HEDGEYE

#INFLATIONACCELERATING & #GROWTHDIVERGENCES

A TIMELY UPDATE OF OUR 1Q14 MACRO THEMES

FEBRUARY 18, 2014

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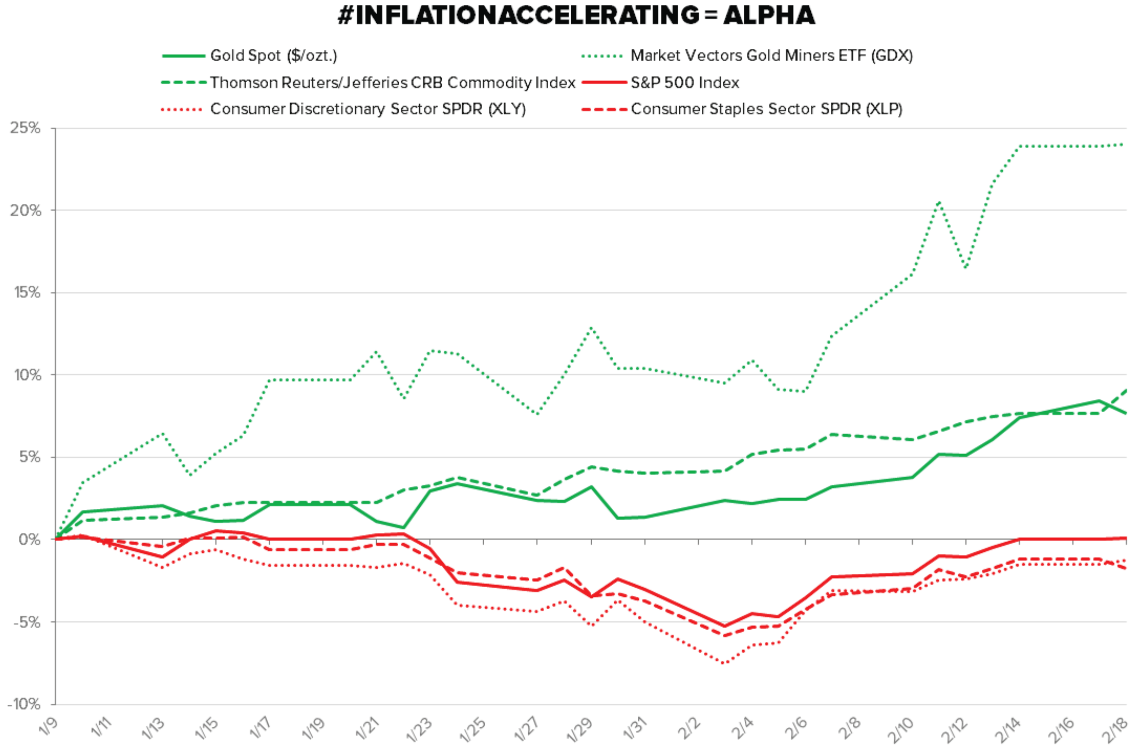
THE HEDGEYE MACRO TEAM

WE SPECIALIZE IN PRODUCING BUY-SIDE QUALITY RESEARCH FOR BUY-SIDE INVESTORS

Some of our most noteworthy calls since inception (in chronological order):

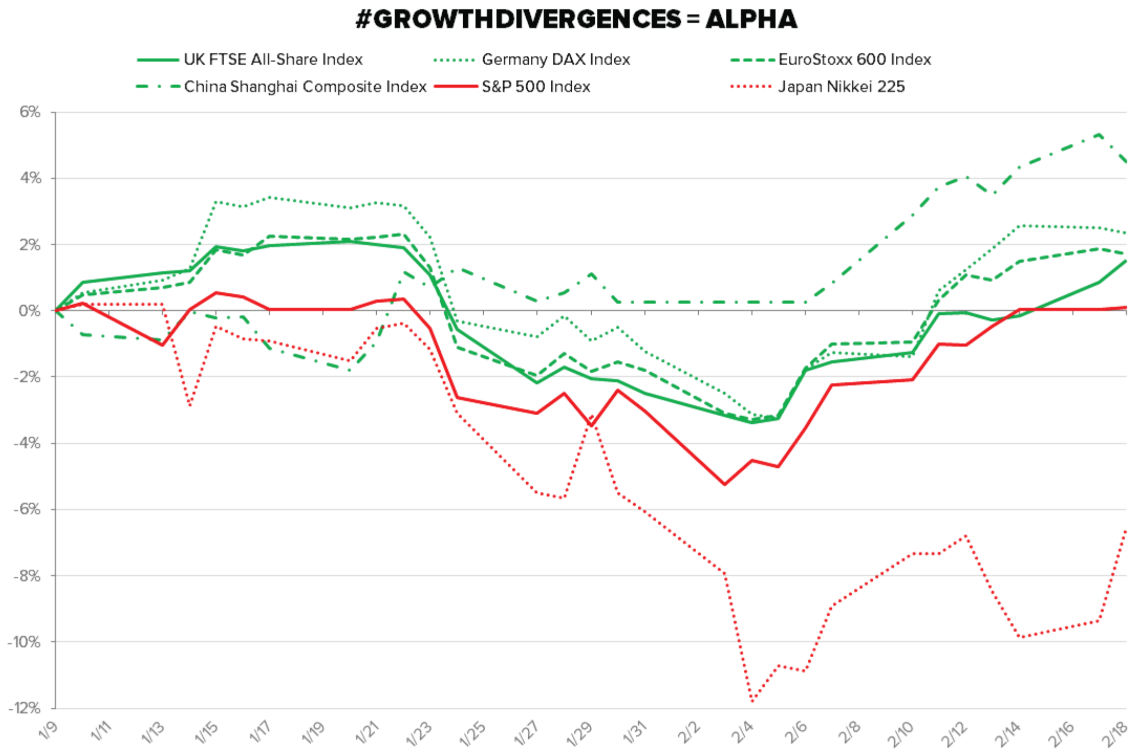
1. Moving to 85% cash in July 2008: https://app.hedgeye.com/feed_items/10
2. Buying the bottom in the US equity market in March 2009: https://app.hedgeye.com/feed_items/160 and https://app.hedgeye.com/feed_items/2774
3. Shorting European periphery sovereign debt in May 2010: https://app.hedgeye.com/feed_items/7939
4. Putting on a US Treasury yield curve flattener in June 2011: https://www.hedgeye.com/feed_items/13854
5. Shorting the Japanese yen in November 2012: http://app.hedgeye.com/feed_items/24535
6. Shorting Gold in December 2012: http://app.hedgeye.com/feed_items/25276
7. Buying US equities in January 2013 (and holding them): http://app.hedgeye.com/feed_items/25916 and http://app.hedgeye.com/feed_items/32785
8. Shorting Emerging Market assets in April 2013: http://app.hedgeye.com/feed_items/28091 and http://app.hedgeye.com/feed_items/32572
9. Shorting US Treasuries in May 2013: http://app.hedgeye.com/feed_items/28677 and http://app.hedgeye.com/feed_items/28720
10. Buying the EUR and GBP as well as German and UK equities in October 2013: http://app.hedgeye.com/feed_items/31220

#INFLATIONACCELERATING: WORKING



Data Source: Bloomberg. Performance indexed to our 1/9/14 Q1 Macro Themes Conference Call. Green = overweight/long. Red = underweight/short.

#GROWTHDIVERGENCES: WORKING



Data Source: Bloomberg. Performance indexed to our 1/9/14 Q1 Macro Themes Conference Call. Green = overweight/long. Red = underweight/short.

WHY IS GOLD (AND GOLD MINERS) RIPPING?

CONCLUSIONS

1. We've been calling for investors to get longer of inflation-oriented assets in lieu of consumption-oriented assets, at the margins, as it becomes increasingly likely the Fed stops tapering (or incrementally eases) over the intermediate term.
2. Specifically, we continue to anticipate the pace of domestic economic growth will slow, at the margins, as reported inflation accelerates, at the margins. If anything, a marginally dovish Fed only insulates our non-consensus #InflationAccelerating view.
3. This directionally stagflationary setup is otherwise referred to as Quad #3 in our proprietary GIP framework. As the historical backtest data below highlights, Gold is among the best performing asset classes in Quad #3, along with US Treasuries, Energy stocks and Utility stocks.
4. All told, never forget that gold is an absolute return vehicle that competes with real yields and real yields are headed south because slowing growth is dragging down nominal yields and accelerating inflation is dragging up inflation expectations (see chart below). Don't fight the tide; fight the Fed instead.

HISTORICAL CONTEXT

WHERE WE'VE BEEN

Over the years, we've been accused of being inflationistas (2010-11), deflationistas (2012-13), perma-bulls (2009-10; 2013) and perma-bears (2010-11). Ironically enough, however, we've yet to be labeled as perma-anything with respect to Gold – though I'm sure being overtly bearish on Gold heading into 2013 and then turning *fundamentally* bullish within three weeks of the bottom probably has something to do with that:

THINKING WAY OUTSIDE THE BOX ON GOLD (12/14/12): *"All told, we think investors should consider reducing their allocation to this asset class.* ***At a bare minimum****, it would be prudent for gold bulls to confirm whether or not our TAIL support ($1,669) holds before increasing exposure to gold here. If $1,669 breaks, there's no true support to the prior closing lows."*

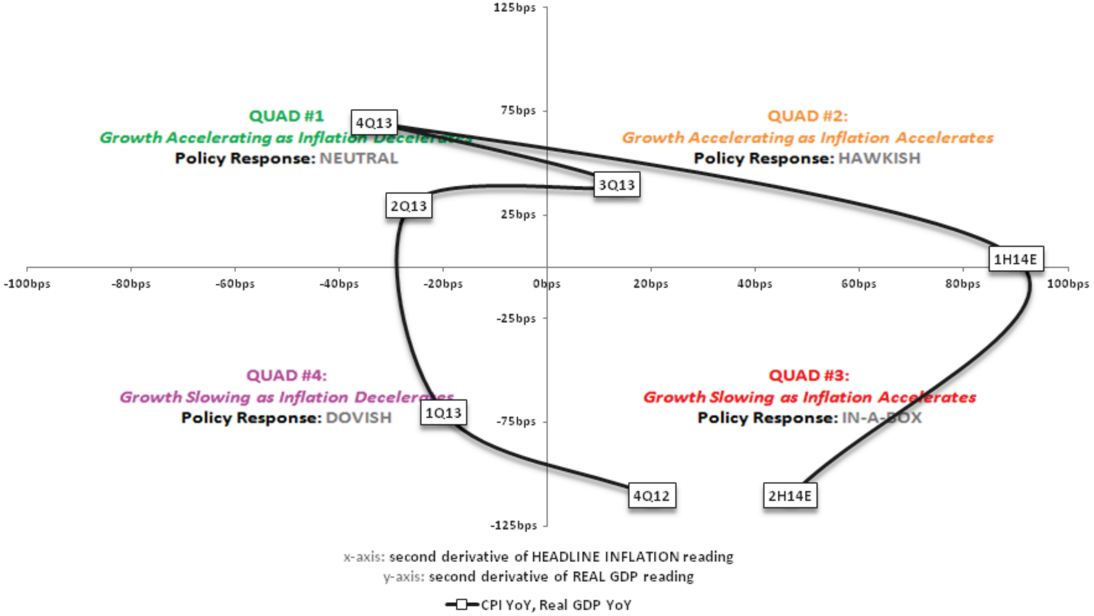
GOLD: IS IT TIME TO GET BACK IN ON THE LONG SIDE? (11/26/13): "*Right now may be a bit early, but gold is shaping up to be a compelling long idea heading into 2014.*"

Flash forward to today, Gold is up a healthy +10% YTD and gold miners are up an even healthier +24% YTD; this compares with a -0.3% decline for the S&P 500 Index and a larger -2.2% decline for the XLY (Consumer Discretionary sector SPDR).

QUAD #3: GROWTH SLOWS AS INFLATION ACCELERATES

UNITED STATES	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP QoQ SAAR	4.9%	3.7%	1.2%	2.8%	0.1%	1.1%	2.5%	4.1%	3.2%	GIP = Growth/Inflation/Policy		
Real GDP YoY	2.0%	3.3%	2.8%	3.1%	2.0%	1.3%	1.6%	2.0%	2.7%	Full-year Estimates	2013E	2014E
2Y Average	2.4%	2.7%	2.4%	2.3%	2.0%	2.3%	2.2%	2.6%	2.4%	Bloomberg Consensus Real GDP YoY	1.9%	2.9%
3Y Average	1.5%	2.3%	2.5%	2.5%	2.3%	2.2%	2.1%	2.2%	2.2%	Hedgeye Predictive Tracking Algorithm	1.9%	2.4%
CPI YoY	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%	1.6%	1.2%	Full-year Estimates	2013E	2014E
2Y Average	2.3%	2.5%	2.7%	2.7%	2.6%	2.3%	1.7%	1.6%	1.6%	Bloomberg Consensus YoY YoY	1.5%	1.6%
3Y Average	2.0%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	2.3%	2.1%	Hedgeye Predictive Tracking Algorithm	1.5%	2.1%

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



We continue to anticipate the pace of domestic economic growth will slow, at the margins, as reported inflation accelerates, at the margins.

