

Stillwater Capital - This Week in the Markets



The Top- Down

This week, the Producer Price Index came in with a barely noticeable rise of 0.1% while the Consumer Price Index print was a little hot this morning with the core posting the biggest gain since 2008. All of which is putting the squeeze on the distance a paycheck can go.



The S&P 500 sits a few tiny points shy from hitting an all-time high, having fully recovered from February's rather abrupt fall. For six straight months, each incremental leg higher in the market has been sparked by a strong jobs report, with rallies kicking off within a day or two of the early monthly release, creating a consistent pattern.

S&P 500



The Stillwater View: These correlations usually last just long enough to have everyone start to follow them. Which hasn't happened yet, it is bound to at some point. And once it happens, and everyone is in, they will of course break down and send everyone searching for the next one.

This chart pattern also confirms that the long standing tradition of "down being faster". A fact being felt this morning by speculators who are involved in the Turkish lira. The potential contagion is front and center this morning and Bloomberg provides you with everything you need to know.

Dollar/Lira Trade

Panic Attack

Lira plunges more than 11% to fresh record low versus dollar



Goldman and Morgan Stanley both increased their 2018 GDP forecasts as the momentum in jobs, corporate and consumer spending, along with a favorable tax backdrop have them agreeing that 3% or better is on the table this year.

GDP

US GDP GROWTH RATE



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

The Stillwater View: The waves are pumping this morning off the Southern California coast, and when they do, little groms like RonDog and his posse are known to use the phrase “firing” to describe the swell. I think you can see where this is going.

Right now, growth, earnings, employment, and GDP are indeed all “firing”. The real risk right now is if the momentum driving these swells gets too strong, and the Fed takes a snooze while sitting on watch in the lifeguard tower.

Look Out!



