

The background of the slide features a complex financial chart. On the left, there is a blue-toned area with a line graph and some numerical data points like '1.983' and '1.976'. On the right, there is a red-toned area with a candlestick chart. The overall image has a grainy, digital texture.

# HEDGEYE

MACRO THEMES

Q4 2013



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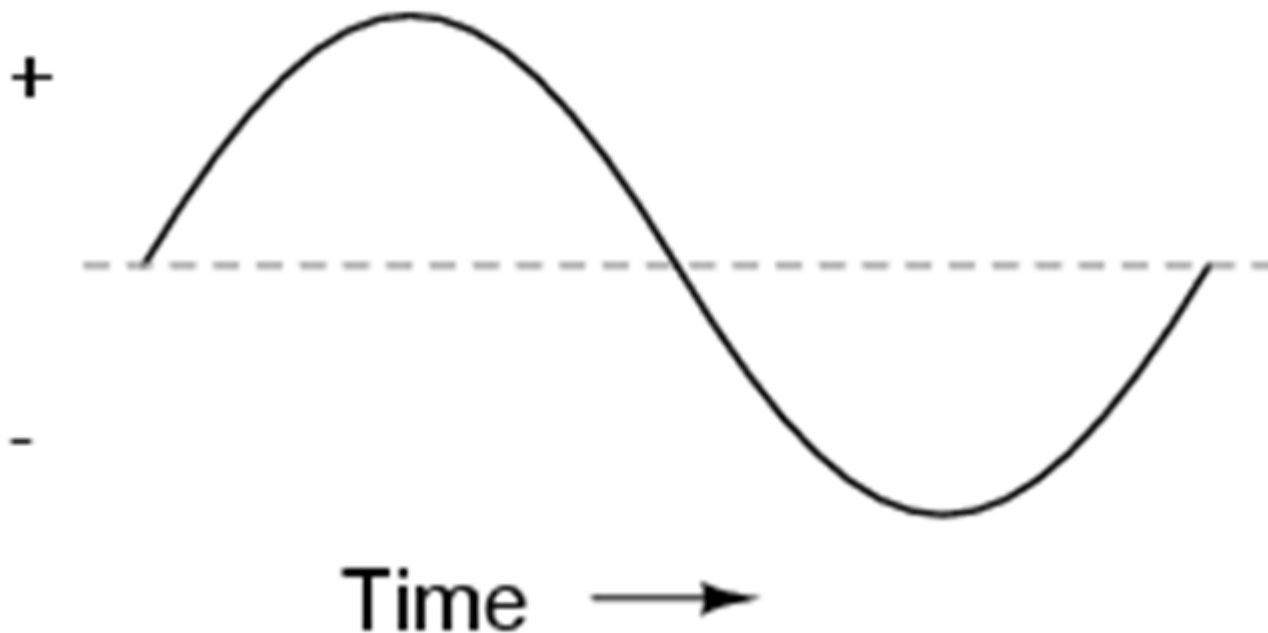
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# OUR RESEARCH FRAMEWORK



IT'S ALL ABOUT THE SLOPE: EVERYTHING THAT MATTERS IN MACRO OCCURS ON THE MARGIN



# OUR QUANT PROCESS

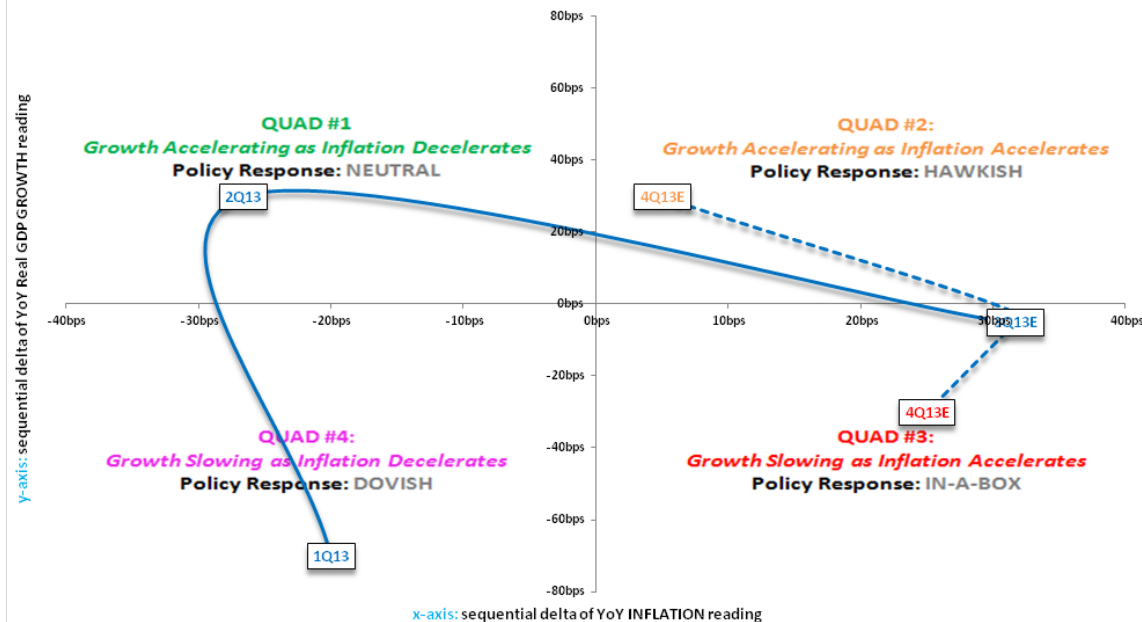


DATA SOURCE: BLOOMBERG

# OUR FUNDAMENTAL PROCESS



UNITED STATES	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	HEDGEYE MACRO GROWTH/INFLATION/POLICY MODEL			
YoY Real GDP	1.9%	1.5%	2.0%	3.3%	2.8%	3.1%	2.0%	1.3%	1.6%			2012E	2013E
2Y Average	2.3%	2.3%	2.4%	2.7%	2.4%	2.3%	2.0%	2.3%	2.2%	Bloomberg Consensus Real GDP YoY		2.2%	1.6%
3Y Average	0.2%	0.4%	1.5%	2.3%	2.5%	2.5%	2.3%	2.2%	2.1%	Hedgeye Predictive Tracking Algorithm		2.8%	1.6%
YoY CPI	3.5%	3.8%	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%			2012E	2013E
2Y Average	2.6%	2.5%	2.3%	2.5%	2.7%	2.7%	2.6%	2.3%	1.7%	Bloomberg Consensus CPI YoY		2.1%	1.5%
3Y Average	1.4%	1.1%	2.0%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	Hedgeye Predictive Tracking Algorithm		2.1%	1.7%



Source: Bloomberg data; Hedgeye calculations. Color-coded data in the adjacent table represent actual reported figures.



**#BERNANKEVSCONGRESS**



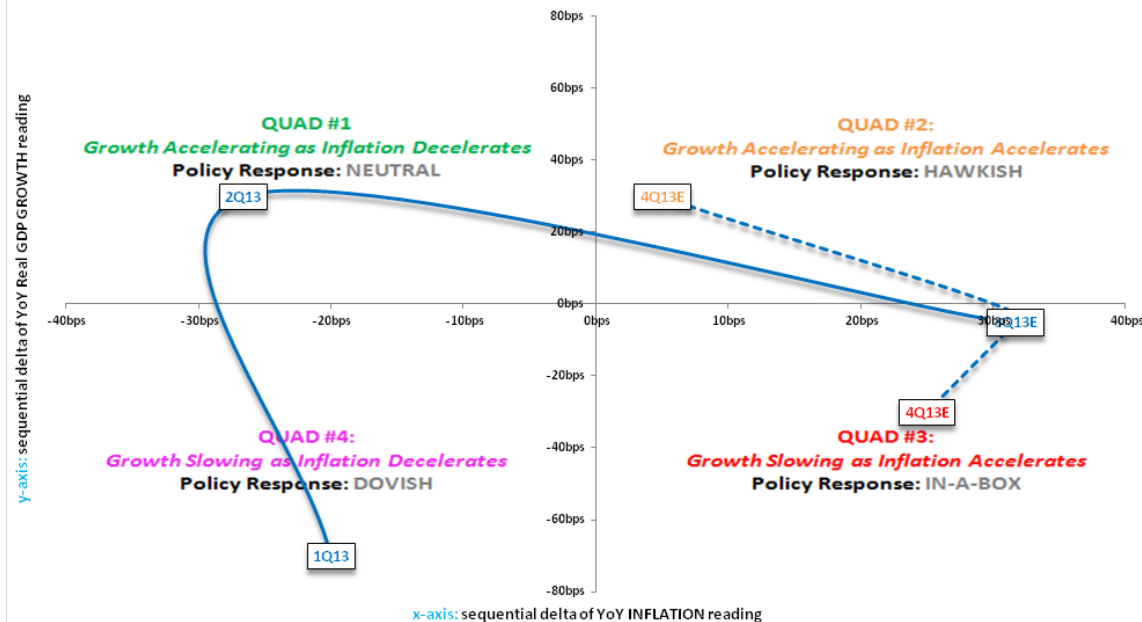


# THE MODEL: GIP



## Growth Inflation Policy

UNITED STATES	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	HEDGEYE MACRO GROWTH/INFLATION/POLICY MODEL		
YoY Real GDP	1.9%	1.5%	2.0%	3.3%	2.8%	3.1%	2.0%	1.3%	1.6%		2012E	2013E
2Y Average	2.3%	2.3%	2.4%	2.7%	2.4%	2.3%	2.0%	2.3%	2.2%	Bloomberg Consensus Real GDP YoY	2.2%	1.6%
3Y Average	0.2%	0.4%	1.5%	2.3%	2.5%	2.5%	2.3%	2.2%	2.1%	Hedgeye Predictive Tracking Algorithm	2.8%	1.6%
YoY CPI	3.5%	3.8%	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%		2012E	2013E
2Y Average	2.6%	2.5%	2.3%	2.5%	2.7%	2.7%	2.6%	2.3%	1.7%	Bloomberg Consensus CPI YoY	2.1%	1.5%
3Y Average	1.4%	1.1%	2.0%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	Hedgeye Predictive Tracking Algorithm	2.1%	1.7%



Source: Bloomberg data; Hedgeye calculations. Color-coded data in the adjacent table represent actual reported figures.

# POLICY IS CAUSAL



## #StrongDollar Cycle

\$USD/Interest Rates Higher



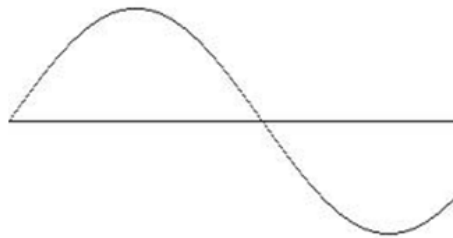
Energy/Commodities/Inflation Lower



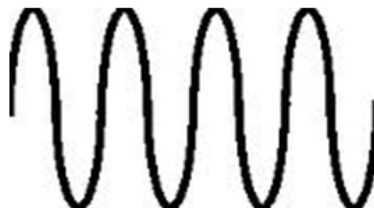
Real Consumption Growth Higher



Pro-Growth Equities Higher



THE ECONOMIC CYCLE



## BIG GOVERNMENT INTERVENTION

1. Shortens Economic Cycles
2. Amplifies Market/Currency/Economic Volatility

## #StrongDollar

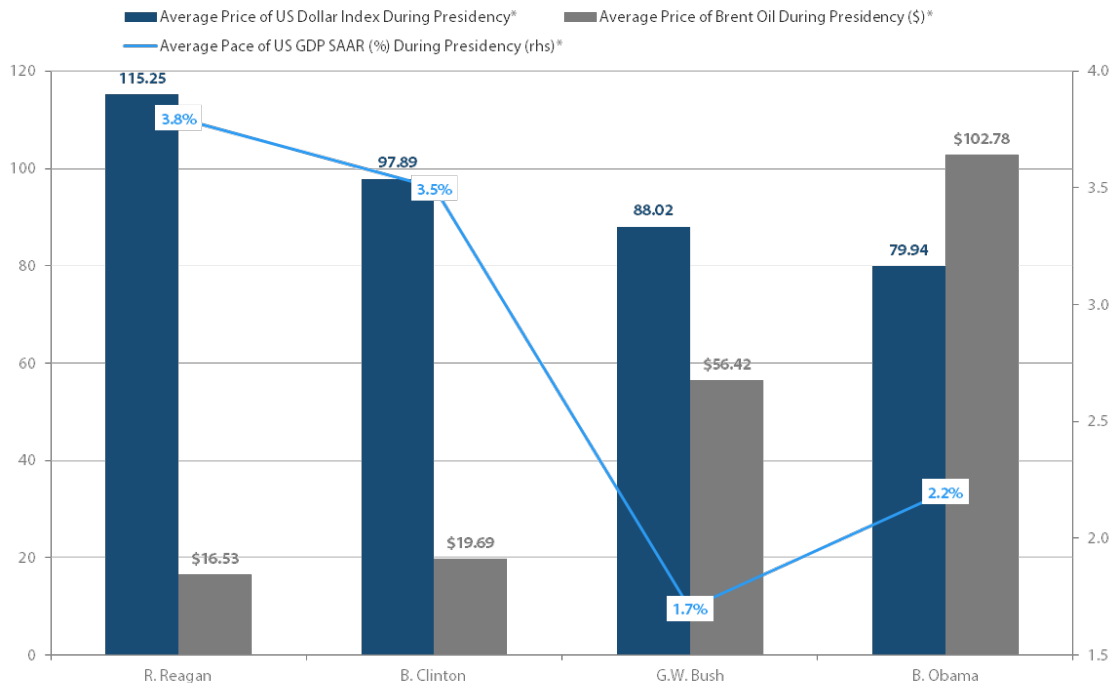
- Policy Drives Currency
- Currency Drives the Slope of Growth & Inflation



# HISTORY'S SCORE



## STRONG DOLLAR = STRONG AMERICA



DATA SOURCE: BLOOMBERG;  
\*1YR LAG TO ADJUST FOR TIMING OF POLICY HANDOFFS AND IMPLEMENTATION.

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## #StrongDollar

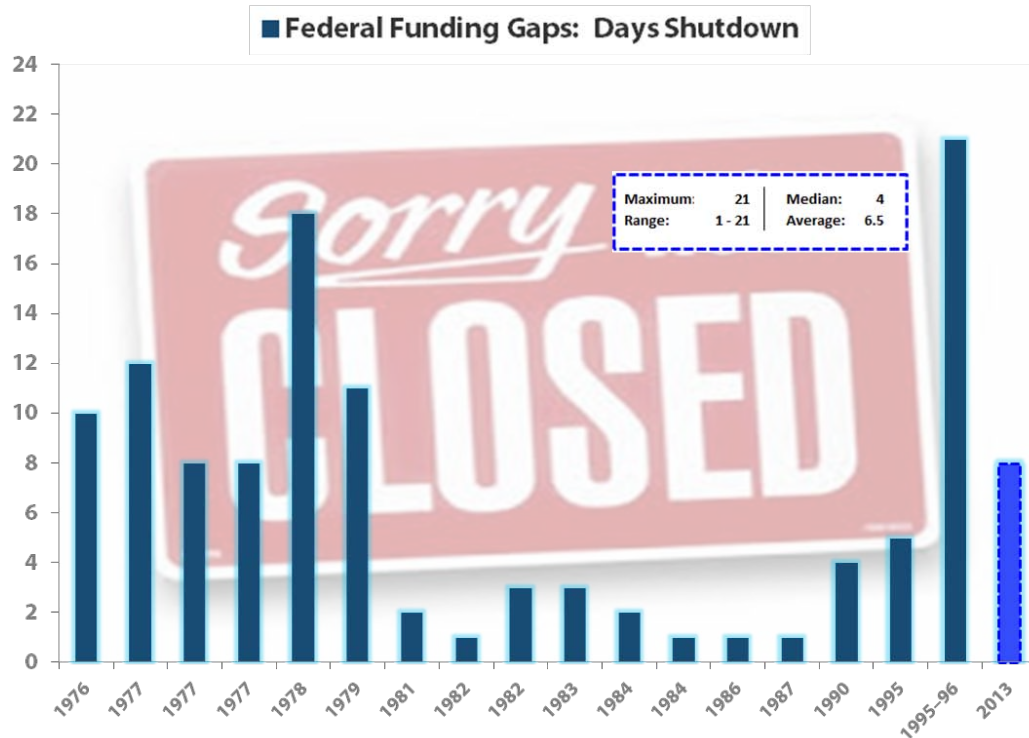
Historically, strong Dollar periods have been associated with:

