

Stillwater Capital - This Week in the Markets



“*This Week in the Markets*” comes to you in a new format this week. In an effort to reduce the megabit footprint our commentary creates, we now post the content online and distribute the link.

We will include a few select charts and highlights, all of which we hope will result in an improved experience for our readers. We hope you enjoy.

The Top- Down

The domestic markets are still rolling higher following a strong jobs number last Friday. This move has been seen every month since the start of the year where a robust domestic economy is overshadowing troubles emerging abroad.

S&P 500



The global macro continues to be driven by the risk, or lack thereof, of ramped up trade tariffs and the associated global trade war. Everyone from economists who should know, to portfolio managers who pick domestic small caps, have been asked to weigh in on the subject.

The biggest emerging concern in the market is the potential impact on consumers as tariffs create pass through inflation. A (very) short list of fish and animal products are included in the 205 page National Trade Representative report on items that could face tariffs. CNN provided a simplified version of how a trade war looks.

Product Description

Frog legs, fresh, chilled or frozen

Meat of swine other than hams, shoulders, bellies (streaky) and cuts thereof, salted, in brine, dried or smoked

Live ornamental freshwater fish

Live ornamental fish, other than freshwater

Live trout

Live eels

Live carp

Other live Fish, Atlantic & Pacific Bluefin Tunas

Other live Fish, Southern Bluefin Tunas

Trout, fresh or chilled, excluding fillets, other meat portions, livers and roes

Pacific salmon, fresh or chilled, excluding fillets, other meat portions, livers and roes Atlantic and Danube

salmon, fresh or chilled, excluding fillets, other meat portions, livers and roes

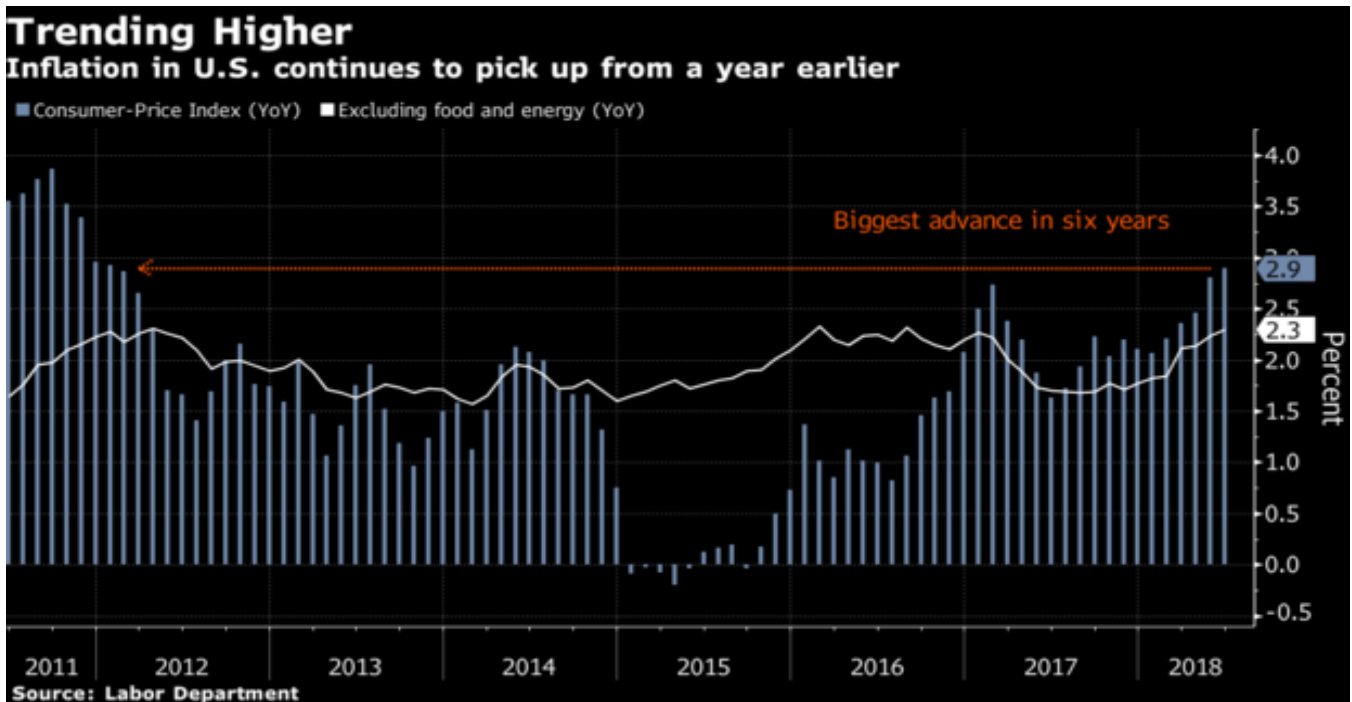
Halibut and Greenland turbot, fresh or chilled, excluding fillets, other meat portions, livers and roes

