THE MACRO SHOW

SEPTEMBER 27, 2016

LEGAL

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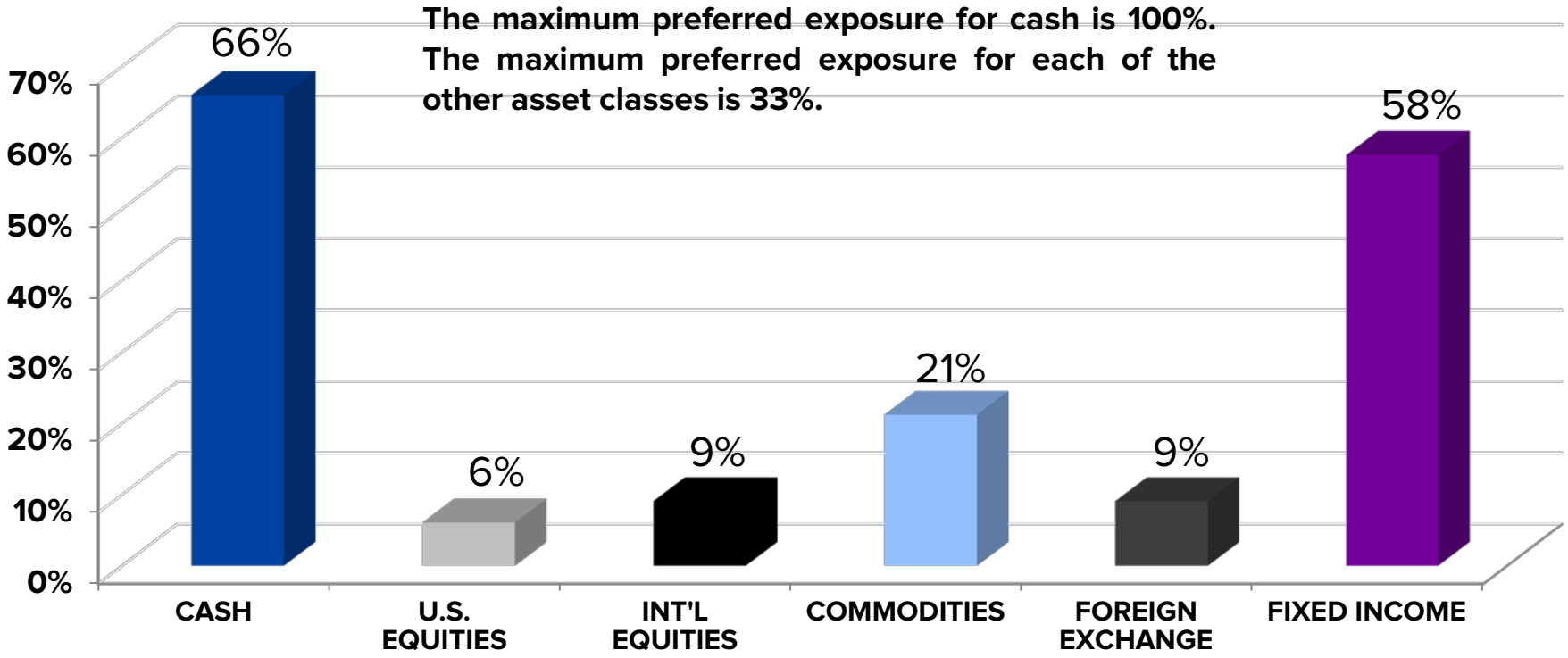
HEDGEYE ASSET ALLOCATION

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
9/26/2016	65	2	3	6	2	22
9/27/2016	66	2	3	7	3	19

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
9/26/2016	65%	6%	9%	18%	6%	67%
9/27/2016	66%	6%	9%	21%	9%	58%

