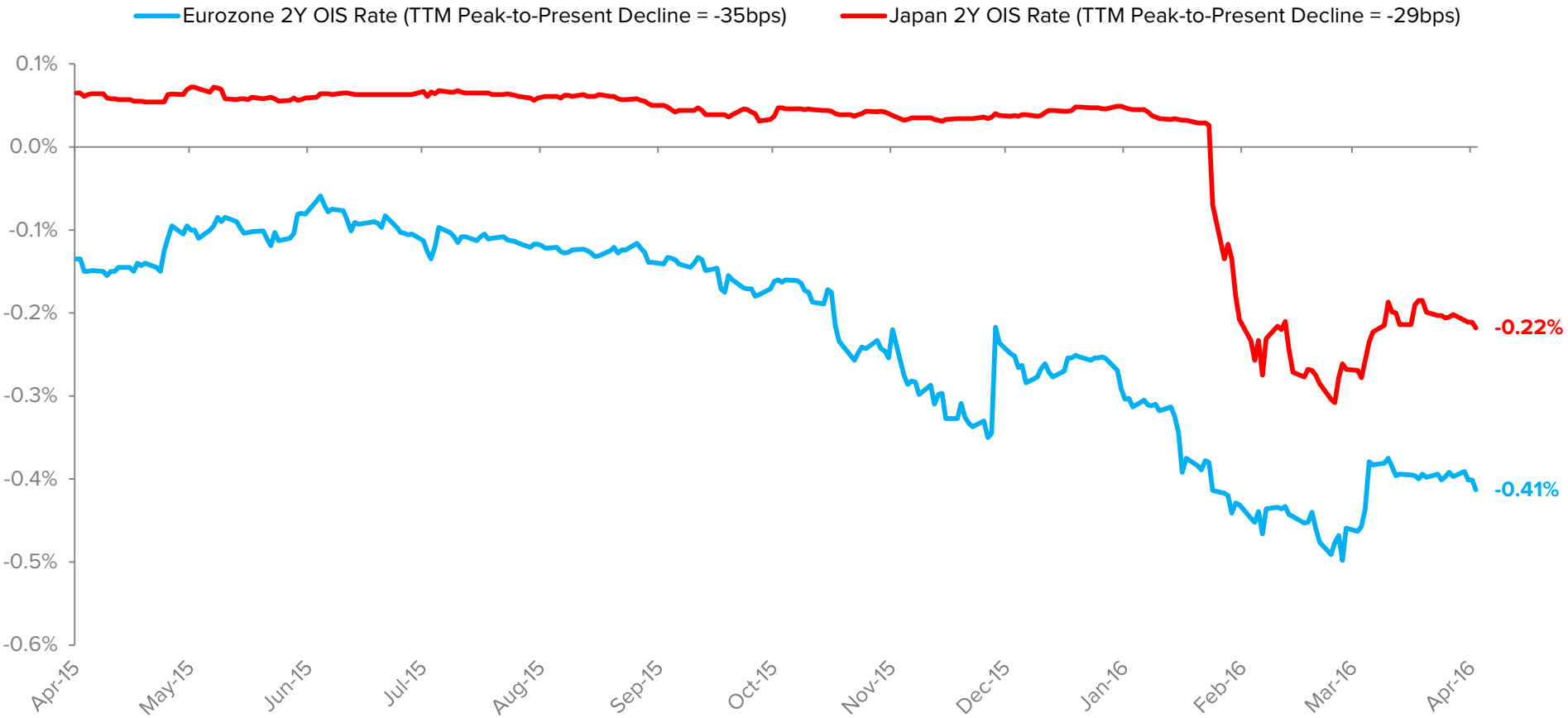
NEGATIVE INTEREST RATES



QUANTITATIVE & QUALITATIVE EASING



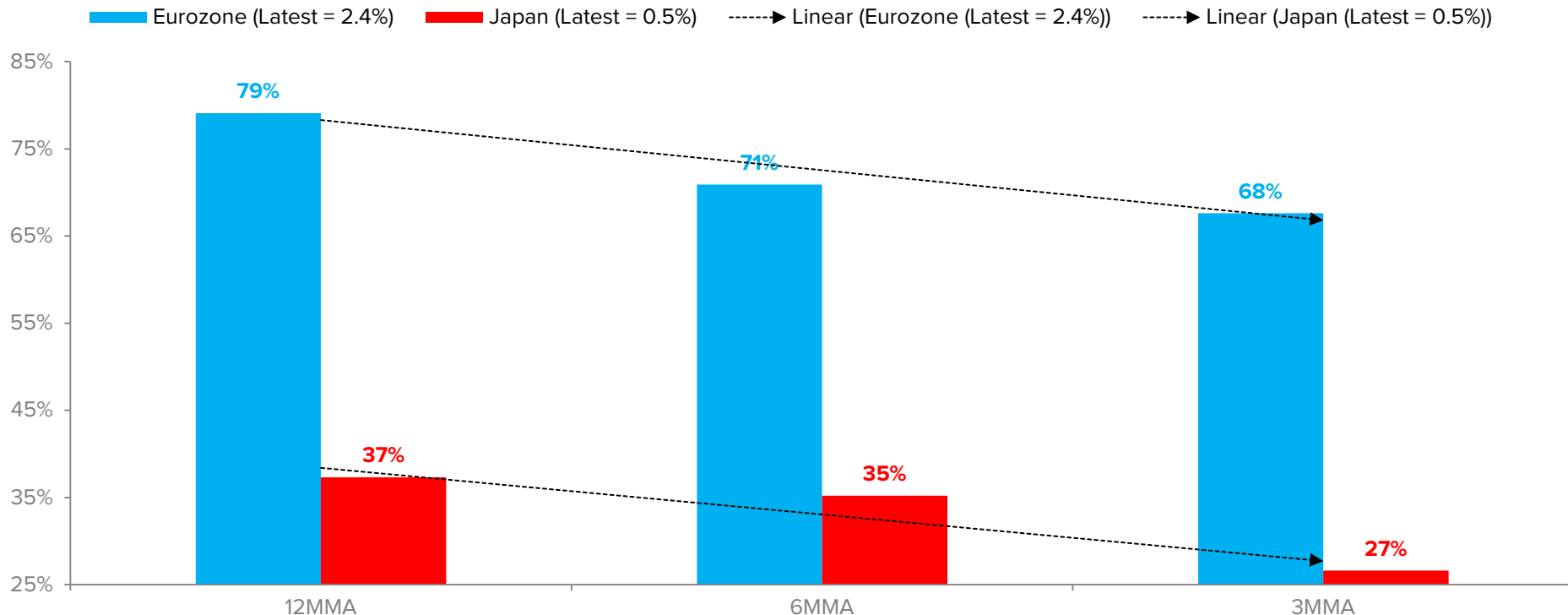
... AND FORWARD GUIDANCE?



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.

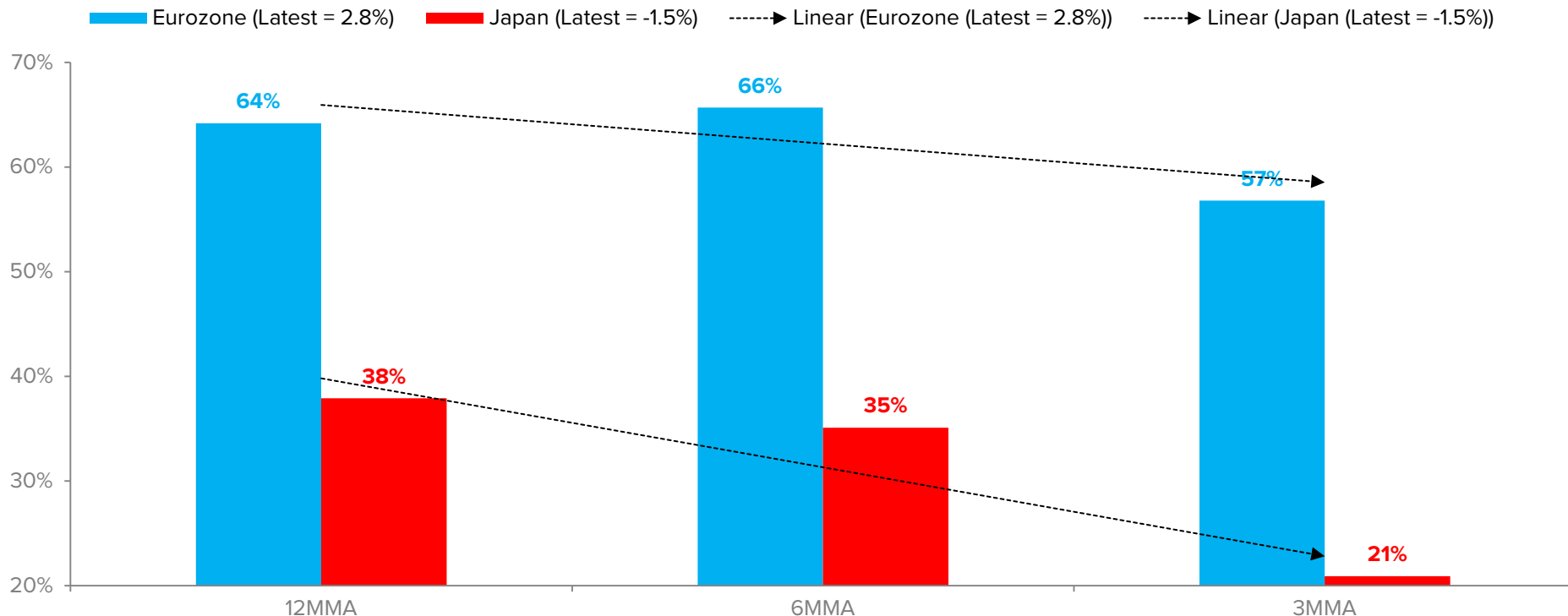
Retail Sales YoY % Change (Values Shown as a Percentile of Trailing 3Y Sample)



SLOWING MANUFACTURING GROWTH?

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

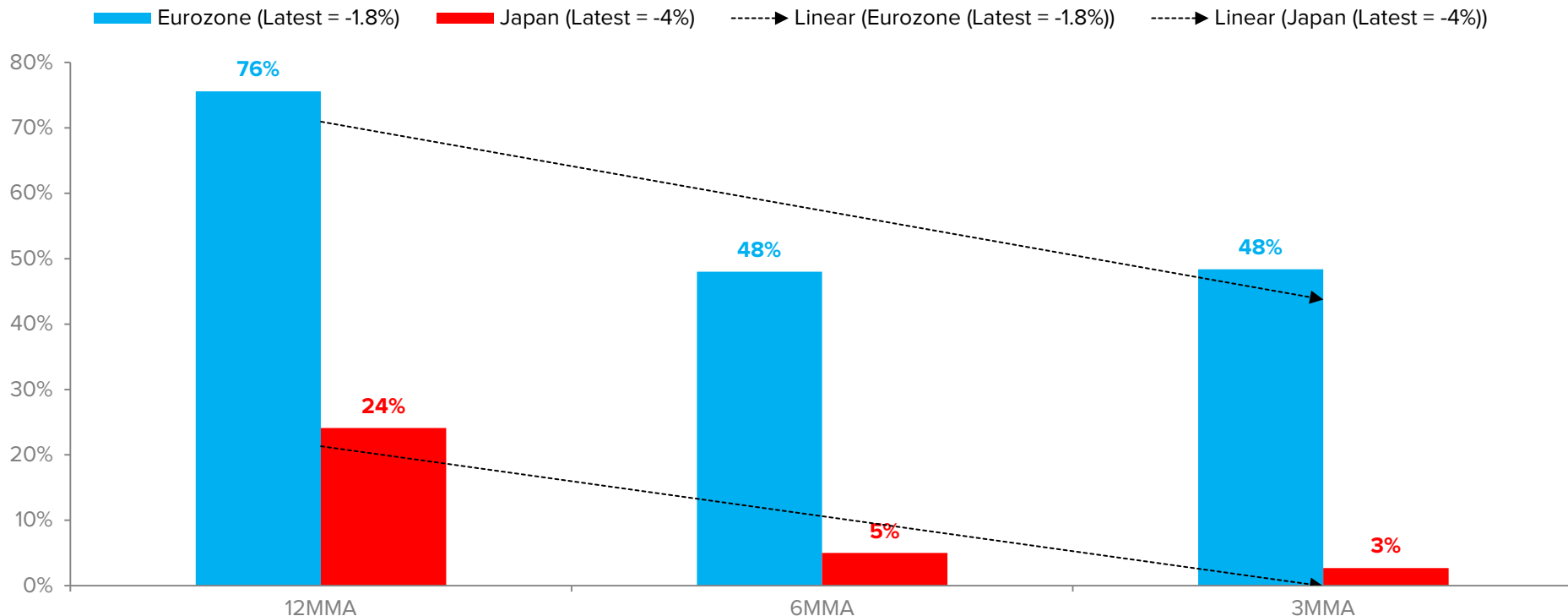
Industrial Production YoY % Change (Values Shown as a Percentile of the Trailing 3Y Sample)



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.

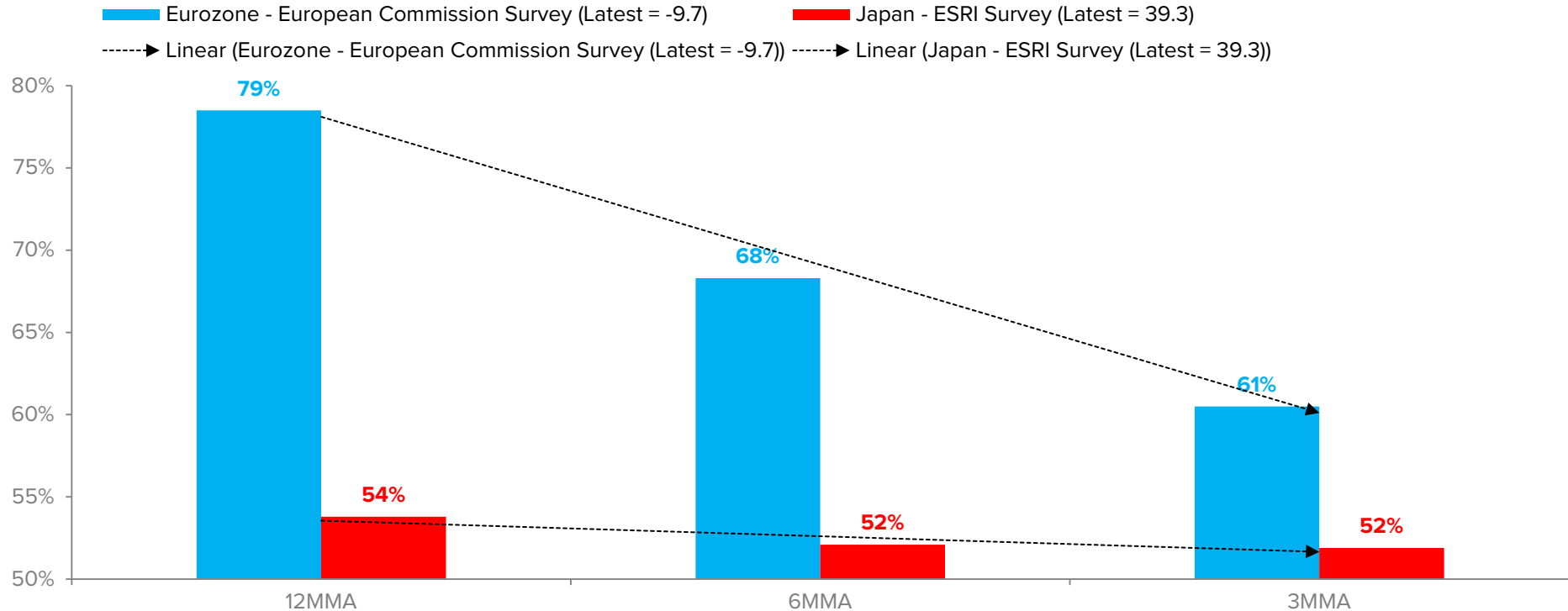
Exports YoY % Change (Values Shown as a Percentile of the Trailing 3Y Sample)



DECLINING CONSUMER CONFIDENCE?

