THE MACRO SHOW

JULY 13, 2016

LEGAL

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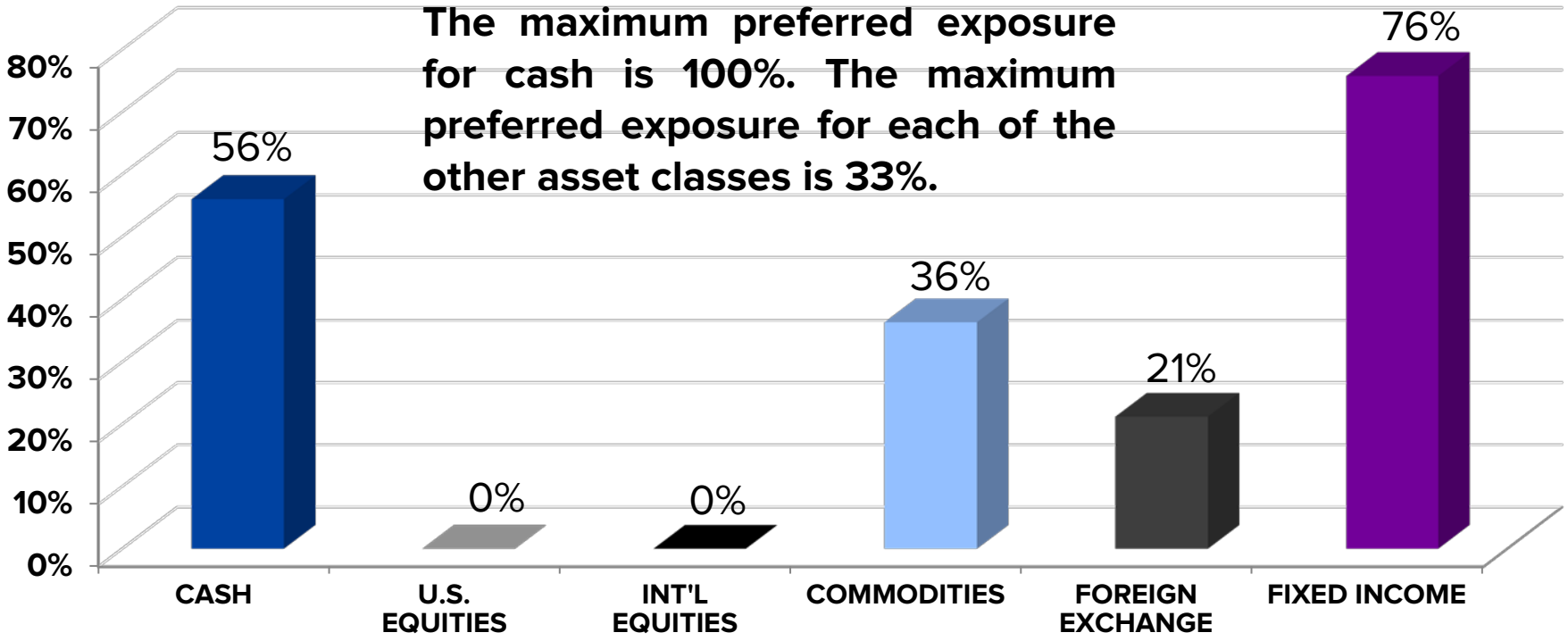
HEDGEYE ASSET ALLOCATION

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
7/12/2016	56	0	0	12	7	25
7/13/2016	56	0	0	12	7	25

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
7/12/2016	56%	0%	0%	36%	21%	76%
7/13/2016	56%	0%	0%	36%	21%	76%

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

HEDGEYE ASSET ALLOCATION



1 #CONSESUS

2 EUROZONE

3 FUND FLOWS

#CONSESUS

As we highlighted on The Macro Show yesterday, the CFTC net futures and options positioning in the S&P was already long 58K contracts moving into this week, or +1.68x on a TTM z-score basis (and that's positioning through last Tuesday). With the low volume melt-up moves from Fri-Tues (S&P +2.6%) , expect an even longer consensus position at the end of this week. Go ahead and buy all time-highs on peak cycle forward multiples (and that's assuming the consensus expectation for a major corporate profit turnaround) in a crowded long position, but we're going to sit it out.

EUROZONE

Industrial Production fell -1.2% in MAY Y/Y (vs +1.4% prior) and slowed to +0.5% M/M (vs 2.2% prior). While a stale data point in terms of where we are in the calendar, IP confirms our ongoing #EuropeSlowing macro theme. We believe there's downside risk in the euro alongside a host of nations considering "exit" (see our Q3 Macro Theme of #EuropeImploding). Tune in to the Bank of England's interest rate decision tomorrow morning as another barometer of where growth and inflation projections across the continent stand (hint: to the downside).

FUND FLOWS

YTD stock ETF flows are -$31.6 billion redemption, which would be the worst year on record for the category through the beginning of our data set which starts in 2013. On the active management side, it's worse - active equity mutual funds have lost over twice as much with withdrawals now totaling -$72.8 billion in 2016 – everyone is long equity beta through automated asset allocations – scary stuff!

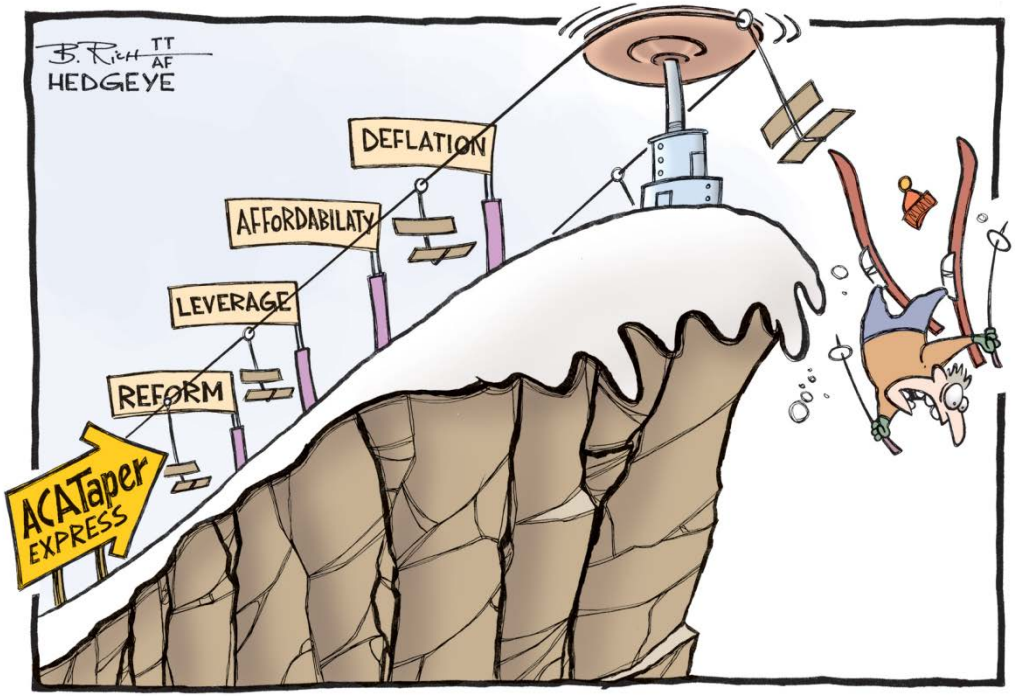
HEALTHCARE

TOM TOBIN

THOMAS TOBIN | MANAGING DIRECTOR | @HedgeyeHC
ANDREW FREEDMAN | ANALYST | @ HedgeyeHIT
HEALTHCARETEAM@HEDGEYE.COM | (203) 562-6500

HEALTHCARE THEMES

JULY 14TH, 2016 AT 11:00 AM ET



HEALTHCARE THEMES

1 #LATECYCLE

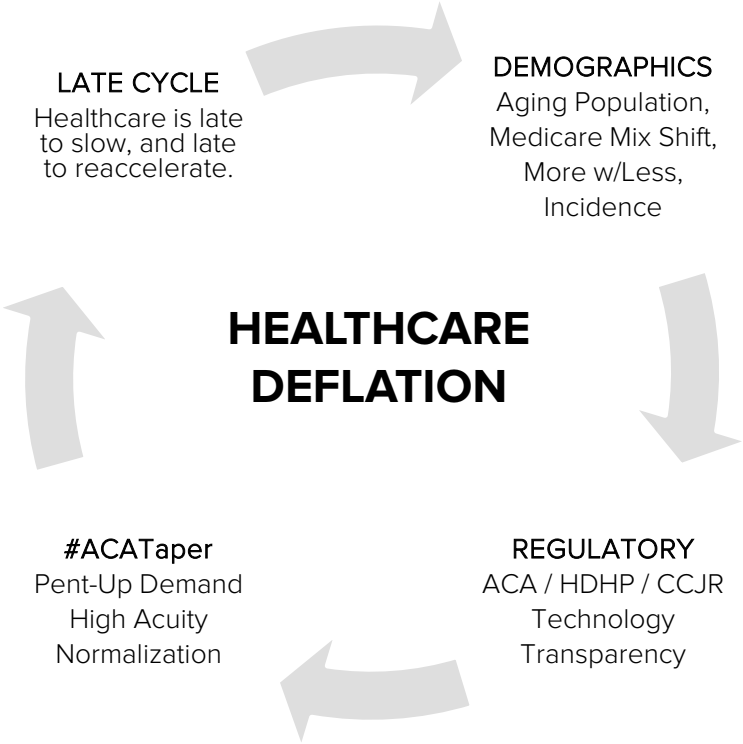
- The ACA likely steepened what is typically a late cycle recovery in medical consumption. Medical consumption trends are slow to develop and can often be confused as defensive. Its different this time…a steeper drop.

