

## LEGAL

#### **DISCLAIMER**

Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice to individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

#### **TERMS OF USE**

This report is intended solely for the use of its recipient. Re-distribution or republication of this report and its contents are prohibited. For more detail please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at <a href="https://www.hedgeye.com">www.hedgeye.com</a>.

## HEDGEYE ASSET ALLOCATION

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
2/24/2017	35	20	13	12	20	0
2/27/2017	32	21	14	13	20	0

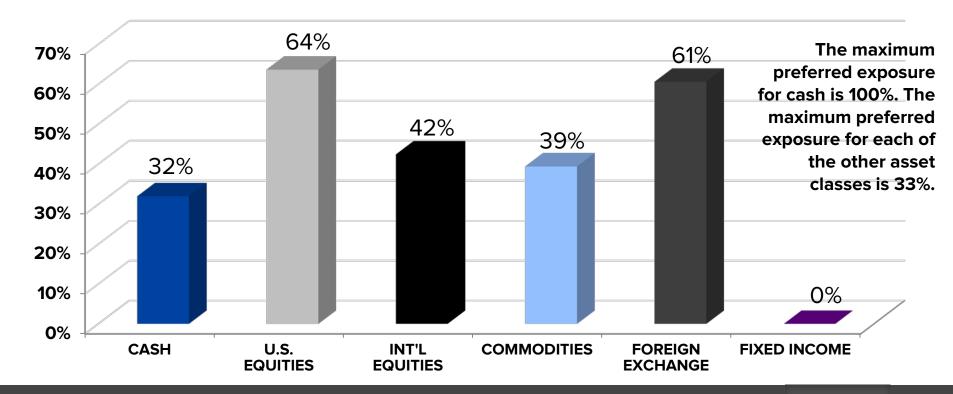
	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
2/24/2017	35%	61%	39%	36%	61%	0%
2/27/2017	32%	64%	42%	39%	61%	0%

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

February 27, 2017



## HEDGEYE ASSET ALLOCATION



February 27, 2017







# UST 10YR

The UST 10YR was down -10bps with Dollar Up, Stocks Up last week, so we're getting lots of questions on that. We think most of the move was driven by a drop in Global Yields (JGB, German, and Swiss 10s all down hard in the last week); a catalyst for higher UST yields remains U.S. growth and inflation accelerating data (jobs report this week).

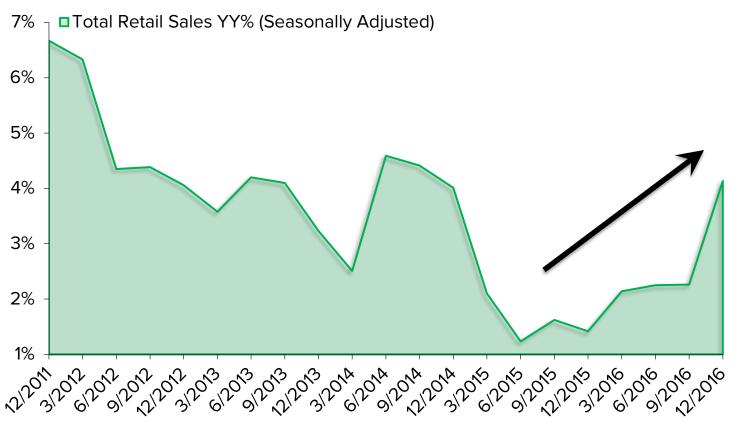




## **TRADE**

### **RETAIL SALES: TREND = #GROWTHACCELERATING**

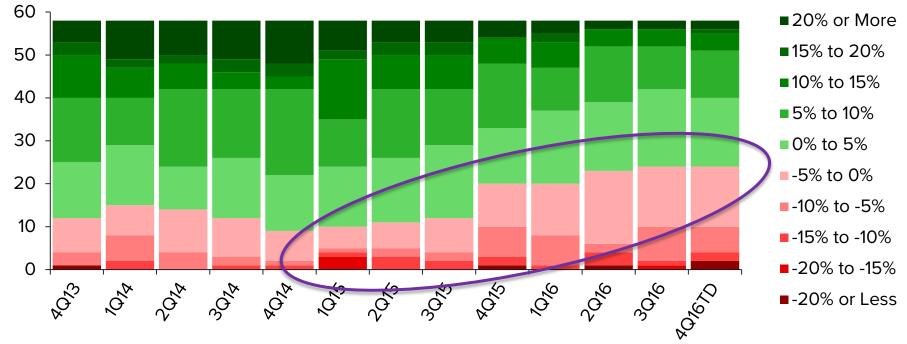
### **U.S. HEADLINE RETAIL SALES**



US retail sales making higher highs and higher lows.

