THE MACRO SHOW

AUGUST 12, 2016

LEGAL

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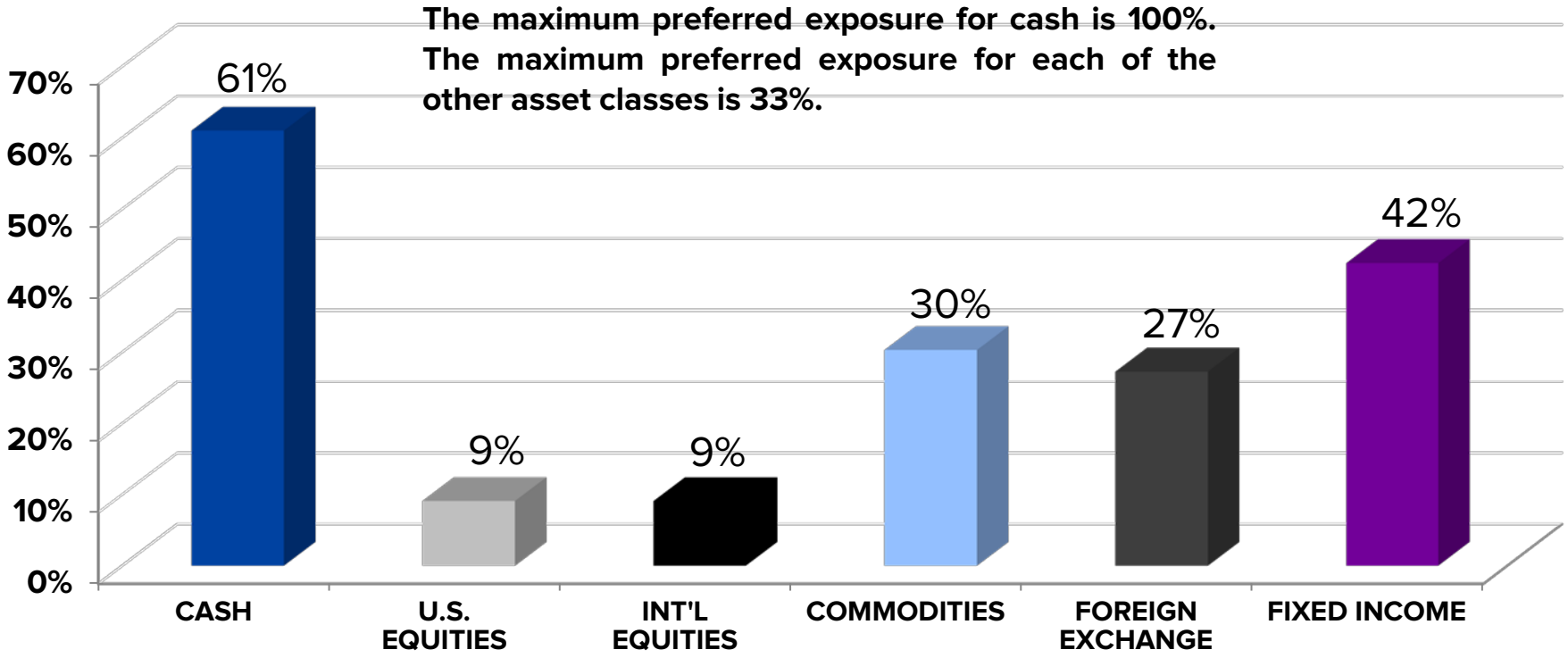
HEDGEYE ASSET ALLOCATION

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
8/11/2016	61	3	3	10	9	14
8/12/2016	61	3	3	10	9	14

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
8/11/2016	61%	9%	9%	30%	27%	42%
8/12/2016	61%	9%	9%	30%	27%	42%

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

HEDGEYE ASSET ALLOCATION



August 12, 2016

THE MACRO SHOW

HEDGEYE TV

1 EUROZONE

2 #CREDITCYCLE

3 #VOLATILITYASSYMETRY

EUROZONE

Got GDP Slowing? Yes! Inline with our #EuropeSlowing theme, Q2 preliminary GDP slowed across the Eurozone, to 0.3% vs 0.6% in the prior quarter. Specific country results: Germany (0.4% vs 0.7% in the prior quarter); France (0.0% vs 0.7%); and Italy (0.0% vs 0.3%). Our bearish bias on the Eurozone remains intact.

#CREDITCYCLE

Looking at corporate credit there is a large divergence between different issues. Despite corporate bankruptcies on a pace not seen since 2009, credit spreads have tightened meaningfully. High-yield energy spreads have been more than cut in half since February from +1600 to +718 this morning. Resource high-yield spreads have reverted nearly back to trade at the same spreads as high yield broadly since the U.S. dollar broke out in July of 2014. Corporate leverage broadly (median debt/EBITDA) reached record highs this week as reported by S&P, so if you believe this ends well, you also have to believe the fed's next ease will involve buying of corporate bonds and monetization of debt

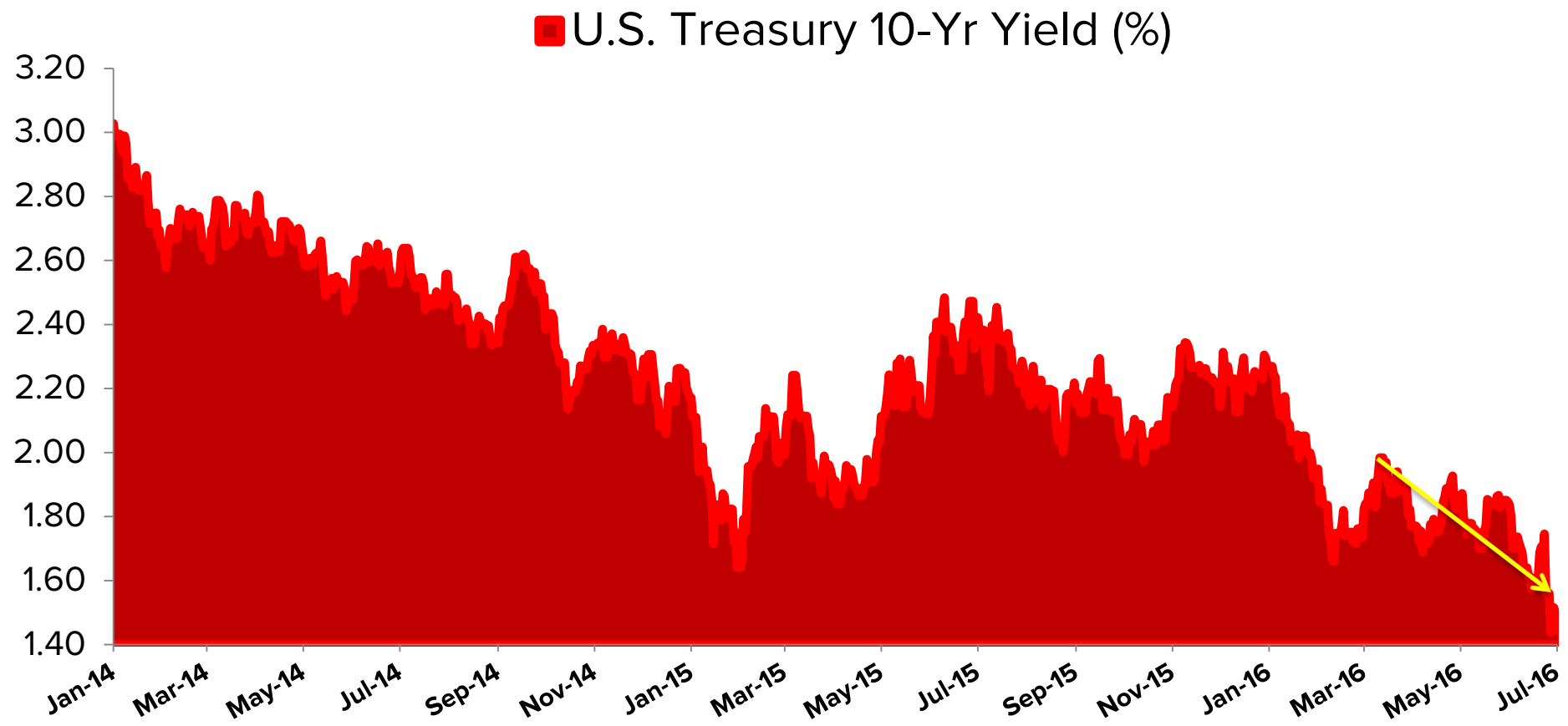
#VOLATILITYASSYMETRY

Once again vol. is for sale at all-time highs. In the summer of 2014, we introduced our #volatilityassymetry theme at all-time lows in cross asset volatility. While a number of indices haven’t quite reached those level, the VIX is looking to test its YTD low from last week, trading at 11.59 this morning – still a handle off all-time lows. The MOVE Index is at a level not seen since December 2014 which has helped drive corporate spreads lower.