- Strong GDP Growth
- Low Energy Costs

# FISCAL POLICY



Ignore the Congressional Noise

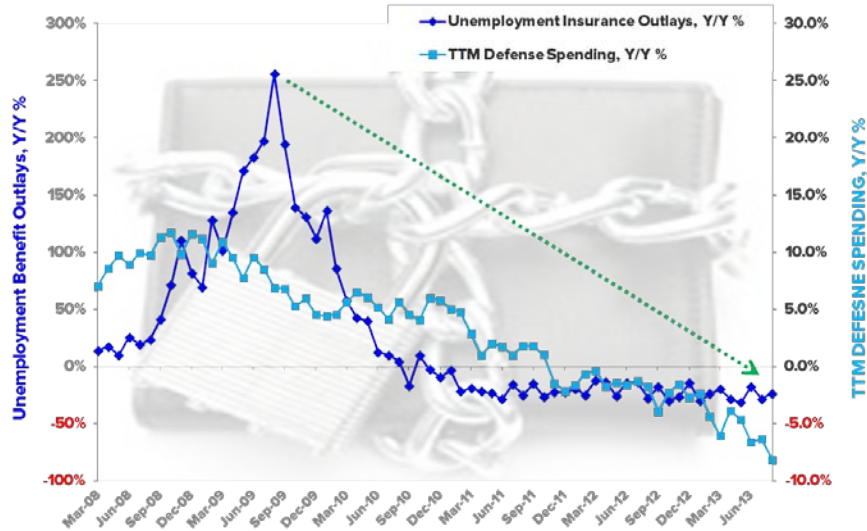


# FEDERAL FINANCES IMPROVING



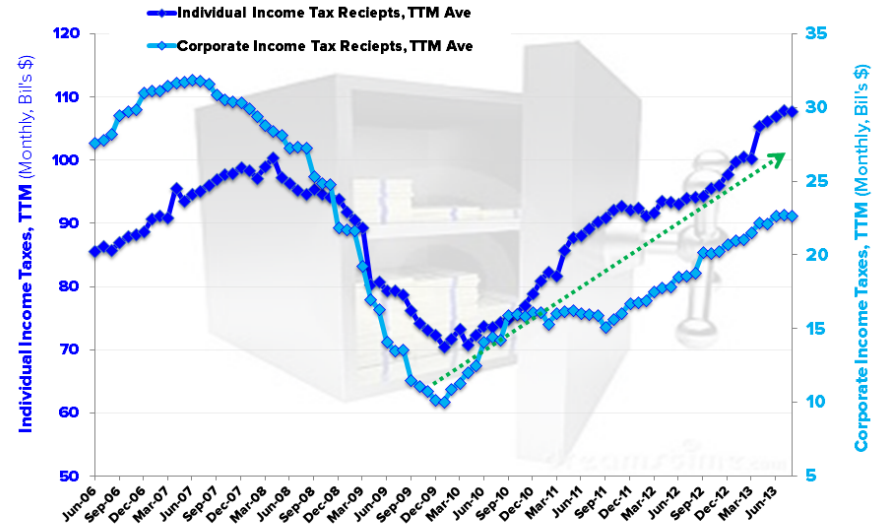
Federal Revenues are Up, Outlays are Down

## FEDERAL OUTLAYS



DATA SOURCE: BLOOMBERG, U.S. TREASURY

## FEDERAL REVENUES



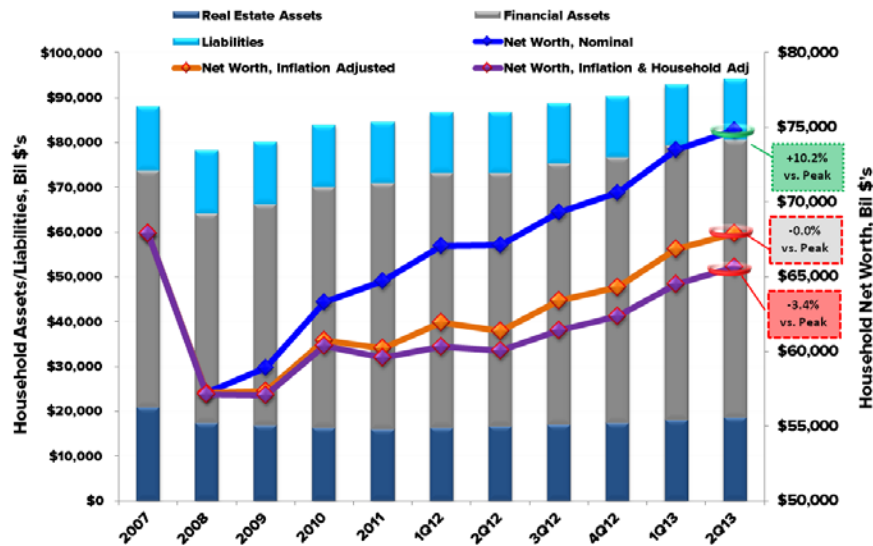
DATA SOURCE: BLOOMBERG, U.S. TREASURY

# BS/IS RECOVERY ONGOING



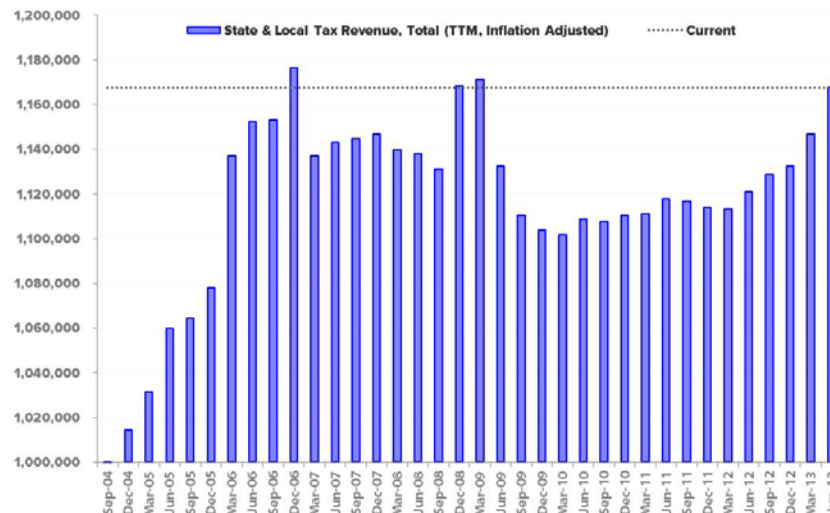
The Household Balance Sheet has recovered, as has the State & Local Government P&L

## U.S. HOUSEHOLD BALANCE SHEET



DATA SOURCE: FEDERAL RESERVE (FLOW OF FUNDS), BLS.GOV, HRM ESTIMATES

## STATE & LOCAL TAX REVENUE

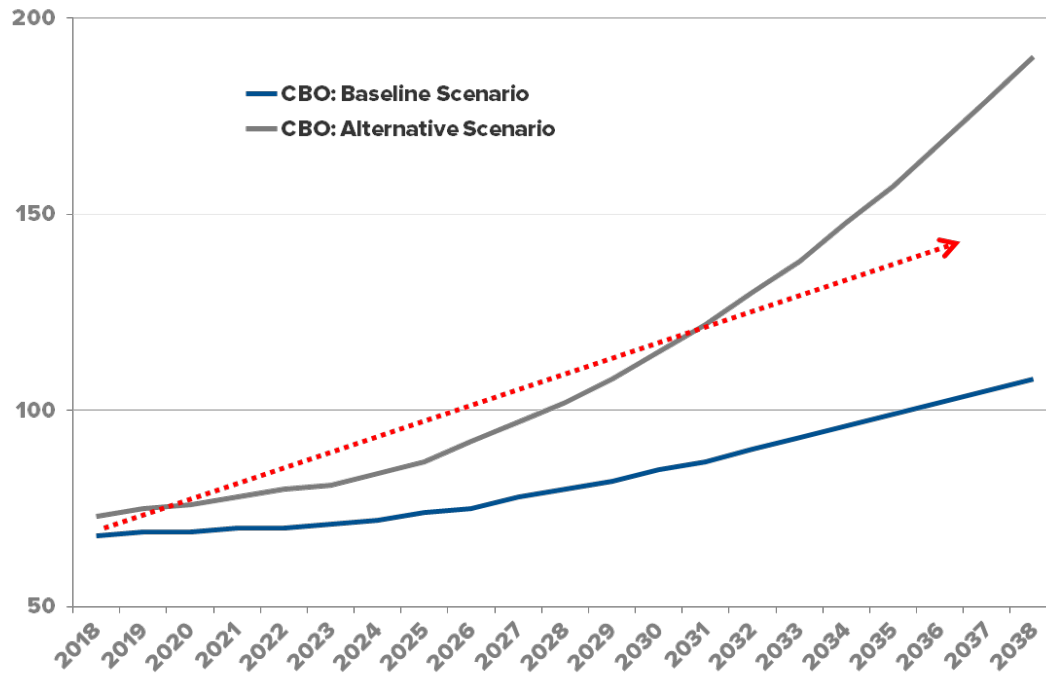


DATA SOURCE: BLOOMBERG, CENSUS BUREAU

# LT OUTLOOK STILL DISMAL



## FEDERAL DEBT-TO-GDP



DATA SOURCE: CBO.GOV

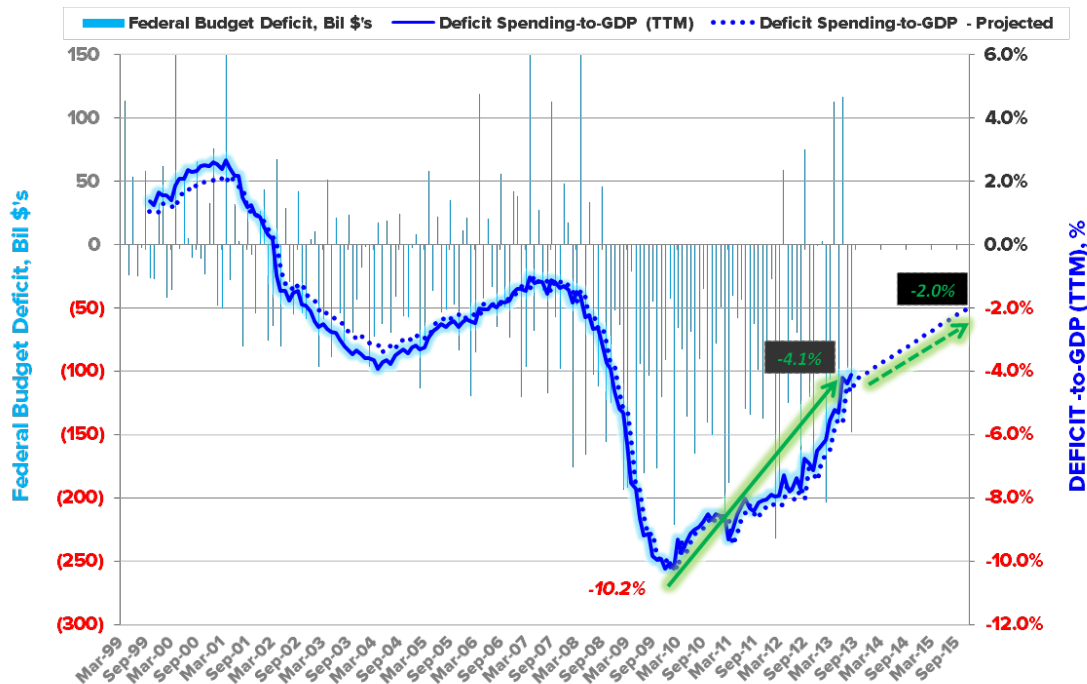
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The Growth Path In Entitlement Spending remains both unsustainable and unaddressed

# BUT THE TREND IS POSITIVE



## U.S. FEDERAL BUDGET DEFICIT



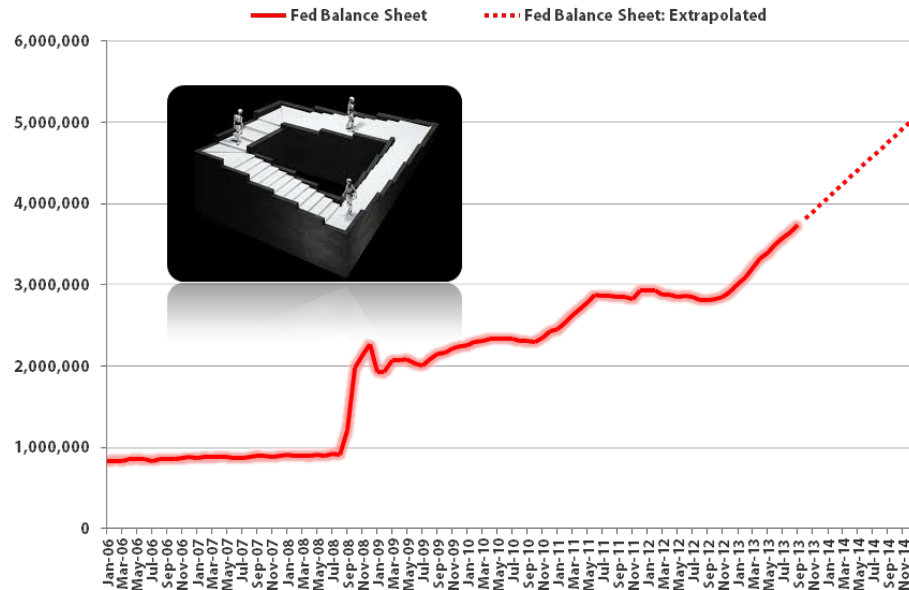
DATA SOURCE: BLOOMBERG, U.S. TREASURY, CBO EST.

Markets Trade on the Slope of the Trend and the Trend in US Debt/Deficit Spending is Positive

# MONETARY POLICY MEANWHILE.....



## DATA DEPENDENT?.....Bernanke's Storytelling vs. Economic Reality



U.S. ECONOMIC INDICATOR SUMMARY		
	"TREND"	
	Q/Q Chg (%)	Y/Y Chg (%)
<b>REAL GDP</b>		
<b>Consumption</b>		
Personal Spending (Real PCE)	0.3%	1.7%
Personal Income	0.7%	3.3%
Retail Sales	1.1%	4.6%
Consumer Credit	1.1%	5.8%
NFP Employment	0.3%	1.6%
Initial Claims, NSA	-30.83	-41.57
Consumer Confidence	5.70	15.80
Consumer Comfort	1.30	13.07
Real Weekly Earnings, Y/Y %	-0.33	0.13
Auto Sales	1.3%	8.4%
Chain Store Sales	0.2%	2.1%
Gas Price	-0.67%	-2.7%
<b>Investment</b>		
<b>NonResidential</b>		
Industrial Production	0.3%	2.1%
Capacity Utilization	-0.10	0.27
Durable Goods New Orders	-4.0%	5.0%
ISM Mfg	5.57	4.83
ISM Mfg - New Orders	9.67	11.30
ISM Mfg - Business Employment	4.70	1.20
ISM Services	3.13	2.20
ISM Services - New Orders	4.80	3.00
ISM Services - Employment	1.90	2.37
<b>Residential</b>		
Housing Starts	2.1%	13.5%
New Home Sales	-8.5%	7.9%
MBA Purchase Apps	-9.7%	3.6%
NAHB Survey of Home Builders	12.00	20.00
FHFA HPI	1.7%	8.3%
Case-Shiller 20-City HPI	0.29	12.37
CoreLogic HPI, Y/Y %	0.48%	7.2%
Mfg & Trade Inventories	0.39%	2.6%
Business Inventories I/S Ratio	-0.01	-0.02
<b>Government</b>		
Construction Spending	1.2%	4.6%
Monthly Budget Balance, Bil \$'s	-153	-61
<b>Net Exports</b>		
International Trade Balance, Bil \$'s	-0.3%	-9.0%

### The TREND:

Labor, Credit, Confidence, Manufacturing & Home Price Growth all remain positive.

Home Purchase Activity has shown an expected slowdown in the wake of expedited Rates Rising

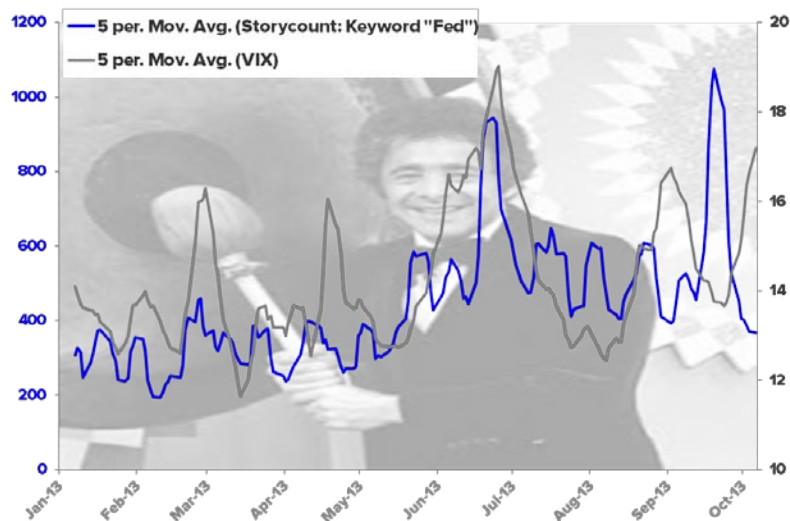


# THIS IS NOT "PRICE STABILITY"



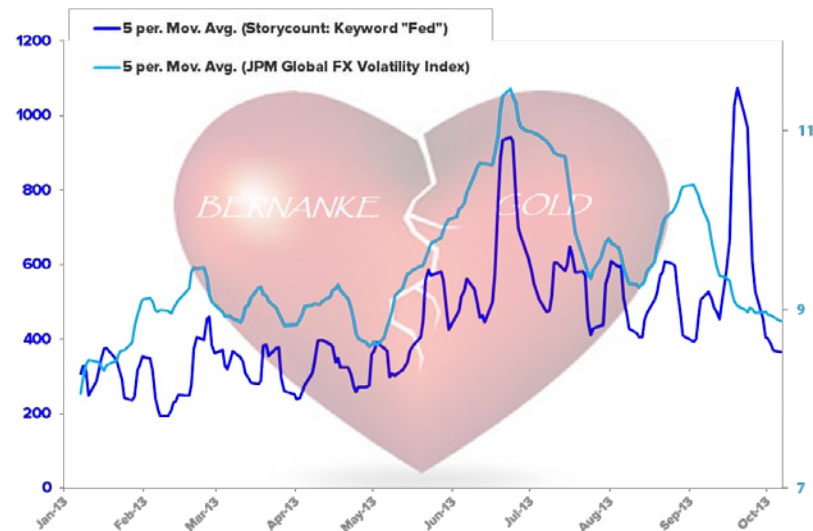
Policy Intervention continues to perpetuate cross asset volatility, globally.

