Q2 2018 MACRO THEMES

April 3rd, 2018

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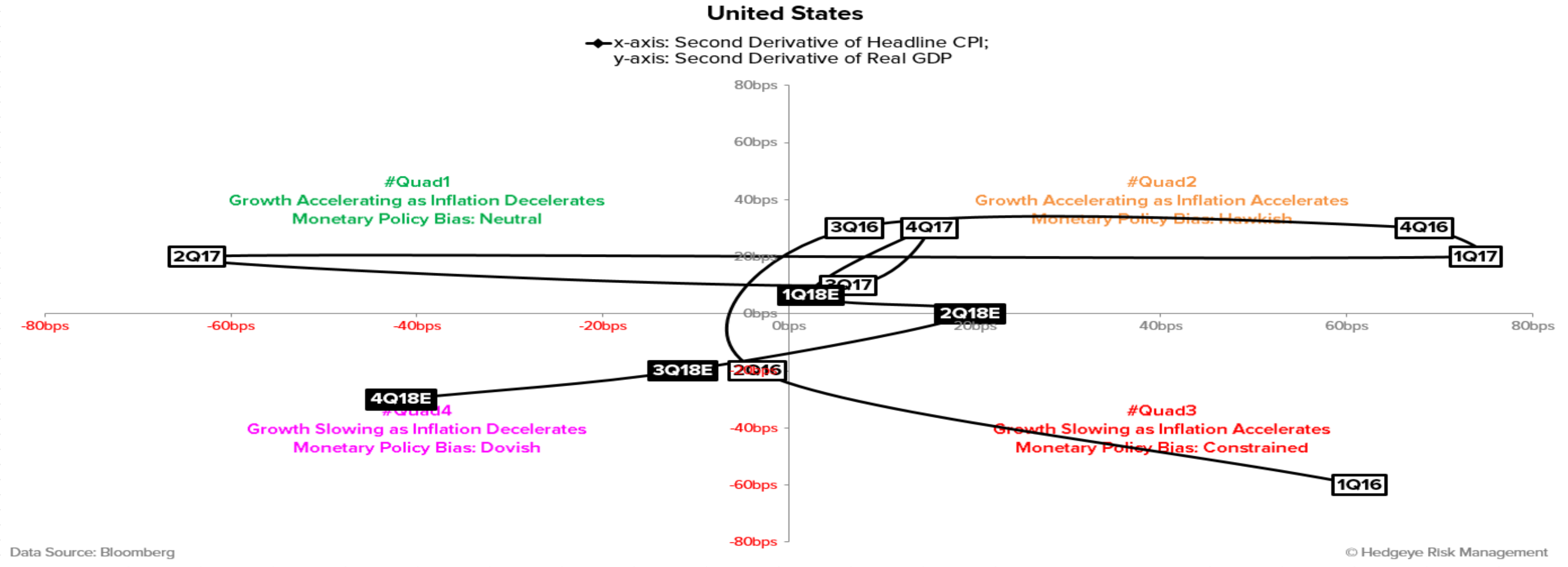
MEASURING AND MAPPING THE CYCLE

SPECIFICALLY, OUR BACKTEST DATA SHOWS THAT A LARGE DEGREE OF INTER AND INTRA ASSET CLASS RETURNS CAN BE EXPLAINED BY CHANGES IN GROWTH, INFLATION AND POLICY RELATIVE TO IMPLIED EXPECTATIONS ACROSS MACRO MARKETS. REFER TO THE FOLLOWING SLIDE FOR MORE DETAILS.

United States	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17		1Q18E	2Q18E	3Q18E	4Q18E	NTM
Real GDP QoQ SAAR	3.20%	2.70%	1.60%	0.50%	0.60%	2.20%	2.80%	1.80%	1.20%	3.10%	3.20%	2.90%	Hedgeye Estimates	1.56%	3.03%	2.33%	1.68%	-
Percentile (T10Y)	77%	56%	41%	26%	31%	56%	69%	46%	33%	79%	82%	72%	Bloomberg Consensus Estimates	2.50%	3.00%	2.90%	2.70%	-
Real GDP YoY	3.80%	3.30%	2.40%	2.00%	1.40%	1.20%	1.50%	1.80%	2.00%	2.20%	2.30%	2.60%	Hedgeye Estimates	2.67%	2.67%	2.47%	2.17%	2.49%
Percentile (T10Y)	100%	95%	59%	54%	33%	23%	38%	56%	62%	64%	67%	74%	Bloomberg Consensus Estimates	2.80%	2.80%	2.70%	2.74%	2.76%
Headline CPI YoY	-0.06%	-0.04%	0.11%	0.47%	1.08%	1.05%	1.12%	1.80%	2.54%	1.90%	1.97%	2.12%	Hedgeye Estimates	2.14%	2.34%	2.22%	1.80%	2.13%
Percentile (T10Y)	5%	10%	13%	15%	18%	18%	23%	59%	77%	67%	69%	74%	Bloomberg Consensus Estimates	2.26%	2.60%	2.57%	2.30%	2.43%



WHY DOES THE 2ND DERIVATIVE MATTER?

BECAUSE FINANCIAL ASSET RETURNS HAVE HISTORICALLY ANCHORED ON MARGINAL RATES OF CHANGE IN BOTH GROWTH AND INFLATION – ESPECIALLY WHEN THESE DELTAS ARE COUNTER TO CONSENSUS EXPECTATIONS.

Hedgeye Macro U.S. GIP Model Backtest	Weighted Expected Value, by Quadrant				Percentile of Weighted Expected Value, by Asset Class				Percentile of Weighted Expected Value, by Quadrant				Percent Positive Ratio (color-coding by Asset Class & Quadrant)				Total Quarterly Performance Observations			
Exposure	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
S&P 500 Index	1.4%	0.4%	0.1%	-0.4%	42%	53%	32%	37%	76%	56%	33%	38%	81%	75%	56%	56%	21	16	27	16
S&P 500 Consumer Discretionary Sector Index	1.7%	0.4%	0.1%	0.0%	79%	58%	47%	74%	91%	58%	42%	78%	76%	75%	48%	44%	21	16	27	16
S&P 500 Consumer Staples Sector Index	1.1%	0.1%	0.0%	0.2%	5%	26%	16%	84%	60%	29%	24%	82%	86%	63%	59%	56%	21	16	27	16
S&P 500 Energy Sector Index	1.2%	0.3%	0.4%	-0.4%	11%	47%	89%	26%	62%	53%	71%	31%	71%	75%	63%	50%	21	16	27	16
S&P 500 Financials Sector Index	1.4%	0.3%	-0.2%	-0.2%	32%	37%	0%	42%	71%	47%	4%	49%	76%	69%	56%	63%	21	16	27	16
S&P 500 Health Care Sector Index	1.3%	0.3%	0.0%	0.2%	21%	32%	21%	89%	67%	44%	27%	84%	81%	69%	52%	69%	21	16	27	16
S&P 500 Industrials Sector Index	1.5%	0.5%	0.1%	-0.4%	68%	68%	37%	32%	87%	62%	38%	33%	71%	75%	48%	44%	21	16	27	16
S&P 500 Information Technology Sector Index	1.8%	1.0%	0.4%	-0.7%	89%	95%	84%	16%	96%	84%	67%	22%	81%	81%	52%	56%	21	16	27	16
S&P 500 Materials Sector Index	1.5%	0.3%	-0.1%	0.1%	58%	42%	5%	79%	82%	51%	9%	80%	81%	75%	52%	50%	21	16	27	16
S&P 500 REITS Index	1.3%	0.1%	0.2%	0.0%	26%	16%	63%	68%	69%	22%	53%	76%	67%	62%	64%	82%	18	13	22	11
S&P 500 Utilities Sector Index	0.8%	-0.7%	0.7%	-0.2%	0%	0%	100%	47%	56%	4%	84%	53%	71%	31%	67%	50%	21	16	27	16
Russell 1000 Growth Index	1.5%	0.7%	0.1%	-0.6%	63%	84%	53%	21%	84%	69%	47%	27%	81%	75%	63%	56%	21	16	27	16
Russell 1000 Value Index	1.4%	0.0%	0.1%	-0.1%	37%	11%	26%	53%	73%	18%	31%	67%	71%	75%	56%	69%	21	16	27	16
S&P 500 Dividend Aristocrats Index	1.4%	0.1%	0.0%	0.4%	47%	21%	11%	100%	78%	24%	22%	91%	81%	63%	63%	56%	21	16	27	16
S&P 500 Low Beta Minimum Volatility Index	1.3%	-0.2%	0.2%	0.4%	16%	5%	68%	95%	64%	11%	56%	89%	71%	63%	52%	75%	21	16	27	16
S&P 500 Quality Index	1.6%	0.5%	0.2%	0.0%	74%	63%	58%	63%	89%	60%	51%	73%	90%	81%	56%	56%	21	16	27	16
S&P 500 High Beta Index	2.0%	0.6%	0.2%	-0.7%	100%	74%	74%	5%	100%	64%	58%	18%	67%	69%	59%	50%	21	16	27	16
S&P 500 Momentum Index	1.7%	0.7%	0.3%	-1.0%	84%	89%	79%	0%	93%	73%	64%	9%	90%	63%	48%	56%	21	16	27	16
Russell 2000 Index	1.5%	0.6%	0.1%	-0.1%	53%	79%	42%	58%	80%	67%	40%	69%	76%	75%	59%	56%	21	16	27	16
NASDAQ 100 Index	2.0%	1.2%	0.6%	-0.7%	95%	100%	95%	11%	98%	89%	82%	20%	86%	75%	59%	56%	21	16	27	16
Bloomberg Barclays U.S. Agg Credit Yield To Worst	-0.3%	0.1%	0.6%	-1.4%	33%	33%	50%	17%	9%	20%	78%	4%	43%	44%	52%	25%	21	16	27	16
Bloomberg Barclays U.S. High Yield Average Yield To Worst	-0.5%	-0.4%	0.9%	-0.5%	17%	25%	58%	50%	4%	9%	87%	29%	33%	44%	59%	44%	21	16	27	16
Bloomberg Barclays U.S. Corporate Average OAS	0.4%	-0.7%	1.6%	-0.3%	83%	8%	100%	58%	49%	2%	100%	42%	33%	31%	52%	38%	21	16	27	16
Bloomberg Barclays U.S. High Yield Average OAS	-0.2%	-0.5%	1.4%	0.8%	42%	17%	92%	83%	11%	7%	98%	96%	29%	31%	48%	50%	21	16	27	16
Bloomberg Barclays U.S. Composite Convertible Cvt. Yield	-1.4%	-1.5%	1.4%	1.0%	0%	0%	83%	92%	0%	0%	96%	98%	41%	0%	60%	45%	17	11	20	11
U.S. Treasury 2Y Note Yield	0.8%	1.5%	1.1%	-1.8%	100%	92%	75%	0%	58%	96%	93%	0%	52%	69%	52%	38%	21	16	27	16
U.S. Treasury 5Y Note Yield	0.7%	1.3%	0.5%	-1.6%	92%	75%	42%	8%	53%	91%	76%	2%	52%	56%	48%	31%	21	16	27	16
U.S. Treasury 10Y Note Yield	0.1%	1.1%	0.1%	-1.3%	75%	67%	25%	25%	36%	87%	44%	7%	48%	69%	48%	31%	21	16	27	16
U.S. Treasury 30Y Bond Yield	-0.1%	0.7%	0.0%	-0.9%	58%	50%	17%	33%	16%	71%	16%	13%	48%	69%	52%	31%	21	16	27	16
Bond Buyer US 40 Municipal Bond YTM	-0.2%	0.3%	0.3%	-0.8%	50%	42%	33%	42%	13%	49%	62%	16%	33%	50%	48%	13%	18	16	25	16
U.S. Treasury 5Y Breakeven Rate	-0.6%	1.0%	-0.5%	-0.2%	8%	58%	0%	67%	2%	82%	0%	51%	43%	56%	59%	19%	21	16	27	16
U.S. Treasury 10Y Breakeven Rate	0.1%	1.3%	1.0%	18.6%	67%	83%	67%	100%	29%	93%	89%	100%	48%	69%	67%	38%	21	16	27	16
U.S. Treasury 5Y 5Y-Forward Breakeven Rate	-0.3%	1.6%	-0.2%	0.0%	25%	100%	8%	75%	7%	98%	2%	71%	43%	75%	56%	38%	21	16	27	16
Thomson Reuters/CoreCommodity CRB Commodity Index	0.0%	0.8%	0.4%	-0.9%	25%	50%	25%	0%	22%	78%	69%	11%	57%	75%	63%	31%	21	16	27	16
Commodity Research Bureau BLS/US Spot Raw Industrials Index	0.3%	0.8%	0.0%	-0.2%	50%	75%	0%	75%	42%	80%	13%	58%	57%	81%	44%	50%	21	16	27	16
Commodity Research Bureau BLS/US Spot Foodstuff Index	0.0%	0.3%	0.6%	-0.2%	0%	0%	75%	50%	20%	38%	80%	44%	43%	56%	56%	50%	21	16	27	16
Front-month Brent Crude Oil	0.6%	2.3%	1.0%	-0.7%	100%	100%	100%	25%	51%	100%	91%	24%	52%	75%	52%	50%	21	16	27	16
Gold Spot	0.3%	0.8%	0.4%	0.5%	75%	25%	50%	100%	47%	76%	73%	93%	52%	75%	56%	63%	21	16	27	16
U.S. Dollar Index	-0.1%	-0.1%	0.0%	0.3%	0%	0%	29%	100%	18%	13%	18%	87%	43%	38%	52%	69%	21	16	27	16
AUD/USD	0.3%	0.3%	0.0%	-0.2%	100%	71%	43%	57%	44%	36%	20%	60%	62%	69%	67%	44%	21	16	27	16
CAD/USD	0.1%	0.3%	0.1%	-0.2%	14%	86%	57%	86%	24%	40%	29%	64%	43%	56%	52%	44%	21	16	27	16
CHF/USD	0.3%	0.2%	0.2%	-0.2%	86%	57%	100%	71%	40%	33%	60%	62%	67%	56%	59%	38%	21	16	27	16
EUR/USD	0.2%	0.1%	0.1%	-0.2%	71%	29%	71%	29%	38%	27%	36%	47%	62%	56%	56%	31%	21	16	27	16
GBP/USD	0.1%	0.2%	-0.1%	-0.3%	57%	43%	14%	14%	33%	31%	11%	40%	57%	69%	41%	31%	21	16	27	16
JPY/USD	0.1%	0.3%	0.1%	-0.2%	43%	100%	86%	43%	31%	42%	49%	56%	38%	50%	56%	44%	21	16	27	16
JPMorgan EM FX Index	0.1%	-0.1%	-0.1%	-0.4%	29%	14%	0%	0%	27%	16%	7%	36%	56%	57%	57%	44%	18	14	23	16

