



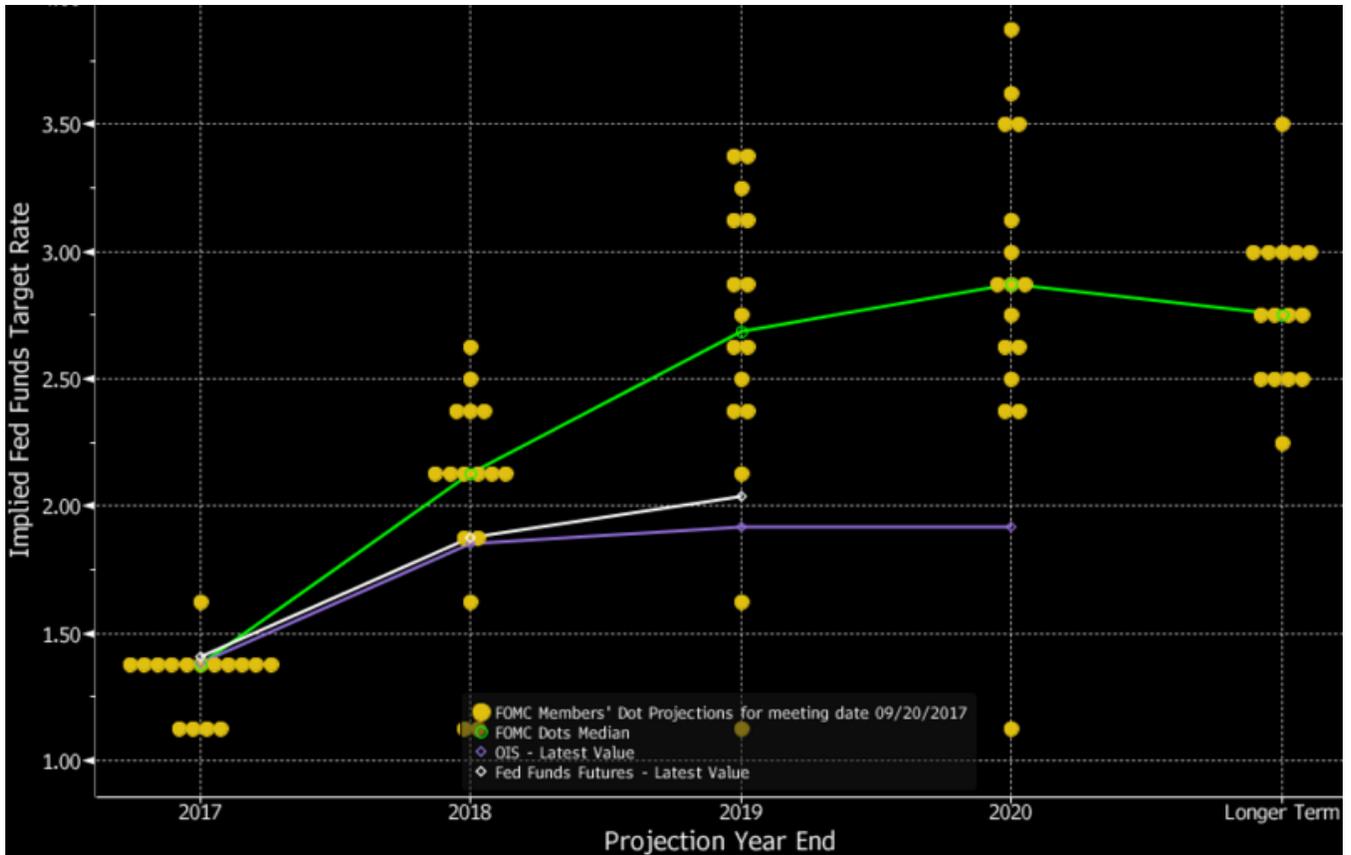
First and foremost, a heartfelt thank you to those who checked in this week as the wildfires in Santa Barbara have disrupted the otherwise normal flow of life. It has been a surreal week for everyone who calls this part of California home. Godspeed to friends and family who are trying to navigate this situation safely.

The Top-Down

As expected, the Federal Reserve raised interest rates by a quarter of one percent to a target range of 1.25 to 1.50 percent. Fed Chair Yellen also signaled to the market that higher rates are due in 2018 and beyond as “there’s less to lose sleep about now than has been true for quite some time.”