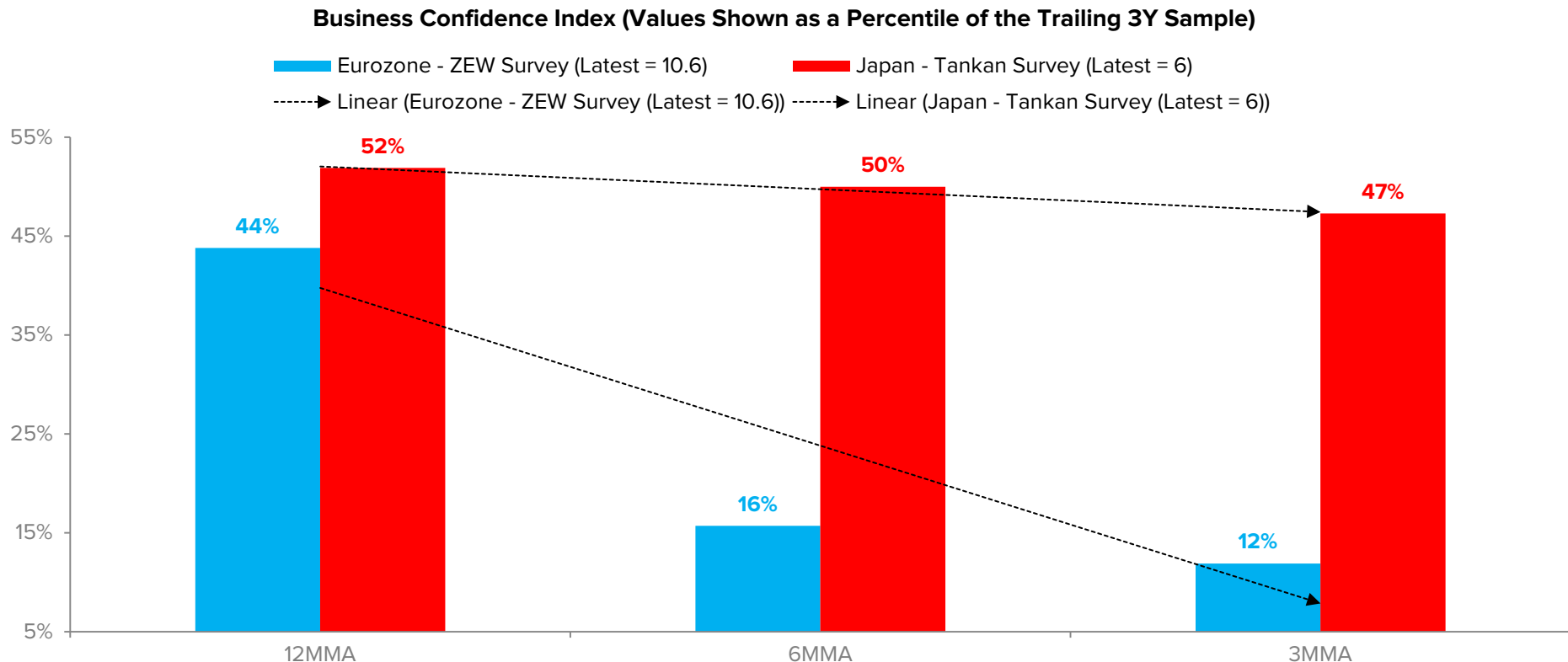
CONSUMER CONFIDENCE IS DECELERATING ON A TRENDING BASIS IN BOTH THE EUROZONE AND JAPAN. THAT IS NOT PART OF THE AGREED UPON #BELIEFSYSTEM.

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



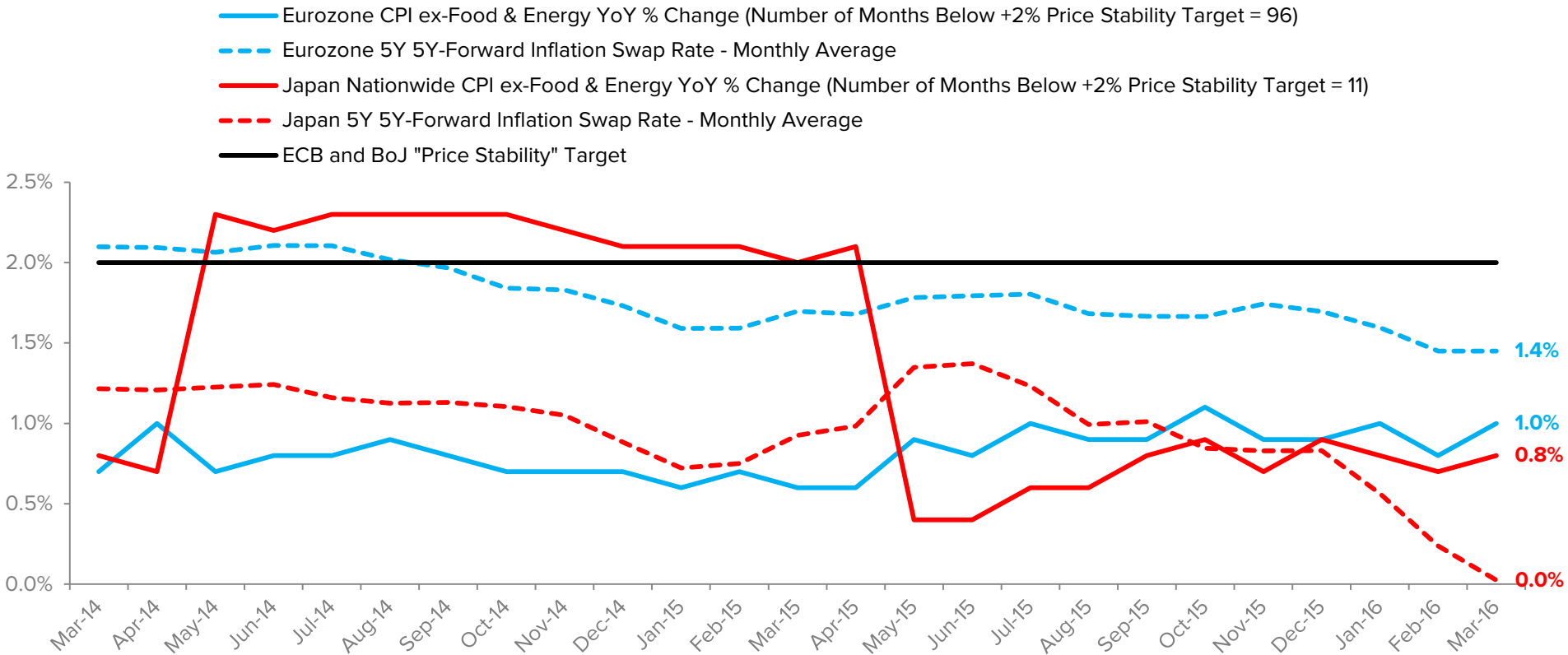
DECLINING BUSINESS CONFIDENCE?

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



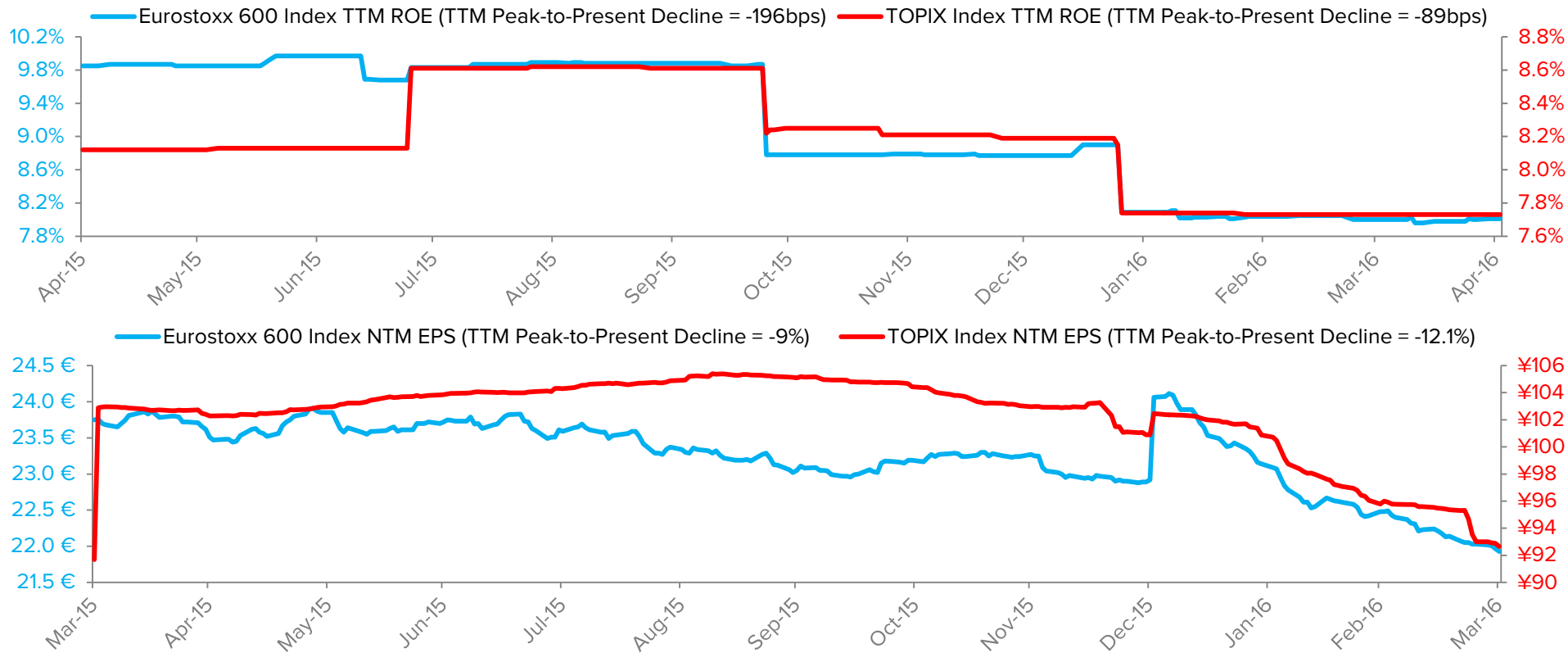
FALLING INFLATION EXPECTATIONS?

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.



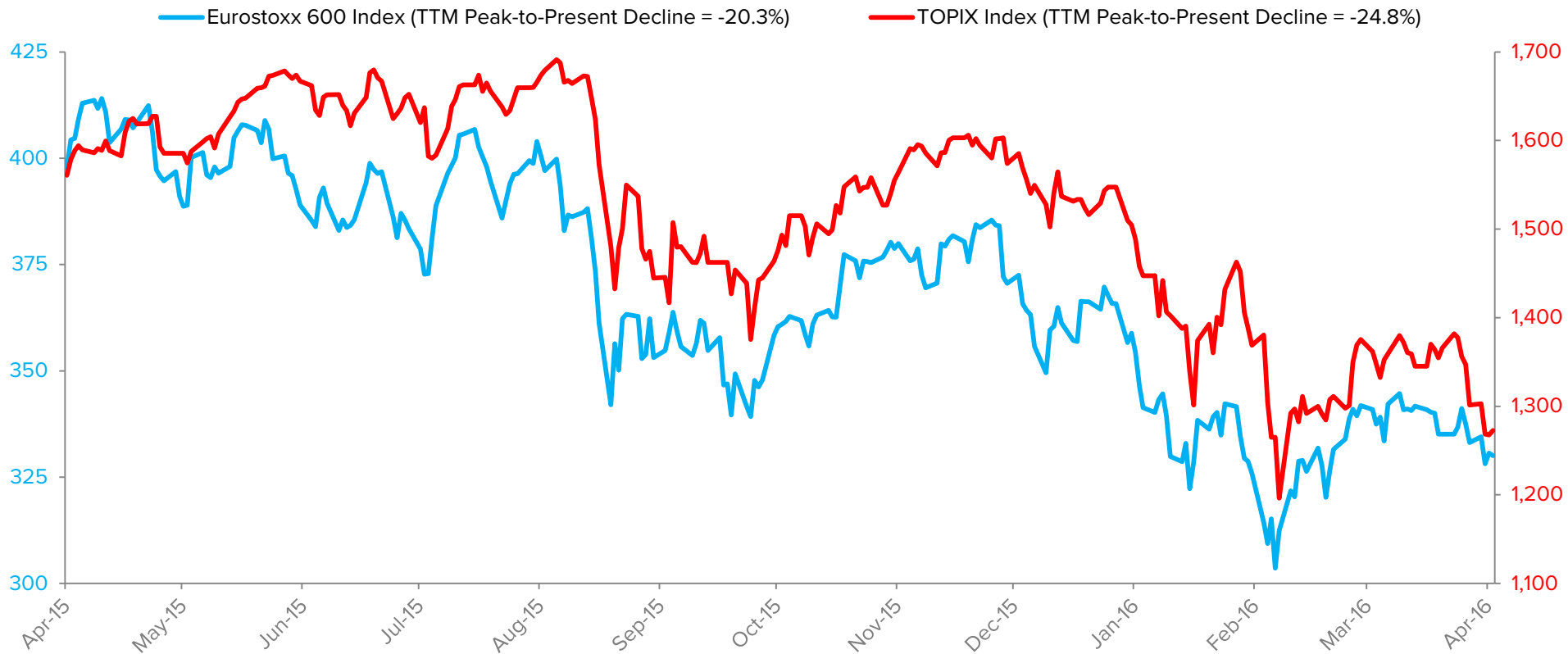
WANING CORPORATE PROFITABILITY?