MACRO & MARERIALS

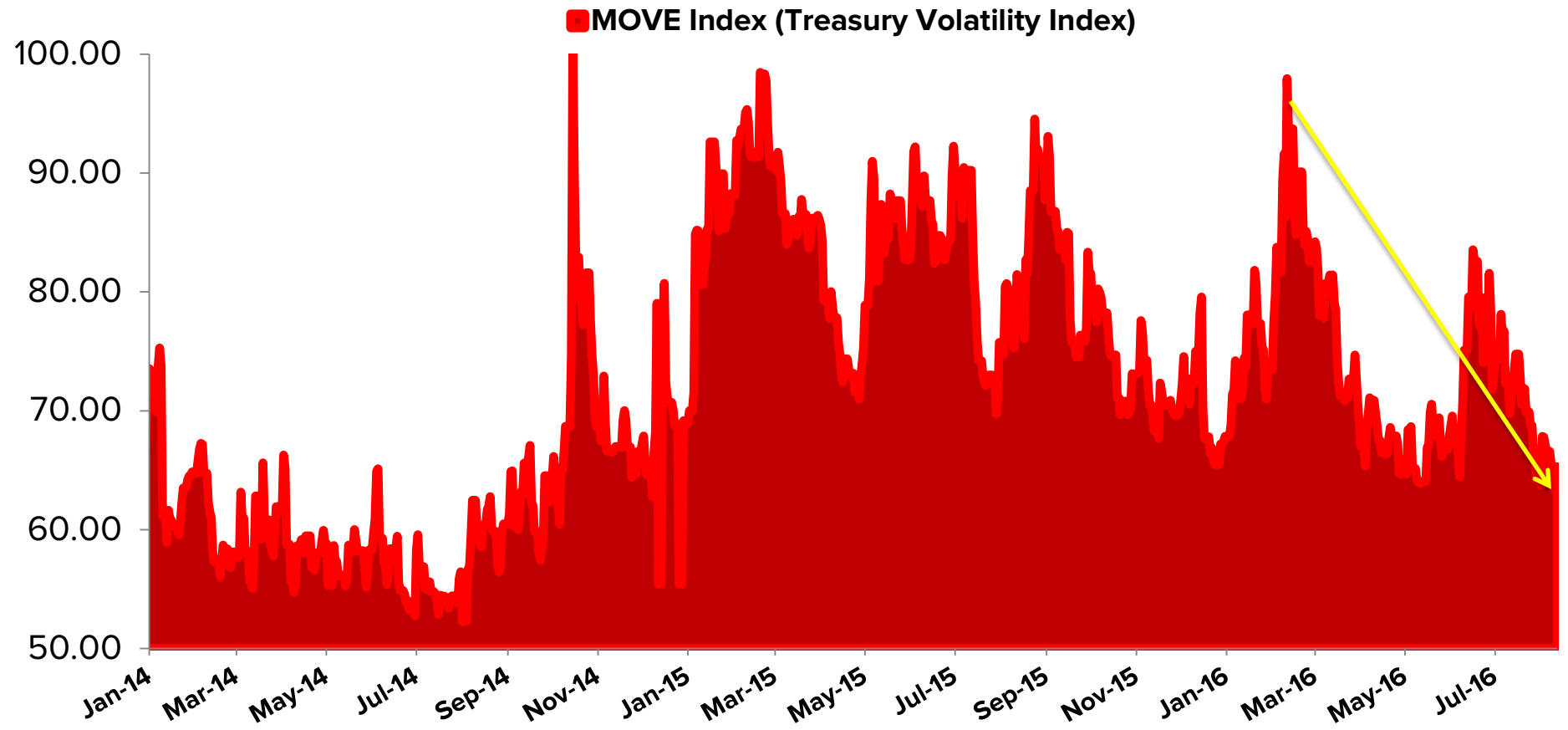
BEN RYAN

THE CURVE HAS BEEN A BIG DRIVER OF SPREADS TIGHTENING



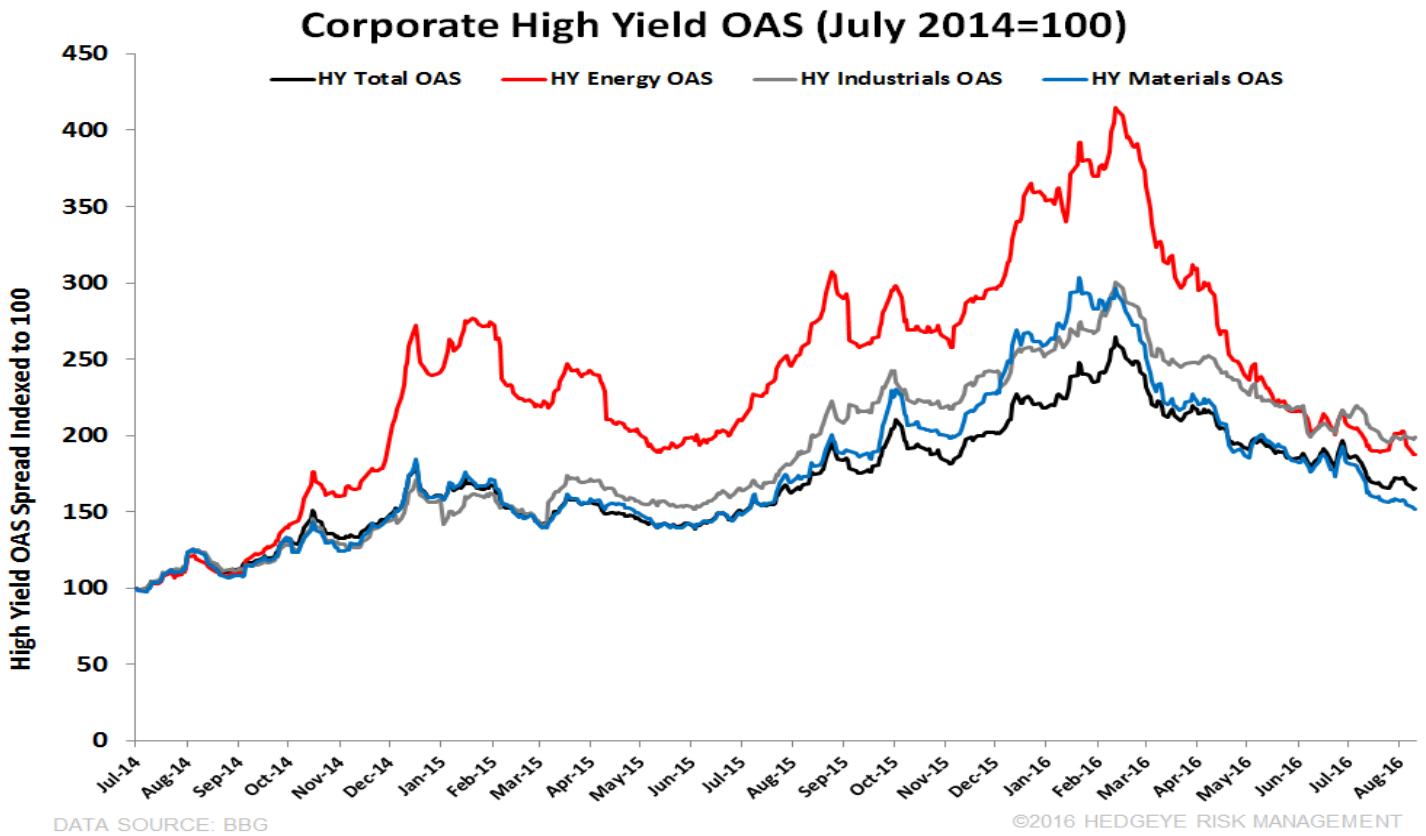
DATA SOURCE: HEDGEYE, BLOOMBERG

THE CURVE HAS BEEN A BIG DRIVER OF SPREADS TIGHTENING



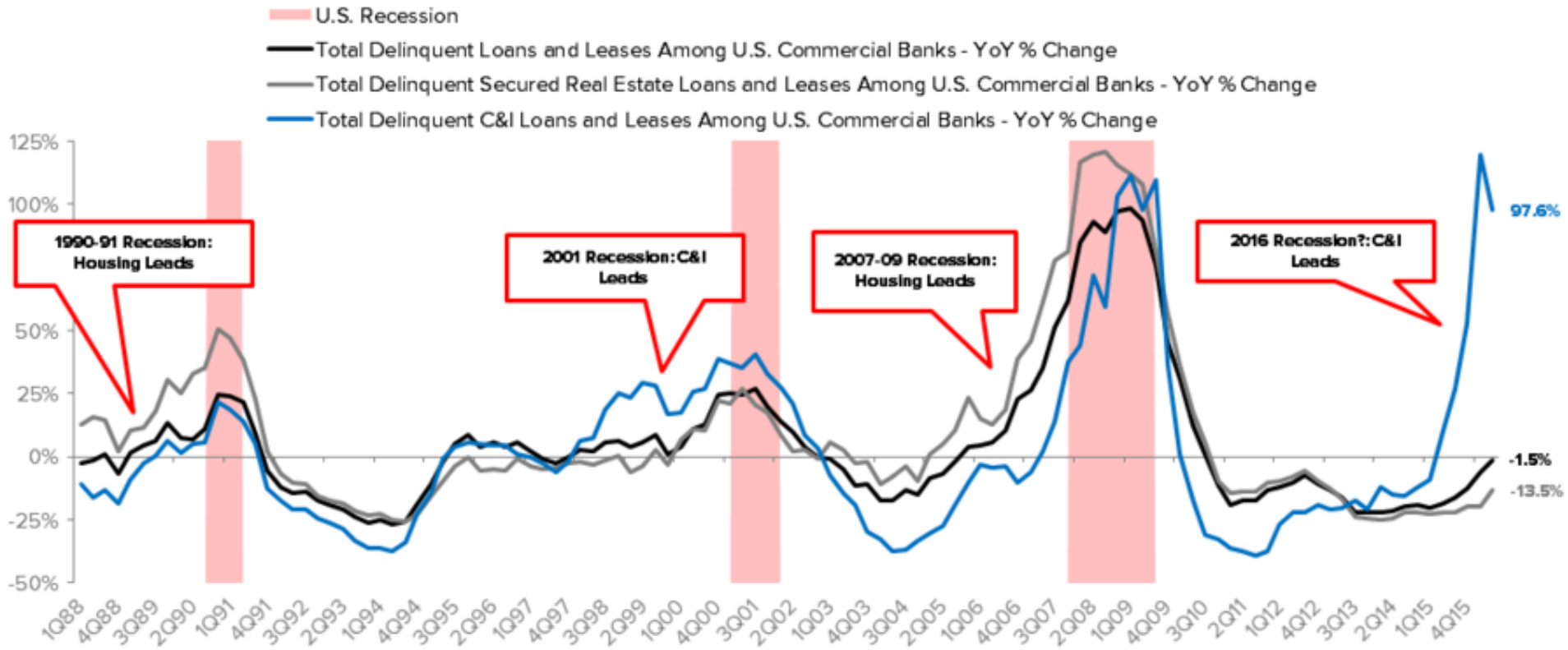
DATA SOURCE: HEDGEYE, BLOOMBERG

RELIEF IN CREDIT SPREADS



NO TWO #CREDITCYCLES ARE ALIKE

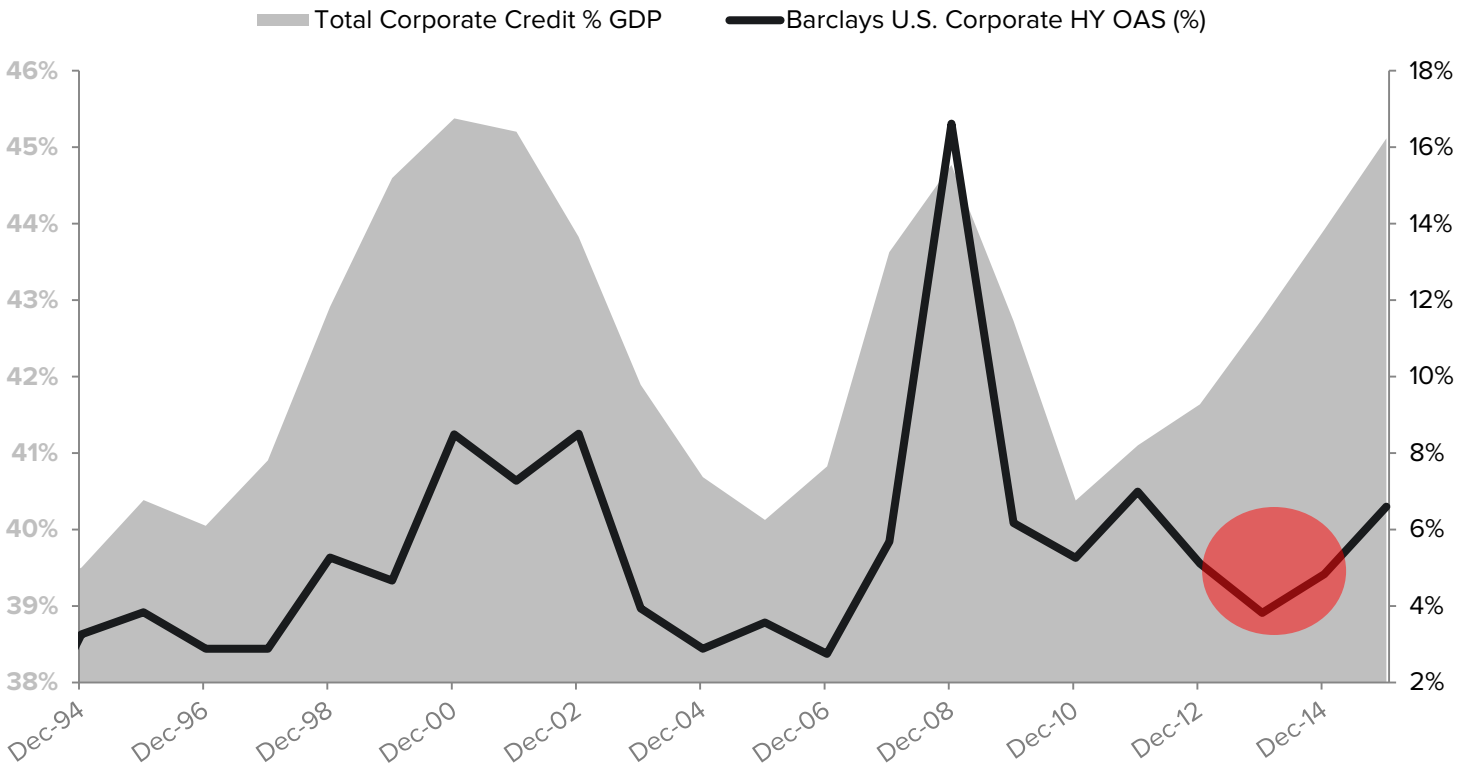
CONTRARY TO THE "EX-ENERGY" DISCUSSION, HISTORY SHOWS US THAT CREDIT ISSUES IN ONE SECTOR OF THE