Yellen and her colleagues on the FOMC believe that tax legislation currently working its way through Capitol Hill will provide a ‘modest lift’ to growth. The same legislation hit a snag on Thursday afternoon when Senator Marco Rubio threatened to pull his support unless child tax credits were added into the bill.

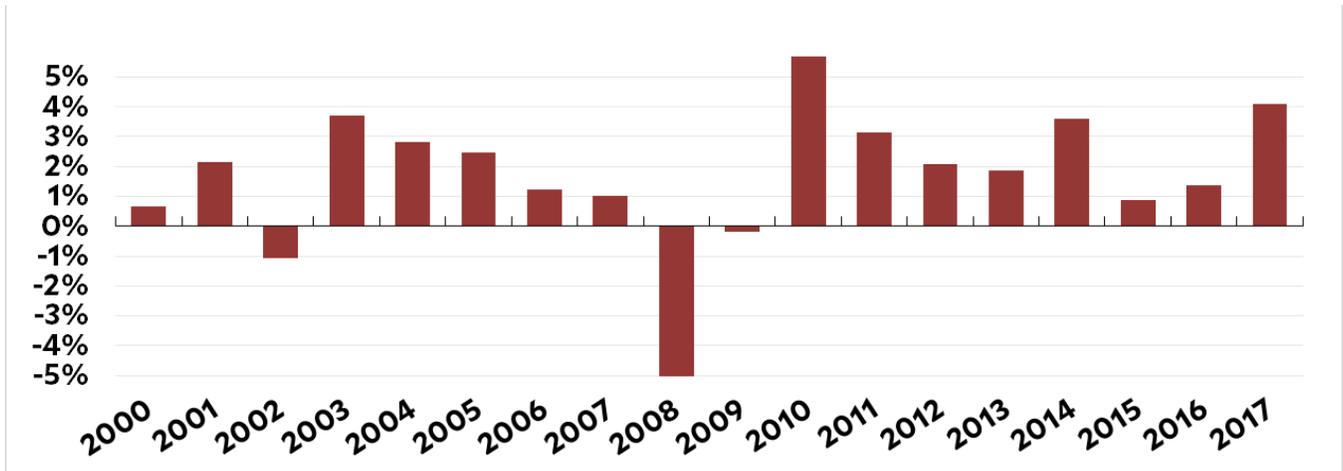
Implied Fed Funds Target Rate Better Known as the ‘Dot Plot’



Source: Bloomberg

Retail sales continue to rebound as the [Census Bureau](#) reported that consumers are back at the register. The number came in at a strong 0.8% increase, well above the consensus of 0.3%. Merchants are looking for this holiday season to be the best in four years with continued strength in e-commerce.

November Retail Sales Growth



Source: Census Bureau

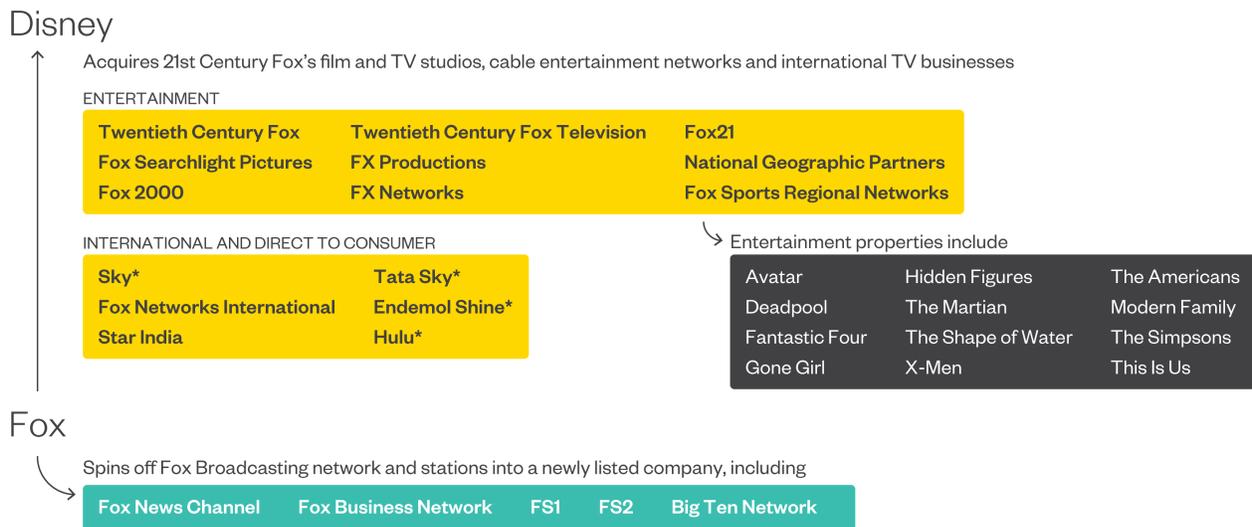
Stillwater View: Even the most skeptical bull would concede to the fact that this economy has reached some form of escape velocity, entering airspace relatively free from turbulence. While times like these don't last forever, it's important to enjoy them when they do.

