# THE MACRO SHOW

MARCH 22, 2016

# LEGAL

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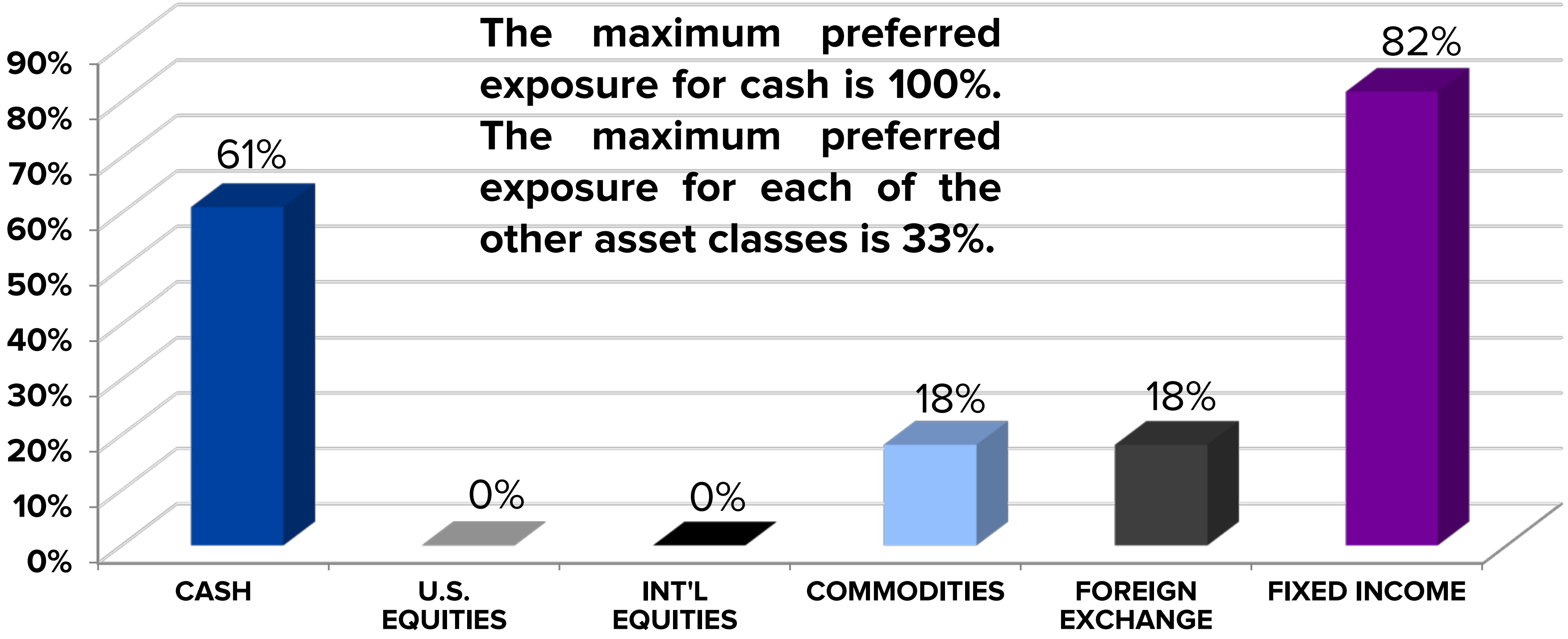
# HEDGEYE ASSET ALLOCATION

| | CASH | U.S. EQUITIES | INT'L EQUITIES | COMMODITIES | FOREIGN EXCHANGE | FIXED INCOME |
|---|---|---|---|---|---|---|
| 3/21/2016 | 62 | 0 | 0 | 6 | 5 | 27 |
| 3/22/2016 | 61 | 0 | 0 | 6 | 6 | 27 |

| | CASH | U.S. EQUITIES | INT'L EQUITIES | COMMODITIES | FOREIGN EXCHANGE | FIXED INCOME |
|---|---|---|---|---|---|---|
| 3/21/2016 | 62% | 0% | 0% | 18% | 15% | 82% |
| 3/22/2016 | 61% | 0% | 0% | 18% | 18% | 82% |

The maximum preferred exposure for cash is 100%. The maximum preferred exposure for each of the other asset classes is 33%.

# HEDGEYE ASSET ALLOCATION

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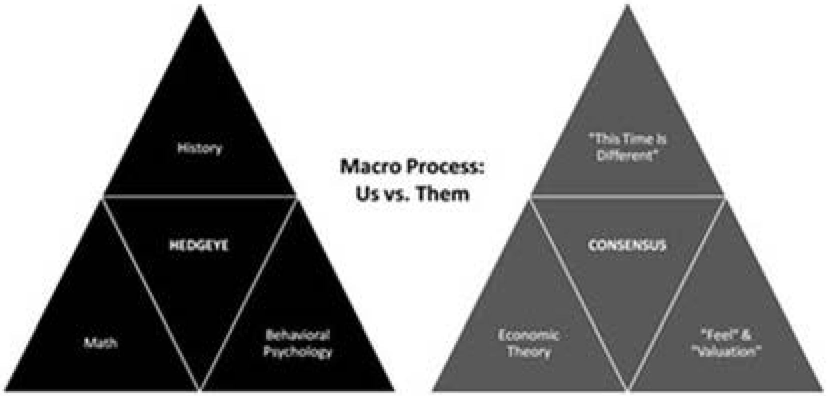
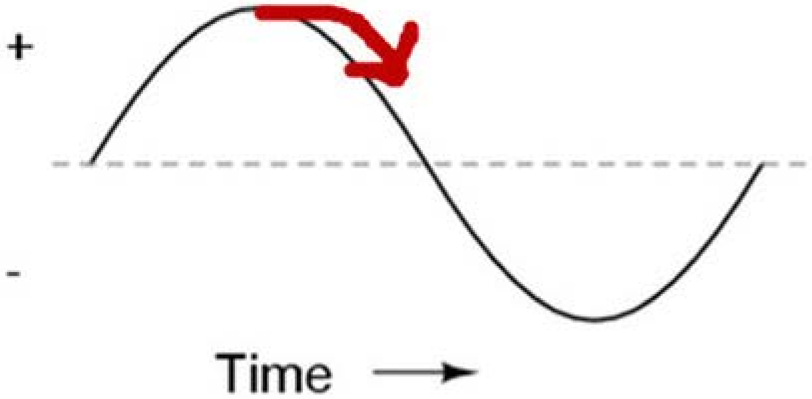
# HEDGEYE MACRO PROCESS: RATE OF CHANGE




## DIFFERENTIATED FROM THE HERD

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

## WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin.

# S&P 500 REVENUES & EARNINGS COMPS

| SECTOR | SALES GROWTH (% CHG) | EARNINGS GROWTH (% CHG) | #REPORTED |
|---|---|---|---|
| S&P 500 (Aggregate) | -4.0% | -6.8% | 495 / 499 |
| Energy | -34.2% | -72.6% | 40 / 40 |
| Materials | -15.3% | -17.9% | 27 / 27 |
| Industrials | -7.2% | -5.5% | 65 / 65 |
| Consumer Discretionary | 4.4% | 9.5% | 78 / 82 |
| Consumer Staples | 0.7% | 0.8% | 37 / 37 |
| Healthcare | 9.4% | 10.7% | 56 / 56 |
| Financials | 0.7% | -5.4% | 90 / 90 |
| Information Technology | -5.2% | -3.3% | 67 / 67 |
| Telecom | 12.0% | 25.6% | 5 / 5 |
| Utilities | -12.5% | -48.1% | 30 / 30 |