2 DEMOGRAPHIC DEFLATION

- Commercially insured working population continues to slow. The Commercially Insured US Medical Consumer has the highest revenue and margins.
- Medicare beneficiaries are growing but CMS policy will need to reduce real per beneficiary spending.

3 REGULATION / #ACATAPER

- New enrollees from exchanges and Medicaid expansion was a one-time stimulus to the medical economy.
- ACA reforms will continue to put pressure on healthcare inflation.



HEALTHCARE POSITION MONITOR

Sentiment Score[1]	Investment Ideas - Longs		Trade	Trend	Tail
	LONG				
6	ATHN	athenahealth, Inc.	---	✓	✓
41	ILMN	Illumina, Inc.	---	✓	✓

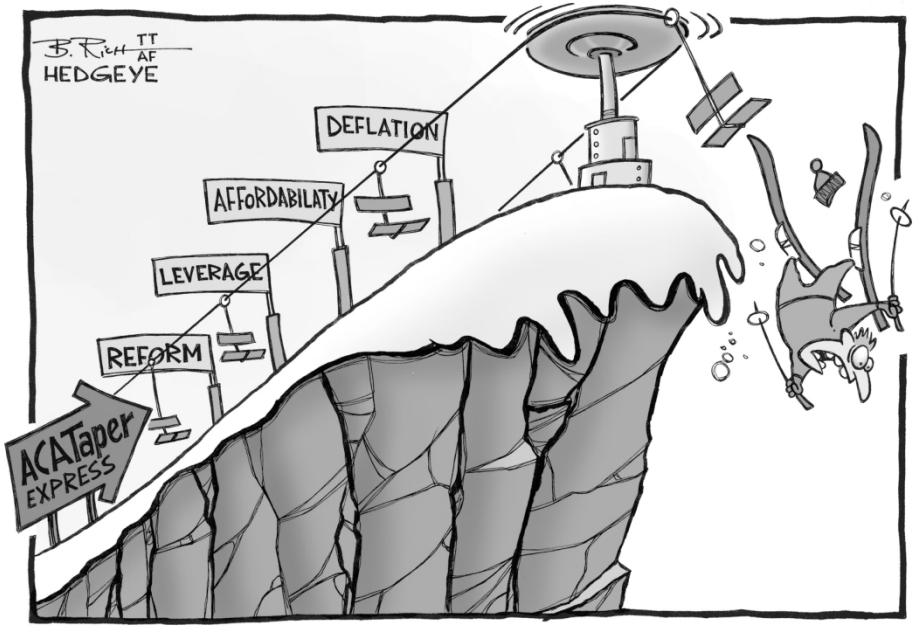
Sentiment Score[1]	Investment Ideas - Shorts		Trade	Trend	Tail
	SHORT				
81	HOLX	Hologic, Inc.	×	×	×
59	AHS	AMN Healthcare Services, Inc.	---	×	×
53	ZBH	Zimmer Biomet Holdings, Inc.	---	×	×
33	MD	MEDNAX, Inc.	×	×	×
17	MDRX	Allscripts Healthcare Solutions, Inc.	×	×	×

Sentiment Score[1]	Long Bench				
	LONG				
6	EXAS	Exact Sciences Corporation	---	---	---
56	EVH	Evolent Health Inc Class A	---	---	---
72	CSLT	Castlight Health, Inc. Class B	---	---	---
89	CERN	Cerner Corporation	---	---	---

Sentiment Score[1]	Short Bench				
	SHORT				
97	WOOF	VCA Inc.	---	---	---
79	LH	Laboratory Corporation of America Holdings	---	---	---
71	ICLR	ICON Plc	---	---	---
62	DVA	DaVita HealthCare Partners Inc.	---	---	---
53	CRL	Charles River Laboratories International, Inc.	---	---	---
44	MDSO	Medidata Solutions, Inc.	---	---	---
41	HCA	HCA Holdings, Inc.	---	---	---
36	LPNT	LifePoint Health, Inc.	---	---	---
24	PRXL	PAREXEL International Corporation	---	---	---
22	QSII	Quality Systems, Inc.	---	---	---
18	Q	Quintiles Transnational Holdings, Inc.	---	---	---
5	DGX	Quest Diagnostics Incorporated	---	---	---
1	CYH	Community Health Systems, Inc.	---	---	---
1	CPSI	Computer Programs and Systems, Inc.	---	---	---

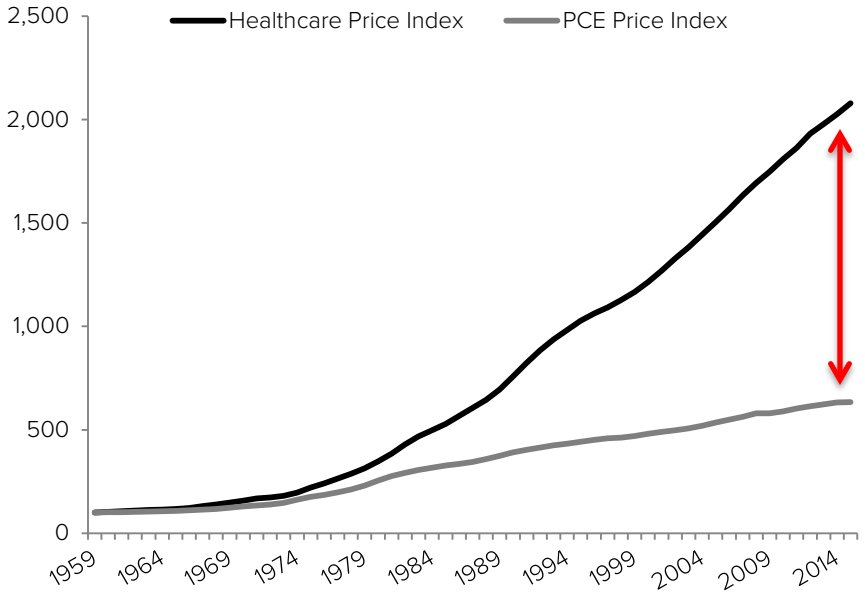
[1]Percentile rank within sub-sector (1 = High Short Interest, Negative Sell Side / 100 = Low Short Interest, Positive Sell Side)

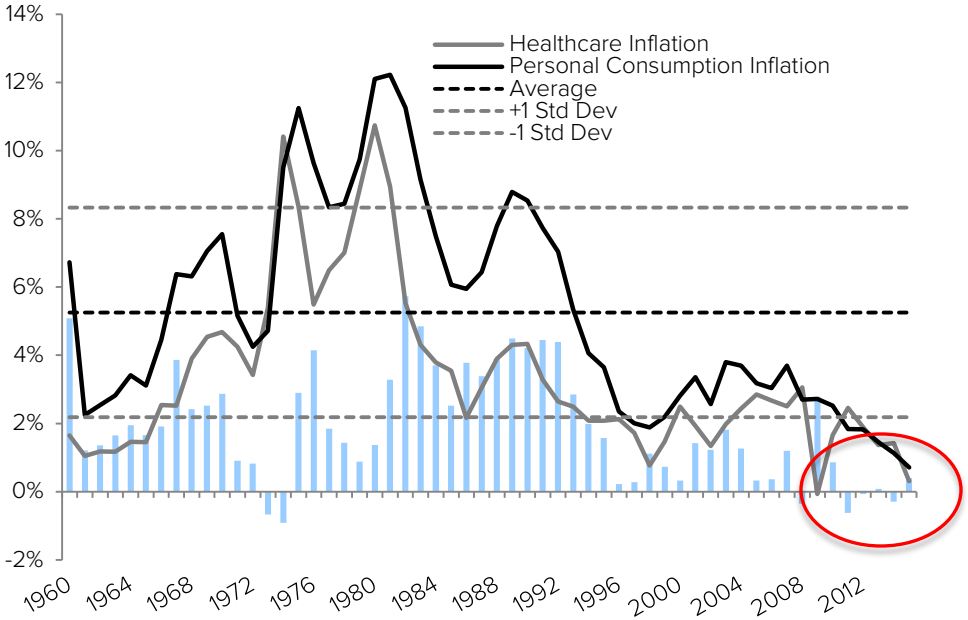
Bench = Timing is not right, or research in progress.


