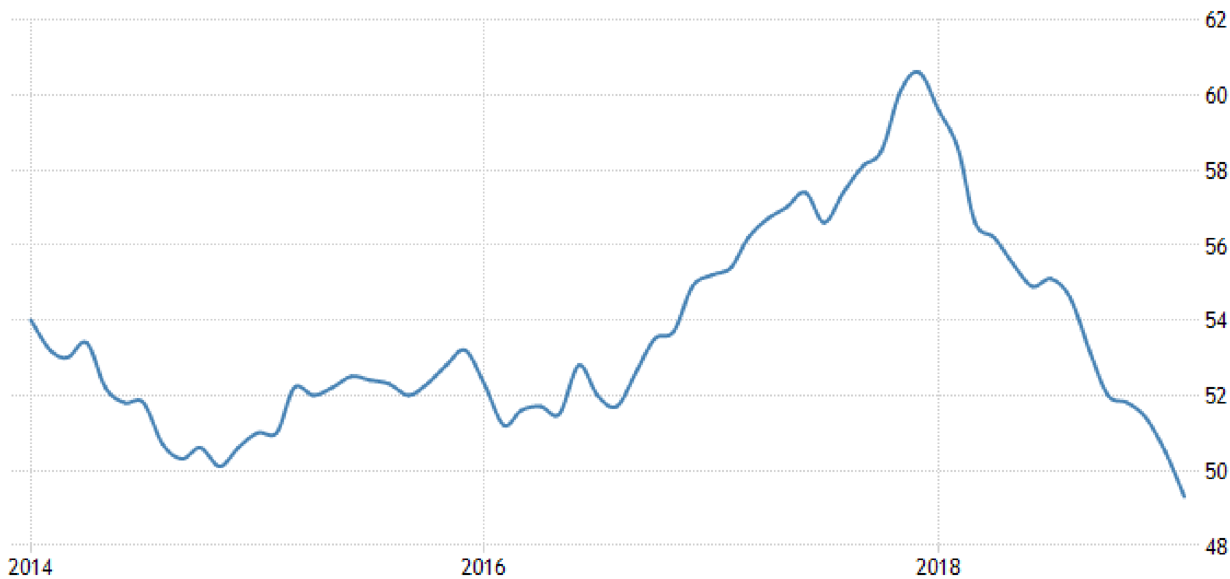
This Week In…

Economics

The biggest top-down news of this week came out of Europe, when ECB President Mario Draghi pulled a 'Powell', putting the brakes on plans for continued quantitative tightening in the face of increased fears that Europe is slowing more than the ECB is comfortable with. If Eurozone PMI is telling an accurate story, they have trouble and it starts with a sizeable "T".