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.



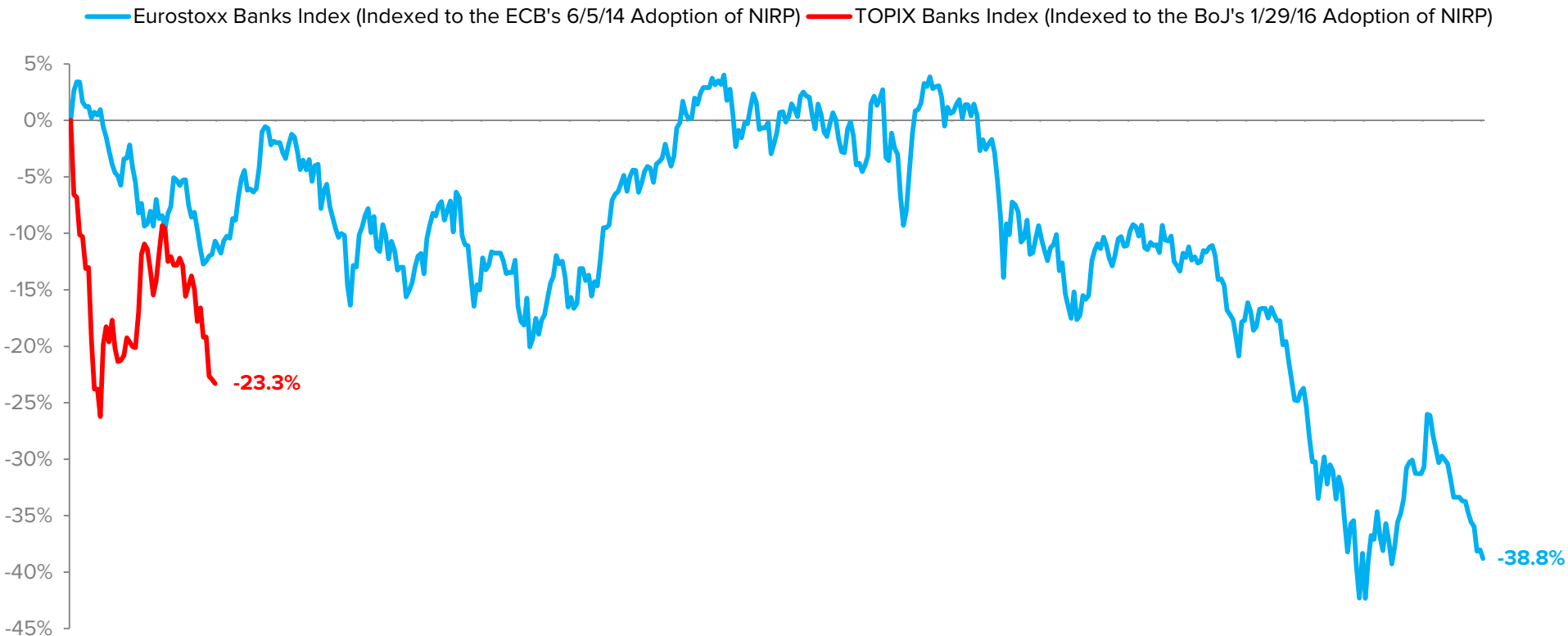
CRASHING STOCK MARKETS?

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.



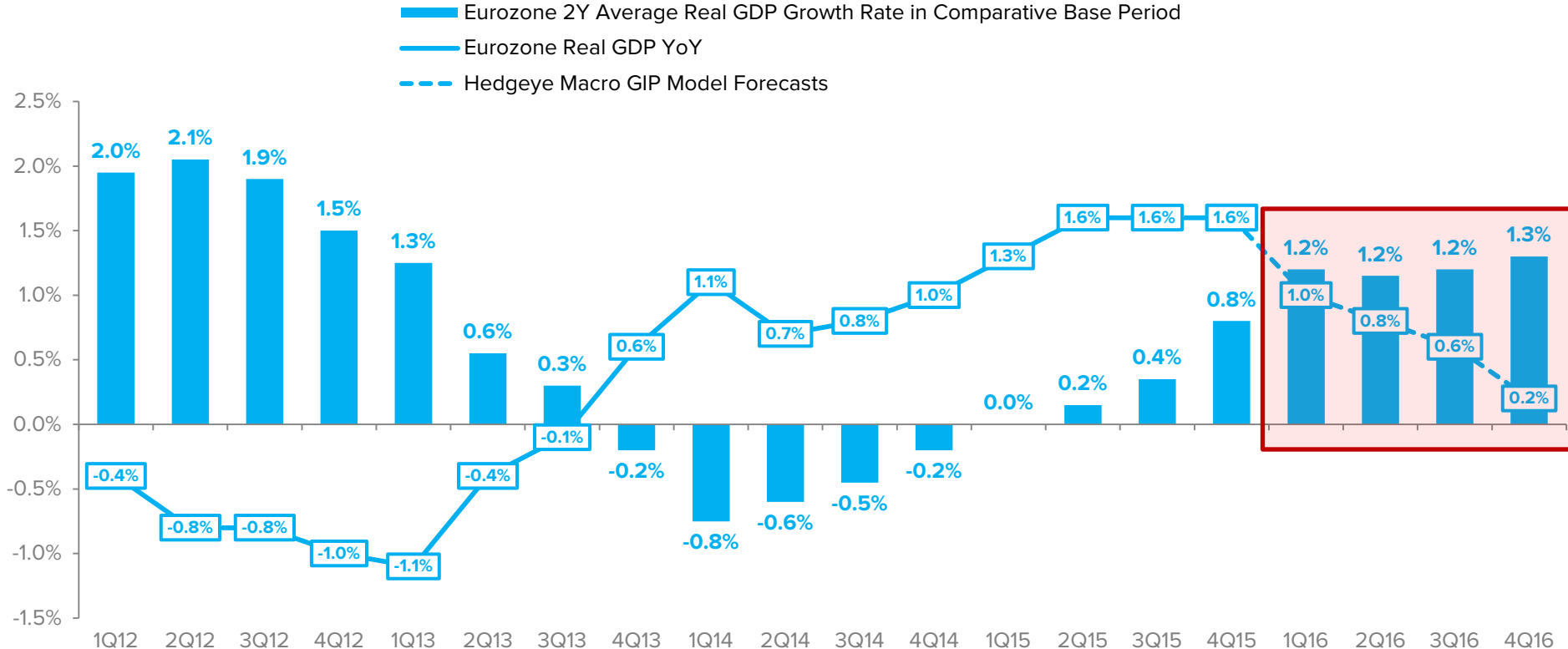
WHY?

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



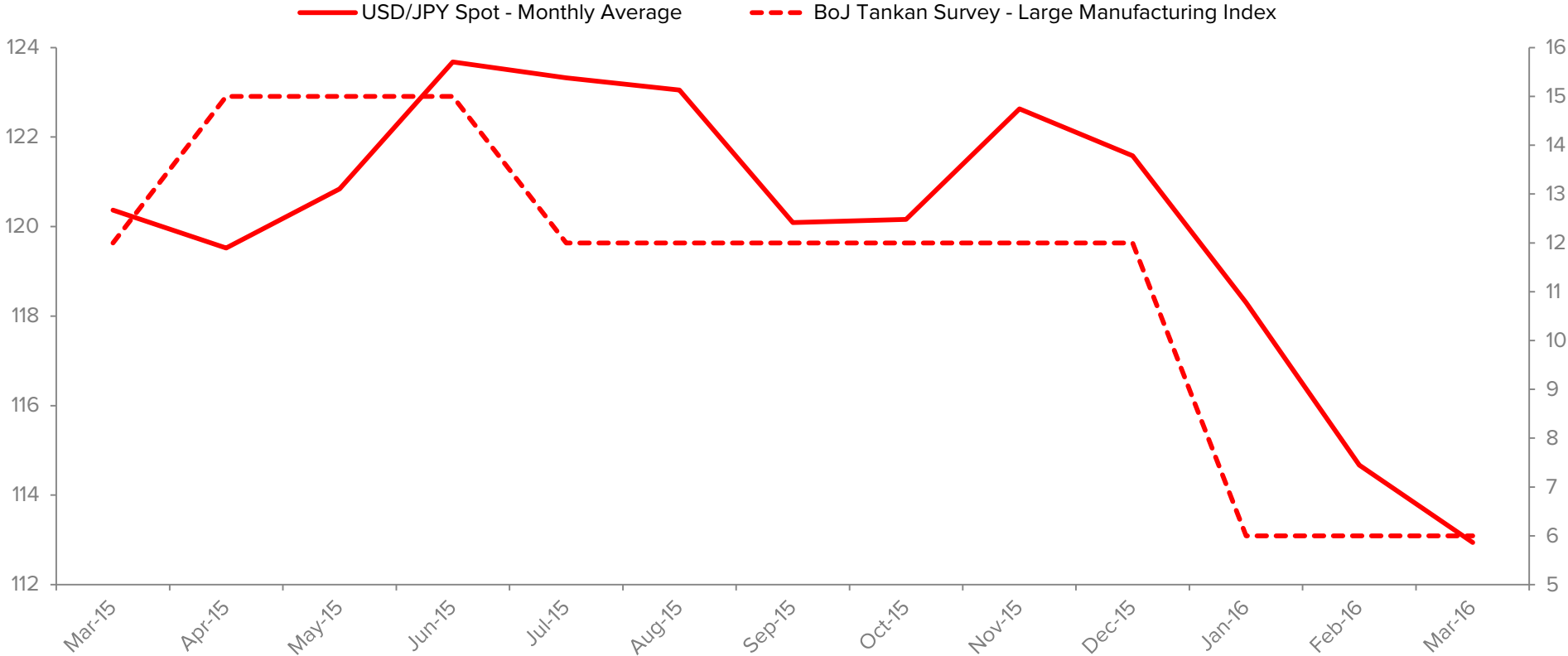
BECAUSE #THECYCLE MATTERS

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.