"FED" STORY COUNT vs. VIX



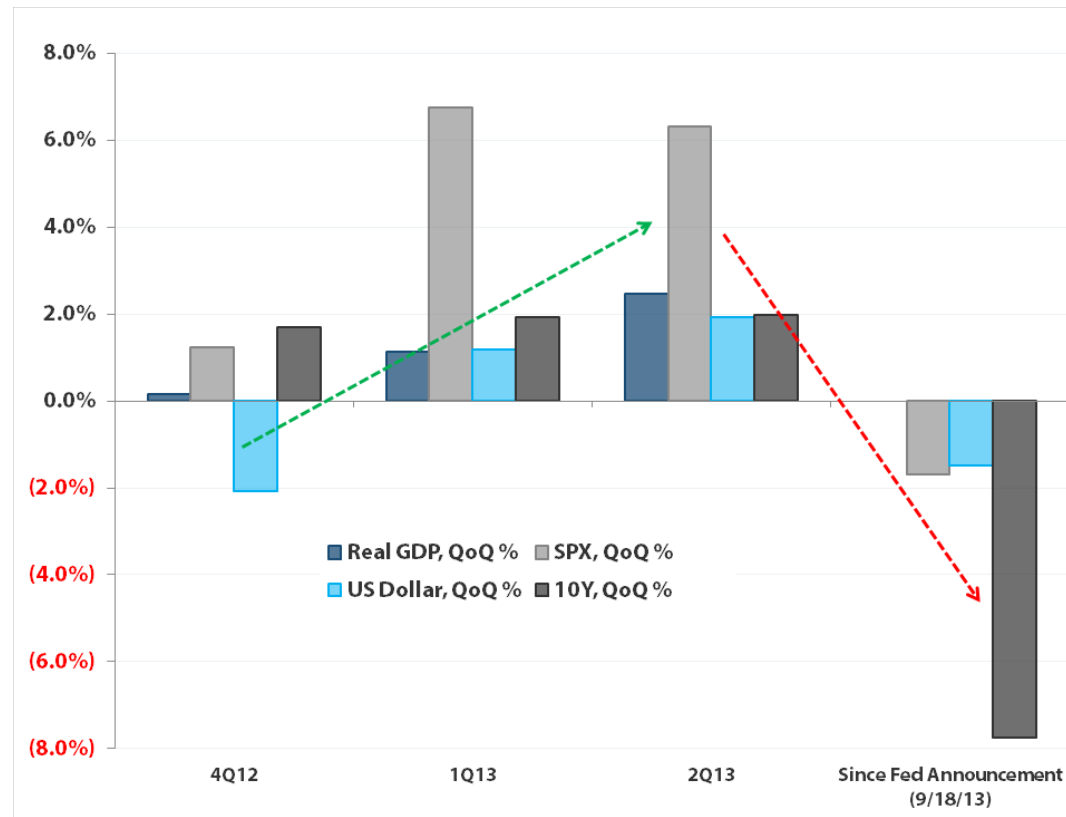
DATA SOURCE: BLOOMBERG

"FED" STORY COUNT vs. GLOBAL CURRENCY VOLATILITY



DATA SOURCE: BLOOMBERG

# WITH AN UNSURPRISING RESULT



## 1H13:

- Dollar Up
- Stocks Up
- Yields Up

## Since Fed Annc:

- Dollar Down
- Stocks Down
- Yields Down
- VIX Up

# THE YTD EXPOSURE PLAYBOOK



SPX: STYLE FACTOR PERFORMANCE									
	FACTOR	YTD	12M	6M	3M	1M	1W	2D	1D
DEBT	High Debt/EV	18.5%	19.1%	6.5%	3.2%	1.4%	-1.1%	-0.8%	0.0%
	Low Debt/EV	24.4%	27.0%	12.8%	5.5%	3.3%	-1.2%	-1.0%	0.0%
SI	High Short Interest	23.7%	25.3%	12.4%	4.0%	2.8%	-0.9%	-0.8%	0.1%
	Low Short Interest	22.7%	24.0%	9.0%	2.3%	1.7%	-1.1%	-1.0%	0.0%
BETA	High Beta	24.0%	29.7%	15.2%	5.8%	2.5%	-0.8%	-1.2%	0.1%
	Low Beta	14.4%	12.6%	2.0%	0.0%	1.1%	-1.2%	-0.5%	0.0%
YIELD	High Yield	10.5%	8.3%	0.3%	-1.1%	0.3%	-1.3%	-0.6%	-0.1%
	Low Yield	30.9%	35.5%	16.6%	6.3%	3.1%	-0.6%	-0.9%	0.1%
MKT CAP	MCAP Bottom 25%	18.1%	21.2%	8.5%	2.8%	1.8%	-1.4%	-1.0%	0.1%
	MCAP Top 25%	22.8%	23.5%	10.5%	3.7%	1.7%	-1.2%	-0.9%	0.0%
Sales Growth	Top 25% Sales Growth	26.0%	28.5%	13.4%	6.2%	2.7%	-0.7%	-1.0%	0.0%
	Bottom 25% Sales Growth	21.0%	18.9%	8.0%	2.3%	0.6%	-1.5%	-1.4%	-0.5%
EPS Growth	Top 25% EPS Growth	27.7%	32.9%	13.2%	5.9%	2.5%	-1.5%	-1.6%	-0.5%
	Bottom 25% EPS Growth	16.5%	13.9%	6.6%	0.9%	1.1%	-1.0%	-0.7%	0.0%

**GREEN = Relative Outperformance Over Given Duration**

*\*Percentage change reflects Performance for top & bottom quartile of companies in the SPX for the given style factor*

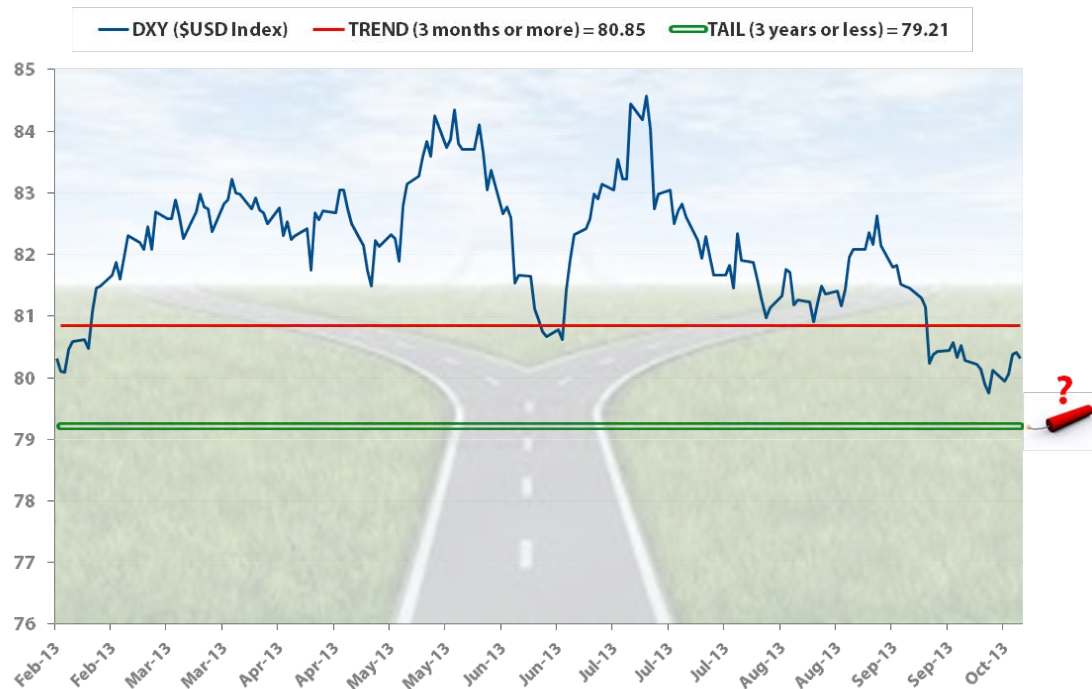
SOURCE: Bloomberg, Hedgeye Calculations

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# WHERE TO FROM HERE?



## U.S. DOLLAR



DATA SOURCE: BLOOMBERG

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## WILL THE TAIL LINE HOLD?

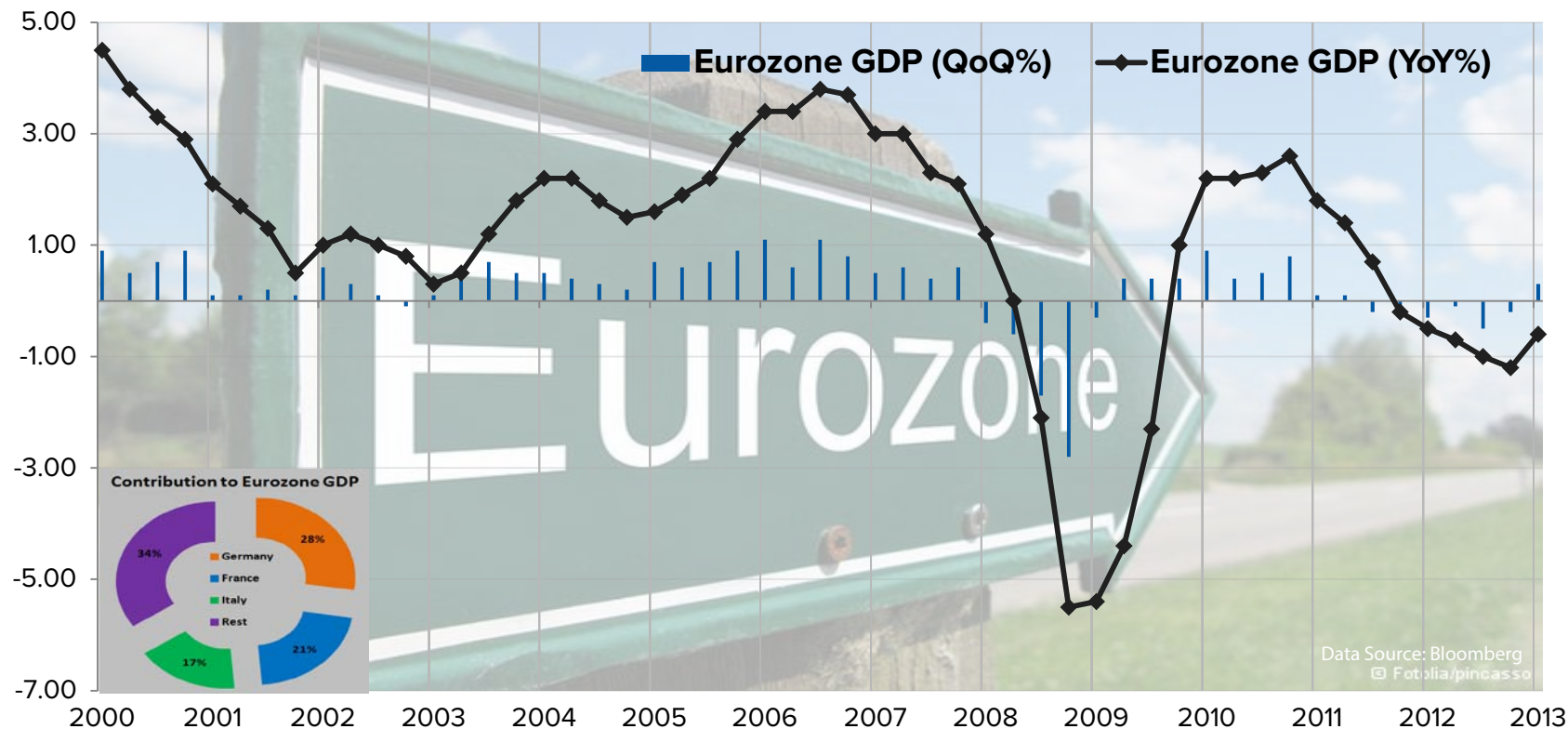
The Trajectory for Pro-growth Exposure from here depends on the dollar



**#EUROBULLS**



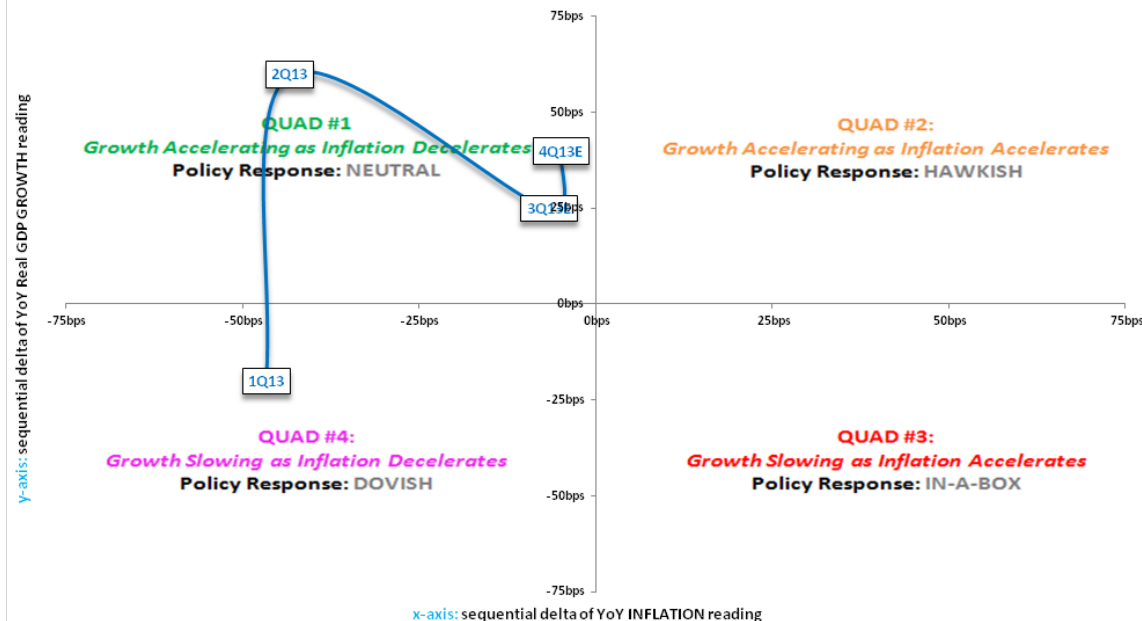
# SLOPE: THE ECONOMIC TURN



# GIP: TRACKING TO QUAD #1



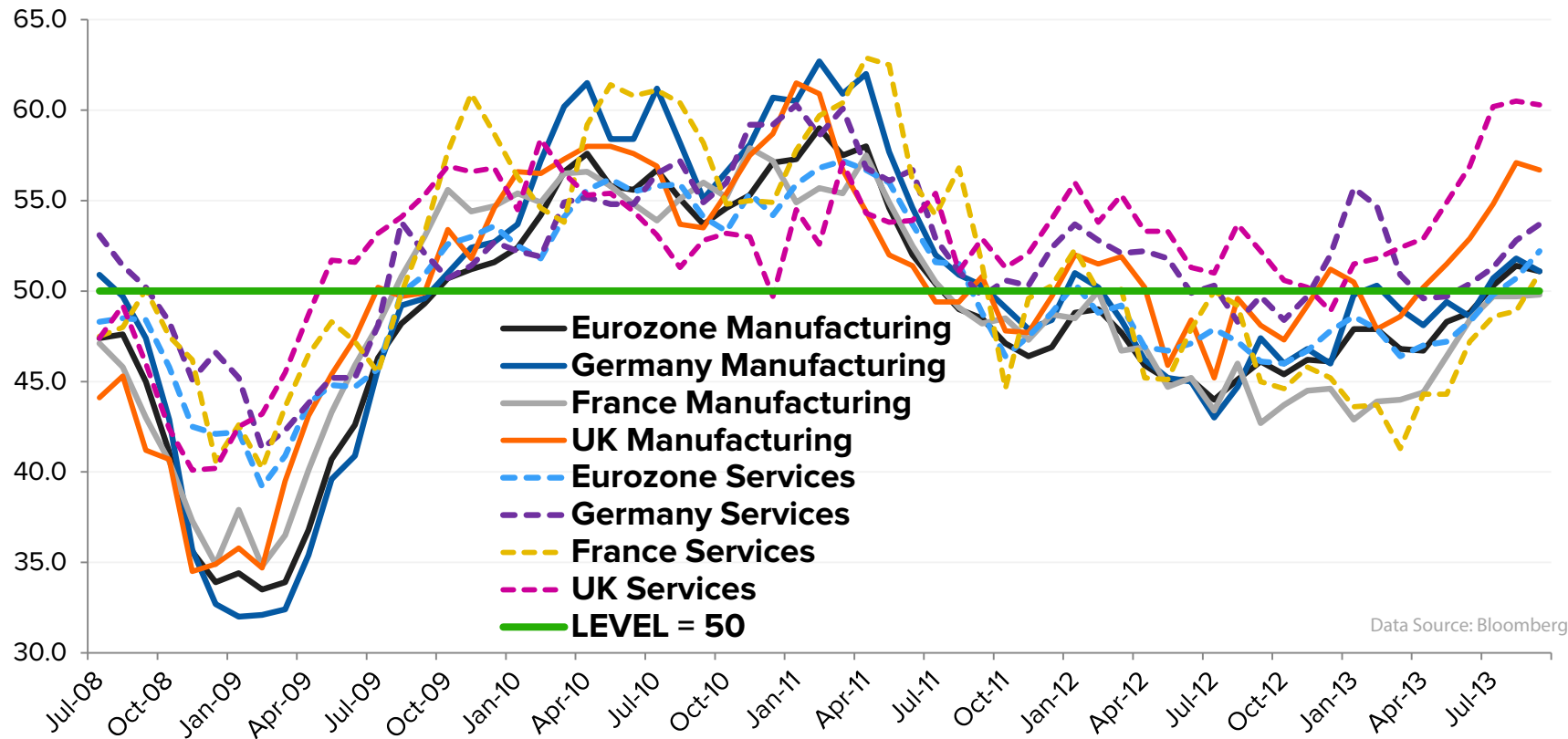
EUROZONE	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	HEDGEYE MACRO GROWTH/INFLATION/POLICY MODEL			
YoY Real GDP	1.8%	1.4%	0.7%	-0.2%	-0.5%	-0.7%	-1.0%	-1.2%	-0.6%			2012E	2013E
2Y Average	2.0%	1.8%	1.5%	1.2%	0.7%	0.4%	-0.2%	-0.7%	-0.6%	Bloomberg Consensus Real GDP YoY		-0.5%	-0.3%
3Y Average	-0.5%	-0.3%	0.2%	1.1%	1.2%	1.0%	0.7%	0.4%	0.2%	Hedgeye Predictive Tracking Algorithm		-0.6%	-0.5%
YoY CPI	2.7%	2.7%	2.9%	2.7%	2.5%	2.5%	2.3%	1.8%	1.4%			2012E	2013E
2Y Average	2.2%	2.2%	2.5%	2.6%	2.6%	2.6%	2.6%	2.3%	1.9%	Bloomberg Consensus CPI YoY		2.5%	1.5%
3Y Average	1.5%	1.4%	1.8%	2.1%	2.3%	2.3%	2.4%	2.3%	2.2%	Hedgeye Predictive Tracking Algorithm		2.5%	1.5%



