

# Q4 2014 MACRO THEMES

#### **CONFERENCE CALL**

OCTOBER 2, 2014

#### LEGAL

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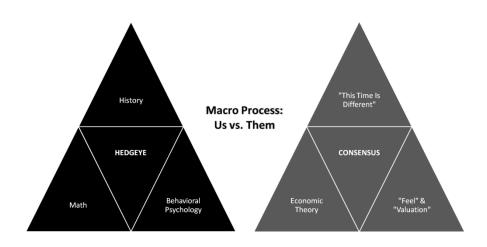
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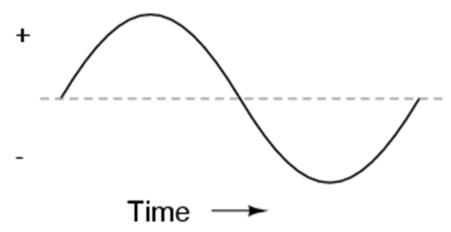
PLEASE SUBMIT QUESTIONS TO

# QA@HEDGEYE.COM

TO BE ANSWERED AT THE END OF THE CALL

# **PROCESS SLIDE #1**





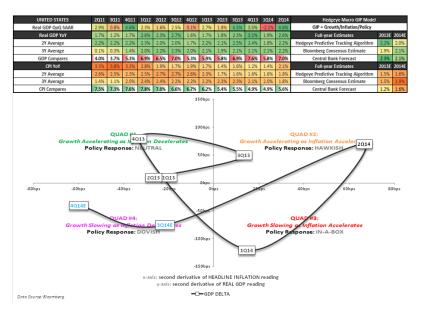
#### DIFFERENTIATED FROM THE HERD

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

#### WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin.

## PROCESS SLIDE #2



Predgeye Macro ETE Strategy, United States GP Model Backtost	Ave	rage Gord N. I	Daige, by Ox	adiopril	2 Score of	Average GoQ:	N Change, b	y Asset Clean		lerrentite Bac	is, by Quadra	Percentile Basis, by Quadrant				
Underlying Index	1					000 mil										
587 500 Index	7.2%	3.2%	1.2%	-4.8%	0.04	80x	0.0x	0.0x	28%	44%	59%	53%	21	13	25	3
SEP 100 Computer Discretionary Sector Index	8.7%	2.2%	185	-4.9k	1.0	-64	-034	0.34	13%	15N	47%	50%	21	13	25	1
SAP 300 Consumer Stagles Sector Index	5.8%	4.0%	2.3%	2.79	+1.0x	D44	-0.54	1.54	11%	68%	41%	E-12-12	- 21	13	25	. 1
S&P 500 Energy Sector Index	7,3%	2.6%	1.4%	-2.0%	0.0x	-0.24	2.7x	-0.5a	47%	41%	97%	18%	21	33	25	1
SAF 500 Financials Sector Index	8.0%	1.7%	8.5%	-0.6%	0.84	-0.7v	-05e	0.1w	79%	26%	38%	67%	21	33	25	1
S&P 500 FeeRD Care Sector Index	5.3%	5.2%	1.7%	2.5%	1.0x	1.0x	0.34	1.5x	18%	88%	71%	97%	21	11	25	1
S&P 500 Industrials Sector Index	7.7%	3.7%	1.4%	-1.2%	C3+	0.3x	0.24	-0.2x	45%	39%	60%	32%	- 21	13	25	- 1
S&P 500 Information Technology Sector Index	8.2%	7.1%	2.8%	-1.7%	1.0	1.5x	2.2x	0.4x	91%	220%	65%	26%	21	13	25	1
SBP S80 Materials Sector Index	7.3%	1.0%	1.4%	-6.4%	0.34	0.7%	OSe	0.5x	30%	22%	33%	989	21	13	25	3
SAP 100 Utilities Sector Index	3.1%	-1.1%	1.2%	0.2%	-2.6c	-2.1s	238	0.bs	- 0%	- 2%	91%	24%	21	23	25	34
Russell 2000 Index	8.2%	2.4%	1.1%	-1.5%	0.7s	0.2x	-01s	-0.4x	76%	33%	SIN	29%	21	33	25	- 1
MICI Emerging Markets Index	7.0%	3.04	4.2%	-1.2%	0.2×	0.0+	1.84	0.2×	16%	23%	.0%	21%	21	11	25	- 2
MSG REIT Index	7.5%	1.7%	-0.3%	-5.8%	0.29	6.79	-124	(2.5x	35%	34%	32%	- 2%	12	- 5	15	
Barcinys Apprecate US Bond Index	0.2%	-0.1%	-0.3%	12%	0.3v	0.2x	-09v	10x	62%	56%	21%	20%	14	- 5	15	
PMorgan EM USD Bond Index	13%	1.15	-1.3%	125	2.3v	0.5w	-1.3v	0.5x	82%	74%	2%	82%	- 5	- 4	9	
HIDEA - BLP Active Investment Grade Un Corporate Book Average Yield to Macunty	-2.6%	2.8%	4.5%	-4.8%	-0.84	D4x	0.84	-CRX	24%	63%	. 29%	12%	13	6	16	
SIMPA - BLP Active HY US Corporate Bood Index Average Vield to Maturity	-4.1%	4.2%	4.5%	-1.9%	-1.2x	-0.8v	0.2x	-0.2x	9%	15%	82%	38%	15	6	16	
US Corporate BBB/Baa USF 30V Yorld Spread	-12%	-8.2%	5.5%	6.8%	-1.0x	-1.04	1.34	2.3x	15%	24.14	88N	300%	15	- 6	19	
US Evenuery 27 Years	2.8%	0.2%	1.8%	4.8%	1.24	0.5x	-0.2x	-0.44	345	62%	55%	24%	21	3.3	25	1
US Treasury 30Y Yield	2.1%	1.9%	-3.6%	-5.1%	13x	0.8x	-10v	-0.5x	18%	79%	12%	22%	21	33	25	3
US Tressary SEY field	1.7%	1.9%	-1.7%	-1.7%	0.6k	0.8x	-1.3x	-0.2x	74%	76%	0%	42%	21	33	25	3
Sond Dayer US 40 Municipal Sond YTM	0.7%	0.8%	0.0%	-2.7%	0.04	ØSw.	-0.6x	0.54	41%	31%	29%	54%	21	33	25	- 1
I tromson Kesters/Jefferies CRB Commodity Index	2.2%	3.6%	2.6%	-6.8%	CO1	0.0x	034	-0.7x	44%	42%	62%	15%	21	33.	- 25	3
Commodity Research Europa ELS/US Spot Raw Industrials Index	2.2%	2.9%	8.1%	-43%	-0.21	-0.3s	-1.24	0.8x	12%	38%	9%	79%	21	22	25	3
Commodity Research Sureau BLS/US Spot Foodstoff Index	0.07%	27%	2.5%	-2.3%	-5.5c	-6.7v	-0.2v	0.0v	3%	38%	55%	71%	21	33	25	- 1
Frunt-month Bross Crade Oil	3.4%	:7.2%	6.0%	-1.8%	3.3x	17x	15x.	(1.3)	57%	57%	34%	17/29/10	21	33	25	- 3
Gold Spot	F-23%	2.2%	1.7%	-0.1%	0.3x	-0.6s	-04x	1.3x	19%	29%	44%	32%	21	23	25	3
1/5 Dollar Index	-0.5%	0.7%	-0.2%	0.8%	-5 St	0 tx	-0.6x	5. 1.8x	12%	50%	32%	94%	21	33	- 25	- 3
AUO/USD	012.8%	0.5%	-0.5%	-8.3%	180	0.9×	-1.0v	0.3x	100%	82%	33%	62%	21	11	25	. 1
CAD/USD	0.013%	1.2%	1.4%	12.2%	U.51	121	Q.54	177(1.2)	489	315	68%	3%	21	15	25	1
OHI/USD	0.5%	0.8%	1.4%	0.0%	-0.2t	-0.9v	2.56	0.2x	29%	12%	100%	76%	21	13	25	- 3
FUR/IND	0.8%	0.1%	11.5%	-0.5%	-6.34	-1.10	0.54	-0.1x	15%	4%	20%	50%	- 21	35	25	- 1
car/vsa	0.4%	1.7%	-0.5%	-0.3%	-0.24	1.3e	-0.54	0.1×	26%	94%	24%	44%	. 21	31	25	1
PVUSD	-0.3%	0.8%	9.7%	-0.5%	-5.3x	-C.9a	0.84	-0.1x	- 44	7%	28N	47%	21	23	. 25	- 1
JPMrrgan EN EX Index	1.2%	-0.2%	-0.0%	-1.5%	0.5x	-0.5x	-0.8x	12.5k	71%	52%	25%	THE REAL PROPERTY.	16		18	1

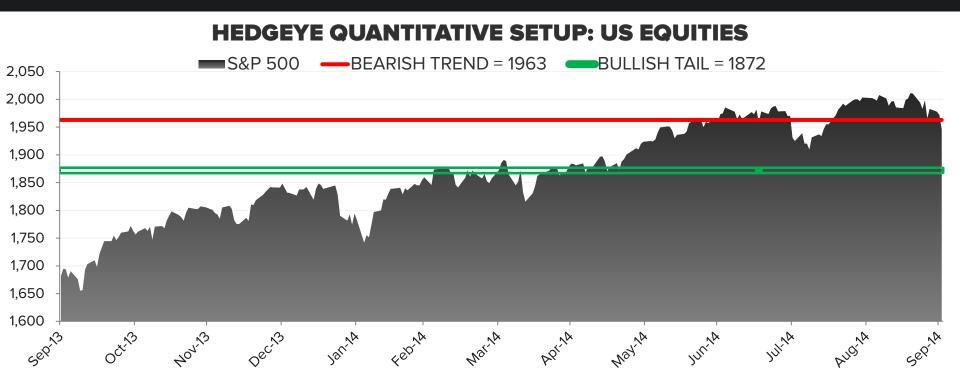
#### **OUR FUNDAMENTAL PROCESS**

If you get the slopes of both growth and inflation right, you'll tend to get a lot of other things right – particularly in your P&L.

#### **HISTORY MATTERS** → **BACKTEST**

Analyzing intermediate-term trends within the context of long-term economic and political cycles helps us consistently front-run major asset class turns.

### PROCESS SLIDE #3



#### ALL BACKSTOPPED BY A PROVEN QUANTITATIVE OVERLAY

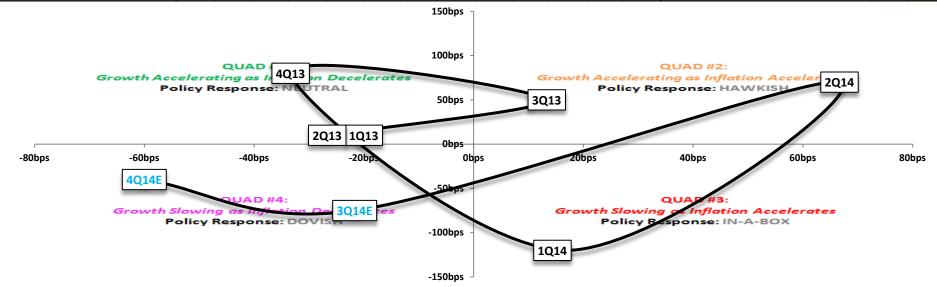
Multi-factor: Price, Volume and Volatility

Multi-duration: TRADE (3 weeks or less), TREND (3 months or more) and TAIL (3 years or less)



