



HEDGEYE

U.S. ECONOMIC UPDATE

MACRO

February 5, 2014

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 make investment recommendations. 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



1Q14 MACRO THEMES REVIEW

#INFLATIONACCELERATING AND #GROWTHDIVERGENCES

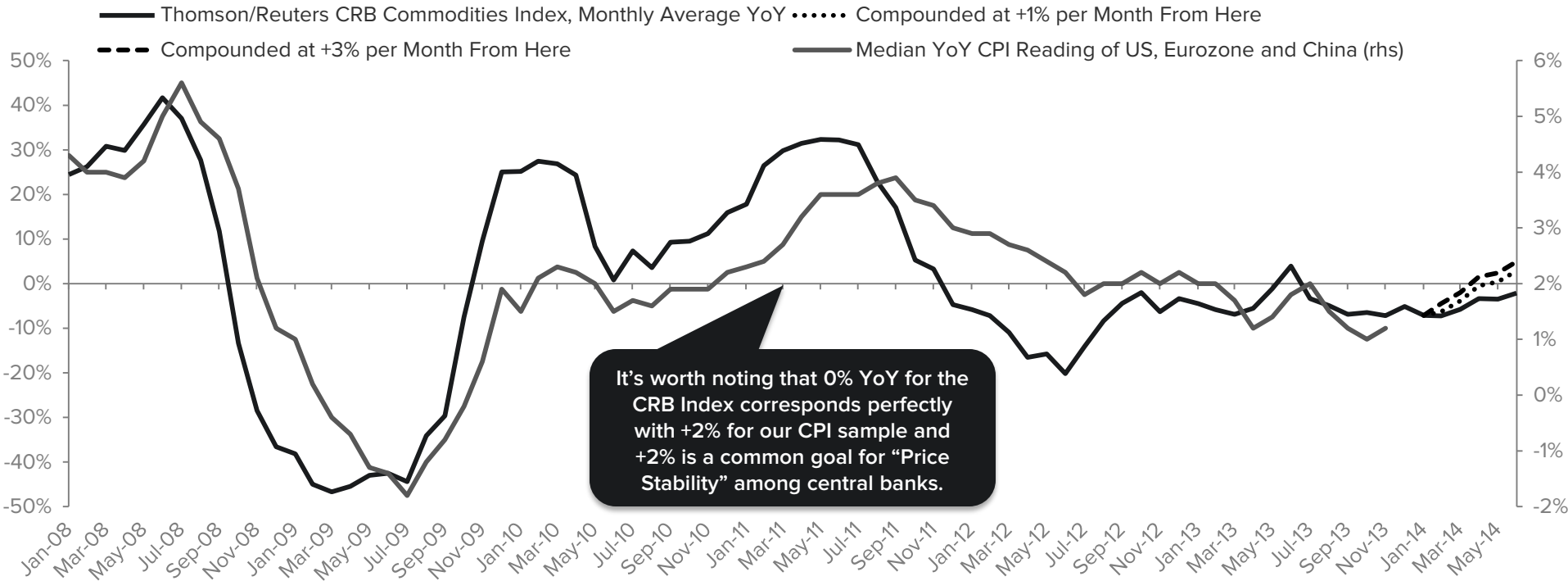
INFLATION: ARE COMMODITIES BASING?

HEDGEYE QUANTITATIVE SETUP: COMMODITY COMPLEX



COMMODITY BASE EFFECT TAILWIND

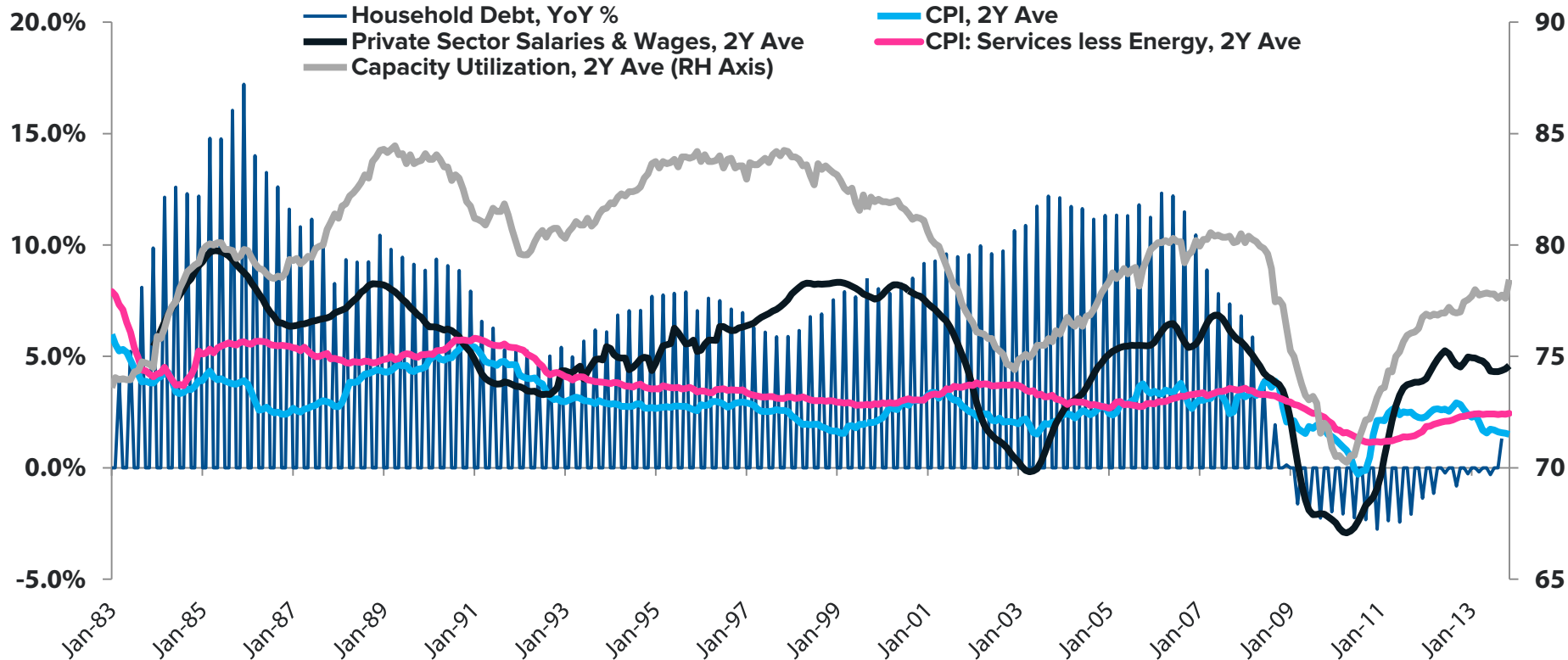
CPI READINGS SHOULD COME IN ~100+ BASIS POINTS HIGHER GLOBALLY OVER THE INTERMEDIATE TERM



Forecasts for the CRB Index assume no change to current prices unless otherwise noted.