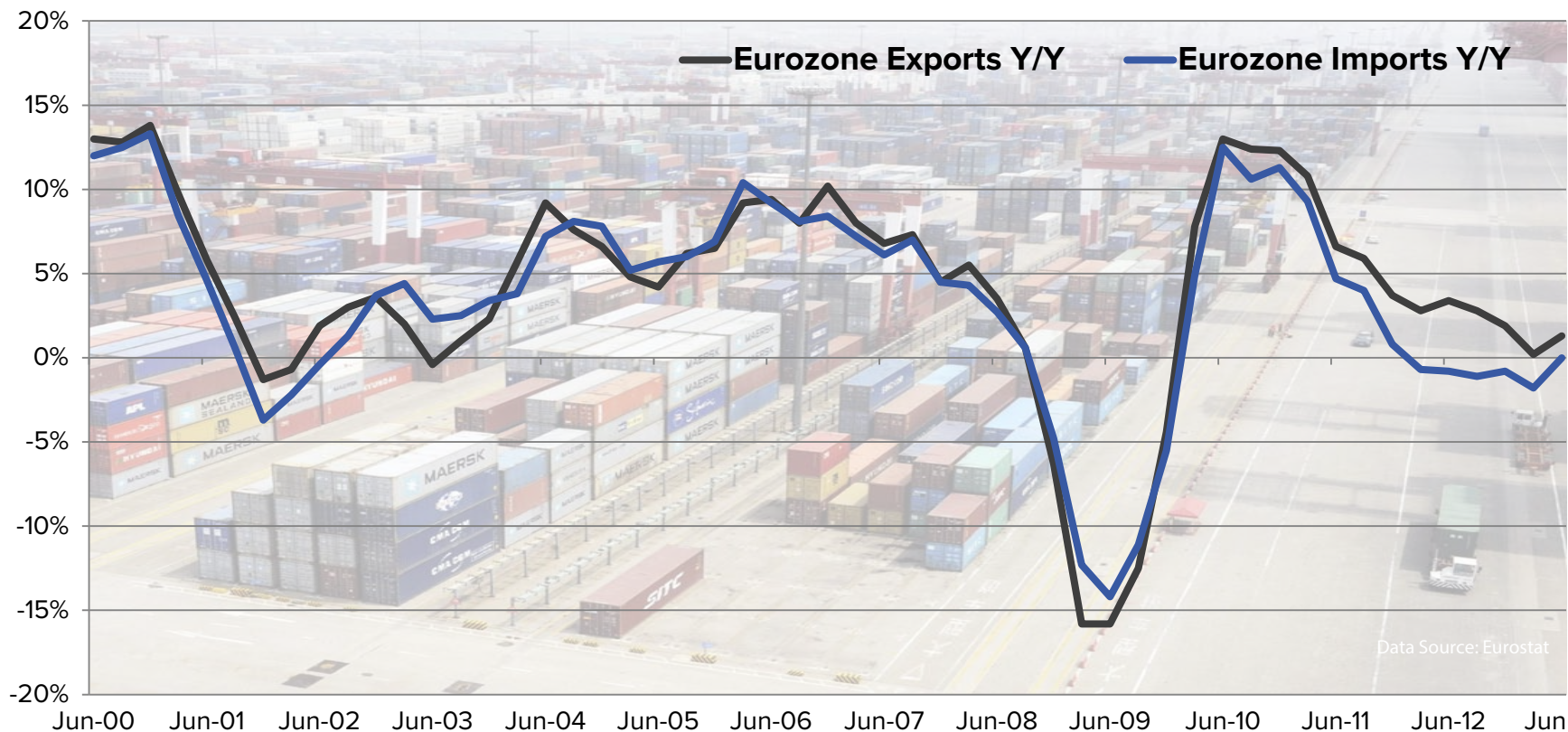
Source: Bloomberg data; Hedgeye calculations. Color-coded data in the adjacent table represent actual reported figures.



