

HEDGEYE



Macro Theses Cycle to Date

Capital Allocation

4Q 2022 - Present

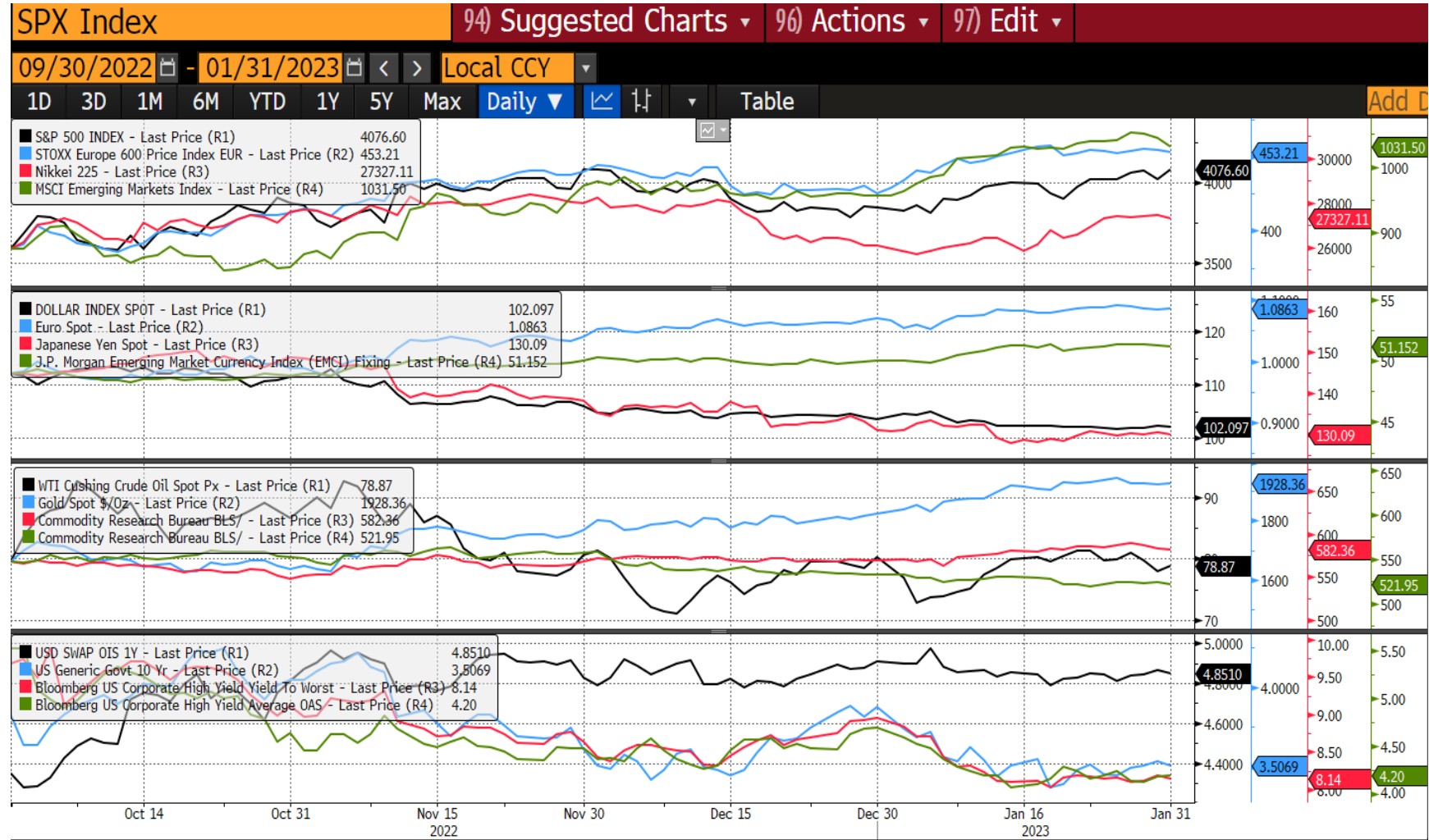


Global #Quad4 Recession: With 2 quarters of negative GDP on the books, its #DownOnly for domestic fundamentals with declining real consumption capacity, accelerating housing recession, and negative wealth effects. The global median Quad outlook, both developed and developing, is Quad4 for the next 3 quarters. Europe faces record collapse in consumer confidence while much of Asia and Latin America find itself at the precipice of multiple consecutive Quad 4's.

US #ProfitRecession: The profit cycle deceleration is in motion and will intensify as the domestic economy stares down the prospect of 4 consecutive Quad 4's.

Peak Cycle Inflation's Calculus: The persistency of inflation at levels untenable for the Fed will remain the condition set over the intermediate term as we see ongoing signs of disinflation take hold.