B. Rich TT AF
HEDGEYE
DEFLATION
AFFORDABILATY
LEVERAGE
REFORM
ACATaper EXPRESS

#ACATAPER

LONG HISTORY OF EXCESS





400% HIGHER AFTER 50 YEARS

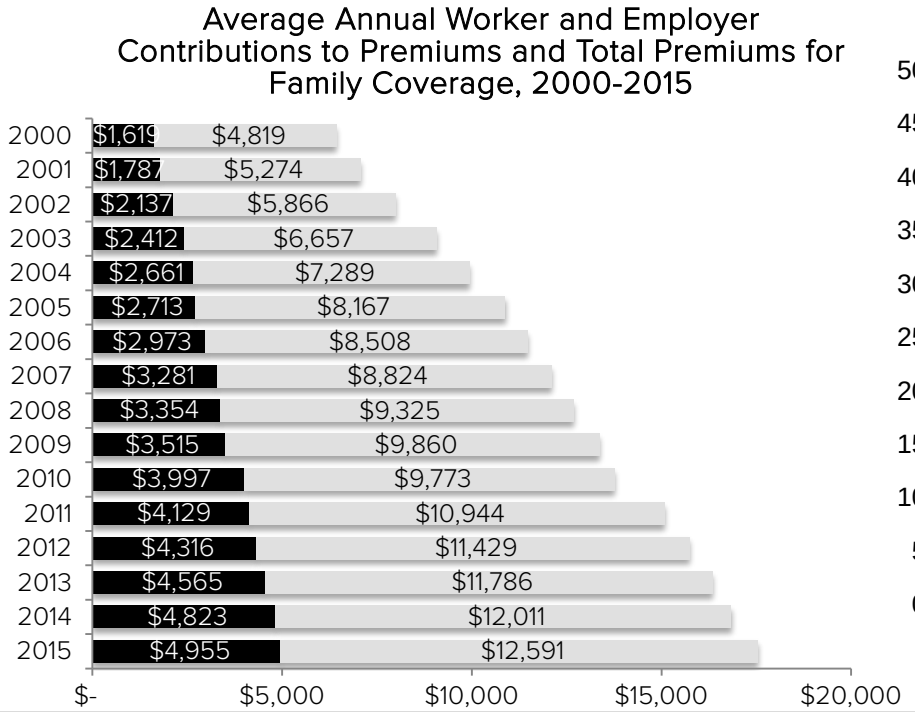
Healthcare inflation has exceeded broader market inflation for over 50 years with the cumulative increase now 400% higher.

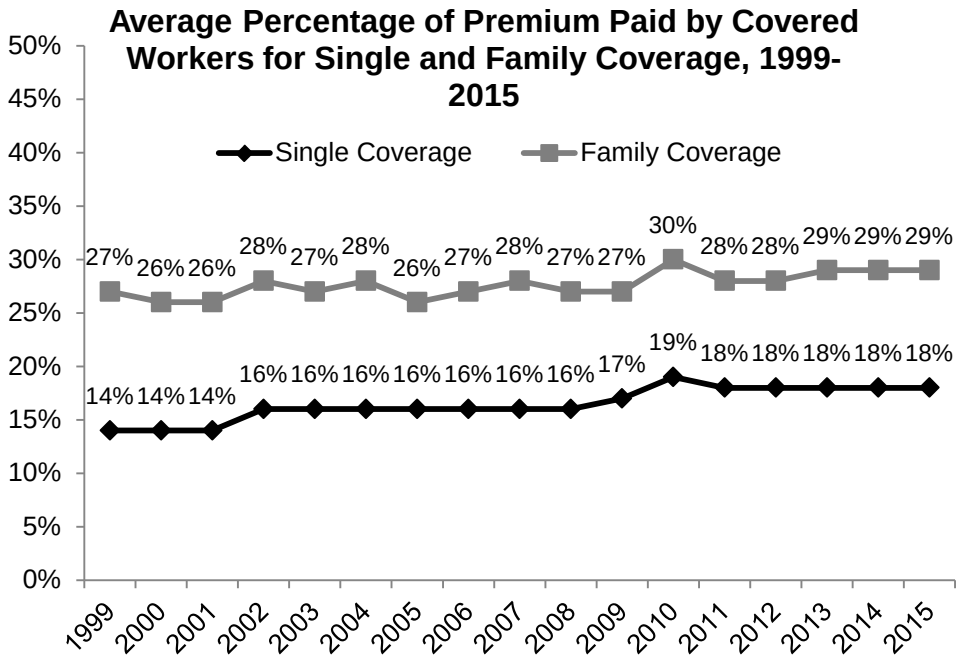
HEALTHCARE DISINFLATION

4 of the 6 years where Healthcare inflation has been ***lower*** than the broader market have occurred since 2008.

DATA SOURCE: BEA

PREMIUM GROWTH EXCESSIVE



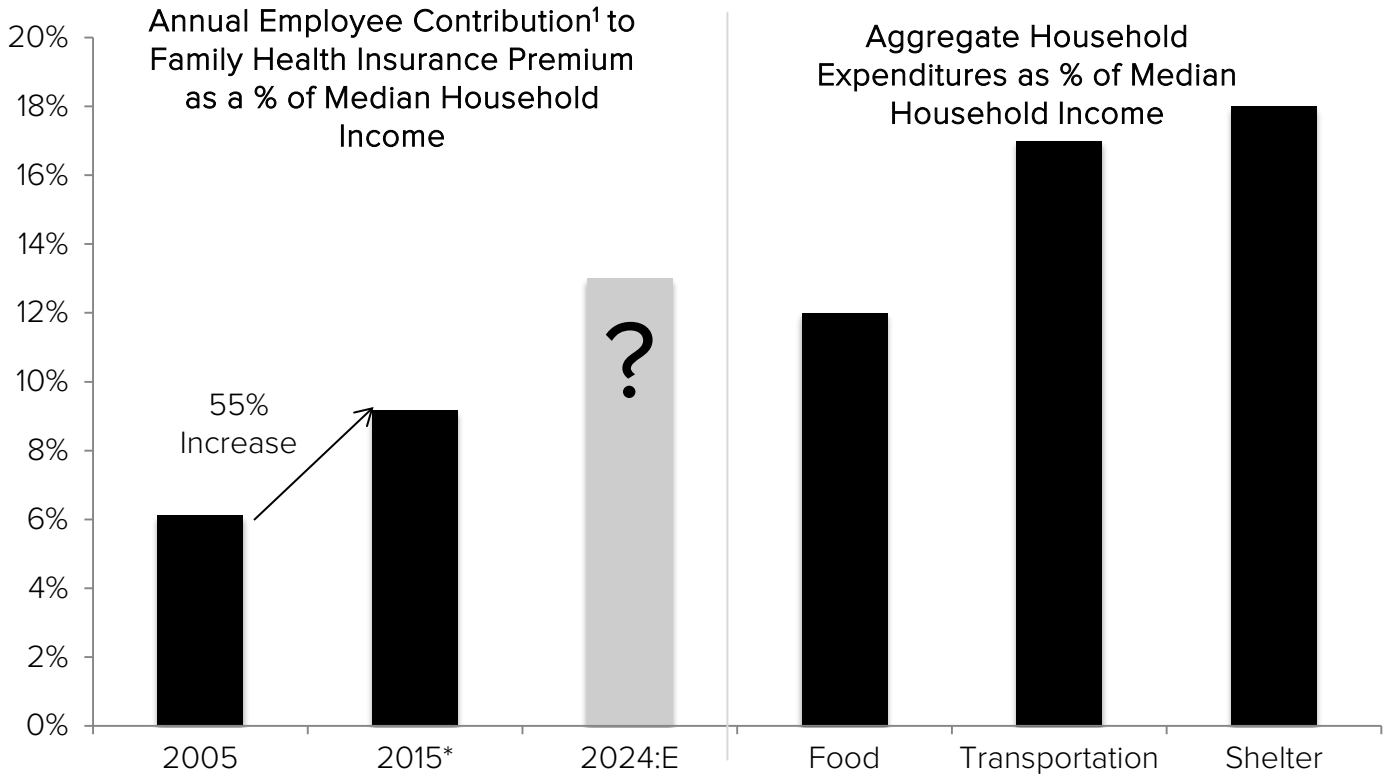


EMPLOYEES PAY FOR EXCESS INFLATION

Excess inflation is paid for in large part by accelerating premiums. Aging accounts for a very small part of these dramatic increases.

DATA SOURCE: KAISER/HRET SURVEY OF EMPLOYEE-SPONSORED HEALTH BENEFITS, 2004-2014

INSURANCE VS MAJOR EXPENSES



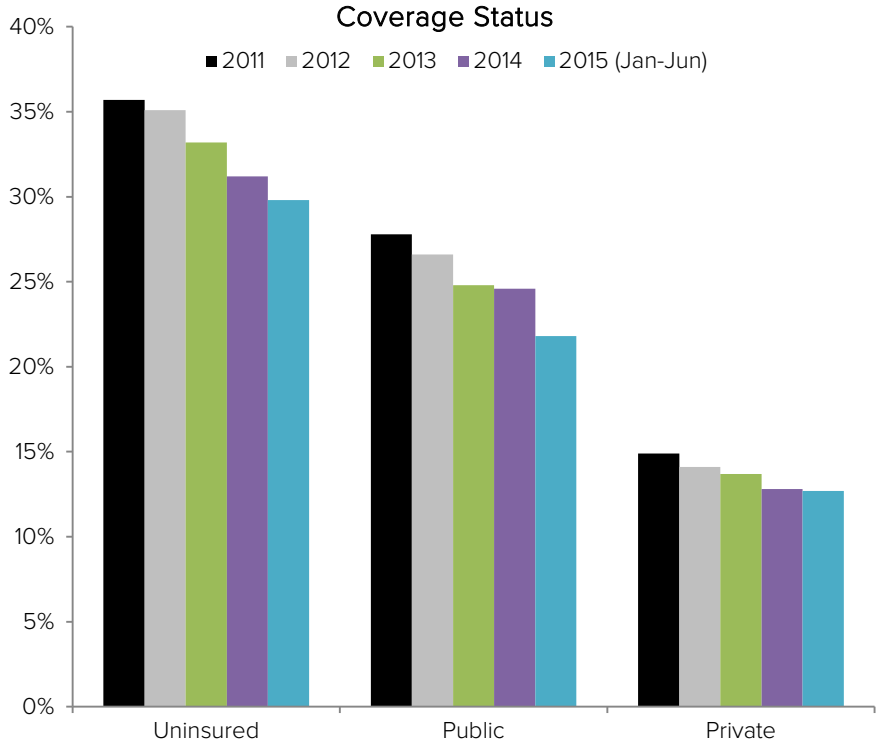
[1]Employee Sponsored Health Plans
*Based on 2013 Median Household Income Rolled Forward by 2-years Inflation 2%
Data Source: Kaiser Family Foundation, St. Louis Federal Reserve and HRM Estimates

