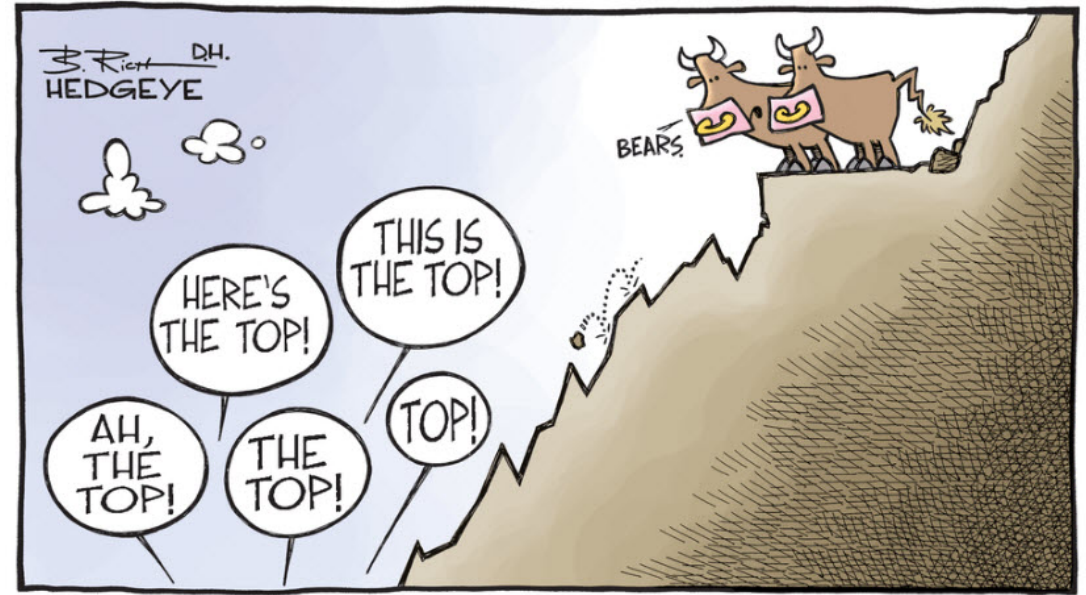




ACTUALLY, VALUATION IS NOT A CATALYST

November 7th, 2017



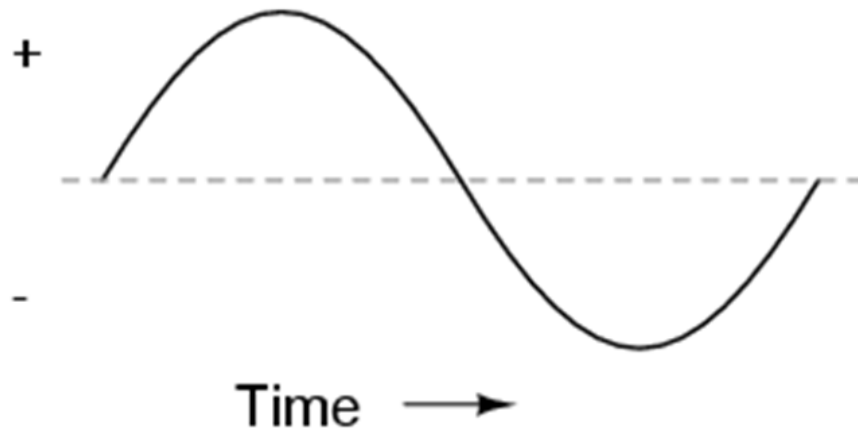
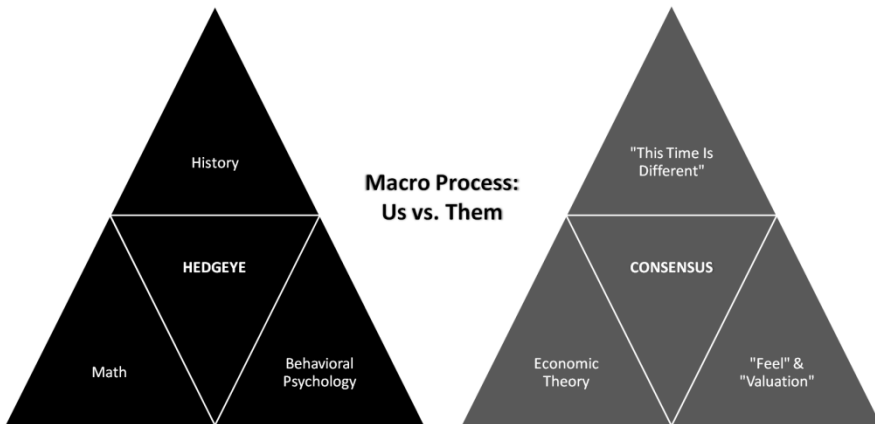
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PROCESS: RATE OF CHANGE CENTRIC



DIFFERENTIATED FROM THE HERD

Macroeconomics and Global Macro Risk Management are two very different fields. We specialize in the latter, incorporating key lessons of behavioral finance such as Prospect Theory and Bayesian Inference into our analysis.

WE FOCUS ON THE SLOPES

Everything that matters in Global Macro occurs on the margin. Our key differentiator is an ever-present focus on rates of change, which helps us front-run changes in sentiment among investor consensus and policymakers – both of whom tend to overweight absolute states in their analysis.

Q4 2017 MACRO THEMES

1

USA QUAD 1 OR 2?

