

Stillwater Capital - This Week in the Markets



The Top-Down

The market is set to open lower today on news that President Trump is slapping \$50 billion worth of tariffs on China. This after the G7 meeting went south in a hurry, making for a rough week in global trade.

Merkle, Abe and Trump

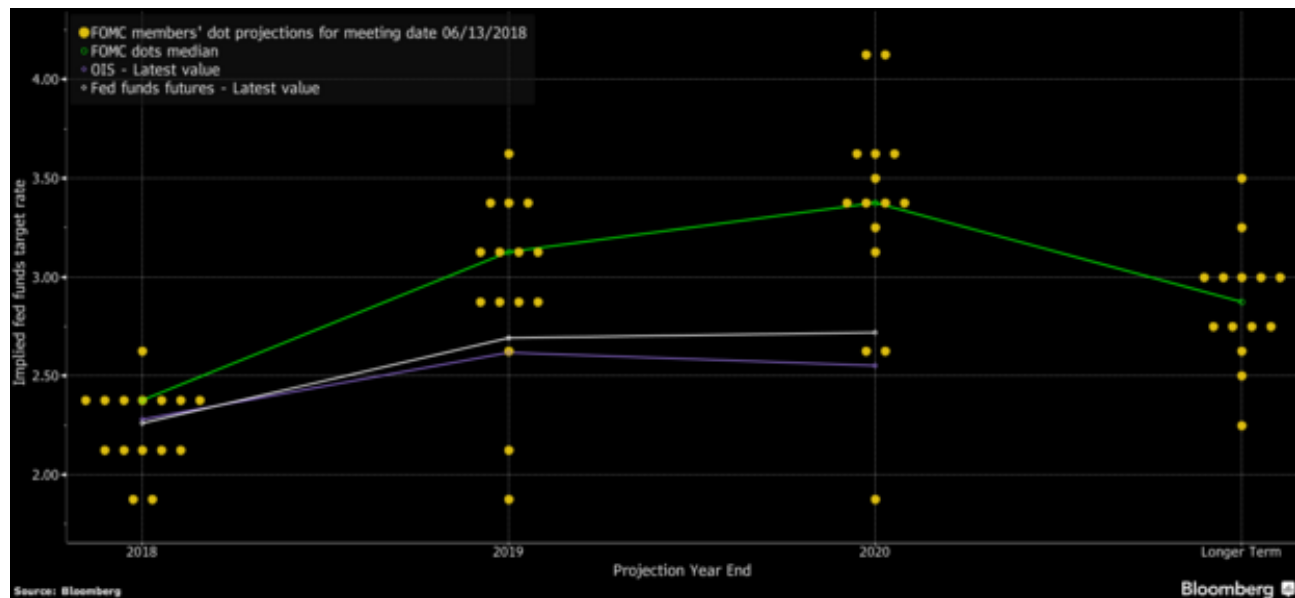


Source: BBC

As expected, the FOMC raised rates 25 basis points on Tuesday to a target rate of 1.75% to 2.00%. Jerome Powell explained in the post-decision news conference, that our economy is “in great shape”.

The dot plot shows that four hikes in 2018 is going to happen. A doubling of Fed funds by 2020 is in the cards as well.

The “Dot Plot” Thickens



Source: Bloomberg

Stillwater View: The man who manages AIG’s \$300 billion plus portfolio, Dan Dachille, provided a great interview on CNBC’s Squawk Box explaining that the new Fed transparency with press conferences and plots of dots make rate decisions far less market moving. This from a guy who once traded fixed income on “Fed Day” where being on the wrong side meant your job.

And you may wonder where does the term “Squawk Box” come from? Back in the day investment houses had a morning research blast come over the wire to inform the brokers what the research groups best, and most saleable, ideas were. Instead of requiring everyone to place the call on speaker it came over a box in the offices that squawked the information, hence the name.