## WELCOME TO THE FOURTH QUADRANT

UNITED STATES	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	Hedgeye Macro GIP Model
Real GDP QoQ SAAR	2.9%	0.8%	4.6%	2.3%	1.6%	2.5%	0.1%	2.7%	1.8%	4.5%	3.5%	-2.1%	4.6%	GIP = Growth/Inflation/Policy
Real GDP YoY	1.7%	1.2%	1.7%	2.6%	2.3%	2.7%	1.6%	1.7%	1.8%	2.3%	3.1%	1.9%	2.6%	Full-year Estimates 2013E 2014E
2Y Average	2.2%	2.2%	2.2%	2.3%	2.0%	2.0%	1.7%	2.2%	2.1%	2.5%	2.4%	1.8%	2.2%	Hedgeye Predictive Tracking Algorithm 2.2% 2.0%
3Y Average	0.1%	0.3%	1.4%	2.0%	2.2%	2.3%	2.0%	2.1%	1.9%	2.1%	2.1%	2.1%	2.2%	Bloomberg Consensus Estimate 1.9% 2.1%
GDP Compares	4.0%	3.7%	5.3%	6.9%	6.5%	7.0%	5.3%	5.9%	5.8%	6.9%	7.6%	5.8%	7.0%	Central Bank Forecast 2.3% 2.1%
CPI YoY	3.5%	3.8%	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%	1.6%	1.2%	1.4%	2.1%	Full-year Estimates 2013E 2014E
2Y Average	2.6%	2.5%	2.3%	2.5%	2.7%	2.7%	2.6%	2.3%	1.7%	1.6%	1.6%	1.6%	1.8%	Hedgeye Predictive Tracking Algorithm 1.5% 1.6%
3Y Average	1.4%	1.1%	2.0%	2.4%	2.4%	2.2%	2.2%	2.2%	2.3%	2.3%	2.1%	2.0%	1.8%	Bloomberg Consensus Estimate 1.5% 1.9%
CPI Compares	7.5%	7.3%	7.6%	7.8%	7.0%	6.6%	6.7%	6.2%	5.4%	5.5%	4.9%	4.9%	5.6%	Central Bank Forecast 1.2% 1.6%



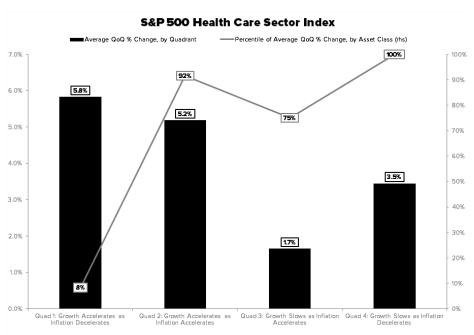
x-axis: second derivative of HEADLINE INFLATION reading y-axis: second derivative of REAL GDP reading

# QUAD 4 IS BEARISH FOR ASSET PRICES

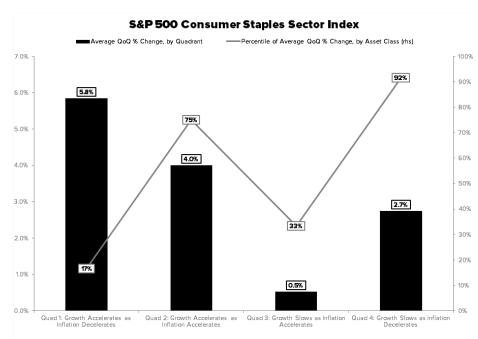
Hedgeye Macro ETF Strategy, United States GIP Model Backtest	Aver	age QoQ % Ch	7-Score of A	Average QoQ	% Change by	Δccet Clacc	De	rcentile Basis	hy Asset Cla	acc	Total Quarterly Performance Observations					
Underlying Index	1	2	ange, by qu	4	1	2	3	ASSET CIUSS	_ 1	2	3	1	1	2	3	A
S&P 500 Index	7.2%	3.1%	1.2%	-0.8%	0.0x	0.0x	0.0x	0.0x	25%	50%	58%	50%	21	13	25	14
S&P 500 Consumer Discretionary Sector Index	8.7%	2.2%	0.8%	-0.5%	1.0x	-0.4x	-0.3x	0.0x 0.1x	92%	33%	42%	58%	21	13	25	14
S&P 500 Consumer Staples Sector Index	5.8%	4.0%	0.5%	2.7%	-1.0x	0.4x	-0.5x	1.5x	17%	75%	33%	92%	21	13	25	14
S&P 500 Consumer Staples Sector Index S&P 500 Energy Sector Index	7.3%	2.6%	3.4%	-2.0%	-1.0x 0.0x	-0.2x	-U.5X 1.7x	-0.6x	33%	75% 42%	100%	92%	21	13	25	14
S&P 500 Energy Sector Index	7.3% 8.3%	1.7%	0.5%	-2.0%	0.0x 0.8x	-0.2x -0.7x	-0.5x	-0.6X 0.1x	83%	25%	25%	67%	21	13	25	14
S&P 500 Health Care Sector Index	5.8%	5.2%	1.7%	3.5%	-1.0x	1.0x	-0.5x 0.3x	1.9x	8%	92%	75%	100%	21	13	25	14
S&P 500 Health Care Sector Index S&P 500 Industrials Sector Index		3.7%	1.7%						67%							
	7.7% 8.8%		2.8%	-1.3%	0.3x	0.3x	0.1x 1.2x	-0.2x	100%	67%	67% 83%	33% 17%	21 21	13 13	25	14
S&P 500 Information Technology Sector Index		7.1%		-1.7%	1.1x	1.9x		-0.4x		100%				+	25	
S&P 500 Materials Sector Index	7.3%	1.6%	0.4%	-0.4%	0.1x	-0.7x	-0.6x	0.1x	42%	8%	17%	75%	21	13	25	14
S&P 500 Utilities Sector Index	3.5%	-1.1%	3.2%	0.3%	-2.6x	-2.1x	1.5x	0.5x	0%	0%	92%	83%	21	13	25	14
Russell 2000 Index	8.2%	3.4%	1.1%	-1.5%	0.7x	0.2x	-0.1x	-0.4x	75%	58%	50%	25%	21	13	25	14
MSCI Emerging Markets Index	7.5%	5.0%	-1.2%	-1.2%	0.2x	0.9x	-1.8x	-0.2x	58%	83%	0%	42%	21	13	25	14
MSCI REIT Index	7.5%	1.7%	-0.3%	-5.8%	0.2x	-0.7x	-1.1x	-2.3x	50%	17%	8%	0%	12	5	13	6
Barclays Aggregate US Bond Index	0.0%	-0.1%	-0.3%	1.2%	0.3x	0.2x	-0.9x	1.0x	50%	25%	38%	88%	14	5	15	8
JPMorgan EM USD Bond Index	1.9%	1.1%	-1.1%	1.2%	0.9x	0.5x	-1.3x	0.9x	75%	75%	0%	75%	9	4	9	4
FINRA - BLP Active Investment Grade US Corporate Bond Average Yield to Maturity	-2.6%	0.6%	4.5%	-6.8%	-0.6x	0.4x	0.9x	-0.9x	25%	50%	75%	0%	15	6	16	8
FINRA - BLP Active HY US Corporate Bond Index Average Yield to Maturity	-4.4%	-4.1%	4.5%	-3.9%	-1.2x	-0.8x	0.9x	-0.2x	0%	13%	88%	38%	15	6	16	8
US Corporate BBB/Baa UST 10Y Yield Spread	-3.8%	-8.2%	5.5%	6.6%	-1.0x	-1.9x	1.3x	2.2x	13%	0%	100%	100%	15	6	17	8
US Treasury 2Y Yield	2.6%	0.3%	1.8%	-4.9%	1.2x	0.3x	-0.2x	-0.4x	100%	38%	63%	25%	21	13	25	14
US Treasury 10Y Yield	2.3%	1.9%	-0.4%	-5.1%	1.1x	0.8x	-1.0x	-0.5x	88%	100%	25%	13%	21	13	25	14
US Treasury 30Y Yield	1.0%	1.9%	-1.1%	-3.7%	0.6x	0.8x	-1.3x	-0.2x	63%	88%	13%	50%	21	13	25	14
Bond Buyer US 40 Municipal Bond YTM	-0.7%	0.8%	0.6%	-2.7%	0.0x	0.5x	-0.6x	0.0x	38%	63%	50%	63%	21	13	25	14
Thomson Reuters/Jefferies CRB Commodity Index	2.2%	3.6%	2.6%	-4.4%	0.0x	0.0x	0.0x	-0.7x	50%	75%	75%	25%	21	13	25	14
Commodity Research Bureau BLS/US Spot Raw Industrials Index	2.0%	2.9%	0.1%	-0.8%	-0.1x	-0.3x	-1.1x	0.8x	25%	50%	0%	75%	21	13	25	14
Commodity Research Bureau BLS/US Spot Foodstuff Index	0.7%	2.0%	2.1%	-2.3%	-1.5x	-0.7x	-0.2x	0.2x	0%	0%	50%	50%	21	13	25	14
Front-month Brent Crude Oil	3.4%	7.3%	6.0%	-5.8%	1.3x	1.7x	1.6x	-1.3x	100%	100%	100%	0%	21	13	25	14
Gold Spot	2.4%	2.2%	1.7%	-0.1%	0.3x	-0.6x	-0.4x	1.1x	75%	25%	25%	100%	21	13	25	14
US Dollar Index	-0.3%	0.3%	-0.2%	0.8%	-1.1x	0.1x	-0.6x	1.8x	14%	57%	43%	100%	21	13	25	14
AUD/USD	2.3%	0.9%	-0.5%	-0.3%	1.8x	0.9x	-1.0x	0.1x	100%	71%	0%	71%	21	13	25	14
CAD/USD	1.1%	1.2%	0.4%	-1.2%	0.5x	1.2x	0.3x	-1.2x	71%	86%	57%	14%	21	13	25	14
CHF/USD	0.5%	-0.6%	1.4%	0.0%	-0.2x	-0.9x	1.8x	0.7x	43%	29%	100%	86%	21	13	25	14
EUR/USD	0.6%	-0.7%	0.5%	-0.5%	-0.1x	-1.1x	0.5x	-0.1x	57%	0%	71%	57%	21	13	25	14
GBP/USD	0.4%	1.3%	-0.5%	-0.5%	-0.2x	1.3x	-0.9x	-0.1x	29%	100%	14%	29%	21	13	25	14
JPY/USD	-0.5%	-0.6%	0.7%	-0.5%	-1.3x	-0.9x	0.8x	-0.1x	0%	14%	86%	43%	21	13	25	14
JPMorgan EM FX Index	1.2%	-0.2%	-0.4%	-1.3%	0.6x	-0.5x	-0.8x	-1.3x	86%	43%	29%	0%	16	8	18	11

Source: Bloomberg data; Hedgeye calculations. Trailing 20 years. Hedgeye Risk Management @ 2014

## **EXCEPT HEALTHCARE AND STAPLES...**

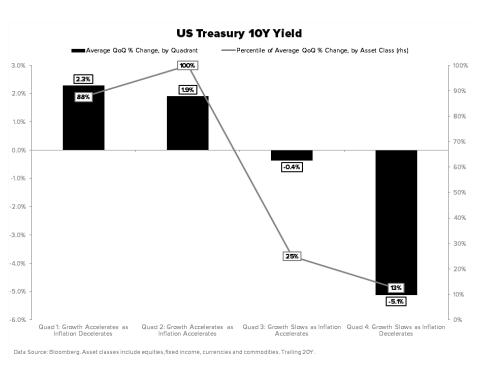


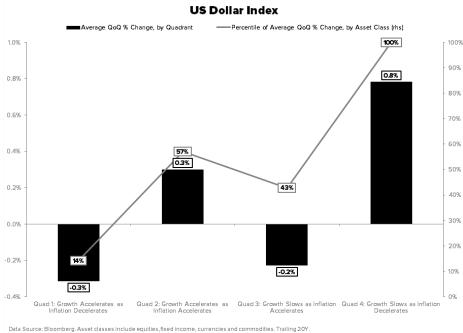




Data Source: Bloomberg, Asset classes include equities, fixed income, currencies and commodities, Trailing 20Y,

