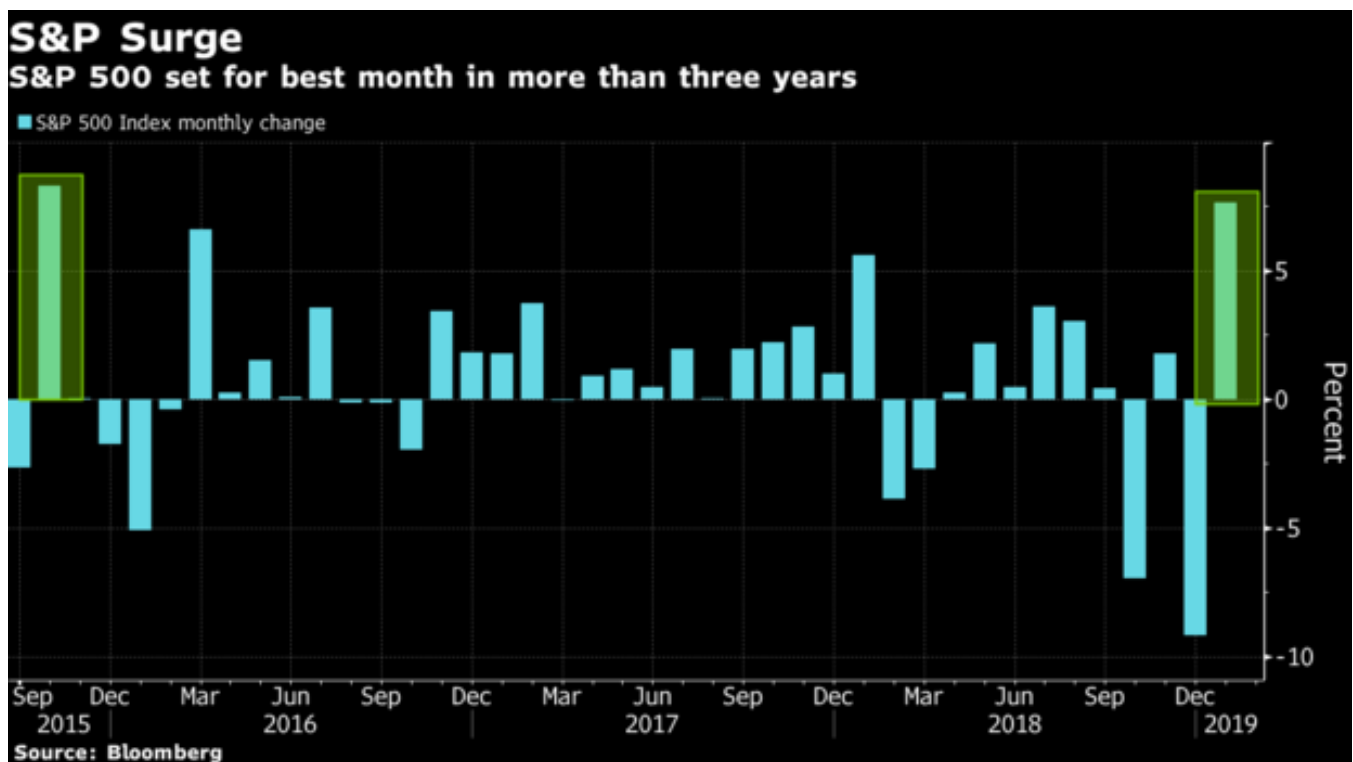


## *This Week In...*

### *Economics*

Biggest news from the top-down this week was Jay Powell declaring, that for all intents and purposes, the rate hiking cycle may very well be over. This move sent the markets into risk on mode, leading to the best best January in three years. Find us anyone who caught both sides of this December and January trade, and we're buying them the porterhouse at Peter Luger.

### **All Pain, All Gain**



Source: Bloomberg

One of J.P. Morgan's chief economic and interest rate observers summed up the situation this way, a version of which has now become Wall Street consensus,

“We would place far more emphasis on our forecast for a sharp slowdown in economic growth further ahead, which we expect will force the Fed to cut rates by 75bp in 2020.”

The challenge, once again, is how the Fed navigates higher rates late in the economic cycle. Since 1955, every recession followed a period where the Fed was running a more restrictive liquidity program.