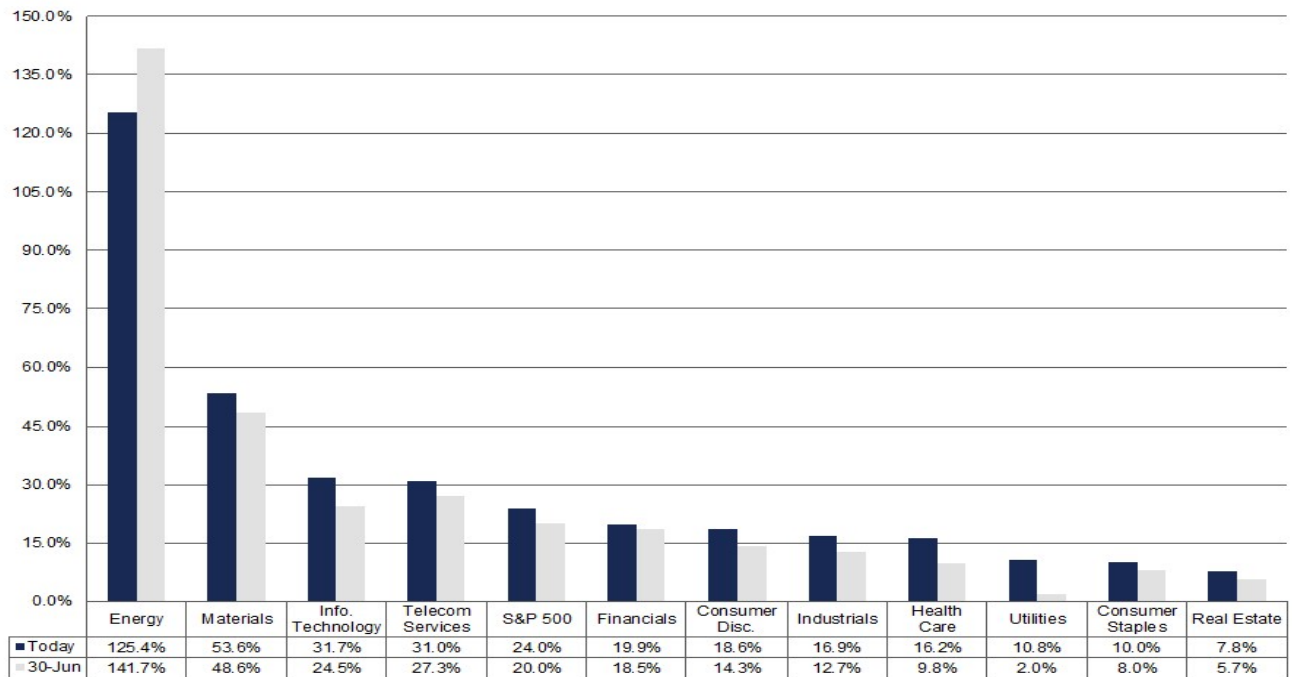
Source: Book Surf Camps

The Bottom-Up

With 80% of S&P 500 companies earnings reported for Q2, “growth” is the word the companies are producing and the market likes it. Energy continues to rebound with the price of crude, basic materials are riding a decent wave of global expansion and the technology sector continues to take in the lion’s share of investors’ money as it shows above average growth. Consumer staples, utilities, and telecommunications are rounding out the right side of the scale.

Earnings Growth by Sector

S&P 500 Earnings Growth: Q2 2018
(Source: FactSet)

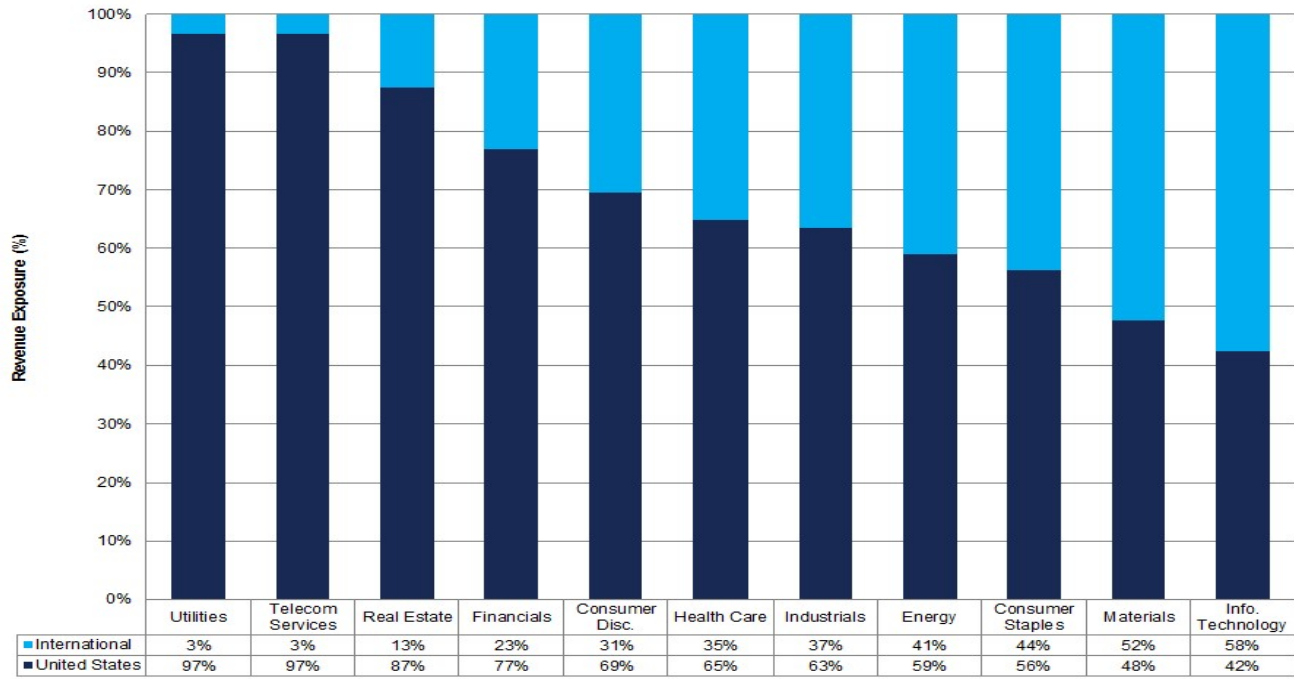


Source: FactSet

FactSet provides a nice visual to help better understand the revenue exposure different sectors maintain. This could be a driver of share price if and when the Tariff War of 2018 starts to get real. For now, the market seems to be signaling ambivalence to the shifting world around it. That being said, Bill Gates is paying attention, so perhaps the global markets should be too.

Geographic Revenue Exposure by Sector

S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



This has translated into a market that has rewarded growth investors at the expense of value from nearly two years. The frustration level of the latter is palpable as the headlines scream that the equity markets are on a roll but clients monthly statements don't agree.