Eurozone PMI



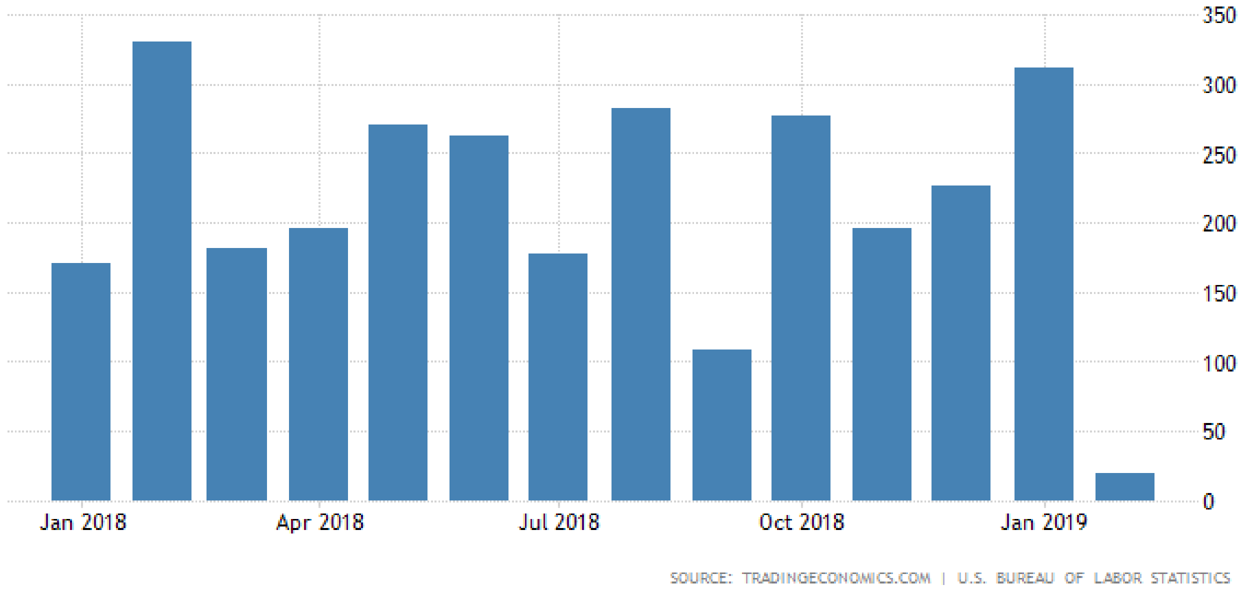
Source: Trading Economics

The second biggest, and not very good, top-down news was the release of the February jobs report on Friday. The Labor Department reported an 20,000 increase in non-farm payrolls versus expectations of 200,000. After the news hit, we watched as one breathless Wall Street analyst after another tried to explain why:

1) They got the number wrong, and
2) That the number really wasn't as bad as it looked.

To which we say, follow the first of the twelve steps, "We admit we are powerless over a slowdown in the economy, and the risk to the downside has become unmanageable."