## Fed Funds Rates & Recessions



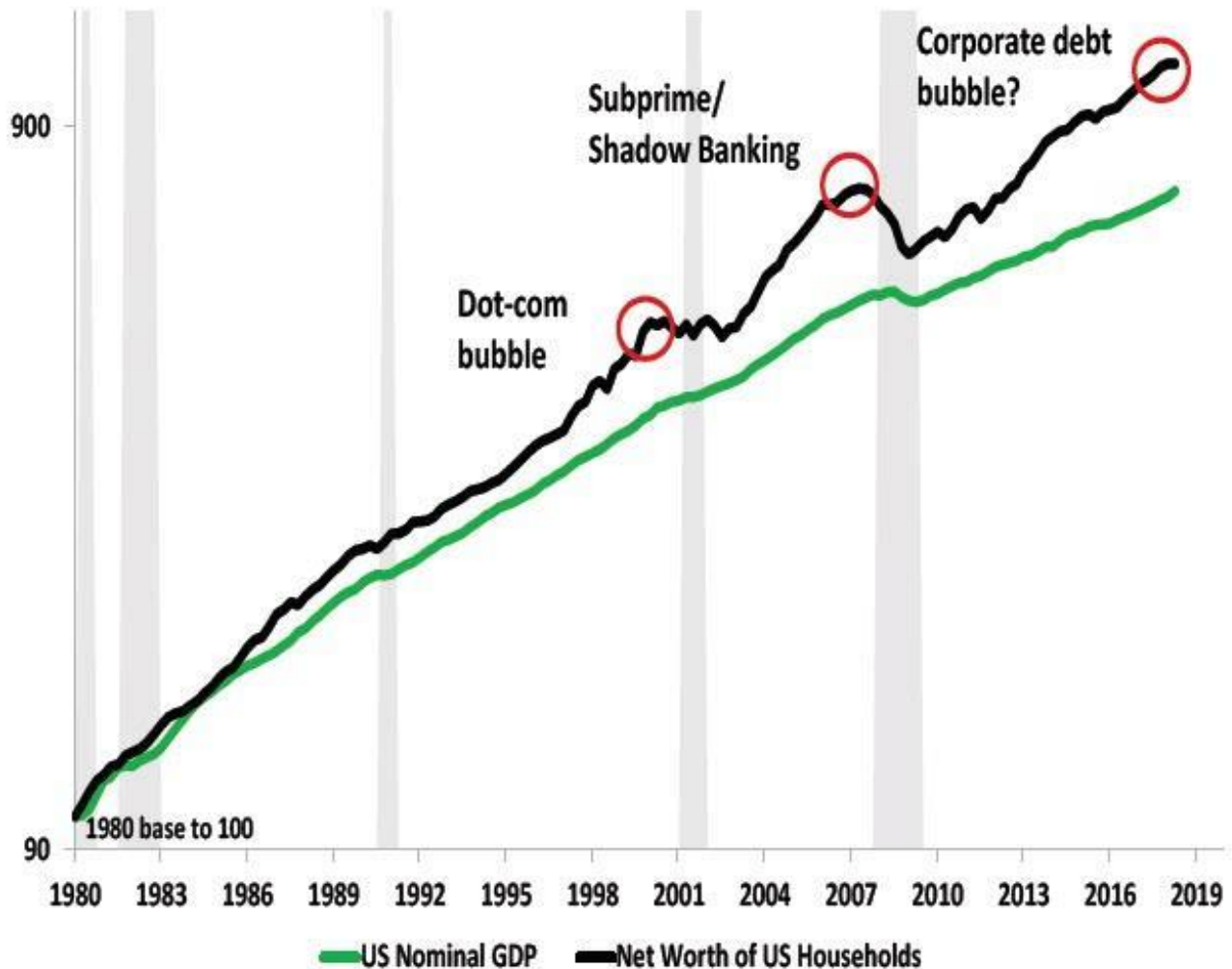
Source: The St. Louis Fed

Six months ago growth was going far out on the horizon, and now the storm clouds are right in front of us. If these predictions become a reality, this recession will look very much like 08', when synchronous global growth came to a screeching halt.

The big question this time, is how much will we need to de-lever to come out clean on the other side. If the world learned anything from the global financial crisis, it will be in better shape this time, and a shallow recession will follow. If not we will be looking at some not so pleasant realities.

## The Spread Widens

## ANOTHER MINSKY MOMENT ON THE HORIZON



Source: BBG, Nedbank CIB

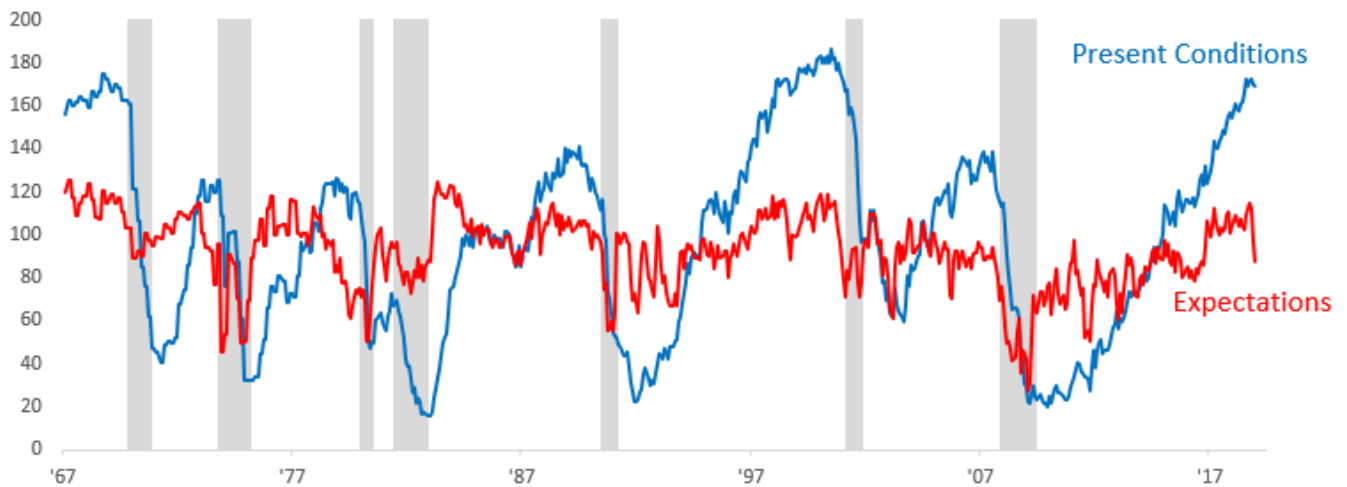
Source: ZeroHedge

J.P Morgan's cautious sentiment was confirmed by DoubleLine's Jeffrey Gundlach, when he said that the falloff in forward expectations of consumer confidence was 'the most recessionary signal at present', as he ominously added 'it's one of the worst readings ever.'

To be fair, or not so fair, some of Jeff's other leading indicators have remained steadfast and strong, so perhaps there is something else going on this time.

### Looking Forward

## Consumer Confidence: Present Conditions vs Expectations



Source: DoubleLine

The biggest cause for economic concern, according to Charles Schwab, is Washington's inability to get its act together and start thinking about the long game. This truth is hard to ignore, as a newly invigorated Democratic party is looking to go after the rich for not paying their fair share...again.

We've got bad news for high-earners and those with lots of assets. There are more of them than there are of you, and this is the only math politicians need if they are running on a left of center populist platform, all of which has Oaktree founder Howard Marx worried about what the consequences will be on the economy.

**Elizabern**



Source: National Review

Nancy Pelosi scored a big win over Trump last week, when the president backed off on border wall demands to get the government open for business, at least for now. Sadly, we are in a winner takes all environment, and have been for a long time. Trump vows that any new government funding plan that comes down the pike without money for a wall, is a 'waste of time'. Ten bucks says he settles for \$5 billion in 'enhanced border protection'.

