

## LECAL

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## HEDCEYE ASSET ALLOCATION

|  | CASH | U.S. <br> EQUITIES | INT'L <br> EQUITIES | COMMODITIES | FOREIGN <br> EXCHANGE | FIXED <br> INCOME |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $8 / 18 / 2016$ | 54 | 3 | 3 | 10 | 12 | 18 |
| $8 / 19 / 2016$ | 54 | 3 | 3 | 10 | 12 | 18 |


|  | CASH | U.S. <br> EQUITIES | INT'L <br> EQUITIES | COMMODITIES | FOREIGN <br> EXCHANGE | FIXED <br> INCOME |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $8 / 18 / 2016$ | $54 \%$ | $9 \%$ | $9 \%$ | $30 \%$ | $36 \%$ | $55 \%$ |
| $8 / 19 / 2016$ | $54 \%$ | $9 \%$ | $9 \%$ | $30 \%$ | $36 \%$ | $55 \%$ |

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

## HEDGEYE ASSET ALLOCATION



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## FLOWS

## SPAIN

## RUSSIA

The war on active management continues with U.S. equity beta trouncing most strategies YTD. This morning, Lipper is reporting another - $\$ 4 \mathrm{~B}$ in outflows from U.S. equity mutual funds while passive equity funds took in another $+\$ 4.3 \mathrm{~B}$ WoW. We've written extensively about the upside capitulation we're seeing in the SPX futures and options data and via the reversal in style factor performance - which itself reeks of a massive career-risk driven chase. With high beta stocks up $+19 \%$ and Utes down -30 bps since the June 27th Brexit v-bottom, we're again starting to see opportunity on the long side of lower-for-longer strategies for those investors who've missed the big move.

## SPAIN

The tangled mess that is Spanish politics continues to evolve. The latest... Acting PM Rajoy has called a confidence vote for August 31st. While he may get the support of centrist party Ciudadanos, it appears he'd need the Socialist Party (PSOE) to abstain from the vote to win and the Socialists say they will not abstain! Our call for \#Europelmploding remains intact.

## RUSSIA

German Chancellor Angela Merkel said there is no reason to lift EU sanctions against Russia as Moscow has not fulfilled all of its commitments under the Minsk peace plan. Expect political risk to remain heightened as the East vs West faceoff remains!

## RETALL SALES: TREND =

## U.S. HEADLINE RETAIL SALES

- Recession Dates
——Retail Sales, YoY \%

*Note: Retail Sales are reported in nominal dollars (i.e. are not adjusted for inflation)


$3^{0}$

U.S. retail sales making lower highs and lower lows.


## ONLY 4 MAIN GROWTH DRIVERS...

## July Retail Sales YY Growth By Category

Food Service \& Drinking Places
Nonstore Retailers
Miscellaneous Stores Department Stores (Excl. L.D.) ** General Merchandise Stores Sporting Goods, Hobby, Book \&... Clothing \& Clothing Accessory... Gasoline Stations Health \& Personal Care Stores
Food \& Beverage Stores Building Materials, Garden Equip.,... Electronics \& Appliance Stores Furniture \& Home Furnishings... Motor Vehicle \& Parts Dealers Total Retail \& Food Service

$$
-20 \% \quad-10 \% \quad 0 \% \quad 10 \% \quad 20 \%
$$

July YY Growth Contribution By Category


## ...AND NONE OF THEM HELP MALL-BASED OPERATORS

Restaurants, Internet, Personal Care, and Autos account for almost all the growth.

## WEPRE TALKING ABOUT SALES



## RETAIL SALES GROWTH BUCKETS (\# OF RETAILERS)

Basket of 63 retailers who have reported earnings through yesterday, with 40\% posting flat to negative sales growth. Compare that to $10 \%$ in 4Q14.

## YEA, COMPS ARE TOUGH

## RETAIL INDUSTRY AVG. REVENUE GROWTH



But, something here doesn't add up.