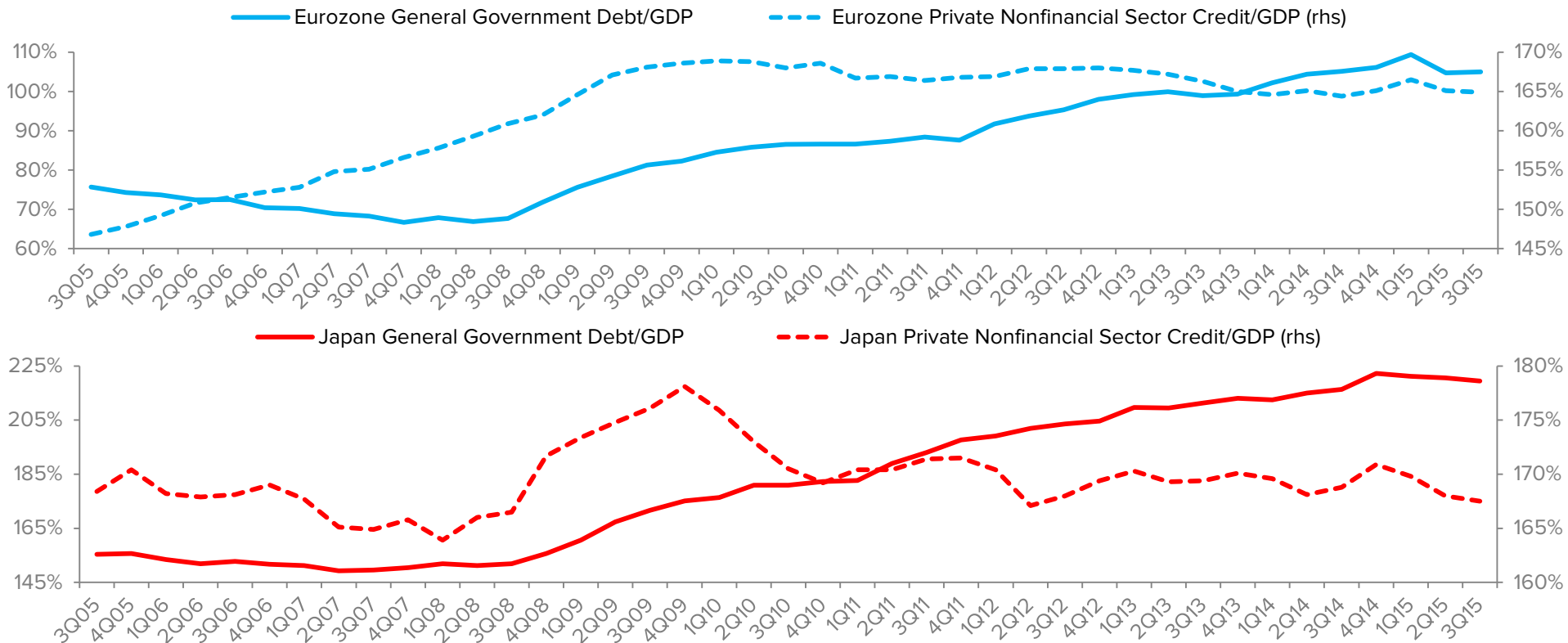
BECAUSE #THECYCLE MATTERS

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

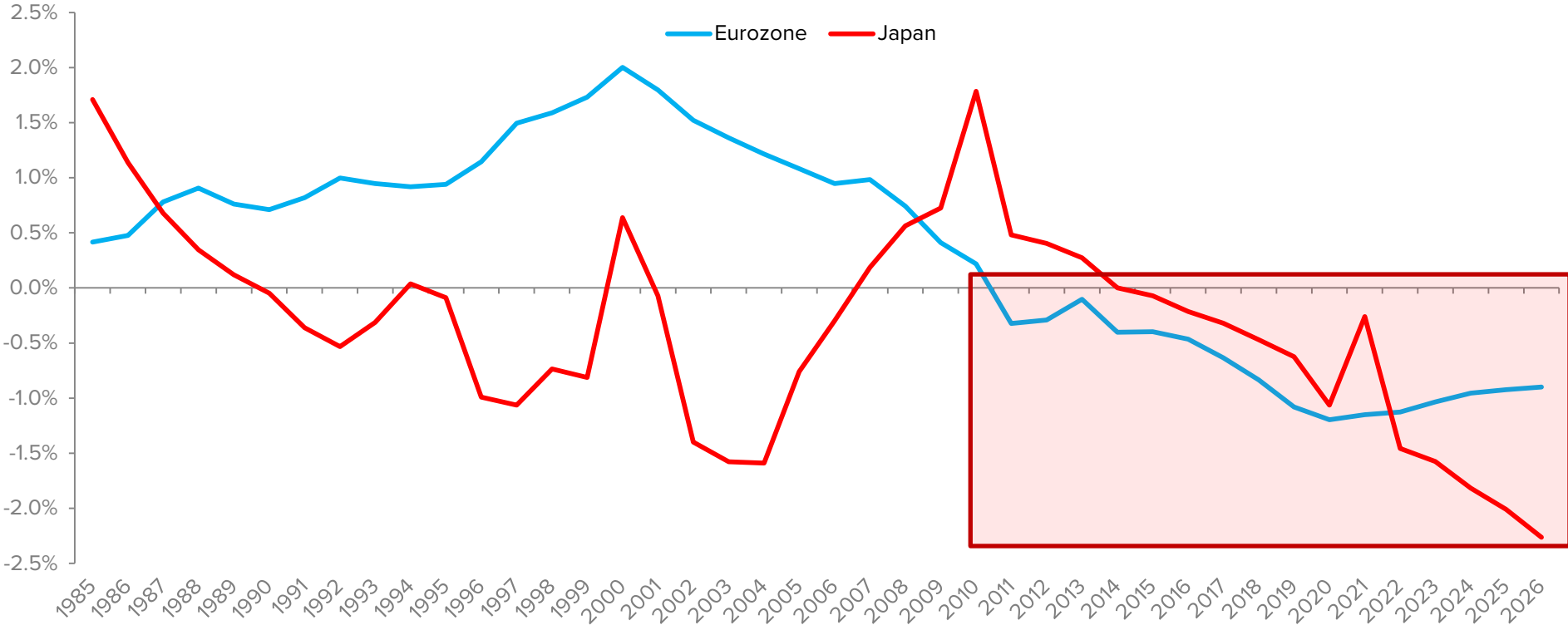
BURGEONING PUBLIC SECTOR DEBT IS INCREASINGLY CROWDING OUT PRIVATE SECTOR LEVERAGE IN BOTH THE EUROZONE AND JAPAN AMID THE SECULAR TREND OF WANING AGGREGATE DEMAND IN BOTH ECONOMIES.



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.

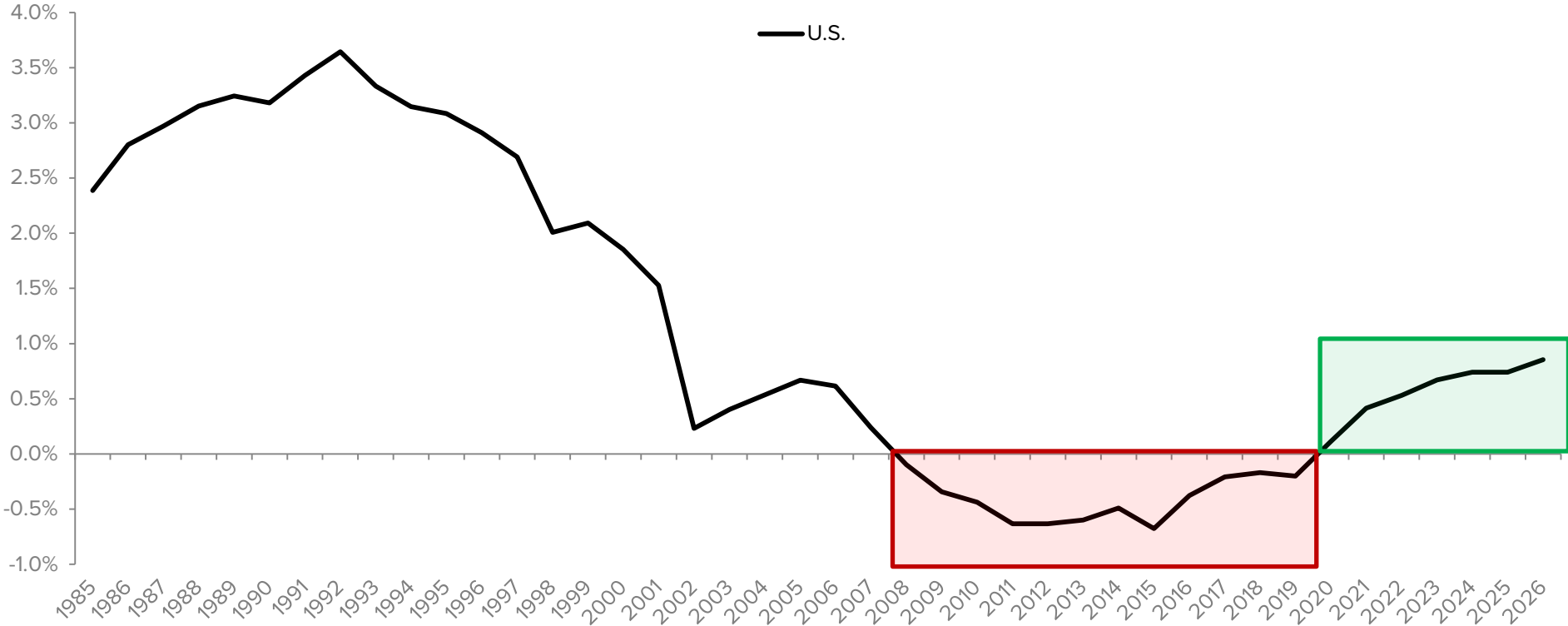
35-54 Year-Old Population Cohort YoY % Change



THE U.S. ISN'T ANY DIFFERENT

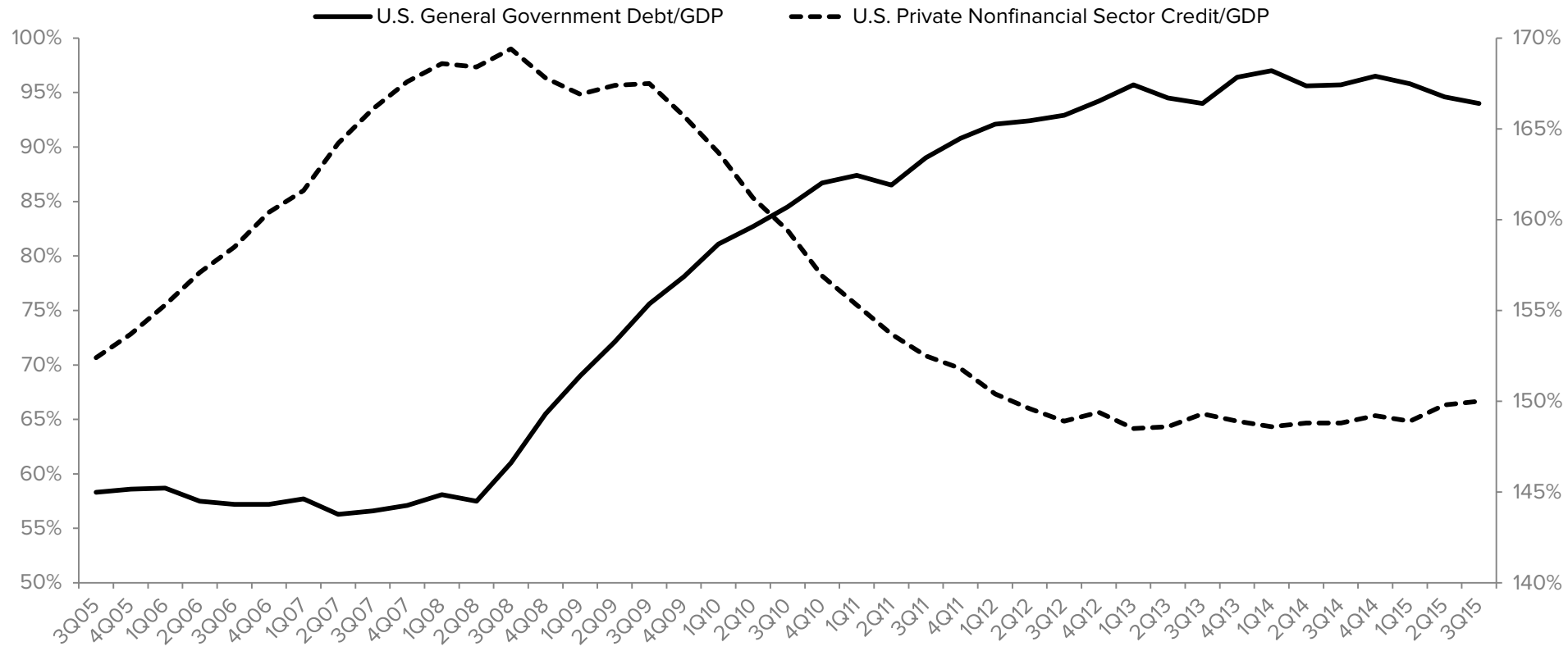
MUCH LIKE IN THE EUROZONE AND JAPAN, THE U.S. CONSUMPTION ECONOMY IS ALSO SUFFERING FROM PERSISTENT DECLINES IN ITS CORE CONSUMPTION COHORT. MILLENNIALS WON'T FULLY OFFSET THE BABY BOOM BUST UNTIL 2020.

35-54 Year-Old Population Cohort YoY % Change



SIMILAR STRUCTURAL HEADWINDS

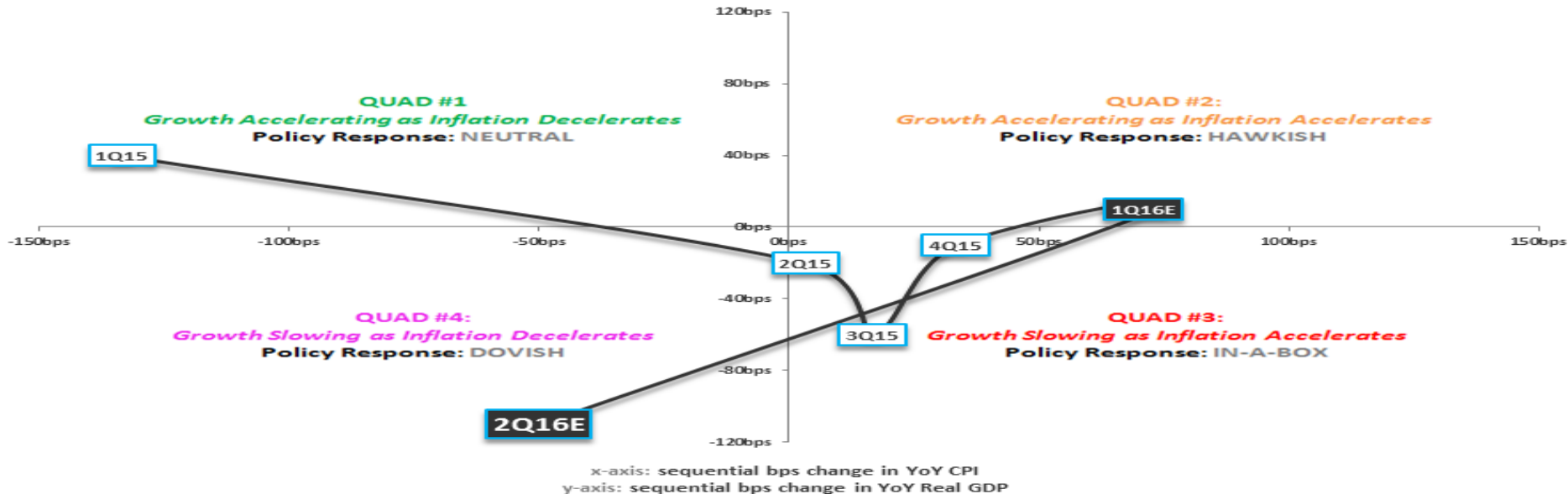
LIKE IN THE EUROZONE AND JAPAN, PRIVATE SECTOR DELEVERAGING HAS WEIGHED ON TREND GDP GROWTH RATES IN THE U.S., SULLYING THE PUBLIC SECTOR'S BALANCE SHEET IN THE PROCESS.



WELCOME BACK TO #QUAD4

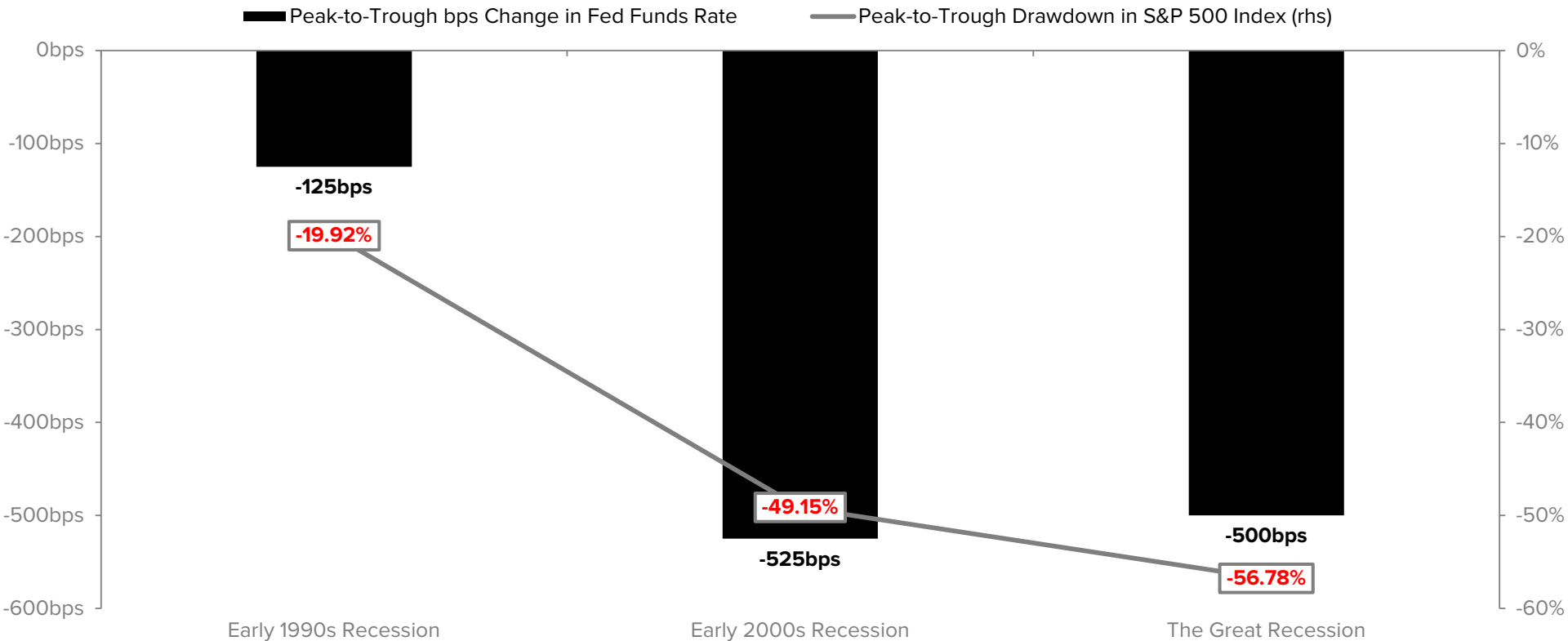
REMEMBER THE SECOND HALF OF 2014? THAT'S TYPICALLY WHAT #QUAD4 LOOKS LIKE IN ASSET PRICE TERMS.