Data Source: Bloomberg. Expected value calculations weighted by cumulative delta into respective quadrant. Trailing 20 years.

DATA SOURCE: BLOOMBERG. THE EXPECTED VALUE DATA IS WEIGHTED BY THE DELTA INTO THE RESPECTIVE QUADRANT.

GIP MODEL ASSET ALLOCATION PROCESS

#QUAD1

- **Maximum gross exposure, tight net exposure. Hedge downside risk to market beta. Growth investing bias.**
- **Asset Class Overweight(s):** Equities and Credit
- **Asset Class Underweight(s):** Fixed Income
- **Equity Sector Overweight(s):** Consumer Discretionary, Tech and Materials
- **Equity Sector Underweight(s):** Utilities, Consumer Staples and Energy
- **Equity Style Factor Overweight(s):** Momentum, High Beta and Growth
- **Equity Style Factor Underweight(s):** Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):** HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):** Short Duration

#QUAD2

- **Maximum gross exposure, wide net exposure. Hedge downside risk to market beta. Inflation-hedging bias.**
- **Asset Class Overweight(s):** Equities and Credit
- **Asset Class Underweight(s):** Fixed Income
- **Equity Sector Overweight(s):** Tech, Industrials and Consumer Discretionary
- **Equity Sector Underweights(s):** Utilities, REITS and Consumer Staples
- **Equity Style Factor Overweight(s):** Momentum, High Beta and Growth
- **Equity Style Factor Underweight(s):** Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):** TIPS, HY Credit, IG Credit and Convertibles
- **Fixed Income Underweight(s):** Long Duration and Munis

#QUAD3

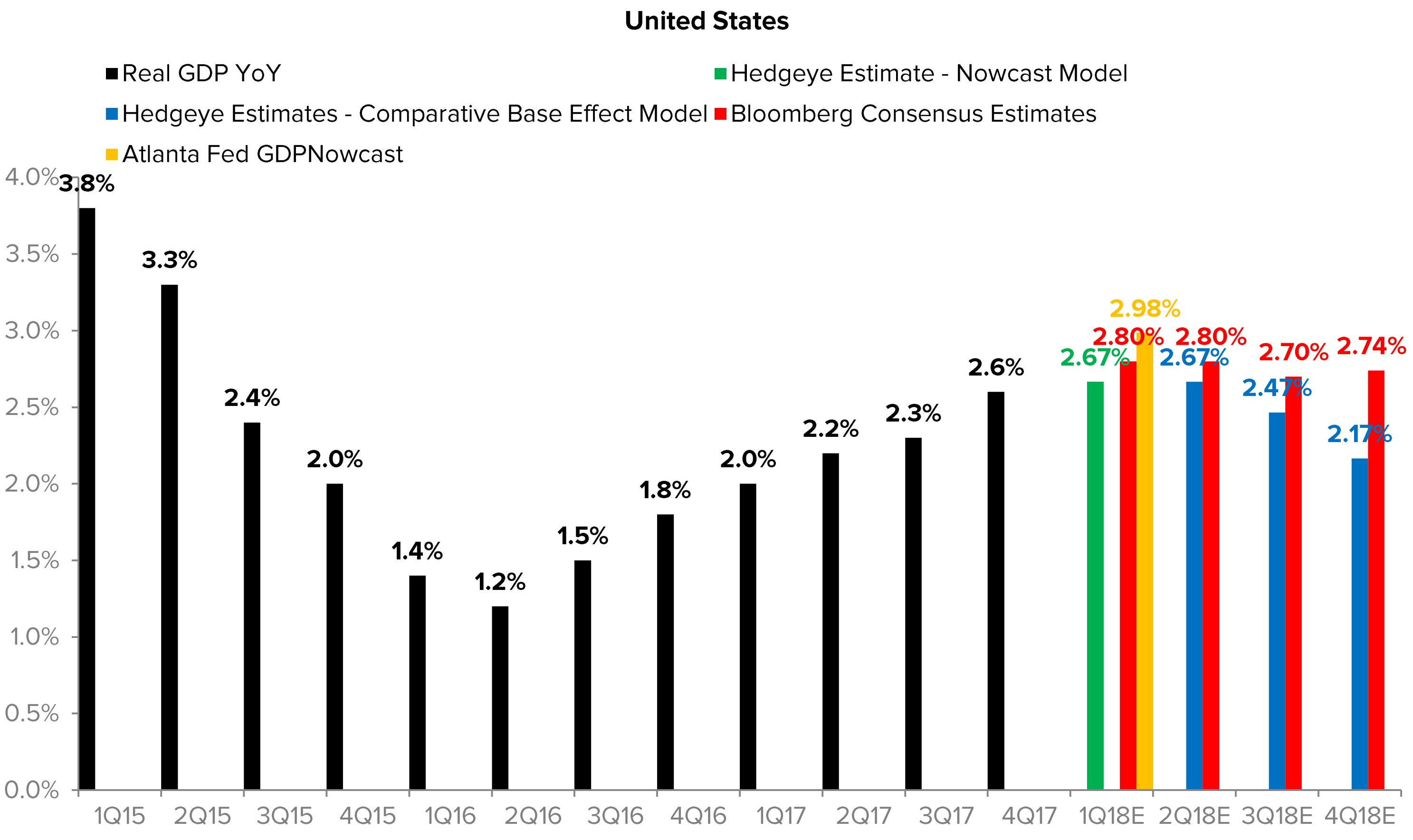
- **Low gross exposures, tight net exposure. Hedge upside risk to market beta. Defensive, yield-chasing bias.**
- **Asset Class Overweight(s):** Fixed Income
- **Asset Class Underweight(s):** Equities and Credit
- **Equity Sector Overweight(s):** Utilities, REITS and Energy
- **Equity Sector Underweight(s):** Financials, Materials and Consumer Discretionary
- **Equity Style Factor Overweight(s):** Low Beta/Minimum Vol. and Quality
- **Equity Style Factor Underweight(s):** Value and Small Caps
- **Fixed Income Overweight(s):** Long Duration
- **Fixed Income Underweight(s):** HY Credit, IG Credit and Convertibles

#QUAD4

- **Minimum gross exposure, net short exposure. Hedge upside risk to market beta. Deflation-hedging bias.**
- **Asset Class Overweight(s):** Fixed Income
- **Asset Class Underweight(s):** Equities and Credit
- **Equity Sector Overweight(s):** Healthcare, Consumer Staples and Consumer Discretionary
- **Equity Sector Underweight(s):** Tech, Energy and Industrials
- **Equity Style Factor Overweight(s):** High Dividend Yield, Low Beta/Minimum Vol. and Value
- **Equity Style Factor Underweight(s):** Momentum, High Beta and Growth
- **Fixed Income Overweight(s):** Long Duration and Munis
- **Fixed Income Underweight(s):** TIPS, HY Credit, IG Credit and Convertibles