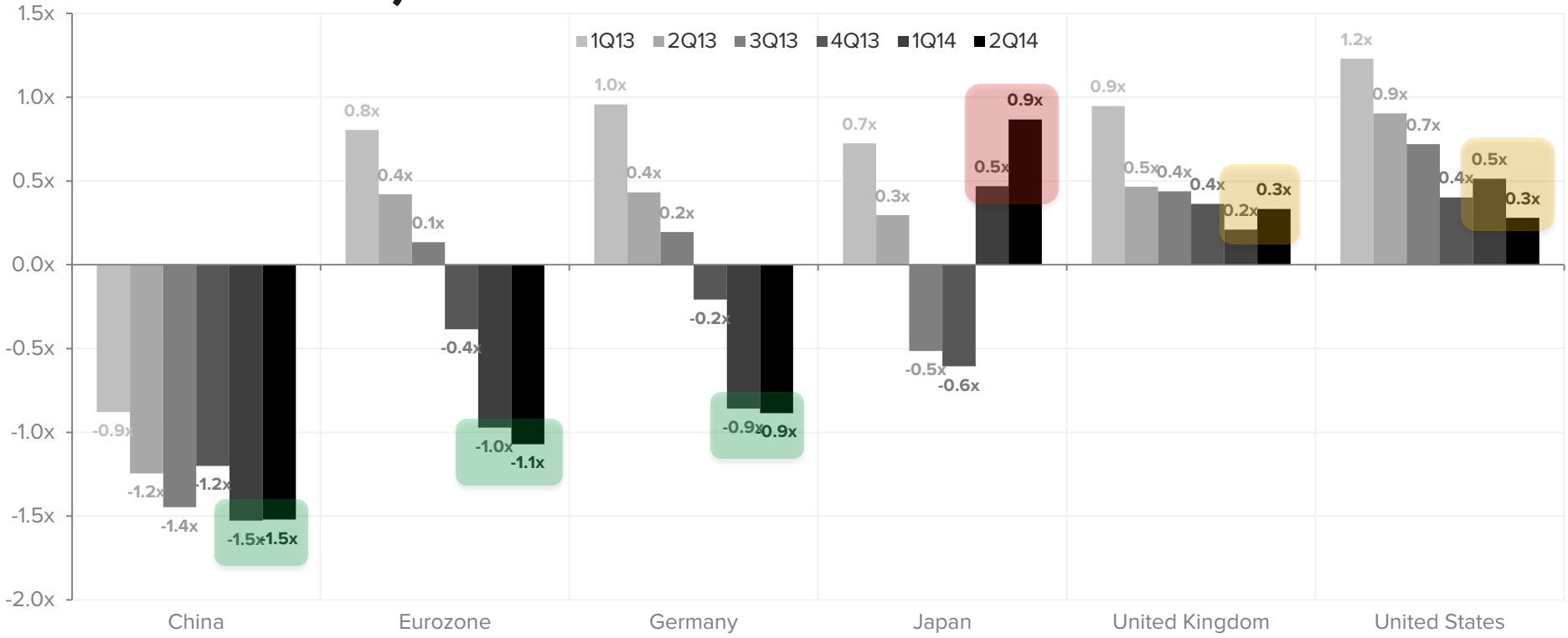
INFLATIONARY PRESSURES BUILDING

CPI COMPS EASE WHILE CAPACITY UTILIZATION, SERVICES INFLATION, WAGE AND CREDIT GROWTH ARE BEGINNING TO BREAKOUT

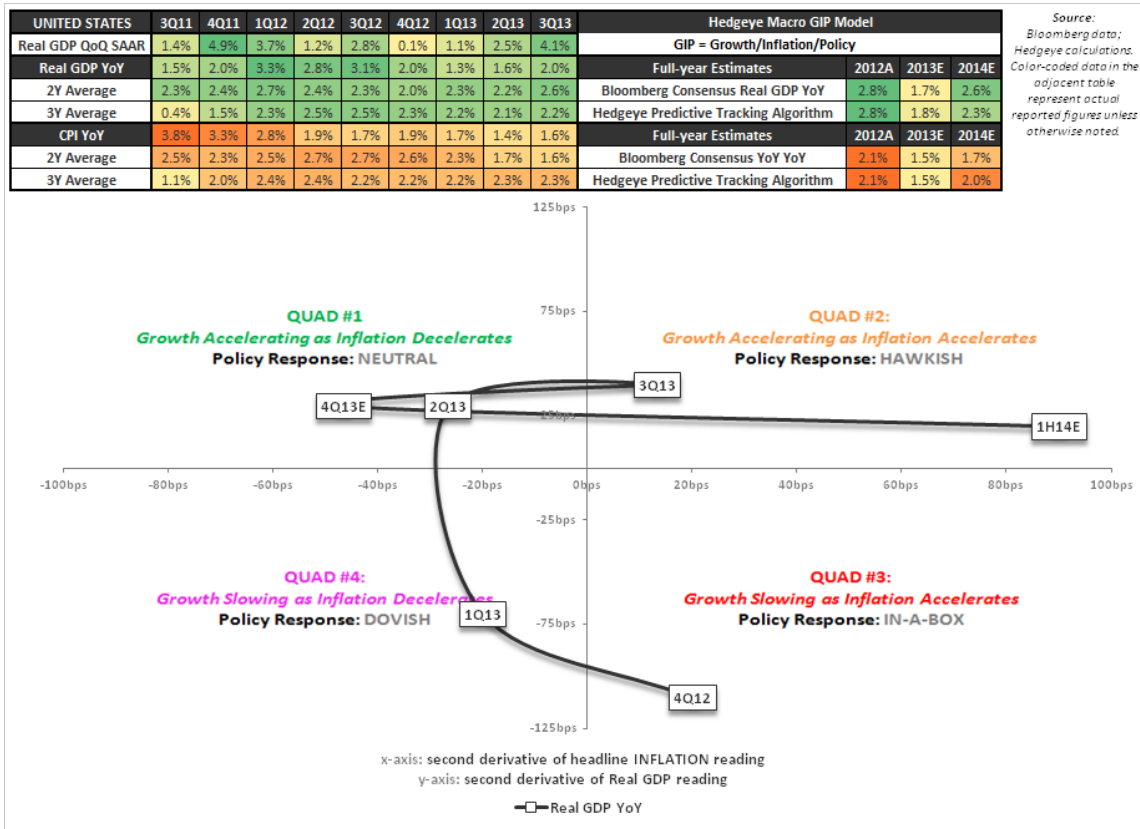


GDP: **EASY** COMPS VS. **HARD** COMPS

Z-SCORE (TRAILING 3Y) OF SELECTED COMPARATIVE BASE (2Y COMP) FOR THE RESPECTIVE GDP REPORTING PERIOD



US: QUADRANT #2 OR #3?