Stillwater View: You can have the swine, but frog legs? Is nothing sacred?

Franklin Templeton's globe-trotting Mark Mobius provides a view that we are in "unchartered waters", with Trump continuing to upset the apple cart. Mobius sees this as a continued threat to emerging markets, where he believes there is still another 10% risk to the downside.



The only economic release of note this week was the June Consumer Price Index. On the surface, the .1% increase appeared tame, although at the same time the trend is very clearly not the friend of those who think inflation is dead.

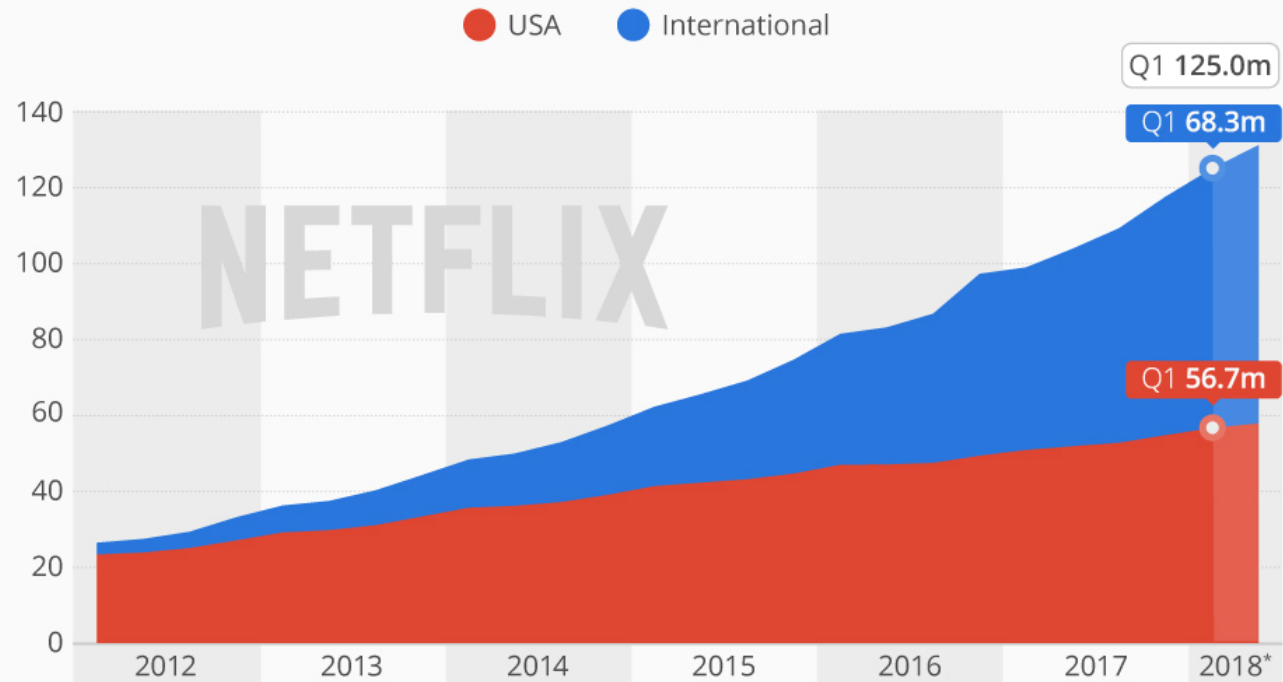


The Bottom-Up

Netflix is trading down this morning on a call out of Deutsche Bank that subscriber growth may disappoint when the company reports earnings next week. The stock, along with Amazon, has produced the lion's share of the gains for the S&P 500 this year.