Quad 1 allocations have had an epic run alongside Reflation's Rollover, four consecutive quarters of accelerating growth and synchronized global momentum. Now, with reflation again percolating, trough growth and profit comps now rearview, the Fed moving incrementally hawkish and a more divergent global growth outlook emerging, can the conspicuous YTD outperformance in **#RealGrowthAccelerating** exposures persist? We'll detail our near-term outlook for domestic growth and inflation and the strategy for traversing the chop associated with the reflationary bounce, weather related distortions and prospective policy and geopolitical catalysts.

2

PROFITS VS TAX REFORM

After 5 consecutive quarters of negative Y/Y earnings growth in the aftermath of the commodity bubble from Q2 2015 – Q2 2016, the easiest comps are officially in the rearview after four consecutive quarters of earnings growth for S&P 500 constituents. Without the corporate profit tailwind, what has been 11 months of speculation as to whether or not the Trump administration can get tax reform done now matters in a big way for prolonging this bull market run. We'll walk through the key scenarios.

3

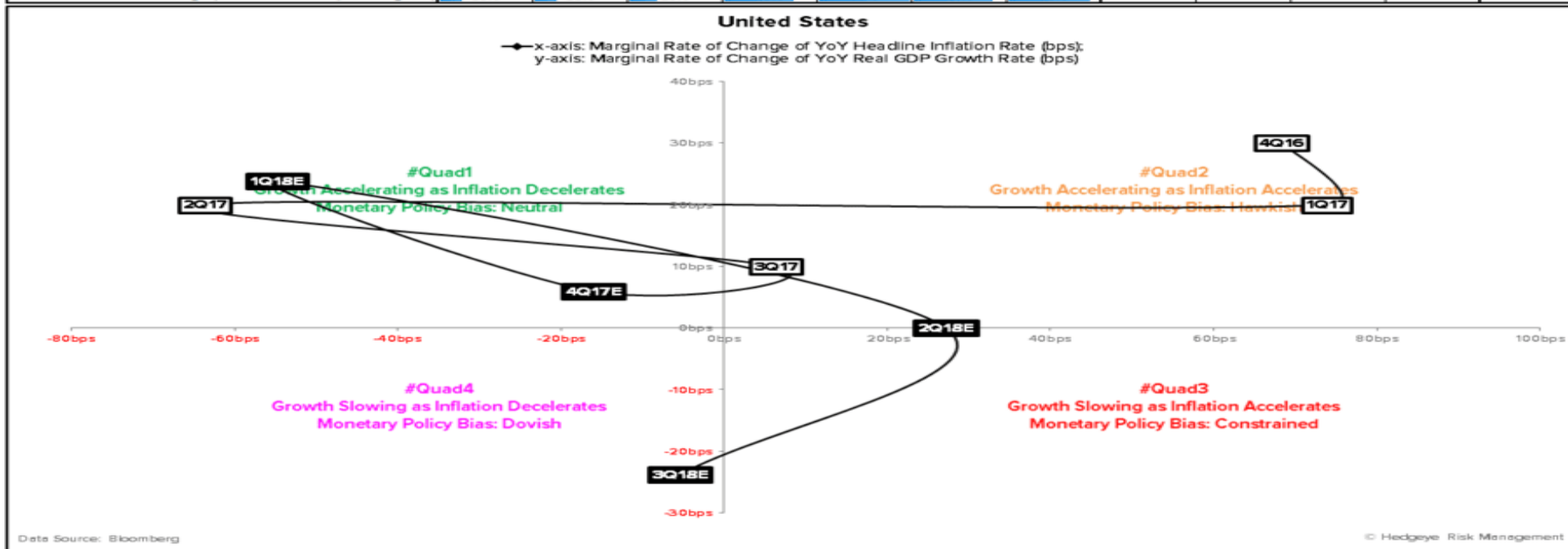
SYNCHRONIZED GLOBAL #DIVERGENCES

The much ballyhooed "synchronized global recovery" which began in earnest in Q1 of 2016 appears to be petering out with noteworthy divergences emerging across key economies. We refresh our GIP Models for each and provide clues as to which countries and regions are likely to provide the highest risk-adjusted returns from here.

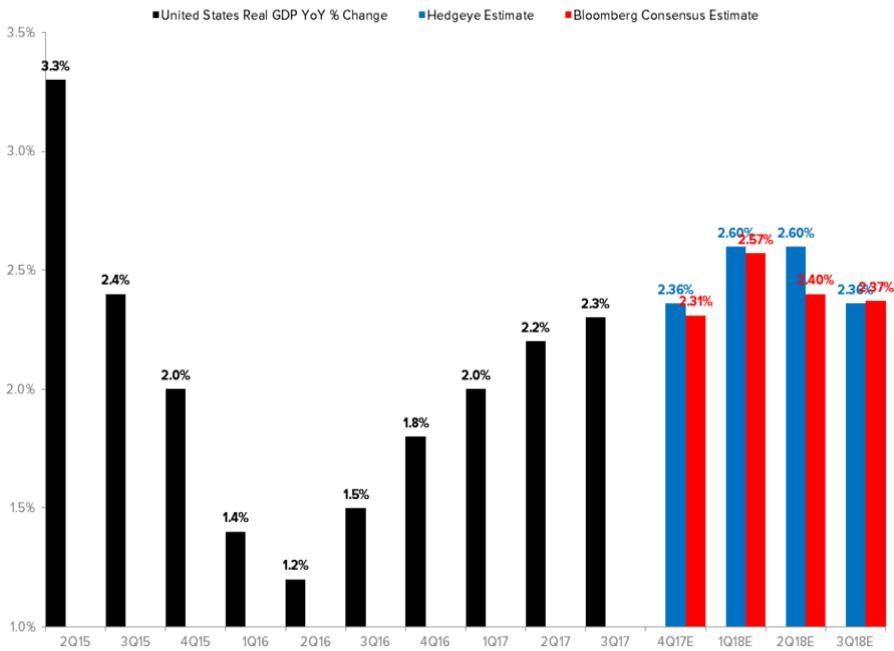
MEASURING AND MAPPING THE CYCLE

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 EXPECTATIONS. REFER TO THE FOLLOWING SLIDE FOR MORE DETAILS.