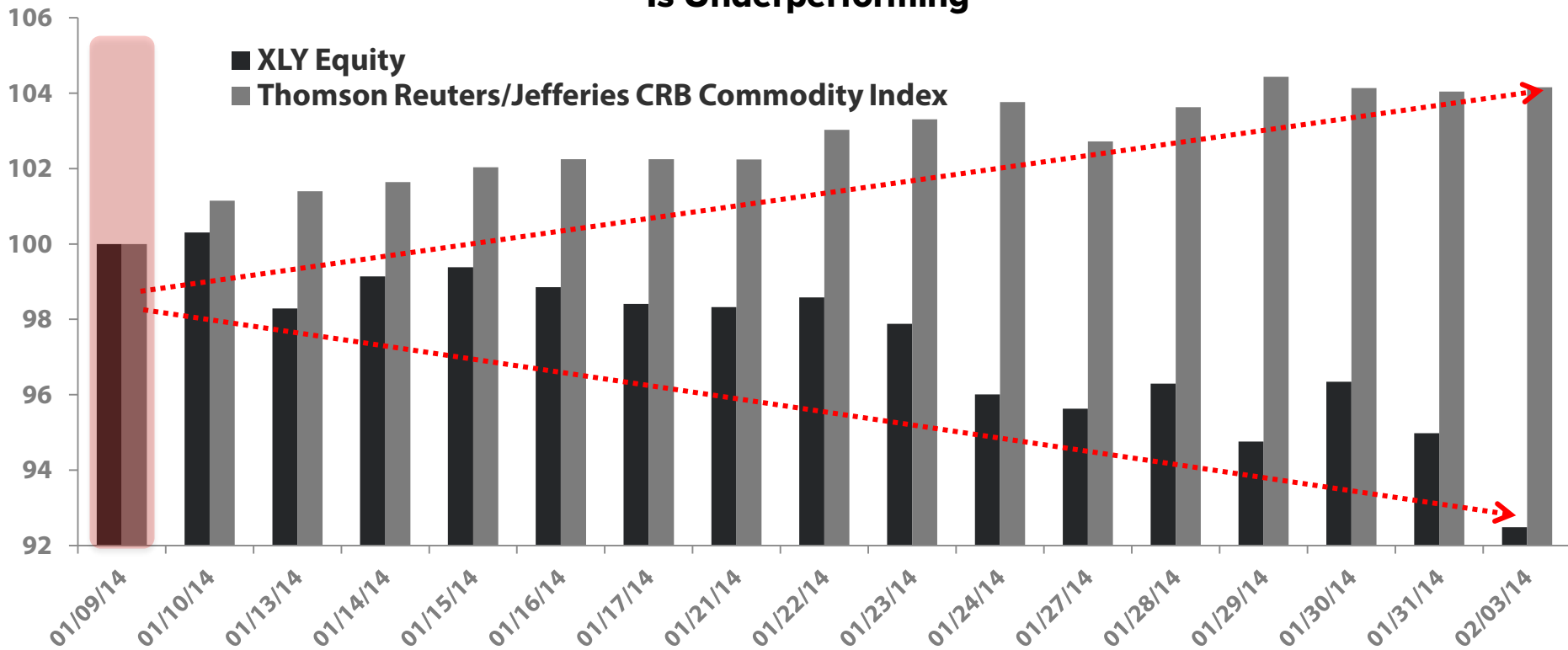




HERE'S THE UPDATE

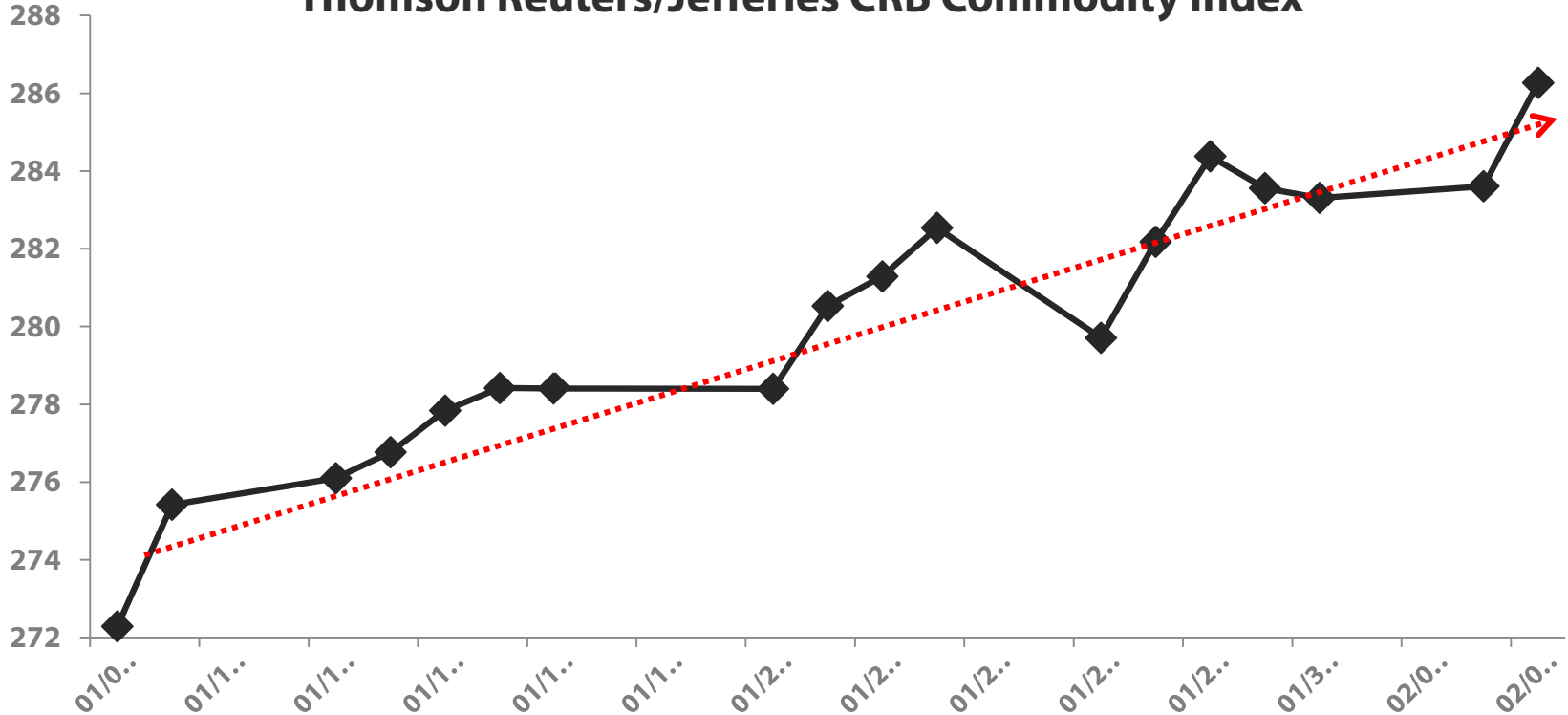
SINCE OUR 1Q THEMES CALL: 1/9/14

Commodity and Inflation Hedge Assets Are Rising While Consumption Levered Exposure Is Underperforming

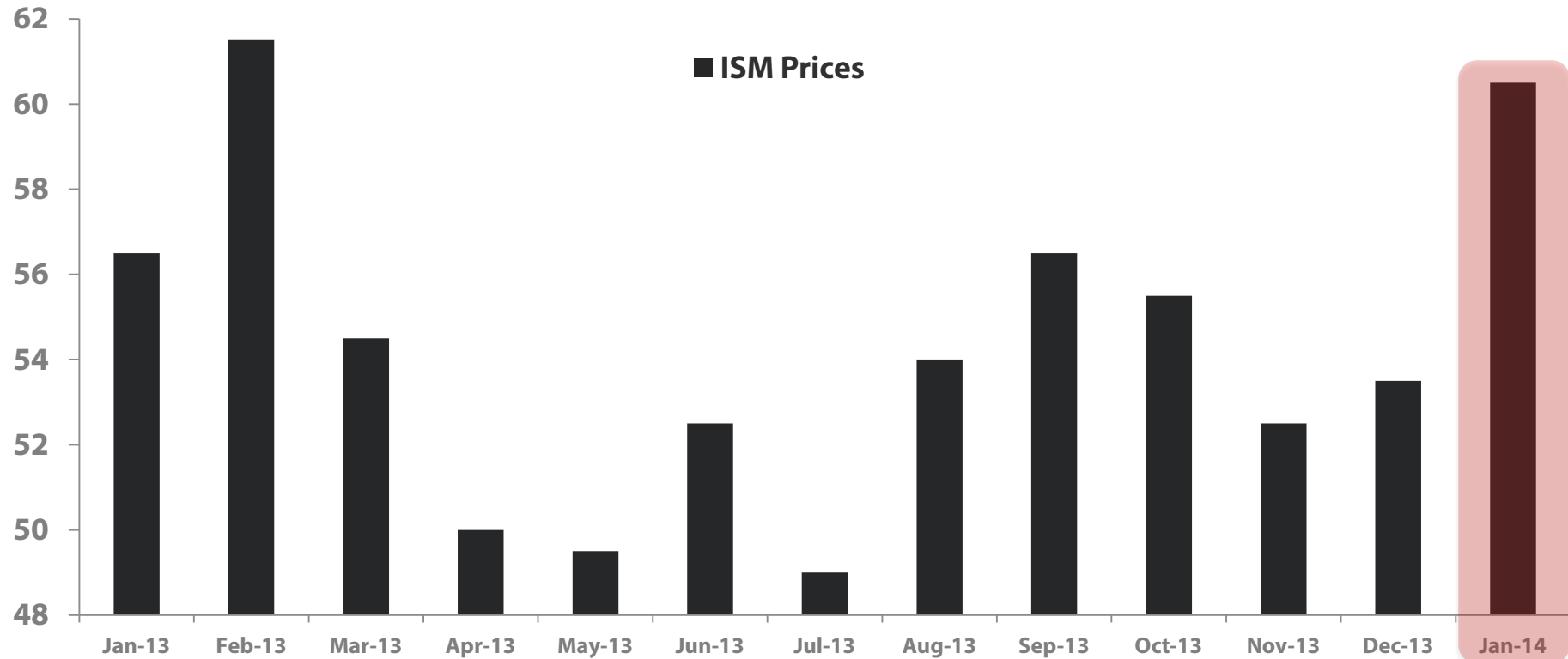


COMMODITY INFLATION = RISING

Thomson Reuters/Jefferies CRB Commodity Index



PRICES PAID = RISING



SLOW GROWTH OUTPERFORMING

SECTOR DIVERGENCE MONITOR

SECTOR	SPDR	3D % Chg	10D % Chg	1M % Chg	3M % Chg	6M % Chg	1Y % Chg
Consumer Discretionary	XLY	-2.8%	-4.8%	-6.1%	-2.5%	3.6%	24.4%
Financials	XLF	-2.4%	-5.3%	-5.1%	0.8%	1.7%	19.4%
Health Care	XLV	-2.0%	-3.5%	0.6%	4.2%	8.3%	29.4%
Technology	XLK	-1.4%	-4.6%	-2.5%	1.8%	7.0%	16.8%
Consumer Staples	XLP	-2.2%	-5.1%	-5.1%	-5.8%	-3.5%	8.8%
Industrials	XLI	-2.6%	-5.6%	-4.7%	0.0%	7.7%	22.0%
Basic Materials	XLB	-1.8%	-5.8%	-4.3%	-0.3%	7.4%	11.3%
Energy	XLE	-2.3%	-4.8%	-5.2%	-4.1%	0.2%	6.8%
Utilities	XLU	-0.8%	0.0%	3.1%	-1.5%	-2.0%	5.6%
SPX		-2.13%	-4.77%	-3.88%	-0.33%	3.84%	17.40%

