

This Week in the Markets

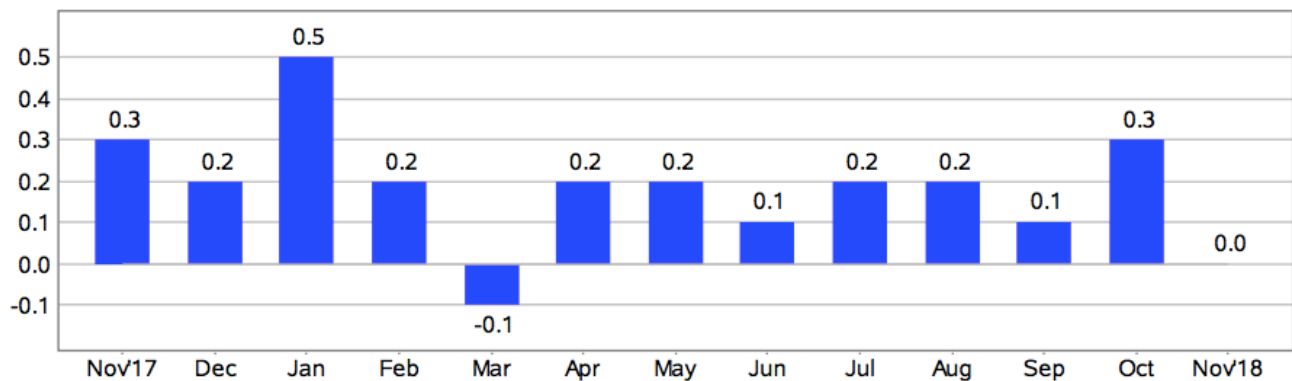


The Top- Down

It was a quiet week for economic data as the only release of note was November CPI. And when the print came in unchanged from last year, the silence was even more evident.

Consumer Price Index

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Nov. 2017 - Nov. 2018
Percent change

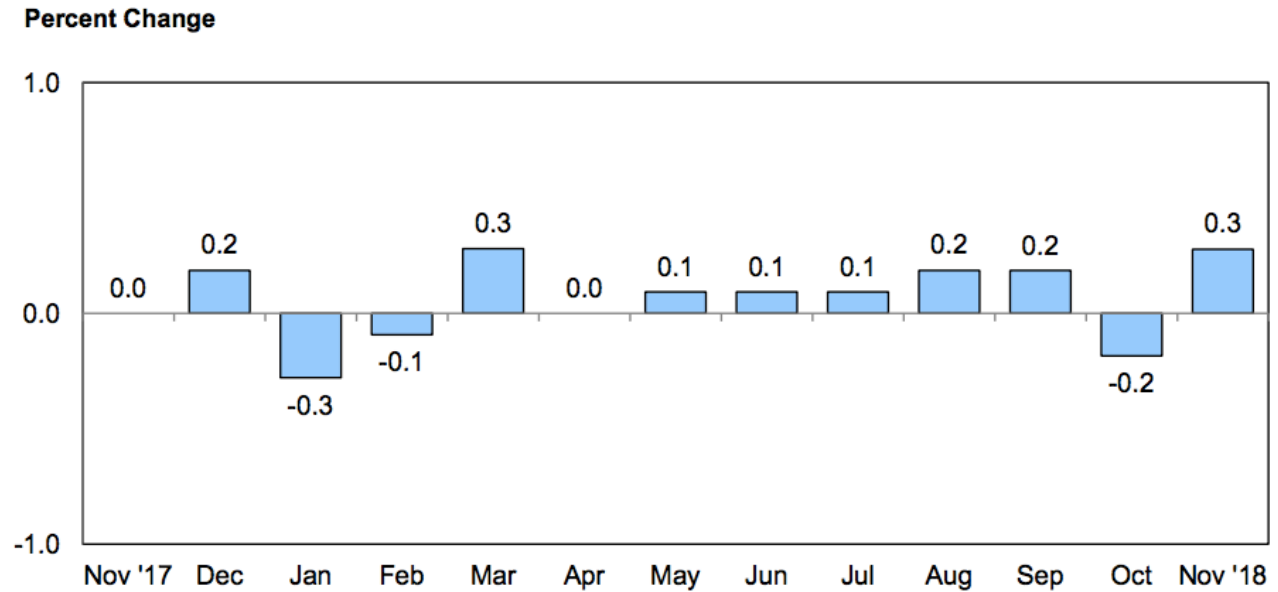


Source: BLS

For those calling for higher long-term interest rates, Stillwater included, the flatlining of prices doesn't help the argument. That being said, the real number to watch, and one we know the Fed does as well, is wage inflation. And within that arena, we are beginning to see a little more life. Although its not enough to cause the Fed to start re-loading the rate hike bazooka.