GROWTH IS SLOWING, AT THE MARGINS

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	TTM Ave	(1q14)	(Qtrly)
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 %	Jan-14	Worse	2.6%	3.6%	-1.06%	-0.8%	-1.2%	-1.6%	-1.3%	-1.6%
	Consumer Credit, YoY %	Dec-13	Better	6.2%	6.1%	0.11%	0.0%	0.0%	0.0%	-	-
	NFP Employment, MoM Chg	Jan-14	Better	112	74	38.0	-41	-65	-74	-82.3	-93.0
	Initial Claims, NSA, YoY %	Feb-14	Worse	1.7%	-10.8%	12.5%	5.4%	10.2%	10.0%	3.4%	-0.6%
	Consumer Confidence	Jan-14	Better	81	78	3.2	4.0	3.3	5.6	6.7	17.9
	Consumer Comfort	Feb-14	Worse	-31.9	-30.6	-1.30	-1.2	0.1	-1.1	1.7	3.4
	Real Weekly Earnings, Y/Y %	Dec-13	Worse	0.4%	1.2%	-0.80%	-0.6%	-0.4%	-0.3%	-	-
	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	Feb-14	Better	3.29	3.30	-0.70%	0.01	-0.03	-0.17	0.5%	-7.4%
INVESTMENT	Industrial Production, YoY %	Jan-14	Worse	2.9%	3.3%	-0.36%	-0.1%	-0.3%	0.3%	-0.4%	0.5%
	Capacity Utilization	Jan-14	Worse	79	79	-0.40	-0.2	0.0	0.3	-0.3%	0.6%
	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	-5.4	-1.0
	ISM Mfg - New Orders	Jan-14	Worse	51.2	64.4	-13.20	-8.5	-9.7	-6.0	-11.8	-1.5
	ISM Mfg - Employment	Jan-14	Worse	52.3	55.8	-3.50	-2.2	-2.3	-0.8	-2.9	-0.4
	ISM Services	Jan-14	Better	54.0	53.0	1.00	0.3	-0.8	-0.6	-0.1	-0.7
	ISM Services - New Orders	Jan-14	Better	50.9	50.4	0.50	-1.4	-4.3	-4.6	-3.3	-4.5
	ISM Services - Employment	Jan-14	Better	56.4	55.6	0.80	0.9	0.9	2.0	1.0	1.6
	Mfg & Trade Inventories, YoY %	Dec-13	Better	4.4%	4.0%	0.4%	0.4%	0.8%	0.4%	-	-
	Business Inventories I/S Ratio	Dec-13	Worse	1.30	1.29	0.01	0.01	0.01	0.01	-	-
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	Feb-14	Worse	172	183	-11.8	-5	-10	-22	-2.4%	-12.5%
	NAHB Survey of Home Builders	Jan-14	Worse	56	57	-1.0	0	0	5	1.0	10.3
	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	Jan-14	Worse	-10.4	53.2	-63.6	20	32	37	47.45	91.97
EXTERNAL	International Trade Balance, Bil $'s	Dec-13	Worse	-38.7	-34.6	-4.14	-1.3	0.0	0.6	-	-

Source: Bloomberg, BLS, BEA, Census, NAR

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The arithmetic is actually quite simple; if the GDP deflator increases, then you need a commensurate increase in GDP to maintain the same pace of inflation-adjusted growth. Unfortunately for both buy-side and sell-side consensus, which came into 2014 as bullish as it had been in well over a year, **neither the reported economic data nor bottom-up operating trends at the company level bode well for "a commensurate increase in GDP"**.

ASK YOUR COMPANIES… THEY'LL CONFIRM

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	25	21	54%	21	22	49%	17	29	37%
Materials	14	14	50%	11	14	44%	8	18	31%
Tech	33	30	52%	29	31	48%	34	28	55%
Financials	39	35	53%	39	31	56%	38	32	54%
Consumer Staples	10	24	29%	15	19	44%	13	20	39%
Industrials	30	24	56%	33	20	62%	17	38	31%
Utilities	7	8	47%	11	3	79%	2	12	14%
Energy	8	21	28%	15	13	54%	13	14	48%
Consumer Discretionary	24	31	44%	26	29	47%	21	33	39%
SPX AGGREGATE	190	208	48%	200	182	52%	163	224	42%

SPX CONSTITUENT SUMMARY

Sales Growth Accelerating, %	48%
EPS Growth Accelerating, %	52%
OM Margins Expanding, %	42%

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

**Negative earnings excluded

Source: Bloomberg, Hedgeye Calculations

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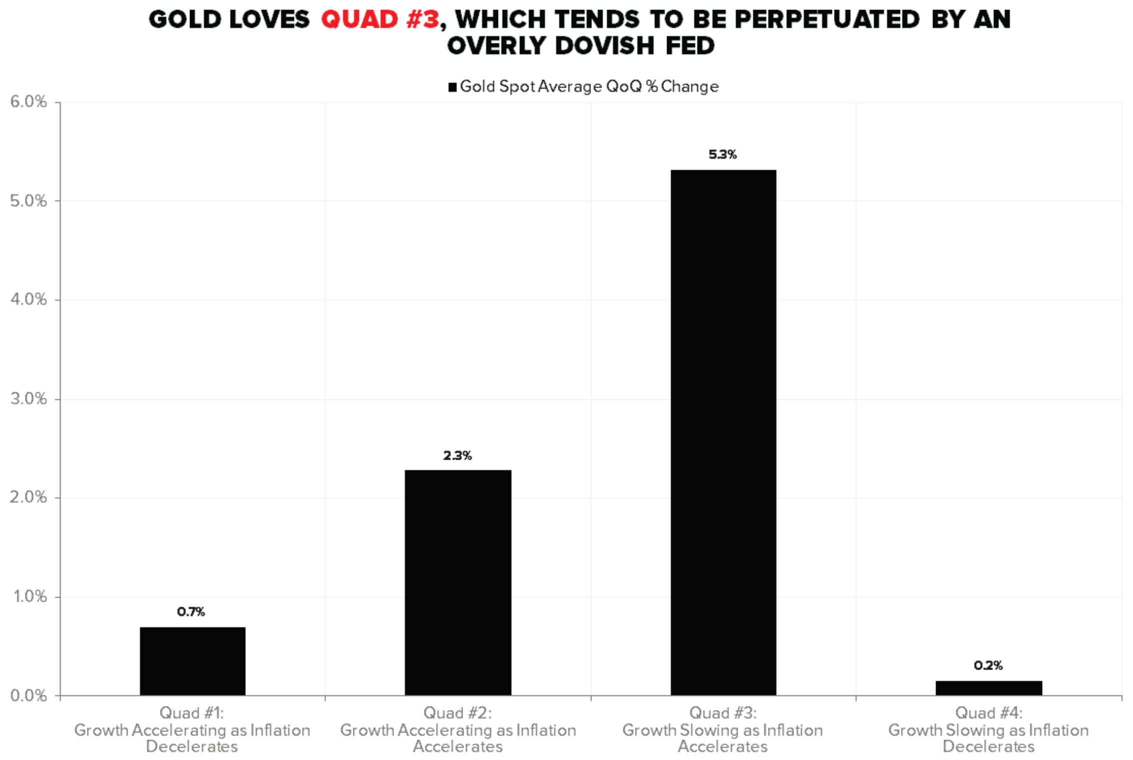
GOLD LOVES #QUAD 3

COINCIDENT STUDY	AVERAGE VALUES BY QUADRANT				TOTAL OBSERVATIONS BY QUADRANT			
QUADRANT	1	2	3	4	1	2	3	4
S&P 500 Average QoQ % Change	4.4%	1.4%	1.0%	2.6%	67	45	75	55
S&P 500 Consumer Discretionary Index Average QoQ % Change	6.8%	1.7%	0.5%	1.2%	27	14	27	20
S&P 500 Consumer Staples Index Average QoQ % Change	4.5%	2.9%	0.6%	4.0%	27	14	27	20
S&P 500 Energy Index Average QoQ % Change	4.9%	2.2%	3.6%	0.2%	27	14	27	20
S&P 500 Financials Index Average QoQ % Change	6.7%	1.1%	0.2%	1.6%	27	14	27	20
S&P 500 Health Care Index Average QoQ % Change	4.2%	3.7%	1.0%	5.0%	27	14	27	20
S&P 500 Industrials Index Average QoQ % Change	5.7%	3.1%	0.9%	0.9%	27	14	27	20
S&P 500 Information Technology Index Average QoQ % Change	6.5%	6.5%	2.4%	0.0%	27	14	27	20
S&P 500 Materials Index Average QoQ % Change	6.1%	0.8%	0.1%	0.2%	27	14	27	20
S&P 500 Utilities Index Average QoQ % Change	1.9%	-1.7%	3.1%	1.6%	27	14	27	20
US Investment Grade YTM Average QoQ bps Change	-16bps	9bps	27bps	-43bps	15	5	15	9
US High Yield YTM Average QoQ bps Change	-50bps	-33bps	47bps	-62bps	15	5	15	9
US BBB/Baa Spread Over 10Y Treasury Bond Average QoQ bps Change	-13bps	-19bps	11bps	9bps	15	5	16	9
US T-Bill Yield Average QoQ bps Change	8bps	36bps	-14bps	-30bps	46	32	53	41
US Treasury 10Y Yield Average QoQ bps Change	8bps	26bps	-4bps	-20bps	50	33	59	45
US 5Y Breakeven Rate Average QoQ bps Change	2bps	10bps	3bps	-13bps	15	6	16	9
US Dollar Index Average QoQ % Change	0.3%	-0.4%	-0.7%	0.4%	49	28	54	39
Gold Spot Average QoQ % Change	**0.7%**	**2.3%**	**5.3%**	**0.2%**	49	28	54	38
CRB Index Average QoQ % Change	3.2%	3.8%	2.3%	-4.1%	22	12	24	15
TIPS Average QoQ % Change	0.3%	-0.1%	0.0%	0.6%	13	4	14	9
MSCI REIT Index Average QoQ % Change	7.5%	0.6%	-1.1%	-3.9%	11	4	12	7
MSCI World REIT Index Average QoQ % Change	4.8%	-0.9%	0.2%	4.2%	6	1	5	2

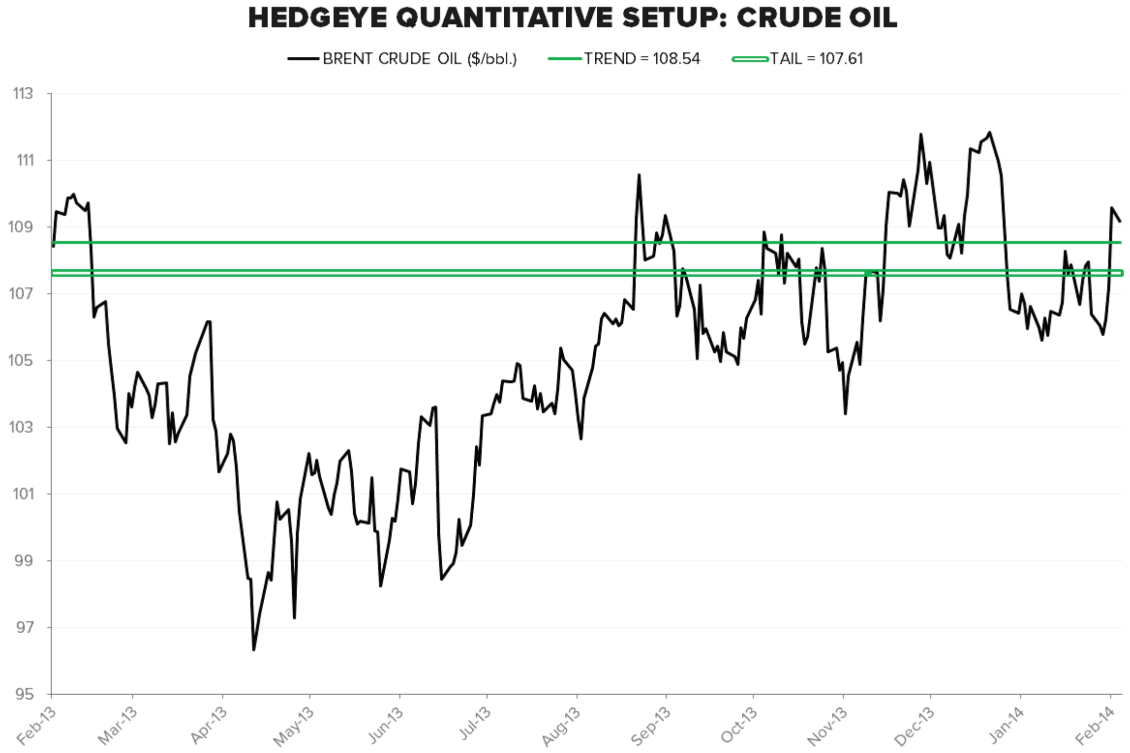
This directionally stagflationary setup is otherwise referred to as Quad #3 in our proprietary GIP framework. As the historical backtest data below highlights, Gold is among the best performing asset classes in Quad #3, along with US Treasuries, Energy stocks and Utility stocks. The recent quantitative breakout in Brent Crude Oil bodes well for the Energy sector and the confirmed breakdown in Treasury yields bodes well for Utes (+6.5% YTD) and other yield-chasing plays (the MSCI US REIT Index is up +7.2% YTD).