Plus sq. ft. growth kicker is all but gone.

## MARGINS UNDAR PRESSURE



## RETAIL INDUSTRY EBIT GROWTH BUCKETS (\# OF RETAILERS)

After a 7yr margin expansion cycle starting to see some pressure, 2/3rds of retail reporting EBIT margin deleverage.

## E-COMM SHARE $\uparrow$, MARCINS DOWN $\downarrow$

## E-COMM GROWTH BECOMES A BIGGER CHUNK OF THE PIE, MARGINS SUFFER



## IF THEREPS A SILVER LINING

## 2016 RETAIL INDUSTRY SIGMA



Best, inventory setup in $2+$ years.

## NOT ALL CATEGORIES CREATED =

## 2016 RETAIL INDUSTRY SIGMA



Puts and takes by category with apparel \& footwear the stand out on the negative side.

## DEPT STORES - CLEAN BALANCE SHEETS

## DEPARTMENT STORE SIGMA 2 Q16

Quadrant 4: Clean-Up Mode
Margins declining but inventory
levels being drawn down
-DDS

- JCP
- JWN
_ KSS
-M
$\rightarrow$ - Department Store Avg.

Quadrant 3: Danger Zone
Inventory building but margins declining

Margins Eroding

Quadrant 1: Sweet Spot Sales growing faster than inventory margins improving


Quadrant 2: Red Zone
Margins expanding but inventories building

But, no stability in the top line, telling us planning very
conservatively into year end.

Winners: KSS, JCP

Loser: DDS

X-Axis $=\mathrm{Y} / \mathrm{Y}$ Point Change in EBIT Margin \%

## WMT SPENDING/ TGT WATCHINC


***4Q15-2Q16 TGT SG\&A adjusted to compensate for pharma sale

## WE'D CHARACTERIZE THIS AS THE CAUSE

WMT doubling down on growth to fuel store/e-comm, TGT proud of its cost saving efforts.

## SHOWING UP IN NUMEERS

## AND THIS IS THE EFFECT



Investment dollars = market share.

Spread opening up to $1.2 \%$ in $1 Q$ and $3.4 \%$ in $2 \mathrm{Q}-$ widest in last 5 years.

Clear winner and loser.

## CALL JUST CETTING STARTED

## TGT - LOSING SHARE LIKE NEVER BEFORE



## AND THERE IS THIS TO WORRY ABOUT

## AMZN \% OF RETAIL SALES GROWTH



## KSS - THIS IS NOT SUSTAINABLE

## KSS COMP COMPONENTS



## OR THIS...

## SG\&A LEVERAGE/ DELEVERAGE



## CREDIT TREND ONE TO WATCH

## COF DELINQUENCY RATE YY CHG. ACCELERATING OFF THE LOWS

200 bps
150 bps

100 bps
50 bps
0 bps -50 bps
-100 bps
-150 bps
-200 bps



## ALL DATA POINTS BEARISH

## YY CHG IN FED TOP 100 BANK CHARGE OFF RATE



## HEI - WHERES THE GROWTH

## HBI ORGANIC GROWTH



## AHH - THERE IT IS



## MACRO GRIND

## C2 S\&P REVENUE \& EARNINGS COMPS

Q2 2016 QTD

| SECTOR | SALES GROWTH (\% CHG) | EARNINGS GROWTH (\% CHG) | \#REPORTED |
| :---: | :---: | :---: | :---: |
| S\&P 500 (Aggregate) | -0.2\% | -3.7\% | 471 / 500 |
| Energy | -24.2\% | -81.6\% | 37 / 37 |
| Materials | -7.3\% | -9.1\% | 27 / 27 |
| Industrials | -1.0\% | -2.0\% | 67 / 68 |
| Consumer Discretionary | 6.3\% | 10.2\% | 71 / 83 |
| Consumer Staples | 0.9\% | 0.4\% | 29 / 36 |
| Healthcare | 9.0\% | 5.0\% | $55 / 57$ |
| Financials | 0.9\% | -5.2\% | 92 / 92 |
| Information Technology | 0.2\% | -1.3\% | 60 / 67 |
| Telecom | 9.6\% | 3.5\% | $5 / 5$ |
| Utilities | -2.4\% | 8.9\% | $28 / 28$ |