United States (Reported Data as of 10/27/17)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	1Q18E	2Q18E	3Q18E	2017E
Real GDP QoQ SAAR % Change	0.60%	2.20%	2.80%	1.80%	1.20%	3.10%	3.00%	-	-	-	-	-
Real GDP YoY % Change	1.40%	1.20%	1.50%	1.80%	2.00%	2.20%	2.30%	-	-	-	-	-
Hedgeye Estimates	-	-	-	-	-	-	-	2.36%	2.60%	2.60%	2.36%	2.36%
Bloomberg Consensus Estimates	-	-	-	-	-	-	-	2.31%	2.57%	2.40%	2.37%	2.35%
Real GDP YoY % Change (Percentile Basis; Trailing 10Y)	33%	23%	38%	56%	62%	64%	67%	-	-	-	-	-
Headline CPI YoY % Change	1.08%	1.05%	1.12%	1.80%	2.54%	1.90%	1.97%	-	-	-	-	-
Hedgeye Estimates	-	-	-	-	-	-	-	1.81%	1.26%	1.53%	1.48%	1.73%
Bloomberg Consensus Estimates	-	-	-	-	-	-	-	1.90%	1.70%	2.20%	2.20%	1.87%
Headline CPI YoY % Change (Percentile Basis; Trailing 10Y)	18%	18%	23%	59%	77%	67%	69%	-	-	-	-	-