HISTORICAL AVERAGE PERFORMANCE



Data Source: Bloomberg

ENERGY PRICES: BULLISH

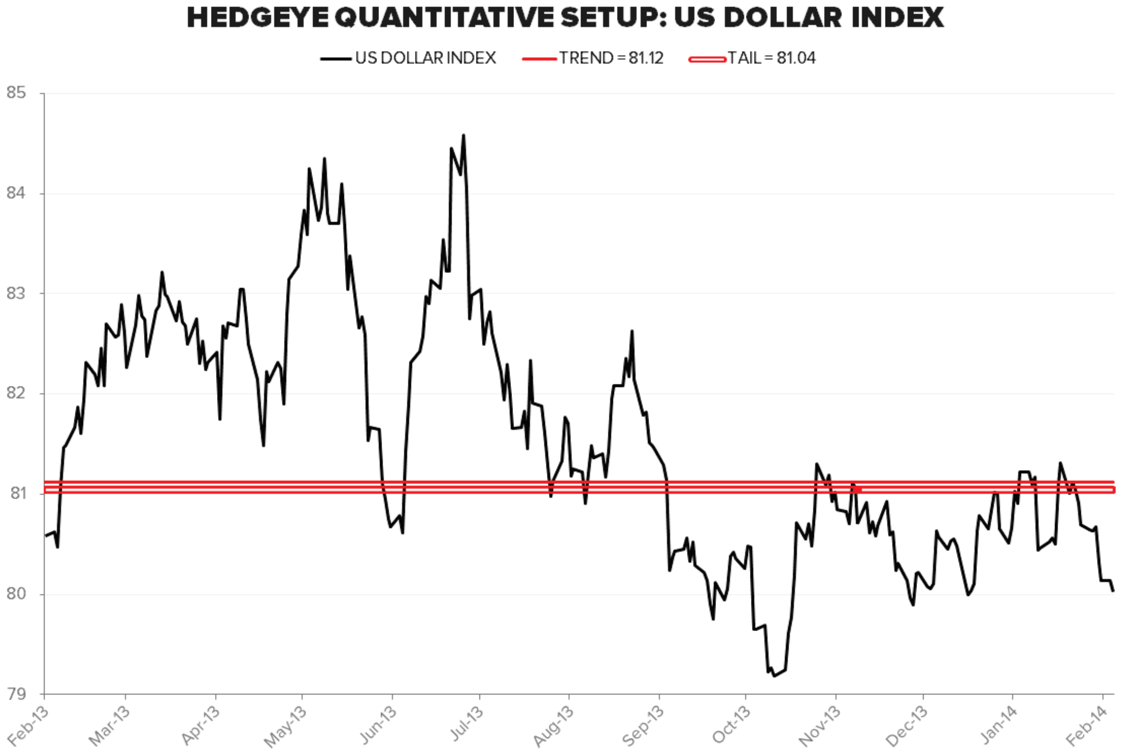


Data Source: Bloomberg

INTEREST RATES: BEARISH

Data Source: Bloomberg

US DOLLAR: EXTREMELY BEARISH



Data Source: Bloomberg

IN SUMMARY

THE RESEARCH AND RISK MANAGEMENT SIGNALS ARE CONFIRMING GOLD'S BREAKOUT

The WoW deltas in commodity currencies and EM asset plays suggest investors might want to start digging around for tactical opportunities on the long side of these asset classes. With respect to our #EmergingOutflows thesis, we're not quite there yet on the latter, but if I can front-run my own thought process in the context of incremental confirming evidence, we'll likely be there in another month or so.

All told, never forget that gold is an absolute return vehicle that competes with real yields and real yields are headed south because slowing growth is dragging down nominal yields and accelerating inflation is dragging up inflation expectations. Don't fight the tide; fight the Fed instead.

COMMODITIES LIKE A WEAK DOLLAR

NOTE THE WK/WK AND MONTH/MONTH DELTAS

HEDGEYE MACRO COMMODITY PRICE DIVERGENCE MONITOR

BLOOMBERG TICKER	INDEX NAME	LAST PRICE	1D % CHANGE	1W % CHANGE	1M % CHANGE	3M % CHANGE	6M % CHANGE	1Y % CHANGE	18M % CHANGE	3Y % CHANGE	YTD % CHANGE
	CURRENCIES & COMMODITY INDICES										
DXY	US Dollar Index	80.02	-0.1%	-0.8%	-1.5%	-1.0%	-1.5%	-0.8%	-3.1%	3.0%	0.0%
USTW$	Trade-Weighted US Dollar Index	77.28	-0.1%	0.0%	-0.4%	1.7%	1.4%	3.5%	3.6%	7.6%	1.1%
BBDXY	Bloomberg Correlation-Weighted US Dollar Index	1,017.06	0.0%	-0.7%	-1.4%	0.2%	-0.5%	1.6%	1.1%	5.4%	-0.2%
AUDUSD	AUD/USD Spot	0.90	0.1%	0.0%	2.9%	-3.6%	-1.6%	-12.3%	-13.3%	-10.9%	1.4%
CADUSD	CAD/USD Spot	0.91	-0.1%	0.5%	0.1%	-4.8%	-5.6%	-7.7%	-9.7%	-9.9%	-3.0%
NZDUSD	NZD/USD Spot	0.83	-0.7%	-0.2%	0.6%	-0.3%	2.5%	-1.7%	2.9%	9.1%	1.2%
NOKUSD	NOK/USD Spot	0.17	-0.5%	1.3%	1.8%	1.3%	-2.2%	-8.1%	-2.1%	-6.2%	0.4%
ZARUSD	ZAR/USD Spot	0.09	0.3%	1.0%	0.0%	-6.6%	-7.1%	-18.1%	-23.4%	-34.3%	-3.4%
BRLUSD	BRL/USD Spot	0.42	0.0%	0.4%	-1.7%	-5.3%	0.0%	-17.8%	-15.7%	-30.4%	-1.1%
CLPUSD	CLP/USD Spot	0.18	0.2%	1.2%	-1.7%	-5.5%	-6.3%	-13.9%	-11.8%	-14.4%	-4.1%
CRY	Thomson Reuters/Jefferies CRB Commodity Index	296.89	1.2%	2.3%	6.6%	8.8%	1.5%	-0.5%	-2.2%	-13.1%	6.0%
CRB CMDT	Commodity Research Bureau BLS/US Spot All Commodities	462.56	0.4%	0.7%	0.9%	1.1%	-2.1%	-4.2%	-5.3%	-16.4%	1.4%
CRB FOOD	Commodity Research Bureau BLS/US Spot Foodstuff	382.77	0.3%	0.9%	3.6%	0.7%	-4.4%	-5.7%	-16.7%	-19.2%	5.0%
CRB RIND	Commodity Research Bureau BLS/US Spot Raw Industrials	527.06	0.4%	0.5%	-0.9%	1.4%	-0.4%	-3.2%	3.5%	-14.3%	-1.1%
	MEAN		0.1%	0.5%	0.6%	-0.9%	-1.9%	-6.4%	-6.6%	-10.3%	0.2%
	INDIVIDUAL MARKETS										
AA1	Front-month Aluminum	13,360.00	0.3%	1.8%	-2.3%	-6.5%	-7.4%	-9.8%	-12.8%	-20.8%	-5.3%
CC1	Front-month Cocoa	2,932.00	-0.1%	0.6%	8.6%	5.5%	19.9%	36.9%	17.9%	-17.3%	8.2%
KC1	Front-month Coffee	150.75	7.8%	9.9%	28.7%	42.6%	25.1%	10.1%	-6.0%	-44.5%	36.2%
HG1	Front-month High Grade Copper	328.65	0.7%	2.2%	-1.7%	4.3%	-2.3%	-12.1%	-3.9%	-26.7%	-3.2%
C 1	Front-month Corn	447.75	0.6%	1.4%	5.6%	8.7%	-5.5%	-35.9%	-43.9%	-36.9%	6.1%
CT1	Front-month Cotton	87.63	0.1%	-1.2%	1.0%	14.7%	-6.2%	7.8%	20.6%	-55.5%	3.5%
GC1	Front-month Gold	1,323.50	0.3%	2.6%	5.7%	4.0%	-3.5%	-17.7%	-18.1%	-4.7%	10.1%
CL1	Front-month WTI Crude Oil	101.66	1.3%	1.7%	7.7%	9.3%	-5.4%	6.1%	5.9%	17.9%	3.3%
CO1	Front-month Brent Crude Oil	109.97	0.7%	1.2%	3.3%	1.4%	-0.4%	-6.3%	-3.3%	7.3%	-0.7%
HO1	Front-month Heating Oil (NY Harbor)	309.71	0.6%	2.3%	2.4%	6.0%	0.5%	-3.5%	0.1%	14.2%	0.6%
LH1	Front-month Lean Hogs	97.28	1.2%	13.0%	12.9%	13.6%	12.2%	15.5%	27.7%	5.4%	13.9%
LC1	Front-month Live Cattle	143.50	0.6%	0.5%	2.2%	8.8%	15.8%	13.4%	18.5%	29.2%	6.7%
LB1	Front-month Lumber	363.10	0.2%	1.1%	-1.8%	-1.0%	14.0%	-9.2%	17.6%	18.7%	0.8%
NG1	Front-month Natural Gas	5.46	4.7%	13.2%	26.2%	51.0%	62.1%	73.2%	100.8%	40.9%	29.1%
LN1	Front-month Nickel	14,351.00	0.9%	1.6%	-2.1%	6.2%	-3.9%	-19.3%	-7.9%	-50.7%	3.7%
JO1	Front-month Orange Juice	142.95	-1.0%	-1.7%	0.8%	3.6%	8.9%	10.9%	19.4%	-19.8%	4.8%
XB1	Front-month Gasoline (RBOB)	283.97	1.2%	3.2%	8.4%	6.9%	-4.3%	-9.4%	-6.2%	11.3%	1.9%
SI1	Front-month Silver	21.83	1.9%	8.3%	7.7%	7.2%	-6.4%	-26.9%	-22.0%	-32.4%	12.9%
S 1	Front-month Soybeans	1,361.00	1.7%	2.0%	3.4%	5.7%	6.1%	-4.5%	-18.6%	-0.5%	3.7%
SB1	Front-month Sugar	16.18	3.5%	4.7%	6.3%	-8.8%	-4.5%	-10.1%	-19.8%	-47.8%	-1.4%
W 1	Front-month Wheat	608.75	1.8%	3.1%	8.0%	-5.2%	-3.5%	-18.0%	-30.4%	-26.0%	0.6%
	MEAN		1.4%	3.4%	6.2%	8.5%	5.3%	-0.4%	1.7%	-11.4%	6.4%

Source: Bloomberg data; Hedgeye Risk Management calculations. Bolded cells denote values in excess of [1] standard deviation from the respective mean.