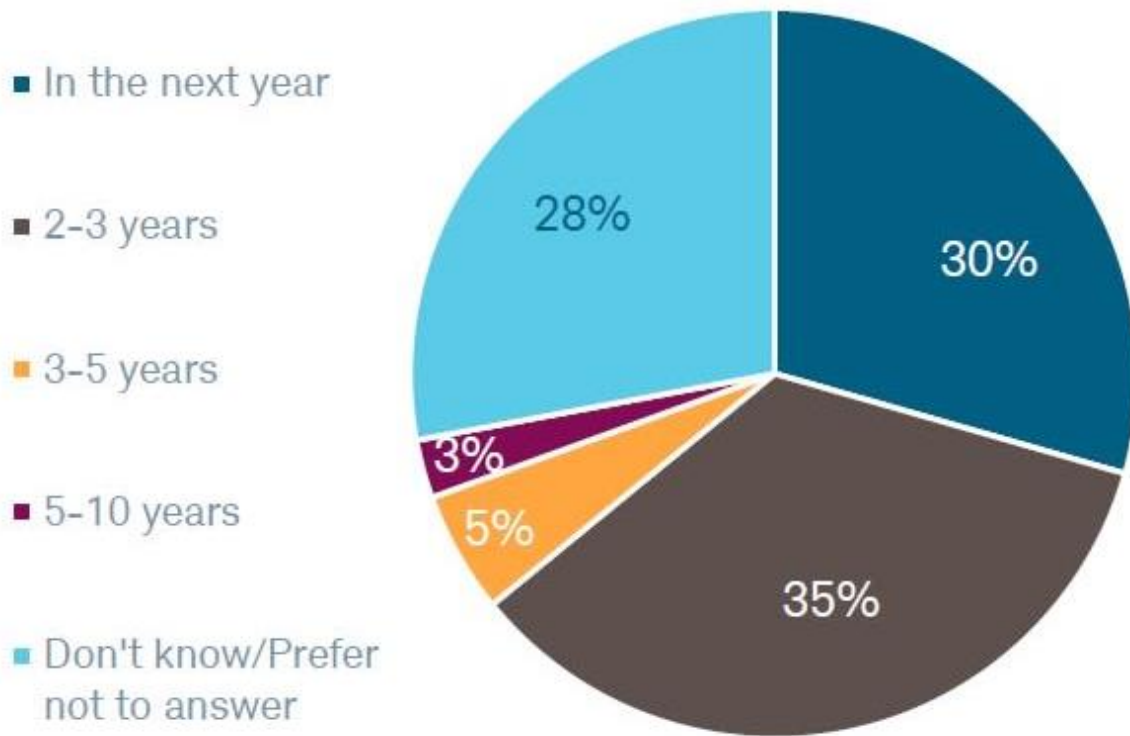
**'Look Nancy, Jazz Hands'**



Source: CNBC

The same Schwab survey found that 65% of the respondents believe the United States will be in a recession in two to three years. You can argue the validity of trickle-down economics all you like, but the reality is that when the investor class pulls back on their spending due to uncertainty on taxes and the economy, there is a ripple effect.

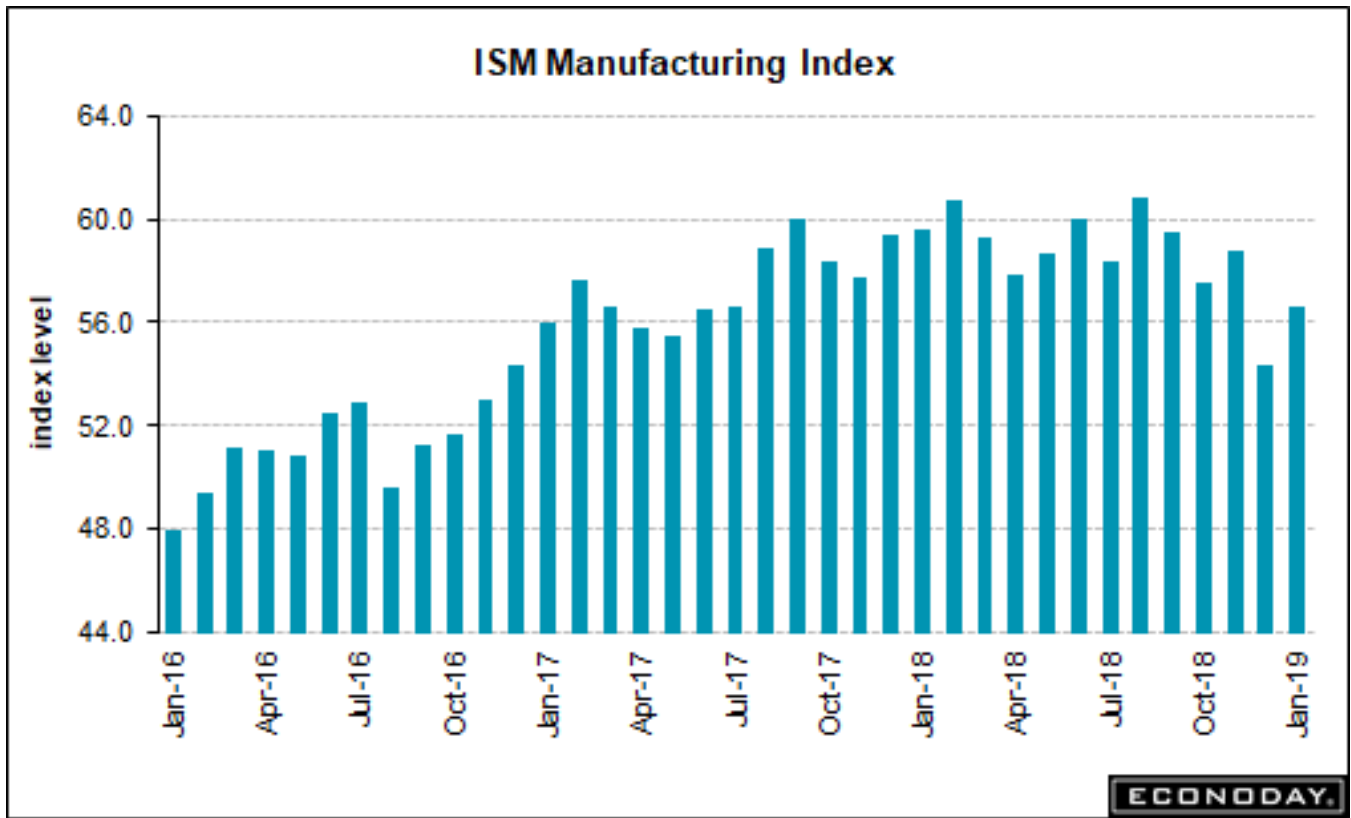
### **Freight Train Coming**



Source: Charles Schwab

The manufacturing sector was thrown a lifeline on Friday when the ISM index came in slightly better than Street expectations. A reading below 50 indicate a contraction is taking hold, and that's where the number was headed. New orders, the most important component, had the big rebound from Decemeber.

