



The Top-Down

Fed Chair Janet Yellen announced that she will step down after her successor, Jay Powell, is appointed in January. She could have continued to serve until her term ended in 2024 but decided against it.

Fed Chair Janet Yellen

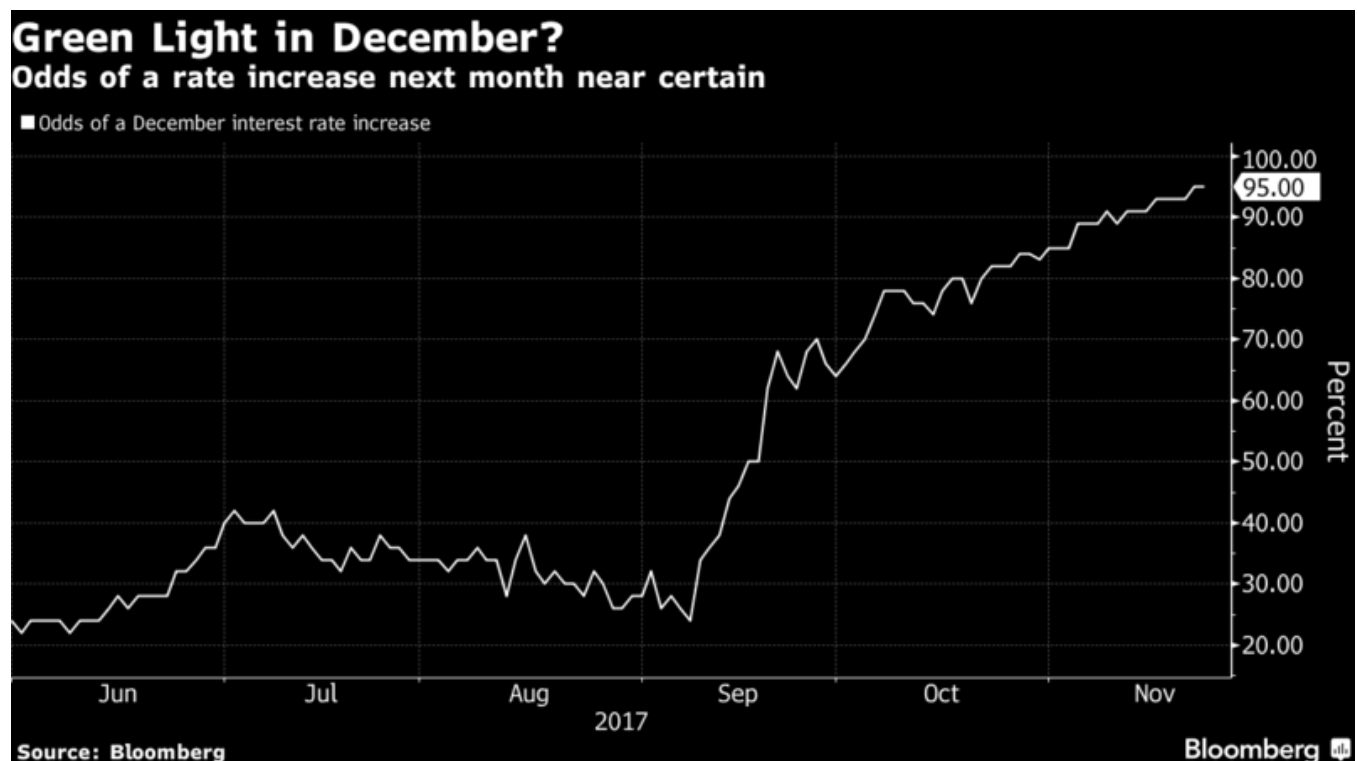


Source: The New York Times

Stillwater View: Chair Yellen did a great job of maintaining the exceptionally loose policies that her predecessor Ben Bernanke put in place. Both believed that the devil they didn't know, deflation, was worse than the devil they did, inflation.