ECONOMY ALWAYS EVENTUALLY SPILLS OVER INTO THE BROADER ECONOMY. BANKERS AND INVESTORS DON'T EXTEND CREDIT IN A VACUUM OF BULLISH HOPIUM.



DATA SOURCE: BLOOMBERG

PEAK LEVERAGING OPPORTUNITY ALREADY IN

ZIRP AND QE HAVE CONTRIBUTED TO THE HIGHEST RATES OF HIGH-YIELD BOND ISSUANCE EVER. WE'RE NOW AT A CYCLE PEAK IN CORPORATE CREDIT AS A % OF GDP

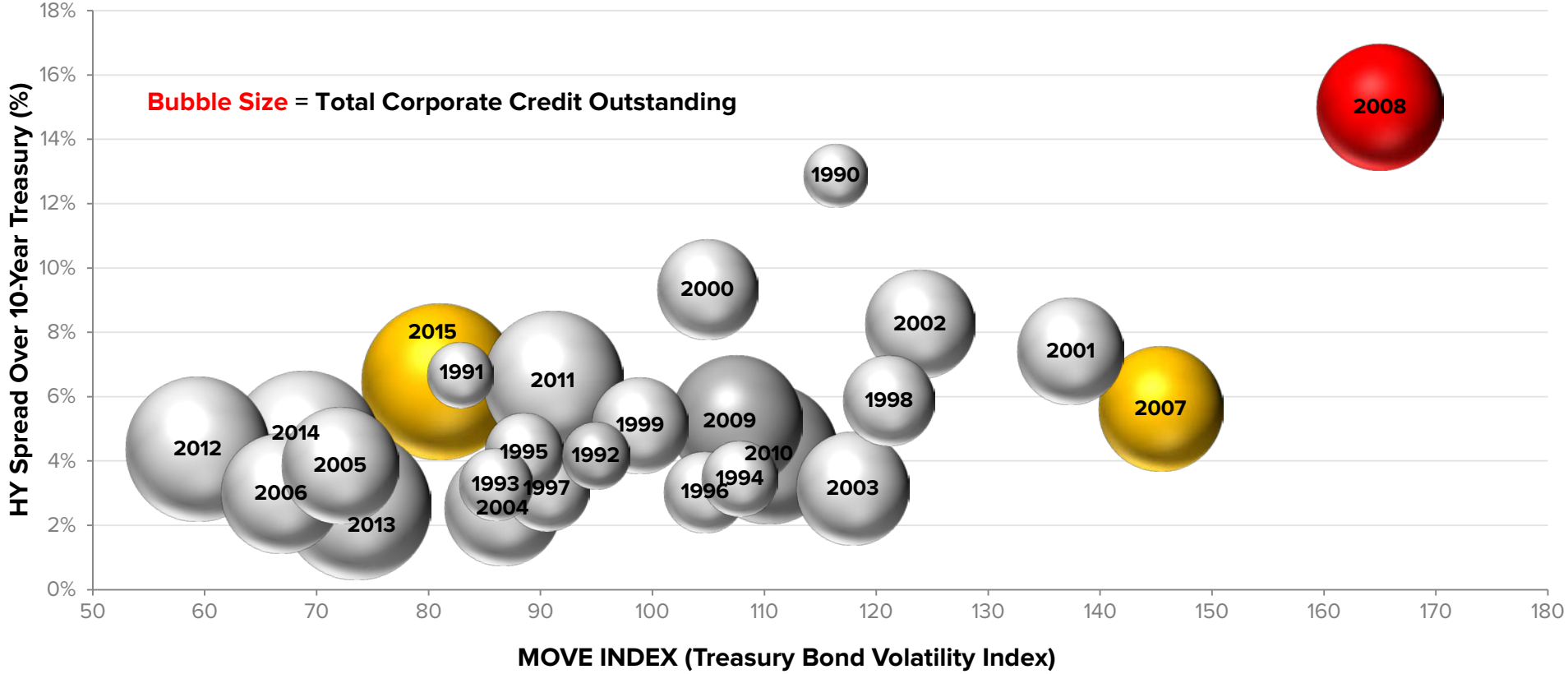


The Barclays High Yield Average OAS is still trading +~70 bps higher y/y (% Yield) even with the pullback in spreads since mid-February.