Average Hourly Earnings

Chart 1: Over-the-month percentage change in real average hourly earnings for all employees, seasonally adjusted, November 2017–November 2018



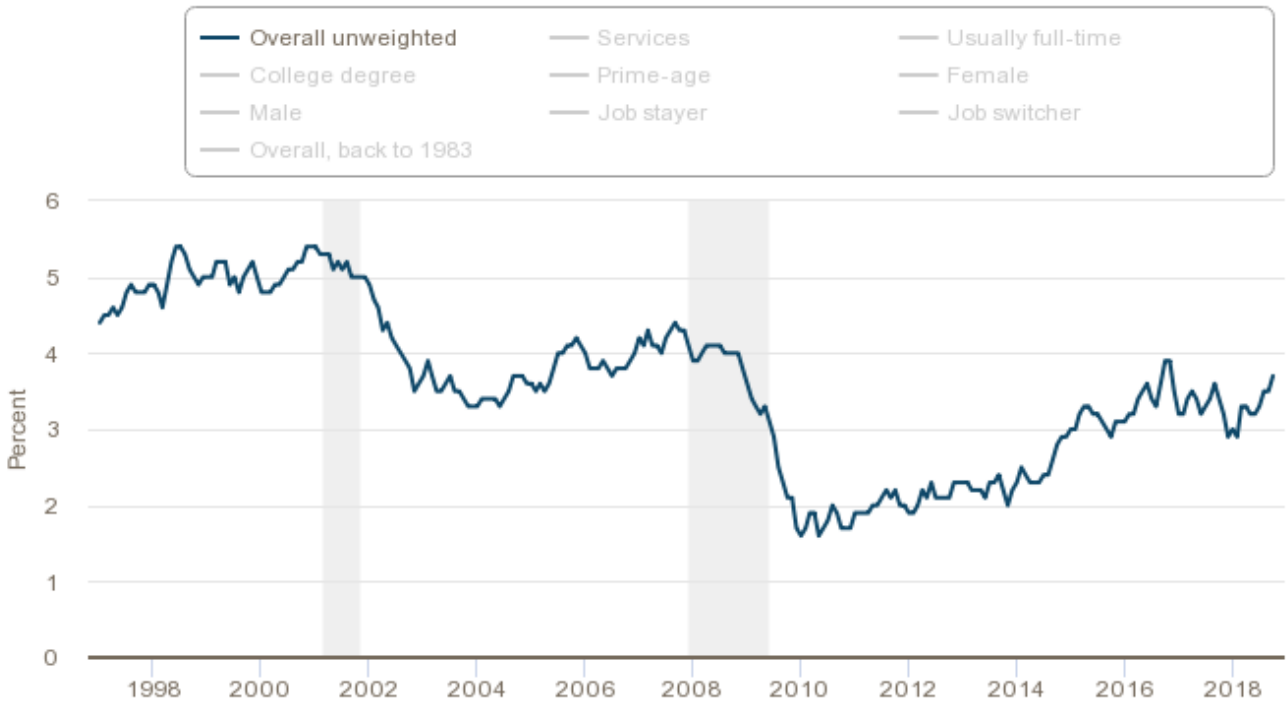
Source: BLS

Stepping back to get a the view of the forest from the trees we see more of an upward bias to the number. That being said, we continue to make lower lows over time and if the economy rolls over in the next two years, look for the new floor to be set at 2%, adding more fuel to the wage inequality fire.

