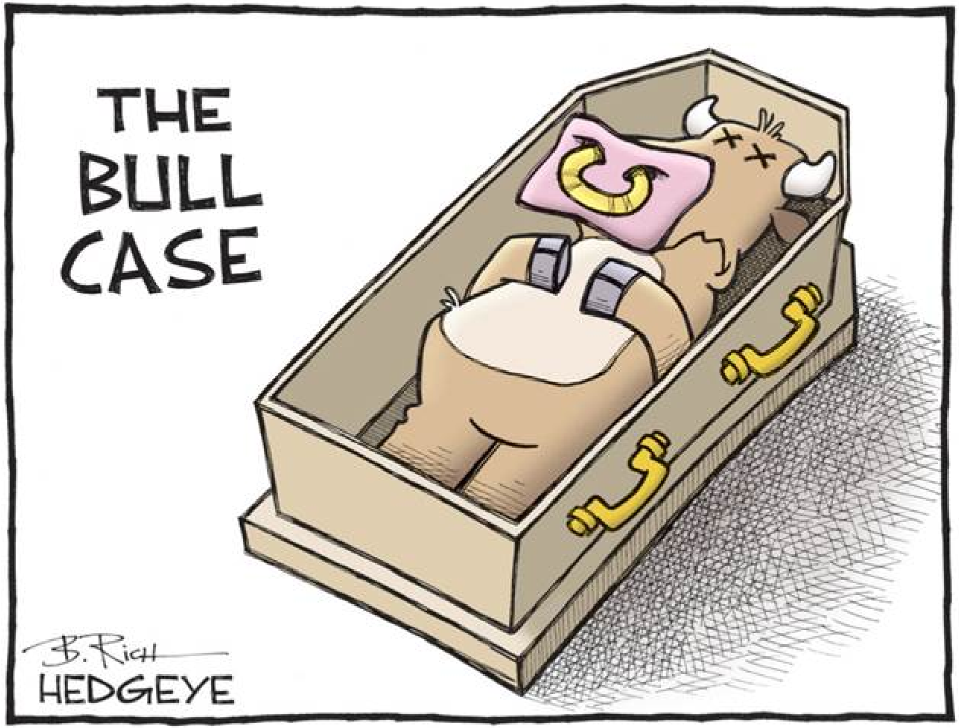
Q4 2016 MACRO THEMES

October 6, 2016



LEGAL

DISCLAIMER

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice for individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

TERMS OF USE

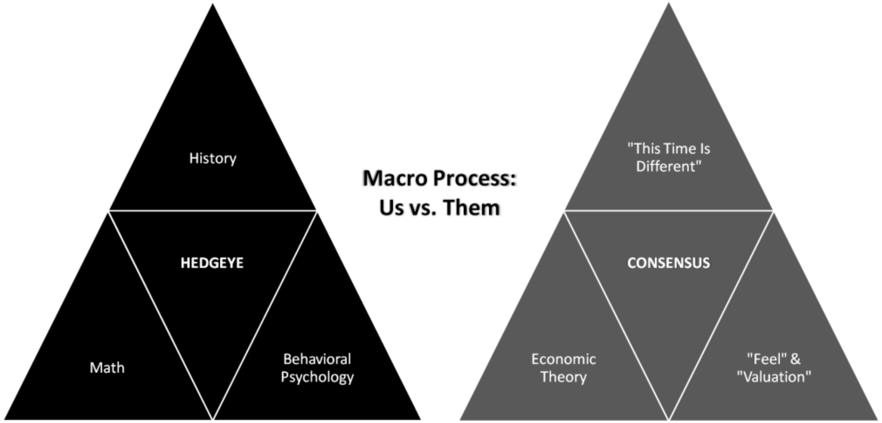
This report is intended solely for the use of its recipient. Re-distribution or republication of this report and its contents are prohibited. For more detail please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at www.hedgeye.com.

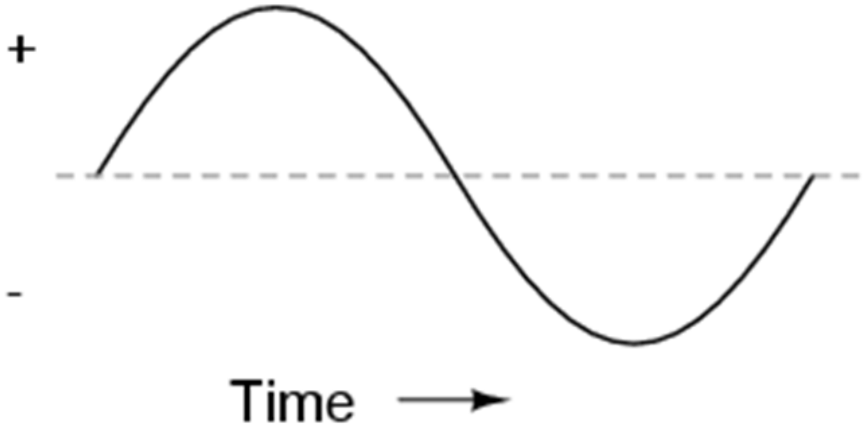
PLEASE SUBMIT QUESTIONS TO

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, incorporating key lessons of behavioral finance such as Prospect Theory and Bayesian Inference into our analysis.

WE FOCUS ON THE SLOPES

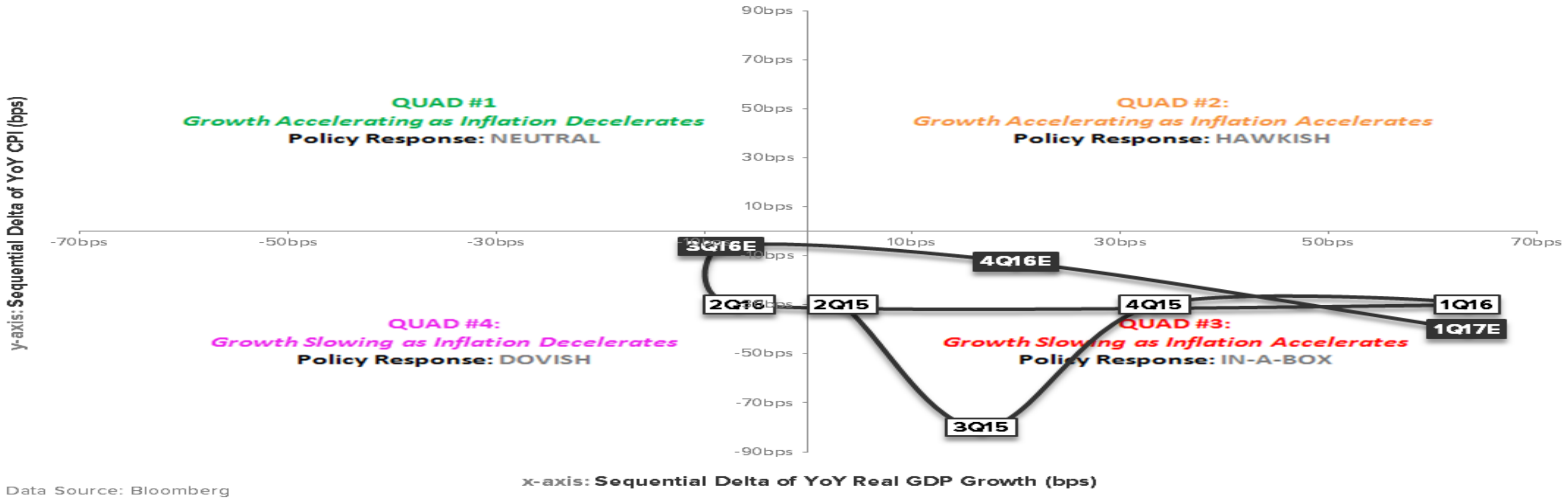
Everything that matters in Global Macro occurs on the margin. Our key differentiator is an ever-present focus on rates of change, which helps us front-run changes in sentiment among investor consensus and policymakers – both of whom tend to overweight absolute states in their analysis.

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	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Real GDP QoQ SAAR	0.8%	3.1%	4.0%	-1.2%	4.0%	5.0%	2.3%	2.0%	2.6%	2.0%	0.9%	0.8%	1.4%
Real GDP YoY	1.0%	1.7%	2.7%	1.6%	2.4%	2.9%	2.5%	3.3%	3.0%	2.2%	1.9%	1.6%	1.3%
2Y Average	1.8%	2.1%	2.0%	1.5%	1.7%	2.3%	2.6%	2.5%	2.7%	2.6%	2.2%	2.5%	2.2%
3Y Average	1.7%	1.8%	1.9%	1.9%	2.0%	2.3%	2.2%	2.1%	2.1%	2.3%	2.4%	2.2%	2.2%
Percentile (T10Y)	18%	36%	64%	33%	59%	79%	67%	95%	87%	54%	49%	33%	28%
CPI YoY	1.4%	1.6%	1.2%	1.4%	2.1%	1.8%	1.3%	-0.1%	0.0%	0.1%	0.5%	1.1%	1.0%
2Y Average	1.7%	1.6%	1.6%	1.6%	1.8%	1.7%	1.3%	0.7%	1.0%	1.0%	0.9%	0.5%	0.5%
3Y Average	2.3%	2.3%	2.1%	2.0%	1.8%	1.7%	1.5%	1.0%	1.2%	1.2%	1.0%	0.8%	1.0%
Percentile (T10Y)	13%	18%	10%	15%	44%	36%	13%	5%	10%	13%	15%	18%	18%

Hedgeye Macro GIP Model		
GIP = Growth/Inflation/Policy		
Full-year Estimates	2015	2016E
Hedgeye Predictive Tracking Algorithm	2.6%	1.3%
Bloomberg Consensus Estimate	2.4%	1.5%
Central Bank Forecast	2.1%	1.8%
Full-year Estimates	2015	2016E
Hedgeye Predictive Tracking Algorithm	0.1%	1.1%
Bloomberg Consensus Estimate	0.1%	1.2%
Central Bank Forecast	1.3%	1.7%



WHY DOES THE 2ND DERIVATIVE MATTER?

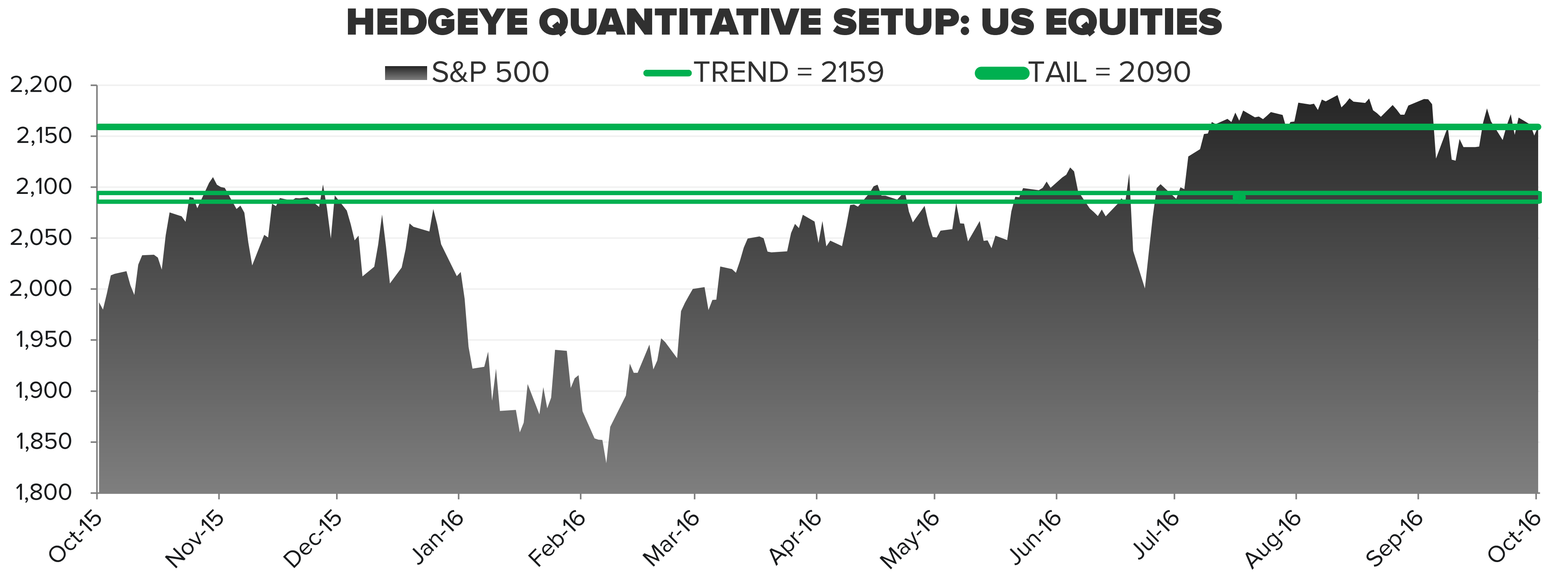
BECAUSE FINANCIAL ASSET RETURNS HAVE HISTORICALLY ANCHORED ON THE MARGINAL RATE OF CHANGE IN BOTH GROWTH AND INFLATION – ESPECIALLY WHEN THESE DELTAS ARE COUNTER TO CONSENSUS EXPECTATIONS.

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	3.6%	1.1%	-0.2%	-0.7%	38%	31%	31%	23%	76%	56%	29%	38%	84%	82%	54%	65%	19	11	26	17
S&P 500 Consumer Discretionary Sector Index	4.8%	1.2%	-0.4%	0.0%	92%	54%	23%	77%	97%	68%	21%	74%	79%	73%	46%	59%	19	11	26	17
S&P 500 Consumer Staples Sector Index	3.0%	1.6%	0.1%	0.8%	15%	62%	69%	92%	68%	71%	53%	88%	89%	91%	58%	59%	19	11	26	17
S&P 500 Energy Sector Index	3.1%	1.2%	0.4%	-1.7%	23%	38%	85%	0%	71%	62%	68%	12%	84%	91%	62%	47%	19	11	26	17
S&P 500 Financials Sector Index	4.1%	0.5%	-0.6%	-0.9%	62%	15%	15%	8%	85%	41%	15%	32%	79%	73%	54%	71%	19	11	26	17
S&P 500 Health Care Sector Index	2.7%	2.4%	0.2%	1.0%	8%	92%	77%	100%	65%	94%	62%	97%	79%	82%	54%	76%	19	11	26	17
S&P 500 Industrials Sector Index	3.9%	1.9%	0.1%	-0.8%	46%	85%	62%	15%	79%	79%	47%	35%	68%	82%	50%	47%	19	11	26	17
S&P 500 Information Technology Sector Index	4.7%	1.8%	0.1%	-0.6%	85%	77%	54%	38%	94%	76%	44%	44%	84%	82%	54%	65%	19	11	26	17
S&P 500 Materials Sector Index	4.5%	0.2%	-0.9%	0.1%	77%	8%	8%	85%	91%	32%	3%	79%	89%	82%	54%	47%	19	11	26	17
S&P 500 Utilities Sector Index	1.6%	-0.6%	1.8%	-0.6%	0%	0%	100%	31%	56%	12%	91%	41%	68%	36%	65%	53%	19	11	26	17
Russell 2000 Index	4.3%	1.2%	0.0%	-0.6%	69%	46%	46%	46%	88%	65%	35%	50%	74%	73%	58%	59%	19	11	26	17
Dow Jones Industrial Average	3.6%	0.9%	-0.2%	-0.4%	31%	23%	38%	62%	74%	53%	32%	56%	84%	82%	54%	59%	19	11	26	17
MSCI Emerging Markets Index	5.2%	1.7%	-1.4%	-0.3%	100%	69%	0%	69%	100%	74%	0%	62%	84%	64%	50%	59%	19	11	26	17
FTSE NAREIT Equity REITS Total Return Index	4.1%	3.1%	0.9%	-0.4%	54%	100%	92%	54%	82%	97%	82%	53%	68%	64%	69%	76%	19	11	26	17
Barclays US Agg Credit Yield To Worst	-1.6%	-1.3%	1.0%	-2.3%	43%	43%	57%	14%	9%	9%	85%	9%	42%	36%	54%	29%	19	11	26	17
Barclays US High Yield Average Yield To Worst	-3.0%	-1.9%	2.1%	0.7%	14%	29%	71%	71%	3%	6%	94%	85%	32%	36%	62%	53%	19	11	26	17
Barclays US Corporate Average OAS	-2.0%	-2.2%	4.8%	1.0%	29%	0%	100%	86%	6%	0%	100%	94%	32%	27%	50%	47%	19	11	26	17
Barclays US High Yield Average OAS	-3.7%	-2.0%	4.3%	3.5%	0%	14%	86%	100%	0%	3%	97%	100%	21%	27%	46%	59%	19	11	26	17
U.S. Treasury 2Y Note Yield	0.9%	-0.3%	0.8%	-2.6%	100%	57%	43%	0%	47%	18%	74%	6%	53%	45%	54%	41%	19	11	26	17
U.S. Treasury 10Y Bond Yield	-0.3%	0.8%	-0.7%	-1.7%	86%	86%	0%	29%	18%	50%	6%	15%	47%	55%	50%	35%	19	11	26	17
U.S. Treasury 30Y Bond Yield	-0.4%	1.1%	-0.7%	-1.2%	71%	100%	14%	57%	15%	59%	9%	26%	47%	73%	54%	35%	19	11	26	17
Bond Buyer US 40 Municipal Bond YTM	-1.0%	0.3%	0.4%	-1.4%	57%	71%	29%	43%	12%	38%	71%	21%	26%	45%	46%	18%	19	11	26	17
Thomson Reuters/CoreCommodity CRB Commodity Index	0.7%	2.3%	0.2%	-3.4%	25%	50%	25%	25%	41%	88%	59%	3%	68%	82%	62%	24%	19	11	26	17
Commodity Research Bureau BLS/US Spot Raw Industrials Index	1.2%	2.0%	-0.3%	-1.0%	50%	25%	0%	75%	50%	85%	26%	29%	68%	64%	42%	41%	19	11	26	17
Commodity Research Bureau BLS/US Spot Foodstuff Index	-0.3%	1.9%	0.8%	-1.4%	0%	0%	50%	50%	21%	82%	76%	18%	53%	45%	54%	35%	19	11	26	17
Front-month Brent Crude Oil	1.9%	4.6%	1.2%	-4.0%	75%	100%	100%	0%	59%	100%	88%	0%	58%	91%	50%	35%	19	11	26	17
Gold Spot	2.0%	2.4%	0.9%	0.0%	100%	75%	75%	100%	62%	91%	79%	71%	63%	64%	54%	53%	19	11	26	17
Broad Trade-Weighted U.S. Dollar Index	-0.1%	0.1%	0.0%	0.8%	0%	57%	57%	100%	24%	29%	41%	91%	53%	55%	46%	65%	19	11	26	17
AUD/USD	1.3%	0.5%	-0.6%	-0.1%	100%	86%	0%	57%	53%	44%	12%	68%	58%	82%	65%	41%	19	11	26	17
CAD/USD	0.2%	0.7%	0.0%	-0.6%	29%	100%	43%	14%	29%	47%	38%	47%	42%	64%	54%	41%	19	11	26	17
CHF/USD	0.7%	0.0%	0.4%	0.2%	86%	43%	100%	86%	44%	26%	65%	82%	63%	45%	62%	41%	19	11	26	17
EUR/USD	0.0%	-0.6%	0.1%	-0.2%	14%	0%	71%	43%	26%	15%	50%	65%	53%	27%	58%	35%	19	11	26	17
GBP/USD	0.3%	0.3%	-0.6%	-0.4%	43%	71%	14%	29%	32%	35%	18%	59%	47%	73%	38%	47%	19	11	26	17
JPY/USD	0.6%	-0.2%	0.2%	0.0%	71%	14%	86%	71%	38%	21%	56%	76%	37%	36%	54%	41%	19	11	26	17
JPMorgan EM FX Index	0.5%	-0.1%	-0.4%	-1.2%	57%	29%	29%	0%	35%	24%	24%	24%	60%	63%	55%	40%	15	8	22	15

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

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

PROCESS SLIDE #3



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

Q3 2016 MACRO THEMES

1

#PROFITCYCLE

Embedded in the SPY's lofty multiple are consensus estimates that forecast a return to positive earnings growth in Q2 and Q3, as well as a material ramp to near double-digit growth in Q4 – effectively implying Q1 was the end of the domestic corporate profit recession. Conversely, the confluence of our top-down and bottom-up analysis suggests earnings growth is likely to reach new lows in the Q2/Q3 timeframe. Moreover, earnings in over-owned sectors like Consumer Discretionary, Financials and Health Care are at risk of meaningful surprises to the downside due to the ongoing #LateCycle slowdown in consumption and employment growth.

2

#CONSUMERCREDIT

At the end of every economic expansion, the preponderance of investors have seemingly forgotten that #TheCycle actually does cycle. But as recent commentary from Synchrony Financial (SYF) and CarMax (KMX) indicate, the domestic consumer credit cycle has inflected to the downside and our work suggests said deterioration is likely to remain ongoing for at least the next few quarters. Moreover, this deterioration has wide-ranging implications for investors.

3

#EUROPEIMPLODING

Brexit happened, but which other countries may leave the EU? We'll outline the countries that we believe have the largest political risk and quantify Europe's cyclical and structural growth and inflation headwinds within our ongoing theme of #EuropeSlowing. We'll present why we believe fundamentals can fall further and why the Euro may hit new lows.

Q4 2016 MACRO THEMES

1 #DOUBLE DIP RECESSION

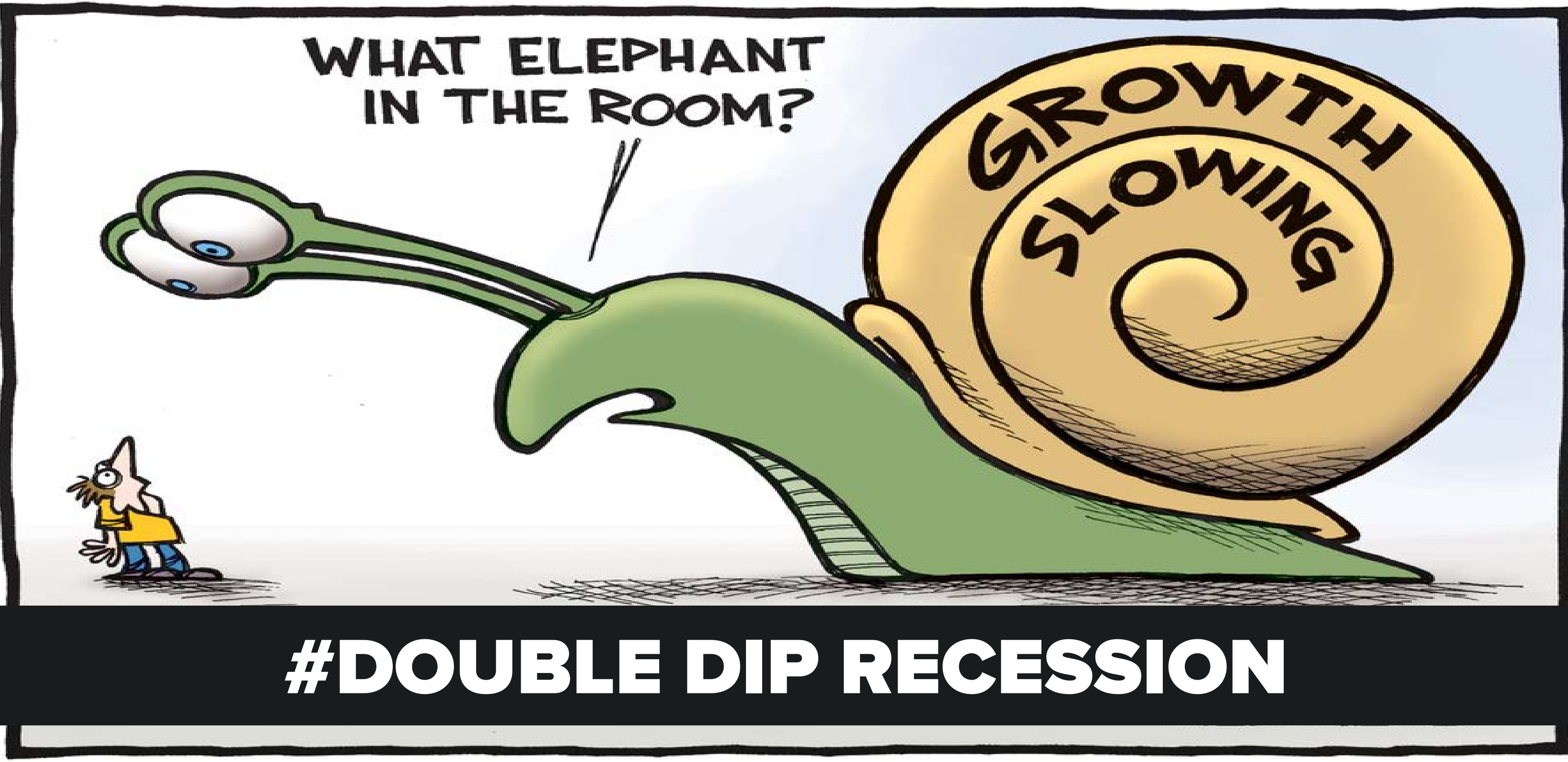
The cyclical-industrial complex peaks ahead of the peak in the economic cycle and the current cycle has not proved different. Globally, growth and inflation expectations continue to be marked lower while PMI's and Industrial activity remain in Trend retreat. Domestically, manufacturing ISM's remain peri-contractionary while industrial production and corporate capex remain mired in their worst non-recession streaks of negative growth ever. We'll detail why industrial activity is not poised for sustainable improvement and why, after another round of policy catalyzed reflation, the risk to cyclicals has again become acute.

2 #LABOR'S LAGS

After peaking in 1H15, employment, income and consumption growth have all continued their negative 2nd derivative convergence towards zero. With credit growth now beginning to slow, asset price inflation and the wealth effect past peak, high ticket discretionary consumption at 6-year lows, and rising prospects for broader implementation of higher minimum wages, the risk to labor and consumption slowing faster is rising. We'll explore labor's current catch-22 situation in which further strength in the labor markets is paid for via continued negative productivity growth and falling corporate profitability while labor market softening would amplify the negative trend in income and consumption growth.

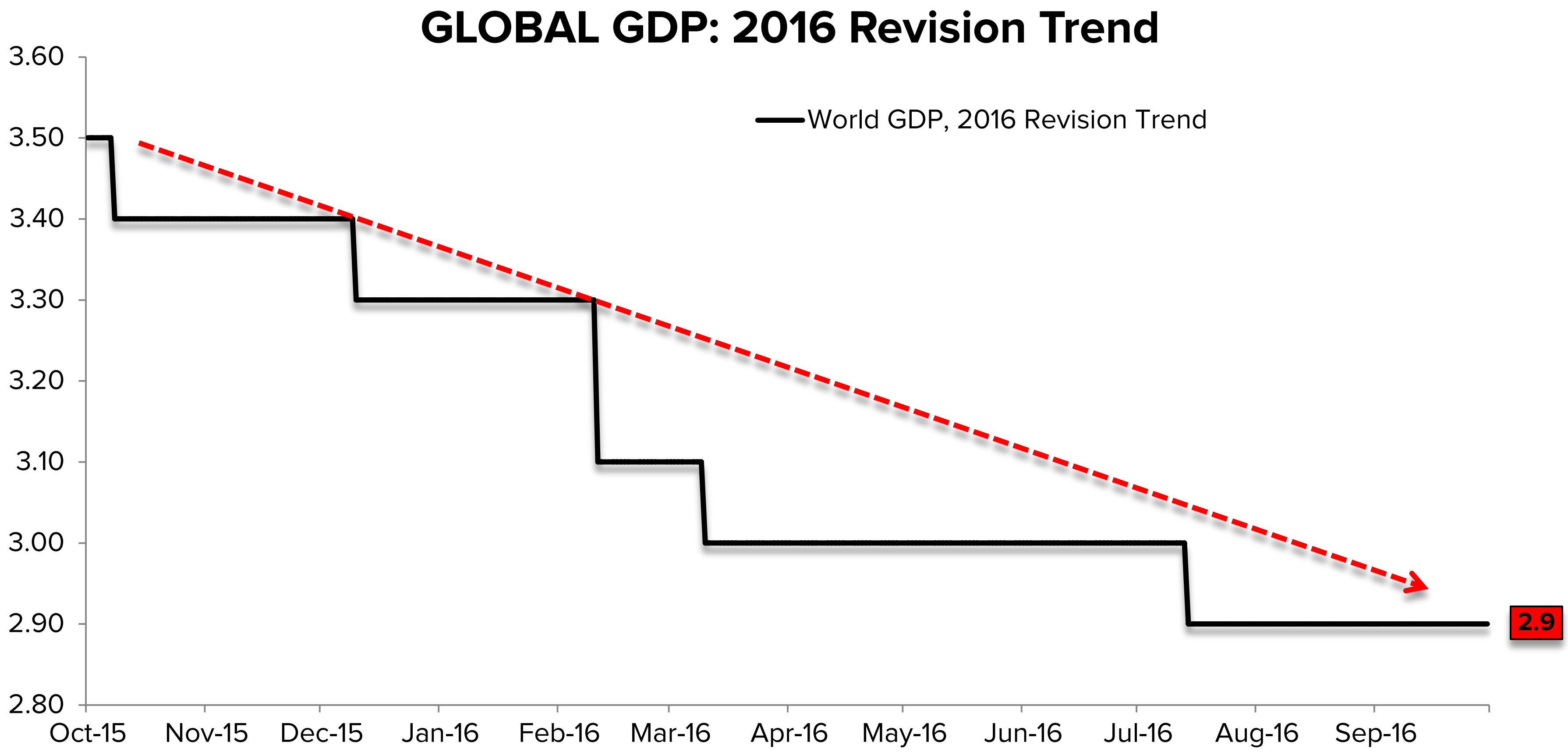
3 #CLINTON VS TRUMP

With one of the US's most important presidential elections ever just over one month away, most investors are still unsure on just how to position for the highest probability outcome. With political uncertainty at historic highs across the buyside and in corporate boardrooms, we thought it would be helpful to provide a scenario analysis on the respective policy platforms for each candidate. Perception is not necessarily reality when the rubber meets the road.



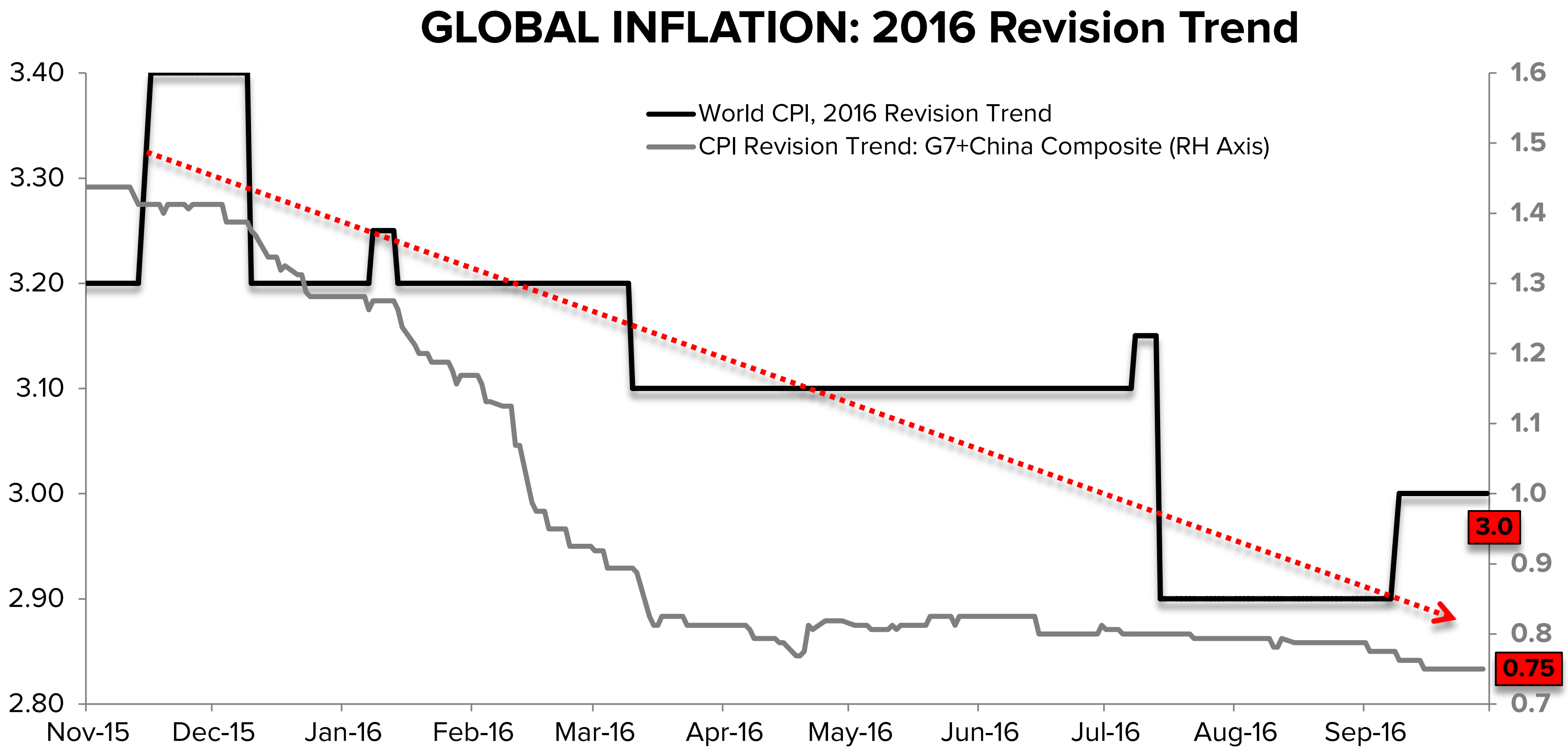
#DOUBLE DIP RECESSION

GLOBAL GROWTH: BOTTOMING?



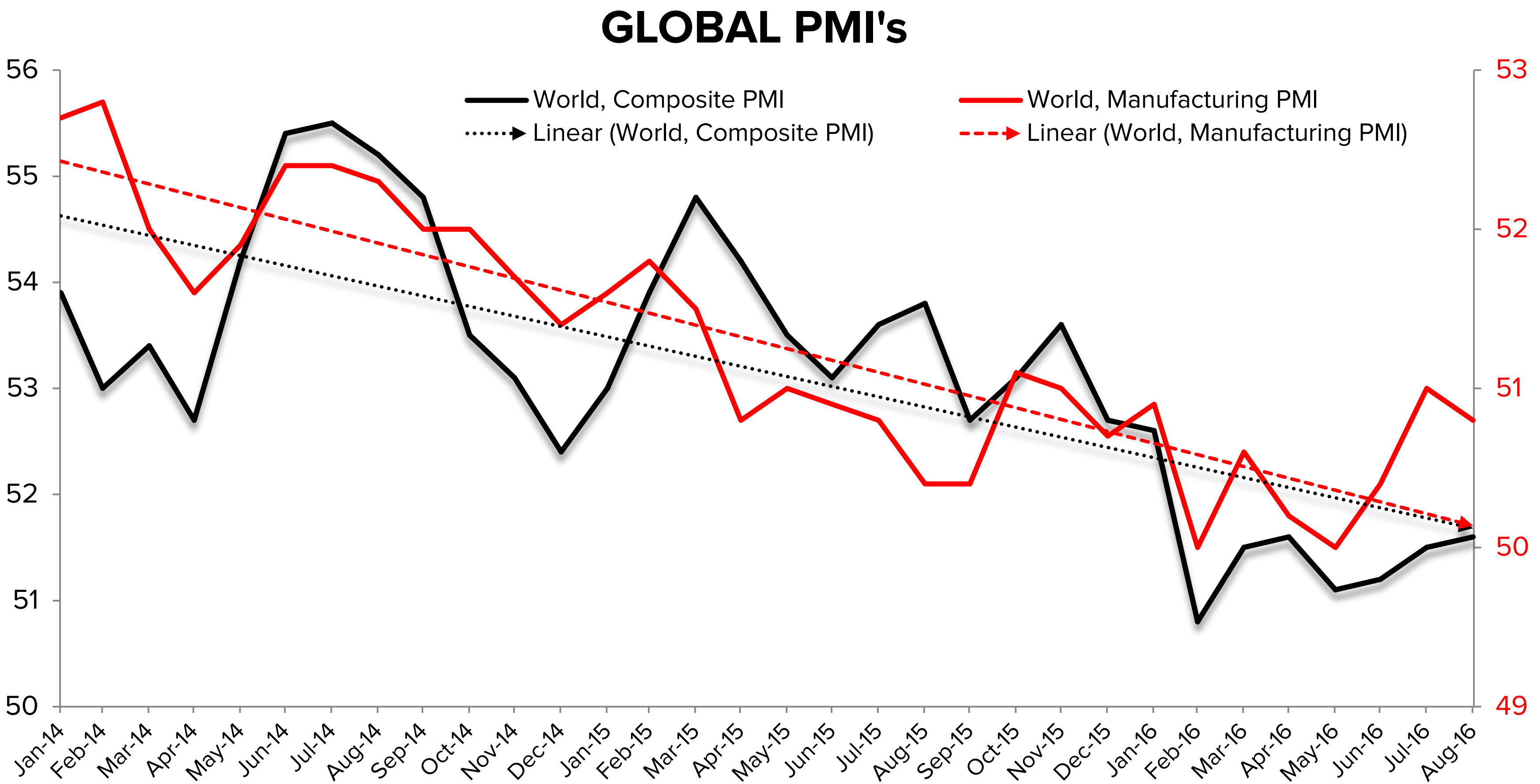
DATA SOURCE: BLOOMBERG, MARKIT

GLOBAL INFLATION = ↓



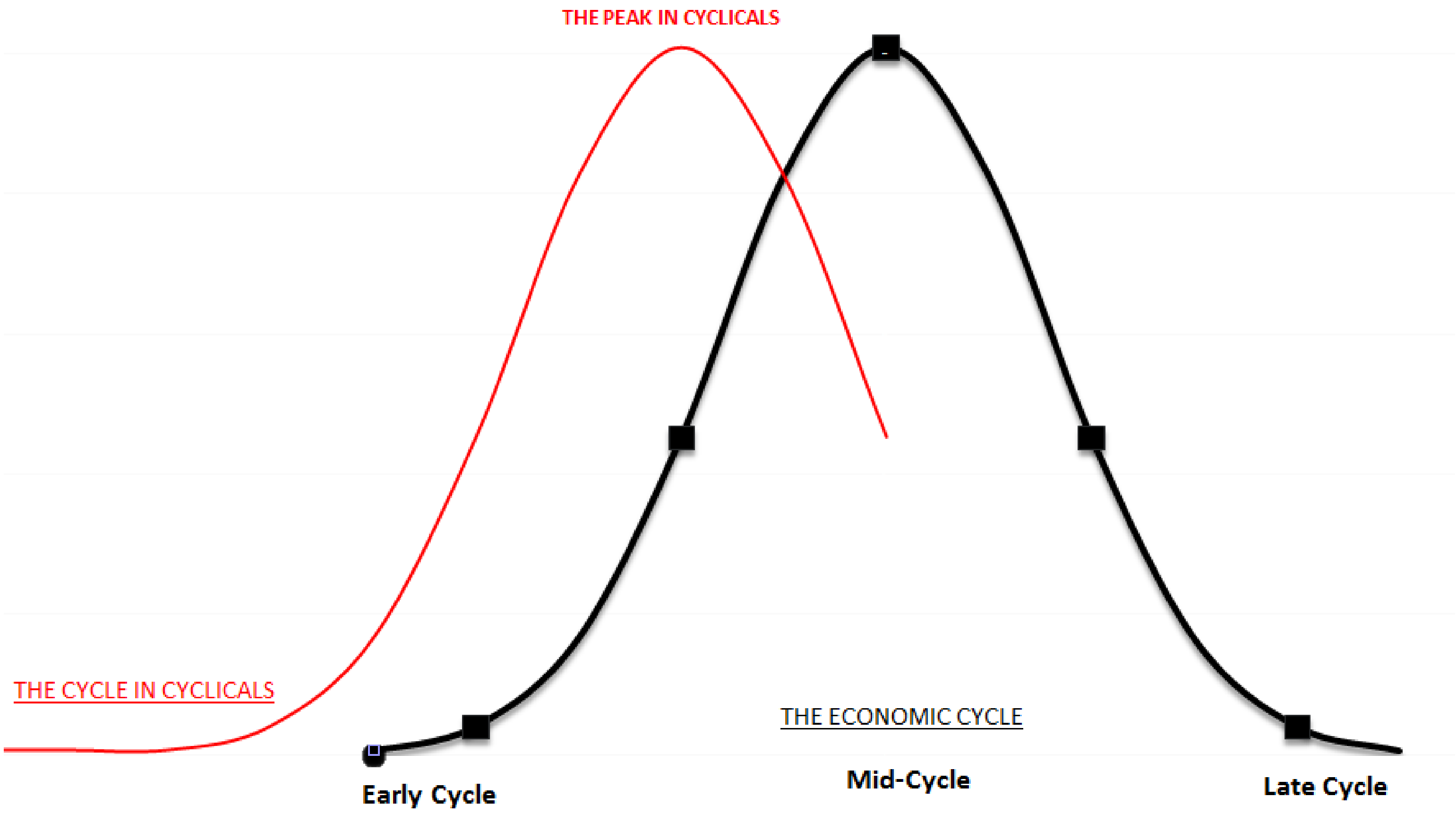
DATA SOURCE: BLOOMBERG, HEDGEYE

GLOBAL PMI'S = ⬇



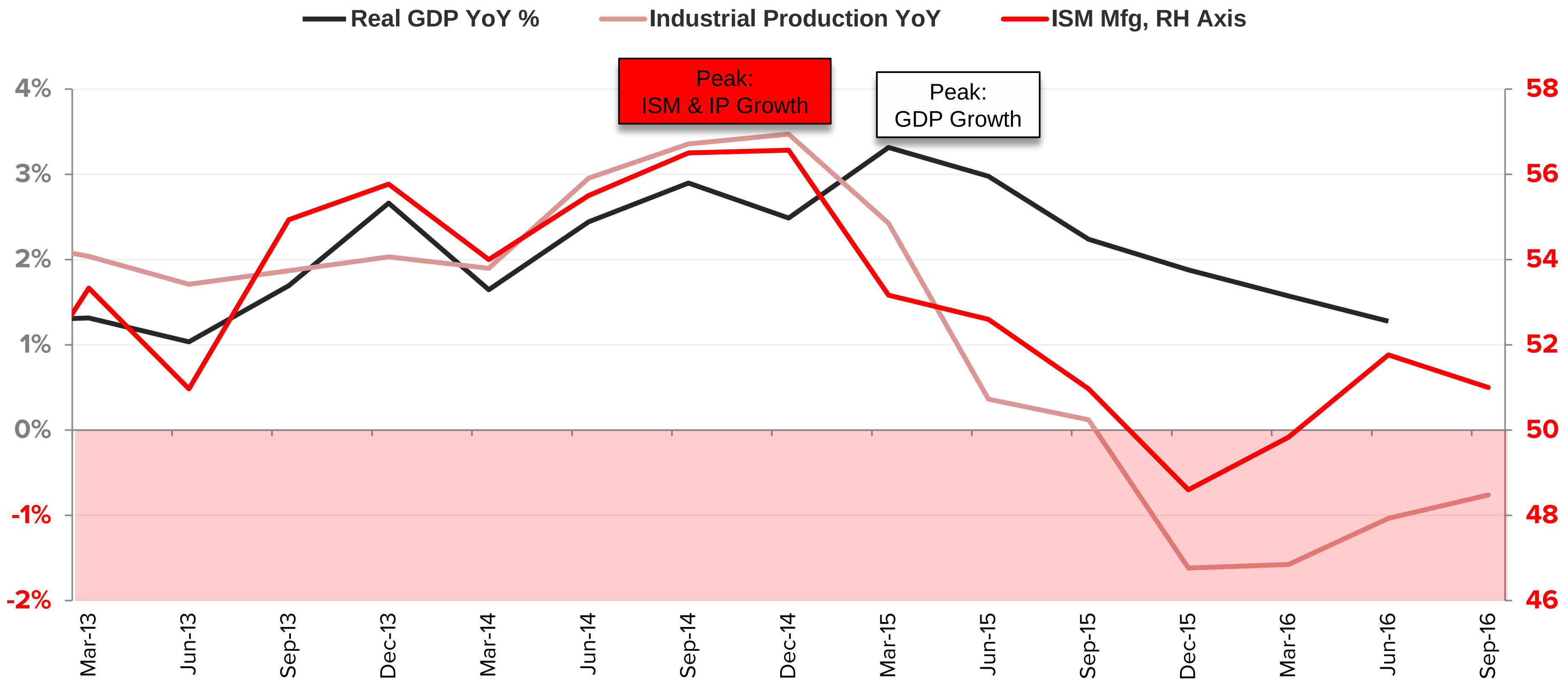
DATA SOURCE: BLOOMBERG, MARKIT

THE CYCLE: A STYLIZED MODEL



THE U.S. = AN EMPIRICAL FIT

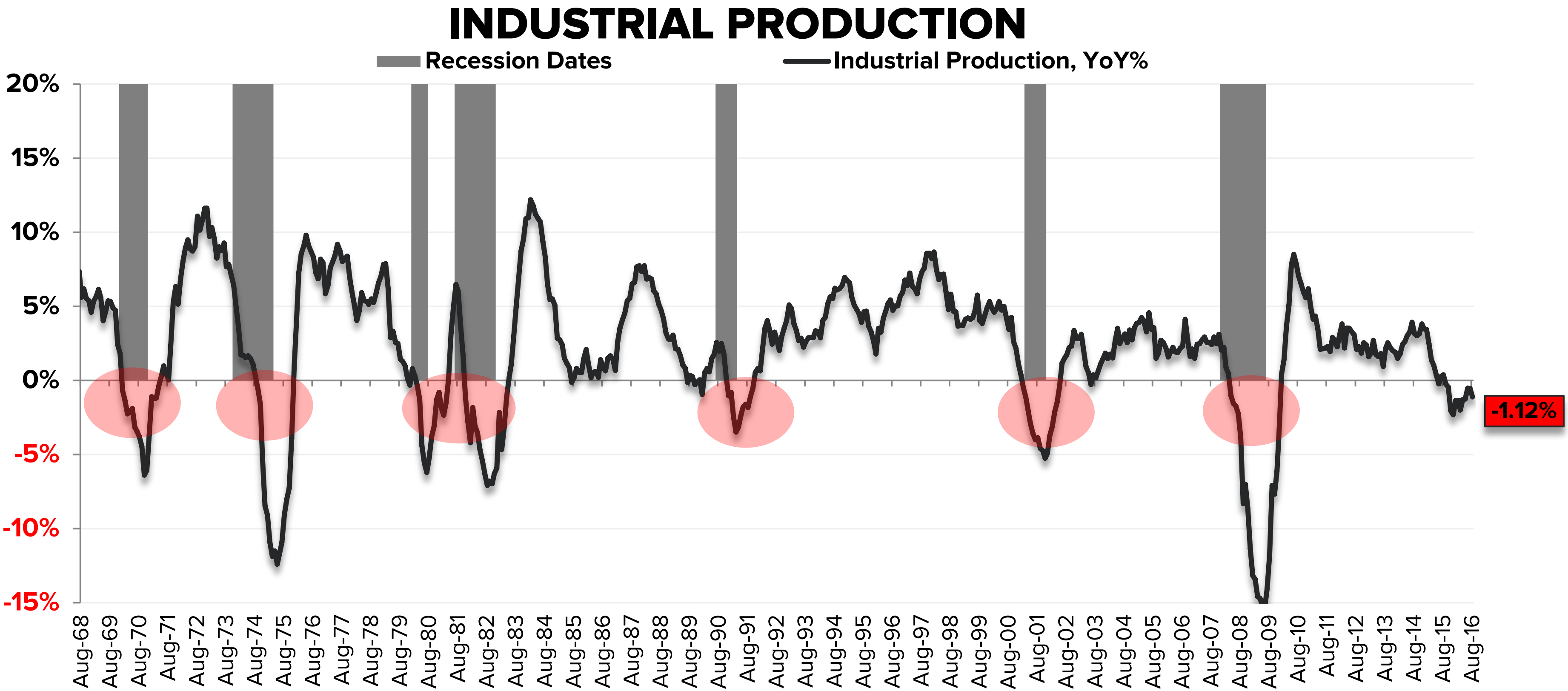
THE CURRENT DOMESTIC EXPANSION FITS THE STYLIZED MODEL WITH BOTH ISM MANUFACTURING AND INDUSTRIAL PRODUCTION GROWTH PEAKING AHEAD OF THE PEAK IN GDP GROWTH



DATA SOURCE: BLOOMBERG, FEDERAL RESERVE, ISM, HEDGEYE

IP GROWTH = WORST STREAK EVER

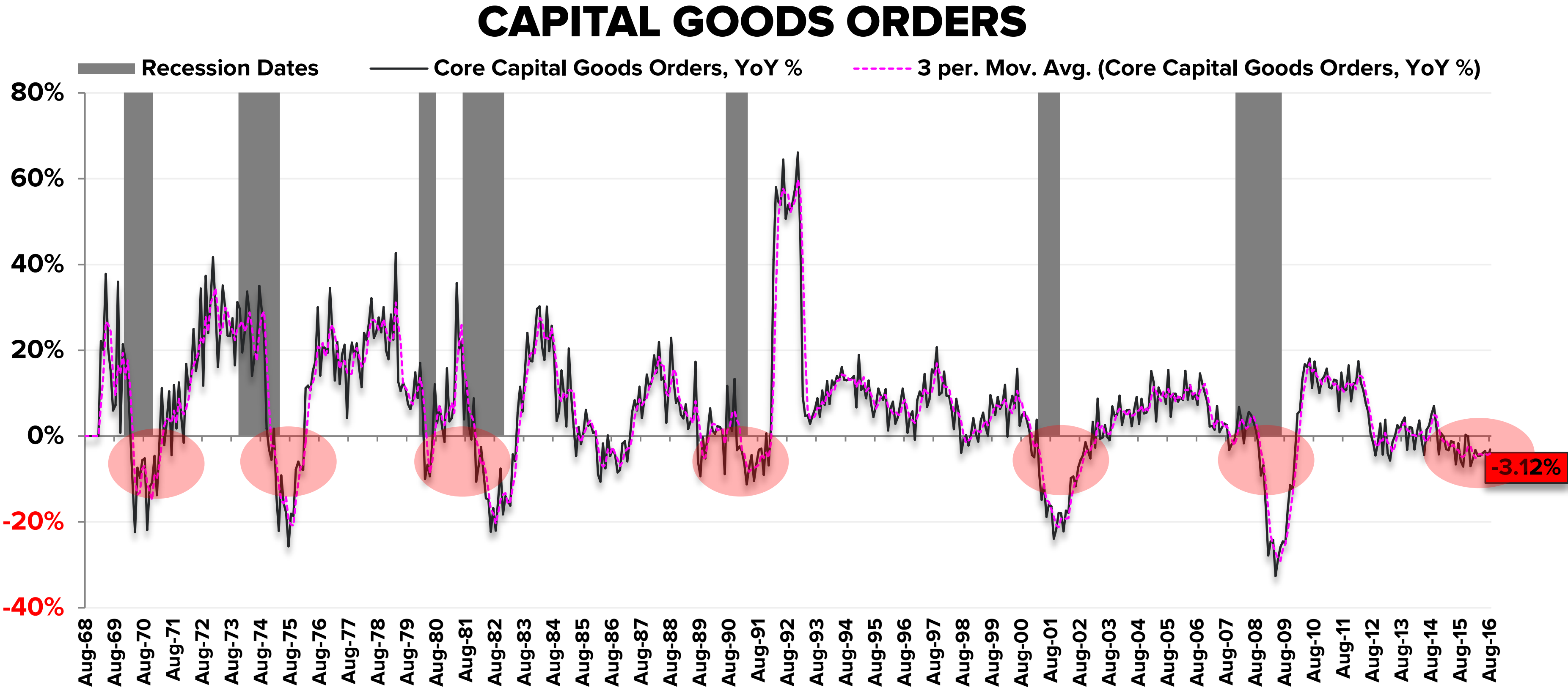
INDUSTRIAL PRODUCTION GROWTH HAS BEEN NEGATIVE FOR 12 CONSECUTIVE MONTHS, REPRESENTING THE LONGEST NON-RECESSION LOSING STREAK EVER.