SOURCE: HEDGEYE RISK MANAGMENT

U.S. REAL GDP FORECASTS



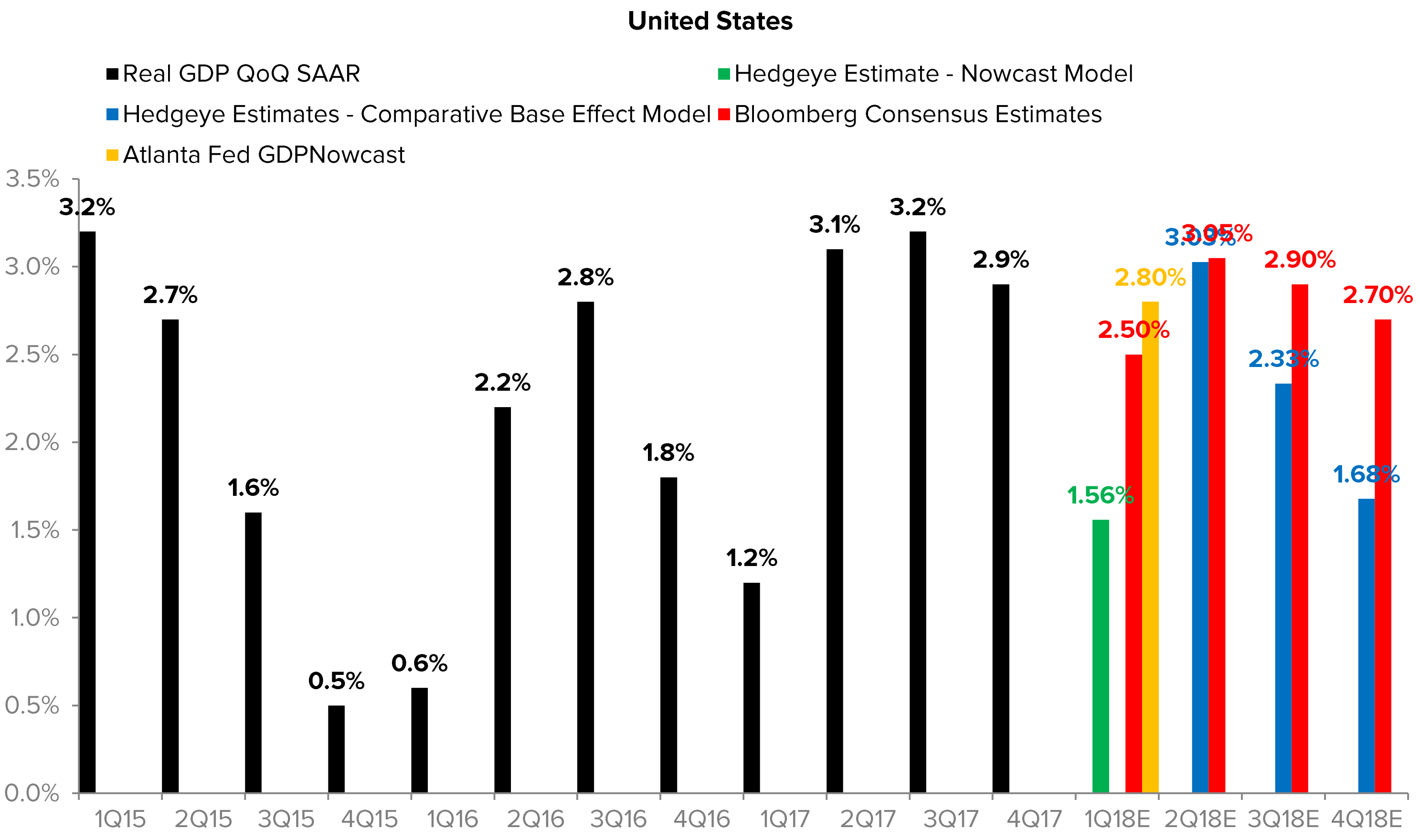
We use two distinct models to forecast the YoY growth rate of real GDP and the combination of the two allows us to develop both a highly accurate real-time view of near-term growth momentum, as well as a high-probability scenario for where growth is likely to trend over the intermediate term.

Intra-quarter, we employ a nowcasting model that adjusts the base rate by the cumulative weighted marginal rate of change of the 30 factors embedded in our predictive tracking algorithm. In out-quarters where high-frequency data has yet to be reported, we employ a stochastic Bayesian inference process that adjusts each of the preceding forecasted base rates inversely and proportionally to the marginal rates of change in the base effects. The 2Y average growth rate in the comparative base period backtests as having the most forecasting validity.

All in, our U.S. GDP model has an intra-quarter tracking error of 40bps, an average absolute forecast error of 29bps and an r-squared of 0.79 with a success rate of 93% in terms of projecting the directional outcome.

DATA SOURCE: BLOOMBERG

U.S. HEADLINE GDP FORECASTS



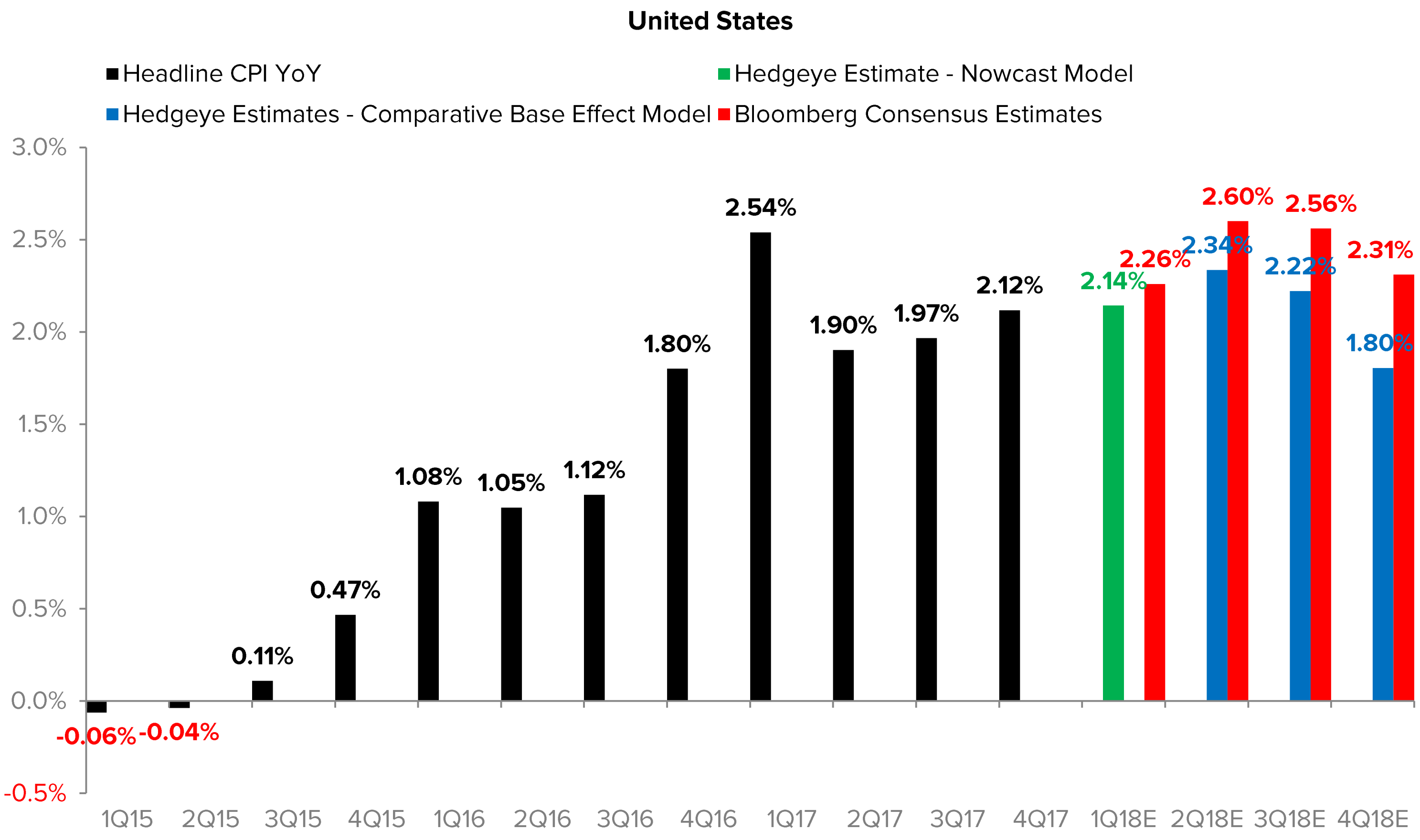
One differentiating factor of our forecasting process is that we aim to solve for cycle (i.e. where growth is trending to on a YoY basis), rather than trying to identify super short-term economic momentum. A rigorous study of financial market history suggests the latter growth rate to be little more than noise in the context of making accurate intermediate-to-long-term investment decisions.

As such, we interpolate our QoQ SAAR forecasts from what is being implied by our forecasted YoY growth rate.

For discussion's sake, we typically backfill a supporting narrative on why our model suggests growth is likely to come in higher or lower than consensus estimates by highlighting recent economic developments that we view as having a high probability of continuing based on our analysis of the distinct cycles throughout the various sectors of the economy, keeping in mind that we're discussing a residual value, not the underlying driver of cross-asset returns.

DATA SOURCE: BLOOMBERG

U.S. HEADLINE CPI FORECASTS



We use two distinct models to forecast the YoY rate of change in headline CPI and the combination of the two allows us to develop both a highly accurate real-time view of near-term inflation momentum, as well as a high-probability scenario for where inflation is likely to trend over the intermediate term.

Intra-quarter, we employ a nowcasting model that adjusts the base rate by the cumulative weighted marginal rate of change of the various inflation-oriented factors embedded in our predictive tracking algorithm. In out-quarters where high-frequency data has yet to be reported, we employ a stochastic Bayesian inference process that adjusts each of the preceding forecasted base rates inversely and proportionally to the marginal rates of change in the base effects. The 2Y average growth rate in the comparative base period backtests as having the most forecasting validity.

All in, our U.S. CPI model has an intra-quarter tracking error of 34bps, an average absolute forecast error of 21bps and an r-squared of 0.76 with a success rate of 93% in terms of projecting the directional outcome.

Q2 2018 MACRO THEMES

1

USA: #PEAK CYCLE?

After 6 consecutive quarters of accelerating growth and bullish quantitative signaling, our model is mapping a peak and prospective negative inflection in domestic economic growth as we move into 2H18. We'll review and contextualize the recent shift in market and macro dynamics and detail the fundamental, base effect and risk management dynamics driving our expectation for a downshift to Quads 3 and 4 in the back half of the year. We'll specify the risks to the consensus outlook and how to optimize positioning for the chop associated with emergent phase transitions in growth and volatility.

2

GLOBAL #DIVERGENCES, REITERATED

Cross-asset volatility has conspicuously emerged amid consensus calls for an ongoing "globally synchronized recovery" and an extrapolation of cycle-peak GDP growth rates in the U.S. through year-end. As such, we feel compelled to reiterate our non-consensus view that global growth momentum has broadly dissipated. The only strategist that seems to agree with our view is *Mr. Market* himself.

3

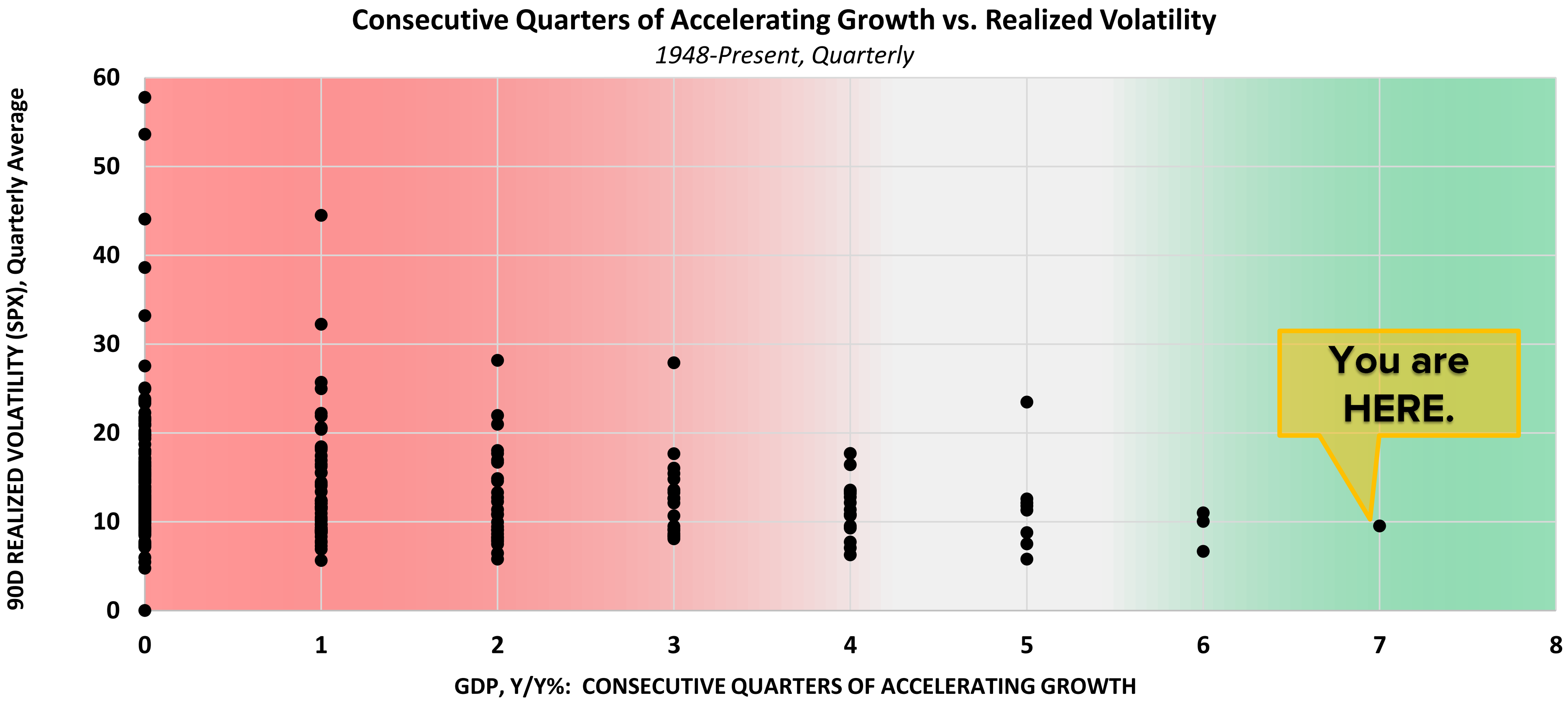
DOLLAR #BOTTOMING?