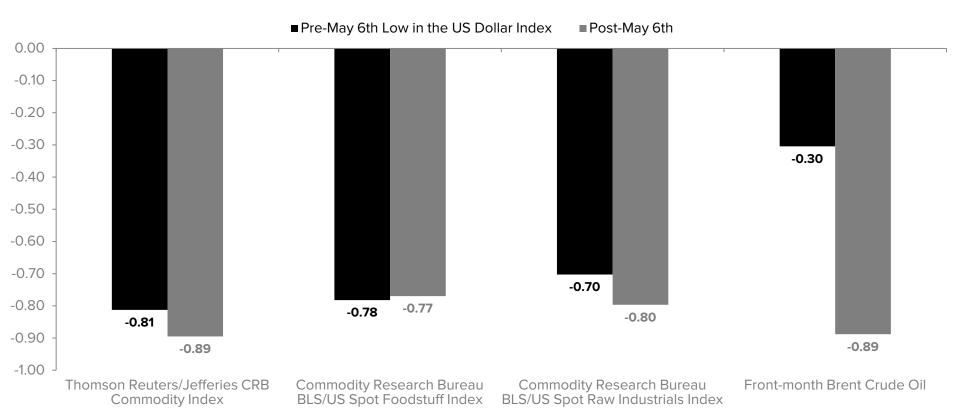
# TREASURIES, MUNIS AND THE DOLLAR



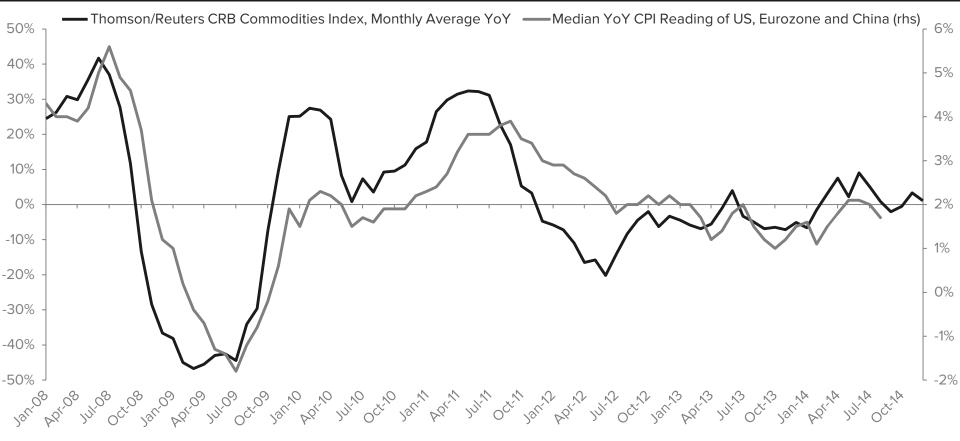


#### **#STRONGDOLLAR IS CRUSHING COMMODITIES**

#### **INVERSE CORRELATIONS ARE TIGHTENING IN THE YTD**

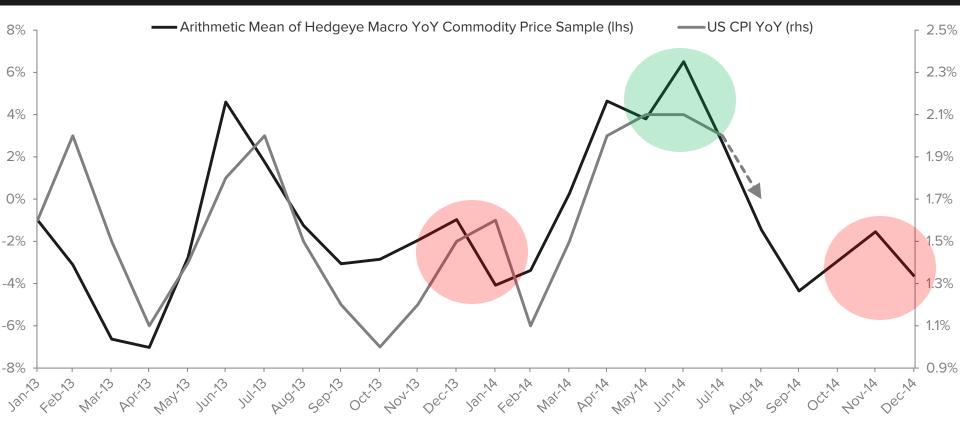


### **COMMODITY PRICES MATTER TO CPI**



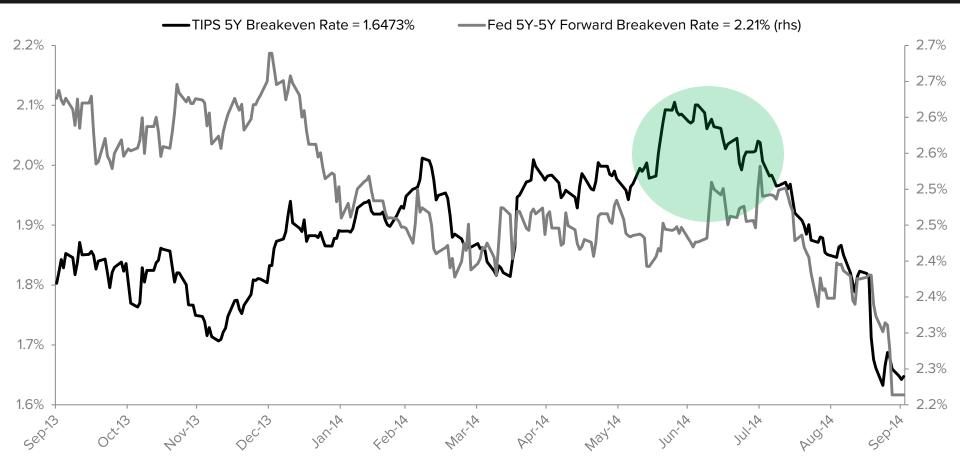
Forecasts assume no change to current price

### RIGHT BACK TO WHERE WE STARTED



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. Forward estimates assume no change in current prices.

## INFLATION EXPECTATIONS: CRASHING



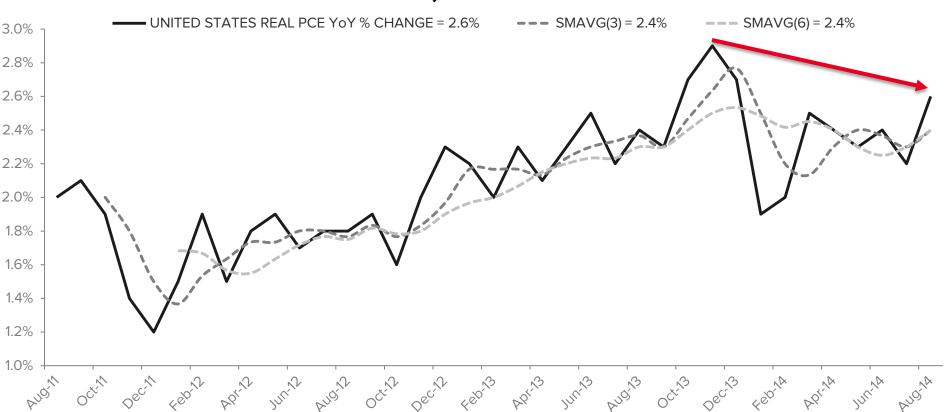
## THE 2Q BOUNCE CAME AND WENT

#### THIS TABLE WAS COMPLETELY GREEN ~2 MONTHS AGO

U.S. ECONOMIC INDICATOR SUMMARY													
			MOST	RECENT D	ATA		LA	ST PRICE	vs.	OoO Chg	Y/Y Chg		
		Period	Latest data	Last Price	Prior	MoM Chg	3M Ave	6M Ave	TTM Ave	(3q14)	(Qtrly)		
	Personal Spending (Real PCE), YoY %	Aug-14	Better	2.6%	2.2%	0.38%	0.2%	0.2%	0.2%	0.0%	0.1%		
	Personal Income, YoY %	Aug-14	Worse	4.3%	4.4%	-0.13%	0.0%	0.2%	1.4%	0.3%	1.3%		
	Real Disposable Income (per capita), YoY %	Aug-14	Worse	1.9%	2.0%	-0.06%	0.0%	0.1%	1.4%	0.2%	955.5%		
	Retail Sales, YoY %	Aug-14	Better	5.0%	4.2%	0.79%	0.5%	0.5%	1.3%	0.0%	0.2%		
	Consumer Credit, YoY %	Jul-14	Better	7.0%	6.7%	0.29%	0.3%	0.6%	0.8%	0.5%	0.9%		
CONSUMPTION	NFP Employment, MoM Chg	Aug-14	Worse	141	211	-70.0	-65	-84	-65	-90	5		
CONSUMPTION	Initial Claims, NSA, YoY %	Sep-14	Worse	-6.7%	-9.7%	3.0%	3.0%	2.6%	2.1%	-0.8%	2.9%		
	Consumer Confidence	Sep-14	Worse	86	93	-7.4	-3.9	-0.7	4.0	6.5	8.9		
	Consumer Comfort	Sep-14	Worse	36.4	36.9	-0.50	-0.5	0.1	1.2	1.1	1.1		
	Real Weekly Earnings, Y/Y %	Aug-14	Worse	0.4%	0.4%	0.00%	0.2%	0.2%	-0.1%	0.4%	-0.2%		
	Auto Sales, Millions Units	Sep-14	Worse	16.3	17.5	-1.11	-0.4	-0.3	0.2	1.2%	6.9%		
	Gas Price	Sep-14	Better	3.38	3.46	-7.60%	-0.10	-0.18	-0.07	-4.9%	-2.1%		
	Industrial Production, YoY %	Aug-14	Worse	4.1%	4.8%	-0.69%	-0.3%	-0.1%	0.4%	0.3%	1.7%		
	Capacity Utilization	Aug-14 Aug-14	Worse	78.8	79.1	-0.09%0	-0.3 %	-0.1 90	0.490	-0.1%	1.7%		
	Durable Goods New Orders, YoY %	Aug-14 Aug-14	Worse	8.9%	33.7%	-24.77%	-5.4%	-1.9%	1.3%	17.8%	14.4%		
	Capital Goods - NonDefense Ex-Air, YoY %	Aug-14 Aug-14	Worse	7.5%	8.5%	-1.00%	0.3%	1.6%	2.6%	4.2%	0.5%		
	ISM Mfg	Sep-14	Worse	56.6	59.0	-2.40	-1.0	0.2	1.1	2.4	1.8		
	ISM Mfg - New Orders	Sep-14 Sep-14	Worse	60.0	66.7	-6.70	-3.4	-0.2	0.8	6.4	2.0		
INVESTMENT	ISM Mfg - Employment	Sep-14	Worse	54.6	58.1	-3.50	-2.4	-0.6	0.2	3.5	1.9		
	ISM Services	Aug-14	Better	59.6	58.7	0.90	1.5	3.1	4.5	3.3	3.1		
	ISM Services - New Orders	Aug-14	Worse	63.8	64.9	-1.10	0.5	3,5	6.7	4.4	5.8		
	ISM Services - Employment	Aug-14	Better	57.1	56.0	1.10	1.3	3.0	3.0	3,9	1.8		
	Mfg & Trade Inventories, YoY %	Jul-14	Better	5.9%	5.8%	0.1%	0.2%	0.7%	1.5%	0.5%	3.0%		
	Business Inventories I/S Ratio	Jul-14	Worse	1.29	1.29	0.00	0.0%	-0.2%	-0.1%	0.0%	0.5%		
	Housing Starts	Aug-14	Worse	956	1117	-161	-38	-41	-23	5.2%	17.5%		
	New Home Sales	Aug-14	Better	504	427	77.0	54	67	67	8.3%	22.0%		
INVESTMENT	MBA Purchase Apps	Sep-14	Better	167	166	1.2	-1	-7	-8	-6.1%	-12.5%		
(Residential)	NAHB Survey of Home Builders	Sep-14	Better	59	55	4.0	3.3	7.8	7.3	9.0	-1.3		
(Restaential)	FHFA HPI, NSA YoY %	Jul-14	Worse	4.5%	5.2%	-0.66%	-0.5%	-1.3%	-2.3%	-1.1%	-3.9%		
	Case-Shiller 20-City HPI, YoY %	Jul-14	Worse	6.8%	8.1%	-1.32%	-1.3%	-3.3%	-4.9%	-2.7%	-6.0%		
	Corelogic HPI, YoY %	Jul-14	Worse	7.0%	7.5%	-0.50%	-0.6%	-2.4%	-3.4%	-1.8%	-38.8%		
	Construction Spending, YoY %	Aug-14	Worse	5.0%	6.9%	-1.9%	-1.1%	-2.3%	-2.5%	-1.9%	0.7%		
GOVERNMENT	Monthly Budget Balance, Bil \$'s	Aug-14 Aug-14	Worse	-128.7	-94.6	-34.1	-78	-93	-2.5%	-127.46	-54.87		
	Pronting Dudget Dalance, Dit \$ 5	raug-14	worse	-120./	->4.0	-34.1	-76	-93	-80	-127.70	-54.07		
EXTERNAL	International Trade Balance, Bil \$'s	Jul-14	Better	-40.5	-40.8	0.26	1.1	2.1	0.3	-6.6%	0.4%		
Source: Bloomberg, BLS, BEA, C	iensus, NAR									Ø	HEDGEYE		