... AS DO EMERGING MARKET ASSETS

NOTE THE WK/WK AND MONTH-TO-DATE DELTAS

HEDGEYE MACRO EMERGING MARKETS DIVERGENCE MONITOR

ETF TICKER	INDEX NAME	LAST PRICE	1D % CHANGE	1W % CHANGE	1M % CHANGE	3M % CHANGE	6M % CHANGE	1Y % CHANGE	18M % CHANGE	3Y % CHANGE	MTD % CHANGE	QTD % CHANGE	YTD % CHANGE
	ASSET CLASSES												
CEW	WisdomTree Emerging Currency Fund	$ 19.84	**-0.5%**	0.8%	**0.1%**	-2.1%	-1.0%	**-6.8%**	-2.3%	-11.9%	1.8%	-1.1%	-1.1%
EMB	iShares JP Morgan USD Emerging Markets Bond ETF	$ 108.60	0.1%	**0.1%**	-0.5%	**-0.8%**	0.8%	-8.9%	-7.8%	**3.0%**	1.2%	**0.4%**	**0.4%**
EMLC	Market Vectors Emerging Markets Local Currency Bond ETF	$ 22.89	**0.2%**	0.5%	**-1.4%**	-4.8%	**-4.8%**	**-16.8%**	**-12.3%**	-13.8%	1.6%	-2.8%	-2.8%
EEM	iShares MSCI Emerging Markets ETF	$ 39.59	-0.2%	**1.2%**	-0.5%	-7.1%	0.7%	-10.0%	-2.2%	-14.5%	**3.7%**	**-5.3%**	**-5.3%**
VWO	Vanguard FTSE Emerging Markets ETF	$ 39.06	-0.1%	1.1%	-1.0%	-7.0%	-0.6%	-12.0%	-5.5%	-16.7%	**3.7%**	-5.1%	-5.1%
	MEAN		**-0.1%**	**0.7%**	**-0.7%**	**-4.4%**	**-1.0%**	**-10.9%**	**-6.0%**	**-10.8%**	**2.4%**	**-2.8%**	**-2.8%**
	REGIONS												
GMF	SPDR S&P Emerging Asia Pacific ETF	$ 75.29	0.1%	1.3%	0.1%	**-3.9%**	2.0%	-4.3%	**7.1%**	-8.6%	4.1%	**-2.4%**	**-2.4%**
GML	SPDR S&P Emerging Latin America ETF	$ 57.09	-0.9%	-0.2%	**-3.9%**	**-12.9%**	**-6.5%**	**-24.4%**	**-20.2%**	**-34.4%**	**2.2%**	**-8.3%**	**-8.3%**
GUR	SPDR S&P Emerging Europe ETF	$ 37.89	-0.9%	0.8%	-1.2%	-9.9%	-1.6%	-11.9%	-4.4%	-25.6%	5.1%	-5.9%	-5.9%
GAF	SPDR S&P Emerging Middle East & Africa ETF	$ 65.00	0.0%	**3.5%**	-0.3%	-6.7%	1.0%	-7.3%	-5.4%	-9.8%	5.7%	-5.2%	-5.2%
	MEAN		**-0.4%**	**1.4%**	**-1.3%**	**-8.4%**	**-1.3%**	**-12.0%**	**-5.7%**	**-19.6%**	**4.3%**	**-5.4%**	**-5.4%**
	COUNTRIES												
ARGT	Global X FTSE Argentina 20 ETF	$ 19.07	**-1.4%**	**5.8%**	-1.1%	-4.7%	0.1%	**7.8%**	11.1%		**9.7%**	-2.5%	-2.5%
EWZ	iShares MSCI Brazil Capped ETF	$ 40.32	**-0.8%**	**-1.1%**	-4.5%	**-18.2%**	-6.5%	**-28.2%**	**-27.2%**	**-46.1%**	2.8%	-9.8%	-9.8%
ECH	iShares MSCI Chile Capped ETF	$ 44.03	-0.7%	**3.8%**	-3.3%	-11.1%	-9.6%	**-34.7%**	**-28.2%**	**-37.5%**	**8.4%**	-7.3%	-7.3%
FXI	iShares China Large-Cap ETF	$ 35.89	0.3%	1.4%	0.3%	-9.9%	-0.7%	-11.0%	4.0%	-16.0%	3.8%	-6.5%	-6.5%
EGPT	Market Vectors Egypt Index ETF	$ 63.69	**1.1%**	2.4%	**8.8%**	**20.3%**	**42.3%**	**25.8%**	**17.4%**	-15.0%	3.0%	**18.6%**	**18.6%**
EPI	WisdomTree India Earnings Fund	$ 16.54	0.3%	0.0%	-3.0%	-1.0%	12.2%	-13.0%	-3.0%	-28.7%	2.2%	-5.2%	-5.2%
EIDO	iShares MSCI Indonesia ETF	$ 25.40	0.4%	**4.6%**	**8.6%**	4.0%	-9.2%	-22.2%	-15.3%	-7.5%	**9.5%**	**11.2%**	**11.2%**
EWM	iShares MSCI Malaysia ETF	$ 15.19	-0.3%	0.6%	1.1%	-4.3%	0.9%	5.0%	4.0%	**5.6%**	3.3%	-4.0%	-4.0%
EWW	iShares MSCI Mexico Capped ETF	$ 63.55	0.1%	0.6%	-2.5%	-3.4%	-5.5%	-11.4%	0.8%	**2.1%**	1.0%	-6.5%	-6.5%
NGE	Global X Nigeria Index ETF	$ 14.07	0.2%	**-4.8%**	**-12.4%**	-8.2%	-4.7%				**-6.5%**	**-12.3%**	**-12.3%**
EPU	iShares MSCI All Peru Capped ETF	$ 34.15	**0.9%**	2.4%	0.3%	5.4%	-2.3%	-25.0%	-15.9%	-29.8%	5.2%	1.5%	1.5%
EPHE	iShares MSCI Philippines ETF	$ 32.53	0.5%	1.2%	**5.5%**	-4.8%	-6.4%	-16.6%	11.6%		5.1%	2.9%	2.9%
EPOL	iShares MSCI Poland Capped ETF	$ 30.47	-0.3%	1.9%	**6.5%**	-4.3%	8.2%	**11.2%**	**21.9%**	-10.2%	**9.1%**	2.7%	2.7%
RSX	Market Vectors Russia ETF	$ 26.16	-0.6%	-0.2%	-4.5%	-9.3%	-0.5%	-12.8%	-6.2%	**-32.6%**	3.6%	-9.4%	-9.4%
EZA	iShares MSCI South Africa ETF	$ 61.13	0.5%	3.6%	0.0%	-5.9%	1.2%	-9.2%	-6.9%	-10.5%	5.9%	-5.2%	-5.2%
EWY	iShares MSCI South Korea Capped ETF	$ 60.33	-0.7%	0.8%	-0.1%	-5.9%	6.8%	-1.1%	4.4%	-0.2%	2.2%	-6.7%	-6.7%
EWT	iShares MSCI Taiwan ETF	$ 13.98	-0.3%	1.4%	-0.9%	-0.6%	5.4%	2.5%	10.0%	-8.1%	3.0%	-3.1%	-3.1%
THD	iShares MSCI Thailand Capped ETF	$ 68.82	-0.5%	1.4%	2.7%	-11.8%	-10.9%	-22.5%	-3.1%	**10.9%**	5.4%	0.2%	0.2%
TUR	iShares MSCI Turkey ETF	$ 44.48	**-0.9%**	0.2%	0.4%	**-20.4%**	**-21.9%**	**-33.1%**	**-19.5%**	-30.4%	7.0%	-6.7%	-6.7%
VNM	Market Vectors Vietnam ETF	$ 22.57	**1.5%**	2.4%	5.0%	**14.7%**	**22.4%**	-3.0%	**24.1%**	-11.9%	7.1%	**20.1%**	**20.1%**
	MEAN		**0.0%**	**1.4%**	**0.3%**	**-4.0%**	**1.1%**	**-10.1%**	**-0.8%**	**-15.6%**	**4.5%**	**-1.4%**	**-1.4%**

Source: Bloomberg data; Hedgeye Risk Management calculations. Bolded cells denote values in excess of [1] standard deviation from the respective mean.

FIGHT THE FED, NOT THE DATA

Data Source: Bloomberg

GOLD'S RISK MANAGEMENT SETUP

IF $1,353 IS BREACHED, THERE'S NO RESISTANCE TO THE PRIOR CLOSING HIGHS

Data Source: Bloomberg

#GROWTHDIVERGENCES

SUMMARY

Recently we've been pounding the table on our #InflationAccelerating **Q1 Macro Theme**, which continues to broadly manifest itself in buy-side PnLs (in one direction or the other). Today, we wanted to briefly update you on our #GrowthDivergences **Q1 Macro Theme**, which called for investors to be **OVERWEIGHT/LONG** UK, Germany, Eurozone and China vs. **UNDERWEIGHT/SHORT** US and Japan.

Like our #InflationAccelerating theme – which continues to be VERY non-consensus based on a number of dialogues we've had with our always-sharp subscriber base – this theme has, on balance, worked like a charm:

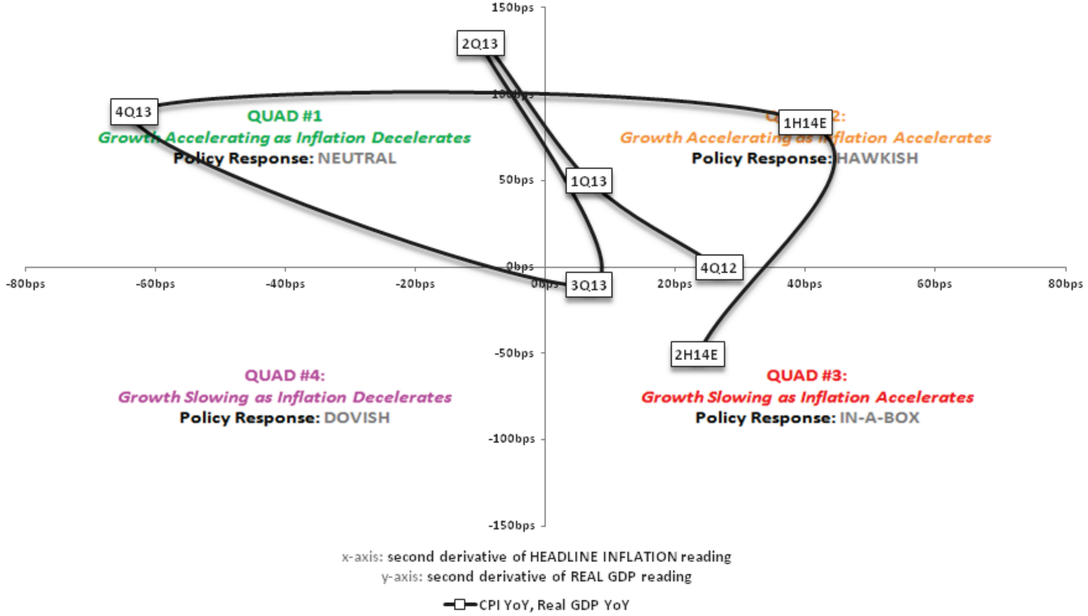
UK FTSE All-Share Index: +1.5% since JAN 9th
Germany DAX Index: +2.4% since JAN 9th
Eurozone Stoxx 600 Index: +1.7% since JAN 9th
China Shanghai Composite Index: +4.5% since JAN 9th
US S&P 500 Index: +0.1% since JAN 9th
Japan Nikkei 225 Index: -6.5% since JAN 9th

These deltas are generally supported by each of the respective GIP (i.e. Growth/Inflation/Policy) outlooks. Below, we offer up some quick-and-easy one-liners summing up our intermediate-term view on each economy. Lastly, we outline what we are seeing in the model that makes us sound so directionally negative on the macroeconomic setup in the US (vs. leading the bull charge in 2013).

UNITED KINGDOM

UNITED KINGDOM	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP YoY	1.1%	0.6%	0.0%	0.2%	0.2%	0.7%	2.0%	1.9%	2.8%	Full-year Estimates	2013E	2014E
2Y Average	1.5%	1.2%	0.4%	0.6%	0.7%	0.7%	1.0%	1.1%	1.5%	Bloomberg Consensus Real GDP YoY	1.8%	2.6%
3Y Average	0.1%	0.9%	0.9%	1.2%	1.0%	1.0%	0.9%	1.0%	1.4%	Hedgeye Predictive Tracking Algorithm	1.9%	3.5%
CPI YoY	4.7%	3.5%	2.7%	2.4%	2.7%	2.8%	2.7%	2.7%	2.1%	Full-year Estimates	2013E	2014E
2Y Average	4.0%	3.8%	3.6%	3.6%	3.7%	3.1%	2.7%	2.6%	2.4%	Bloomberg Consensus YoY YoY	2.6%	2.1%
3Y Average	3.4%	3.6%	3.5%	3.4%	3.6%	3.5%	3.3%	3.3%	3.2%	Hedgeye Predictive Tracking Algorithm	2.6%	2.5%

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

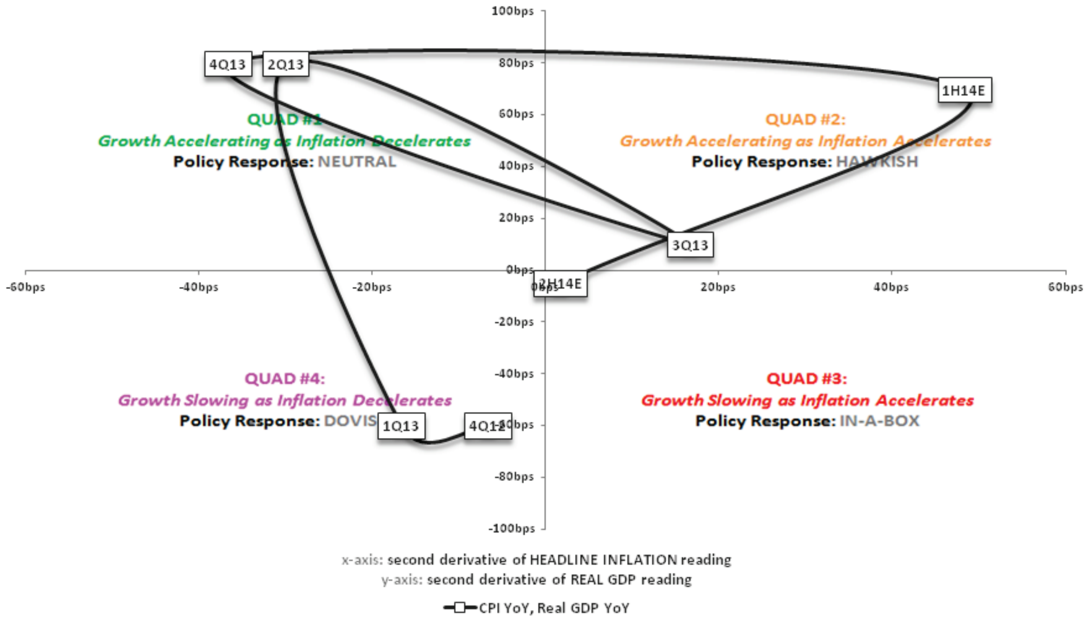


Probably the best looking economy of the bunch; the threat of +6% nominal GDP growth in 2014E plus deteriorating BoP dynamics underscore Carney's increasingly hawkish bias – which only insulates our #StrongPound = #StrongUKConsumer view.

