THE MACRO SHOW

JUNE 6, 2017

LEGAL

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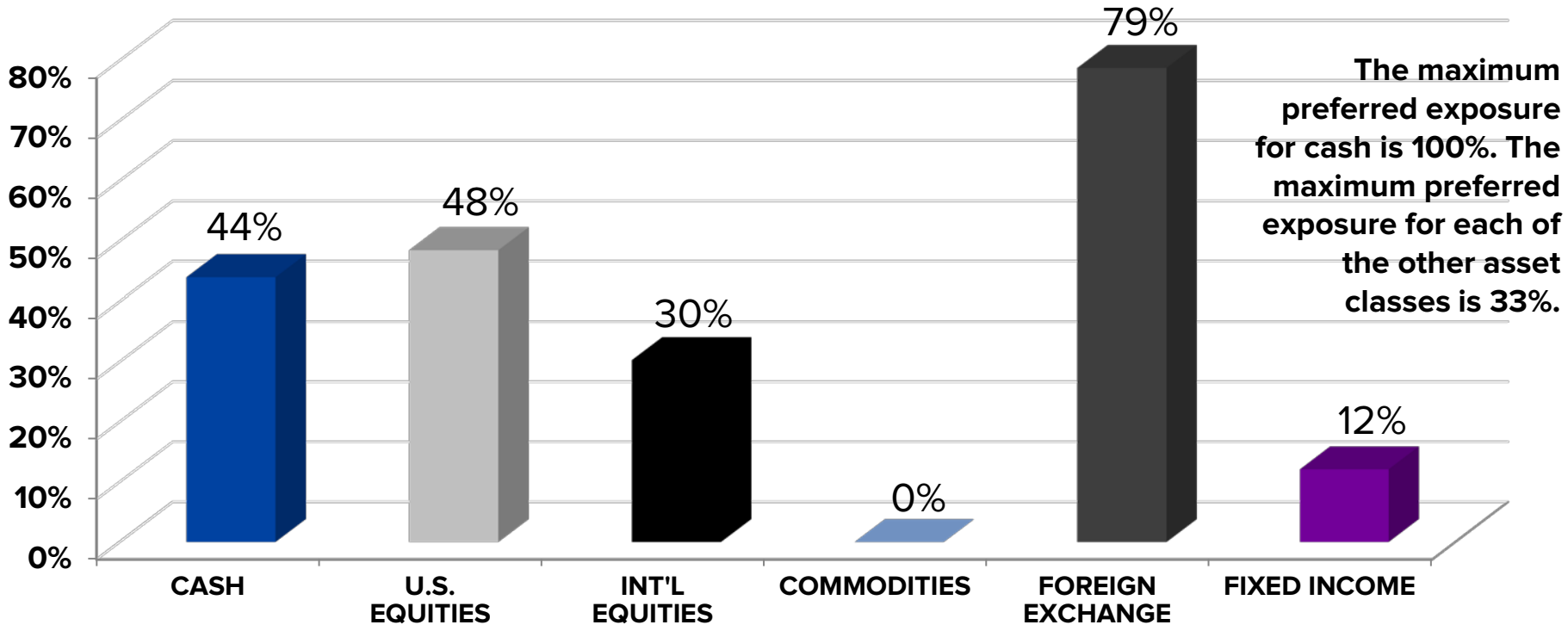
HEDGEYE ASSET ALLOCATION

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
6/5/2017	44	16	10	0	26	4
6/6/2017	44	16	10	0	26	4

	CASH	U.S. EQUITIES	INT'L EQUITIES	COMMODITIES	FOREIGN EXCHANGE	FIXED INCOME
6/5/2017	44%	48%	30%	0%	79%	12%
6/6/2017	44%	48%	30%	0%	79%	12%

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

HEDGEYE ASSET ALLOCATION



June 6, 2017

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HEDGEYE TV

1 COPPER

2 EURO

3 UK

COPPER

Getting smoked again this morning (-1.3%), and the set-up in options markets is still the expectation that volatility will move lower. The 30D/60D/90D implied volatility discounts are -20/-15/-21% respectively – these discounts have been hovering near YTD lows for ~ 1 month. We showed this set-up in metals (XME, JJC, DBB) in our macro themes presentation with our reflation's rollover theme.