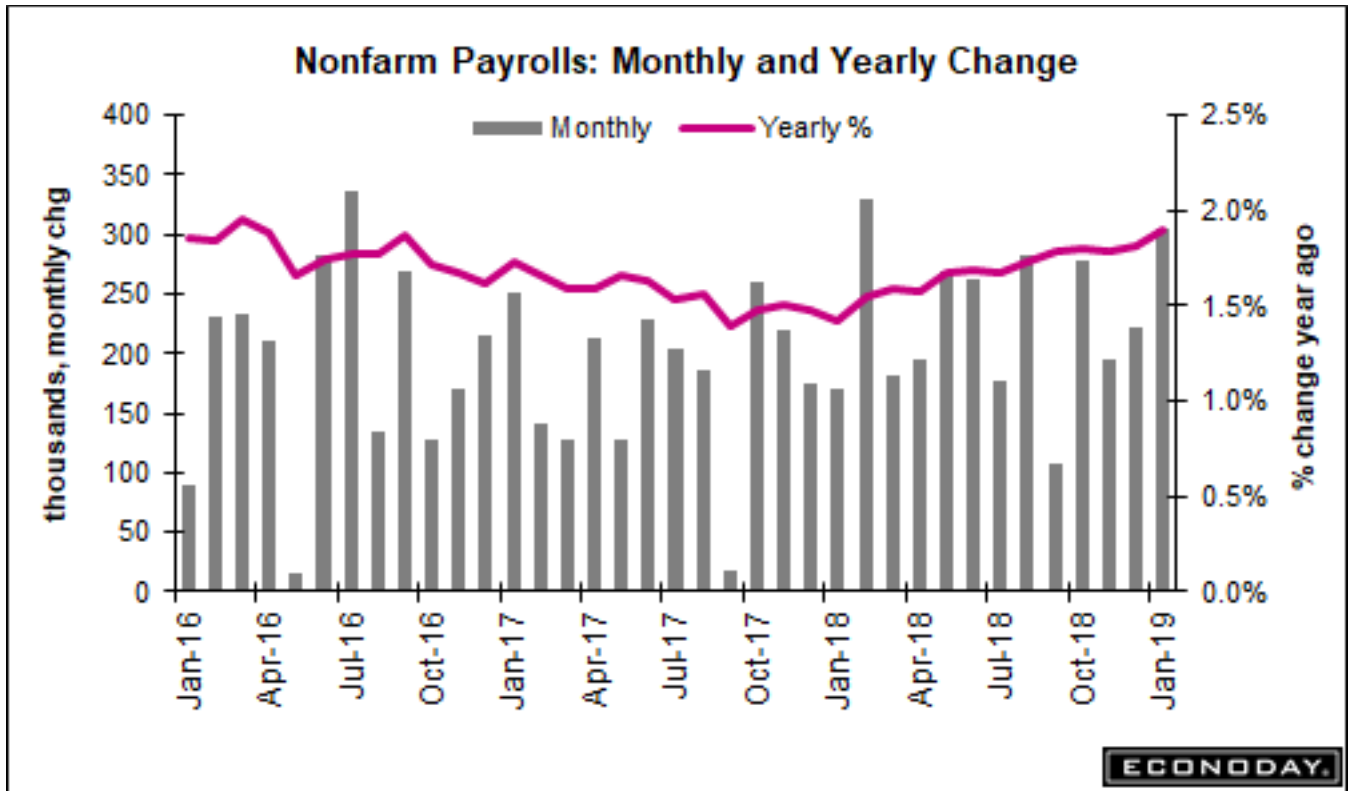
## January ISM



Source: Econoday

The Commerce Department's Employment Situation Report, better known as the 'jobs number', printed a strong gain of 300,000 workers. This was slightly offset by revisions to prior months that brought down the overall add by 70,000.