GERMANY

GERMANY	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP YoY	2.2%	1.3%	1.1%	0.9%	0.3%	-0.3%	0.5%	0.6%	1.4%	Full-year Estimates	2013E	2014E
2Y Average	3.2%	3.3%	2.2%	1.9%	1.3%	0.5%	0.8%	0.8%	0.9%	Bloomberg Consensus Real GDP YoY	0.5%	1.7%
3Y Average	1.4%	3.0%	2.9%	2.7%	2.2%	2.1%	1.6%	1.5%	1.3%	Hedgeye Predictive Tracking Algorithm	0.6%	2.2%
CPI YoY	2.7%	2.4%	2.1%	2.1%	2.0%	1.8%	1.5%	1.7%	1.3%	Full-year Estimates	2013E	2014E
2Y Average	2.1%	2.3%	2.3%	2.4%	2.3%	2.1%	1.8%	1.9%	1.7%	Bloomberg Consensus YoY YoY	1.6%	1.5%
3Y Average	1.5%	1.8%	1.9%	2.0%	2.1%	2.1%	2.1%	2.1%	2.0%	Hedgeye Predictive Tracking Algorithm	1.6%	1.7%

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

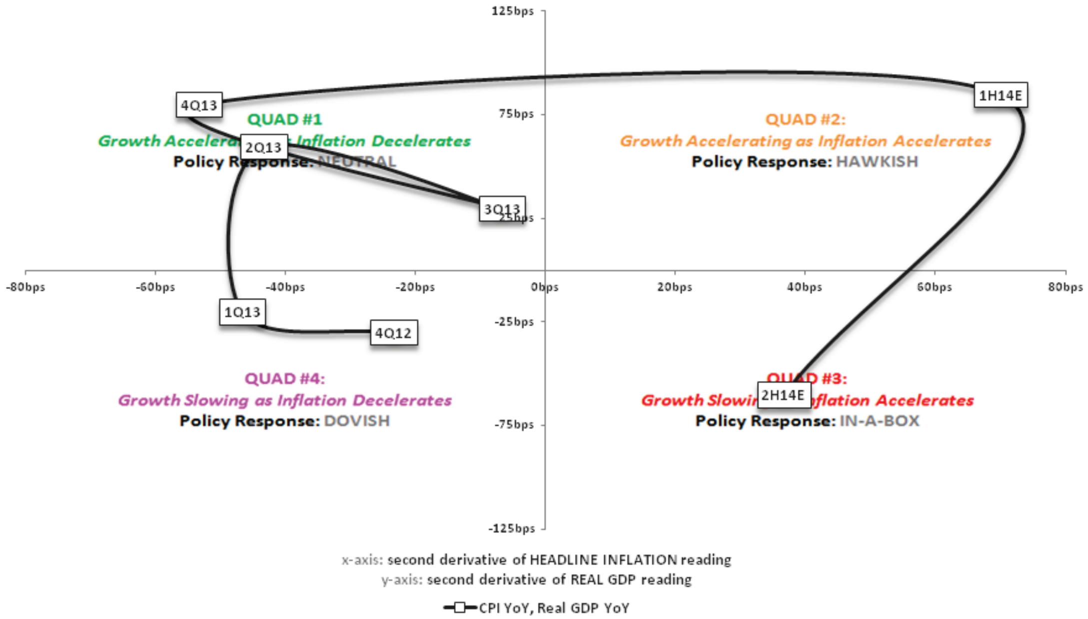


Our model has German GDP growth continuing to materially accelerate in 1H14, helping the country achieve 3Y highs in economic growth for 2014E. The acceleration in inflation should lend marginal support to the EUR by allowing Draghi to back off of his easing bias to some degree.

EUROZONE

EUROZONE	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP YoY	0.7%	-0.2%	-0.5%	-0.7%	-1.0%	-1.2%	-0.6%	-0.3%	0.5%	Full-year Estimates	2013E	2014E
2Y Average	1.5%	1.3%	0.7%	0.4%	-0.2%	-0.7%	-0.6%	-0.5%	-0.3%	Bloomberg Consensus Real GDP YoY	-0.4%	1.0%
3Y Average	0.2%	1.2%	1.2%	1.0%	0.7%	0.4%	0.2%	0.1%	0.1%	Hedgeye Predictive Tracking Algorithm	-0.4%	1.2%
CPI YoY	2.9%	2.7%	2.5%	2.5%	2.3%	1.8%	1.4%	1.3%	0.8%	Full-year Estimates	2013E	2014E
2Y Average	2.5%	2.6%	2.6%	2.6%	2.6%	2.3%	1.9%	1.9%	1.6%	Bloomberg Consensus YoY YoY	1.4%	1.1%
3Y Average	1.8%	2.1%	2.3%	2.3%	2.4%	2.3%	2.2%	2.2%	2.0%	Hedgeye Predictive Tracking Algorithm	1.3%	1.5%

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

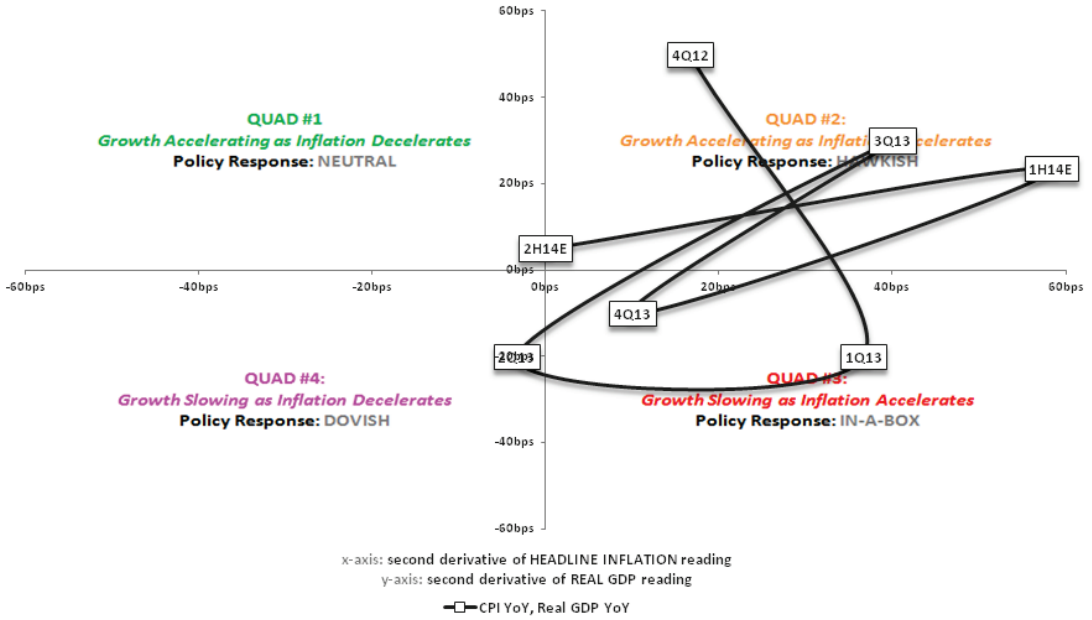


Very similar [bullish] setup to Germany, though we see less upside in both GDP growth and CPI on a full-year basis as structural headwinds persist throughout the periphery.

CHINA

CHINA	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP YoY	8.9%	7.9%	7.6%	7.4%	7.9%	7.7%	7.5%	7.8%	7.7%	Full-year Estimates	2013E	2014E
2Y Average	9.4%	8.8%	8.6%	8.3%	8.4%	7.8%	7.6%	7.6%	7.8%	Bloomberg Consensus Real GDP YoY	7.7%	7.4%
3Y Average	9.8%	9.8%	9.1%	8.7%	8.9%	8.4%	8.2%	8.1%	8.2%	Hedgeye Predictive Tracking Algorithm	7.7%	7.9%
CPI YoY	4.6%	3.8%	2.9%	1.9%	2.1%	2.4%	2.4%	2.8%	2.9%	Full-year Estimates	2013E	2014E
2Y Average	4.7%	4.4%	4.3%	4.1%	3.3%	3.1%	2.6%	2.4%	2.5%	Bloomberg Consensus YoY YoY	2.6%	3.1%
3Y Average	3.3%	3.7%	3.8%	3.9%	3.8%	3.8%	3.7%	3.7%	3.2%	Hedgeye Predictive Tracking Algorithm	2.6%	3.5%

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

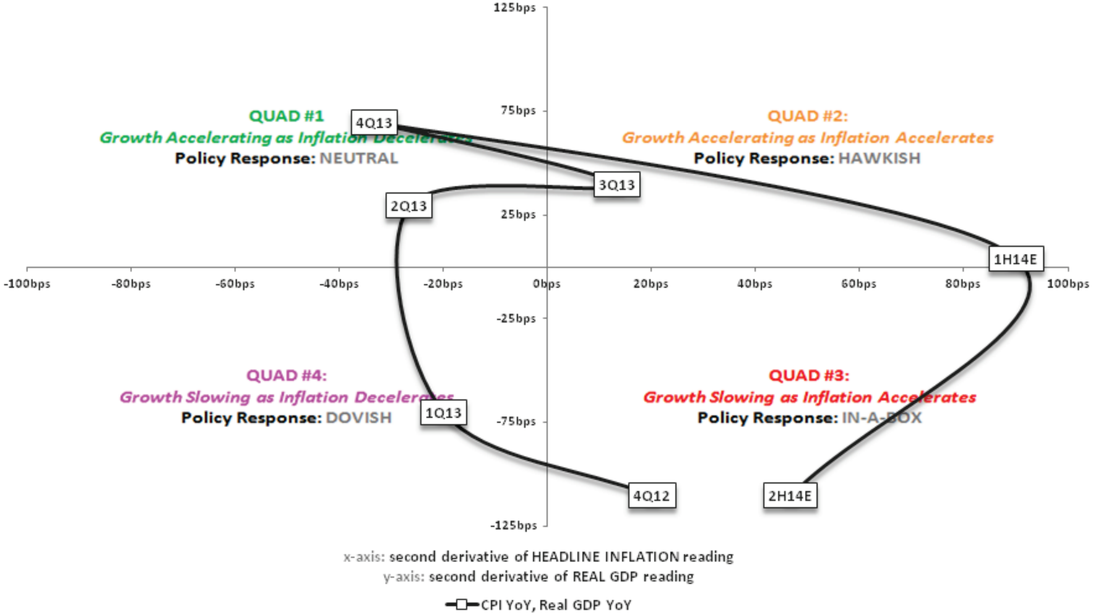


Our lowest-conviction bullish bias. If Chinese GDP growth doesn't show strength against ridiculously easy compares in 1H14, the back half of the year could be a disaster from a growth perspective. Still, our analysis shows that the PBoC has adopted a marginal easing bias in the YTD, which should be supportive of our base case scenario.