Netflix Hits 125 Million Subscribers

Number of Netflix streaming subscribers at the end of the respective period*



* Q2 2018 figures represent Netflix's own forecast
@StatistaCharts Source: Netflix

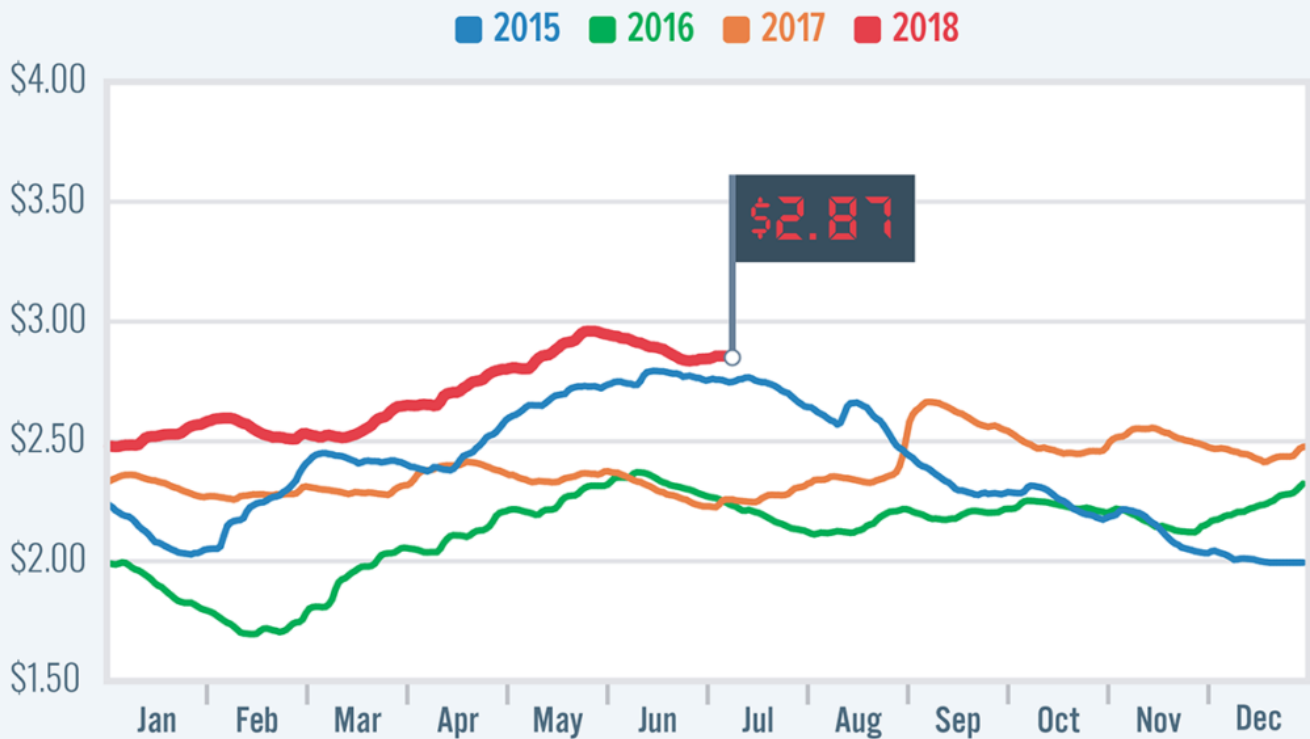
statista

It was a rough week for crude oil as increasing global headwinds and oil from Libya coming back on the market sent the commodity down 5% on Wednesday. This was the largest one day drop in over 12 months. The sector as a whole is still having a good year, as a demand pull is offering price support.