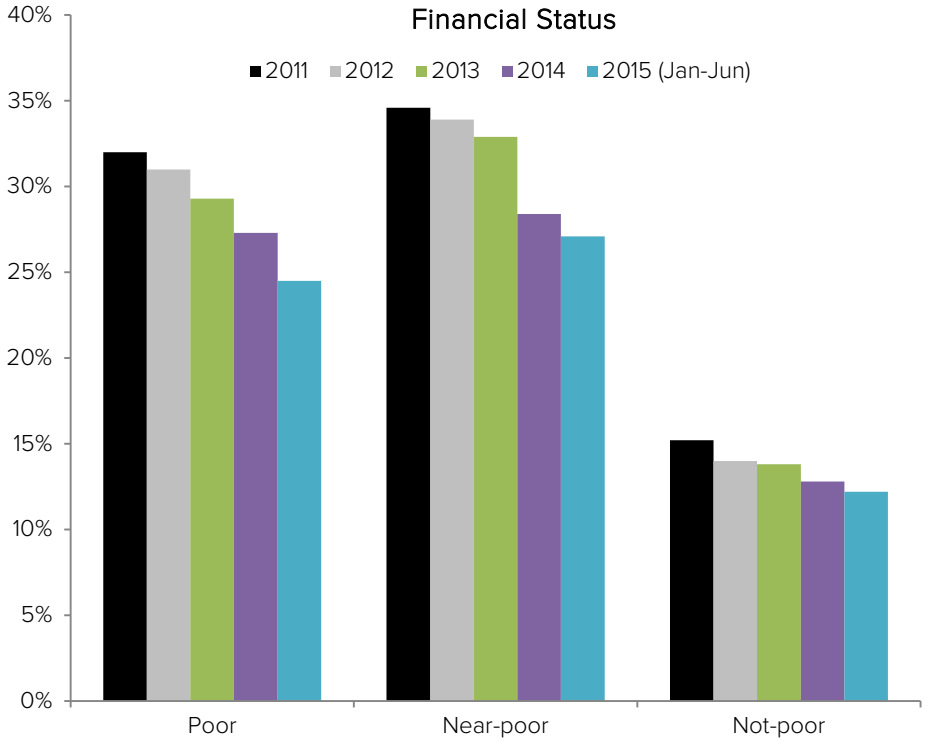
Annual employee contribution to annual premium has grown to almost 10% of Household Income. Food makes up 12%, while shelter 18%.

How much higher can in it go?

DIFFICULT PAYING MEDICAL BILLS

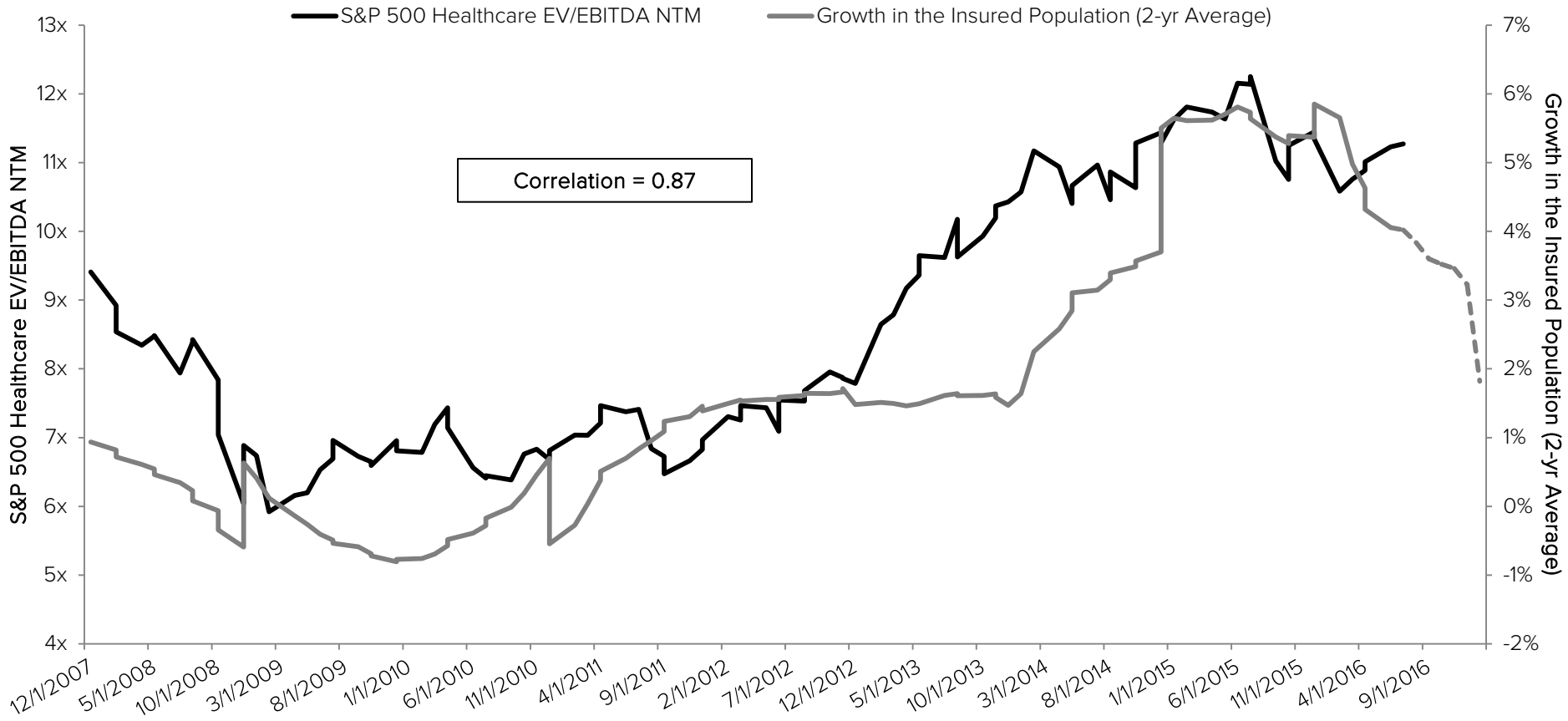
Percentage of persons under age 65 who are in families having problems paying medical bills in past 12 months





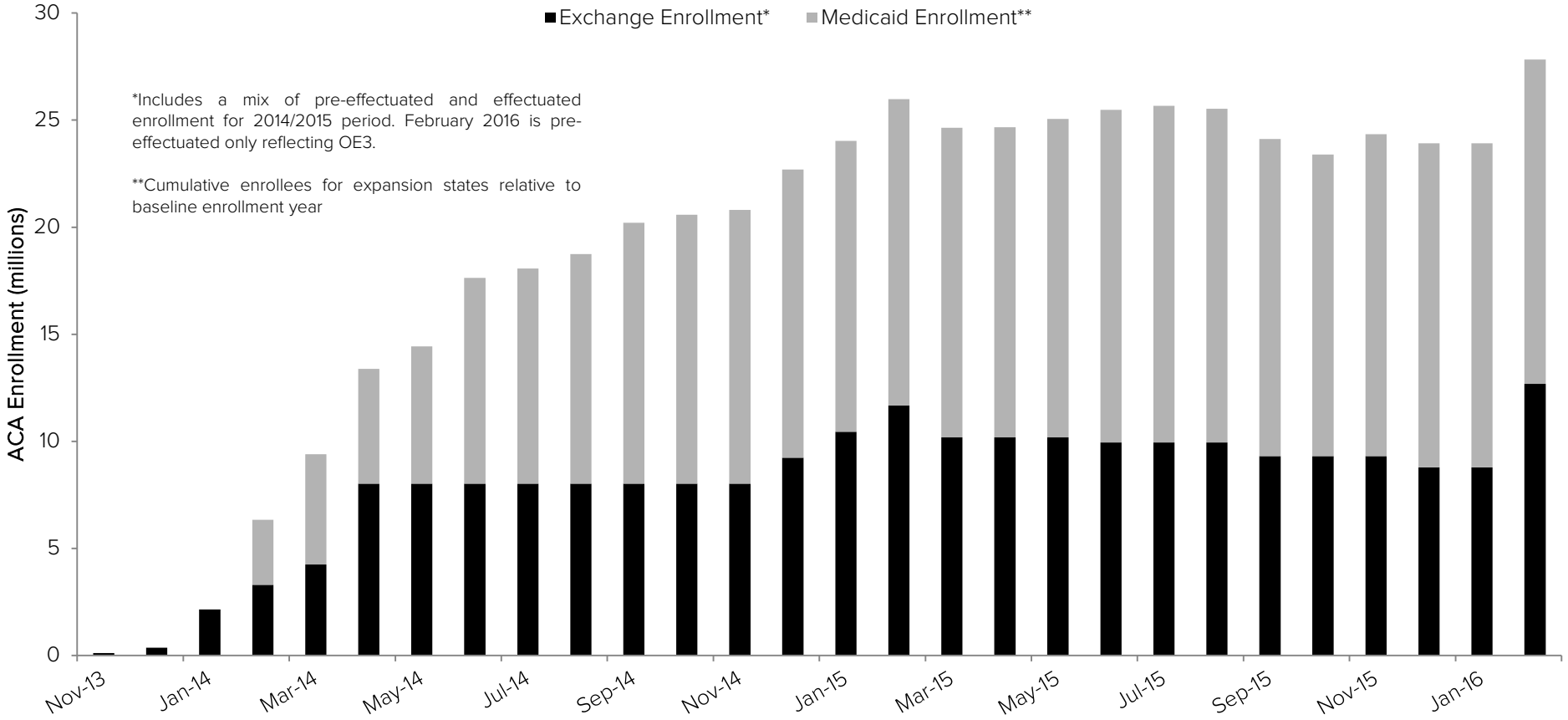
DATA SOURCE: CDC

INSURED POPULATION GROWTH



DATA SOURCE: FACTSET, BLS, U.S. CENSUS, CMS, AND KAISER

25+ MILLION NEWLY INSURED



DATA SOURCE: CMS, KAISER AND BLS

#ACATAPER WELL ADVERTISED…

Why a Perfect Storm Is Brewing in Healthcare (UNH, HCA)