# #CONSUMERSLOWING

#### **GROWTH IS ABOVE TREND, BUT MAKING LOWER-HIGHS**



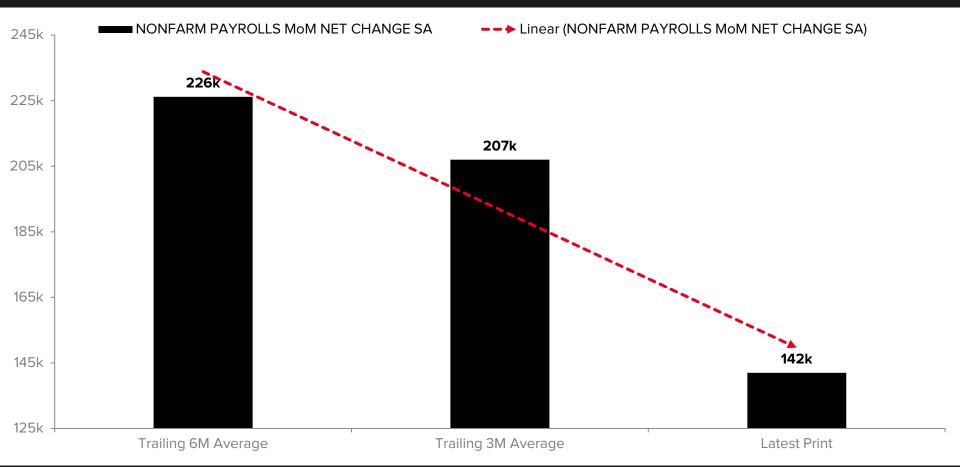
### **#HOUSINGSLOWDOWN STILL A DRAG**

#### HEDGEYE HOUSING COMPENDIUM

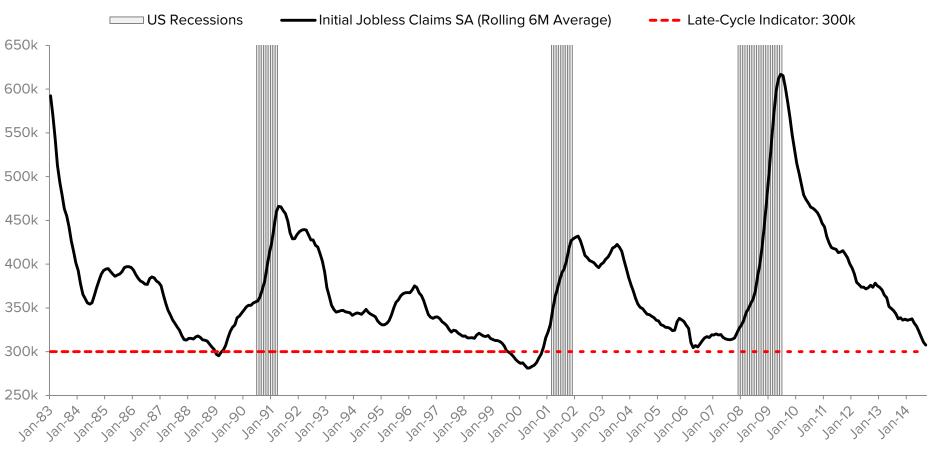
Period   Latest Data   Last Price   Prior   Period   Case-Shiller 20 City HPI YoY NSA   Case-Shiller 20 City HPI MoM SA   Case-Shiller 20 Ci						TRAD	E/TRENI	D/TAIL	Rate of Change			
Case-Shiller 20 City HPI YoY NSA   Zase-Shiller 20 City HPI MoM SA   Case-Shiller 20 City HPI MoM SA   Zase-Shiller 20 City HPI Mom Sa   Zas			Me	ost Recent D	ata	Short Term		Long Term				
Case-Shiller 20 City HPI MoM SA Corelogic HPI - NSA YoY % Chg Aug-14 Worse		_	Period	Latest Data	Last Price	Prior Period	3M Ago	12M Ave	MoM Chg	3M Chg	vs 12M Avg	
Corelogic (HPI - NSA VOY % Chg   Corelogic (Ex-Dist.) HPI - NSA VOY % Chg   Corelogic (Ex-Dist.) HPI - NSA VOY % Chg   FHFA HPI - NSA VOY % Chg   FHFA HPI - NSA VOY % Chg   FHFA HPI - NSA VOY % Chg   Jul-14   Worse   6.8%   6.8%   6.8%   7.1%   8.7%   0.0%   0.0%   0.4%   1.9%   0.0%   0.4%   0.1%   0.0%   0.0%   0.4%   0.1%   0.0%   0.0%   0.4%   0.1%   0.0%		Case-Shiller 20 City HPI YoY NSA	Jul-14	Worse	6.7%	8.1%	10.8%	11.7%	-1.3%	-4.1%	-5.0%	
Corelogic (Ex-Dist.) HPI - NSA YoV % Chg   FHFA HPI - NSA YoV % Chg   Jul-14   Worse   4.4%   5.1%   6.0%   6.9%   0.0%   0.0%   0.0%   0.1%   0.25%   0.0%		Case-Shiller 20 City HPI MoM SA	Jul-14	Worse	-0.5%	-0.3%	0.1%	0.6%	-0.2%	-0.6%	-1.1%	
Corelogic (Ex-Dist.) HPI - NSA YoV % Chg   FHFA HPI - NSA YoV % Chg   Jul-14   Worse   4.4%   5.1%   6.0%   6.9%   0.0%   0.0%   0.0%   0.1%   0.25%   0.0%	Home Prices	Corelogic HPI - NSA YoY % Chg	Aug-14	Worse	7.3%	7.4%	8.2%	10.2%	-0.1%	-0.9%	-2.8%	
MBA Purchase Apps Index (Mo. Ave NAR: Pending Home Sales (Index)   NAR: Pending Home Sales (Index)   NAR: Existing Home Sales (SAAR)   NAR: Existing Home Inv. (millions units)   NAR: Alfordability Index (Composite)   NAR: Existing Home Inv. (millions units)   NAR: Alfordability Index (Composite)   NAR: Alfordability Index (C		Corelogic (Ex-Dist.) HPI - NSA YoY % Chg	Aug-14	Worse	6.8%	6.8%	7.1%	8.7%	0.0%	-0.4%	-1.9%	
NAR: Pending Home Sales (Index) NAR: Existing Home Sales (Index) NAR: Existing Home Sales (Index) NAR: Existing Home Sales (SAAR) NAR: Existing Home Inv. (millions units) NAR: Affordability Index (Composite) NAR: Afforda		FHFA HPI - NSA YoY % Chg	Jul-14	Worse	4.4%	5.1%	6.0%	6.9%	-0.7%	-1.7%	-2.5%	
NAR: Pending Home Sales (Index) NAR: Existing Home Sales (Index) NAR: Existing Home Sales (Index) NAR: Existing Home Sales (SAAR) NAR: Existing Home Inv. (millions units) NAR: Affordability Index (Composite) NAR: Afforda												
NAR: Existing Home Sales (SAAR)   NAR: Existing Home Inv. (millions units)   NAR: Existing Home Inv. (million		MBA Purchase Apps Index (Mo. Ave)	Sep-14	Better	167	166	179	177	0.7%	-6.9%	-5.4%	
NAR: Existing Home Sales (SAAR)   Aug-14   Better   2.31   2.35   2.25   2.1   -1.7%   2.7%   8.9%   8.9%   NAR: Existing Home Inv. (millions units)   NAR: Existing Home Inv. (millions units)   NAR: Existing Home Inv. (millions units)   Aug-14   Worse   5.49   5.49   5.50   5.2   0.0%   -0.2%   6.2%   -1.7%   2.7%   8.9%   -1.2%   -1.7%   2.7%   8.9%   -1.2%   -1.7%   2.7%   8.9%   -1.2%   -1.7%   2.7%   8.9%   -1.2%   -1.7%   2.7%   8.9%   -1.2%   -1.7%   2.7%   8.9%   -1.2%   -	Supply & Demand:	NAR: Pending Home Sales (Index)	Aug-14	Worse	104.7	105.8	103.8	101	-1.0%	0.9%	3.9%	
NAR: Existing Home Inv: Months Supply  Aug-14  Worse  5.49  5.50  5.2  0.0%  -0.2%  6.2%  NAHB: HMI Census: Total Starts Aug-14  Worse  Census: SF Starts Aug-14  Worse  643  659  634  628  -2.4%  1.4%  -2.8%  -1.2%  Census: SF Permits Aug-14  Worse  998  1057  1005  999  -5.6%  -0.7%  -0.1%  New Homes  Resi Construction Spending (in Billions) Census: New Home Sales Census: New Home Inventory (000)  Aug-14  Worse  4ug-14  Worse  626  631  615  616  -0.8%  1.8%  1.6%  Aug-14  Worse  357  358  362  356  -0.1%  -1.3%  0.3%  Census: New Home Inventory (000)  Aug-14  Worse  206  202  191  189  2.0%  7.9%  8.7%  Miscellaneous  Miscellaneous  Interest Rates (30 Year FRM) NAR: Affordability Index (Composite) ITB Price (EOP)  ITB Price (EOP)  Resitor Aug-14  Worse  4.3%  4.3%  4.3%  4.3%  4.3%  4.5%  0.0%  0.0%  0.0%  -0.2%  6		NAR: Existing Home Sales (SAAR)	Aug-14	Worse	5.05	5.14	4.91	4.9	-1.8%	2.9%	2.5%	
NAHB: HMI   Sep-14   Better   59   55   49   52   4.0   10.0   0.1	Existing	NAR: Existing Home Inv. (millions units)	Aug-14	Better	2.31	2.35	2.25	2.1	-1.7%	2.7%	8.9%	
Census: Total Starts   Census: SF Starts   Census: SF Starts   Census: SF Starts   Census: SF Starts   Census: Total Permits   Census: Total Permits   Census: SF Permits   Census: New Home Sales   Census: New Home Sales   Census: New Home Inventory (000)   Census: N		NAR: Existing Home Inv: Months Supply	Aug-14	Worse	5.49	5.49	5.50	5.2	0.0%	-0.2%	6.2%	
Census: Total Starts   Census: SF Starts   Census: SF Starts   Census: SF Starts   Census: SF Starts   Census: Total Permits   Census: Total Permits   Census: SF Permits   Census: New Home Sales   Census: New Home Sales   Census: New Home Inventory (000)   Census: N				_								
Census: SF Starts   Aug-14   Worse   643   659   634   628   -2.4%   1.4%   2.4%		NAHB: HMI	Sep-14	Better	59	55	49	52	4.0	10.0	0.1	
Supply & Demand:         Census: Total Permits         Aug-14         Worse         998         1057         1005         999         -5.6%         -0.7%         -0.1%           New Homes         Census: SF Permits         Aug-14         Worse         626         631         615         616         -0.8%         1.8%         1.6%           Resi Construction Spending (in Billions)         Aug-14         Worse         357         358         362         356         -0.1%         -1.3%         0.3%           Census: New Home Sales         Aug-14         Better         504         427         458         433         18.0%         10.0%         16.4%           Census: New Home Inventory (000)         Aug-14         Worse         206         202         191         189         2.0%         7.9%         8.7%           Miscellaneous         Interest Rates (30 Year FRM) NAR: Affordability Index (Composite) ITB Price (EOP)         Aug-14         Worse         153.8         154.3         167.5         165.2         -0.3%         -8.2%         -6.9%           Miscellaneous         ITB Price (EOP)         Sep-14         Better         23.54         23.22         24.29         23.6         1.4%         -3.1%         -0.1%		Census: Total Starts	Aug-14	Worse	956	1117	984	968	-14.4%	-2.8%	-1.2%	
New Homes   Census: SF Permits   Aug-14   Worse   626   631   615   616   -0.8%   1.8%   1.6%		Census: SF Starts	Aug-14	Worse	643	659	634	628	-2.4%	1.4%	2.4%	
Resi Construction Spending (in Billions)   Aug-14   Worse   357   358   362   356   -0.1%   -1.3%   0.3%     Census: New Home Sales   Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Miscellaneous   Interest Rates (30 Year FRM)   NAR: Affordability Index (Composite)   ITB Price (EOP)   Sep-14   Better   23.54   23.22   24.29   23.6   1.4%   -3.1%   -0.1%     Census: New Home Sales   Aug-14   Better   504   427   458   433   18.0%   10.0%   10.0%   16.4%     Vorse   206   202   191   189   2.0%   7.9%   8.7%     Vorse   153.8   154.3   167.5   165.2   -0.3%   -8.2%   -6.9%     Census: New Home Inventory (000)   Aug-14   Worse   153.8   154.3   167.5   165.2   -0.3%   -8.2%   -6.9%     Census: New Home Inventory (000)   Aug-14   Worse   23.54   23.22   24.29   23.6   1.4%   -3.1%   -0.1%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%     Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%   7.9%	Supply & Demand:	Census: Total Permits	Aug-14	Worse	998	1057	1005	999	-5.6%	-0.7%	-0.1%	
Resi Construction Spending (in Billions)   Census: New Home Sales   Census: New Home Inventory (000)   Aug-14   Worse   357   358   362   356   -0.1%   -1.3%   0.3%	New Homes	Census: SF Permits	Aug-14	Worse	626	631	615	616	-0.8%	1.8%	1.6%	
Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%	New Homes	Resi Construction Spending (in Billions)	Aug-14	Worse	357	358	362	356	-0.1%	-1.3%	0.3%	
Census: New Home Inventory (000)   Aug-14   Worse   206   202   191   189   2.0%   7.9%   8.7%		Census: New Home Sales	Aug-14	Better	504	427	458	433	18.0%	10.0%	16.4%	
Miscellaneous NAR: Affordability Index (Composite) ITB Price (EOP) Sep-14 Sep-1		Census: New Home Inventory (000)	Aug-14	Worse	206	202	191	189	2.0%	7.9%	8.7%	
Miscellaneous NAR: Affordability Index (Composite) ITB Price (EOP) Sep-14 Sep-1			<del>-</del>									
Miscellaneous ITB Price (EOP) Sep-14 Better 23.54 23.22 24.29 23.6 1.4% -3.1% -0.1%		Interest Rates (30 Year FRM)	Aug-14	Better	4.3%	4.3%	4.3%	4.5%	0.0%	0.0%	-0.2%	
11B Fixe (LOF) Sep-14 Better 25.34 25.22 24.29 25.0 1.470 -5.170 -0.170	34:11	NAR: Affordability Index (Composite)	Jul-14	Worse	153.8	154.3	167.5	165.2	-0.3%	-8.2%	-6.9%	
XHB Price (EOP) Sep-14 Better 30.91 30.83 32.18 31.4 0.3% -3.9% -1.7%	Miscellaneous	ITB Price (EOP)	Sep-14	Better	23.54	23.22	24.29	23.6	1.4%	-3.1%	-0.1%	
		XHB Price (EOP)	Sep-14	Better	30.91	30.83	32.18	31.4	0.3%	-3.9%	-1.7%	