This strength has added to the upward pressure on gasoline prices. Though May appears to be the peak in terms of national average for 2018.

NATIONAL GAS PRICE COMPARISON | 2015-2018

07/09/18



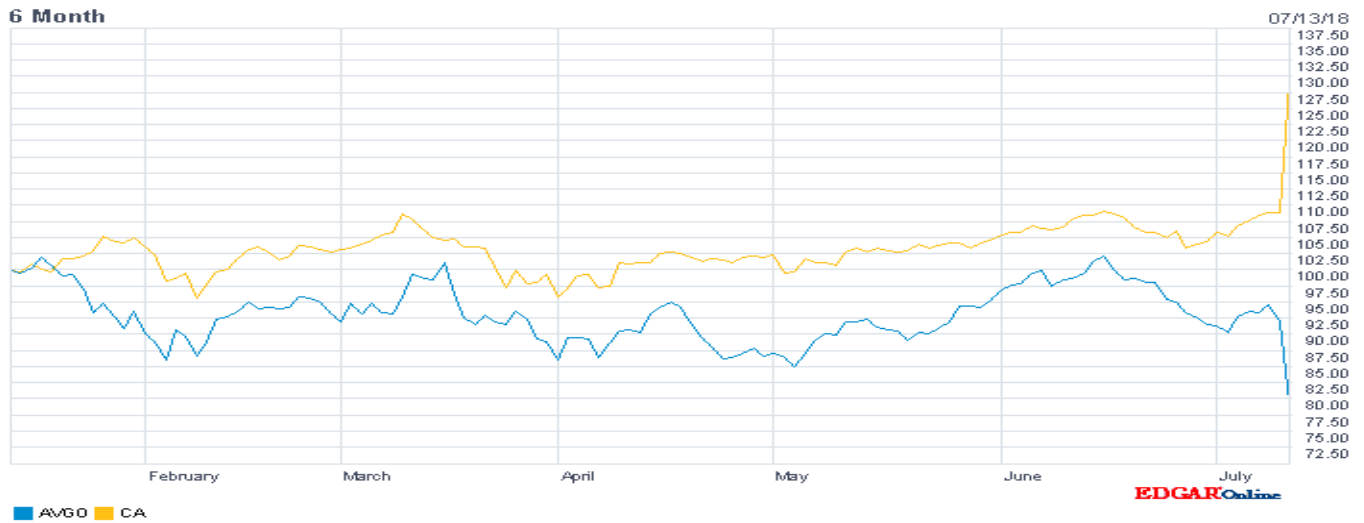
Note: Prices are per gallon for regular unleaded gasoline.

Source: AAA (GasPrices.AAA.com)



In a deal the U.K. based *Register* called the “Weirdest. Acquisition. Ever”, chipmaker Broadcom announced their plan to acquire software maker CA Technologies. Investors spoke with their feet, sending the shares of the acquirer down 14% on Thursday, while CA traded higher by 20%.