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

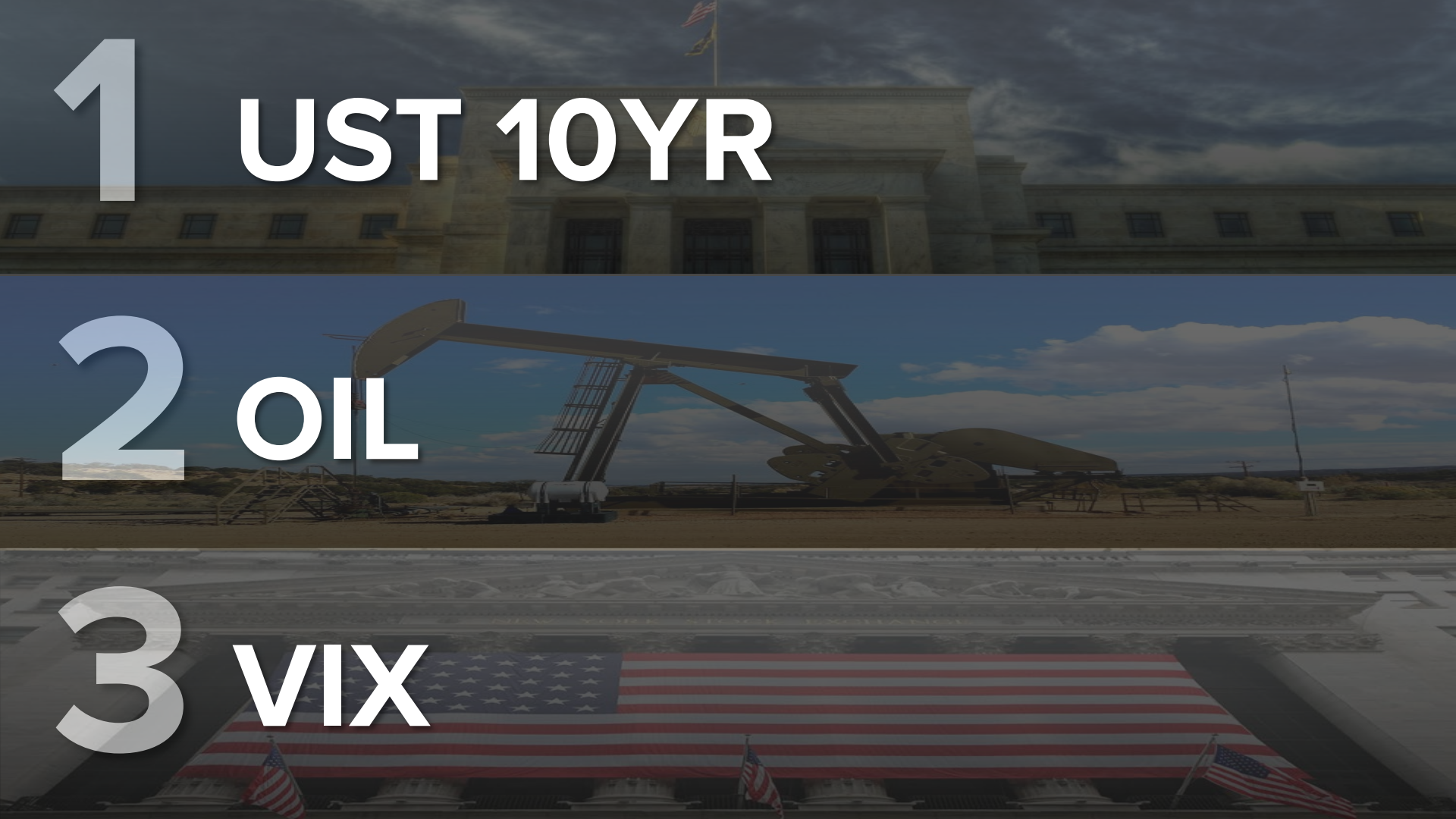
HEDGEYE ASSET ALLOCATION



September 27, 2016

THE MACRO SHOW

HEDGEYE TV

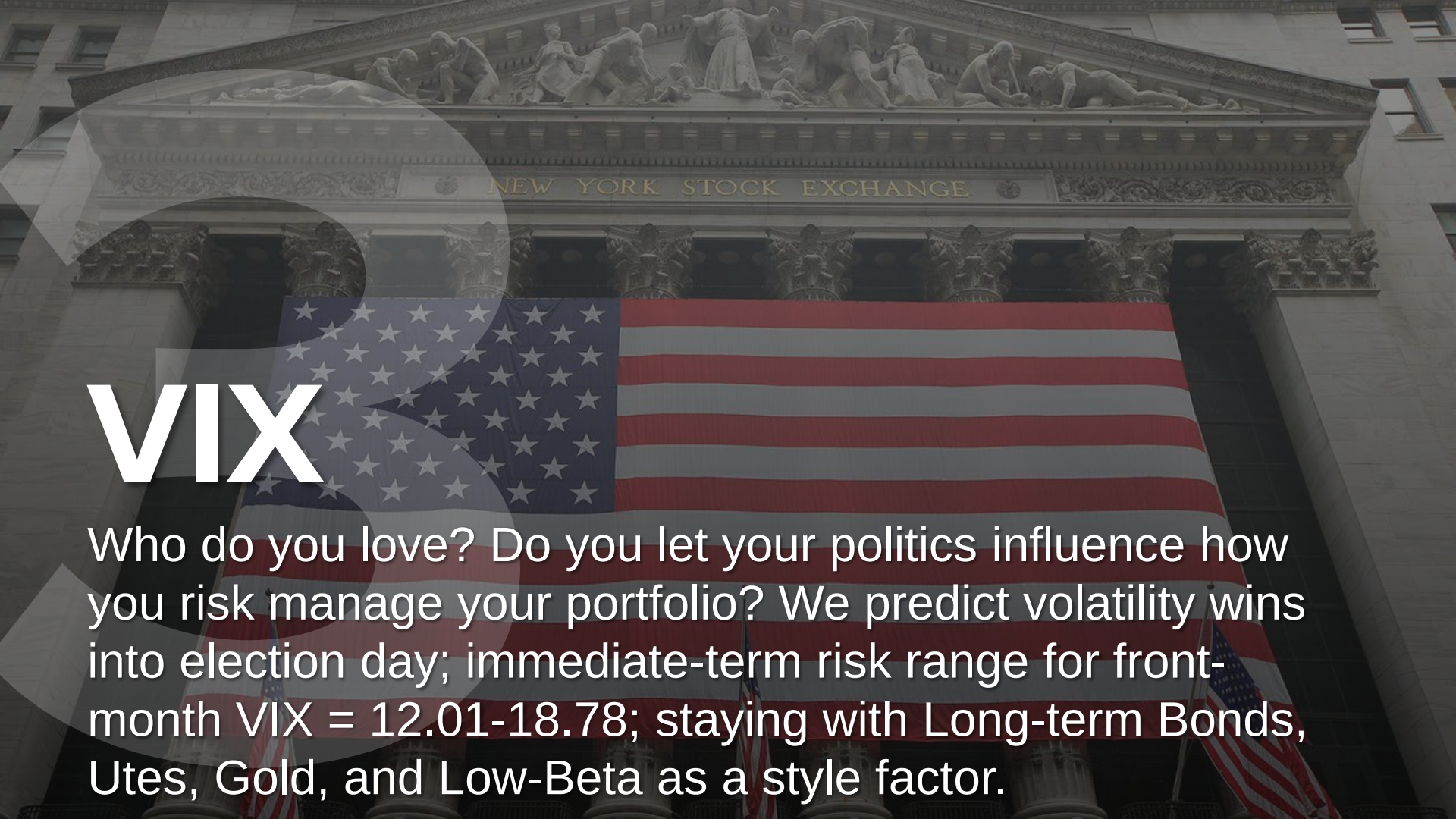

1 UST 10YR
2 OIL
3 VIX

4 UST 10YR

Was that the last big fat pitch of a buying opportunity for those who have missed #GrowthSlowing and Lower-For-Longer on rates? We think so. The UST 10YR slammed back down to 1.56%; 10s/2s spread right back to the YTD lows at 81bps and Financials (XLF) -4.4% in SEP vs. our beloved Utes (XLU) +3.2% SEP to-date.

OIL

#NoFreeze, and WTI pulls back hard from @Hedgeye's top-end of the risk range (currently = $42.60-46.51); our Energy Policy analyst, Joe McMonigle, remains steadfast on the "no freeze anytime soon" call and we still love the Long Gold vs. Short Oil pair.



VIX

Who do you love? Do you let your politics influence how you risk manage your portfolio? We predict volatility wins into election day; immediate-term risk range for front-month VIX = 12.01-18.78; staying with Long-term Bonds, Utes, Gold, and Low-Beta as a style factor.

RETAIL

ALEC RICHARDS

MASSIVE BIFURCATION BY SUB-SECTOR

RETAIL SALES BREAKOUT BY COMPONENT

	2013	2014	2015	2016	CUM CHG	SHARE
Softline Retail	-24 bps	-32 bps	-18 bps	-108 bps	-182 bps	**8.2%**
Department Stores	-28 bps	-16 bps	-17 bps	-81 bps	-141 bps	**2.9%**
Home Furnishings	-6 bps	-9 bps	11 bps	-16 bps	-20 bps	**3.9%**
Electronics & Appliances	-5 bps	-12 bps	4 bps	-25 bps	-37 bps	**1.9%**
Sporting Goods & Hobby	-7 bps	-7 bps	7 bps	-2 bps	-9 bps	**1.7%**
Jewelry	2 bps	-1 bps	-4 bps	-4 bps	-7 bps	**0.6%**
Other GAFO	-13 bps	-19 bps	7 bps	-37 bps	-62 bps	**11.1%**
Home Improvement	34 bps	3 bps	4 bps	61 bps	103 bps	**6.3%**
Warehouse/Superstores	-5 bps	-8 bps	-6 bps	-34 bps	-53 bps	**8.1%**
General Merchandise	0 bps	-8 bps	-3 bps	-27 bps	-38 bps	**9.4%**
Food & Beverage	-30 bps	-3 bps	17 bps	-22 bps	-38 bps	**12.9%**
Restaurants/Food Service	-13 bps	15 bps	71 bps	107 bps	180 bps	**12.0%**
Online Only	17 bps	35 bps	34 bps	177 bps	263 bps	**10.2%**
Other	40 bps	26 bps	-117 bps	-103 bps	-153 bps	**17.9%**

LOSERS
- Softlines
- Gen Merch

WINNERS
- Home Improve
- Restaurants
- Online ONLY

PUSH
- Home Furnish
- Restaurants
- Food
- SG

DATA SOURCE: HEDGEYE RISK MANAGEMENT, FACTSET

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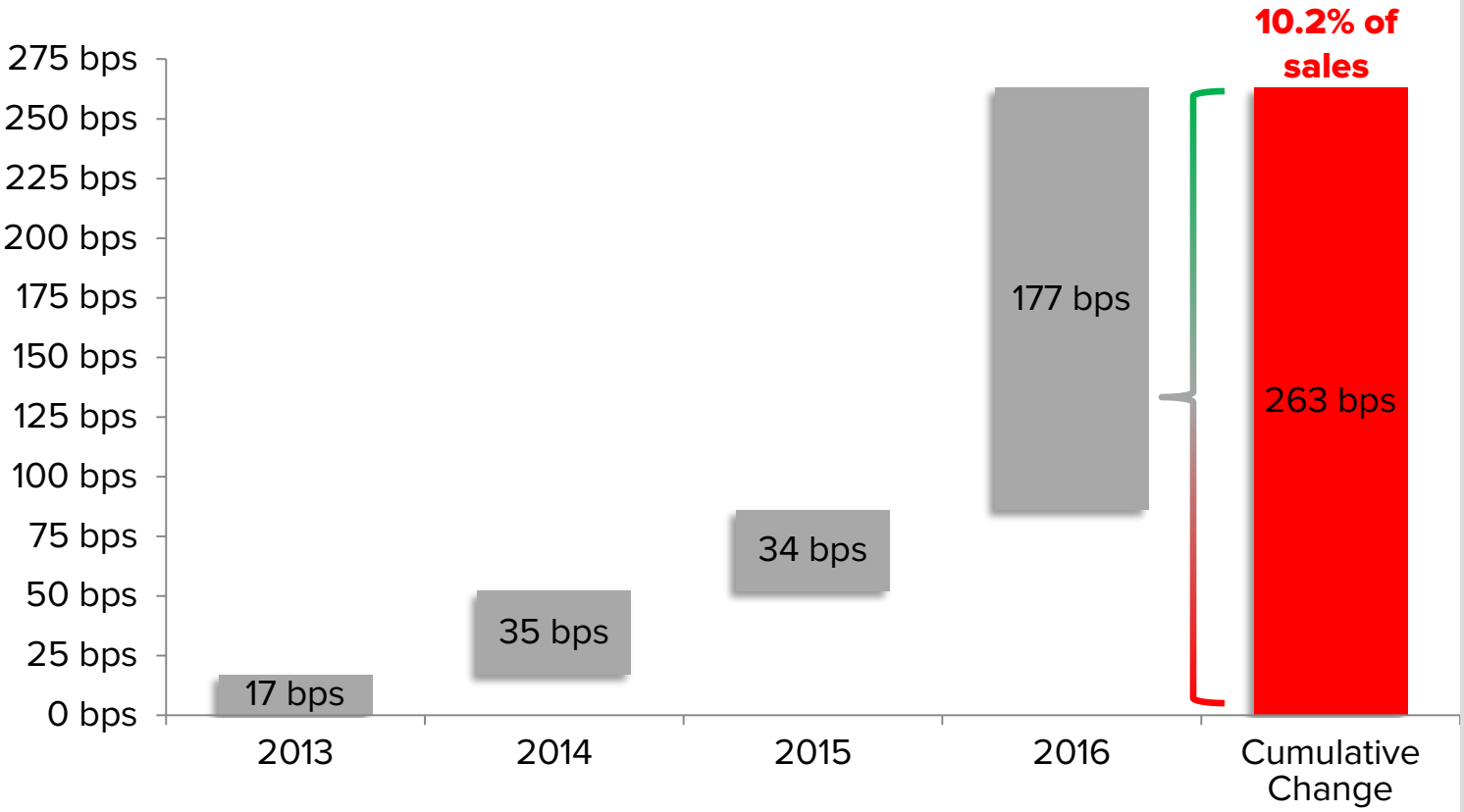
MOST MISUNDERSTOOD TREND IN RETAIL

ONLINE ONLY CARRYING RETAIL SALES GROWTH



'Online Retailer' is accelerating...