### **BUT REPORTED SALES DECELERATING...HUH?**

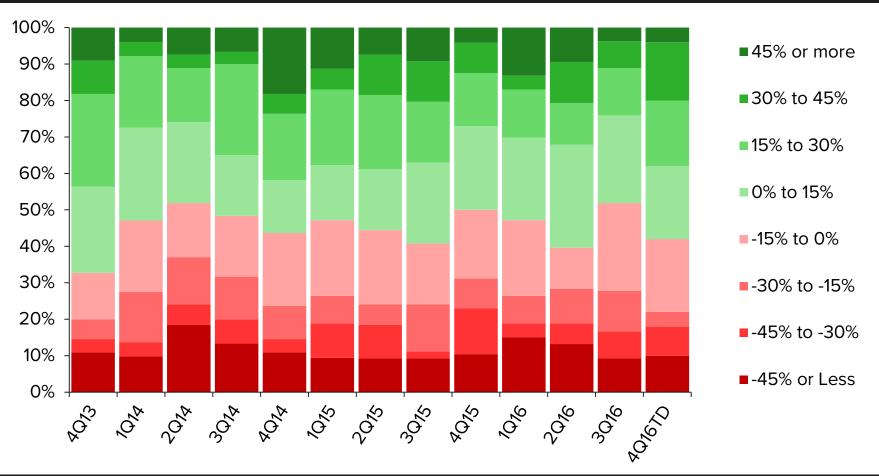
### RETAIL SALES GROWTH BUCKETS (# OF RETAILERS)



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

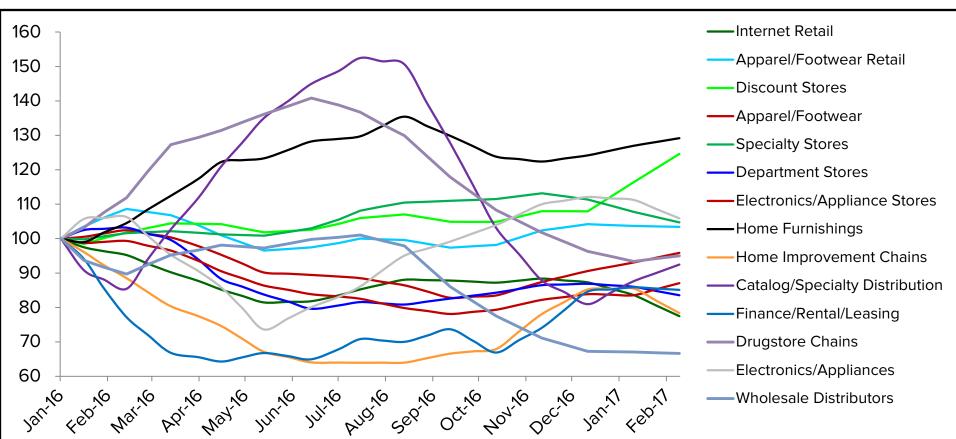
Basket of 63 retailers who have reported earnings through yesterday, with 40% posting flat to negative sales growth. Compare that to 10% in 4Q14