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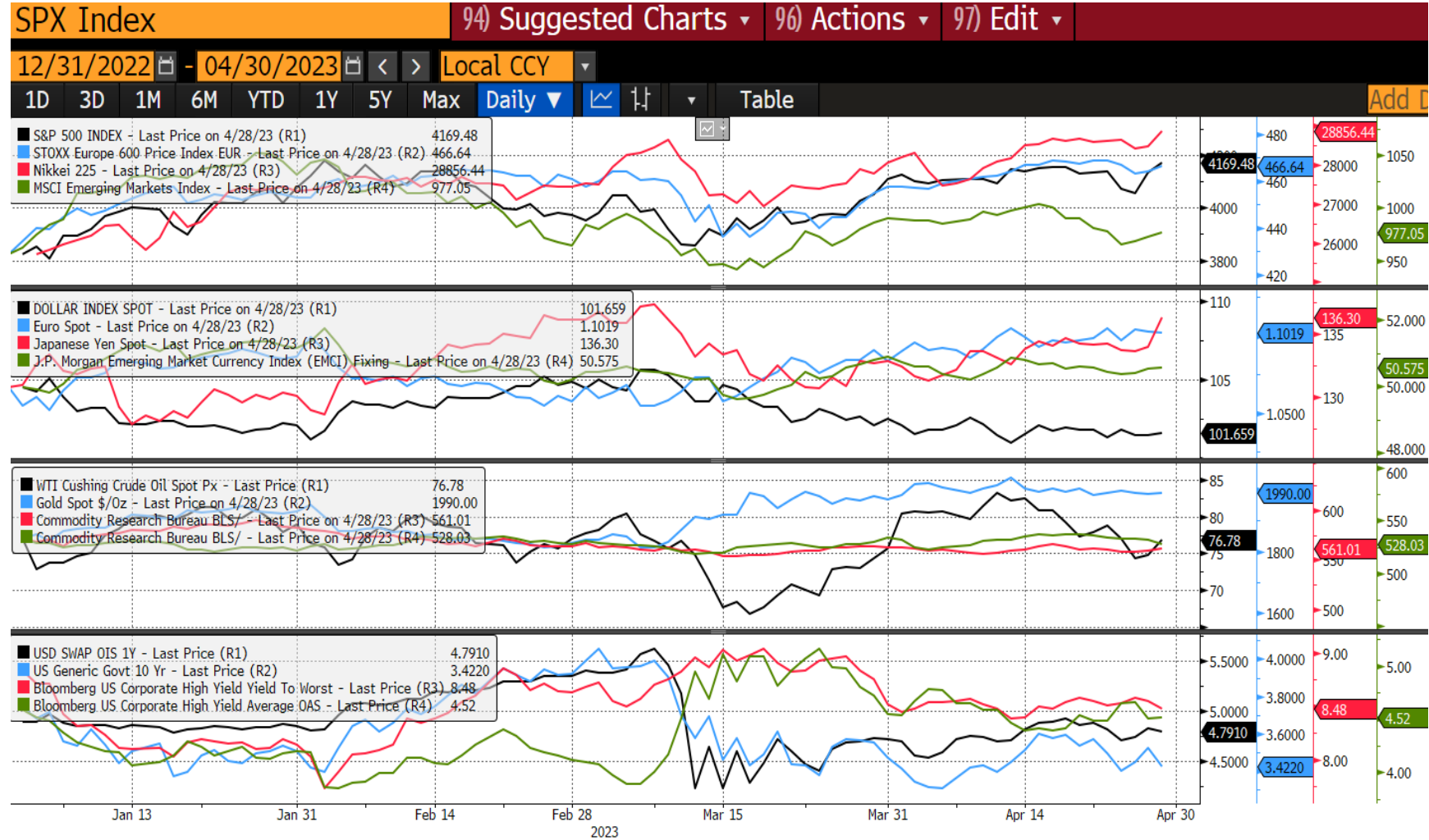


US Profit Recession = Credit Event: Inflation was last year's war and policy flows through real economic activity on a lag. Protracted Quad 4, higher for longer rates, further negative acceleration in profit growth and liquidity contraction will not be kind to markets and credits.

Long Gold & Precious Metals & Miners: While the broader commodities complex is a notable underperformer amid Quad 4 environments, precious metals tended to be the exception. This time is no different with Gold and Silver in a bullish trend, while the full economic carnage of monetary policy is only just beginning to sink in.

Buy China?: We are currently neutral on China but adding select, single stock longs. Since the pandemic, in Quad terms, China has tended to run a quarter ahead of the broader G20. Looking ahead to the first 9 months of 2023, of all G20 countries China only has a Quad 1 setup or Q2. Every other developed economy is looking at Quad 4.

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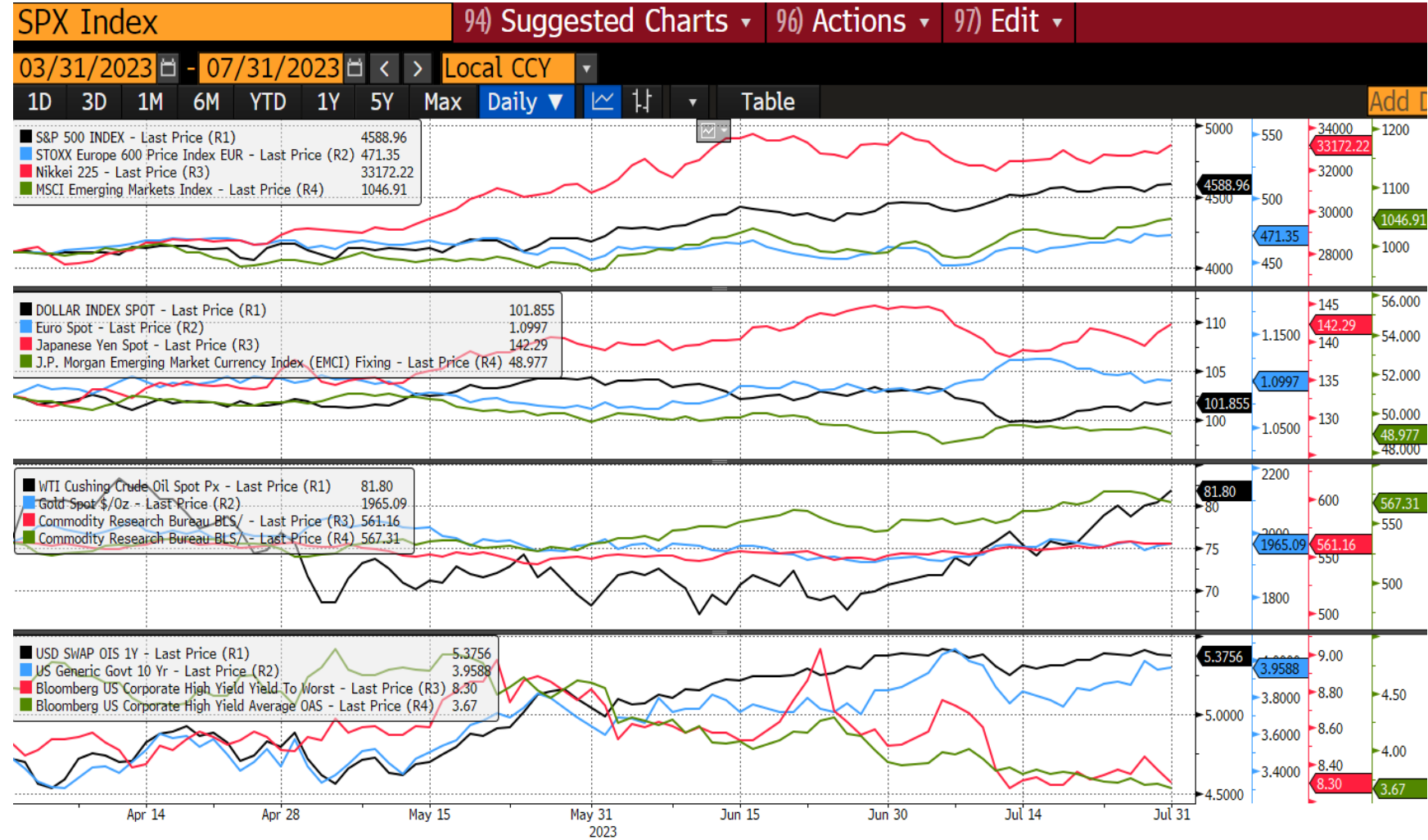