KEY

1 STDEV Positive Divergence

1 STDEV Negative Divergence

Within 1 STDEV of the Mean

Source: Bloomberg, HFM



SPX: STYLE FACTOR PERFORMANCE & VALUATION

STYLE FACTOR PERFORMANCE										VALUATION: MEDIAN NTM PE					
FACTOR	YTD	12M	6M	3M	1M	1W	2D	1D	Z-Score						
									Current	5Y High	5Y Low	1Y	3Y	5Y	
DEBT	High Debt/EV	-4.2%	14.0%	0.7%	-2.7%	-3.2%	-1.6%	-1.8%	0.3%	14.7X	15.1X	8.7X	2.47	1.68	1.54
	Low Debt/EV	-4.5%	26.3%	6.1%	0.5%	-3.6%	-1.8%	-1.4%	1.1%	18.6X	19.6X	12.7X	-0.52	1.12	1.36
SI	High Short Interest	-5.9%	18.7%	2.9%	-2.6%	-4.9%	-2.6%	-1.9%	0.6%	17.9X	19.1X	11.8X	2.42	1.76	1.42
	Low Short Interest	-5.1%	24.9%	4.8%	0.5%	-4.3%	-2.6%	-1.9%	0.6%	13.4X	15.2X	8.6X	-1.64	0.72	1.08
BETA	High Beta	-6.2%	23.3%	5.4%	-1.0%	-5.3%	-2.3%	-1.8%	1.1%	14.2X	22.2X	8.7X	-0.04	0.80	0.07
	Low Beta	-2.9%	15.7%	0.3%	-1.9%	-1.8%	-1.8%	-1.7%	0.1%	15.9X	16.7X	10.5X	0.92	1.08	1.52
YIELD	High Yield	-5.2%	7.1%	-4.2%	-5.1%	-4.2%	-2.1%	-2.0%	0.1%	15.9X	16.8X	9.7X	-0.08	0.87	1.39
	Low Yield	-1.6%	94.6%	10.7%	4.7%	-0.9%	-1.4%	-1.3%	1.2%	18.0X	20.3X	12.2X	1.43	1.57	0.89
VALUE	High P/B	-3.4%	29.2%	7.8%	1.7%	-2.7%	-1.6%	-1.5%	1.0%	18.7X	19.7X	12.2X	0.55	1.12	1.56
	Low P/B	-6.2%	11.1%	-1.3%	-4.5%	-5.2%	-2.5%	-1.8%	0.4%	13.0X	13.4X	8.1X	1.13	1.39	1.23
MKT CAP	MCAP Bottom 25%	-6.0%	14.4%	0.4%	-3.7%	-5.2%	-2.6%	-2.1%	0.6%	16.3X	17.1X	9.2X	0.92	1.39	1.20
	MCAP Top 25%	-4.9%	24.4%	4.9%	0.1%	-4.1%	-2.4%	-1.8%	0.6%	16.3X	17.0X	10.2X	0.93	1.56	1.59
Sales Growth	Top 25% Sales Growth	-3.1%	28.0%	8.3%	1.5%	-2.1%	-1.1%	-1.2%	1.2%	16.8X	20.9X	12.1X	-1.36	0.52	0.58
	Bottom 25% Sales Growth	-6.1%	14.3%	-0.2%	-3.3%	-5.1%	-2.6%	-2.3%	0.1%	15.7X	16.0X	8.3X	2.75	2.11	1.91
EPS Growth	Top 25% EPS Growth	-4.0%	30.1%	8.5%	0.6%	-3.1%	-1.5%	-1.6%	1.0%	15.5X	20.8X	10.8X	-1.81	0.78	0.22
	Bottom 25% EPS Growth	-4.8%	13.7%	-0.2%	-2.8%	-3.6%	-2.3%	-2.0%	0.1%	16.3X	17.0X	8.9X	2.73	1.45	1.92

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



IN A CHART: SLOPE = "WORSE"

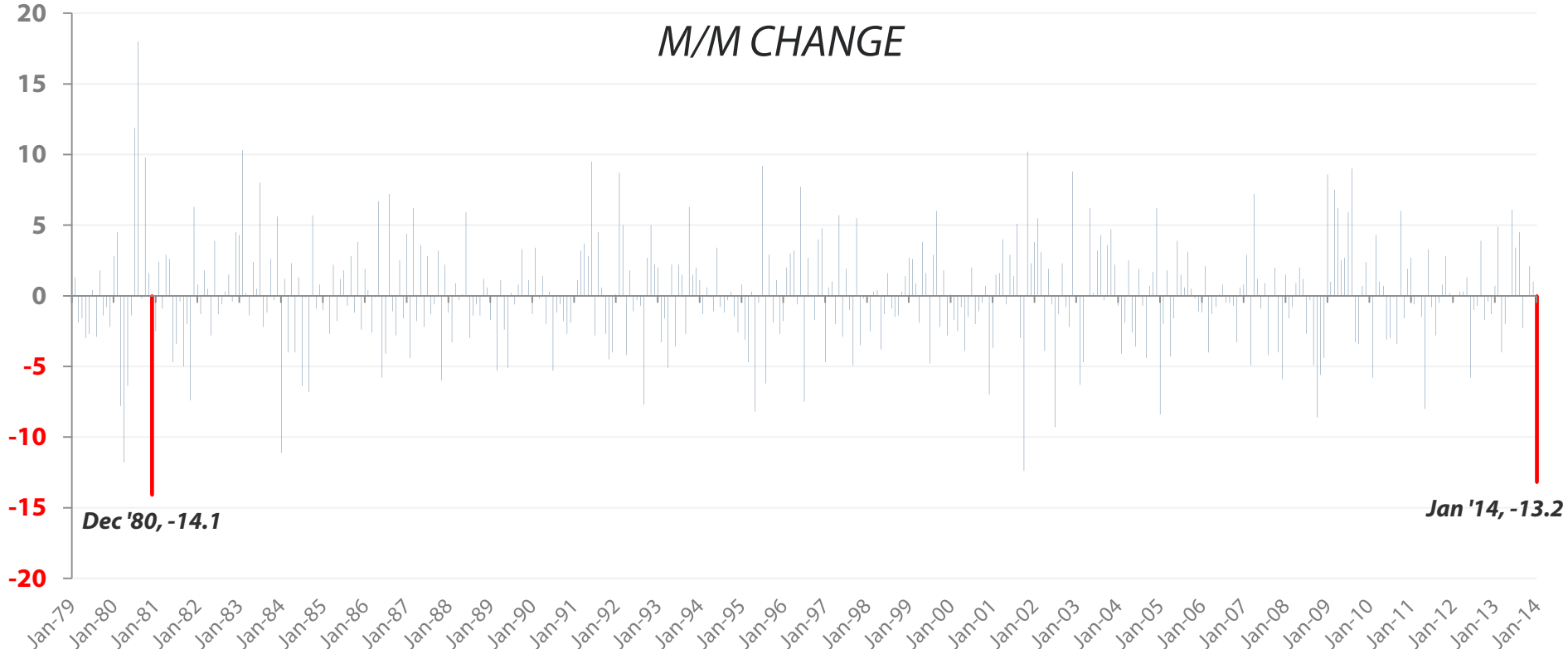
U.S. ECONOMIC INDICATOR SUMMARY											
		MOST RECENT DATA					LAST PRICE vs.			QoQ Chg	Y/Y Chg
		Period	Latest data	Last Price	Prior	MoM Chg	3M Ave	6M Ave	TIM Ave	(1q14)	(2q14)
CONSUMPTION	Personal Spending (Real PCE), YoY %	Dec-13	Better	2.5%	2.4%	0.09%	0.2%	0.4%	0.5%	-	-
	Personal Income, YoY %	Dec-13	Worse	-0.8%	2.3%	-3.08%	-2.4%	-3.5%	-3.6%	-	-
	Real Disposable Income (per capita), YoY %	Dec-13	Worse	-3.4%	-0.1%	-3.26%	-2.6%	-3.1%	-3.1%	-	-