Overall Wage Growth

Wage Growth Tracker

three-month moving average of median wage growth

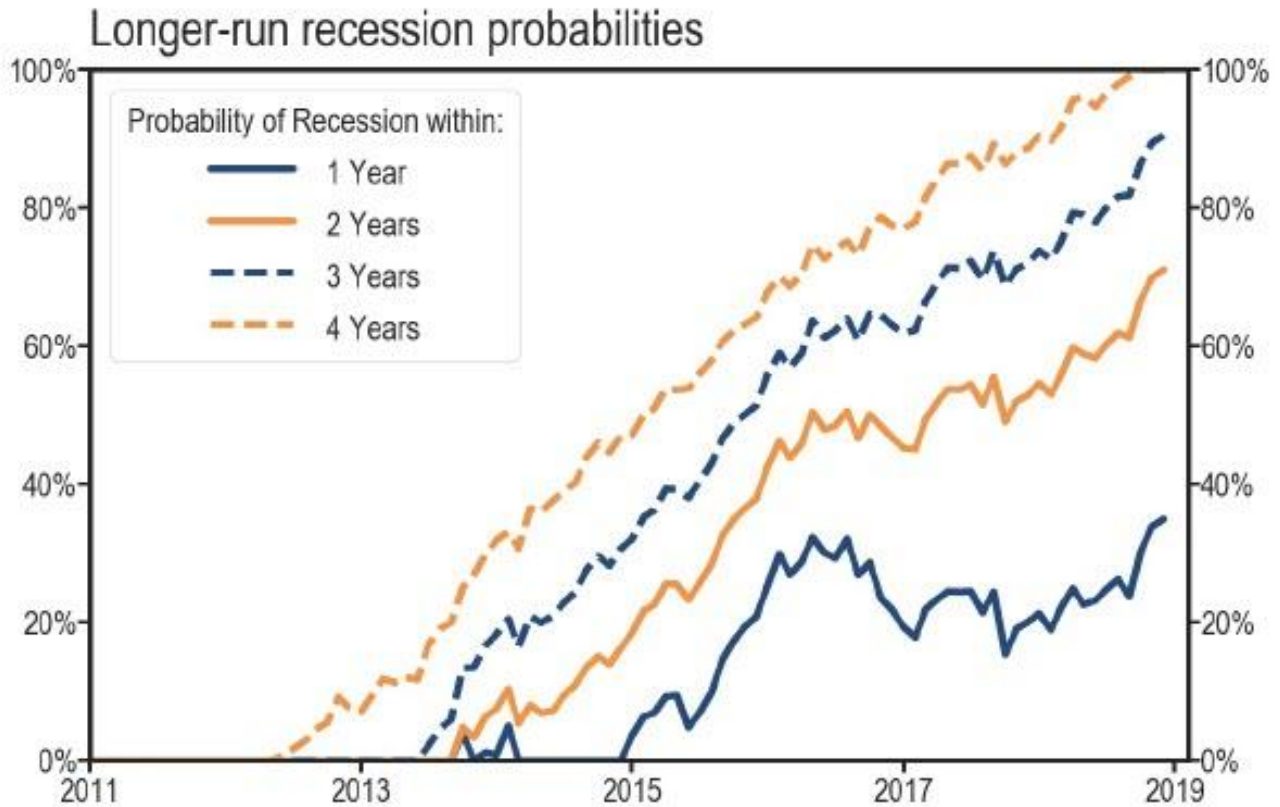


Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

Source: The Atlanta Federal Reserve

In other big picture economic news, PIMCO produced a report titled *'Synching Lower'*, which predicted a 30% chance of recession in the next twelve months. When currently, signs are flashing yellow, not red, let's face it, how often do warning signals start flashing yellow this late in an economic cycle without eventually turning red?

The Clock is Ticking



Source: J.P. Morgan

The Bottom Up

Johnson & Johnson got slammed on Friday when reports emerged singling the company out for knowingly selling baby powder that tested positive for asbestos. The stock dropped 10%, the worst one day performance in a decade. Let the lawsuits begin.

J&J Baby Powder



Source: CNBC

Banking specialist, KBW, came out this week and downgraded the sector, citing a weakening economic outlook and the increased risk of external events. The group is getting close to round-tripping the 'Trump bump', having completely fallen out of bed this month. This should really be of little concern as credit losses really aren't showing up yet.

S&P 500 vs. Financials



Source: Nasdaq

Athletic apparel maker Under Armour took a hit this week when it reported during the company's investor day that 2019 would be a challenging year for growth. Founder and president Kevin Plank appeared on *CNBC* to talk about what a transition year like this looks like. The company has vastly outperformed rival Nike this year, even after this week's selloff.

Under Armour vs. Nike



Source: Nasdaq

In real estate news that is well out of view of most of the country, the Tejon Ranch, the near quarter million acres of high desert brush land and forest on the

northern edge of Los Angeles County received 4-1 approval by the Board of Supervisors to move forward with development. This vote has been 20 years in the making and will still face years of ongoing approvals before the first shovel of dirt gets turned over. The property itself is eight times the size of San Francisco and is slated to have 19,000 homes built on it.