By Tom Tobin | December 21, 2015 — 9:03 AM EST

Blue Cross Plans Hit Hard By Obamacare Losses

Bruce Japsen
CONTRIBUTOR
I write about health care and policies from the president's hometown

FULL BIO >

Opinions expressed by Forbes Contributors are their own.

TWEET THIS

- nearly three dozen Blue Cross and Blue Shield companies, showed 23 had a decline in earnings and 16 had a net loss
- There were 23 Blue Cross companies that reported a "collective $1.9 billion decline in earnings"

The nation's Blue Cross and Blue Shield plans have fared worse than publicly traded health insurance companies on the new health insurance exchanges, with many of these plans losing hundreds of millions of dollars last year on individual policies sold under the Affordable Care Act.

A new report from Fitch Ratings, which looked at earnings of nearly three dozen Blue Cross and Blue Shield companies, showed 23 had a decline in earnings and 16 had a net loss , largely related to losses from policies sold to newly insured Americans who bought subsidized individual policies on public exchanges. There were 23 Blue Cross companies that reported a "collective $1.9 billion decline in earnings" for the first nine months of 2015, and 16 of those companies had net losses.

UnitedHealthcare to exit most Obamacare exchanges

by Paul R. La Monica @lamonicabuzz
April 19, 2016: 3:37 PM ET

Why a major Blues carrier is still losing billions on ACA plans

By Bob Herman | March 3, 2016

Health Care Service Corp. improved its net loss in 2015, but the Blue Cross and Blue Shield conglomerate continues to hemorrhage money in the Affordable Care Act's nascent marketplaces.

Tomorrow: Healthcare

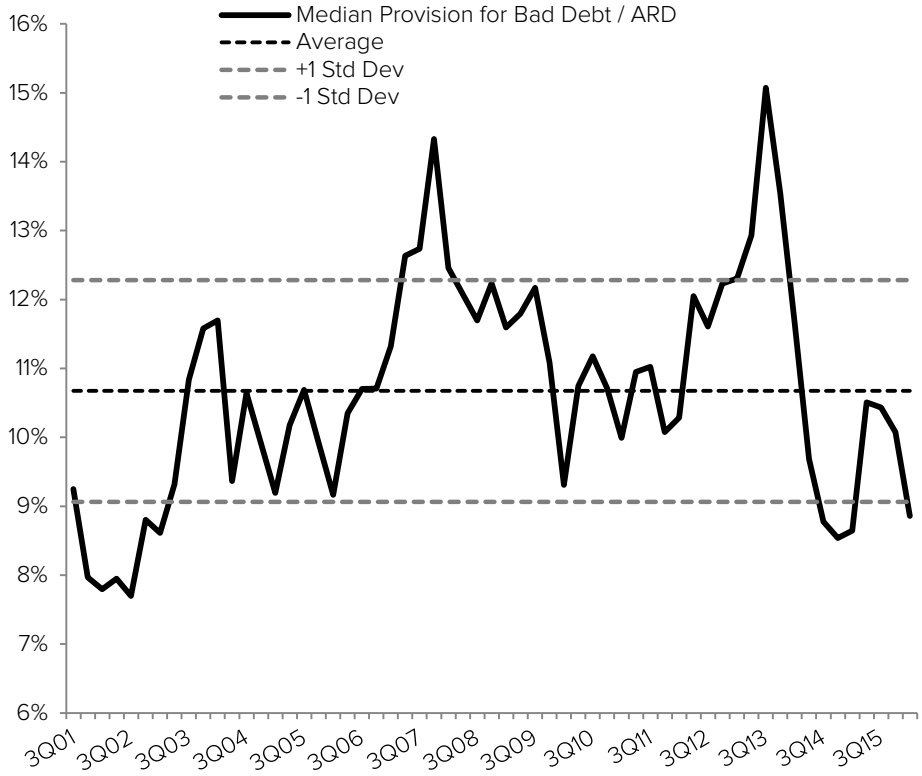
UnitedHealth expects to lose nearly $1 billion on Obamacare

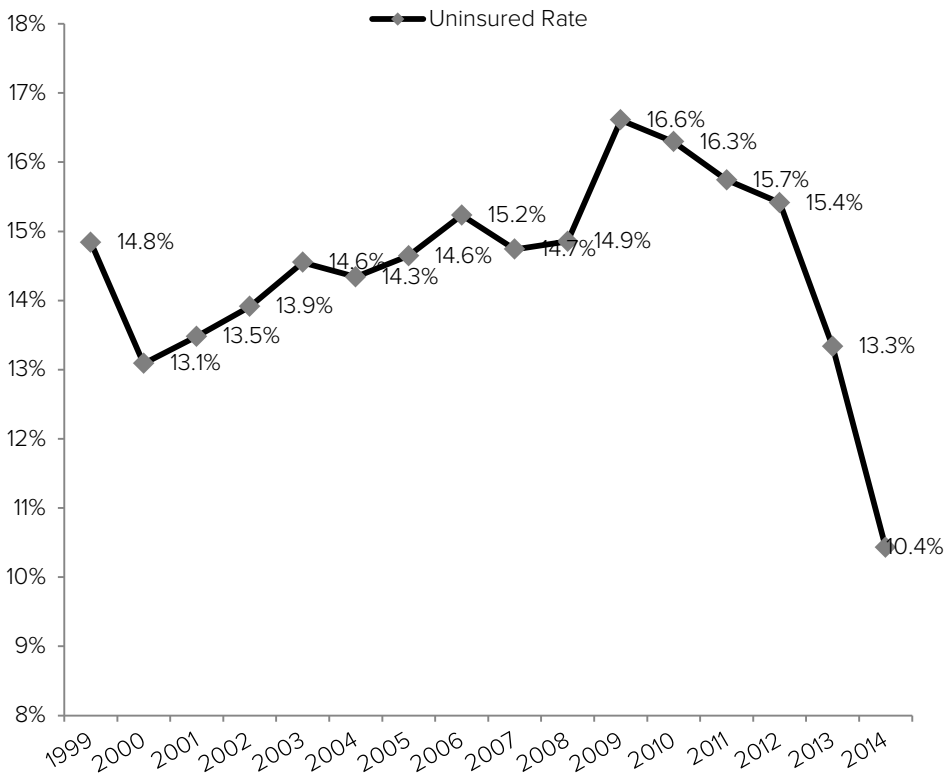
by Tami Luhby @Luhby
January 19, 2016: 3:58 PM ET