	Retail Sales, YoY %	Dec-13	Worse	4.1%	4.2%	-0.12%	0.0%	-0.3%	-0.2%	-	-
	Consumer Credit, YoY %	Nov-13	Worse	6.1%	6.2%	-0.12%	-0.1%	0.0%	-0.1%	-	-
	NFP Employment, MoM Chg	Dec-13	Worse	73	240	-167.0	-98	-96	-108	-	-
	Initial Claims, NSA, YoY %	Jan-14	Better	-7.0%	-1.8%	-5.1%	2.2%	3.0%	1.4%	1.0%	-3.0%
	Consumer Confidence	Jan-14	Better	81	78	3.2	4.0	3.3	5.6	9.1%	28.6%
	Consumer Comfort	Jan-14	Worse	-30.6	-29.5	-1.10	1.1	0.6	0.4	2.4	4.0
	Real Weekly Earnings, Y/Y %	Nov-13	Worse	1.1%	1.6%	-0.50%	0.0%	0.3%	0.5%	-	-
	Auto Sales, Millions Units	Jan-14	Worse	15.2	15.3	-0.14	-0.4	-0.4	-0.3	-2.7%	-0.5%
	Gas Price	Jan-14	Worse	3.30	3.26	3.80%	0.03	-0.07	-0.19	0.7%	-7.3%
INVESTMENT	Industrial Production, YoY %	Dec-13	Better	3.7%	3.4%	0.28%	0.1%	0.6%	1.0%	-	-
	Capacity Utilization	Dec-13	Better	79	79	0.10	0.3	0.8	1.0	-	-
	Durable Goods New Orders, YoY %	Dec-13	Worse	0.4%	10.1%	-9.75%	-5.4%	-6.0%	-4.9%	-	-
	Capital Goods - NonDefense Ex-Air, YoY %	Dec-13	Better	7.4%	6.1%	1.35%	1.4%	0.1%	2.1%	-	-
	ISM Mfg	Jan-14	Worse	51.3	56.5	-5.20	-3.6	-4.3	-2.5	-9.5%	-1.9%
	ISM Mfg - New Orders	Jan-14	Worse	51.2	64.4	-13.20	-8.5	-9.7	-6.0	-18.8%	-2.9%
	ISM Mfg - Employment	Jan-14	Worse	52.3	55.8	-3.50	-2.2	-2.3	-0.8	-5.2%	-0.8%
	ISM Services	Dec-13	Worse	53.0	54.1	-1.10	-1.1	-2.1	-1.7	-	-
	ISM Services - New Orders	Dec-13	Worse	50.4	55.7	-5.30	-3.8	-5.9	-5.5	-	-
	ISM Services - Employment	Dec-13	Better	55.6	54.5	1.10	0.2	0.5	1.2	-	-
	Mfg & Trade Inventories, YoY %	Nov-13	Better	4.0%	3.7%	0.3%	0.4%	0.5%	0.0%	-	-
	Business Inventories I/S Ratio	Nov-13	Worse	1.29	1.29	0.00%	0.00	0.00	0.00	-	-
INVESTMENT (Residential)	Housing Starts	Dec-13	Worse	999	1107	-108	-3	57	72	-	-
	New Home Sales	Dec-13	Worse	414	445	-31.0	-27	0	-16	-	-
	MBA Purchase Apps	Jan-14	Better	184	176	8.5	2	-1	-12	1.2%	-9.2%
	NAHB Survey of Home Builders	Jan-14	Worse	56	57	-1.0	0	0	5	1.8%	22.6%
	FHFA HPI, NSA YoY %	Nov-13	Worse	7.6%	8.1%	-0.48%	-0.4%	-0.6%	0.0%	-	-
	Case-Shiller 20-City HPI, YoY %	Nov-13	Better	13.7%	13.6%	0.10%	0.2%	0.8%	3.6%	-	-
	Corelogic HPI, YoY %	Jan-14	Worse	10.2%	11.1%	-0.85%	-0.7%	-1.0%	-0.9%	-1.1%	2.2%
GOVERNMENT	Construction Spending, YoY %	Dec-13	Worse	5.3%	5.4%	0.0%	-0.6%	-0.3%	-0.2%	-	-
	Monthly Budget Balance, Bil \$'s	Dec-13	Worse	53.2	-135.2	188.4	111	111	100	-	-
EXTERNAL	International Trade Balance, Bil \$'s	Nov-13	Better	-34.3	-39.3	5.08	4.6	3.9	5.2	-	-