The Federal Reserve released the minutes from the October-November FOMC meeting and the message was mixed as divisions on the board persist. Some members see no need to raise while others think the rate setting body is behind the curve. The market is saying that a hike in December is almost a lock.

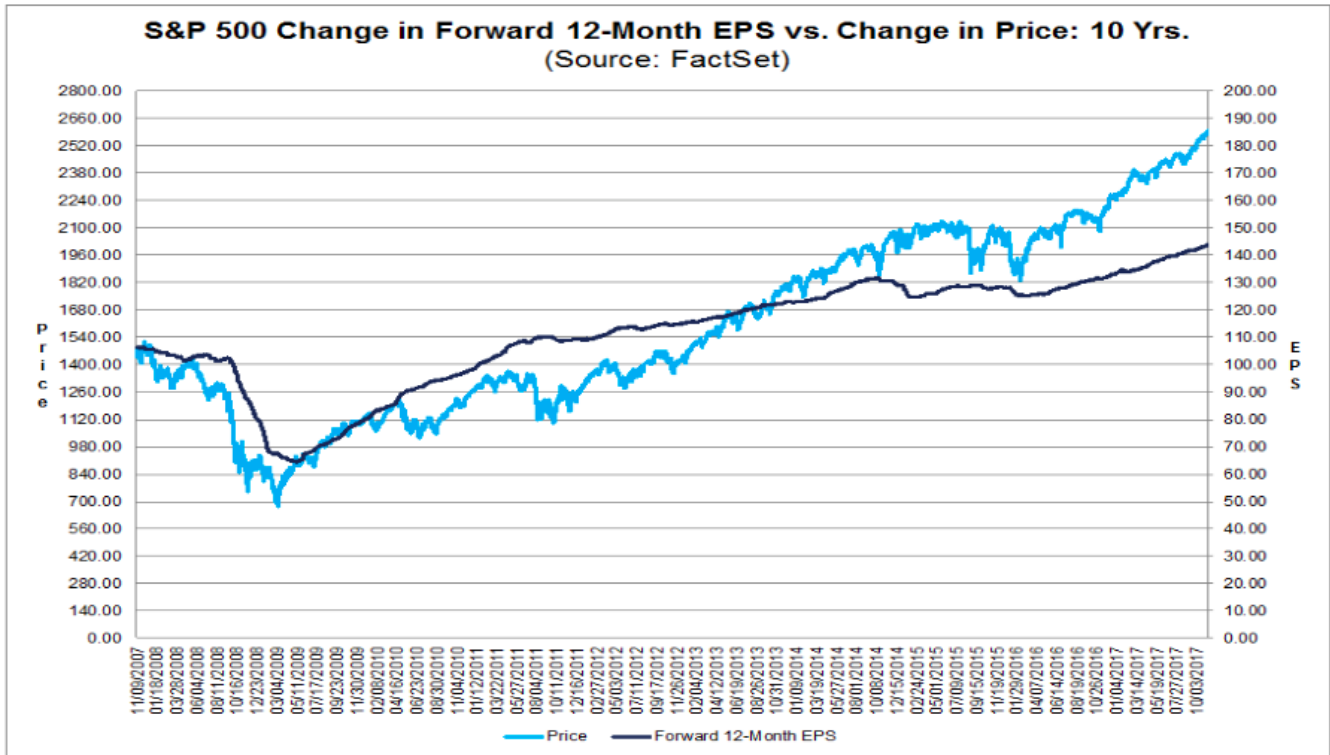
Fed Futures Show a Hike in December



Source: Bloomberg

Fed members also made cautious comments about the rise in asset values to potentially unsustainable levels. "In light of elevated asset valuations and low financial market volatility, several participants expressed concerns about a potential buildup of financial imbalances," the minutes said. "They worried that a sharp reversal in asset prices could have damaging effects on the economy."