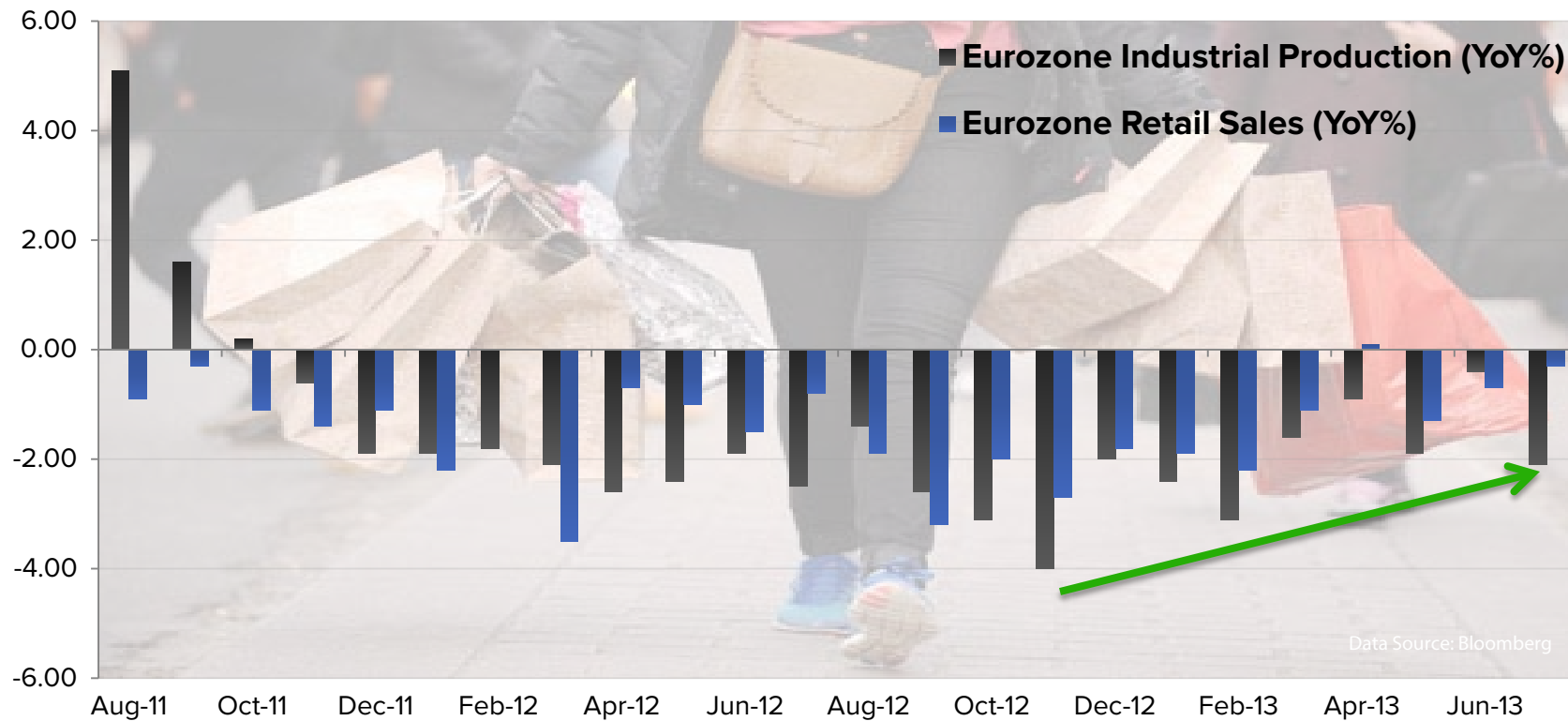
# URNS: PMIS



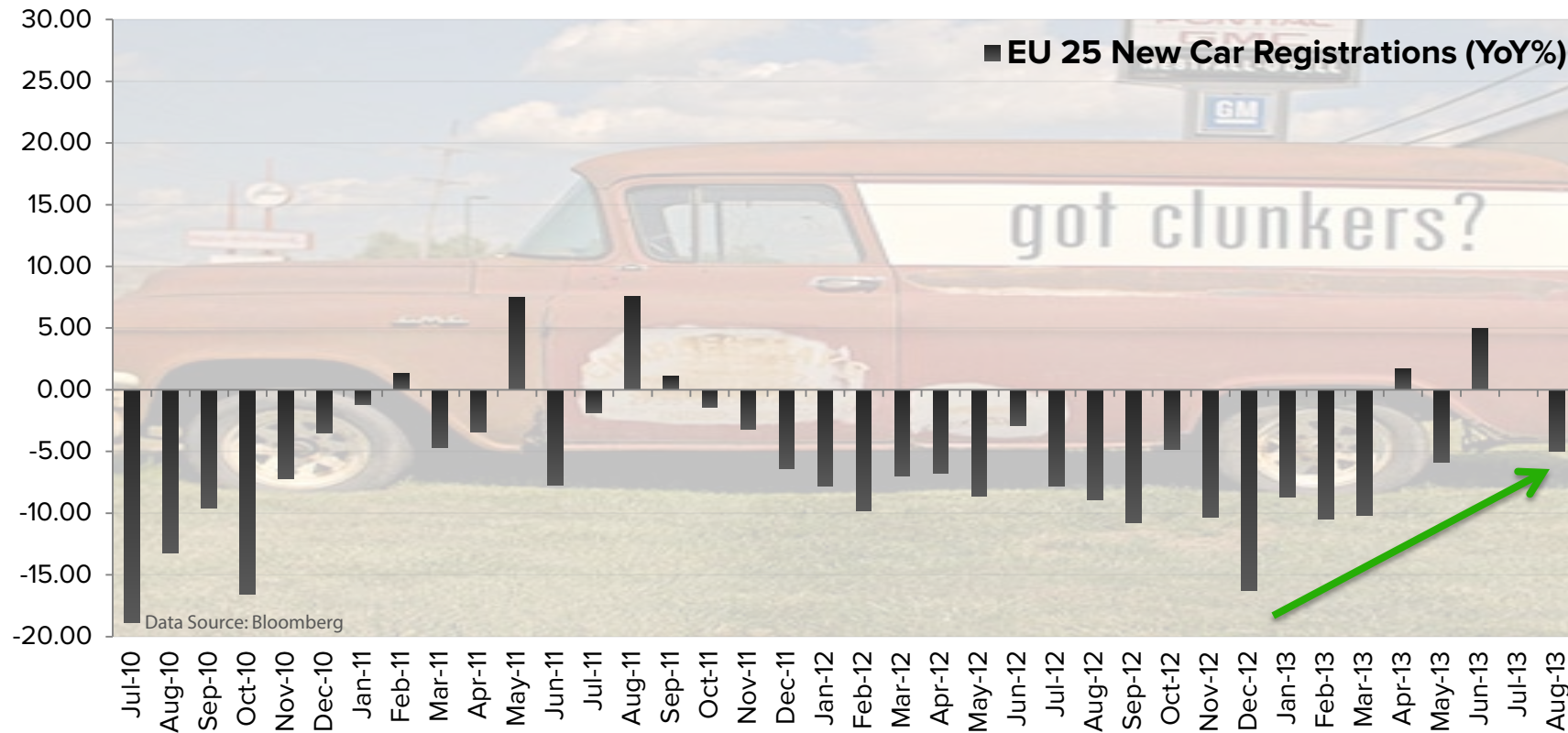
# URNS: TRADE



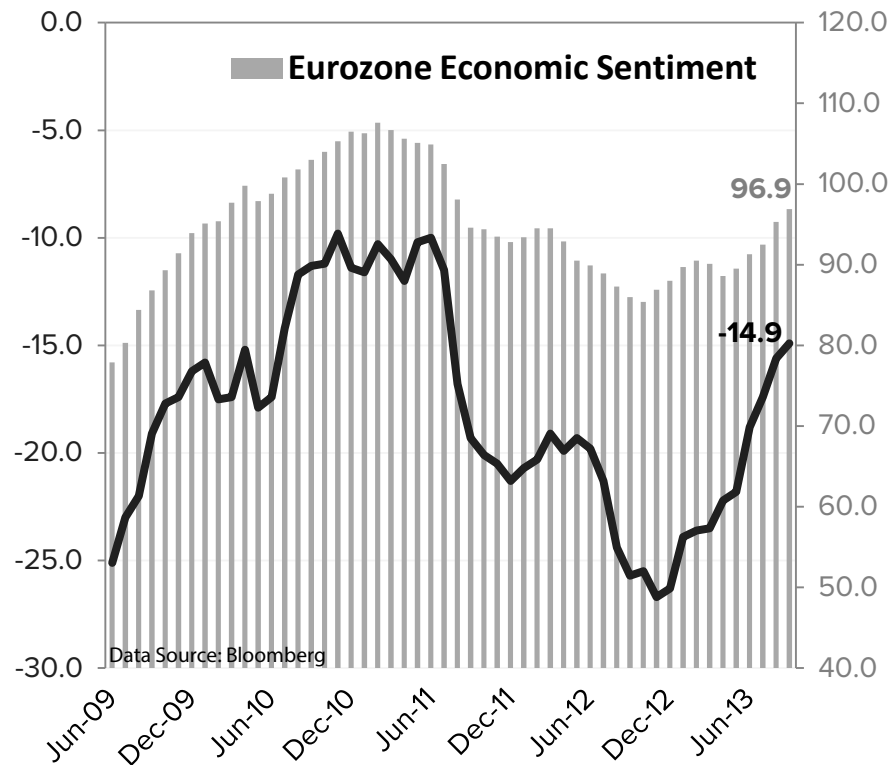
# URNS: IP AND RETAIL SALES



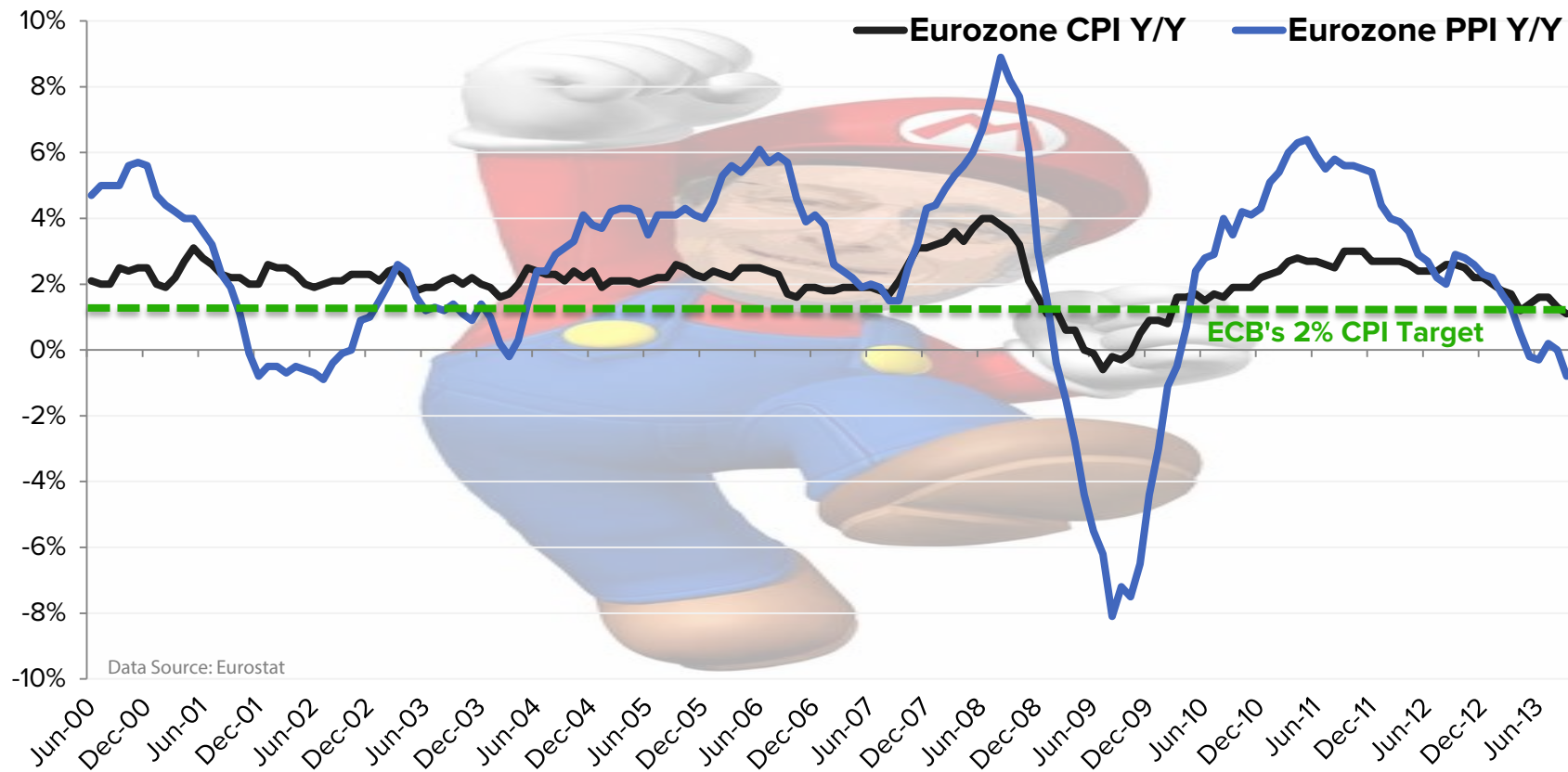
# URNS: AUTOS



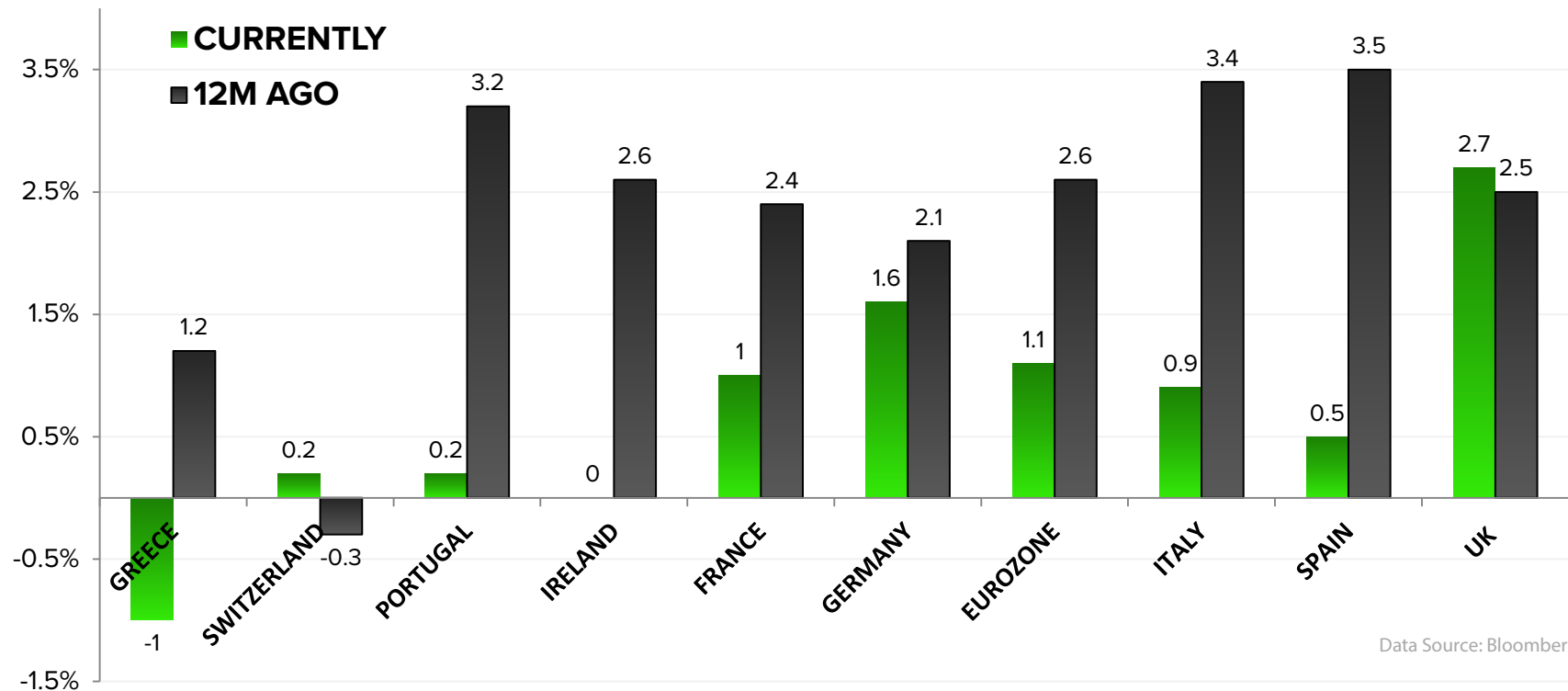
# CONFIDENCE READINGS UP



# #STRONG EURO = SUPER MARIO



# DEFLATING INFLATION IS POSITIVE

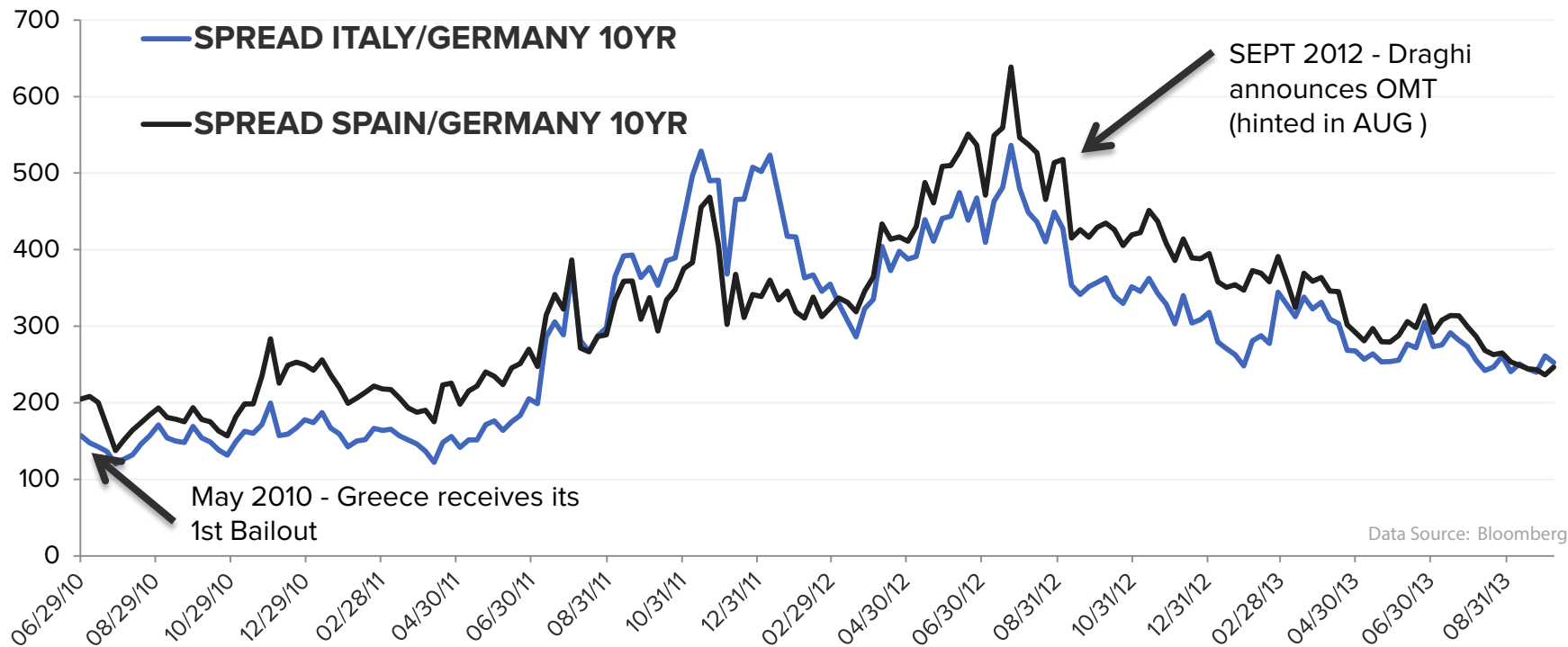




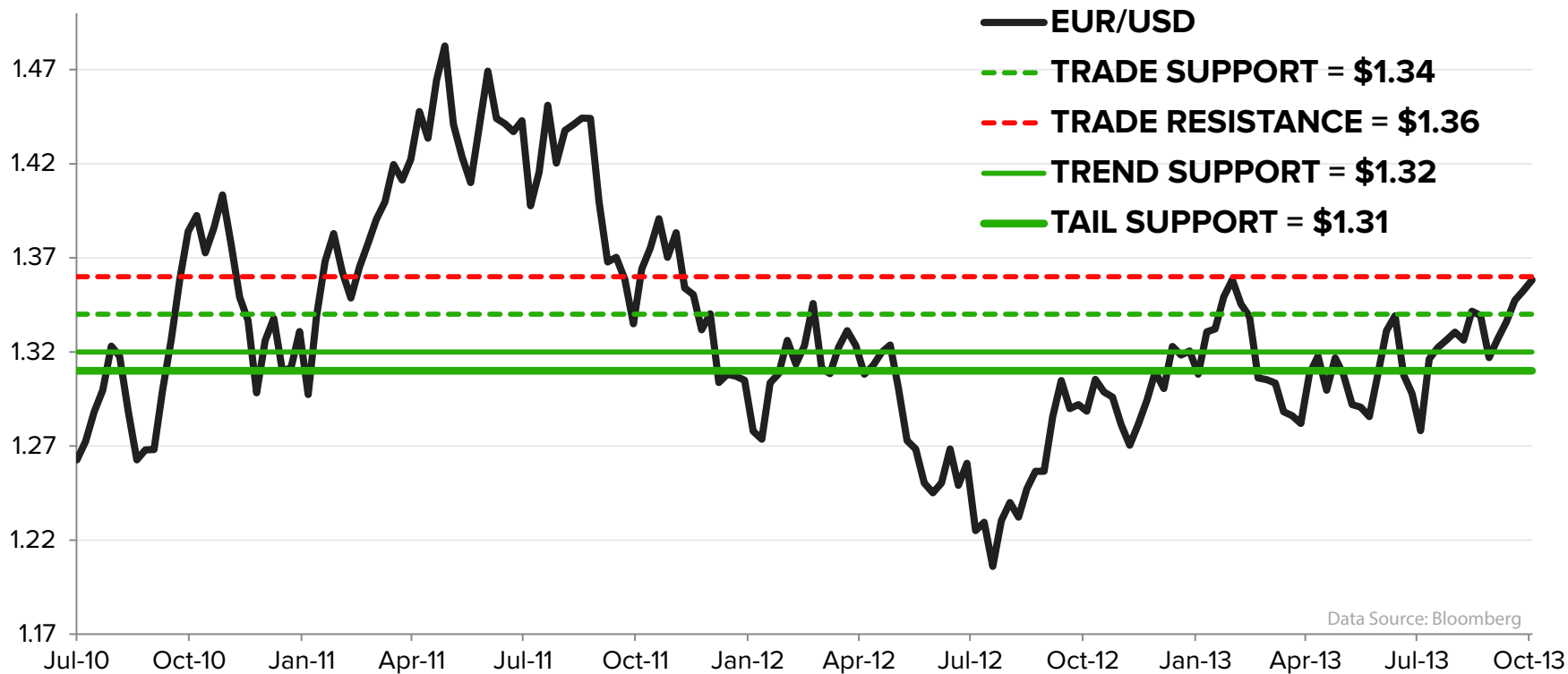
# PERIPHERAL RISK DOWN



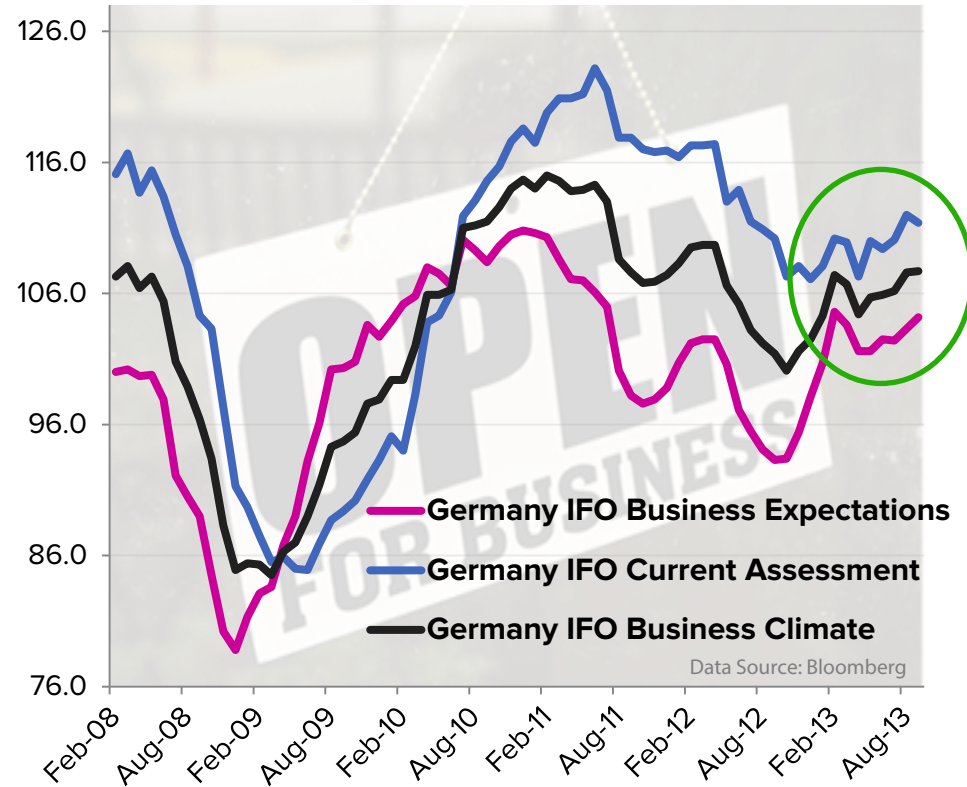
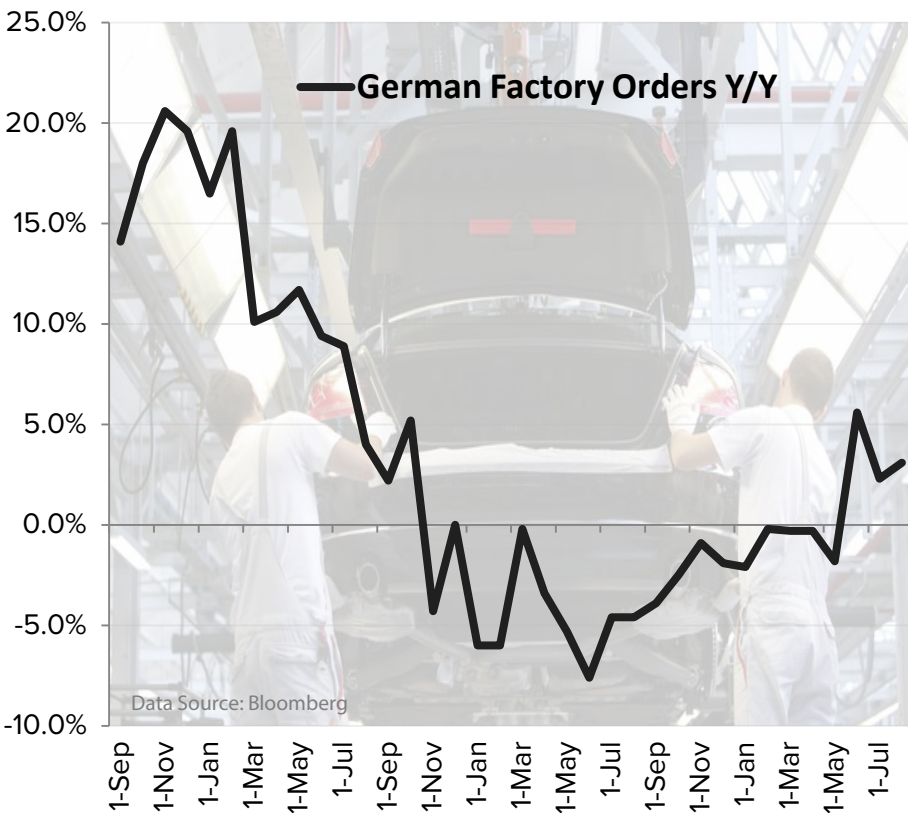
## CREDIT SPREADS TIGHTENING