Source: Bloomberg, BLS, BEA, Census, NAR



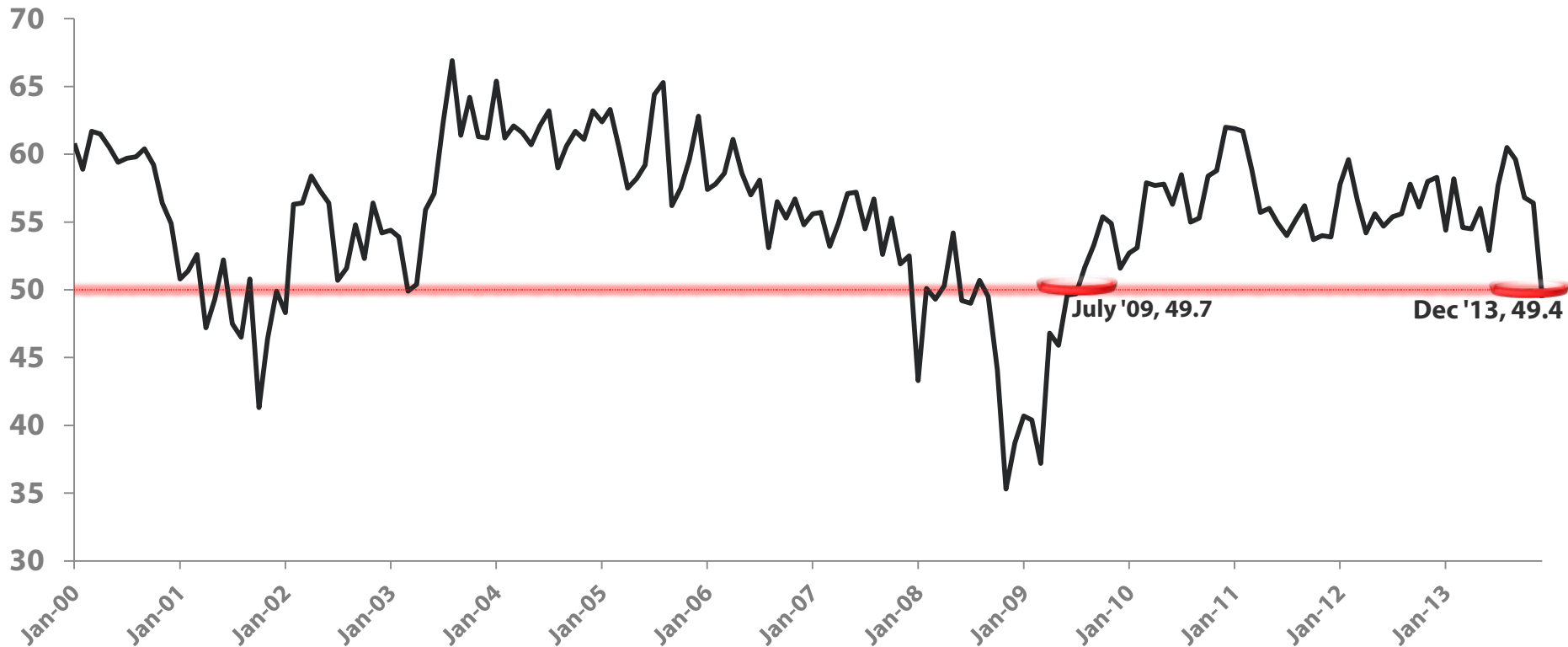
ISM MFG NEW ORDERS = SLOWING

ISM NEW ORDERS



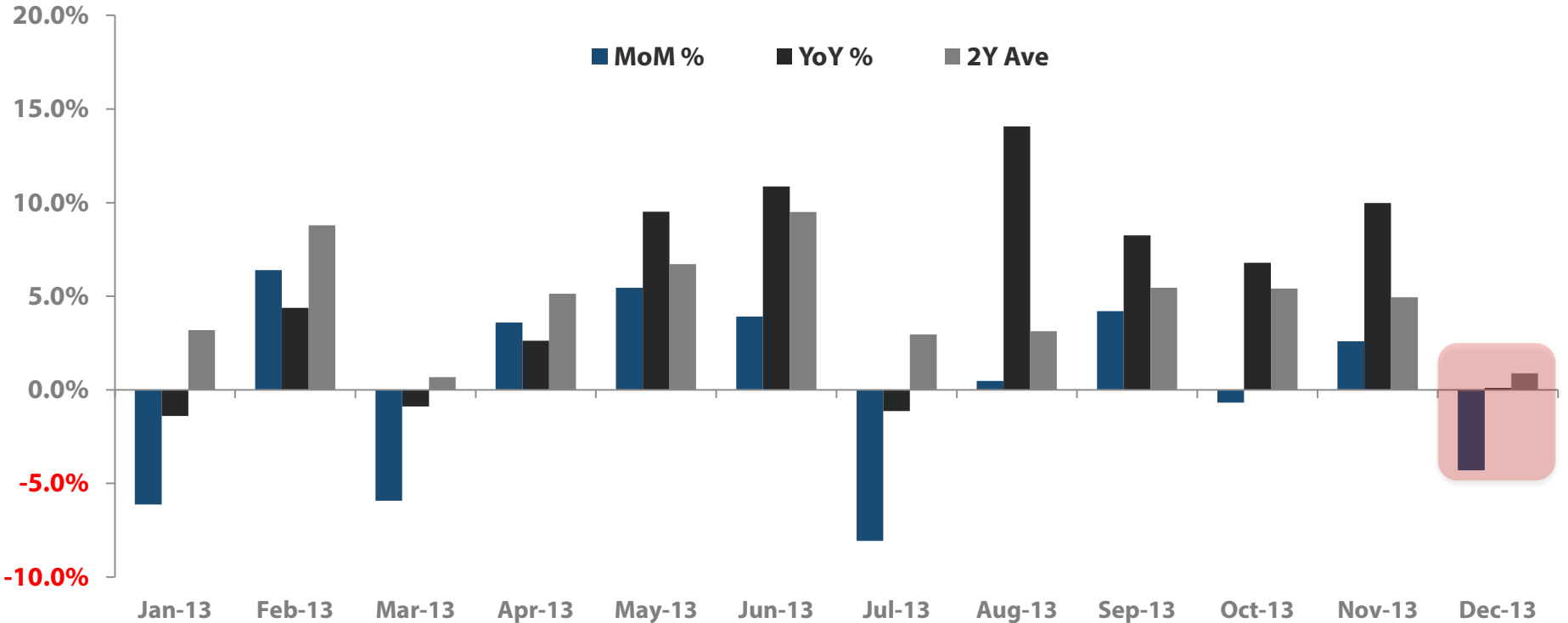
ISM SERVICES NEW ORDERS = SLOWING

ISM SERVICES: NEW ORDERS

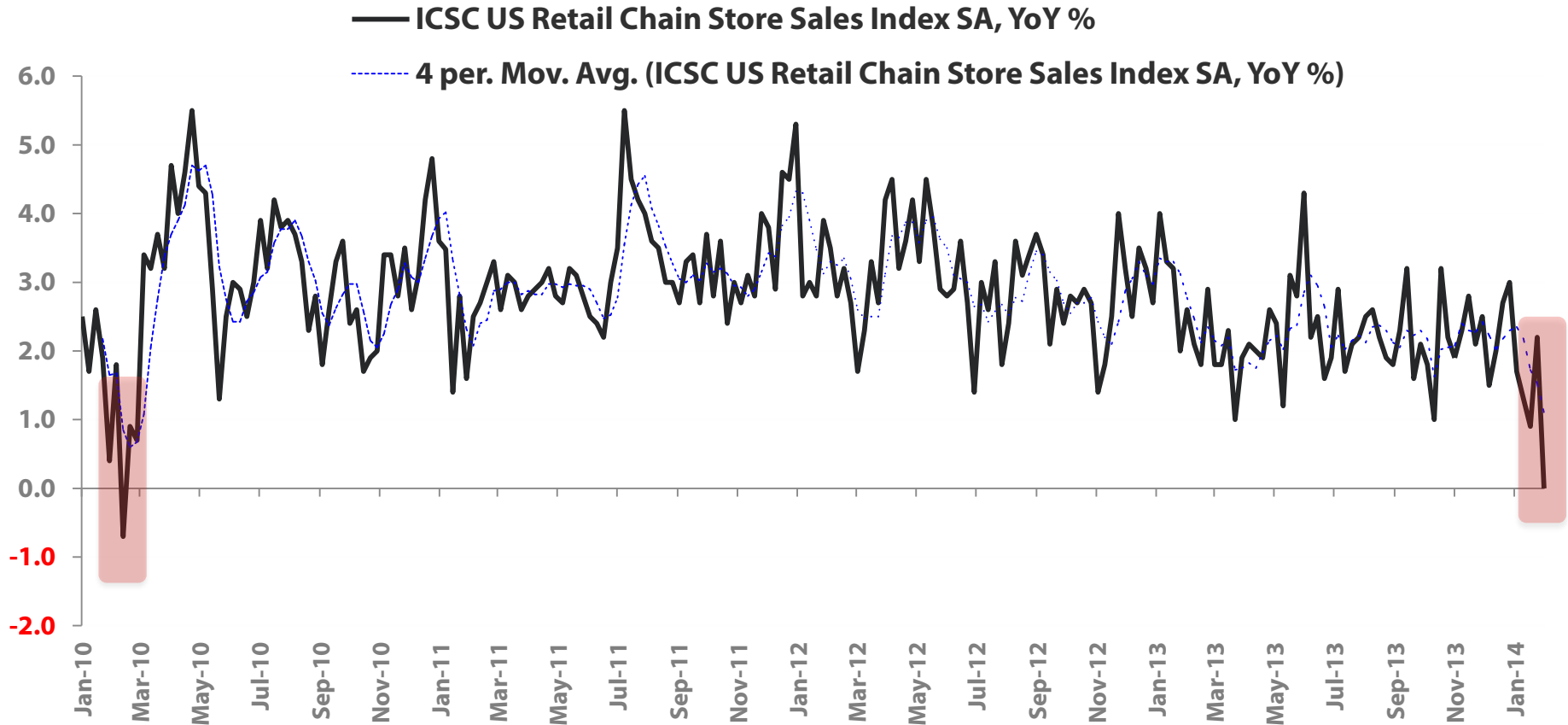


DURABLE GOODS = SLOWING

U.S. DURABLE GOODS ORDERS



RETAIL SALES = SLOWING



CONSUMER TRENDS = SLOWING

HEDGEYE S&P500 EARNINGS SCORECARD: 4Q13

SECTOR LEVEL OPERATING PERFORMANCE*

	SALES Growth, YoY			EPS Growth, YoY**			OPERATING MARGIN		
	Accelerating	Decelerating	% Accelerating	Accelerating	Decelerating	% Accelerating	Expanding	Contracting	% Expanding
Health Care	20	12	63%	16	14	53%	13	17	43%
Materials	10	11	48%	8	11	42%	6	12	33%
Tech	24	25	49%	23	23	50%	25	22	53%
Financials	26	22	54%	25	21	54%	24	20	55%
Consumer Staples	4	13	24%	7	10	41%	7	9	44%
Industrials	26	19	58%	28	17	62%	11	30	27%
Utilities	5	2	71%	6	1	86%	0	7	0%
Energy	6	15	29%	13	7	65%	9	8	53%
Consumer Discretionary	13	22	37%	14	21	40%	12	20	38%
SPX AGGREGATE	134	141	49%	140	125	53%	107	145	42%

SPX CONSTITUENT SUMMARY

Sales Growth Accelerating, %	49%
EPS Growth Accelerating, %	53%
OM Margins Expanding, %	42%