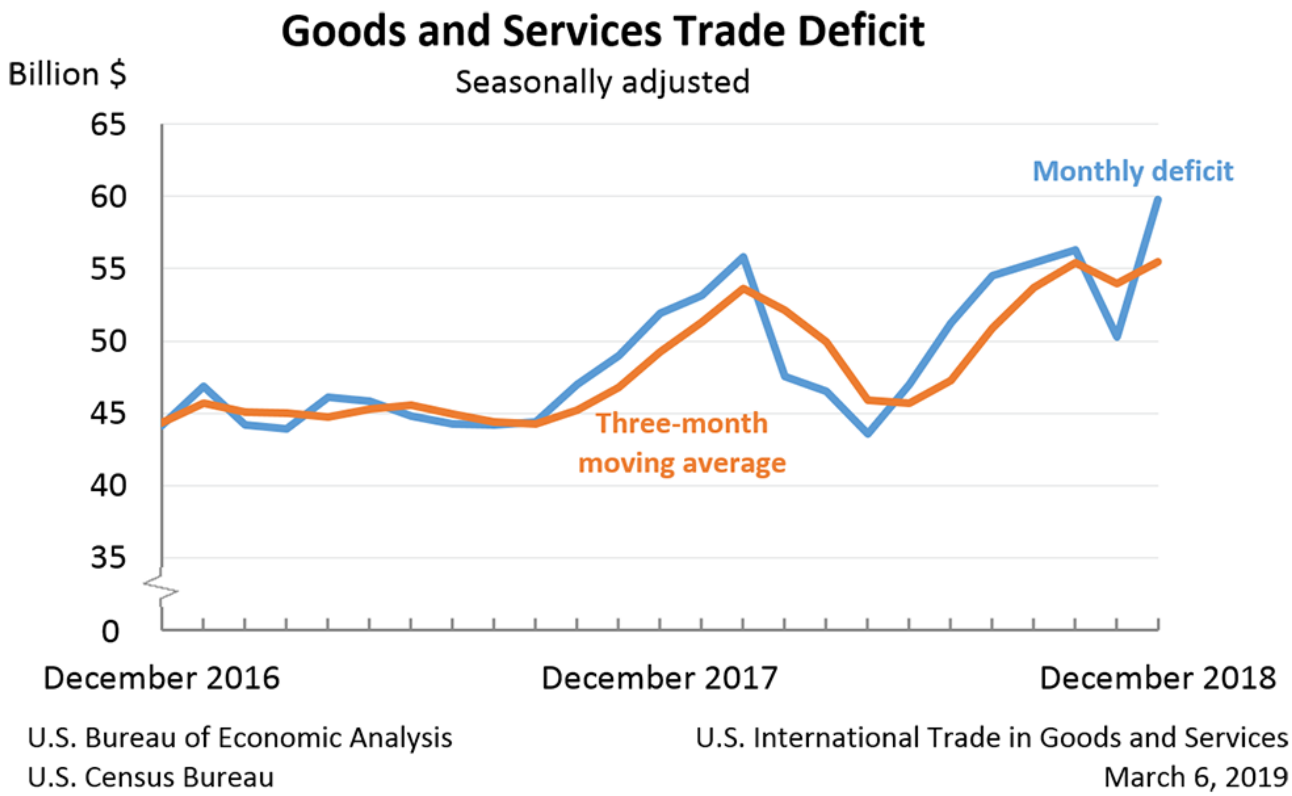
Ruh Roh Raggy



Source: Trading Economics

Turns out Trump's trade war with China is having a negative impact as our trade deficit with the rest of the world spiked in December. The number, which is simply what we buy from others, less what they buy from us hit $60 billion in December. Translation, we consumed $265 billion of their stuff and sold them $260 billion of ours.

How you like me now, Mr. Tariff?



Source: CNBC

Speaking of China, shares on the Shanghai exchange traded down 4% on Friday as the flow of weak economic news continues to process in from the mainland. This time, the blame fell squarely on the shoulders of poor export results for the month of February. Economists expected a 5% contraction in exports and the number came in at negative 20%.

Shanghai, World's Largest Port

Source: KTVA

Ever the marketeer, President Trump said on Friday that when a deal with China gets done, “you are going to see a very big spike” in the stock market. Morgan Stanley’s CEO James Gorman thinks you should fade the news, as do other veterans around the Street. The latter is our trade as well, so much so that we took to the short side again on Friday to further reduce risk.

Company News

In another sign that retailers and finally raising the white flag, Abercrombie & Fitch announced it is cutting stores. The next day, Dollar Tree announced they are doing the same. In both cases the Street applauded the news and sent the shares of both higher. Meanwhile, the slow and painful death of the American mall continues.

Long Cold Winter

Source: Flipboard

Nick Caporella, the sometimes flamboyant, and sometimes bizarre, CEO of National Beverage was at it again this week. This time, providing a fanciful ramble to explain why sales of the companies La Croix plummeted. Net revenues fell from $40 million a year ago to $25 million, as the fizzy water aisle gets more crowded by the day. From Caporella…

“Negligence nor mismanagement nor woeful acts of God were not the reasons - much of this was the result of injustice! Managing a brand is not so different from caring for someone who becomes handicapped. Brands do not see or hear, so they are at the mercy of their owners or care providers who must preserve the dignity and special character that the brand exemplifies. It is important that LaCroix's true character is not devalued intentionally – in any way.”