SIGNIFICANTLY

...off a higher base

DATA SOURCE: HEDGEYE RISK MANAGEMENT, FACTSET

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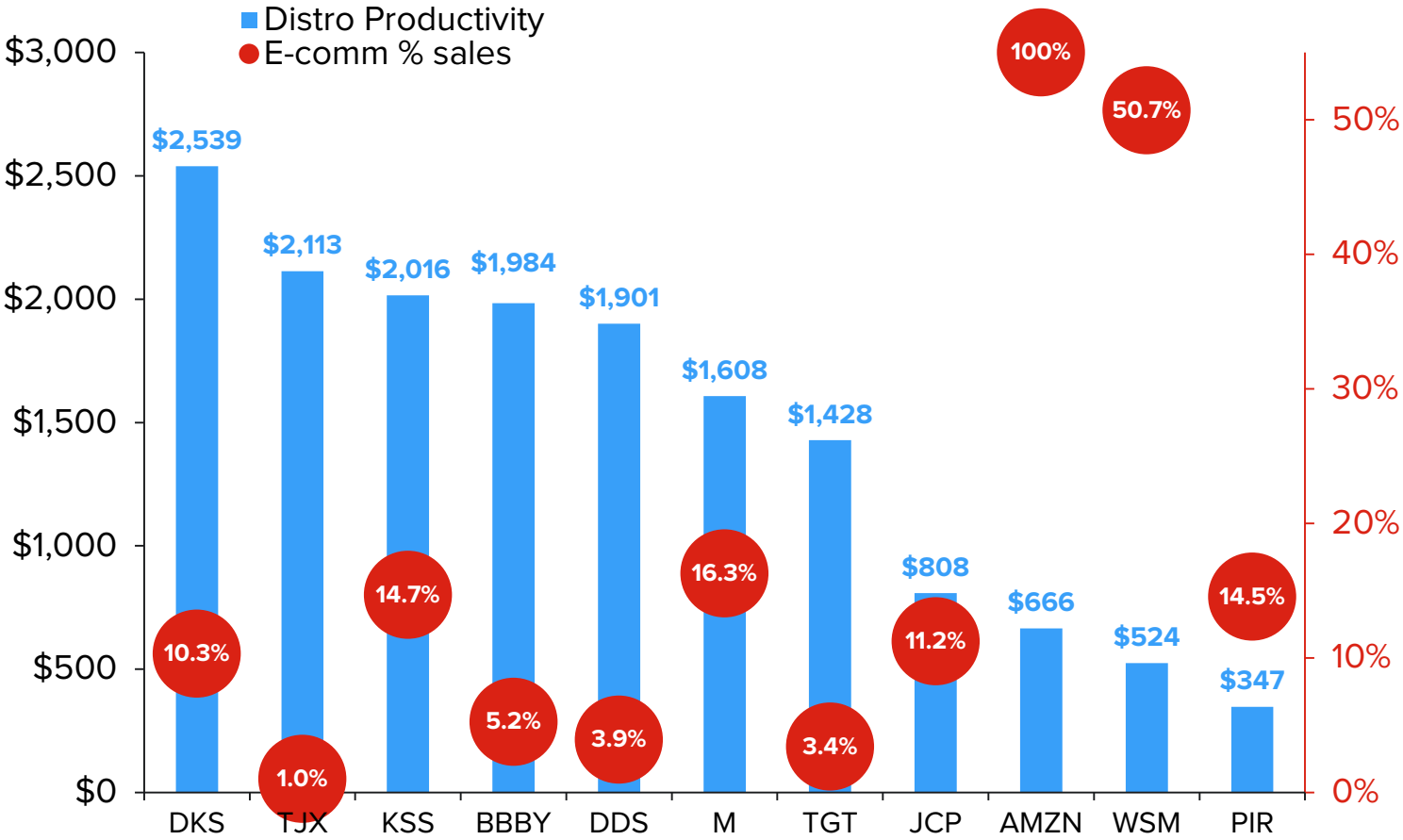
UNKNOWINGLY UNDERINVESTED



Retailers, on the whole, are unprepared for the sea change we're seeing in changing purchasing patterns.

Good managements are investing. Most are not

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY REPORTS, FACTSET

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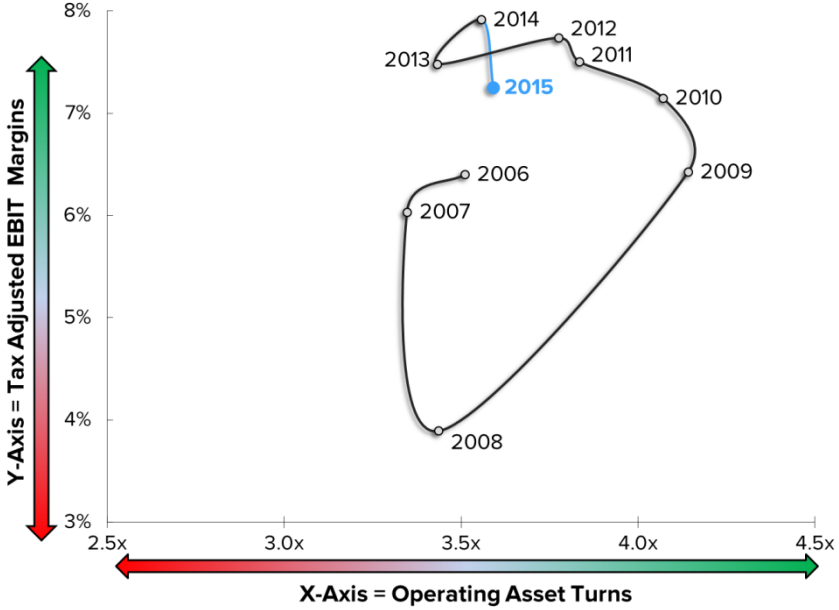
FINANCIAL RETURNS HAVE PEAKED – FULL STOP



RNOA = MARGINS X TURNS

Retail RNOA has peaked – driven both better margins AND better asset turns. That's rolling.

TURNS OR MARGINS OR NEITHER NOT BOTH

We think we're about to see lower margins first, followed by higher/defensive capex and working capital, which should slow turns meaningfully.