The Bottom-Up

In an otherwise quiet week, Disney made the big headlines when it agreed to acquire most of the assets of 21st Century Fox. *The Los Angeles Times* reports on what the House of Mouse is getting. President Trump put a call into Rupert Murdoch congratulating him on the deal.

Disney Buying Fox Assets

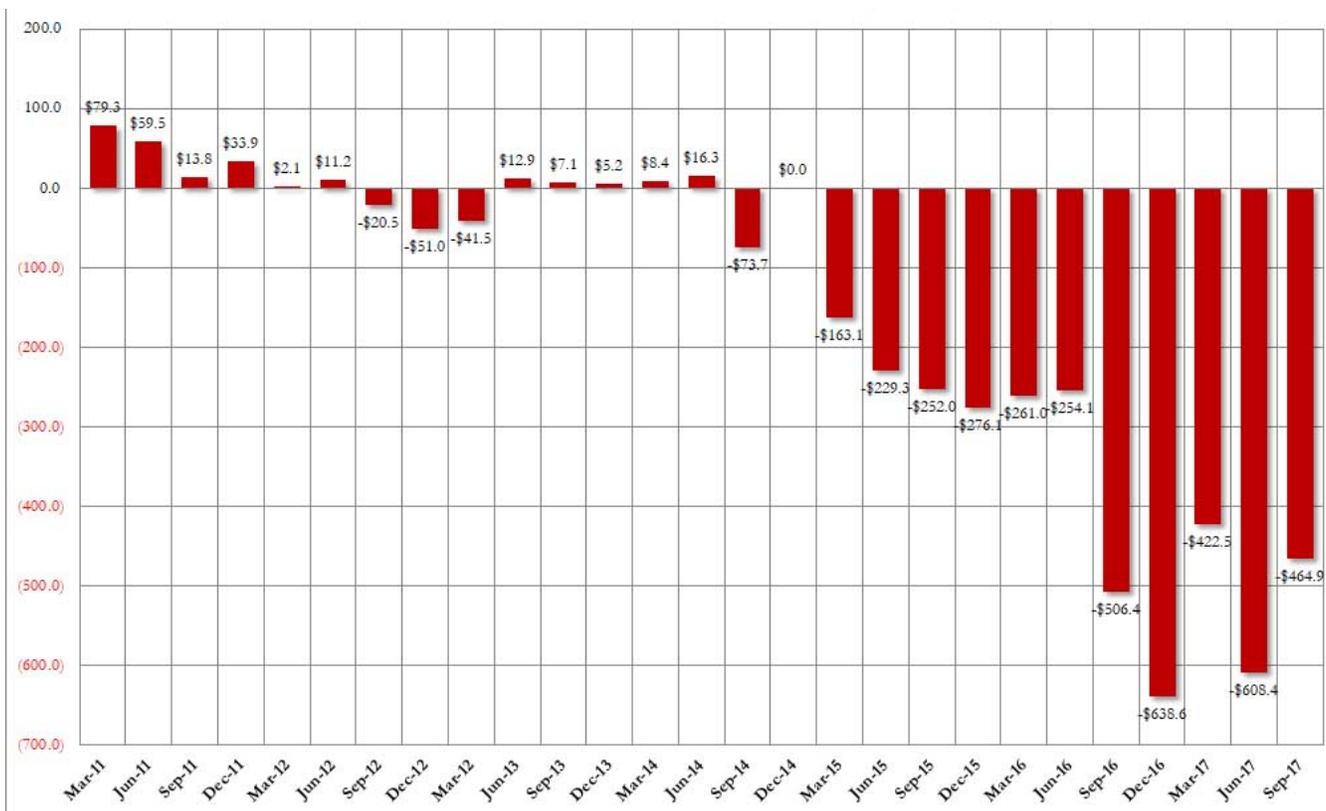
These are the assets Disney will get with its \$66 billion tie-up (including debt)



Source: The Walt Disney Company

This move, which is an all-stock transaction, highlights the power of Disney's deal making prowess. Pulling together an ever-expanding arsenal to better compete with Netflix, as *Bloomberg* points out, a company that is seemingly bleeding cash in order to both find and retain subscribers.