DATA SOURCE: BLOOMBERG, NBER, HEDGEYE

CAPEX GROWTH = WORST STREAK EVER

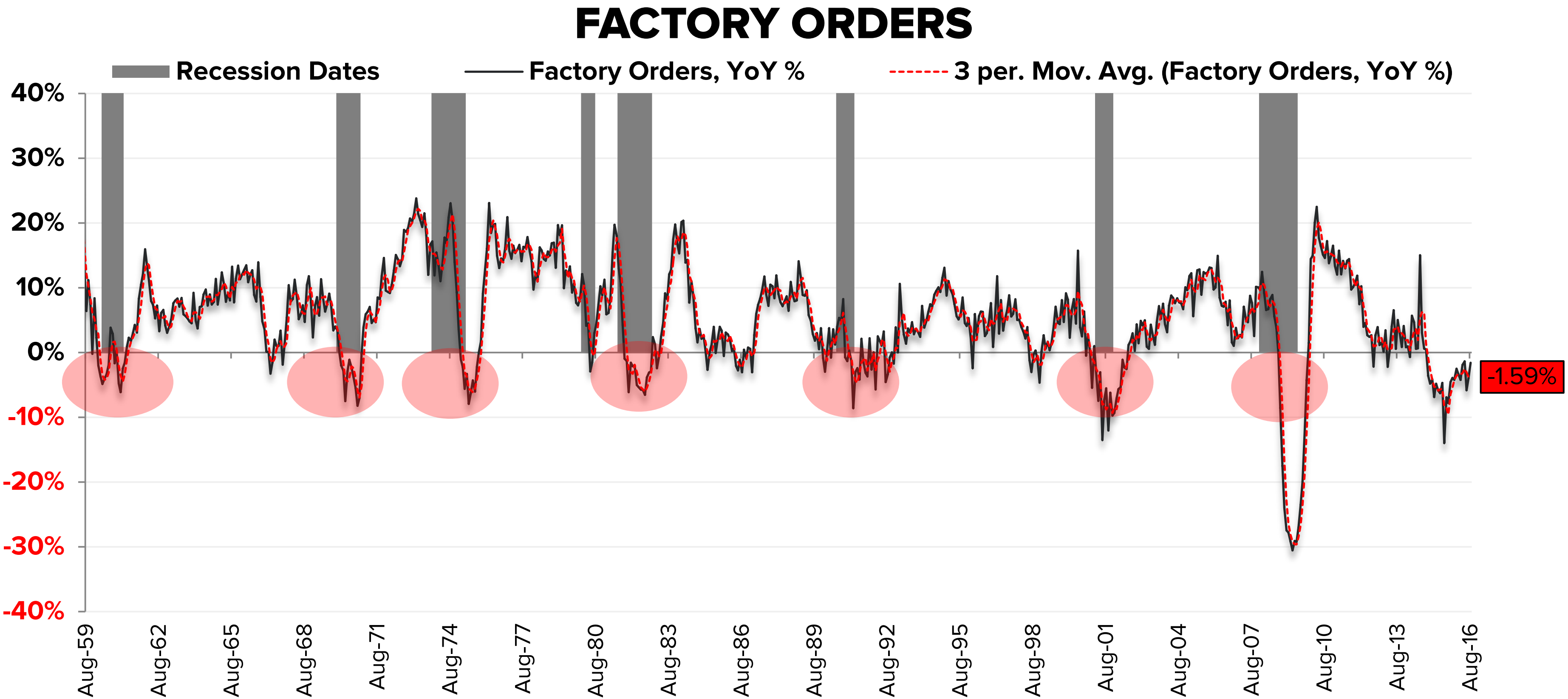
GROWTH IN CORE CAPITAL GOODS ORDERS HAS BEEN NEGATIVE FOR 10 CONSECUTIVE MONTHS AND FOR A REMARKABLE 19 OF THE LAST 20 MONTHS. LIKE INDUSTRIAL PRODUCTION, CAPEX REMAINS IN ITS WORST NON-RECESSION RUN OF NEGATIVE GROWTH EVER



DATA SOURCE: BLOOMBERG, NBER, HEDGEYE

FACTORY ORDERS = WORST STREAK EVER

FACTORY ORDERS COMPLETE THE HISTORIC NEGATIVE GROWTH TRIFECTA, DECLINING FOR 22 CONSECUTIVE MONTHS IN THE WORST NON-RECESSION STREAK OF NEGATIVE GROWTH EVER

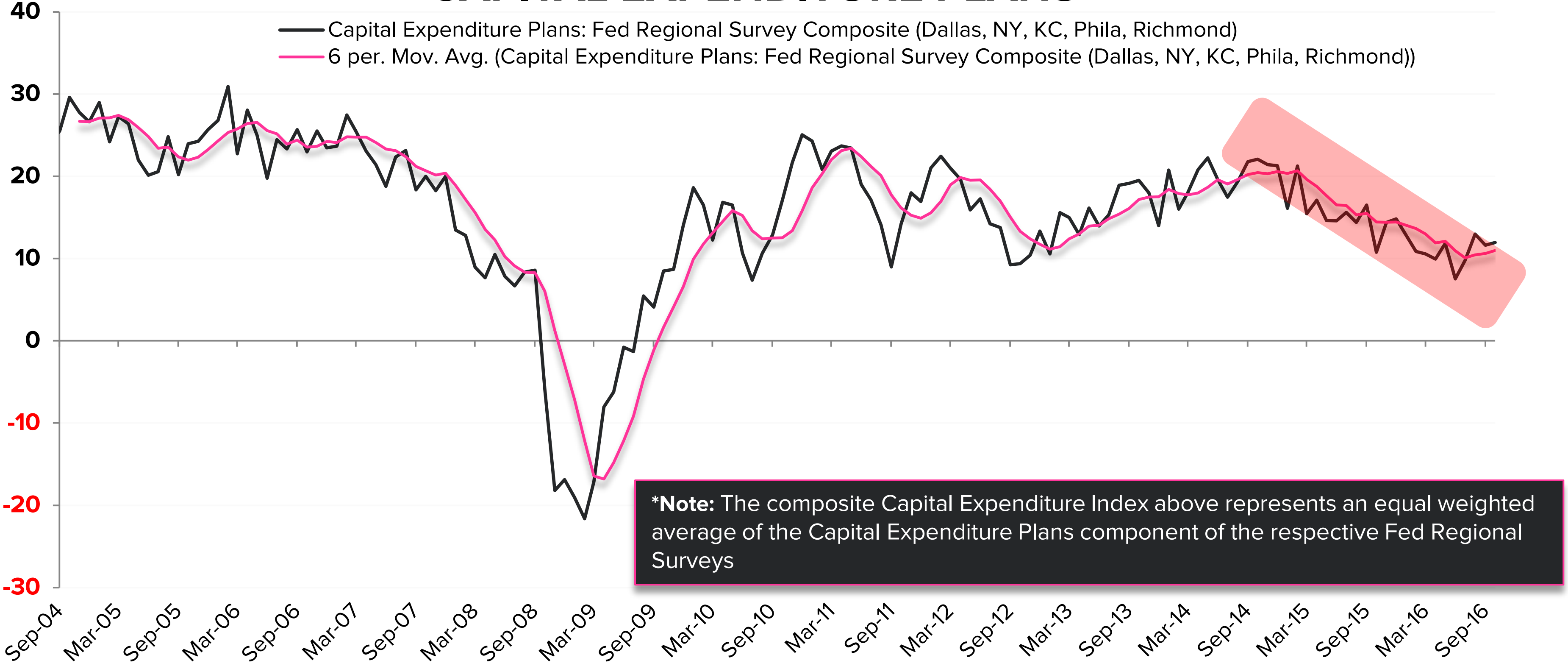


DATA SOURCE: BLOOMBERG, NBER, HEDGEYE

WHAT'S THE CATALYST FOR INFLECTION?

.... NOT FORWARD CAPEX PLANS! CAPITAL EXPENDITURE PLANS , AS REPORTED BY BUSINESS IN THE REGIONAL FED SURVEYS, REMAINS IN TREND RETREAT

CAPITAL EXPENDITURE PLANS*

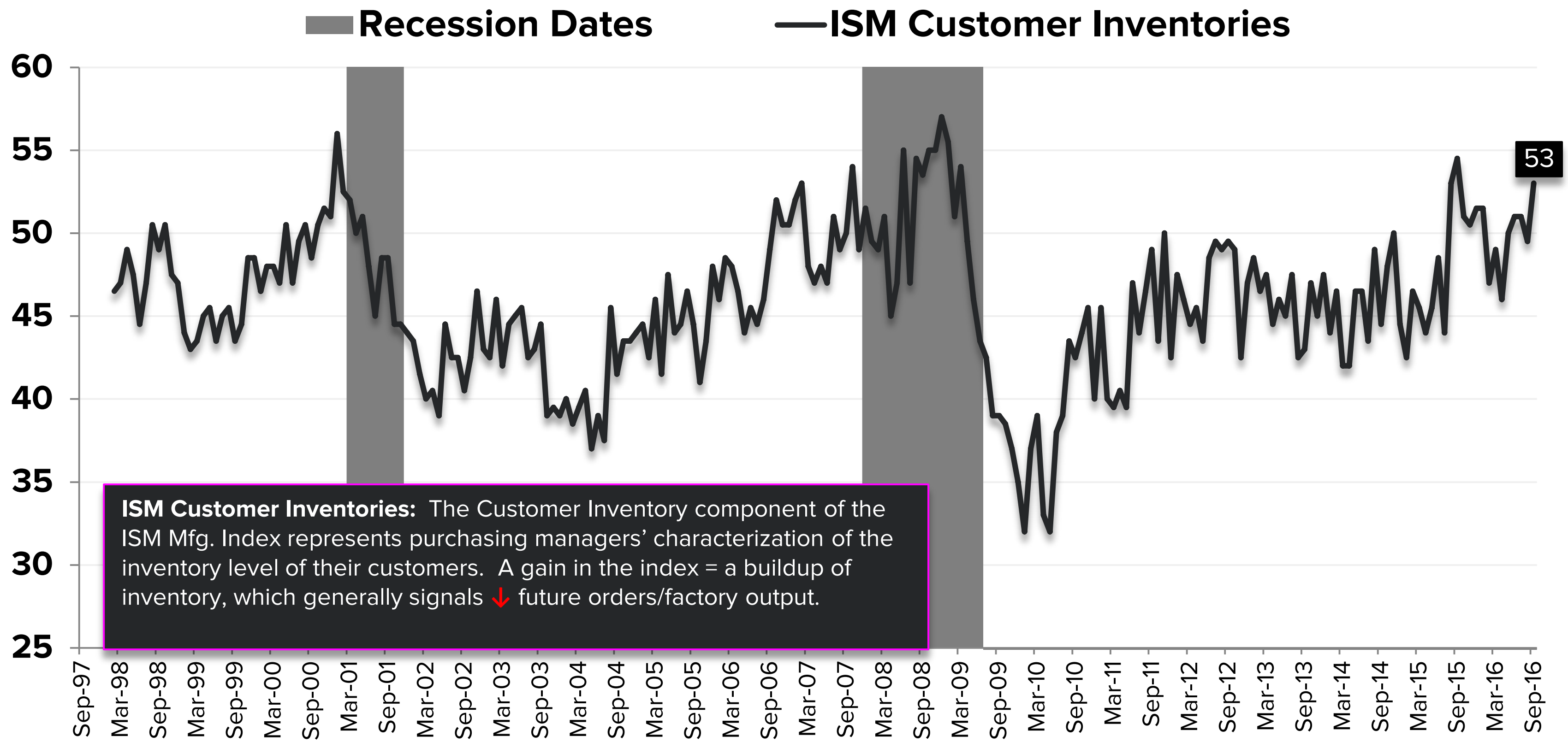


***Note:** The composite Capital Expenditure Index above represents an equal weighted average of the Capital Expenditure Plans component of the respective Fed Regional Surveys

DATA SOURCE: BLOOMBERG, DALLAS FED, RICHMOND FED, HEDGEYE

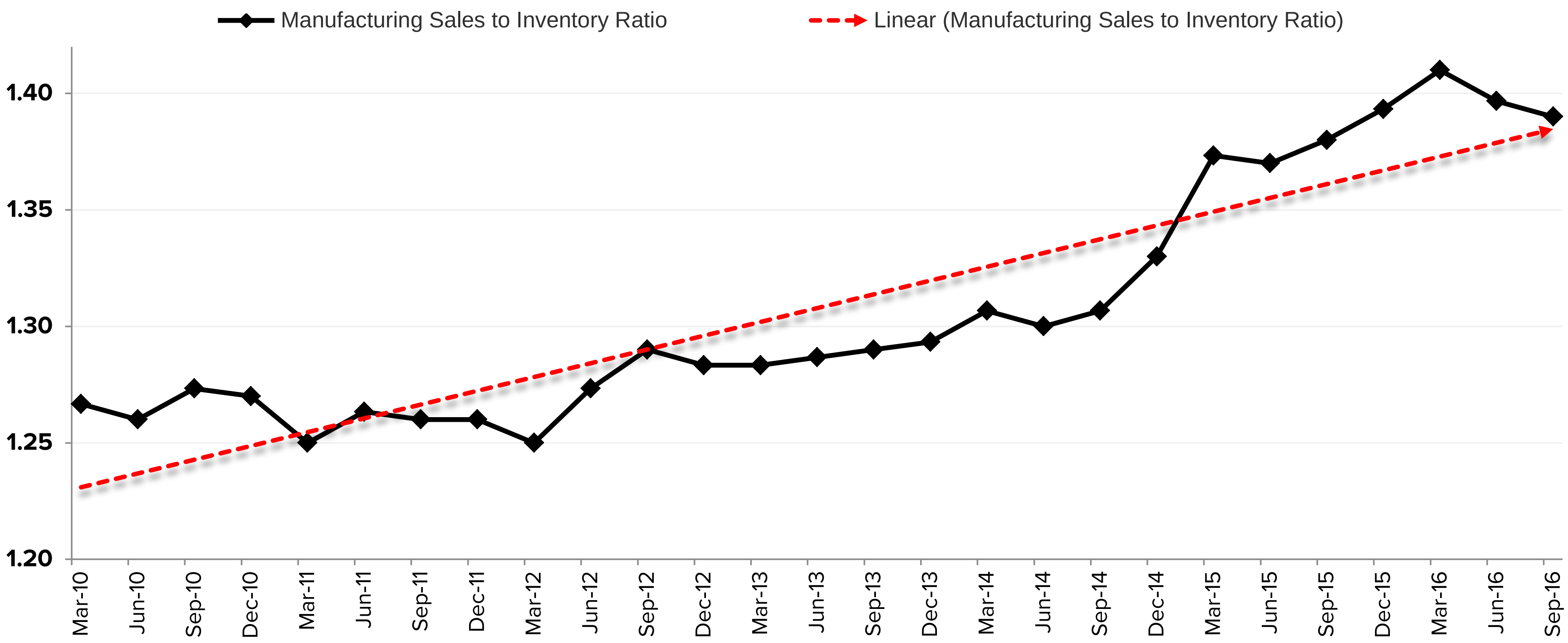
CATALYST ≠ SUPPLY

PURCHASE MANAGERS ARE SUGGESTING INVENTORY LEVELS ARE AT CYCLE HIGHS – A REALITY WHICH GENERALLY SIGNALS FUTURE SOFTNESS IN FUTURE ORDERS AND FACTORY OUTPUT



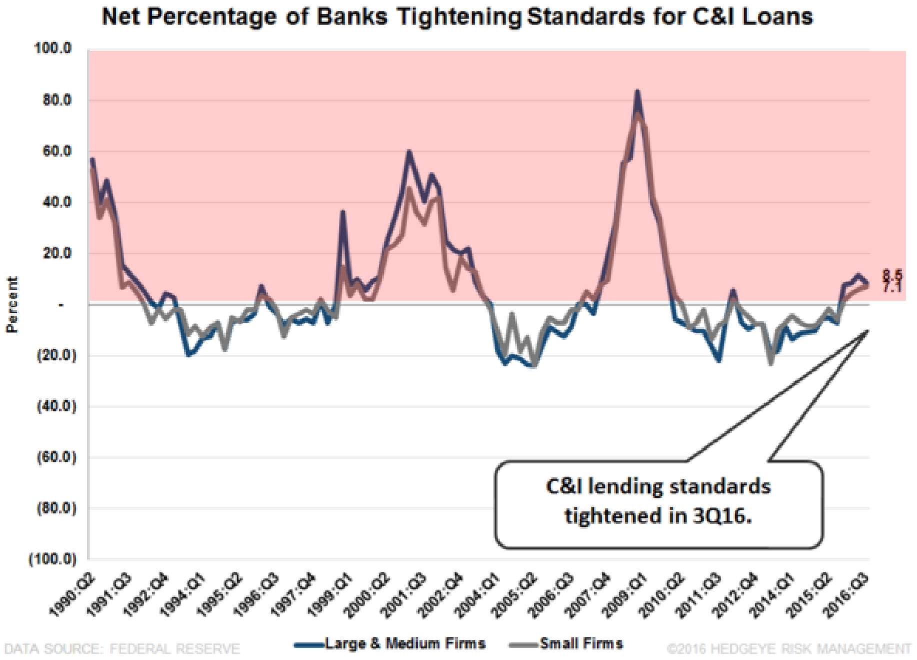
CATALYST ≠ DEMAND

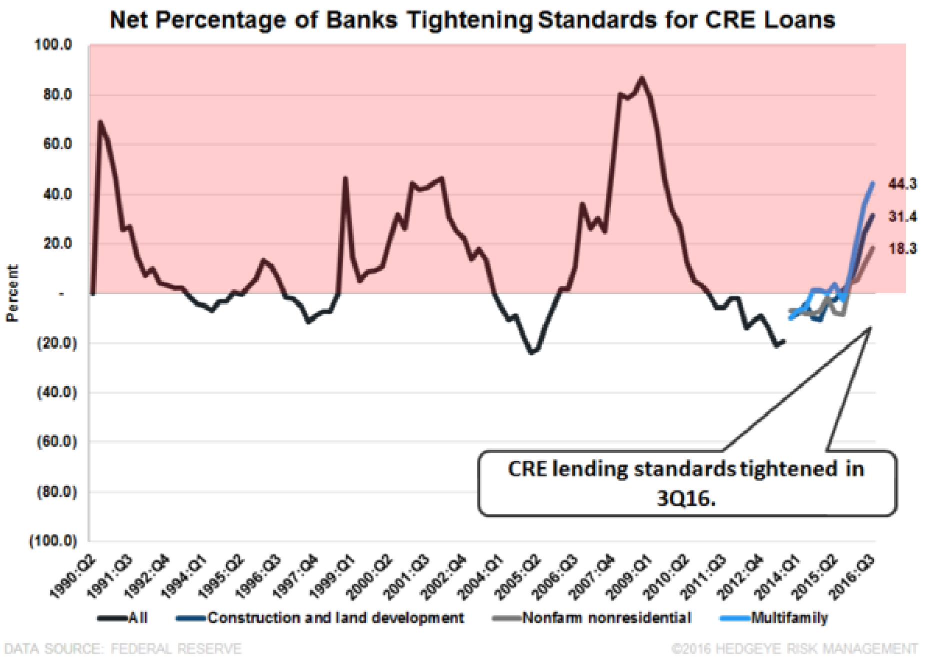
SALES-TO-INVENTORY RATIOS ACROSS THE SUPPLY CHAIN REMAIN NEAR CYCLE HIGHS. WITH INVENTORY GROWING FASTER THAN SALES THE LAST COUPLE YEARS, CURRENT INVENTORY LEVELS HIGH, AND DEMAND SLOWING, RESURGENT INVENTORY INVESTMENT DOESN'T SEEM LIKELY



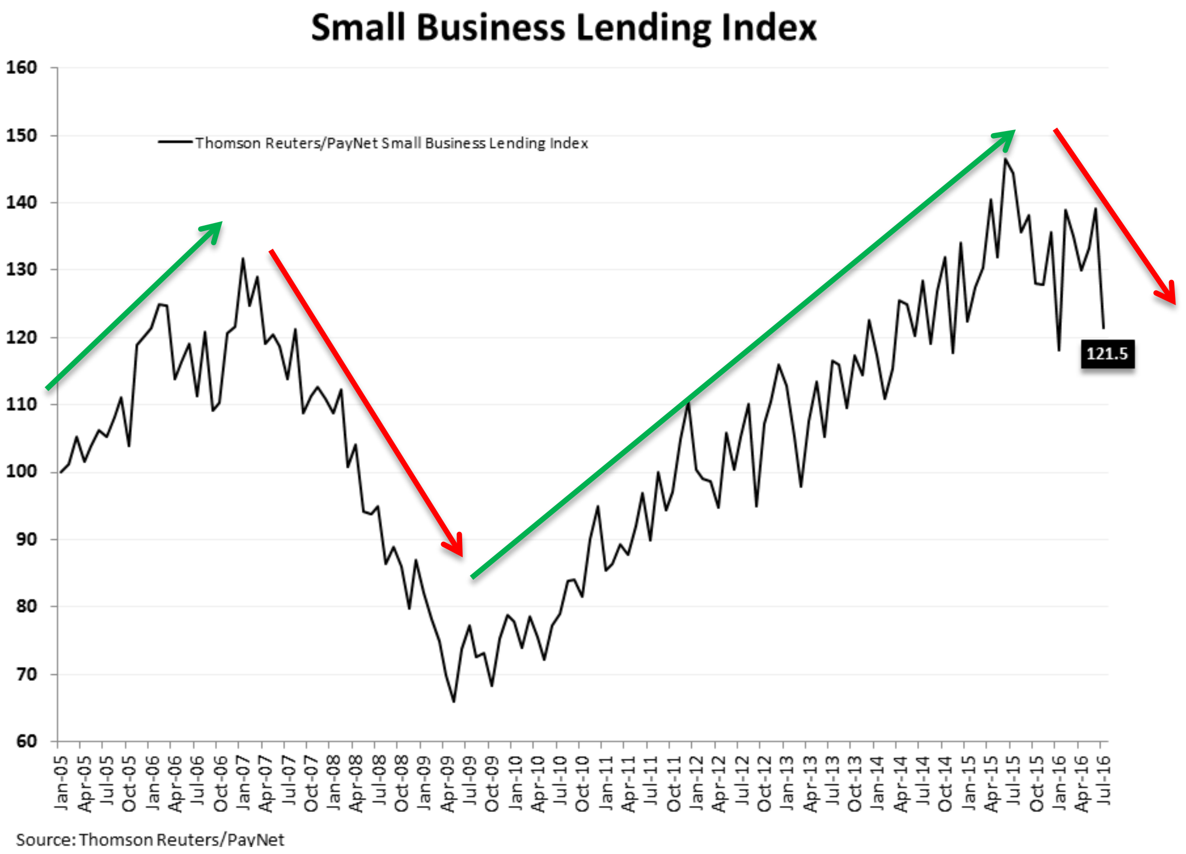
CATALYST ≠ CREDIT

Access to Credit is Tightening: A net percentage of banks tightened C&I and CRE lending standards for the fourth quarter in a row in 3Q16. While the net percentages are still fairly low, it's the trend inflection that matters.





LOAN VOLUMES ARE DECLINING



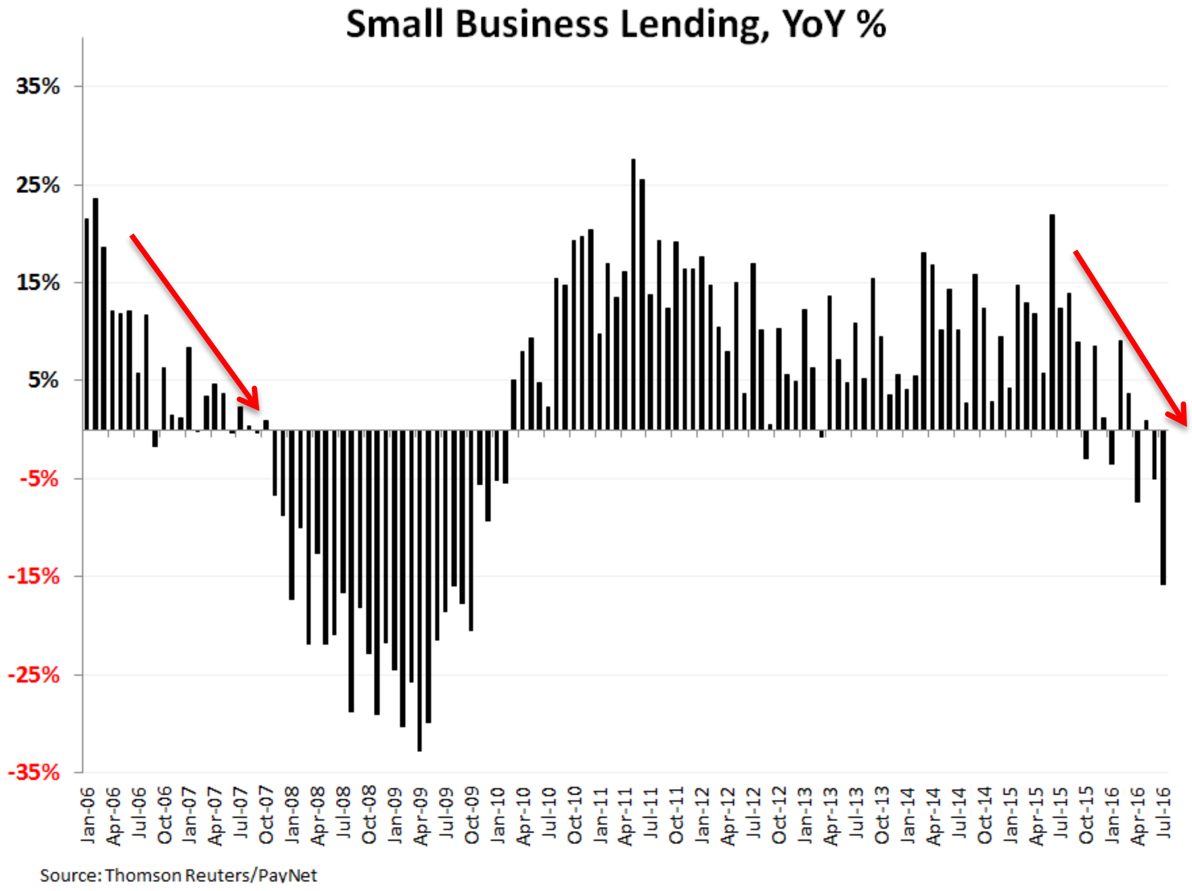
Small Business lending volumes dropped -12.7% MoM in July, according to the latest Thomson Reuters/Paynet Small Business Lending Index. At an index reading of 121.5, this represents the slowest pace of small business lending activity in almost two years outside of the peak growth/deflationary angst print in January.

Looking back, lending peaked in Jan, 2007 in the last cycle and declined ~15% by the end of 2007.

This cycle, lending peaked in June, 2015 and is now down ~17%.

DATA SOURCE: THOMSON REUTERS/PAYNET

LOAN VOLUMES = NEGATIVE Y/Y

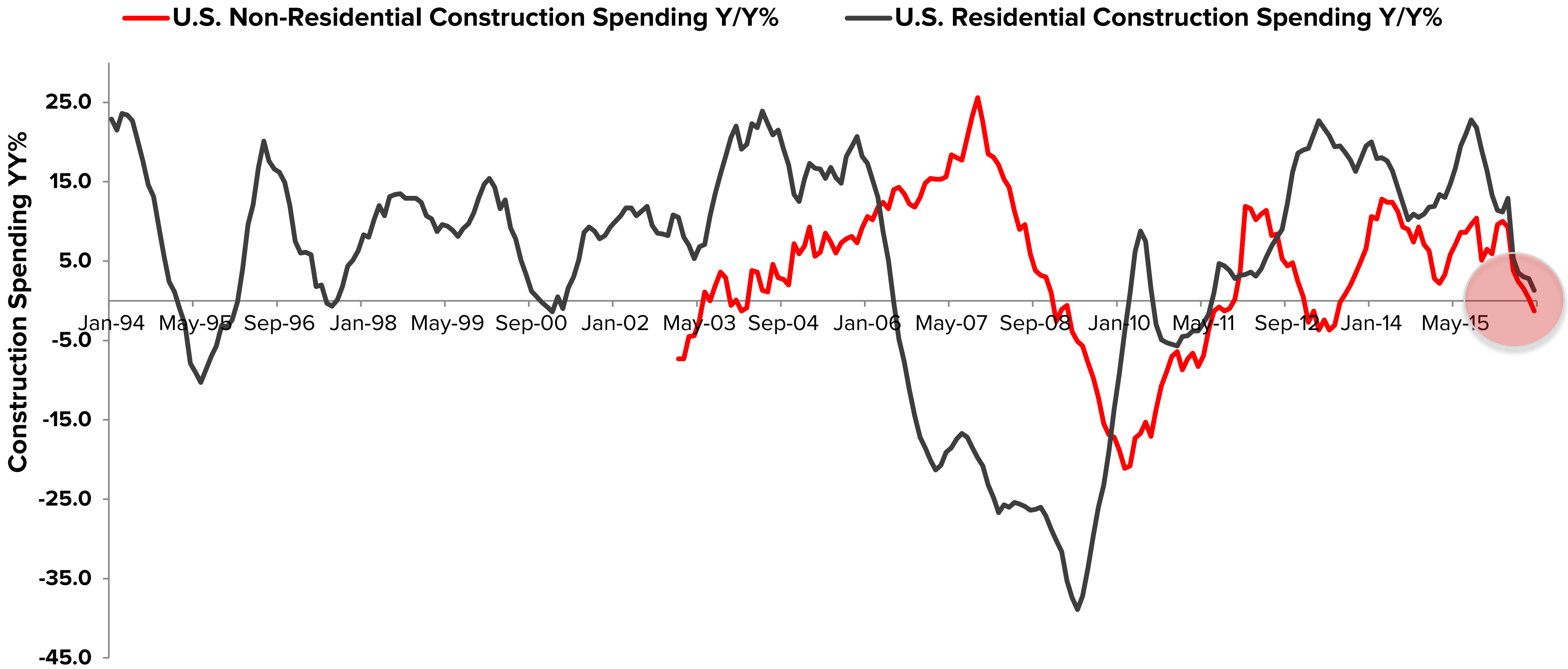


The Y/Y change taking place in small business lending originations is also striking: three of the last four monthly prints have been negative Y/Y and **the most recent print is down over 15%. The last time the index looked like this was December, 2007.**

DATA SOURCE: THOMSON REUTERS/PAYNET

AT THE SECTOR LEVEL: ACTIVITY = ↓

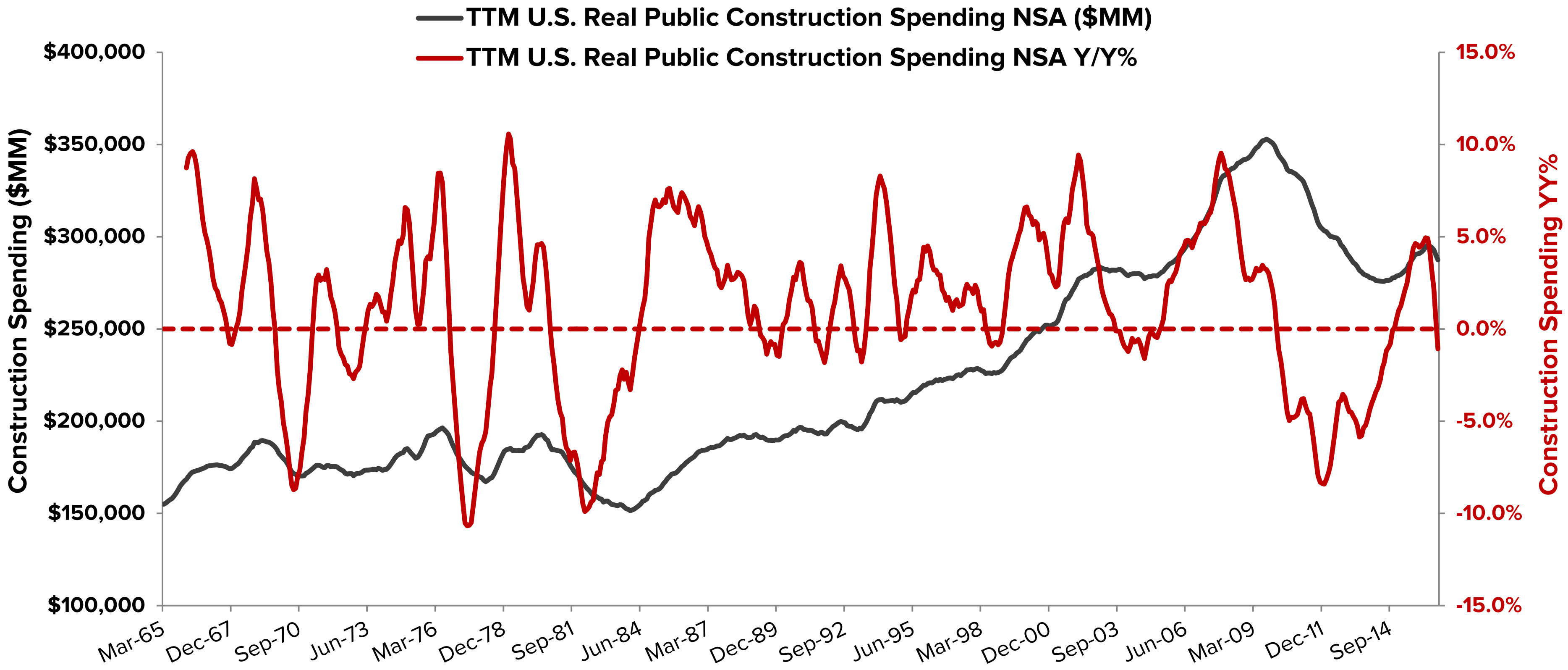
WITH STRUCTURAL HEADWINDS TO RESIDENTIAL CONSTRUCTION COMING OUT OF THE GREAT RECESSION, RECENT DATA SHOWS THE SLOWEST PACE OF GROWTH IN NEARLY 5 YEARS



DATA SOURCE: U.S. Census Bureau, Bloomberg

EVEN PUBLIC CONSTRUCTION SHOWING SIGNS OF WEAKNESS

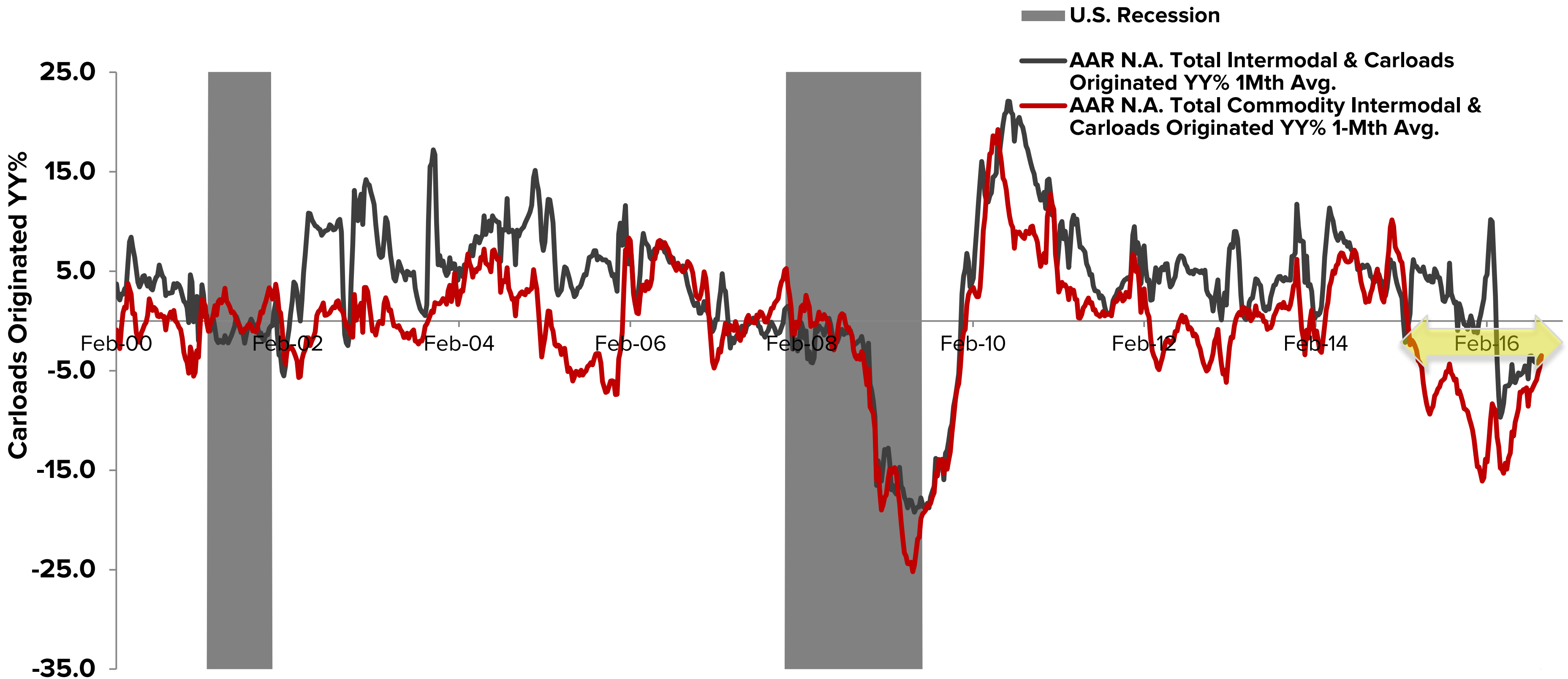
PUBLICLY-FUNDED CONSTRUCTION PROJECTS ONLY A POSITIVE FOR A SHORT PERIOD IN THIS CYCLE



DATA SOURCE: U.S. Census Bureau, Bloomberg

CARLOAD TRAFFIC = RECESSIONARY

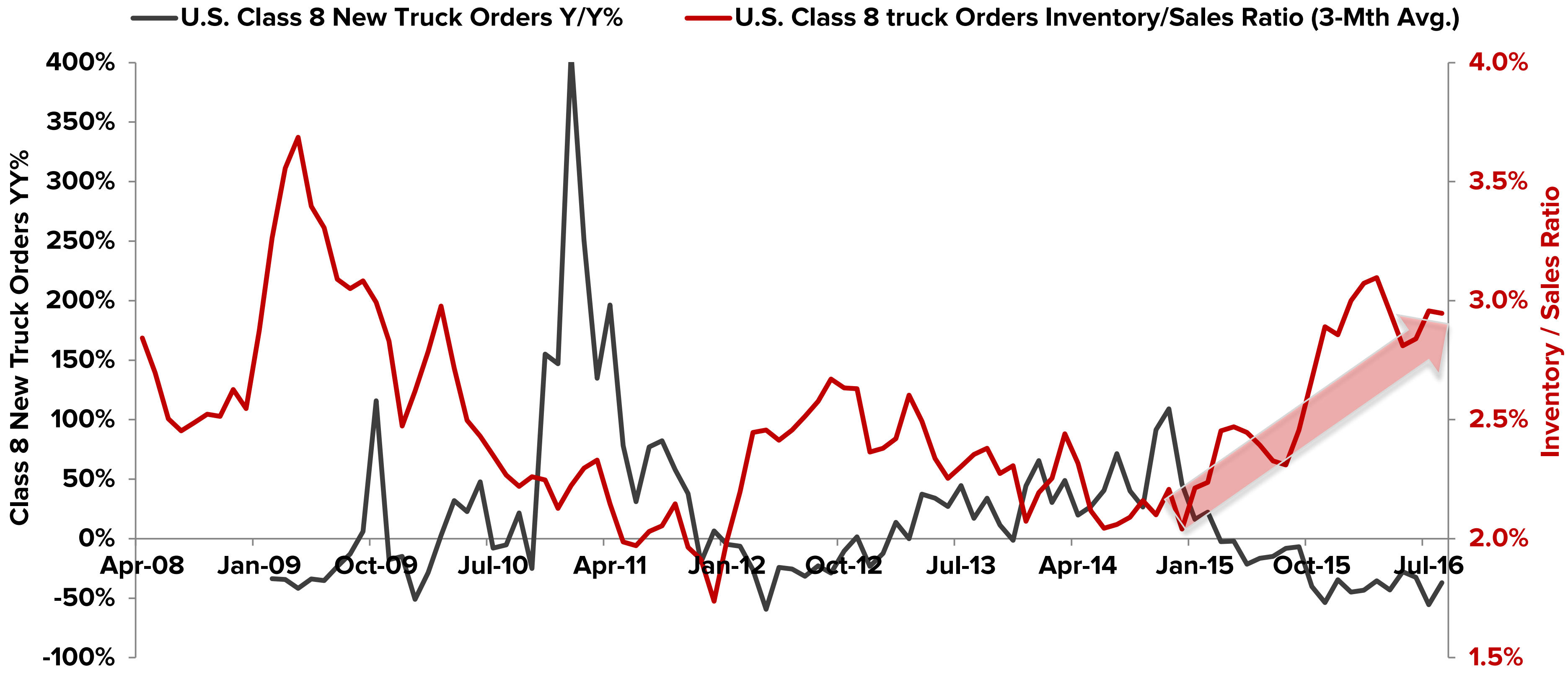
NEVER SEEN A SUSTAINED SLOWDOWN LIKE THIS WITHOUT A RECESSION



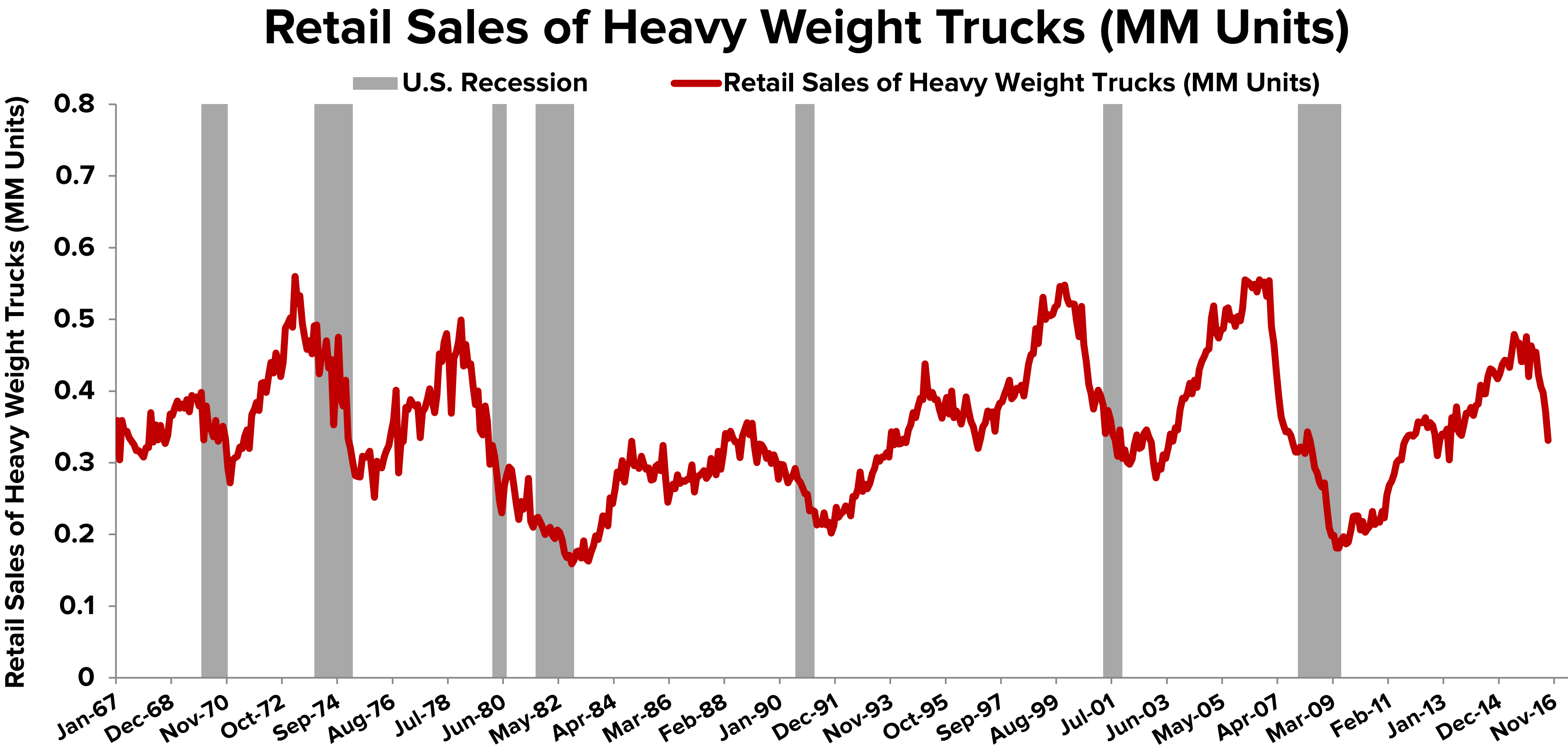
DATA SOURCE: Association of American Railroads

GETTING IN THE WEEDS ON INVENTORIES

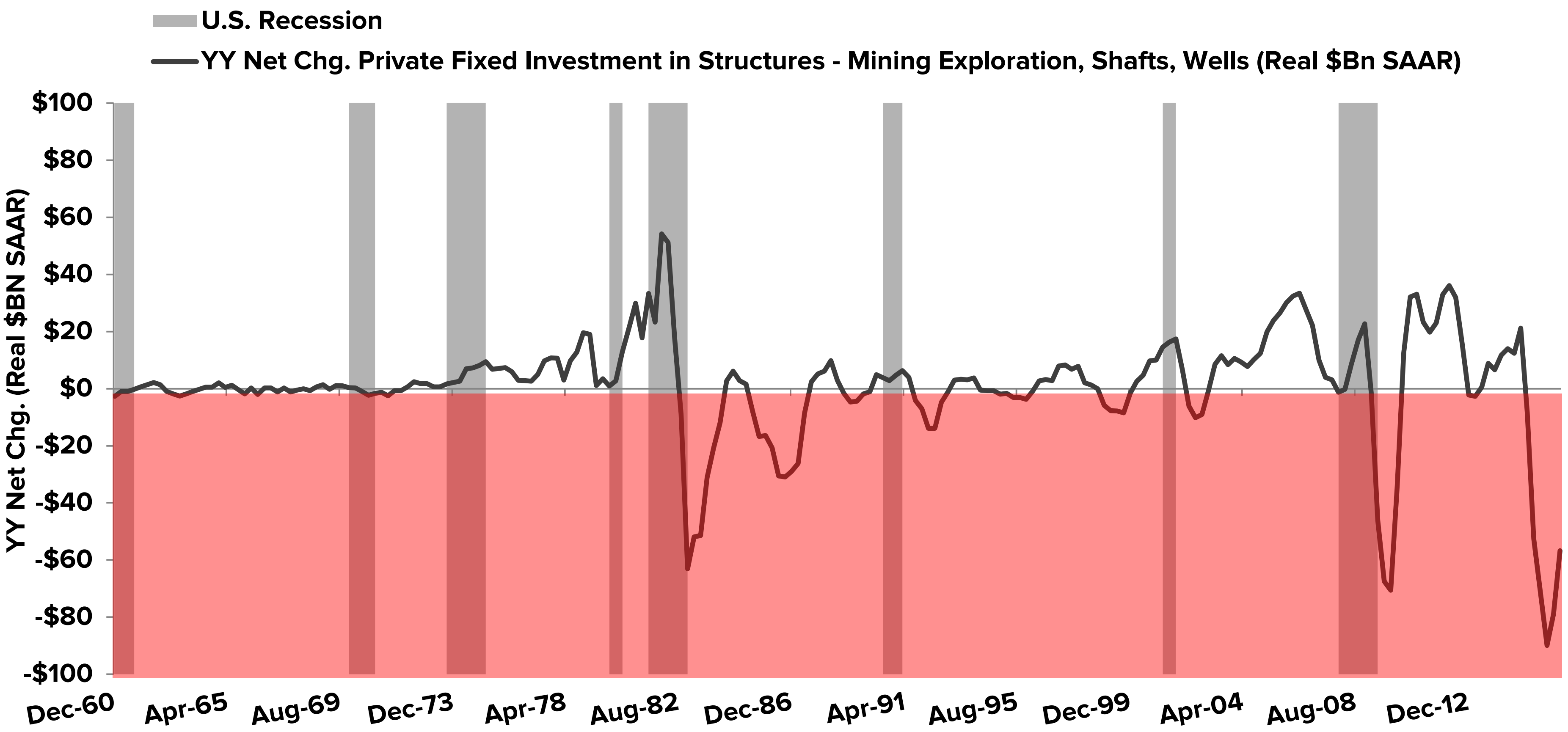
A LOOK AWAY FROM UPSTREAM COMMODITY PRODUCTION – INVENTORY/SALES RATIO FOR CLASS 8 TRUCKS JUST OFF A CYCLE PEAK