UNITED STATES	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	Hedgeye Macro GIP Model		
Real GDP QoQ SAAR	0.1%	1.9%	1.1%	3.0%	3.8%	-0.9%	4.6%	4.3%	2.1%	0.6%	3.9%	2.0%	1.4%	GIP = Growth/Inflation/Policy		
Real GDP YoY	1.3%	1.1%	0.9%	1.5%	2.5%	1.7%	2.6%	2.9%	2.5%	2.9%	2.7%	2.1%	2.0%	Full-year Estimates		
2Y Average	1.5%	2.0%	1.7%	2.0%	1.9%	1.4%	1.8%	2.2%	2.5%	2.3%	2.7%	2.5%	2.3%	Hedgeye Predictive Tracking Algorithm		
3Y Average	1.9%	1.9%	1.7%	1.7%	1.8%	1.9%	2.0%	2.3%	2.1%	1.9%	2.1%	2.2%	2.3%	Bloomberg Consensus Estimate		
CAGR (3Y)	1.90%	1.93%	1.70%	1.70%	1.83%	1.86%	2.00%	2.27%	2.10%	1.90%	2.06%	2.17%	2.33%	Central Bank Forecast		
CPI YoY	1.9%	1.7%	1.4%	1.6%	1.2%	1.4%	2.1%	1.8%	1.3%	-0.1%	0.0%	0.1%	0.5%	Full-year Estimates		
2Y Average	2.6%	2.3%	1.7%	1.6%	1.6%	1.6%	1.8%	1.7%	1.3%	0.7%	1.0%	1.0%	0.9%	Hedgeye Predictive Tracking Algorithm		
3Y Average	2.2%	2.2%	2.3%	2.3%	2.1%	2.0%	1.8%	1.7%	1.5%	1.0%	1.2%	1.2%	1.0%	Bloomberg Consensus Estimate		
CAGR (3Y)	2.15%	2.22%	2.26%	2.34%	2.14%	1.98%	1.80%	1.69%	1.47%	1.01%	1.15%	1.16%	0.99%	Central Bank Forecast		
														2015A	2016E	
														2.4%	1.4%	
														2.4%	2.1%	
														2.1%	2.2%	
														0.1%	0.9%	
														0.1%	1.3%	
														1.3%	1.6%	



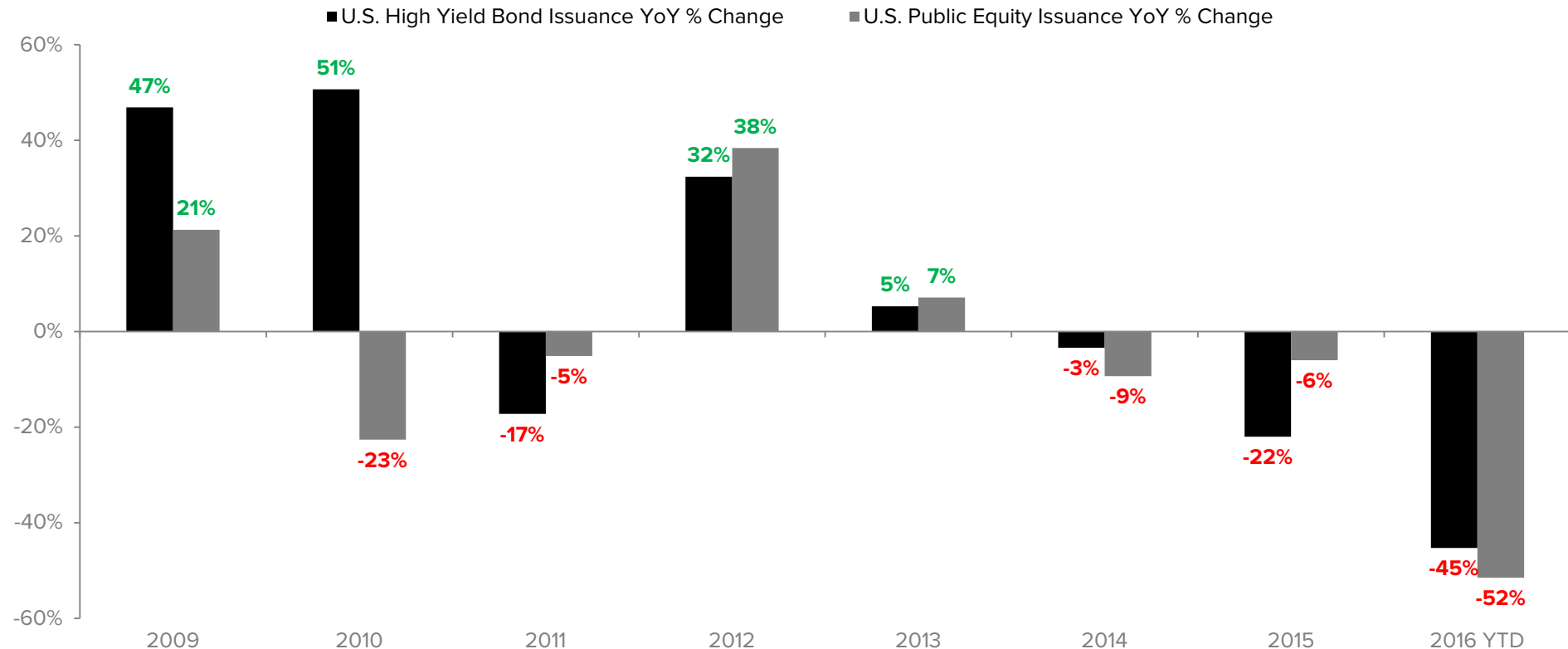
CAN THE FED BEND GRAVITY?

HISTORICALLY SPEAKING, WHENEVER #THECYCLE HAS BEEN MET WITH MONETARY EASING, IT IS #THECYCLE 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.



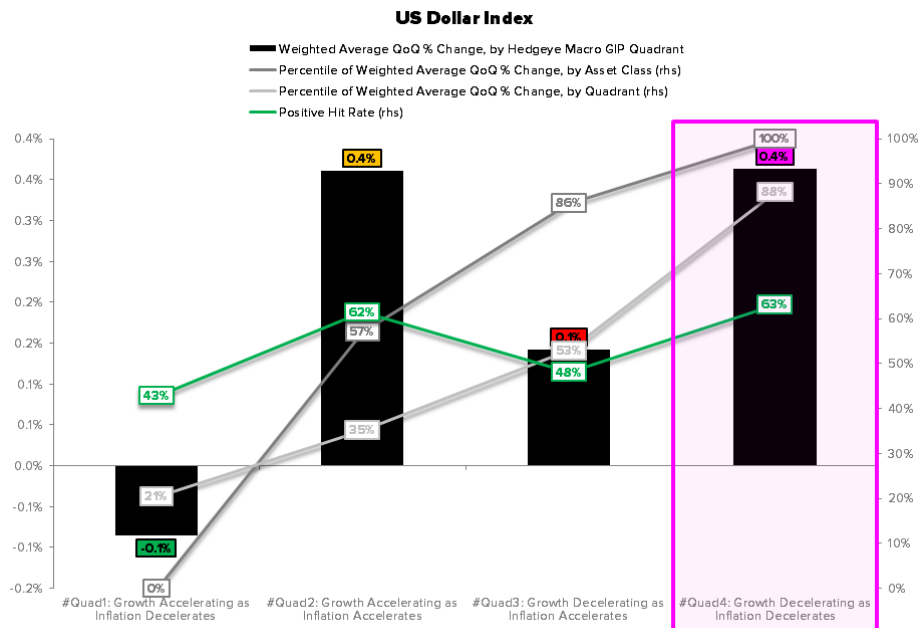
#BELIEFSYSTEM BREAKING DOWN?

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.