# HEDGEYE SECTOR PERFORMANCE

| SECTOR | Ticker | Price | 1-Day % Chg | MTD % Chg | YTD % Chg |
|---|---|---|---|---|---|
| Consumer Discretionary | XLY | $78.13 | 0.05% | 4.96% | -0.04% |
| Financial Select Sector | XLF | $22.69 | -0.18% | 7.59% | -4.78% |
| Health Care Select Sector | XLV | $67.23 | 0.58% | 1.51% | -6.66% |
| Technology Select Sector | XLK | $43.74 | 0.34% | 6.76% | 2.12% |
| Consumer Staples Select Sector | XLP | $52.68 | 0.06% | 3.46% | 4.34% |
| Industrial Select Sector | XLI | $55.96 | 0.59% | 7.37% | 5.56% |
| Materials Select Sector | XLB | $45.63 | 0.46% | 9.16% | 5.09% |
| The Energy Select Sector | XLE | $63.27 | -0.35% | 11.82% | 4.89% |
| Utilities Select Sector | XLU | $48.58 | -0.10% | 4.92% | 12.25% |
| S&P 500 | SPX | 2,051.60 | 0.10% | 6.18% | 0.37% |

# HEDGEYE SECTOR RELATIVE PERFORMANCE

| | Ticker | Price | 1-Day % Chg | MTD % Chg | YTD % Chg |
|---|---|---|---|---|---|
| Consumer Discretionary | XLY | $78.13 | -0.05% | -1.22% | -0.41% |
| Financial Select Sector | XLF | $22.69 | -0.27% | 1.41% | -5.16% |
| Health Care Select Sector | XLV | $67.23 | 0.48% | -4.67% | -7.04% |
| Technology Select Sector | XLK | $43.74 | 0.25% | 0.58% | 1.75% |
| Consumer Staples Select Sector | XLP | $52.68 | -0.04% | -2.72% | 3.96% |
| Industrial Select Sector | XLI | $55.96 | 0.49% | 1.19% | 5.19% |
| Materials Select Sector | XLB | $45.63 | 0.36% | 2.98% | 4.72% |
| The Energy Select Sector | XLE | $63.27 | -0.45% | 5.65% | 4.52% |
| Utilities Select Sector | XLU | $48.58 | -0.20% | -1.25% | 11.87% |

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# HEDGEYE STYLE FACTOR PERFORMANCE

| | FACTOR | 1D % Chg | 1W % Chg | 1M % Chg | 3M % Chg | 6M % Chg | YTD % Chg |
|---|---|---|---|---|---|---|---|
| Debt | High Debt/EV | -0.2% | 2.0% | 13.9% | 7.3% | -0.8% | 4.4% |
| | Low Debt/EV | 0.2% | 1.4% | 7.1% | 2.6% | 5.2% | 1.7% |
| SI | High Short Interest | 0.0% | 1.4% | 13.4% | 6.6% | -0.4% | 4.6% |
| | Low Short Interest | -0.1% | 1.4% | 7.2% | 2.4% | 5.7% | 0.9% |
| BETA | High Beta | 0.0% | 3.3% | 17.1% | 2.3% | -2.0% | -0.2% |
| | Low Beta | -0.2% | 0.7% | 5.9% | 8.5% | 10.4% | 7.2% |
| YIELD | High Yield | -0.3% | 1.9% | 13.0% | 7.8% | 2.8% | 5.4% |
| | Low Yield | 0.3% | 1.1% | 8.8% | 0.6% | -1.6% | -1.1% |
| MKT CAP | MCAP Bottom 25% | -0.1% | 2.0% | 13.6% | 4.4% | -2.9% | 1.9% |
| | MCAP Top 25% | 0.1% | 1.7% | 6.8% | 1.3% | 4.7% | 0.1% |
| Sales | Top 25% Sales Growth | 0.0% | 1.6% | 11.5% | 1.8% | 0.9% | -0.1% |
| | Bottom 25% Sales Growth | 0.1% | 2.3% | 11.3% | 7.4% | 4.2% | 5.1% |
| EPS | Top 25% EPS Growth | 0.1% | 1.6% | 9.1% | 0.1% | 0.7% | -1.5% |
| | Bottom 25% EPS Growth | -0.1% | 2.2% | 13.2% | 8.7% | 5.0% | 6.2% |

**Mean Performance of Top Quartile vs. Bottom Quartile, S&P500 Companies*

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# HEDGEYE RATES & SPREADS

| | Price | 1D Bps Chg | 5D Bps Chg | 1M Bps Chg | 3M Bps Chg | vs. 52-Wk, Bps High | vs. 52-Wk, Bps Low | vs. 3Y Ave | vs. 5Y Ave |
|---|---|---|---|---|---|---|---|---|---|
| 3M T-Bill | 0.30% | 1.5 | -1.5 | 1 | 14 | -6 | 35 | 25 | 25 |
| 3M LIBOR | 0.62% | 0.0 | -1.5 | 1 | 3 | -2 | 36 | 33 | 29 |
| 2Y T-Note | 0.87% | 3.7 | -8.4 | 13 | -7 | -23 | 41 | 36 | 44 |
| 5Y T-Note | 1.38% | 4.5 | -10.0 | 15 | -29 | -45 | 40 | -10 | 9 |
| 10Y T-Note | 1.92% | 4.2 | -4.4 | 17 | -28 | -58 | 39 | -42 | -33 |
| 30Y T-Note | 2.72% | 4.4 | -1.3 | 11 | -19 | -54 | 34 | -46 | -49 |
| 2Y-10Y Spread, Bps | 104 | 0.6 | 4.0 | 4.0 | -20 | -36 | -3 | -77 | -77 |
| IG SPREAD (AAABBB) | 2.05% | 0.0 | -5.0 | -21 | 7 | -25 | 49 | 36 | 20 |
| HIGH YIELD | 7.67% | 0.0 | -12.4 | -117 | -156 | -166 | 171 | 123 | 88 |
| 5Y BREAKEVEN | 1.53% | 3.1 | 12.7 | 46.9 | 35.2 | -23.9 | 67.7 | -12.0 | -24.2 |

# CFTC NON-COMMERCIAL NET LONG POSITIONING

| METRIC | Latest | W/W Chg | 3M Ave | 6M Ave | 1Y Ave | Z-Score 1Y | Z-Score 3Y |
|---|---|---|---|---|---|---|---|
| SPX (Index + E-mini) | (205,454) | (11,219) | (167,878) | (161,891) | (124,687) | *-1.13X* | *-1.61X* |
| Russell 2000 (mini) | (63,627) | 2,707 | (55,278) | (47,788) | (33,591) | *-1.59X* | *-1.75X* |
| 10Y Treasury | (16,665) | (41,255) | 13,254 | (847) | (29,890) | *0.19X* | *0.36X* |
| CRUDE OIL | 330,787 | 27,029 | 248,047 | 262,784 | 291,013 | *0.75X* | *-0.01X* |
| GOLD | 146,805 | (1,461) | 55,199 | 46,012 | 39,565 | *2.34X* | *1.96X* |
| COPPER | (624) | 2,325 | (27,290) | (23,885) | (18,811) | *1.38X* | *1.23X* |
| $USD | 17,387 | (8,889) | 34,446 | 38,062 | 49,078 | *-2.30X* | *-0.66X* |
| JPY | 44,154 | (18,698) | 30,816 | (5,818) | (29,056) | *1.58X* | *2.68X* |
| EUR | (75,447) | (3,953) | (98,610) | (109,769) | (122,769) | *0.92X* | *0.00X* |
| GBP | (11,594) | 35,855 | (32,786) | (22,812) | (21,717) | *0.75X* | *-0.01X* |

# MARKET SHARE VOLUME & TOTAL VALUE TRADED

| INDEX/SECURITY | VOLUME: (3/19) vs. | | | |
|---|---|---|---|---|
| | Prior Day | 1M Ave | 3M ave | 1Y Ave |
| Total Market Volume* | -37% | -13% | -15% | -12% |
| Total Exchange Volume** | -44% | -24% | -27% | -16% |

*Total Market Volume = Total US exchange volume plus OTC and OTCBB trading volume for all security types. Calculated by Bloomberg.

