

## LECAL

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## HEDCEYE ASSET ALLOCATION

|  | CASH | U.S. <br> EQUITIES | INT'L <br> EQUITIES | COMMODITIES | FOREIGN <br> EXCHANGE | FIXED <br> INCOME |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $2 / 24 / 2017$ | 35 | 20 | 13 | 12 | 20 | 0 |
| $2 / 27 / 2017$ | 32 | 21 | 14 | 13 | 20 | 0 |


|  | CASH | U.S. <br> EQUITIES | INT'L <br> EQUITIES | COMMODITIES | FOREIGN <br> EXCHANGE | FIXED <br> INCOME |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| $\mathbf{2 / 2 4 / 2 0 1 7}$ | $35 \%$ | $61 \%$ | $39 \%$ | $36 \%$ | $61 \%$ | $0 \%$ |
| $\mathbf{2 / 2 7 / 2 0 1 7}$ | $32 \%$ | $64 \%$ | $42 \%$ | $39 \%$ | $61 \%$ | $0 \%$ |

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



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THE MACRO SHOW

1 USD
2 UST 10YR
3 oll

3 straight up weeks for the USD gives it a +0.70 correlation in the last 120 days with the S\&P 500 - we're still bullish on USD and bearish on both the Euro and the Yen. \#StrongDollar is what happens when the U.S. is in Quads 1 and 2.

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).

WTI $+0.8 \%$ to kick off the week up at \$54.44/barrel with immediate-term upside in my risk range implying that Oil could finally see higher highs here. OVX (Oil Volatility) continues to break down = bearish TREND OVX is at 25.

## TRADE

## RETALL SALES: TREND = \#GROW/HACGELGRATNG

## 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

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



## ...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

## LOSERS

- Softlines
- Gen Merch

|  | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ |  | $\mathbf{2 0 1 6}$ |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | -29 bps | -29 bps | -13 bps | -34 bps | -104 bps | $\mathbf{6 . 9 \%}$ |
| Softline Retail | -28 bps | -16 bps | -17 bps | -20 bps | -81 bps | $\mathbf{2 . 9 \%}$ |
| Department Stores | -1 bps | 3 bps | 7 bps | 1 bps | 9 bps | $\mathbf{2 . 0} \%$ |
| Home Furnishings | -5 bps | -12 bps | 4 bps | -13 bps | -25 bps | $\mathbf{1 . 9 \%}$ |
| Electronics \& Appliances | -7 bps | -7 bps | 7 bps | 5 bps | -2 bps | $\mathbf{1 . 7 \%}$ |
| Sporting Goods \& Hobby | 2 bps | -1 bps | -4 bps | -1 bps | -4 bps | $\mathbf{0 . 6 \%}$ |
| Jewelry | -12 bps | -34 bps | 6 bps | -24 bps | -64 bps | $\mathbf{1 4 . 2 \%}$ |
| Other GAFO | 34 bps | 3 bps | 4 bps | 19 bps | 61 bps | $\mathbf{6 . 3 \%}$ |
| Home Improvement | -5 bps | -8 bps | -6 bps | -14 bps | -33 bps | $\mathbf{8 . 1 \%}$ |
| Warehouse/Superstores | 0 bps | -8 bps | -3 bps | -14 bps | -25 bps | $\mathbf{9 . 4 \%}$ |
| General Merchandise | -30 bps | -3 bps | 17 bps | -5 bps | -22 bps | $\mathbf{1 2 . 9 \%}$ |
| Food \& Beverage | -13 bps | 15 bps | 71 bps | 36 bps | 108 bps | $\mathbf{1 2 . 0 \%}$ |
| Restaurants/Food Service | 17 bps | 35 bps | 34 bps | 88 bps | 174 bps | $\mathbf{1 0 . 2 \%}$ |
| Online Only | 50 bps | 46 bps | -125 bps | -44 bps | -72 bps | $\mathbf{1 3 . 7 \%}$ |
| Other |  |  |  |  |  |  |

## 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

## MOST MISUNDERSTOOD TREND IN RETAIL

## ONLINE ONLY CARRYING RETAIL SALES GROWTH


'Online Retailer' is accelerating...

SIGNIFICANTLY
.off a higher base

## TREND

## SETUP = MODERATE GROWTH, BETTER MARCINS \#BULLISH

Quadrant 4: Clean-Up Mode

Margins declining but inventory levels being drawn down

6\%


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

Quadrant 2: Red Zone Margins expanding but inventories building
Margins Improving
X-Axis = Y/Y Point Change in EBIT Margin \%

## COMPARES GETTING EASIER...\#BULLISH

## RETAIL INDUSTRY AVG. REVENUE GROWTH



## BUT ENOUCH INVENTORY TO GROW?



## TAIL

## HERES THE TREND PEOPLE MISS

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



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

The number comes from qty of different types of garments, that are converted with standard conversion factors
http://otexa.trade.gov/corr.ht m

For example 1 Dozen
women's/girls knit
shirts/blouses = 12.5 SME, or 1 shirt $={ }^{\sim} 1$ 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 12005 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

## APPAREL PRICE LESS COST



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

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

## MACRO GRIND

## EARNINCS 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 |
| Consumer Discretionary | 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
HEDGEYE THE MACRO SHOW


## HEDGEYE SECTOR PERFORMANCE

| SECTOR | Ticker | Price | 1-Day \% | MTD \% | YTD \% |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Chg | Chg | 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\% |

## HEDGEYE SECTOR RELATIVE PARFORMANCE

|  | Ticker | Price | $\frac{\text { 1-Day \% }}{\text { Chg }}$ | MTD \% <br> Chs | $\frac{\text { YTD \% }}{\text { Chg }}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 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\% |