Aetna To Stop Selling Obamacare Plans In Two States And D.C. For 2016

UNINSURED RATE ALL-TIME LOW

SHARP DECLINE IN HOSPITAL BAD DEBT EXPENSE

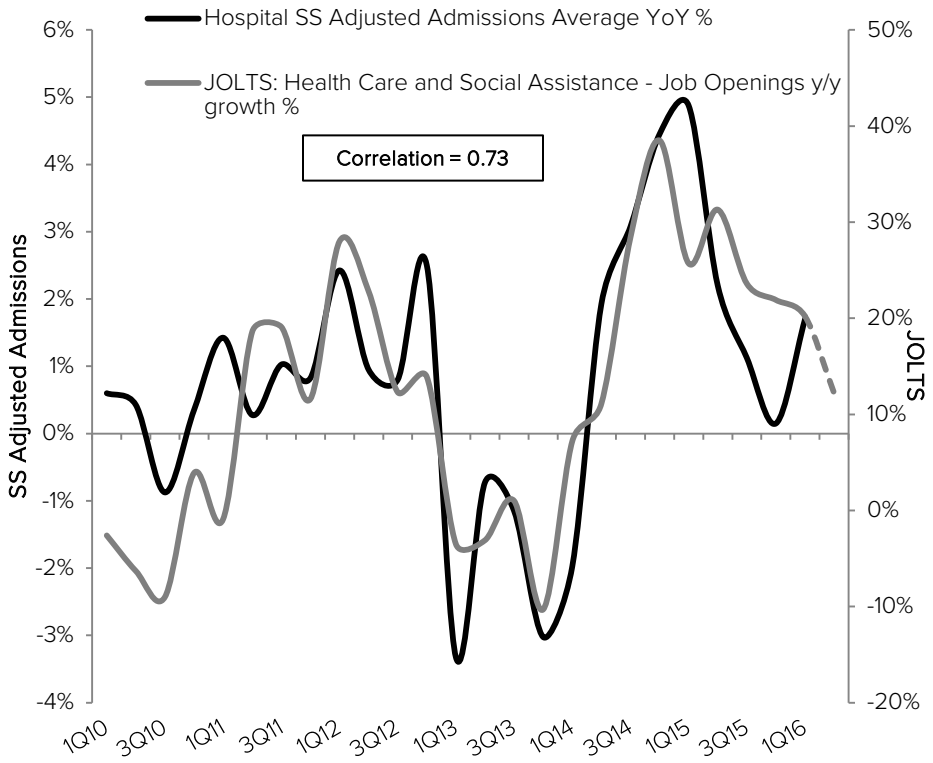


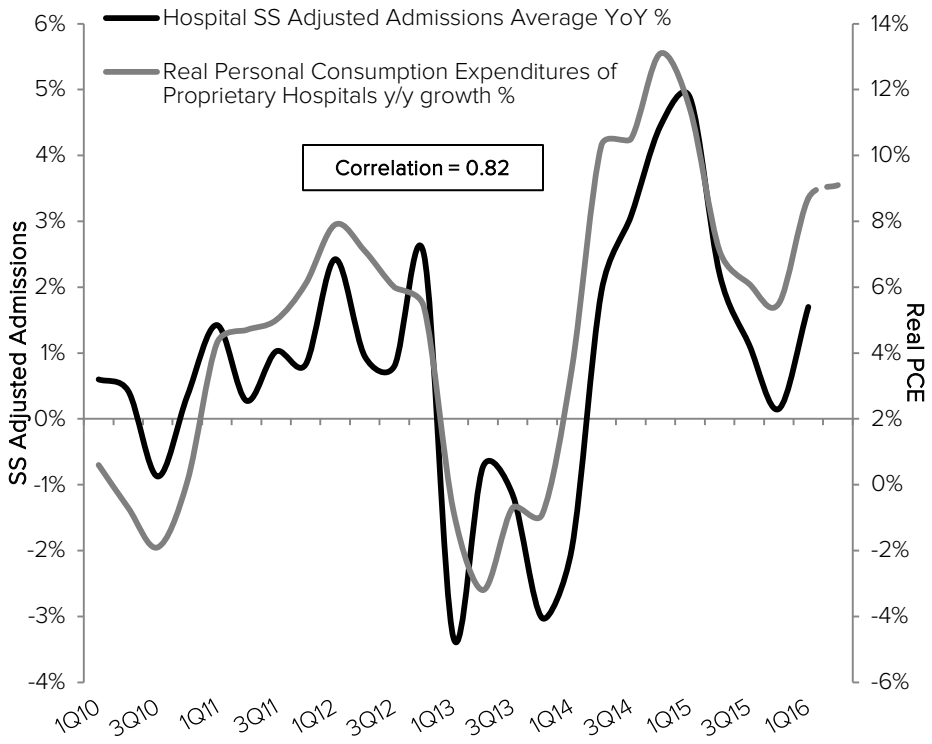


DATA SOURCE: COMPANY FILINGS , CMS AND U.S. CENSUS

UTILIZATION AND EMPLOYMENT

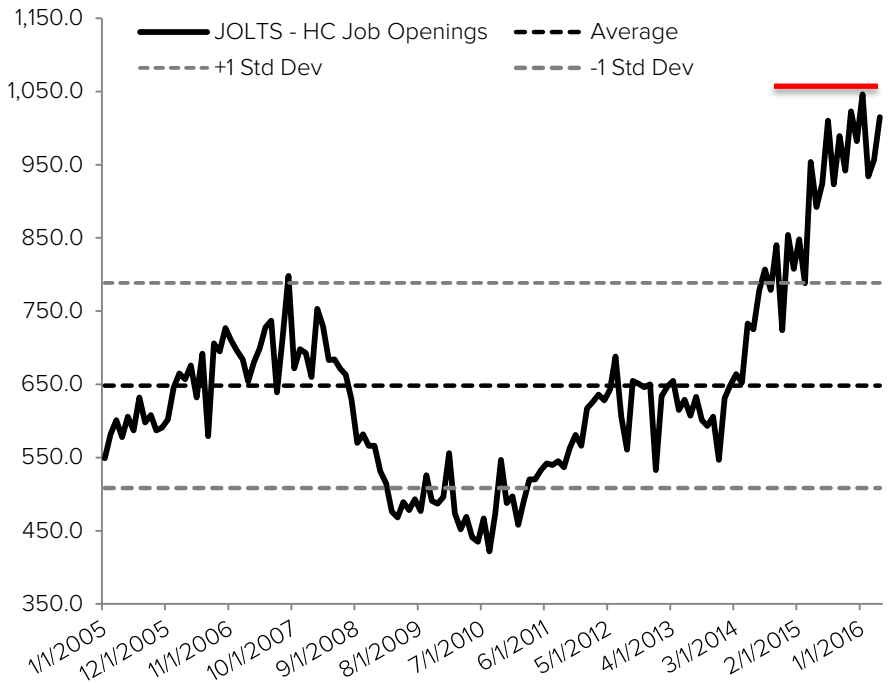
INCREASE IN HIRING TO MEET DEMAND

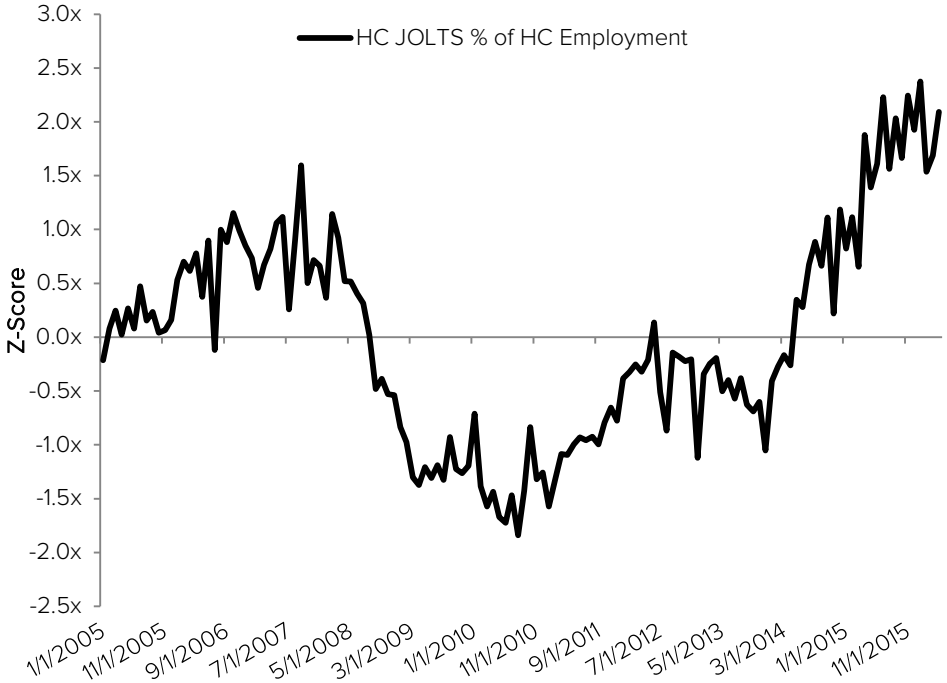




DATA SOURCE: BLS AND COMPANY FILINGS

HEALTHCARE JOB OPENINGS (JOLTS)