#Quad4 Profit Recession Reiterated: The slowest moving Quad4 wreck in modernity continues to soldier southward. Lost pricing power, tighter credit, contracting liquidity, negative real income growth, deteriorating real discretionary consumption capacity and rolling credit events continue to define the local (& global) macro trajectory, and the domestic profit cycle by extension.

#Quad4 Credit Event Reiterated: The stressors of Quad 4 have been building for some time and the pressure in the system has reached a critical threshold. The next phase of the credit cycle will reflect further tightening in credit availability and deteriorating credit quality at both the household and commercial level. Still-to-high inflation and persistent labor market imbalances will keep pressure in the system simmering.

Long Gold Reiterated: While most commodity prices have been collapsing under Quad 4 demand destruction, gold is doing what it should. a) not losing value and b) pushing slowly steadily higher.

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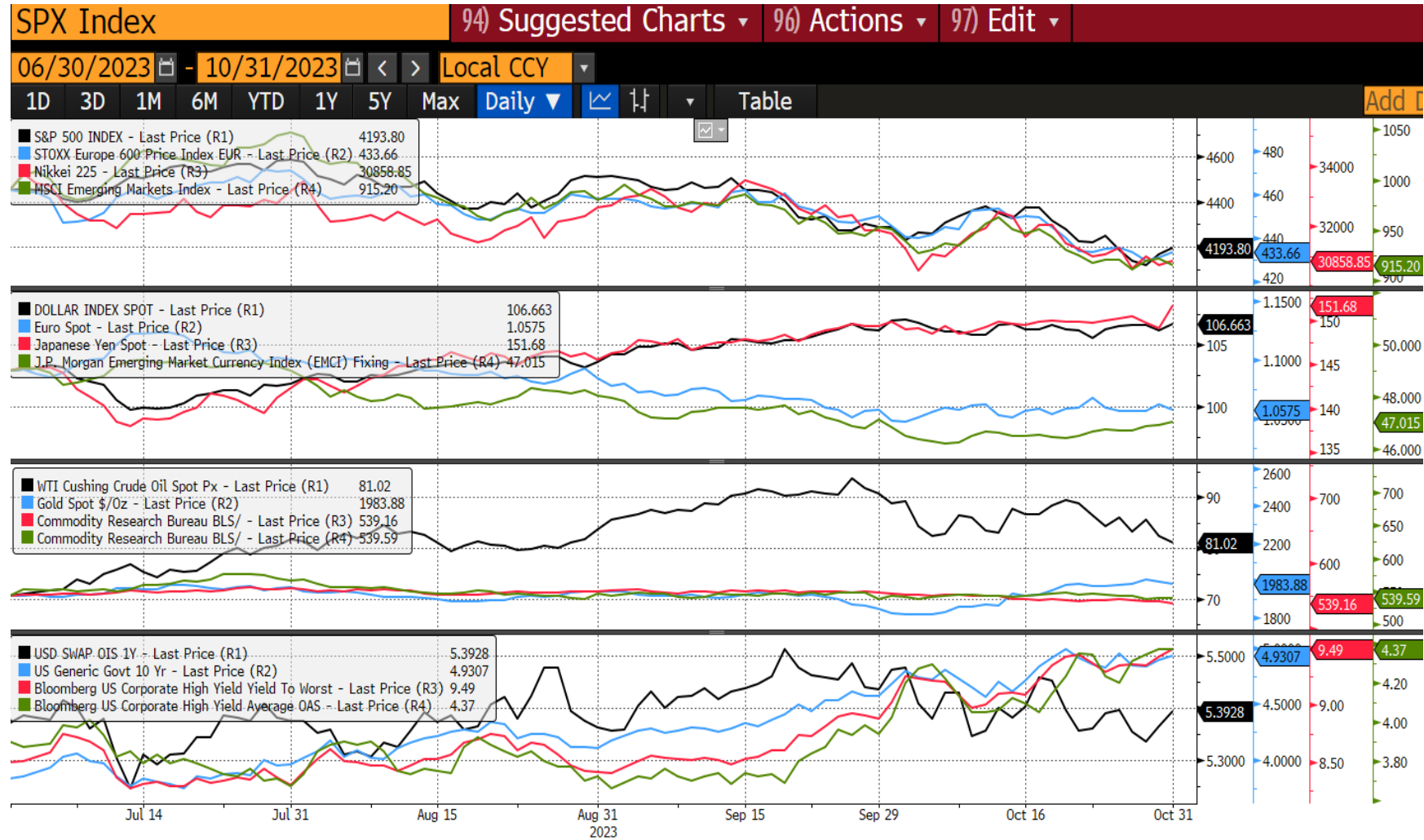


Quad4 US Profit Recession & Credit Event, Reiterated: We're slouching into month 20 of macro deceleration. The manufacturing economy is contractionary, services is in the discrete deceleration, credit availability, is in conspicuous contraction, commodities, and industrial metals are making lower lows. Europe is back to recessionary prints and the failed China re-opening catalyst has pivoted to outright cuts and incremental stimulus.