EURO

Where to from here? The most extended net long positioning in macro right now is long currencies (against the USD). The Pound, Euro, and Peso net long positioning is more than 2x extended on a TTM Z-score basis. The net long positioning in the Euro increased +8K w/w which is the 5th consecutive week contract positioning has increased. In absolute contracts, a +73K net long position is the highest since 2007 in the Euro. Net long positioning in the Peso increased +21K w/w to +75K net long which is a 3 year high. Net positioning in the Pound is still net short, and this net short position increased slightly w/w, but it’s still hovering near a post-Brexit low.

UK

Brexit remains an ugly political football and recent polls suggests Thursday's confidence vote on PM May's leadership may be a tight one (Labour's favorability has improved in recent weeks, trailing the Conservatives by ~1-6pts depending on the poll) . But can polling really be trusted? Probably not! In any case, we continue to expect that the market's uncertainty around the UK's go-forward trade policy (and therefore economy) has more downside risks than upside, and yet another shake-up in government only compounds the downside. We'd stand clear of owning the Pound into Thursday's vote.

EMO GARDNER

Senior Defense Policy Advisor

DEFENSE $ THEMES

1 RECAP/READINESS DEMANDS VS. SUPPLY OF TIME & $

DoD is in a deep recap hole in many sectors. Increased sense of urgency to prepare for near peer fights while maintaining counterinsurgency. Need for long-term capital investment, people and time to rebuild. Annual uncertainty is debilitating.

2 DEFENSE $ CAPTIVE TO IDEOLOGICAL FISCAL FIGHT

Age old Guns vs. Butter fight. Trump and fiscal conservatives want more Defense $ at expense of non-Defense. Dems and many R's can't live with the pain. Sequestration as result of impasse unlikely but not impossible. Dramatic autumn coming.

3 SKYHIGH EXPECTATIONS FOR $; MODERATE MORE LIKELY

FY17: Final appropriation was +$26B y/y (+4.5%); procurement up $5B y/y; *no base increase*

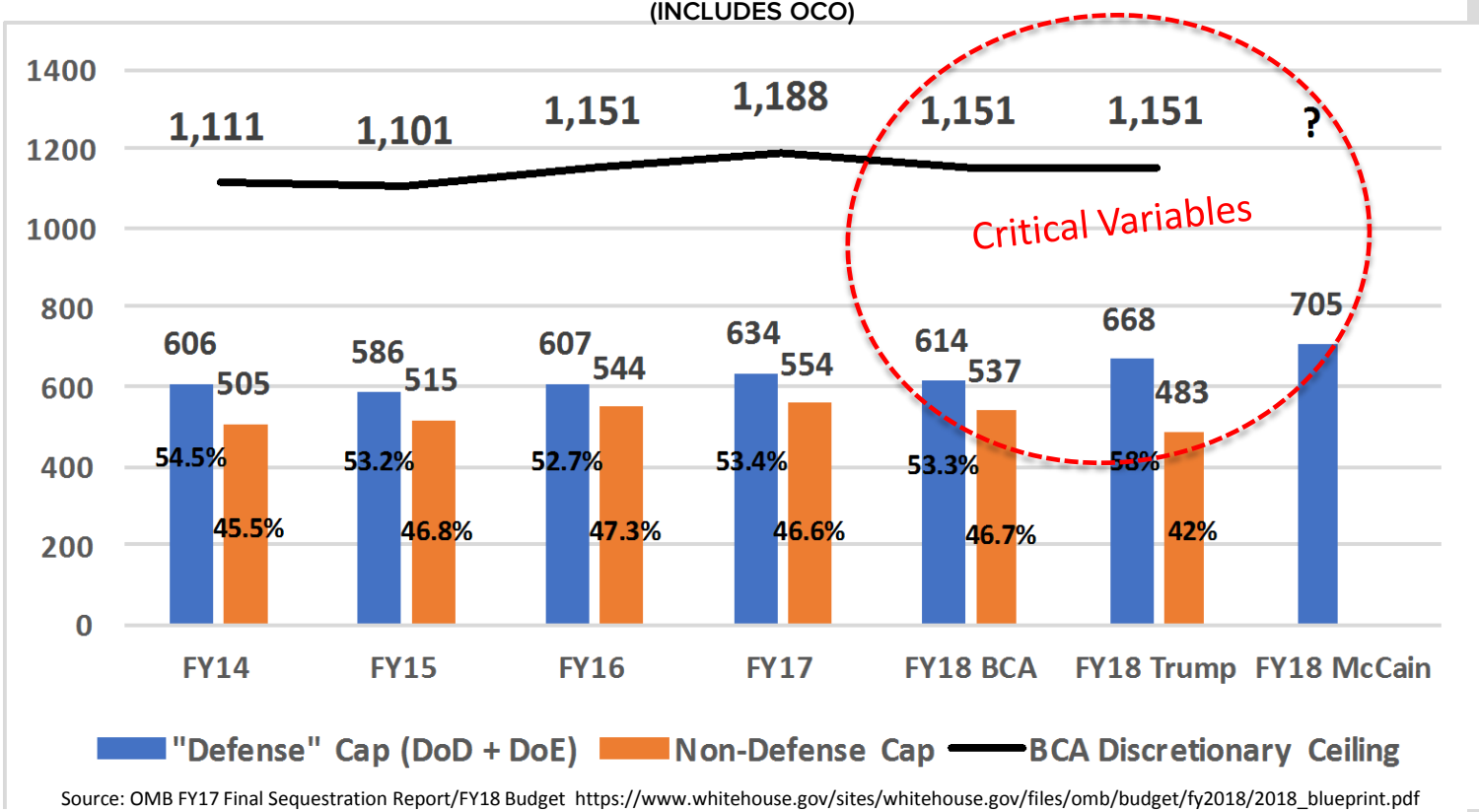
FY18: Trump budget doesn't match recap need/aspirations; NATO, Gulf and Japan will spend more