### **RETAIL GAAP EPS GROWTH BUCKETS (% OF RETAILERS)**



### PEOPLE LESS WILLING TO MAKE A BIG CALL ON RETAIL

### **SHORT INTEREST % FLOAT/INDEXED TO JANUARY 2016**

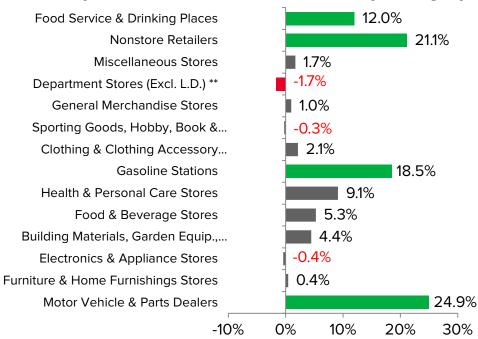


### ONLY 4 MAIN GROWTH DRIVERS...

#### **January Retail Sales YY Growth By Category**



#### January Retail Sales YY Contribution By Category



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

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

### MASSIVE BIFURCATION BY SUB-SECTOR

### ONLINE ACCELERATING OFF HIGHER BASE

	2013	2014	2015	2016	<b>CUM CHG</b>	SHARE
Softline Retail	-29 bps	-29 bps	-13 bps	-34 bps	-104 bps	6.9%
Department Stores	-28 bps	-16 bps	-17 bps	-20 bps	-81 bps	2.9%
Home Furnishings	-1 bps	3 bps	7 bps	1 bps	9 bps	2.0%
Electronics & Appliances	-5 bps	-12 bps	4 bps	-13 bps	-25 bps	1.9%
Sporting Goods & Hobby	-7 bps	-7 bps	7 bps	5 bps	-2 bps	1.7%
Jewelry	2 bps	-1 bps	-4 bps	-1 bps	-4 bps	0.6%
Other GAFO	-12 bps	-34 bps	6 bps	-24 bps	-64 bps	14.2%
Home Improvement	34 bps	3 bps	4 bps	19 bps	61 bps	6.3%
Warehouse/Superstores	-5 bps	-8 bps	-6 bps	<b>-14</b> bps	-33 bps	8.1%
General Merchandise	0 bps	-8 bps	-3 bps	-14 bps	-25 bps	9.4%
Food & Beverage	-30 bps	-3 bps	17 bps	-5 bps	-22 bps	12.9%
Restaurants/Food Service	-13 bps	15 bps	71 bps	36 bps	108 bps	12.0%
Online Only	17 bps	35 bps	34 bps	88 bps	174 bps	10.2%
Other	50 bps	46 bps	-125 bps	-44 bps	-72 bps	13.7%

#### **LOSERS**

- Softlines
- Gen Merch

#### **WINNERS**

- Home Improvement
- Restaurants
- Online ONLY

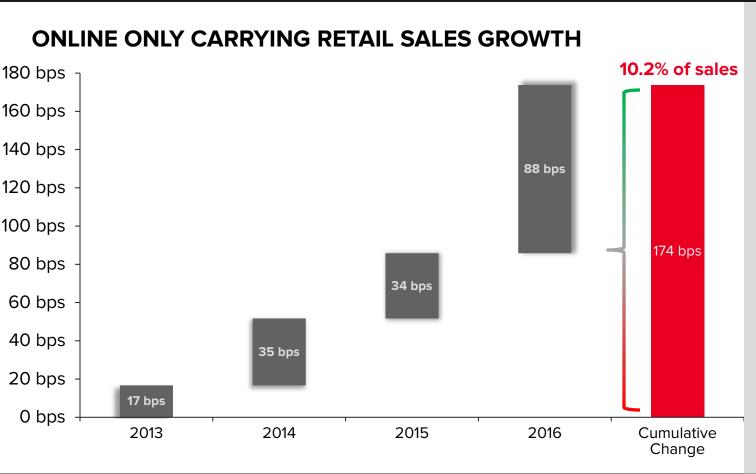
#### **PUSH**

- Home Furnish
- Restaurants
- Food
- SG

Note that the 2016 YTD change in 'online only' is equal to the cumulative change in the prior 3-years.

Accelerating of a Higher Base.

### MOST MISUNDERSTOOD TREND IN RETAIL



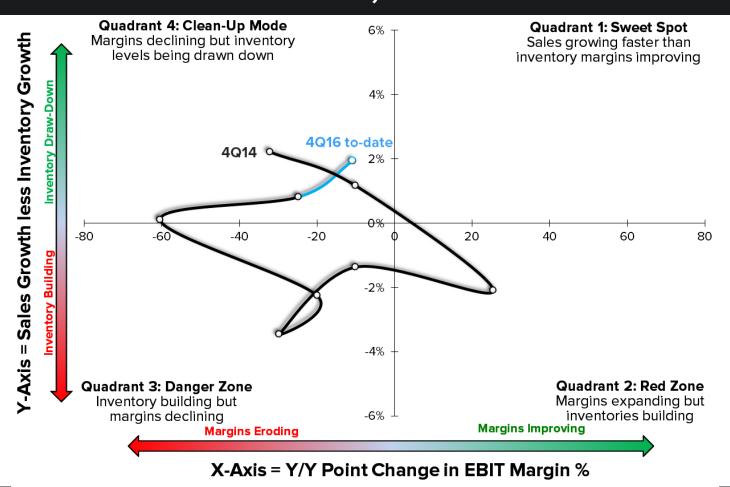
'Online Retailer' is accelerating...