Getting Fizzy with It

Source: Chloe

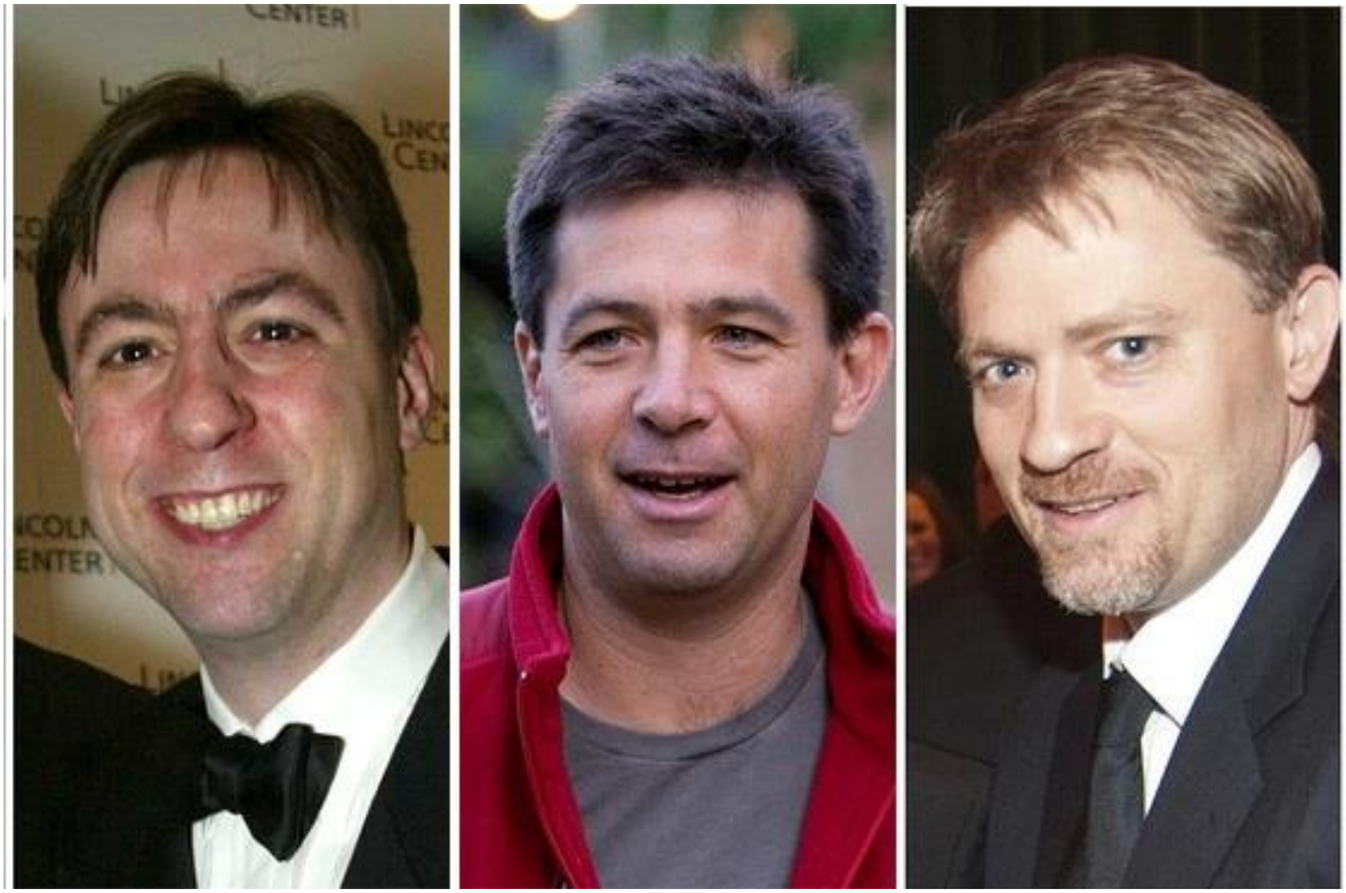
“One can be induced to purchase by cheapening price or giving away a product, but falling in love with a feeling of joy is the result of contentment. Just ask any LaCroix consumer ... Would you trade away that LaLa feeling? 'No way, they shout - We just love our LaCroix!' I am positive they respond this way each and every time."

We have been short the shares of FIZZ on and off for the past year. The water aisle was simply getting too crowded and Mr. Caporella a little too bizarre. That said, Stillwater had no exposure when the bottom fell out of the stock this week. Which is the equivalent to a power hitter sitting on a fast ball down the middle, not the kind of fat pitch you want to miss.