Source: Hedgeye Risk Management, S&P, Corelogic, FHFA, MBA, NAR, NAHB, Census Dept., Factset, Bloomberg

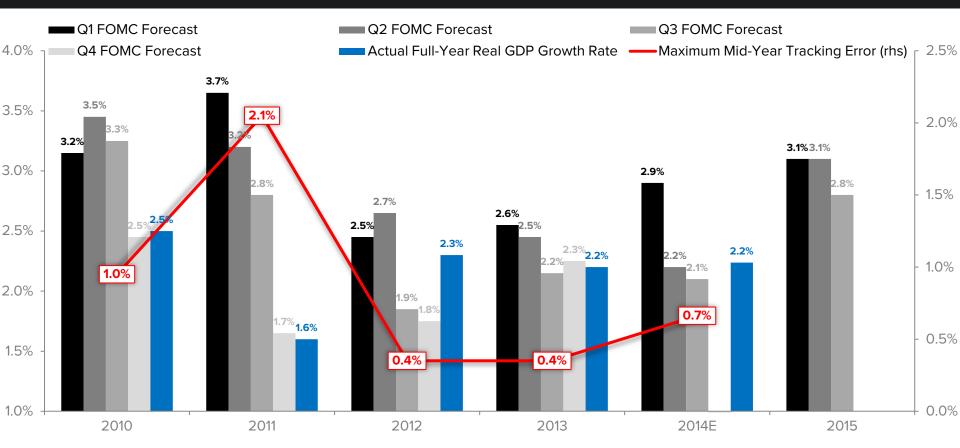
## THE LABOR MARKET IS SOFTENING



### A RECESSION IS CLOSER THAN YOU THINK

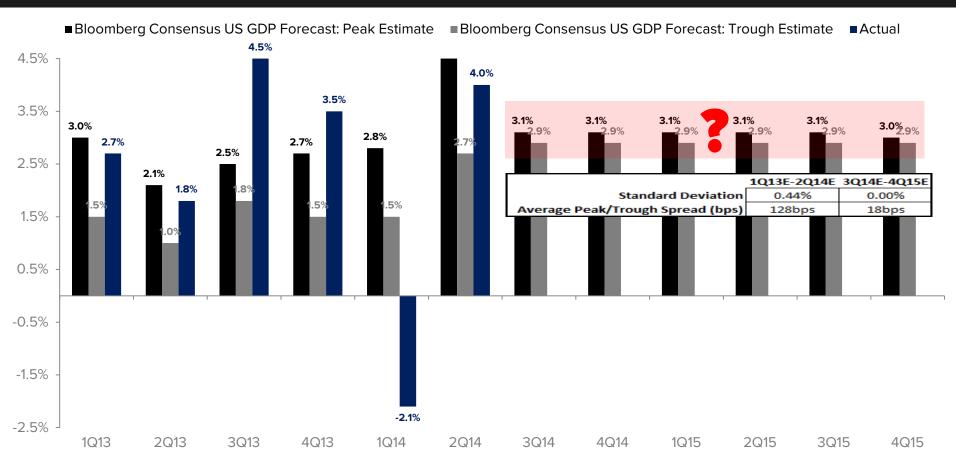


#### ONCE AGAIN, THE FED IS TOO HIGH ON GROWTH



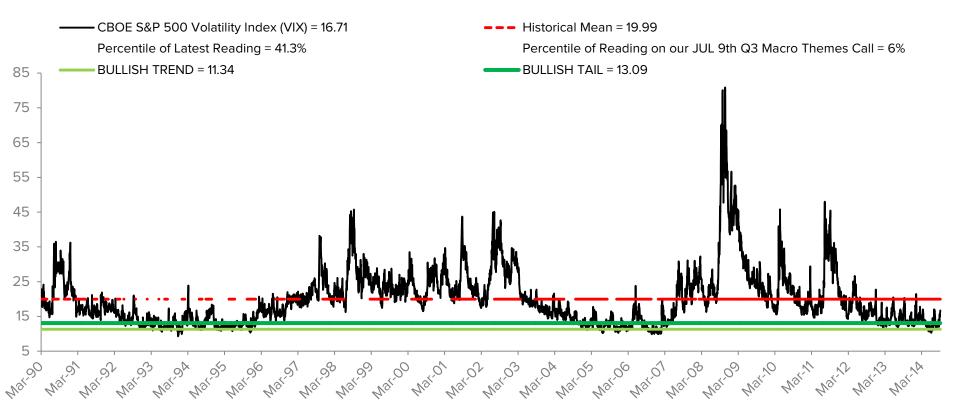
The red line indicates the spread between the FOMC's peak intra-year annual real GDP growth forecast and the actual recorded rate. 2014E is the current annualized run rate.

#### CONSENSUS ESTIMATES STILL NEED TO COME DOWN



#### WILL A DOVISH FED SPOOK INVESTORS?

#### **#VOLATILITYASYMMETRY REMAINS...**





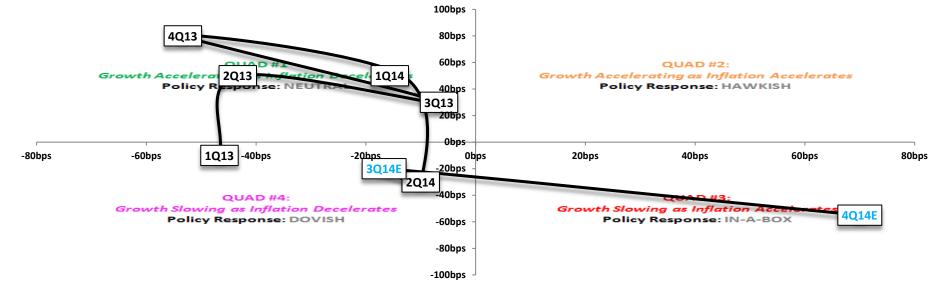
# **#EUROPESLOWING**

EURO



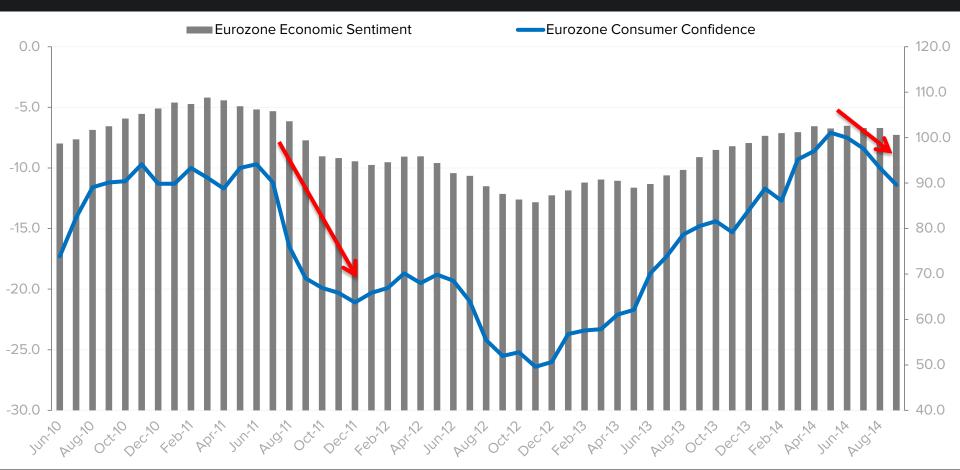
## **EUROZONE MOVING TO UGLY QUAD #3**

EUROZONE	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	Hedgeye Macro GIP Model
Real GDP QoQ	0.1%	0.0%	-0.2%	-0.1%	-0.3%	-0.2%	-0.5%	-0.2%	0.3%	0.1%	0.3%	0.2%	0.0%	GIP = Growth/Inflation/Policy
Real GDP YoY	1.8%	1.5%	0.7%	-0.2%	-0.5%	-0.7%	-1.0%	-1.1%	-0.6%	-0.3%	0.5%	1.0%	0.7%	Full-year Estimates 2013E 2014E
2Y Average	2.0%	1.9%	1.5%	1.2%	0.7%	0.4%	-0.2%	-0.7%	-0.6%	-0.5%	-0.3%	-0.1%	0.1%	Hedgeye Predictive Tracking Algorithm -0.4% 0.5%
3Y Average	-0.5%	-0.2%	0.2%	1.1%	1.2%	1.0%	0.7%	0.4%	0.2%	0.2%	0.1%	-0.1%	-0.1%	Bloomberg Consensus Estimate -0.4% 0.8%
GDP Compares	3.3%	3.1%	2.4%	2.1%	1.3%	0.7%	-0.5%	-1.3%	-0.9%	-0.6%	0.3%	0.9%	0.6%	Central Bank Forecast -0.4% 1.2%
CPI YoY	2.7%	2.7%	2.9%	2.7%	2.5%	2.5%	2.3%	1.8%	1.4%	1.3%	0.8%	0.7%	0.6%	Full-year Estimates 2013E 2014E
2Y Average	2.2%	2.2%	2.5%	2.6%	2.6%	2.6%	2.6%	2.3%	1.9%	1.9%	1.6%	1.3%	1.0%	Hedgeye Predictive Tracking Algorithm 1.3% 0.7%
3Y Average	1.5%	1.4%	1.8%	2.1%	2.3%	2.3%	2.4%	2.3%	2.2%	2.2%	2.0%	1.7%	1.5%	Bloomberg Consensus Estimate 1.4% 0.6%
CPI Compares	6.4%	6.3%	7.1%	7.4%	7.3%	7.5%	7.3%	6.4%	5.5%	5.5%	4.4%	3.7%	3.0%	Central Bank Forecast 1.3% 0.8%