**SIGNIFICANTLY** 

...off a higher base

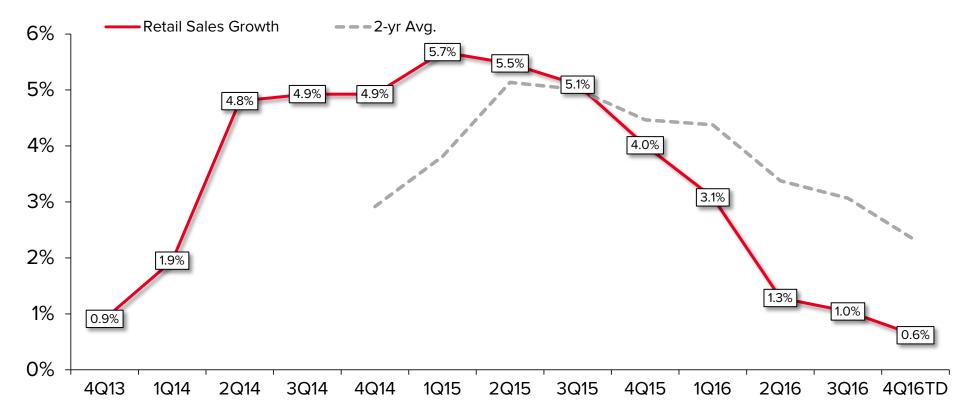
## **TREND**

### SETUP = MODERATE GROWTH, BETTER MARGINS #BULLISH

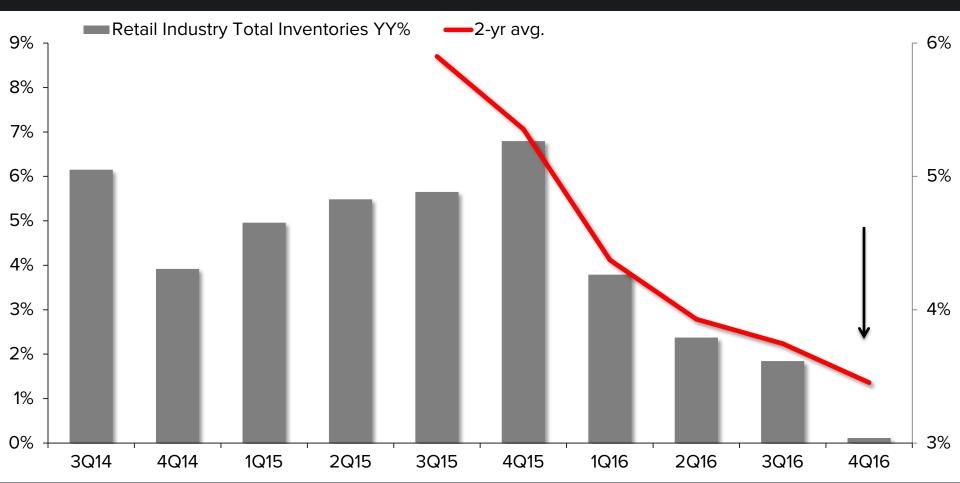


### **COMPARES GETTING EASIER...#BULLISH**

### RETAIL INDUSTRY AVG. REVENUE GROWTH



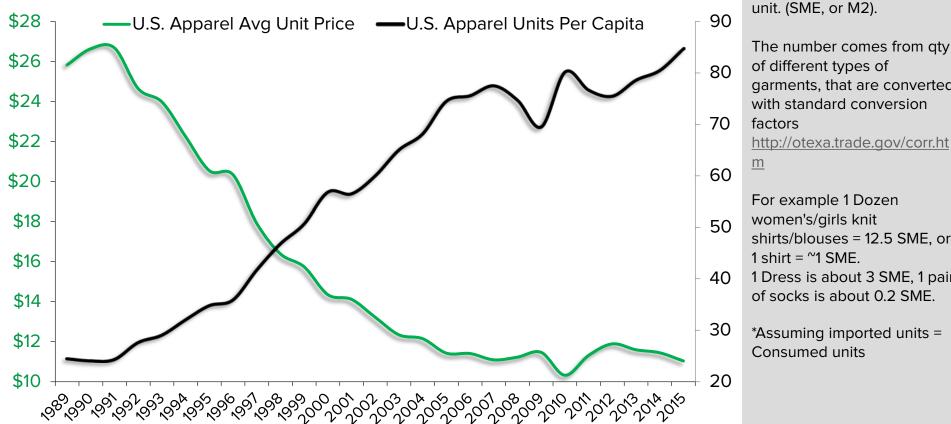
### **BUT ENOUGH INVENTORY TO GROW?**



## TAIL

### **HERE'S THE TREND PEOPLE MISS**

### U.S. AVG. APPAREL UNIT PRICE VS UNITS PER CAPITA



OTEXA uses a standardized unit. (SME, or M2).

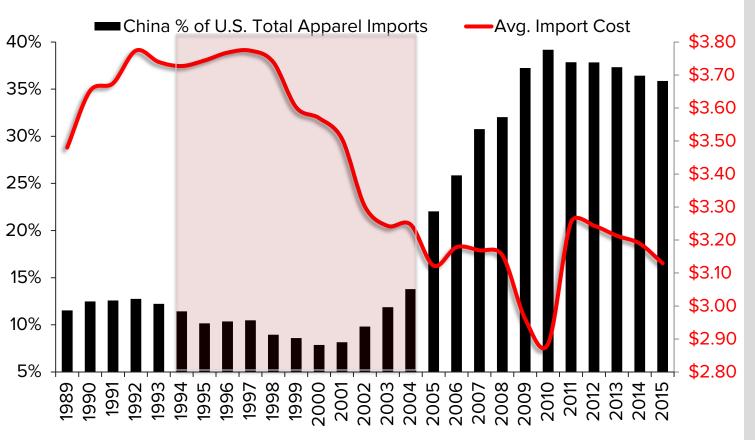
of different types of garments, that are converted with standard conversion factors http://otexa.trade.gov/corr.ht

For example 1 Dozen women's/girls knit shirts/blouses = 12.5 SME, or  $1 \text{ shirt} = ^{\circ}1 \text{ SME}.$ 1 Dress is about 3 SME, 1 pair of socks is about 0.2 SME.