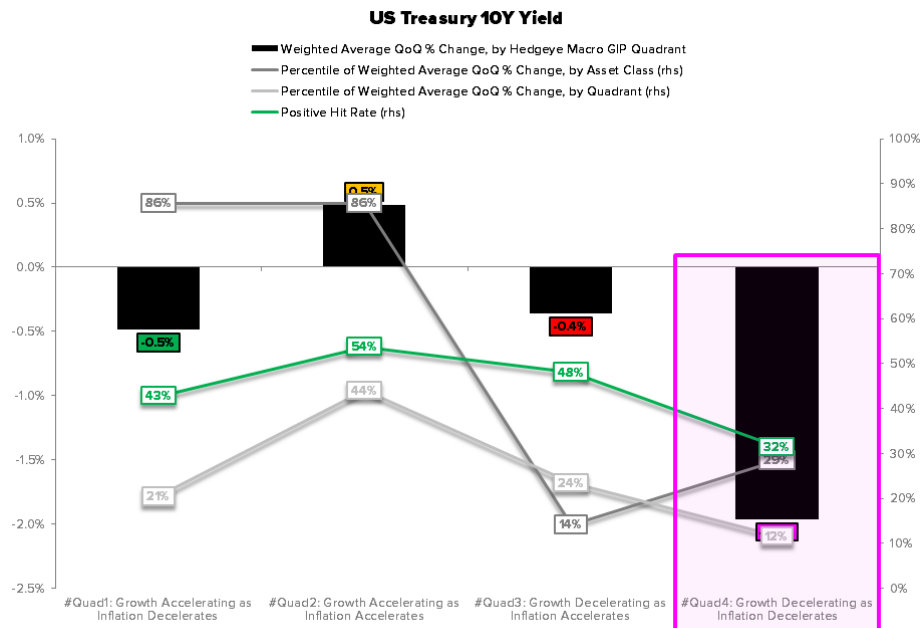
BUSTED #BELIEFSYSTEM = DEFLATION

DOLLAR UP



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

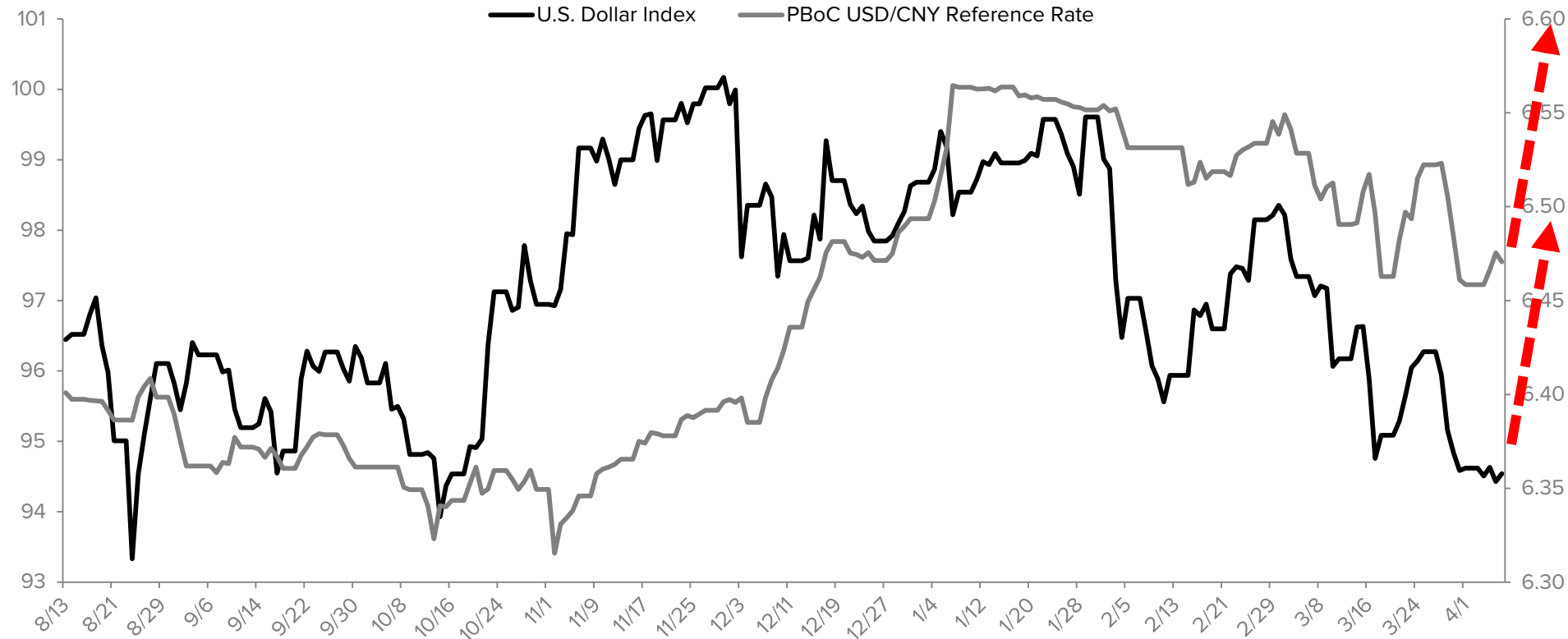
RATES DOWN



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

DOLLAR UP = YUAN DOWN

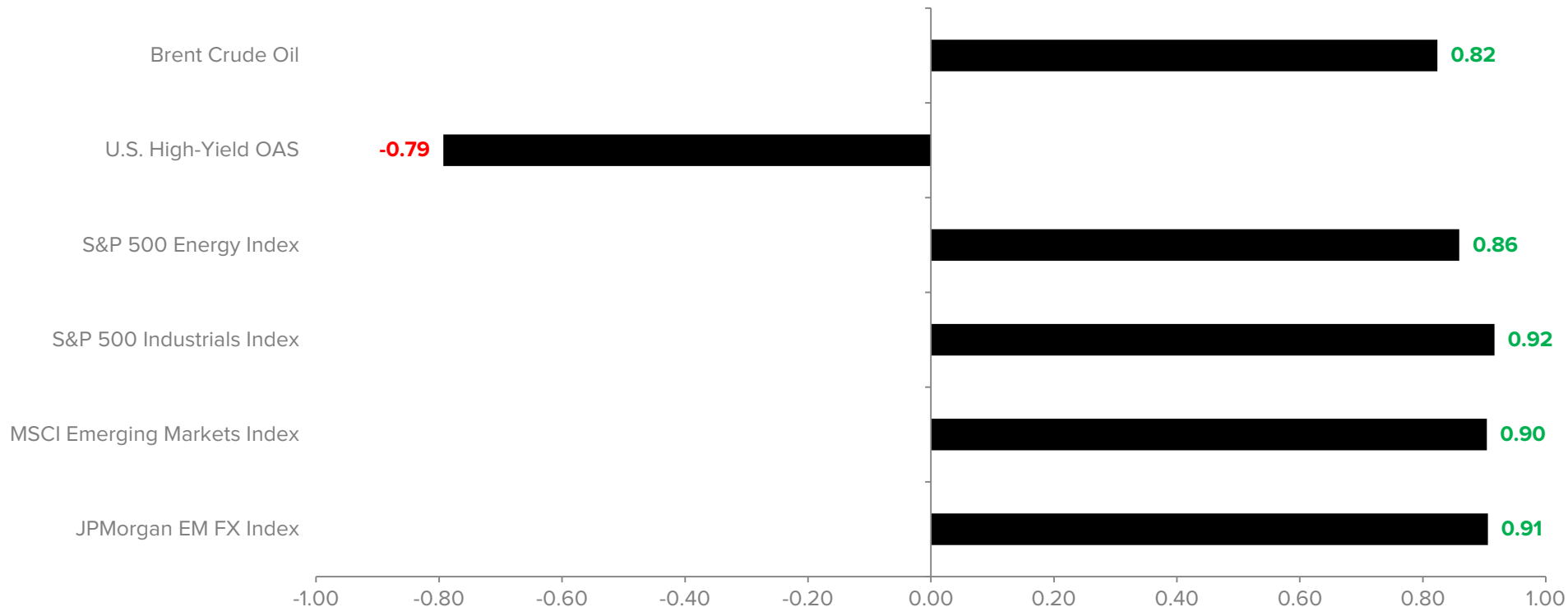
TO THE EXTENT BEIJING MAINTAINS ITS POLICY OF KEEPING THE YUAN “BASICALLY STABLE VS. A BASKET OF [PEER] CURRENCIES”, A SERIES OF HIGHER-LOWS IN THE DXY FROM HERE SHOULD REIGNITE CNY DEVALUATION FEARS.



YUAN DOWN = REFLATION DOWN

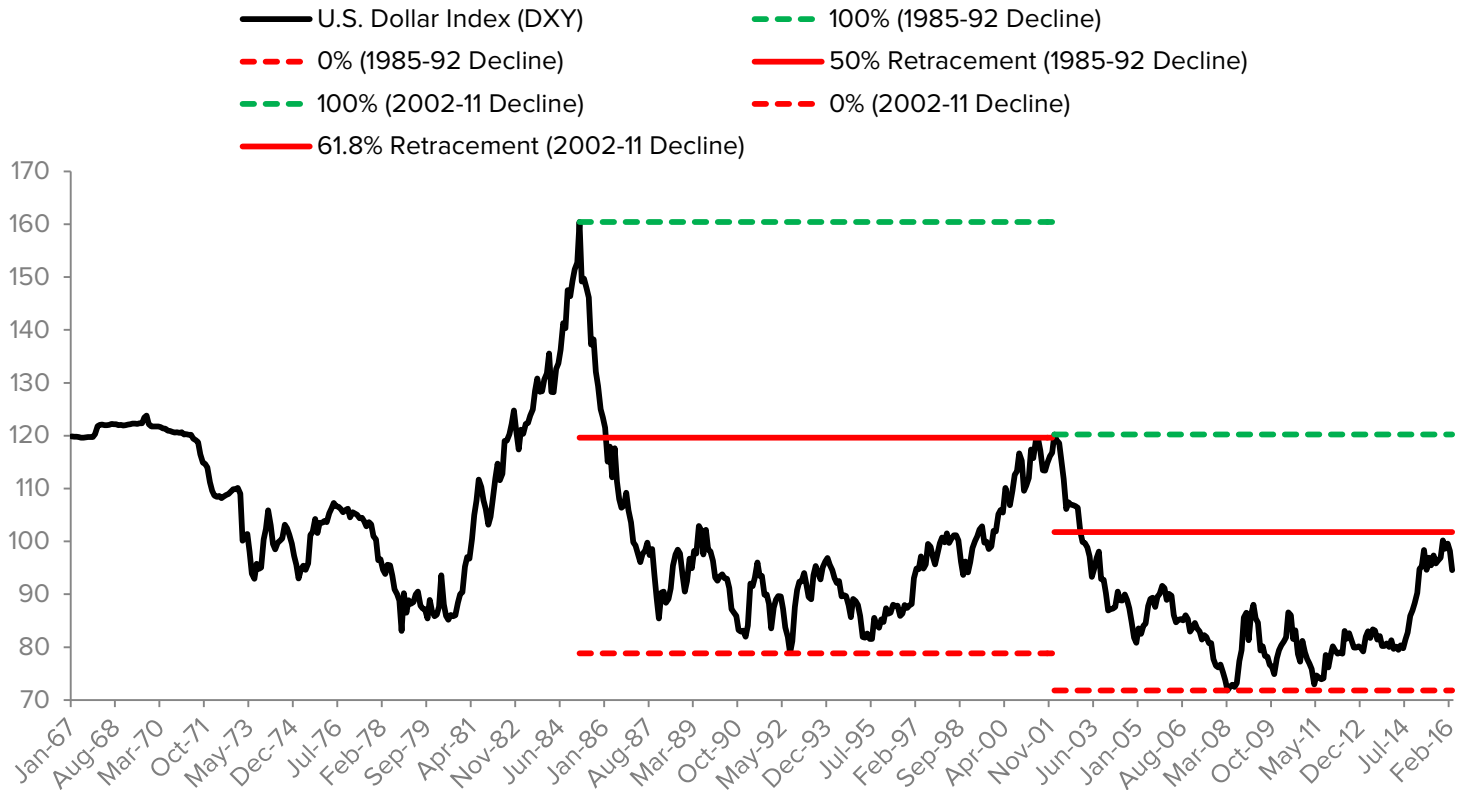
IN LINE WITH OUR EXPECTATIONS, THE CHINESE ECONOMY HAS STABILIZED IN THE YTD. THAT BEING SAID, DON'T DISRESPECT THE POTENTIAL NEGATIVE IMPACT RENEWED CAPITAL OUTFLOW PRESSURES IN CHINA WILL HAVE ON THE GLOBAL REFLATION TRADE.

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



TO PLAY DEVIL'S ADVOCATE...

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:

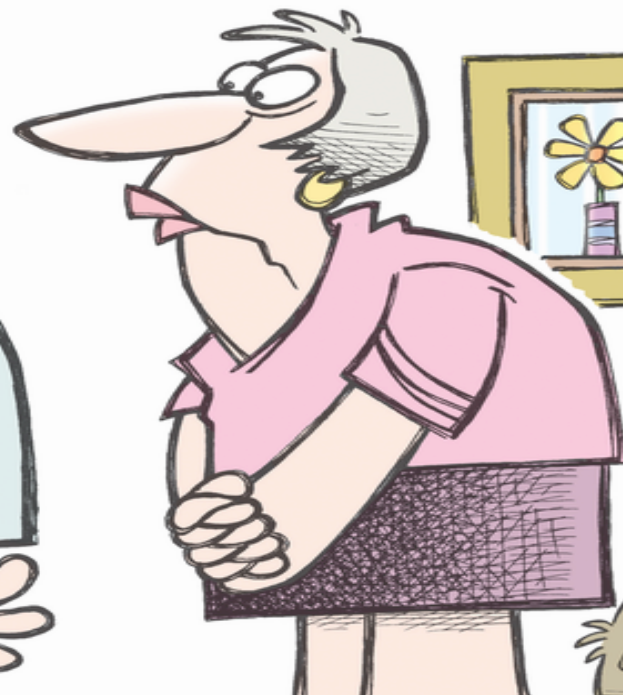
U.S. Dollar Index: **93.07**
Support

Crude Oil (WTI): **45.44**
Resistance

S&P 500: **2066**
Resistance

VIX: **11.71**
Support

ACCORDING TO THIS
DEMOGRAPHICS CHART
WE'RE MOVING
FROM "BOOMER"
TO "BUMMER."



B. Rich — HEDGEYE

#DEMOGRAPHYDEBATES

15s. 098283

Reichsbanknote
Zehntausend Mark

zahlt die Reichsbankhauptkasse in Berlin

gegen diese Banknote dem Einlieferer

Berlin, den 19. Januar 1922

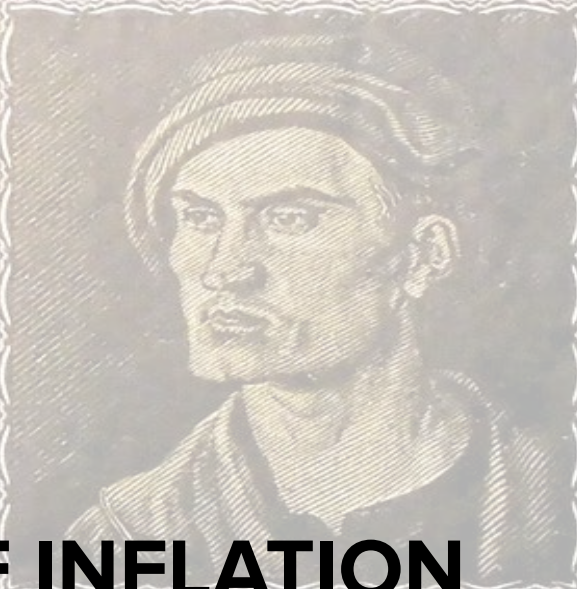
Reichsbankdirektorium

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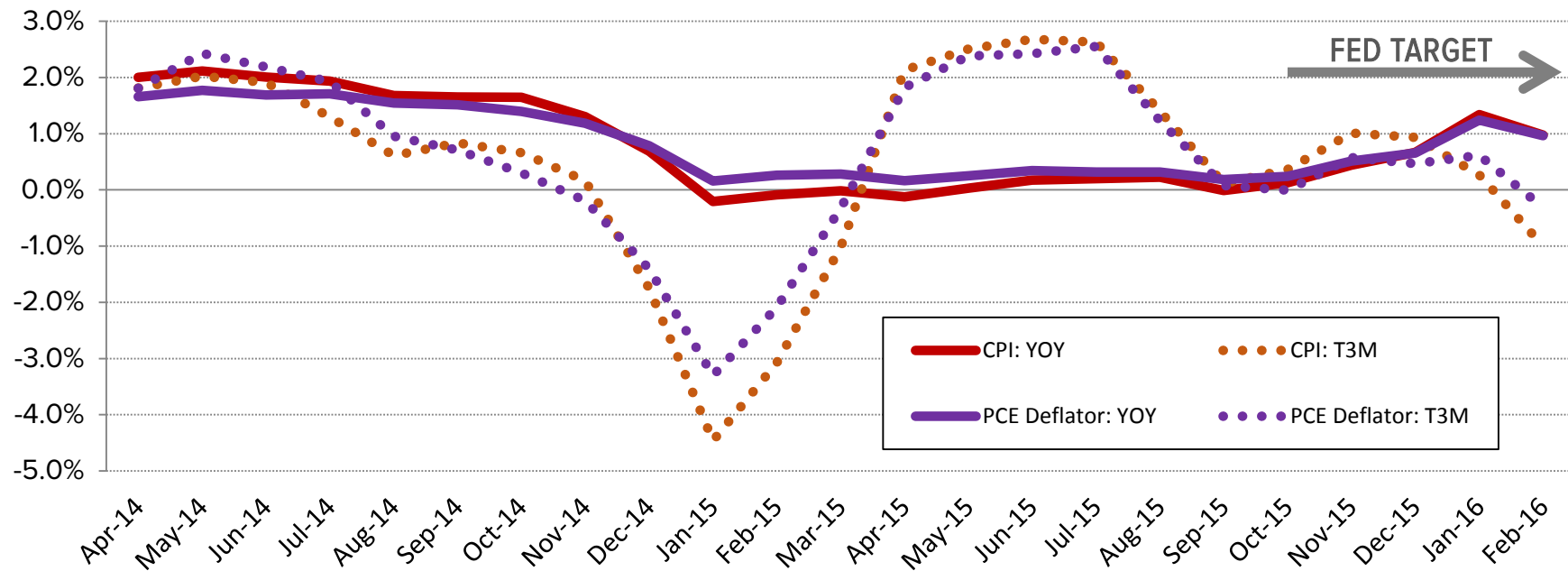
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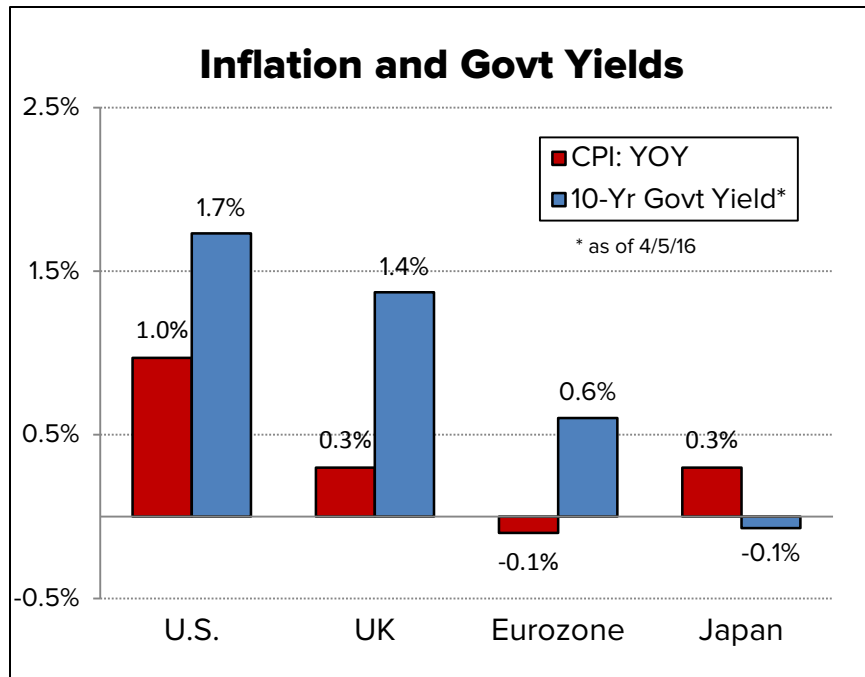
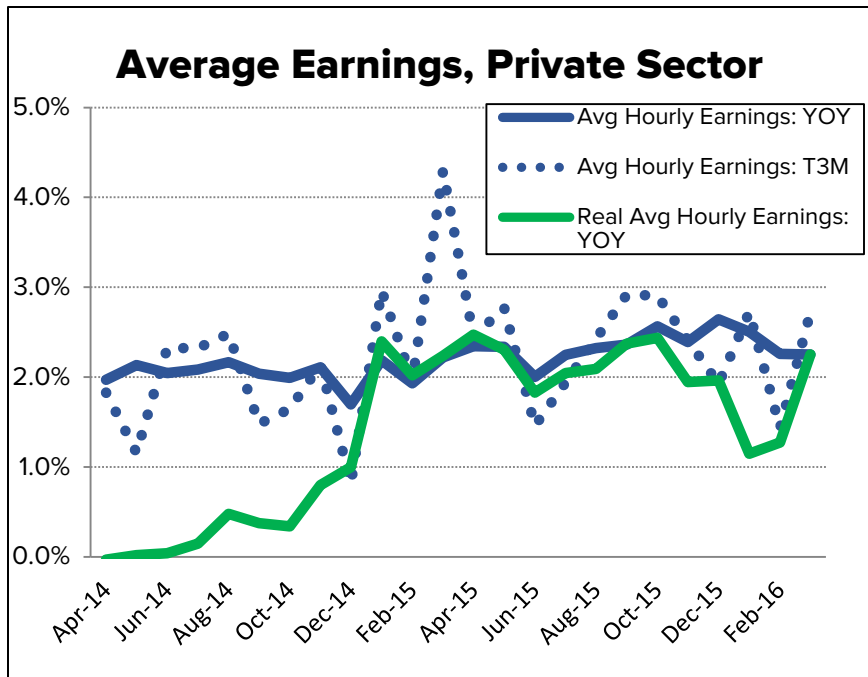
THE RUMORED RETURN OF INFLATION