DATA SOURCE: FEDERAL RESERVE, CONFERENCE BOARD

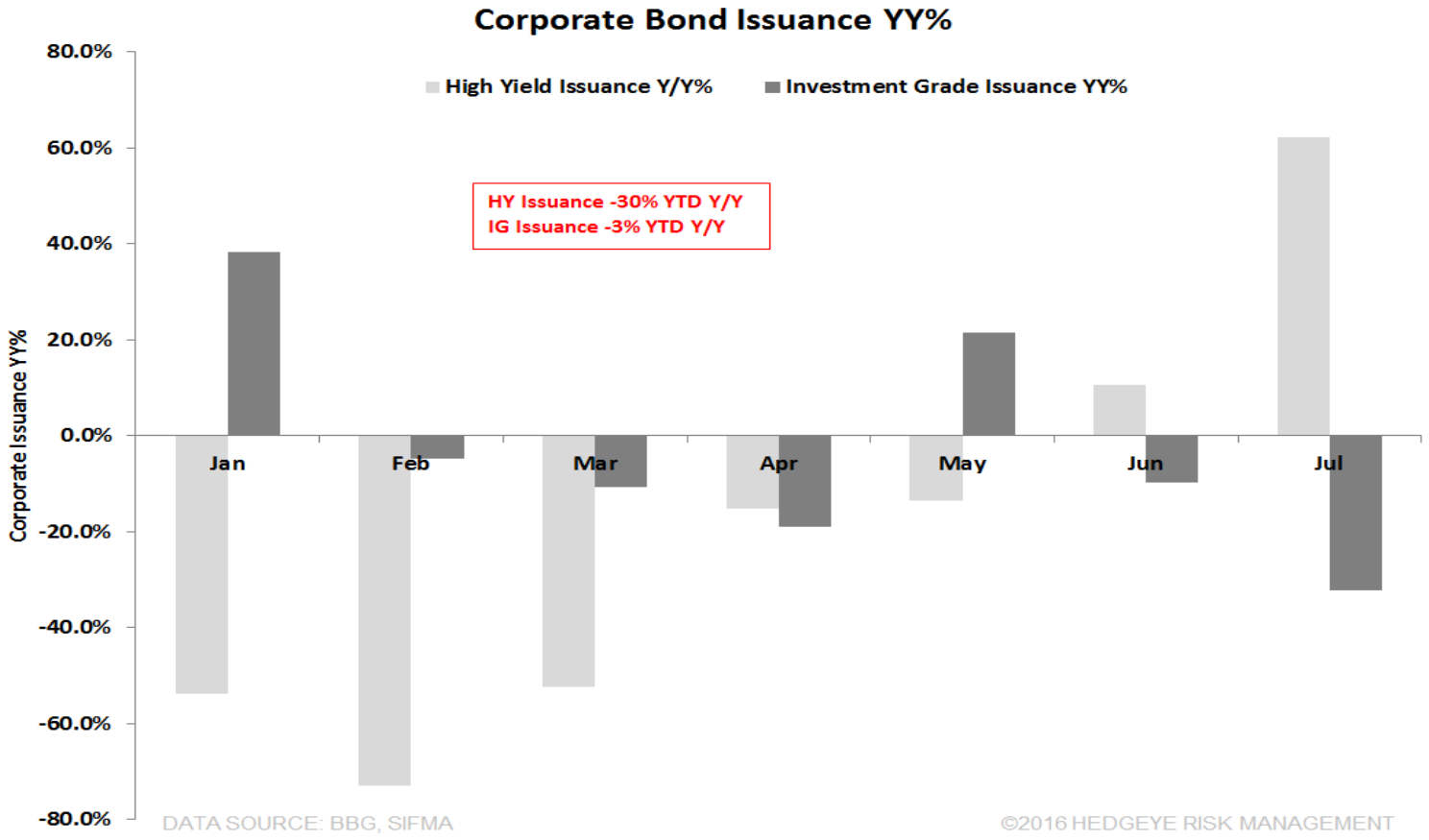
SPREAD RISK: HIGH YIELD

HISTORY SHOWS THAT ONCE HIGH-YIELD SPREADS HAVE WIDENED MEANINGFULLY OFF THE CYCLE-LOWS AS THEY HAVE THROUGHOUT 2015, THEY DO NOT TIGHTEN AGAIN IN THE SAME CYCLE. MOREOVER, WE'VE NEVER SEEN A CREDIT CYCLE WITH THIS MUCH DEBT OUTSTANDING.

