

## Inside

- XLE vs. XLY

## Index Levels

S&P 500—1,666.20

DOW—15,334.97

NASDAQ—3,495.46

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## *MacroView: Reading Between the Lines*

Our mission is to produce original, unbiased, thought-provoking observations that will unlock the message of the markets. Our view is neither bullish nor bearish, our goal is to uncover potential ideas and opportunities for our clients.

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## XLE v. XLY (2003-Current)



- **Energy (XLE)** has **underperformed the SP500 by 3% since 2009**
- **Consumer Discretionary (XLY)** has **outperformed the XLE by 65% since 2009**
- Market has completed a round trip of equity-based inflation trade
- Markets *may* be approaching a cyclical shift as confidence in global growth improves
- **Energy** should begin to outperform **Discretionary** on a relative basis if cyclical rotation occurs

## XLE vs XLY (3 Year Relative Performance)



- **XLE** has massively underperformed both SP500 and XLY since the market lows in 2009
- Nearly 35% decline since 2011 highs has been discounting the current deflationary risk
- **Bullish technical formation possibly signaling a trend reversal to the upside for XLE relative to XLY**
- Low risk/high reward entry zone approaching

## XLE vs XLY (YTD Relative Performance)



- During Q2, **XLE** underperformed **XLY** by over 7% at its recent relative lows
- Deflationary fears continue to push money away from tangibles
- Retail's relative and absolute returns have outpaced all but Healthcare within the main SP500 **leaving little room for safety in the event of an overall market decline.**

## XLE vs XLY (30 Day Relative Performance)

### INTRADAY

- Currently trading at upper end of 30day relative performance range
- *Initiate spread on pull backs toward the 1.50% - 2% range, continuing to build the position around month end*
- *Probable rotation trade from relative winners (XLY) to sinners (XLE) ahead of 2H13*



## XLE (30 Day Performance)



- Should markets continue to ramp up, we expect this spread to trend higher with the overall market
- **If markets begin to correct, we can easily shift this position to a net short trade by lifting XLE long position and remaining short XLY**

## XLY (30 Day Performance)



- Massive outperformance of XLY could possibly result in the sector becoming a 2H13 absolute loser in the event of a correction
- If markets trade sideways, Energy may still have room to outperform on both an absolute and relative basis