**Job Growth Stays Strong**

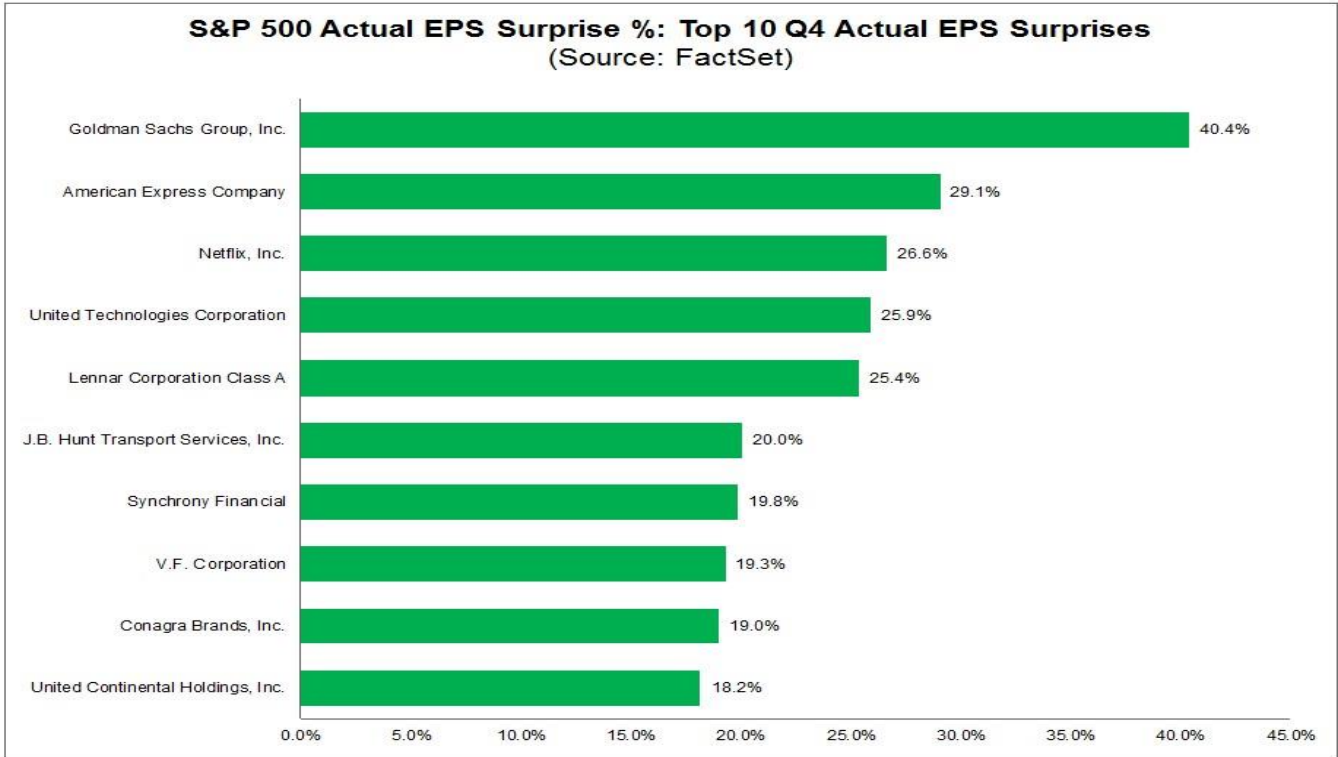


Source: Econoday

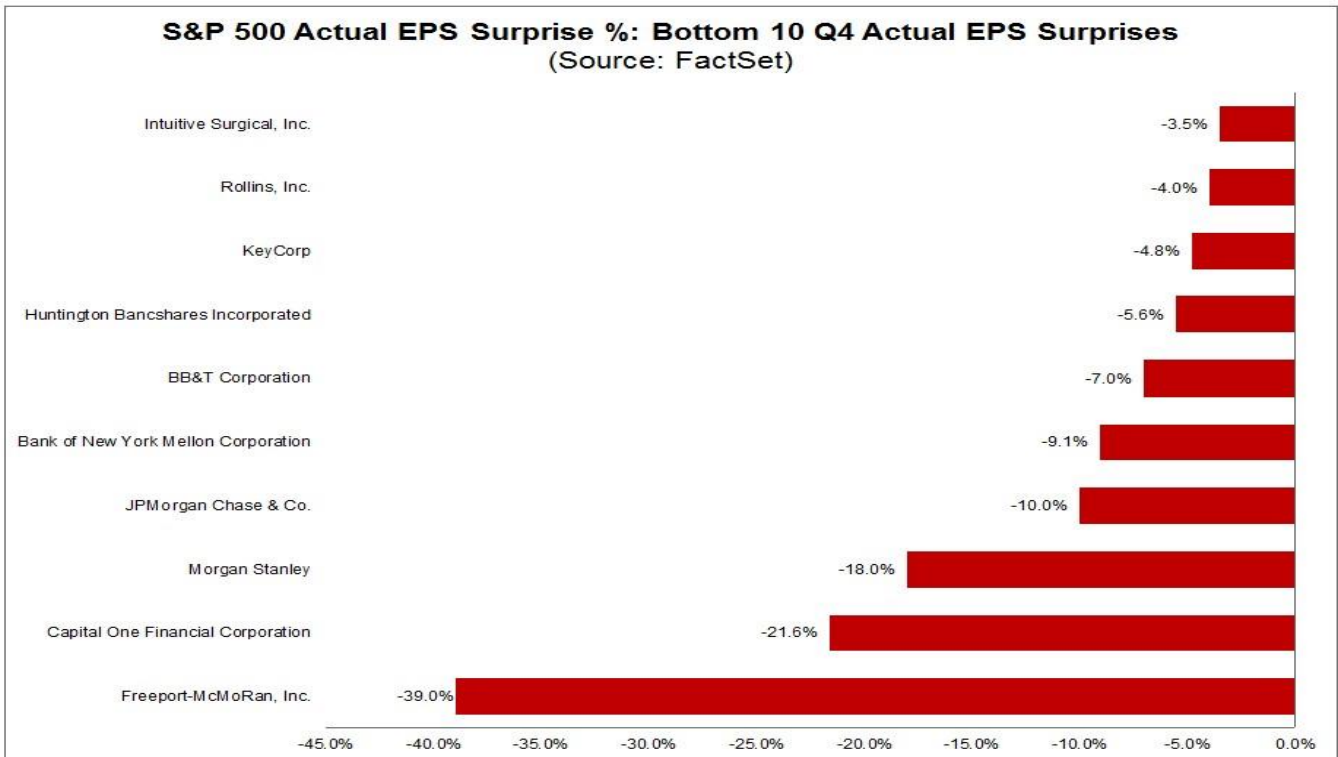
### ***Company News***

Earnings season keeps rolling along, and it's borderline impossible to keep up with the news from each and every company. Fortunately, we have FactSet Earnings Insight to do some of the work for us.

### **The Good...**



**The Bad....**

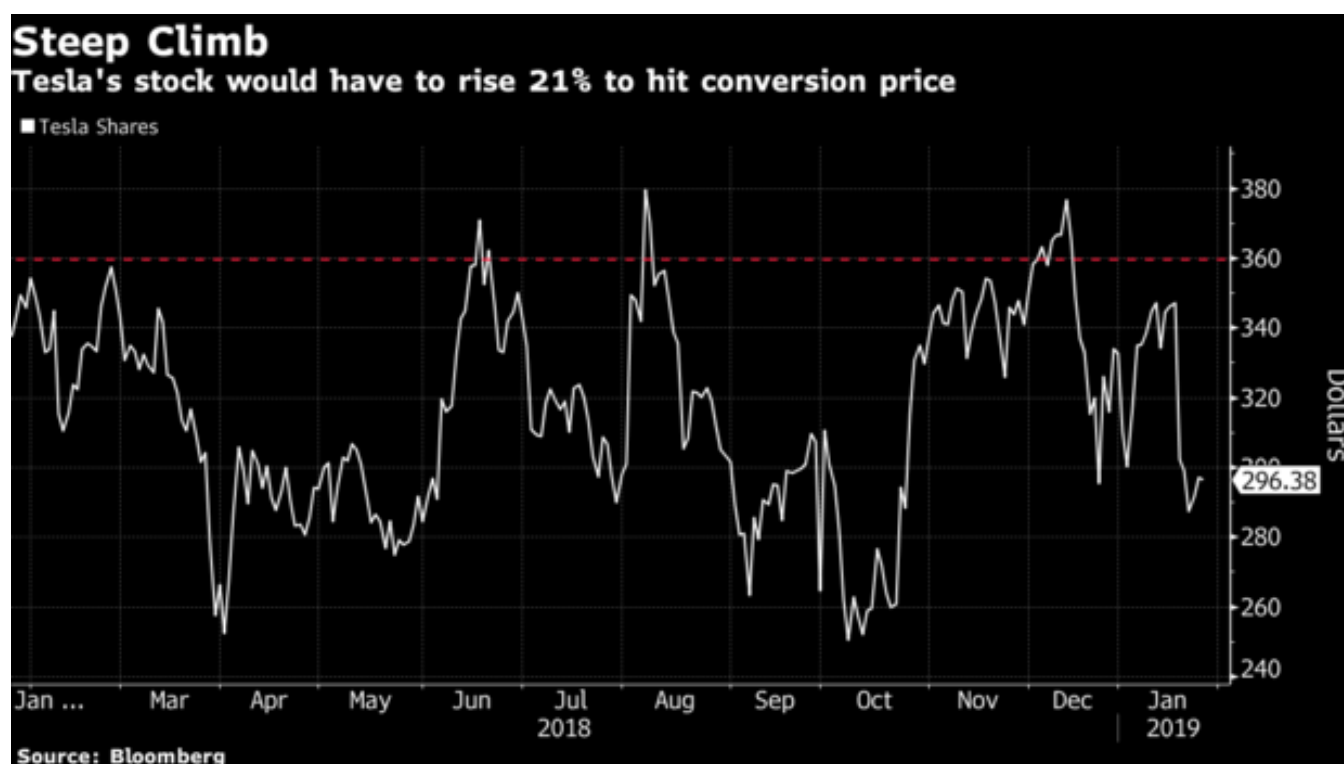


**And the downright ugly...**

Tesla has problems, and it's almost hard for us to care anymore. We found peace in last year when we decided there were better ways to get to heaven than to play the long/short game with the markets most controversial stock.