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

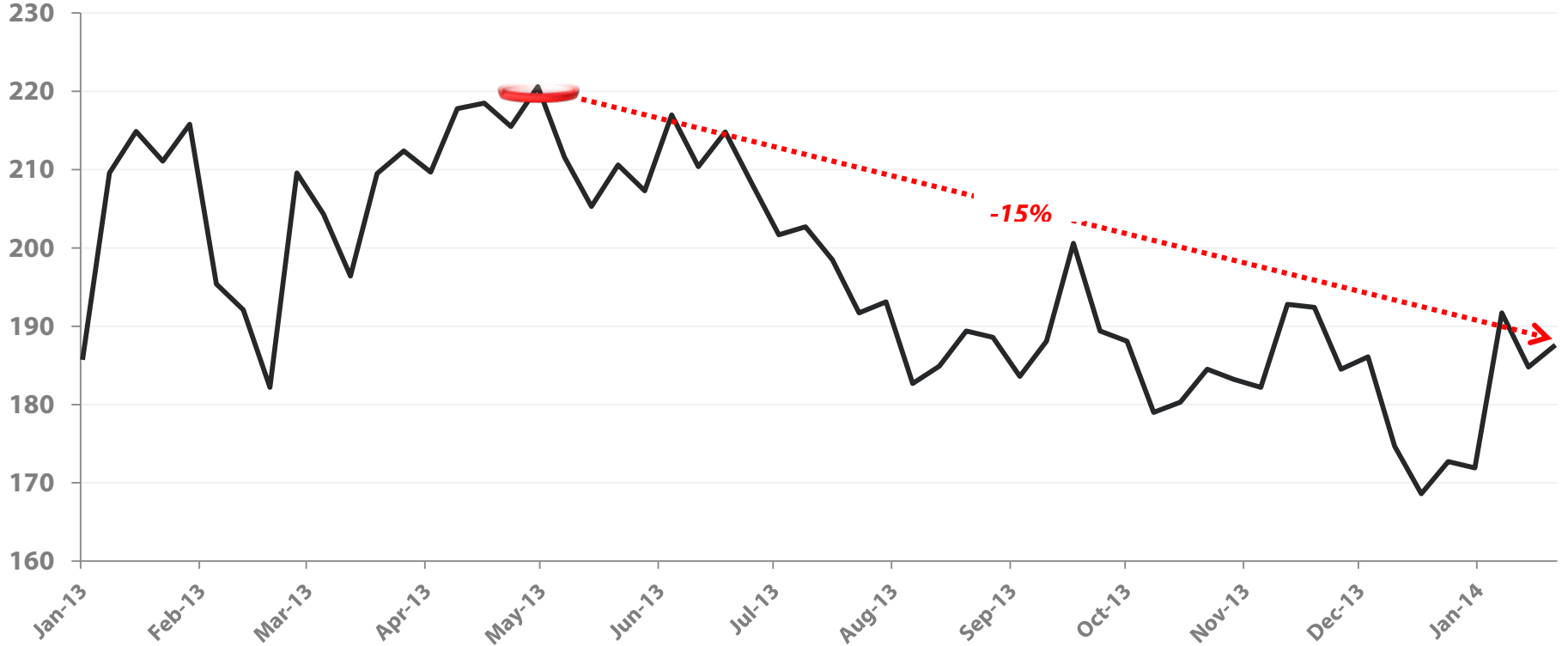
**Negative earnings excluded

Source: Bloomberg, Hedgeye Calculations



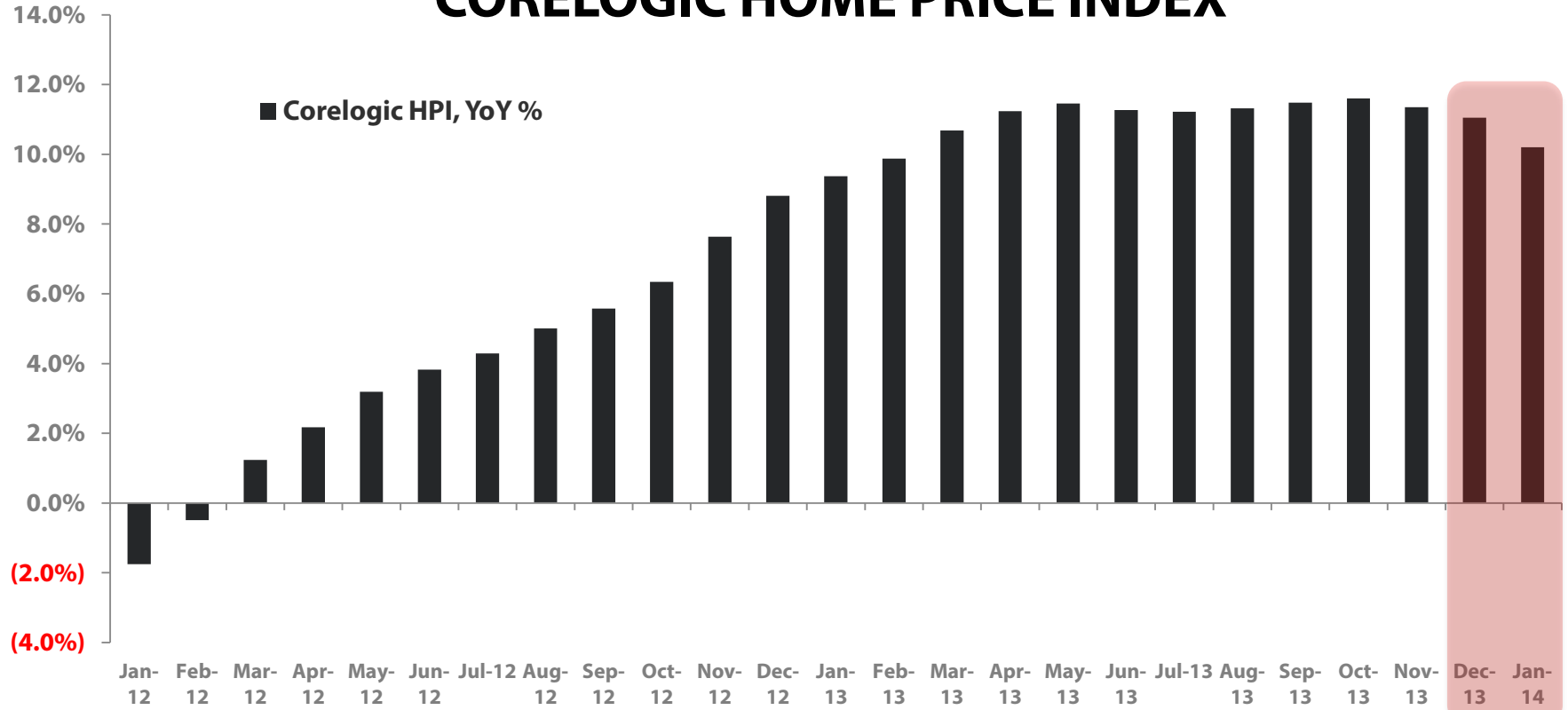
HOUSING DEMAND = SLOWING

MBA MORTGAGE PURCHASE APPLICATIONS



HOME PRICES = SLOWING

CORELOGIC HOME PRICE INDEX

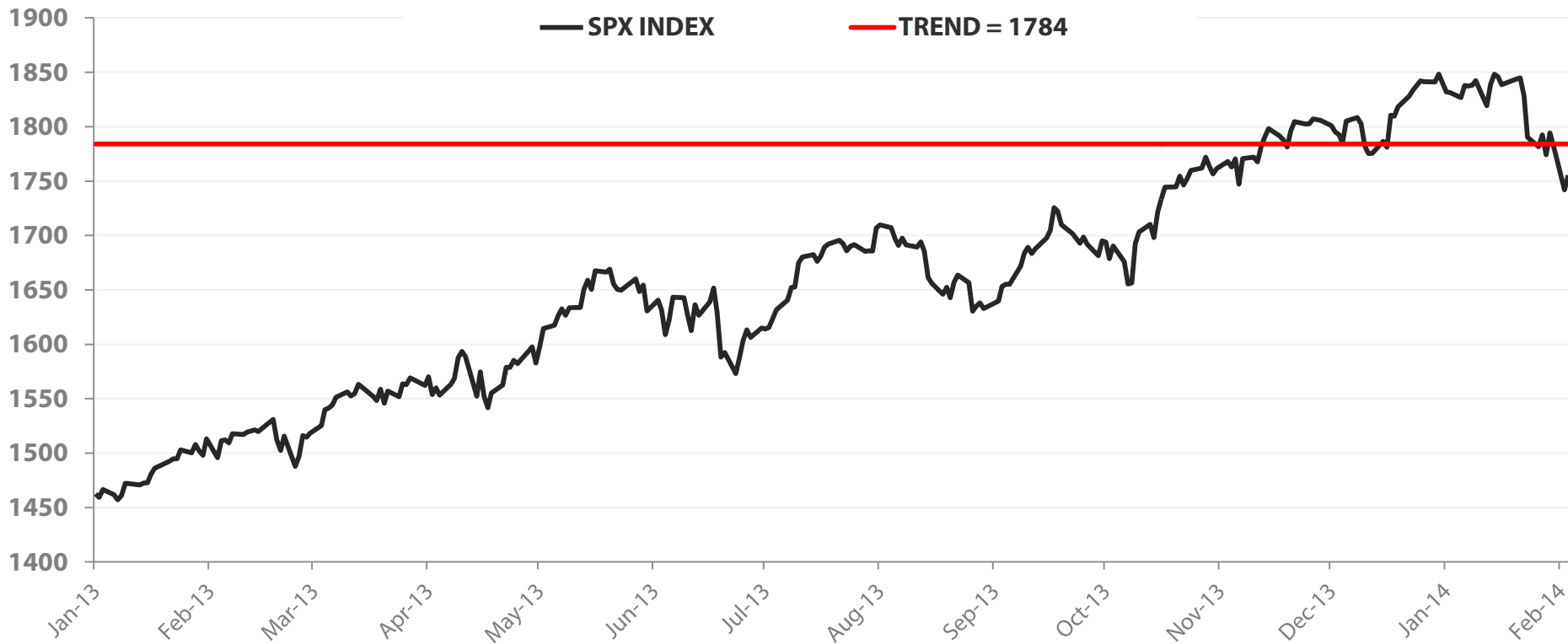




HEDGEYE QUANTITATIVE LEVELS

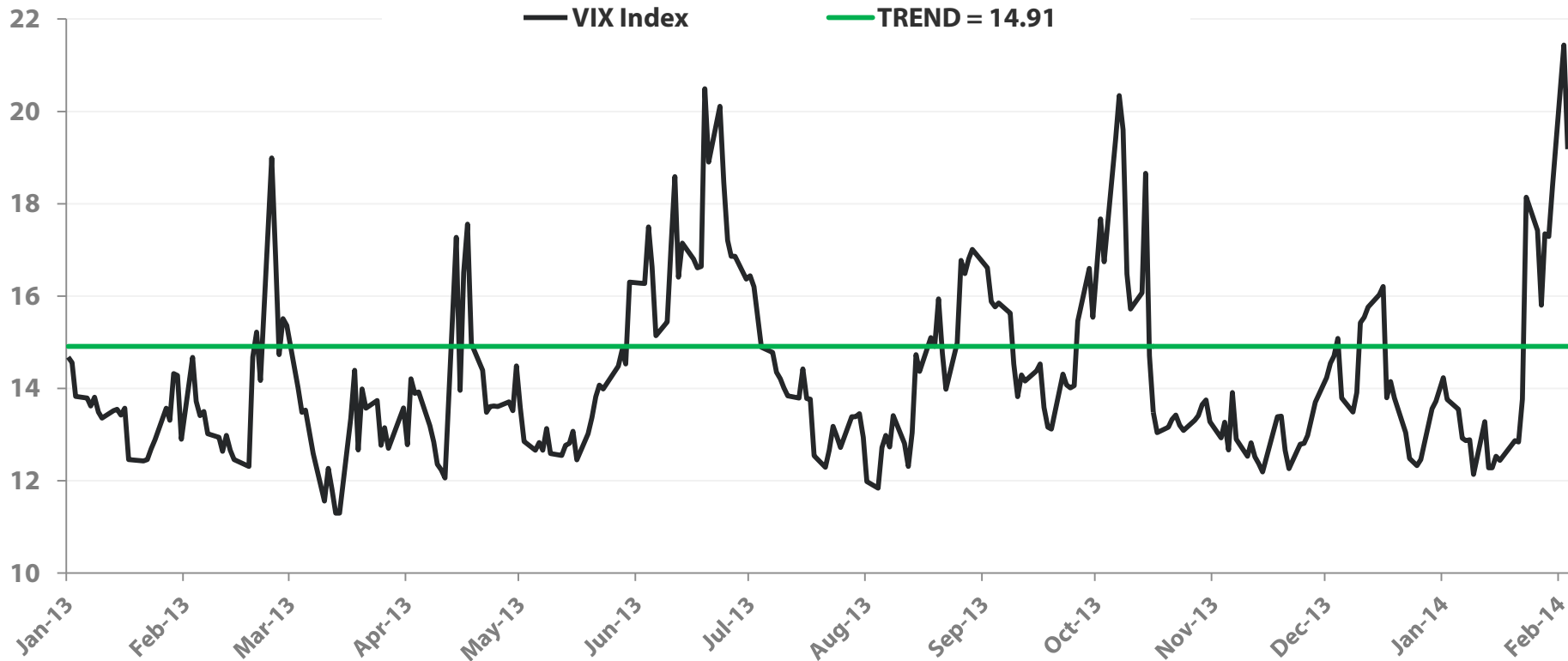