**Tape A+B+C volume = total US exchange volume

*** Total Traded Value for Russell 3000 (total mkt proxy)

# GOLD SPOT PRICE


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# DOW JONES BELGIUM STOCK INDEX


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# 1 VOLUME

# 2 HOUSING

# 3 EUROPE

# VOLUME

The relationship between volume and volatility (relative to price) remains core to how we model trending risks. As they chased the charts to another lower-high (price) yesterday (SPX), total U.S. Equity Volume (including dark pool) was -13% vs. its 1 month average as front month equity VIX held the 12-14 level it held during JUL and OCT.

# HOUSING

Another bad U.S. #HousingSlowing data point yesterday (Existing Home Sales -7.1% month-over-month and -1.4% year-over-year) keeps what we liked most at this time last year (Housing, Healthcare, Consumer – all #LateCycle consumption + employment peaks) on the short side this year. Housing stocks (ITB) are +20% “off the lows” from FEB with the data only getting worse.

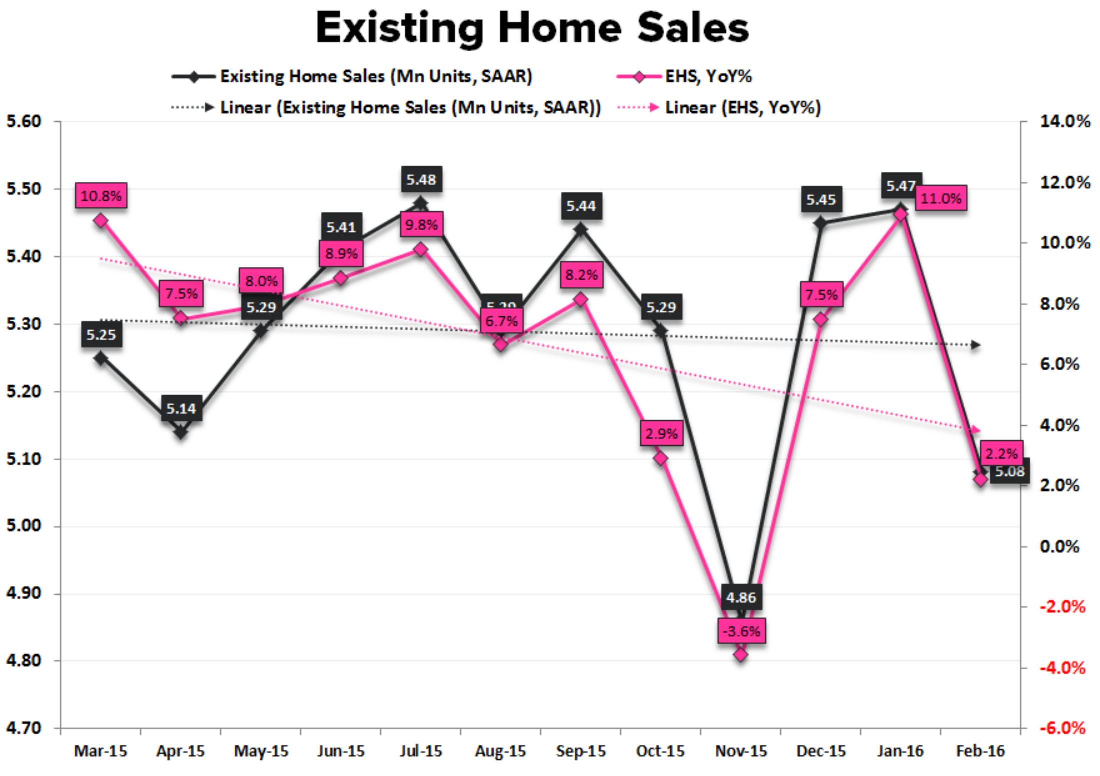
# EUROPE

Disgusting act of terror aside, it's important to contextualize where European Equities were ahead of this news – DAX, MIB Index, and IBEX all just failed @Hedgeye TREND resistance (again) yesterday. Italy was -2% last week to -13% year-to-date, tried the bounce yesterday and is down -1.6% this morning as the Draghi #BeliefSystem breaks down.