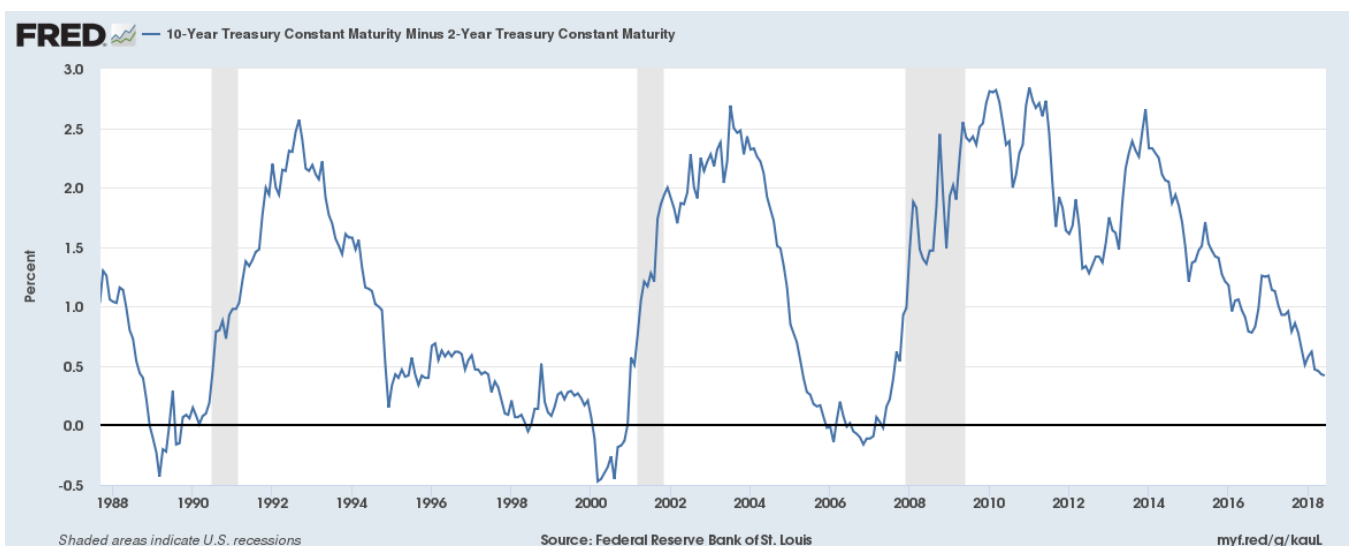
The Modern Day Squawk Box



Source: Newscast Studio

This rise in short rates is further guaranteeing the eventual flattening of the yield curve. A move that has marked the beginning of the end of the business cycle as tighter money has eventually led to a slowing and then contraction in the economy.