IN THE WEEDS ON THE ONGOING INDUSTRIAL RECESSION



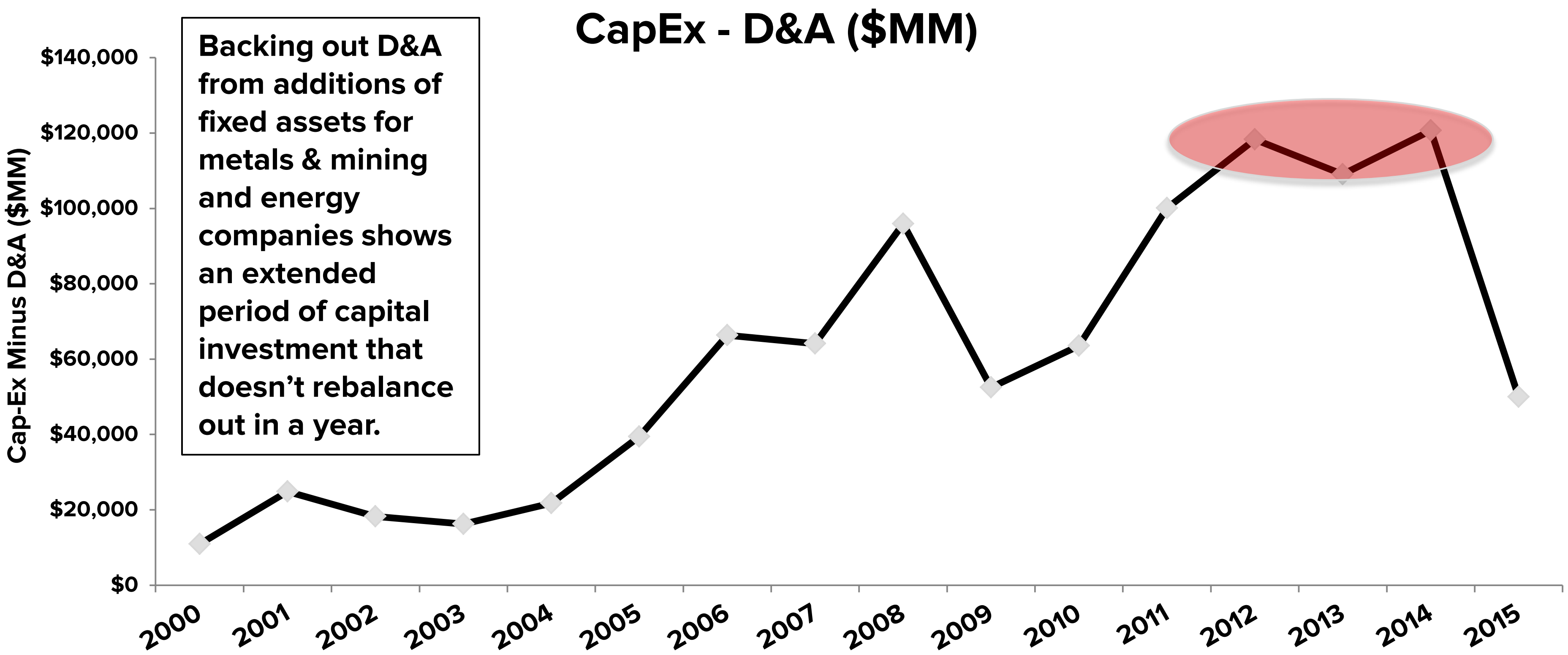
COMPLETE CARNAGE IN PRIVATE FIXED INVESTMENT



DATA SOURCE: BEA, Bloomberg

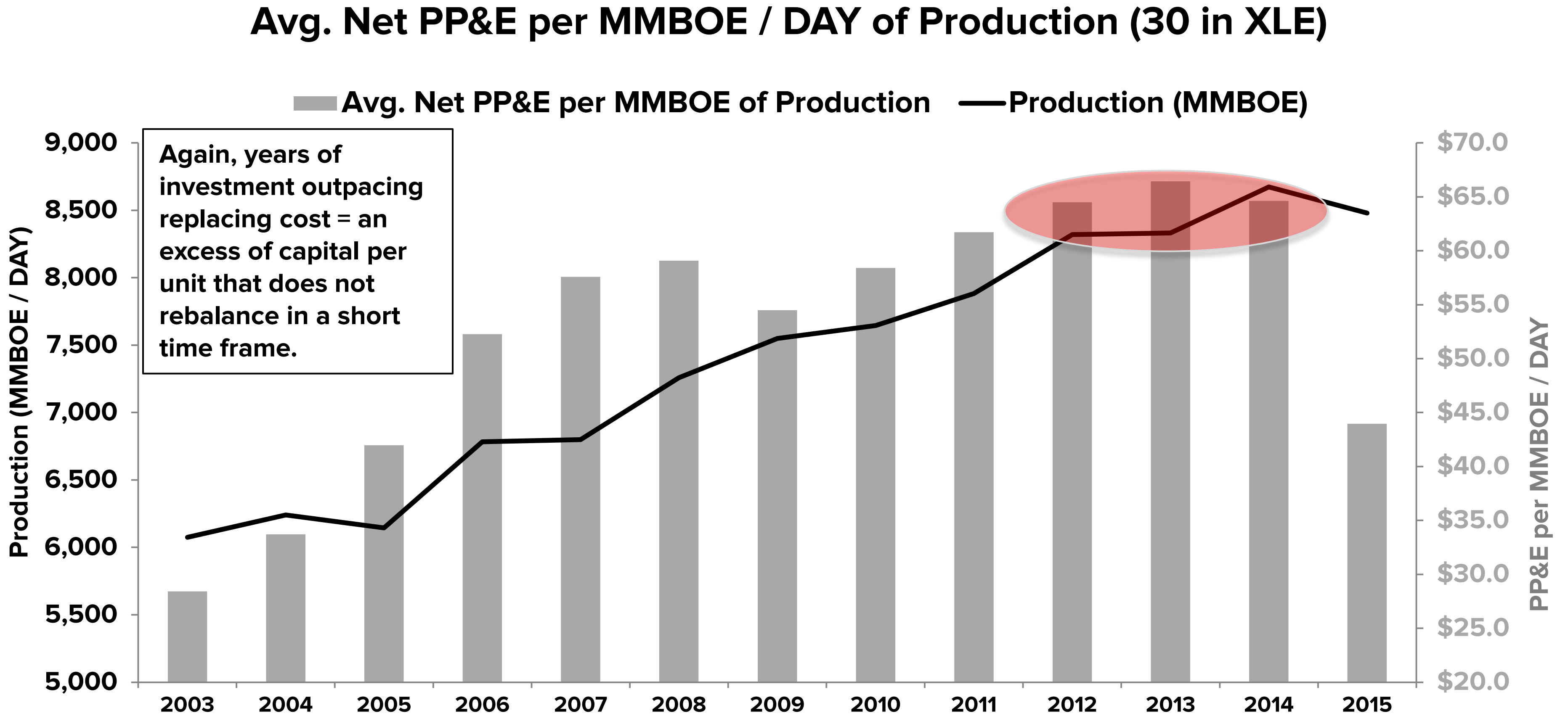
A HARD ASSET SPLURGE DOESN'T DEFLATE IN A YEAR

INCLUDES ALL XME (METALS & MINING) AND XLE (ENERGY) CONSTITUENTS

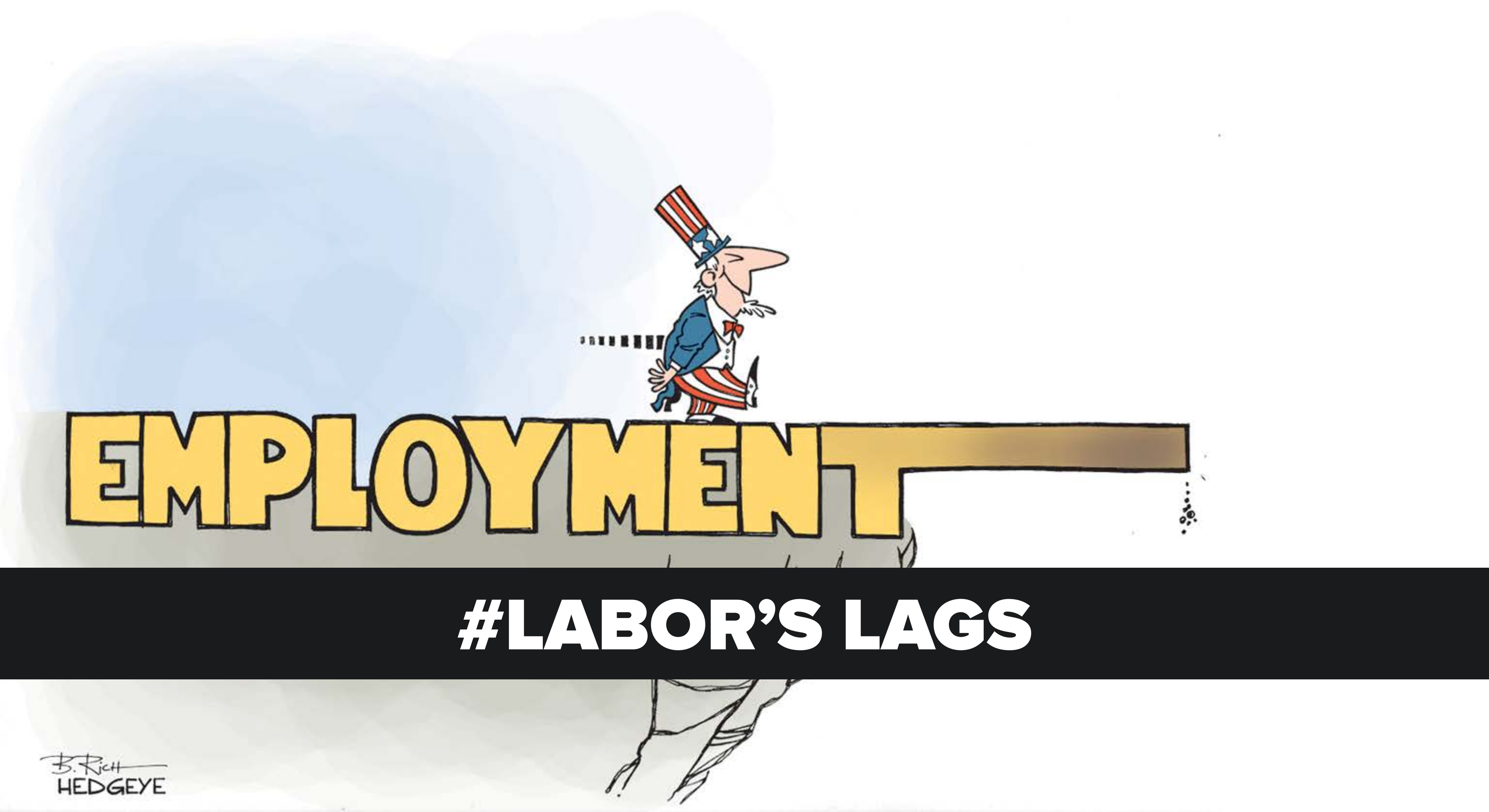


DATA SOURCE: SEC Filings, BBG

ENERGY AS AN EXAMPLE: CAPITAL IN PLAY

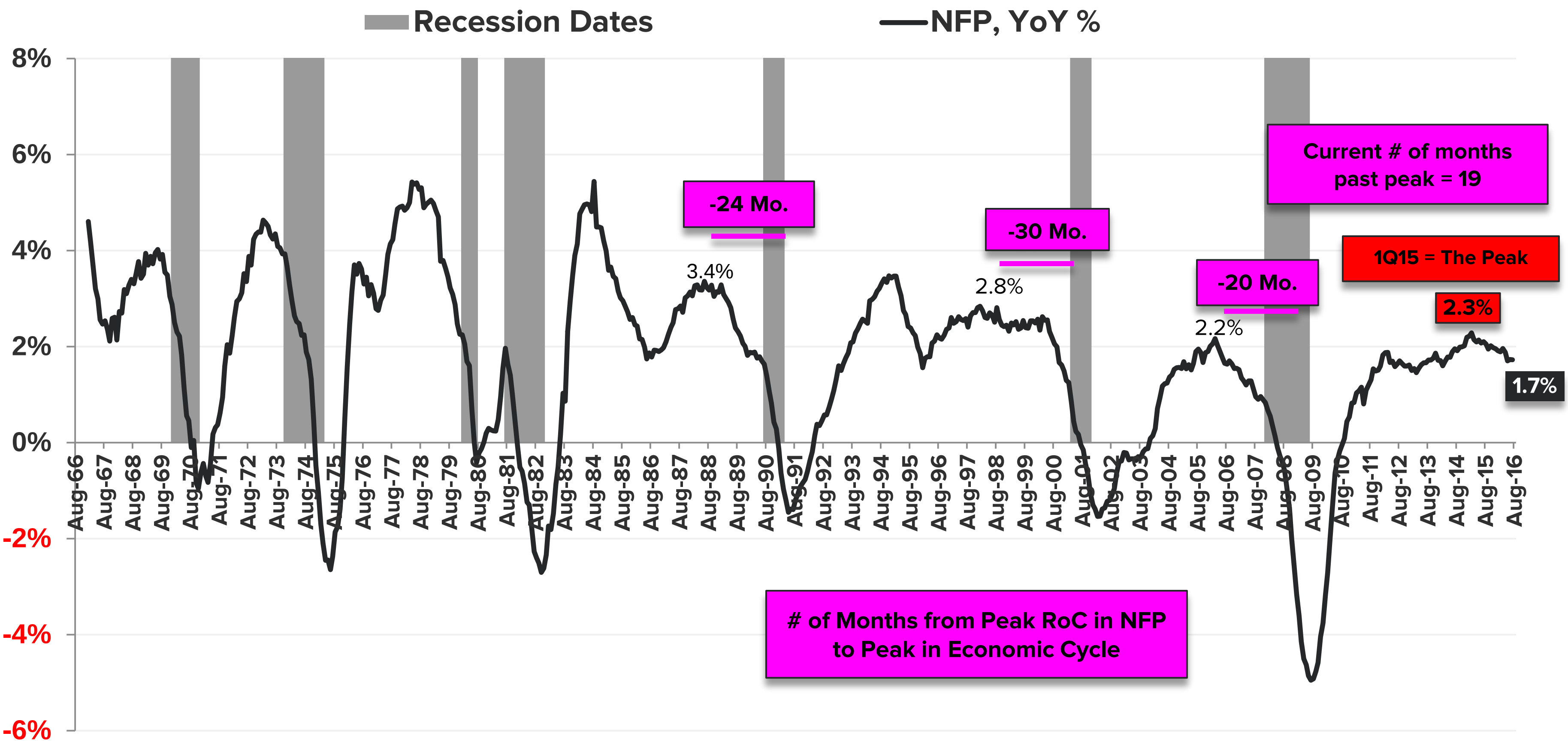


DATA SOURCE: Company Filings, BBG



#LABOR'S LAGS

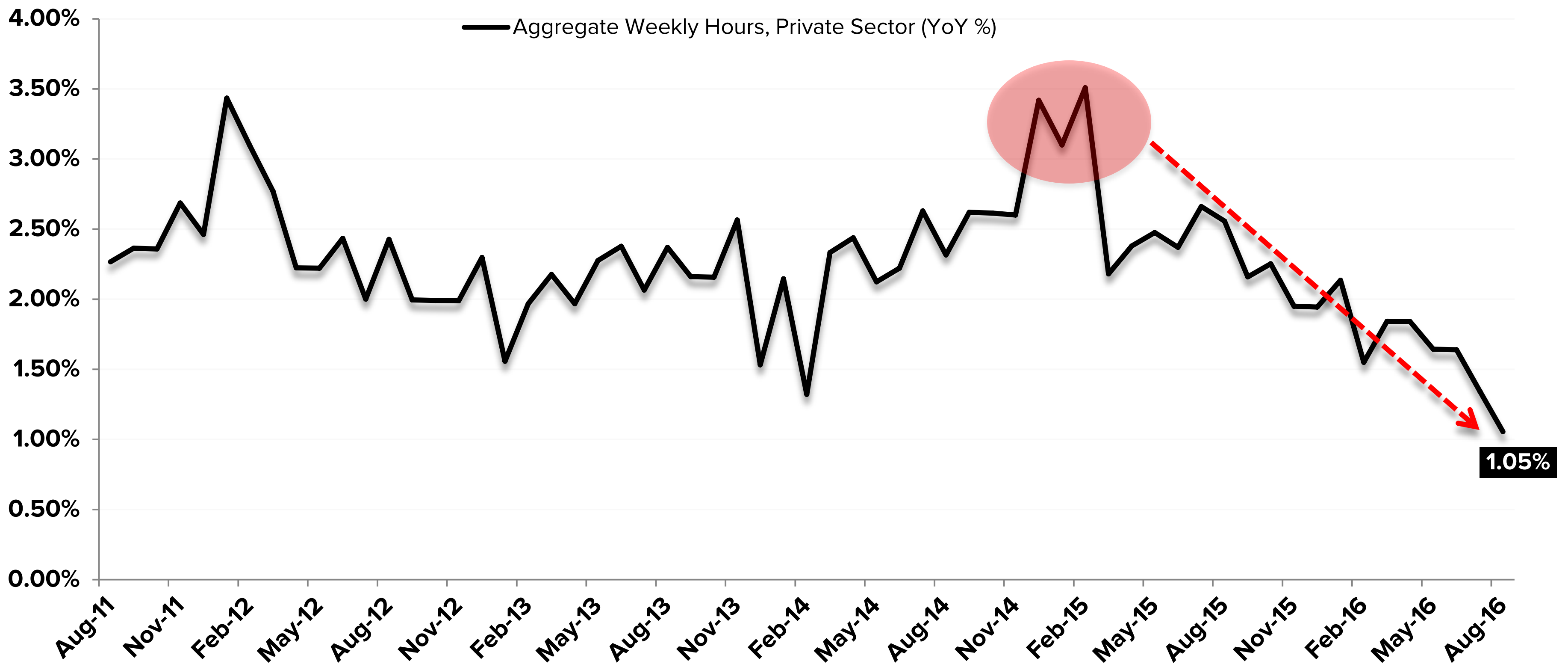
NFP GROWTH: THE CONVERGENCE TO 0%



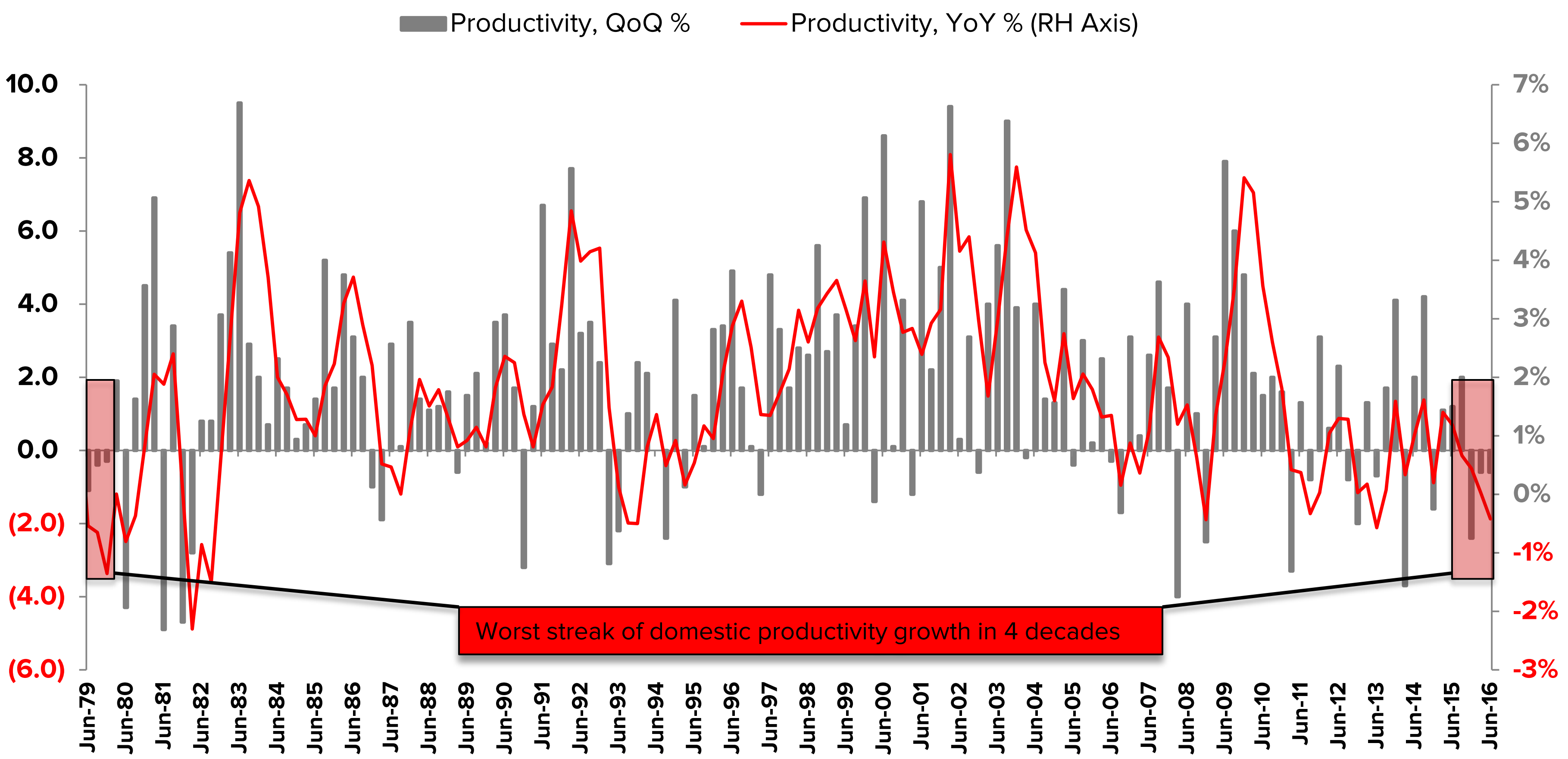
DATA SOURCE: BLOOMBERG, NBER, BEA, HEDGEYE

AGGREGATE HOURS = SLOWING

GROWTH IN AGGREGATE HOURS (EMPLOYMENT * AVERAGE WEEKLY HOURS) HAS NOW BEEN SLOWING FOR 19-MONTHS. IT'S DIFFICULT FOR A WORKFORCE WITH DECLINING PRODUCTIVITY TO INCREASE OUTPUT BY WORKING LESS!

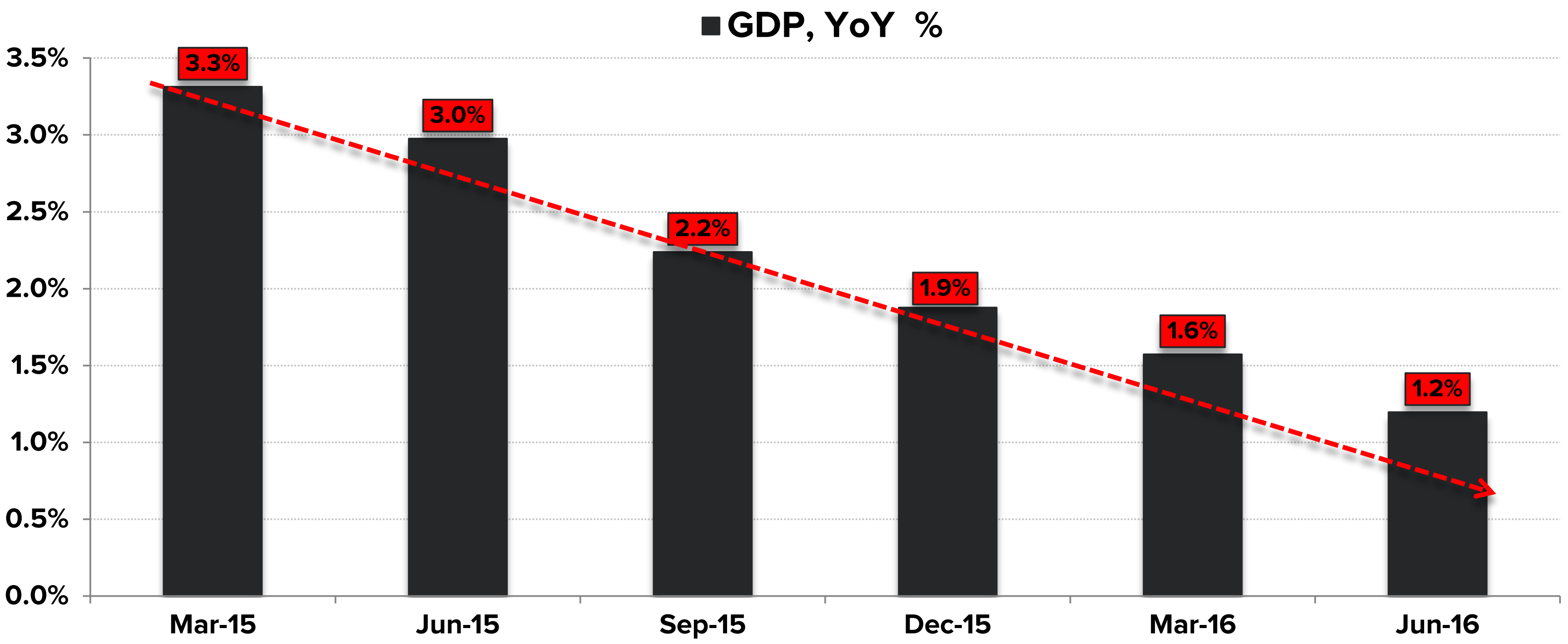


PRODUCTIVITY: 3 QTRS. OF (-) GROWTH



DATA SOURCE: BLOOMBERG, BLS, HEDGEYE

NFP ↓ + HOURS ↓ + PRODUCTIVITY ↓ = OUTPUT ↓

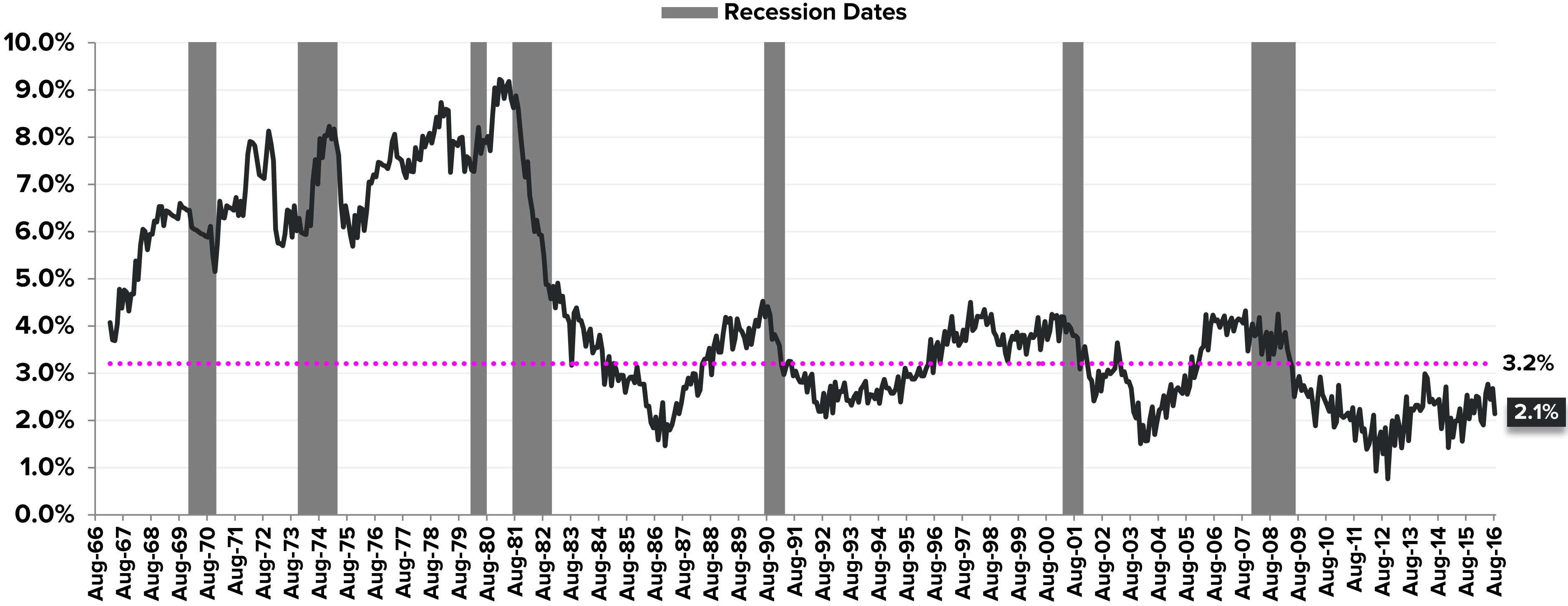


DATA SOURCE: BLOOMBERG, BEA, HEDGEYE

WAGE GROWTH: (STILL) UNDERWHELMING

WAGE INFLATION HAS SHOWN A MODEST PICKUP BUT SUSTAINED ACCELERATION HAS REMAINED ELUSIVE. EMPLOYMENT GROWTH HAS SLOWED FASTER THAN WAGE GROWTH HAS ACCELERATED …. WHICH = INCOME ↓

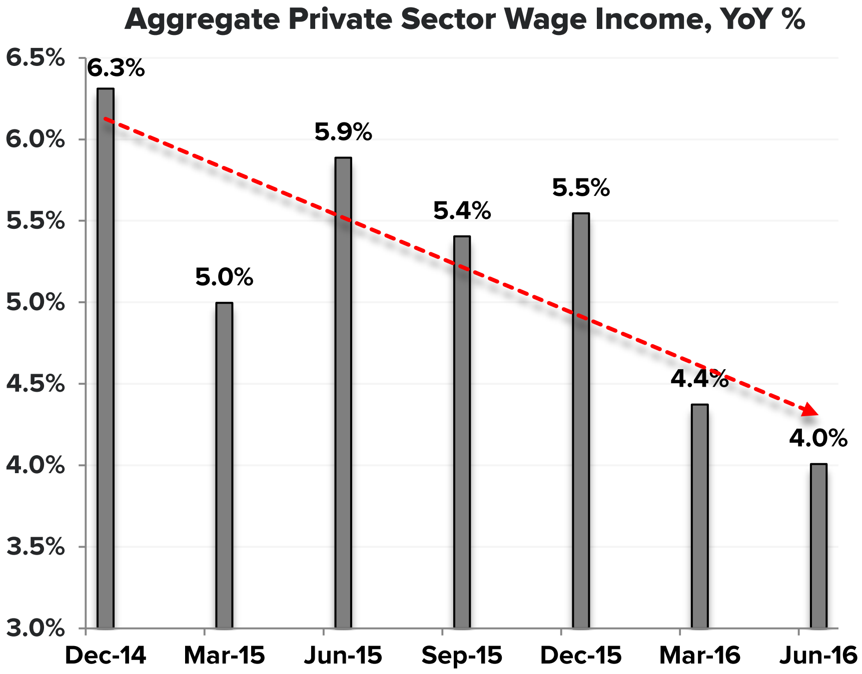
Nominal Wage Growth: Production & Nonsupervisory Employees

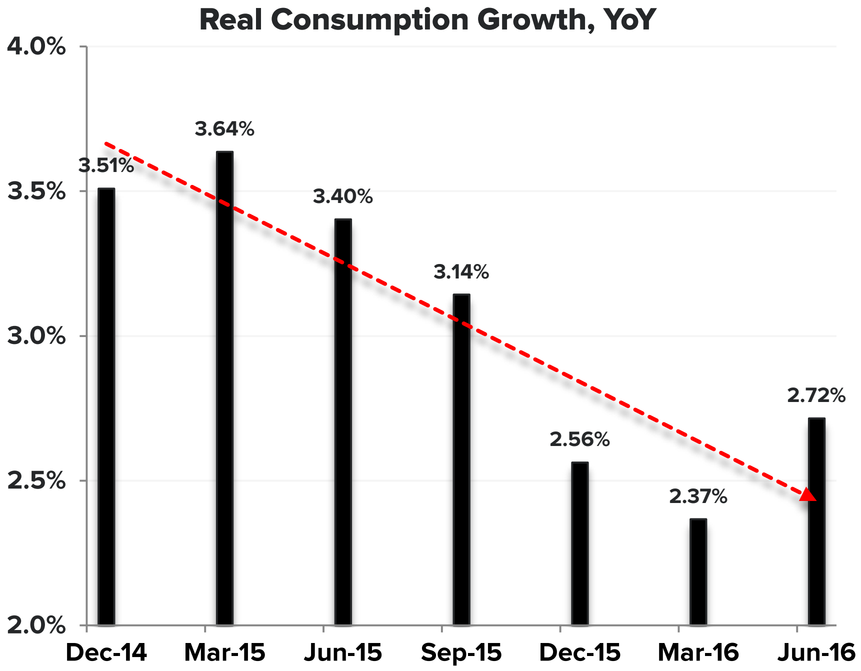


NFP GROWTH ↓ > WAGE GROWTH ↑ = INCOME & CONSUMPTION ↓

INCOME GROWTH ↓

CONSUMPTION GROWTH ↓

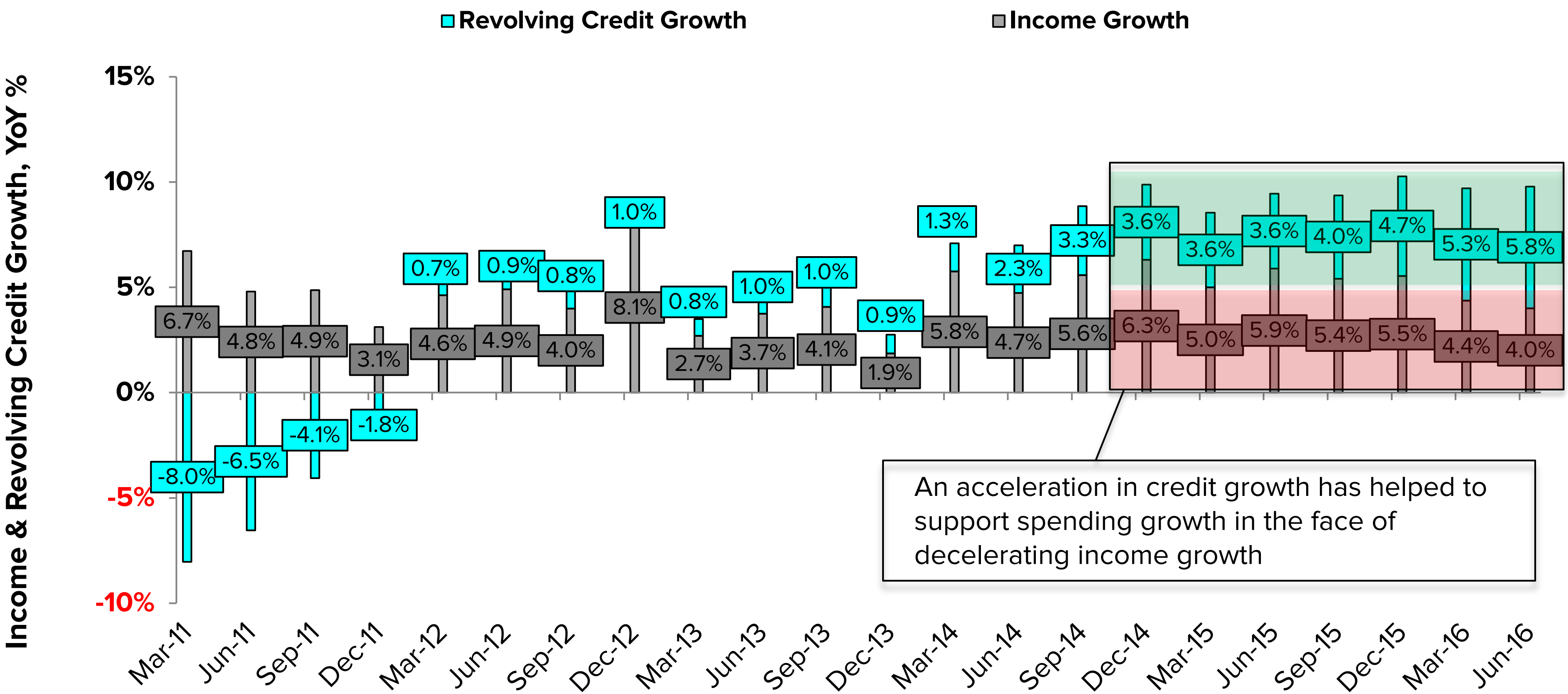




DATA SOURCE: BLOOMBERG, BEA, HEDGEYE

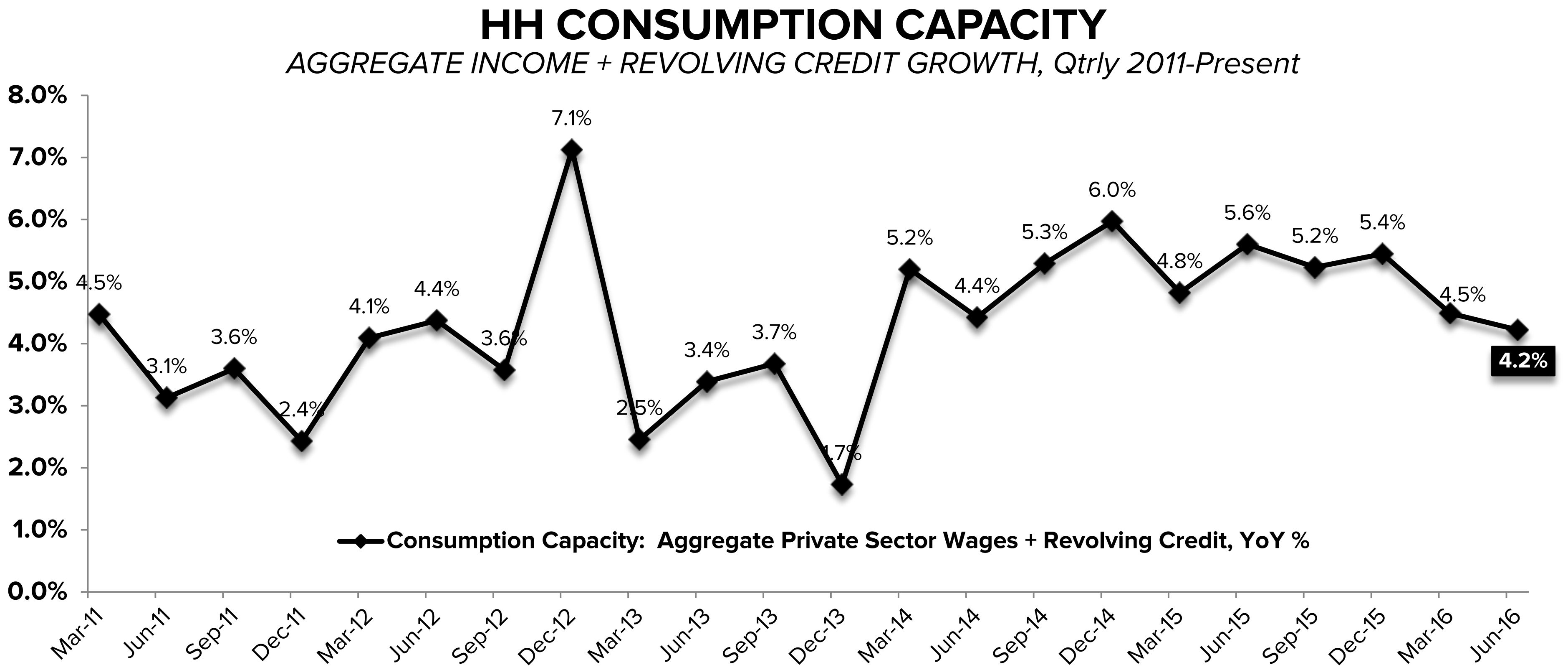
CONSUMPTION: INCOME ↓, CREDIT ↑

REVOLVING CREDIT (I.E. CREDIT CARDS) REPRESENTS THE PRIMARY MEANS OF PULLING FORWARD CONSUMPTION FOR MOST HOUSEHOLDS. AS INCOME GROWTH HAS SLOWED, HOUSEHOLDS HAVE ACCELERATED GROWTH IN REVOLVING CREDIT TO HELP MAINTAIN CONSUMPTION



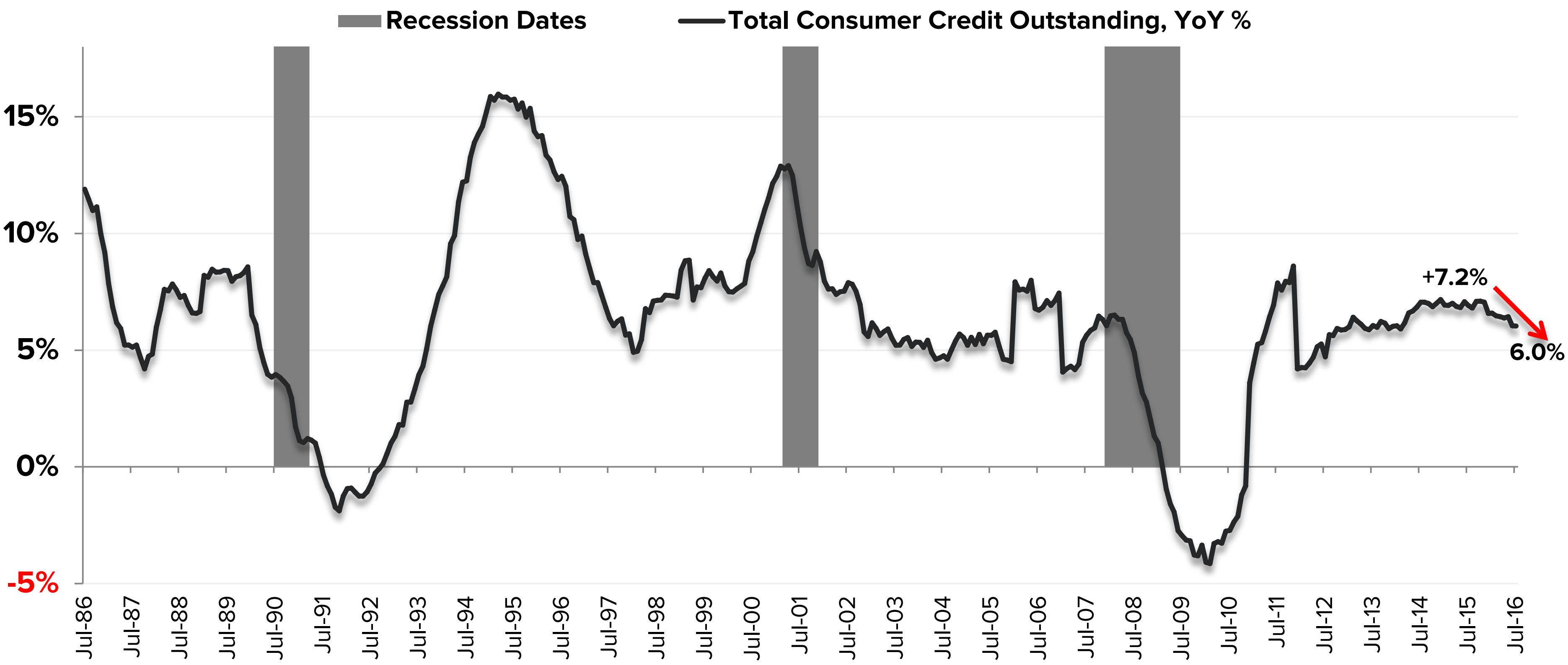
INCOME + CREDIT = ⬇

WHILE CREDIT GROWTH HAS RISEN, IT HASN'T BEEN ENOUGH TO OFFSET THE DECELERATION IN INCOME GROWTH, AND THE CONSUMPTION CAPACITY OF HOUSEHOLDS (INCOME + CREDIT GROWTH) CONTINUES TO SLOW



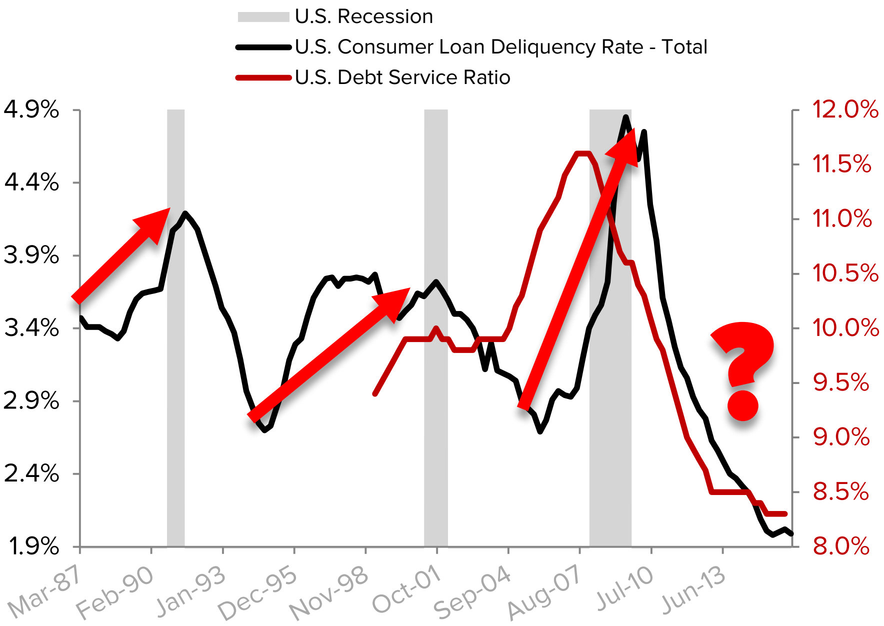
CONSUMER CREDIT GROWTH = SLOWING

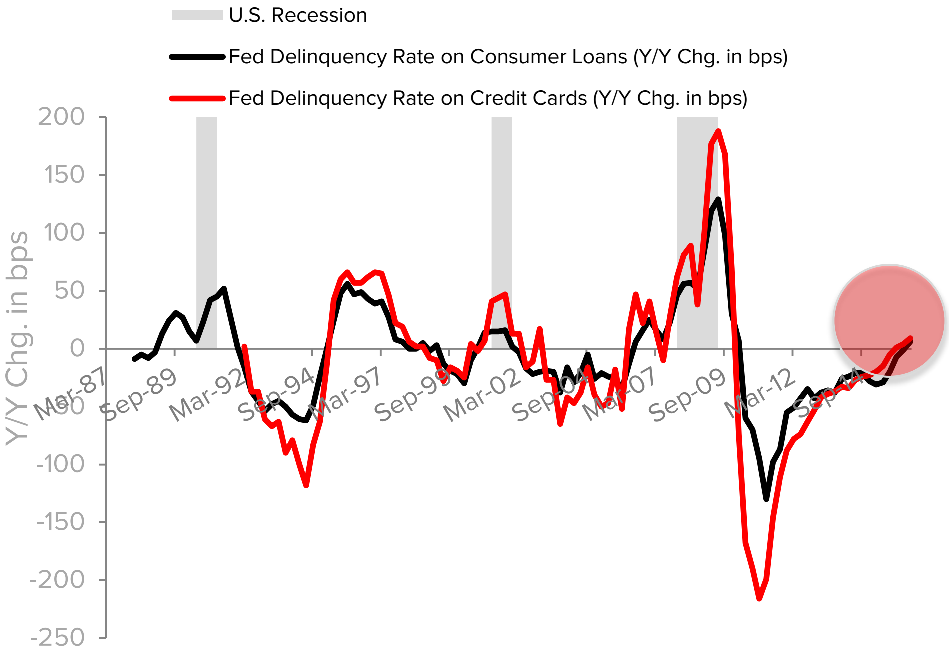
AFTER PEAKING IN 4Q15, TOTAL CONSUMER CREDIT GROWTH HAS NOW BEEN SLOWING FOR 8 MONTHS



DATA SOURCE: BLOOMBERG, NBER, FEDERAL RESERVE, HEDGEYE

DELINQUENCY RATES – NEGATIVE ASYMMETRY



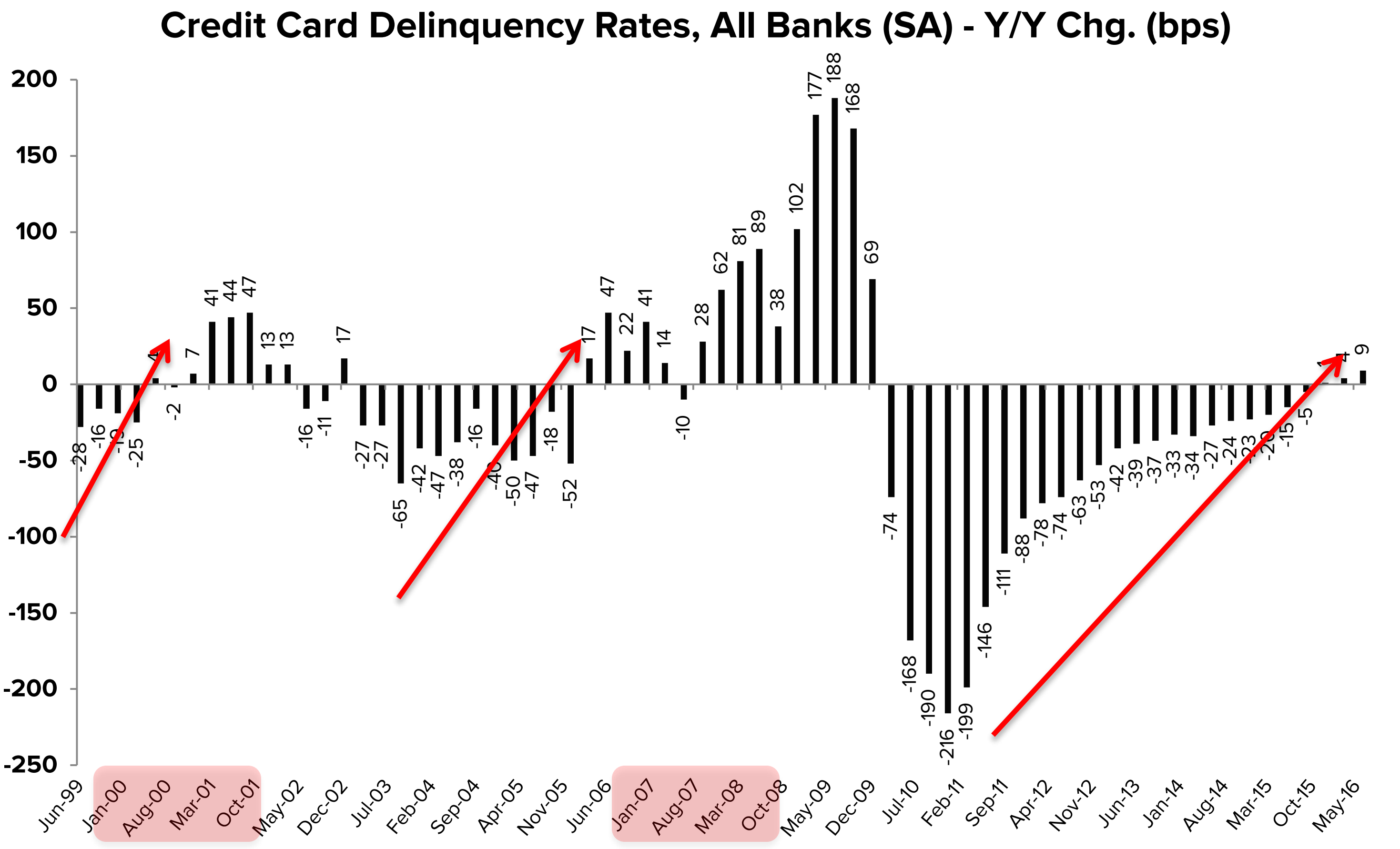


3Q16 Themes
Delinquencies = As Good as it Gets

The → Inflection

Delinquency rates on consumer and credit card loans are all now delta positive Y/Y.