Hedge Funds

For voyeurs of the hedge fund industry, or those who simply want to see what the ultra 1% are worth, *Business Insider* ran a story profiling the wealthiest managers in the business. The list contains most of the well-known commodities like Paulson, Cohen, Dalio, and Drukenmiller. Also on the list, the Ziff brothers, who seem to have cornered the market on the 5 through 10 spots.

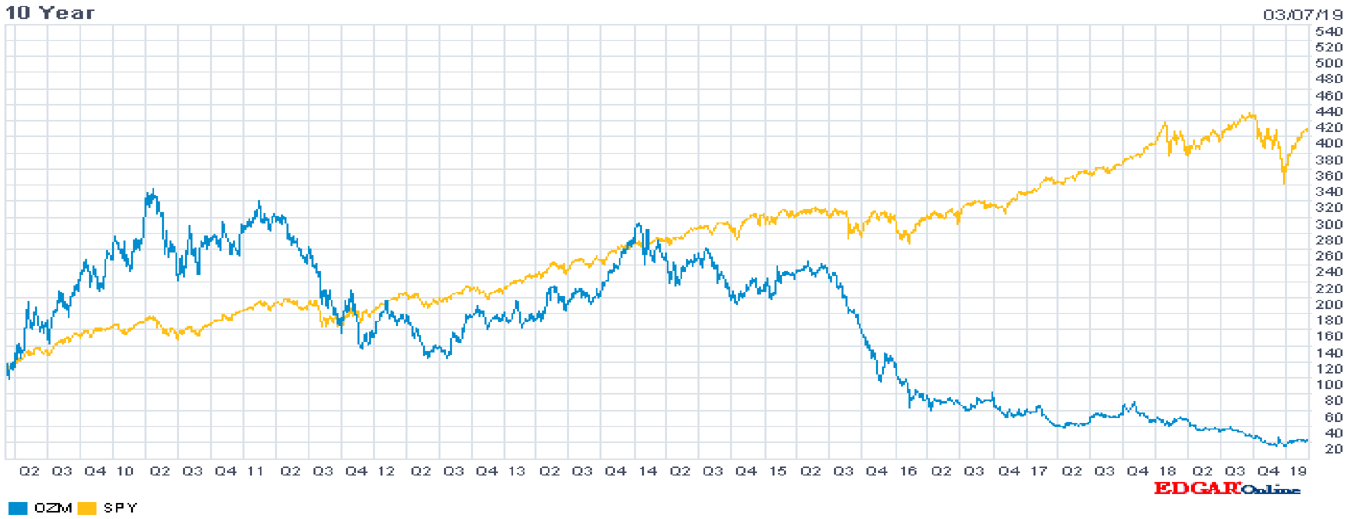
The Brothers Ziff



Source: Alpha Calling

While the hedge fund business has been good for the brothers, investing in their operating company has proven to be a long five-year road of massive underperformance versus the broader market. The reason might be the flood of outflows the company has experienced in the past few years. Once again, private equity and hedge fund companies are best kept private.