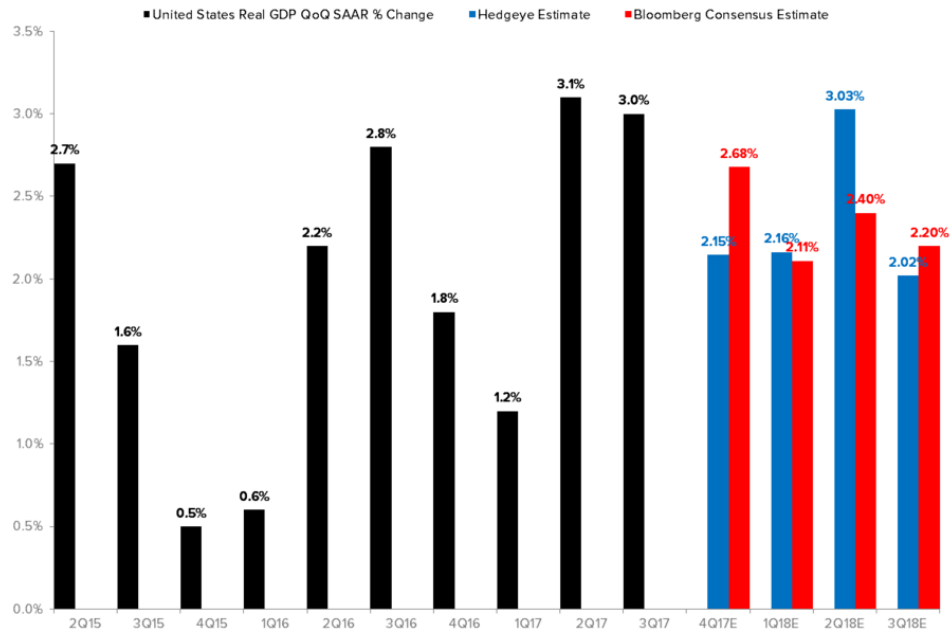


MACRO SIMPLICITY: LONG REAL GROWTH



Data Source: Bloomberg

© Hedgeye Risk Management



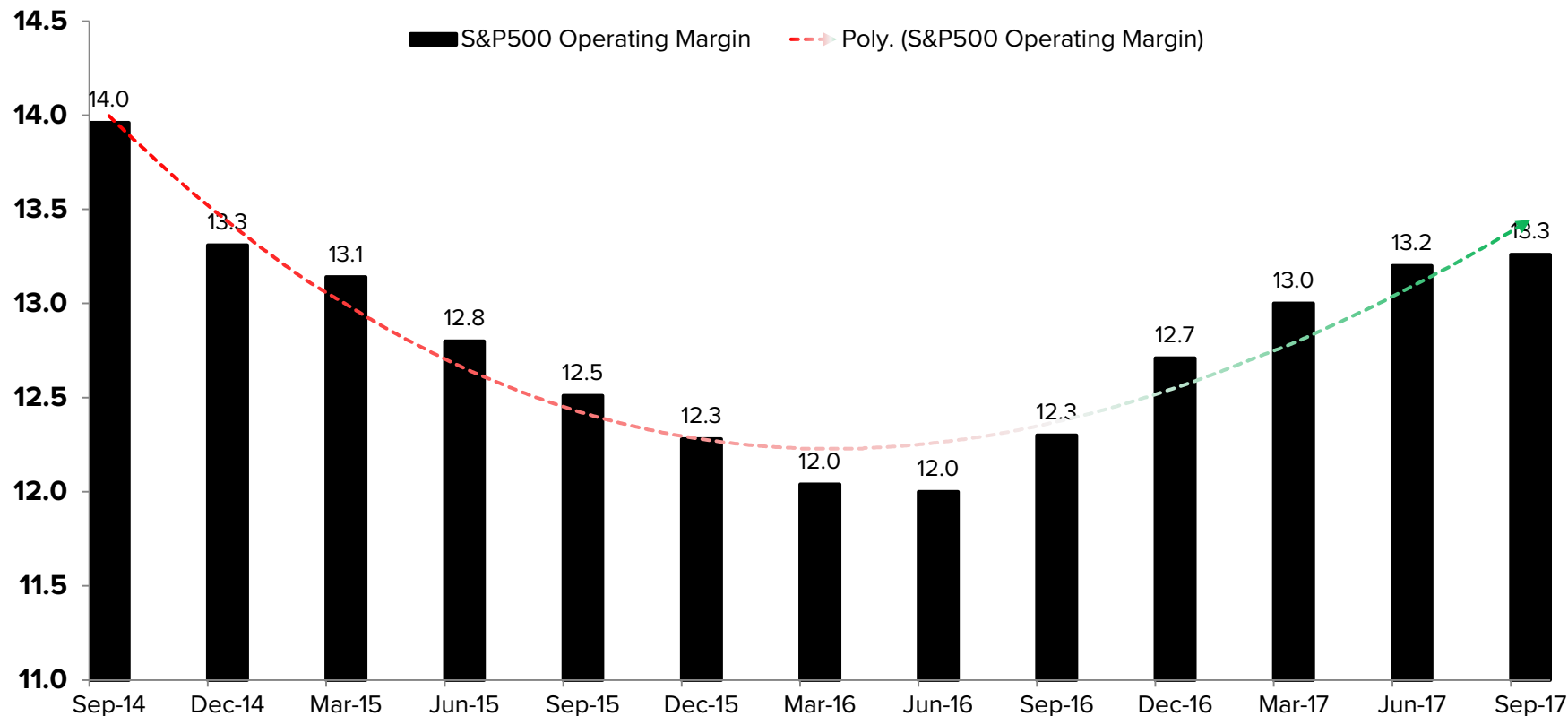
Data Source: Bloomberg

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MAGIC MULTIPLES: A MOVING TARGET

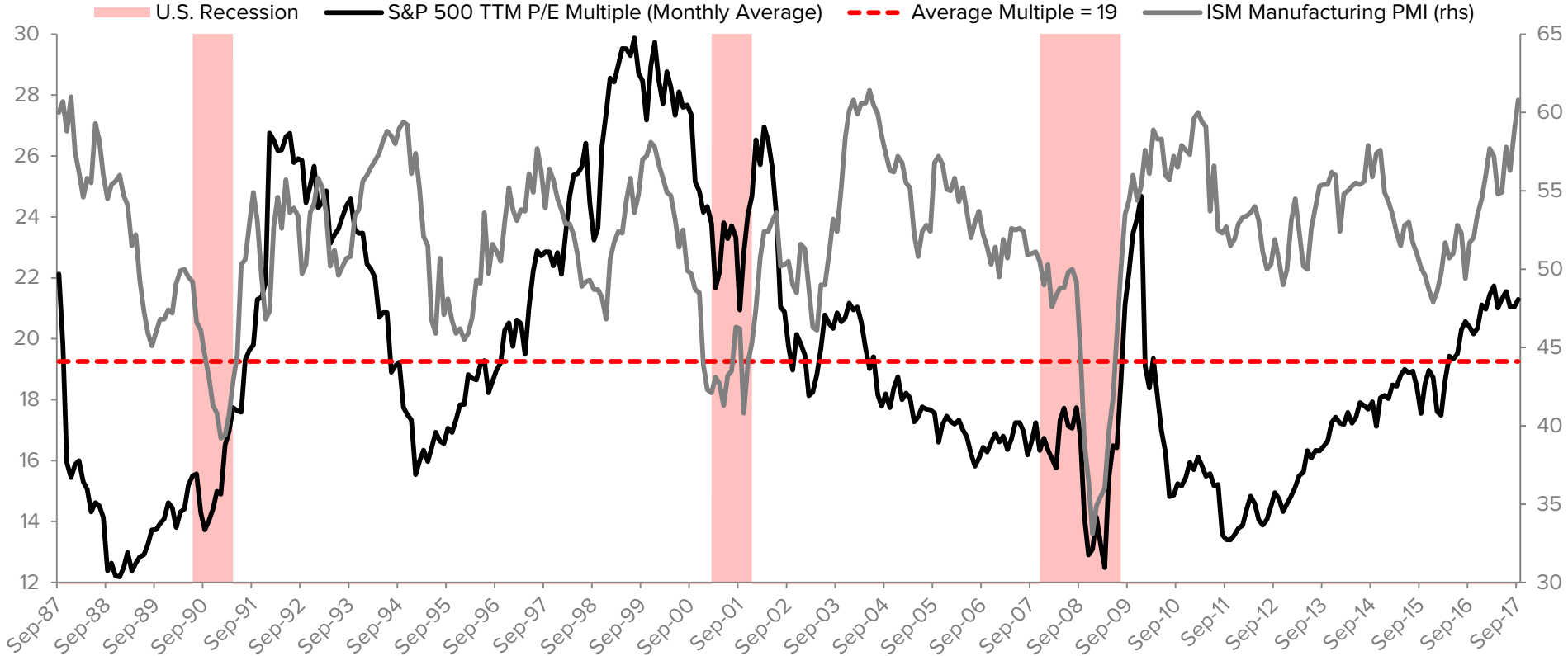


PROFITABILITY = CONSISTENT WITH GDP CALCULUS



ARE YOU *SURE* THE MARKET IS EXPENSIVE?