DATA SOURCE: FACTSET

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THE CALL

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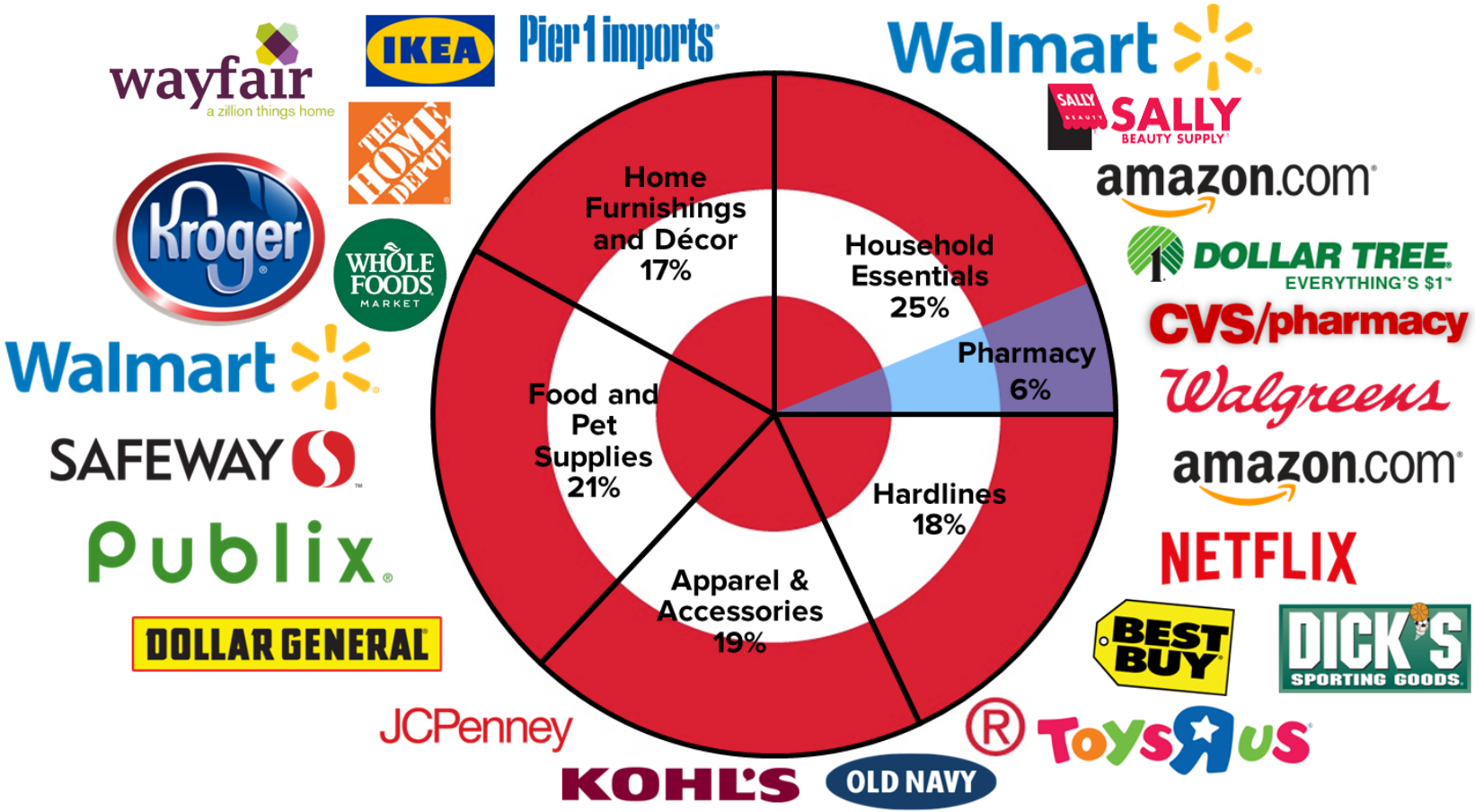
1. UNENVIABLE COMPETITIVE SET



DATA SOURCE: COMPANY REPORTS, COMPANY WEBSITES

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C-SUITE IS BIGGER BUT NOT BETTER

Pre-Cornell Management		Management Under Cornell	
Chief Legal Officer	Timothy Baer	Don Liu	Chief Legal Officer
Chief Information Officer	Robert DeRodes	Casey Carl	Chief Strategy and Innovation Officer
Executive VP, Property Development	John Griffith	Brian Cornell	CEO and Chairman of the Board
Chief Marketing Officer	Jeffery Jones II	~~Jason Goldberger~~	~~Chief Digital Offer~~
Chief Human Resources Officer	Jodeen Kozlak	Stephanie Lundquist	Chief Human Resources Officer
President / CEO / Chief Financial Officer	John Mulligan	Catherine Smith	Chief Financial Officer
Chief Stores Officer	Tina Schiel	Janna Potts	Chief Stores Officer
Chief Merchandising / Supply Chain Officer	Kathryn Tesija	Mark Tritton	Chief Merchandising and Supply Chain Officer
Pres. Community Relations & Target Foundation	Laysha Ward	Laysha Ward	Chief Corporate Social Responsibility Officer
		John Mulligan	Chief Operating Officer
		Michael McNamara	Chief Information Officer
		Jackie Hourigan Rice	Chief Risk and Compliance Officer

ONLY 2 REMAIN FROM PRE-CORNELL DAYS

Some serious turnover in MPLS. Management structure looks more encumbered than it did in the Steinhafel days. Does TGT really need 11 Chiefs (up from 7)?

DATA SOURCE: FACTSET, COMPANY WEBSITE

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MADE THE EASY CALLS – LEFT WITH A LOT OF NOTHING

SOURCE: COMPANY WEBSITES

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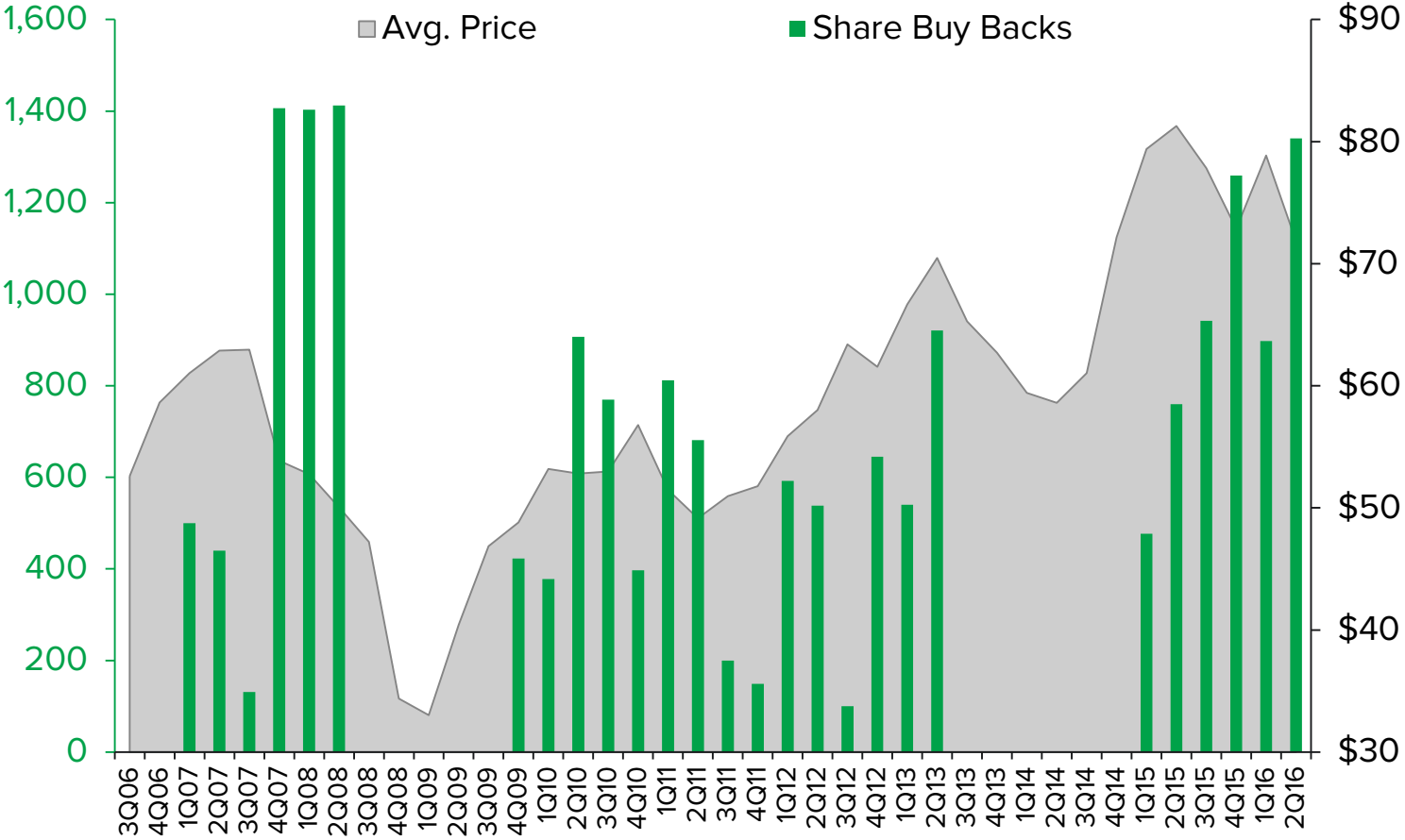
A HISTORY OF BUYING AT THE PEAKS