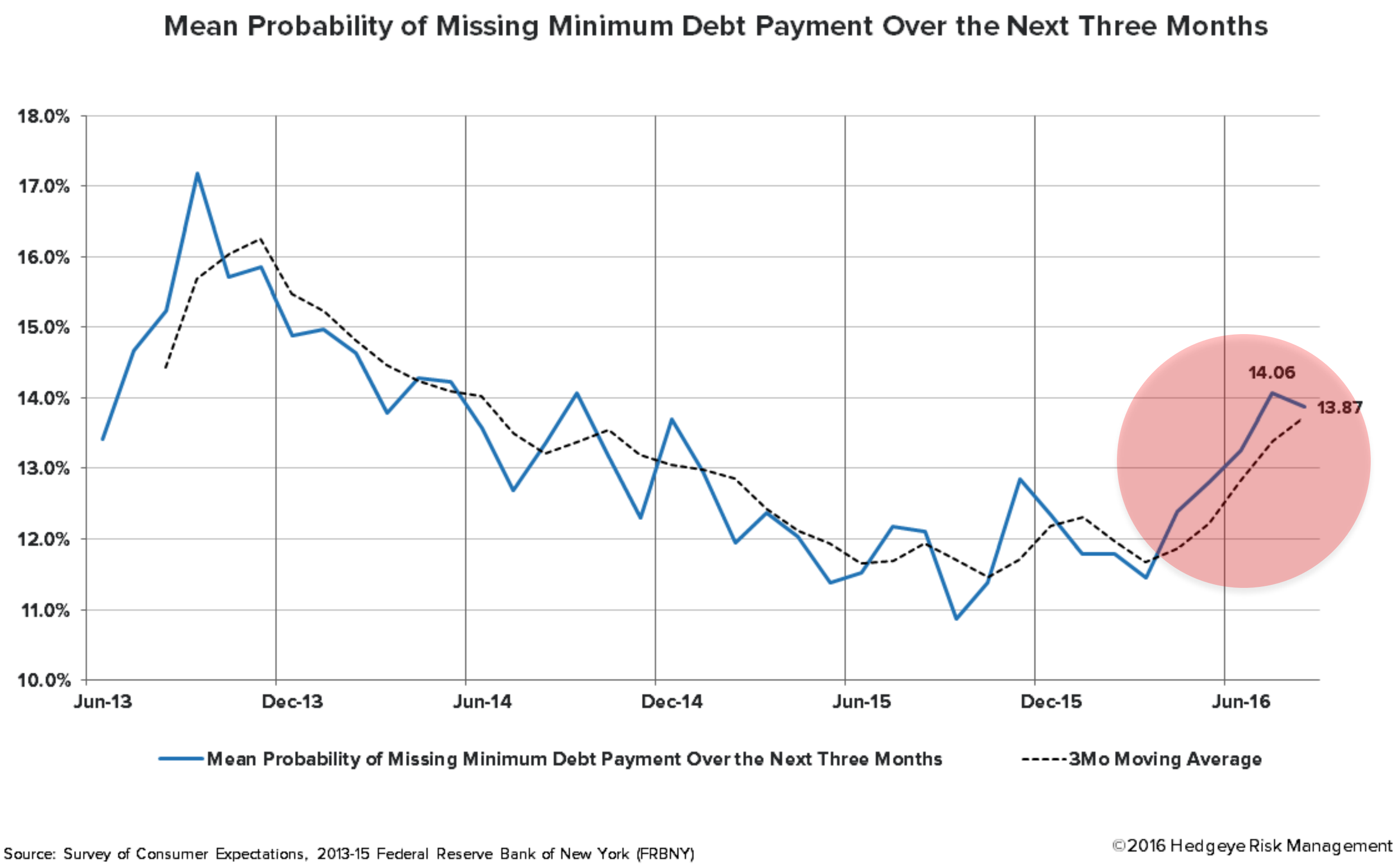
DELINQUENCIES = NEGATIVE INFLECTION



The turn has finally begun with delinquency rates just starting to peak above zero this cycle for the first time in the last few quarters. While the magnitude of the move isn't overly impressive as of yet, this is how all previous cycles have looked at their twilight.

DATA SOURCE: FEDERAL RESERVE

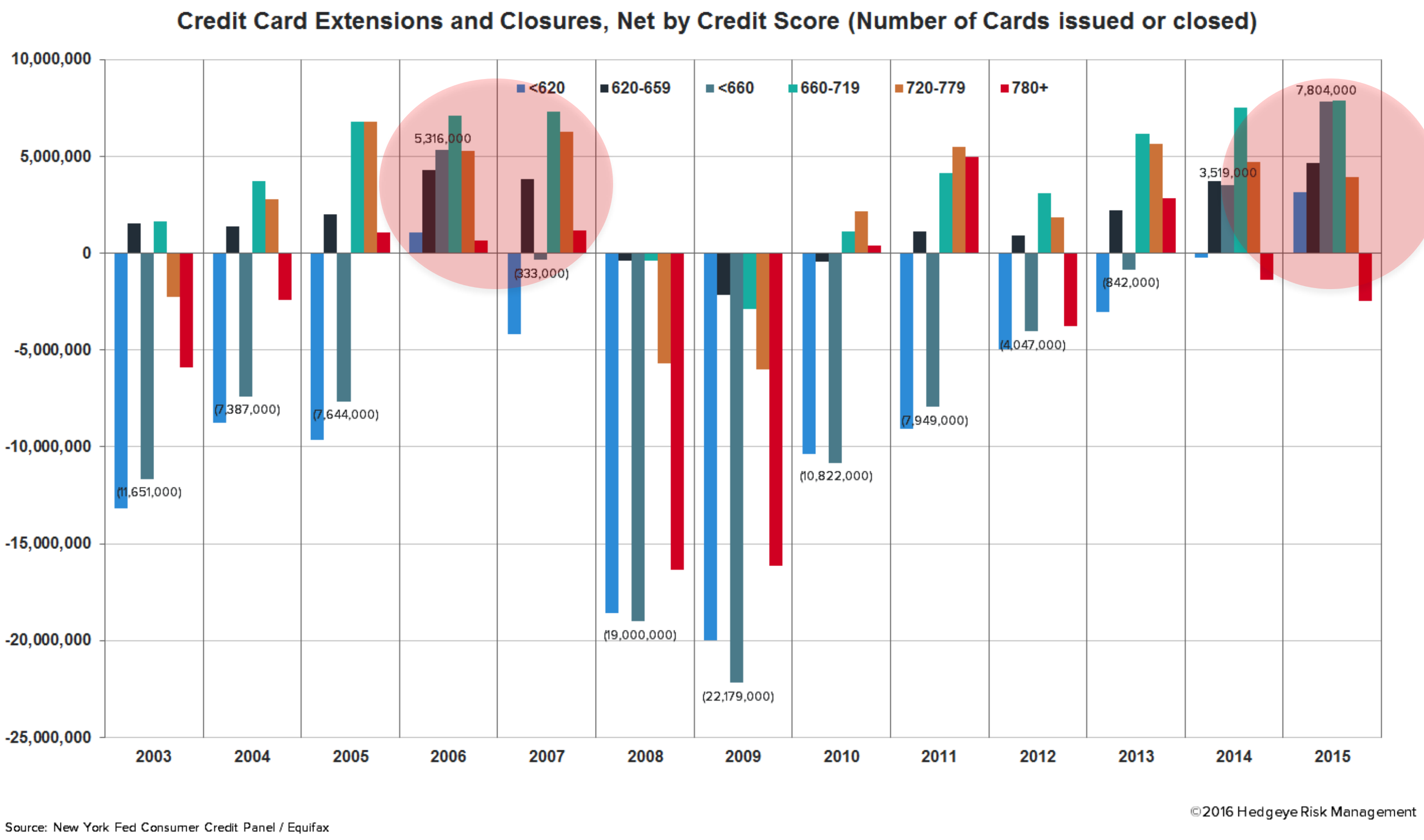
FUTURE DELINQUENCY PROBABILITY = ↑



The Fed's Survey of Consumer Expectations showed a recent upswing in the percentage of respondents who said they would be unable to make minimum payments on certain debt obligations in the next three months.

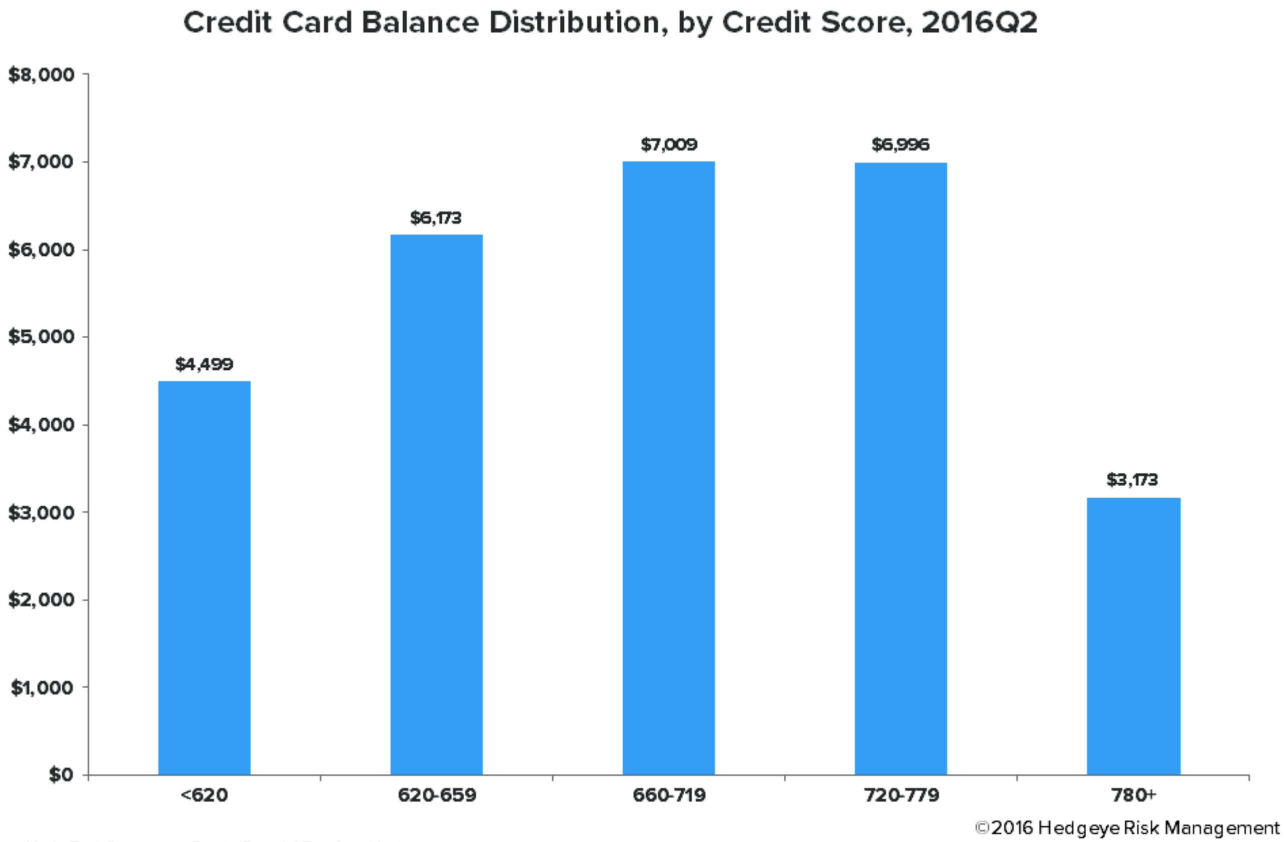
The percentage rose from the 11-12% range in 2015 to ~14% as of the latest readings. Considering that DQ rates are still near all-time lows for most card issuers, this is certainly a cause for concern.

THE (DEEP) SUBPRIME RESURGENCE



The net extension of card credit (number of cards) to deep subprime and traditional subprime borrowers put up its fastest year on record in 2015.

LEVERAGE ↑ & RISK = UNDERAPPRECIATED

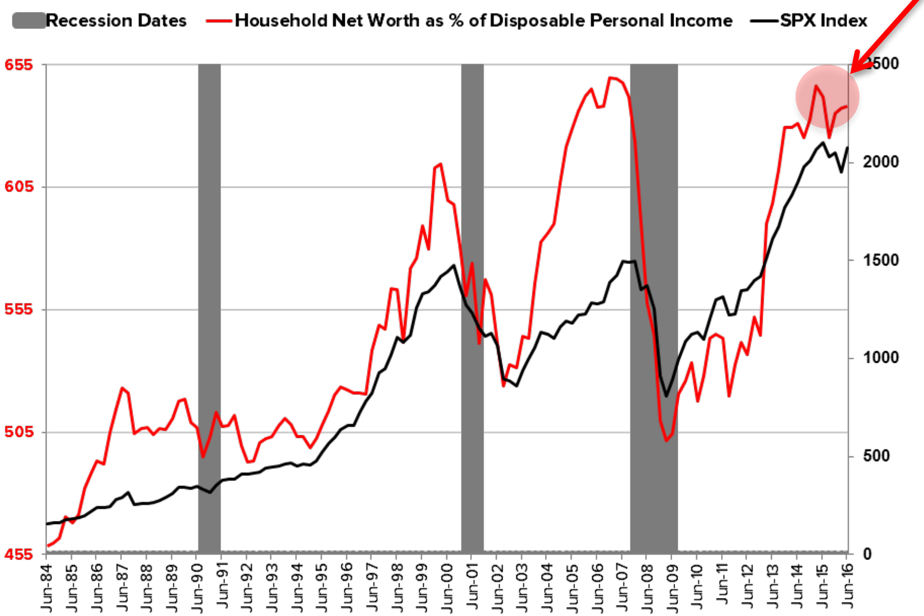


Source: New York Fed Consumer Credit Panel / Equifax, Hedgeye

We've interpolated the Fed's histogram to try and understand average balances by credit score bucket. **Surprisingly, the deep subprime bucket (sub-620) and the traditional subprime bucket (620-659) carry average balances not dissimilar from prime borrowers. This means the risk of these borrowers is greater than what's generally understood.**

MEANWHILE, WEALTH EFFECT = PAST PEAK

This Is Not Coincidence



Past Peak: Asset Price Inflation and Financial Wealth Creation

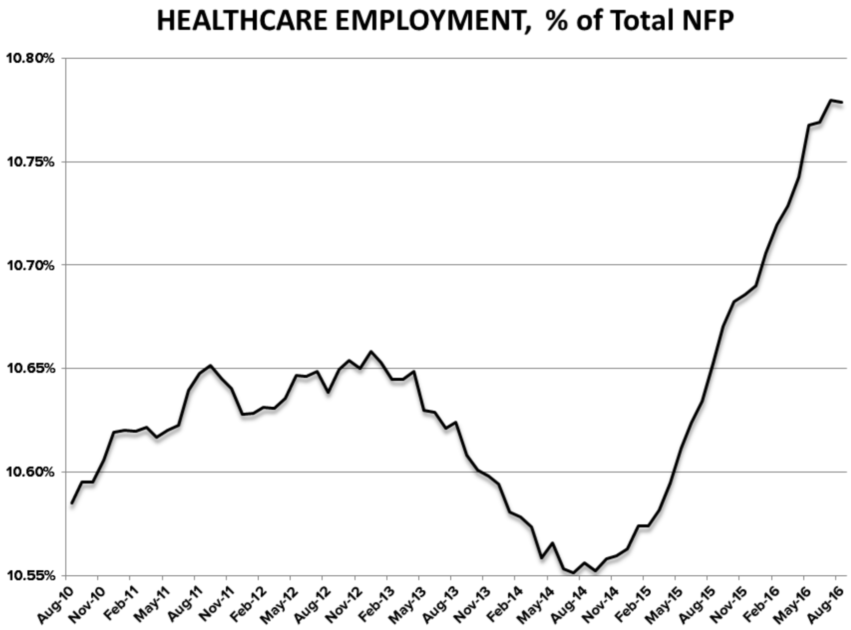
=

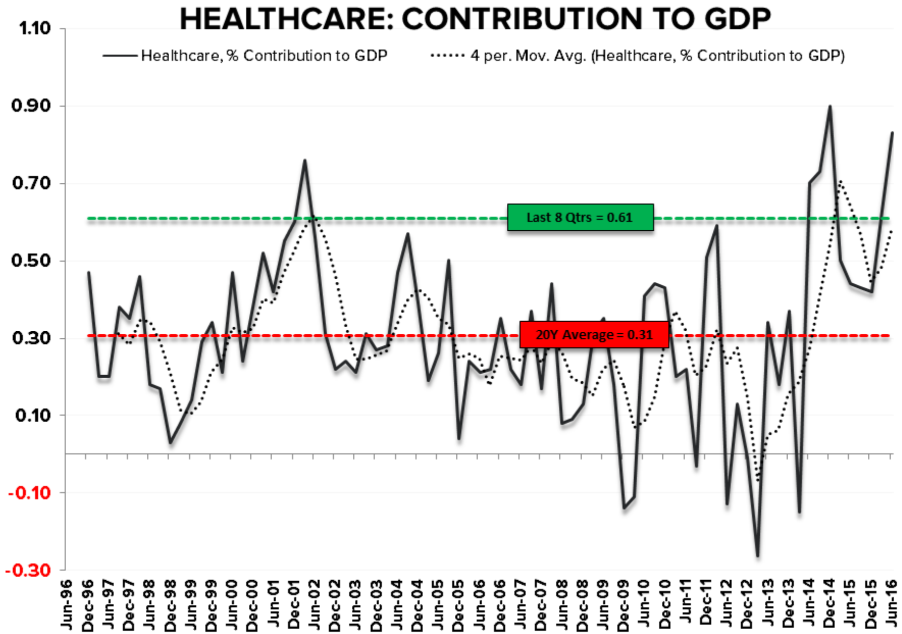
Wealth Spending and High Ticket Discretionary Consumption ⬇

DATA SOURCE: BLOOMBERG, NBER, FEDERAL RESERVE, BEA, HEDGEYE

#ACATAPER = #NFPTAPER

Implementation of ACA resulted in an unprecedented influx of newly insured individuals. This drove a large increase in both healthcare consumption and associated hiring in the sector. **We are now beginning to see the reversal of this dynamic as the sector comps out of the benefit.**



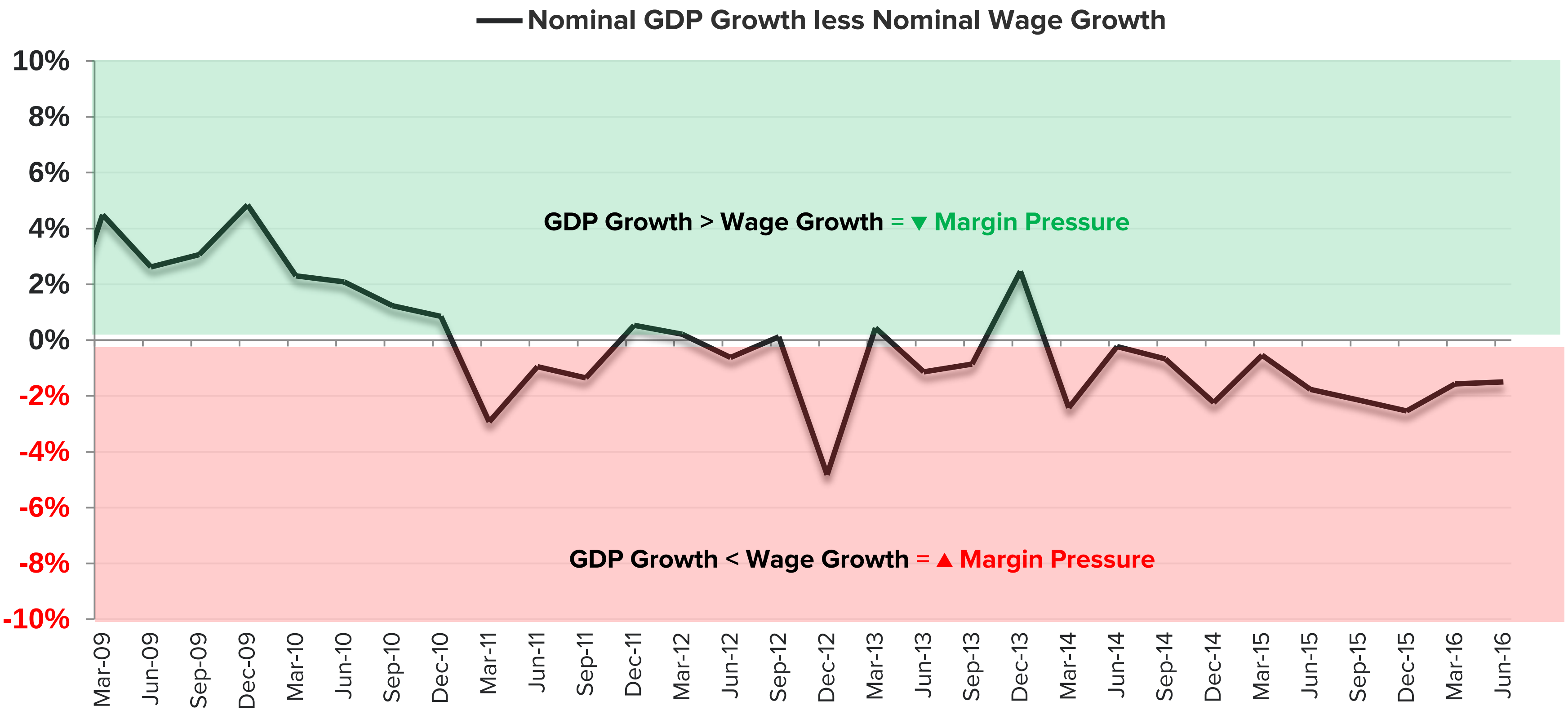


ACA helped juice both Employment and Consumption Growth

DATA SOURCE: BLOOMBERG, BLS, BEA, HEDGEYE,

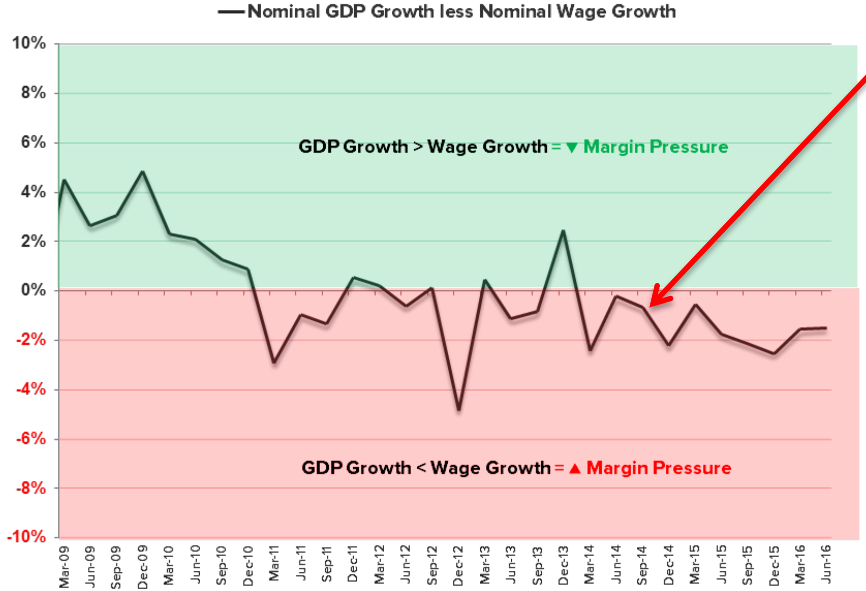
COST GROWTH > REVENUE GROWTH

AGGREGATE WAGES CONTINUE TO GROW FASTER THAN NOMINAL GDP. HAVING YOUR LARGEST INPUT COST GROW FASTER THAN REVENUE IS NOT THE FACTOR PATH TO RISING PROFITABILITY

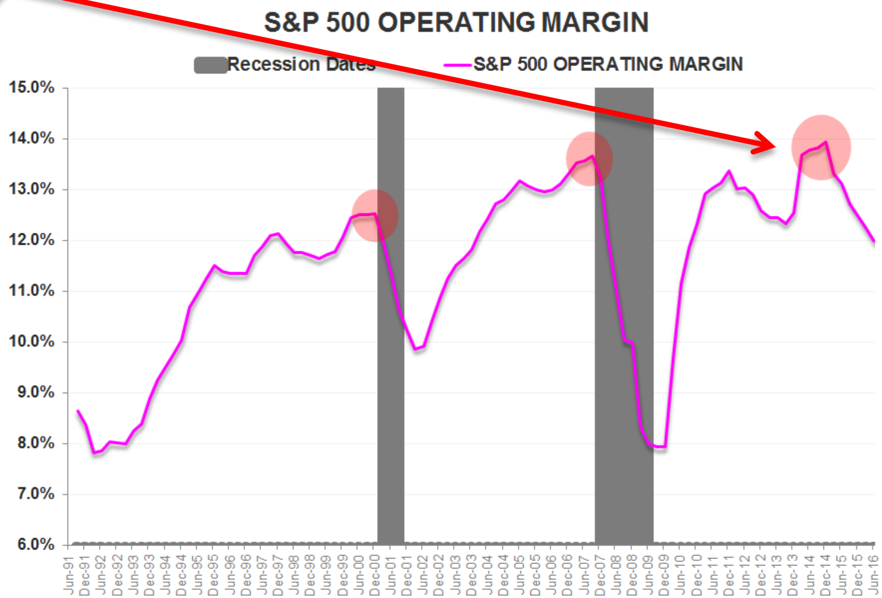


THE MATH SAYS.... MARGINS ↓

This Is Not Coincidence



DATA SOURCE: BLOOMBERG, BEA, HEDGEYE

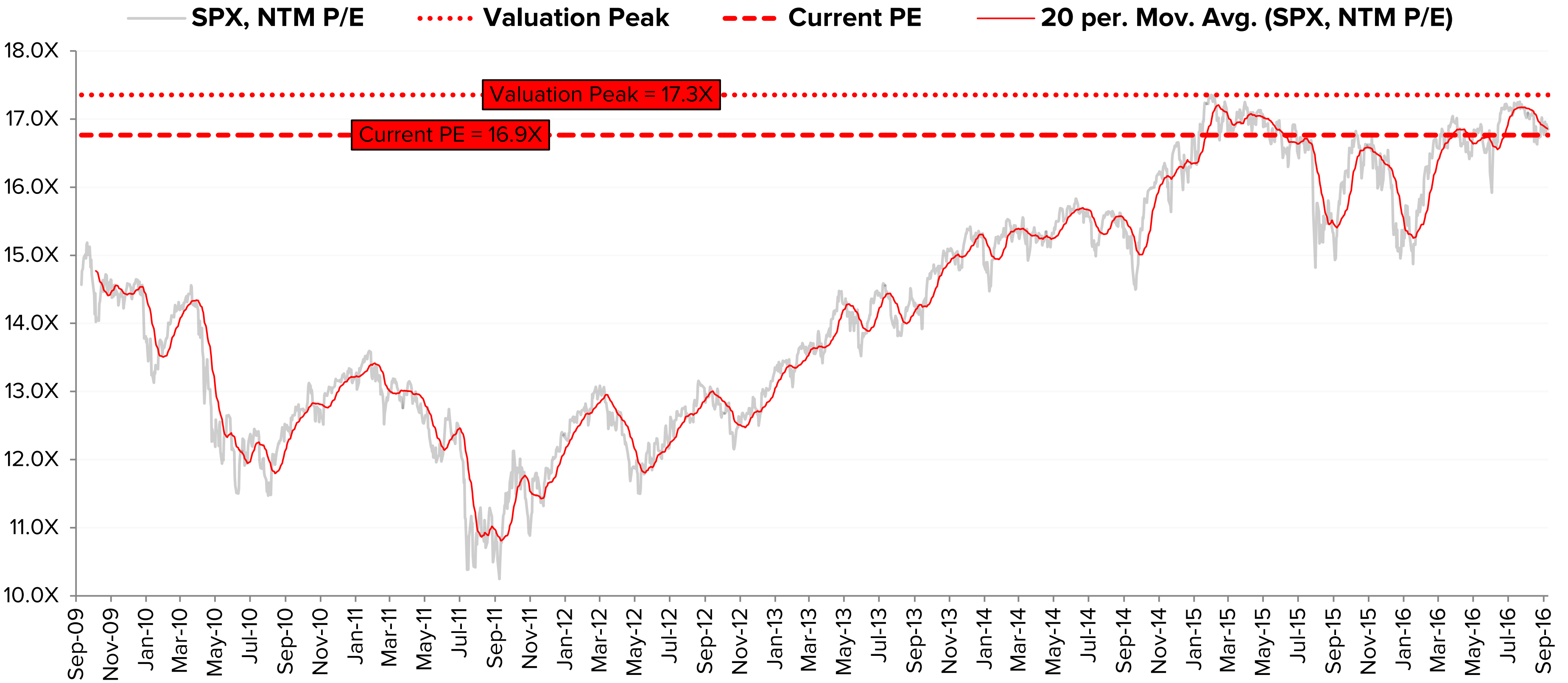


DATA SOURCE: BLOOMBERG

Revenue Growth < Cost Growth = **Margins & Profitability ↓**

VALUATION: BACK AT THE HIGHS ....

MULTIPLE EXPANSION WAS (AGAIN) PRIMARILY RESPONSIBLE FOR THE LATEST REFLATION IN EQUITIES PRICES



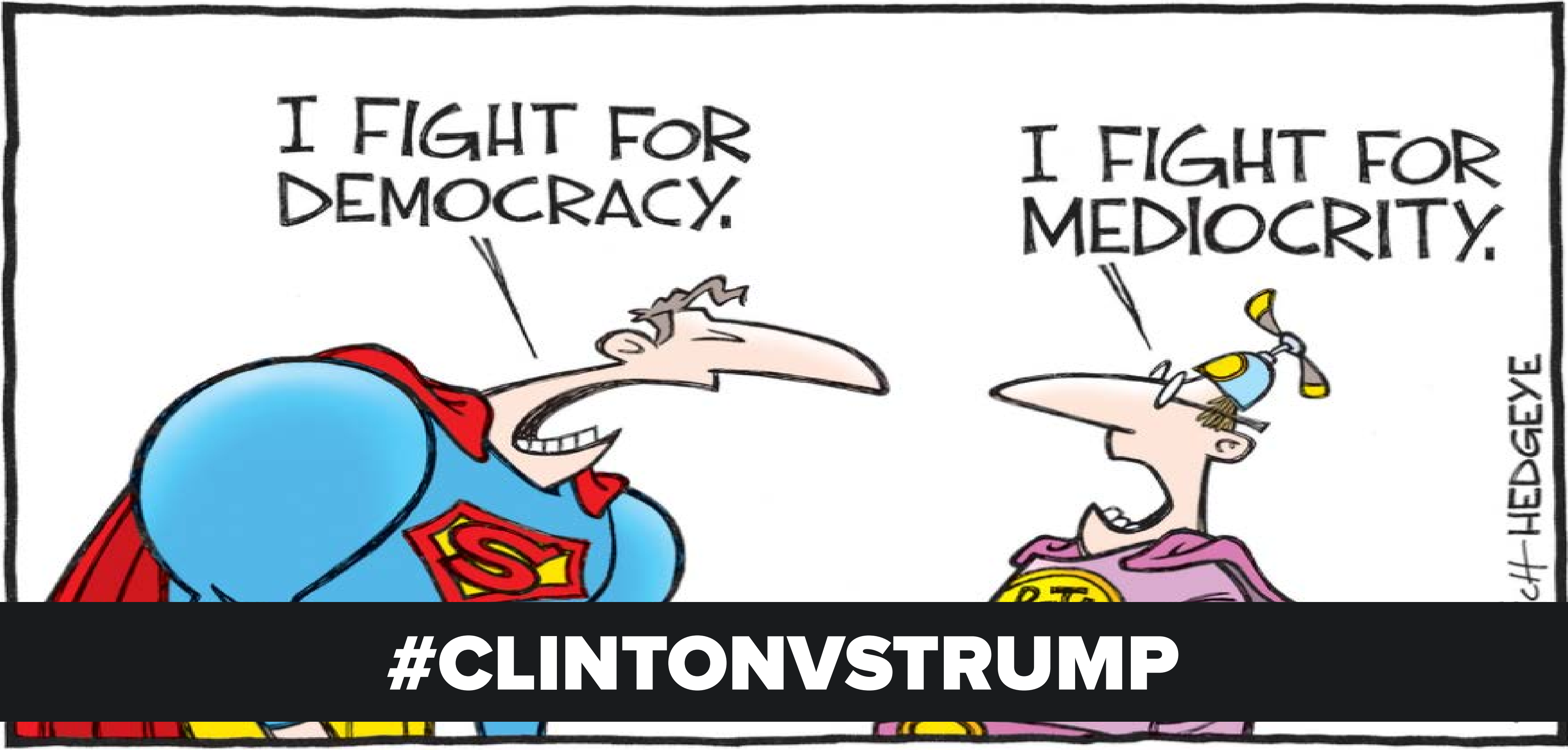
DATA SOURCE: BLOOMBERG,

.... ON THE WRONG DENOMINATOR

FORWARD ESTIMATES REMAIN OVERLY OPTIMISTIC AND NEED TO BE MARKED LOWER

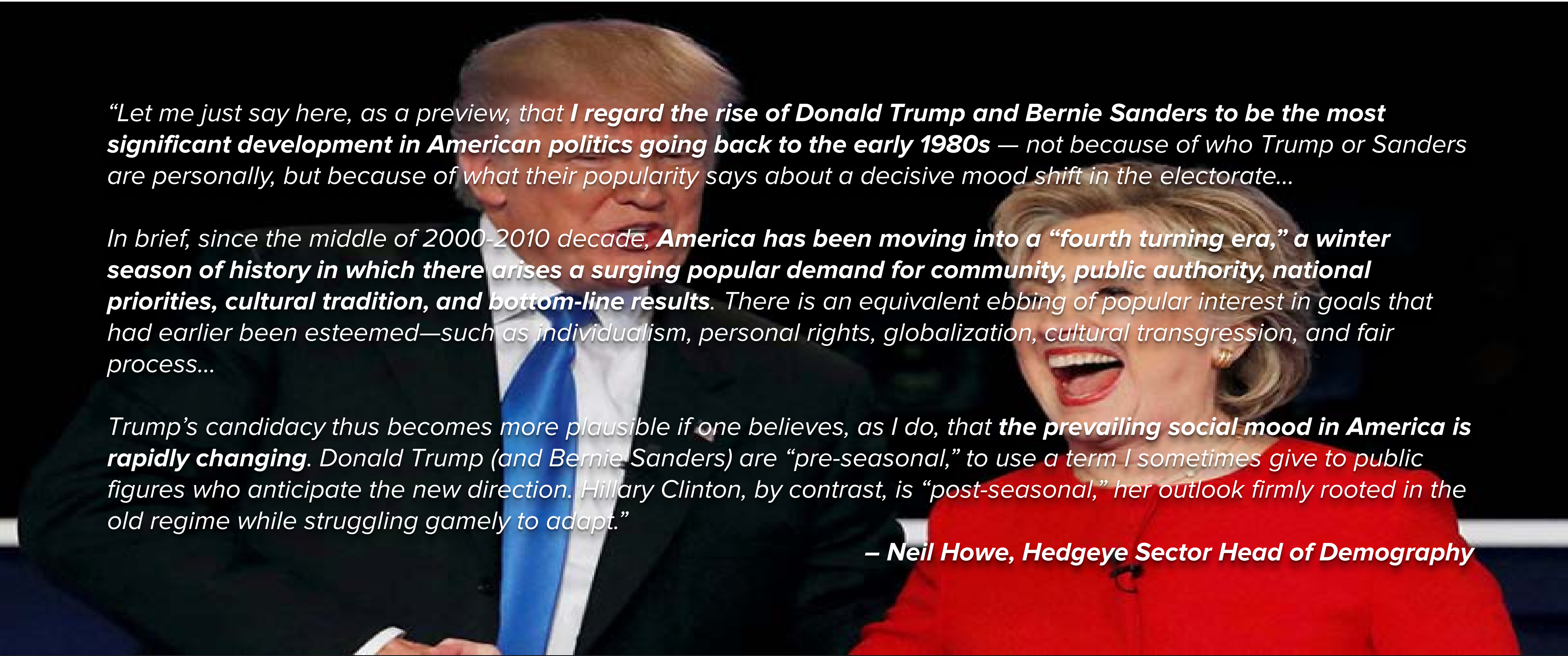
S&P 500										Estimates			
SALES GROWTH (%)	CQ3 14	CQ4 14	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16	CQ3 16*	CQ4 16	CQ1 17	CQ2 17	CQ3 2017
All Securities	4.3%	1.6%	-2.7%	-3.4%	-3.7%	-4.0%	-1.9%	-0.3%	3.6%	5.4%	8.9%	6.6%	7.0%
Energy	-3.6%	-16.3%	-34.0%	-31.8%	-34.4%	-34.4%	-29.3%	-24.2%		7.6%	46.4%	33.7%	32.8%
Materials	2.6%	-2.0%	-9.8%	-10.1%	-14.0%	-15.5%	-8.8%	-7.3%	8.8%	4.5%	6.8%	6.1%	4.2%
Industrials	4.8%	3.1%	-2.0%	-3.2%	-6.1%	-7.2%	-2.0%	-1.3%	18.6%	2.0%	1.9%	0.7%	2.6%
Consumer Discretionary	4.2%	3.4%	1.8%	2.1%	3.7%	4.4%	6.3%	8.5%	4.3%	8.8%	9.4%	5.7%	5.5%
Consumer Staples	2.9%	2.2%	2.5%	0.6%	0.5%	-0.4%	1.2%	0.7%	-0.8%	4.4%	4.6%	4.3%	5.2%
Health Care	12.1%	12.8%	10.3%	8.9%	9.5%	9.6%	9.2%	8.8%		5.8%	6.6%	4.3%	5.2%
Financials	5.1%	-0.3%	2.0%	1.6%	0.1%	1.0%	-1.7%	0.7%		2.8%	5.8%	2.9%	3.6%
Information Technology	8.1%	8.4%	6.0%	3.1%	1.1%	-5.3%	-6.8%	-3.9%	4.7%	5.9%	8.3%	7.2%	6.2%
Telecom	3.0%	5.1%	2.6%	2.4%	11.8%	12.0%	11.2%	9.6%		-0.3%	1.7%	2.2%	2.4%
Utilities	4.6%	10.6%	-3.6%	-4.9%	-2.1%	-12.6%	-10.5%	-2.4%		12.7%	9.2%	5.5%	6.4%
Real Estate	7.6%	4.1%	4.4%	6.4%	7.5%	10.8%	11.4%	7.4%		4.3%	4.3%	7.3%	4.8%
Data Source: BBG									*25/500 reported				

S&P 500										Estimates			
EPS Growth (%)	CQ3 14	CQ4 14	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16	CQ3 16*	CQ4 16	CQ1 17	CQ2 17	CQ3 2017
All Securities	9.6%	6.2%	1.5%	-1.2%	-3.8%	-6.8%	-8.0%	-3.9%	1.1%	7.6%	14.8%	11.9%	14.9%
Energy	7.6%	-18.7%	-56.7%	-56.5%	-57.5%	-72.6%	-109.6%	-81.6%		-9.0%	736.0%	374.7%	220.1%
Materials	17.3%	5.5%	-0.4%	6.3%	-15.6%	-17.9%	-16.0%	-9.1%	134.8%	16.6%	22.1%	13.3%	14.3%
Industrials	14.2%	15.6%	11.3%	-3.0%	-0.7%	-5.4%	-7.3%	-1.9%	15.2%	-2.9%	4.9%	4.2%	8.1%
Consumer Discretionary	2.0%	7.0%	9.3%	9.0%	13.9%	9.4%	17.8%	10.3%	-1.9%	7.5%	8.8%	8.8%	16.2%
Consumer Staples	3.2%	-2.3%	3.6%	0.1%	-2.1%	-0.7%	1.2%	0.0%	4.7%	7.4%	11.3%	9.7%	9.7%
Health Care	15.2%	21.6%	18.2%	15.1%	14.5%	11.0%	8.1%	4.8%		6.1%	6.8%	7.4%	12.0%
Financials	12.2%	-3.2%	7.1%	2.7%	-8.6%	-5.3%	-14.2%	-7.0%		11.8%	16.5%	9.7%	12.2%
Information Technology	8.5%	14.9%	10.0%	6.6%	4.5%	-3.8%	-7.4%	-2.7%	-5.3%	5.7%	14.5%	12.2%	13.5%
Telecom	20.8%	21.7%	8.5%	10.2%	23.7%	27.8%	16.1%	3.5%		4.0%	0.0%	6.4%	5.3%
Utilities	2.7%	2.8%	1.3%	3.0%	0.8%	-49.6%	-1.9%	8.9%		137.3%	0.3%	-4.5%	3.9%
Real Estate	12.7%	7.0%	12.6%	11.7%	12.5%	14.5%	8.3%	7.1%		6.4%	8.4%	7.8%	10.2%
Data Source: BBG									*25/500 reported				


I FIGHT FOR DEMOCRACY.
I FIGHT FOR MEDIOCRITY.
HEDGEYE
#CLINTONVSTRUMP

WELCOME TO THE FOURTH TURNING

HEDGEYE'S VERY OWN NEIL HOWE PREDICTED THIS GONG SHOW OF AN ELECTION CYCLE WAY BACK IN THE LATE-90'S IN HIS BOOK, THE FOURTH TURNING: AN AMERICAN PROPHECY – WHAT THE CYCLES OF HISTORY TELL US ABOUT AMERICA'S NEXT RENDEZVOUS WITH DESTINY. WHAT DOES HIS CURRENT RESEARCH SUGGEST ABOUT THE OUTCOME OF THE PRESIDENTIAL RACE?



"Let me just say here, as a preview, that ***I regard the rise of Donald Trump and Bernie Sanders to be the most significant development in American politics going back to the early 1980s*** *— not because of who Trump or Sanders are personally, but because of what their popularity says about a decisive mood shift in the electorate…*

In brief, since the middle of 2000-2010 decade, ***America has been moving into a "fourth turning era," a winter season of history in which there arises a surging popular demand for community, public authority, national priorities, cultural tradition, and bottom-line results****. There is an equivalent ebbing of popular interest in goals that had earlier been esteemed—such as individualism, personal rights, globalization, cultural transgression, and fair process…*

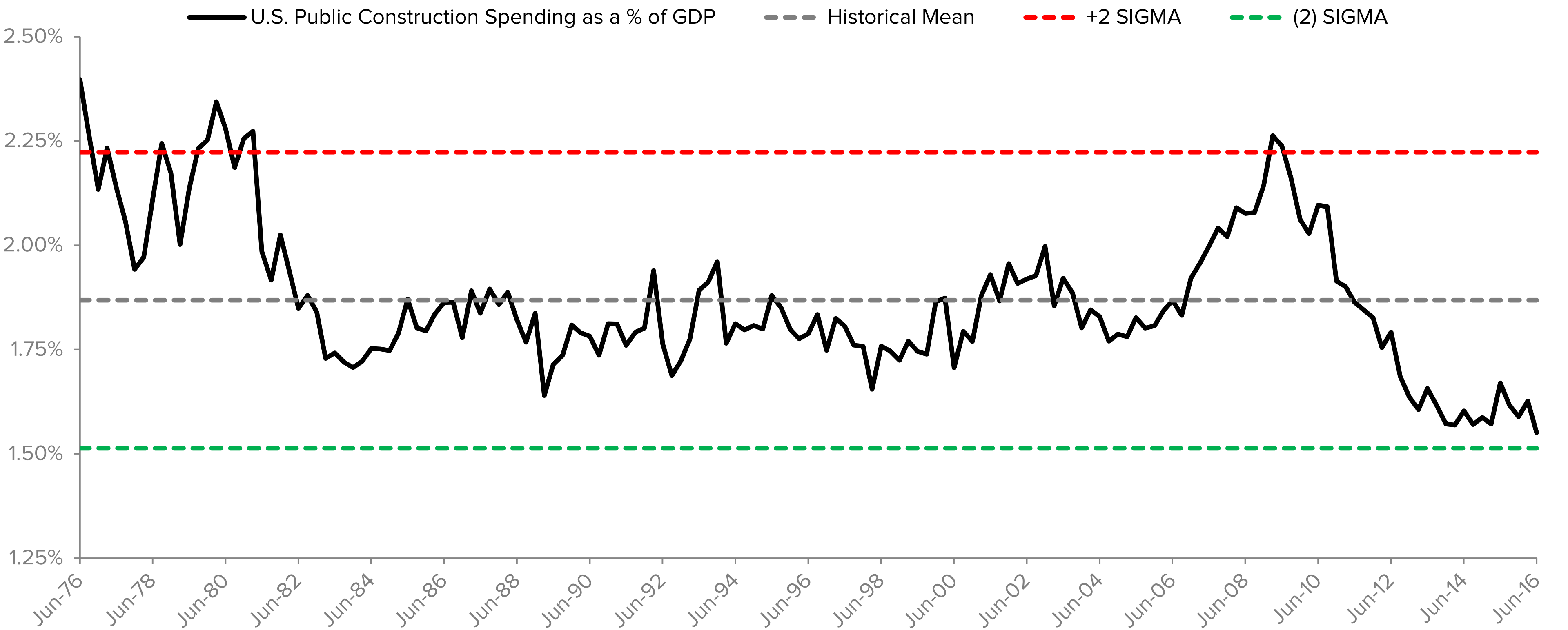
Trump's candidacy thus becomes more plausible if one believes, as I do, that ***the prevailing social mood in America is rapidly changing****. Donald Trump (and Bernie Sanders) are "pre-seasonal," to use a term I sometimes give to public figures who anticipate the new direction. Hillary Clinton, by contrast, is "post-seasonal," her outlook firmly rooted in the old regime while struggling gamely to adapt."*

– Neil Howe, Hedgeye Sector Head of Demography

SOURCE: HEDGEYE DEMOGRAPHY RESEARCH

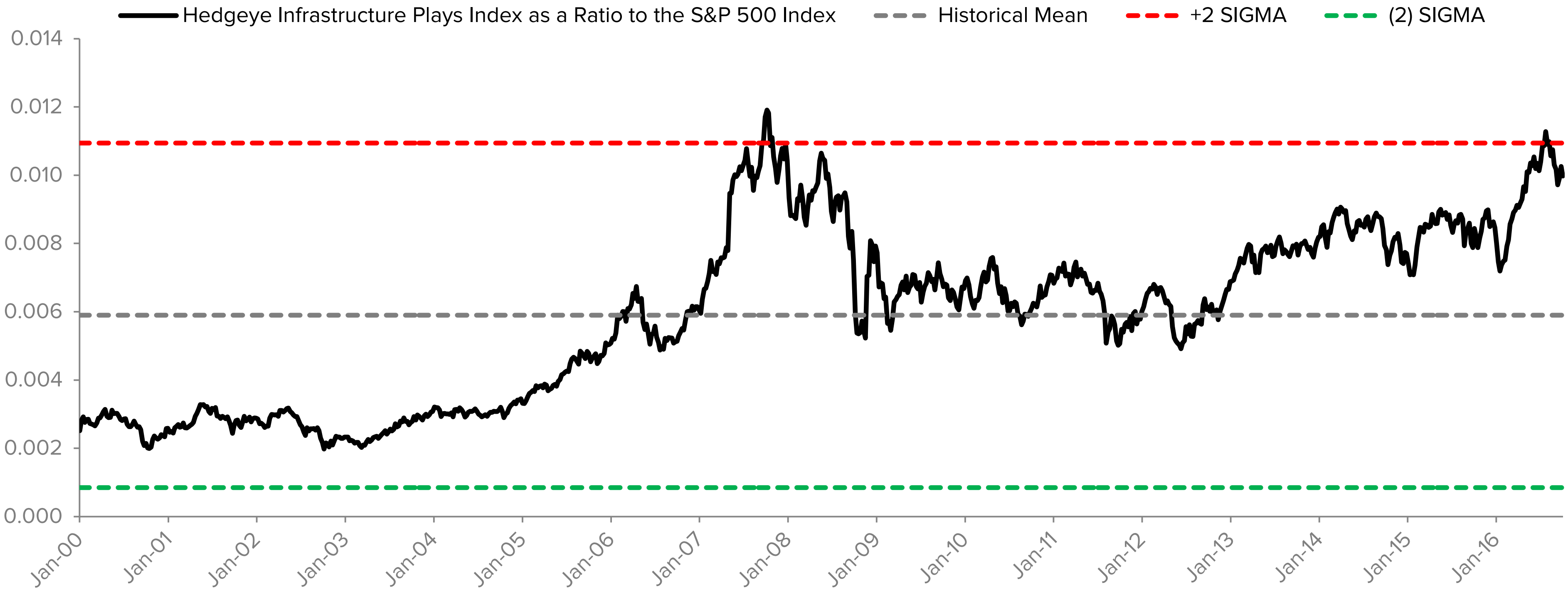
BOTH CANDIDATES WANT BIG INFRASTRUCTURE

CLINTON HAS PUT FORTH A $275 BILLION INFRASTRUCTURE PLAN, WHILE TRUMP HAS PLEDGED TO REVITALIZE AMERICA'S INFRASTRUCTURE (AND THE U.S. ECONOMY) WITH A GRAND PLAN ON THE ORDER OF THE NEW DEAL. HE'S FLOATED FIGURES AS LARGE AS A "TRILLION DOLLARS". WHICHEVER CANDIDATE WINS COME NOVEMBER, IT'S CLEAR THE U.S.'S INFRASTRUCTURE DEFICIT NEEDS TO BE AND WILL BE ADDRESSED.