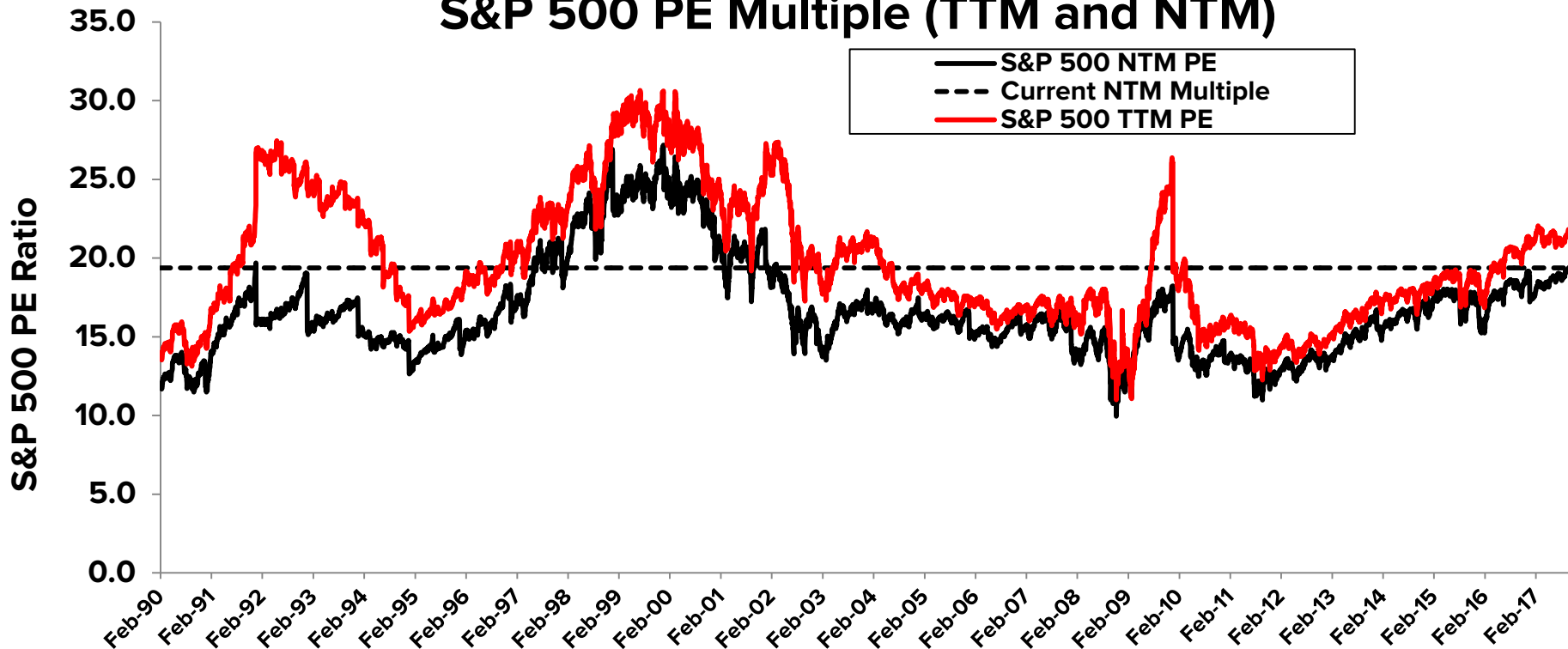
PEAK RATES OF MULTIPLE EXPANSION ALWAYS OCCUR AFTER CYCLICAL DOWNTURNS. THIS TIME IS NOT DIFFERENT.



#GROWTH ACCELERATING PUTS A LID ON MARKET MULTIPLES

WITH EARNINGS GROWTH LIKELY TO SEE ANOTHER SECOND DERIVATIVE SLOWDOWN WITH Q3 REPORTING SEASON, THE PROSPECT FOR TAX REFORM WILL TAKE CENTER STAGE.

S&P 500 PE Multiple (TTM and NTM)



EARNINGS CONTINUE TO REFLECT GROWTH ACCELERATING

S&P 500 Q3 2017 EARNINGS GROWTH

Q3 2017 QTD S&P 500	SALES GROWTH (YY%)	EARNINGS GROWTH (YY%)	#REPORTED
S&P 500 (Aggte.)	6.1%	8.1%	316 / 499
Energy	16.5%	111.3%	22 / 32
Materials	10.8%	10.2%	15 / 25
Industrials	7.7%	-0.3%	53 / 68
Consumer Discretionary	2.4%	0.8%	36 / 80
Consumer Staples	3.0%	3.9%	18 / 34
Healthcare	5.4%	8.0%	41 / 62
Financials	3.8%	-2.7%	55 / 66
Information Technology	9.1%	25.5%	38 / 68
Telecom	-0.6%	-1.4%	2 / 3
Utilities	-1.6%	-2.4%	13 / 28
Real Estate	2.9%	8.2%	23 / 33

EARNINGS CONTINUE TO REFLECT GROWTH ACCELERATING

NASDAQ 100 Q3 2017 EARNINGS GROWTH

Q3 2017 QTD Nasdaq 100	SALES GROWTH (YY%)	EARNINGS GROWTH (YY%)	#REPORTED
Nasdaq (Aggte.)	11.4%	22.8%	58 / 102
Industrials	9.5%	-6.2%	7 / 7
Consumer Discretionary	17.2%	11.4%	10 / 28
Consumer Staples	10.3%	14.9%	3 / 5
Healthcare	-0.5%	3.9%	15 / 20
Information Technology	14.9%	38.4%	22 / 40
Telecom Services	8.4%	106.5%	1 / 2