Buying when they could, not when they should

DATA SOURCE: COMPANY REPORTS, FACTSET

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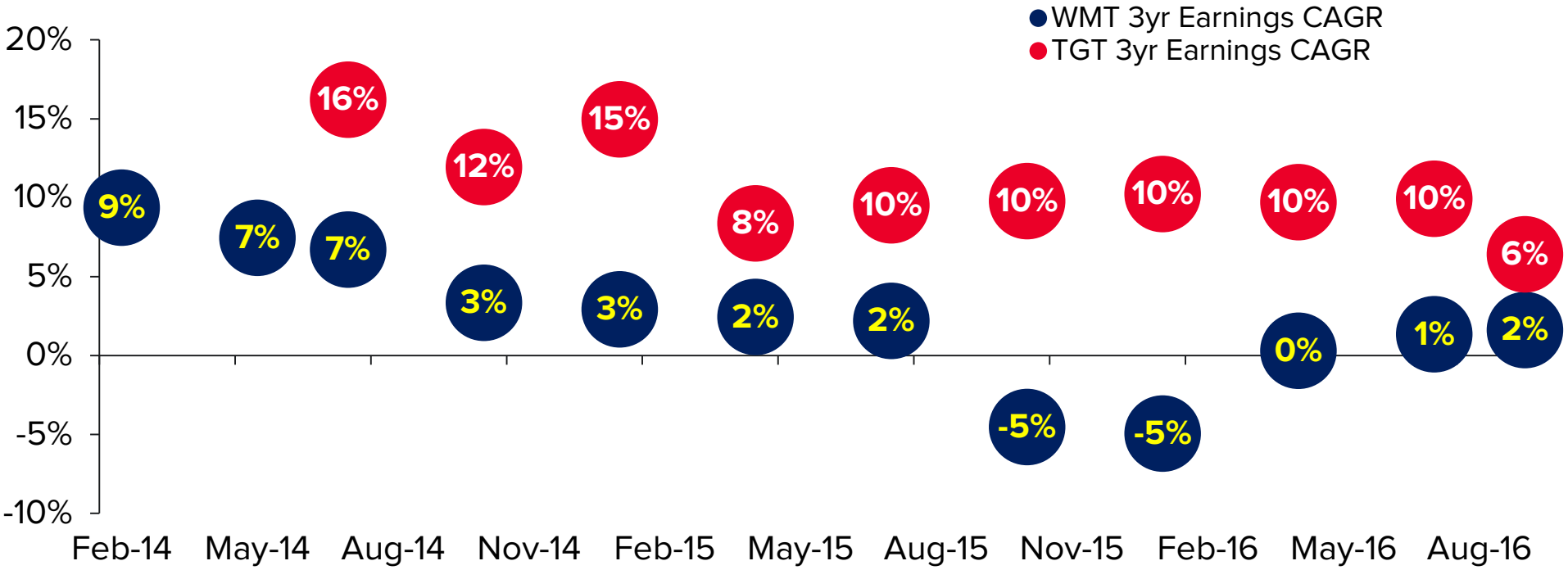
MCMILLON'S RIPPED THE BAND-AID



18 MONTHS INTO HIS TENURE, MCMILLON RESET EXPECTATIONS

Cornell is holding out hope that he doesn't have to do the same. Unfortunately, hope is not a risk management process. Either he resets expectations or exits stage left.

DATA SOURCE: HEDGEYE RISK MANAGEMENT, FACTSET

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TWO GROSSLY DIFFERENT INVESTMENT PLANS

Walmart

Investment Buckets	2017E	2018E	2019E
Stores Capex	*$9.9bn*		
e-Commerce Capex	*$1.1bn*		
Total Capex	**$11.0bn**	**$11.0bn**	**$11.0bn**
Price Investment	**"Several Billion Dollars"**		
Wages	**$1.5bn**		

jet = **$3.3bn**

TARGET

$2bn In Cost Cuts

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY REPORTS

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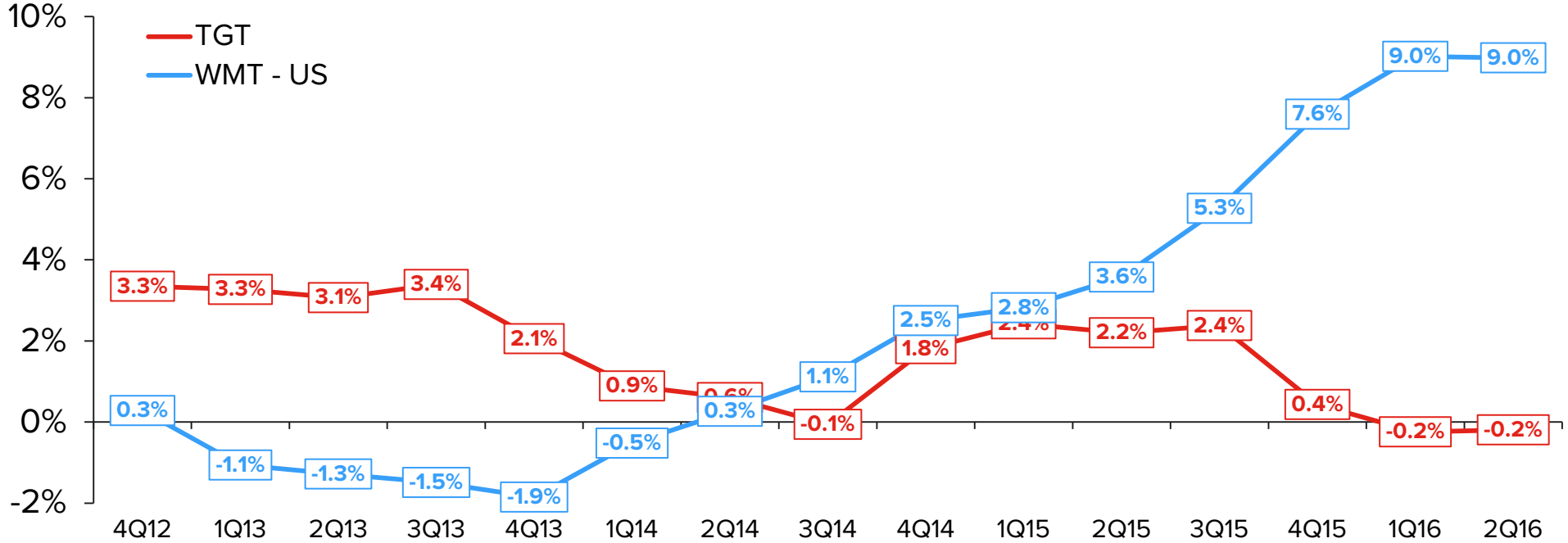
WMT – INVESTING, TGT – WATCHING



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

SG&A/SQ.FT. TELLS THE STORY

WMT no expectations and investing in e-comm, wages, and stores. TGT freeing up $2bn in cost savings to reinvest in the business

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY REPORTS

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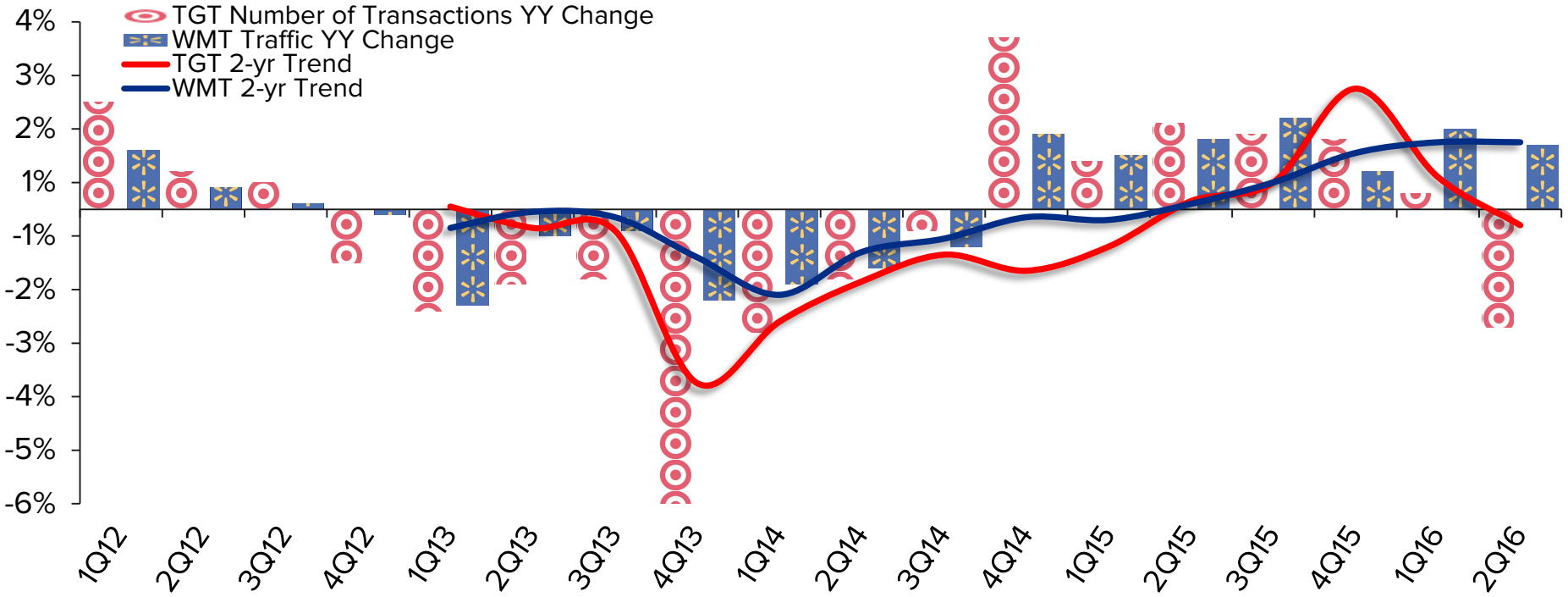
WHAT THAT MEANS IN REAL DOLLAR$