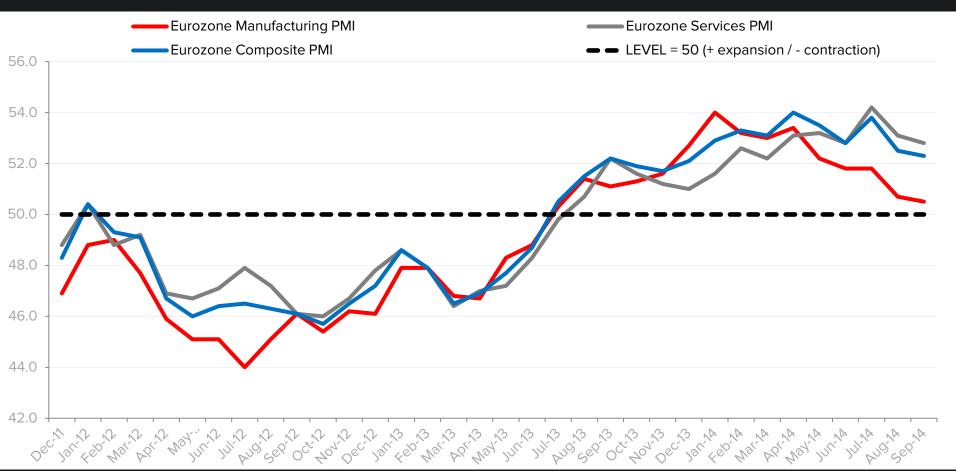


x-axis: second derivative of HEADLINE INFLATION reading y-axis: second derivative of REAL GDP reading

## 2011 AGAIN? #CONFIDENCESLOWING

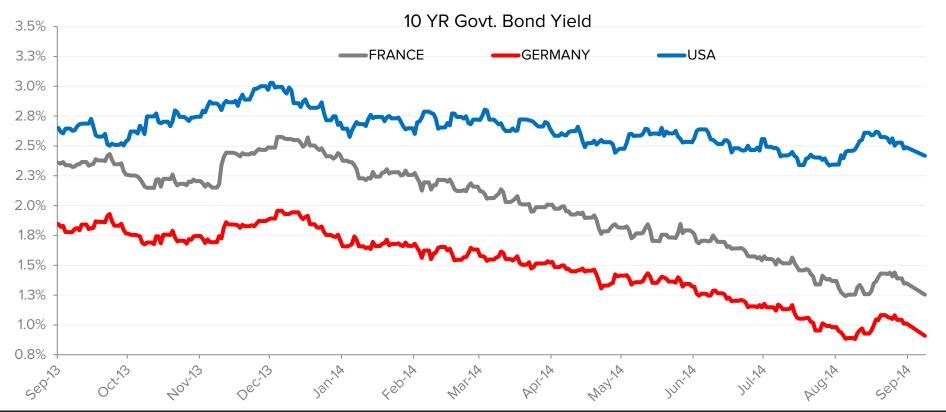


# RATE OF CHANGE = BEARISH



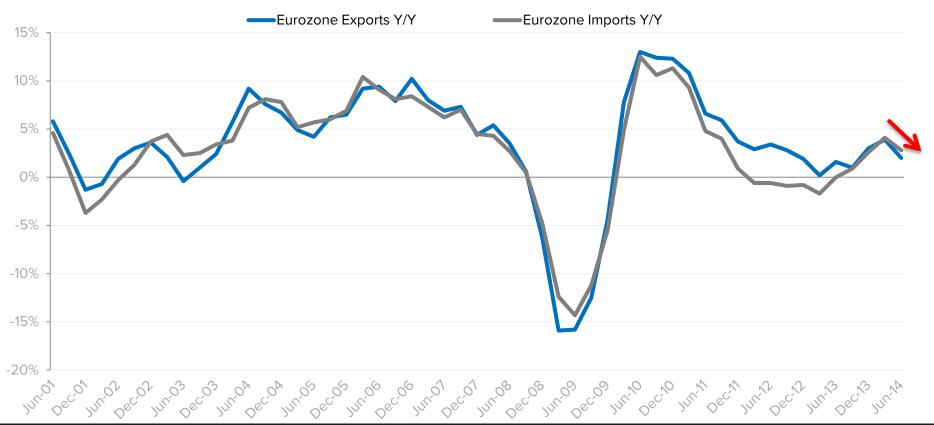
# JAPANESE STYLE ROAD TO ZERO?

#### SOVEREIGN BONDS REFLECT WEAK GROWTH OUTLOOK

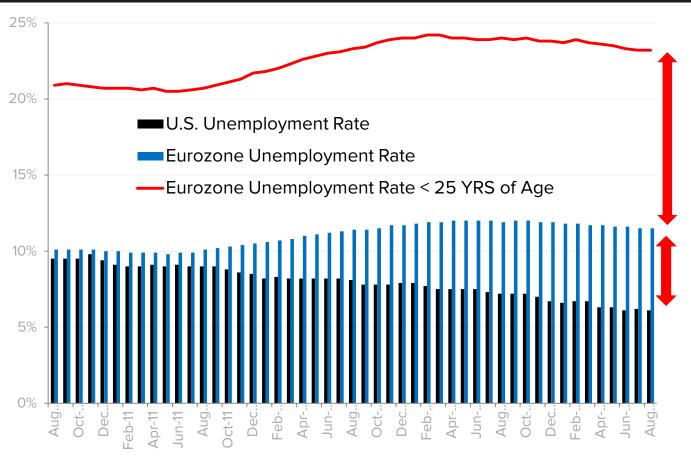


### **EXPORTS AND IMPORTS LOWER**

#### WILLING EXPORTS WITH A WEAK EURO?

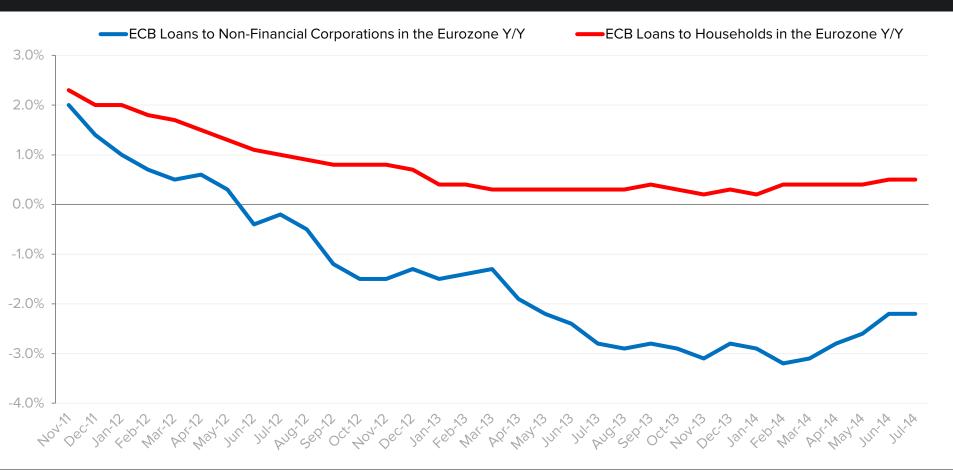


### **HEADWIND: UNEMPLOYMENT'S TAIL**

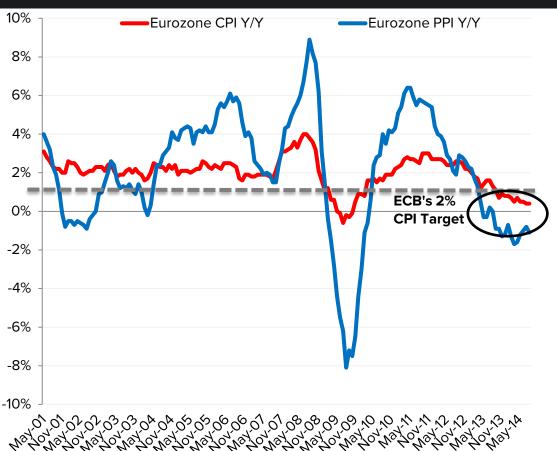


- "Lost Generation" = jobless for life
- Drag of periphery on the core
- Swiss-based staffing company Adecco said it saw a weaker-than-usual seasonal pick up in hiring in Europe for September, most pronounced in Germany and France. (9/24)

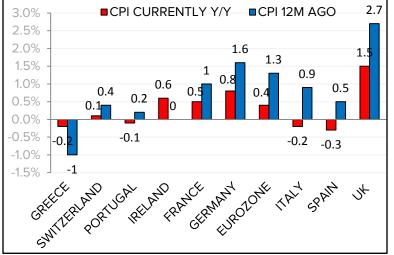
### "REAL" ECONOMY LENDING STALLED



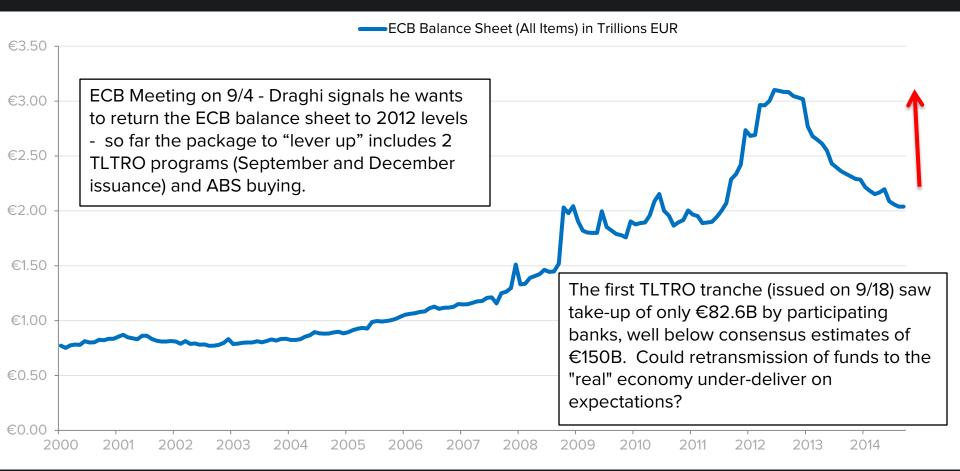
#### **ARRESTING RUNAWAY DEFLATION?**



Draghi @ Jackson Hole, Wyoming, on Aug. 22: says inflation expectations were declining across "all horizons" and that policy makers "will use all available instruments" to safeguard price stability.



### **LEVER UP!**

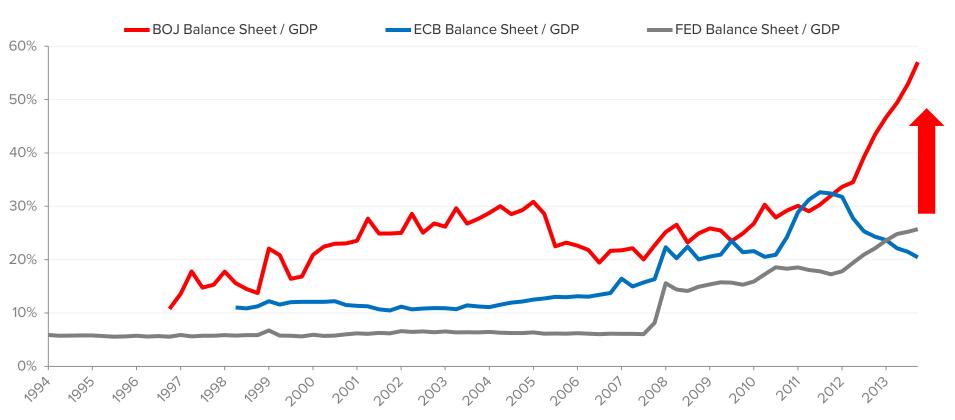


## **CONFUSION BREEDS CONTEMPT**

- **EXECUTIVE BOARD MEMBER BENOIT COEURE:** "We'll see if this [TLTRO and ABS] is enough... In case it would not be enough, the Governing Council is ready to do more. But it's way too early to tell."
- **GERMAN FINANCE MINISTER SCHAEUBLE**: said the ECB is doing what it can to help the Eurozone economy, but basically it has run out of tools. He added that it is no good having a central bank responsible for jobs and growth and pointed out that cheap money can't force growth.
- ECB PRESIDENT MARIO DRAGHI: "No matter what the monetary and even fiscal stimulus has been decided, we won't see much growth coming from these measures only if there are no serious structural reforms," he told reporters in Milan on Sept. 12, reiterating comments he made at Jackson Hole.