\*Assuming imported units = Consumed units

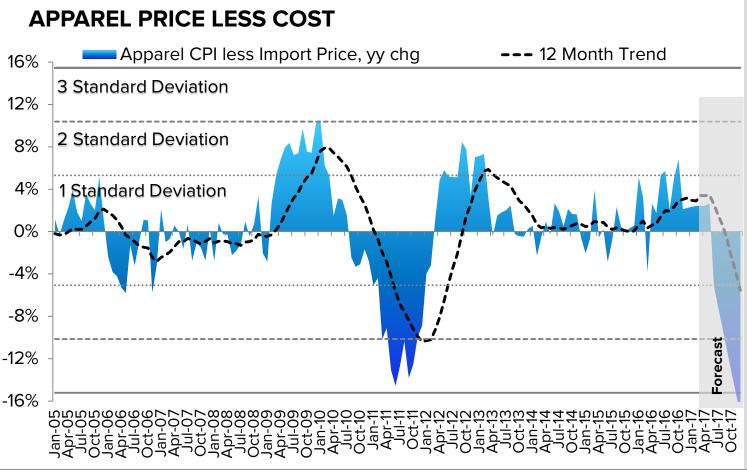
### **REMEMBER IMPORT QUOTAS?**

### CHINA % OF U.S. TOTAL APPAREL IMPORTS



- January 1 2005 apparel import quotas completely gone out after a decade of phasing.
- They were reinstated temporarily to prevent flooding limited to 7.5% per year for t-shirts, cotton pants, and underwear (just before HBI went public). But by 2010 these temp safeguards were totally gone.
- In 2006, for example, imports of Chinese cotton pants surged 1,500% and cotton shirts were up 1,300%.

### **REFLATION = #ANNIHILATION**



The supply chain had \$2-3bn PER YEAR injected into a \$18bn profit pool over 23-years.

Not gonna happen again. There's your "Trump Hates Kohl's, Target, Hanes, Carter's, Ralph, etc..." call.

## MACRO GRIND

## **EARNINGS SEASON**

Q4 2016 QTD

SECTOR	SALES GROWTH (% CHG)	EARNINGS GROWTH (% CHG)	#REPORTED
S&P 500 (Aggregate)	4.6%	4.7%	463 / 499
Energy	2.6%	-9.2%	33 / 35
Materials	4.4%	2.5%	24 / 25
Industrials	2.4%	-5.2%	68 / 68
<b>Consumer Discretionary</b>	8.5%	2.7%	67 / 81
Consumer Staples	2.4%	4.6%	34 / 37
Healthcare	4.8%	3.8%	54 / 60
Financials	5.6%	6.4%	62 / 63
Information Technology	6.2%	10.2%	63 / 66
Telecom	-2.9%	1.8%	4 / 5
Utilities	10.7%	10.0%	24 / 28
Real Estate	2.6%	11.7%	28 / 29