This week the short side won as the company's CFO left for a second time. And more importantly, a \$1 billion slug of debt is coming due on March 1<sup>st</sup>. If the share price doesn't reach a conversion price of \$360, the company will need to fork over some serious dough.

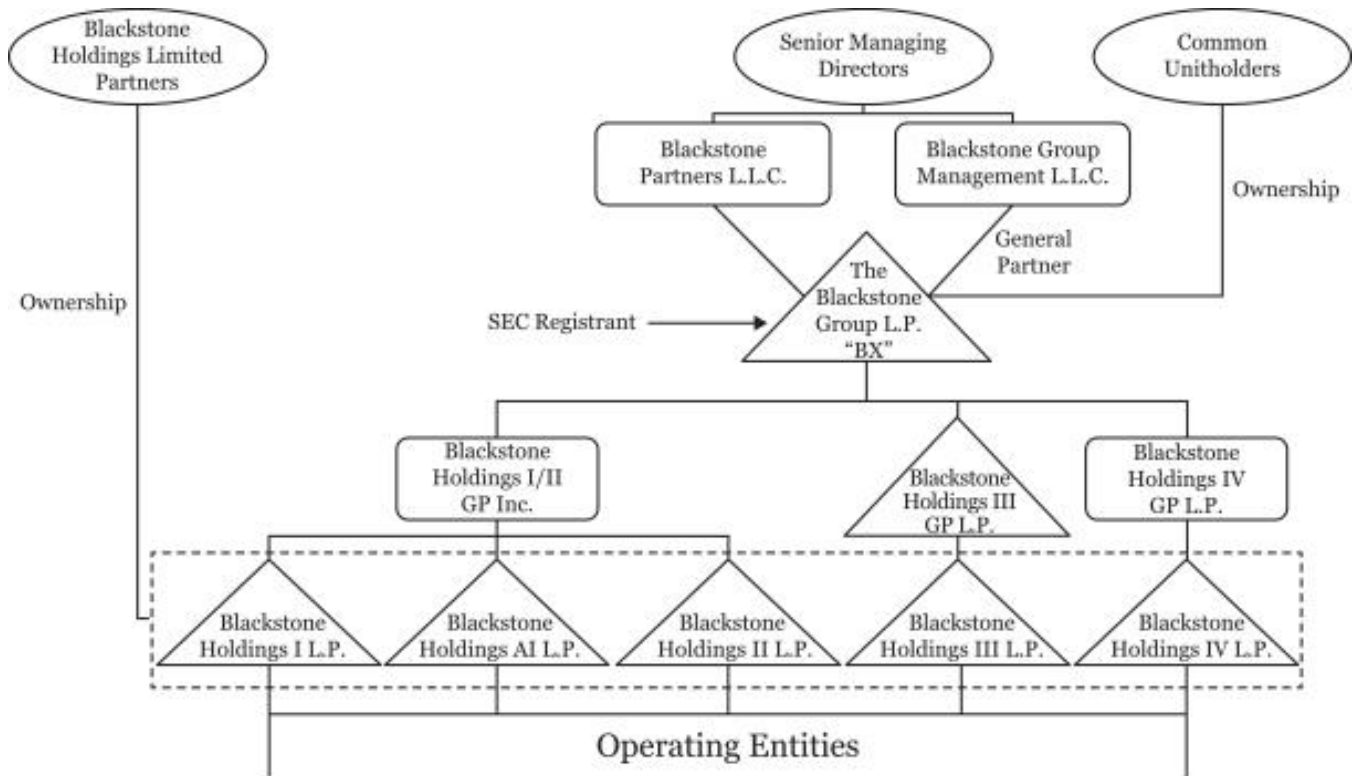
## Hey Buddy, Can You Spare a Dime



Source: Bloomberg

Over in the publicly traded private equity world, Blackstone and Apollo both proved once again that the best thing about these companies being listed is the liquidity it provides management, and not the money they make for shareholders. Both had tough quarters that were impacted by the downward pressure on the markets.

## The Many Blackstones



Source: The Blackstone Group

If the economy does start to roll over sooner rather than later, we will be looking to short a basket of anything that has exposure to leverage and illiquid private markets. It's not personal, it's strictly business.

**Michael Corleone**



Source: Power Wash

### ***Markets***

Every two standard deviation event on the left side of the curve deserves an equal one on the other side, right? To answer that question look no further than crude oil, which is experiencing it's best January on record after a two month slide of historically awful performance. The surge is being attributed to a draw in inventories, increased demand for gasoline, chaos in Venezuela, and the aforementioned cooling of the Fed's rate hike plan.

**A Blended \$55 since 2015**



Source: Macrotrends

Meanwhile, the energy sector has been performing like you might expect given this volatile, and downwardly biased, market. The super-majors have been holding up the best, with their vault like balance sheets. When you walk down the rest of the food chain things start to get a lot more volatile. In the investing world it's called the second derivative and it's one of the best ways to make money, assuming you get the trade right.

For purpose of illustration let's take the following oil driven companies and put them in their place. What you'll see is the further out on the risk scale you go, the more volatility you experience..