We have recently asked the rhetorical question, "Is the [U.S.] dollar the new VIX?" Peak dollar bearishness came midway through Q1 which was driven by carry trades and fund flows associated with the low-volatility, global growth accelerating backdrop of 2017. We'll outline reasons and provide specific set-ups to exemplify why a reversal in the U.S. dollar continues to be a major risk to aging consensus fund flow narratives.

USA: #PEAK CYCLE?

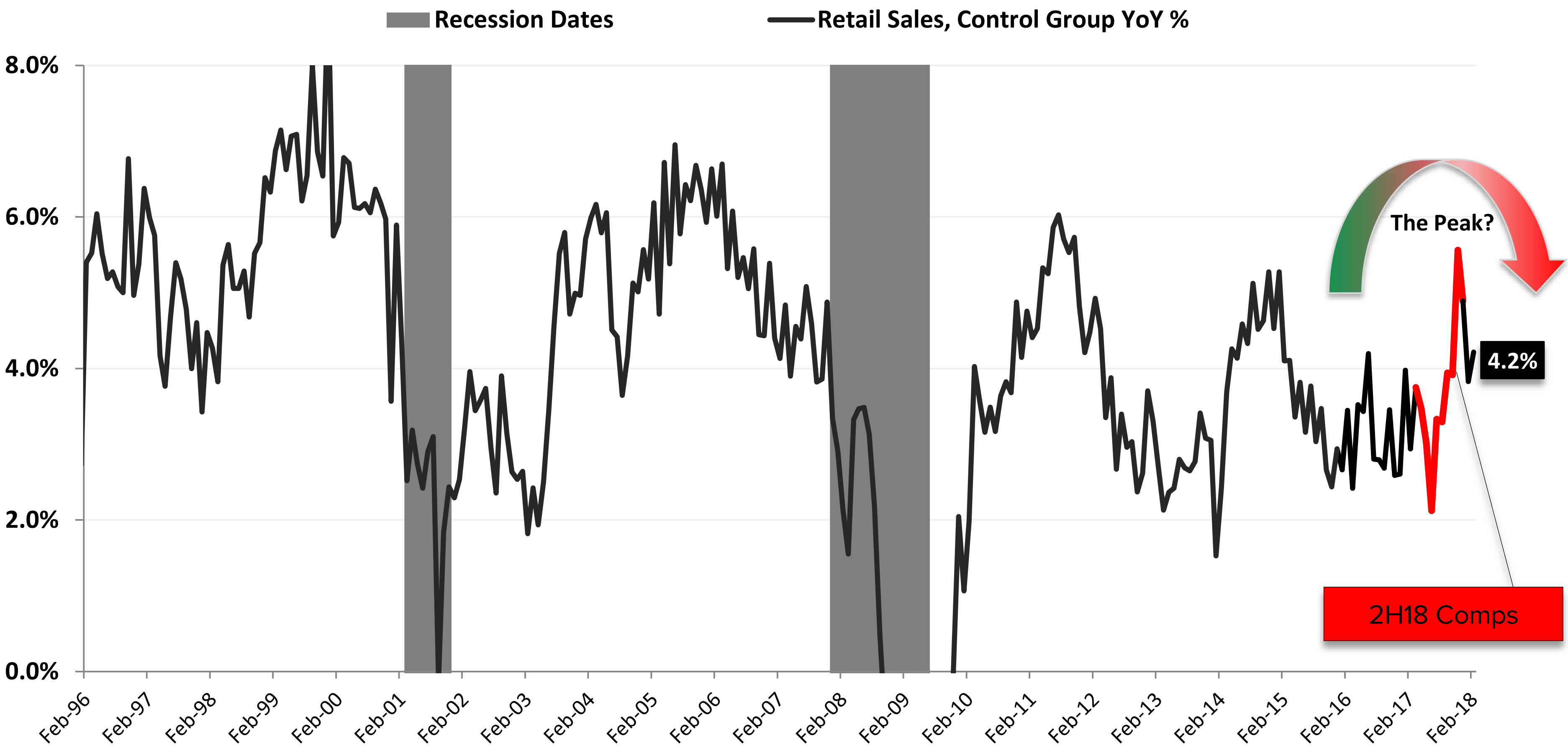
GOLDILOCKS: GROWTH IS CAUSAL

PROTRACTED ACCELERATIONS IN GROWTH PERPETUATE A POSITIVE, SELF-REINFORCING CYCLE OF PASSIVE INVESTMENT AND LOW VOLATILITY. IMBALANCES CAN BUILD AND RISKS CAN CUMULATE LATENTLY …… UNTIL THE GROWTH CYCLE INFLECTS.



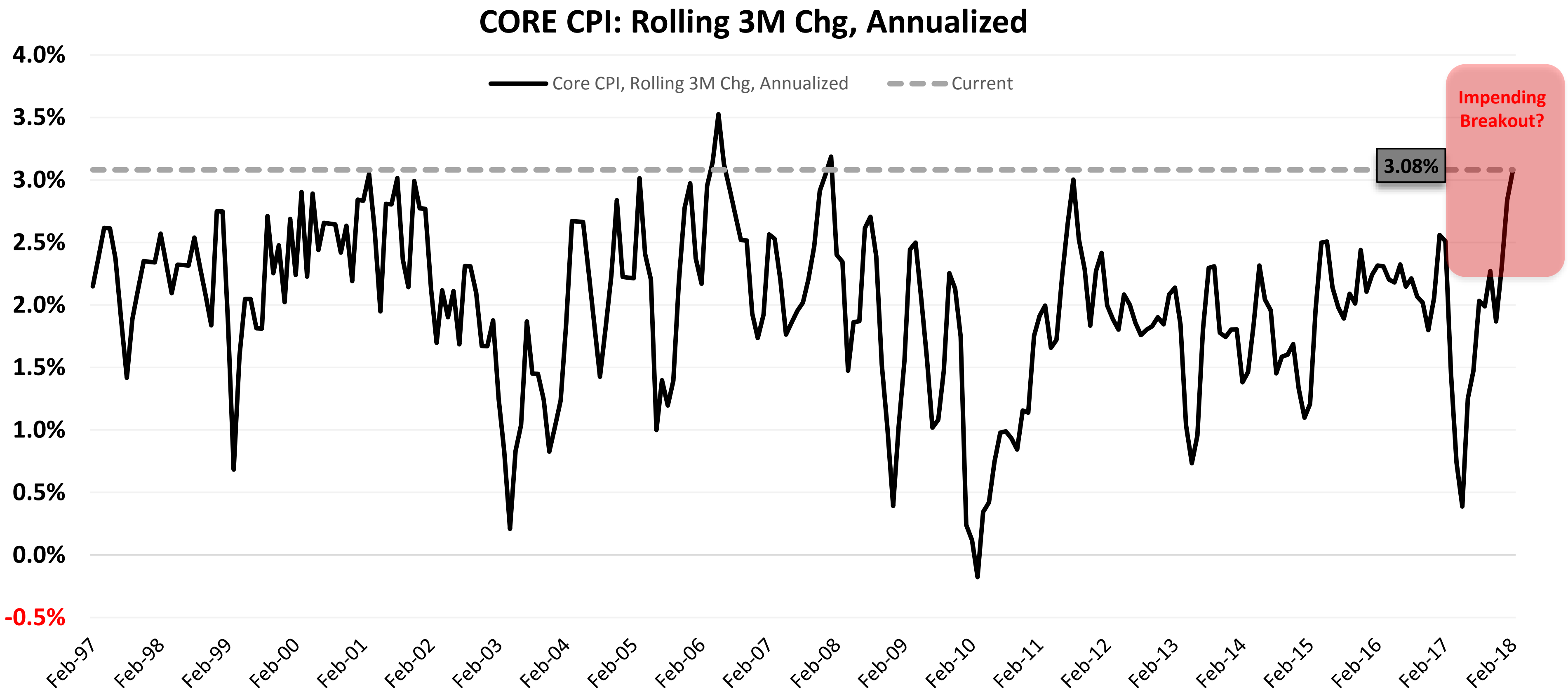
DATA SOURCE: BLOOMBERG

THE COMP AND ROC OUTLOOK = LESS GOOD



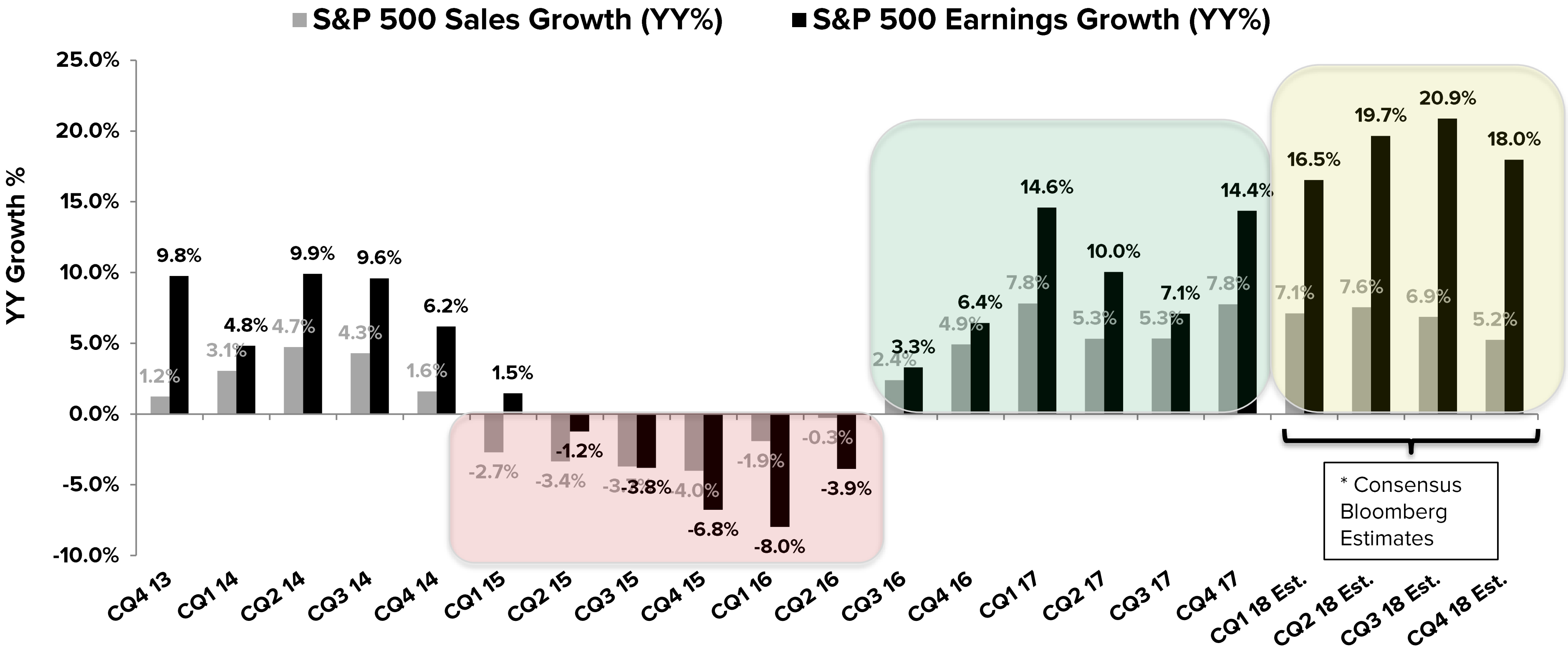
LATE CYCLE PRICING IN CORE?