## IS JAPAN REALLY A GOOD EXAMPLE?

#### LOST DECADES AREN'T ENVIABLE ...



# SOCIALISM (FRANCE) = BEARISH TREND



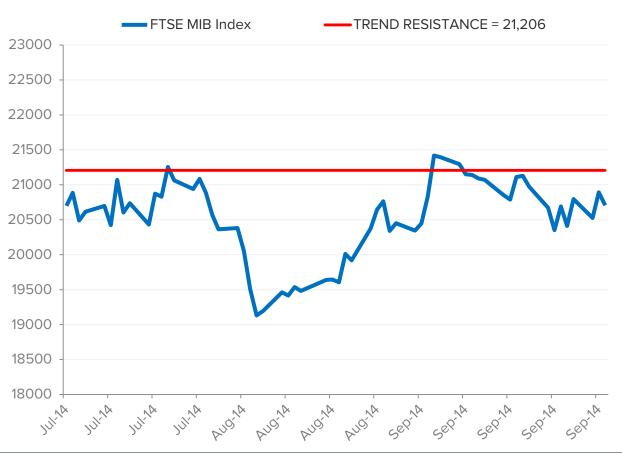
- **ETF = EWQ**
- Economic

**Underperformance:** last quarter the Govt. cut 2014 growth in half to 0.5%

- <u>Fiscal Imbalance:</u> Govt. announced it will miss its 4% deficit target for '14 and won't achieve 3% until 2017 (vs prior est. of 2016)
- Political Disunity:

Hollande is wildly unpopular, only 17% approval

## ITALY = BEARISH TREND

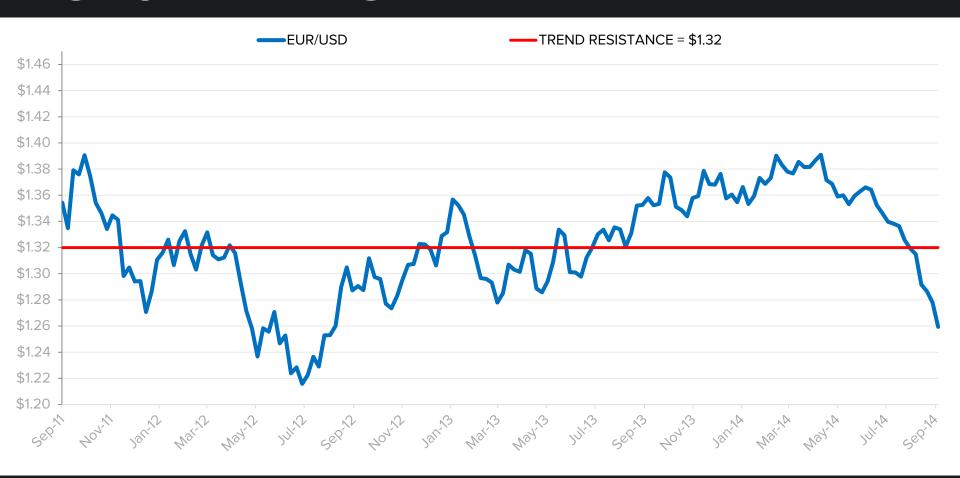


- ETF = EWI
- Economic

**Underperformance:** Italy's growth is likely to contract for the 3<sup>rd</sup> straight year in 2014. Struggling to enact real structural reforms, we expect the Renzi gov't to "extend and pretend" its deficit reduction target, and the country to be Draghi's poster child for "why" there's no inflection (to growth) in 2015

DATA SOURCE: BLOOMBERG HEDGEYE 37

# EURO = BEARISH TREND



DATA SOURCE: BLOOMBERG

## **EVENTS DRAGHI WILL MONITOR**

**OCT 9** – ECB Publishes Monthly Report

**OCT 23** – Furozone Q2 Government Debt and Deficit

OCT 26 – Results of the European Bank Stress Tests Announced

**OCT 30** – Eurozone Confidence Figures

**OCT 31** – OCT CPI Estimate

**NOV 6** – ECB Interest Rate Announcement

**NOV 13** – ECB Publishes Monthly Report

**NOV 27** – Eurozone Confidence Figures

NOV 28 - NOV CPI Estimate

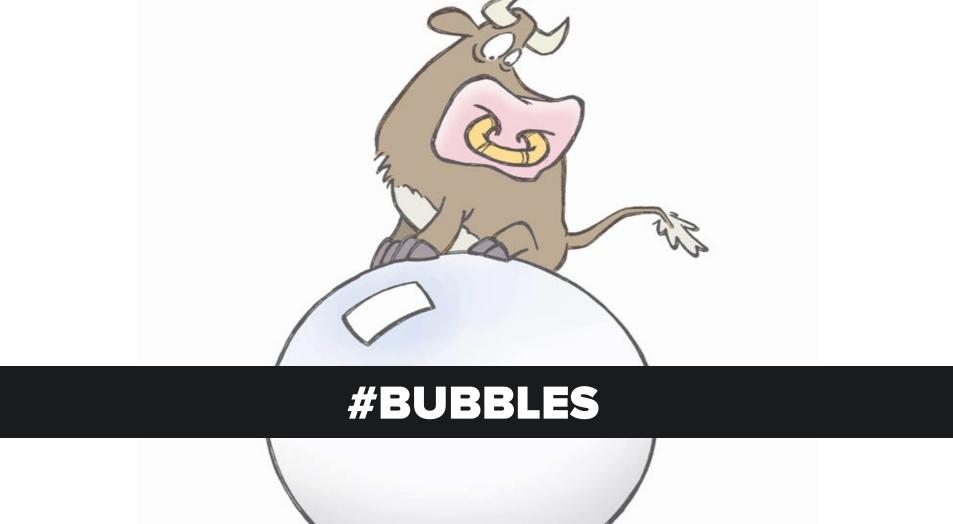
**DEC 3** – Preliminary Eurozone Q3 GDP

**DEC 4** – ECB Interest Rate Announcement

**DEC 11** – ECB Publishes Monthly Report

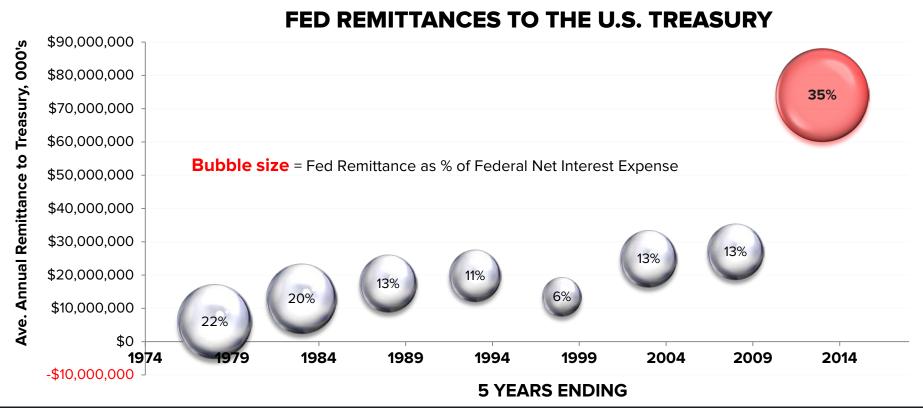
• Other Geopolitical Risks: Ukraine, ISIS, Catalonia