S&P 500 Performance & Earnings Growth



Source: FactSet

Stillwater View: One doesn't have to be even that much of a cynic to see the irony in the fact that some on the Fed are now concerned about valuation and lack of volatility. This was the game they created. Reinforced repeatedly through various rounds of QE, there should be no surprise that there is gambling in the casino.

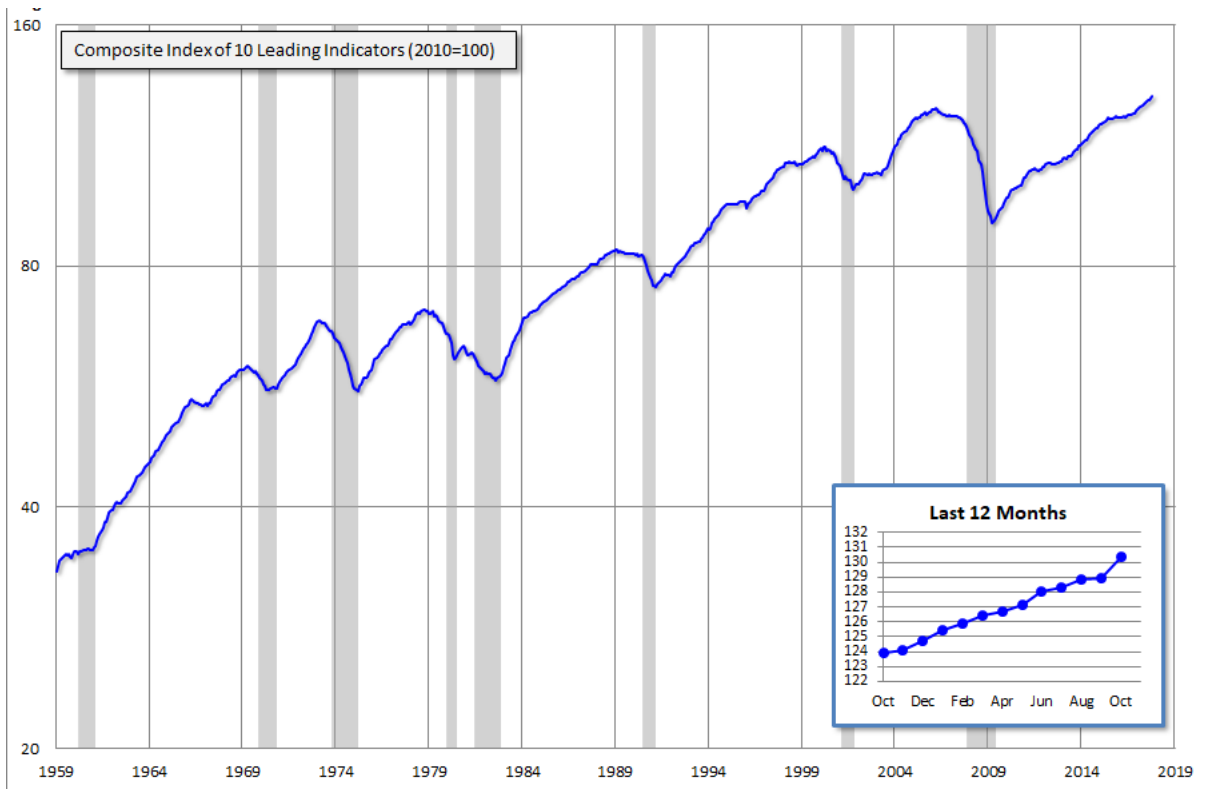
The Markets and the Fed - It's Been a Beautiful Friendship



Source: UK Telegraph

The Conference Board released the October reading of Leading Economic Indicators and the numbers were a blowout coming in well above expectation. Another sign that the economy is finding a solid stride.

Leading Economic Indicators



Source: Advisor Perspective

Stillwater View: The LEI has proven to be a great barometer for the economy and is currently showing little indication that we are headed into a recession anytime soon. This positive reinforcement makes it easier for some to look past valuation and stay long this market until the economic evidence says otherwise.