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## HEDGEYE MACRO PROCESS: RATE OF CHANGE



## DIFFERENTIATED FROM THE HERD

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


Time $\longrightarrow$

## WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin.

## HEDGEYE SECTOR PERFORMANCE

| SECTOR | Ticker | Price | $\frac{\text { 1-Day \% }}{\text { Chg }}$ | $\frac{\text { MTD \% }}{\text { Chg }}$ | $\frac{\text { YTD \% }}{\text { Chg }}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Consumer Discretionary | XLY | \$81.45 | -0.06\% | -0.21\% | 4.21\% |
| Financial Select Sector | XLF | \$24.02 | -0.08\% | 1.56\% | 0.80\% |
| Health Care Select Sector | XLV | \$74.42 | 0.04\% | -1.04\% | 3.32\% |
| Technology Select Sector | XLK | \$46.99 | 0.04\% | 1.16\% | 9.71\% |
| Consumer Staples Select Sector | XLP | \$55.05 | 0.35\% | 0.64\% | 9.03\% |
| Industrial Select Sector | XLI | \$59.04 | 0.31\% | 1.72\% | 11.38\% |
| Materials Select Sector | XLB | \$48.92 | 0.64\% | 0.47\% | 12.67\% |
| The Energy Select Sector | XLE | \$71.00 | 2.06\% | 5.37\% | 17.71\% |
| Utilities Select Sector | XLU | \$50.89 | 1.23\% | -2.36\% | 17.58\% |
| S\&P 500 | SPX | 2,187.02 | 0.22\% | 0.62\% | 7.00\% |

## HEDGEYE SECTOR RELATIVE PARFORMANCE

|  | Ticker | Price | $\frac{\text { 1-Day \% }}{\text { Chg }}$ | $\frac{\text { MTD \% }}{\text { Chg }}$ | $\frac{\text { YTD \% }}{\text { Chg }}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Consumer Discretionary | XLY | \$81.45 | -0.28\% | -0.83\% | -2.79\% |
| Financial Select Sector | XLF | \$24.02 | -0.30\% | 0.95\% | -6.20\% |
| Health Care Select Sector | XLV | \$74.42 | -0.18\% | -1.65\% | -3.68\% |
| Technology Select Sector | XLK | \$46.99 | -0.18\% | 0.55\% | 2.71\% |
| Consumer Staples Select Sector | XLP | \$55.05 | 0.13\% | 0.02\% | 2.03\% |
| Industrial Select Sector | XLI | \$59.04 | 0.09\% | 1.11\% | 4.38\% |
| Materials Select Sector | XLB | \$48.92 | 0.42\% | -0.15\% | 5.67\% |
| The Energy Select Sector | XLE | \$71.00 | 1.84\% | 4.76\% | 10.71\% |
| Utilities Select Sector | XLU | \$50.89 | 1.01\% | -2.98\% | 10.58\% |