China, Europe and the #Quad4 Industrial Recession: The promise of a great Chinese reopening has underdelivered, and the developed market consumption shift from goods to services has additionally weighted on Chinese manufacturing activity. Europe has been spared from an energy crisis and in under the weight of elevated inflation, torpid manufacturing activity, tightening credit conditions and renewed central bank hawkishness.

Long Japan, India, and South Korea: Growth is accelerating in each of these geographies, Japan is enjoying moderate and decelerating inflation while monetary policy remains accommodative and domestic spending is expected to increase in the post-pandemic yolo fashion of other developed economies that had relaxed Covid era restrictions much earlier. India enjoys buoyant domestic demand.

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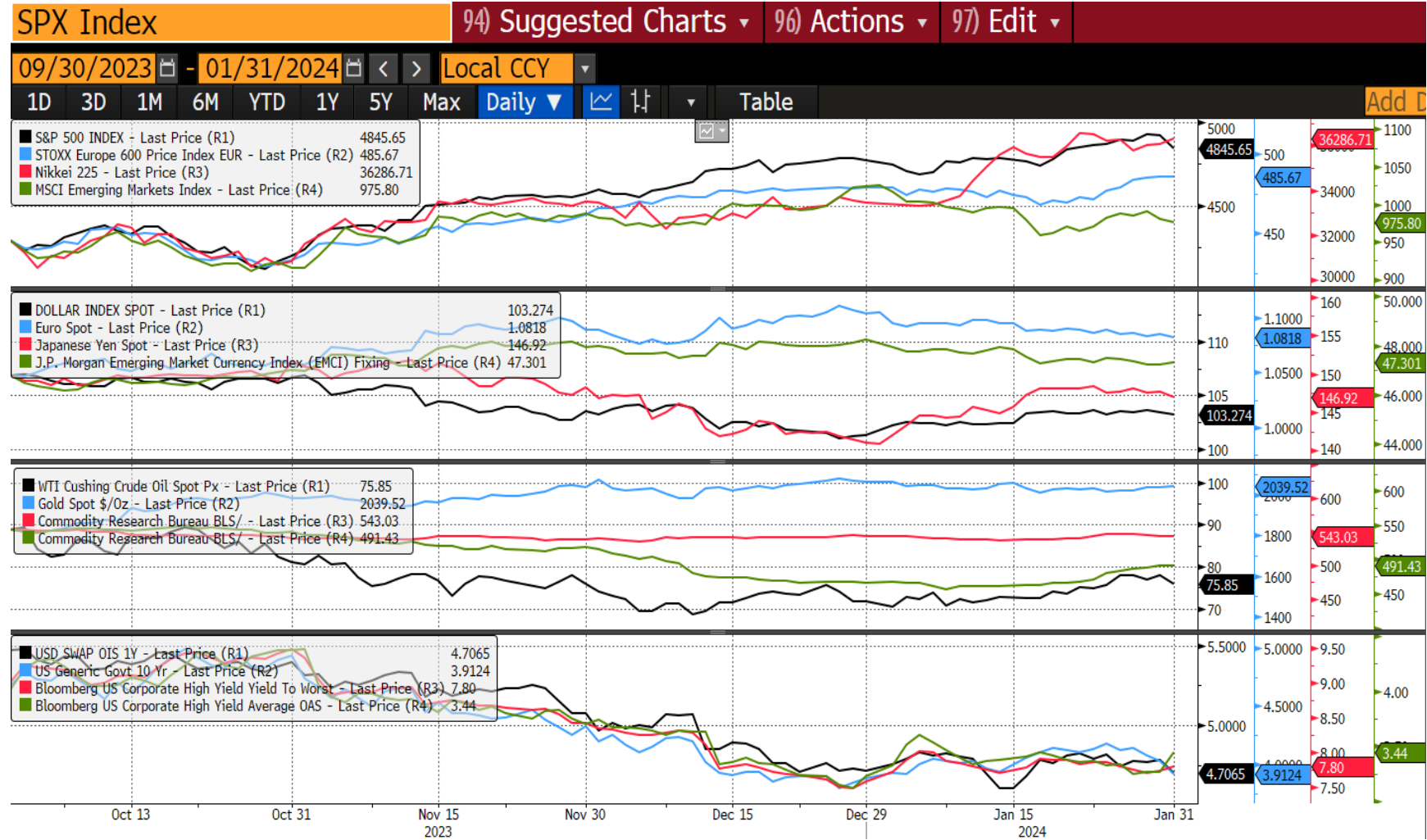


USA #Quad3 Stagflation: Inflation is reaccelerating, Demand growth is back to trend deceleration following the countertrend bounce in July and the Quad 3 duo of Demand decreasing and Prices increasing. Meanwhile the industrial-mfg recession remains entrenched, the consumer retrench continues, and the list of income/discretionary consumption shocks continues to layer as “the convergence” thesis remains on time.

The Big (G): Deficits & Debt: Federal spending saved Headline GDP in 1H with government sponsored reindustrialization initiatives supporting some of the highest nonresi investment contributions to GDP in 40 years.

Long Japan/India vs. Short European Recession: We continue to favor these international equity exposures on the long side. Accommodative monetary policy is powering real growth acceleration in Japan which is now leaning into above-target inflation after decades of deflationary struggles. India is enjoying a strong fundamental setup with buoyant domestic demand. Real growth in Europe is poised to slow through at least 4Q23 as economic gravity imposes itself through the dual vectors of sticky-high inflation and credit tightening.