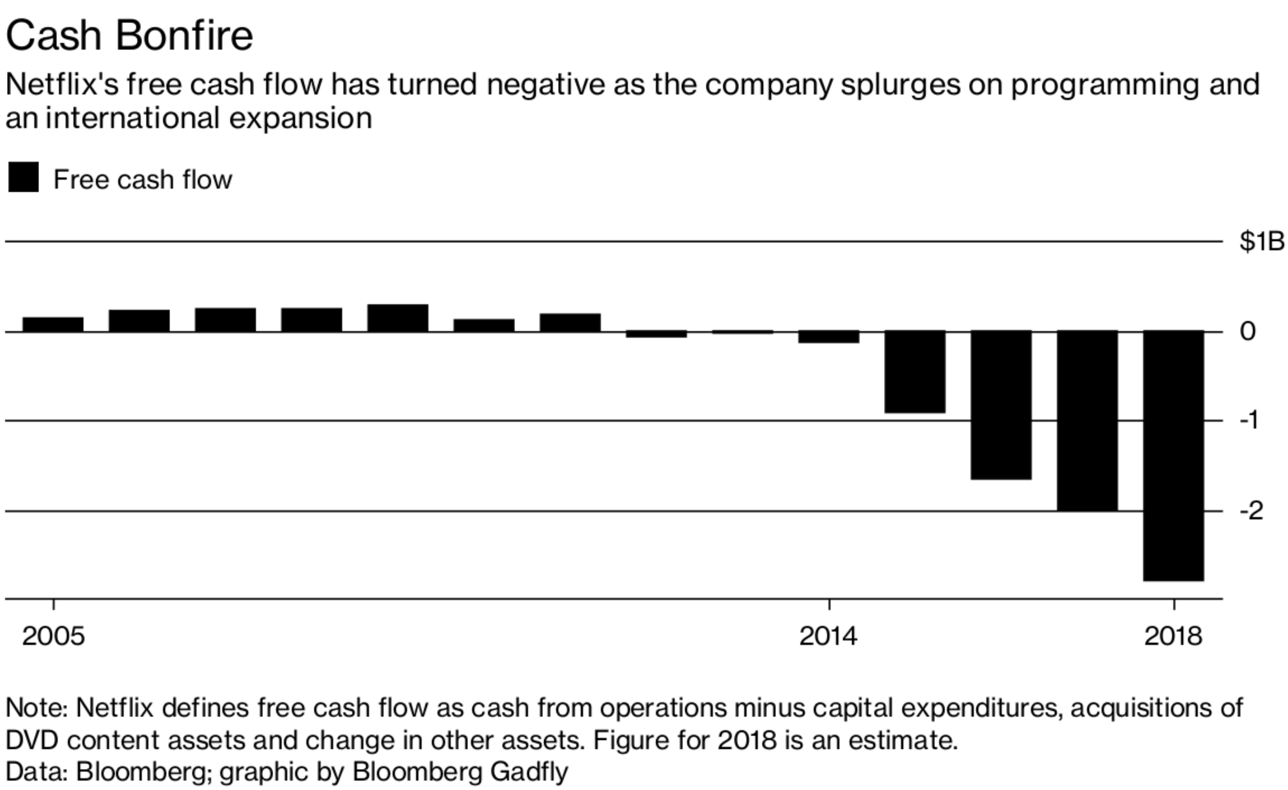
Och-Ziff vs. S&P 500



Source: Nasdaq

Former semiconductor analyst, and current hedge fund manager, Dan Niles went out this week with news that he has started to short the shares of Netflix. The reason for the negative position? Increased competition, and the fact that the company runs at negative $3 billion in free cash flow a year.