Growth vs. Value



The Stillwater View: In the prior year, our main strategy Trinity Equity was slow out of the gate as our long book had a stable growth tilt that bordered on value. We bought hard into the de-risk trade and left money on the table because of it. Not enough to cause the strategy to take on too much

water, but enough to leave us lagging the broad market indexes. That being said, amongst our cohort hedged equity managers we held up just fine.

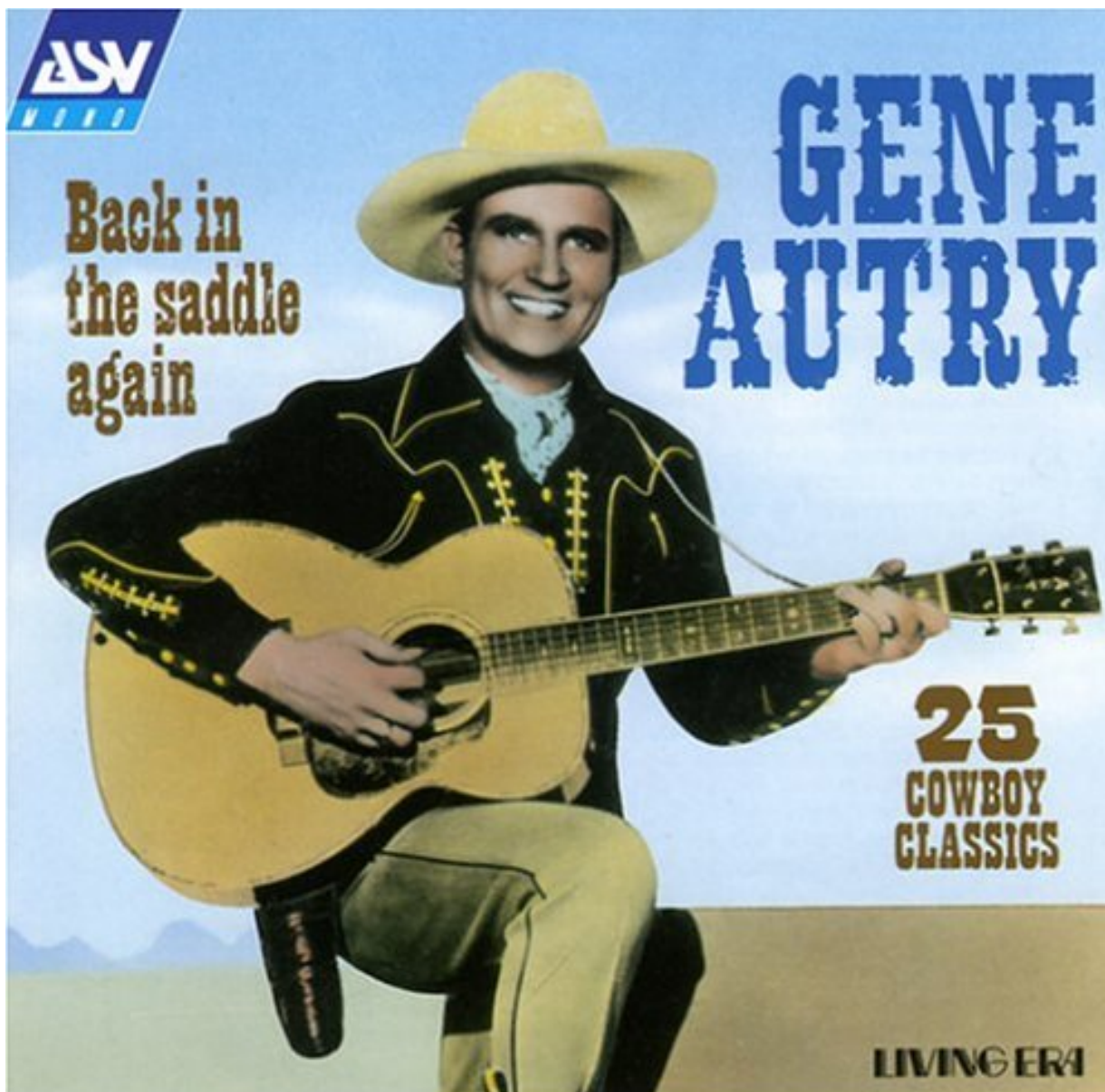
A group that as of yesterday was up 1.77% year to date using the Morningstar Long/Short Equity category as a proxy. Our former fund, Nuveen Equity Long/Short, is having a strong year while the category leader by assets, Boston Partners, is experiencing the opposite. And let's not even touch the trouble the Guggenheim funds are having.