Curve Inversion Coming



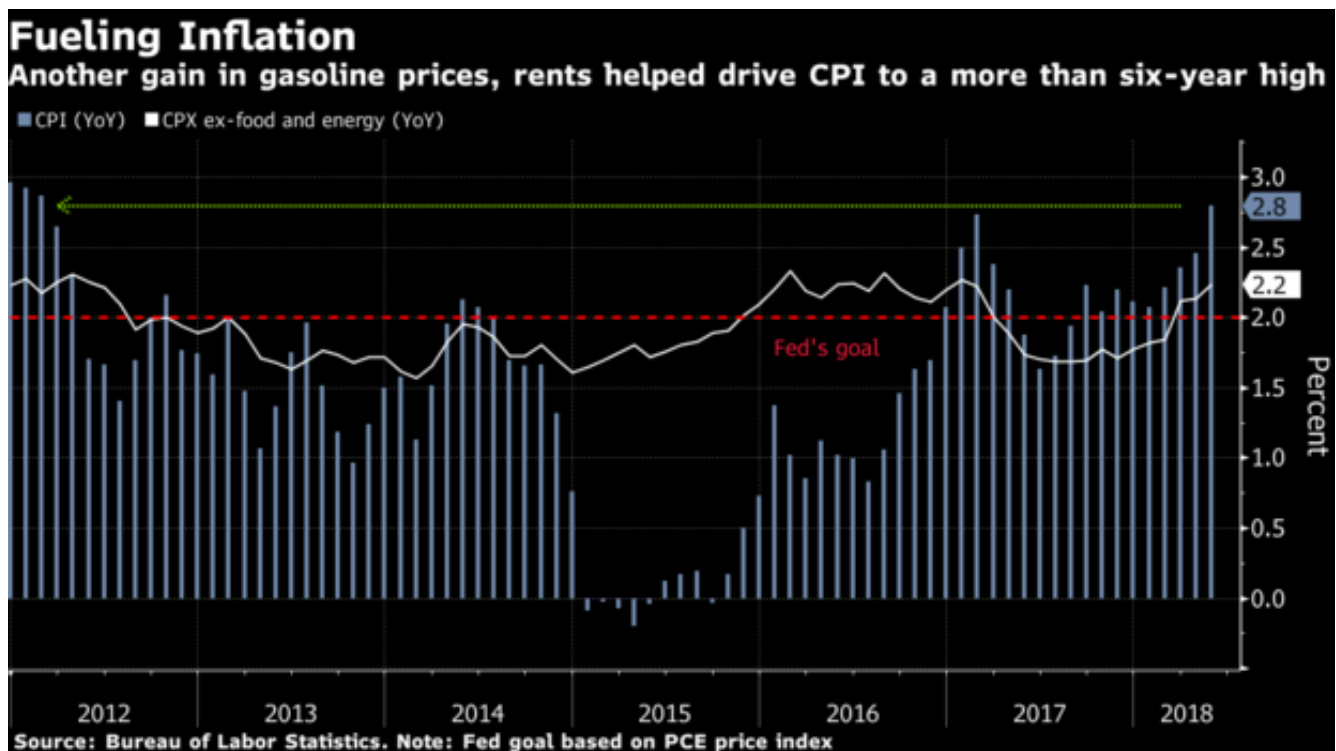
Source: St. Louis Federal Reserve

Stillwater View: It's difficult to ignore that the three recessions experienced in the last thirty years were precipitated by the curve inversion where short rates paid more than long rates. Having said that, the market tends to put up some of its best performance late in the cycle when this happens.

In other news related to rates, DoubleLine's Jeff Gundlach calls rising deficits in the face of rising rates a 'Suicide Mission'. He sees the 10-year headed to 6% in the coming years. Macro trading legend Paul Tudor Jones opined that if he were the Fed chair rates would be much higher.

We received more news this week that inflation is moving higher, driven higher by gas and rent. Why these two get backed out of the core CPI remains a mystery.

Consumer Price Index



Source: Bloomberg

In global news, the much anticipated meeting between President Trump and North Korea's Kim Jong Un came and went without a hitch. The highlights included a lot of handshaking and walking around in gardens of various varieties.

“Little Rocket Man” and “The Doddered”



Source: Mother Jones

Stillwater View: Our very own personal favorite from the summit was the release of a short film produced by the Avant-guard "Destiny Pictures". Trump gets major style points from us on this one. Lookout Hollywood, there is a new sheriff in town.