FY19: Pentagon Strategic Reviews will sharpen focus on long term demand

DEFENSE $ AS PART OF FISCAL FIGHT

FEDERAL DISCRETIONARY BUDGET AUTHORITY $B

(INCLUDES OCO)



Source: OMB FY17 Final Sequestration Report/FY18 Budget https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/2018_blueprint.pdf

- BCA requires reduction in Federal spending compared to FY17. Trump budget adheres to BCA ceiling but increases Defense share at expense of Non-Defense (requires change in law).
- Wide range between the FY18 BCA defense cap ($614B), Trump budget ($668B) and what hawks think Def needs ($705B).
- Options include
  - Follow BCA
  - Change BCA
    - Keep ceiling/change ratio = Trump plan
    - Increase total ceiling
      - FY17 level
      - Higher?

MACRO GRIND

SOME SERIOUS ALPHA IN "REAL GROWTH" IN 2017

S&P 500 SPDR RELATIVE SECTOR PERFORMANCE					
Sector SPDR ETF	D/D %	5-Day %	MTD %	YTD %	Y/Y %
Consumer Discretionary	0.03%	0.96%	0.18%	4.08%	0.48%
Financials	-0.72%	-1.72%	-0.27%	-8.37%	6.72%
Health Care	0.32%	0.83%	0.63%	3.07%	-9.02%
Technology	0.58%	0.39%	0.04%	9.03%	14.04%
Consumer Staples	-0.04%	0.74%	-0.02%	1.52%	-9.19%
Industrials	0.06%	0.31%	-0.11%	0.39%	5.71%
Materials	-0.09%	0.93%	0.32%	-0.88%	-3.13%
Energy	-1.49%	-3.12%	-1.67%	-22.82%	-18.30%
Utilities	-0.22%	0.65%	-0.31%	2.52%	-7.73%
Real Estate	0.54%	-0.87%	0.06%	-4.39%	-15.51%