CONSUMER INFLATION, SUBDUED



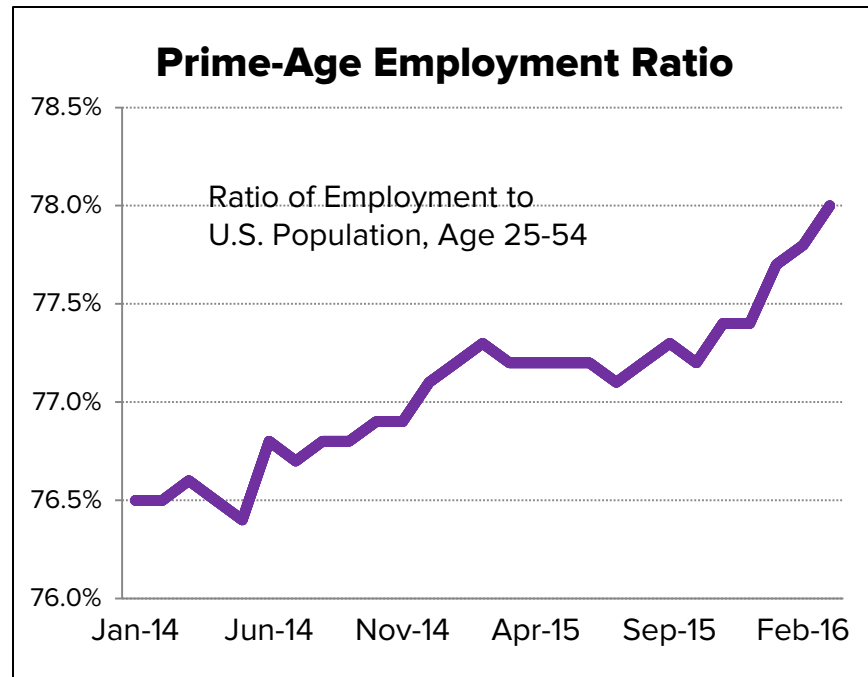
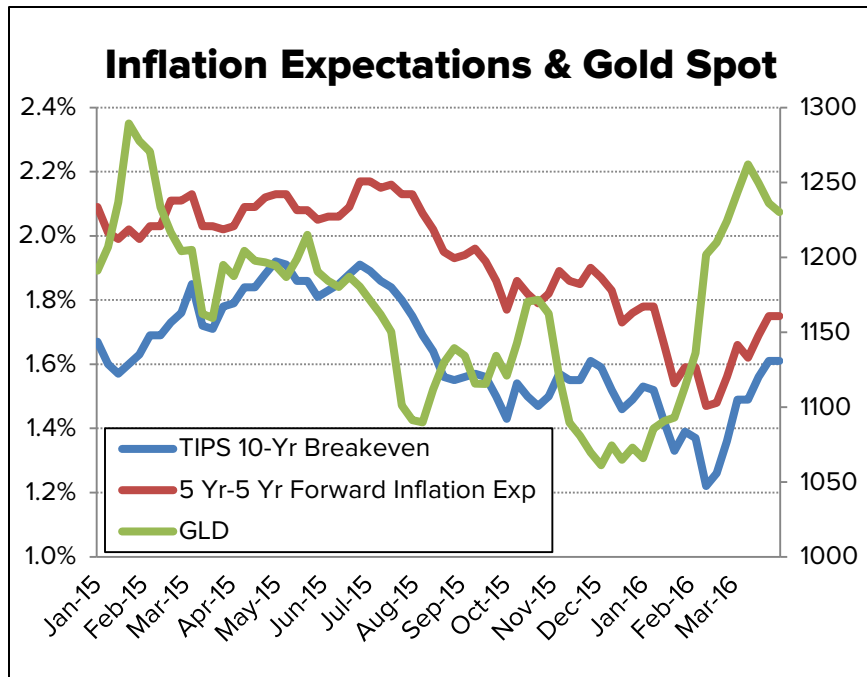
3M MOVING AVERAGE FOR CPI & PCE DEFLATOR ARE TRENDING BELOW YOY VALUES.

WAGES OR ABROAD: LITTLE PRESSURE



REMARKABLY, BIG RECENT JUMP IN REAL WAGES HAS HAD LITTLE IMPACT ON NOMINAL WAGES

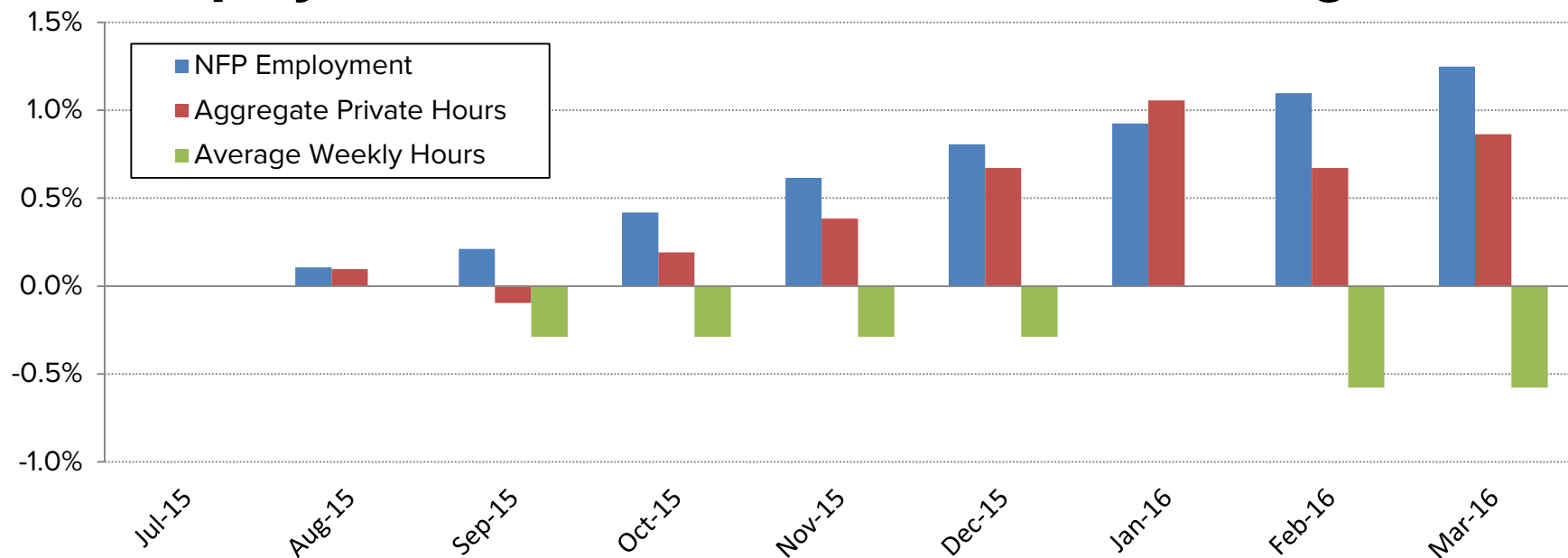
BUT NFP WORRIES INFLATION HAWKS



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

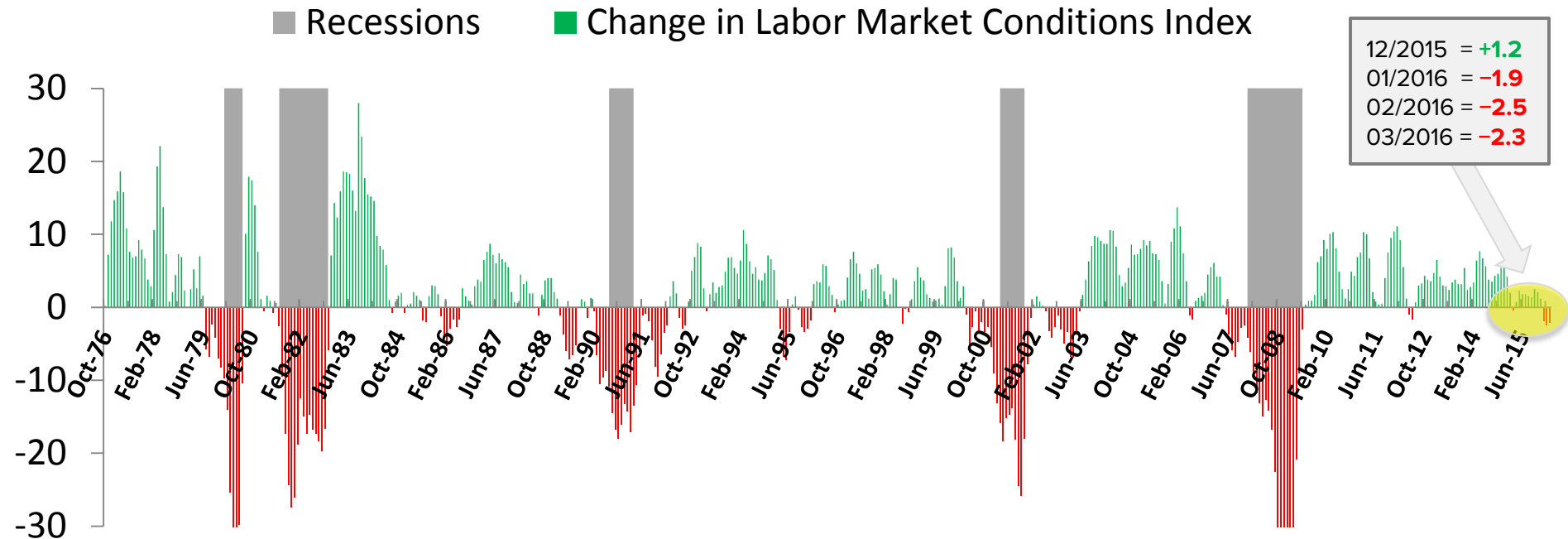
IS NFP HIDING RISE OF GIG ECONOMY?

Employment & Hours: Total Growth Since Aug 2015



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

SHARP FALL IN JANET'S FAVORITE INDEX

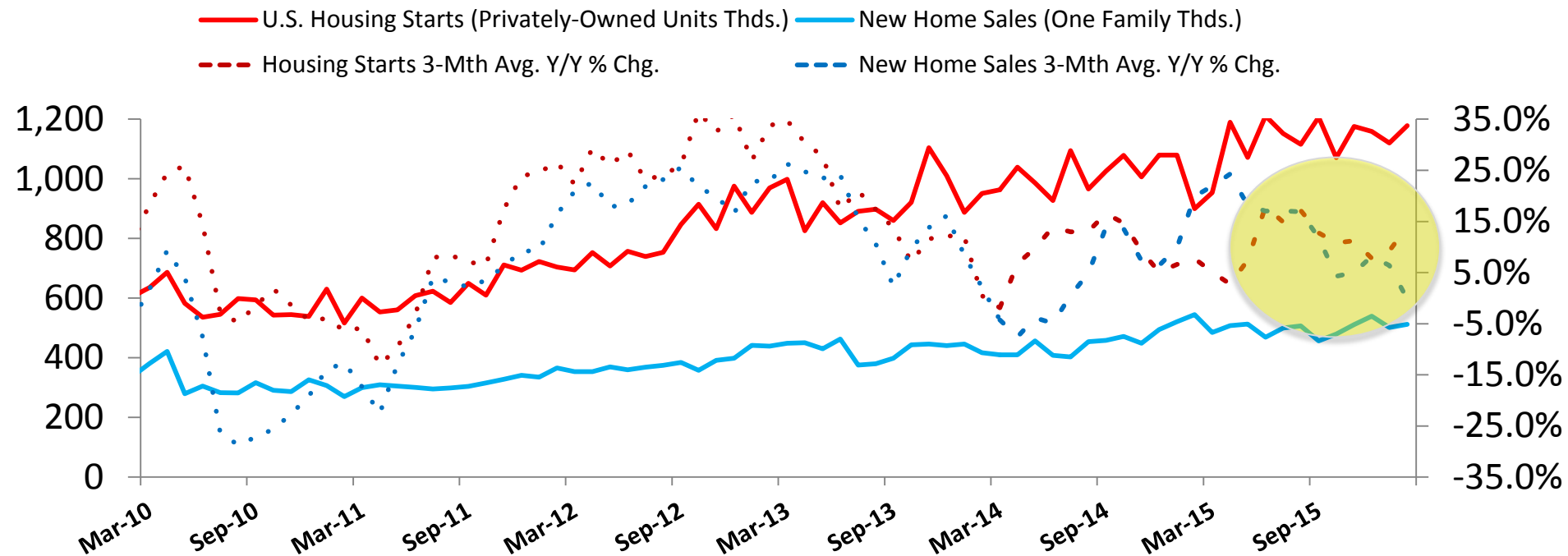


THE LAST 3 MONTHS HAVE REGISTERED LOWEST READINGS SINCE JUNE, 2009.