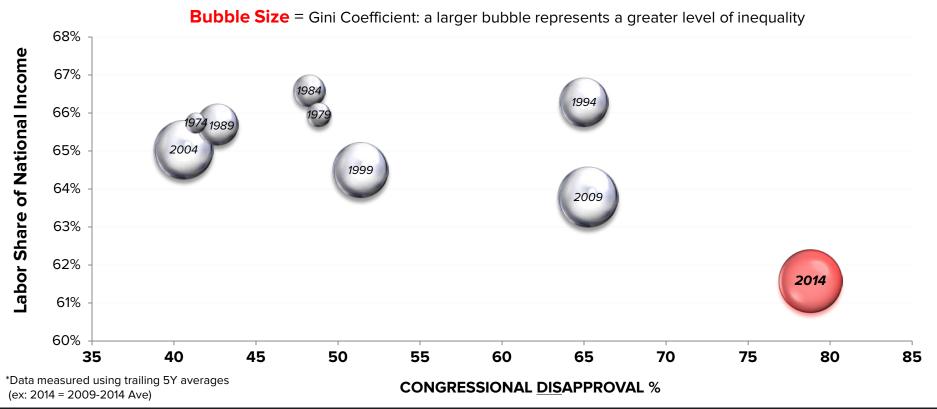
## **CENTRAL BANK INTERVENTION**

#### TSRY ISSUES DEBT -> FED BUYS DEBT -> TSRY PAYS FED -> FED GIVES IT BACK



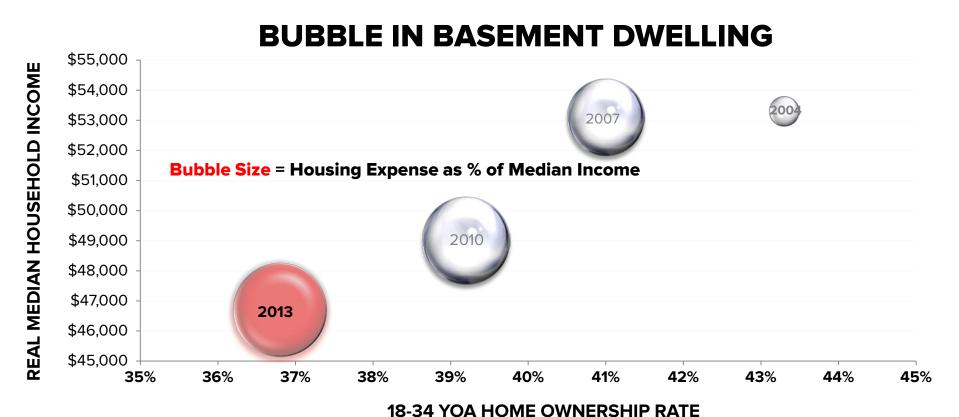
## **INEQUALITY**

#### ALL-TIME LOW IN LABOR'S SHARE OF INCOME + ALL-TIME HIGH IN CONGRESSIONAL DISAPPROVAL



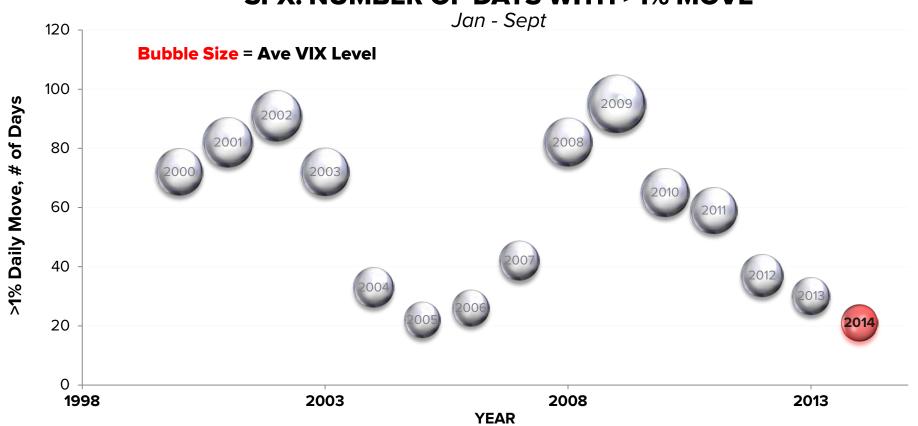
## **BASEMENT DWELLING**

**NEGATIVE WAGE GROWTH + COST OF LIVING INFLATION = LIVE IN BASEMENT** 



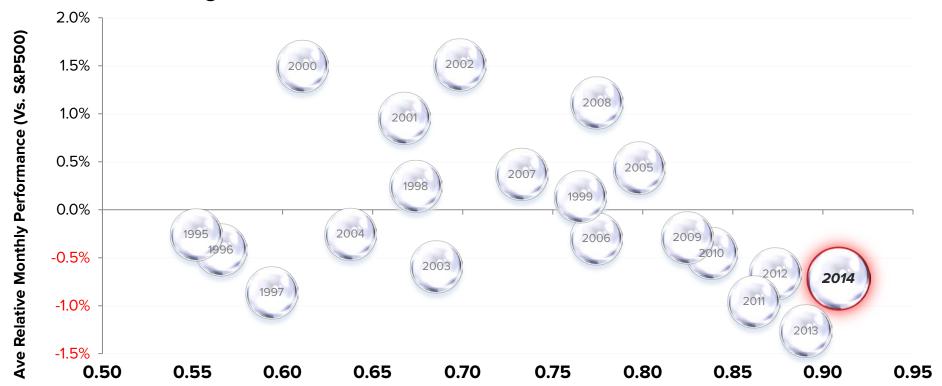
# COMPLACENCY

#### **SPX: NUMBER OF DAYS WITH >1% MOVE**



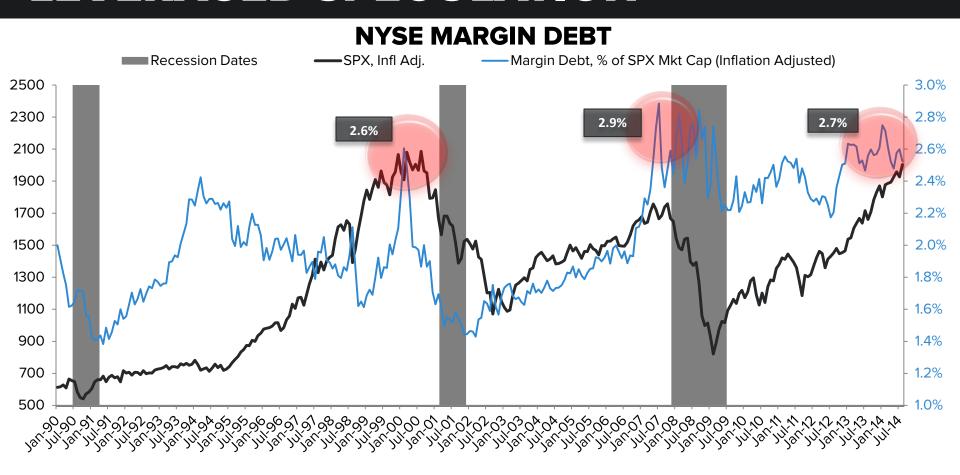
# LEVERED BETA CHASING

#### Hedge Fund Correlation to S&P500 and Ave. Relative Performance



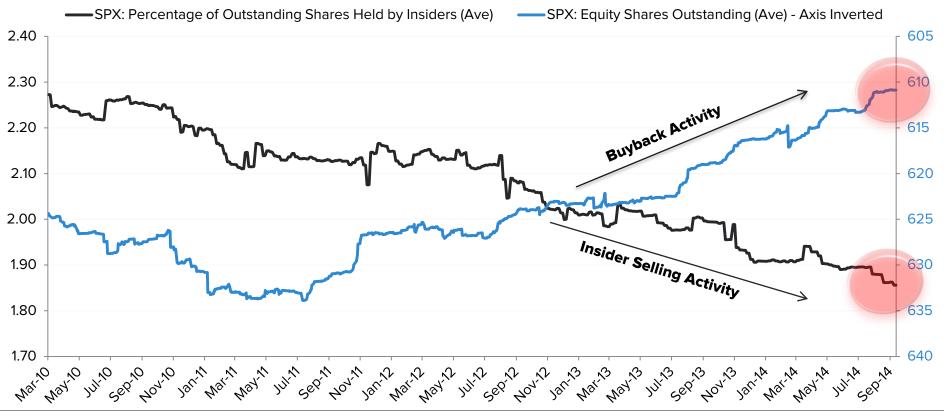
HFRI Equity Hedge Index: 60 Month Trailing Correlation to S&P500

# LEVERAGED SPECULATION



#### **MALFEASANCE?**

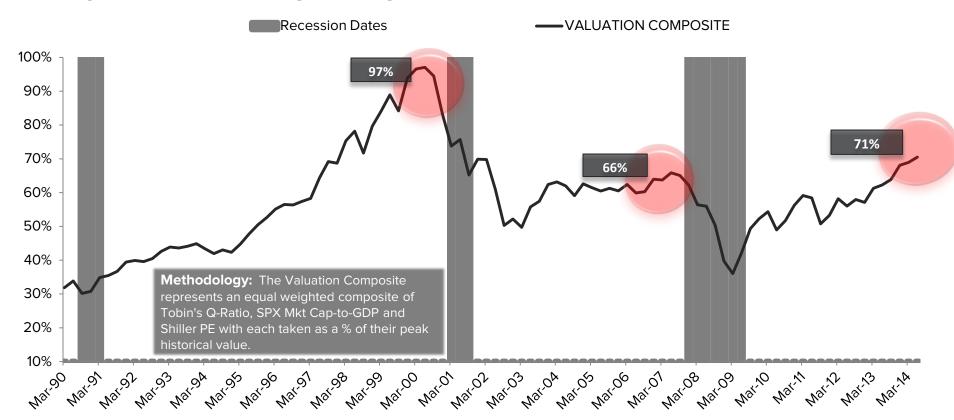
#### **INSIDERS SELLING AS BUYBACKS HIT RECORD**



DATA SOURCE:: BLOOMBERG HEDGEYE 47

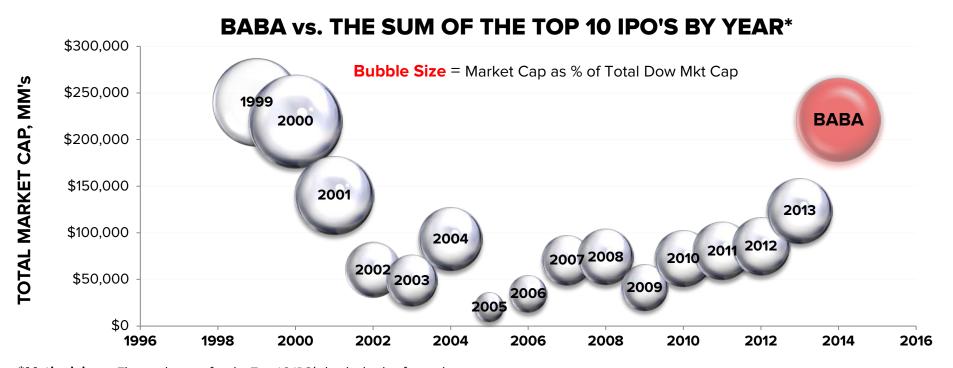
## **MARKET VALUATION**

#### PRICE PAID > VALUE RECEIVED



#### **IPO MARKET CAP**

#### NO EARNINGS, NO LIQUIDITY, NO PROBLEM!

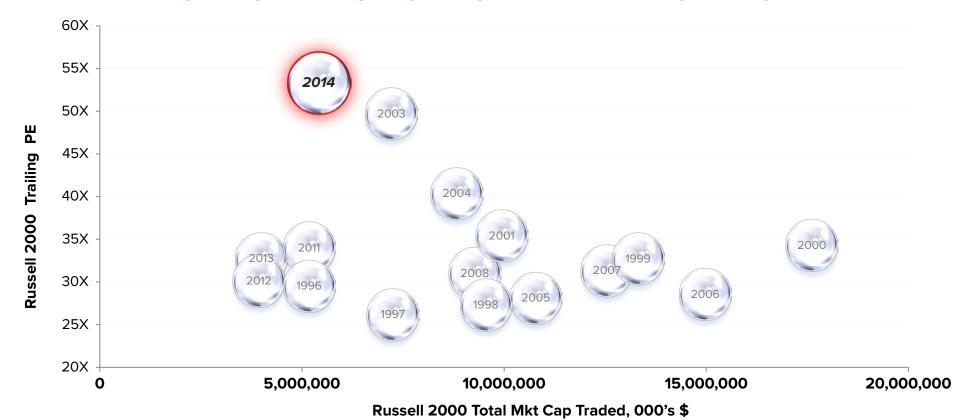


<sup>\*</sup>Methodology: The market cap for the Top 10 IPO's by deal value for each year were summed to arrive at the total IPO market cap for the given year.

**YEAR** 

# SMALL CAP ILLIQUIDITY

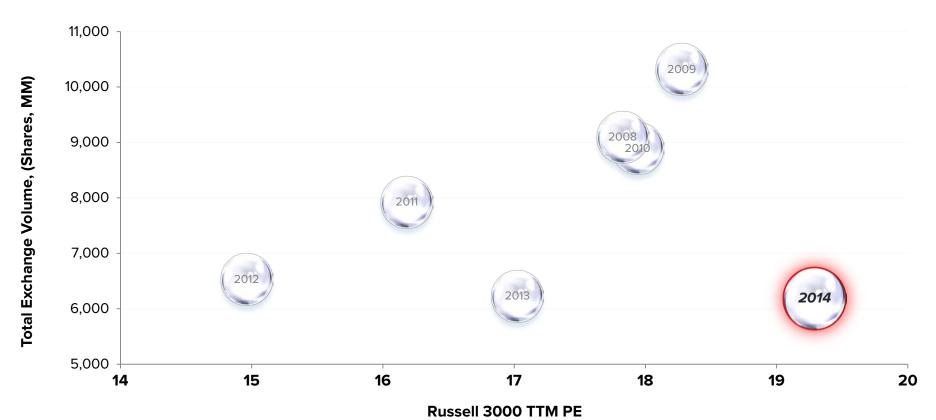
#### **PEAK VALUATION + NO TURNOVER = WINDOW DOWN**



DATA SOURCE: BLOOMBERG HEDGEYE 50

# **BROADER MARKET LOOKS THE SAME**

#### .....EXPENSIVE & ILLIQUID

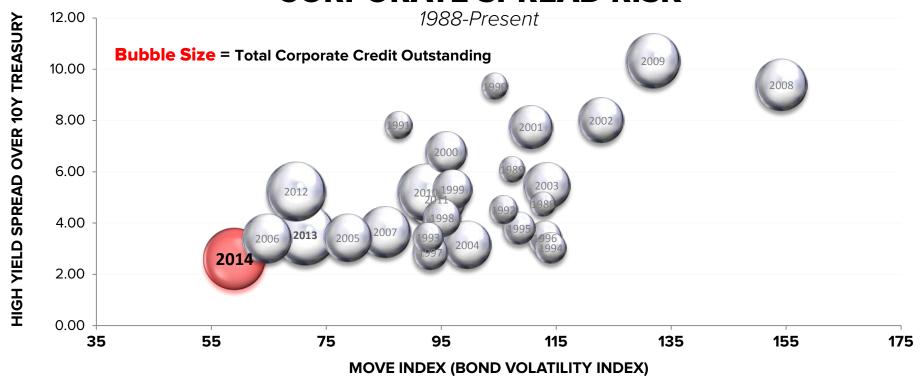


DATA SOURCE;: BLOOMBERG

# SPREAD RISK

ALL-TIME LOW IN SPREADS + ALL-TIME LOW IN VOLATILITY + ALL-TIME HIGH IN DEBT OUTSTANDING





DATA SOURCE: BLOOMBERG, SIFMA HEDGEYE 52

#### INVESTMENT CONCLUSIONS

#### **LONGS**

- Long-term Treasuries (TLT)
- Muni Bonds (MUB)
- Healthcare (XLV)
- Consumer Staples (XLP)
- Mega Caps (OEF)
- HCA Holdings Inc. (HCA)
  - Analyst: Tom Tobin
- Legg Mason (LM)
  - Analyst: Jonathan Casteleyn, CFA, CMT

#### **SHORTS**

- Russell 2000 (IWM)
- Regional Banks (KRE)
- Housing (ITB)
- France (EWQ)
- Emerging Markets (VWO)
- Yelp Inc. (YELP)
  - Analyst: Hesham Shaaban, CFA
- Vanguard Natural Resources (VNR)
  - Analyst: Kevin Kaiser

#### FOR MORE INFORMATION CONTACT:

# SALES@HEDGEYE.COM 203.562.6500