**U.S. HOUSING & MACRO**

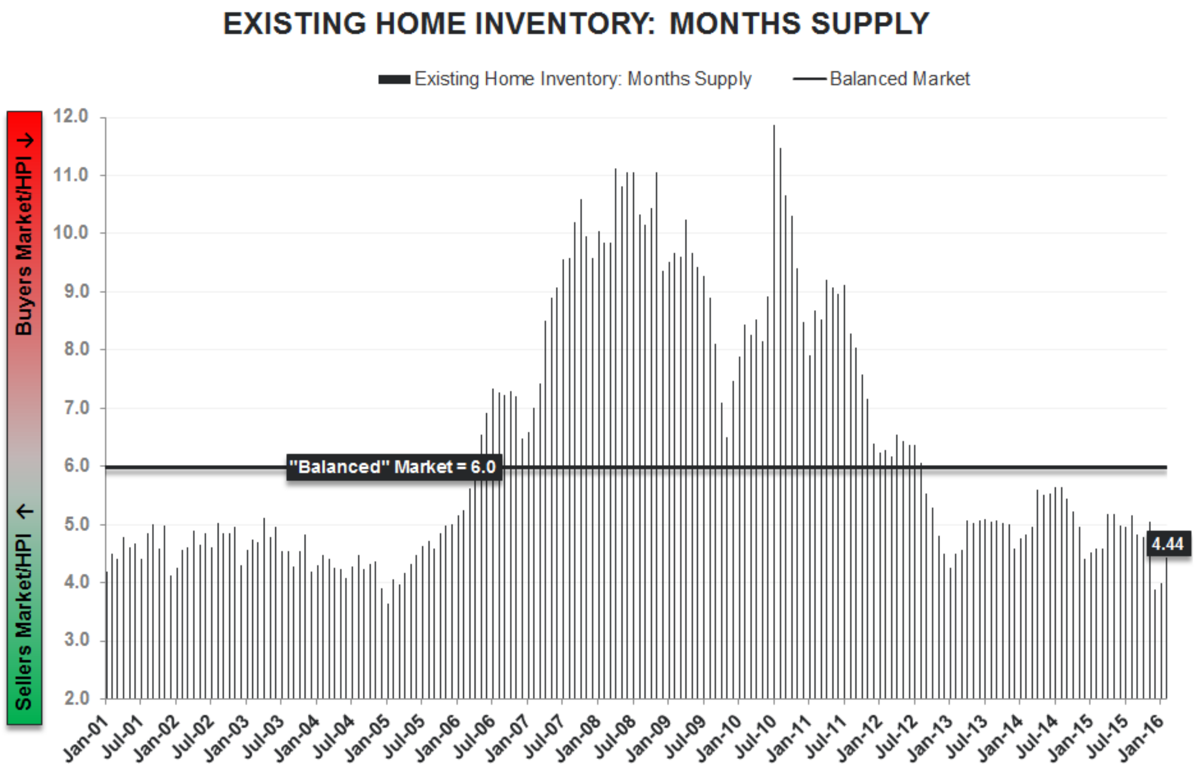
CHRISTIAN DRAKE

# EXISTING HOME SALES = ↓



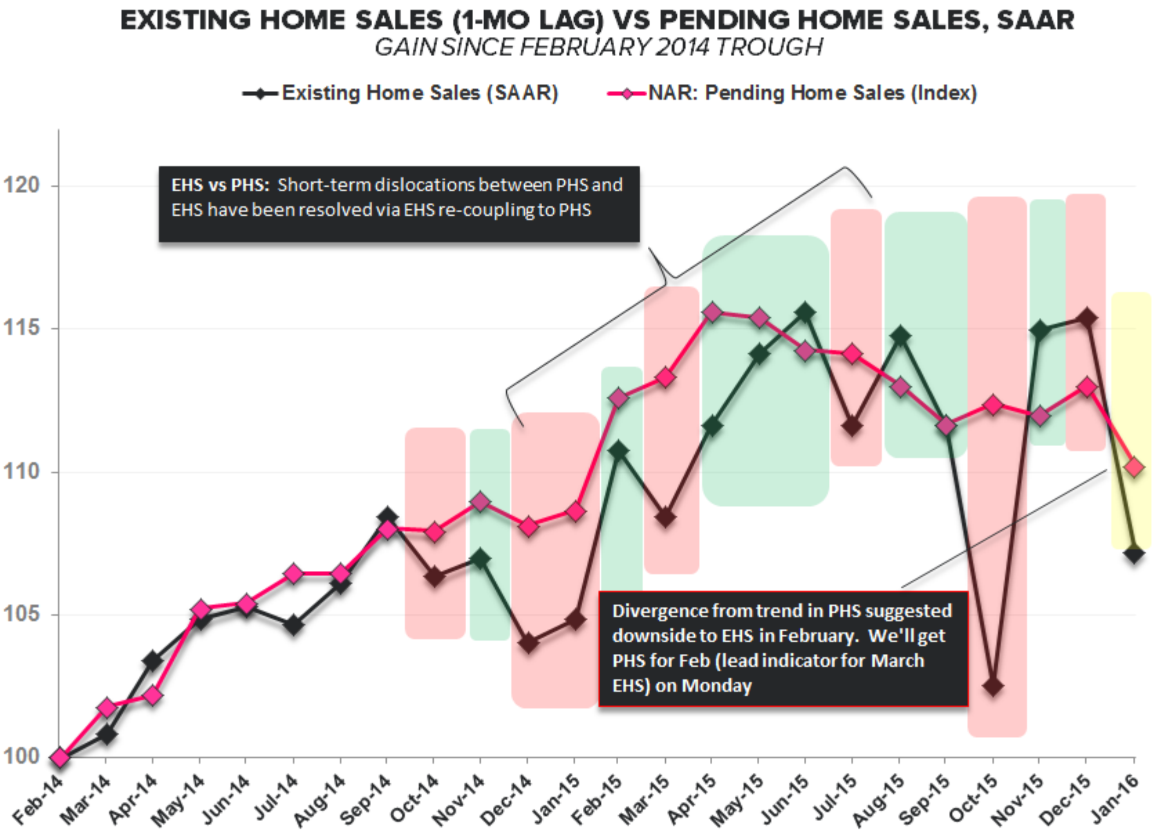

DATA SOURCE: NAR, BLOOMBERG

# SUPPLY = ↓



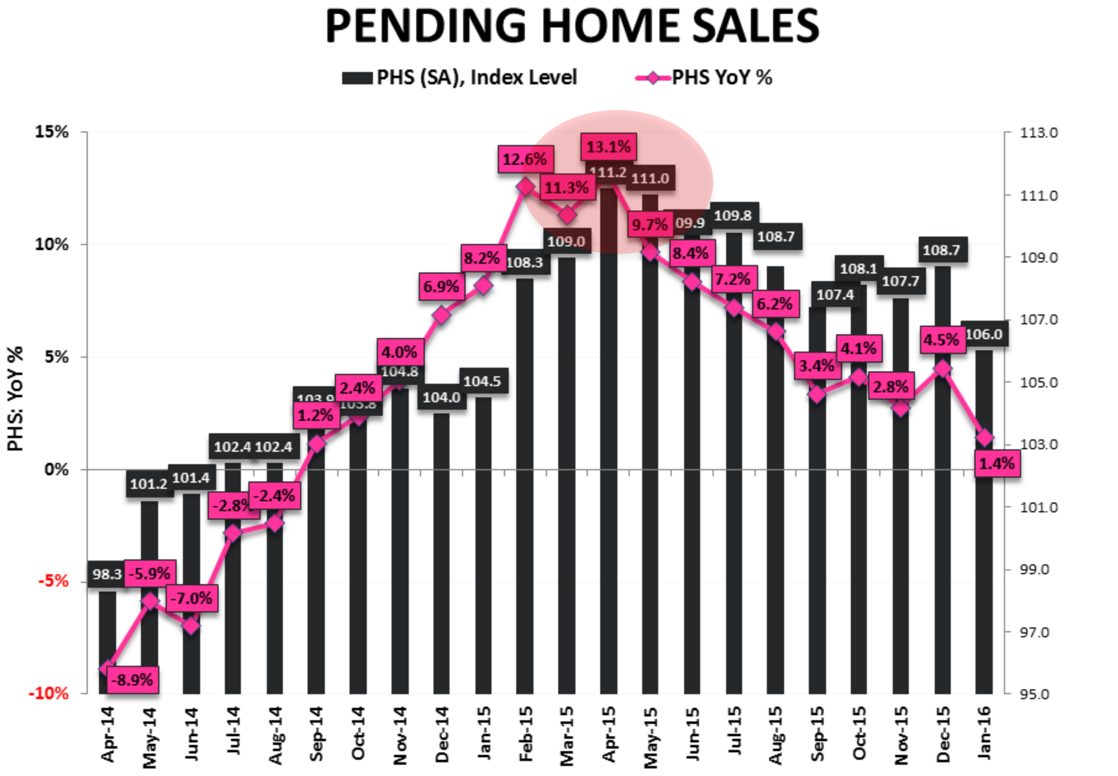

DATA SOURCE: NAR, BLOOMBERG