Tejon Ranch



Source: TRC

In case you thought you were missing out on a great investment, we are here to tell you that's not the case. Tejon Ranch (Symbol:TRC) has badly underperformed almost everything over the past five years, including the real estate sector.

REIT Sector vs. Tejon Ranch



Source: Nasdaq

Markets

Our favorite man about markets, Jeff Gundlach, presented his thoughts this week in a [webcast](#) to update clients on DoubleLine’s Total Return Bond fund. In it, he painted a pretty tough outlook for the economy and markets. Gundlach thinks that the equity’s momentum is now broken, therefore you should be a better seller than a buyer.

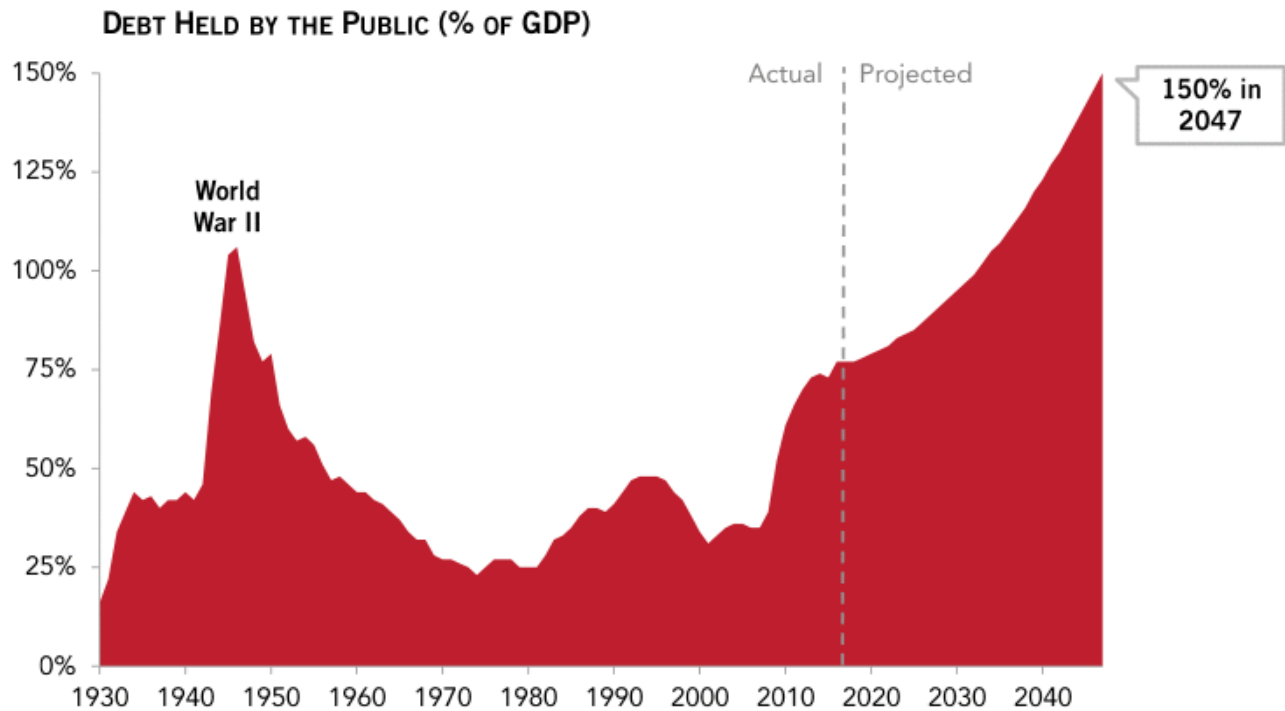
Jeffrey Gundlach



Source: Fortune

In case you missed the presentation, you can re-watch a recent [interview](#) Jeff did with Scott Wapner on *CNBC*. His outlook for how bad debt service payments will look in a rising rate environment is not for the faint of heart.

