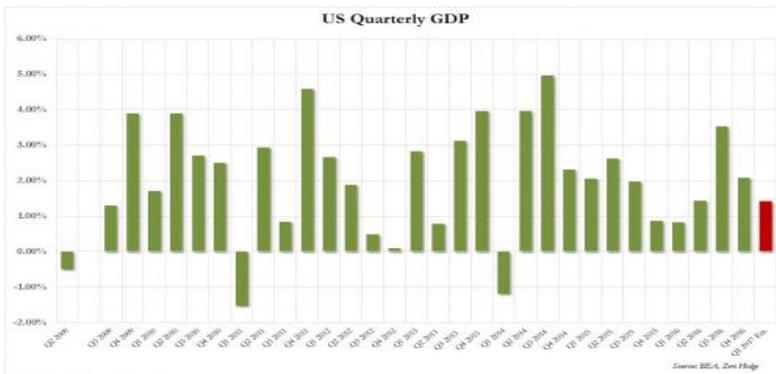




June 30, 2017

The Top-Down

The biggest economic release of the week was the final revision to first quarter GDP. The original print in May was only 0.70%, raising concerns of a slowing. That release coincided with the Berkshire annual meeting where Warren Buffett commented that he thought it would ultimately be revised higher. True enough, the final number came in at 1.4%. Consumer spending was also revised upward, taking it from the worst in seven years to the worst in four.



David Kostin, chief U.S. equity strategist at Goldman Sachs, explained that the [flood of assets into ETFs](#) has been the driver of this year’s rally. He is also of the opinion that the trend will change going into the second half. The firm’s year end price target for the S&P 500 is 5% below where it trades today. The perspective from the *Wall Street Journal*, [ETF Buyers Propel Stock Market’s Surge](#).

Cumulative active vs. passive flows to bond and equity funds (\$ trillions).

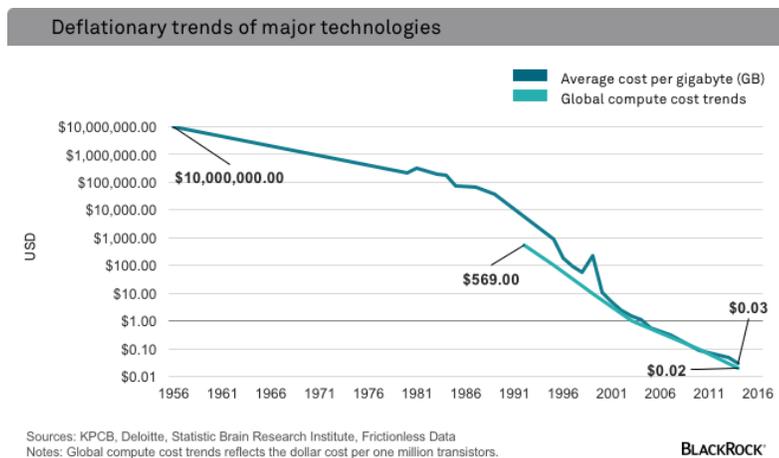


Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

On Monday Fed Chair Janet Yellen remarked that [asset valuations](#) are “somewhat rich if you use some traditional metrics like price earnings ratios”. Nobel Prize winning economist Robert Shiller made [cautious comments](#) that “We’re at a high level, and it’s concerning.” And when strategists appear to be raising target prices for the sake of raising target prices, as Oppenheimer’s [John Stolfus](#) did, it should make even the most cautious bull nervous.

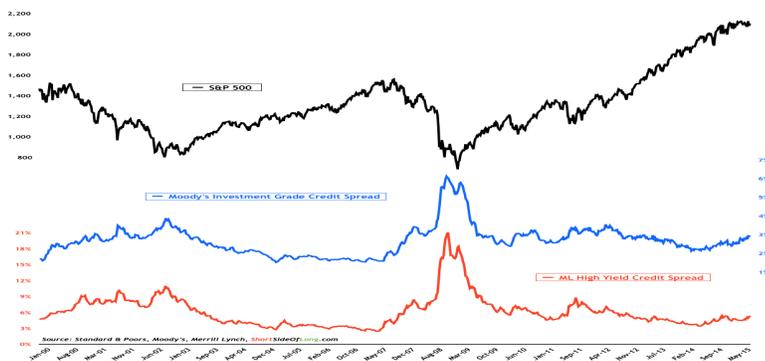
Stillwater View: At the close of market today the S&P 500 will have notched seven consecutive quarters of positive performance. This doesn’t mean that an eighth is not in the cards. But with valuation as a headwind and accommodative monetary policy on the wane, a more defensive position in equities is warranted.