Miramax...Move Down the Bench



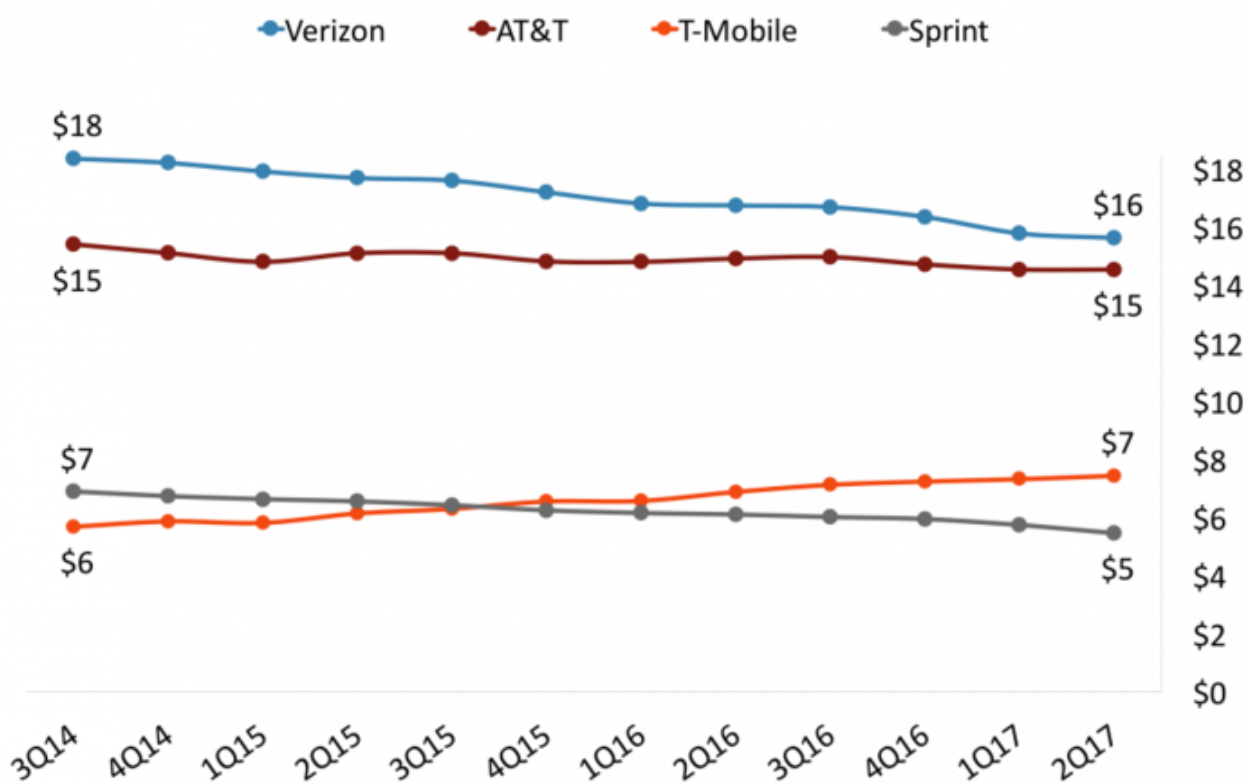
Source: The White House

The Bottom-Up

It was a big week in the media and entertainment world as Judge Richard Leon approved the merger of AT&T with TimeWarner rebuffing a losing and “gossamer thin” argument from the Justice Department. The government’s position centered on the concern that having both DirecTV and TimeWarner under the same corporate control would prove anti-competitive.

As *Business Insider* reported a year ago, the related carrier business is still a tough and very difficult sector to navigate, especially as the traditional voice business continues to go through a price war for unlimited data. Hence the need to expand into satellite and content as AT&T has now done.