CORE PRICE PRESSURE HAS BEEN PERCOLATING IN RECENT MONTHS. THE NEXT FEW MONTHS HOLD THE POTENTIAL FOR FURTHER ACCELERATION AS BASE EFFECTS EASE.



THE #PEAK? .... THE PROFIT CYCLE

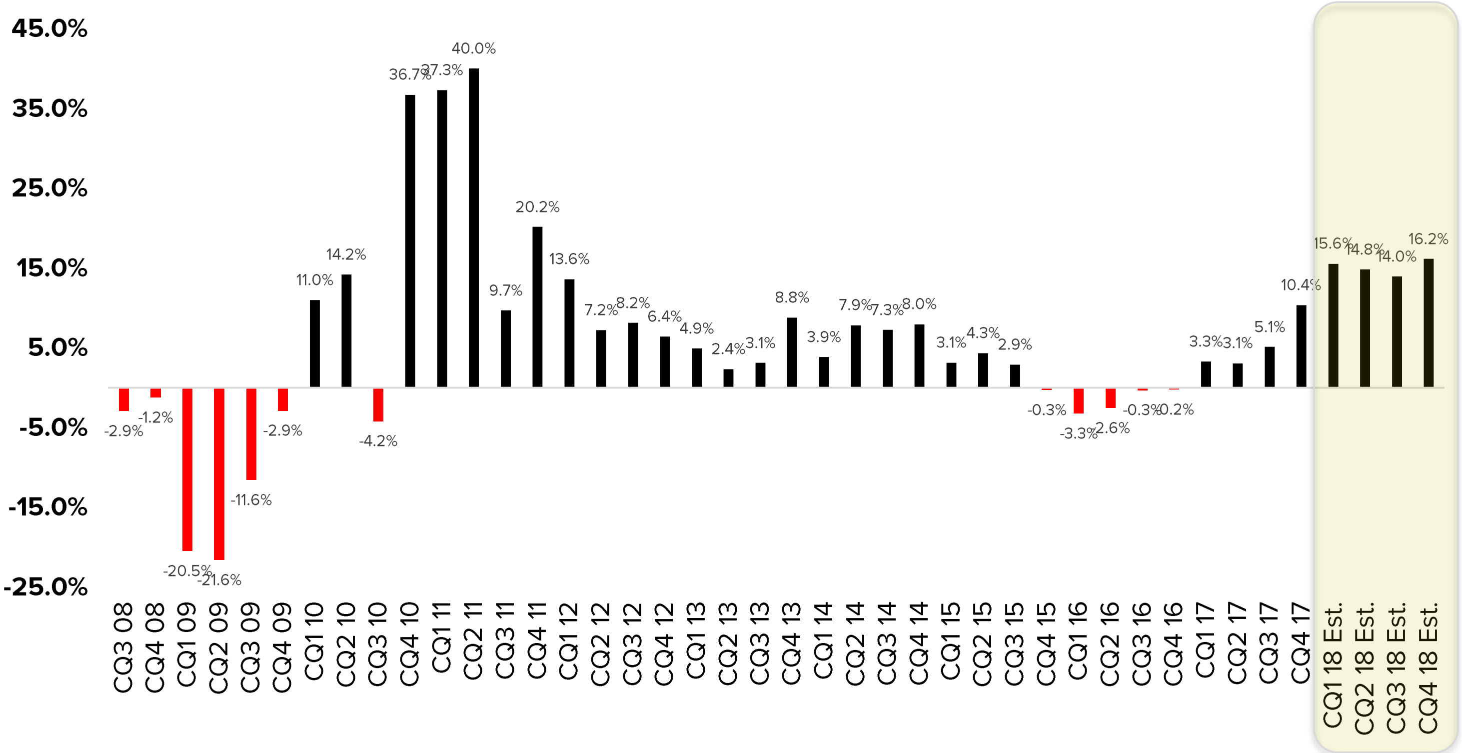
ALTHOUGH THERE ARE BASE-EFFECT COUNTER-ARGUMENTS LIKE TAX REFORM, CONSENSUS IS BETTING ON A SECOND DERIVATIVE ACCELERATION IN S&P 500 EARNINGS GROWTH



LOFTY EXPECTATIONS: EXTRAPOLATING THE 2YR COMP STACK

THE EXTRAPOLATED 2YR EPS GROWTH TREND PROVIDES A GOOD PICTURE OF EARNINGS EXPECTATIONS AS IT INHERENTLY FACTORS IN BASE RATES.

S&P 500 EPS Growth Rate YY% (2Yr Comp Stack)



It's a straightforward conclusion that a slowdown in growth would derail forward earnings estimates which have kept pace with the bull market.

The projected, out-quarter 2yr comp stack extrapolates consensus S&P 500 earnings estimates.

DATA SOURCE: BLOOMBERG

GLOBAL #DIVERGENCES, REITERATED

SEQUENCE THE DATA: THEN

...AT THE YTD HIGH IN GLOBAL EQUITIES

1/26/2018	GIP Model Signals: Actuals 1Q17	2Q17	3Q17	4Q17	Hedgeye Forecasts 1Q18E	2Q18E	3Q18E	4Q18E	High-Frequency Economic Data Signals: Consumption 3MMA Trend	Consumption Percentile of Latest Reading (T10Y)	Manufacturing 3MMA Trend	Manufacturing Percentile of Latest Reading (T10Y)	Composite PMI 3MMA Trend	Composite PMI Percentile of Latest Reading (T10Y)	Headline CPI 3MMA Trend	Headline CPI Percentile of Latest Reading (T10Y)	Core CPI 3MMA Trend	Core CPI Percentile of Latest Reading (T10Y)
Argentina	2	1	1	3	2	1	3	4	↓	27%	↓	66%	-	-	↑	55%	-	-
Australia	3	1	1	3	4	3	1	1	↑	18%	↑	54%	↑	92%	→	27%	→	6%
Brazil	1	1	1	2	3	3	4	4	↓	43%	↑	77%	↓	89%	↑	2%	→	4%
Canada	2	1	3	3	3	3	2	4	↓	87%	↑	61%	↓	85%	→	56%	↑	60%
China	1	4	3	3	3	4	3	4	↓	4%	↓	63%	↑	72%	→	31%	→	90%
Eurozone	2	1	1	1	4	3	4	4	↓	85%	↑	81%	↑	87%	→	52%	→	46%
France	2	1	1	2	3	4	4	4	↓	71%	↑	87%	↑	94%	→	49%	→	9%
Germany	2	1	2	1	4	3	4	4	↓	68%	↑	79%	↑	86%	→	61%	→	78%
India	4	4	2	2	3	2	4	1	-	-	↑	59%	↑	18%	↑	19%	-	-
Indonesia	2	2	1	1	4	3	1	4	↓	3%	↓	56%	↓	58%	→	21%	→	5%
Italy	2	2	1	4	4	3	4	4	↓	66%	↑	86%	↑	83%	→	46%	↓	25%
Japan	2	2	2	2	3	4	4	4	→	70%	↑	74%	↑	58%	→	70%	→	73%
Mexico	3	3	3	2	1	1	1	4	↓	23%	↑	28%	↓	36%	↑	98%	→	87%
Russia	1	1	4	4	1	3	4	1	→	43%	↓	25%	↑	69%	↓	2%	↓	2%
South Africa	1	1	4	1	4	3	2	4	↓	77%	↑	45%	→	33%	↓	22%	↓	26%
South Korea	2	4	2	4	1	3	4	1	↓	50%	↓	33%	↓	86%	↓	49%	→	19%
Turkey	2	2	1	3	4	3	4	4	↑	35%	↓	87%	↑	91%	↑	94%	↑	98%
United Kingdom	2	3	3	3	4	1	4	1	→	45%	↓	87%	↑	45%	→	64%	→	77%
United States	2	1	2	2	2	2/3	4	4	↑	77%	↑	54%	↓	89%	→	66%	→	34%
MODE/MEAN	2	1	1	2	4	3	4	4	↓	51%	↑	63%	↑	71%	→	46%	→	43%

Data Source: Bloomberg, BIS, World Bank, IMF. Intellectual Property of Hedgeye Risk Management.