**Chevron** = Super-major with exposure to both upstream and downstream.

**EOG Resources** = Pure upstream exploration and production.

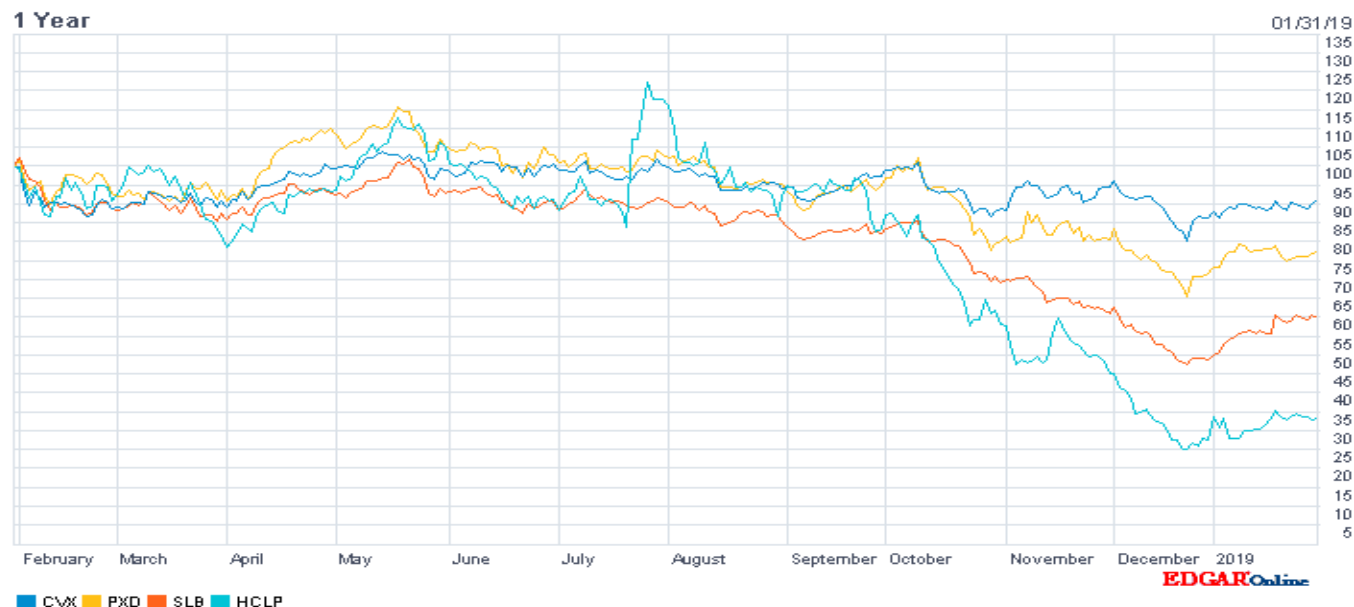
**Schlumberger** = Super-major drill service company that supports EOG.

**High Crush Partners** = Sand producer used by SLB to frack wells for EOG.

For those of us who practice the craft, this chart is a thing of second derivative beauty. If you can consistently follow the food chain, and make it a profitable

trade, assets will undoubtedly flow your way. As our friend Lee Cooperman likes to say, 'money goes to where it's treated best.'

CHV, EOG, SLB, HCLP



Source: Nasdaq

## *Up & Down Wall Street*

Fin tech company Acorns rounded out a \$105 series E cash raise with participation from Comcast Ventures and NBCUniversal. The most popular product the company offers, and where it got its name from, automatically rounds up your purchases to the nearest dollar. That money is then sent to an account and invested in exchange traded funds. The six year old Irvine based company now has a private market valuation of \$860 million. Where the hell was this when we were blowing \$65.24 on bar bills in college?

## **Acorns App**



Source: Yahoo Finance

## ***The Super Bowl***

Instead of wasting your time with a bunch of re-hashed garble about the many ways to look at, analyze, watch commercials, wager, and recover from Super Bowl LII, we are keeping it simple. With apologies to our chowder slurping townie friends who call New England home, Stillwater is with the rest of America this Sunday. Go Cleveland/Los Angeles/Anaheim/St. Louis/Los Angeles/and soon to be Inglewood Rams! Man, do they get around. Now go out and win it for 'the Duke'.

## **Alaska, Really?**



# M\*A\*S\*H.



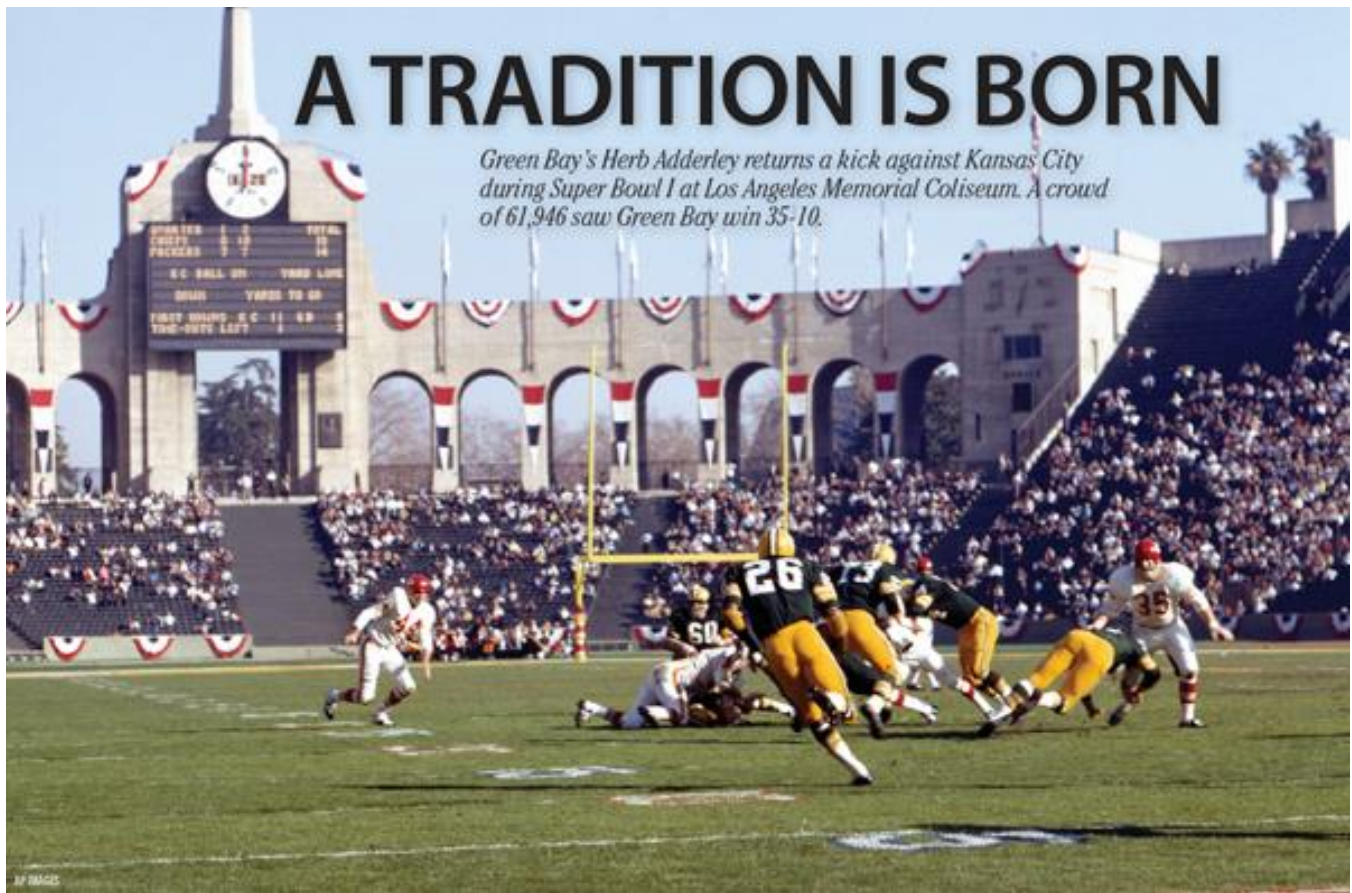
"One of America's  
Funniest Films!"  
—TIME MAGAZINE