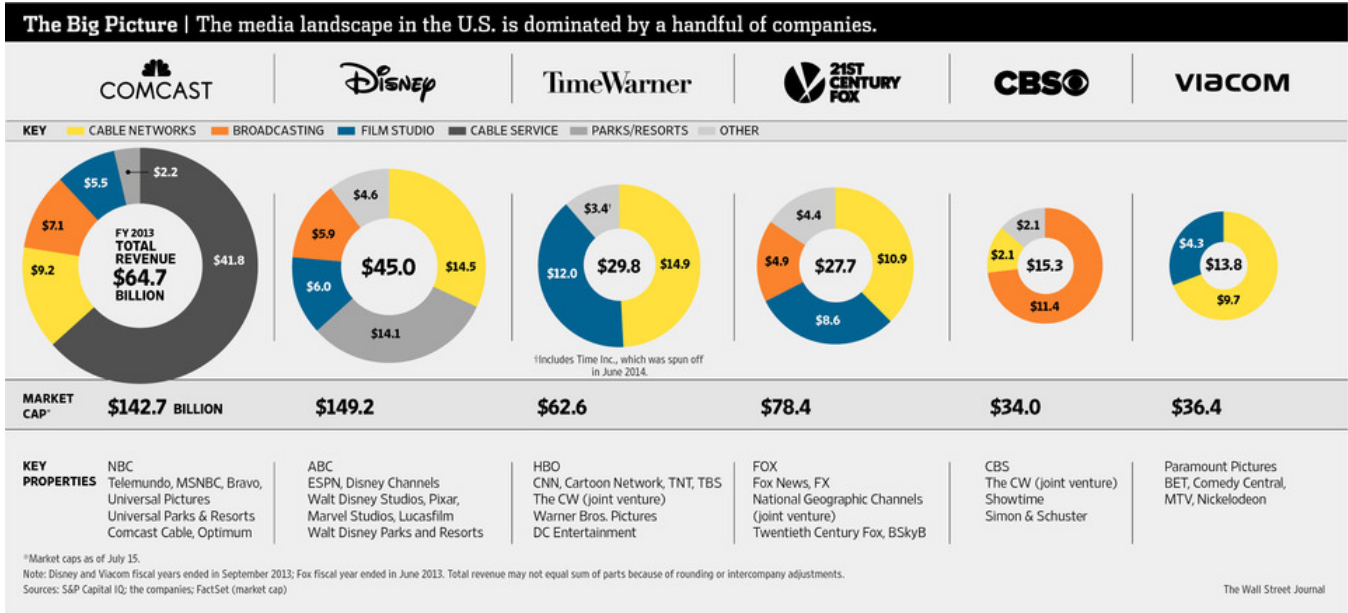
Service Revenue of the Big Four



Source: Business Insider Intelligence

The approval by Judge Leon quickly opened the gates and set a new precedent for further deals. On Wednesday Comcast offered a 20% premium to Disney’s proposed acquisition of certain assets held by Twenty-First Century Fox units. Legendary media investor Mario Gabelli explains the deal and paints for us a picture of a new media landscape.

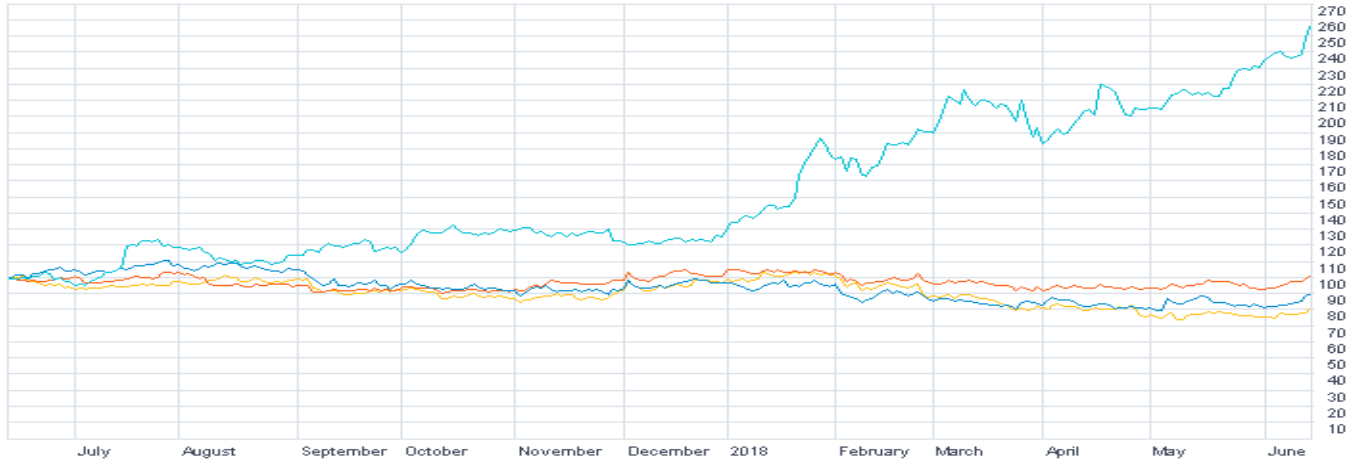
Media Conglomeration



Source: S&P Capital IQ

Stillwater View: For all the attention these deals get, it seems as though this has been the proverbial rearranging of deck chairs on the Titanic. At the end of the day, they have all been chasing the juggernaut that is Netflix.

Netflix, CBS, Comcast, Disney



Source: Nasdaq

Stillwater View: Traditional media companies are giving the effort to stay relevant the “full nine yards”. Mixing and matching assets in an endless array of deals, none of which are easy to decipher or guaranteed to work.

As promised last week, here is the meaning of the oft quoted phrase “the full nine yards”. In World War II bullet strings that were loaded into combat planes came in 27-foot lengths. That equals 9 yards and pilots were instructed to come back with them empty. Giving the enemy combatants “the full nine yards”.