DATA SOURCE: BLOOMBERG

SEQUENCE THE DATA: NOW

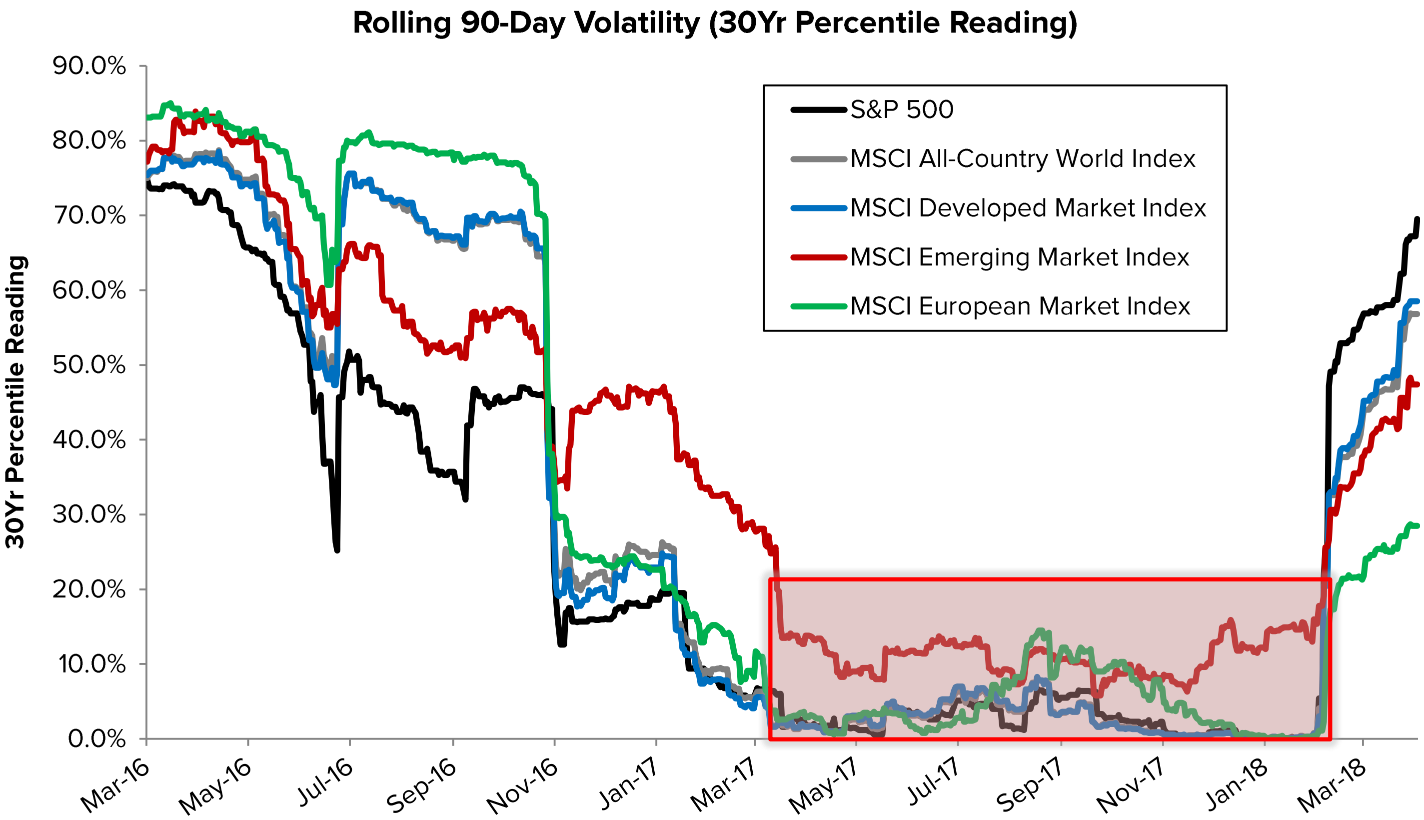
4/2/2018	GIP Model Signals								High-Frequency Economic Data Signals									
	Actuals				Hedgeye Forecasts				Consumption		Manufacturing		Composite PMI		Headline CPI		Core CPI	
	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)
Argentina	2	1	1	3	2	1	3	4	↑	31%	↑	66%	-	-	↓	62%	-	-
Australia	3	1	1	3	4	3	1	1	↓	12%	↑	55%	↑	91%	→	27%	→	6%
Brazil	1	1	1	2	3	3	4	4	↓	44%	↑	78%	↑	88%	→	3%	↓	2%
Canada	2	1	3	3	3	3	2	4	↓	83%	↓	61%	→	83%	↑	65%	→	59%
China	1	4	3	3	3	4	3	4	↓	4%	↓	48%	↑	79%	↑	41%	↑	89%
Eurozone	2	1	1	1	4	3	4	4	↓	84%	↓	81%	↓	92%	↓	50%	→	37%
France	2	1	1	2	3	4	4	4	↑	57%	↓	82%	↓	93%	→	58%	→	34%
Germany	2	1	2	1	4	3	4	4	↓	70%	↓	81%	↓	90%	↓	60%	→	78%
India	4	4	2	2	3	2	4	1	-	-	↓	69%	↓	46%	↓	25%	-	-
Indonesia	2	2	1	1	4	3	1	4	↑	5%	↓	48%	↑	59%	→	13%	→	5%
Italy	2	2	1	4	4	3	4	4	↓	67%	↑	86%	↓	82%	↓	42%	→	20%
Japan	2	2	2	2	3	4	4	4	↑	74%	↓	69%	→	75%	↑	75%	→	75%
Mexico	3	3	3	2	1	1	1	4	↑	19%	↑	30%	↓	36%	↓	91%	↓	81%
Russia	1	1	4	4	1	3	4	1	↓	45%	↑	28%	↓	73%	↓	3%	→	2%
South Africa	1	1	4	1	4	3	2	4	↓	81%	↑	50%	↑	37%	↓	20%	→	21%
South Korea	2	4	2	4	1	3	4	1	↑	58%	↓	29%	↓	84%	→	40%	↓	10%
Turkey	2	2	1	3	4	3	4	4	↑	35%	↑	78%	↓	87%	↓	94%	↓	97%
United Kingdom	2	3	3	3	4	1	4	1	→	41%	↓	86%	↓	47%	↓	64%	→	76%
United States	2	1	2	2	2	2/3	4	4	↓	81%	↑	71%	↑	97%	→	72%	→	45%
MODE/MEAN	2	1	1	2	4	3	4	4	↓	51%	↓	63%	↓	74%	↓	47%	→	43%

Data Source: Bloomberg, BIS, World Bank, IMF. Intellectual Property of Hedgeye Risk Management.

DATA SOURCE: BLOOMBERG

SLOWLY THEN ALL AT ONCE... A TIME SERIES VIEW OF VOLATILITY

BELOW WE SHOW ROLLING 90-DAY VOLATILITY AS A PERCENTILE READING FROM THE TRAILING 30 YEARS OF DAILY OBSERVATIONS.



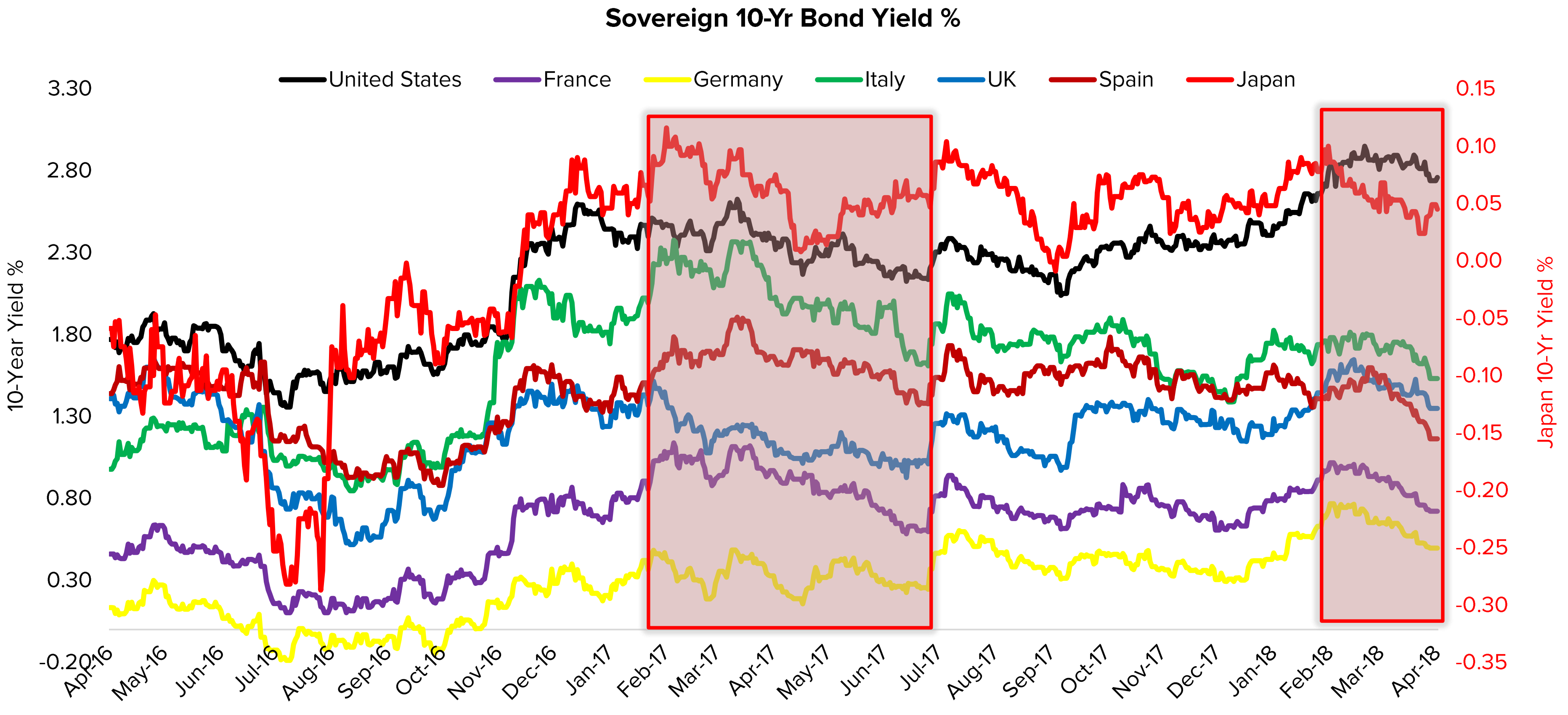
As far as identifiable trends are concerned, the recent bid for volatility needs a lot of context.

As we've said, studying the relationship between past and forward-looking volatility is all about understanding rate-of-change.

DATA SOURCE: CME, CBOE, BLOOMBERG

THE "GLOBALLY SYNCHRONIZED RECOVERY" NARRATIVE IS UNDER DURESS

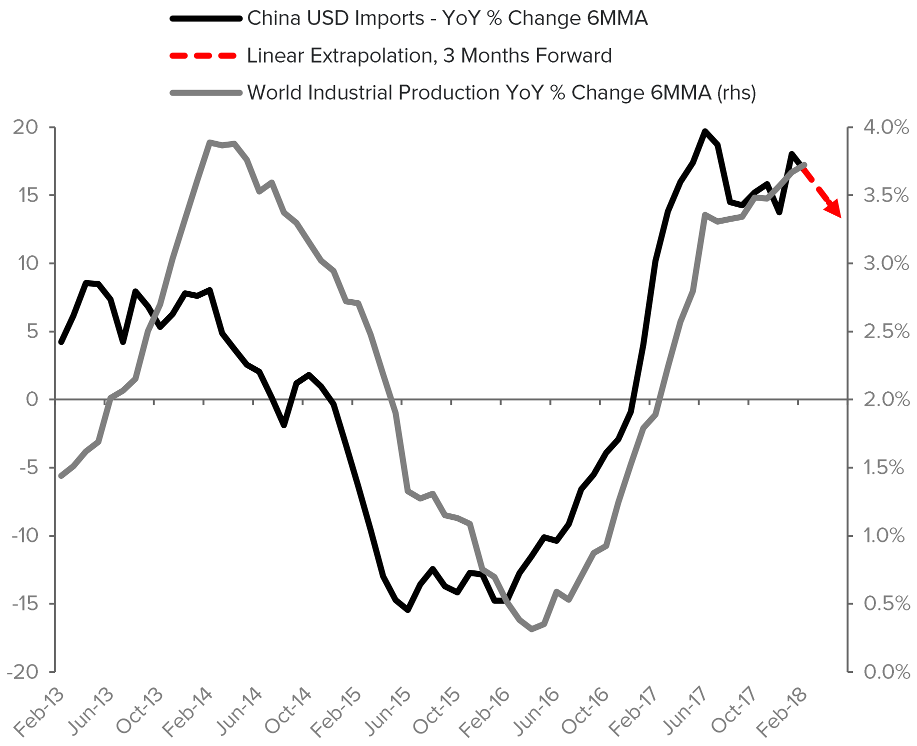
SOVEREIGN YIELDS IN MOST MAJOR ECONOMIES ARE ROLLING OFF THEIR RESPECTIVE PEAKS



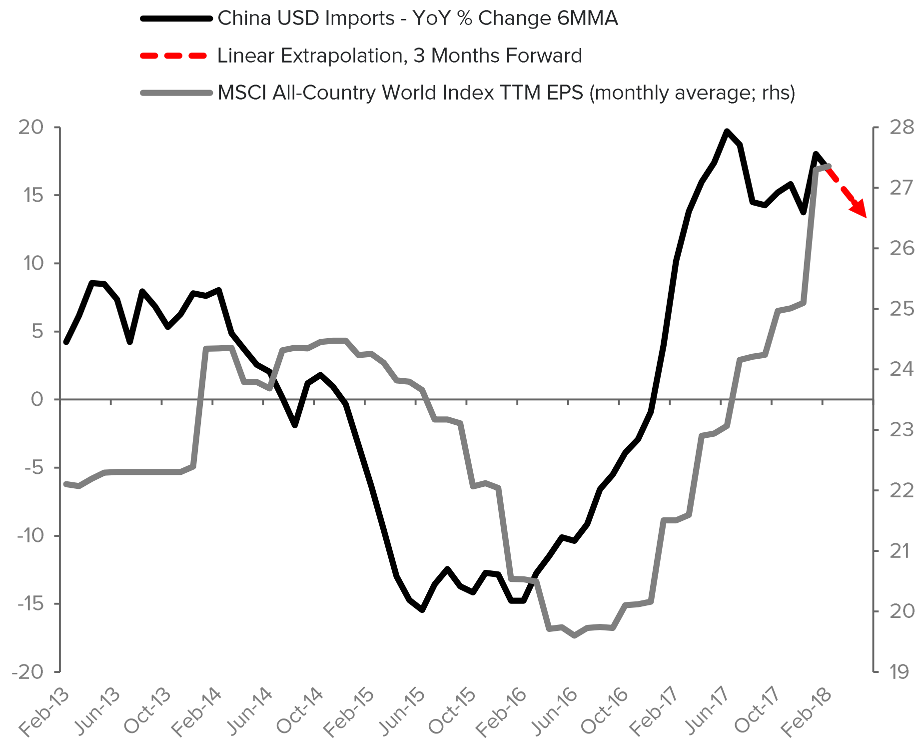
DATA SOURCE: BLOOMBERG

#CHINASLOWING IS A CAUSAL FACTOR...