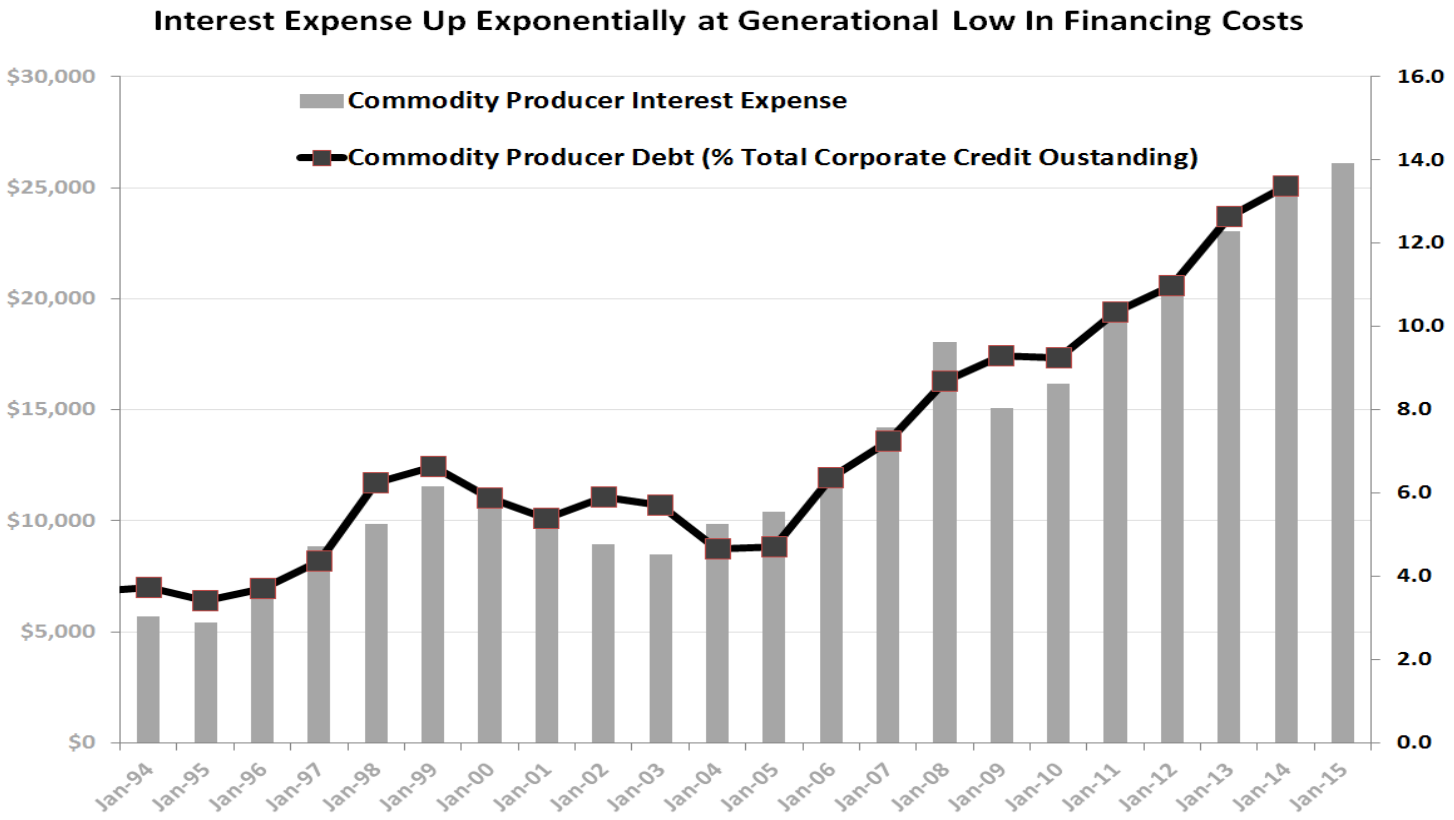


DATA SOURCE: BLOOMBERG, SIFMA, FINRA, HEDGEYE ESTIMATES

HIGH YIELD ISSUANCE SOMEWHAT RECOVERED

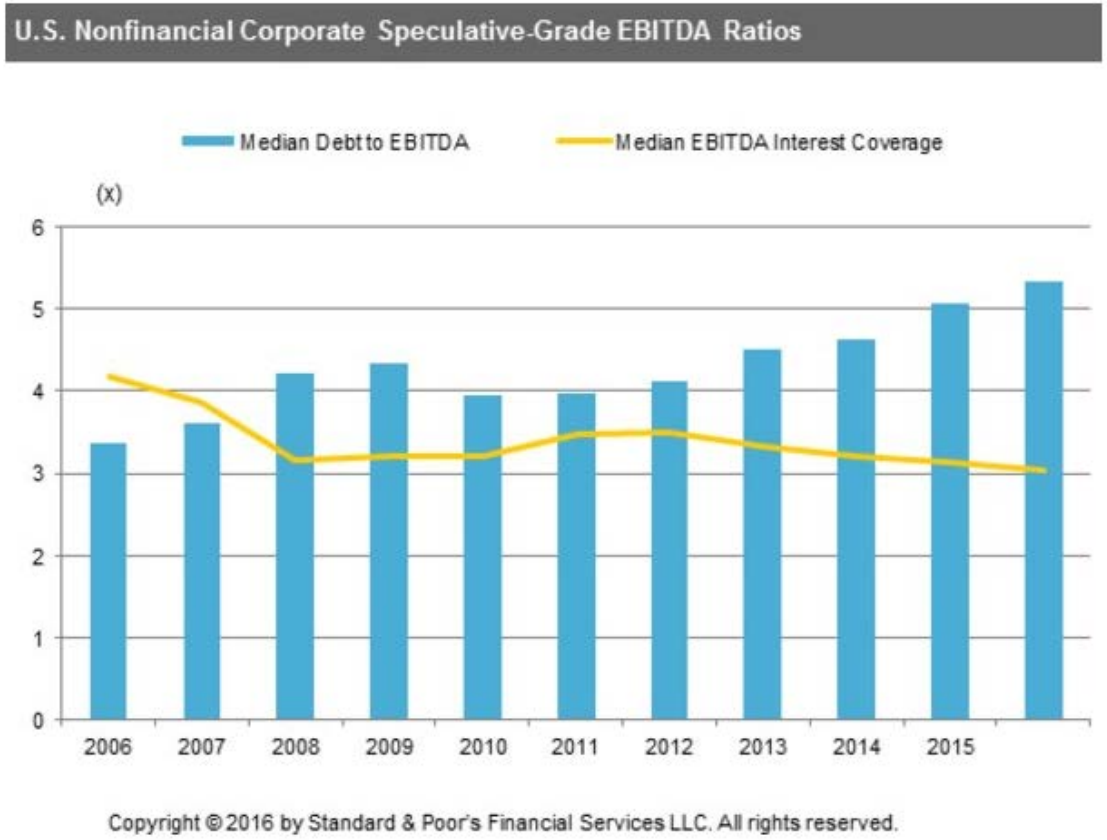


COMMODITY-SECTOR INTEREST EXPENSE

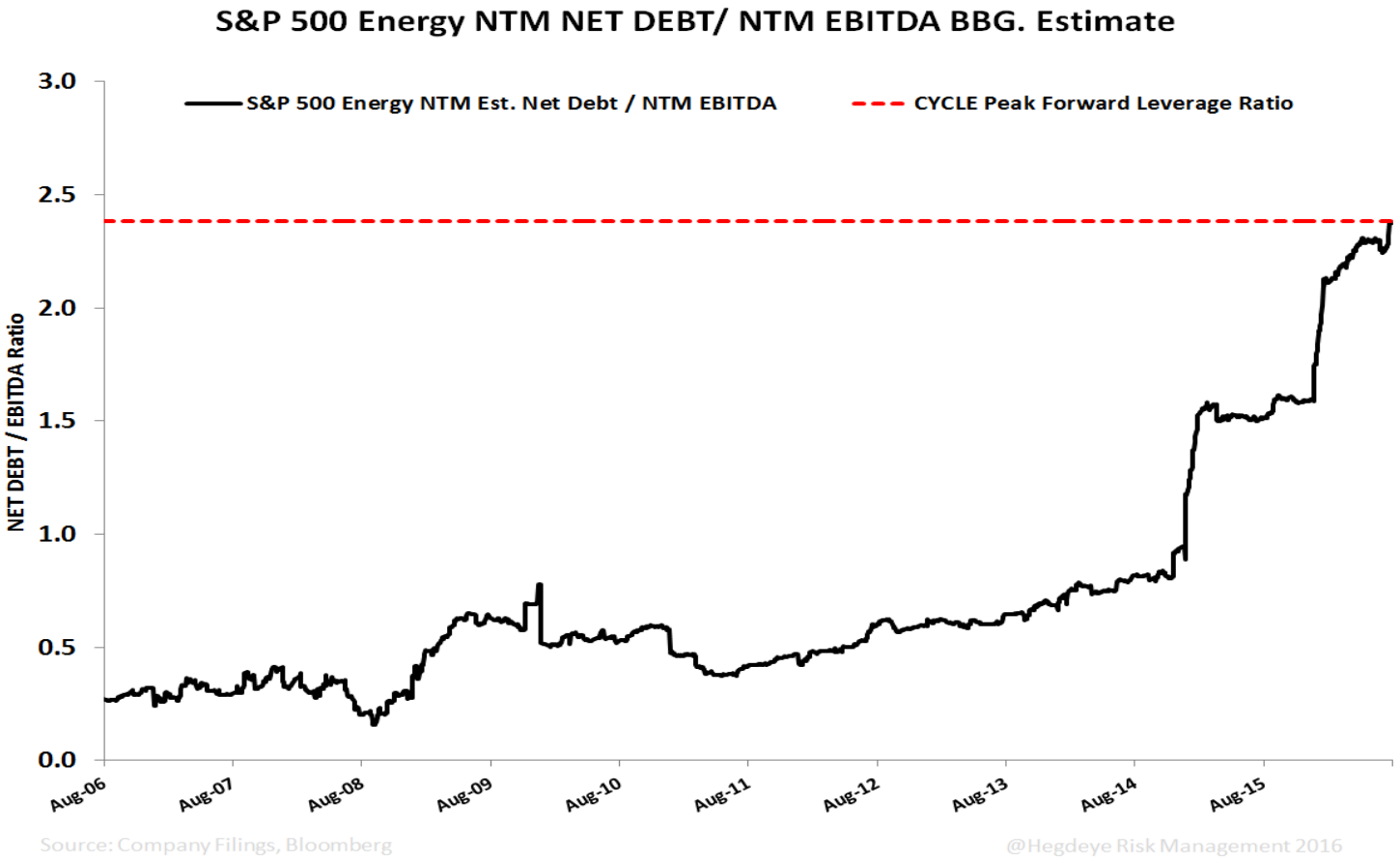


DATA SOURCE: COMPANY FILINGS

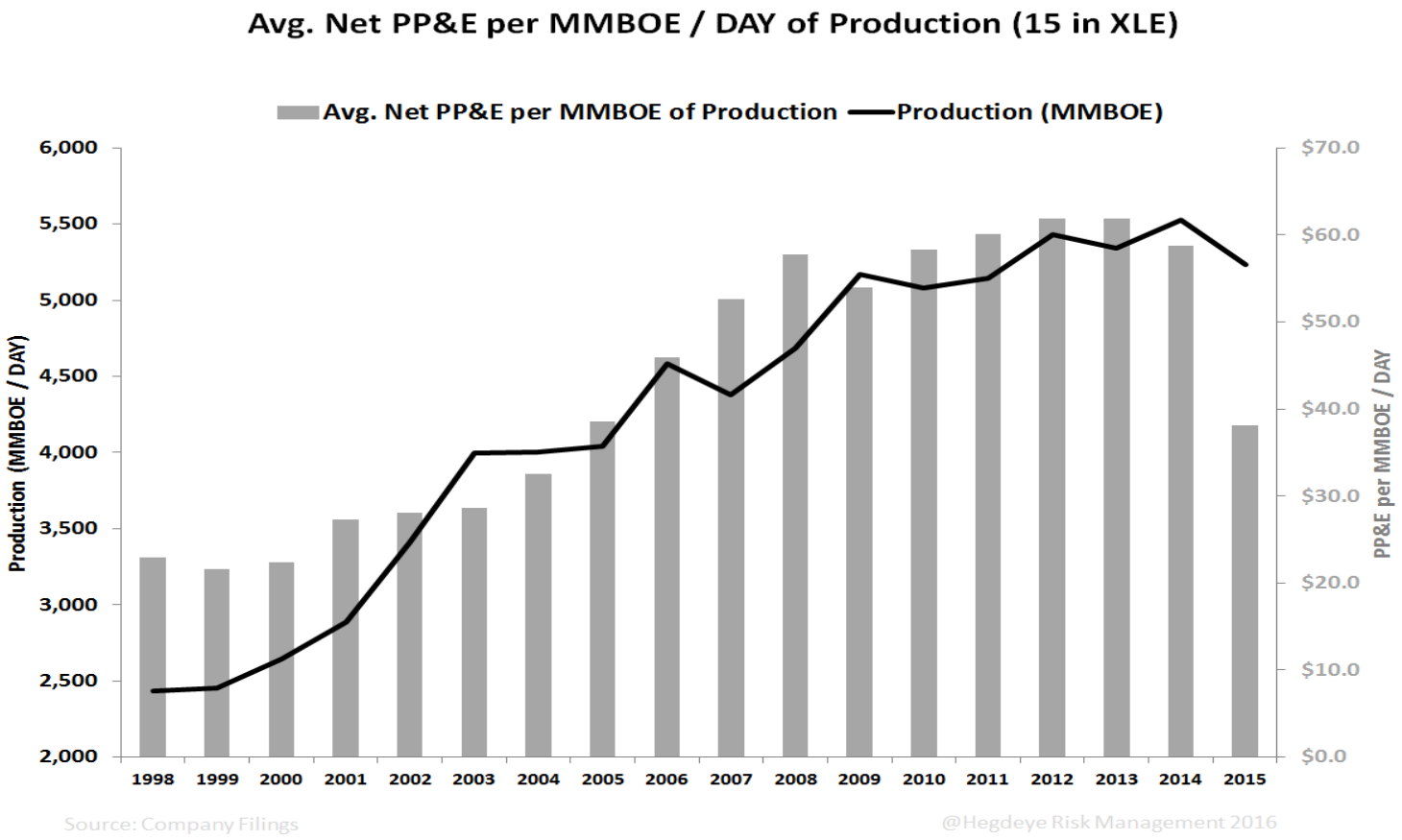