Source: BBG

February 27, 2017



		REALIZ	ZED VOLA	ATILITY	IMPLIE	O VOLATII	.TY*		IMPLIED** VS. REALIZED VOLATILITY									
											30 Day			60 Day			3 Month	
		Duratio	on of Rea	lized (%)		At-The-M	loney %				Z-Sc	ore	] [	Z-S	core		Z-Sc	ore
Index/Security	Ticker	30D	60D	90D	Current	v 1M Avg	v 3M Avg	v 6M Avg.	Ticker	Premium	ттм	3Yr	Premium	ттм	3Yr	Premium	TTM	3Yr
S&P 500	SPX	5.7%	6.7%	7.7%	10.1%	7.4%	-0.1%	-12.2%	SPX	59.9%	1.20	1.74	55.3%	1.71	2.08	53.7%	2.16	2.15
Russell 2000	RTY	12.8%	13.5%	15.0%	15.6%	0.2%	-4.4%	-7.8%	RTY	18.4%	0.69	0.62	17.4%	0.98	0.58	15.9%	1.11	0.37
Nasdaq 100	NDX	5.8%	8.9%	10.7%	12.1%	7.2%	-5.3%	-12.9%	NDX	88.9%	2.27	3.02	37.4%	1.37	1.63	31.4%	1.29	1.34
USD Index	UUP	6.8%	7.9%	7.3%	7.8%	-9.1%	-12.3%	-7.8%	UUP	9.0%	-0.15	-0.20	0.8%	-0.65	-0.58	19.8%	0.44	0.26
Consumer Discret.	XLY	6.4%	9.3%	10.0%	11.5%	1.1%	-8.1%	-14.2%	XLY	61.0%	1.47	2.01	24.8%	0.67	0.89	26.5%	0.97	1.07
Financials	XLF	14.8%	14.3%	16.5%	15.8%	0.2%	-8.3%	-8.8%	XLF	-2.2%	-0.35	-0.34	11.3%	0.37	0.31	5.0%	0.47	0.02
Healthcare	XLV	9.5%	9.7%	13.2%	12.2%	2.1%	-9.1%	-15.0%	XLV	24.7%	0.63	0.89	25.6%	1.30	1.36	-2.6%	-0.28	-0.34
Technology Consumer	XLK	6.2%	10.0%	11.0%	11.5%	1.6%	-9.0%	-14.9%	XLK	68.3%	1.81	2.43	16.1%	0.56	0.60	18.8%	0.84	0.71
Staples	XLP	8.2%	9.4%	10.6%	9.8%	0.7%	-10.6%	-16.3%	XLP	11.8%	0.20	0.23	4.5%	0.12	-0.02	-0.2%	-0.17	-0.40
Utilities	XLU	12.3%	14.2%	16.4%	13.0%	-2.0%	-13.1%	-18.2%	XLU	3.7%	0.25	0.33	-7.7%	-0.45	-0.38	-15.8%	-1.35	-1.25
Energy	XLE	13.6%	16.5%	16.8%	17.2%	6.2%	-2.5%	-10.6%	XLE	22.0%	0.93	0.80	5.3%	0.84	0.18	7.8%	1.29	0.32
Energy	ХОР	21.5%	30.5%	30.2%	28.3%	8.0%	-1.5%	-10.2%	XOP	28.2%	1.06	1.25	-7.1%	0.01	-0.42	-4.4%	0.48	-0.16
Materials	XLB	11.2%	10.7%	10.9%	12.9%	-3.4%	-6.1%	-14.1%	XLB	11.5%	0.06	0.10	21.6%	0.84	0.68	28.2%	1.61	1.08
Industrials	XLI	9.1%	9.4%	10.8%	12.1%	0.9%	-6.5%	-11.1%	XLI	31.6%	0.67	0.97	30.4%	1.23	1.28	21.8%	1.31	0.96
Transports	IYT	14.4%	13.8%	13.9%	16.6%	-1.6%	-4.2%	-6.5%	IYT	14.6%	0.05	0.26	21.0%	0.53	0.74	28.5%	1.12	1.32
WTI Crude Oil	USO	18.7%	28.9%	31.3%	25.0%	-7.0%	-17.2%	-26.8%	USO	-7.0%	0.97	0.75	-13.2%	-0.58	-0.99	-14.0%	-0.54	-0.93
Natural Gas	UNG	38.6%	51.2%	49.7%	40.8%	-1.4%	-12.1%	-8.6%	UNG	3.5%	0.10	-0.19	-20.5%	-1.35	-1.05	-20.2%	-1.48	-1.00
Gold	GLD	10.5%	11.4%	12.4%	12.5%	-6.7%	-12.4%	-14.8%	GLD	17.0%	0.63	0.46	11.0%	0.60	0.30	14.3%	0.95	0.54
Silver	SLV	14.5%	18.4%	21.1%	19.7%	-7.6%	-15.3%	-18.1%	SLV	31.8%	1.99	0.59	7.5%	0.37	-0.27	2.1%	-0.46	-0.57
Copper	JJC	28.5%	26.0%	26.2%	26.5%	8.9%	-0.9%	1.4%	JJC	-13.4%	-0.45	-0.60	1.5%	-0.29	-0.34	-4.0%	-0.48	-0.62
Corn	CORN	14.1%	15.0%	15.8%	19.0%	7.3%	9.3%	1.3%	CORN	28.7%	0.58	0.36	26.2%	0.63	0.37	16.0%	0.02	-0.20
Soybeans	SOYB	14.1%	16.0%	15.6%	17.0%	-16.3%	-23.1%	-21.1%	SOYB	22.8%	-0.35	-0.35	8.2%	-0.65	-0.61	26.2%	-0.35	-0.31
Wheat	WEAT	20.1%	19.3%	18.4%	31.6%	11.3%	5.7%	9.1%	WEAT	56.8%	-0.10	0.01	63.6%	0.04	0.25	71.8%	0.47	0.60

<sup>\*</sup>implied volatility on at-the-money front month contracts

February 27, 2017

TV

<sup>\*\*</sup>implied volatility of at-the-money options expiring in the given duration vs. realized volatility over the given duration