SPREAD IN INVESTMENT TRANSLATING TO TRAFFIC BIFURCATION

Target blames macro, WMT proves that it's something more sophisticated. Retail 101 – invest to reaccelerate top-line.

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY REPORTS

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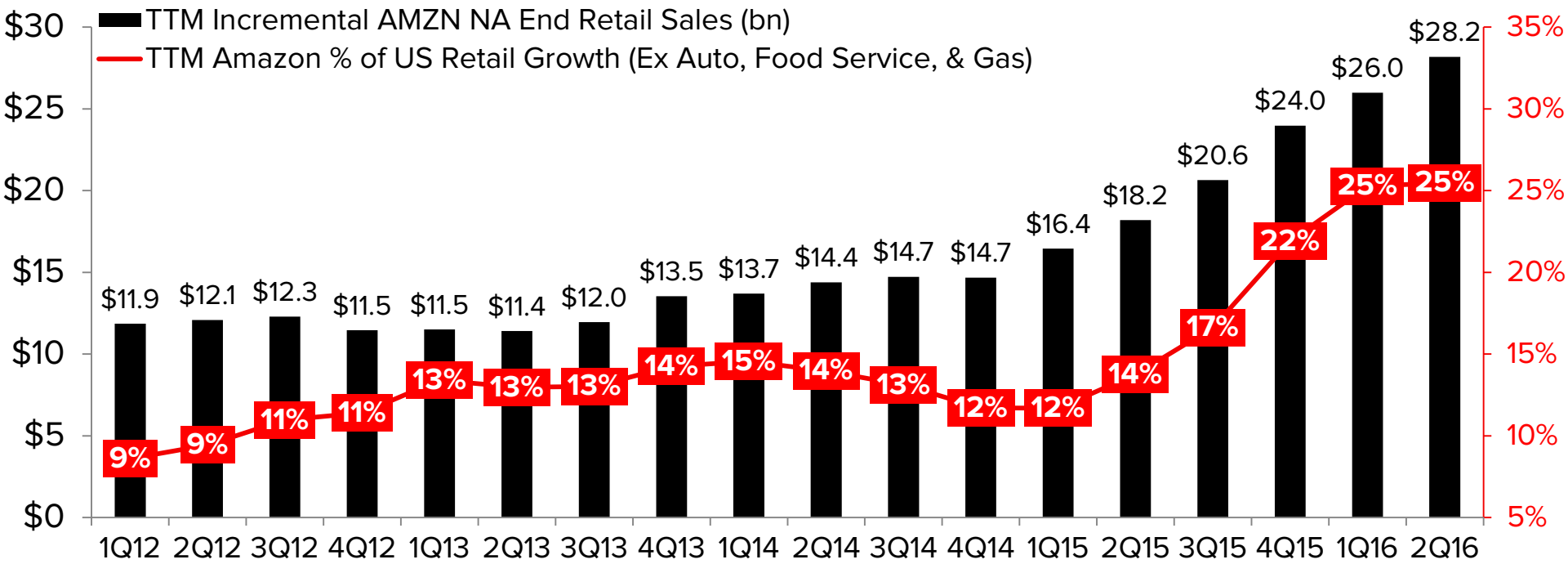
THE BIGGEST NUMBER IN RETAIL TODAY – 25%



AMZN US RETAIL GROWTH CONTRIBUTION TRENDING ↑

Including 3rd part sales, AMZN taking 25% of the incremental $ forked over by the consumer. Up 1000bps in 1yr.

SOURCE: CENSUS.GOV, COMPANY REPORTS, HEDGEYE ESTIMATES

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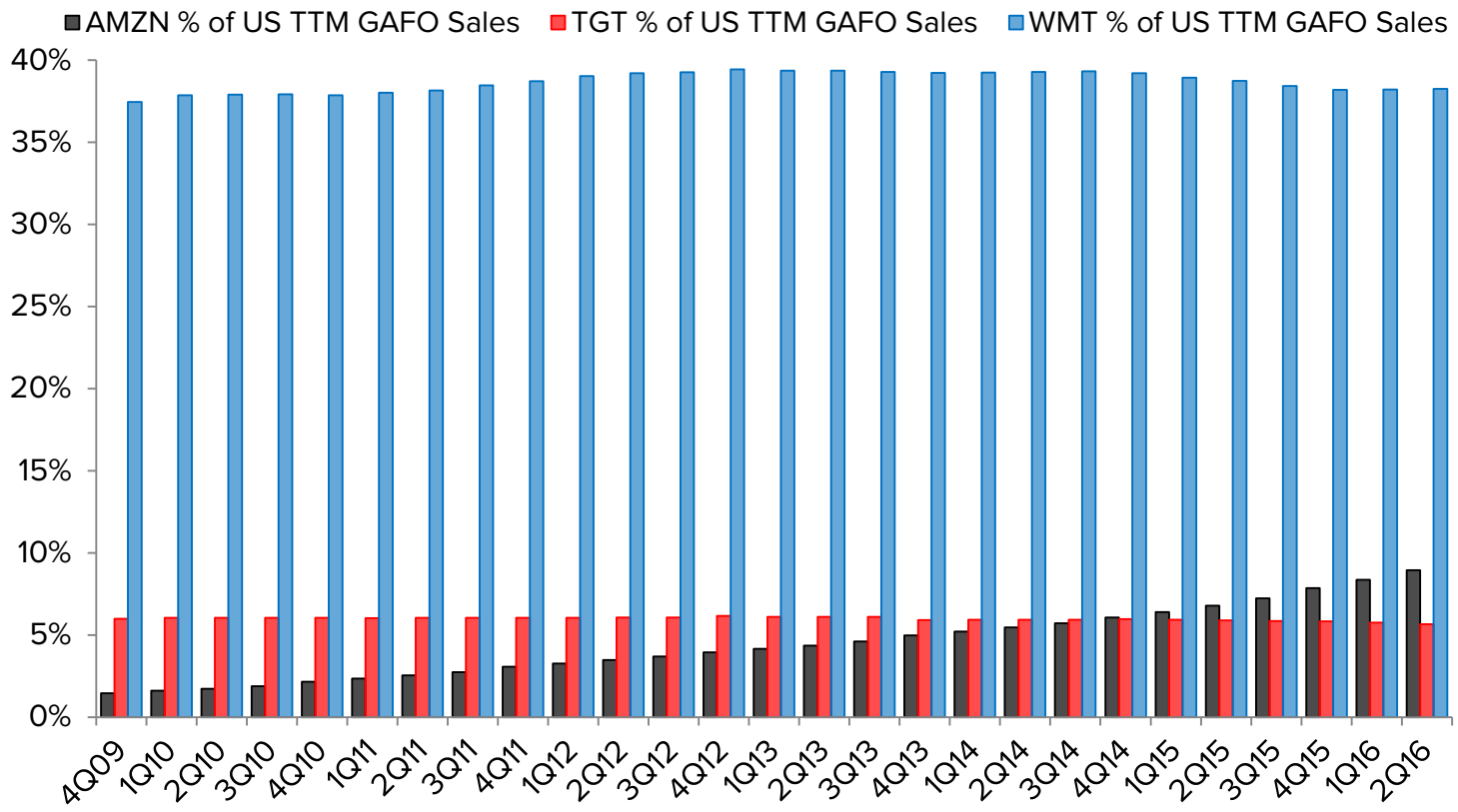
LET'S PUT MARKET SHARE IN CONTEXT

% OF QUARTERLY U.S. GAFO SALES TTM



AMZN eclipsed TGT in 4Q14, share gain has accelerated since.