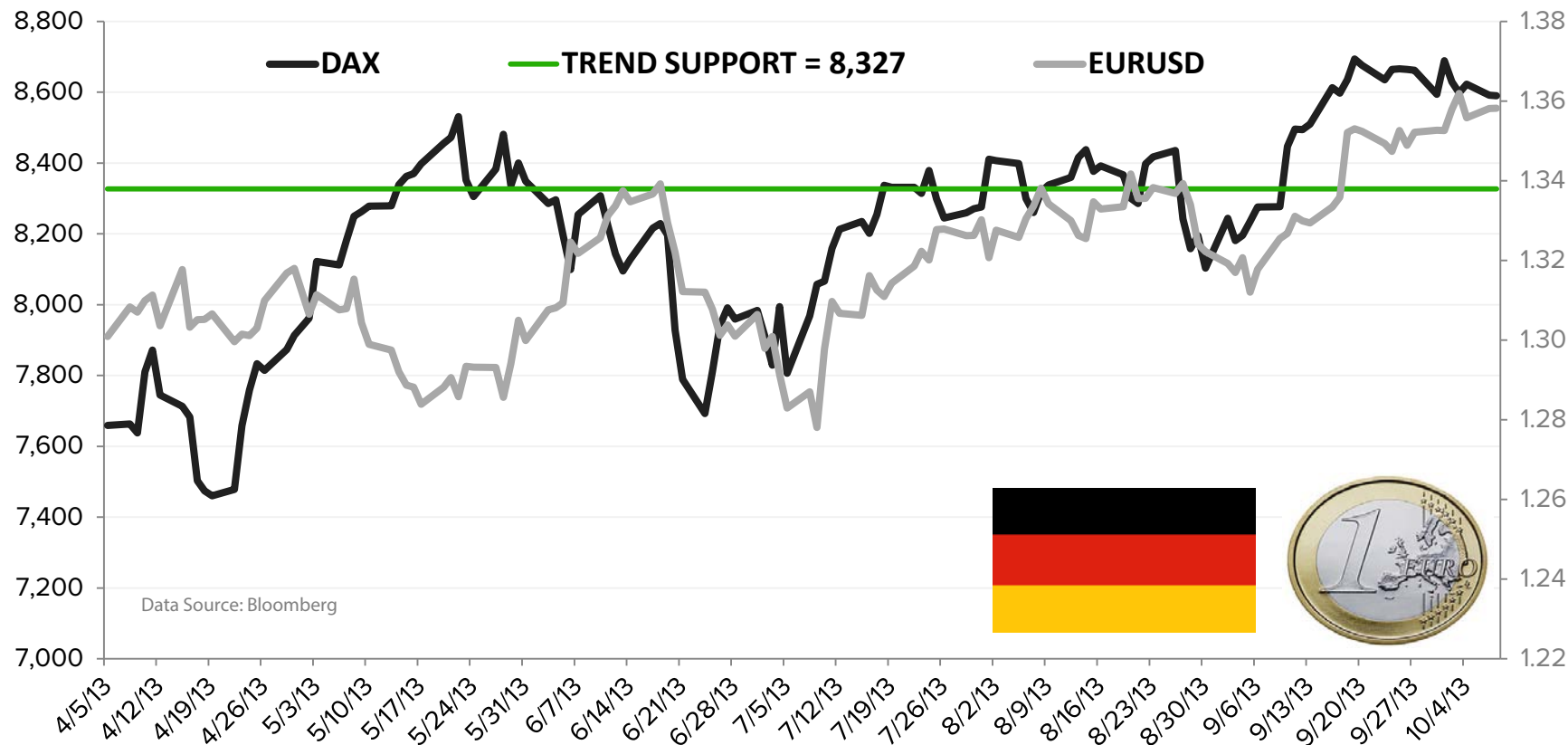
# EURO IN A BULLISH BREAKOUT



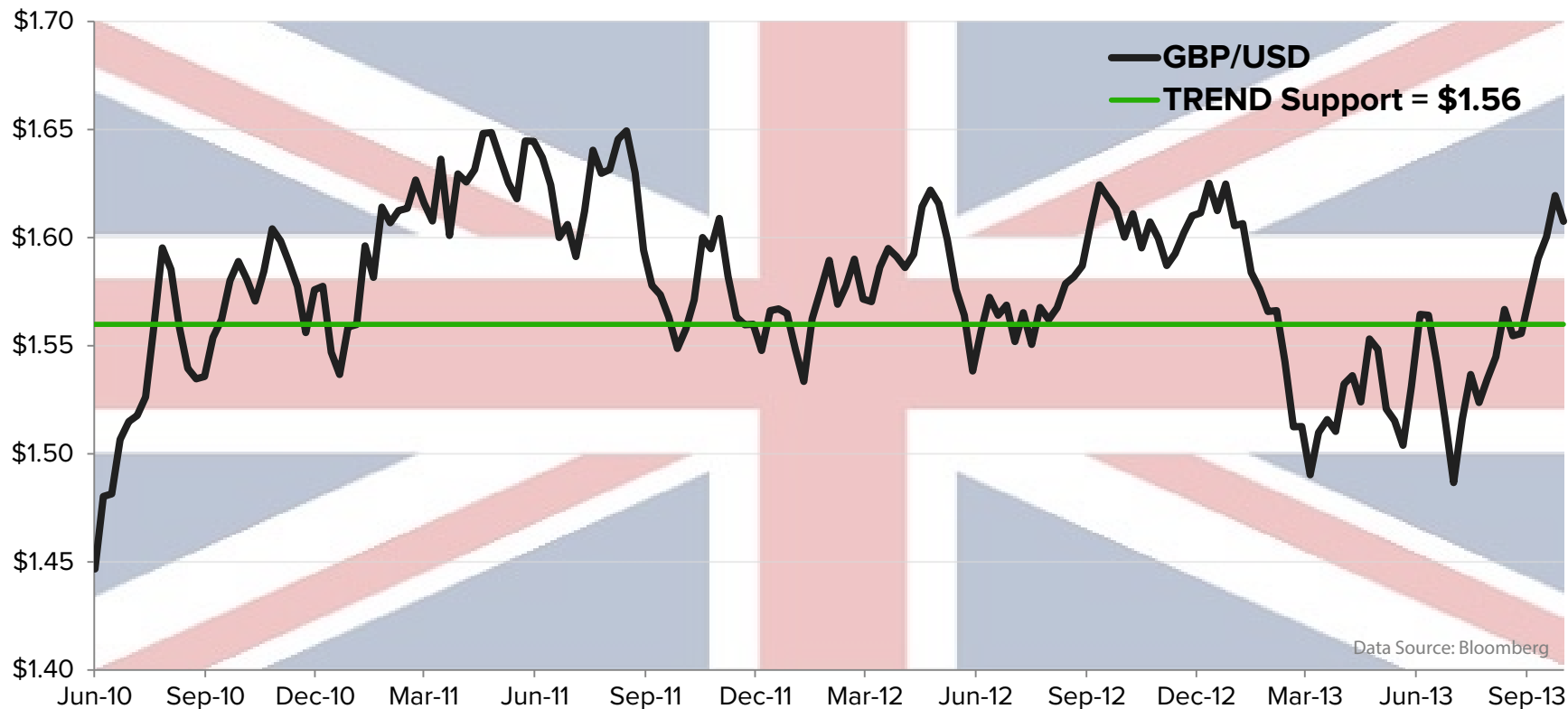
# #STRONG EUR=STRONG GERMANY



# DAX AND EURO CORRELATED



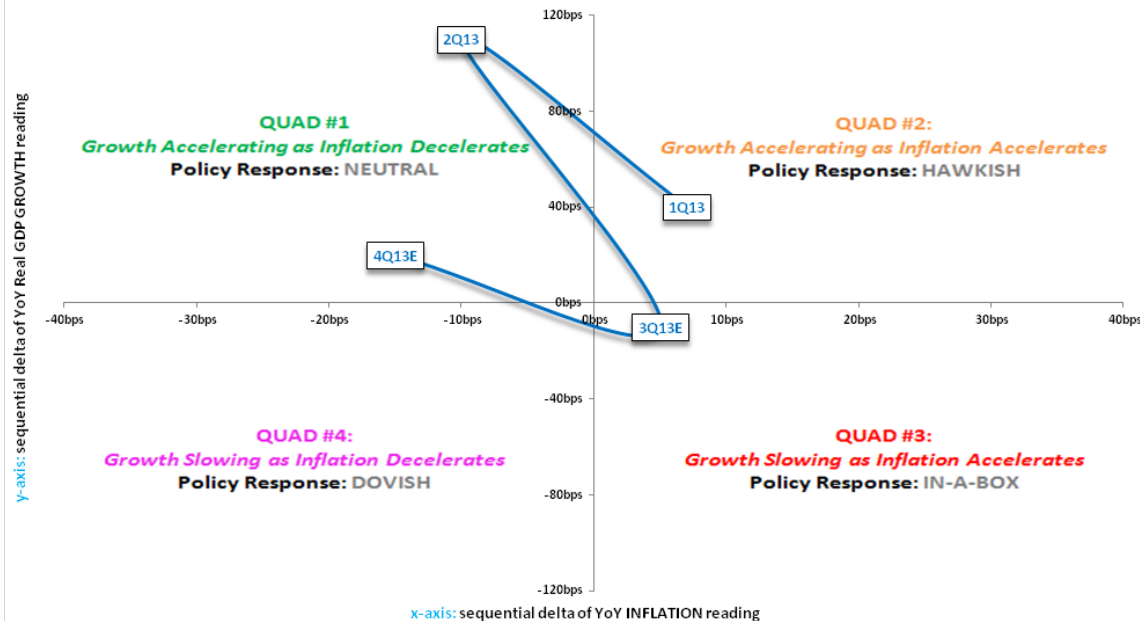
# #STRONG POUND = STRONG UK



# UK GIP: TRACKING TO QUAD #1



UNITED KINGDOM	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	HEDGEYE MACRO GROWTH/INFLATION/POLICY MODEL		
YoY Real GDP	0.8%	1.0%	1.1%	0.6%	0.0%	0.0%	-0.2%	0.2%	1.3%			
2Y Average	1.4%	1.7%	1.5%	1.2%	0.4%	0.5%	0.5%	0.4%	0.7%	Bloomberg Consensus Real GDP YoY	2012E	2013E
3Y Average	-1.2%	-0.5%	0.1%	0.9%	0.9%	1.1%	0.9%	0.8%	0.7%	Hedgeye Predictive Tracking Algorithm	0.1%	1.0%
YoY CPI	4.4%	4.7%	4.7%	3.5%	2.7%	2.4%	2.7%	2.8%	2.7%			
2Y Average	3.9%	3.9%	4.0%	3.8%	3.6%	3.6%	3.7%	3.1%	2.7%	Bloomberg Consensus CPI YoY	2012E	2013E
3Y Average	3.3%	3.1%	3.4%	3.6%	3.5%	3.4%	3.6%	3.5%	3.3%	Hedgeye Predictive Tracking Algorithm	2.8%	2.7%

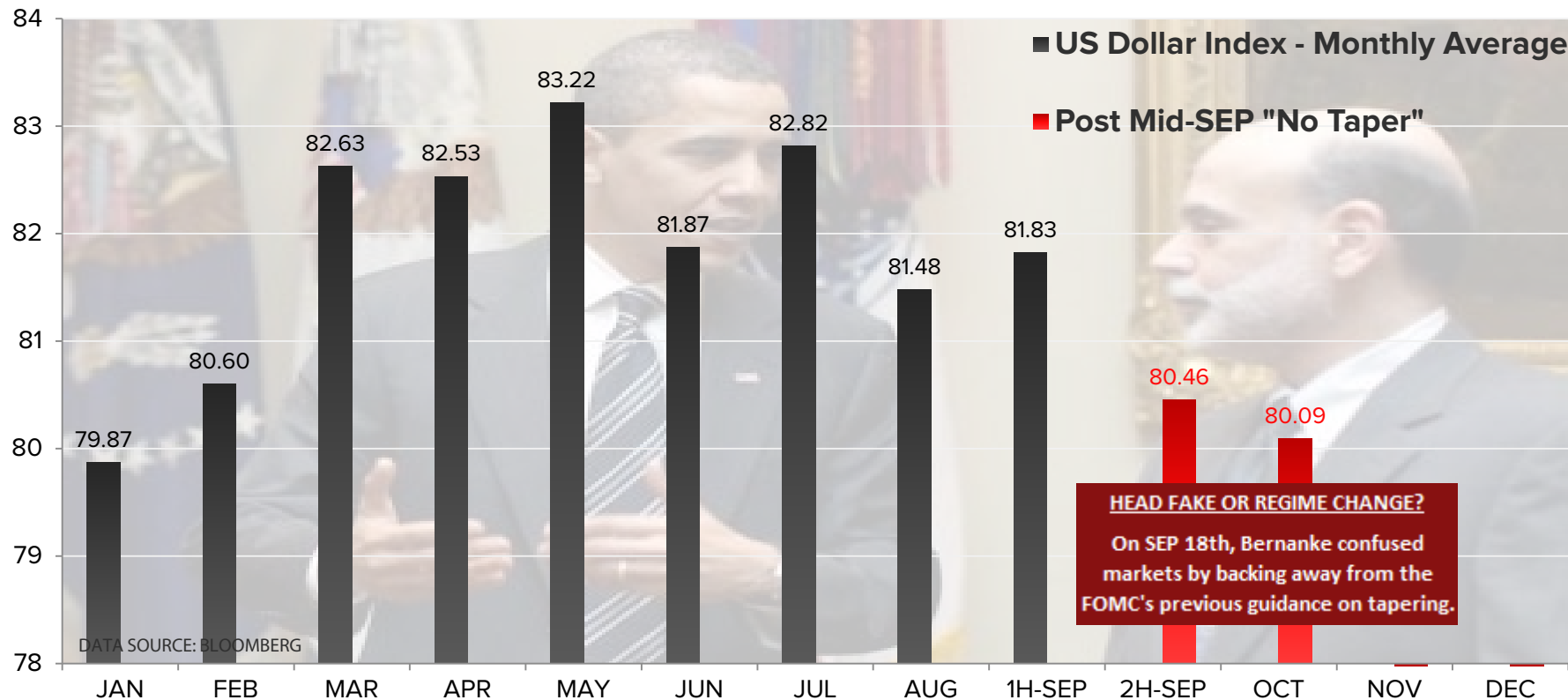


Source: Bloomberg data; Hedgeye calculations. Color-coded data in the adjacent table represent actual reported figures.