# DON'T BE SURPRISED!



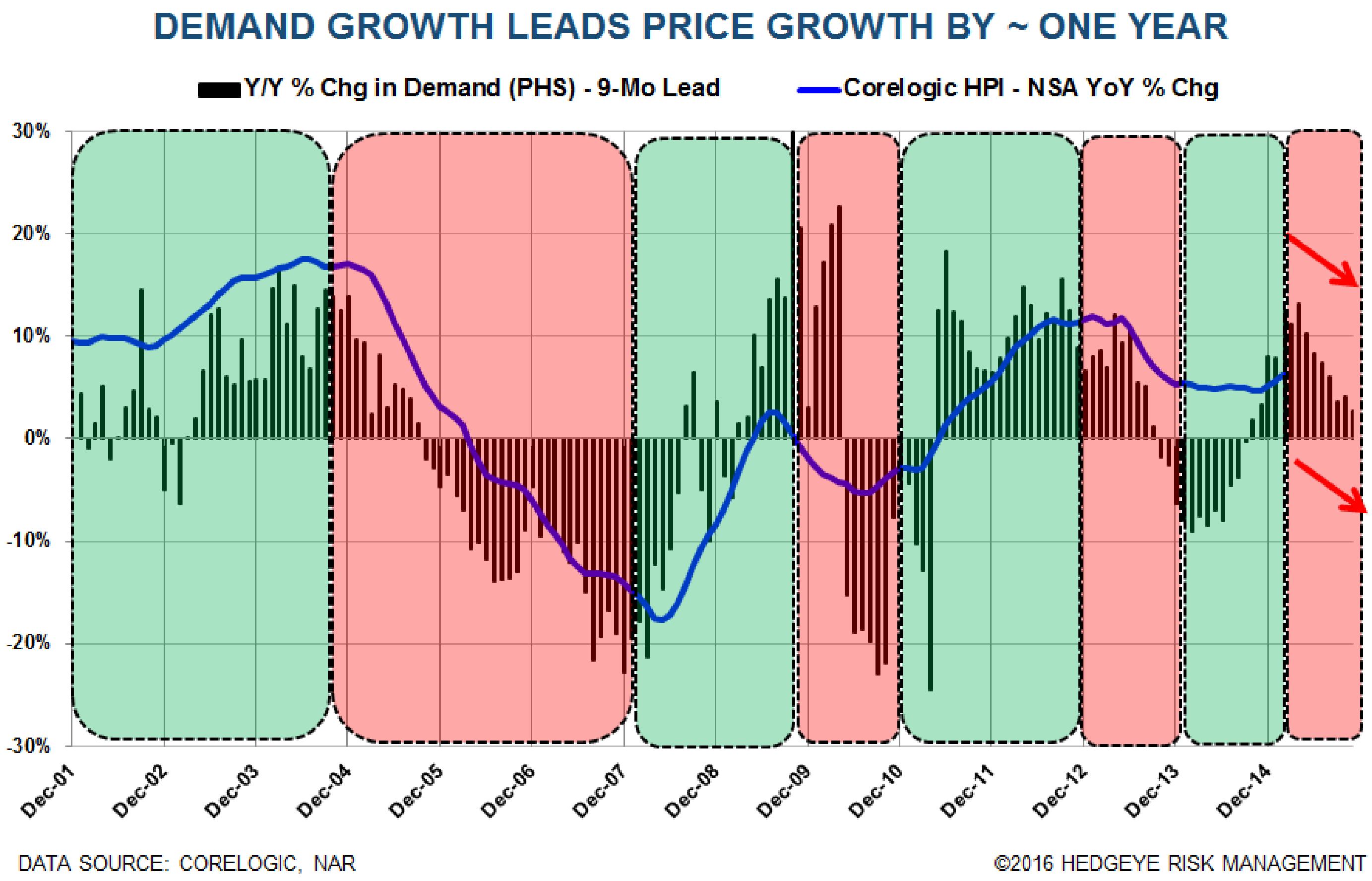

DATA SOURCE: NAR, BLOOMBERG

# IT'S GOING TO GET WORSE



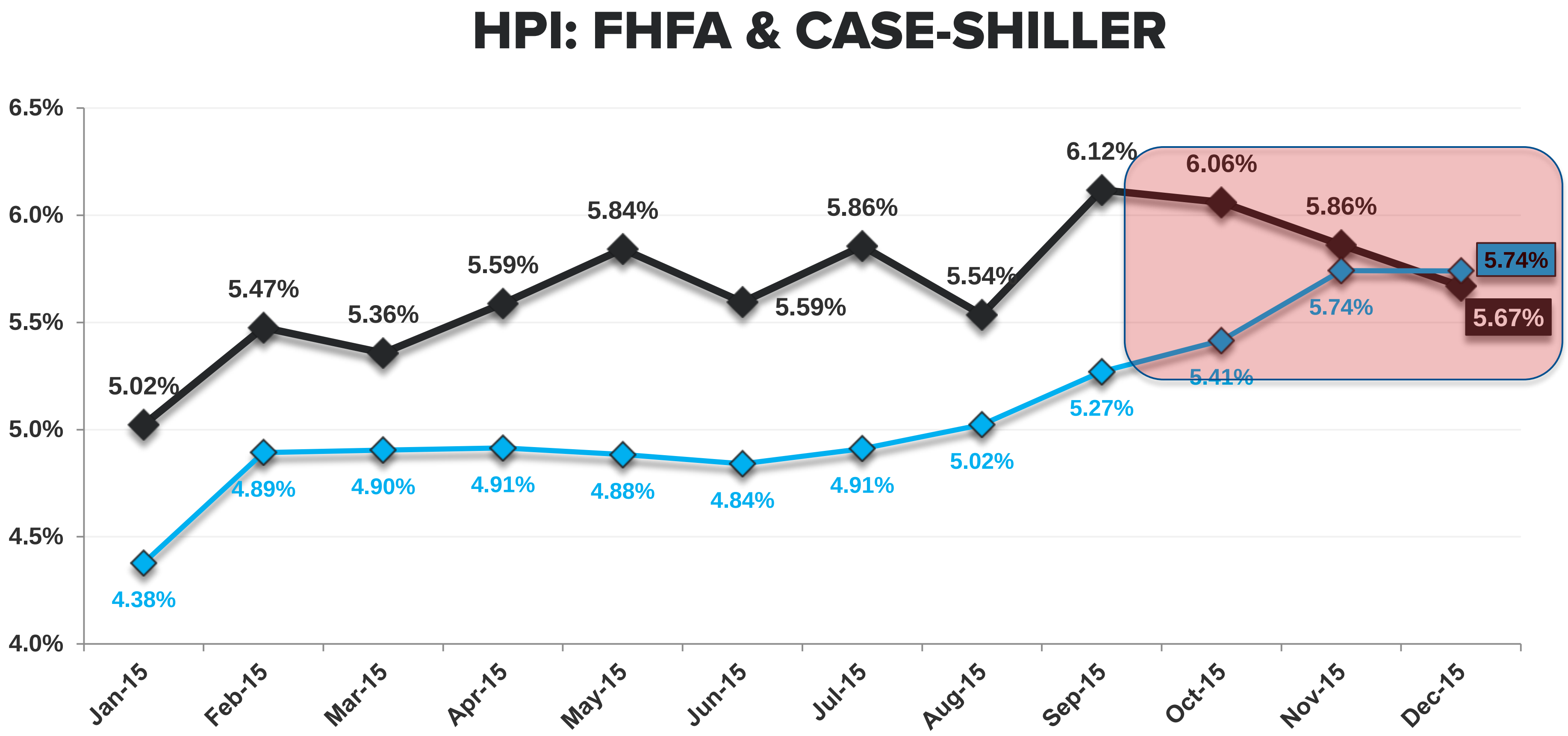

DATA SOURCE:BLOOMBERG, NATIONAL ASSOCIATION OF REALTORS