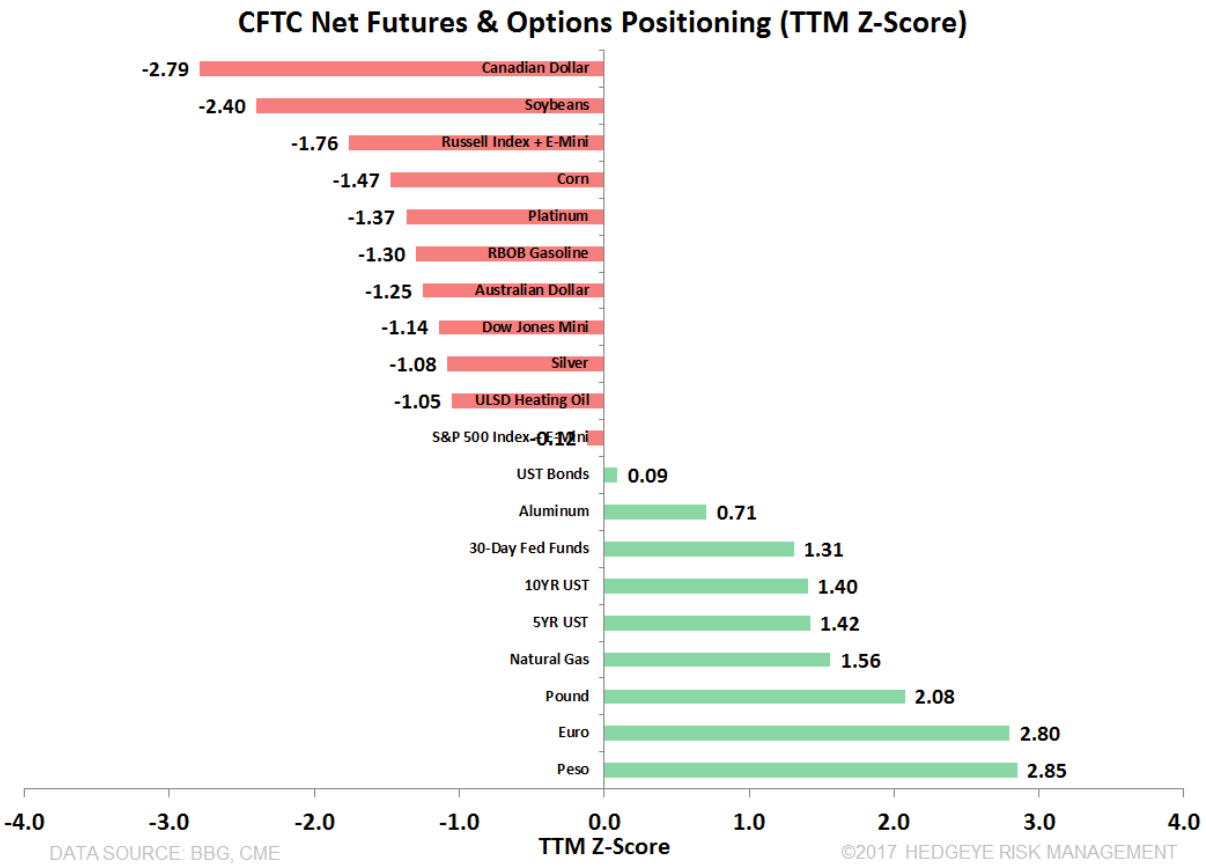
S&P REV. & EARNINGS COMPS & SCORECARD

Q1 2017 QTD — U.S. Index Comps

INDEX	SALES GROWTH (YY%)	EARNINGS GROWTH (YY%)	#REPORTED
S&P 500	7.8%	14.7%	495 / 499
NASDAQ 100	11.2%	18.2%	102 / 102
DOW JONES	5.8%	14.4%	30 / 30
RUSSELL 2000	6.7%	3.4%	1832 / 1912

Q1 2017 QTD — S&P 500 Sector Comps

S&P 500 SECTOR	SALES GROWTH (YY%)	EARNINGS GROWTH (YY%)	#REPORTED
S&P 500 (Aggregate)	7.8%	14.7%	495 / 499
Energy	33.0%	622.3%	34 / 34
Materials	9.1%	19.4%	25 / 25
Industrials	4.2%	1.3%	68 / 68
Consumer Discret.	8.1%	6.6%	78 / 79
Consumer Staples	1.9%	3.5%	34 / 37
Healthcare	5.4%	4.9%	60 / 60
Financials	9.9%	18.4%	65 / 65
Information Tech.	8.1%	21.7%	68 / 68
Telecom	-4.7%	-4.6%	4 / 4
Utilities	7.3%	3.4%	28 / 28
Real Estate	3.3%	6.6%	31 / 31