CORPORATE LEVERAGE AT ALL-TIME HIGHS



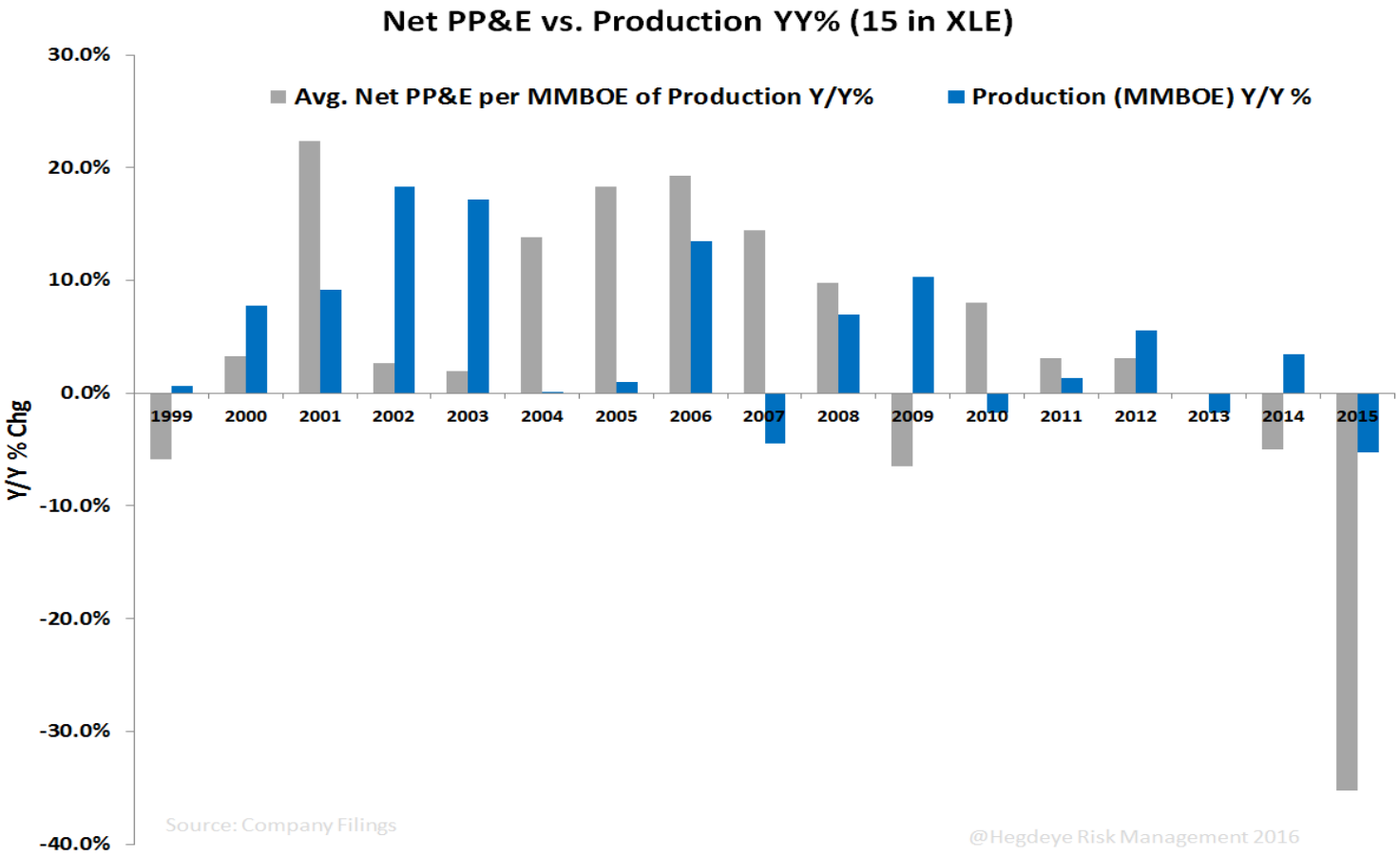
LEVERAGE IN THE ENERGY SECTOR



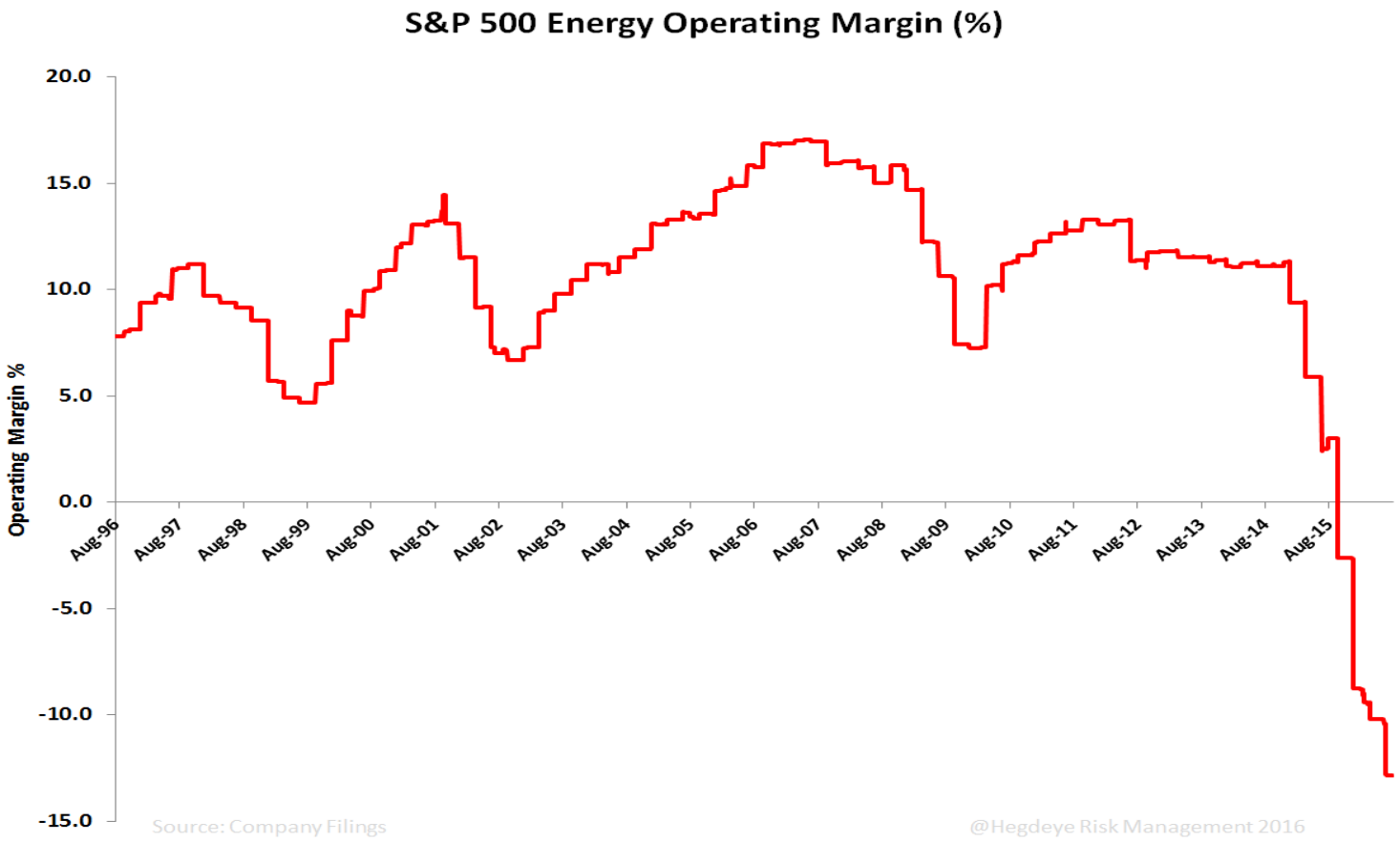
PP&E PER MMBOE/DAY



COMPANIES NEED TO CLOSE THE FUNDING GAP

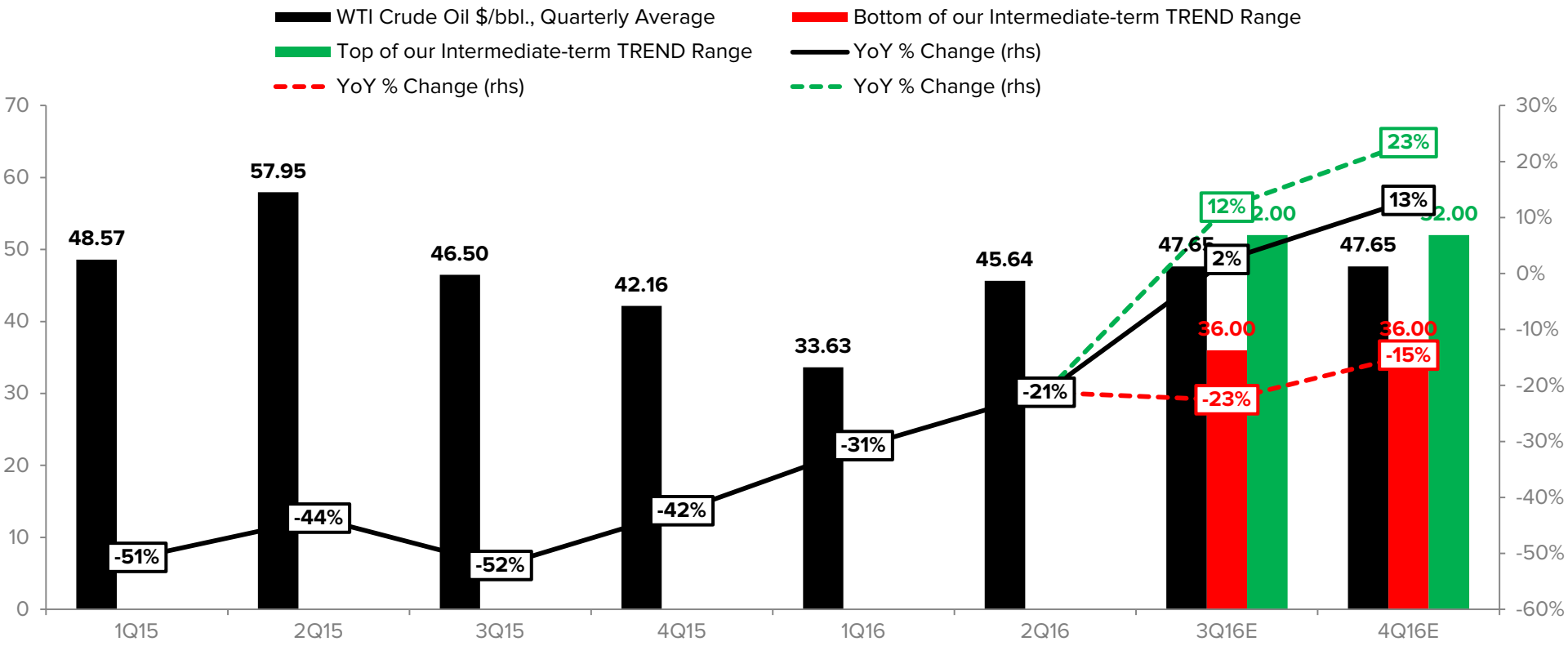


S&P 500 ENERGY OPERATING MARGINS