PULLING BACK THE SINE CURVE ON CORPORATE PROFITS

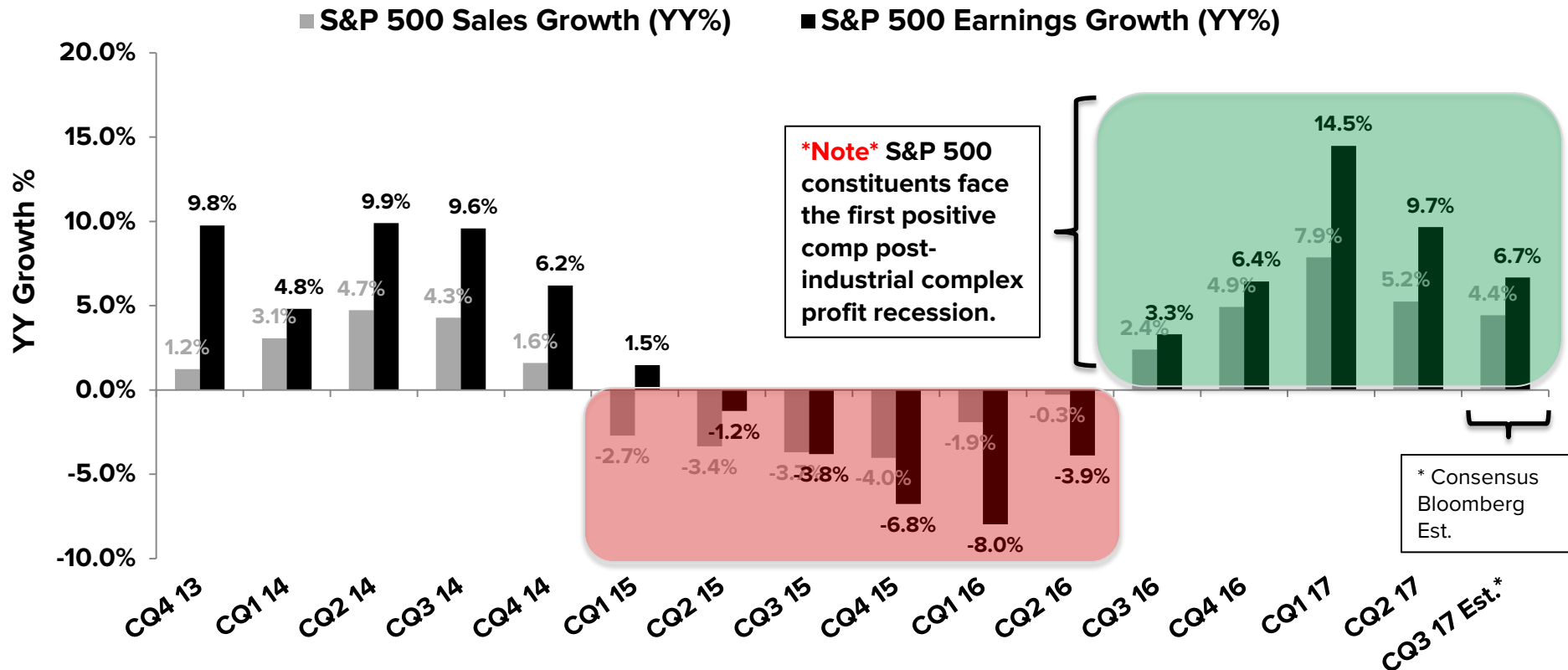
S&P 500 Index												Estimates			
SALES GROWTH (%)	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16	CQ3 16	CQ4 16	CQ1 17	CQ2 17	CQ3 17*	CQ4 17	CQ1 18	CQ2 18	CQ3 18
S&P 500 Aggregate	-2.7%	-3.4%	-3.7%	-4.0%	-1.9%	-0.3%	2.4%	4.9%	7.9%	5.2%	6.1%	5.5%	6.1%	6.1%	5.7%
Energy	-34.0%	-31.8%	-34.4%	-34.4%	-29.3%	-24.2%	-14.2%	4.2%	34.3%	15.8%	16.5%	13.5%	12.5%	13.1%	9.9%
Materials	-9.8%	-10.1%	-14.0%	-15.5%	-8.8%	-7.3%	-2.4%	2.7%	7.1%	5.8%	10.8%	8.4%	7.8%	7.6%	5.3%
Industrials	-2.0%	-3.2%	-6.1%	-7.2%	-2.0%	-1.3%	2.2%	2.6%	4.2%	4.8%	7.7%	6.5%	6.2%	4.6%	2.8%
Consumer Discretionary	1.8%	2.1%	3.7%	4.4%	6.3%	8.5%	8.2%	7.8%	8.4%	3.8%	2.4%	5.3%	5.8%	6.8%	7.4%
Consumer Staples	2.5%	0.6%	0.5%	-0.4%	1.2%	0.7%	1.7%	2.6%	1.8%	2.1%	3.0%	3.9%	4.1%	4.0%	3.6%
Health Care	10.3%	8.9%	9.5%	9.6%	9.2%	8.8%	7.0%	5.4%	5.7%	4.0%	5.4%	4.8%	5.4%	5.2%	5.3%
Financials	2.0%	1.6%	0.1%	1.0%	-1.7%	0.7%	5.6%	5.5%	9.8%	4.5%	3.8%	1.9%	1.1%	3.4%	4.2%
Information Technology	6.0%	3.1%	1.1%	-5.3%	-6.8%	-3.9%	0.4%	7.2%	8.2%	8.7%	9.1%	7.8%	12.1%	9.9%	8.0%
Telecom	2.6%	2.4%	11.8%	12.0%	11.2%	9.6%	-0.8%	-2.9%	-4.7%	-1.3%	-0.6%	0.1%	2.9%	1.8%	1.7%
Utilities	-3.6%	-4.9%	-2.1%	-12.6%	-10.5%	-2.4%	3.5%	8.1%	7.2%	6.4%	-1.6%	2.7%	2.8%	2.9%	11.1%
Real Estate	4.4%	6.4%	7.5%	10.8%	11.4%	7.4%	7.5%	3.7%	4.5%	7.3%	2.9%	6.2%	5.8%	4.8%	7.1%
EPS GROWTH (%)	CQ1 15	CQ2 15	CQ3 15	CQ4 15	CQ1 16	CQ2 16	CQ3 16	CQ4 16	CQ1 17	CQ2 17	CQ3 17*	CQ4 17	CQ1 18	CQ2 18	CQ3 18
S&P 500 Aggregate	1.5%	-1.2%	-3.8%	-6.8%	-8.0%	-3.9%	3.3%	6.4%	14.5%	9.7%	8.1%	11.3%	10.5%	11.2%	12.8%
Energy	-56.7%	-56.5%	-57.5%	-72.6%	-109.6%	-81.6%	-63.4%	-1.5%	690.1%	210.0%	111.3%	106.8%	40.0%	62.9%	32.5%
Materials	-0.4%	6.3%	-15.6%	-17.9%	-16.0%	-9.1%	3.2%	-1.1%	15.1%	2.7%	10.2%	26.2%	22.6%	22.3%	21.2%
Industrials	11.3%	-3.0%	-0.7%	-5.4%	-7.3%	-1.9%	-1.5%	-5.2%	1.5%	6.6%	-0.3%	2.7%	10.3%	5.7%	9.4%
Consumer Discretionary	9.3%	9.0%	13.9%	9.4%	17.8%	10.3%	6.4%	4.2%	7.0%	1.9%	0.8%	5.8%	4.4%	8.6%	10.7%
Consumer Staples	3.6%	0.1%	-2.1%	-0.7%	1.2%	0.0%	6.0%	3.9%	3.1%	3.9%	3.9%	6.1%	7.0%	8.0%	7.4%
Health Care	18.2%	15.1%	14.5%	11.0%	8.1%	4.8%	5.8%	4.8%	5.4%	6.6%	8.0%	4.7%	5.7%	4.5%	7.0%
Financials	7.1%	2.7%	-8.6%	-5.3%	-14.2%	-7.0%	12.8%	6.6%	17.9%	9.5%	-2.7%	13.5%	10.0%	10.2%	27.5%
Information Technology	10.0%	6.6%	4.5%	-3.8%	-7.4%	-2.7%	6.1%	12.0%	21.7%	15.8%	25.5%	14.1%	15.7%	18.3%	9.8%
Telecom	8.5%	10.2%	23.7%	27.8%	16.1%	3.5%	-0.7%	1.8%	-4.6%	5.0%	-1.4%	-0.1%	1.0%	-0.7%	2.0%
Utilities	1.3%	3.0%	0.8%	-49.6%	-1.9%	8.9%	12.6%	110.6%	3.5%	-4.1%	-2.4%	15.3%	5.7%	-0.9%	6.6%
Real Estate	12.6%	11.7%	12.5%	14.5%	8.3%	7.1%	8.7%	3.1%	6.5%	7.1%	8.2%	10.1%	8.6%	6.8%	9.8%