The Bottom-Up

Oil continues to grind higher on lower inventories and concern that the risk of an external shock is lingering in the middle east.

West Texas Crude & U.S. Crude Inventories

Breaching \$58 WTI near 2-year high as U.S. inventories shrink



Source: Bloomberg

Stillwater View: The energy sector has been the biggest laggard in the market this year. Even with the commodity moving higher oil service and exploration & production companies continue to lag. Either the price of crude is wrong, or those sub-sectors are poised to play catchup.

One week after John Malone called Amazon the ‘Death Star’ venture capitalist Rodger McNamee shared the same sentiments, “In each market in which they operate, Amazon has changed the rules profoundly. It makes it really hard for competitors to fight back, they are effectively playing a different game.”

Elevation Partners Rodger McNamee



Source: CNBC

Bespoke Investments put together a “Death by Amazon” index that includes Macy’s, Kohl’s, TJX, Wal-Mart, Williams-Sonoma, Bed Bath and Beyond, Big Lots, CVS, Coscto, Foot-Locker, Fred’s, Target, J.C. Penny, Nordstrom, Kroger and Sears. As the chart below shows, long the S&P 500 while short the index has been an almost perfect pair in 2017.

Bespoke Investments ‘Death by Amazon’ Index



Source: Bespoke Investments

Goldman Sachs compiles a list of 50 stocks that show up most often among the top 10 holdings of fundamentally-driven hedge funds. The Hedge Fund VIP List included Facebook, Amazon, Alibaba, Google's parent Alphabet and Microsoft as the top five and Goldman added 10 new names:

- IAC/InterActiveCorp
- Take-Two
- MGM Resorts
- XPO Logistics
- SBA Communications
- Equinix
- Iqvia Holdings
- GoDaddy
- NRG Energy
- Marathon Petroleum

On the short side, AT&T, Intel, Wal-Mart, Priceline and Target are the top five most important positions to hedge funds. Other than Priceline, the VIP short list's new members included:

- Cisco
- Kroger
- Kimberly-Clark
- Valero

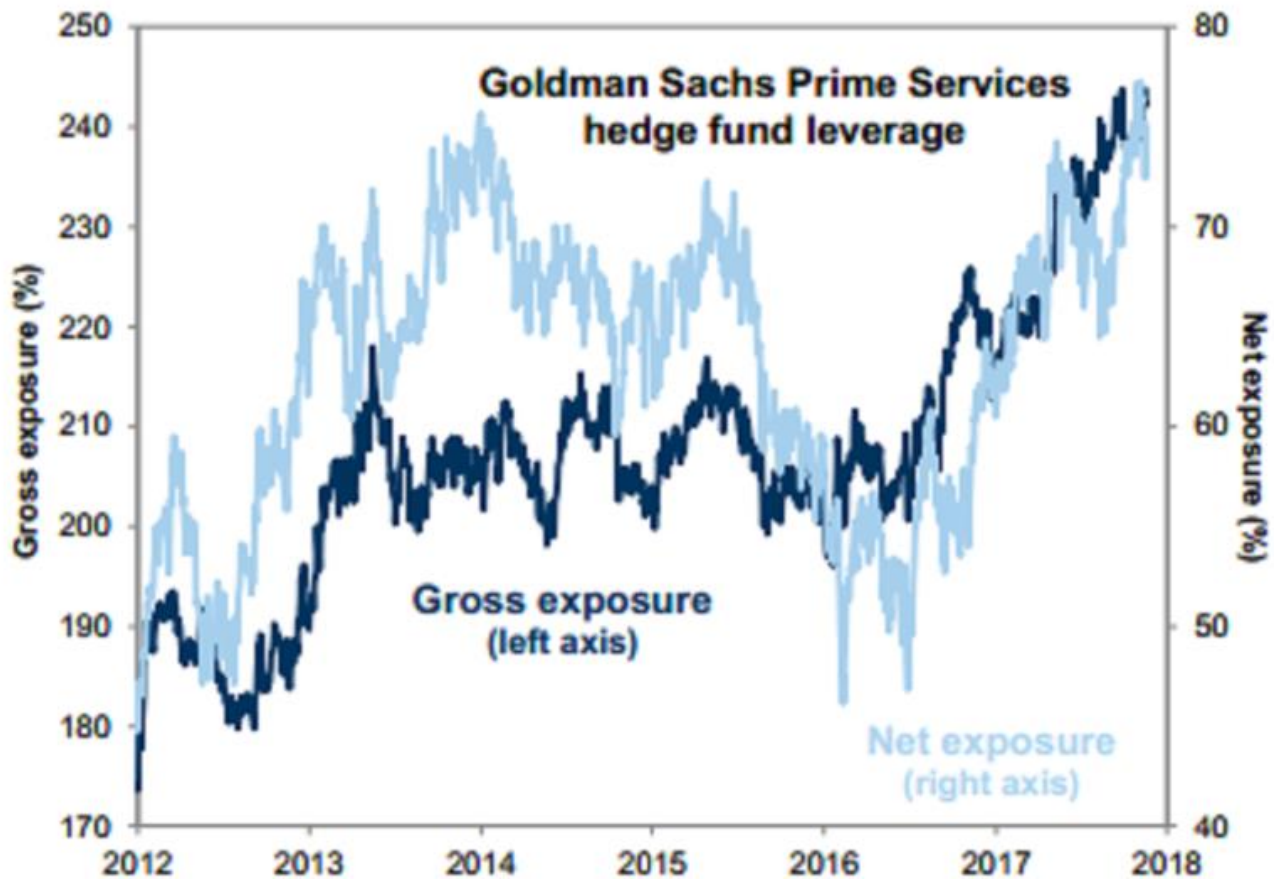
- General Mills
- Walgreens Boots Alliance
- Allergan
- AIG
- United Technologies

Stillwater View: It's always interesting to see what new names make the list. Also, it's worth noting that an investor can get all the Amazon, Facebook, Microsoft, Netflix and Google exposure they want without a 2/20 fee structure and that pesky lockup.

Up and Down Wall Street

Goldman Sachs is also reporting that hedge funds haven't been this long since 2014. With net exposure running at 75%. They have been dropping hedges and short positions to keep up and show positive performance this year.

Current Gross & Net Leverage of Hedge Funds



Current Market Short Interest



Source: Goldman Sachs

Stillwater View: Simply more evidence that the fear trade is on and may very well last for a while longer. Nobody wants to go into year-end defending weak performance, especially if there are high fees attached.

Diversions

It's rivalry Saturday in college football as Michigan and Ohio State meet at the Big House. Alabama takes their No. 1 ranking to the Plains where they take on No. 6 Auburn in the Iron Bowl. Winner is the SEC West champion.

Stillwater View: That 'Zany' Jim Harbaugh gets his win and War Eagle by three in a nail biter.

“The Game” – 1950 in Columbus, Ohio



Source: The Cleveland Plains Dealer

ESPN explains the lengths 'super-fans' will go to attend every contest. Giles Pellerin sets the standard by attending 797 consecutive USC games. When asked if he was a nut, Giles responded, "Sure, I could sit in my rocking chair and grow old ... You've got to have something to look forward to."