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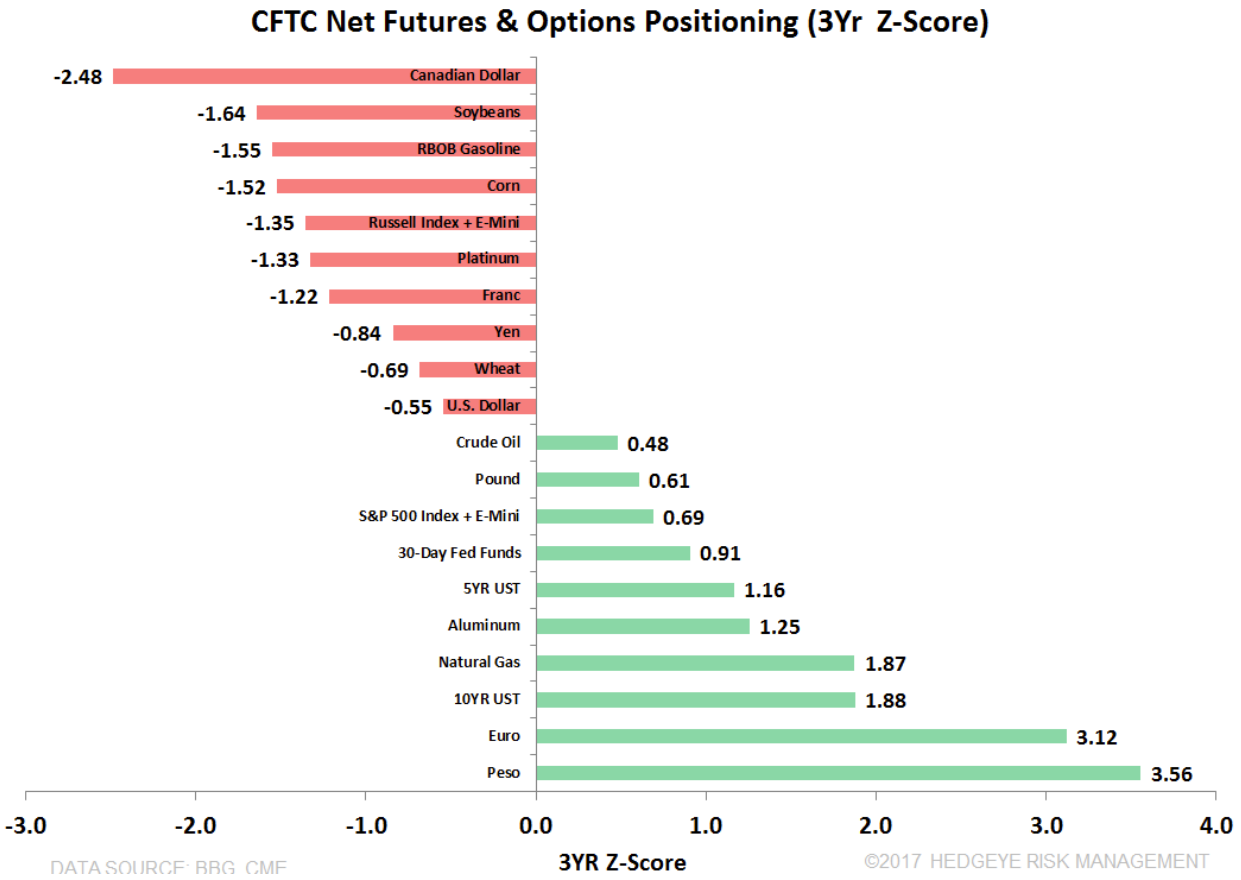