Data Source: BBG

*316/500 Reported

THE EASIEST COMPS ARE IN THE REARVIEW

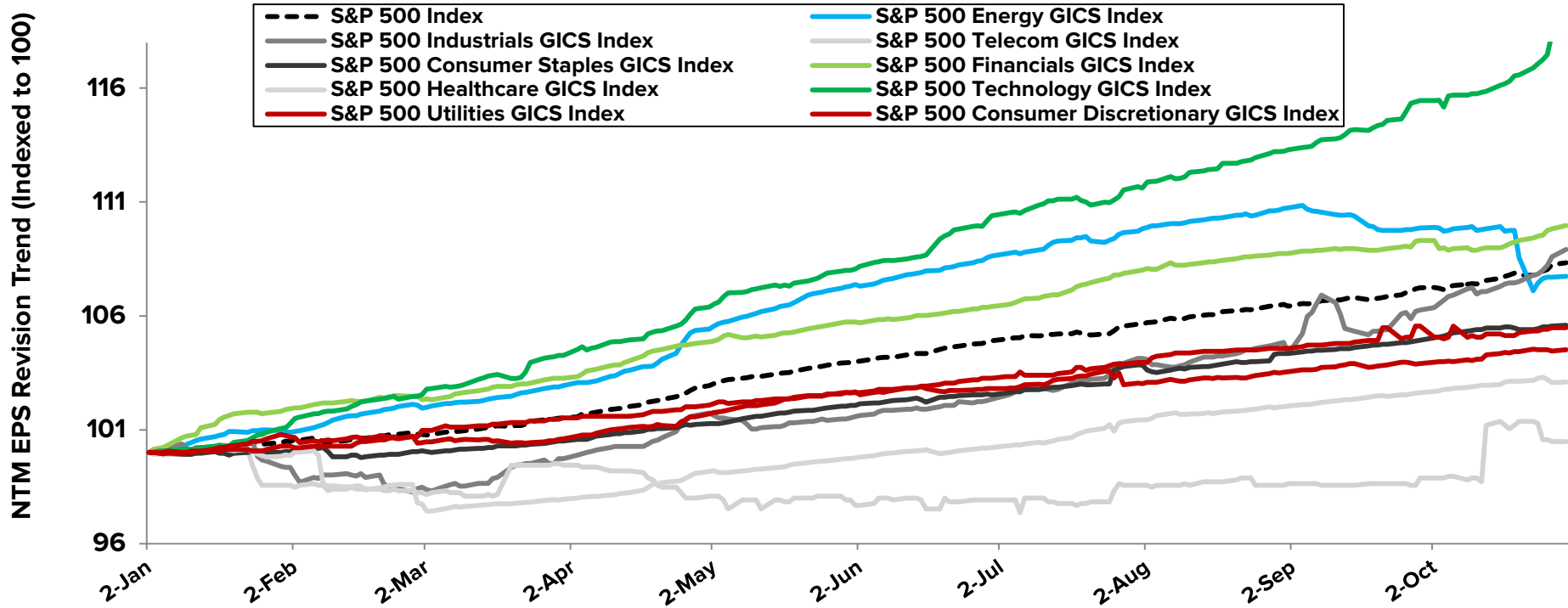
BASE EFFECTS WOULD SUGGEST Q3 REPORTING SEASON SETS-UP FOR ANOTHER SEQUENTIAL DECELERATION IN Y/Y EARNINGS GROWTH, A TRIVIAL REALITY OF THE COMPS ASSOCIATED WITH THE INDUSTRIAL EARNINGS RECESSION.