The P-51 Mustang



Source: Pinterest

Up and Down Wall Street

Hedge fund legend Paul Tudor Jones has teamed up with Goldman Sachs to launch a social impact ETF that he claims will rival the S&P 500 someday. The symbol is JUST, and it uses a scoring model employed by his Just Capital to evaluate the way corporations treat their employees, the environmental impact their corporate footprint leaves, and the value the products they produce bring to their consumers.

CNBC was granted exclusive access to the famed manager from the trading floor at the eponymous hedge fund. The Andrew Ross Sorkin interview was wide ranging and covered everything from North Korea (anticlimactic), interest rates (should be higher), and the equity market (could be getting bubbly).

He thinks the latter could have a ‘melt up’ type of move in stocks later this year, even with rates headed materially higher. To quote the man, “when you have tech companies growing at 20% who cares if rates go up 100 basis points.

Paul Tudor Jones



Source: CNBC

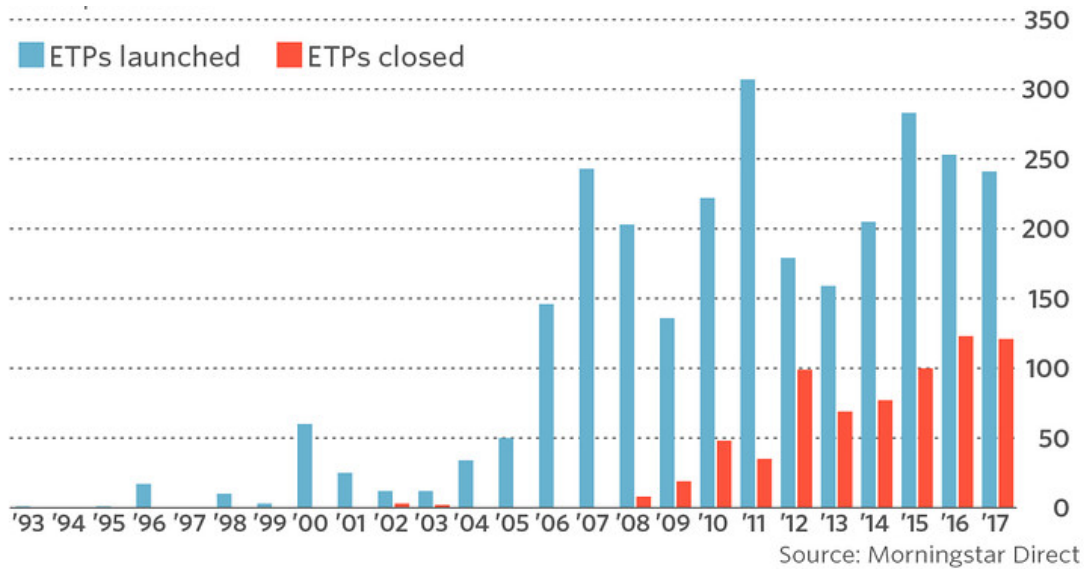
The firms JUST ETF sound like an interesting proposal. The criteria came from listening to public opinion and building a filter that includes the following three rules:

- The company is twice as likely to pay nearly every worker a living wage.
- It creates jobs at a 20% greater rate than those excluded.
- It pays 71% less in fees than average.

Here is Paul’s 2015 TED Talk that explained his background, how it shaped his views, and what socially conscious investing looks like to him.

Stillwater View: In a world of 5,000 half-baked ETFs, this does not appear to be one. But as a colleague said yesterday, there is an ETF for everything at this point. And we can’t disagree.

ETFs Coming...And Going



Source: Morningstar

The top-15 holdings at Just Capital from last year were Proctor & Gamble, Nike, Rockwell Automation, AT&T, Adobe Systems, Symantec, Salesforce, Alphabet, Cisco, Accenture, IBM, Microsoft, NVIDIA, Texas Instruments, and Intel.

But to show you how difficult this game is, software security provider Symantec fell 30% last month on news that the companies audit committee was looking into issues related to revenue recognition.