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	REALIZED VOLATILITY				IMPLIED VOLATILTY*				IMPLIED** VS. REALIZED VOLATILITY									
		Duration of Realized (%)			At-The-Money %					30 Day			60 Day			3 Month		
											Z-Score			Z-Score			Z-Score	
Index/Security	Ticker	30D	60D	90D	Current	v 1M Avg	v 3M Avg	v 6M Avg.	Ticker	Premium	TTM	3Yr	Premium	TTM	3Yr	Premium	TTM	3Yr
S&P 500	SPX	7.5%	7.6%	7.2%	8.3%	-1.7%	-13.2%	-15.1%	SPX	-2.4%	-0.74	-0.47	17.2%	-0.33	0.17	36.6%	0.39	0.92
Russell 2000	RTY	13.5%	14.0%	13.8%	13.9%	-3.4%	-8.6%	-11.6%	RTY	-0.2%	-0.32	-0.34	2.8%	-0.34	-0.32	12.4%	0.32	0.12
Nasdaq 100	NDX	10.3%	9.2%	8.3%	11.7%	2.0%	2.4%	-2.4%	NDX	8.1%	-0.52	-0.10	34.1%	0.24	0.89	59.0%	1.38	2.04
USD Index	UUP	6.0%	6.5%	6.4%	6.6%	-5.0%	-14.7%	-20.3%	UUP	4.4%	-0.31	-0.27	7.0%	-0.29	-0.22	13.6%	0.09	0.07
Consumer Discret.	XLY	8.9%	8.3%	7.9%	9.4%	-8.0%	-12.2%	-18.6%	XLY	0.0%	-0.72	-0.46	21.2%	-0.13	0.41	39.7%	0.93	1.44
Financials	XLF	13.4%	15.2%	15.0%	14.8%	-0.7%	-7.5%	-10.6%	XLF	4.7%	-0.18	-0.06	2.7%	-0.22	-0.12	9.5%	0.30	0.23
Healthcare	XLV	7.7%	8.1%	8.4%	10.0%	-2.5%	-10.7%	-17.6%	XLV	24.6%	0.15	0.66	31.7%	0.84	1.33	34.7%	1.35	1.74
Technology	XLK	10.4%	9.3%	8.6%	11.0%	-3.1%	-4.2%	-8.2%	XLK	-3.0%	-0.71	-0.42	23.7%	0.08	0.62	43.2%	1.01	1.56
Consumer Staples	XLP	6.3%	6.2%	6.6%	8.8%	-4.0%	-8.5%	-13.4%	XLP	31.6%	0.42	0.85	52.0%	1.50	2.18	50.1%	1.76	2.17
Utilities	XLU	7.1%	8.4%	10.2%	10.4%	-4.5%	-15.5%	-23.1%	XLU	43.0%	1.67	2.38	28.6%	2.08	2.55	9.9%	0.96	1.28
Energy	XLE	14.2%	13.9%	14.7%	16.0%	-3.1%	-4.2%	-6.0%	XLE	12.2%	0.26	0.35	16.0%	0.88	0.70	11.1%	0.78	0.47
Energy	XOP	26.6%	25.4%	25.5%	28.8%	0.5%	2.0%	2.5%	XOP	6.5%	-0.04	0.14	14.4%	0.77	0.86	15.5%	1.31	1.01
Materials	XLB	12.1%	11.9%	11.2%	11.8%	-5.4%	-10.0%	-11.8%	XLB	-10.4%	-1.00	-0.73	3.4%	-0.54	-0.20	14.7%	0.20	0.34
Industrials	XLI	9.2%	10.2%	10.0%	10.5%	-8.4%	-15.1%	-17.1%	XLI	6.5%	-0.32	-0.11	8.1%	-0.30	0.00	18.3%	0.28	0.56
Transports	IYT	14.2%	14.7%	14.7%	14.5%	-6.6%	-11.0%	-13.5%	IYT	2.0%	-0.49	-0.32	3.1%	-0.70	-0.35	7.7%	-0.55	-0.17
Biotech	IBB	16.0%	15.3%	16.1%	18.1%	-0.8%	-4.2%	-15.7%	IBB	11.7%	0.10	0.25	20.8%	1.05	1.19	18.0%	1.37	1.19
WTI Crude Oil	USO	30.8%	26.1%	25.2%	30.3%	-1.4%	5.8%	6.3%	USO	-1.4%	-0.51	-0.55	16.3%	0.61	0.44	19.7%	1.24	0.63
Natural Gas	UNG	30.5%	29.2%	33.5%	35.0%	4.8%	1.2%	-12.5%	UNG	16.3%	0.73	0.17	20.8%	1.19	0.41	5.8%	0.44	-0.16
Gold	GLD	10.9%	10.2%	10.1%	11.2%	2.8%	-6.0%	-13.3%	GLD	2.0%	-0.59	-0.31	13.1%	0.26	0.33	19.2%	0.99	0.76
Silver	SLV	17.4%	15.8%	17.0%	18.0%	-2.5%	-6.2%	-14.2%	SLV	4.3%	-0.19	-0.40	18.6%	1.54	0.30	13.1%	1.15	0.06
Copper	JJC	22.1%	21.4%	23.2%	18.0%	-5.2%	-14.7%	-23.6%	JJC	-19.6%	-0.49	-0.67	-15.3%	-0.62	-0.82	-20.8%	-0.93	-1.16
Coffee	JO	26.4%	26.1%	25.8%	28.2%	2.5%	3.2%	1.1%	JO	10.2%	0.45	0.51	8.4%	0.49	0.65	9.4%	0.74	0.91
Corn	CORN	18.0%	15.2%	15.3%	25.1%	12.0%	25.1%	33.1%	CORN	39.1%	1.28	0.81	61.6%	2.07	2.05	56.5%	1.57	1.69
Soybeans	SOYB	10.4%	9.3%	11.4%	27.8%	55.1%	46.8%	36.0%	SOYB	158.4%	2.43	2.01	135.5%	1.74	1.73	59.1%	0.20	0.23
Wheat	WEAT	22.5%	19.5%	20.0%	29.7%	-2.3%	0.1%	-2.5%	WEAT	32.2%	-0.41	-0.31	52.4%	-0.06	0.07	48.4%	0.07	0.14