Up & Down Wall Street

According to *Bloomberg*, hedge funds are now back in vogue, just at a better price point to investors than ever before. The story highlights a Credit Suisse survey showing that interest from institutional allocators increasing to 28%, up from 12% from last year. The survey also included roughly \$1 trillion of the \$3 trillion held in alternative strategies.

Other findings: the definition of hedge funds continues to loosen, fees are headed down, liquidity is headed up, and general partners are being forced to eat their own expenses. The firm was so bullish on the mid-life renewal of hedge funds, it led with “Back in the Saddle” and a picture of several saddles lined up on a fence to illustrate their point.

Same Idea, Fewer Saddles



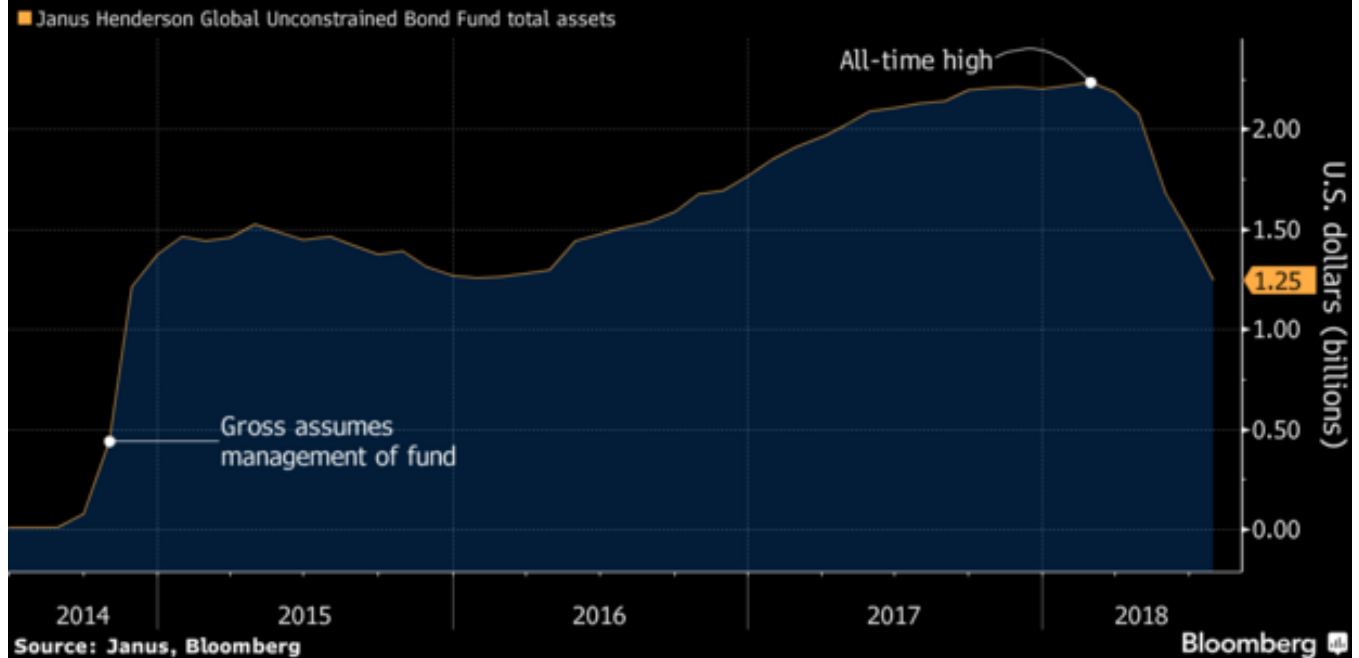
Source: All Music

In an interview to discuss the progress being made at the recently merged Janus Henderson, CEO Richard Weil told *CNBC* that former bond king Bill Gross “has been wrong, and wrong badly” in 2017. Gross’ unconstrained bond fund is now down 7% on the year, placing it in the last decile of its Morningstar category. Of the \$2.25 billion he managed in February, a full billion has walked out the door. Weil is sticking by his guy, and called this an “anomaly” while adding that Gross is “one of the best investors of his time”.