BlackRock’s CIO of Global Fixed Income, [Rick Rieder](#), joined the growing number of strategists who believe that [technology is the driver](#) of low inflation. The pricing trend in data tells the story of why, in his view, the Fed needs to let go of an overly rigid view of the 2.0% target.



For the first time in a decade central banks around the globe are about to enter a period of synchronized tightening. From the [Bank of Canada](#), to the [Bank of England](#), to the [European Central Bank](#) and our own [Federal Reserve](#), interest rates are headed higher.

Stillwater View: Welcome to normalization. Quantitative easing and zero interest rates did what central banks wanted, reflating assets and rewarding risk. Quite the opposite from 2008, when credit spreads blew out and the S&P 500 traded to 665. The ball is now in the hands of central bankers and the worry becomes that they end up chasing inflationary ghosts.



The banking sector proved that it didn't need an upwardly sloped yield curve to start working again. On Wednesday, the Federal Reserve said that all banks except Capital One had passed round two of the [stress test](#). And they were given the green light to distribute cash in the form of [dividend increases and share buybacks](#). Perfect timing for a market that was on edge and looking to rotate out of growth and into value.

Stillwater View: Staying consistent with the comments made last month, if there was ever a time to implement a [modern Glass-Steagall](#) it's when banks are in a position of balance sheet strength. This is that time.

In real estate news, home prices in San Francisco are [taking a breather](#) as there is an apparent ceiling on price. Jumbo loan applications [dropped 6% last](#) week. And the Wall Street Journal reports that commercial real estate prices have [potentially reached](#) a peak.

Stillwater View: Real estate represents one of the core asset classes that the Federal Reserve managed to reflate after the global financial crisis. This was good for everyone who could either stay long or get longer, as [Blackstone](#) did when they went on a distressed home shopping spree in 2012.

While tops are tough to call, a common-sense observation of affordability would say that, without wage growth, we may very well have reached a plateau. Great strategic primer on real estate investing from Oaktree Capital circa 2016, [Investing in Real Estate](#).

Up and Down Wall Street

It's once again [fleece vest](#) season in the Rockies as the [Aspen Ideas Festival](#) and Allen & Company conference are taking place in back-to-back weeks.

The [Quincy Jones](#) music and entertainment ETF was introduced this week. It joins the list of other notable sector focused "solutions". Some with very [interesting symbols](#).

Stillwater View: Buyer beware...be very aware!

Tom Farley of the NYSE Group criticized short sellers this week saying that it "feels kind of icky and un-American". Renowned practitioner of shorting, Carson Block, [appropriately called him out](#).

Stillwater View: To be clear, there is nothing un-American about short selling. By and large, markets are healthier when there is active participation on both sides of the ledger. And just like on the long side, there will always be headline grabbing instances of abuse that can distract from the benefits.

The Man vs. Machine debate continues, this time with a [nod to the human side](#) as DoubleLine founder Jeff Gundlach provides his opinion that there will always be a need for qualitative judgement in finance. To those looking for his advice on how to beat machines, two simple words, “work hard”. Some of the hedge fund industry’s [biggest names](#) share this opinion and maintain that intuition is the key.

Stillwater View: Agreed. Intuition is indeed the key.

Diversions

Summer reading, [Shoe Dog, a Memoir by the creator of Nike](#). Great interview with [Phil Knight](#) as he appeared on The David Rubenstein Show. When asked why the company got out of the golf business he answered “It’s a fairly simple equation, that we lost money for 20 years on equipment and balls. We realized next year wasn’t going to be any different.”

Tis’ the season to fire up the [Weber](#). Stillwater Capital provides the menu for a very fine 4th of July barbecue. [Nathan’s Hot Dogs](#), no comparison. Pulled pork sliders on a [King’s Hawaiian](#) roll. [The L.A. Burger](#), compliments of Bobby Flay. Martha Stewart’s [Apple Pie](#). It’s a good thing. And Bloomberg bring it all together giving you [thirteen ways](#) to become a better griller.

Musical inspirations for the weekend as we celebrate the land of the free and the home of the brave. The very traditional, [Stars and Stripes Forever](#) from the US Army Field Band. The classic, [Pink Houses](#) by John Mellencamp. The hip take on [This Land is Your Land](#) by Chicano Batman. The very country [Fourth of July](#) from Waylon Jennings’s son Shooter. And if you happen to be in Austin, Texas on the 4th, Willie Nelson is [throwing a little picnic](#) to celebrate.

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