BUT ARE THEIR PLANS PRICED IN?

STOCKS THAT WILL BENEFIT FROM SAID INFRASTRUCTURE SPENDING HAVE ALREADY RUN UP TREMENDOUSLY. THE RISK TO PERFORMANCE ASSOCIATED WITH ANY DELAYS IN IMPLEMENTATION (OR WORSE – CONGRESSIONAL GRIDLOCK) IS RATHER ELEVATED FROM THESE PRICES.



Note: the Hedgeye Infrastructure Index is an equal-weighted basket of Martin Marietta (MLM), Vulcan Materials (VMC), ASTEC Industries (ASTE), Jacobs Engineering Group (JEC) and AECOM (ACM).

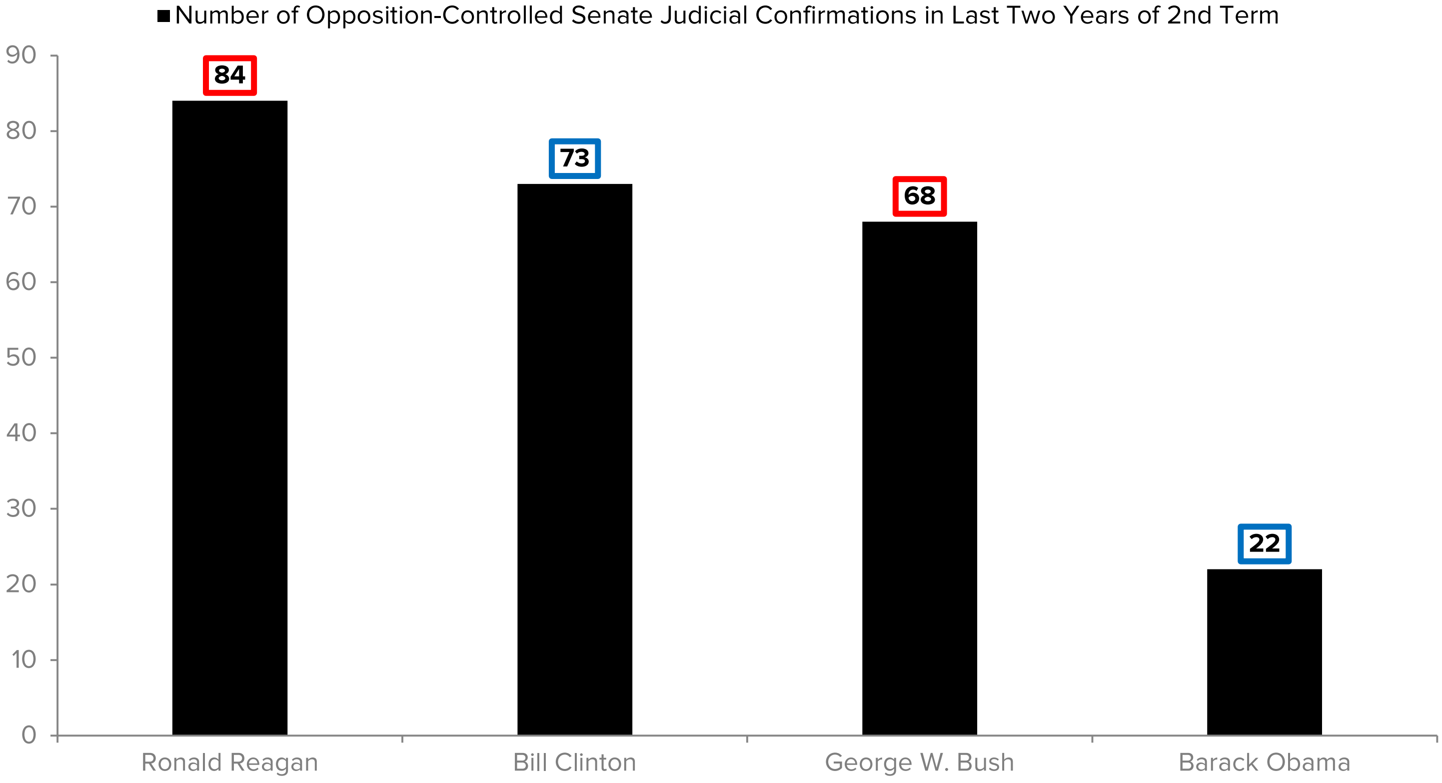
HOUSE: PEAK PARTISANSHIP PERSISTS

The adjacent image is from a 2015 study that aims to quantify the degree to which partisanship has dominated congressional voting patterns. Republican (red) and Democrat (blue) representatives are first ranked on a spectrum of ideology (defined by how often they vote with the rest of their party) and then linked to opposite party members according to their votes together. The links grow larger and darker the more often representatives vote across party lines – and vice versa. Notice the space between the two colors, as well as the density of each cluster in the most recent example.

IMAGE SOURCE: PLOS ONE

SENATE: NOT MUCH BETTER

AS A PROXY FOR PARTISAN PETTINESS, SENATE JUDICIAL CONFIRMATION TRENDS SHOW A MARKEDLY INCREASED UNWILLINGNESS TO COMPROMISE RELATIVE TO HISTORIC NORMS.



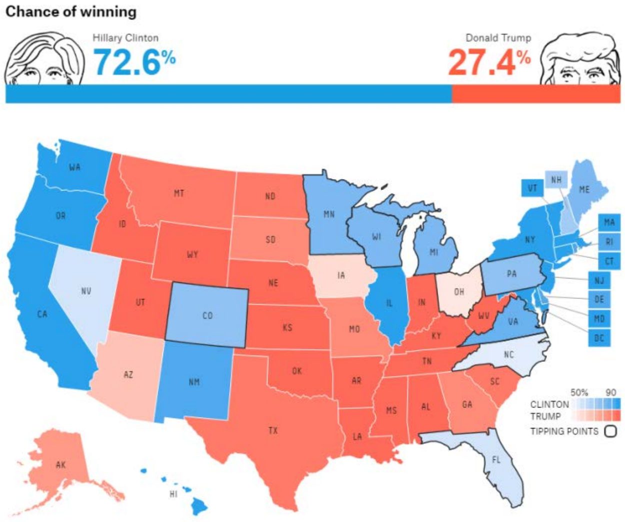
Key “highlights” of the 114th Congress include (but are not limited to):

- In the House, **none of the 12 “regular” appropriations bills made it to Obama’s desk to be signed into law**. In fact, **the House failed to even pass a budget resolution** (i.e. the first step in the budgetary process) this year – which is only the 2nd time this has occurred since 1975.
- **Neither the House nor the Senate held a single hearing on the president’s budget request** – the first such occurrence since 1975.
- **No hearings have been held for Obama Supreme Court nominee Merrick Garland for 201 days** – the longest waiting period in confirmation process history by a whopping 76 days!
- **The Senate is on track to work the fewest number of days in a session in six decades**, which is on top of having taken the **longest summer recess ever in the modern era**.

DATA SOURCE: ALLIANCE FOR JUSTICE

POLLS: PREDICTING MORE GRIDLOCK

FIVETHIRTYEIGHT "POLLS-PLUS" MODEL

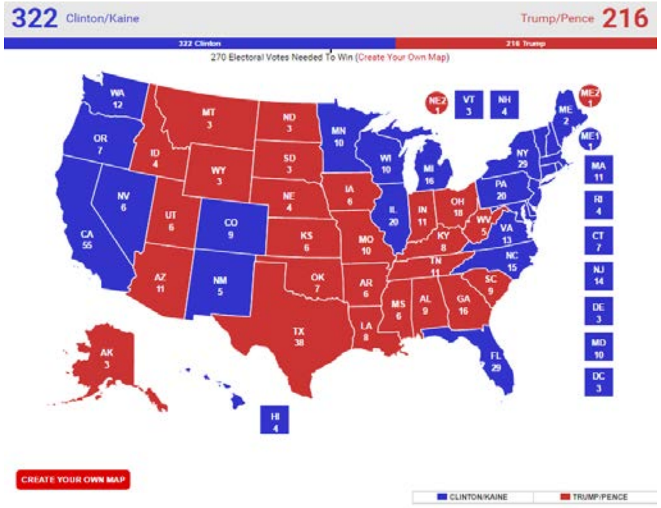


Electoral votes	
Hillary Clinton	304.6
Donald Trump	233.3
Gary Johnson	0.1

Popular vote	
Hillary Clinton	47.9%
Donald Trump	44.4%
Gary Johnson	6.4%

Nate Silver's award-winning predictive tracking algorithms have Hillary comfortably in the lead.

REALCLEARPOLITICS "NO TOSS-UPS" MODEL

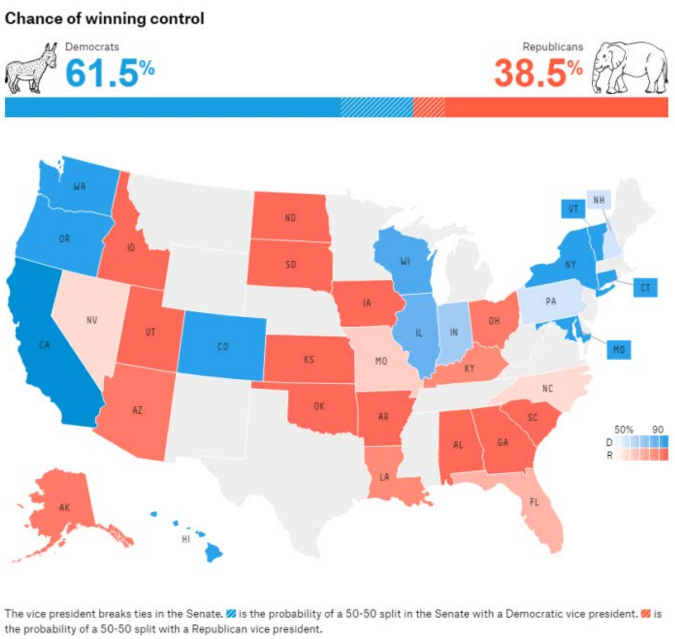


DATE	STATE	PREVIOUS STATUS		NEW STATUS	RCP NO TOSS UPS	RCP NATIONAL AVG.
10/3	Colorado	Trump	»»»	Clinton	Clinton 322 - Trump 216	Clinton +3.2
10/3	Nevada	Trump	»»»	Clinton	Clinton 322 - Trump 216	Clinton +3.2
10/3	North Carolina	Trump	»»»	Clinton	Clinton 322 - Trump 216	Clinton +3.2
9/26	Colorado	Clinton	»»»	Trump	Clinton 292 - Trump 246	Clinton +2.3
9/26	Florida	Trump	»»»	Clinton	Clinton 292 - Trump 246	Clinton +2.3

Meanwhile, RealClearPolitics' polling averages are now showing an even greater electoral advantage for Mrs. Clinton.

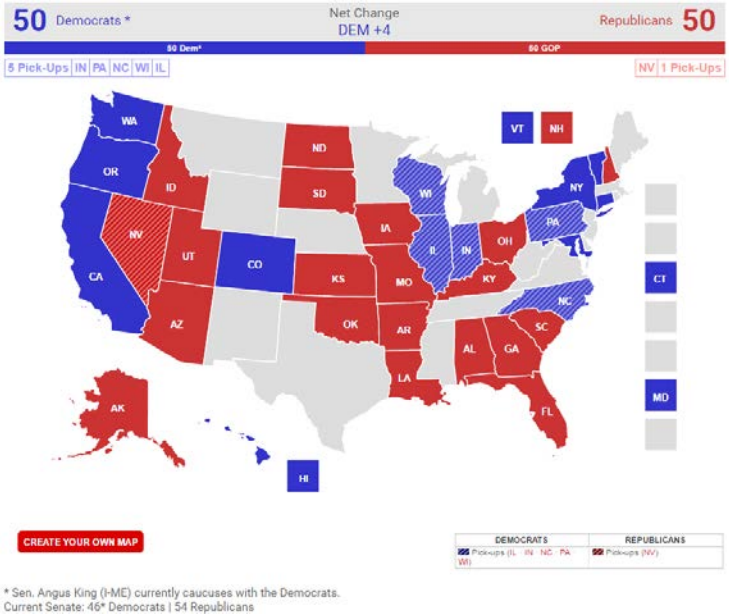
... ESPECIALLY IF THE SENATE FLIPS

FIVETHIRTYEIGHT "POLLS-PLUS" MODEL



Nate Silver's model gives a noteworthy edge to the Democrats for control of the Senate, where the Vice President breaks ties.

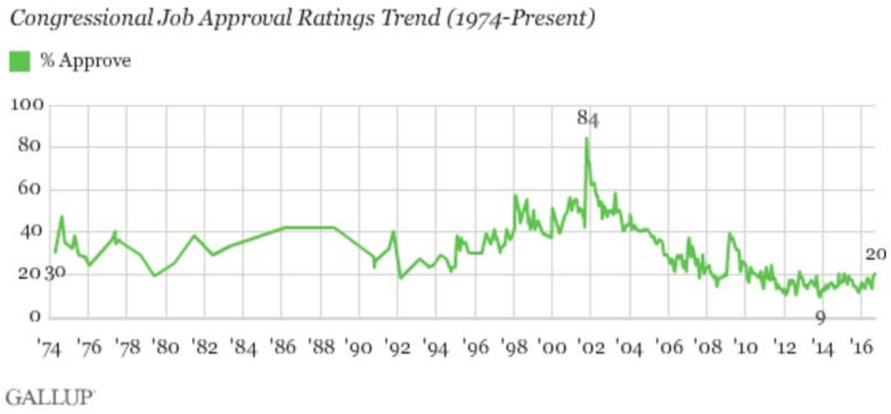
REALCLEARPOLITICS "NO TOSS-UPS" MODEL



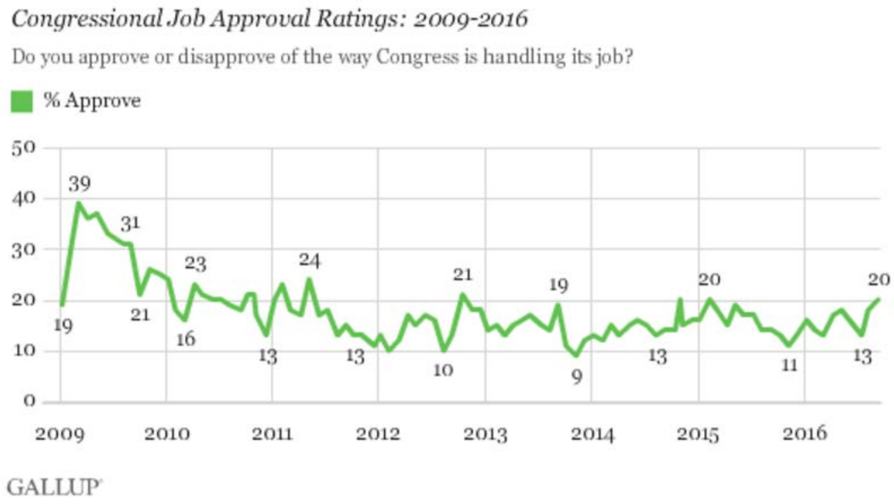
Meanwhile, RealClearPolitics' polling averages are currently calling for a similar result.

CONGRESSIONAL APPROVAL RATINGS

MIRED AT MULTI-DECADE LOWS…



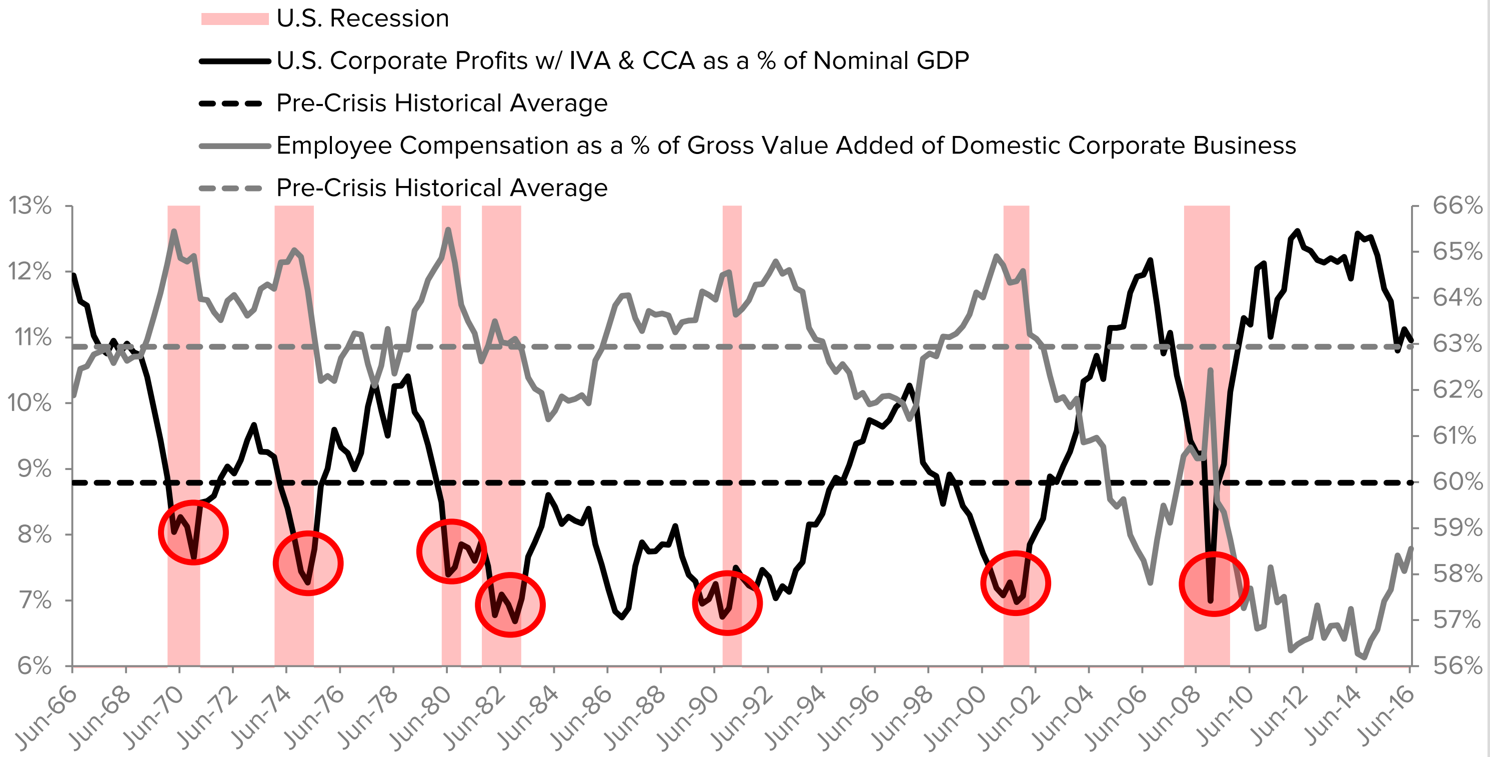
… AND TRENDING SIDEWAYS THROUGHOUT OBAMA'S 2ND TERM



Given that her platform largely resembles some version of "Obama 2.0", is there any reason to believe that a Clinton victory will suddenly break the cycle of crippling gridlock? The best bet an investor could make today is banking on more of the same.

MINIMUM WAGE INCREASES: HOW HIGH?

BOTH CANDIDATES WANT TO ENACT A SUBSTANTIAL INCREASE TO THE FEDERAL MINIMUM WAGE, WHICH HAS BEEN STUCK AT $7.25/HR SINCE 2009. CLINTON HAS FLOATED AN INCREASE TO $12-15/HR, WHILE TRUMP HAS BACKED AN INCREASE TO $10/HR. IMPORTANTLY, BOTH CANDIDATES ARE CALLING FOR GRADUAL PHASE-INS. THE IMPACT ON CORPORATE PROFITABILITY WILL BE DRAMATIC TO SAY THE LEAST.



"We need to raise the federal minimum wage back to the highest it's ever been in this country and make sure it keeps rising over time."
– Hillary Clinton

"I don't know how people make it on $7.25 an hour."
– Donald Trump

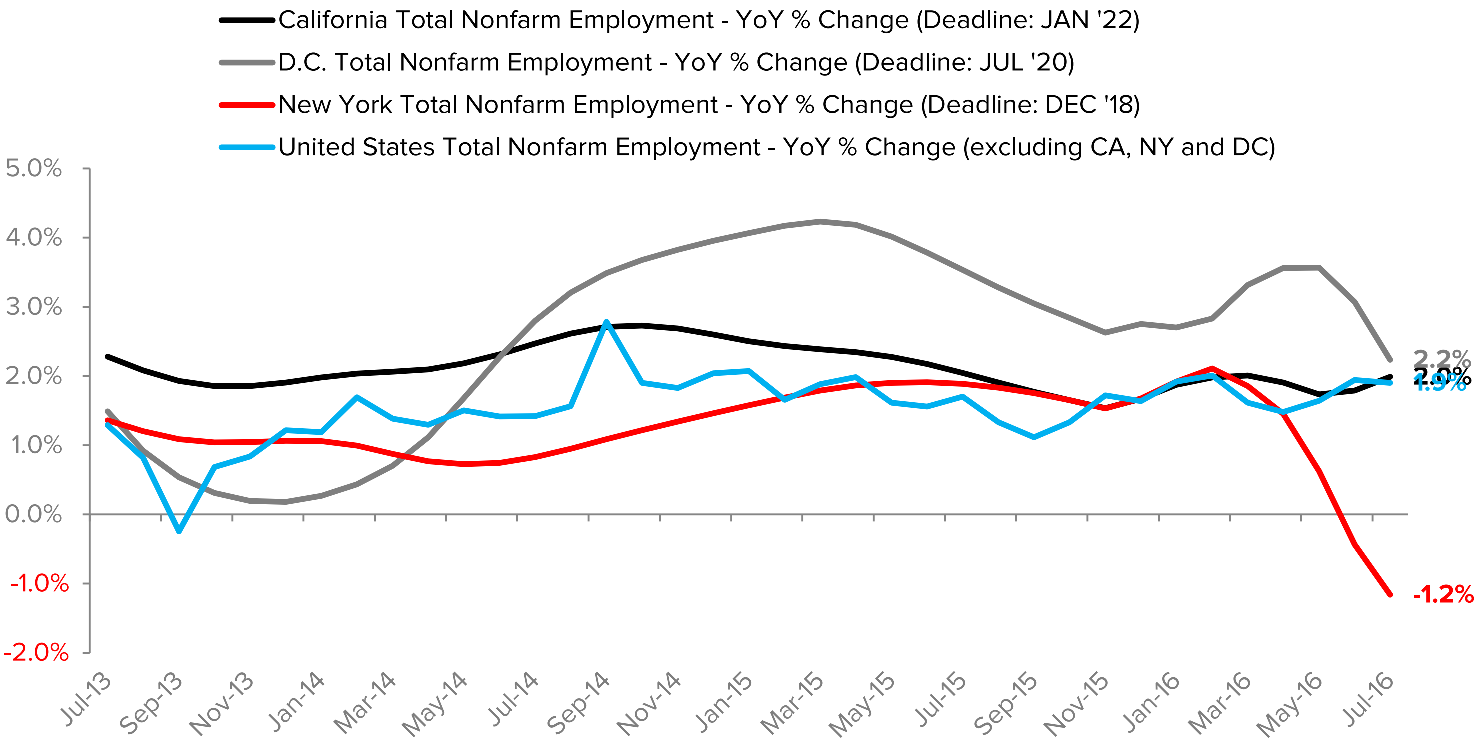
"I would like to raise [the federal minimum wage] to at least $10."
– Donald Trump

DATA SOURCE: BLOOMBERG

HOW SOON WILL THE IMPACT BE FELT?

OUR ANALYSIS SUGGESTS THAT MERELY DEBATING ABOUT THE SIZE AND SCOPE OF A PENDING MINIMUM WAGE INCREASE COULD DERAIL EMPLOYMENT GROWTH WELL IN ADVANCE OF IT BEING IMPLEMENTED.

Employment Growth In States w/ Authorized Minimum Wage Increases to $15/hour



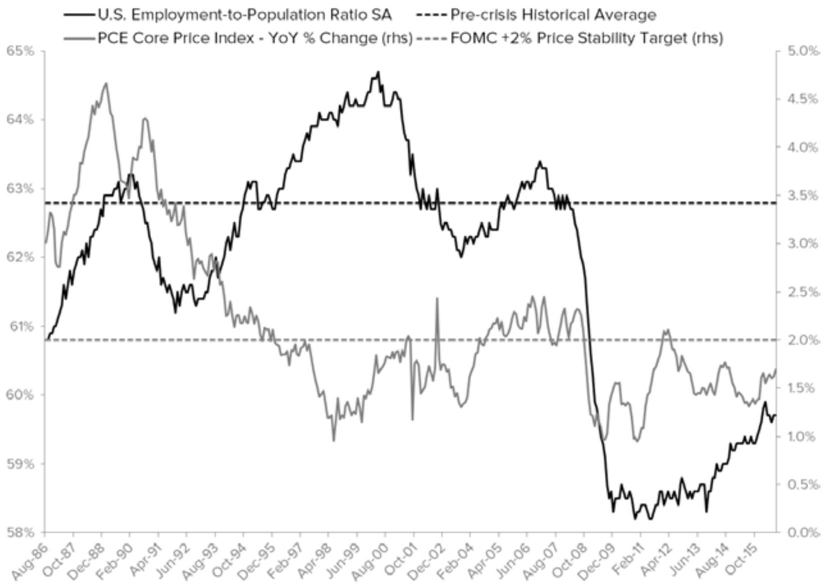
Currently, only California (2022), D.C. (2020) and New York (2018) have authorized scheduled increases to $15/hr.
Since all three authorizations have occurred in the YTD, it's likely too early to see the impact of these changes in the official labor statistics. That said, however, it is highly likely that such changes were widely telegraphed and debated in each state's legislature, so perhaps there are indeed nascent signs of impact – and that is effectively what we're seeing in the data.

Specifically, **New York – the state with the nearest implementation deadline – is seeing employment growth tank on both an absolute and relative basis**. Perhaps this has more to do with the general malaise we're anecdotally observing across the financial services industry, but perhaps not.

DATA SOURCE: BLS

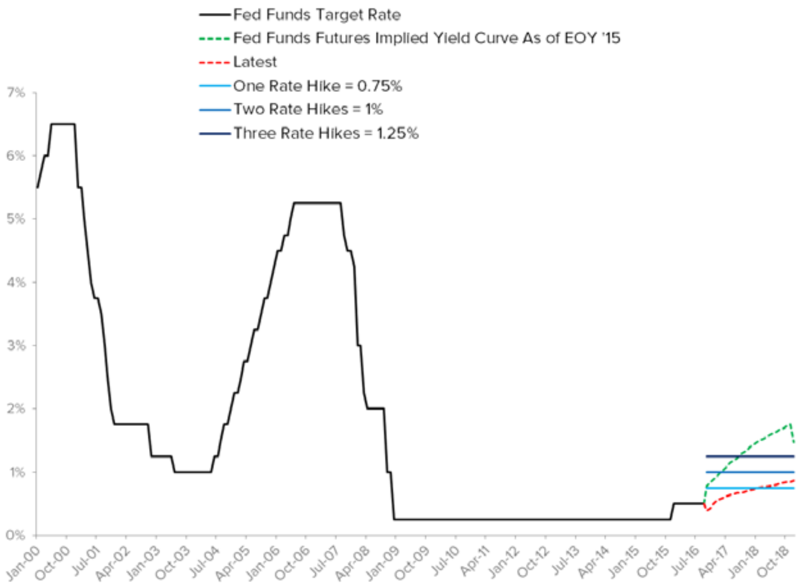
THE FED IS MOST LIKELY NOT AT PLAY

CLINTON: SLIGHTLY MORE OVERSIGHT AND DEFENSE OF MONETARY POLICY OBJECTIVES



Clinton's commentary on the Fed has largely been limited to supporting efforts to remove bankers from the various regional Fed boards, as well as calling for the Fed to carry out "unwavering oversight" of the financial sector.

TRUMP: DECIDEDLY MIXED



While Trump has been critical of Janet Yellen for not raising rates to aid the Democrats, his tone has been decidedly more nuanced: *"I'm not a person who thinks Janet Yellen is doing a bad job… I happen to be a low interest rate person."*

WHERE THEY DIFFER MOST: TAXES

CANDIDATES	OVERVIEW	REVENUE IMPACT (2017-26)	DISTRIBUTION (2017) % CHANGE IN AFTER-TAX INCOME	INCOME TAX RATES AND BRACKETS	CAPITAL GAINS, DIVIDENDS, AND INTEREST INCOME	EXEMPTIONS, DEDUCTIONS, AND CREDITS
X  Hillary Clinton TPC Analysis TPC Tables	Hillary Clinton would increase taxes on high-income filers, reform inter- national tax rules for corporations, repeal fossil fuel tax incentives, and increase estate and gift taxes.	$1.1 trillion 0.5% of GDP	Q1 0.0 Q2 -0.1 Q3 -0.1 Q4 -0.2 Q5 -1.7 1% -5.0 ALL -0.9	No change in tax rates or brackets but impose a 4 percent surtax on income over $5 million and the Buffett Rule.	Raise holding period for long-term capital gains to two years; tax rate on those gains would decline as holding period lengthens (down to 20 percent for assets held more than six years); tax carried interest as ordinary income.	Limit the value of certain deductions (not charitable) and exemptions to 28%; new refundable credit of up to $5,000 for out-of-pocket health care costs exceeding 5 percent of income; tax credits to help families pay for care of elderly members.
X  Donald Trump TPC Analysis TPC Tables	Donald Trump would significantly reduce all marginal tax rates, in- crease standard deduction amounts to nearly 4x current levels, limit or repeal tax expenditures, repeal the individual and corporate AMTs and the estate and gift taxes.	$9.5 trillion 4.0% of GDP	Q1 1.0 Q2 3.1 Q3 4.9 Q4 5.8 Q5 9.7 1% 17.5 ALL 7.1	Four tax brackets: 0, 10, 20 and 25 percent; Zero bracket would exempt singles with income under $25,000 and couples with income under $50,000 from income tax.	Tax capital gains at 0 percent, 15 percent, or 20 percent rates; tax carried interest as ordinary income.	Retain deductions for mortgage interest and charitable contributions but eliminate most other credits and deductions; "Steepen" curve for personal exemption phaseout and limitation on itemized deductions (Pease).

"And Wall Street corporations, and the super-rich should finally pay their fair share of taxes. That's why I support the so-called Buffett Rule, because multi-millionaires should not be able to pay a lower tax rate than their secretaries. We should also add a new tax on multi-millionaires, crack down on tax gaming by corporations, and close the carried interest loophole – something I've advocated for years."
— Hillary Clinton

"I am proposing an across-the-board income tax reduction, especially for middle-income Americans. This will lead to millions of new and really good-paying jobs. The rich will pay their fair share, but no one will pay so much that it destroys jobs, or undermines our ability as a nation to compete."
— Donald Trump

IMAGE SOURCE: TAX POLICY CENTER

CLASS WARFARE AT ITS FINEST

CANDIDATES	ALTERNATIVE MINIMUM TAX	PAYROLL TAX	AFFORDABLE CARE ACT	CORPORATE TAXES	EXCISE AND CONSUMPTION TAXES	ESTATE TAX
X  Hillary Clinton TPC Analysis TPC Tables	Keep	No change	Supports ACA but would repeal Cadillac tax.	Reform to discourage avoidance; end fossil fuel subsidies; impose anti-inversion rules; provide tax credits for firms that train and hire apprentices and disabled veterans; expand New Markets Tax Credit.	Impose a financial transactions tax on high frequency traders.	Reduce effective estate tax exemption to $3.5 million and raise top tax rate to 45 percent (the parameters in effect in 2009).
X  Donald Trump TPC Analysis TPC Tables	Repeal	Unspecified	Repeal	Reduce corporate tax rate to 15 percent and tax pass-through businesses at 15 percent; phase in a limit on business deductions; one-time 10 percent tax on corporate income held outside the United States; end deferral of foreign income but retain foreign tax credit.	N/A	Repeal

Clinton's plan to raise taxes on the wealthy includes:

- Implementing a 4% "Fair Share Surcharge"
- Raising the holding period for various capital gains
- Taxing carried interest as ordinary income
- Limiting the value of non-charitable deductions
- Reducing the estate tax exemption level and raising the top estate tax rate to 45%

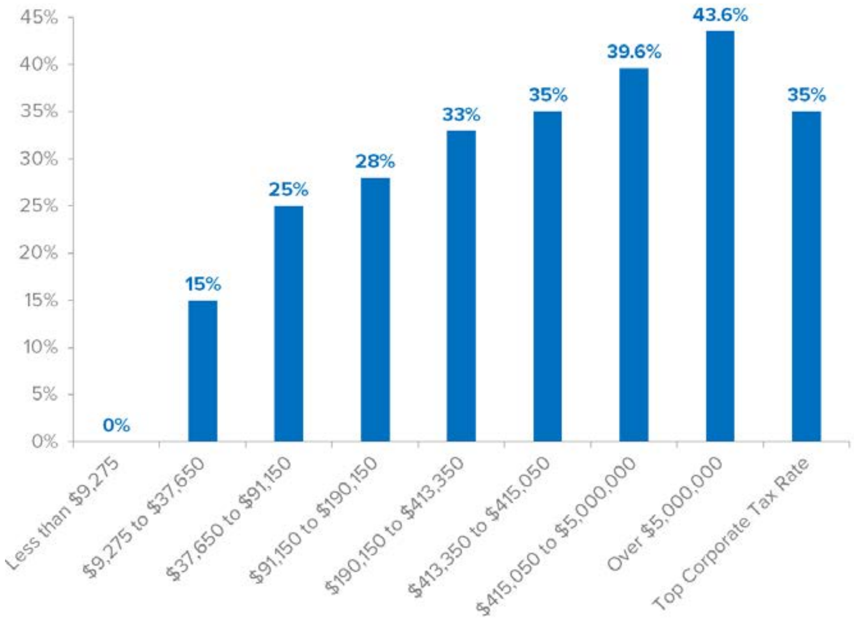
Trump's plan to provide tax relief for the wealthy includes:

- Reducing the top tax bracket from 39.6% to 33% and capping it at $154,000
- Cutting capital gains taxes to 0%, 15% and 20% brackets
- Repealing the AMT and estate tax
- Cutting the top corporate tax rate from 35% to 15%

IMAGE SOURCE: TAX POLICY CENTER

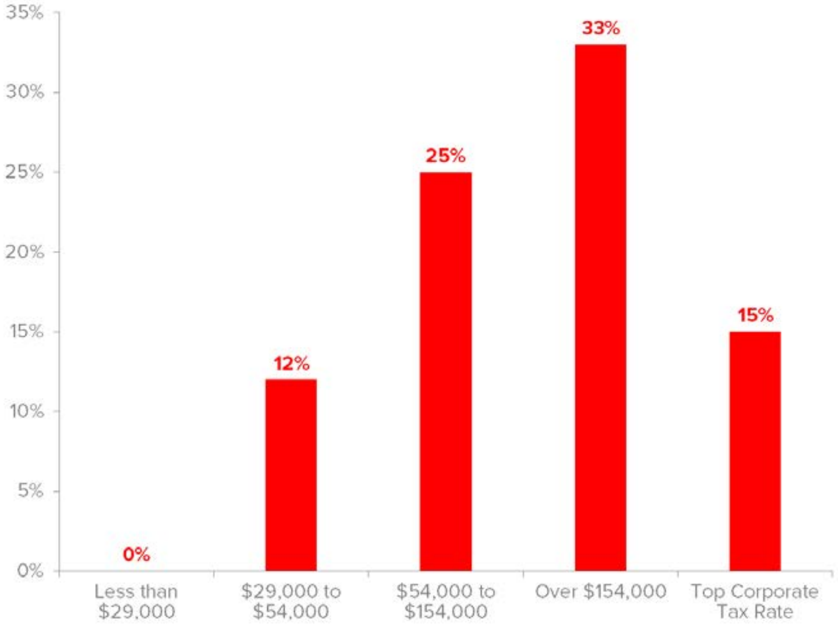
STATUS QUO OR MAJOR OVERHAUL?

MARGINAL RATES OUTLINED IN CLINTON TAX PLAN



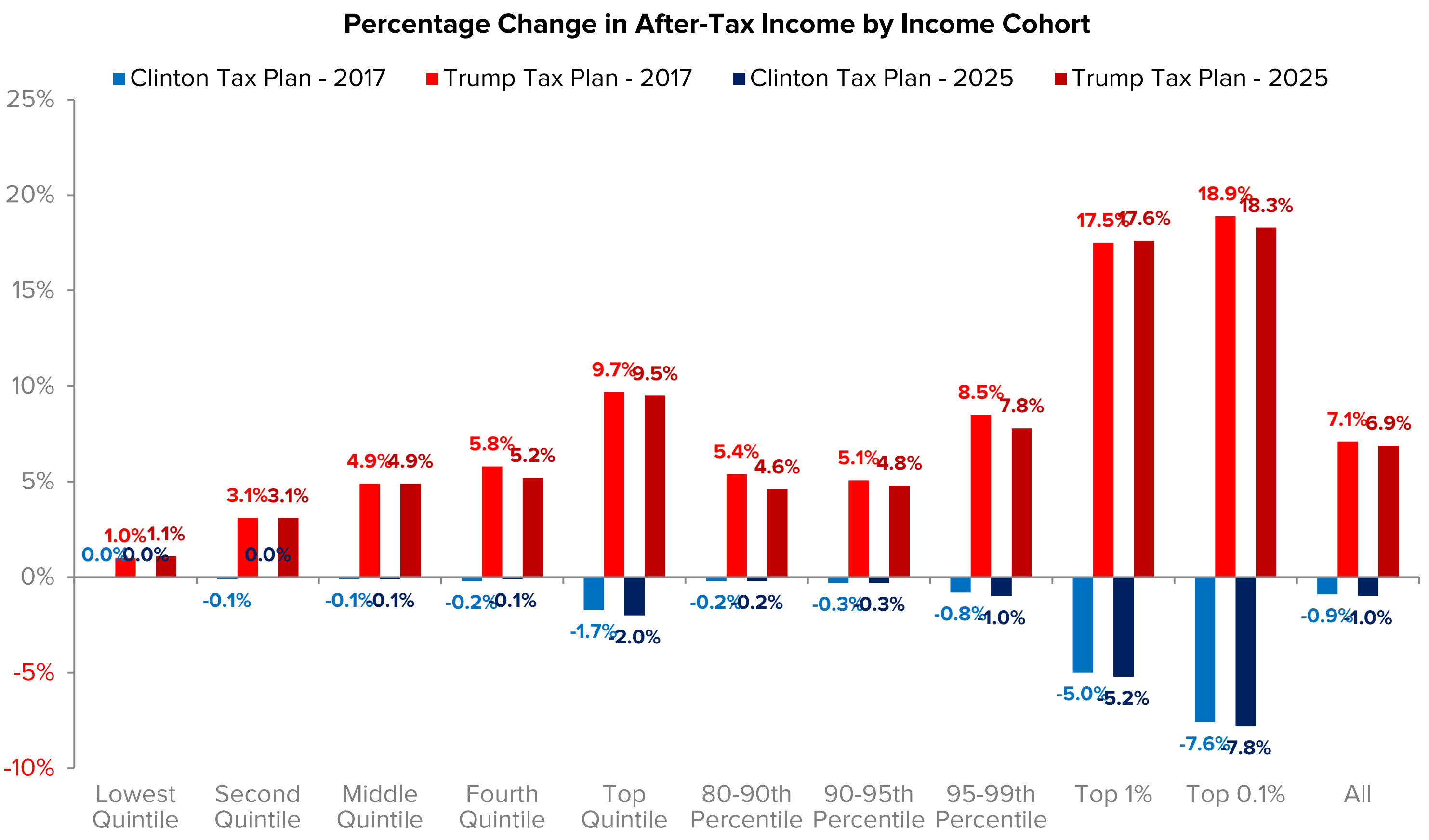
Clinton's plan is largely a status quo outcome – with one key exception: she wants higher tax rates for the super rich.

MARGINAL RATES OUTLINED IN TRUMP TAX PLAN



Meanwhile, Trump seeks to simplify the tax code by consolidating brackets and reducing marginal rates across the board.

ROBIN HOOD OR RONALD REAGAN?

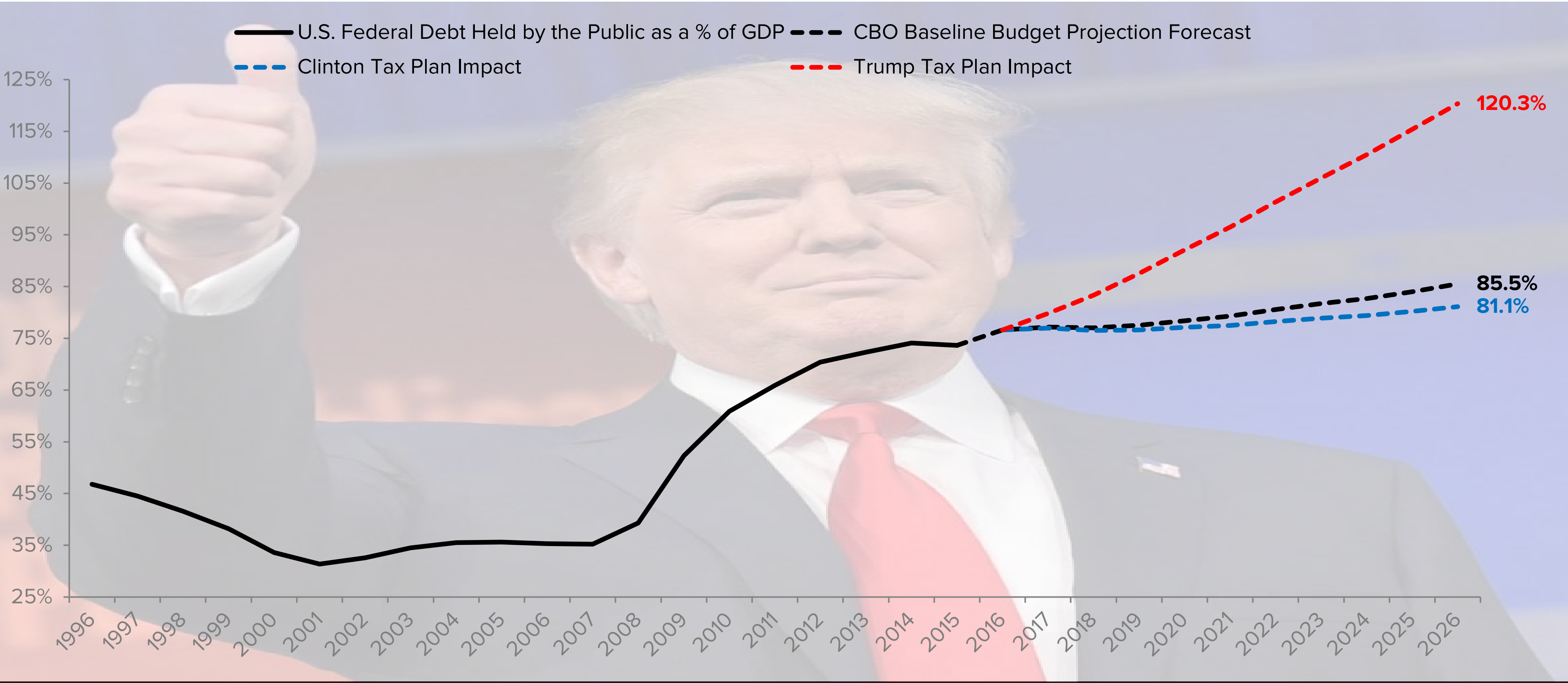


An independent analysis of the two candidates' tax plans by the bipartisan Tax Policy Center suggests Clinton's plan would disproportionally reduce the after-tax incomes of the highest earners, while Trump's plan would disproportionately inflate the after-tax incomes of those same cohorts.

DATA SOURCE: TAX POLICY CENTER

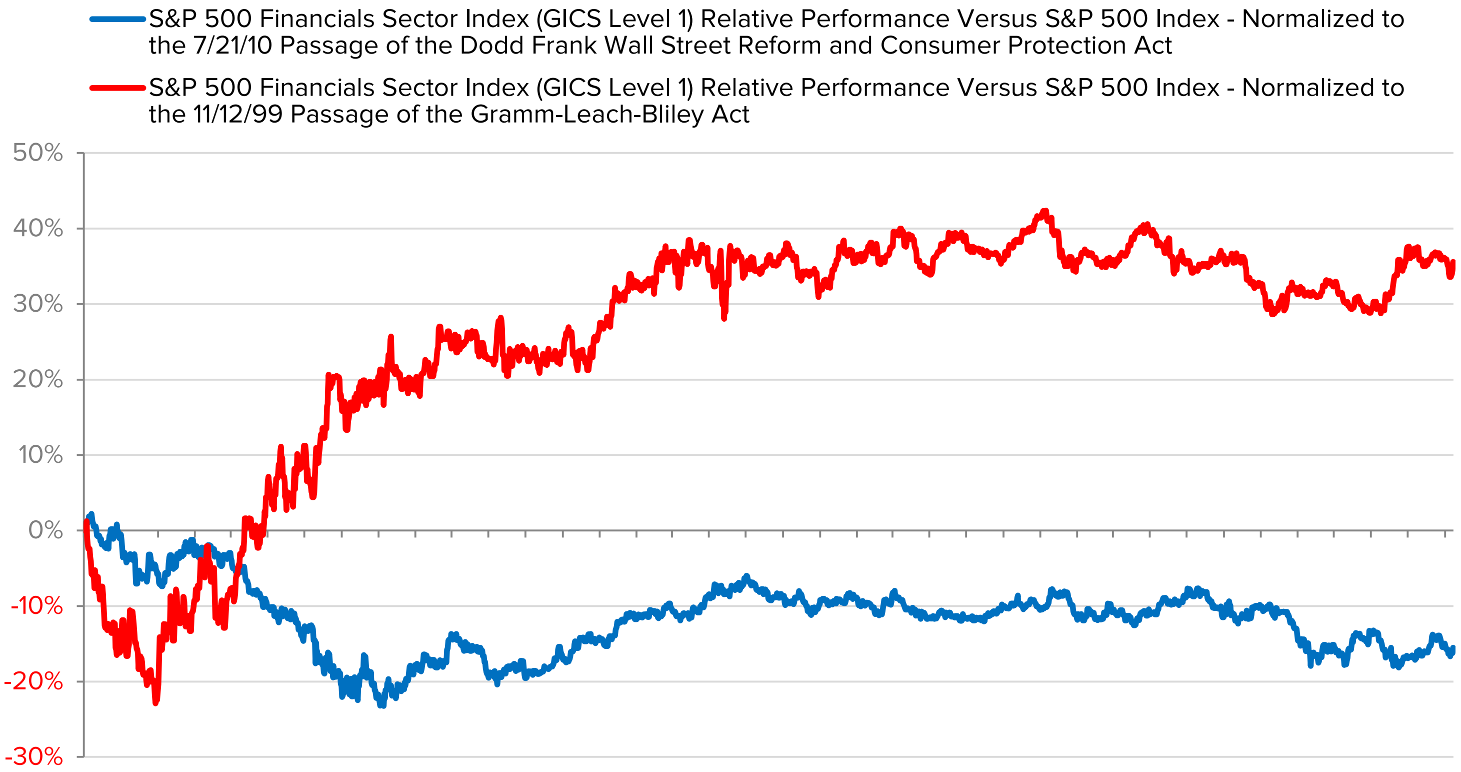
TRUMP LIKES, NO, *LOVES* DEBT

WHEN FACTORING IN THE ECONOMIC AND BUDGETARY IMPACTS OF EACH RESPECTIVE PLAN INTO THE TRAJECTORY OF THE NATIONAL DEBT, IT'S EASY TO SEE THE DIVERGENCE BETWEEN EACH CANDIDATE'S COMFORTABILITY LEVEL WITH LEVERING UP THE PUBLIC BALANCE SHEET.



OCCUPY WALL STREET OR SET IT FREE?

THE CANDIDATES ARE ALSO PRETTY FAR APART ON HOW BEST TO REGULATE WALL STREET. THE PROSPECT FOR INCREASED REGULATION OR DEREGULATION WILL LIKELY HAVE A MAJOR IMPACT ON BANK STOCKS.



"As president, I would not only veto any legislation that would weaken financial reform, but I would also fight for tough new rules, stronger enforcement and more accountability that go well beyond Dodd-Frank." **– Hillary Clinton**

Additionally, Clinton has called for Dodd-Frank regulations to be extended to hedge funds and large insurers. She wants even higher capital requirements for big banks and a incremental tightening of the Volcker Rule.