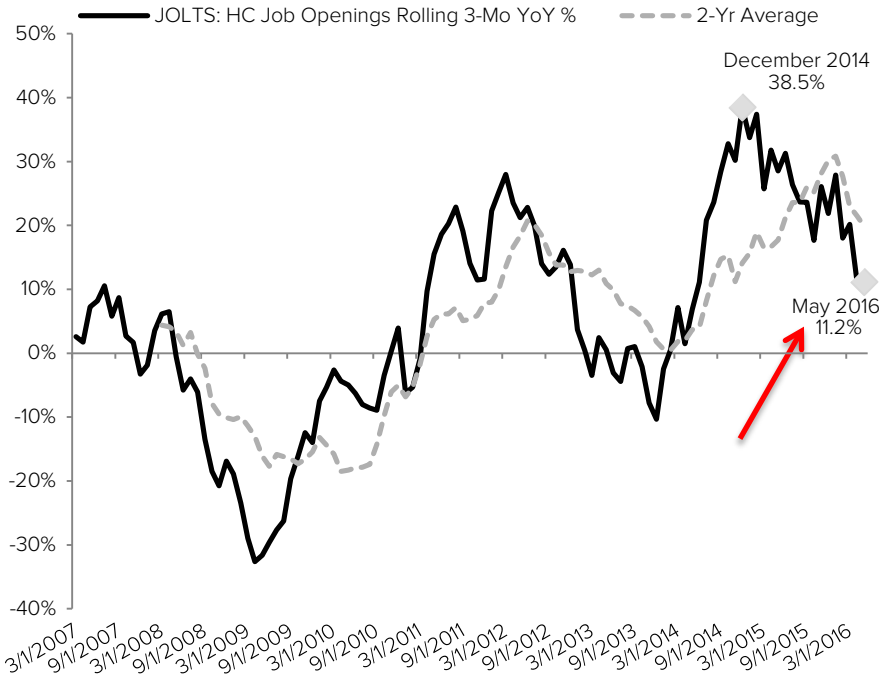


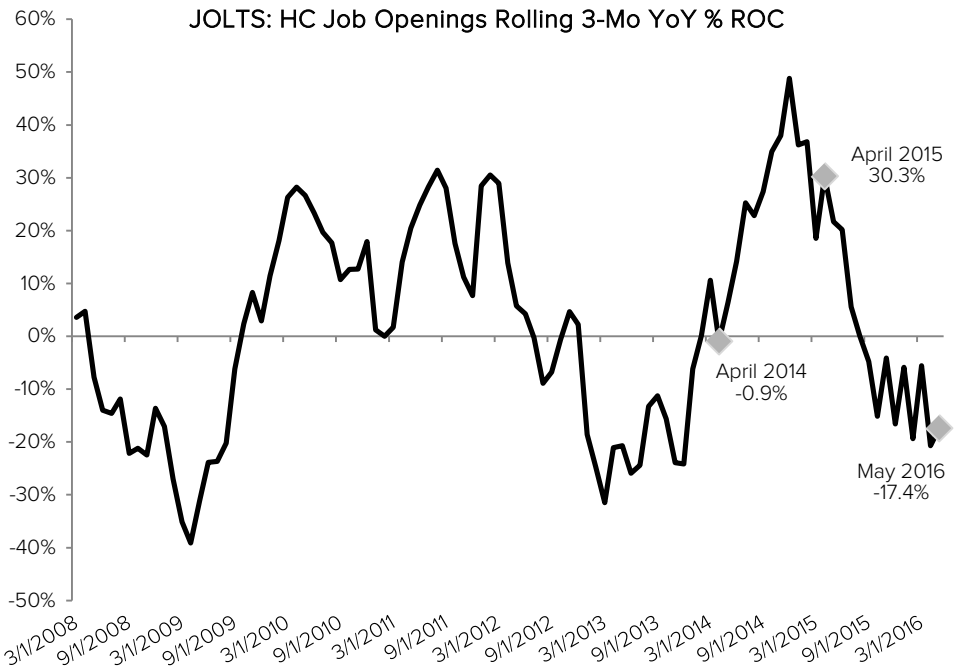
HEALTHCARE JOB OPENINGS EXTENDED…

We have observed similar patterns across multiple metrics tied to medical consumption, enrollment, and employment suggesting that the Healthcare Economy is extended.

DATA SOURCE: BLS

HEALTHCARE JOB OPENINGS (JOLTS)



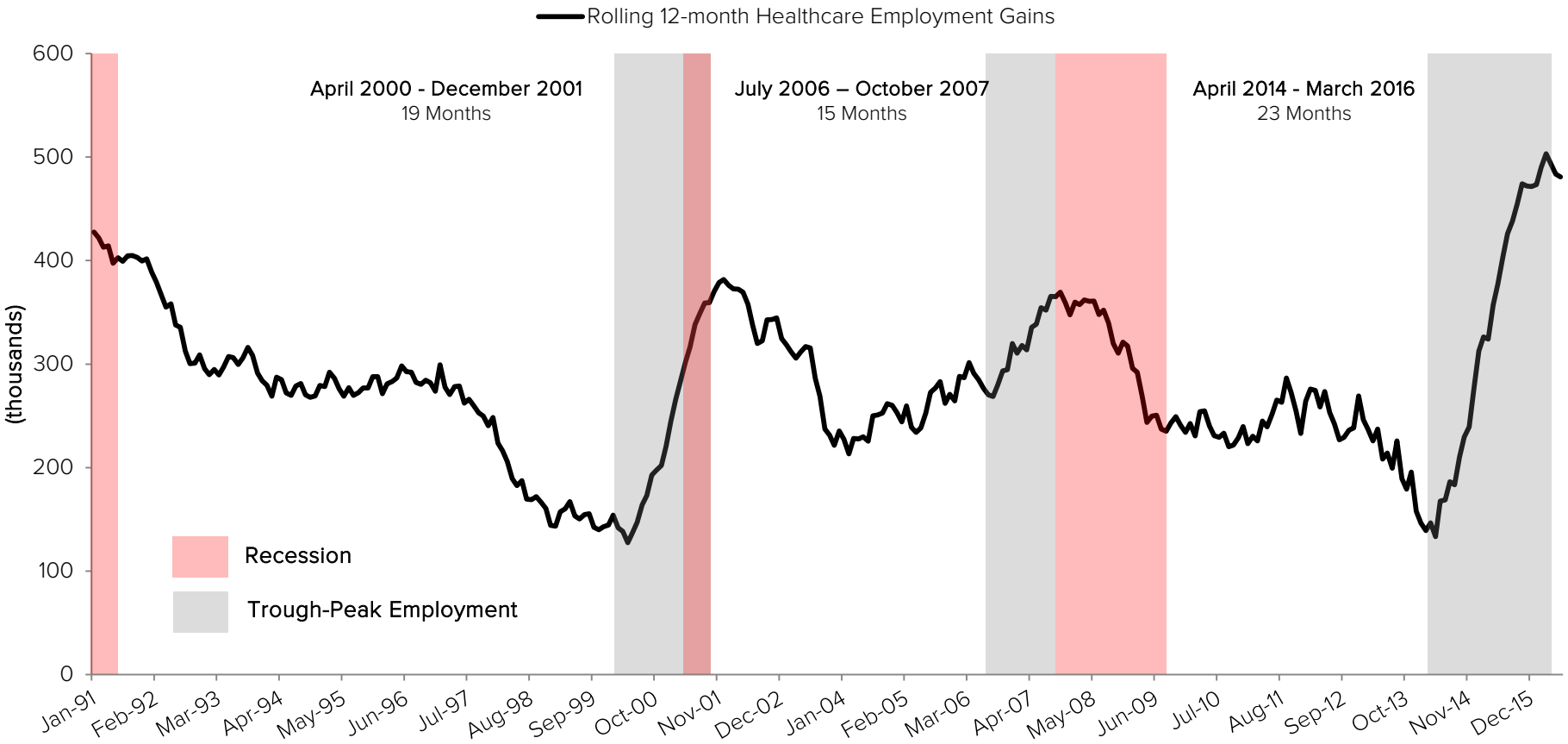


HEALTHCARE JOB OPENINGS SLOWING…

After peaking in December 2014, Healthcare Job Openings posted the slowest growth in approximately 2-years. We expect growth to slow further as we comp out of stimulus.