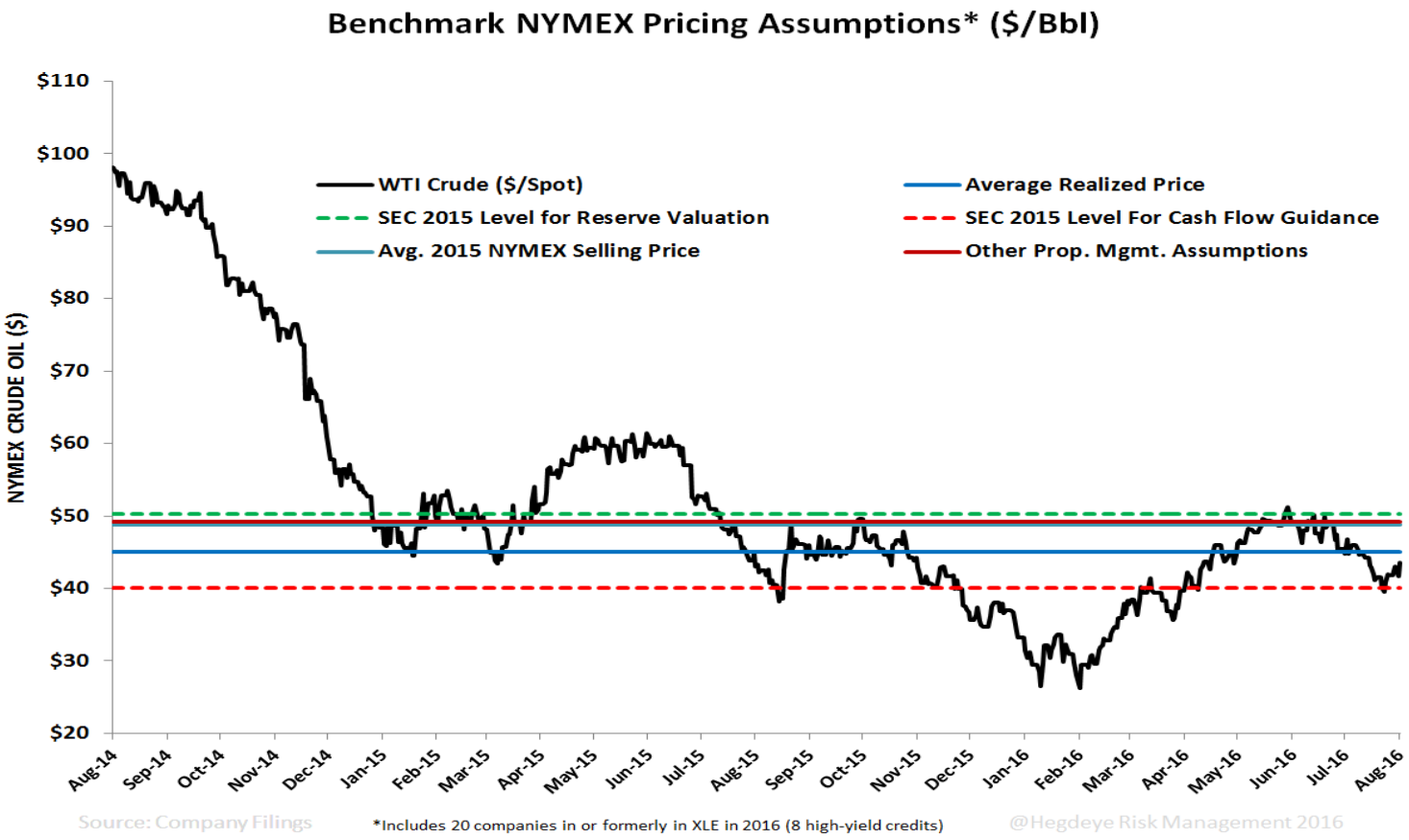
HAS ENERGY FULLY RECOVERED?

WHILE THE POTENTIAL ONBOARDING OF NEW SUPPLY REMAINS A REAL RISK TO SUSTAINABILITY, THERE IS NO DENYING THE OBVIOUS RECOVERY IN PRICING FOR DOMESTIC ENERGY PRODUCERS.



DATA SOURCE: BLOOMBERG. FORWARD ESTIMATES ASSUME NO CHANGE TO THE CURRENT QUARTERLY AVERAGE.