## HEDGEYE SECTOR PERFORMANCE

			1-Day %	MTD %	YTD %
<u>SECTOR</u>	<u>Ticker</u>	<u>Price</u>	<u>Chg</u>	<u>Chg</u>	Chg
Consumer Discretionary	XLY	\$86.92	0.46%	2.46%	6.78%
Financial Select Sector	XLF	\$24.42	-0.77%	4.76%	5.03%
Health Care Select Sector	XLV	\$74.78	0.48%	6.04%	8.47%
Technology Select Sector	XLK	\$52.63	0.23%	5.09%	8.83%
Consumer Staples Select Sector	XLP	\$55.28	0.34%	5.12%	6.90%
Industrial Select Sector	XLI	\$65.89	0.43%	3.96%	5.90%
Materials Select Sector	XLB	\$52.43	0.21%	0.90%	5.49%
The Energy Select Sector	XLE	\$70.99	-0.93%	-2.62%	-5.75%
Utilities Select Sector	XLU	\$51.59	1.52%	4.90%	6.22%
S&P 500	SPX	2,367.34	0.15%	3.88%	5.74%

February 27, 2017

TV

## HEDGEYE SECTOR RELATIVE PERFORMANCE

			1-Day %	MTD %	YTD %
	<u>Ticker</u>	<u>Price</u>	<u>Chg</u>	Chg	<u>Chg</u>
Consumer Discretionary	XLY	\$86.92	0.31%	-1.42%	1.04%
Financial Select Sector	XLF	\$24.42	-0.92%	0.88%	-0.71%
Health Care Select Sector	XLV	\$74.78	0.33%	2.16%	2.73%
Technology Select Sector	XLK	\$52.63	0.08%	1.21%	3.09%
Consumer Staples Select Sector	XLP	\$55.28	0.20%	1.23%	1.16%
Industrial Select Sector	XLI	\$65.89	0.28%	0.08%	0.16%
Materials Select Sector	XLB	\$52.43	0.06%	-2.98%	-0.25%
The Energy Select Sector	XLE	\$70.99	-1.08%	-6.50%	-11.49%
Utilities Select Sector	XLU	\$51.59	1.37%	1.02%	0.48%

February 27, 2017



## HEDGEYE STYLE FACTOR PERFORMANCE

	FACTOR	1D % Chg	1W % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
五	High Debt/EV	0.0%	0.9%	2.2%	5.6%	9.0%	4.9%
Debt	Low Debt/EV	0.4%	0.7%	2.0%	4.6%	5.5%	5.7%
SI	High Short Interest	0.2%	0.4%	0.6%	2.6%	4.7%	3.8%
	Low Short Interest	0.2%	1.2%	3.9%	7.2%	11.7%	6.1%
BETA	High Beta	-0.3%	-0.6%	0.3%	6.1%	16.6%	5.3%
8	Low Beta	0.6%	2.1%	4.2%	6.9%	2.6%	5.1%
YIELD	High Yield	0.6%	1.6%	1.6%	3.7%	2.4%	2.9%
¥	Low Yield	-0.1%	-0.1%	1.8%	4.3%	6.2%	5.6%
MKT	MCAP Bottom 25%	0.2%	0.4%	-0.3%	1.0%	2.0%	2.4%
2 9	MCAP Top 25%	0.1%	1.1%	3.1%	7.3%	11.8%	6.1%
es	Top 25% Sales Growth	0.0%	-0.3%	-0.4%	4.5%	7.2%	4.2%
Sa	Bottom 25% Sales Growth	0.4%	1.2%	1.6%	3.3%	3.3%	3.6%
EPS	Top 25% EPS Growth	-0.2%	-0.8%	-1.2%	4.0%	9.0%	3.6%
<u> </u>	Bottom 25% EPS Growth	0.6%	1.4%	2.7%	3.7%	2.8%	3.6%

<sup>\*</sup>Mean Performance of Top Quartile vs. Bottom Quartile, S&P500 Companies

THE MACRO SHOW

HEDGEYE

TV

## HEDGEYE RATES & SPREADS

		1D	5D	1M	3M	vs. 52-V	Vk, Bps	vs.	vs.
	Price	Bps Chg	Bps Chg	Bps Chg	Bps Chg	High	Low	3Y Ave	5Y Ave
3M T-Bill	0.50%	-0.5	-1.0	0	1	-5	34	35	39
3M LIBOR	1.05%	0.0	0.0	2	12	0	43	58	64
2Y T-Note	1.14%	-4.0	-4.5	-5	2	-16	65	45	61
5Y T-Note	1.80%	-5.4	-9.7	-13	-3	-32	91	29	49
10Y T-Note	2.31%	-6.0	-10.3	-15	-4	-33	99	17	17
30Y T-Note	2.95%	-6.2	-7.2	-10	-7	-26	86	6	-8
2Y-10Y Spread, Bps	117	-2.1	-5.8	-10.4	-6	-17	35	-28	-44
IG SPREAD (AAABBB)	1.52%	0.0	-1.0	2	-10	-76	5	-17	-24
HIGH YIELD	5.92%	0.5	-9.5	-32	-71	-264	3	-72	-65
5Y BREAKEVEN	2.01%	-1.9	0.7	3.4	23.7	-6.7	80.9	45.1	28.4