UNITED STATES

UNITED STATES	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Hedgeye Macro GIP Model		
Real GDP QoQ SAAR	4.9%	3.7%	1.2%	2.8%	0.1%	1.1%	2.5%	4.1%	3.2%	GIP = Growth/Inflation/Policy		
Real GDP YoY	2.0%	3.3%	2.8%	3.1%	2.0%	1.3%	1.6%	2.0%	2.7%	Full-year Estimates	2013E	2014E
2Y Average	2.4%	2.7%	2.4%	2.3%	2.0%	2.3%	2.2%	2.6%	2.4%	Bloomberg Consensus Real GDP YoY	1.9%	2.9%
3Y Average	1.5%	2.3%	2.5%	2.5%	2.3%	2.2%	2.1%	2.2%	2.2%	Hedgeye Predictive Tracking Algorithm	1.9%	2.4%
CPI YoY	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%	1.6%	1.2%	Full-year Estimates	2013E	2014E
2Y Average	2.3%	2.5%	2.7%	2.7%	2.6%	2.3%	1.7%	1.6%	1.6%	Bloomberg Consensus YoY YoY	1.5%	1.6%
3Y Average	2.0%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	2.3%	2.1%	Hedgeye Predictive Tracking Algorithm	1.5%	2.1%

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



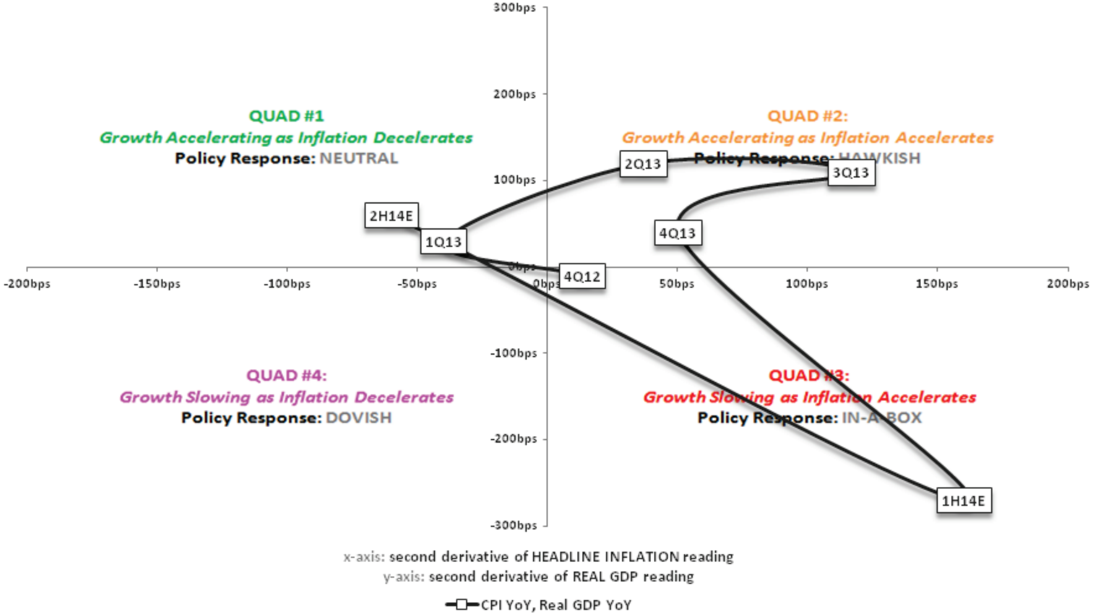
Inching towards a deep trip to Quad #3 (i.e. *growth slowing as inflation accelerates*). Refer to the analysis on slides 29-42 for more details.

JAPAN

JAPAN	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Real GDP QoQ SAAR	0.7%	3.7%	-1.7%	-3.1%	-0.2%	4.8%	3.9%	1.1%	1.0%
Real GDP YoY	0.1%	3.2%	3.2%	-0.2%	-0.3%	0.0%	1.2%	2.3%	2.7%
2Y Average	1.7%	1.6%	0.9%	-0.4%	-0.1%	1.6%	2.2%	1.1%	1.2%
3Y Average	1.0%	2.7%	2.0%	1.8%	1.0%	1.1%	1.0%	0.5%	0.8%
CPI YoY	-0.3%	0.3%	0.1%	-0.4%	-0.2%	-0.6%	-0.3%	0.9%	1.4%
2Y Average	-0.1%	-0.1%	-0.1%	-0.1%	-0.3%	-0.2%	-0.1%	0.3%	0.6%
3Y Average	-0.7%	-0.5%	-0.4%	-0.3%	-0.1%	-0.3%	-0.2%	0.2%	0.3%

Hedgeye Macro GIP Model		
GIP = Growth/Inflation/Policy		
Full-year Estimates	2013E	2014E
Bloomberg Consensus Real GDP YoY	1.7%	1.5%
Hedgeye Predictive Tracking Algorithm	1.6%	1.0%
Full-year Estimates	2013E	2014E
Bloomberg Consensus YoY YoY	0.3%	2.5%
Hedgeye Predictive Tracking Algorithm	0.4%	2.3%

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



Careening towards a deep trip to Quad #3. The only call to make here is whether or not the BoJ accelerates its timeline for incremental easing, which, on the margin, would be bearish for the JPY and the Japanese consumer, but bullish for manufacturing, exports, employment and wage growth. Our base case scenario is that the BoJ will be slow to react via expanding its QQE program as a result of their existing guidance and out-year inflation targets.

GDP GROWTH

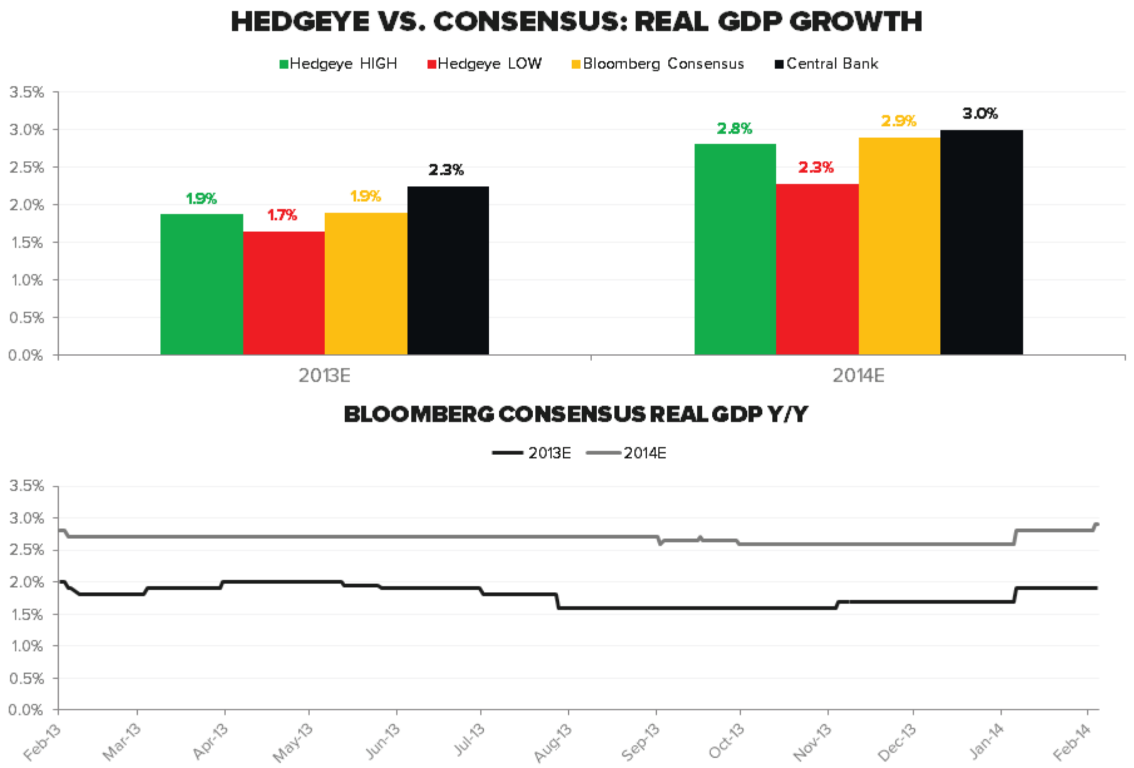
As compares get tougher at the margins, think real GDP growth comes in at the low end of our current forecast range for 2014E. This is a markedly different setup from 2013E, where we thought GDP would come in at the high end of our target range and accelerate throughout the year on a sequential basis.

Now we are below both the Street – which continues to take up their numbers in recent weeks – and the Fed. If we’re right on growth, the FOMC will be forced to react to a fair amount of negative economic surprises as the year progresses, likely forcing them to shift back to an easing bias.

It’s important that we make the following statistical point regarding our predictive tracking algorithm: when compares for any rate-of-change series get tougher at the margins, you need a commensurate increase in sequential momentum to prevent a deceleration in the first derivative.

In light of that, it’s important to note that recent trends in the broad balance of economic data do not support expectations for an increase in said momentum over the intermediate term. Consumption growth continues to accelerate on a trend-line basis, but industrial production growth and PMI data is clearly slowing, while confidence readings are more-or-less flat (on a trend-line basis).