*implied volatility on at-the-money front month contracts

**implied volatility of at-the-money options expiring in the given duration vs. realized volatility over the given duration

HEDGEYE SECTOR PERFORMANCE

SECTOR	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$91.99	-0.27%	1.03%	13.01%
Financial Select Sector	XLF	$23.49	0.17%	1.03%	1.03%
Health Care Select Sector	XLV	$77.20	-0.28%	1.47%	11.98%
Technology Select Sector	XLK	$57.24	0.09%	1.26%	18.36%
Consumer Staples Select Sector	XLP	$57.33	0.10%	1.22%	10.87%
Industrial Select Sector	XLI	$67.97	-0.35%	0.67%	9.24%
Materials Select Sector	XLB	$53.68	-0.32%	1.13%	8.01%
The Energy Select Sector	XLE	$65.21	0.18%	-0.35%	-13.42%
Utilities Select Sector	XLU	$54.11	-0.31%	0.50%	11.41%
S&P 500	SPX	2,436.10	-0.12%	1.01%	8.81%

HEDGEYE SECTOR RELATIVE PERFORMANCE

	Ticker	Price	1-Day % Chg	MTD % Chg	YTD % Chg
Consumer Discretionary	XLY	$91.99	-0.15%	0.02%	4.20%
Financial Select Sector	XLF	$23.49	0.29%	0.02%	-7.78%
Health Care Select Sector	XLV	$77.20	-0.16%	0.46%	3.17%
Technology Select Sector	XLK	$57.24	0.21%	0.25%	9.55%
Consumer Staples Select Sector	XLP	$57.33	0.23%	0.21%	2.06%
Industrial Select Sector	XLI	$67.97	-0.23%	-0.34%	0.43%
Materials Select Sector	XLB	$53.68	-0.19%	0.12%	-0.80%
The Energy Select Sector	XLE	$65.21	0.31%	-1.36%	-22.23%
Utilities Select Sector	XLU	$54.11	-0.19%	-0.51%	2.59%