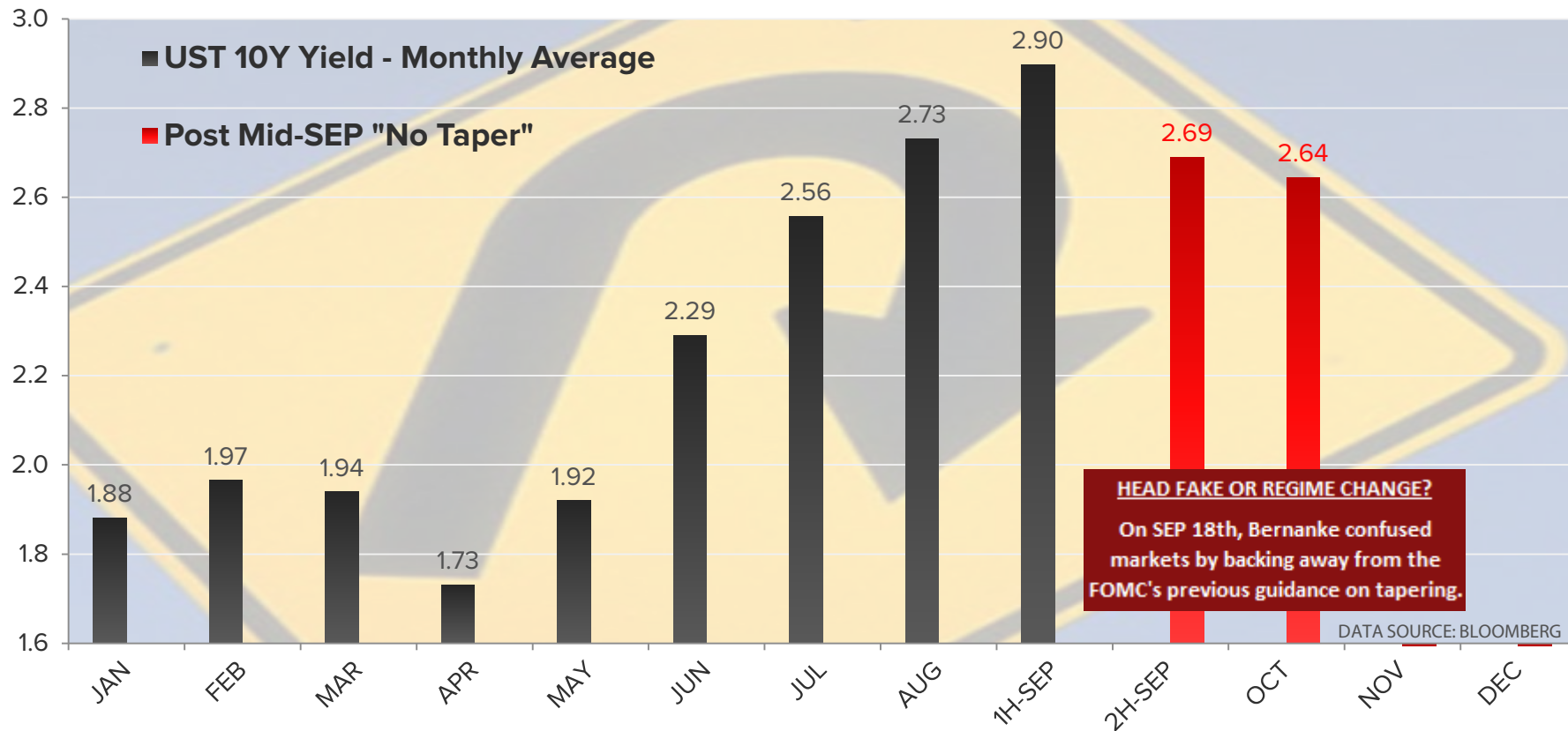
**#GETACTIVE**

# USD: GOV'T DRIVES VOLATILITY

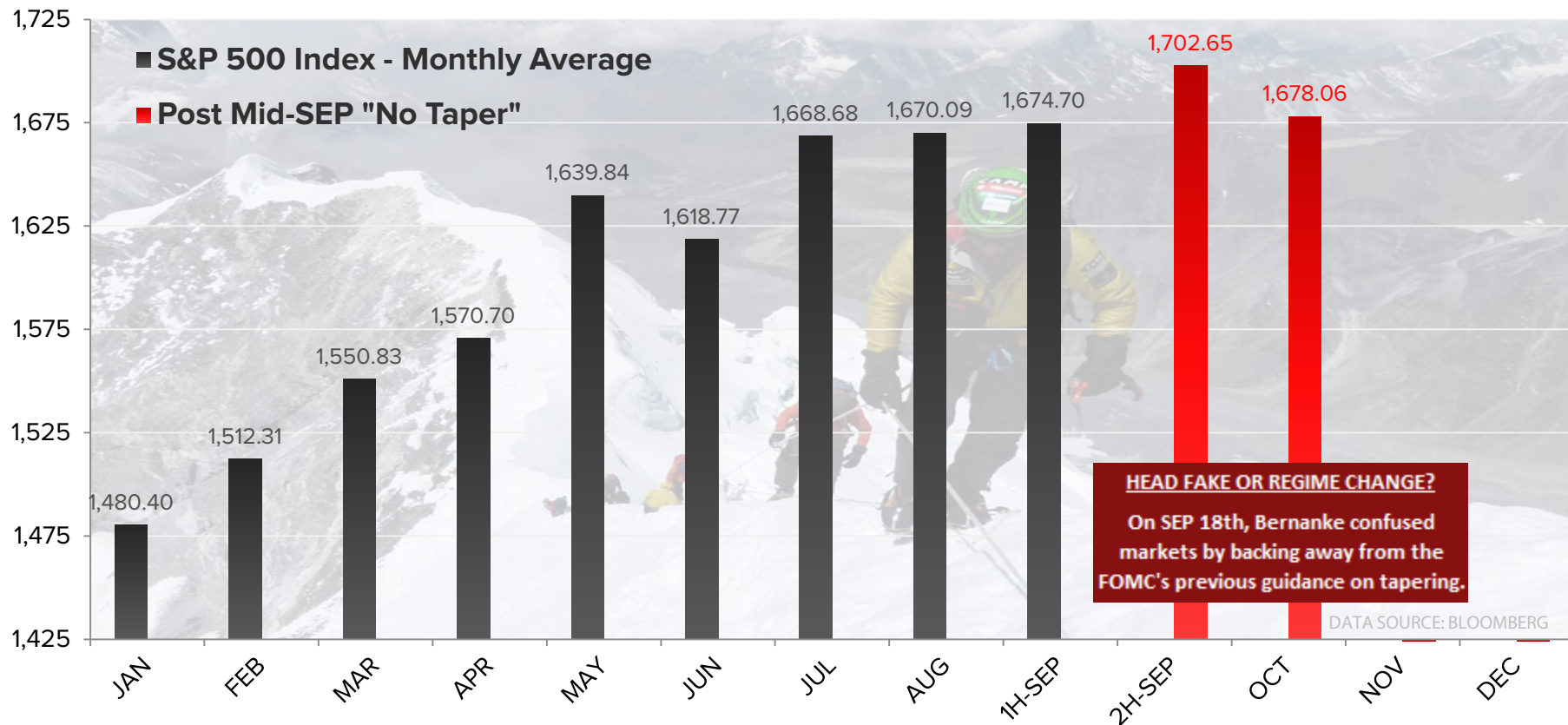




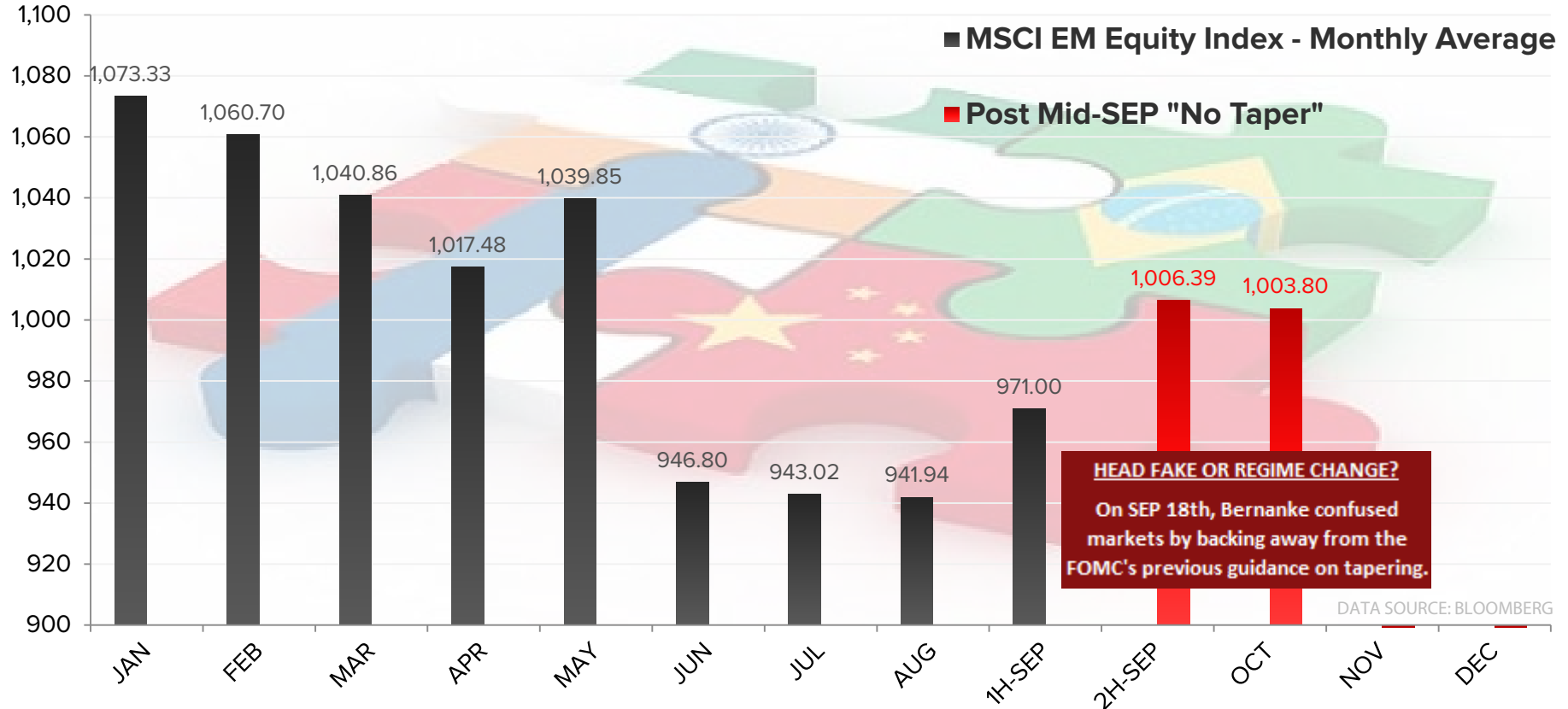
# #RATESREVERSAL?



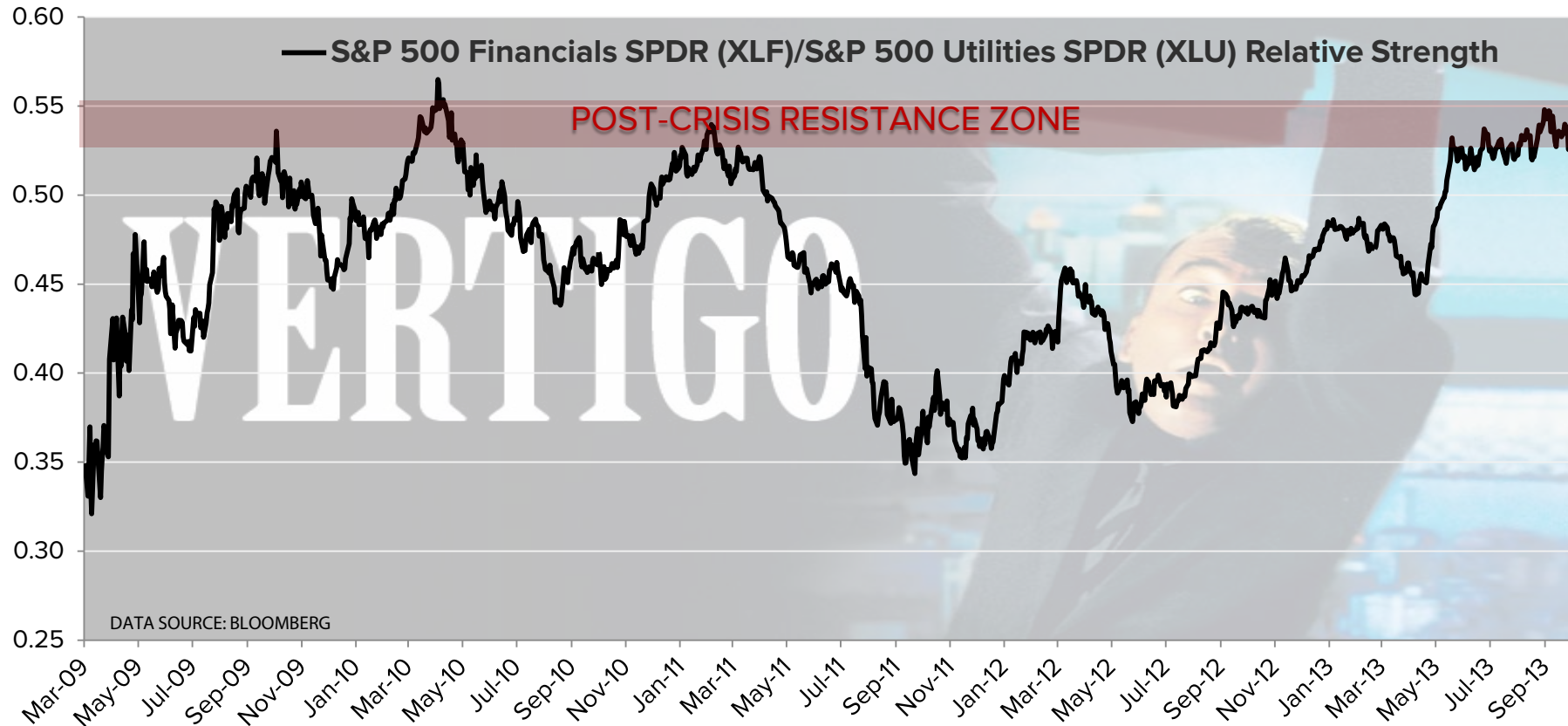
# #GROWTHACCELERATING TOP?