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USA Hitting Back-To-Back MONTHLY #Quad4s:

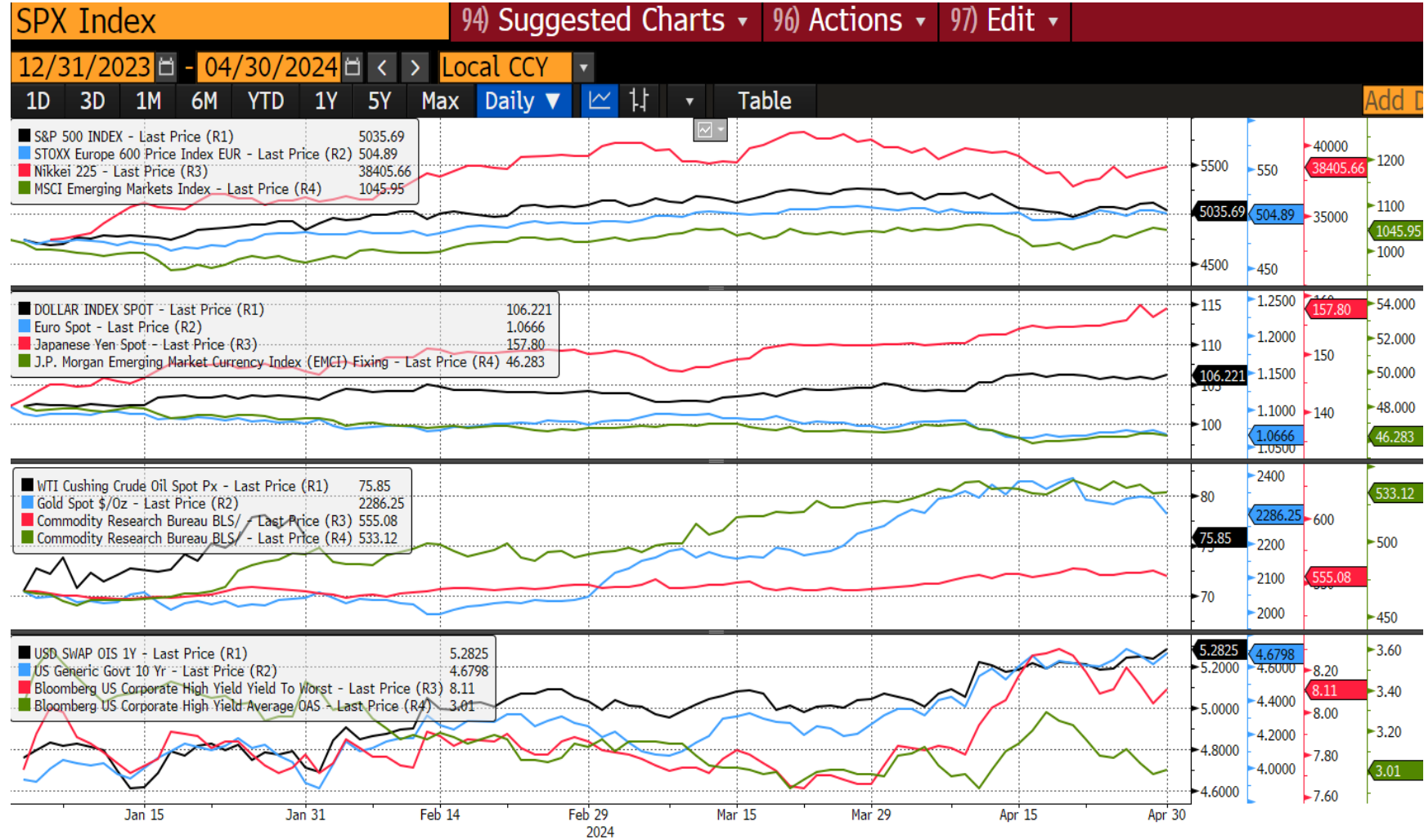
After 25 months of Trend slowdown off the cycle peak in November 2021, the most slothian cycle in history will slouch into its final phase. Organic deterioration and the hardest comps of the cycle will conspire to drive another decelerator crescendo in 1Q24.

The Big (G): Deficits and Debt Updated:

Government spending growth accelerated in each of the last four quarters (+4.9% Y/Y in Q3) based on the final revision. In the last two quarters it has growth at more than twice the rate of personal consumptions expenditures. Total government spendings contribution to GDP growth in 2024 will face among the steepest comps in years.

Long India and Gold vs. Short Japan: The signal remains bullish in India as shallow decelerations are overlooked. Meanwhile, real yields are down with gold up and the long-term secular tailwind of fiat debasement and real asset supremacy in the age of fiscally drunk sovereigns. Japan is poised for back-to-back Quad 4's throughout 1H24.

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1Q24 – Mid Quarter Update

Narrow Quad 4 to Potential/Outright Quad 1:

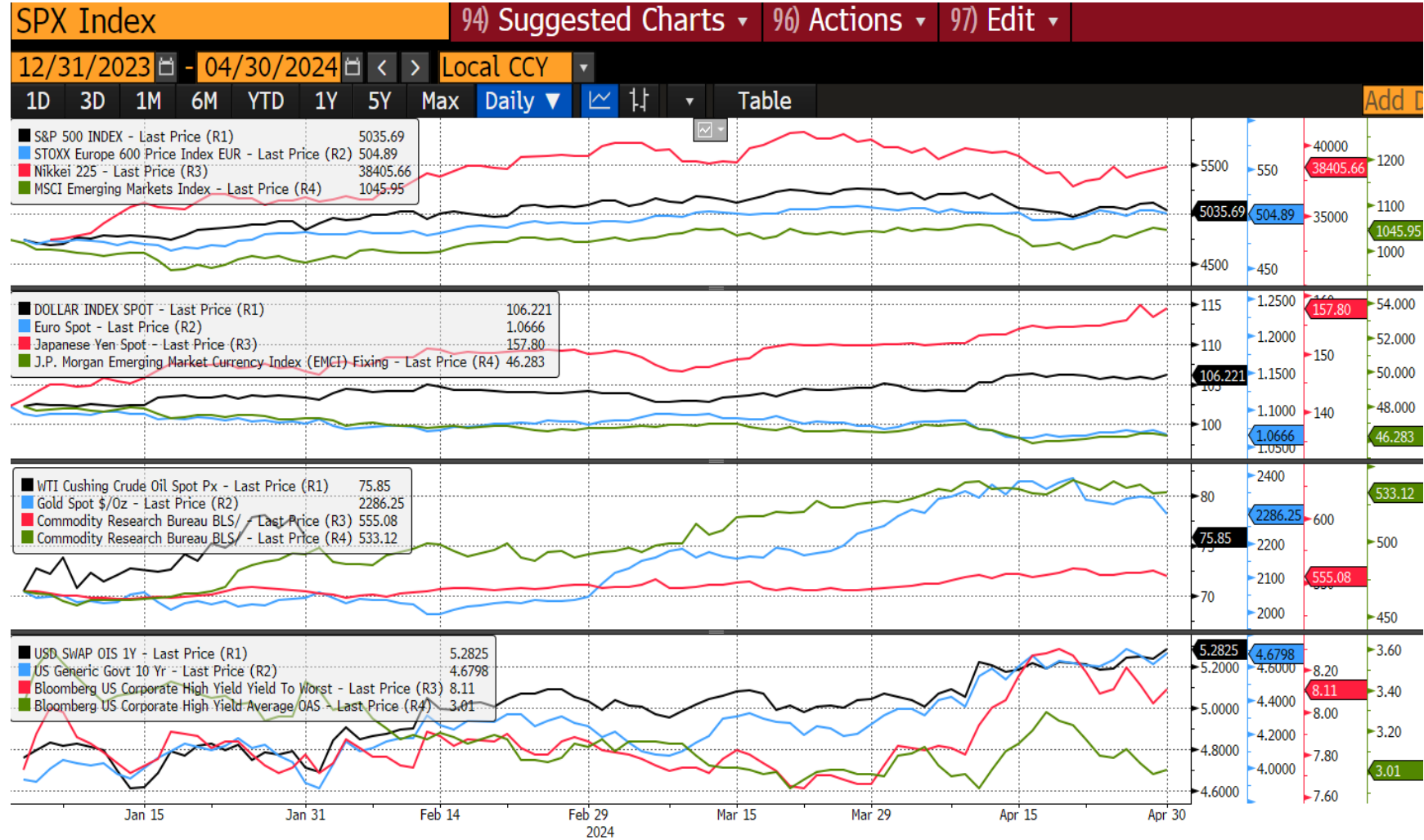
While the comp setup provided for a RoC deceleration in January, the dampened magnitude of the deceleration, points to a high rate of exit momentum out of 4Q23. Residential Investment no longer a drag and the prospects for further large-scale fiscal support remained elevated.

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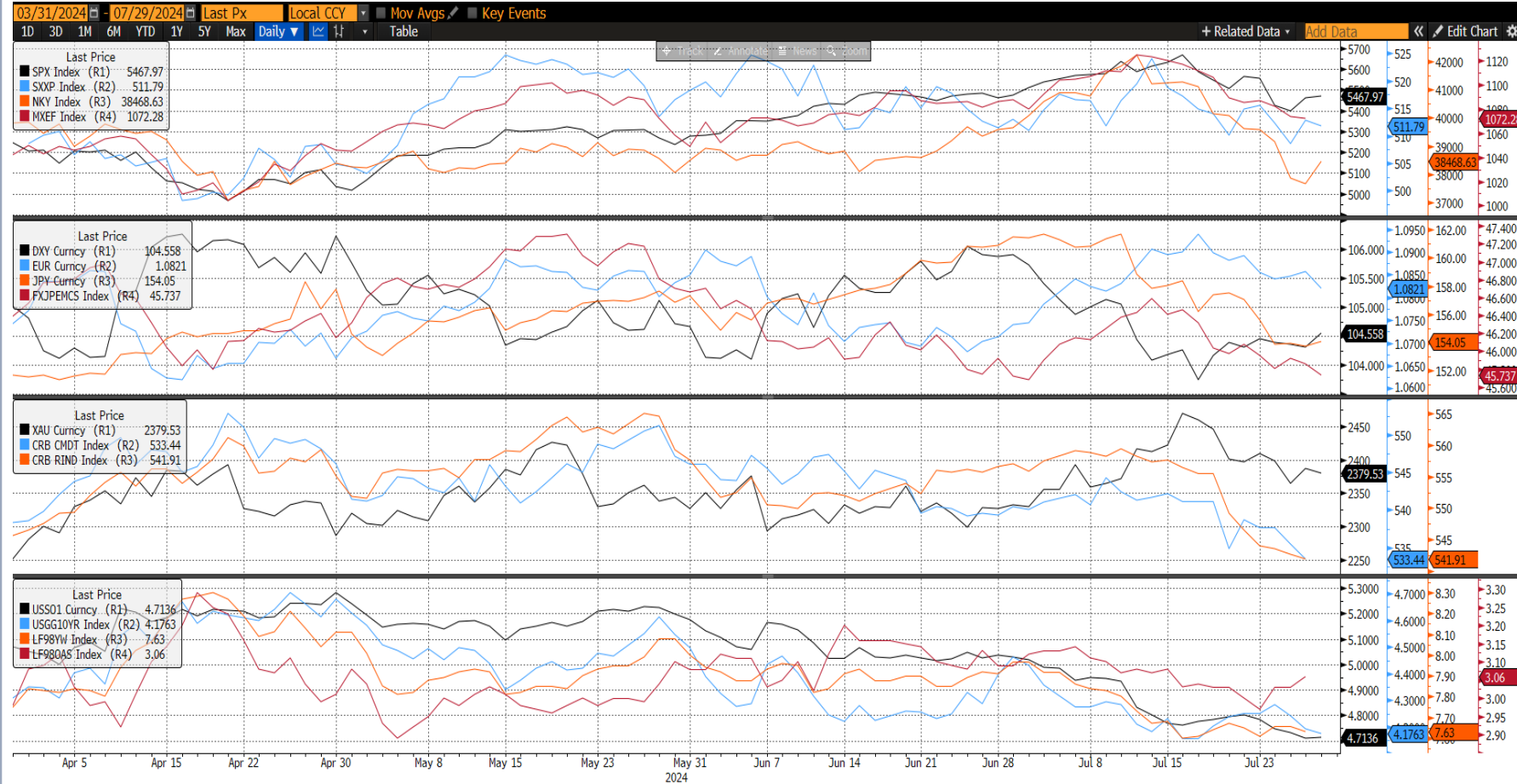


USA's Transition Towards #Quad2: After more than 2 years of broad deceleration, one of the most protracted contractions ever in domestic cyclical activity, and one of the longest periods of negative real income growth and cumulative loss of purchasing power in decades, the cyclical economy is flashing stabilization, and the balance of RoC risk domestically has shifted positive.