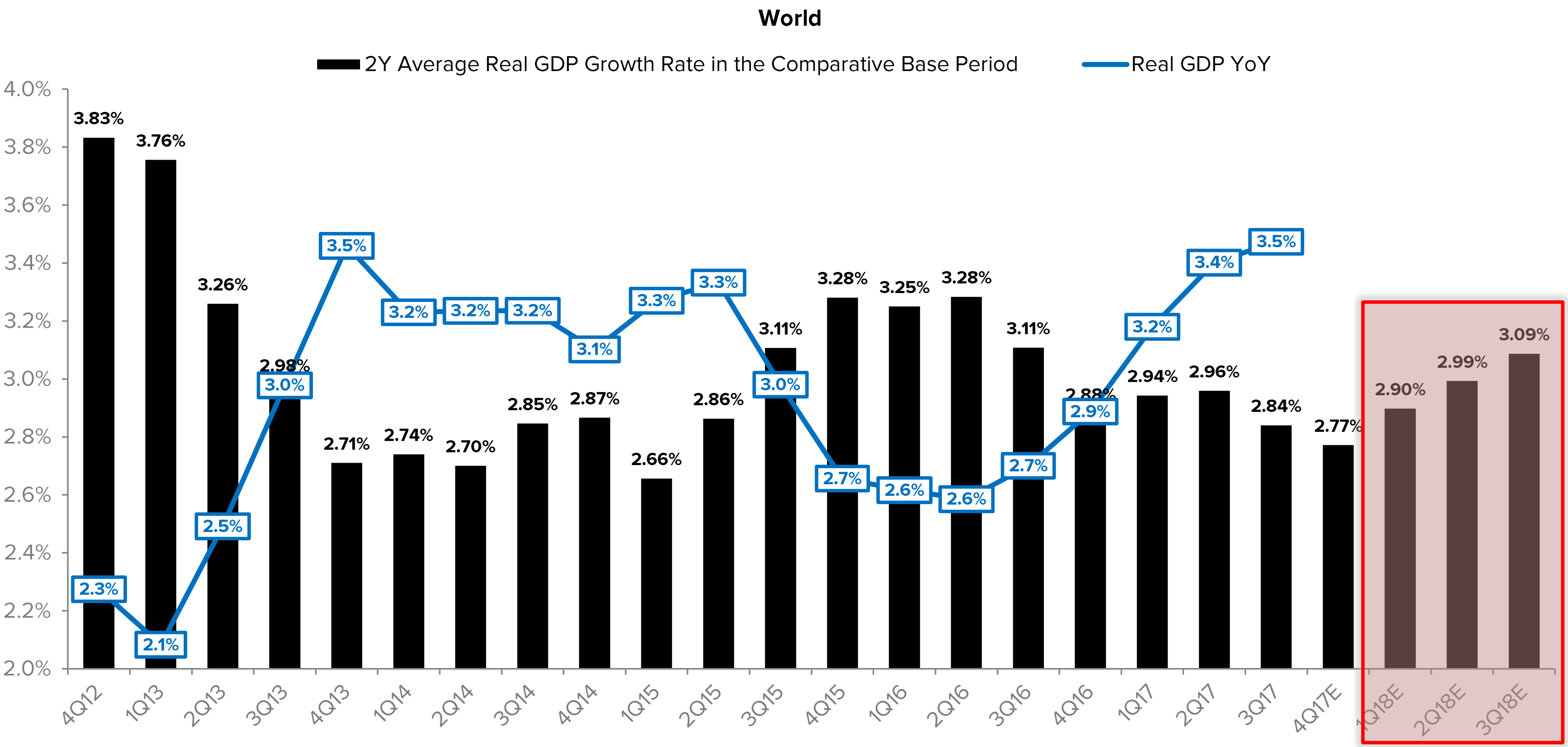
CHINA IMPORTS VS. WORLD MANUFACTURING GROWTH



CHINA IMPORTS VS. WORLD CORPORATE PROFITS



...AS ARE STEEPENING BASE EFFECTS



DOLLAR #BOTTOMING?

GLOBAL GIP MODEL SUMMARY

Q4 WAS THE LAST QUARTER WHERE GLOBAL GROWTH MOMENTUM WAS BROADLY POSITIVE. FURTHERMORE, OUR MODELS SUGGEST THE NOW-CONSENSUS "SYNCHRONIZED GLOBAL RECOVERY" THEME HAS OFFICIALLY CULMINATED.

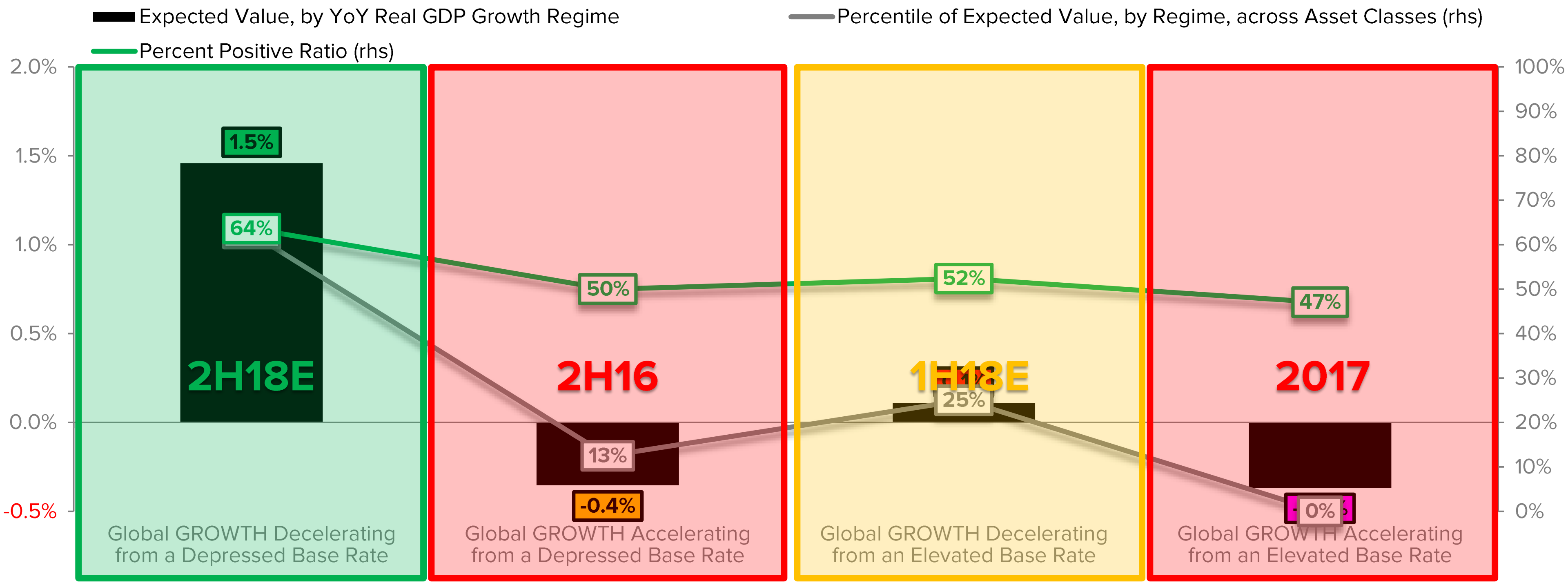
	Hedgeye Macro GIP Model Signals												High-Frequency Economic Data Signals									
	Actuals								Hedgeye Forecasts				Consumption		Manufacturing		Composite PMI		Headline CPI		Core CPI	
4/2/2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18E	2Q18E	3Q18E	4Q18E	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)	3MMA Trend	Percentile of Latest Reading (T10Y)
Argentina	-	-	1	2	2	1	1	3	2	1	3	4	↑	31%	↑	66%	-	-	↓	62%	-	-
Australia	1	1	3	2	3	1	1	3	4	3	1	1	↓	12%	↑	55%	↑	91%	→	27%	→	6%
Brazil	1	1	1	1	1	1	1	2	3	3	4	4	↓	44%	↑	78%	↑	88%	→	3%	↓	2%
Canada	2	3	1	2	2	1	3	3	3	3	2	4	↓	83%	↓	61%	→	83%	↑	65%	→	59%
China	3	1	1	2	1	4	3	3	3	4	3	4	↓	4%	↓	48%	↑	79%	↑	41%	↑	89%
Eurozone	4	2	2	2	2	1	1	1	4	3	4	4	↓	84%	↓	81%	↓	92%	↓	50%	→	37%
France	1	3	3	2	2	1	1	2	3	4	4	4	↑	57%	↓	82%	↓	93%	→	58%	→	34%
Germany	1	4	3	2	2	1	2	1	4	3	4	4	↓	70%	↓	81%	↓	90%	↓	60%	→	78%
India	1	3	4	4	4	4	2	2	3	2	4	1	-	-	↓	69%	↓	46%	↓	25%	-	-
Indonesia	4	1	4	3	2	2	1	1	4	3	1	4	↑	5%	↓	48%	↑	59%	→	13%	→	5%
Italy	1	4	2	2	2	2	1	4	4	3	4	4	↓	67%	↑	86%	↓	82%	↓	42%	→	20%
Japan	4	1	1	2	2	2	2	2	3	4	4	4	↑	74%	↓	69%	→	75%	↑	75%	→	75%
Mexico	2	1	3	2	3	3	3	2	1	1	1	4	↑	19%	↑	30%	↓	36%	↓	91%	↓	81%
Russia	1	4	1	1	1	1	4	4	1	3	4	1	↓	45%	↑	28%	↓	73%	↓	3%	→	2%
South Africa	3	1	1	2	1	1	4	1	4	3	2	4	↓	81%	↑	50%	↑	37%	↓	20%	→	21%
South Korea	4	1	4	3	2	4	2	4	1	3	4	1	↑	58%	↓	29%	↓	84%	→	40%	↓	10%
Turkey	3	1	3	1	2	2	1	3	4	3	4	4	↑	35%	↑	78%	↓	87%	↓	94%	↓	97%
United Kingdom	3	3	2	2	2	3	3	3	4	1	4	1	→	41%	↓	86%	↓	47%	↓	64%	→	76%
United States	3	4	2	2	2	1	2	2	2	2/3	4	4	↓	81%	↑	71%	↑	97%	→	72%	→	45%
MODE/MEAN	1	1	1	2	2	1	1	2	4	3	4	4	↓	51%	↓	63%	↓	74%	↓	47%	→	43%

Data Source: Bloomberg, BIS, World Bank, IMF. Intellectual Property of Hedgeye Risk Management.

