

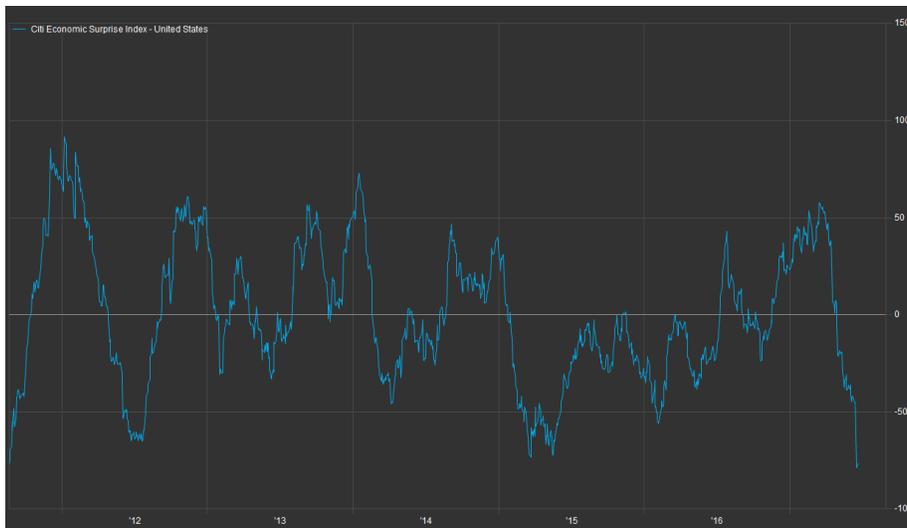


June 23rd, 2017

The Top-Down

Goldman Sachs CEO Lloyd Blankfein commented in an interview that [“things look pretty good”](#) when asked his opinion of the economy. He also shared his view that, like it or not, quantitative easing accomplished what the Fed wanted it to. Given his vantage, it’s always good to listen to what Mr. Blankfein is seeing. It will be interesting to watch how [Marcus](#), the firm’s non-recourse lending division, develops over time.

The Citigroup [Economic Surprise Indicator](#) is hitting lows not seen since 2011. Adding further weight to the idea of hedging risk right now.



Citi Economic Surprise Indicator are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance been beating consensus. The indices are calculated daily in a rolling three-month window.

For a full account of all economic data use [The Economic Calendar - Bloomberg](#)

The Bottom-Up

The Amazon purchase of Whole Foods has been front and center for the markets since the deal was announced last Friday. Four articles on the subject that are worth the time to read.

- [Why Amazon Bought Whole Foods – The Atlantic](#)
- [Amazons Purchase of Whole Foods isn't About Groceries. It's About Everything – Slate](#)
- [Amazon is Acquiring Whole Foods – Walmart, Target and Kroger Should be Terrified – Business Insider](#)
- [Amazon's Real Target Isn't Whole Foods, It's Everything You Buy - Bloomberg](#)

Stillwater View: Jeff Bezos is fond of the saying “Your margin is my opportunity”. Twenty years ago, Michael Dell was saying the same thing. And today Vanguard and BlackRock are dominating with that mantra. If you are getting the sense that we are in a race to the bottom in terms of margins you are in good company. Chicago Fed President [Charles Evans](#) sees advances in technology and distribution as a headwind for inflation.

The Paris Air Show took place this week and the tarmac was [filled with planes](#) of the commercial and military variety. The [Queen of the Skies](#) is being relegated to bulk freight and the Airbus [A380](#) super jumbo is fading as well. The [man who sold more jets](#) than anyone hangs up his wings. It was so hot in [Phoenix](#) this week that American Airlines had to cancel flights. And Boeing [shows off](#) with their next generation 737 and 787 aircraft.

Stillwater View: As is the case with any industrial sector, aerospace is a cyclical business. That said, it tends to run in very long cycles. The commercial upcycle has been going strong for several years now as carriers push for fuel efficiency and configurations that maximize the profit per flight. Not an easy task in a notoriously difficult business. Warren Buffet [likes the carriers](#). I'm partial to aerospace component maker TransDigm and defense contractor Lockheed Martin.

We took a week off from talking crude but are coming back to it again as the commodity [traded down to \\$43](#) this week. The supply driven inventory glut coming from North American producers is dictating prices right now. If we go sub-\$40 look for [high yield](#) spreads to begin to widen as crude related credits make up a large portion of the market.

Stillwater View: We have entered a very difficult no-man's land for oil and gas exploration and production companies. Too early to buy and too late to short. Many have gotten absolutely crushed this year and are down far more than the commodity. But markets tend to overshoot and we are far closer to a bottom than a top. Positive view of Occidental for [Permian Basin](#) exposure and Pioneer Resources for the [Eagle Ford](#).

I have spent a decent amount of my career as an oil and gas analyst and have a tremendous amount of knowledge and intellectual curiosity in the dynamics of the commodity and the companies that go after it. The cyclicity of the sector lends itself to being a great arena for hedged investing. Stillwater is currently seeking investors for the Stillwater Trinity Long/Short Energy strategy. Those with interest should contact the firm.

Up and Down Wall Street

George Clooney and Rande Gerber parlayed their search for a properly crafted tequila into the billion-dollar Casamigos brand that Diageo [acquired](#) on Wednesday.

Even veteran Wall Street professionals get BlackRock and [Blackstone](#) confused from time to time. Turns out Steve Schwarzman and Larry Fink [planned it that way](#) as they kept the family name in both.

In a much-anticipated move, index provider MSCI [elected to include China](#) in the emerging market benchmark. [Why is this relevant?](#) By including the country in the benchmark portfolio managers that use the index as a bogey will be made to decide if they want to own China shares or not. Prior to inclusion there was no need to make an active decision.

Diversions

Whales of the natural kind are making their presence known in [New York](#) and [San Francisco](#) this summer. While the rare [white dolphin](#) has been hanging out in Monterey Bay.

It's "suns out guns out" in [Squaw Valley](#) where they will be skiing until the Fourth of July this year. Mammoth Mountain is stretching the season out even further, taking it into [August](#). Live the dream by hitting Dave's Run in the morning and [Hot Creek](#) in the afternoon.

The first pick in the NBA draft, [Markelle Fultz](#) from the University of Washington, is quite the talent both on and off the court. LaVar Ball took his "[theater of the absurd](#)" to New York this week. What NBA players [think of the man](#). And this [commercial](#) featuring future Los Angeles Laker Lonzo Ball in a Father's Day advertisement for Foot Locker is flat out funny.

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