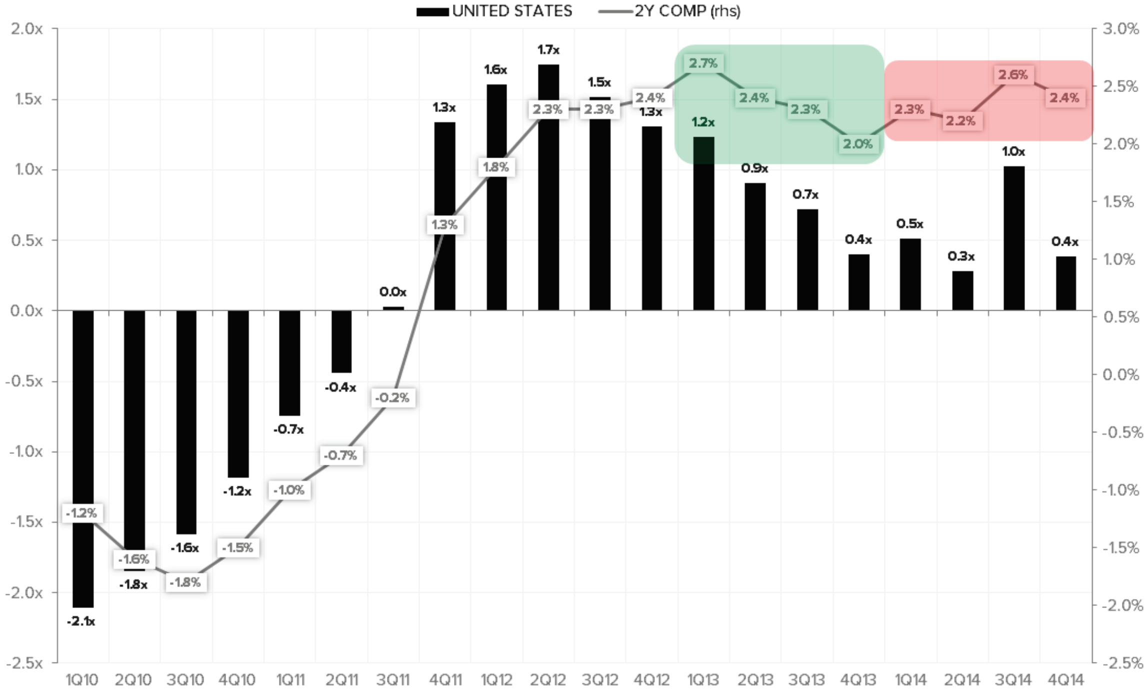
FULL-YEAR ESTIMATES



DATA SOURCE: BLOOMBERG

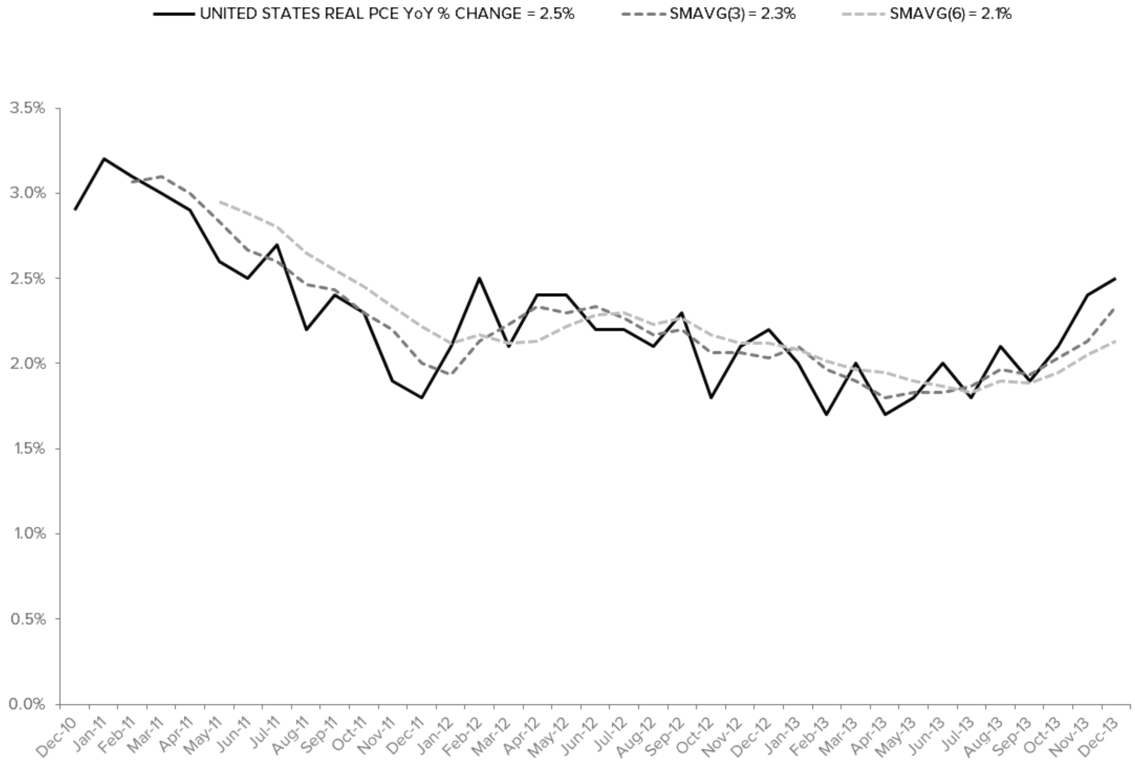
MODELING COMPARISONS

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



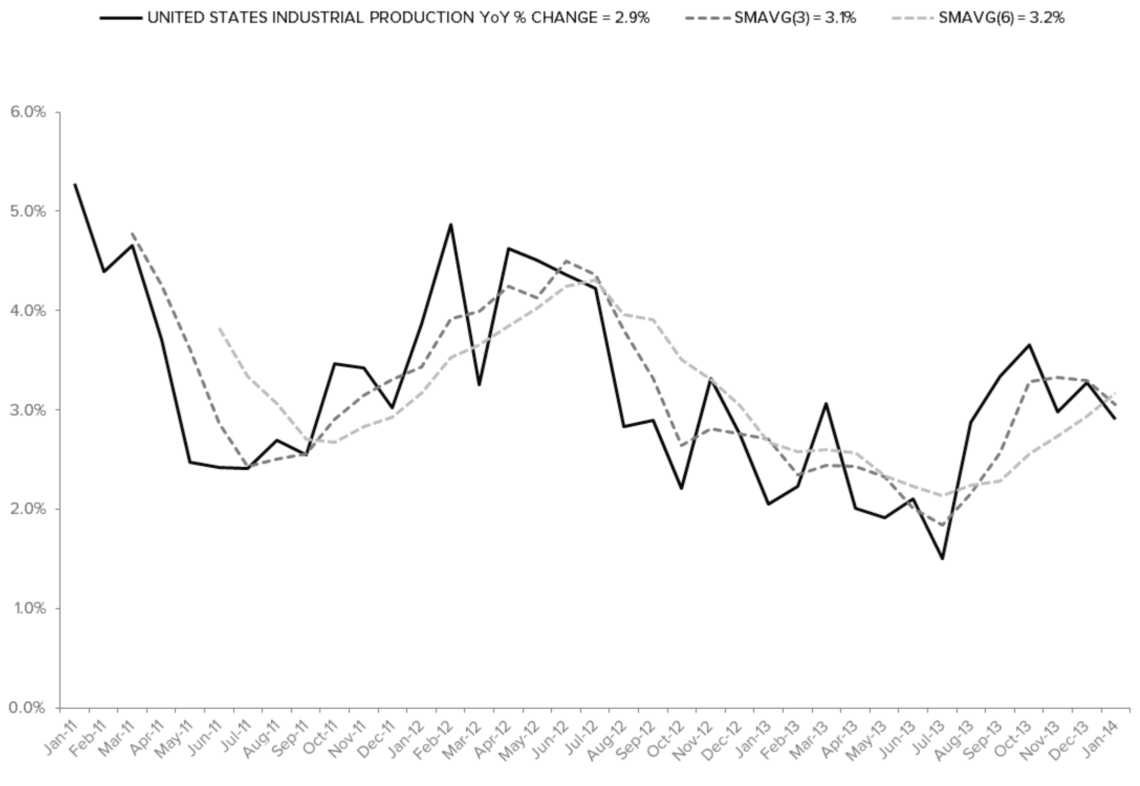
Data Source: Bloomberg

REAL PCE



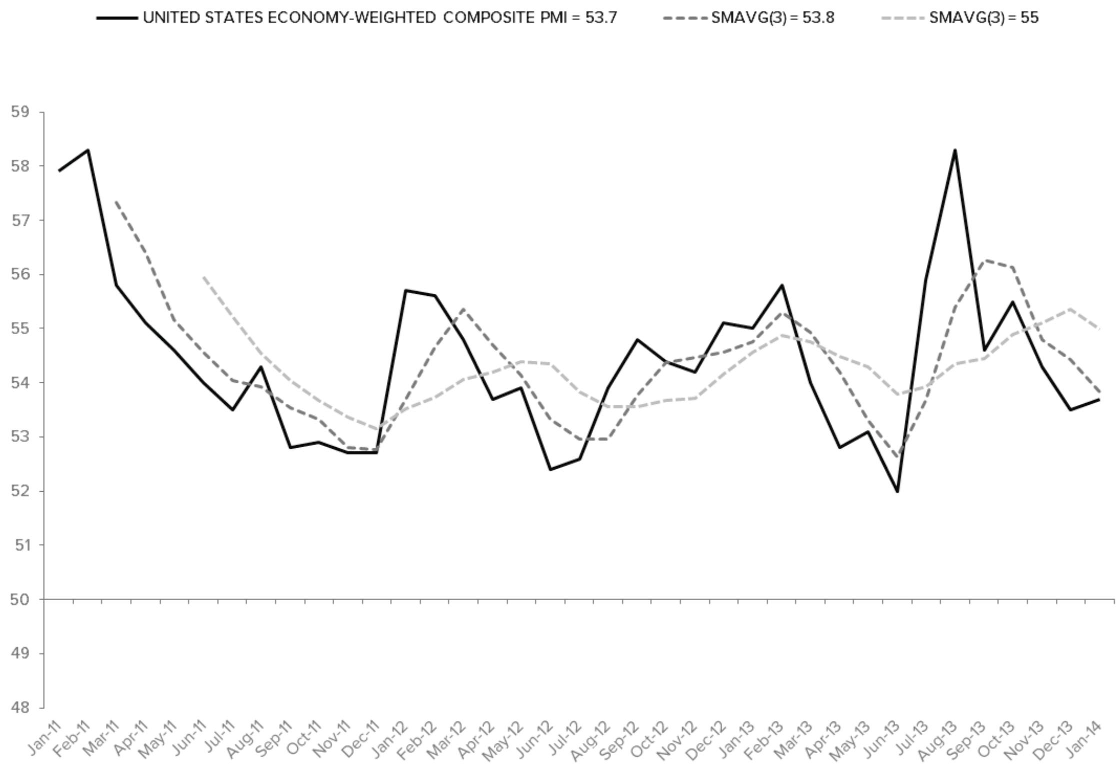
Data Source: Bloomberg

INDUSTRIAL PRODUCTION



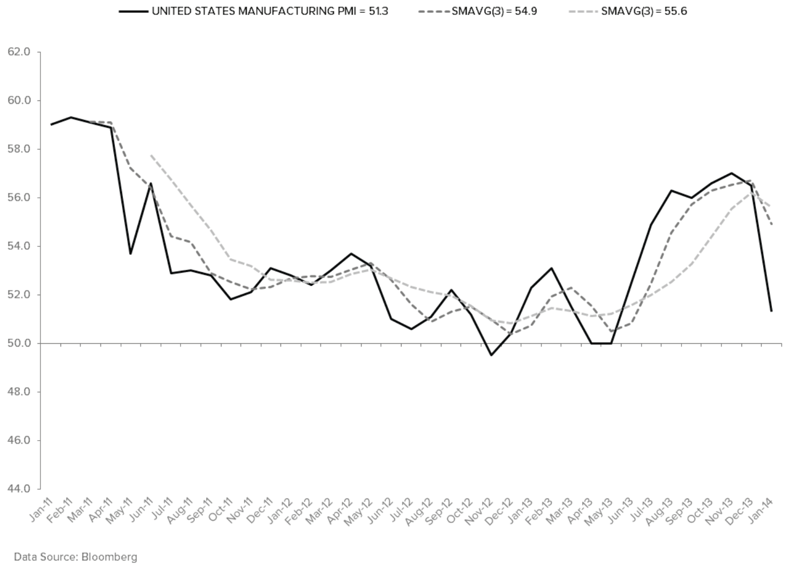
Data Source: Bloomberg

COMPOSITE PMI

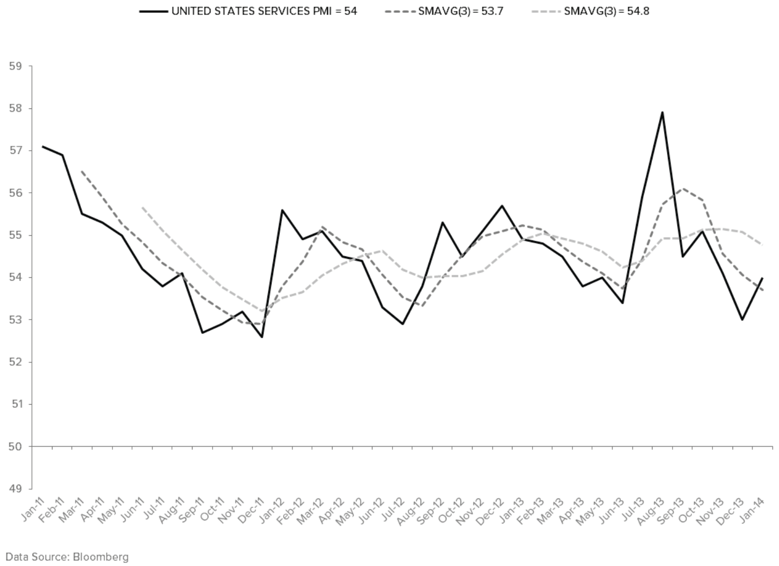


Data Source: Bloomberg

PMI DATA (CONTD.)