WHITHER HOUSING

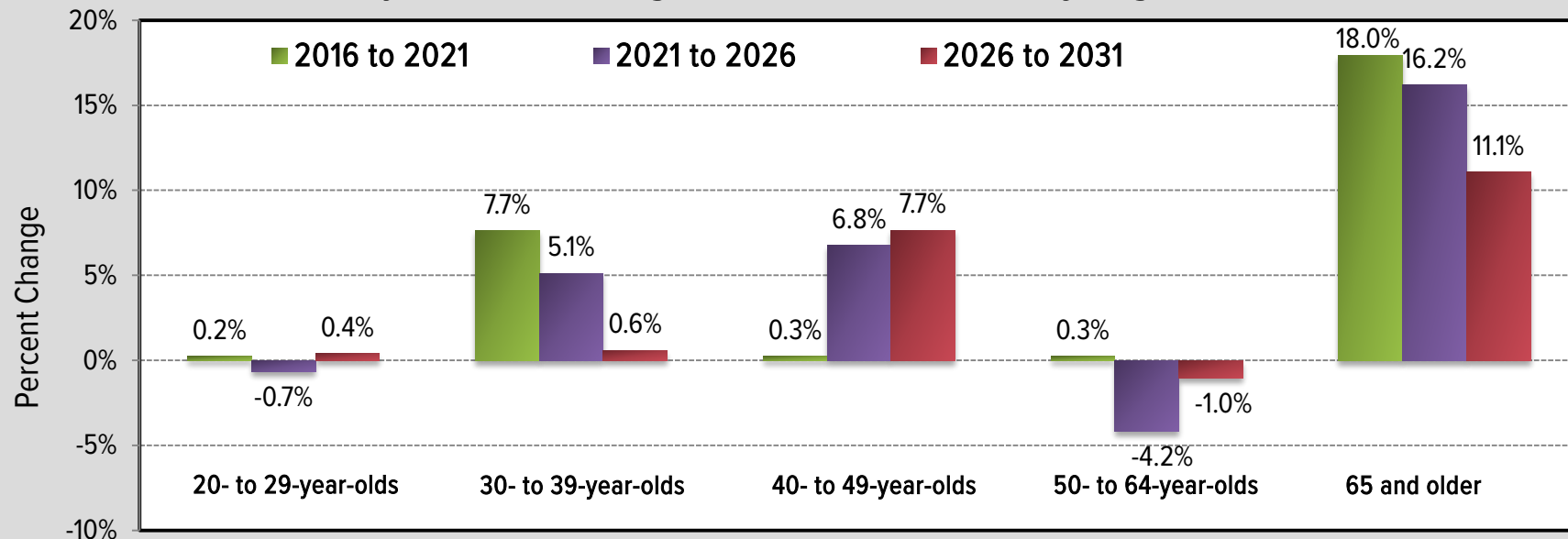
STARTS VS. NEW HOME SALES



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

DEMO ALERT: MILLENNIALS HIT THEIR 30S

Projected Changes in Population by Age Bracket

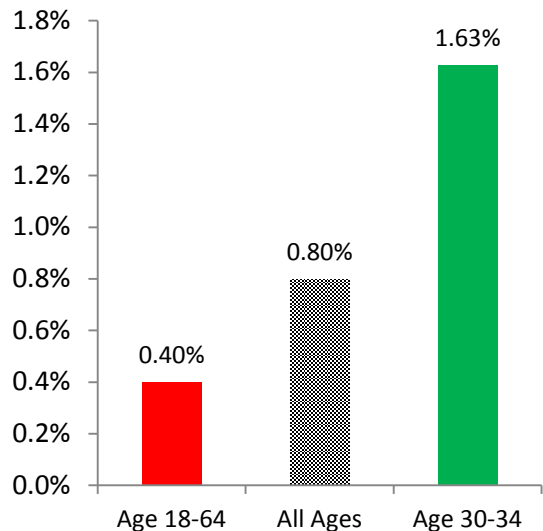


Source: U.S. Census Bureau (2016)

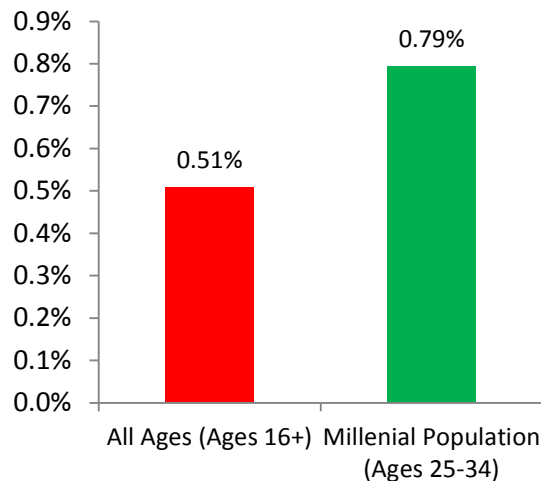
IF THE PENT-UP MILLENNIAL WAVE IS GOING TO HIT HOUSING, THE TIME IS NOW.

KEEP AN EYE ON THESE 3 INDICATORS

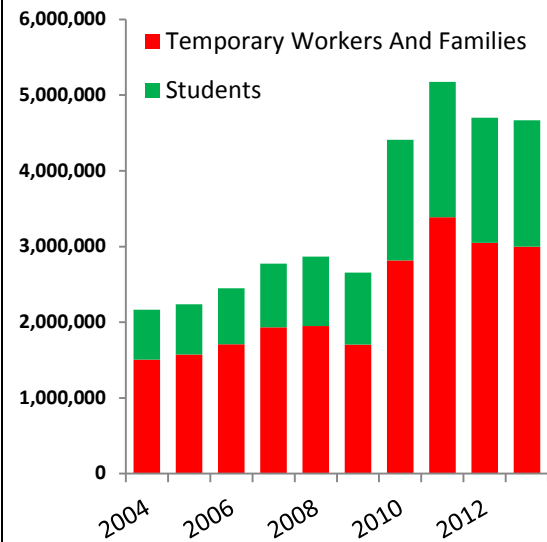
**Population Growth
(CAGR 2015-2020)**



**Growth in
Employment/Population
Ratio (8/15 to 3/16)**



**Temporary Immigrant
Inflow**

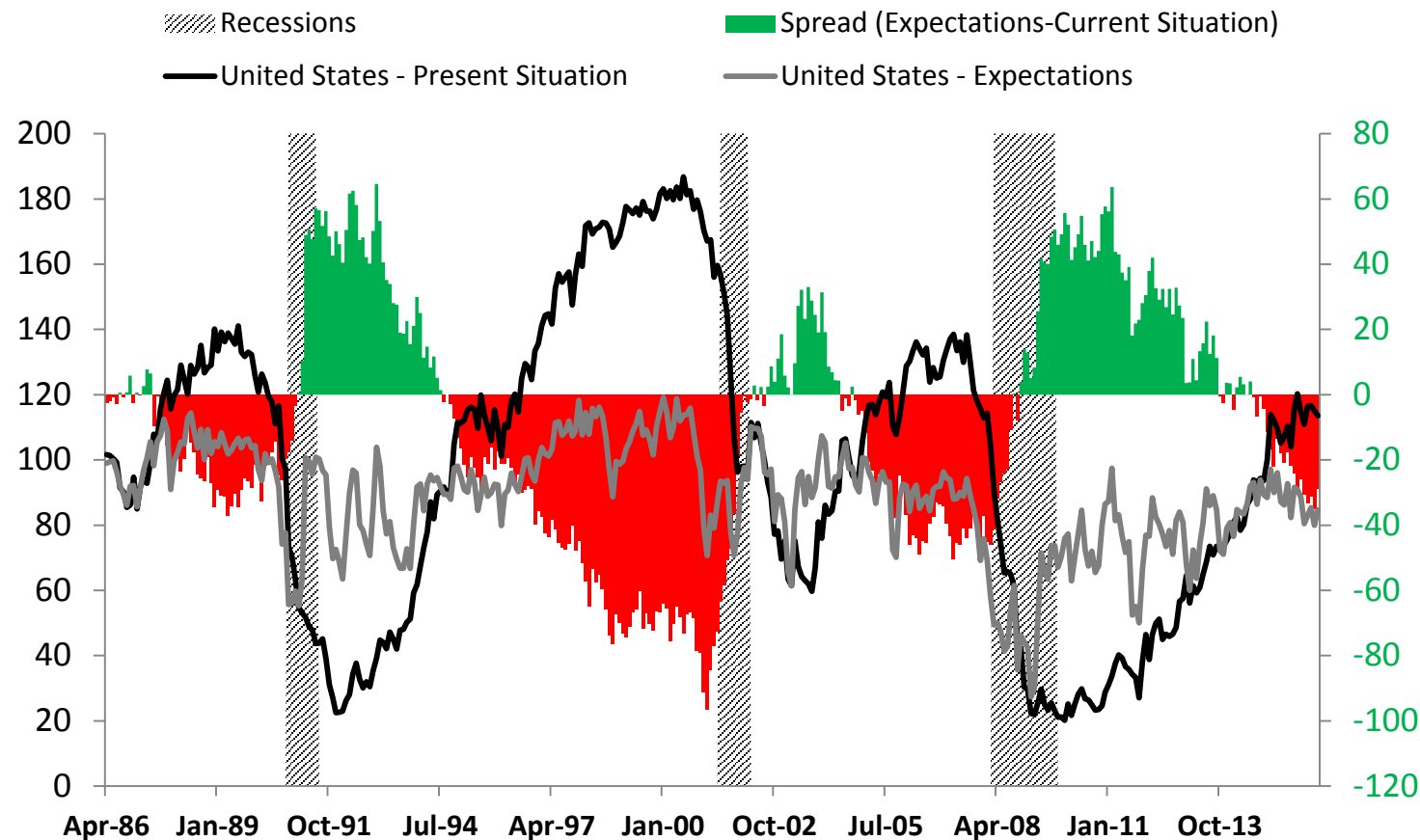


POP GROWTH & JOB GROWTH AMONG YOUNG ADULTS NOW BOTH ABOVE-AVERAGE.

The background image shows a market stall with a red, white, and blue striped awning. A white cloth is draped over the stall, featuring a blue wheelchair symbol. The scene is slightly blurred, suggesting a candid shot in a market setting.

WHY THE ELECTION WILL MOVE MARKETS IN Q2

FORWARD EXPECTATIONS GETTING GLOOMIER

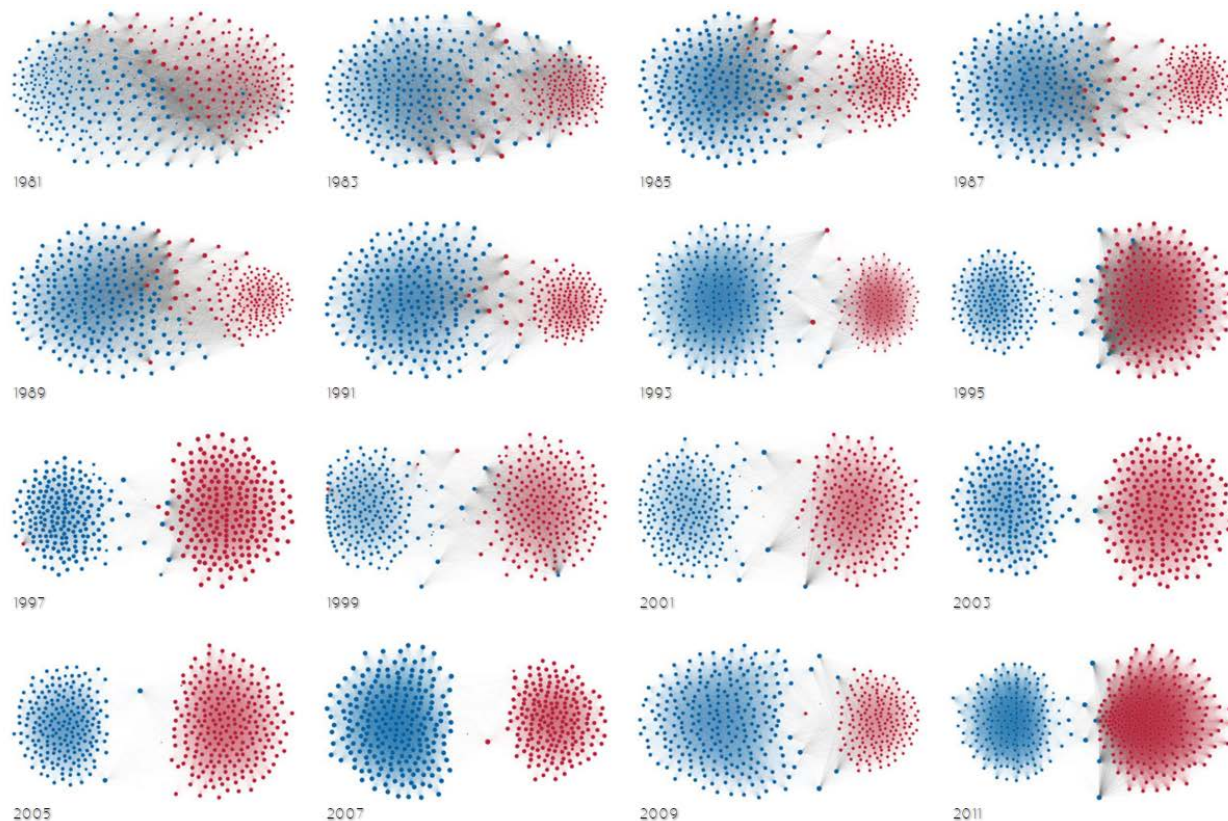


In past cycles, when the index of forward looking economic expectations have crossed below the index measuring the current situation, a downturn has followed.

Monthly Indexes from the Conference Board Consumer Confidence Survey: "Current Situation" index minus "Expectations for 6 Months Hence."

NO MIDDLE. NO COMPROMISE.

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.

2017 POLICY DIRECTION: ANYWHERE!

Likely Intentions Relative to Current Policy	CLINTON	TRUMP	SANDERS	CRUZ
Predicted.com Future Probabilities	59%	19%	15%	15%
Defense \$	modest increase	large increase	large cut	large increase
Entitlements \$	modest increase	modest increase	very large increase	modest cut
Discretionary \$	some increase	some increase	large increase	large cut
Total Tax \$	modest increase	large cut	large increase	large cut
Net Fiscal Stance	little change	large stimulus	some stimulus	contractionary (?)
Marginal Tax Rates	small increase	small cut	large increase	large cut
Healthcare	tinker with ACA	replace ACA	move to single payer	destroy ACA
Trade	little change	protectionist	protectionist	little change
Immigration	little change	hard line	little change	hard line

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)

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