Netflix Free Cash Flow in Millions



Source: Zero Hedge

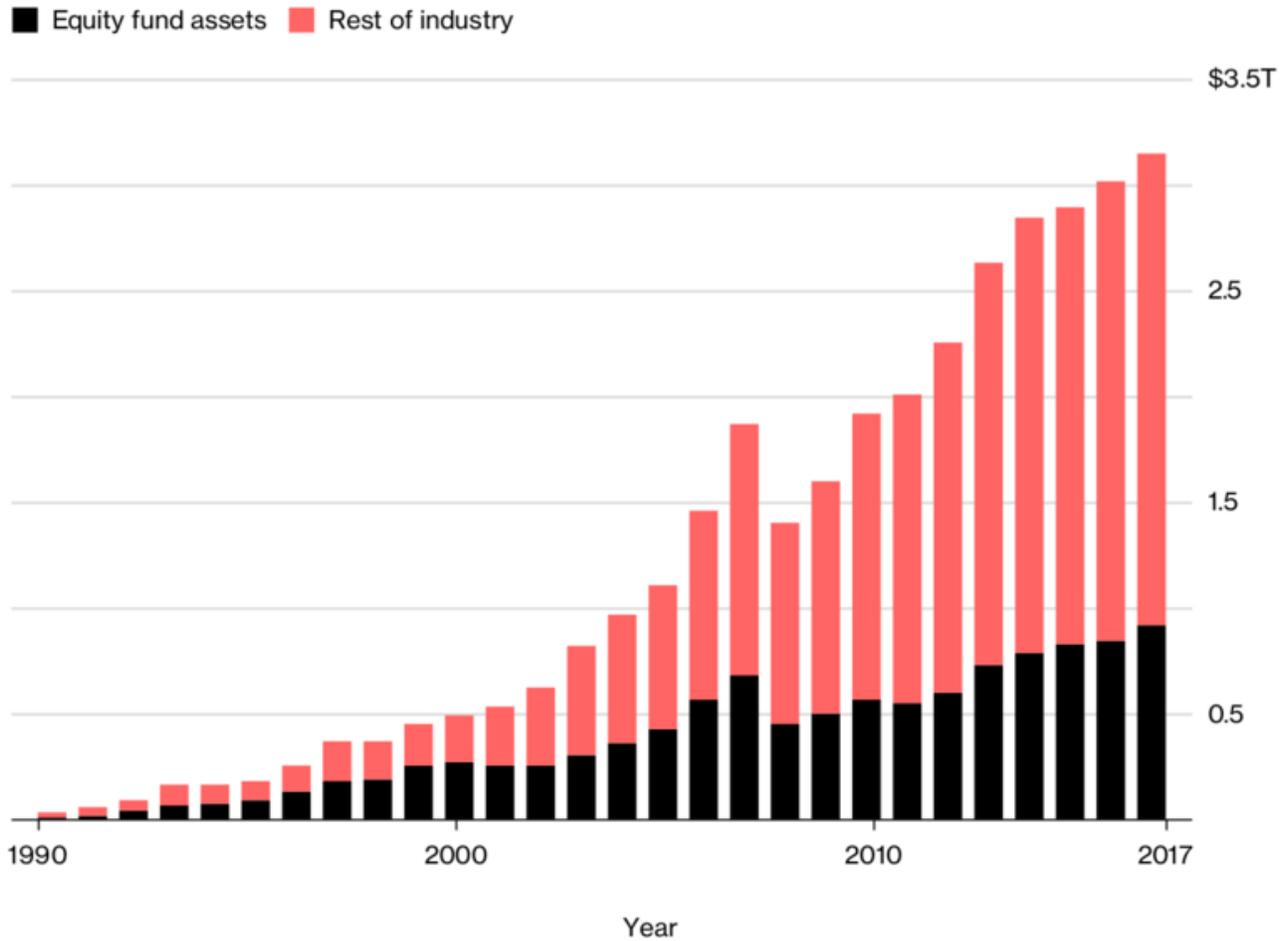
Short seller Jim Chanos, founder of Kynikos Associates, made an appearance on CNBC and talked about the deal. While he wouldn't admit to a short position in NFLX, he did concede that he is looking for targets in the media content world. He is also circling the healthcare sector as 'Winter is coming'.