SPX: BEARISH TREND

HEDGEYE QUANTITATIVE SETUP: S&P500



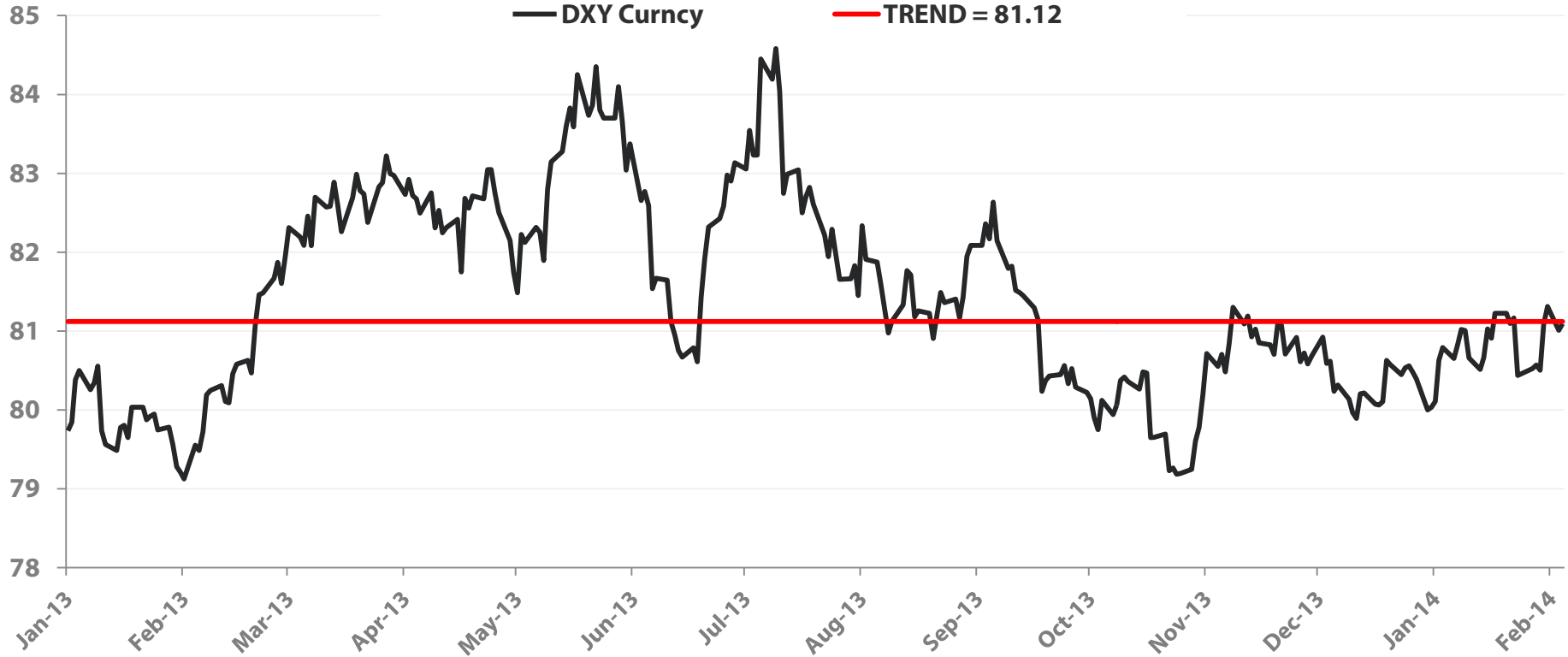
VOLATILITY: BULLISH TREND

HEDGEYE QUANTITATIVE SETUP: VIX INDEX



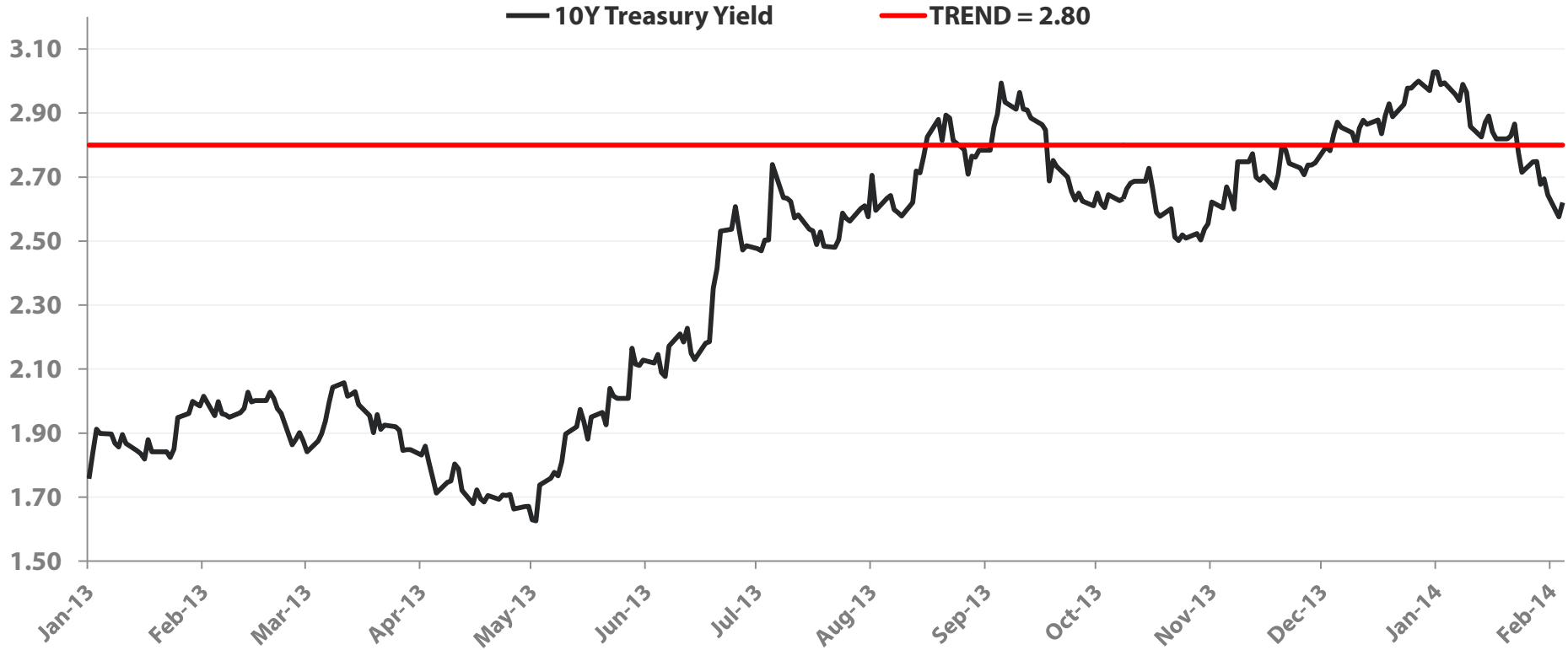
THE DOLLAR: BEARISH TREND

HEDGEYE QUANTITATIVE SETUP: US DOLLAR INDEX



10Y TREASURY: BEARISH TREND

HEDGEYE QUANTITATIVE SETUP: 10Y TREASURY YIELD



FOR MORE INFORMATION CONTACT:

SALES@HEDGEYE.COM

203.562.6500