#HFL (Higher For Longer), Deficits, Debt: The inflation outlook for most of 2024 will stand in contrast to the disinflation in 2023. The outlook for higher for longer debt/deficits remains locked in all gas, no brakes mode.

Global #Quad 2: The model quad regime in the second quarter for both sets of G20 and Emerging Market economies is flashing Quad 2. Our domestic inflationary outlook has global implications, which together with the bottoming of the global industrial recession, is powering the likelihood of twin accelerations in growth and inflation for the balance of the year across a majority of foreign economies.

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2Q24 - Mid Quarter Update

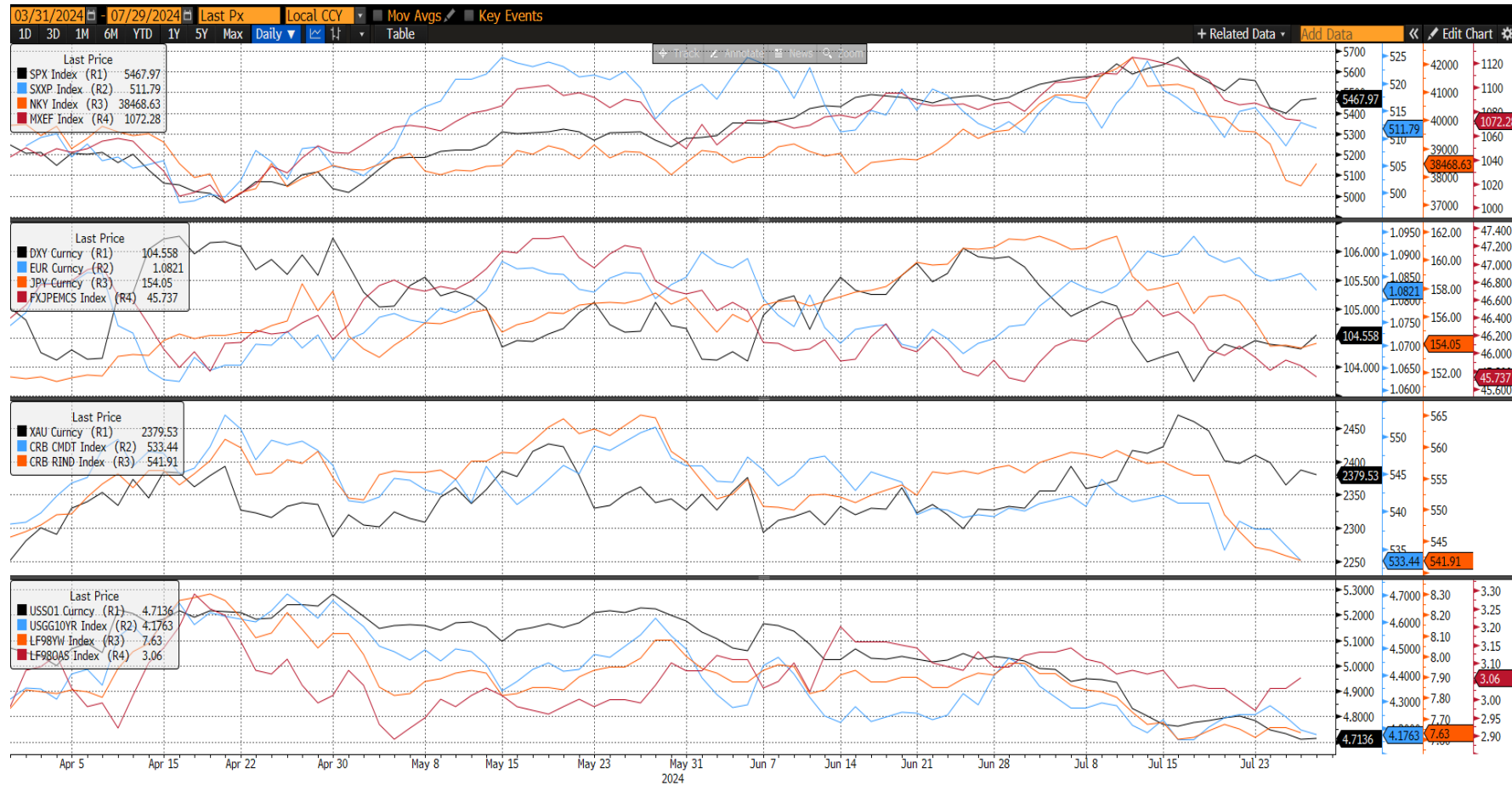
Frontrunning USA's Transition Towards #Quad

3: 2H 24 is poised for deceleration in Y/Y growth. Resilient nominal wage growth and rising input costs are skewing the balance of probabilities towards higher-for-longer particularly as base effects foe headline inflation ease over the NTM.

#HFL (Higher For Longer), Deficits, Debt: The inflation outlook for most of 2024 will stand in contrast to the disinflation in 2023. The outlook for higher for longer debt/deficits remains locked in all gas, no brakes mode.

Global #Quad 1 And Then #Quad 2: The model quad regime in the third quarter for G20 economies in Quad1, followed by Quad 2 in 4Q24 and 1Q25. The USA is the world exporter of its inflation and domestic inflationary outlook has global implications and helps to power the likelihood of accelerations in growth and inflation for the balance of the year across foreign economies.