Stillwater View: While it has been a fool's errand to bet against Reed Hastings, this transaction certainly ups the competitive ante. And the kind of negative free cash flow that Netflix is generating tends not to be the thing Wall Street rewards forever.

Up and Down Wall Street

The shuttering of John Burbank's flagship fund drew some reflective thinking on the state of the hedge fund industry and where it goes from here. From the early days, long-short equity strategies were the bedrock of the business. That position has been fading of late as outperformance has been tough to come by. Couple that with the machines taking over, and it's easy to understand how this style has suffered market share loss.

Long-Short Makes up Less Than a Third of Industry Assets

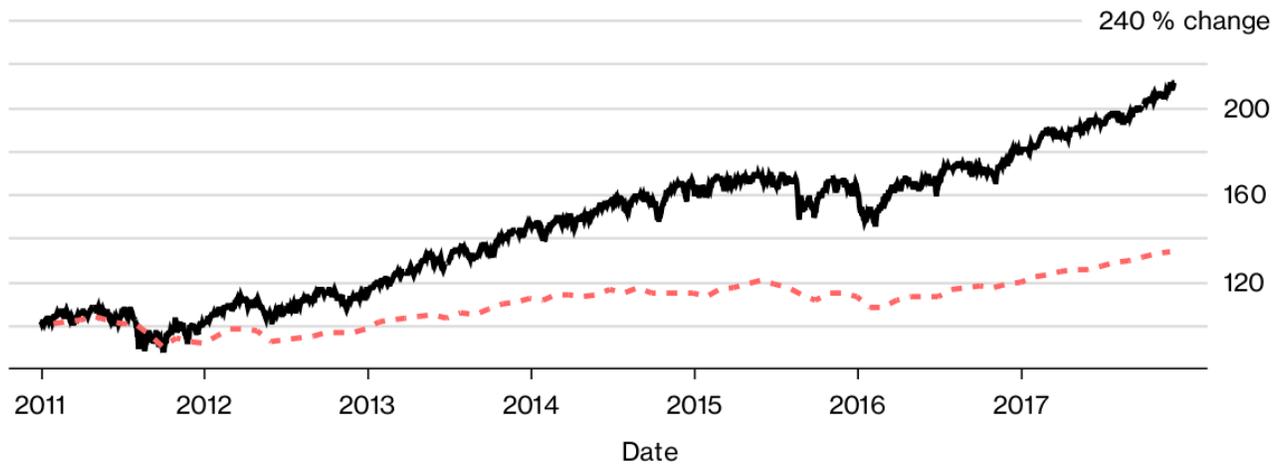


Source: Hedge Fund Research and Bloomberg

Stillwater View: It's no secret that the equity hedge fund industry has been challenged of late. Performance isn't the only culprit as fund structure also plays a part. Unless the performance is consistently there it's difficult to accept high fees and illiquid fund structures.

The S&P 500 Has Handedly Beat Equity Hedge Funds Since 2012

■ S&P 500 ■ HFR equity hedge index



Source: Bloomberg & Hedge Fund Research

One of the main challenges Stillwater Capital is looking to create solutions for, is the development of non-correlated strategies offering the promise of upside capture and downside protection. While not an easy riddle to solve, it's one reason why the money was spent and the doors were opened.

Diversions

As Christmas fast approaches, it's time for Charlie Brown and the rest of the Peanuts characters to make appearances on television and stage. The classic *A Charlie Brown Christmas*, airs next Thursday on ABC. While the more recent *I Want a Dog for Christmas, Charlie Brown!*, is being shown tomorrow night. The San Francisco Symphony performs a live version of the former beginning on December 21st.

A Charlie Brown Christmas



Source: The San Francisco Symphony

A quiet little residence on the shores of Lake Tahoe has come on the market for \$45 million. The Brushwood Estate sits in an enviable position on 6 acres of pines just outside Tahoe City. This may blow out the ceiling on our Stillwater Christmas list, but if one can't dream big why dream at all.

The Brushwood Estate



Source: San Francisco Chronicle

In news sure to please the holiday traditionalist, legendary toy retailer F.A.O Schwarz announced this week that it will re-open in New York next fall. At 19,000 square feet, it is a fraction of the original 61,000-foot space on Fifth Avenue. But you certainly can't beat the 30 Rockefeller Center address.

Rockefeller Center New York



Source: NBC

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