HEDGEYE STYLE FACTOR PERFORMANCE

	FACTOR	1D % Chg	1W % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Debt	High Debt/EV	-0.4%	0.5%	0.5%	-0.9%	5.3%	4.8%
	Low Debt/EV	-0.2%	1.1%	1.7%	4.8%	11.5%	11.9%
SI	High Short Interest	-0.2%	0.5%	-1.0%	-1.7%	-1.4%	-0.1%
	Low Short Interest	-0.2%	0.8%	1.4%	2.9%	11.3%	10.1%
BETA	High Beta	-0.3%	0.0%	-0.7%	-1.2%	4.3%	5.4%
	Low Beta	-0.2%	1.0%	2.0%	3.7%	11.0%	8.3%
YIELD	High Yield	-0.3%	0.5%	-0.3%	-1.9%	0.7%	-0.1%
	Low Yield	-0.3%	0.5%	1.0%	3.2%	10.2%	10.8%
MKT CAP	MCAP Bottom 25%	-0.3%	0.2%	-2.5%	-3.5%	-3.1%	-1.5%
	MCAP Top 25%	-0.1%	1.0%	1.8%	3.0%	12.0%	10.7%
Sales	Top 25% Sales Growth	-0.1%	0.4%	1.2%	3.2%	9.6%	9.8%
	Bottom 25% Sales Growth	-0.4%	0.7%	-0.3%	-1.1%	1.9%	1.9%
EPS	Top 25% EPS Growth	-0.2%	0.3%	1.2%	3.0%	8.9%	9.1%
	Bottom 25% EPS Growth	-0.4%	0.6%	-0.4%	-0.8%	2.9%	2.3%

**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	0.97%	0.0	4.1	9	25	-4	81	75	82
3M LIBOR	1.22%	0.0	2.1	4	12	0	60	67	77
2Y T-Note	1.30%	1.4	1.8	-1	0	-10	80	52	71
5Y T-Note	1.73%	2.3	-1.3	-14	-28	-42	84	19	36
10Y T-Note	2.17%	2.3	-2.8	-17	-32	-47	85	5	1
30Y T-Note	2.83%	2.7	-4.1	-15	-27	-38	74	-1	-19
2Y-10Y Spread, Bps	87	0.0	-5.5	-16.7	-32	-37	5	-47	-70
IG SPREAD (AAABBB)	1.46%	0.0	-1.0	-6	-3	-54	1	-24	-26
HIGH YIELD	5.43%	1.2	-40.9	-54	-40	-192	1	-124	-107
5Y BREAKEVEN	1.74%	-0.3	-1.4	-2.2	-30.3	-33.4	49.1	19.1	2.5

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)	58,030	12,731	100,436	54,238	67,015	-0.12X	0.70X
Russell 2000 (mini)	(72,910)	(541)	(44,677)	9,578	5,155	-1.76X	-1.41X
10Y Treasury	248,030	(116,981)	63,672	(132,097)	(35,240)	1.40X	2.23X
CRUDE OIL	405,052	4,650	452,808	484,701	421,351	-0.20X	0.64X
GOLD	131,572	13,911	112,224	89,705	154,078	-0.28X	0.38X
COPPER	9,725	(3,405)	18,784	33,891	15,132	-0.19X	0.68X
$USD	27,644	(3,629)	40,929	45,479	35,163	-0.45X	-0.69X
JPY	(55,818)	(2,552)	(48,376)	(56,463)	(6,279)	-0.92X	-0.46X
EUR	73,218	7,638	(26)	(30,116)	(65,184)	2.80X	3.01X
GBP	(29,809)	(2,410)	(80,065)	(71,821)	(73,300)	2.08X	0.15X

MARKET SHARE VOLUME & TOTAL VALUE TRADED

INDEX/SECURITY	VOLUME: (6/5) vs.			
	Prior Day	1M Ave	3M ave	1Y Ave
Total Market Volume*	-5%	-3.2%	-12%	13%
Total Exchange Volume**	-13%	-15%	-16%	-18%
Total Traded Value (R3K)***	-21%	-17%	-17%	-15%

*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

KEY $USD CORRELATIONS

METRIC	15D	30D	90D	120D	180D	52-Wk Rolling 30D Correlation			
						High	Low	% Time Pos	% Time Neg
SPX	-0.57	-0.46	-0.47	-0.67	0.18	*0.95*	*-0.76*	*50%*	*50%*
BRENT Oil	0.21	-0.48	0.50	0.58	0.49	*0.81*	*-0.78*	*60%*	*40%*
CRB Index	-0.17	-0.85	-0.03	0.58	0.45	*0.83*	*-0.86*	*40%*	*60%*
GOLD	-0.81	-0.67	-0.41	-0.70	-0.79	*0.90*	*-0.97*	*20%*	*80%*

**Days = Trading Days*