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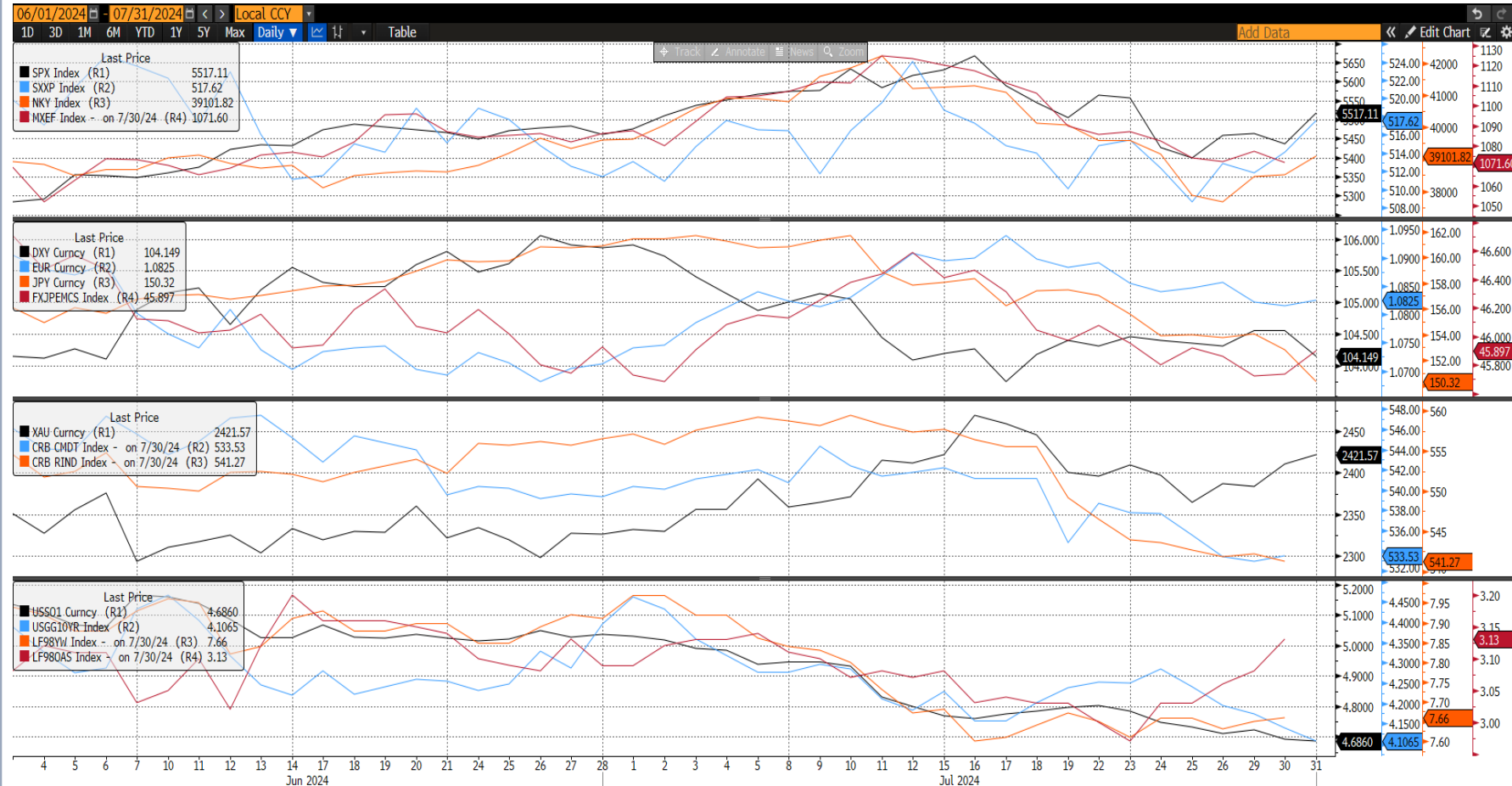


USA's #Quad3 Nowcast = #Turbulence: Chaos and #Quad3 remains expected for 3Q24. Poised for a YOY Growth Deceleration as confluence of labor deceleration and deterioration of #HFL constraints. Income led nominal growth will remain non-recessionary, and 2H24 expected to ping-pong between #Quad3 and #Quad1/2.

#HFL, Again!: Start of 2024, the Street estimated CPI deceleration following Q4 3.2% print (Q1E 2.9%, Q2E 2.8%). Our estimates predicted #HFL (Q1E 3.1%, Q2E 3.2%). Q1 shook out to 3.24%, and Q2 3.3%. The 2YR Yield was 4.25% at the start of this, 4.70% today. Nevertheless, we'll thoroughly review the setup, trends and flag what to watch for as we transition to Q3.

Country Quad Setups: India remains bullish on signal with leading growth. Odds are in favor of shallow acceleration through 2H24 due to domestic demand, government spending, and credit growth. Europe transitions from "bad" through "better" while emerging from industrial recession, however questions are raised due to political turbulence in France. China growth is expected to decelerate from 2Q24 to 3Q24, while Brazil continues as short exposure.

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Founding CEO & CIO of The Investment Fund for Foundations (TIFF) and Partner at GMO. Harvard JD/MBA.

David Salem Capsule Bio

Prior to joining Hedgeye in early 2023 as its inaugural Managing Director of **Capital Allocation**, David served as founding President and Chief Investment Officer of The Investment Fund for Foundations (TIFF) and as a partner at GMO, working closely with Jeremy Grantham on investment solutions for large institutional funds.

David received a JD *cum laude* from Harvard Law School and an MBA with high distinction from Harvard Business School, where he was elected a Baker Scholar. A member of the District of Columbia Bar since earning his JD, David has held adjunct faculty positions at Middlebury College, from which he earned his undergraduate degree *summa cum laude*, and the University of Virginia, and served in the White House Counsel's office while enrolled at Harvard.

David's speaking schedule has included talks at numerous colleges and universities, including Dartmouth, Duke, Harvard, MIT, Middlebury, Northwestern, and Oxford, and at conferences organized by the Association of Governing Boards, the CFA Institute, the Council on Foundations, the Foundation Financial Officers Group, the London Business School and NACUBO among other organizations.

David's extensive volunteer labors have included service as a trustee of Middlebury College, the Center for Effective Philanthropy, the Initiative for a Competitive Inner City and the Core Knowledge Foundation, and as a 15+ year member of the investment committee of The Atlantic Philanthropies.

David and his wife Amory Rowe Salem ([linkedin.com/in/amoryrowesalem](https://www.linkedin.com/in/amoryrowesalem)) and their children reside in Cambridge, MA, which serves as home base for Amory's work as a sports journalist and Head Coach of girls lacrosse at the city's public high school, Cambridge Rindge and Latin.

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