“BUT GLOBAL GROWTH IS STILL GOOD”

FACTORING IN THE FACT THAT GLOBAL GROWTH IS DECELERATING FROM A CYCLICAL PEAK LEAVES US WITH A ECONOMIC REGIME THAT IS EQUALLY AS UNSUPPORTIVE FOR FURTHER DOLLAR DEBASEMENT.

U.S. Dollar Index

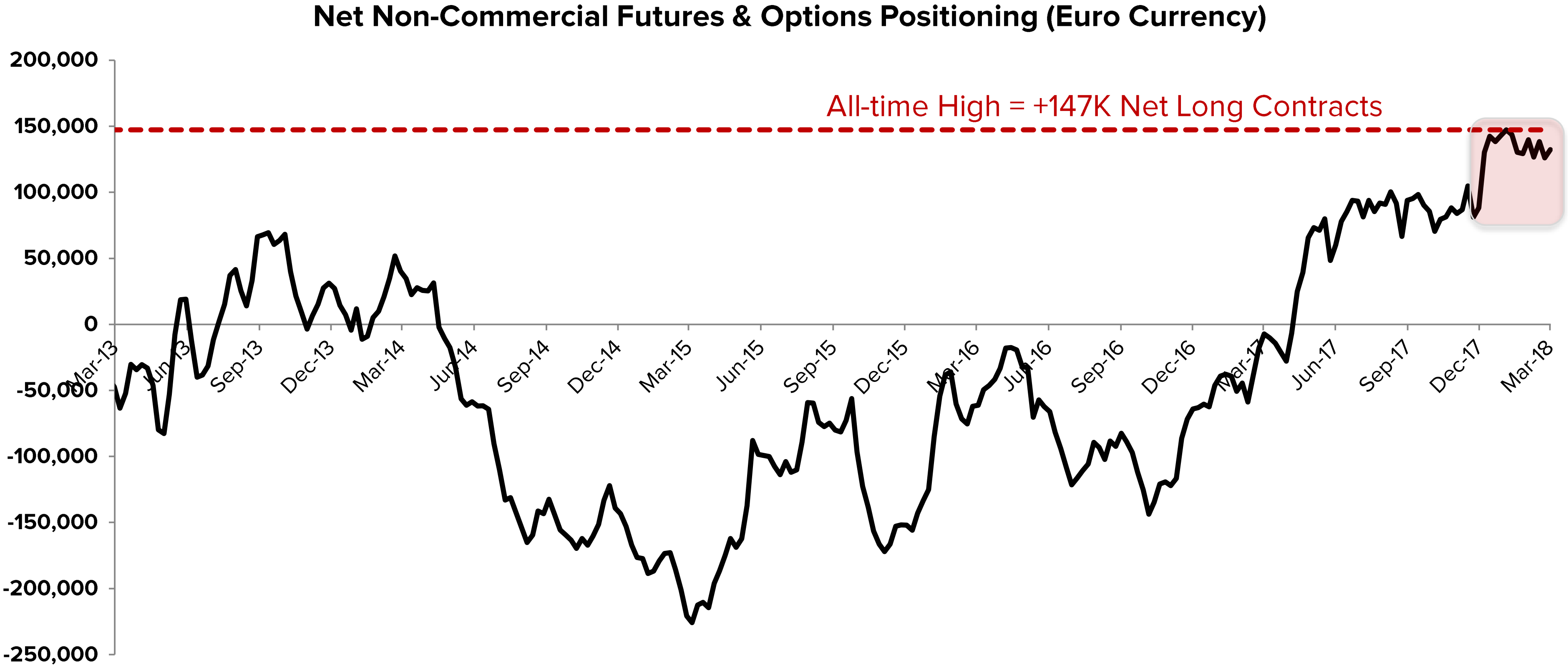


Asset classes include equities, fixed income, FX and commodities. Trailing 20Y. Observations weighted by delta into regime.

DATA SOURCE: BLOOMBERG

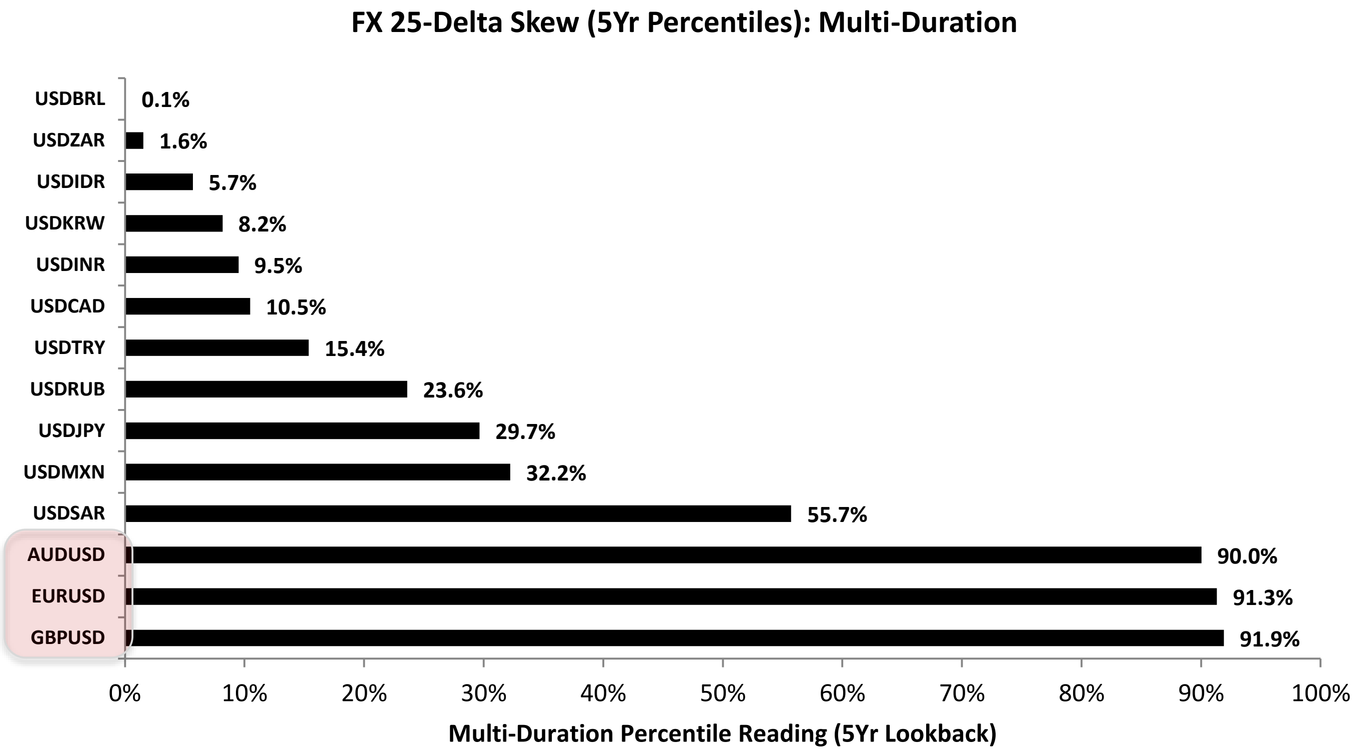
SPECULATIVE POSITIONING IN THE EURO REMAINS NEAR ALL-TIME HIGHS

THE NET LONG POOL OF SPECULATIVE MARKET PARTICIPANTS CONTINUES TO HOVER NEAR ALL-TIME HIGHS.



AND INVESTORS ARE STILL LEANING AGAINST DOLLARS

THE BULLISH TILT IN RISK REVERSAL PRICING OF DEVELOPED MARKET CURRENCIES LIKE EUR, GBP, AUD SUGGESTS INVESTORS REMAIN FIRMLY POSITIONED FOR CONTINUE DOLLAR DEPRECIATION



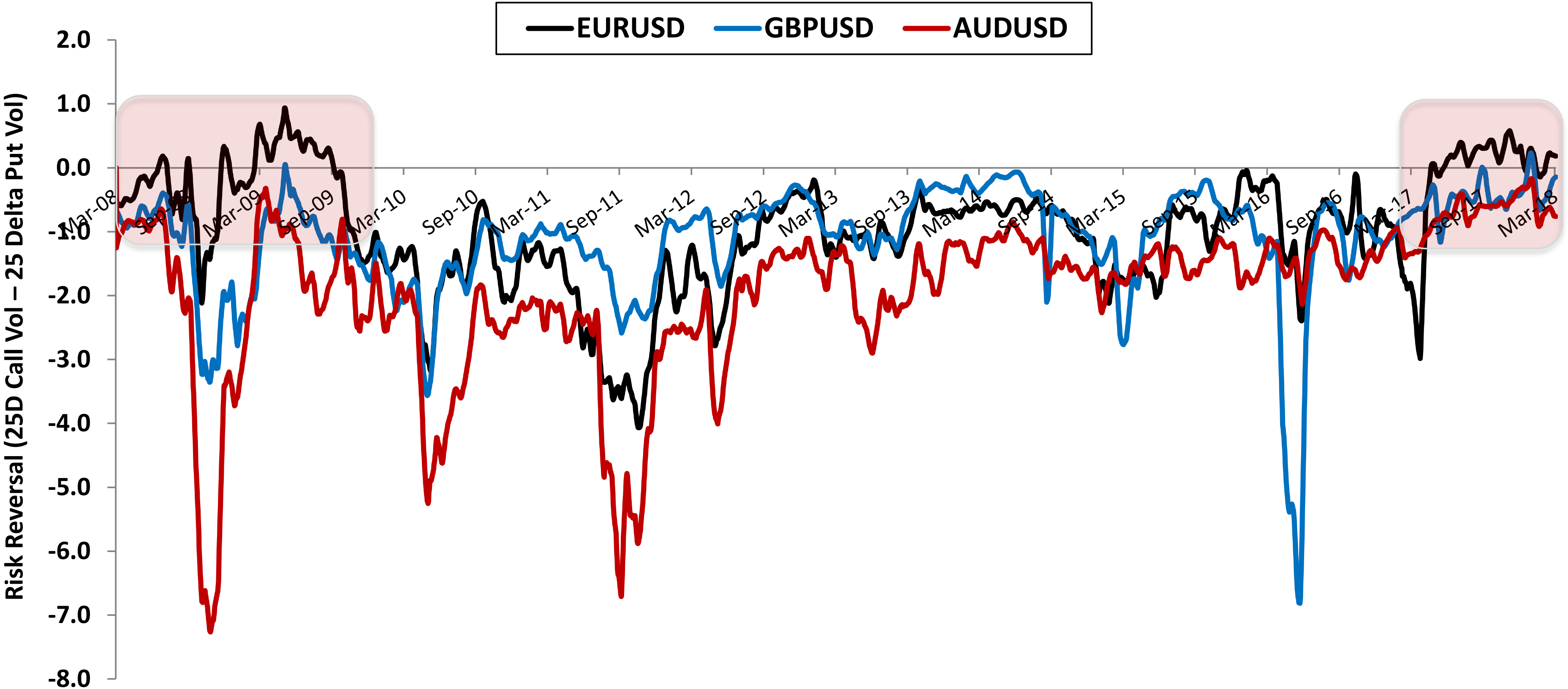
A “risk reversal” is a measure of skew whereby upside call volatility is subtracted from downside put volatility at the equivalent delta strike.

It can be used to gauge investor sentiment on directional spot rate movements over the life of the contract.

DATA SOURCE: CME, BLOOMBERG

A TIME SERIES LOOKS AT FX RISK REVERSALS: CYCLE-HIGHS

BELOW WE SHOW THE VOLATILITY PRICING OF 25-DELTA RISK REVERSALS ON 2-MTH CONTRACTS. WE SMOOTH OUT THE SERIES WITH THE TWO-WEEK AVERAGE OF DAILY RISK REVERSAL PRICING.



DATA SOURCE: CBOE, CME, BLOOMBERG

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203.562.6500