The Godfather of Super Fans...Giles Pellerin



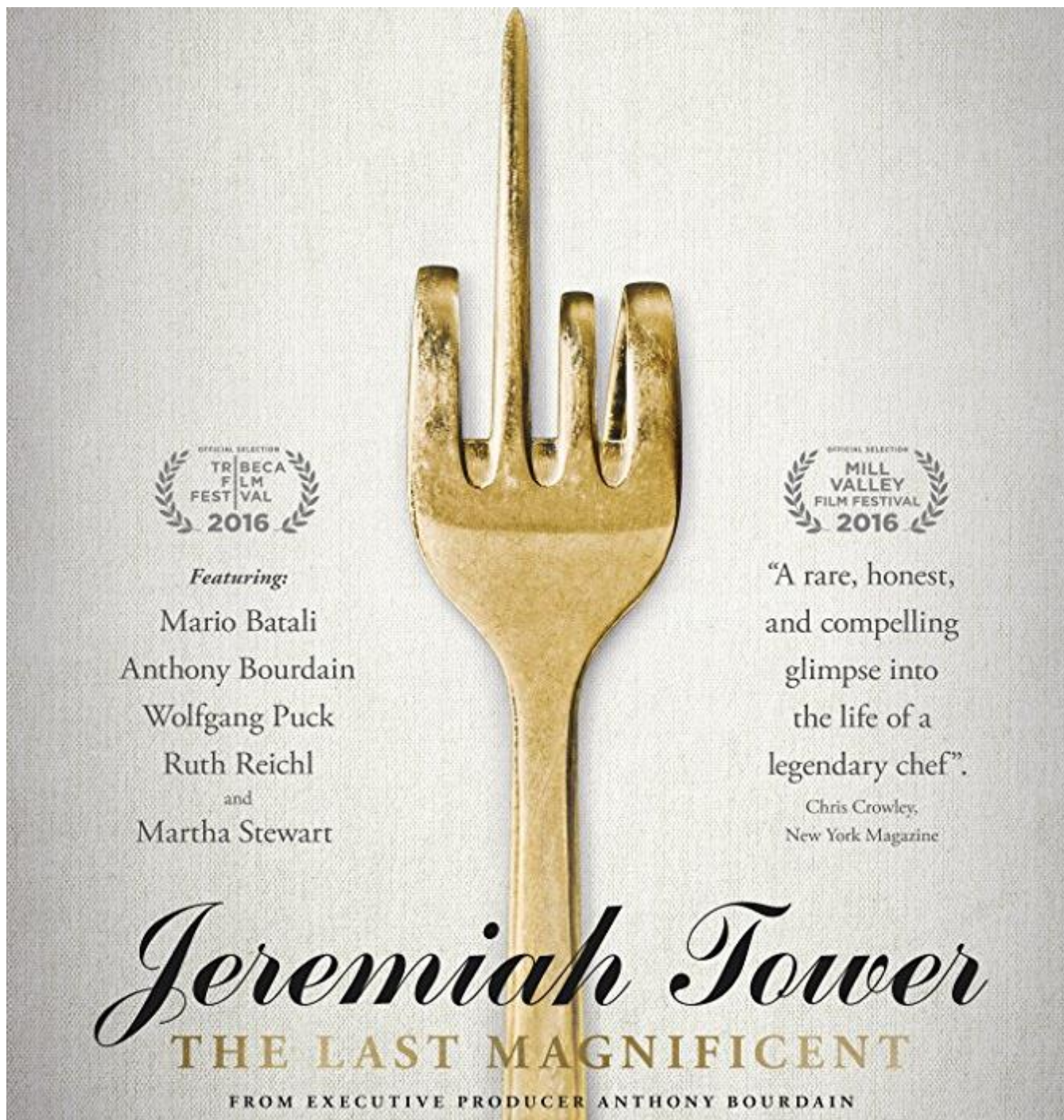
Source: ESPN

Stillwater View: Fight On!!!

Chef Anthony Bourdain did everyone with a passion for the culinary arts a favor when he produced “The Last Magnificent”, a documentary on the rise, disappearance, and reemergence of the legendary Jeremiah Tower.

Mr. Tower worked under Alice Waters at Chez Panisse and would go on to found San Francisco’s top grossing Stars restaurant. Anthony and Jeremiah appeared with NPR’s Lynn Neary to discuss the film.

The Last Magnificent



Source: The Last Magnificent

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