Broadcom v. CA Technologies



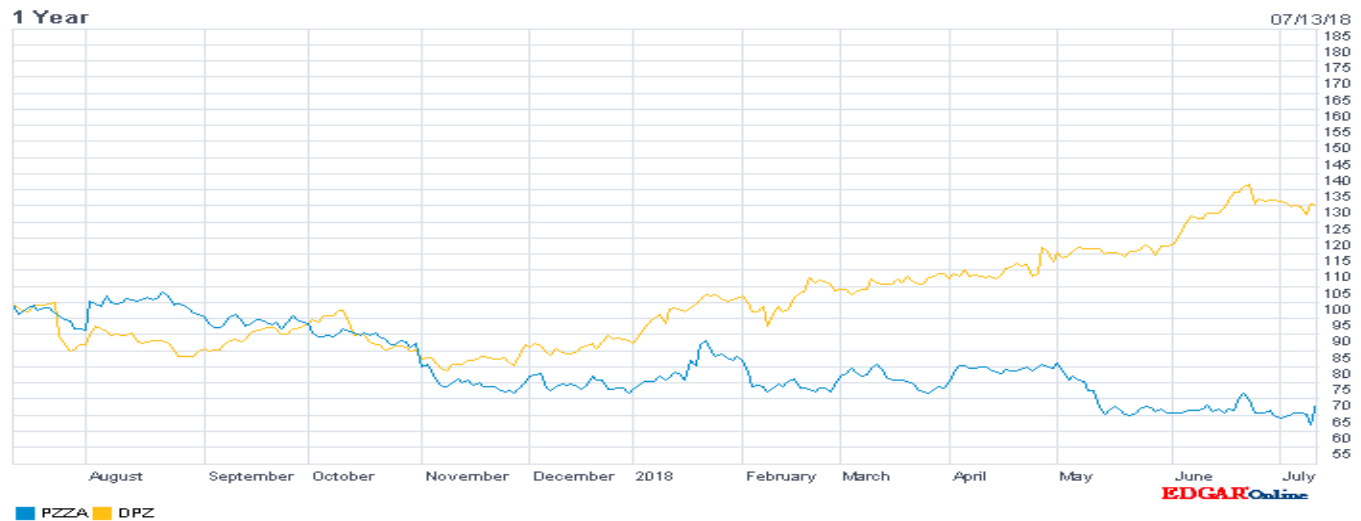
We were reminded this week that there are indeed still “Pizza Wars”, when the wheels came off for John Schnatter, the founder of Papa Johns Pizza. As has been widely reported, Schnatter used a racial slur in a conference call back in April. When the disclosure caught up to him this week, he resigned as chairman of the company he founded.

Papa John’s vs. Dominos



As CNBC's Jim Cramer pointed out on the air, high level executives in the pizza industry think that Papa Johns is a company that's been "falling apart". The shares surged 10% on the news of Schnatter's resignation. While a nice one day pop for shareholders, this move barely makes up for almost a year's worth of underperformance against rival Dominos.

Papa John's vs. Dominos



Stillwater View: As they say, there is no such thing as bad pizza. The same simply can't be said for some purveyors of the pizza making craft.

Up & Down Wall Street

J.P. Morgan and Wells Fargo both reported earnings this morning. The former came in well ahead of Wall Street expectations while the latter disappointed. As many market watchers have pointed out, the financial sector has noticeably lagged the overall market in 2018.