Symantec



Source: Nasdaq

What Jones described in terms of the markets is the conundrum that most managers face who can participate long or short. More and more it feels like we are reaching an inflection point for many markets, while they give up gains at the rate of three yards and a cloud of dust.

Whole Lot Going On



Source: Bloomberg

The other hedge fund billionaire from North Carolina, Julian Robertson made an appearance on *CNBC* and endorsed President Trump's handling of the economy, saying that he has done a good job but thought a "dose of humility" would help. He disclosed that he positioned accordingly for rising rates and a rising equity market.

Robertson and His Young Cubs – Lee Ainslie to Julian's Left



Source: Turtle Trader

Stillwater View: Fade the Tiger in Winter at your own risk. He is a billionaire for a reason.

Diversions

The 2018 FIFA World Cup began yesterday as host country Russia will enjoy basking in the global spotlight for the next month. The United States is notably absent from this year's competition. Here is why. If it's any consolation 4 time winner Italy also failed to qualify this year.

Here are your eight groups and how CBS Sports sees this playing out. Brazil and Germany are the odds on favorites to meet in the final match on July 15th.

2018 FIFA World Cup Groupings



Source: The Telegraph

As a consolation prize, it was announced this week that the United States would host the 2026 FIFA World Cup along with Canada and Mexico.

In an era of fake news, perceived or otherwise, Stillwater Capital strives to be as accurate as possible. Last week we were wrong. And as the former head of Hatteras Funds, David Perkins was fond of saying “if you are wrong, don’t be so for long”. This week Shinnecock Hills is hosting it’s 5th, not 4th as was previously reported, U.S. Open.

For those who think the USGA course selection has been a little too new school of late you are in for a treat. The next ten years contains stops at Winged Foot, Oakmont, Pinehurst, The Country Club, Torrey Pines, the venerable Los Angeles Country Club, and Pebble beach...twice. Next year to help celebrate the course 100th birthday and again in 2027.

The “White House on Wilshire”



Source Links Magazine

Fox Sports has the coverage and once again the Golf Channel brings you “Live from the Open.” Earlier this week they aired an introspective interview with Wall Street legend, and club member, Jimmy Dunne.

Stillwater View: Ricky Fowler gets the win this year and Phil bags the career slam at Pebble in 2019.

Shinnecock Hills



Source: Golf Chanel

The tradition rich course on Long Island has seen some of the most memorable finishes in the history of the tournament. In 1995 Cory Pavin hit a 4-iron to remember , just clearing a greenside bunker on the 18th to cozy up within four feet of the cup. At 5' 9" and 140 pounds Cory is most certainly one of the great "gutty little Bruins".

Pavin's performance was rivaled 14 years ago when South African Retif Goosen put on a putting performance that is still talked about to this day. The greens became so difficult that the USGA began watering them between players coming through. Not only was the course a challenge that weekend, the New York crowd was very much behind adopted favorite son Phil Mickelson.

The Seventh Green in 2004



Source: Golf Chanel

Father's Day is Sunday and Stillwater Capital provides our second annual list of things to consider for dad that probably aren't on any other list you will find.

- 1) Lunch at Pie n' Burger in Pasadena, California. The Double Cheeseburger might change your life.
- 2) A round of 9, or 18, at the Peter Hay par three course at Pebble Beach. Nothing, and I mean nothing is cheap at that resort, except for this little gem overlooking Stillwater Cove.
- 3) Something in a vintage Brooks Brothers neck tie. Sadly, the new ones are just a little too skinny for us aging non-hipsters.
- 4) A float trip on one of the majors: The Yellowstone, Snake, Big Horn or go global and see if you and your dad can pull a sea run brown trout from the Rio Negro in Patagonia.
- 5) A day to remember with family. On the beach, trail, boat, burger joint, or watching the U.S. Open. Go out there and make Sunday your very own masterpiece.

Finally this week, Stillwater provides you with Fodor's Travel "14 Worldwide Solstice Celebrations" which arrives next Thursday, June 21st.

Peruvians Welcome in the Solstice



Source: Travel & Leisure

Stillwater View: We here at Stillwater think it's one of, and perhaps possibly, the finest day of the year.

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