45% of the market investing like crazy.

TGT losing share, and on the sidelines.

DATA SOURCE: HEDGEYE RISK MANAGEMENT, COMPANY REPORTS, FACTSET

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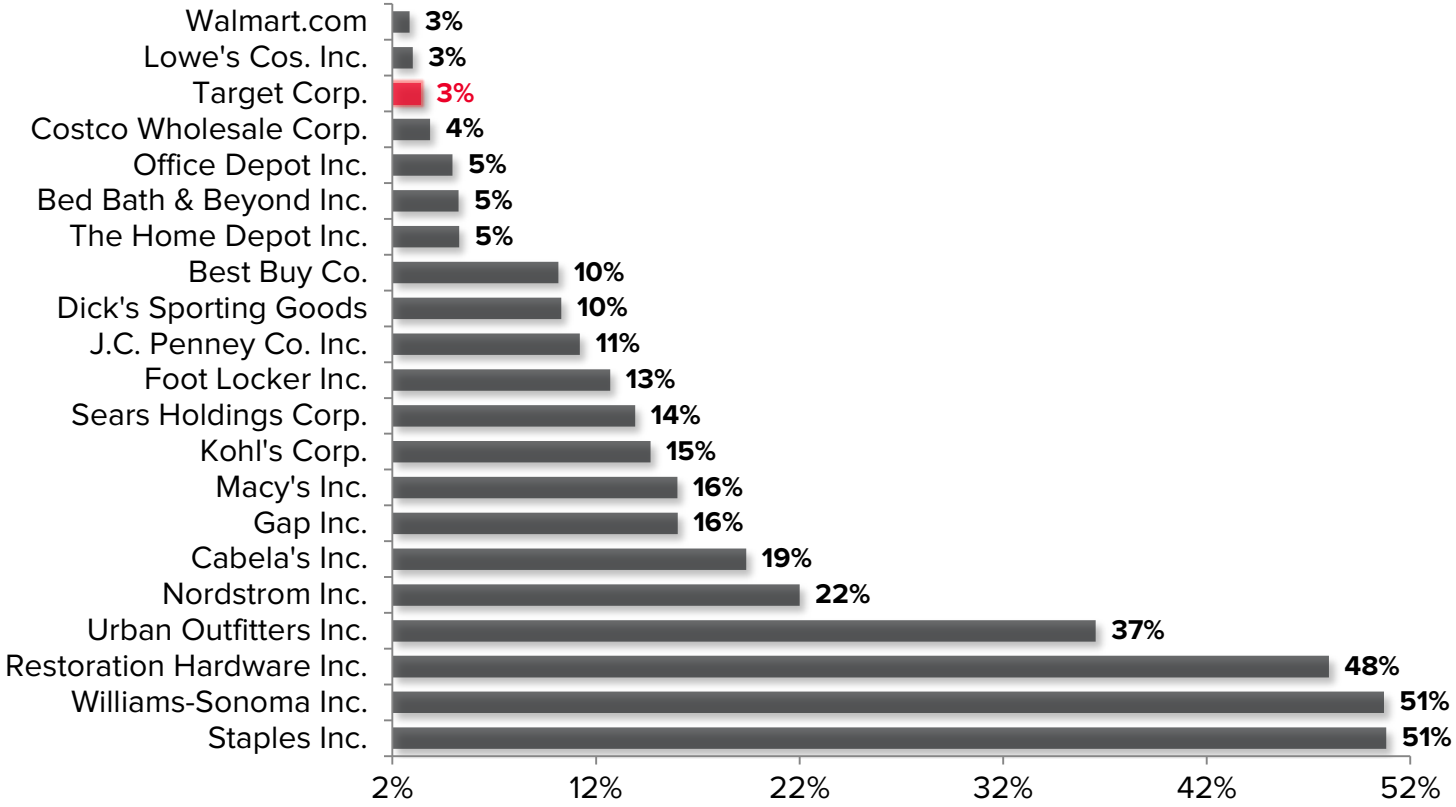
TGT NOT POSITIONED TO CAPITALIZE

2015 E-COMMERCE PENETRATION



Low ratio = limited success.

Also let's not forget that TGT has only had e-comm in house for 5 years. Deferred investments for days.

DATA SOURCE: INTERNET RETAILER TOP 500, COMPANY REPORTS, FACTSET, HEDGEYE ESTIMATES

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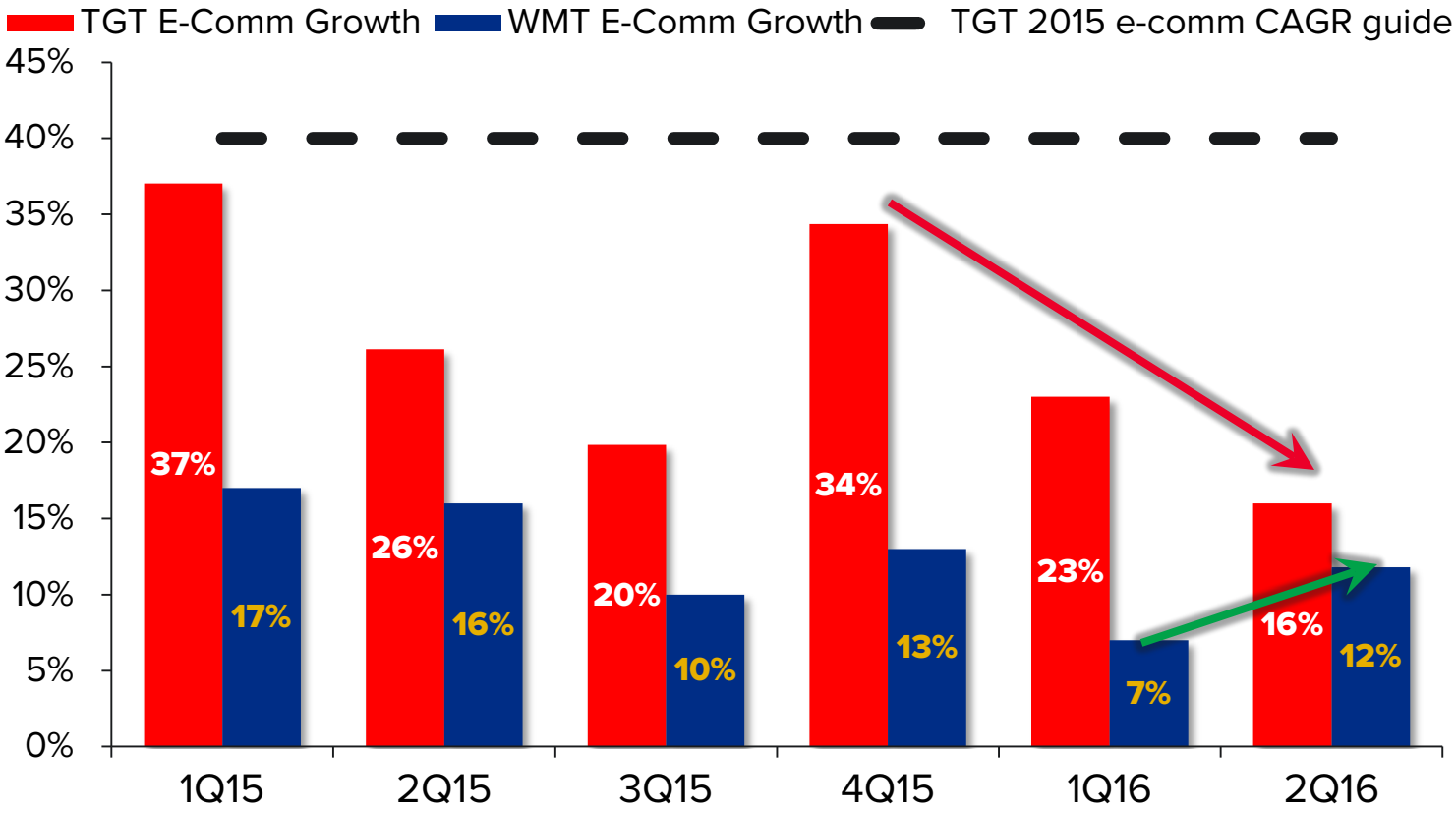
NOT INVESTING IN ONLINE

REPORTED E-COMM GROWTH SPREAD TIGHTENING



Today e-comm is only 3% of sales for Target. In 2015 it grew at 30%, but growth slowed to 16% in 2Q16.

WMT is no better today, but it is investing.

TGT far from promised 40% e-comm growth CAGR.