## HEDGEYE STYLE FACTOR PERFORMANCE

| \％ | FACTOR | $\begin{gathered} \text { 1D } \\ \text { \% Chg } \end{gathered}$ | $\begin{gathered} \text { 1W } \\ \% \mathrm{Chg} \end{gathered}$ | $\begin{gathered} \mathrm{lM} \\ \% \mathrm{Chg} \end{gathered}$ | $\begin{gathered} \text { 3M } \\ \% \mathrm{Chg} \end{gathered}$ | $\begin{gathered} 6 \mathrm{M} \\ \% \mathrm{Chg} \end{gathered}$ | $\begin{aligned} & \text { YTD } \\ & \% \mathrm{Chg} \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | High Debt／EV | 1．1\％ | 1．3\％ | 1．4\％ | 10．4\％ | 24．7\％ | 13．5\％ |
|  | Low Debt／EV | 0．4\％ | 0．2\％ | 1．6\％ | 7．6\％ | 13．8\％ | 7．7\％ |
| 幺 | High Short Interest | 0．8\％ | 1．0\％ | 2．8\％ | 11．3\％ | 18．0\％ | 7．1\％ |
|  | Low Short Interest | 0．2\％ | －0．1\％ | 0．6\％ | 5．7\％ | 14．0\％ | 7．7\％ |
| 莍 | High Beta | 1．1\％ | 2．0\％ | 4．1\％ | 11．3\％ | 29．2\％ | 9．6\％ |
|  | Low Beta | 0．4\％ | －0．5\％ | －1．7\％ | 6．1\％ | 12．5\％ | 12．8\％ |
| $\begin{aligned} & \hline \text { 를 } \\ & \stackrel{\rightharpoonup}{⿻} \end{aligned}$ | High Yield | 0．5\％ | 0．5\％ | 0．1\％ | 9．1\％ | 15．1\％ | 10．7\％ |
|  | Low Yield | 0．6\％ | 0．4\％ | 3．4\％ | 9．9\％ | 21．9\％ | 9．8\％ |
| $\frac{5}{2} \frac{2}{5}$ | MCAP Bottom 25\％ | 0．8\％ | 0．8\％ | 1．7\％ | 8．3\％ | 18．6\％ | 7．2\％ |
|  | MCAP Top 25\％ | 0．1\％ | －0．1\％ | 0．8\％ | 6．5\％ | 13．7\％ | 6．7\％ |
| $\begin{aligned} & \hline \frac{6}{6} \\ & \stackrel{\omega}{n} \end{aligned}$ | Top 25\％Sales Growth | 0．8\％ | 1．1\％ | 2．5\％ | 8．6\％ | 25．5\％ | 11．2\％ |
|  | Bottom 25\％Sales Growth | 0．6\％ | 0．3\％ | 1．2\％ | 10．0\％ | 16．3\％ | 9．7\％ |
| $\begin{aligned} & \text { O } \\ & \frac{2}{14} \end{aligned}$ | Top 25\％EPS Growth | 0．4\％ | 0．1\％ | 1．7\％ | 7．3\％ | 19．7\％ | 7．0\％ |
|  | Bottom 25\％EPS Growth | 0．9\％ | 1．2\％ | 1．6\％ | 8．6\％ | 20．5\％ | 11．2\％ |

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

## HEDGEYE RATES \& SPREADS

|  | Price | 1D | 5D | 1 M | 3M | vs. $52-\mathrm{Wk}$, Bps |  | $\begin{gathered} \text { vs. } \\ \text { 3Y Ave } \end{gathered}$ | $\begin{gathered} \text { vs. } \\ \text { 5Y Ave } \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Bps Chg | Bps Chg | Bps Chg | Bps Chg | High | Low |  |  |
| 3M T-Bill | 0.29\% | 0.0 | 2.0 | -2 | -1 | -6 | 35 | 21 | 22 |
| 3MLIBOR | 0.81\% | 0.0 | -0.7 | 11 | 16 | -1 | 50 | 46 | 45 |
| 2 Y T-Note | 0.71\% | -2.4 | -0.4 | 1 | -18 | -39 | 22 | 14 | 26 |
| 5 Y T-Note | 1.12\% | -2.3 | 1.1 | 0 | -27 | -71 | 23 | -38 | -12 |
| 10Y T-Note | 1.54\% | -1.4 | 2.2 | -2 | -31 | -83 | 23 | -72 | -58 |
| 30Y T-Note | 2.27\% | 0.1 | 3.0 | -1 | -38 | -87 | 18 | -80 | -79 |
| 2Y-10Y Spread, Bps | 83 | 0.7 | 2.3 | -3.2 | -14 | -45 | 1 | -85 | -84 |
| IG SPREAD (AAABBB) | 1.68\% | 0.0 | 1.0 | -1 | -11 | -62 | 4 | -2 | -17 |
| HIGH YIELD | 6.28\% | -1.6 | -4.6 | -15 | -120 | -305 | 1 | -32 | -48 |
| 5Y BREAKEVEN | 1.34\% | 2.0 | 3.6 | -7.4 | -17.4 | -30.0 | 48.5 | $-24.1$ | -38.1 |