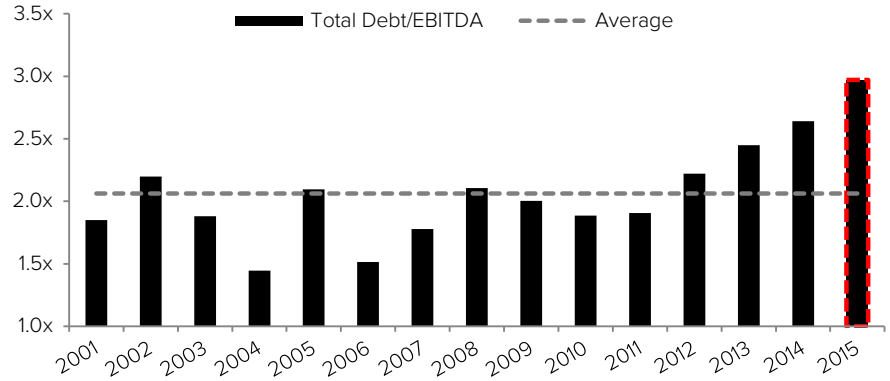
DATA SOURCE: BLS

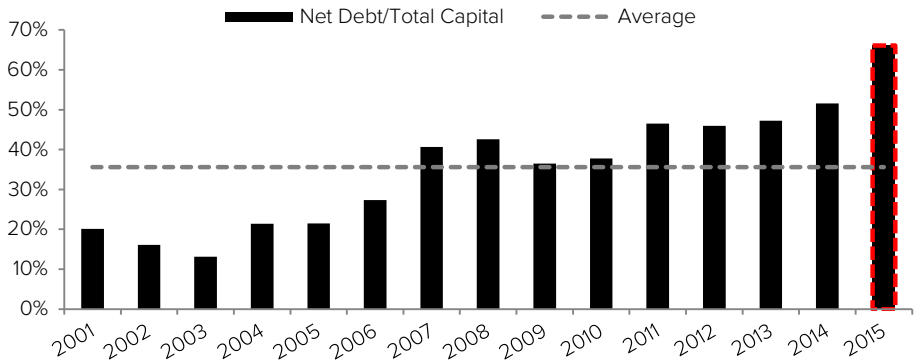
HEALTHCARE EMPLOYMENT GAINS

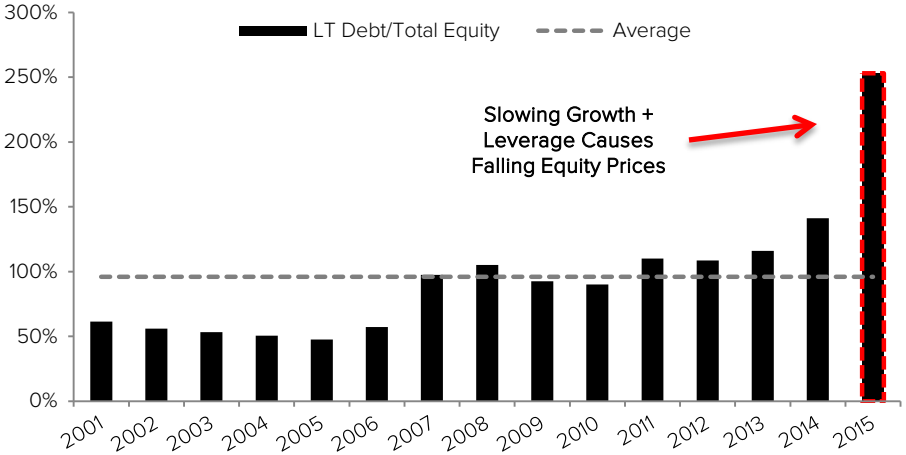


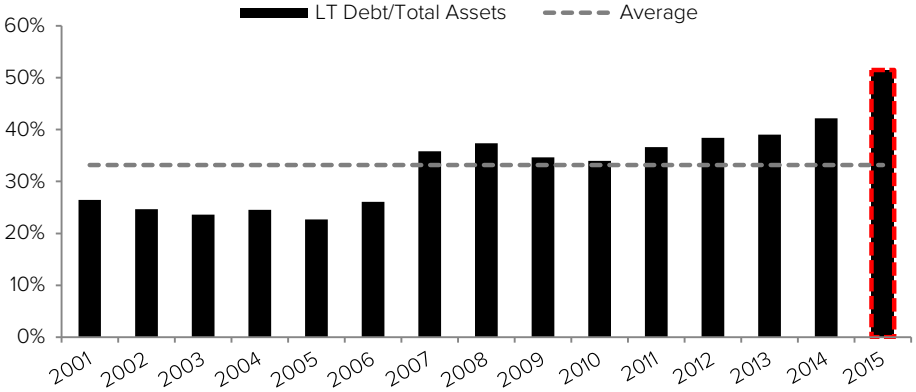
DATA SOURCE: BLS, NBER

LEVERAGE AT 15-YEAR HIGH





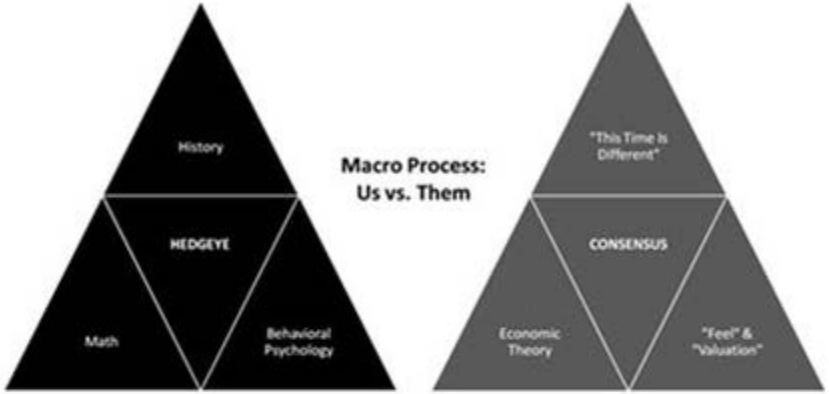


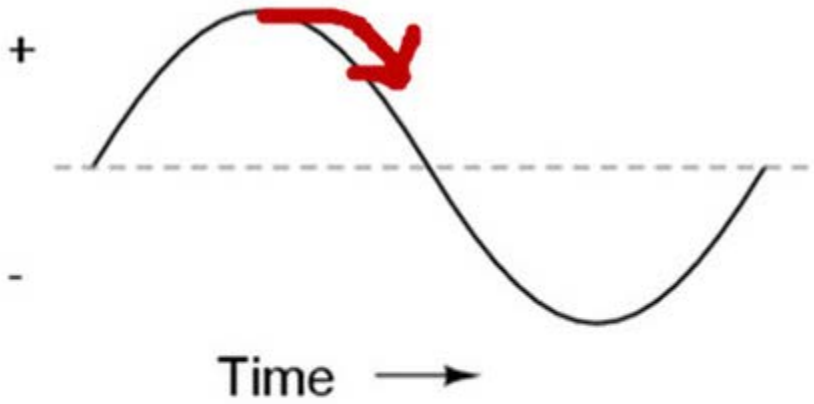


DATA SOURCE: FACTSET

MACRO GRIND

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.

HEDGEYE SECTOR PERFORMANCE

SECTOR	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$81.41	0.39%	4.29%	4.16%
Financial Select Sector	XLF	$23.34	1.26%	2.12%	-2.06%
Health Care Select Sector	XLV	$73.85	0.49%	2.99%	2.53%
Technology Select Sector	XLK	$44.75	0.81%	3.18%	4.48%
Consumer Staples Select Sector	XLP	$55.40	-0.54%	0.45%	9.72%
Industrial Select Sector	XLI	$58.12	0.92%	3.77%	9.64%
Materials Select Sector	XLB	$48.05	1.82%	3.69%	10.66%
The Energy Select Sector	XLE	$69.52	2.48%	1.88%	15.25%
Utilities Select Sector	XLU	$51.78	-1.37%	-1.32%	19.64%
S&P 500	SPX	2,152.14	0.70%	2.54%	5.29%

HEDGEYE SECTOR RELATIVE PERFORMANCE

	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$81.41	-0.31%	1.75%	-1.14%
Financial Select Sector	XLF	$23.34	0.56%	-0.42%	-7.35%
Health Care Select Sector	XLV	$73.85	-0.21%	0.45%	-2.77%
Technology Select Sector	XLK	$44.75	0.11%	0.64%	-0.81%
Consumer Staples Select Sector	XLP	$55.40	-1.24%	-2.09%	4.43%
Industrial Select Sector	XLI	$58.12	0.22%	1.23%	4.35%
Materials Select Sector	XLB	$48.05	1.12%	1.15%	5.37%
The Energy Select Sector	XLE	$69.52	1.78%	-0.66%	9.96%
Utilities Select Sector	XLU	$51.78	-2.07%	-3.85%	14.35%

HEDGEYE STYLE FACTOR PERFORMANCE

	FACTOR	1D % Chg	1W % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Debt	High Debt/EV	1.8%	5.0%	3.8%	6.8%	23.0%	12.8%
	Low Debt/EV	0.8%	3.9%	3.3%	4.2%	11.9%	6.0%
SI	High Short Interest	2.3%	6.2%	4.5%	5.0%	17.6%	7.4%
	Low Short Interest	0.8%	3.3%	1.7%	5.0%	11.9%	6.1%
BETA	High Beta	3.0%	7.4%	2.5%	5.4%	18.8%	5.4%
	Low Beta	-0.4%	0.2%	4.0%	5.9%	16.4%	14.5%
YIELD	High Yield	1.3%	3.6%	3.9%	4.9%	17.0%	10.3%
	Low Yield	1.2%	4.9%	2.5%	5.9%	14.4%	6.3%
MKT CAP	MCAP Bottom 25%	2.0%	6.1%	2.6%	3.9%	14.4%	5.1%
	MCAP Top 25%	0.6%	2.9%	2.5%	4.5%	10.9%	5.5%
Sales	Top 25% Sales Growth	1.7%	4.7%	3.1%	7.0%	19.2%	9.2%
	Bottom 25% Sales Growth	1.5%	4.6%	4.4%	5.5%	16.4%	8.9%
EPS	Top 25% EPS Growth	1.7%	4.9%	3.4%	6.1%	16.6%	7.6%
	Bottom 25% EPS Growth	1.8%	4.4%	3.7%	5.8%	20.1%	11.8%

**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	0.29%	1.1	4.7	5	7	-7	34	22	22
3M LIBOR	0.67%	0.0	0.8	1	4	-2	38	34	32
2Y T-Note	0.69%	3.6	13.9	-4	-5	-41	19	12	24
5Y T-Note	1.09%	6.5	14.8	-8	-12	-74	19	-42	-16
10Y T-Note	1.51%	8.0	13.5	-13	-27	-96	19	-79	-64
30Y T-Note	2.22%	8.4	6.9	-23	-38	-102	14	-89	-87
2Y-10Y Spread, Bps	82	4.4	-0.4	-9.3	-22	-55	0	-91	-88
IG SPREAD (AAABBB)	1.70%	0.0	-13.0	-13	-20	-60	0	0	-15
HIGH YIELD	6.40%	-12.1	-43.0	-71	-142	-293	0	-20	-39
5Y BREAKEVEN	1.47%	4.4	6.4	-4.7	2.5	-18.1	61.1	-13.3	-26.6

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)	57,817	(8,783)	25,176	(75,605)	(108,150)	1.68X	0.81X
Russell 2000 (mini)	(38,465)	(4,148)	(39,970)	(49,201)	(42,842)	0.30X	-0.54X
10Y Treasury	86,861	37,198	(29,782)	(13,954)	(8,504)	1.64X	1.91X
CRUDE OIL	346,062	(207)	379,053	329,117	299,328	0.80X	0.10X
GOLD	286,921	13,742	216,400	156,680	88,089	2.12X	3.38X
COPPER	(19,487)	382	(27,065)	(24,162)	(23,066)	0.29X	-0.16X
$USD	12,505	80	10,755	20,479	33,763	-1.20X	-0.75X
JPY	54,781	2,278	51,002	49,155	2,010	1.00X	1.99X
EUR	(81,673)	(15,607)	(44,504)	(60,524)	(86,106)	0.10X	-0.06X
GBP	(47,269)	(6,019)	(43,732)	(39,602)	(26,321)	-1.20X	-1.31X

MARKET SHARE VOLUME & TOTAL VALUE TRADED

INDEX/SECURITY	VOLUME: (7/12) vs.			
	Prior Day	1M Ave	3M ave	1Y Ave
Total Market Volume*	23%	-6%	-6%	-8%
Total Exchange Volume**	22%	-2%	5%	2%

*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)