# DEMAND → HPI

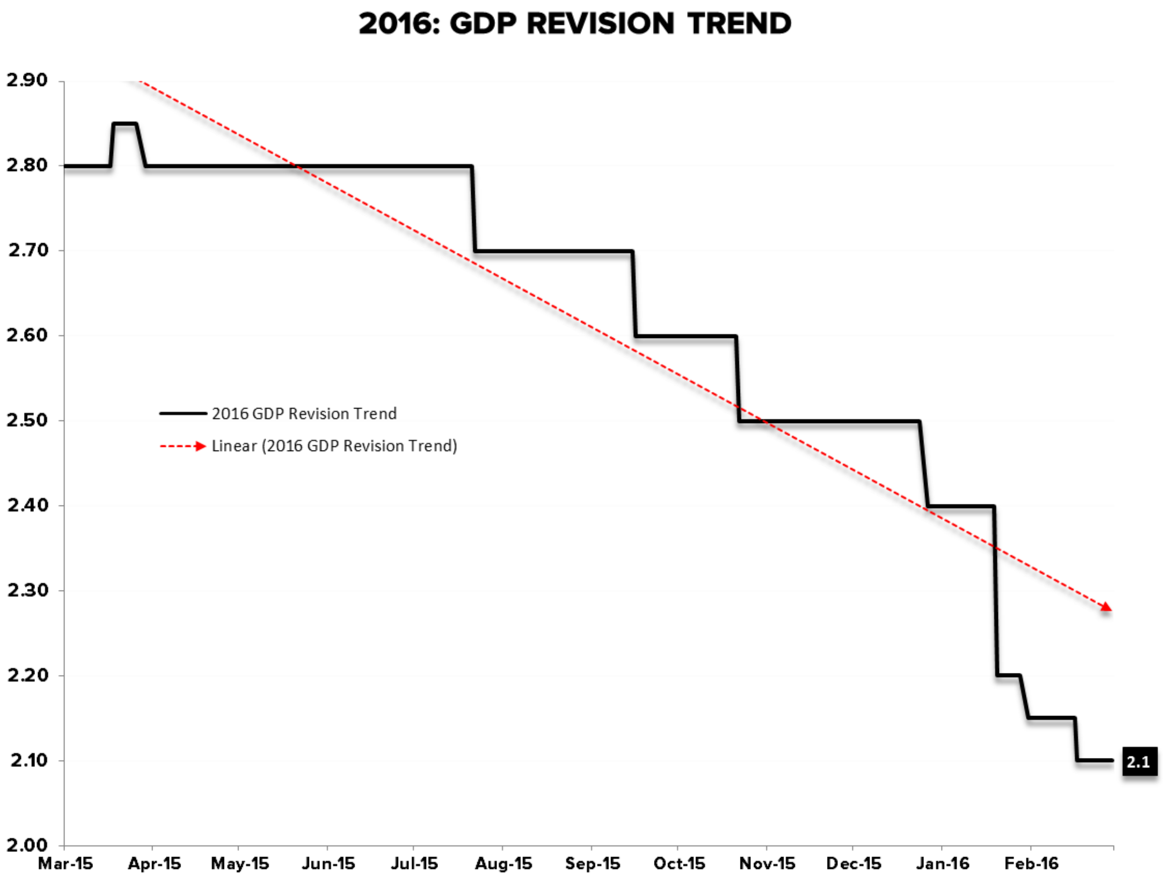



The past fifteen years have seen demand growth lead price growth by 9-12mos. This historical relationship suggests that HPI is on cusp of a negative inflection.

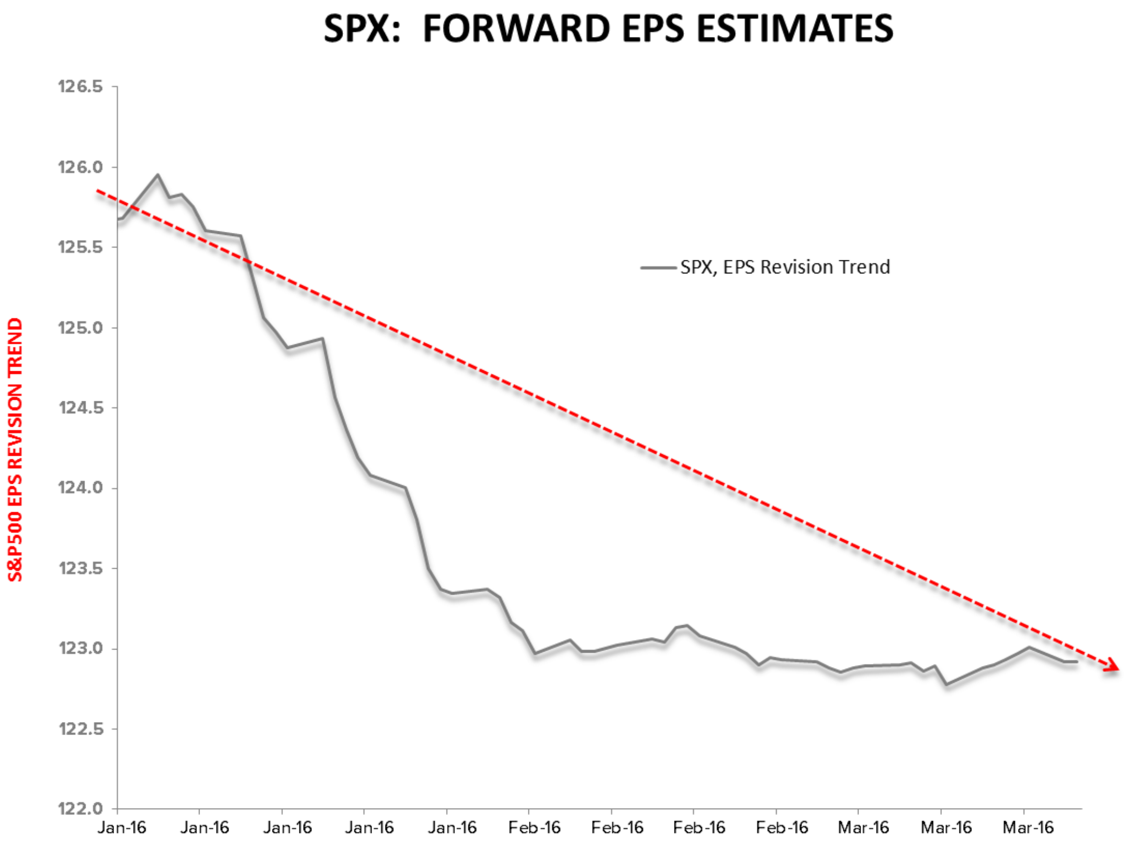
# HPI: STALLING?