## HEDGEYE STYLE FACTOR PERFORMANCE

| $\frac{5}{8}$ | FACTOR | $\begin{gathered} \text { 1D } \\ \% \text { Chg } \end{gathered}$ | $\begin{gathered} \text { 1W } \\ \text { \% Chg } \end{gathered}$ | $\underset{\% \mathrm{Chg}}{\mathrm{lM}}$ | $\begin{gathered} \text { 3M } \\ \% \text { Chg } \end{gathered}$ | $\begin{gathered} \text { 6M } \\ \% \mathrm{Chg} \end{gathered}$ | $\begin{aligned} & \text { YTD } \\ & \% \text { Chg } \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | High Debt/EV | 0.0\% | 0.9\% | 2.2\% | 5.6\% | 9.0\% | 4.9\% |
|  | Low Debt/EV | 0.4\% | 0.7\% | 2.0\% | 4.6\% | 5.5\% | 5.7\% |
| ज | 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\% |
| $\begin{aligned} & \text { 断 } \\ & \hline \end{aligned}$ | High Beta | -0.3\% | -0.6\% | 0.3\% | 6.1\% | 16.6\% | 5.3\% |
|  | Low Beta | 0.6\% | 2.1\% | 4.2\% | 6.9\% | 2.6\% | 5.1\% |
| $\begin{aligned} & \text { 을 } \\ & \stackrel{y}{\omega} \end{aligned}$ | 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\% |
| $\frac{b}{2}$ | MCAP Bottom 25\% | 0.2\% | 0.4\% | -0.3\% | 1.0\% | 2.0\% | 2.4\% |
|  | MCAP Top 25\% | 0.1\% | 1.1\% | 3.1\% | 7.3\% | 11.8\% | 6.1\% |
|  | Top 25\% Sales Growth | 0.0\% | -0.3\% | -0.4\% | 4.5\% | 7.2\% | 4.2\% |
|  | Bottom 25\% Sales Growth | 0.4\% | 1.2\% | 1.6\% | 3.3\% | 3.3\% | 3.6\% |
| $\begin{aligned} & \text { O } \\ & \frac{2}{4} \end{aligned}$ | Top 25\% EPS Growth | -0.2\% | -0.8\% | -1.2\% | 4.0\% | 9.0\% | $3.6 \%$ |
|  | Bottom 25\% EPS Growth | 0.6\% | 1.4\% | 2.7\% | 3.7\% | 2.8\% | 3.6\% |

${ }^{*}$ Mean Performance of Top Quartile vs. Bottom Quartile, S\&P500 Companies
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## HEDGEYE RATES \& SPREADS

|  | Price | 1D | 5D | 1 M | 3M | vs. 52-Wk, Bps |  | vs. 3Y Ave | vs. 5Y Ave |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Bps Chg | Bps Chg | Bps Chg | Bps Chg | High | Low |  |  |
| 3M T-Bill | 0.50\% | -0.5 | -1.0 | 0 | 1 | -5 | 34 | 35 | 39 |
| 3 MLIBOR | 1.05\% | 0.0 | 0.0 | 2 | 12 | 0 | 43 | 58 | 64 |
| 2 Y T-Note | 1.14\% | -4.0 | -4.5 | -5 | 2 | -16 | 65 | 45 | 61 |
| 5 Y 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 |

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## THE MACRO SHOW

## GFTC NON-COMMERCIAL NET LONG POSITIONING

| METRIC | Latest | W/V Chg | 3M Ave | 6 M Ave | 1 A Are | Z-Score |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  | 1Y | 3Y |
| SPX (Index + E-mini) | 17,524 | $(8,421)$ | $(6,807)$ | 31,461 | 22,686 | -0.05X | 0.47 X |
| Russell 2000 (mini) | 38,045 | $(12,964)$ | 65,173 | 38,100 | 1,161 | 0.78X | 1.70X |
| 10Y Treasury | (284,605) | 63,528 | $(308,387)$ | $(123,106)$ | $(59,867)$ | $-1.35 \mathrm{X}$ | -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 | $-1.16 \mathrm{X}$ | $-0.24 \mathrm{X}$ |
| COPPER | 42,406 | $(2,449)$ | 50,171 | 26,169 | 5,140 | 1.16X | 2.20 X |
| SUSD | 45,776 | (18) | 50,680 | 41,796 | 28,180 | 0.97X | 0.40X |
| JPY | $(46,657)$ | 393 | $(60,989)$ | $(7,943)$ | 20,976 | $-1.33 X$ | $-0.26 \mathrm{X}$ |
| EUR | $(50,795)$ | $(11,601)$ | $(66,168)$ | (86,955) | $(76,259)$ | 0.77 X | 0.81 X |
| GBP | $(63,995)$ | $(1,254)$ | $(64,110)$ | $(73,050)$ | $(62,388)$ | -0.08X | $-1.06 \mathrm{X}$ |

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



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## THE MACRO SHOW

## CFTC NET FUTURES \& OPTIONS POSITIONING (BYR Z-SCORE)



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## THE MACRO SHOW

TV

## MARKET SHARE VOLUME \& TOTAL VALUE TRADED

## INDEX/SECURITY

Total Market Volume*
6\%
VOLUME: (2/23) vs.

| Prior Day | $\frac{\text { 1M Ave }}{}$ |  | 3M ave |
| ---: | ---: | ---: | ---: |
| $6 \%$ | $7 \%$ | $27 \%$ | 1Y Ave |
| $60 \%$ |  |  |  |

Total Exchange Volume** $\quad 10 \% \quad$ 6\% $\quad$ 3\%
*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)
Source: Bloomberg, Hedgeye

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## 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 | 0.77 | -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\% |

-Days $=$ Trading Days

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THE MACRO SHOW