DATA SOURCE: COMPANY REPORTS

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MACRO GRIND

10-YEAR GOVERNMENT BOND YIELDS

Americas

COUNTRY	YIELD	1 DAY
United States »	1.56%	-2
Canada	0.97%	-2
Brazil	11.85%	-2
Mexico	6.10%	-4

Europe, Middle East & Africa

COUNTRY	YIELD	1 DAY
Germany »	-0.15%	-3
United Kingdom »	0.65%	-4
France	0.16%	-2

FTSE MIB (MILAN) INDEX

September 27, 2016

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U.S. EARNINGS/NEWS

KITE PHARMA INC	met primary endpoint of objective response rate of Zuma-1 pivotal study	13.6%
SYNNEX CORP	Q3 profits beat expectations & raised Q4 adjusted eps/revenue outlook	6.8%
BALLARD POWER SYSTEMS INC	received purchase orders from Audi to accelerate fuel cell technology program	4.8%
THOR INDUSTRIES INC	better than expected results for Q4 as revs $1.29B vs $1.27 ests (margins better)	1.2%
AMGEN INC	cancer drug Kyprolis results "disappointing" for multiple myeloma treatment	0.5%
RICE MIDSTREAM PARTNERS LP	to acquire Vantage Energy for $2.7B (40M share offering to fund deal)	0.0%
MEDICAL PROPERTIES TRUST INC	buying nine hospital properties for $1.2B (33.5M share secondary offering)	-3.5%
SUNOCO LOGISTICS PARTNERS LP	to acquire Texas oil pipeline network from Vitol Group for $760M	-5.1%

HEDGEYE SECTOR PERFORMANCE

SECTOR	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$78.79	-1.10%	-2.20%	0.80%
Financial Select Sector	XLF	$19.06	-1.60%	-4.38%	-1.45%
Health Care Select Sector	XLV	$72.26	-1.16%	-0.69%	0.32%
Technology Select Sector	XLK	$47.21	-0.59%	0.47%	10.23%
Consumer Staples Select Sector	XLP	$52.89	-0.84%	-2.74%	4.75%
Industrial Select Sector	XLI	$57.43	-0.43%	-1.91%	8.41%
Materials Select Sector	XLB	$47.09	-0.47%	-3.03%	8.45%
The Energy Select Sector	XLE	$67.28	-0.44%	-1.71%	11.64%
Utilities Select Sector	XLU	$50.81	-0.26%	3.21%	17.40%
S&P 500	SPX	2,146.10	-0.86%	-1.14%	5.00%

HEDGEYE SECTOR RELATIVE PERFORMANCE

	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$78.79	-0.25%	-1.05%	-4.19%
Financial Select Sector	XLF	$19.06	-0.74%	-3.23%	-6.45%
Health Care Select Sector	XLV	$72.26	-0.30%	0.46%	-4.68%
Technology Select Sector	XLK	$47.21	0.27%	1.61%	5.23%
Consumer Staples Select Sector	XLP	$52.89	0.02%	-1.60%	-0.24%
Industrial Select Sector	XLI	$57.43	0.43%	-0.77%	3.42%
Materials Select Sector	XLB	$47.09	0.39%	-1.88%	3.45%
The Energy Select Sector	XLE	$67.28	0.42%	-0.56%	6.64%
Utilities Select Sector	XLU	$50.81	0.60%	4.35%	12.40%

HEDGEYE STYLE FACTOR PERFORMANCE

	FACTOR	1D % Chg	1W % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Debt	High Debt/EV	-0.6%	1.1%	0.4%	7.4%	9.4%	11.9%
	Low Debt/EV	-0.8%	0.4%	-2.4%	5.7%	4.3%	5.2%
SI	High Short Interest	-0.7%	0.6%	-2.6%	6.5%	3.9%	5.1%
	Low Short Interest	-0.8%	0.6%	-1.2%	4.8%	6.3%	7.0%
BETA	High Beta	-0.7%	0.1%	-1.6%	9.7%	9.8%	5.5%
	Low Beta	-0.4%	1.5%	0.4%	1.3%	5.0%	11.4%
YIELD	High Yield	-0.6%	0.9%	-0.4%	5.0%	4.9%	9.5%
	Low Yield	-0.9%	0.5%	-1.0%	8.2%	10.1%	8.3%
MKT CAP	MCAP Bottom 25%	-0.9%	0.3%	-2.0%	5.5%	3.4%	4.9%
	MCAP Top 25%	-0.9%	0.3%	-1.3%	5.2%	5.5%	5.0%
Sales	Top 25% Sales Growth	-0.7%	0.0%	-1.8%	6.1%	9.7%	8.9%
	Bottom 25% Sales Growth	-0.8%	0.6%	-1.8%	5.7%	4.0%	6.1%
EPS	Top 25% EPS Growth	-0.8%	0.3%	-1.1%	7.0%	9.7%	7.9%
	Bottom 25% EPS Growth	-0.5%	0.9%	-1.4%	4.3%	4.8%	7.3%

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

HEDGEYE RATES & SPREADS

	Price	1D Bps Chg	5D Bps Chg	1M Bps Chg	3M Bps Chg	vs. 52-Wk, Bps High	vs. 52-Wk, Bps Low	vs. 3Y Ave	vs. 5Y Ave
3M T-Bill	0.18%	1.5	-6.6	-13	-7	-19	23	9	10
3M LIBOR	0.85%	0.0	-0.8	2	23	-1	54	48	48
2Y T-Note	0.73%	-2.0	-4.5	-11	11	-37	24	14	27
5Y T-Note	1.12%	-4.1	-10.5	-12	4	-71	22	-37	-13
10Y T-Note	1.58%	-3.8	-13.1	-5	2	-79	26	-64	-54
30Y T-Note	2.32%	-2.8	-13.6	3	-9	-82	23	-69	-72
2Y-10Y Spread, Bps	85	-1.7	-8.7	6.0	-9	-43	2	-78	-81
IG SPREAD (AAABBB)	1.66%	0.0	-1.0	6	-21	-64	6	-4	-18
HIGH YIELD	6.23%	0.0	-19.6	-5	-95	-310	4	-37	-50
5Y BREAKEVEN	1.42%	-2.3	5.4	8.9	4.0	-21.5	56.9	-13.9	-29.1

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)	124,319	10,785	138,271	67,862	(47,006)	*1.21X*	*1.38X*
Russell 2000 (mini)	7,803	(380)	(3,269)	(23,716)	(36,004)	*1.80X*	*1.51X*
10Y Treasury	118,196	45,781	92,564	22,119	10,079	*1.50X*	*1.93X*
CRUDE OIL	314,891	(45,601)	333,116	356,874	311,787	*0.05X*	*-0.35X*
GOLD	219,134	(29,724)	259,991	229,289	139,874	*0.76X*	*1.66X*
COPPER	(13,323)	12,183	(11,558)	(18,347)	(20,642)	*0.52X*	*0.27X*
$USD	14,340	(2,666)	15,702	13,609	25,440	*-0.81X*	*-0.67X*
JPY	59,724	2,037	50,024	50,481	23,426	*0.81X*	*1.74X*
EUR	(92,466)	(4,078)	(97,705)	(69,684)	(88,807)	*-0.08X*	*-0.10X*
GBP	(57,464)	24,508	(74,801)	(59,075)	(41,195)	*-0.63X*	*-1.34X*

MARKET SHARE VOLUME & TOTAL VALUE TRADED

INDEX/SECURITY	VOLUME: (9/26) vs.			
	Prior Day	1M Ave	3M ave	1Y Ave
Total Market Volume*	5%	-3%	0%	-13%
Total Exchange Volume**	-6%	-13%	-10%	-19%

*Total Market Volume = Total US exchange volume plus OTC and OTCBB trading volume for all security types. Calculated by Bloomberg.

**Tape A+B+C volume = total US exchange volume

*** Total Traded Value for Russell 3000 (total mkt proxy)

KEY $USD CORRELATIONS

METRIC	15D	30D	90D	120D	180D	52-Wk Rolling 30D Correlation			
						High	Low	% Time Pos	% Time Neg
SPX	-0.59	-0.47	0.24	0.45	-0.47	*0.73*	*-0.91*	*52%*	*48%*
BRENT Oil	-0.63	-0.70	-0.57	-0.23	-0.62	*0.73*	*-0.78*	*34%*	*66%*
CRB Index	-0.63	-0.77	-0.36	-0.23	-0.74	*0.71*	*-0.91*	*18%*	*82%*
GOLD	-0.75	-0.77	0.37	0.46	-0.40	*0.90*	*-0.95*	*23%*	*77%*

**Days = Trading Days*