The Wrong Kind of Hockey Stick

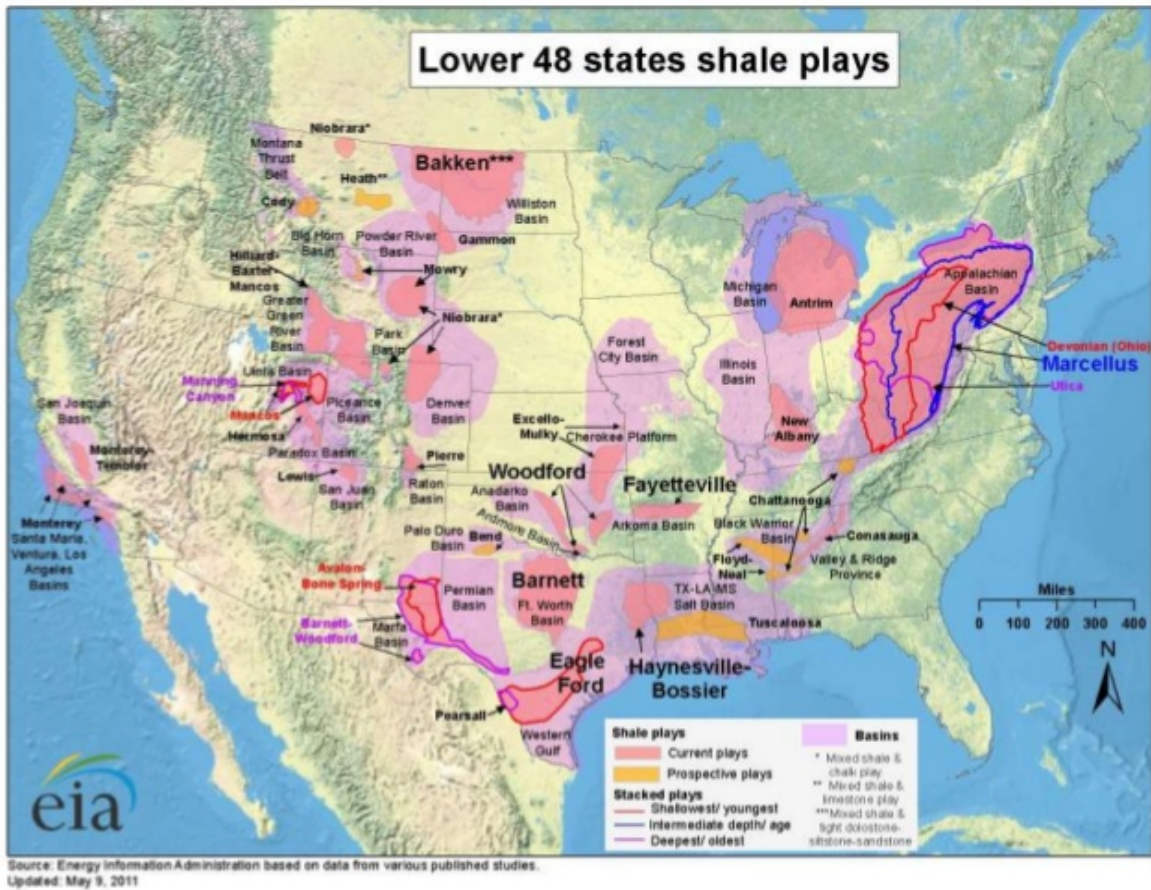


SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.

Source: The Peterson Foundation

Another one of our favorite markets pundits and prognosticators is oil trading “God”, Andrew Hall. This week he shared his opinion that with shale having such a big impact on the market, it is now far more difficult to predict prices as different basins have varying degrees of profitability. Some can be cash flow positive at sub-\$40 while other need \$70 to turn a dime.

There’s Oil in them Rocks



Source: The Energy Information Administration

Diversions - The “Someday” List

In Stillwater’s ongoing effort to bring you content on the unusual side, we are introducing you to the ‘Someday’ Christmas gift list. The only criteria is that whatever it is you are giving, the recipient has in all likelihood once said ‘someday, I want one of those, or go to that place’ And with that, here we go..

- 1) The classic Porsche 911 or Jeep Grand Wagoneer. Wear aviators whenever you drive it.

1989 ‘Final Series’ Wagoner



Source: Wagonmaster

2) Dine at one of the finest restaurants in the land. French Laundry in Napa , Le Biboquet in New York, Franklin in Austin, Calumet Fisheries in Chicago, or Musso and Frank in Los Angeles.

Thomas Keller's Masterwork



Source: LA Weekly

3) Train like a Navy SEAL in Virginia or Southern California. Make sure you never ring the bell.

'Yes Drill Sargent'



Source: SF Gate

4) Take an eco-cruise in Patagonia, or a not so eco-tour in Tierra del Fuego. You *can* see the difference...right?

Can't Miss Shooting



Source: Hunt Forever

5) Be an audience member for the worst show you love. Drink heavily beforehand.

YOLO'ish



Source: The Price is Right

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