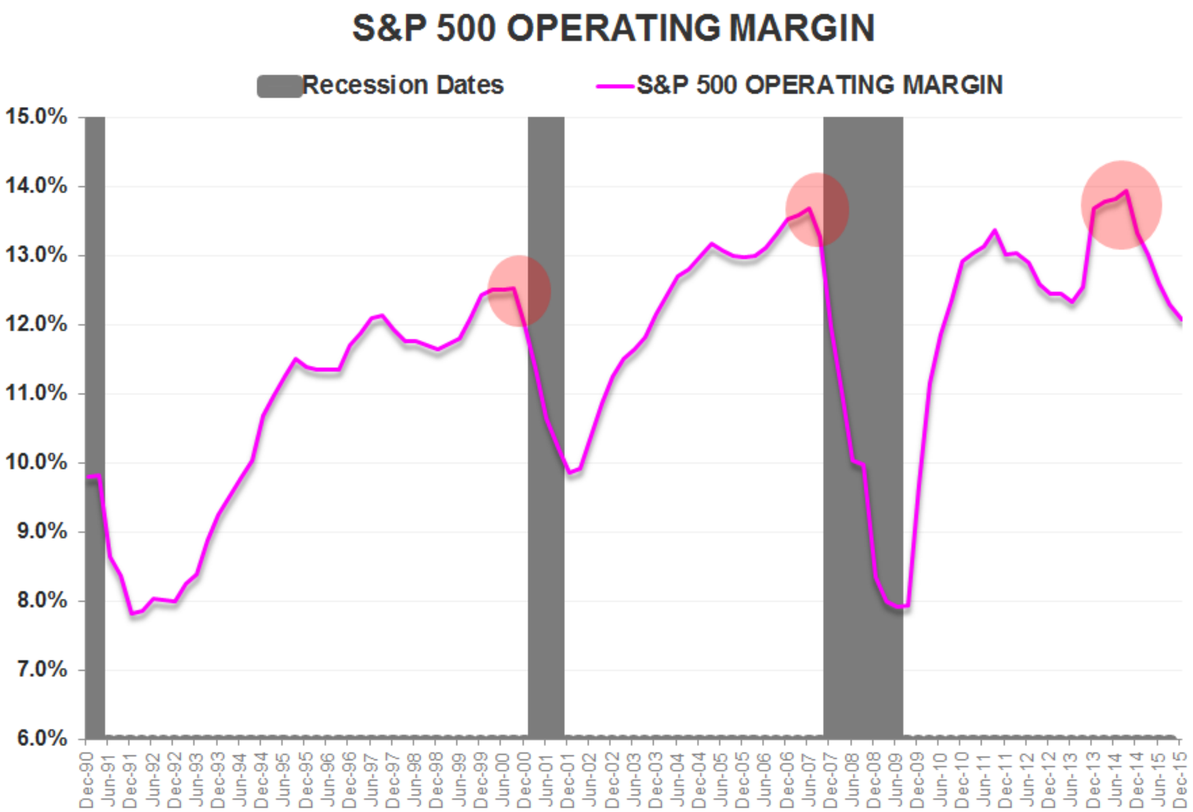
# GDP ESTIMATES = ⬇



# SPX EPS ESTIMATES = ⬇

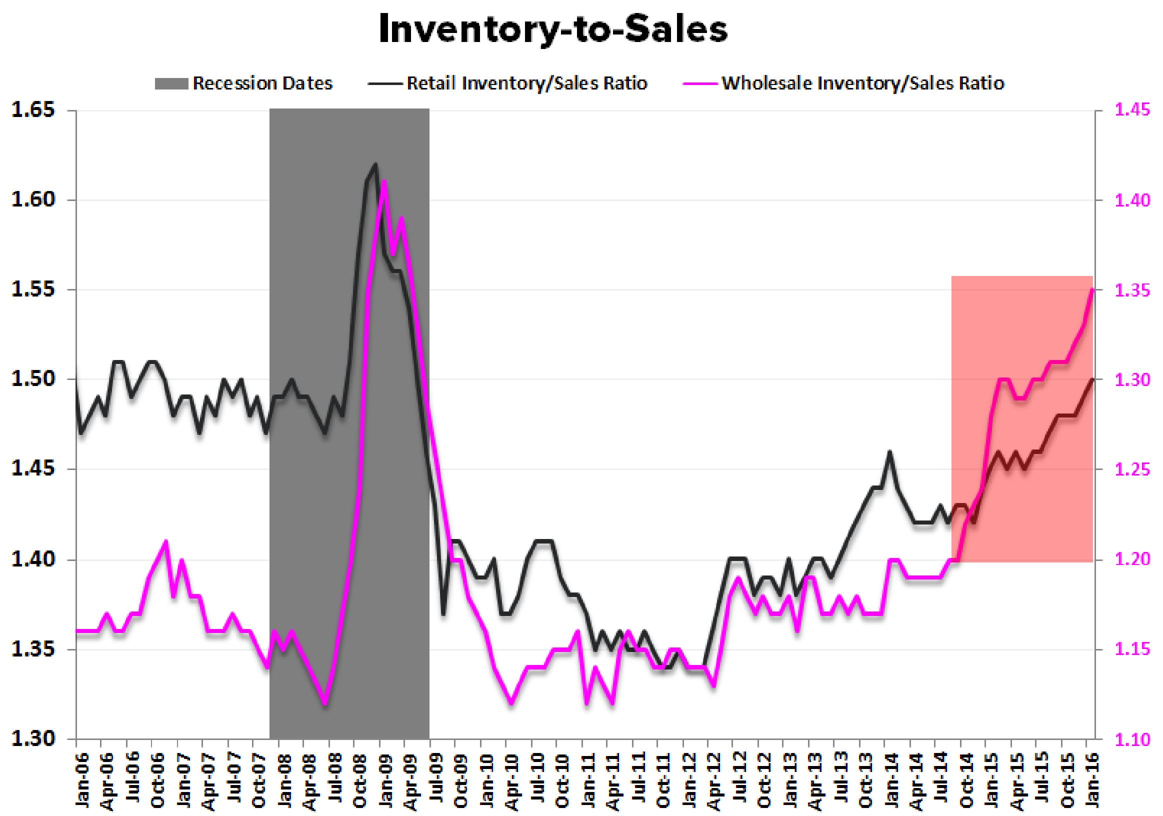


# MARGINS = PAST PEAK



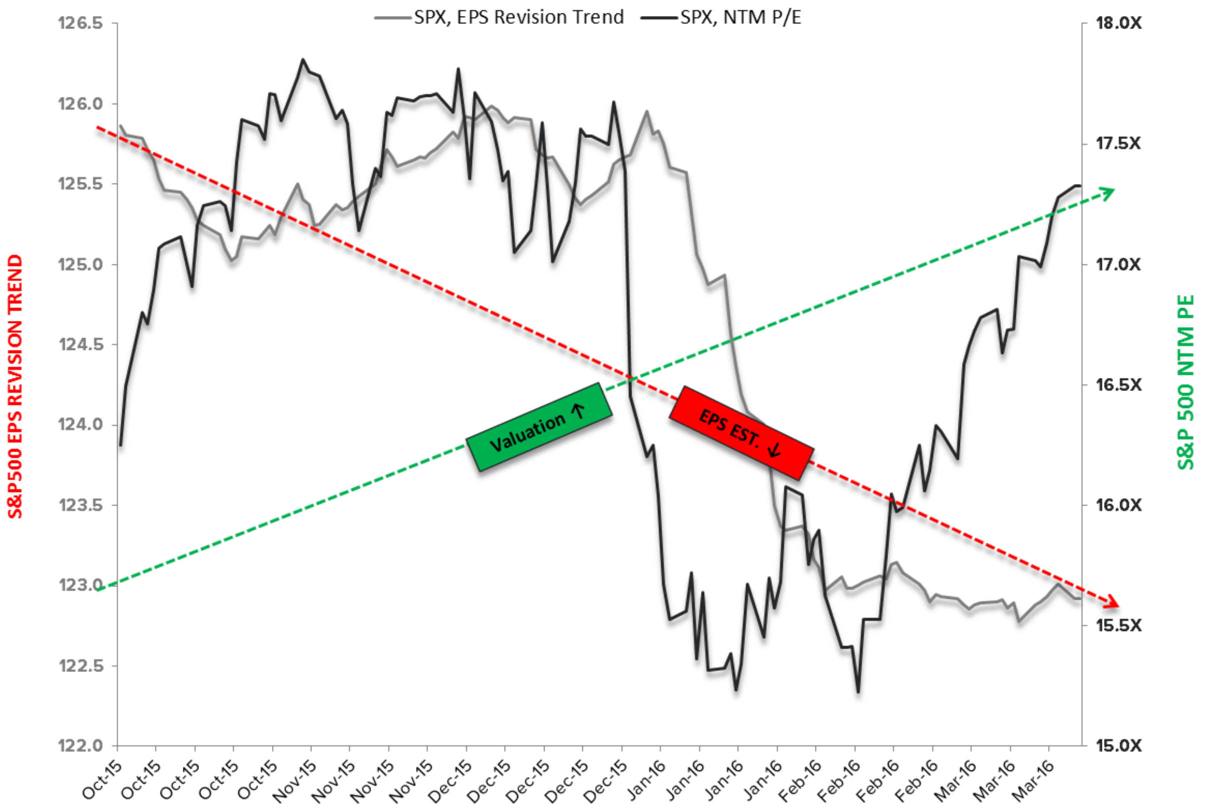

DATA SOURCE: BLOOMBERG

# INVENTORY > SALES

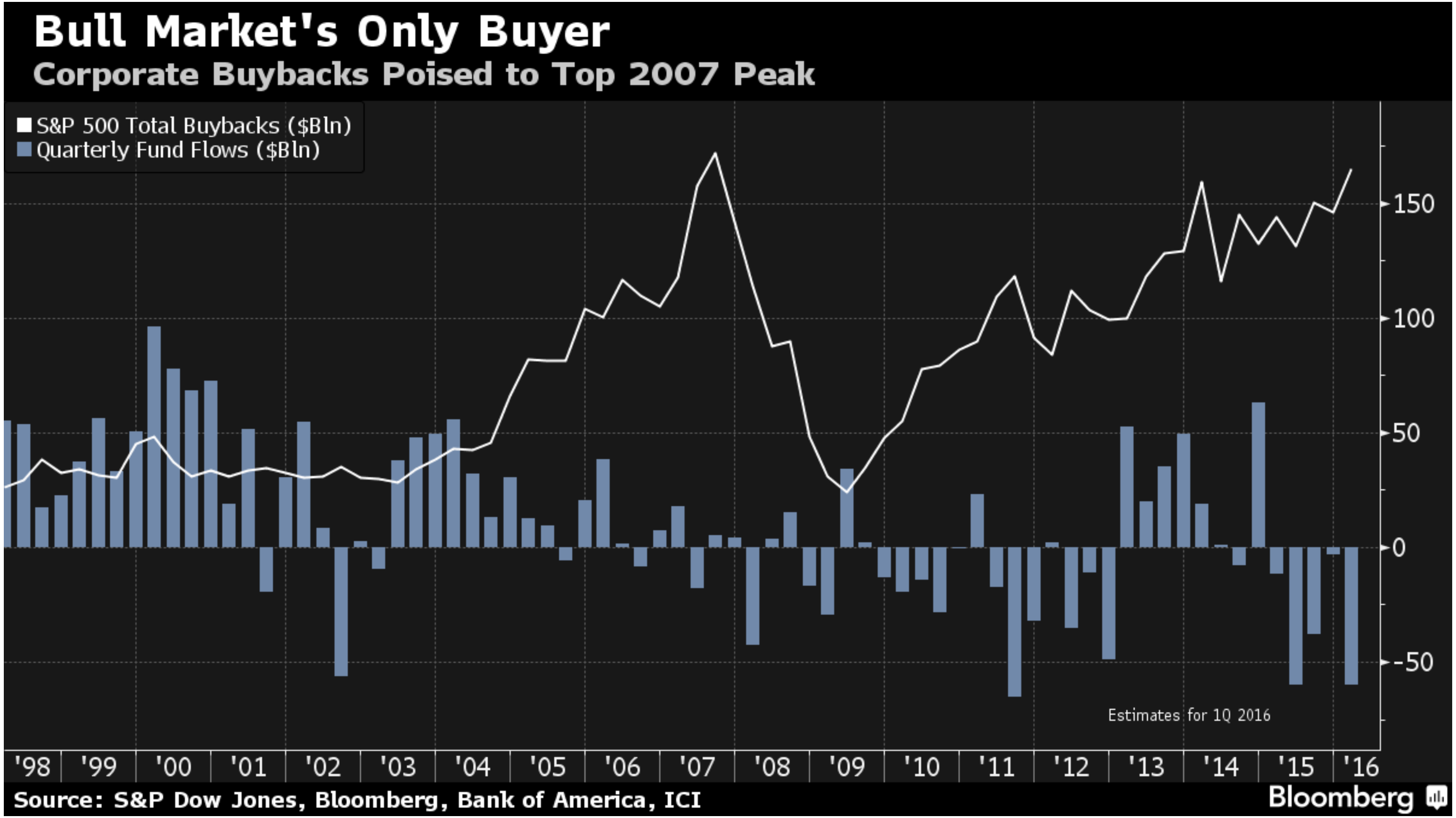



DATA SOURCE: BLOOMBERG, CENSUS BUREAU

# P(X): EARNINGS, MULTIPLES



# REPO ACTIVITY = ↑

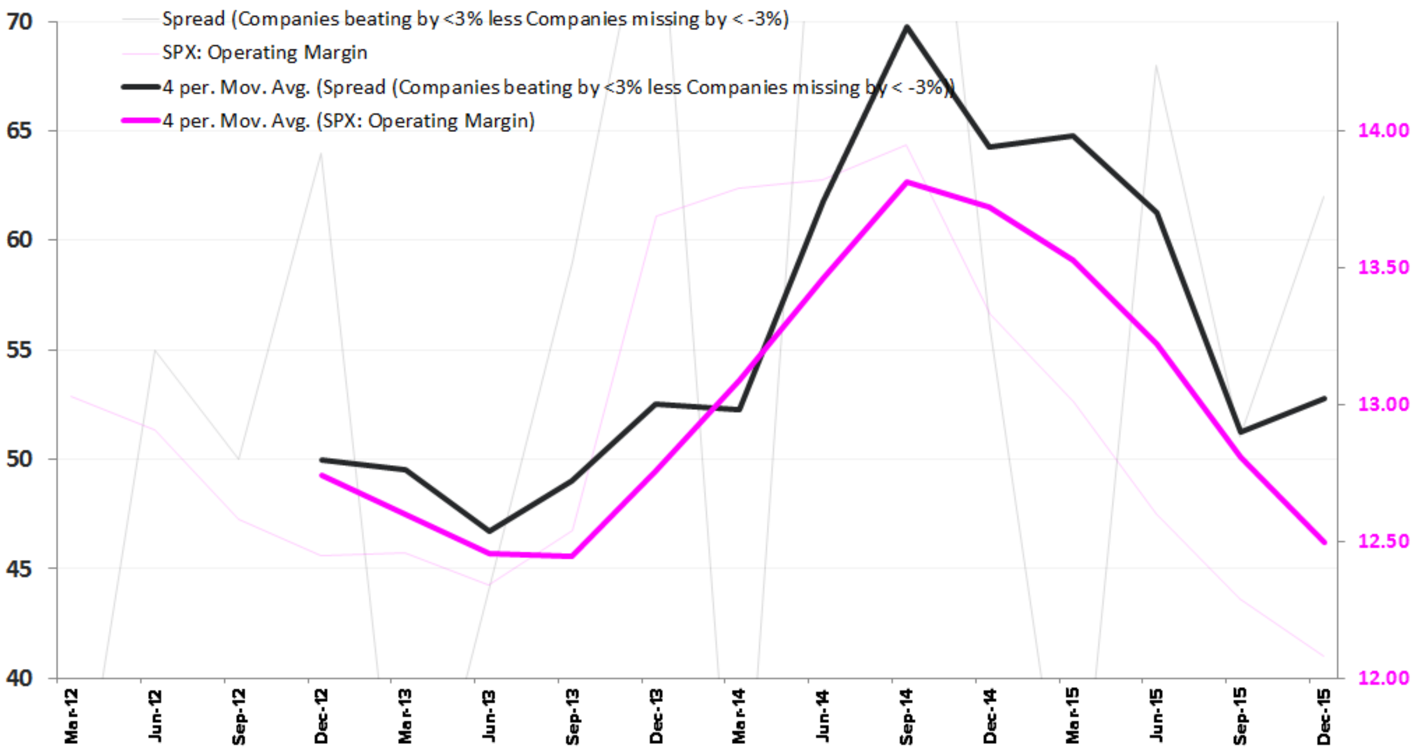


# MIND THE GAAP

- On a non-GAAP basis, S&P 500 EPS climbed a mere +0.4% in 2015 – which represents the slowest growth rate since 2009 (Factset).
- On a GAAP basis, S&P 500 EPS plunged -12.7% last year – which represents the sharpest decline since 2008 (S&P/Dow Jones).
- GAAP EPS in 2015 was 25% lower than the non-GAAP figure – which represents the widest spread since 2008.
- Outside of 2008, the only other times the "GAAP gap" was as wide as it was last year was in 2001 and 2002. Recall that the domestic credit and corporate profit cycles had rolled over in each of those years as well.
- Much to the chagrin of the "ex-energy" bulls, the aforementioned 2015 "GAAP gap" was broad-based. In fact, Energy only accounted for $93B (36%) of the $256B aggregate spread across S&P 500 constituents. Healthcare and Tech accounted for $53B (21%) and $42 (16%), respectively.

*Source: WSJ*

# EARNINGS MANAGEMENT:




Source: Bloomberg, HRM