NFLX FCF



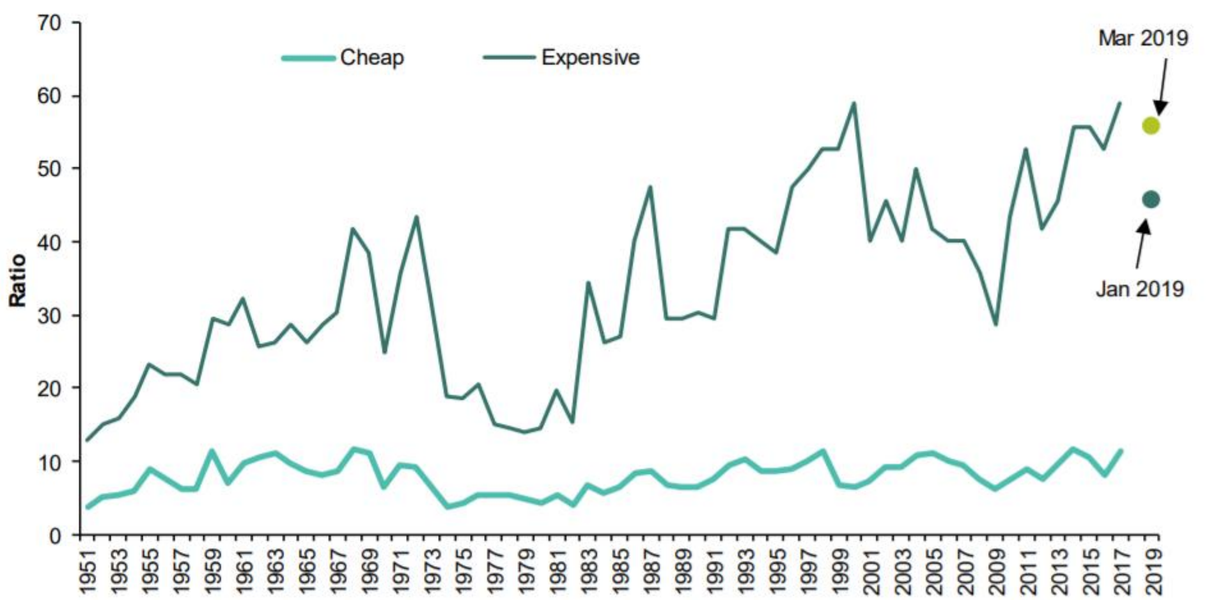
Source: Bloomberg

Markets

In a further sign that this beta driven rally might be getting a little long in the tooth, the valuation difference between cheap vs. expensive stocks is wider than it has been in 70 years. While spread tightening is tough to predict, when these blow out it's only a matter of time before they come back in.

Cheap vs. Expensive

EXHIBIT 15: **Record valuation dispersion: All of the multiple expansion is in the most expensive part of the market**



The dots show the median trailing PE ratio of the expensive quintile of the MSCI US constituents on 8th January 2019 and on 4th March 2019
Source: Ken French Data Library, Bernstein analysis

Source: CNBC

In a further sign of the breakdown of decorum on Wall Street, this week it was announced that bankers at the venerable Goldman Sachs no longer needed to wear a suit and tie to the office. The move was designed to put the firm on the same footing as J.P. Morgan, Merrill Lynch, and Morgan Stanley. *Footwear News* wonders if the move will negatively impact the sale of black dress shoes to the benefit of the increasing popular chestnut loafers. We see an emerging pair trade.

Au Revoir, Black Shoe

Source: Footwear News

Diversions

Seattle's legendary Alaskan Way Viaduct is coming down, and the skyline of the city is going to changed forever…for the better. *The Seattle Times* reports on what this has done to the waterfront real estate adjacent to the eyesore, and what it will look like in the future. This is much like the demise of the Bayshore Freeway in San Francisco dafter the 1989 Loma Prieta earthquake damaged it beyond repair.

Alaskan Way Viaduct

Source: WSDOT

South by Southwest kicked off its two-week run-in Austin on Friday. The festival, in the “Live Music Capital” of the world, was originally intended to highlight the, you guessed it, live music of Texas’ most cultured city. The event has exploded over the past decade and is now an expanse of music, film, arts, causes, and yes, networking for commercial purposes. CNN can provide the feed for those looking to keep up live.

SXSW Main Stage

Source: SXSW

Sunday morning has a billion people, in 70 countries across the globe, setting their clocks ahead for the annual rite of spring, Daylight Saving Time. The reasons for the time change remain a bit clouded. Ben Franklin is credited with the original concept when he wrote "*An Economical Project for Diminishing the Cost of Light*" in 1784. The idea sat dormant until it was resurrected early in the 20th century, officially beginning in Germany in 1916. The United States would adopt the saving of light in 1918, though not so for the direct benefit of farmers as some suggest.

"Write Your Congressman"

Source: Science Based Medicine

Stillwater is always looking to find off the main road food and wine events and festivals. The "Uncork the Alleghanies" is one of those. This year it has two of the most originally named wineries you may ever come across. There is Buddy Boy Winery and Vineyard and the venerable 5 Schmucks Winery, which boasts "That's right! We're just a bunch of schmucks making wine." Enjoy the weekend.

What a Schmuck!

Source: Penn Live