## GFTC NON-COMMERCIAL NET LONG POSITIONING

|  |  |  |  |  | Z-Score |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| METRIC | Latest | W/W Chg | 3M Ave | 6M Ave | 1Y Ave | IY | 3Y |
| SPX (Index + E-mini) | 115,935 | $(16,747)$ | 82,411 | $(14,638)$ | $(86,047)$ | $1.66 X$ | $1.41 X$ |
| Russell 2000 (mini) | 2,924 | 4,872 | $(23,103)$ | $(40,899)$ | $(42,048)$ | $2.79 X$ | $1.33 X$ |
| 10Y Treasury | 108,755 | 12,748 | 33,825 | 3,131 | $(1,980)$ | $1.67 X$ | $1.99 X$ |
| CRUDE OIL | 278,615 | $(15,494)$ | 351,918 | 343,066 | 302,579 | $-0.41 X$ | $-0.95 X$ |
| GOLD | 255,773 | $(11,516)$ | 239,489 | 202,095 | 113,996 | $1.40 X$ | $2.45 X$ |
| COPPER | $(4,648)$ | $(7,407)$ | $(21,227)$ | $(17,425)$ | $(20,674)$ | $1.15 X$ | $0.84 X$ |
| SUSD | 15,651 | $(1,909)$ | 12,636 | 15,658 | 29,372 | $-0.88 X$ | $-0.61 X$ |
| JPY | 46,219 | 9,066 | 41,979 | 49,337 | 12,716 | $0.71 X$ | $1.69 X$ |
| EUR | $(110,812)$ | 5,453 | $(74,839)$ | $(60,920)$ | $(86,176)$ | $-0.56 X$ | $-0.39 X$ |
| GBP | $(88,209)$ | $(6,058)$ | $(55,412)$ | $(46,817)$ | $(32,194)$ | $-2.49 X$ | $-2.56 X$ |

## MARKET SHARE VOLUME \& TOTAL VALUE TRADED

INDEX/SECURITY

| VOLUME: (8/18) vs. |  |  |  |  |
| ---: | ---: | ---: | ---: | ---: |
| Prior Day | 1M Ave | 3M ave | 1Y Ave <br> $3 \%$ | $2 \%$ |

*Total Market Volume = Total US exchange volume plus OTC and OTCBB trading volume for all security types. Calculated by Bloomberg.
**Tape $\mathrm{A}+\mathrm{B}+\mathrm{C}$ volume $=$ total US exchange volume
*** Total Traded Value for Russell 3000 (total mkt proxy)
Source: Bloomberg, Hedgeye

## KEY SUSD CORRELATIONS

52-Wk Rolling 30D Correlation

| METRIC | 15D | 30D | 90D | 120D | 180D | High | Low | \% Time Pos | \% Time Neg |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| SPX | 0.02 | -0.31 | 0.51 | 0.18 | -0.49 | 0.73 | -0.91 | 57\% | 43\% |
| BRENT Oil | -0.56 | -0.11 | -0.23 | -0.25 | -0.67 | 0.73 | -0.78 | 37\% | 63\% |
| CRB Index | -0.35 | 0.02 | -0.60 | -0.25 | -0.83 | 0.71 | -0.91 | 24\% | 76\% |
| GOLD | -0.48 | -0.68 | 0.49 | 0.33 | -0.63 | 0.90 | -0.95 | 24\% | 76\% |

*Days $=$ Trading Days

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[^0]:    Source: BBG