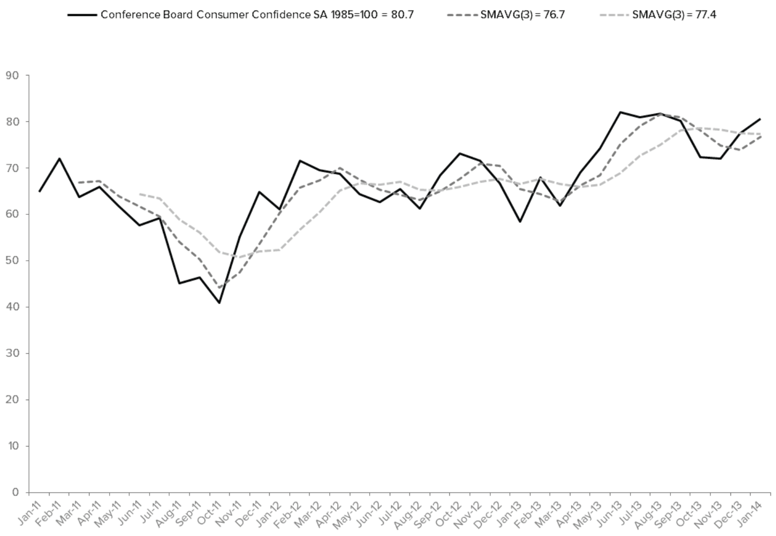


MANUFACTURING PMI



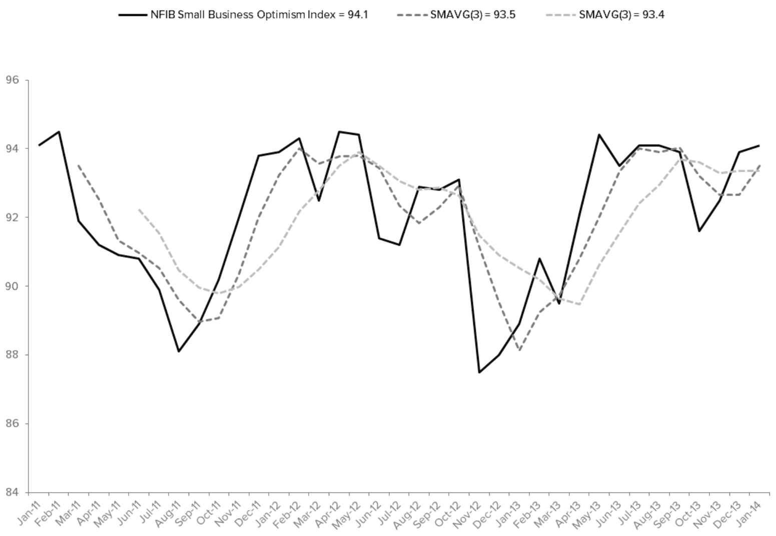
SERVICES PMI

CONFIDENCE SURVEY DATA



Data Source: Bloomberg

CONSUMER CONFIDENCE



Data Source: Bloomberg

BUSINESS CONFIDENCE

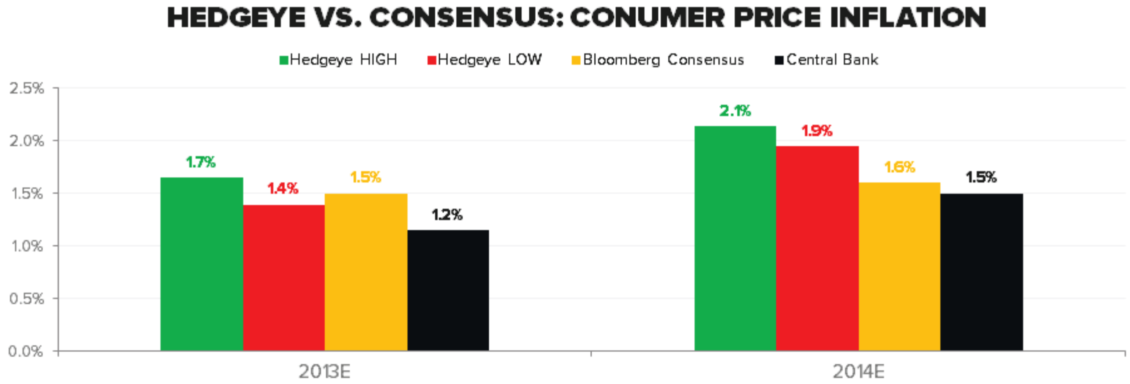
MODELING THE US ECONOMY

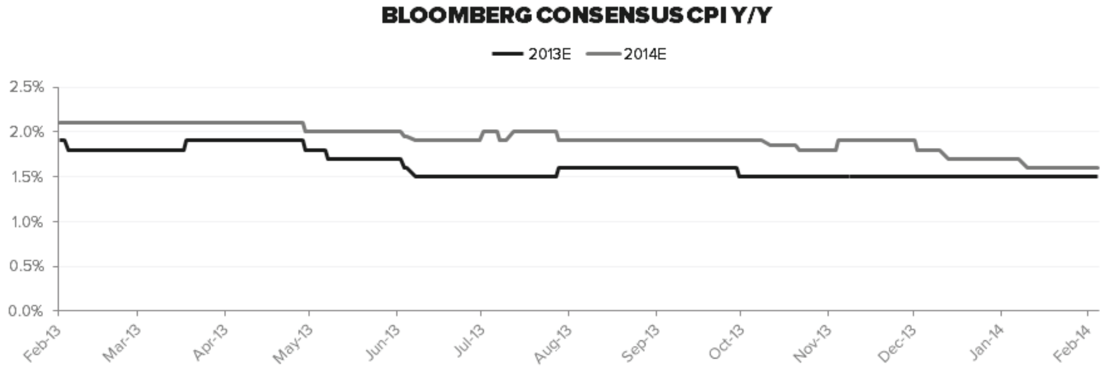
CONSUMER PRICE INFLATION

The confluence of easy compares, annualized currency weakness, a commodity base effect and the recent acceleration in commodity reflation continues to support our directionally hawkish view of the domestic inflation outlook.

Moreover, we are now well ahead of both the Street and the Fed with respect to our full-year expectations for CPI. If that view proves correct, consumption growth (i.e. ~70% of GDP) will slow domestically.

FULL-YEAR ESTIMATES

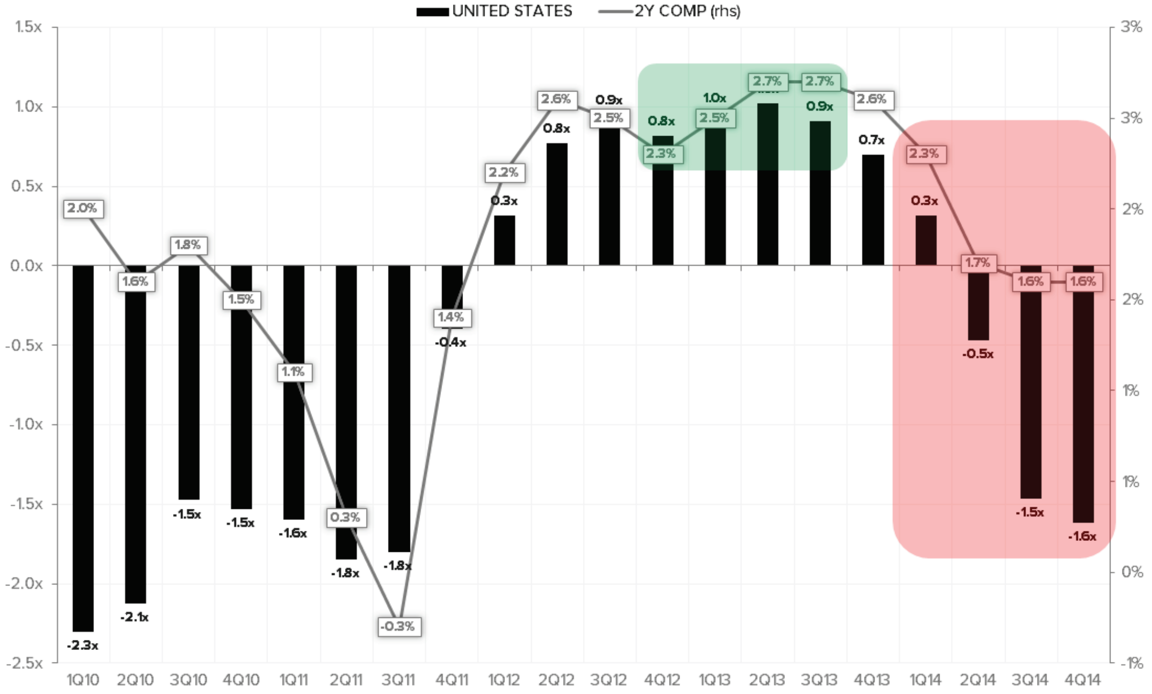




DATA SOURCE: BLOOMBERG

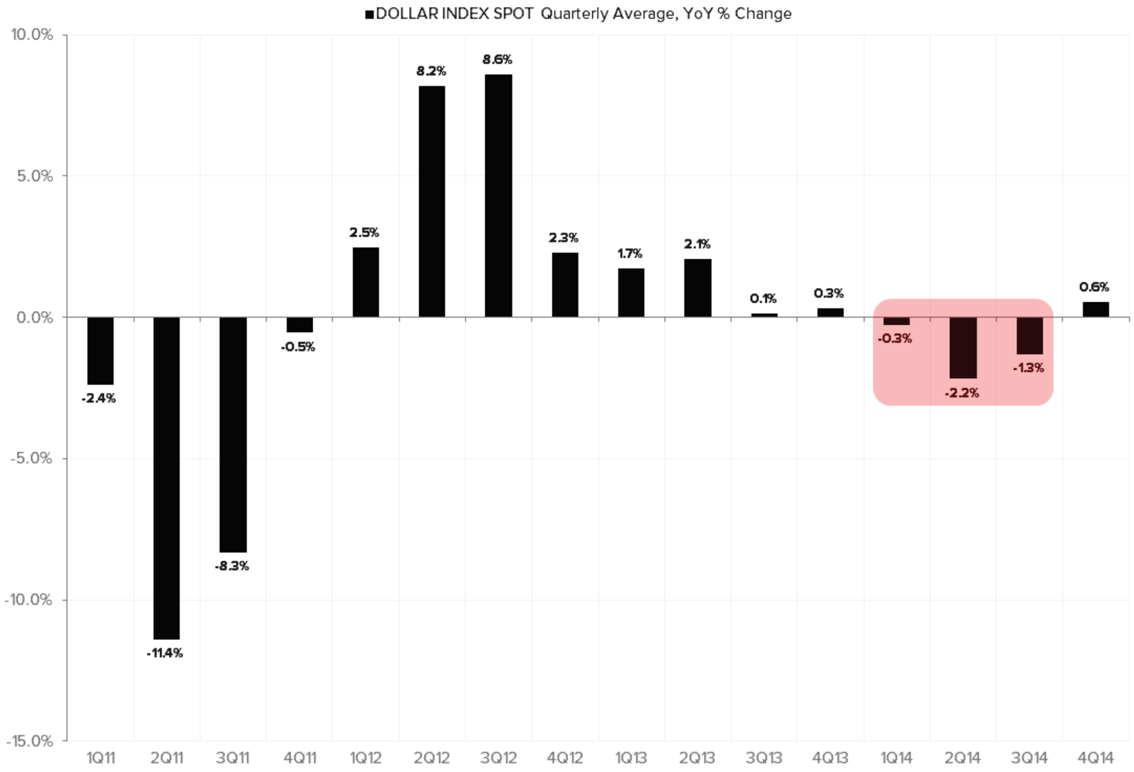
MODELING COMPARISONS

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



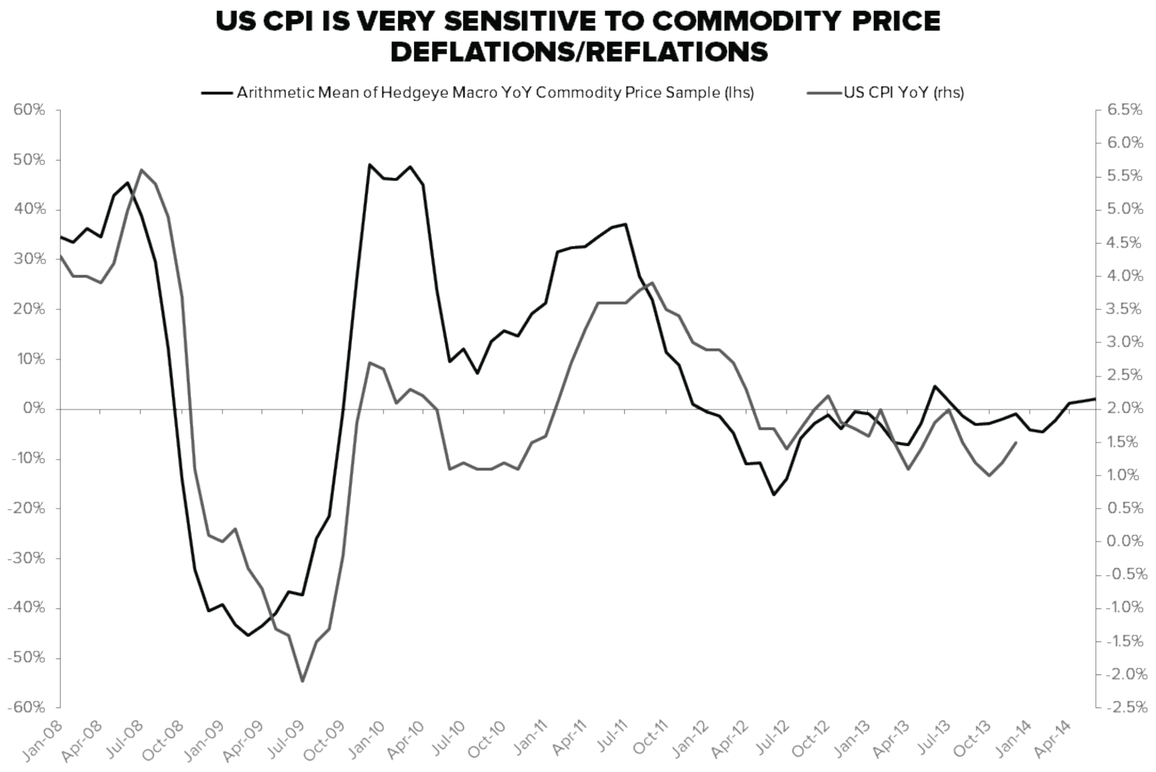
Data Source: Bloomberg

IMPORT PRICE PRESSURES



Data Source: Bloomberg. Forecasts assume no change in prices from current levels.

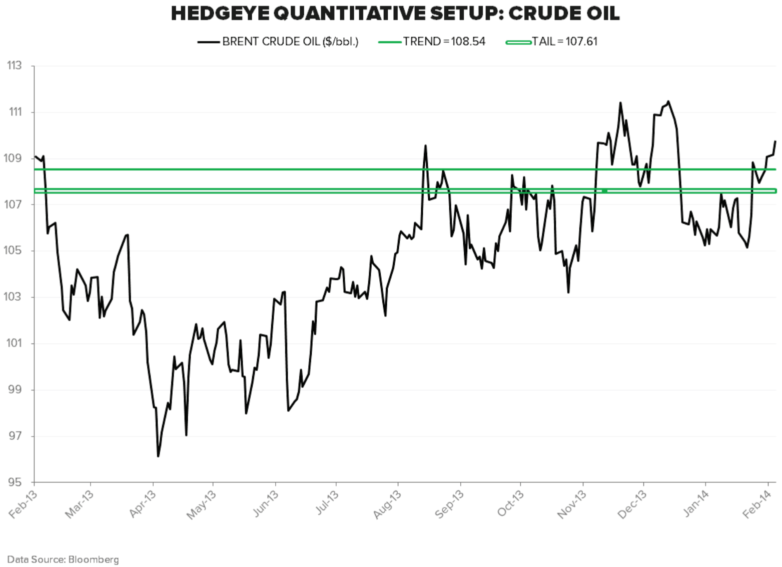
COMMODITY BASE EFFECT



Data Source: Bloomberg. Forward estimates assume no change from current prices… The Hedgeye Macro commodity price sample includes the CRB Index, CRB Raw Industrials Index, Brent Crude Oil and the UN Food and Agriculture Price Index. YoY deltas are calculated from monthly averages.

COMMODITY REFLATION

CRB INDEX



BRENT CRUDE OIL

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