February 27, 2017



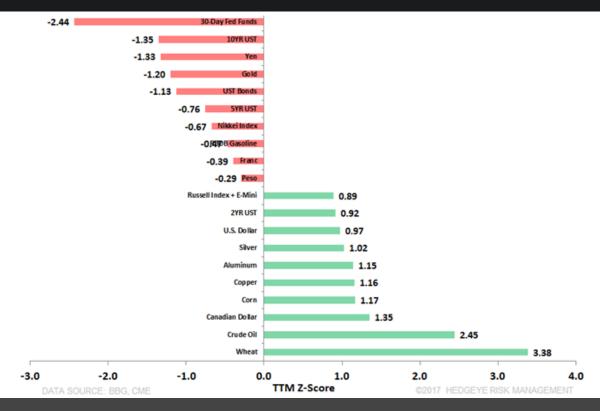
## **CFTC NON-COMMERCIAL NET LONG POSITIONING**

						Z-Score	
METRIC	Latest	W/W Chg	3M Ave	6M Ave	1Y Ave	1 <b>Y</b>	3Y
SPX (Index + E-mini)	17,524	(8,421)	(6,807)	31,461	22,686	-0.05X	0.47X
Russell 2000 (mini)	38,045	(12,964)	65,173	38,100	1,161	0.78X	1.70X
10Y Treasury	(284,605)	63,528	(308,387)	(123,106)	(59,867)	-1.35X	-1.97X
CRUDE OIL	586,229	28,659	500,060	437,421	394,935	2.45X	3.04X
GOLD	82,464	14,482	65,776	128,936	171,307	-1.16X	-0.24X
COPPER	42,406	(2,449)	50,171	26,169	5,140	1.16X	2.20X
\$USD	45,776	(18)	50,680	41,796	28,180	0.97X	0.40X
JPY	(46,657)	393	(60,989)	(7,943)	20,976	-1.33X	-0.26X
EUR	(50,795)	(11,601)	(66,168)	(86,955)	(76,259)	0.77X	0.81X
GBP	(63,995)	(1,254)	(64,110)	(73,050)	(62,388)	-0.08X	-1.06X

February 27, 2017

TV

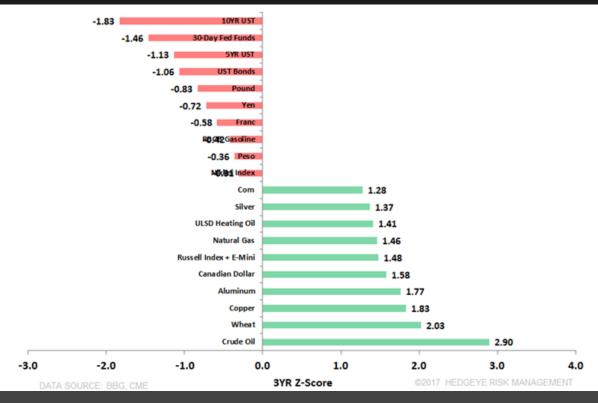
### **CFTC NET FUTURES & OPTIONS POSITIONING (TTM Z-SCORE)**



February 27, 2017



### CFTC NET FUTURES & OPTIONS POSITIONING (3YR Z-SCORE)



February 27, 2017



## MARKET SHARE VOLUME & TOTAL VALUE TRADED

INDEX/SECURITY	VOLUME: (2/23) vs.										
	Prior Day	1M Ave	3M ave	1Y Ave							
Total Market Volume*	6%	7%	27%	60%							
Total Exchange Volume**	10%	6%	7%	3%							

Source: Bloomberg, Hedgeye

TV

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

<sup>\*\*</sup>Tape A+B+C volume = total US exchange volume

<sup>\*\*\*</sup> Total Traded Value for Russell 3000 (total mkt proxy)

## **KEY \$USD CORRELATIONS**

52-Wk Rolling 30D Correlation

METRIC	15D	30D	90D	120D	180D	High	Low	% Time Pos	% Time Neg
SPX	0.83	0.49	0.58	0.70	0.72	0.95	-0.91	43%	57%
BRENT Oil	0.37	-0.09	0.54	0.64	0.67	<b>0</b> .77	-0.78	46%	54%
CRB Index	0.35	0.10	0.52	0.64	0.69	0.83	-0.89	25%	75%
GOLD	0.18	0.20	-0.89	-0.93	-0.92	0.90	-0.97	16%	84%

<sup>\*</sup>Days = Trading Days

TV HEDGEYE