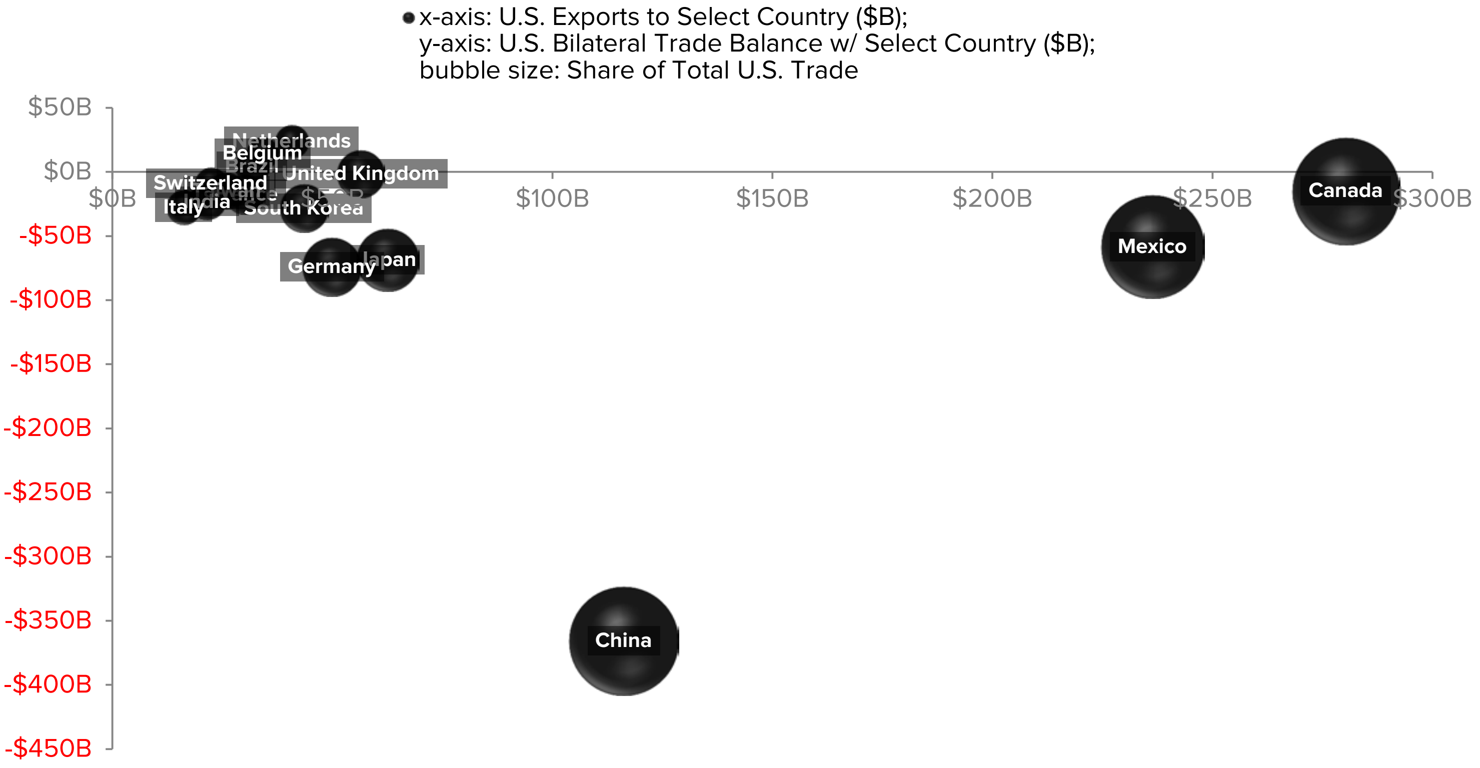
"We have to get rid of Dodd-Frank. The banks aren't loaning money to people that need it… The regulators are running the banks." **– Donald Trump**

Additionally, Trump's platform has called for the abolishment of the Consumer Financial Protection Bureau and he's been critical of large banking fines.

DATA SOURCE: BLOOMBERG

PROTECTIONISM LITE OR TRADE WARS?

BOTH CANDIDATES SUPPORT PLATFORMS THAT ARE INHERENTLY ANTI-GLOBALIZATION AT THE MARGINS. MOREOVER, TRUMP INSISTENCE THAT THE U.S. IS ALREADY LOSING A TRADE WAR THAT IT MUST "FIGHT BACK" IN HAS A FAIR AMOUNT OF MERIT ACCORDING TO OUR ANALYSIS OF U.S. BILATERAL TRADE DEFICITS.



"The answer is to finally make trade work for us, not against us… I will stop any trade deal that kills jobs or holds down wages – including the Trans-Pacific Partnership. I oppose it now, I'll oppose it after the election, and I'll oppose it as President."
— Hillary Clinton

"Our politicians have aggressively pursued a policy of globalization — moving our jobs, our wealth and our factories to Mexico and overseas [to China]… That is why I have announced we will withdraw from the [TPP] before that can ever happen… [My] 7-point plan for trade reform… includes strong protections against currency manipulation, tariffs against any countries that cheat by unfairly subsidizing their goods, and it includes a renegotiation of NAFTA. If we don't get a better deal, we will walk away."
– Donald Trump

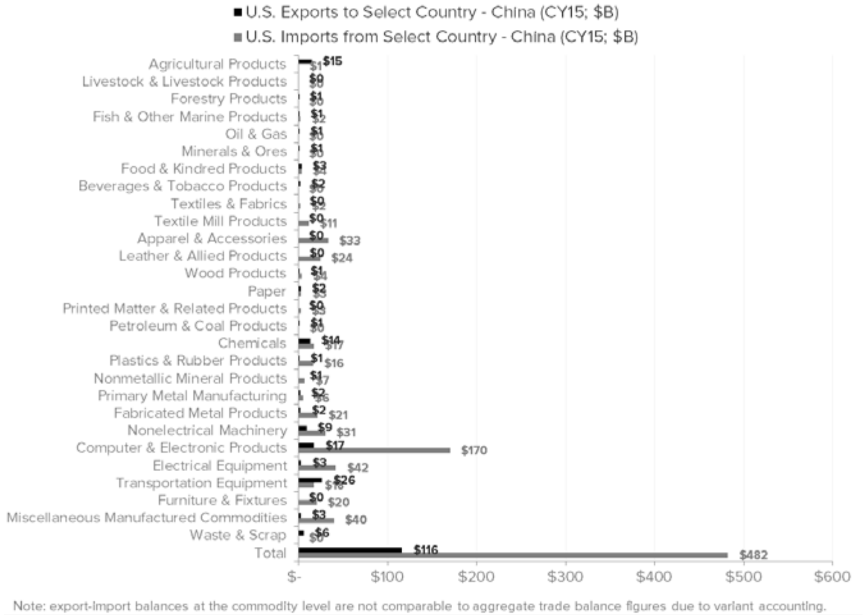
DATA SOURCE: CENSUS BUREAU; FULL-YEAR 2015 FIGURES

QUANTIFYING TRUMP TRADE WAR RISK

COUNTRY #1: CHINA

The U.S.'s largest bilateral trade deficit is with China – and by orders of magnitude – making it a sure-fire target for protectionist measures.

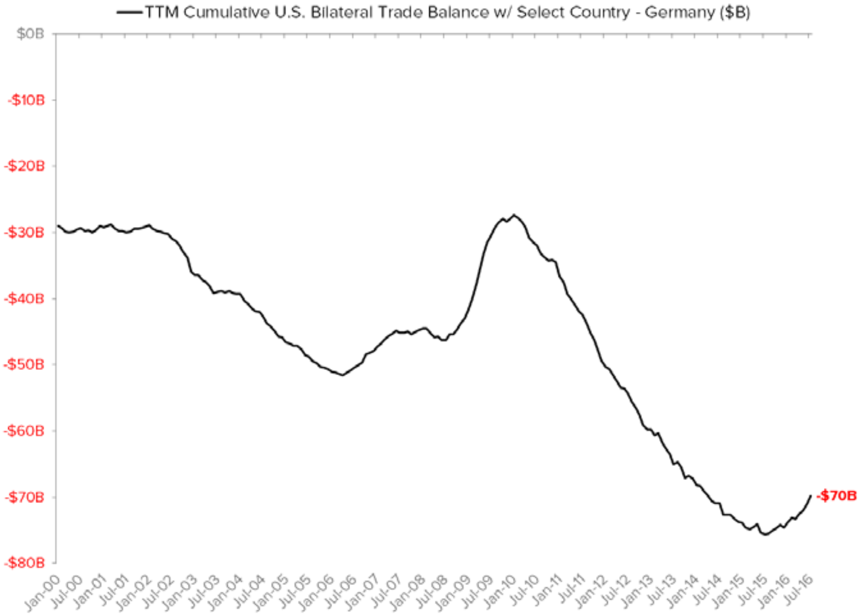
KEY INDUSTRY AT RISK: ELECTRONIC PRODUCTS



China's sizeable trade advantage in the Computers & Electronic Products category implies higher iPhone prices domestically and reduced access to mainland markets for U.S. producers.

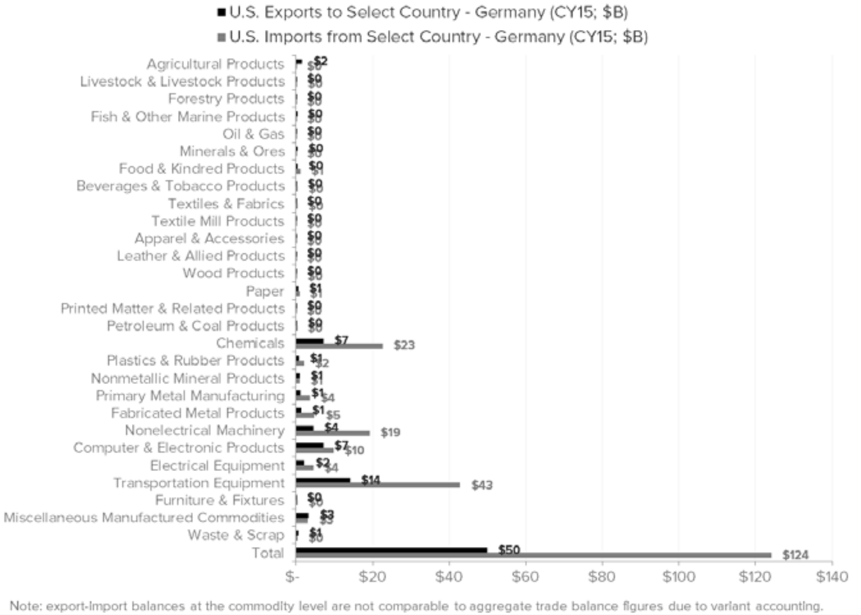
QUANTIFYING TRUMP TRADE WAR RISK

COUNTRY #2: GERMANY



The U.S.'s second-largest bilateral trade deficit is with Germany, making it a reasonable target for protectionist measures.

KEY INDUSTRY AT RISK: AUTOS

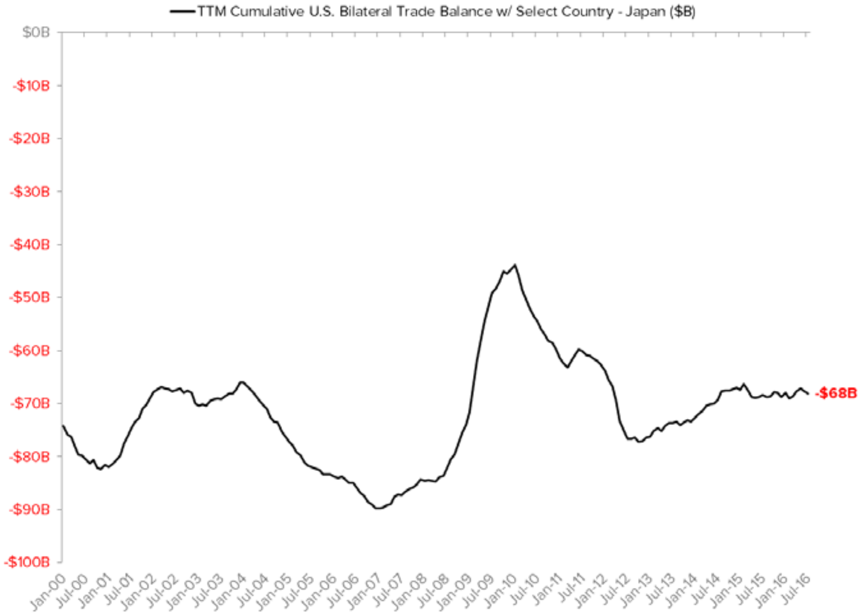


Germany's sizeable trade advantage in the Transportation Equipment category implies higher imported car prices domestically and a potential substitution effect towards U.S. manufacturers.

DATA SOURCE: CENSUS BUREAU

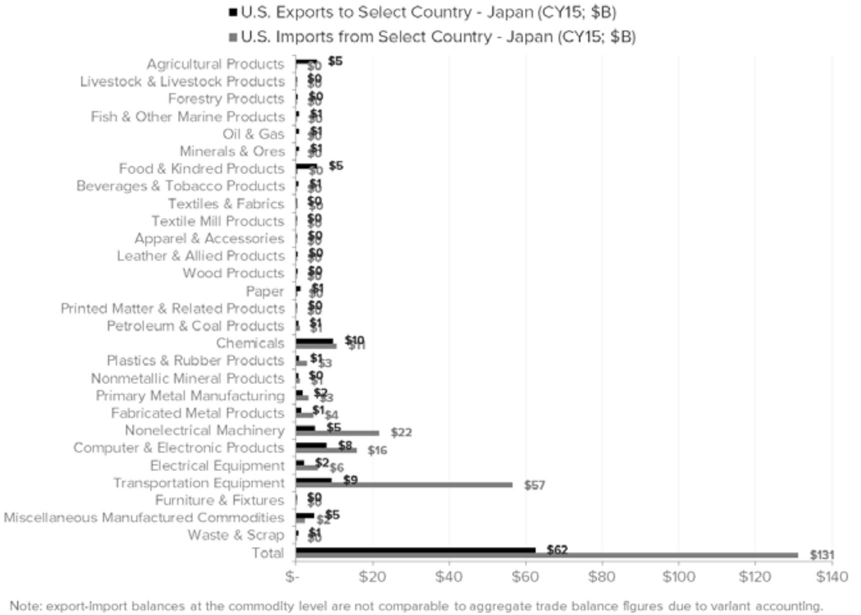
QUANTIFYING TRUMP TRADE WAR RISK

COUNTRY #3: JAPAN



The U.S.'s third-largest bilateral trade deficit is with Japan, making it a reasonable target for protectionist measures.

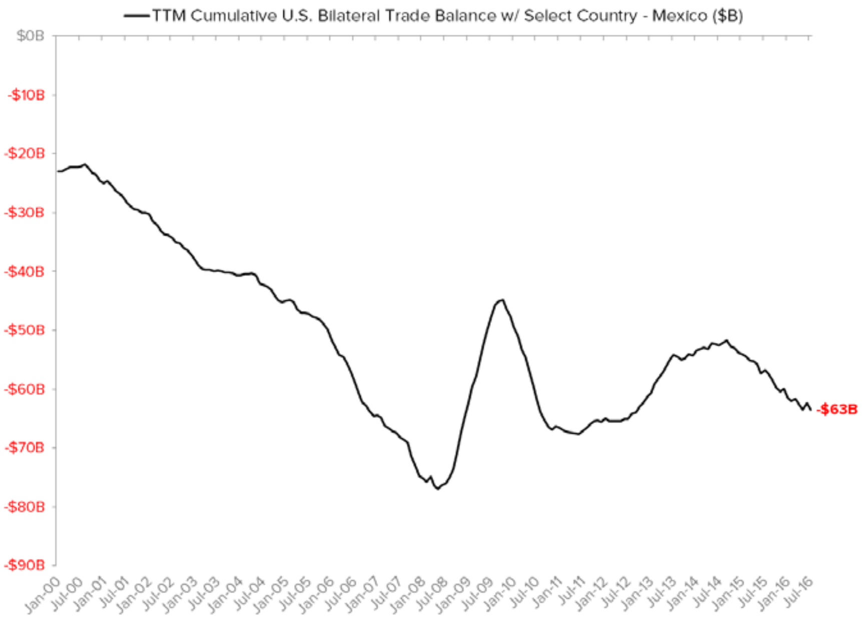
KEY INDUSTRY AT RISK: AUTOS



Japan's sizeable trade advantage in the Transportation Equipment category implies higher imported car prices domestically and a potential substitution effect towards U.S. manufacturers.

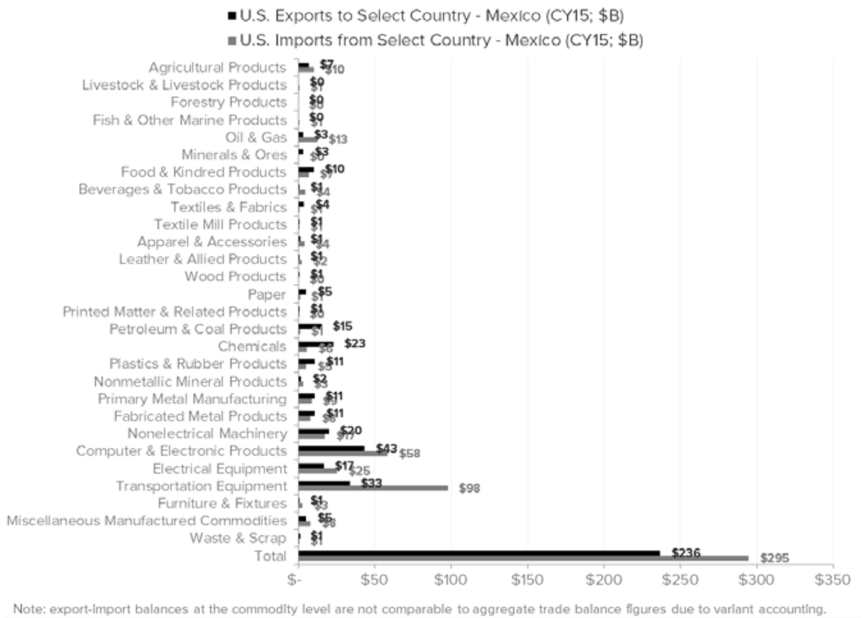
QUANTIFYING TRUMP TRADE WAR RISK

COUNTRY#4: MEXICO



The U.S.'s fourth-largest bilateral trade deficit is with Mexico, making it a reasonable target for protectionist measures.

KEY INDUSTRY AT RISK: AUTOS



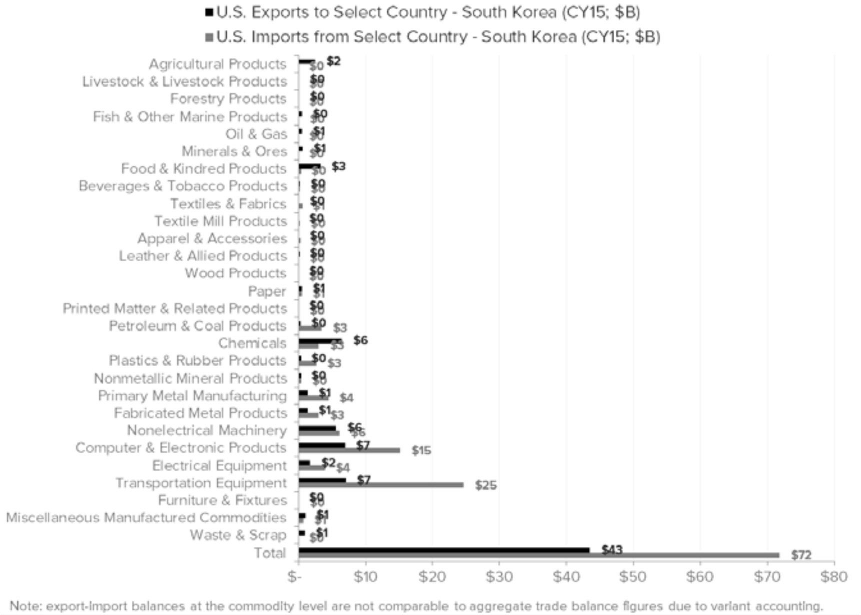
Mexico's sizeable trade advantage in the Transportation Equipment category implies higher imported car prices domestically and a potential substitution effect towards U.S. manufacturers.

QUANTIFYING TRUMP TRADE WAR RISK

COUNTRY #5: SOUTH KOREA

The U.S.'s fifth-largest bilateral trade deficit is with South Korea, making it a reasonable target for protectionist measures.

KEY INDUSTRY AT RISK: AUTOS

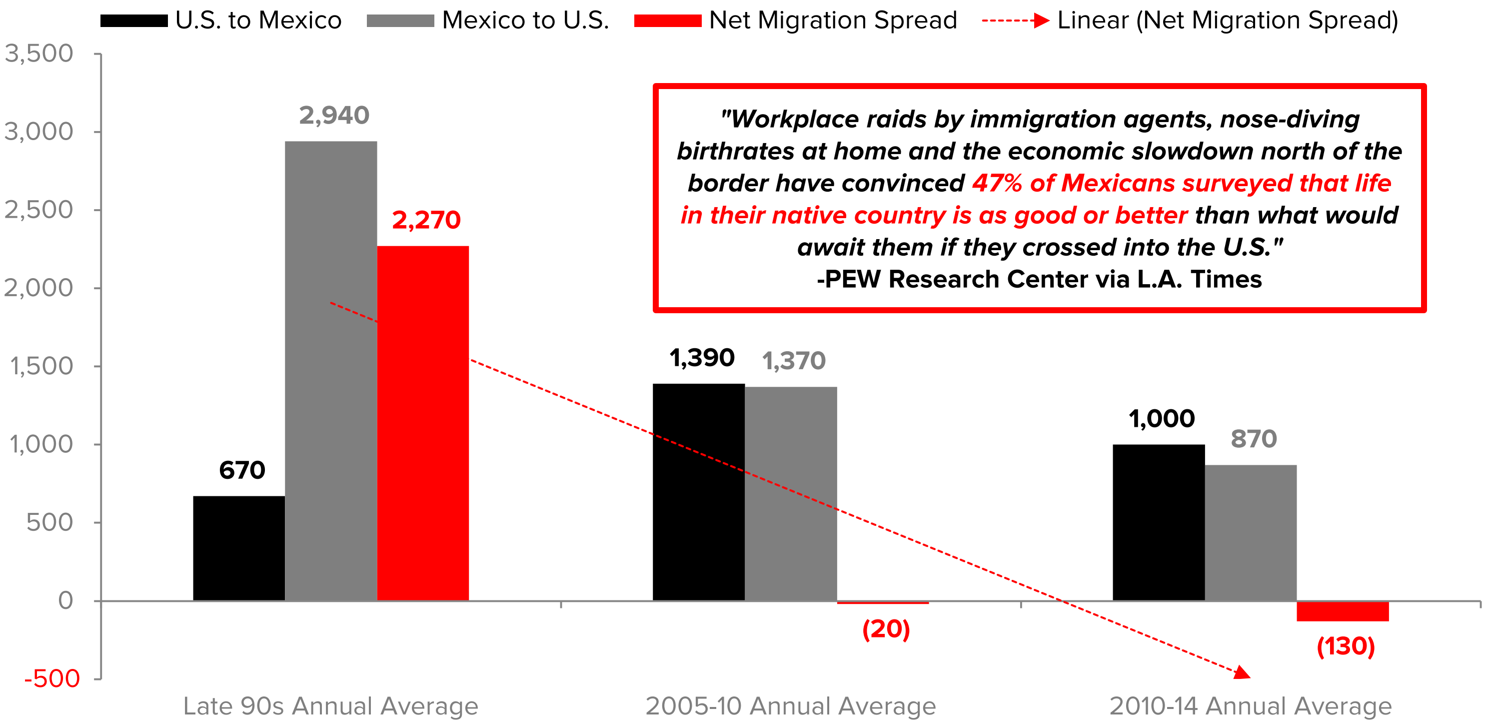


South Korea's sizeable trade advantage in the Transportation Equipment category implies higher imported car prices domestically and a potential substitution effect towards U.S. manufacturers.

OPEN OR CLOSED BORDERS?

CLINTON AND TRUMP DISAGREE MARKEDLY ON IMMIGRATION POLICY, WHICH IS AN ISSUE THAT HAS BECOME A COMMON SCARECROW ON THE POLITICAL RIGHT – LARGELY OUT OF CONTEXT WITH THE DATA.

Net Migration From Mexico (in thousands)



"Workplace raids by immigration agents, nose-diving birthrates at home and the economic slowdown north of the border have convinced 47% of Mexicans surveyed that life in their native country is as good or better than what would await them if they crossed into the U.S."
-PEW Research Center via L.A. Times

Clinton considers herself an outspoken advocate for immigrant rights, having supported President Obama's executive order that would have blocked the deportations of some four million illegal immigrants. On the campaign trail, she's promised to make it easier for illegal families to plead their cases for staying in the U.S.

If it weren't for his perceived flip-flopping on the subject, **Trump's** views on immigration would start and end with his initial plan to build a giant wall on the U.S.'s southern border – and have our Mexican neighbors pay for it at that. He's since softened his stance to temporarily banning immigrants from terrorism-heavy regions, as well as simply beefing up headcount and resources at ICE in order to assist with what he now describes as an impossible task – i.e. deporting all illegal immigrants.

DATA SOURCE: PEW RESEARCH CENTER

THEMATIC INVESTMENT CONCLUSIONS

TRADE (3 WEEKS OR LESS)

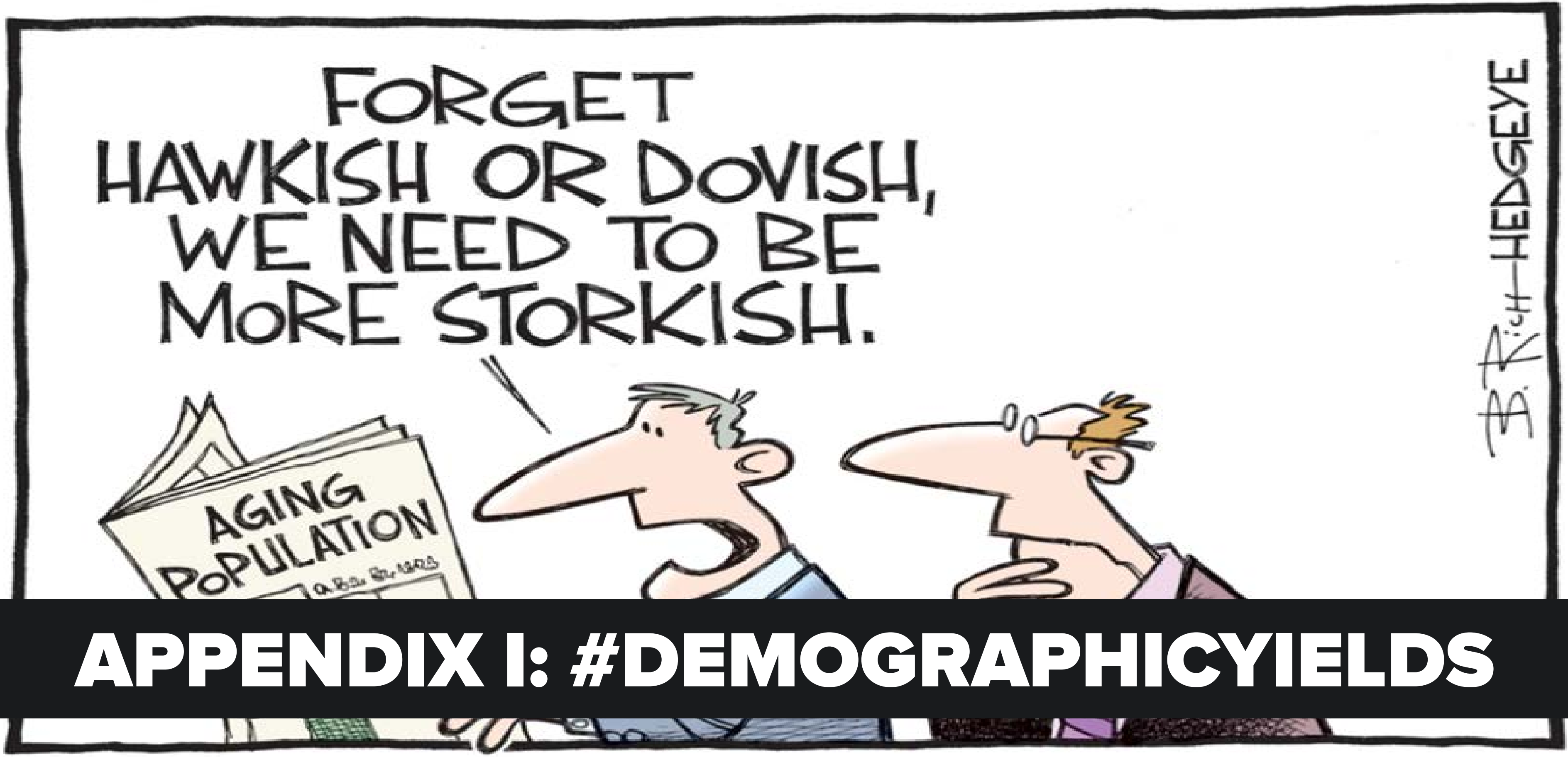
LONGS: Gold (GLD), High Dividend Yielding Stocks (VYM), Long-term Treasuries (TLT), REITS (VNQ), Utilities (XLU)
SHORTS: Euro (FXE), Financials (XLF), Industrials (XLI), Italy (EWI), Retailers (XRT)

TREND (3 MONTHS OR MORE)

LONGS: Ultra Long-term Treasuries (EDV), Gold (GLD), Muni Bonds (MUB), Long-term Treasuries (TLT), Utilities (XLU)
SHORTS: Financials (XLF), Japan (DXJ), Retailers (XRT), Russell 2000 (IWM), S&P 500 (SPY), Italy (EWI)

TAIL (3 YEARS OR LESS)

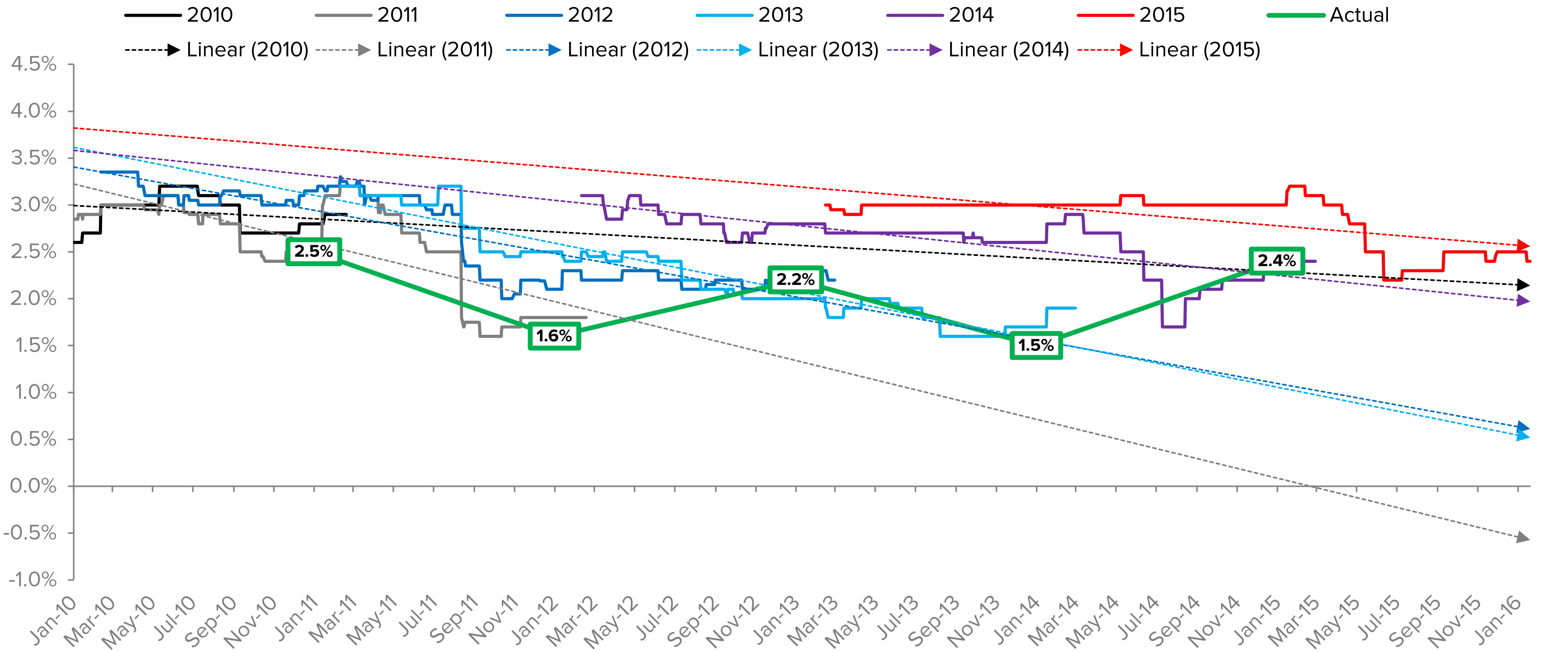
LONGS: Muni Bonds (MUB), Long-term Treasuries (TLT), U.S. Dollar (UUP)
SHORTS: Euro (FXE), Financials (XLF), Italy (EWI)



APPENDIX I: #DEMOGRAPHICYIELDS

CONSISTENTLY TOO HIGH ON GDP GROWTH

EVERY SINGLE YEAR OF THE POST-CRISIS ERA HAS SEEN A DOWNWARD REVISION BIAS TO BLOOMBERG CONSENSUS U.S. REAL GDP GROWTH FORECASTS THROUGHOUT THE YEAR.



DATA SOURCE: BLOOMBERG

WHY? BECAUSE AGEING SLOWS GROWTH

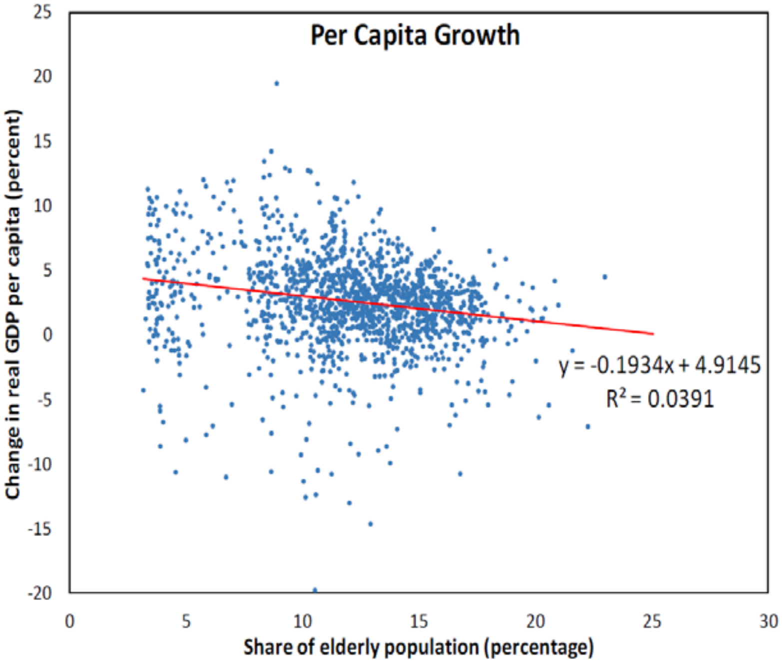


Table 1. Demographic Impact on Growth of Real GDP per capita (PPP-based)

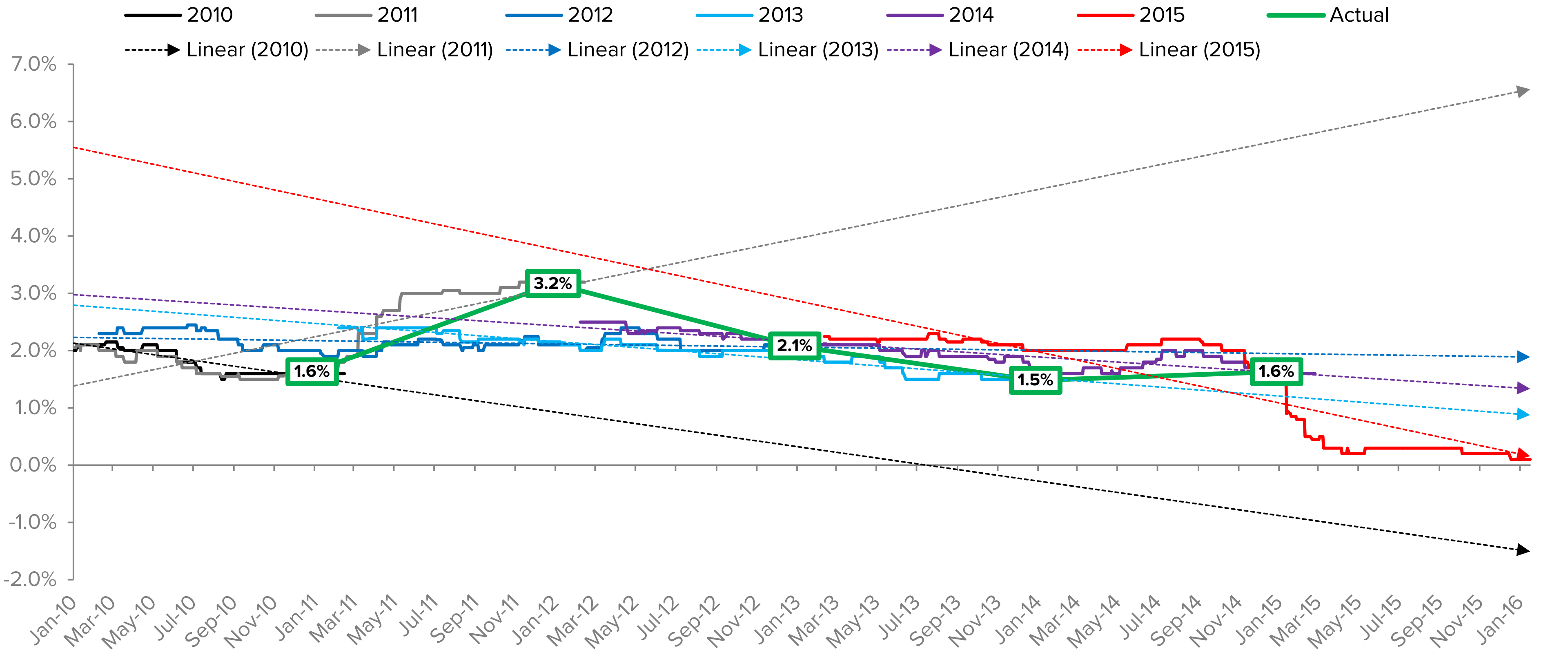
	OECD FE				OECD FE IV 2/			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Population Growth	-0.686		-1.194	-1.130	0.075		-0.621	-0.504
	[0.270]		[0.018]**	[0.031]**	[0.807]		[0.053]*	[0.118]
Share of 65 and over		-0.211	-0.261	-0.122		-0.590	-0.614	-0.365
		[0.002]***	[0.000]***	[0.349]		[0.000]***	[0.000]***	[0.000]***
Share of 15-64		-0.132	-0.201	-0.090		-0.159	-0.192	0.010
		[0.159]	[0.037]**	[0.372]		[0.009]***	[0.002]***	[0.901]
Life expectancy				-0.198				-0.363
				[0.189]				[0.000]***
Openness	0.008	0.013	0.019	0.025	0.007	0.018	0.022	0.033
	[0.276]	[0.188]	[0.041]**	[0.006]***	[0.331]	[0.011]**	[0.004]***	[0.000]***
Secondary school enrollment	-0.018	0.005	0.006	0.014	-0.040	-0.002	-0.002	0.015
	[0.116]	[0.571]	[0.485]	[0.132]	[0.000]***	[0.862]	[0.882]	[0.185]
Budget Balance/GDP	0.091	0.083	0.100	0.100	-0.003	0.028	0.044	0.053
	[0.100]	[0.135]	[0.081]*	[0.070]*	[0.956]	[0.549]	[0.347]	[0.258]
Inflation	-0.090	-0.101	-0.103	-0.100	-0.087	-0.112	-0.113	-0.105
	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.000]***
Investment / GDP	0.272	0.244	0.248	0.244	-0.105	-0.179	-0.178	-0.188
	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.014]**	[0.000]***	[0.000]***	[0.000]***
Constant	-1.670	7.407	12.862	17.557	8.548	24.193	26.897	35.604
	[0.309]	[0.208]	[0.035]**	[0.041]**	[0.000]***	[0.000]***	[0.000]***	[0.000]***
Observations	1104	1104	1104	1104	1072	1072	1072	1072
Number of ifscode	30	30	30	30	30	30	30	30
R-squared	0.177	0.185	0.199	0.203				

*"The **demographic impact on aggregate real GDP is somewhat straightforward** when the population is growing, declining or ageing given the direct implication on the size of labor inputs, while its impact on per capita real GDP is less so, attracting attention for analysis. For example, Chapter 3 of the 2004 World Economic Outlook by Callen et al. (2004) found that **per capita GDP growth is positively correlated with changes in the working age population share, but is negatively correlated with changes in the elderly share**."*

SOURCE: IMF – KIM, LEE AND YOON. "IMPACT OF DEMOGRAPHIC CHANGES ON INFLATION AND THE MACROECONOMY"

CONSISTENTLY TOO HIGH ON INFLATION

WITH THE EXCEPTION OF 2011 (DURING WHICH QE2 PERPETUATED ALL-TIME LOWS IN THE USD AND ALL-TIME HIGHS IN COMMODITY PRICES), EACH YEAR OF THE POST-CRISIS ERA HAS SEEN A DOWNWARD REVISION BIAS TO CONSENSUS U.S. CPI FORECASTS THROUGHOUT THE YEAR.



DATA SOURCE: BLOOMBERG

BECAUSE AGEING SLOWS INFLATION TOO

Table 4. Demographic Impact on Inflation

	OECD					Japan				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Population Growth	0.339	0.524		0.549	0.317	6.689	6.363		6.708	6.725
	[0.715]	[0.577]		[0.570]	[0.764]	[0.005]***	[0.003]***		[0.001]***	[0.001]***
Share of 65 and over		-0.176	-0.125	-0.137	-0.416		-0.101	-0.321	-0.300	-0.242
		[0.009]***	[0.013]**	[0.006]***	[0.008]***		[0.394]	[0.082]*	[0.060]*	[0.227]
Share of 15-64			-0.101	-0.103	-0.330			-0.476	-0.544	-0.499
			[0.226]	[0.233]	[0.037]**			[0.030]**	[0.008]***	[0.026]**
Life Expectancy					0.304					-0.092
					[0.043]**					[0.748]
TOT change	-0.145	-0.144	-0.145	-0.144	-0.143	-0.169	-0.174	-0.178	-0.148	-0.147
	[0.005]***	[0.005]***	[0.005]***	[0.005]***	[0.005]***	[0.016]**	[0.014]**	[0.013]**	[0.016]**	[0.016]**
GDP growth	-0.750	-0.795	-0.799	-0.802	-0.784	-0.246	-0.319	-0.517	-0.431	-0.452
	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.000]***	[0.015]**	[0.033]**	[0.008]***	[0.008]***	[0.022]**
M2 growth	0.192	0.183	0.180	0.180	0.176	0.059	0.034	0.007	-0.009	-0.015
	[0.000]***	[0.000]***	[0.001]***	[0.001]***	[0.000]***	[0.118]	[0.379]	[0.869]	[0.826]	[0.751]
Budget Balance Chg.	0.129	0.153	0.153	0.158	0.150	-0.105	-0.086	0.006	0.040	0.059
	[0.051]*	[0.022]**	[0.033]**	[0.018]**	[0.022]**	[0.540]	[0.563]	[0.971]	[0.776]	[0.690]
Constant	-0.053	2.418	8.443	8.739	4.132	0.074	1.870	37.962	42.051	45.446
	[0.910]	[0.060]*	[0.149]	[0.151]	[0.255]	[0.821]	[0.399]	[0.031]**	[0.010]**	[0.038]**
Observations	1167	1167	1167	1167	1167	53	53	53	53	53
Number of ifscode	30	30	30	30	30					
R-squared	0.212	0.216	0.217	0.217	0.222	0.530	0.545	0.462	0.602	0.603
RMSE	5.235	5.227	5.223	5.223	5.209	2.077	2.066	2.246	1.954	1.973

1/ Inflation and population growth are detrended using quadratic filter.

2/ Fixed-effect estimation for OECD and OLS for individual country regressions using annual data.

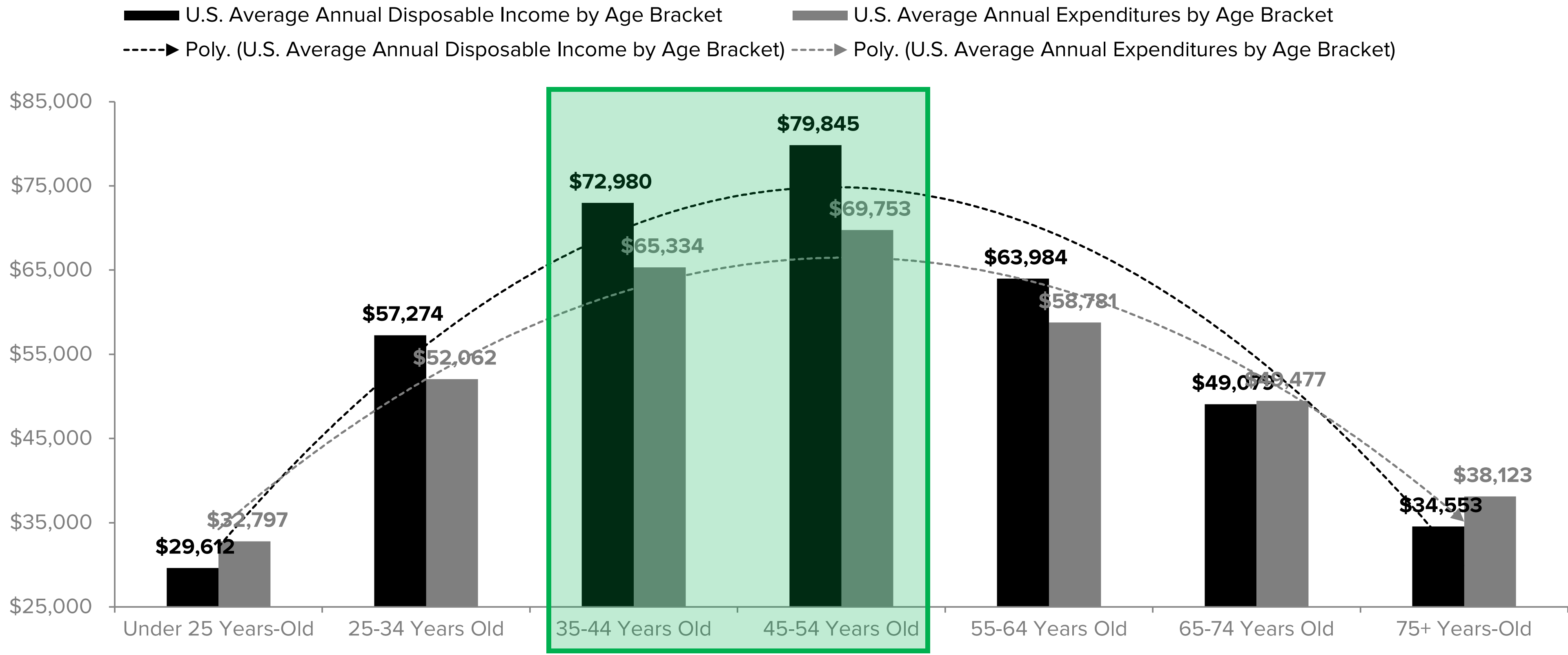
3/ P-values based on robust t-statistics in brackets. * significant at 10%; ** significant at 5%; *** significant at 1%.

*"As displayed in Column (1), population growth affects inflation positively, since a greater population implies more aggregate demand. This might be due to the fact that the aggregate supply adjustment could be slower than aggregate demand adjustment in responding to demographic shocks in the short or medium run. When the share of elderly is added as an independent variable (Column 2), population growth continues to affect inflation positively and **the influence of the elderly share is significantly negative**. Conditional on a given population growth, **the ageing process will suppress inflation significantly**. This is true when the share of 15-64 is coupled with the elderly share (Columns 3 and 4) and when life expectancy is added as well (Column 5)."*

SOURCE: IMF – KIM, LEE AND YOON. "IMPACT OF DEMOGRAPHIC CHANGES ON INFLATION AND THE MACROECONOMY"

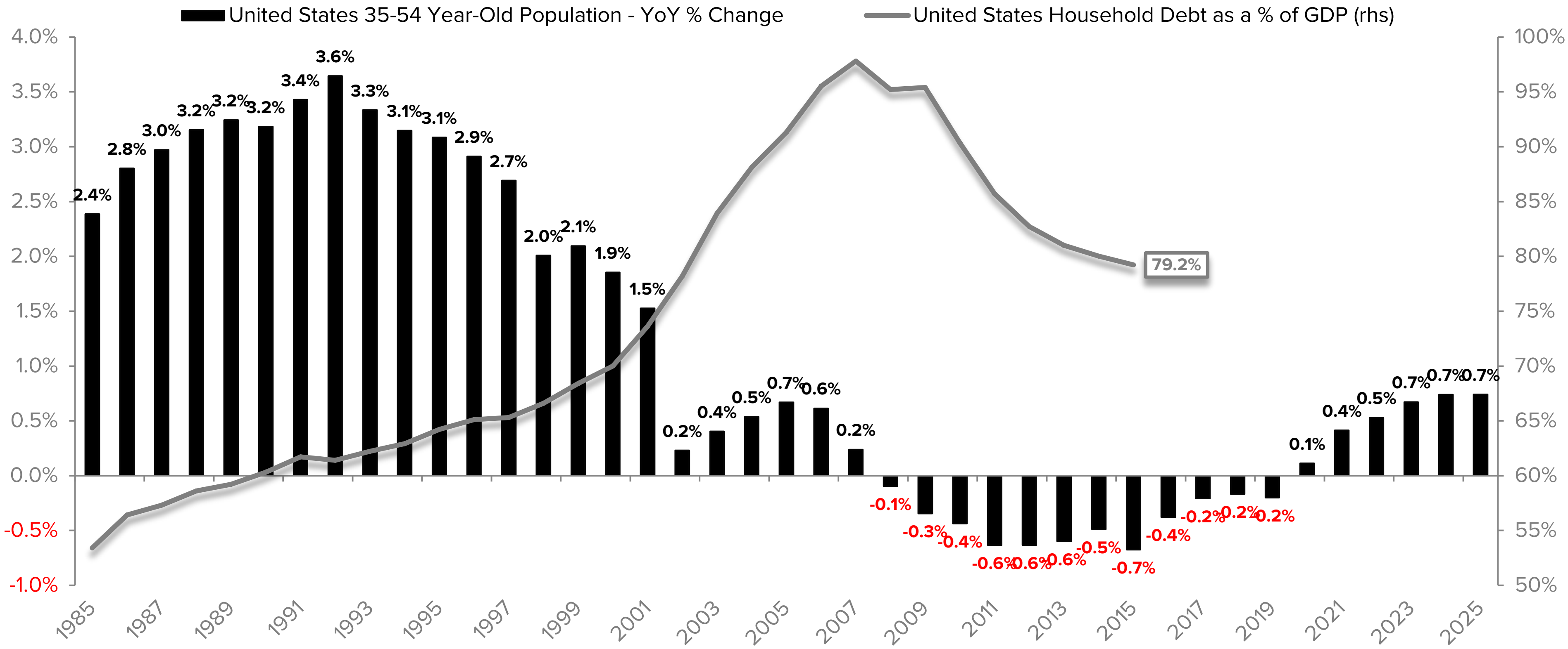
WHY DO 35-54 YEAR-OLDS MATTER?