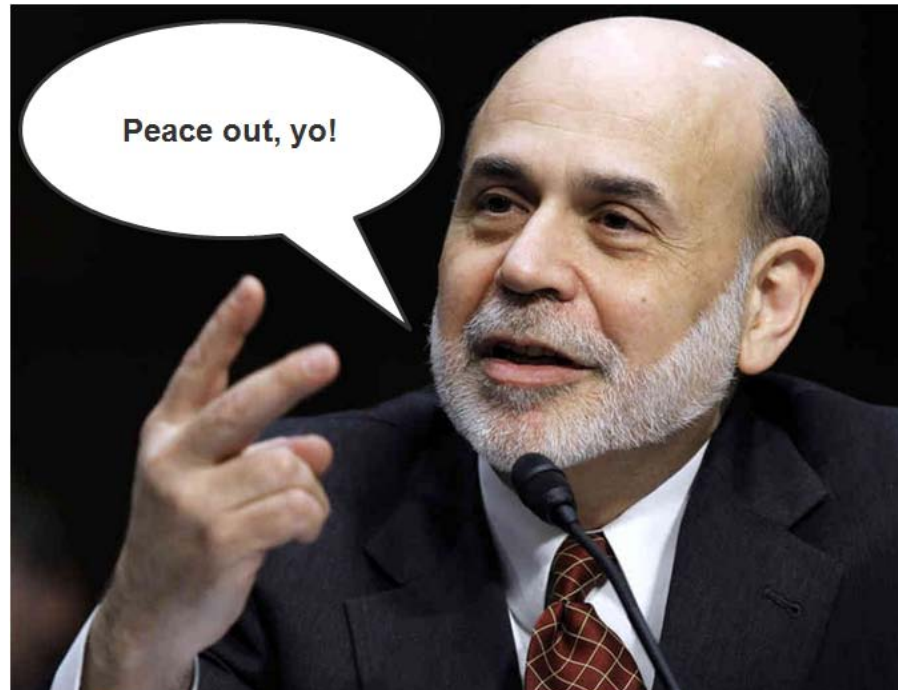
# EM ASSETS LIKE A #WEAKDOLLAR



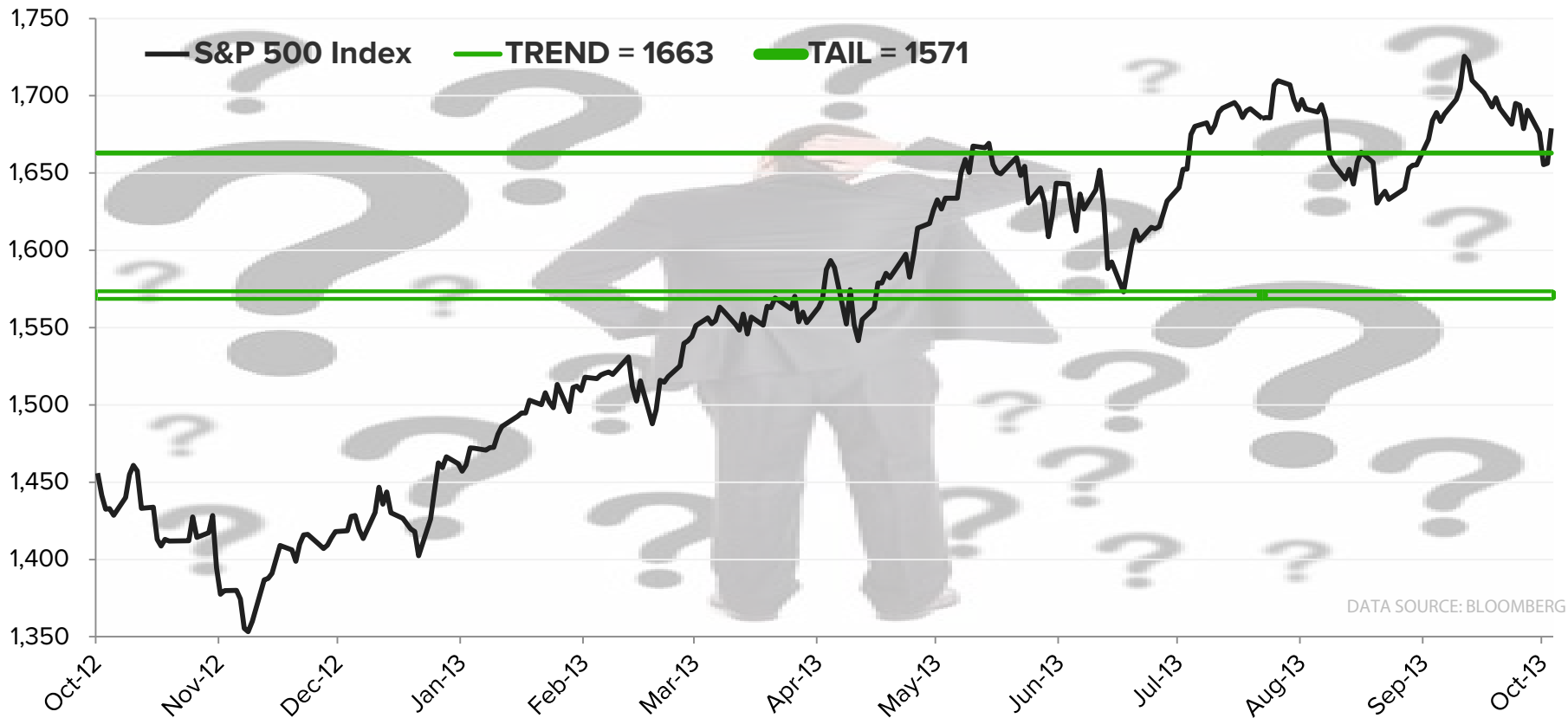
# #WEAKDOLLAR = #GROWTHSLOWING



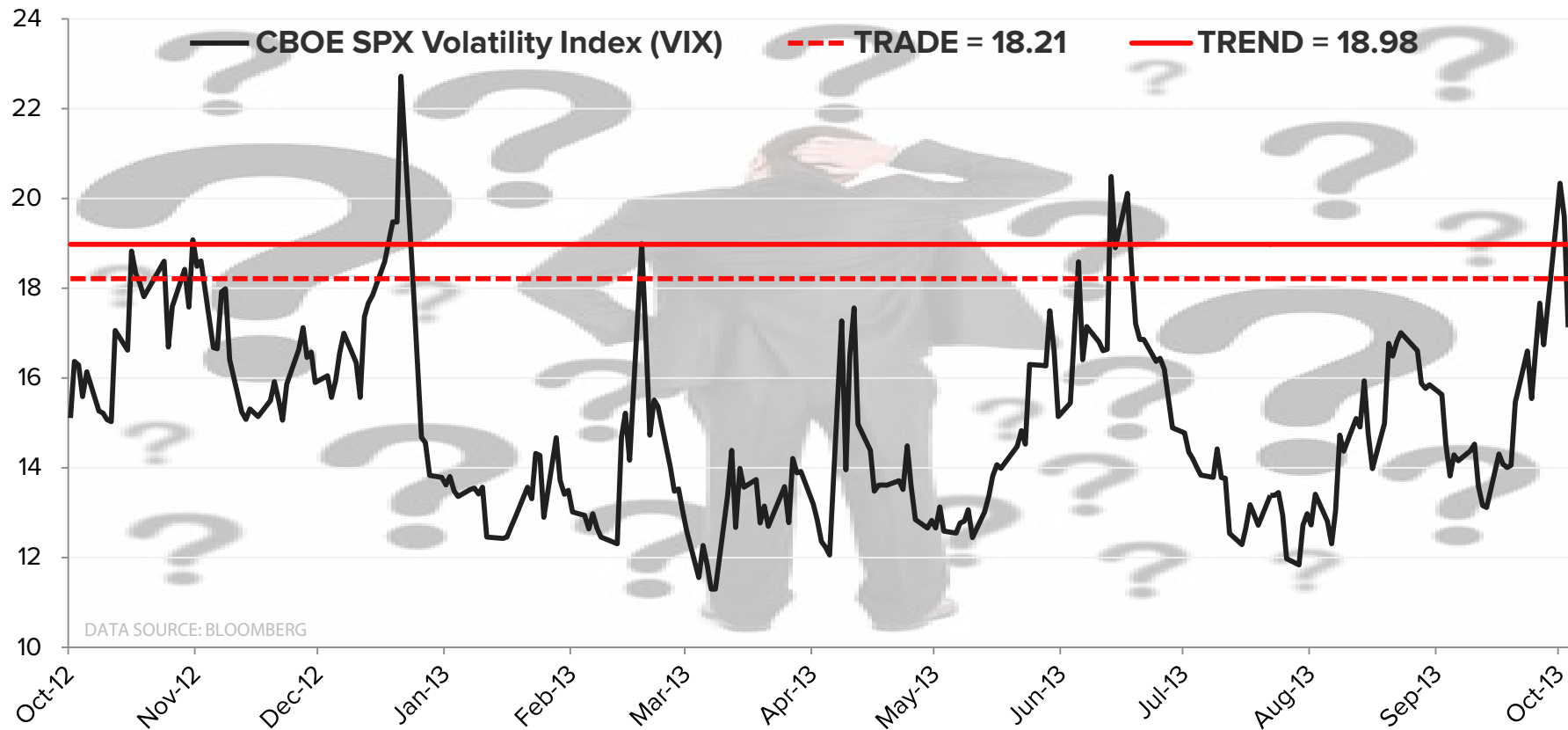
# THE OUTLOOK IS BINARY



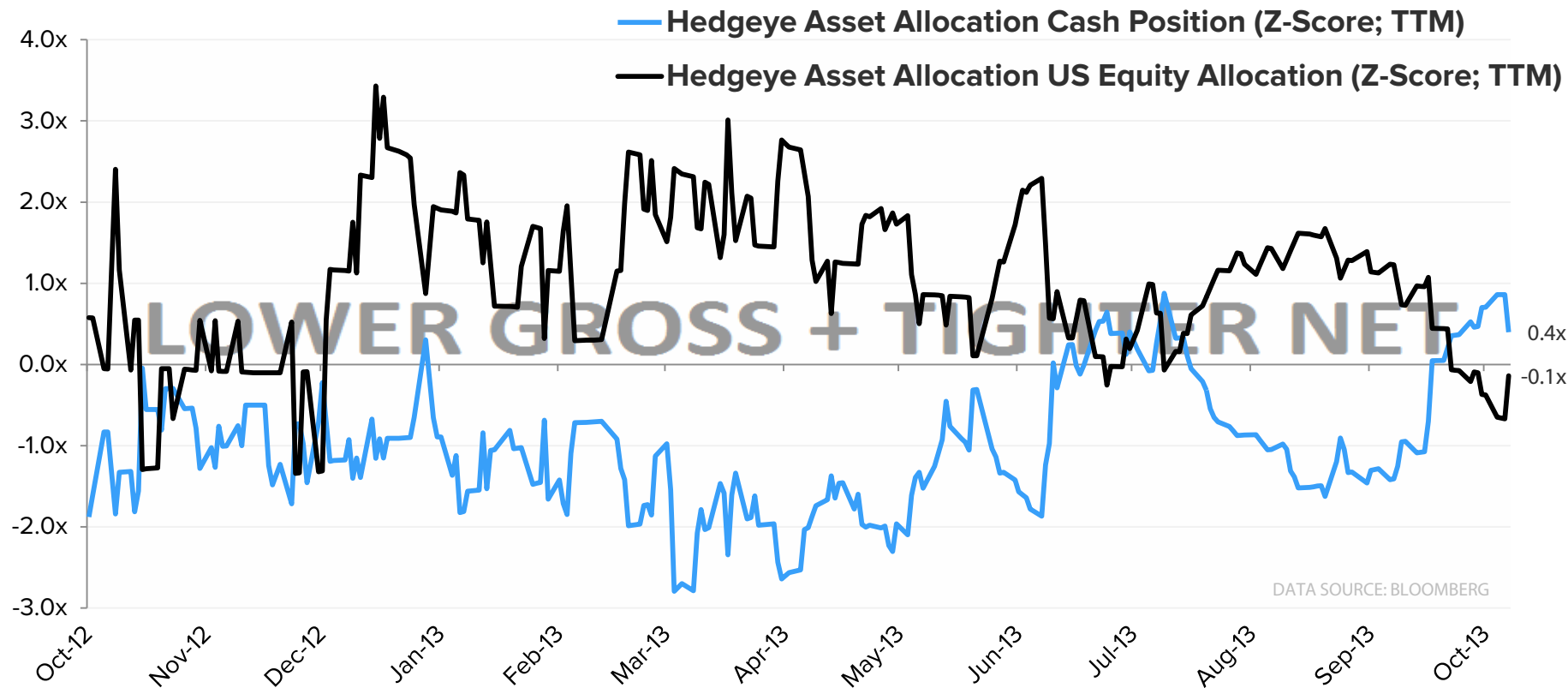
# BUY THE DIP OR FADE THE RALLY?



# BUY PROTECTION OR FADE FEAR?



# THE ANSWER: #GETACTIVE

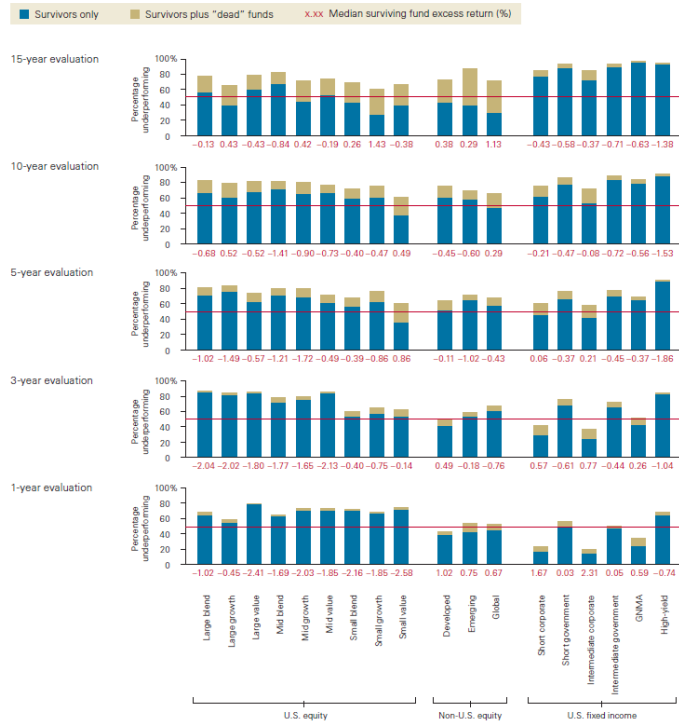




# PERFORMANCE HAS NOT BEEN GOOD



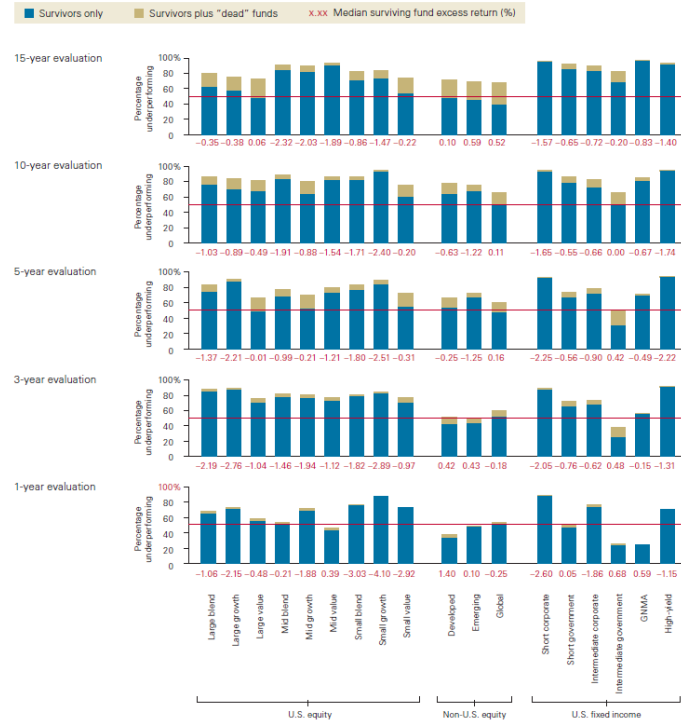
**Figure 2.** The performance of actively managed mutual funds versus their prospectus benchmark



Note: Data reflect periods ended December 31, 2012.

Sources: Vanguard calculations, using data from Morningstar, Inc. Fund classifications provided by Morningstar; benchmarks reflect those identified in each fund's prospectus.

**Figure 4.** The performance of actively managed mutual funds versus a representative 'style benchmark'

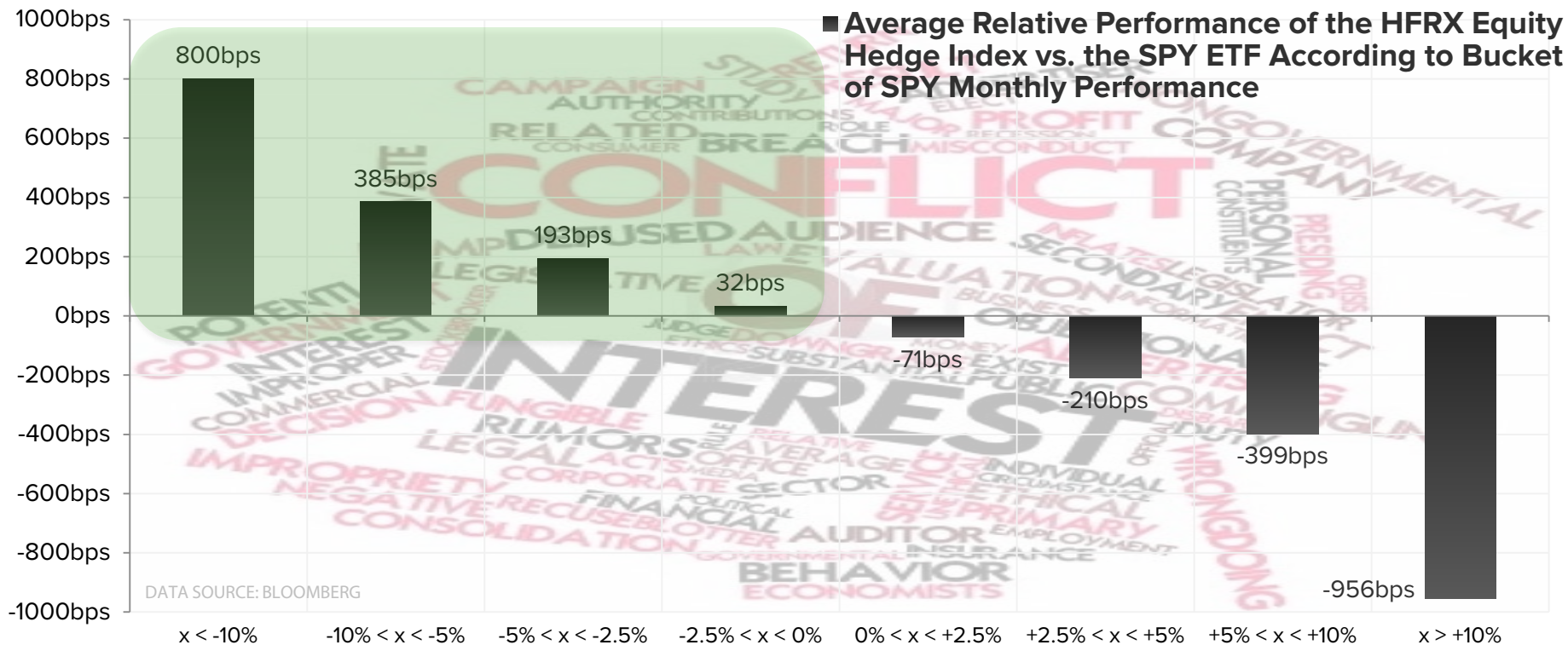


Note: Data reflect periods ended December 31, 2012.

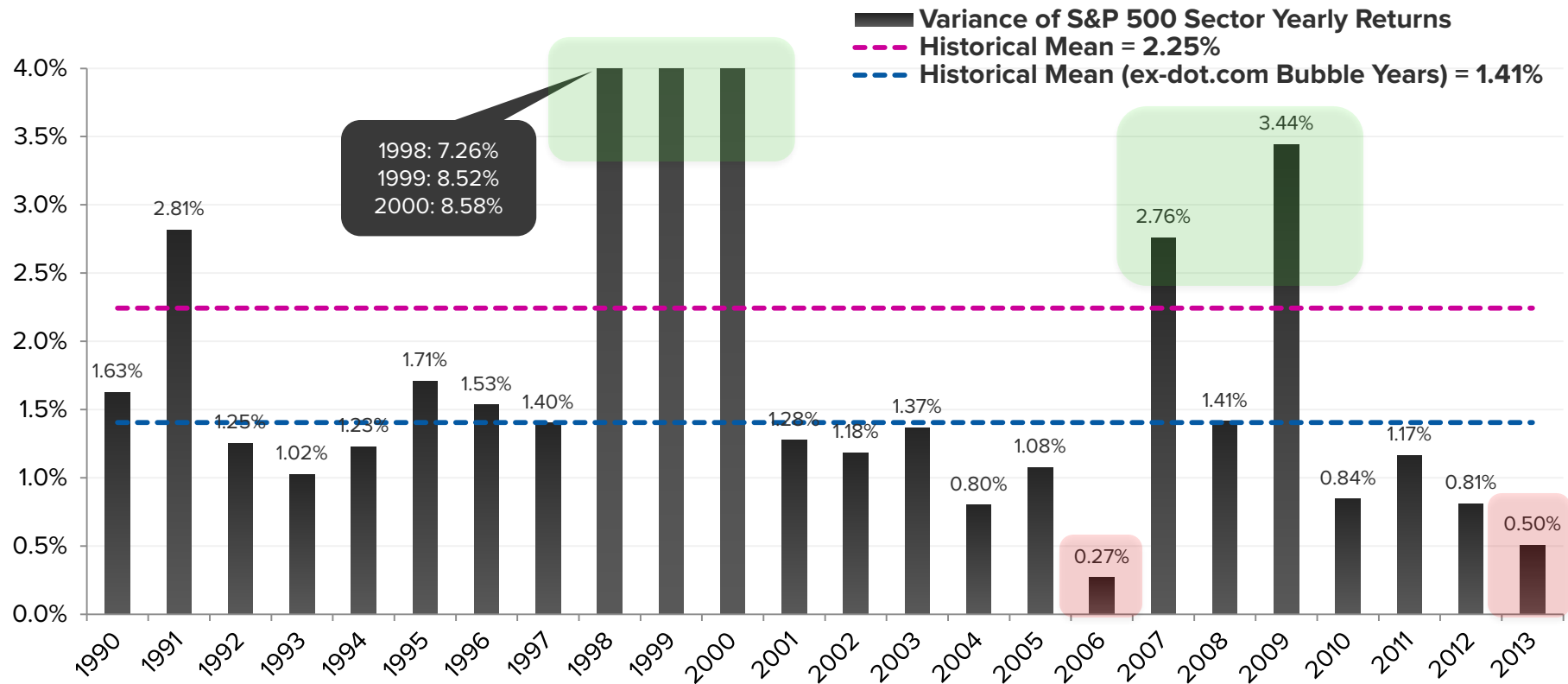
Sources: Vanguard calculations, using data and fund classifications from Morningstar, Inc., Standard and Poor's, MSCI, and Barclays. Fund classifications

Source: Vanguard, APR '13 study.

# EXCEPT IN DOWN MARKETS



# SECULAR CASE FOR #GETACTIVE



DATA SOURCE: BLOOMBERG

# SECTOR PICKING WILL MATTER



	SPX CONSUMER DISCRETIONARY INDEX	SPX CONSUMER STAPLES INDEX	SPX ENERGY INDEX	SPX FINANCIALS INDEX	SPX HEALTH CARE INDEX	SPX INDUSTRIALS INDEX	SPX MATERIALS INDEX	SPX INFORMATION TECHNOLOGY INDEX	SPX UTILITIES INDEX
1990	-14.9%	12.4%	-1.4%	-24.4%	14.1%	-10.3%	-13.9%	0.5%	-7.3%
1991	38.3%	38.4%	2.4%	43.8%	50.2%	26.0%	21.5%	6.6%	16.0%
1992	17.5%	3.0%	-2.3%	19.8%	-18.1%	6.8%	7.2%	0.6%	0.3%
1993	12.8%	-6.3%	11.1%	7.8%	-11.0%	15.8%	10.6%	20.5%	7.8%
1994	-9.9%	6.8%	-0.4%	-6.4%	10.2%	-4.8%	3.3%	19.1%	-17.2%
1995	18.2%	36.2%	26.0%	49.6%	54.5%	35.9%	17.3%	38.8%	25.2%
1996	10.5%	23.2%	21.7%	31.9%	18.8%	22.7%	13.4%	43.3%	0.2%
1997	32.3%	30.5%	22.0%	45.4%	41.7%	25.0%	6.3%	28.1%	18.4%
1998	39.6%	13.9%	-2.0%	9.6%	42.3%	9.3%	-8.0%	77.6%	10.0%
1999	24.1%	-16.6%	16.0%	2.3%	-11.6%	19.9%	23.0%	78.4%	-12.8%
2000	-20.7%	14.5%	13.2%	23.4%	35.5%	4.5%	-17.7%	-41.0%	51.7%
2001	1.9%	-8.3%	-12.3%	-10.5%	-12.9%	-7.0%	1.0%	-26.0%	-32.5%
2002	-24.4%	-6.3%	-13.3%	-16.4%	-20.0%	-27.6%	-7.7%	-37.6%	-33.0%
2003	36.1%	9.2%	22.4%	27.9%	13.3%	29.7%	34.8%	46.6%	21.1%
2004	12.1%	6.0%	28.8%	8.2%	0.2%	15.9%	10.8%	2.1%	19.6%
2005	-7.4%	1.3%	29.1%	3.7%	4.9%	0.4%	2.2%	0.4%	12.8%
2006	17.2%	11.8%	22.2%	16.2%	5.8%	11.0%	15.7%	7.7%	16.9%
2007	-14.3%	11.6%	32.4%	-20.8%	5.4%	9.8%	20.0%	15.5%	15.8%
2008	-34.7%	-17.7%	-35.9%	-57.0%	-24.5%	-41.5%	-47.0%	-43.7%	-31.5%
2009	38.8%	11.2%	11.3%	14.8%	17.1%	17.3%	45.2%	59.9%	6.8%
2010	25.7%	10.7%	17.9%	10.8%	0.7%	23.9%	19.9%	9.1%	0.9%
2011	4.4%	10.5%	2.8%	-18.4%	10.2%	-2.9%	-11.6%	1.3%	14.8%
2012	21.9%	7.5%	2.3%	26.3%	15.2%	12.5%	12.2%	13.1%	-2.9%
2013	26.6%	15.0%	13.4%	22.5%	26.8%	21.7%	11.9%	11.7%	8.0%

Source: Bloomberg; Hedgeye calculations.



## TOP LONG IDEAS

- Euro (FXE)
- Germany (EWG)
- British Pound (FXB)
- UK (EWU)
- China (FXI)

## TOP SHORT IDEAS

- Treasuries (TLT)
- EM USD Debt (EMB)
- Junk Bonds (JNK)
- Utilities (XLU)
- Kinder Morgan (KMP)



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# HEDGEYE

## MACROTHEMES

### Q4 2013