LOOKING AT EXPECTATIONS



#PROFITCYCLE: A ROSY CONSENSUS PICTURE

									Q2 QTD	Estimates			
SALES GROWTH (%)	CQ2 14	CQ3 14	CQ4 14	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16*	CQ3 16	CQ4 16	CQ1 17	CQ2 17
All Securities	4.7%	4.3%	1.6%	-2.7%	-3.4%	-3.7%	-4.0%	-1.9%	-0.4%	1.6%	4.6%	8.5%	6.7%
Energy	3.7%	-3.6%	-16.3%	-34.0%	-31.8%	-34.4%	-34.4%	-29.3%	-24.2%	-11.6%	3.5%	46.9%	38.8%
Materials	3.5%	2.6%	-2.0%	-9.8%	-10.1%	-14.0%	-15.5%	-8.8%	-7.3%	-0.3%	4.9%	7.1%	6.2%
Industrials	3.6%	4.8%	3.1%	-2.0%	-3.2%	-6.1%	-7.2%	-2.0%	-1.0%	0.8%	2.2%	2.0%	0.8%
Consumer Discretionary	4.7%	4.2%	3.4%	1.8%	2.1%	3.7%	4.4%	6.3%	7.6%	5.2%	6.1%	6.1%	4.4%
Consumer Staples	3.5%	2.9%	2.2%	2.5%	0.6%	0.5%	-0.4%	1.2%	0.4%	2.6%	4.8%	4.6%	4.7%
Health Care	11.9%	12.1%	12.8%	10.3%	8.9%	9.5%	9.6%	9.2%	9.0%	7.0%	5.9%	6.5%	4.1%
Financials	1.4%	5.1%	-0.3%	2.0%	1.6%	0.1%	1.0%	-1.7%	0.9%	2.2%	2.9%	6.2%	3.2%
Information Technology	6.7%	8.1%	8.4%	6.0%	3.1%	1.1%	-5.3%	-6.8%	0.2%	-1.6%	4.6%	7.3%	6.4%
Telecom	3.2%	3.0%	5.1%	2.6%	2.4%	11.8%	12.0%	11.2%	9.6%	1.4%	-0.2%	1.7%	2.2%
Utilities	3.3%	4.6%	10.6%	-3.6%	-4.9%	-2.1%	-12.6%	-10.5%	-2.4%	4.2%	13.4%	10.9%	6.8%
Data Source: BBG									*456 reported				

S&P 500									Q2 QTD	Estimates			
EPS Growth (%)	CQ2 14	CQ3 14	CQ4 14	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16*	CQ3 16	CQ4 16	CQ1 17	CQ2 17
All Securities	9.9%	9.6%	6.2%	1.5%	-1.2%	-3.8%	-6.8%	-8.0%	-4.1%	-1.3%	7.8%	14.9%	12.3%
Energy	10.7%	7.6%	-18.7%	-56.7%	-56.5%	-57.5%	-72.6%	-109.6%	-81.6%	-61.7%	-8.4%	817.0%	390.0%
Materials	11.3%	17.3%	5.5%	-0.4%	6.3%	-15.6%	-17.9%	-16.0%	-9.1%	4.0%	18.1%	20.6%	12.9%
Industrials	13.7%	14.2%	15.6%	11.3%	-3.0%	-0.7%	-5.4%	-7.3%	-2.0%	-6.6%	-2.0%	5.6%	5.5%
Consumer Discretionary	5.9%	2.0%	7.0%	9.3%	9.0%	13.9%	9.4%	17.8%	11.6%	2.1%	8.0%	7.5%	8.9%
Consumer Staples	6.5%	3.2%	-2.3%	3.6%	0.1%	-2.1%	-0.7%	1.2%	0.2%	3.2%	8.4%	11.0%	9.9%
Health Care	12.5%	15.2%	21.6%	18.2%	15.1%	14.5%	11.0%	8.1%	5.0%	4.0%	6.3%	6.3%	7.6%
Financials	6.6%	12.2%	-3.2%	7.1%	2.7%	-8.6%	-5.3%	-14.2%	-5.2%	5.9%	11.2%	15.8%	9.8%
Information Technology	12.1%	8.5%	14.9%	10.0%	6.6%	4.5%	-3.8%	-7.4%	-2.2%	-1.0%	5.3%	14.8%	11.9%
Telecom	22.6%	20.8%	21.7%	8.5%	10.2%	23.7%	27.8%	16.1%	3.5%	-2.0%	4.3%	0.1%	7.7%
Utilities	4.9%	2.7%	2.8%	1.3%	3.0%	0.8%	-49.6%	-1.9%	8.9%	3.4%	135.1%	0.8%	-3.8%
Data Source: BBG									*456 reported				

MACRO GRIND

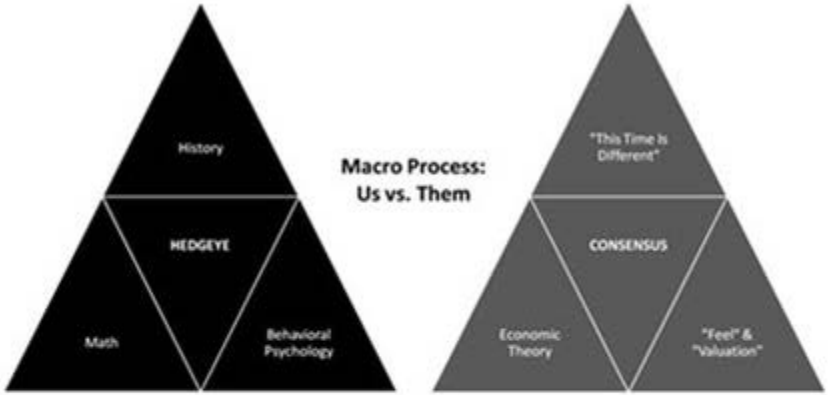
Q2 S&P REVENUE & EARNINGS COMPS

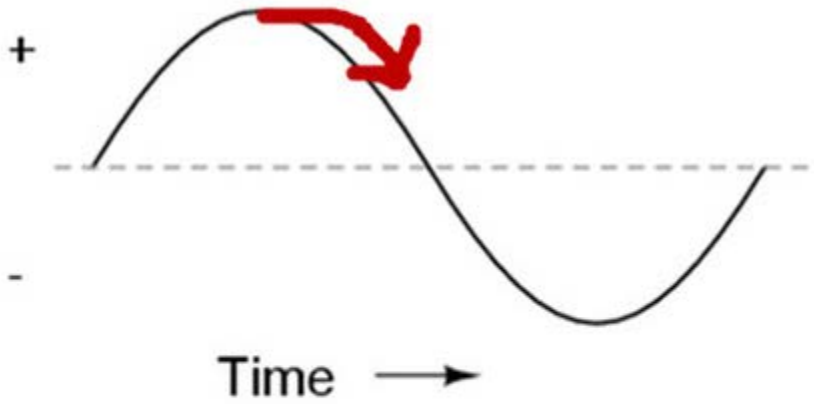
Q2 2016 QTD

SECTOR	SALES GROWTH (% CHG)	EARNINGS GROWTH (% CHG)	#REPORTED
S&P 500 (Aggregate)	-0.4%	-4.2%	457 / 500
Energy	-24.2%	-81.6%	37 / 37
Materials	-7.3%	-9.1%	27 / 27
Industrials	-1.0%	-2.0%	67 / 68
Consumer Discretionary	7.5%	11.2%	63 / 83
Consumer Staples	0.4%	0.2%	28 / 36
Healthcare	9.0%	5.0%	54 / 57
Financials	0.9%	-5.2%	92 / 92
Information Technology	0.2%	-2.2%	56 / 67
Telecom	9.6%	3.5%	5 / 5
Utilities	-2.4%	8.9%	28 / 28

Source: BBG

HEDGEYE MACRO PROCESS: RATE OF CHANGE





DIFFERENTIATED FROM THE HERD

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

WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin.

CFTC NON-COMMERCIAL NET LONG POSITIONING

METRIC	Latest	W/W Chg	3M Ave	6M Ave	1Y Ave	Z-Score 1Y	Z-Score 3Y
SPX (Index + E-mini)	132,682	(42,606)	75,588	(27,695)	(91,087)	*1.89X*	*1.57X*
Russell 2000 (mini)	(1,948)	5,991	(26,839)	(42,920)	(42,839)	*2.76X*	*1.10X*
10Y Treasury	96,007	(45,131)	18,751	(1,360)	(2,628)	*1.51X*	*1.87X*
CRUDE OIL	294,109	(15,342)	358,345	342,119	302,140	*-0.14X*	*-0.71X*
GOLD	267,289	10,359	237,190	195,062	109,023	*1.57X*	*2.69X*
COPPER	2,759	(2,112)	(22,624)	(18,279)	(21,233)	*1.72X*	*1.36X*
$USD	17,560	(4,853)	12,364	16,402	30,330	*-0.79X*	*-0.53X*
JPY	37,153	3,211	43,017	49,123	9,803	*0.55X*	*1.56X*
EUR	(116,265)	5,289	(67,670)	(58,746)	(86,164)	*-0.69X*	*-0.47X*
GBP	(82,151)	(3,920)	(51,169)	(44,793)	(30,716)	*-2.42X*	*-2.41X*