BECAUSE ACCORDING TO BOTH EMPIRICAL EVIDENCE AND LIFE-CYCLE ECONOMICS THEORY, THIS IS THE WORLD'S CORE END CONSUMPTION DEMAND DEMOGRAPHIC.



UNITED STATES

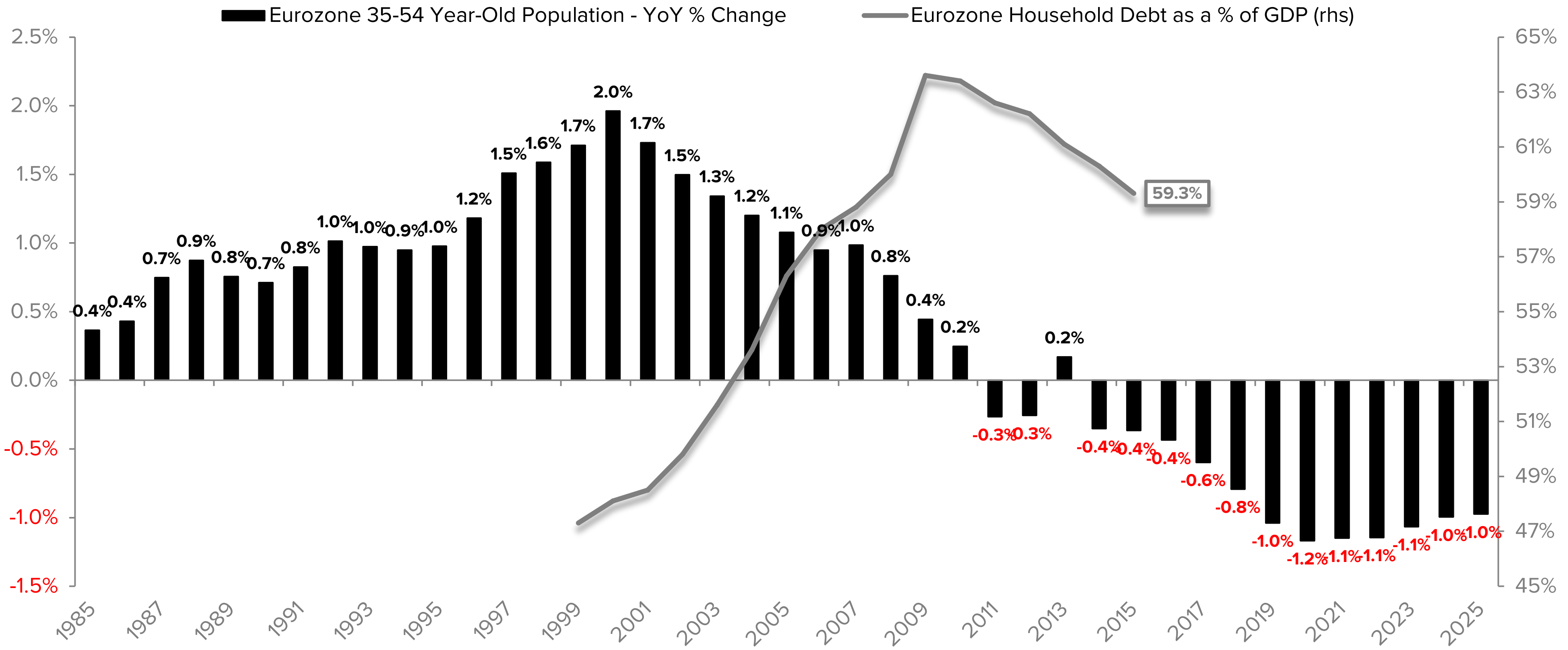
PRIVATE SECTOR DELEVERAGING SHOULD BEGIN TO DISSIPATE IN 2-3 YEARS AS MILLENNIALS START TO COUNTERBALANCE THE SLOWDOWN IN BABY BOOMER DEMAND.



DATA SOURCE: OECD; BIS

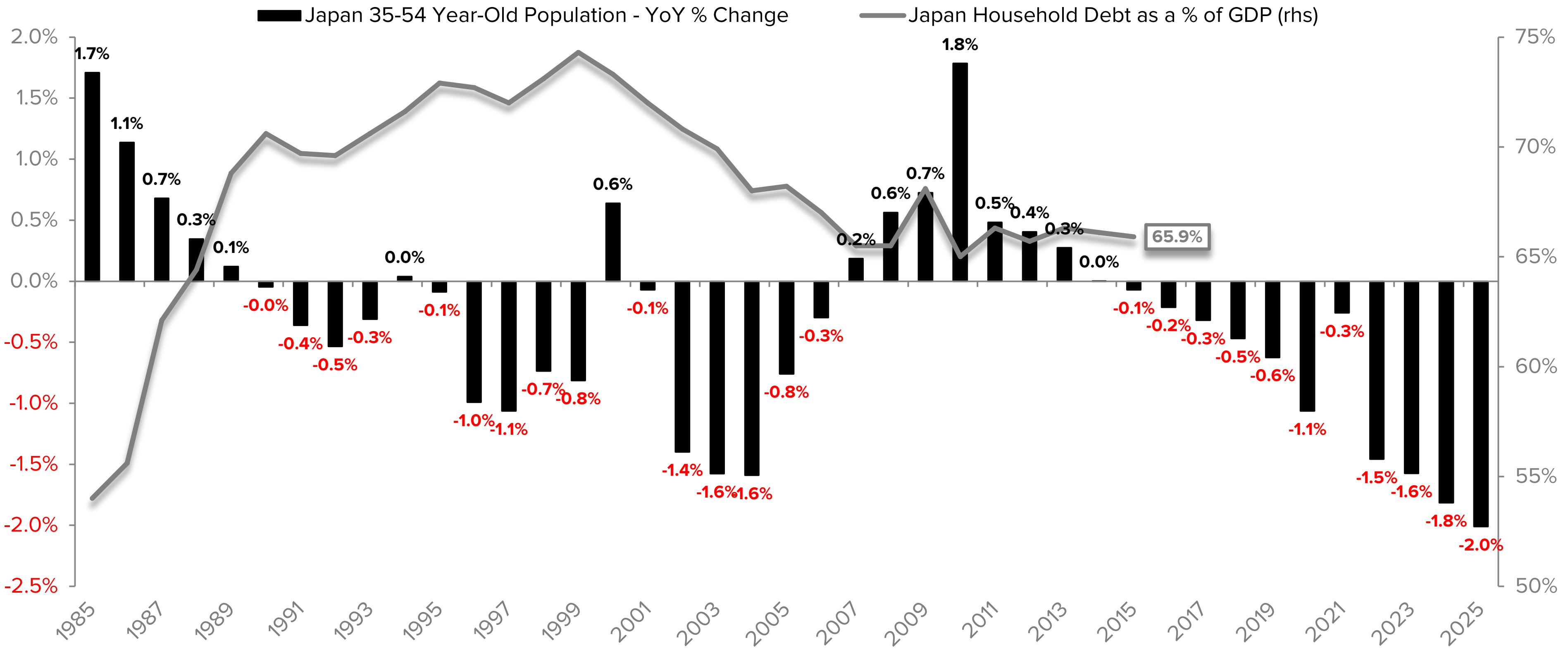
EUROZONE

PRIVATE SECTOR DELEVERAGING SHOULD CONTINUE AS THE EUROZONE ECONOMY AGES ALONGSIDE A PROJECTED CONTRACTION IN ORGANIC DEMAND AS FAR AS THE EYE CAN SEE.



JAPAN

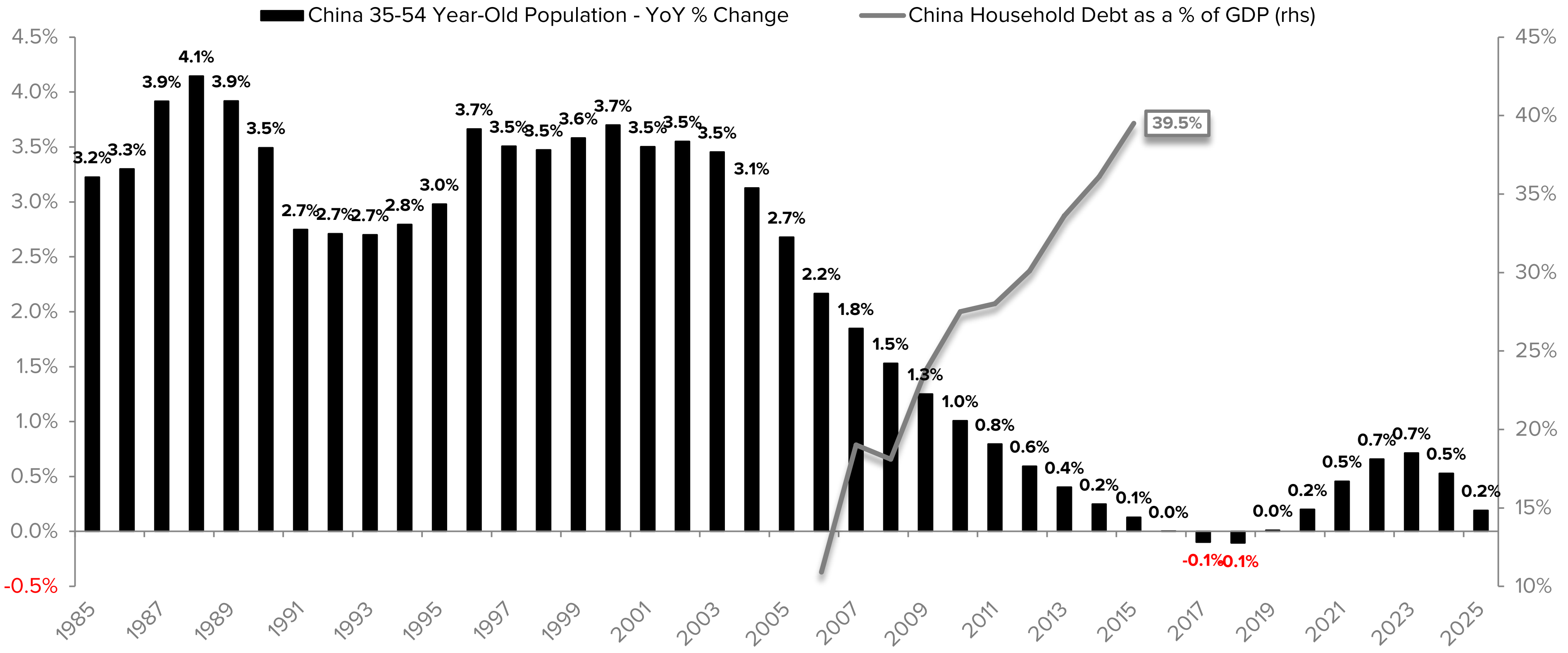
IF YOU THOUGHT JAPAN'S TWO LOST DECADES WERE BAD, JUST WAIT UNTIL THE NEXT TEN YEARS OF WHAT WE'LL AFFECTIONATELY TERM "PLUNGING INTO THE ABYSS" WITH RESPECT TO JAPAN'S CORE CONSUMPTION COHORT.



DATA SOURCE: OECD; BIS

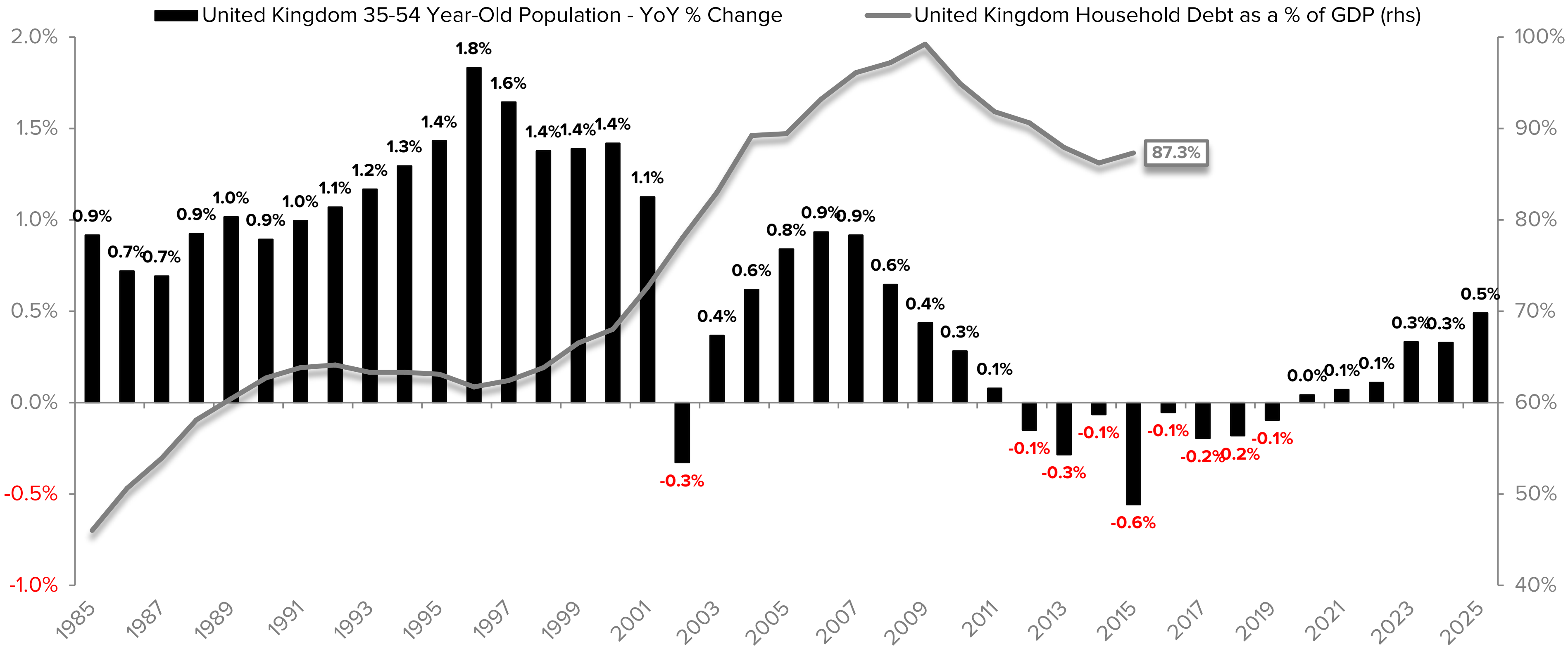
CHINA

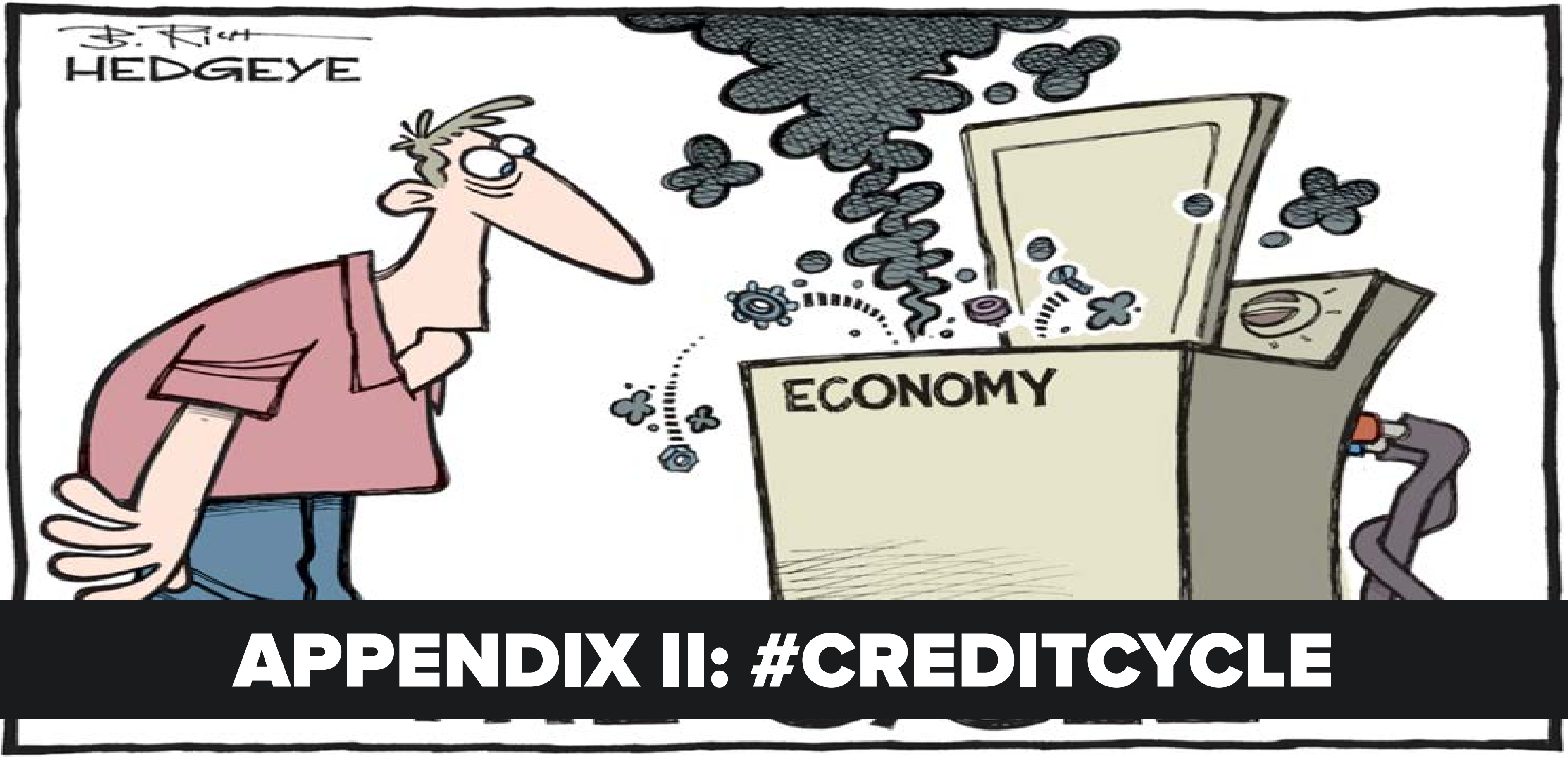
THE SLOWDOWN IN CHINA'S CORE CONSUMPTION DEMOGRAPHIC SHOULD TROUGH IN 2-3 YEARS, ALLOWING BEIJING TO FINALLY MAKE GOOD ON ITS LONGSTANDING PROMISE TO MEANINGFULLY SHIFT CHINESE GDP GROWTH TOWARDS SERVICES AND HOUSEHOLD CONSUMPTION.



UNITED KINGDOM

MUCH LIKE THE U.S., THE U.K. HAS A MILLENNIAL GENERATION THAT WILL OFFSET DEMAND LOSS FROM AGEING BABY BOOMERS.

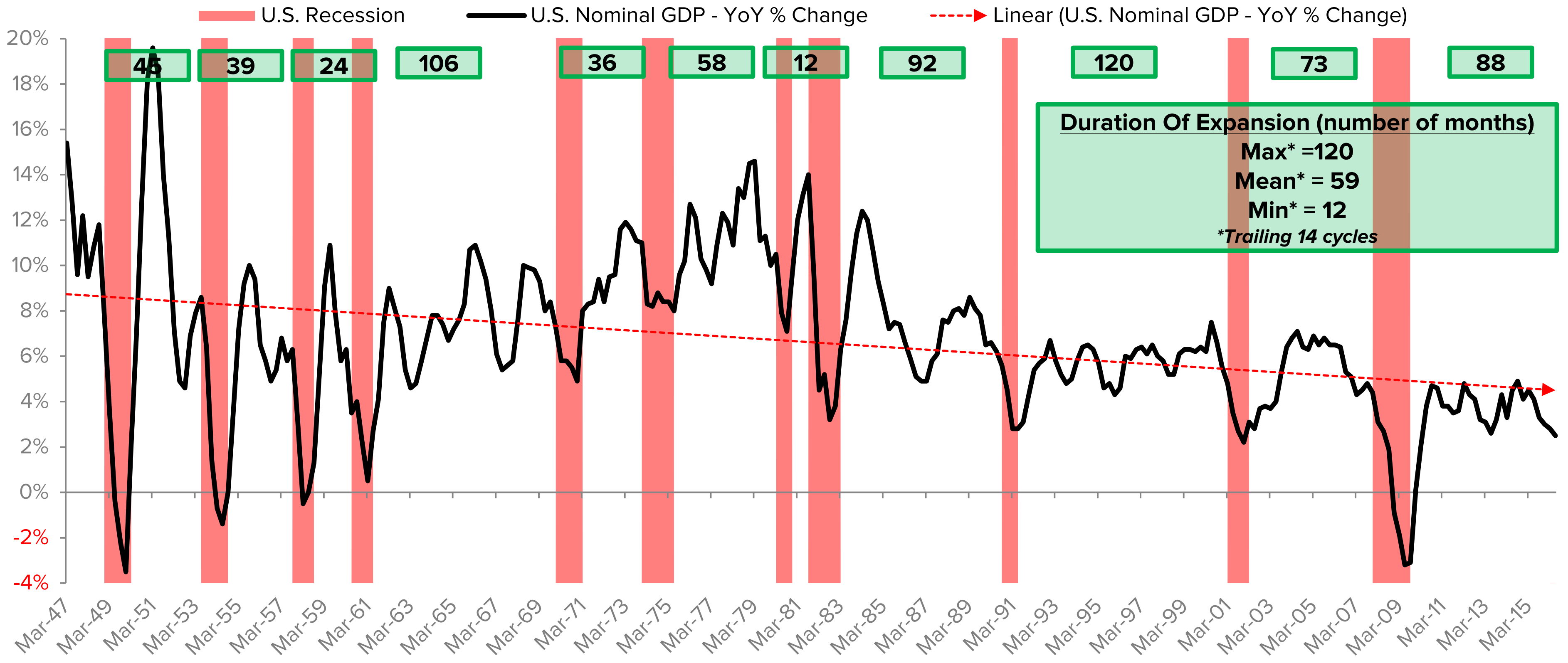




APPENDIX II: #CREDITCYCLE

FIRST, A HISTORY OF CYCLES

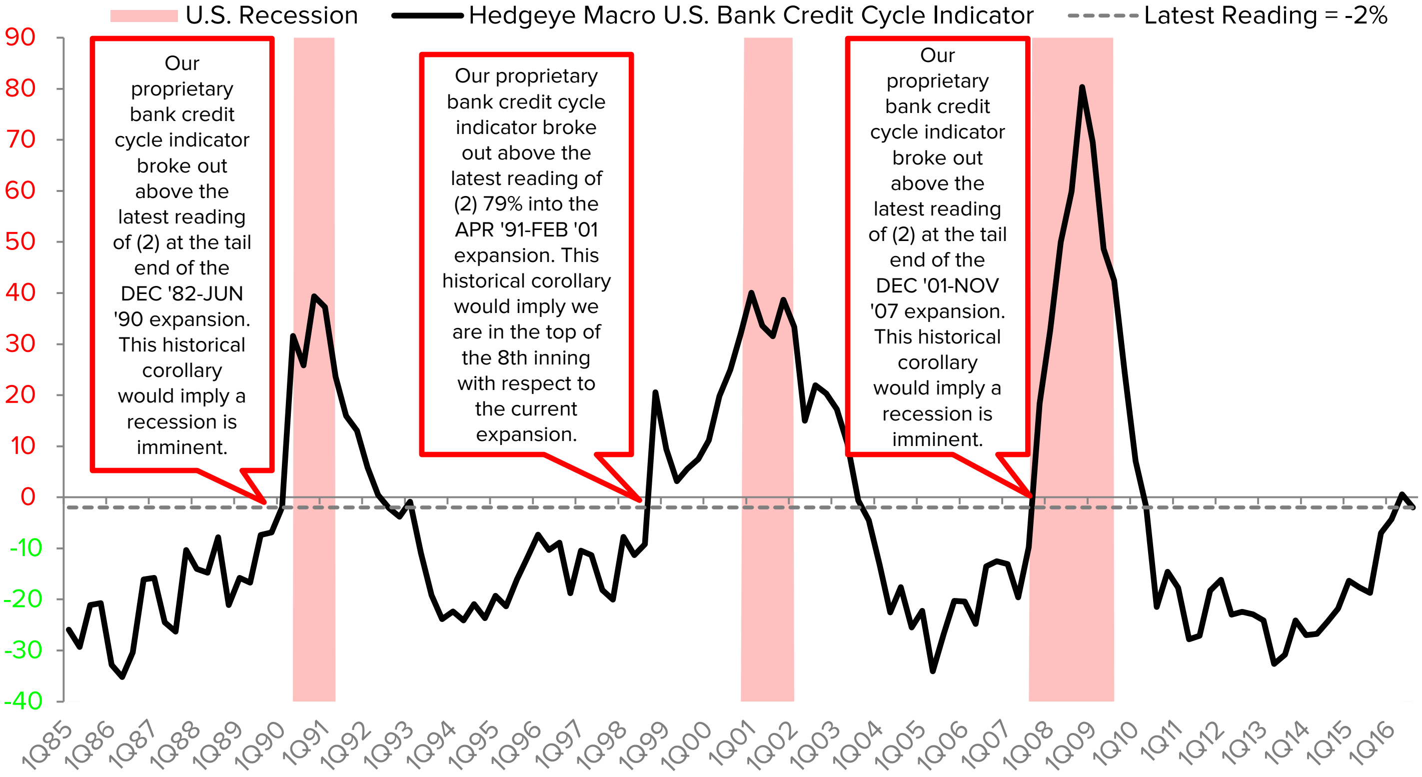
OUR CENTRAL PLANNING FATHERS BROUGHT FORTH ON THIS CYCLE, A NEW PLAN, CONCEIVED IN ACADEMIA AND DEDICATED TO THE PROPOSITION THAT ALL ECONOMIC GRAVITY CAN, IN FACT, BE SMOOTHED.



DATA SOURCE: BLOOMBERG, NBER, BEA

CREDIT CONDITIONS ARE DETERIORATING

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.



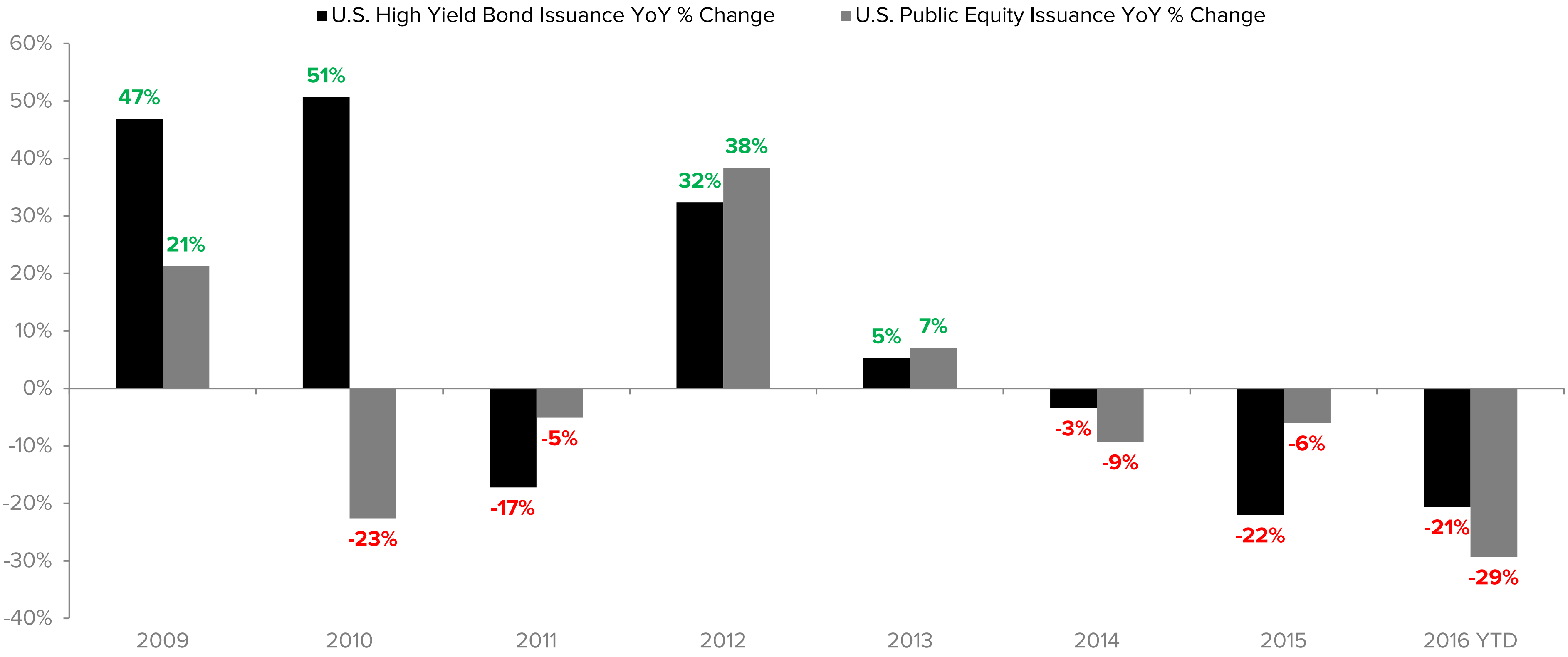
Our **proprietary Bank Credit Cycle Indicator** is an equal-weighted average of the following time series, each derived from the Fed's Senior Loan Officer Survey data:

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)

DATA SOURCE: BLOOMBERG; FEDERAL RESERVE SENIOR LOAN OFFICER SURVEY

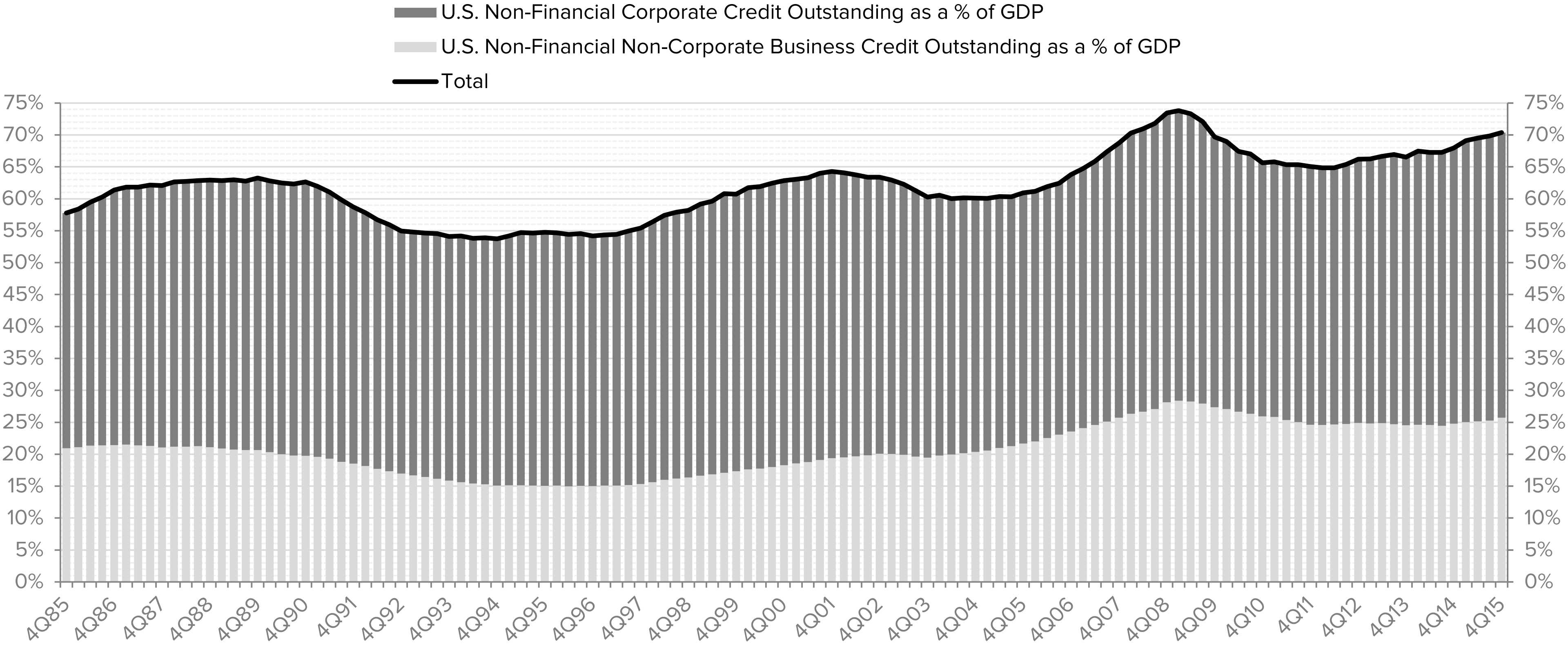
CAPITAL MARKETS ARE DRYING UP

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.



CORPORATE LEVERAGE IS PEAKING

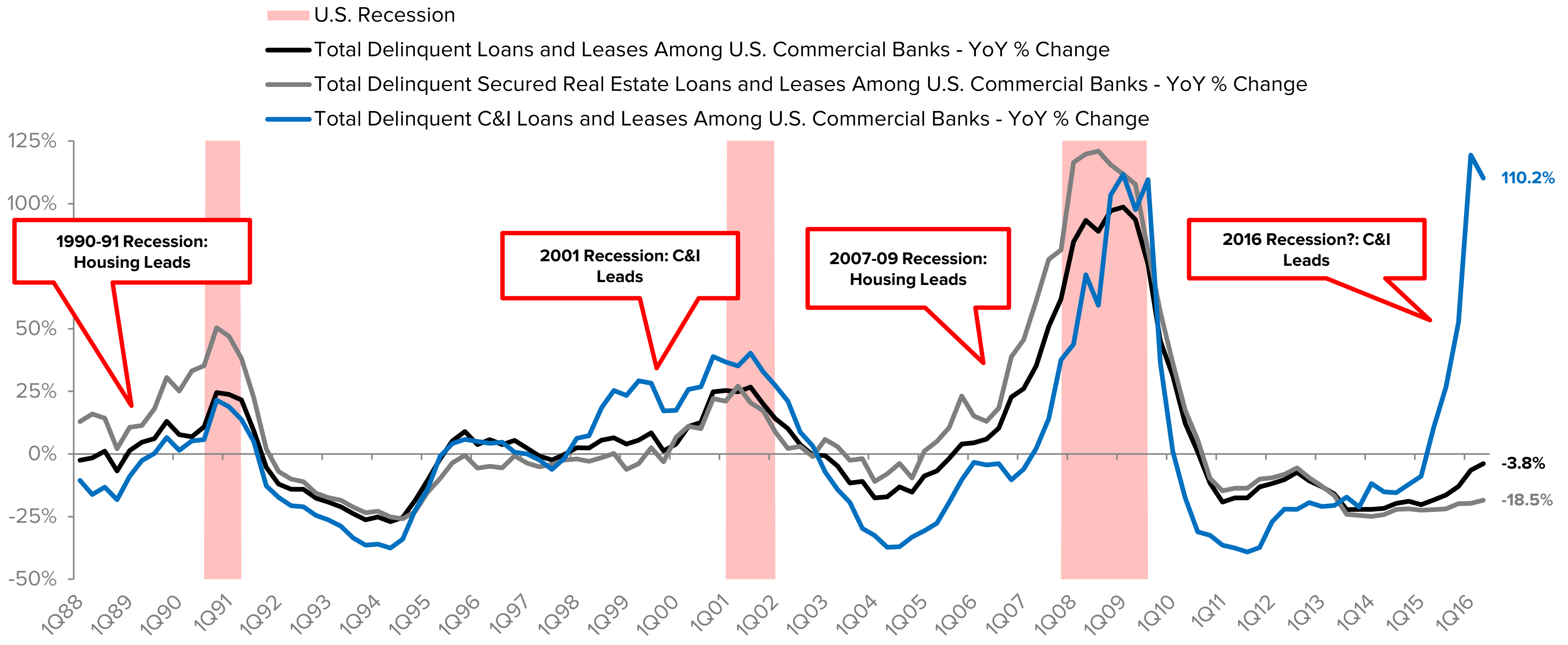
AS A RATIO TO THE ECONOMY, U.S. COMPANIES ARE AS LEVERED AS THEY'VE EVER BEEN OUTSIDE OF THE DEPTHS OF THE GREAT RECESSION.



DATA SOURCE: BLOOMBERG

NO TWO #CREDITCYCLES ARE ALIKE

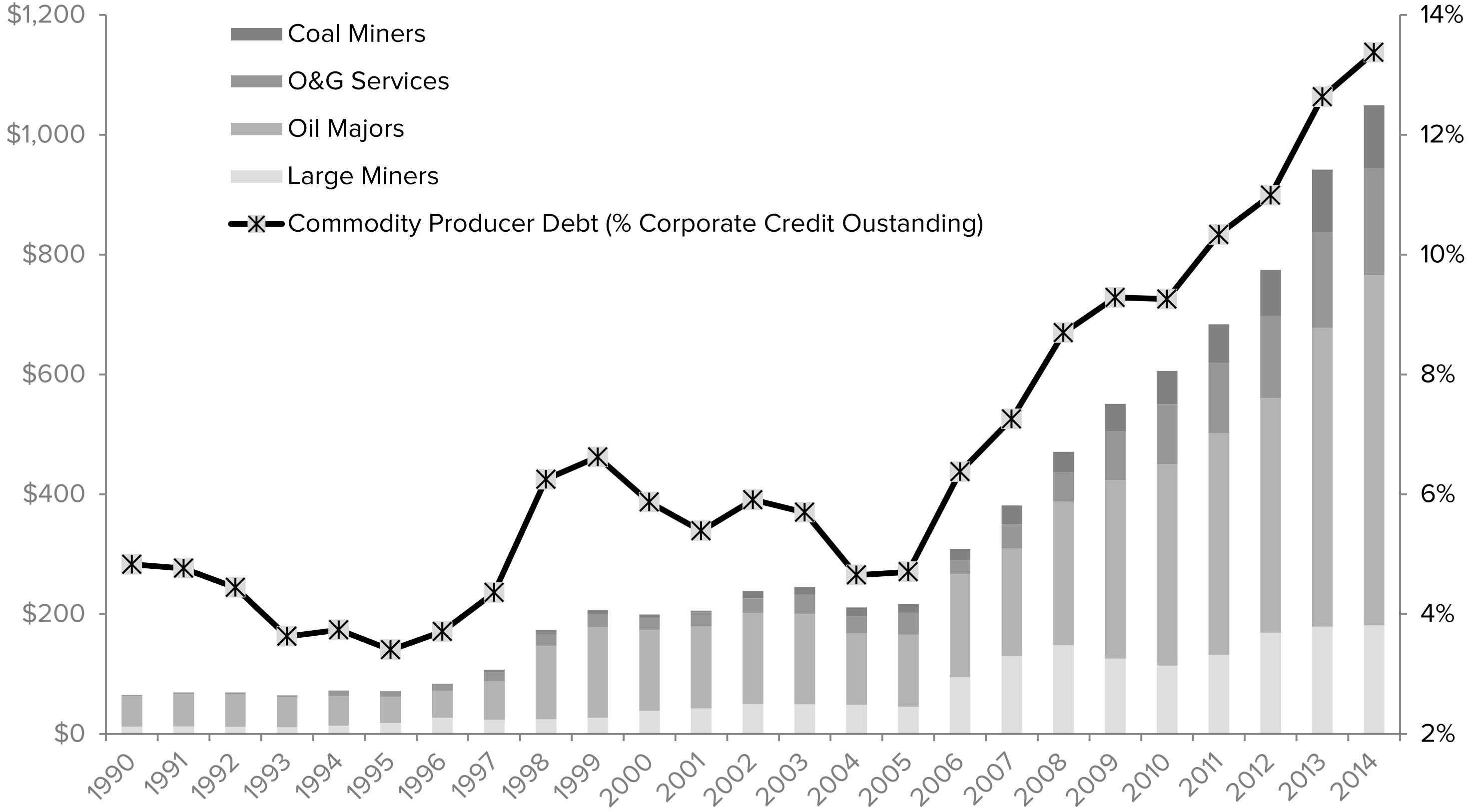
CONTRARY TO THE "EX-ENERGY" DISCUSSION, HISTORY SHOWS US THAT CREDIT ISSUES IN ONE SECTOR OF THE ECONOMY ALWAYS EVENTUALLY SPILL OVER INTO THE BROADER ECONOMY. BANKERS AND INVESTORS DON'T EXTEND CREDIT IN A VACUUM OF BULLISH HOPIUM.



DATA SOURCE: BLOOMBERG

2016 = PEAK COMMODITY PRICE EXPOSURE

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).

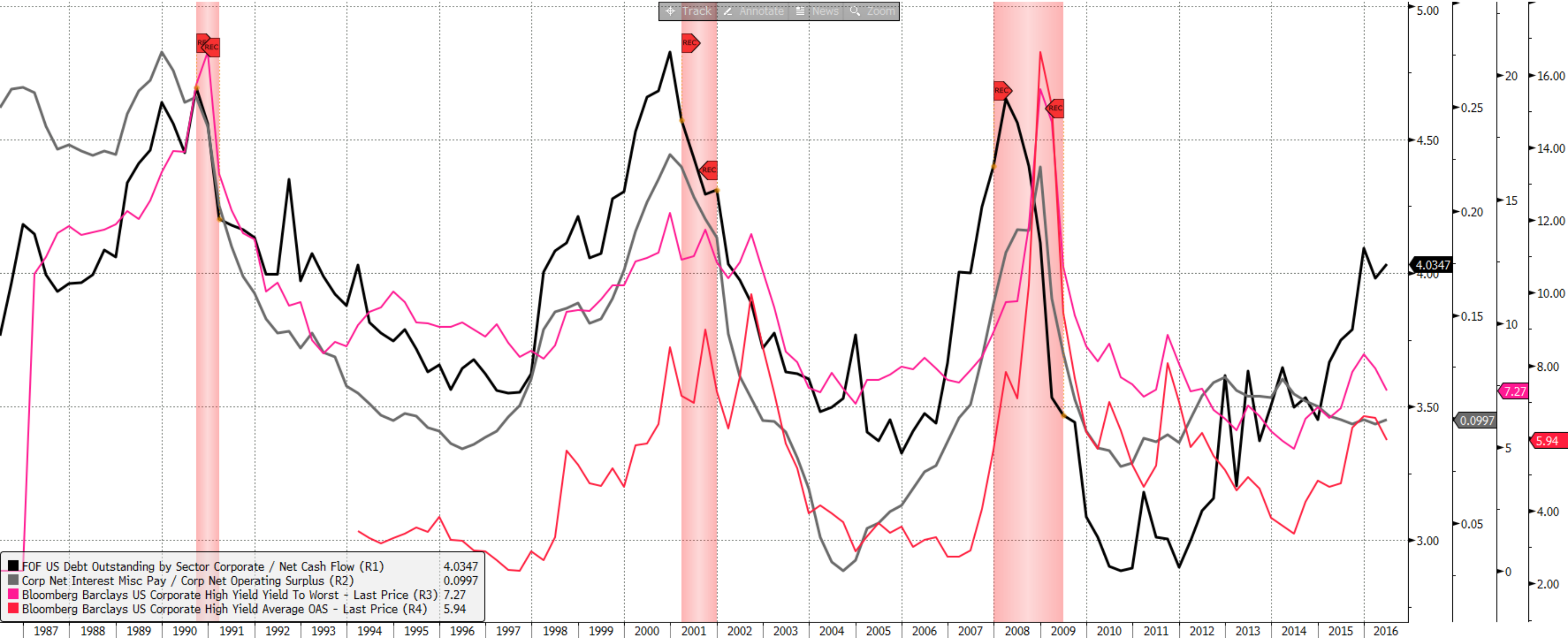


The total debt of this sample of 34 commodity producers has gone from 5% of total corporate credit outstanding in 2003 to 14% of corporate credit outstanding by year-end 2014.

DATA SOURCE: SIFMA, COMPANY FILINGS

BALANCE SHEET HEALTH IS DETERIORATING

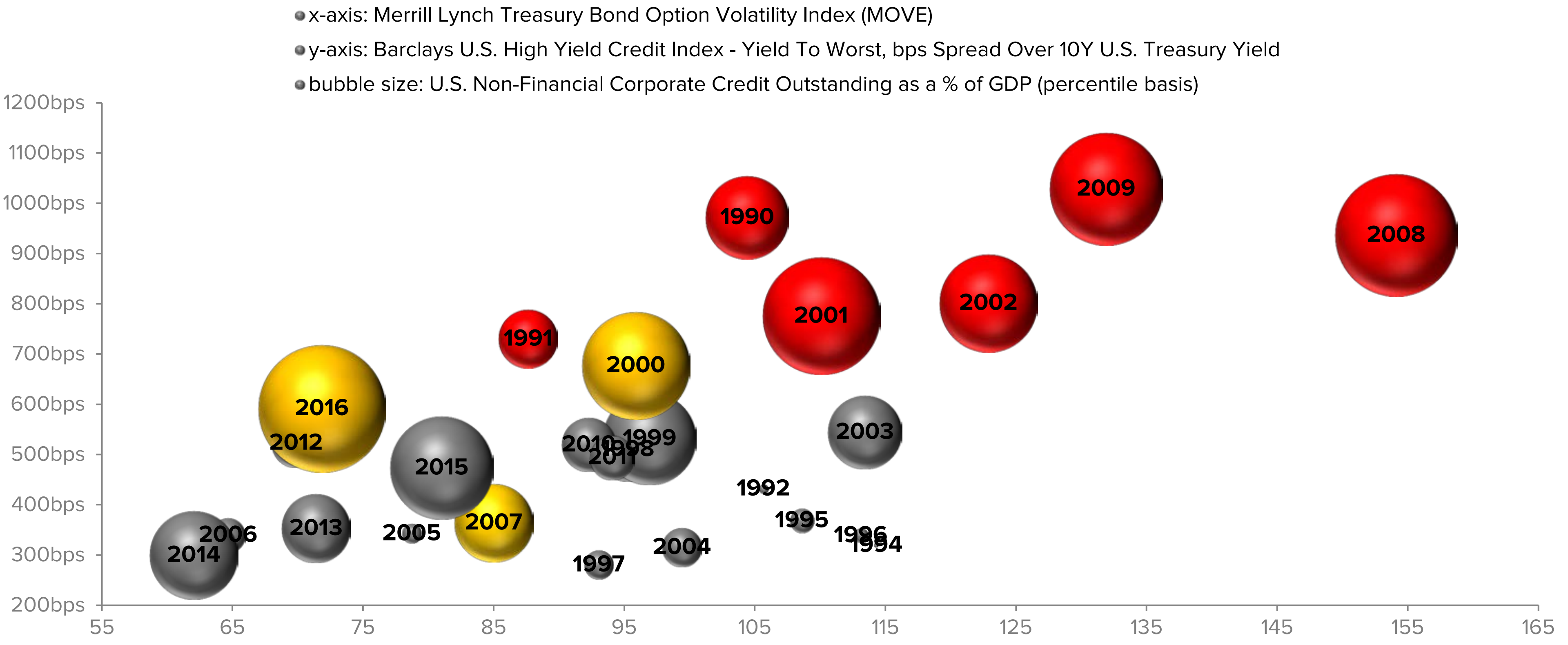
AT BEST, THE VIEW THAT U.S. CORPORATE BALANCE SHEETS ARE HEALTHY IS A NARRATIVE FALLACY. AT WORST, IT IS THE SOURCE OF A LARGE DEGREE OF FINANCIAL MARKET RISK AS THE DOMESTIC BANKRUPTCY CYCLE HAS ALREADY ACCELERATED TO POST-CRISIS HIGHS.