Source: Rotten Tomatoes

With the premium paid for today's tickets, and the fact that each Super Bowl is way oversubscribed, it's surreal to think that the game itself had such humble beginnings. The first one was not a sellout, as the picture below proves.

Count them, there are literally 100 spectators in the left section of the end zone at the Coliseum. For God's sake, there will be 100 spectators at my neighbor Dave's house this Sunday.

**Super Bowl I**



Source: CNN

To get his players out of the hustle and bustle of Los Angeles, Vince Lombardi headed north by 90 miles to Santa Barbara where he set up camp at the team hotel, which just happened to be 50 yards from East Beach. The team would practice at UCSB's Harder Stadium and stay at the Santa Barbara Inn, a far cry from Green Bay in February.

### **Palm Trees & Sunshine**



Source: Travelocity

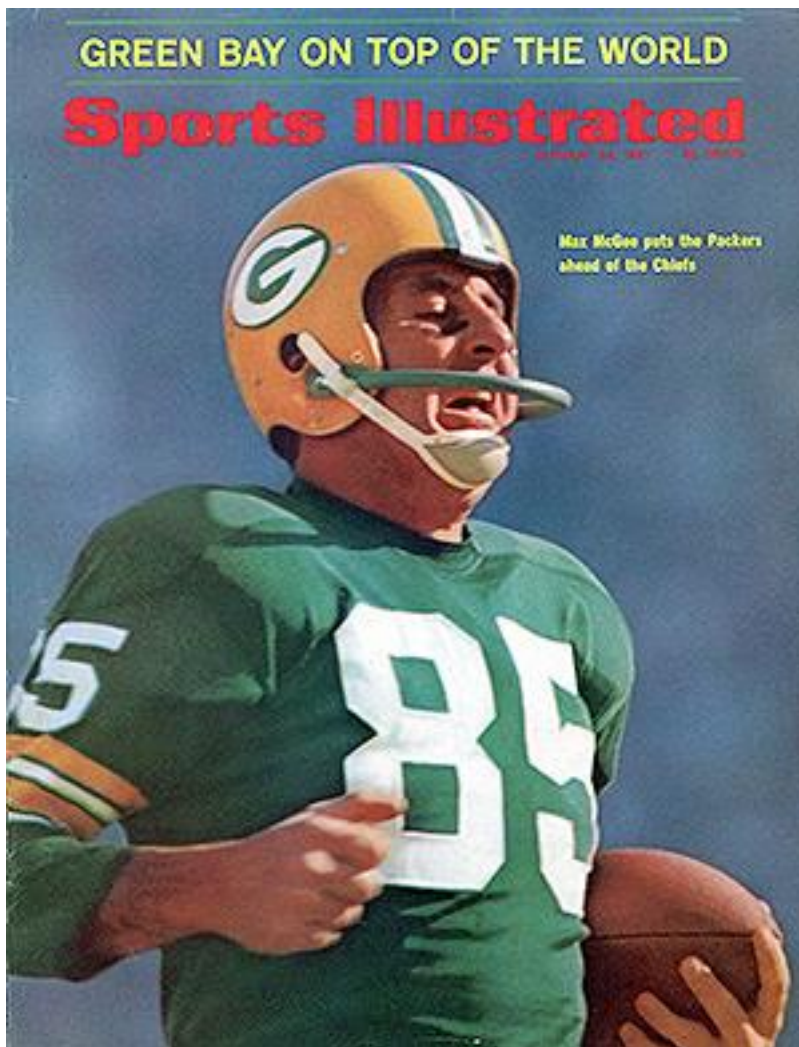
But no amount of seclusion could keep the Packer's Max McGee away from the Los Angeles night life. *Sports Illustrated's* Tim Layden penned a great piece a few years back highlighting the wild and wonderful life of Mr. McGee, the man who caught the first touchdown in Super Bowl history.

The night before the game, Max spent some time in the hotel bar and wound up charming a group of Pan Am stewardess, where they went we will never know. What we do know however, is that Max would retire to his room at dawn the next morning.

Later that same day Max would catch 7 passes, 3 more than he had all year, and score 2 touchdowns in route to a Green Bay victory. In sad twist of fate, the playboy who wore number 85, would pass away in 2007 after falling off his roof while sweeping leaves.

This Super Bowl Sunday, pour one out for good old Max McGee, the man whose bravado lead him to infamy and admiration among men of a certain age, that being the 20 to 80 year cohort.

## **'This is Harder Than it Looks'**



Source: Sports Illustrated.

In another sign of the times, Len Dawson, the Chiefs quarterback, would cool his nerves with a heater or two in the locker room before kickoff and also at halftime. Had he only thrown back a couple of Johnny Walkers, maybe Kansas City would have won.

**Marlboro Reds, For Sure!**



Source: Kansas City Star

Best of luck to both teams on Sunday. We hope the Rams aren't afraid to win, and Tom Brady somehow doesn't come through. Unfortunately for Los Angeles fans, that's what GOATS do.

And as a reminder to the 49'er Faithful, there is a warm place in hell for Steve Mariucci, the coach of San Francisco who picked Giovanni Carmazzi over Tom Brady in the 2000 NFL draft. The guy is for sure throwing dough at Giovanni's South Shore Pizzeria these days. Maybe it was just an Italian thing for Mooch.

**The Goat**



Source: YouTube

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