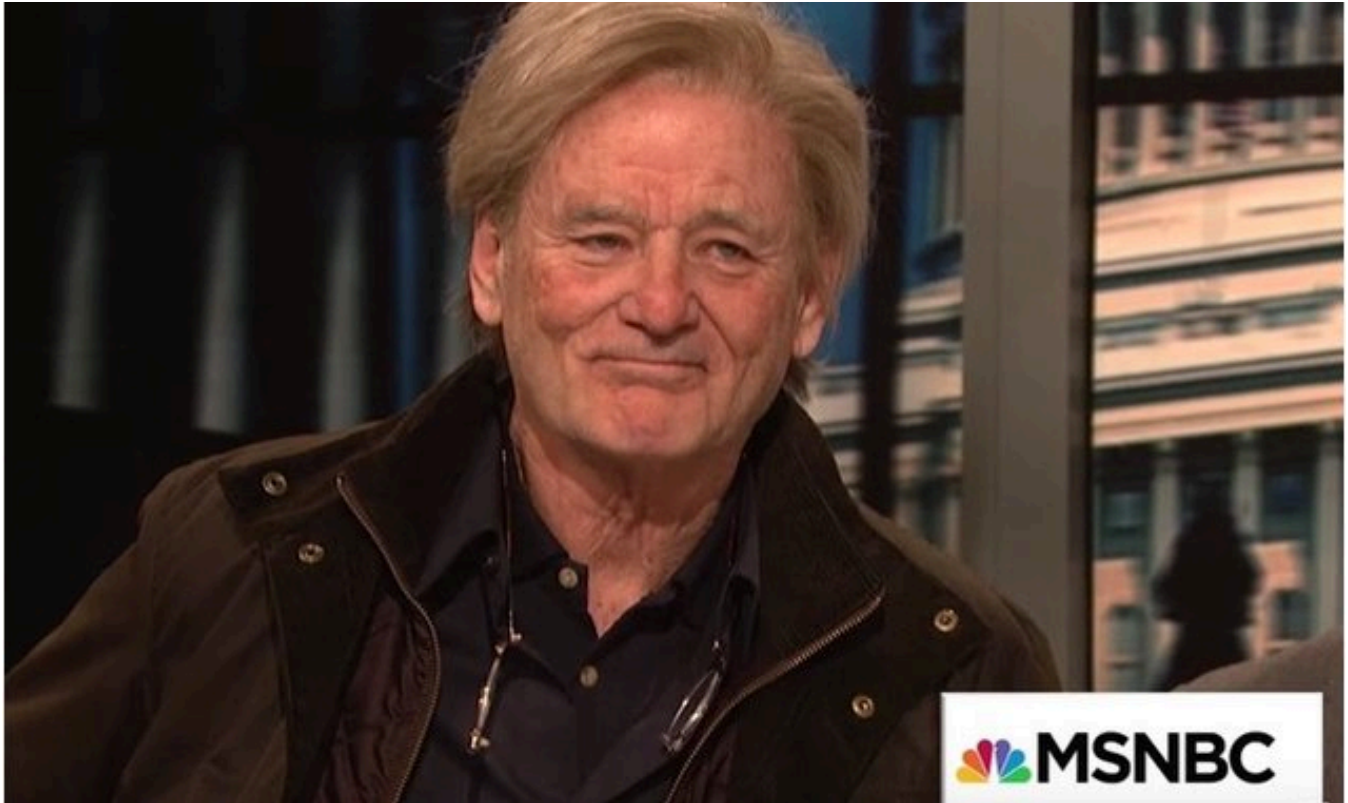
S&P 500 vs. the XLF



CNBC is hosting its annual Delivering Alpha event in New York next week. Citadel’s Ken Griffin will be there to celebrate what many consider to be a very good year performance wise. Other notables are Howard Marks, David Rubenstein, noted short seller Jim Chanos and former Goldman Sachs and President Trump’s campaign architect, Steven Bannon.

For those looking for a little comic relief in a world that is offering little in the way of levity right now, look no further than Bill Murray’s impersonation of the “Bannon Cannon” earlier this year. Can’t wait for the skin care line, “Blotch”.

Bill Murray as “the Bannon”



The Sun Valley Lodge will once again be playing host for Allen & Companies annual tech and media conference. *Business Insider* provides you with a look at all the beautiful people in attendance.

This year's event has taken on an even greater importance, as the media deal making dance card is filling up. We have the chase for Fox assets by Disney and Comcast, Sinclair looking to close on Tronc, or Tribune Broadcasting as it will soon be known once again, and the Justice Department is taking another swing at upsetting the AT&T/Time Warner deal.