DATA SOURCE: BLOOMBERG

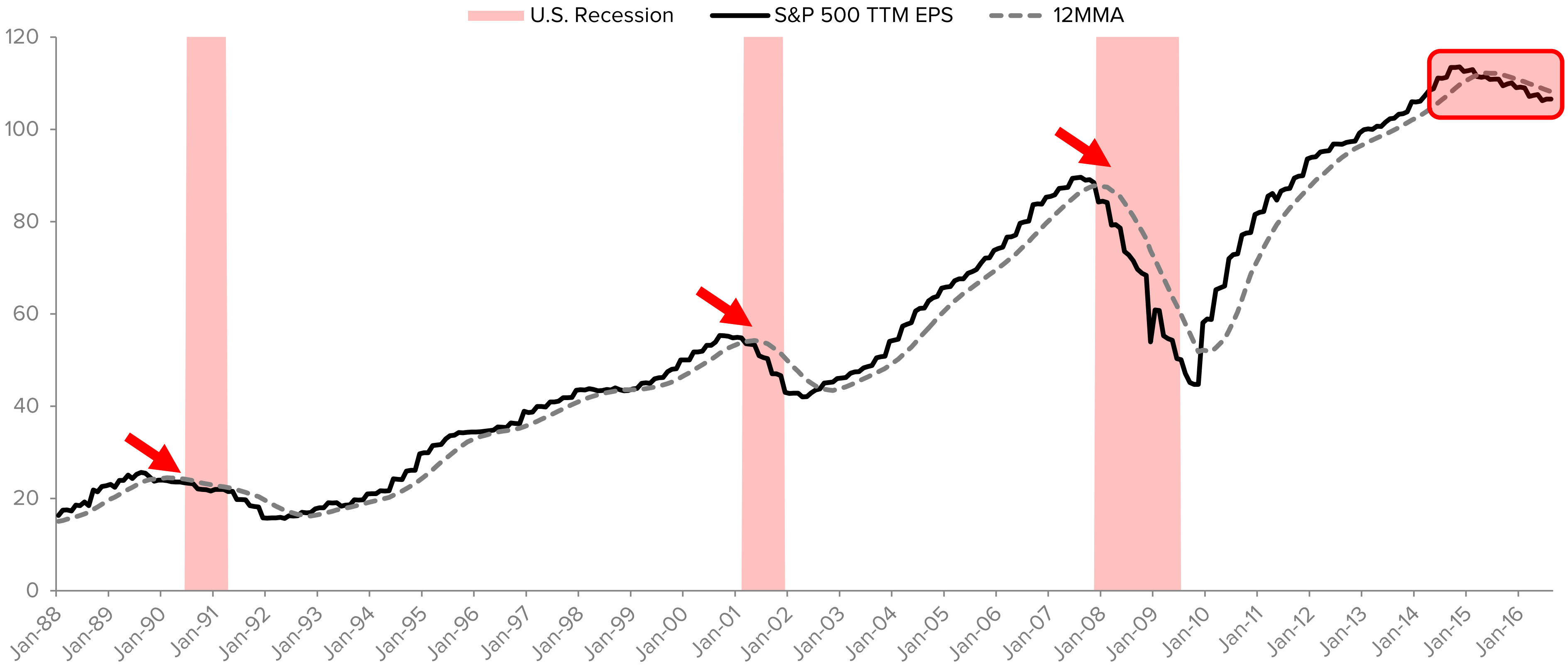
SPREAD RISK REMAINS ELEVATED

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.

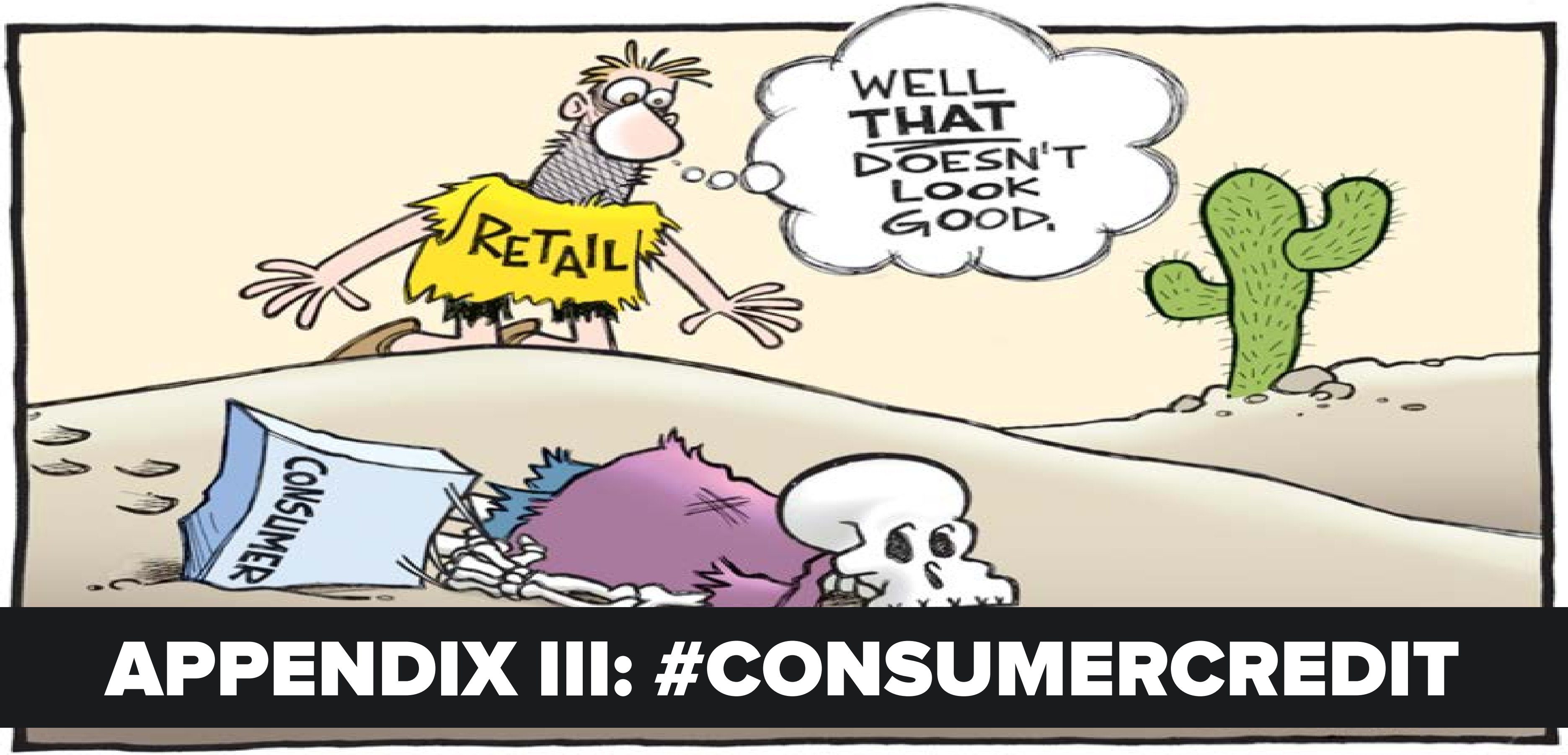


CORPORATE PROFITS REMAIN A HEADWIND

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.



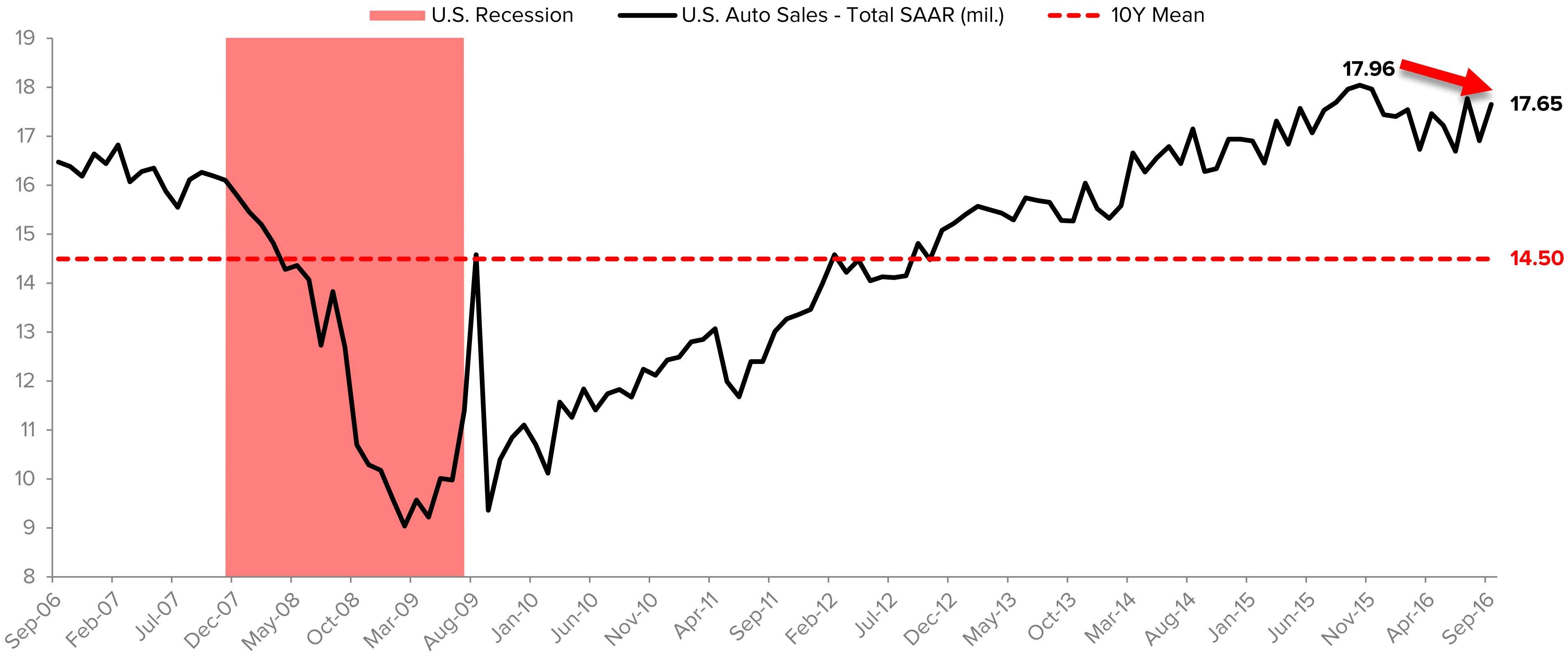
DATA SOURCE: BLOOMBERG



APPENDIX III: #CONSUMERCREDIT

GOING FROM GREAT TO GOOD IS BAD

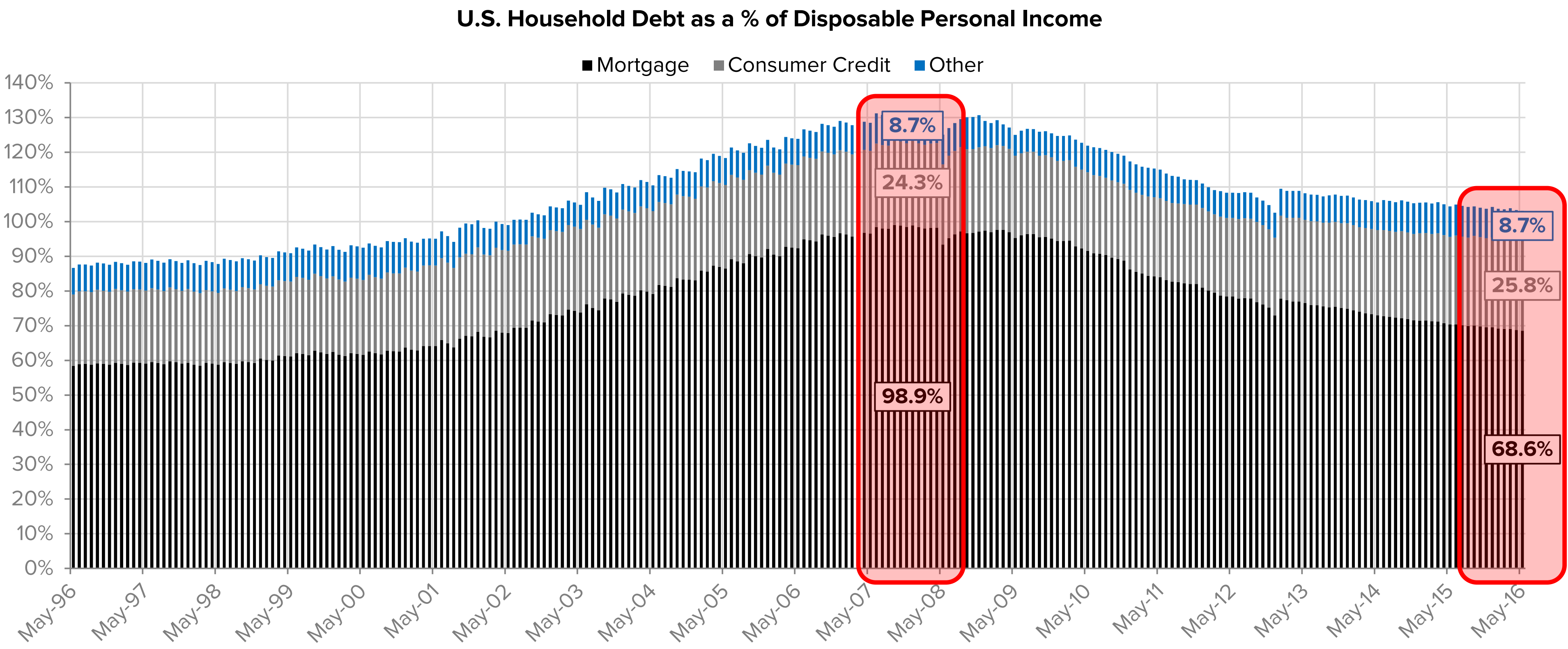
SURE, AUTO SALES ARE ELEVATED ON AN ABSOLUTE BASIS, BUT IN RATE OF CHANGE TERMS, THE DECELERATION OFF THEIR OCTOBER 2015 #LATECYCLE PEAK IS FLAT-OUT BAD. THE HOPE THAT WE HANG OUT AT THESE [ELEVATED] LEVELS INDEFINITELY IS JUST THAT – HOPE.



DATA SOURCE: BLOOMBERG

REVIEWING THE SETUP: LEVERAGE

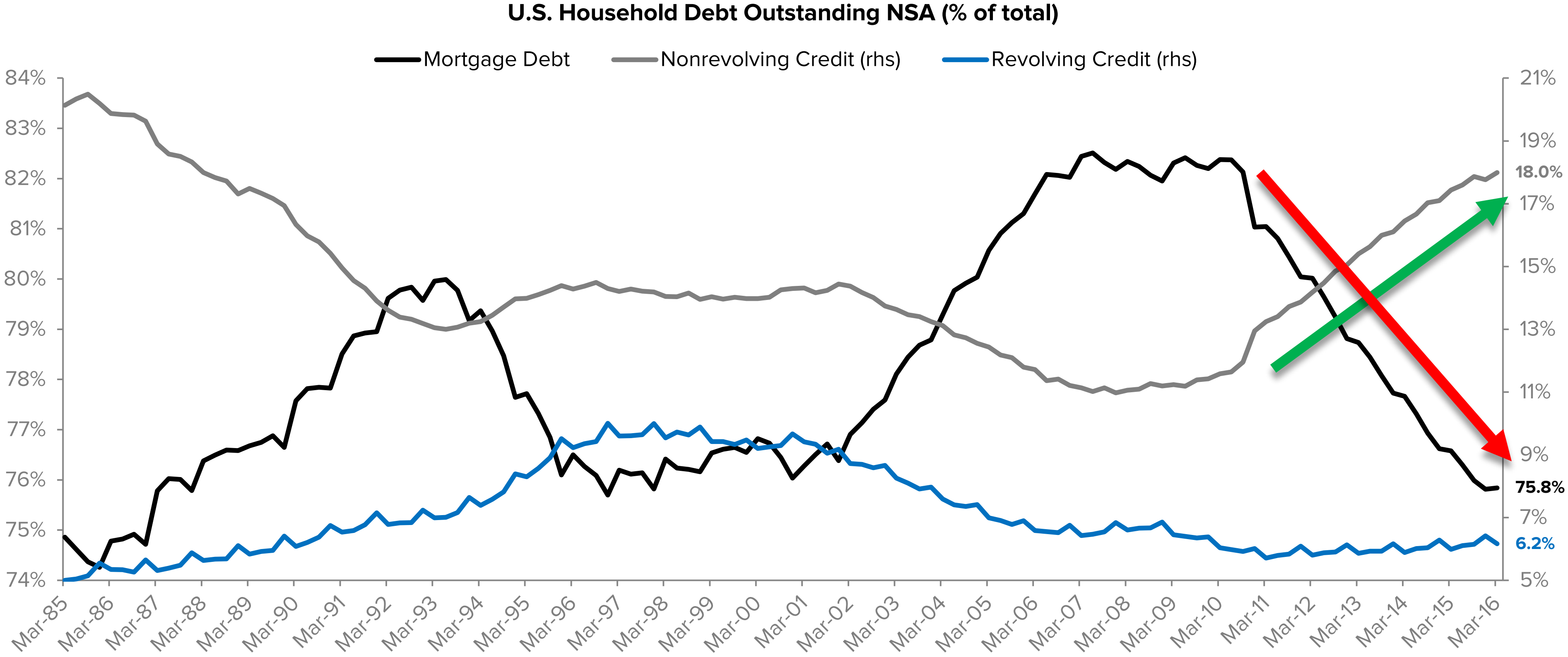
THE U.S. CONSUMER CONTINUES TO DELEVER FROM ITS DECEMBER '07 CYCLE PEAK OF 132% OF DISPOSABLE PERSONAL INCOME – WHICH ITSELF WAS DRIVEN BY THE GRANDEST HOUSING BUBBLE IN U.S. HISTORY. IS THE BULL CASE CENTERED ON A RETURN TO THE PRIOR BUBBLE PEAK FROM THE CURRENT 103%?



DATA SOURCE: BLOOMBERG; FEDERAL RESERVE

REVIEWING THE SETUP: MIX-SHIFT

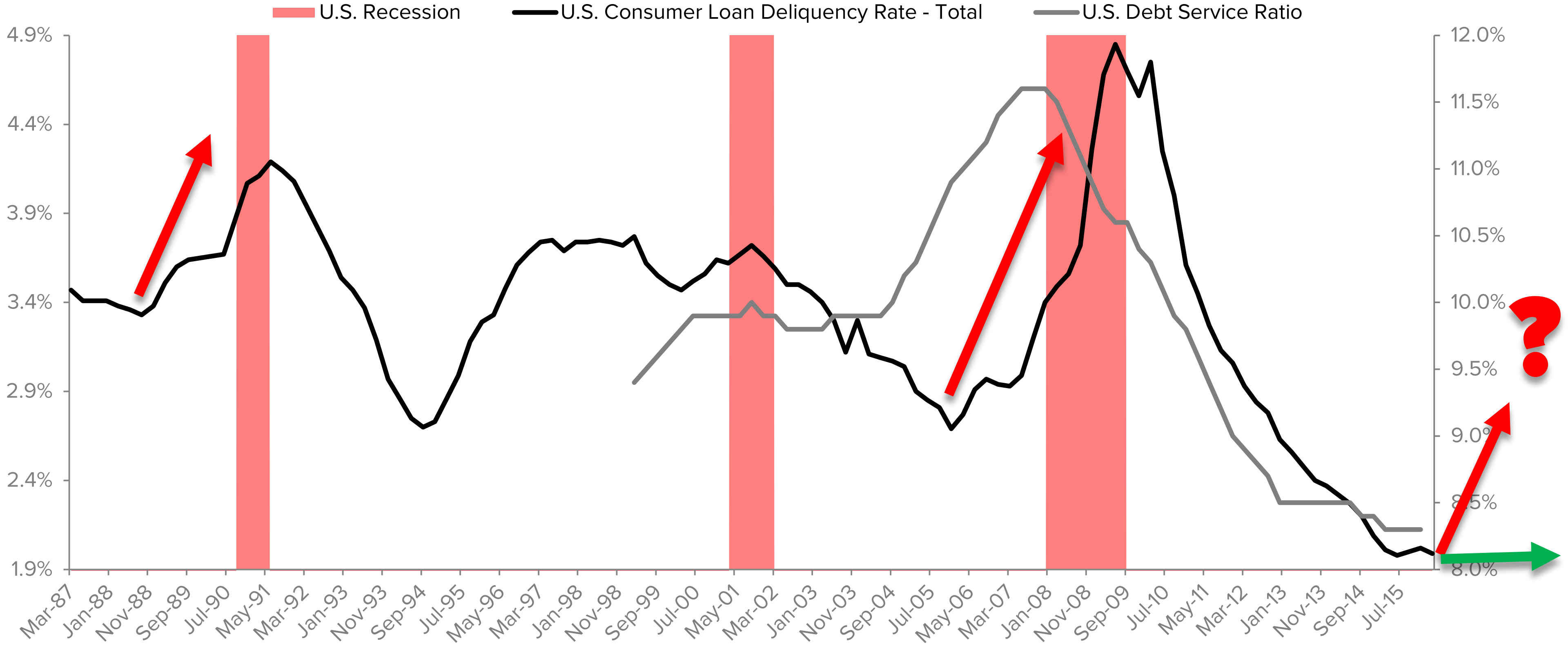
AT JUST OVER $11 TRILLION OUTSTANDING, MORTGAGE DEBT REMAINS THE LION'S SHARE OF U.S. CONSUMER'S DEBT BURDENS. NONREVOLVING CREDIT (E.G. AUTOS AND STUDENT LOANS) HAS GAINED A TREMENDOUS AMOUNT OF SHARE IN THE POST-CRISIS ERA, HOWEVER.



DATA SOURCE: FEDERAL RESERVE

CREDIT QUALITY: NEVER BEEN BETTER

NONPERFORMING LOAN RATIOS ACROSS ALL AREAS OF CONSUMER CREDIT HAVE TROUGHED AT WHAT IS A STRUCTURALLY DEPRESSED LEVEL. HISTORICALLY, TROUGHS IN NPL RATES HAVE BEEN SUBSEQUENTLY MET WITH SUSTAINED BACK-UPS, RATHER THAN "MUDDLING ALONG".

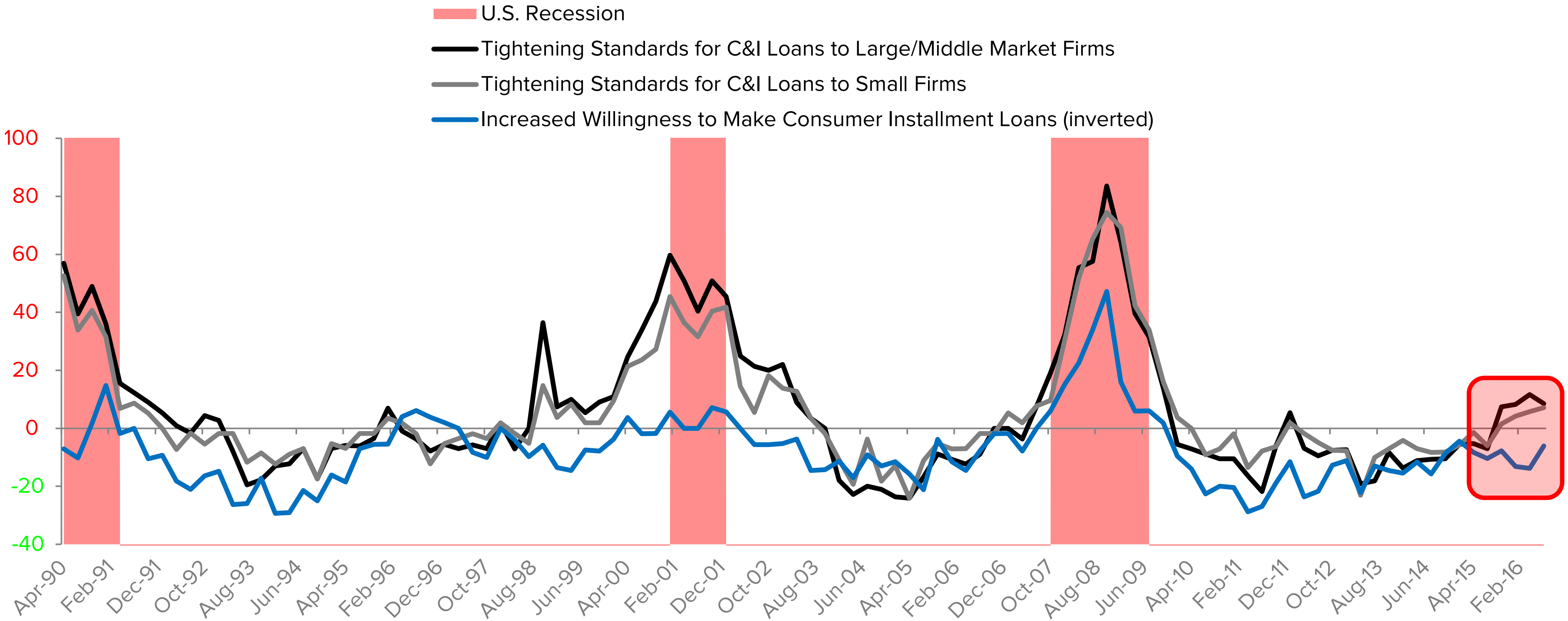


DATA SOURCE: FEDERAL RESERVE; BIS

CREDIT STANDARDS: RARELY EASIER

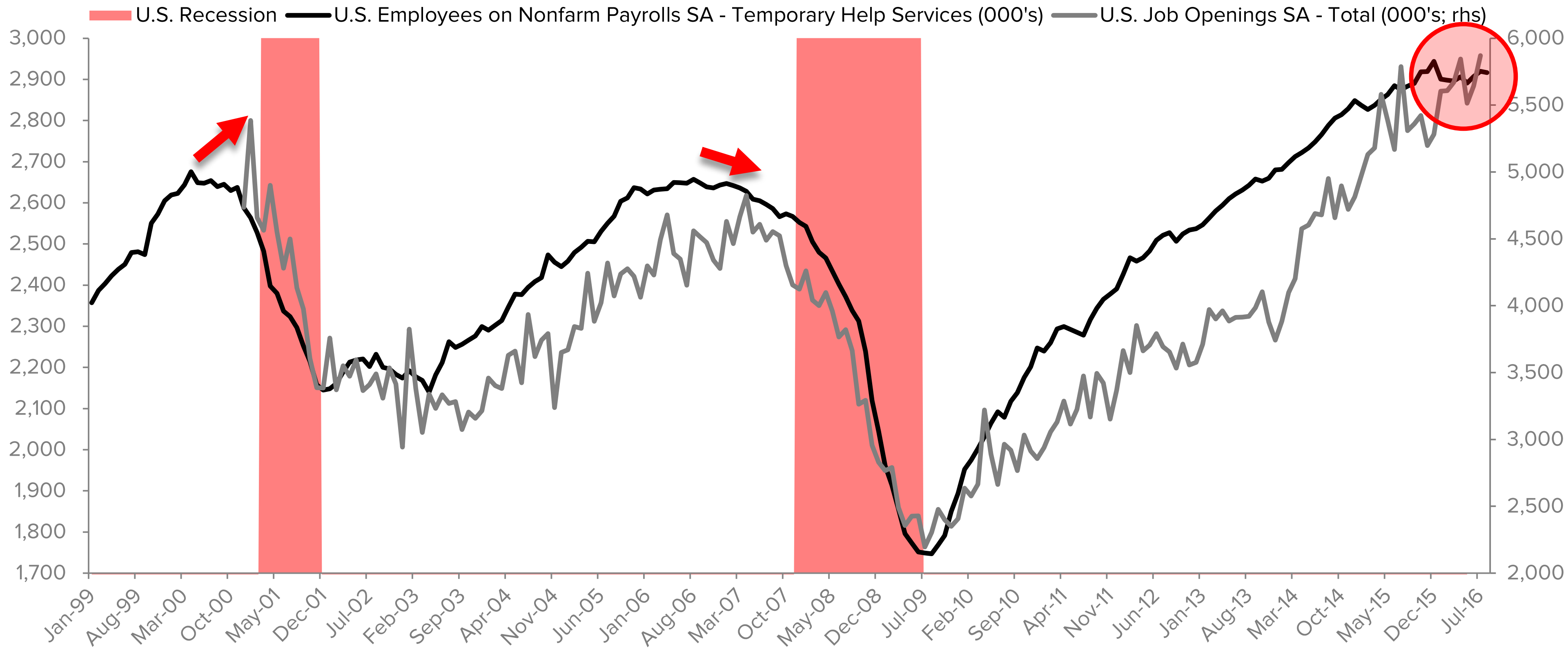
ON BOTH AN ABSOLUTE AND RELATIVE BASIS, LENDING STANDARDS FOR CONSUMER CREDIT ARE RARELY EASIER THIS LATE INTO AN ECONOMIC CYCLE. THAT'S A GOOD THING (FOR NOW), BUT THE OBVIOUS RISK IS THAT MEAN REVERSION OCCURS LIKE IT ALWAYS HAS BEFORE.

Federal Reserve Senior Loan Officer Survey (Net Percentage of Respondents)



SLOWING JOBS GROWTH WON'T HELP

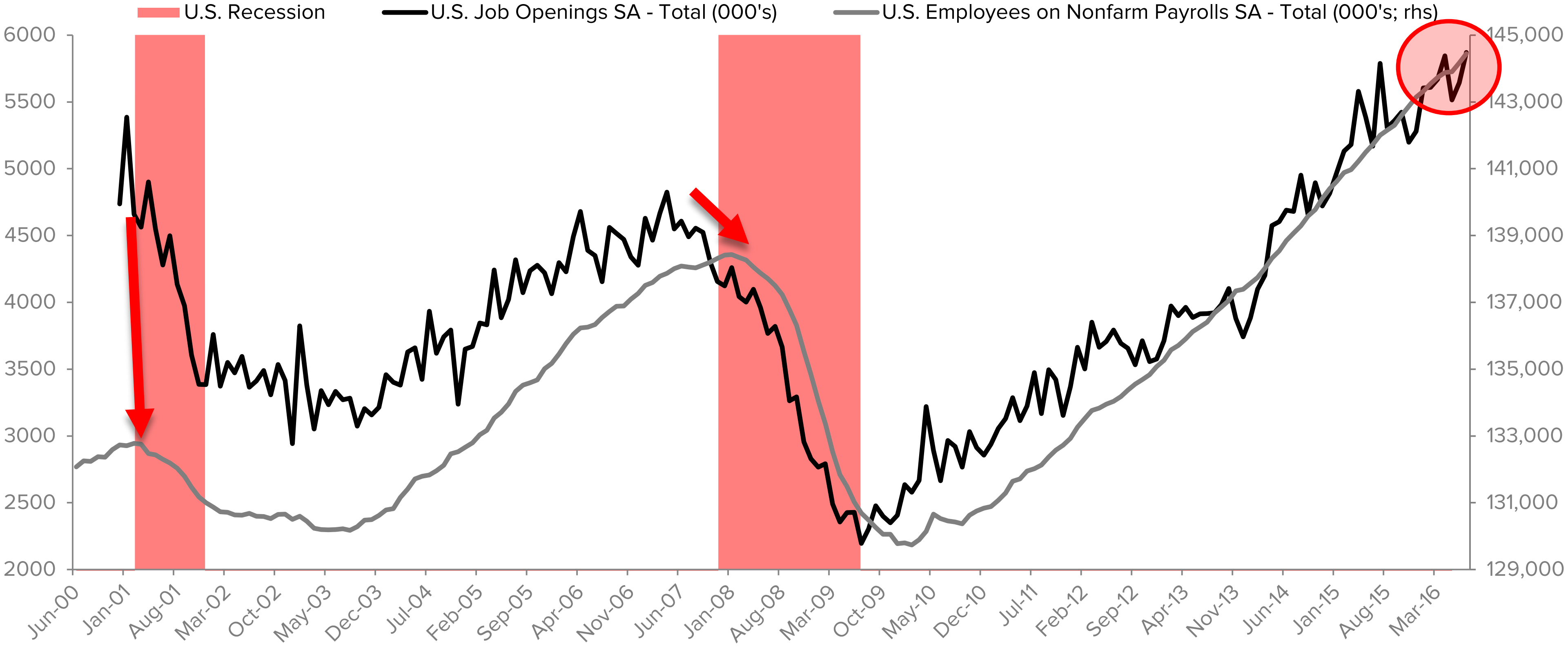
WITH TEMP HELP TRENDING LOWER OFF ITS DECEMBER 2015 CYCLE PEAK, INVESTORS SHOULD BE WARY OF A NEAR-TERM PEAK IN JOB OPENINGS. SPECIFICALLY, TEMP HELP HAS LED THE PEAK IN JOLTS BY 9 AND 8 MONTHS, RESPECTIVELY, OVER THE PREVIOUS TWO CYCLES.



DATA SOURCE: BLOOMBERG

WHY DOES THE PEAK IN JOLTS MATTER?

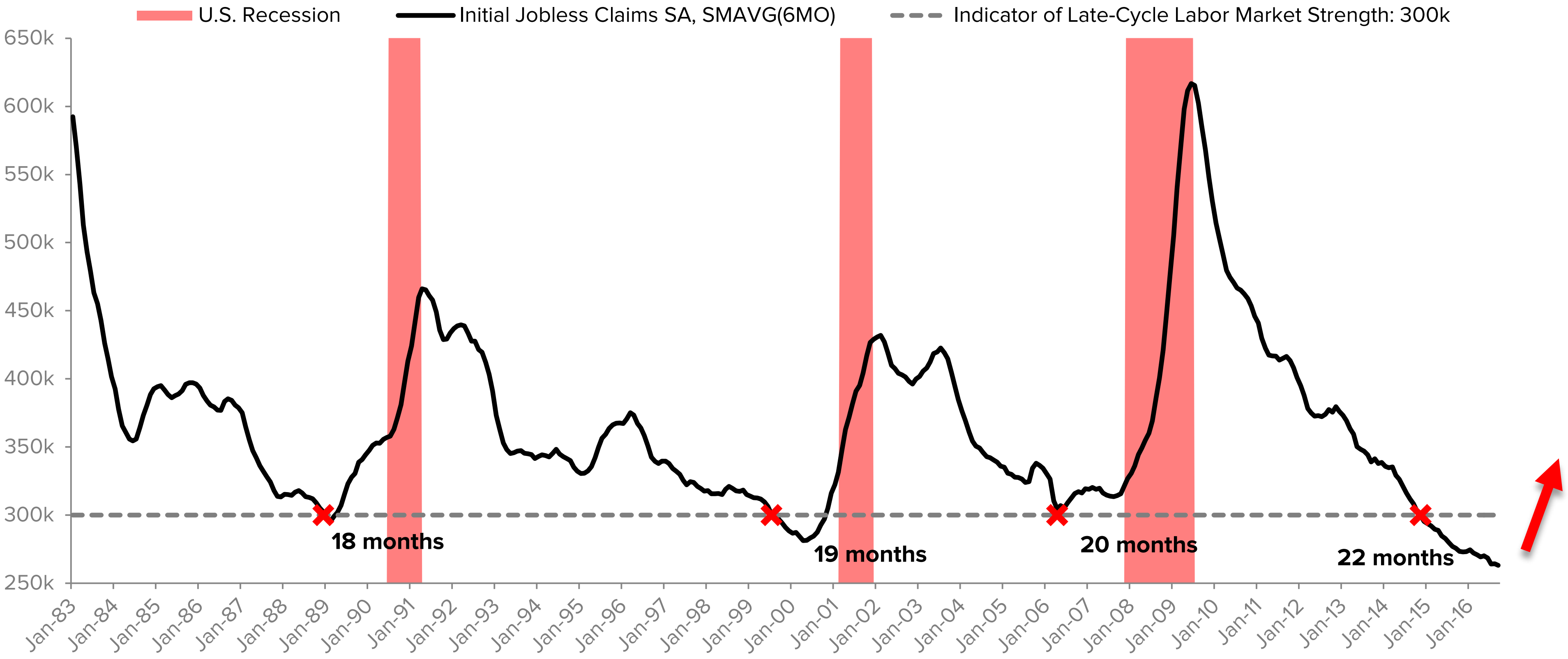
THE #1, #2 AND #3 REASONS FOR MONITORING FOR THE INEVITABLE PEAK IN JOB OPENINGS IS BECAUSE THE TOP IN THAT SERIES HAS LEAD THE PEAK IN TOTAL NONFARM EMPLOYMENT BY ONE AND NINE MONTHS, RESPECTIVELY, OVER THE PREVIOUS TWO LABOR CYCLES.



DATA SOURCE: BLOOMBERG

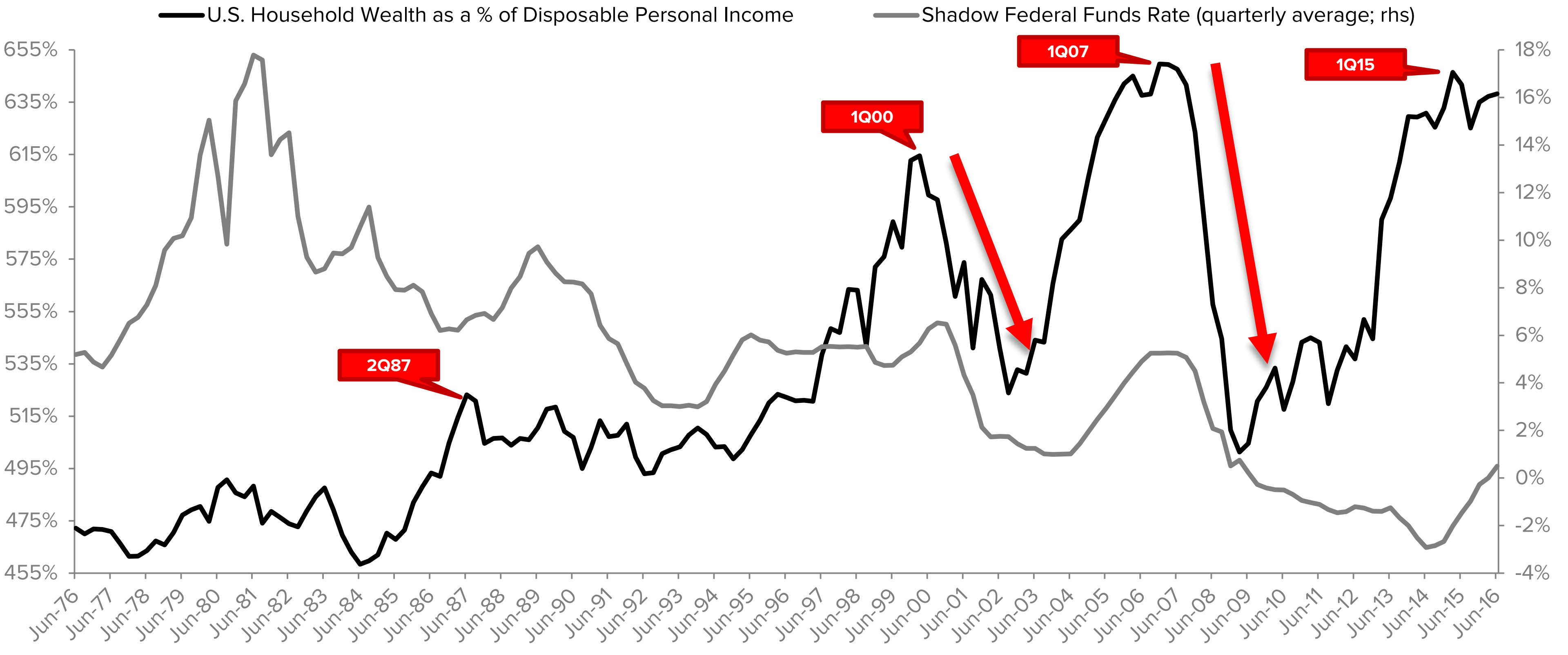
UNEMPLOYMENT SET TO RISE?

ANALYZING THE TREND IN INITIAL JOBLESS CLAIMS RELATIVE TO PREVIOUS LABOR CYCLES IMPLIES FIRINGS ARE MORE THAN LIKELY SET TO RISE MEANINGFULLY OVER THE NTM.



THE WEALTH EFFECT IS PAST PEAK

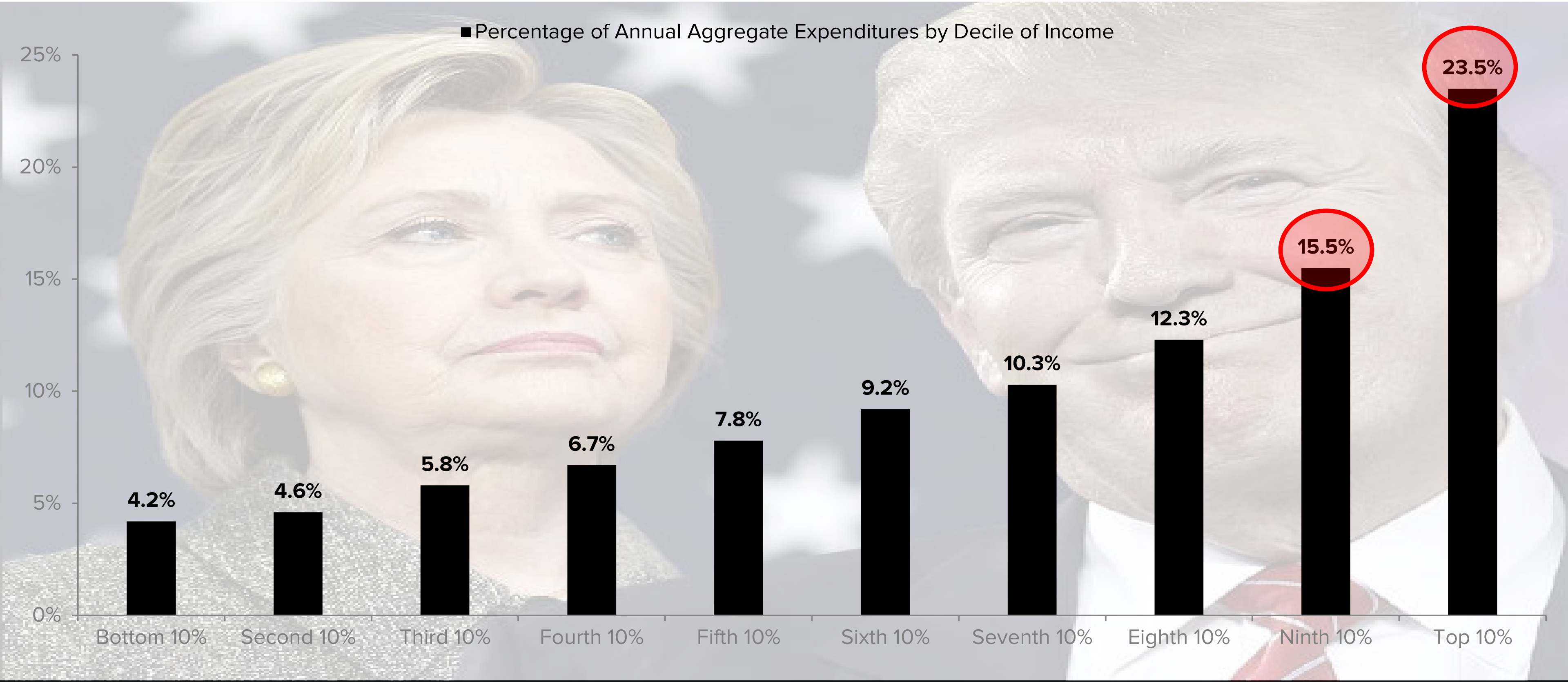
ON AN ECONOMY-WIDE BASIS, THE "WEALTH EFFECT" IS IN THE PROCESS OF ROLLING OFF ITS 1Q15 CYCLE PEAK. HOW DESPERATE WILL THE FED BE TO PREVENT THE BLACK LINE FROM CORRECTING IN VIOLENT FASHION AS IT HAS OVER THE PREVIOUS TWO STOCK MARKET CYCLES?



DATA SOURCE: BLOOMBERG; ATLANTA FED

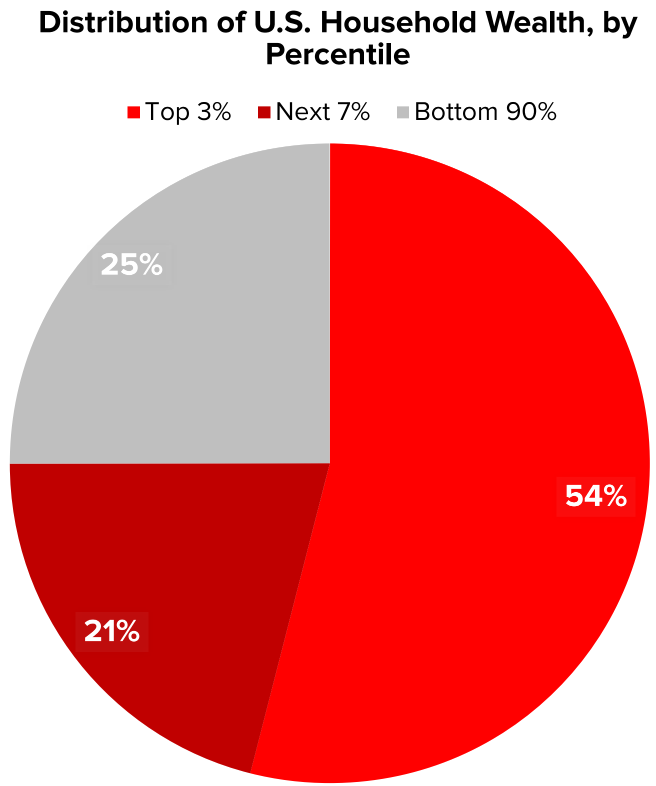
THE HIGH-END MATTERS; GAS PRICES DON'T

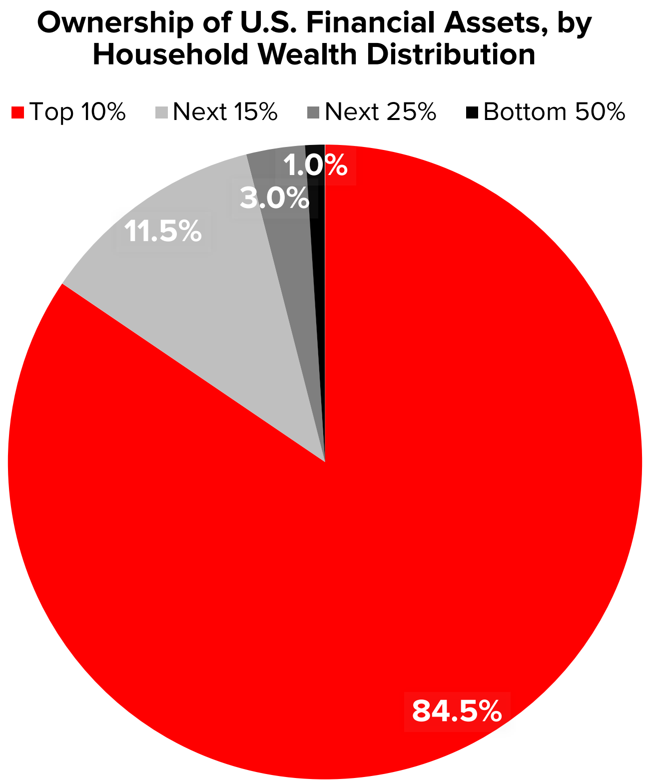
THE TOP 20% OF HOUSEHOLDS ACCORDING TO ANNUAL INCOME ACCOUNT FOR ALMOST TWO-FIFTHS OF CONSUMER SPENDING. THAT'S DOUBLE THE AMOUNT OF SPENDING THEIR UNITS WOULD IMPLY ON A LIKE-FOR-LIKE BASIS.



DATA SOURCE: BLS 2014 CONSUMER EXPENDITURE SURVEY. IMAGE COURTESY OF GOOGLE.

ASSET PRICE DEFLATION IS A KEY RISK

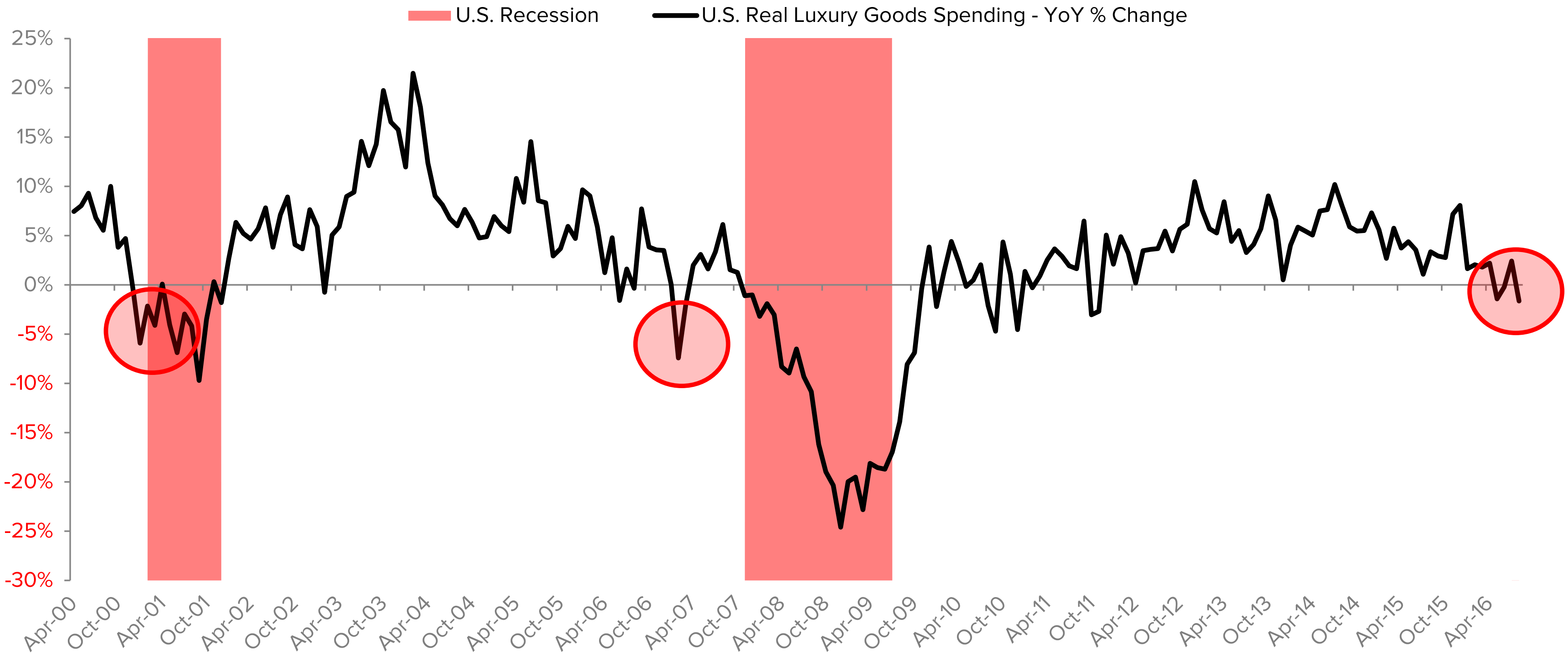




DATA SOURCE: FEDERAL RESERVE 2014 CONSUMER EXPENDITURE SURVEY

THE LUXURY CYCLE HAS INFLECTED

SPENDING ON LUXURY GOODS HAS BEEN TRENDING DOWN Y/Y SINCE MAY 2016. THIS IS VERY NEW AND REMINISCENT OF PREVIOUS #LATECYCLE SLOWDOWNS IN SPENDING BY HIGH-END CONSUMERS.



DATA SOURCE: BLOOMBERG

FOR MORE INFORMATION CONTACT:

SALES@HEDGEYE.COM

203.562.6500