TECH IN 2017: “EXPENSIVE” ON THE WRONG NUMBERS

ANALYSTS HAVE NOW ADJUSTED THEIR FORECASTS IN RESPONSE TO MULTIPLE QUARTERS OF #GROWTH ACCELERATING DATA.

S&P GICS Sector 2017 NTM EPS Revision Trend (Indexed to 100)

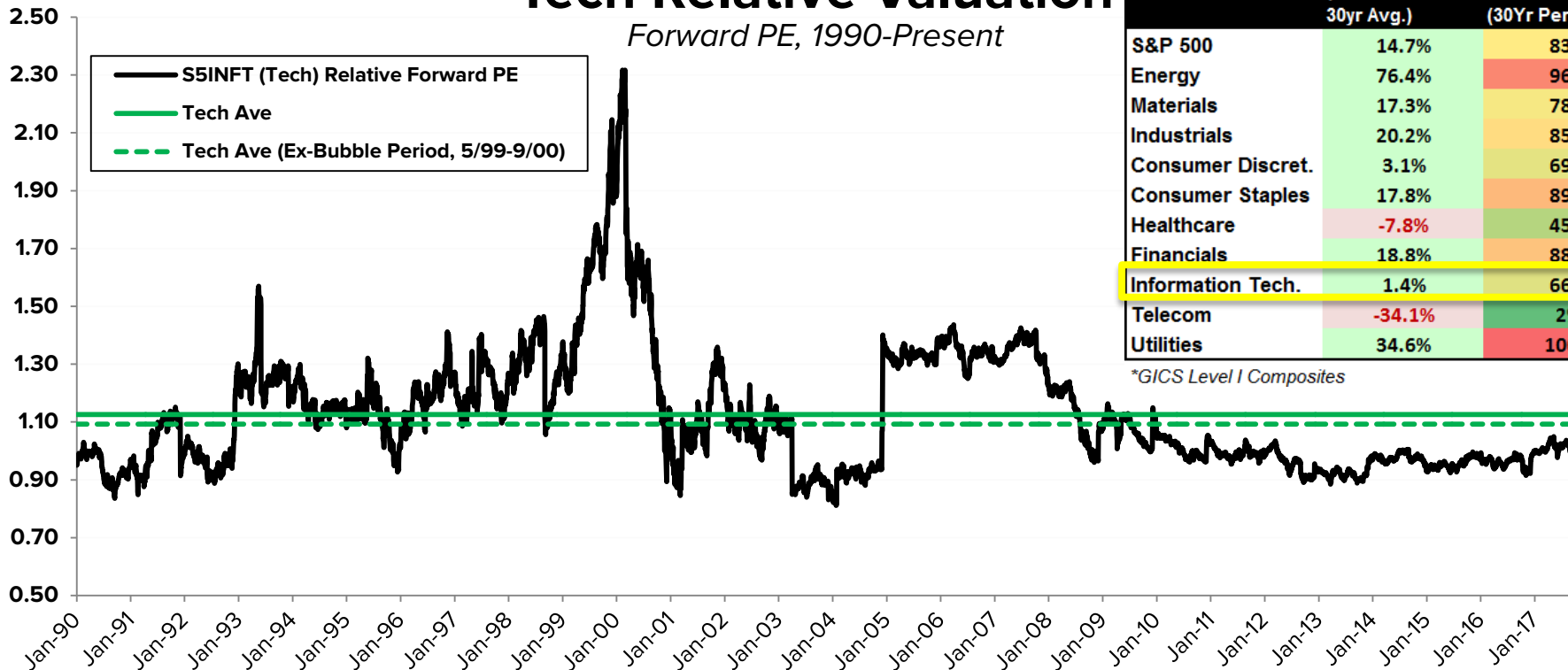


FOR THOSE WHO WANT TO TALK “CHEAP” AND “EXPENSIVE”

WE’RE NOT MAGIC MULTIPLE PROPONENTS BUT IF WE WERE, WE’D HAVE TROUBLE ARGUING FOR REAL GROWTH EXPOSURES BEING “EXPENSIVE”, BUT HEY MAYBE WE DON’T GET IT.

Tech Relative Valuation

Forward PE, 1990-Present



Sector*	NTM PE Multiple (% Above/Below 30yr Avg.)	NTM PE Multiple (30Yr Percentile)
S&P 500	14.7%	83%
Energy	76.4%	96%
Materials	17.3%	78%
Industrials	20.2%	85%
Consumer Discret.	3.1%	69%
Consumer Staples	17.8%	89%
Healthcare	-7.8%	45%
Financials	18.8%	88%
Information Tech.	1.4%	66%
Telecom	-34.1%	2%
Utilities	34.6%	100%

*GICS Level I Composites

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mmoran@hedgeye.com**