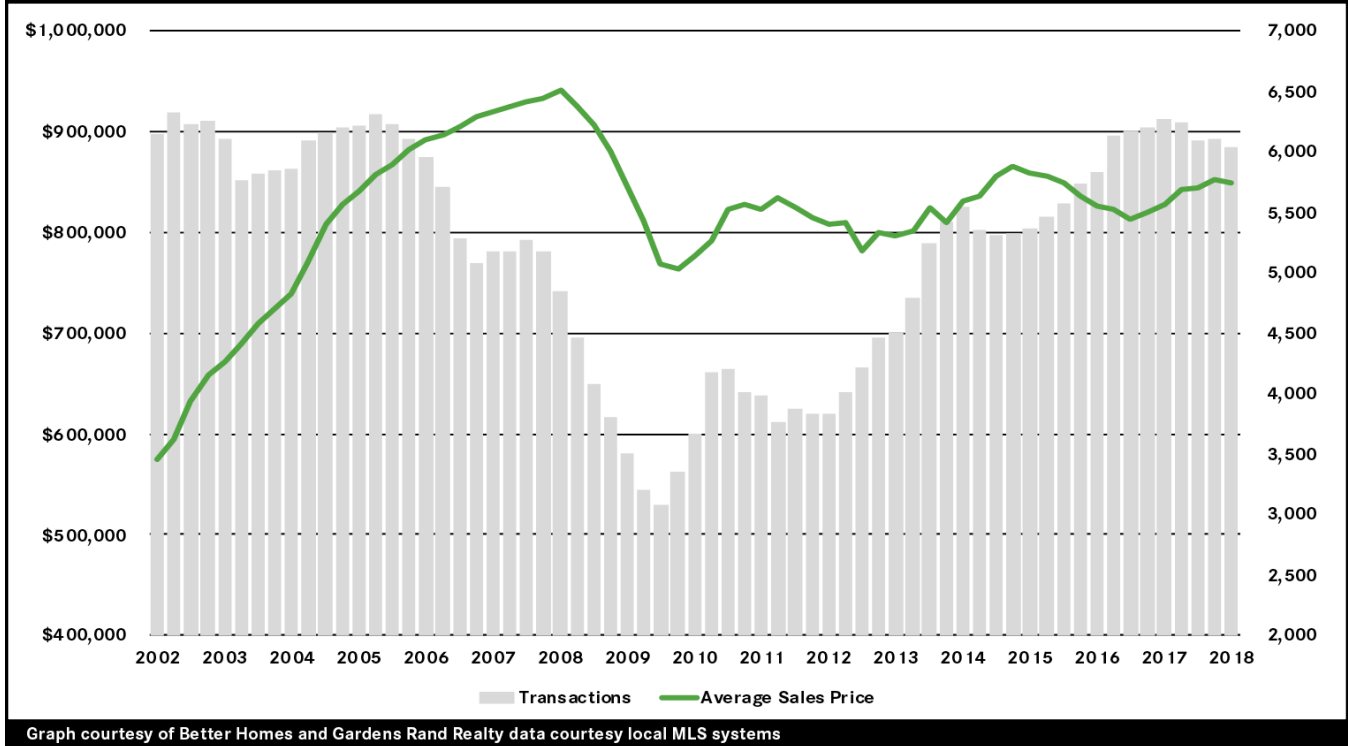
The Sun Valley Lodge



Westchester County, the longtime haven for Wall Streeters looking for refuge from New York City, has seen a significant decline in the number of homes sold this year. The decline is being attributed to the re-configuration of the tax code which reduced the deductibility of property taxes, where the average price of a home there has remained stagnant for more than a decade.

Westchester Homes Average Price and Sales Volume

WESTCHESTER SINGLE-FAMILY ROLLING-YEAR SALES THROUGH Q1-2018



Source: Rand Realty

Diversions

The FIFA World Cup wraps up on Sunday morning when France takes on first time finalist Croatia. A dramatic win against England put the Croat side onto soccer's biggest stage. The Evening Standard provides you with everything you need to know about the final. France is favored to win, and if they do it will be the countries second World Cup title.



Wimbledon continues to roll along at the All England Tennis club outside London. Serena Williams is once again dominating the women's side, while the men's is now wide open as Rodger Federer bowed out after losing to the 8th seed Kevin Anderson of South Africa.

We are due for a great match later this morning when Raphaël Nadal takes on Novak Djokovic for a spot in Sunday's final. Williams will take on Angelique Kerber for the title tomorrow morning.

Centre Court at Wimbledon



The Los Angeles Times reported that Microsoft co-founder and billionaire Paul Allen has listed his 120 acre property on a crest overlooking Bel Air. Allen bought the property in 1997 for \$20 million and razed what many consider to be architect Wallace Neff's greatest work, "The Enchanted Hill" two years later.

Neff's "Enchanted Hill"



And finally this week, I am proud to report that the trip into the Yellowstone backcountry was well worth the effort as I was able to coax one modestly sized Cutthroat trout to my fly line, matching Don Jr's take from the week before. Though given how high the Stillwater River was running at the time, we find his claim somewhat dubious.

The Author on Slough Creek, Wyoming



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