Bill Gross’ Unconstrained Bond Fund

Assets Keep Falling

Investors pulled money from Gross bond fund for fifth straight month in July



Gary Cohn is certainly living the good life these days, having slipped out the door at Goldman Sachs in a tax friendly move, and then out of the Trump White House in a career friendly move. He talked over the weekend with *Bloomberg* about crypto investing, his post Washington life, and his ever improving golf game while he was also in town for the Paddle & Party for Pink event in the Hamptons.

Gary Cohn and Co. with Laird Hamilton



Source: New York Society

A decent proxy fight is breaking out between Carl Icahn and Glenview's Larry Robbins over the proposed acquisition of Express Scripts by Cigna. Icahn opened with a salvo on Tuesday by saying the price to be paid was ridiculous, and Cigna would be better off using the funds to buy back shares instead.

Robbins then pulled out the big lumber by responding with, "We believe that Cigna shareholders, including Mr. Icahn, would be hard pressed to explain how saving customers and payors so much money is harmful to society and the communities they serve, and that perhaps Mr. Icahn has been misled by misinformation fed to him by analysts with short-term personal agendas."

Icahn has \$250 million at risk in the trade with a long position in Cigna and an undisclosed short position in Express Scripps. Robbins has slightly more money on the table with \$1.5 billion worth of chips down on the table. The proxy vote results are to be released later this month.

Cigna vs. Express Scripts



Source: Nasdaq

Diversions

Just in time for the 100th playing of the PGA Championship at Bellerive Country Club outside Cincinnati, *CNBC* gives you the list of last years five highest-paid golfers. Topping the chart is Tiger Woods, followed closely by long-time friend and rival Phil Mickelson. Of the \$43 million Woods made last year, only \$1.1 was tournament money, the rest was in endorsements.

A Combined \$85 Million Reasons to Smile



Source: Golf World

This places Woods 16th on the Forbes list of very well paid athletes. It also includes LeBron at \$85 million, some guy named Neymar at \$90 million, Connor McGregor at \$95 as well as his sparring partner in last years “fight of the century, Floyd Mayweather, who leads the club clocking in at \$275 million. And for those of you who like to understand what makes up the numbers, \$250 was for the fight with McGregor. Great work...if you can get it.

\$100 Million Reasons to Get Punched in the Face...Hard!



Source: Bad Left Hook

In a world where nothing is hard to believe anymore, *The Ringer* provides a complete analysis of the NFL pre-season. That's right, a full rundown of all the games to watch as guys desperately try to make the team roster. The action comes to a crescendo on August 30th, when all 32 teams play that Thursday night.

The regular season kicks off Thursday, September 9th, when the Falcons take on our defending Super Bowl champions, the Philadelphia Eagles. The following Monday will see the Oakland/Los Angeles/Oakland/Las Vegas Raiders play the Anaheim/Los Angeles/St. Louis/Los Angeles Rams.

This will be the final year for the Raiders in Oakland, as they move to Sin City in 2019.

The Future Home of the Raiders



Source: Vital Vegas

The Rams will also have fresh digs in 2019 when they move into their new stadium in Inglewood. The venue sits under the flightpath to LAX and is on the site of the former Hollywood Park.

The Future Home of the Rams



Source: LA Curbed

The Stillwater View: Anyone can show you an artist's renderings of a finished stadium. It takes a real publication to show you not one, but two holes in the dirt.

In real estate news, a 10,000 foot Montana ranch built by the former CEO of Continental Mills has gone on the market for \$14.2 million. The house that Krusteaz built offers a post-modern mountain experience on the Ruby River. It was designed by the Suyama Peterson Deguchi firm from Seattle.

The “One and Done” Ranch



The Stillwater View: While this home is neither our style nor in our price range, it does have one of the most original names we have ever heard.

When owner John Heily would go out drinking with his friends and tried to exit the bar, one partner in crime was known to have proclaimed, “Johnny? One and done. After all you are going to be dead a long time.”

Shark Summer 2018 is officially on and “You’re going to need a bigger boat!”

Chief Brody Meets “Bruce’s”



Source: Jaws

Down in the Gulf Coast of Texas a 700 pound Tiger Shark was hauled in during the annual Sharp Tooth Shootout. A group researching white sharks off Wellfleet, Massachusetts got more than it bargained for when one breached in front of the boat, sending the scientist who was attending to the forward plank running like Chief Brody. And from the truly bizarre, horror writer Stephen King's son thinks he solved a 44-year old murder mystery in an obscure scene from *Jaws*.

Coincidence...He Thinks Not



Source: Esquire

In slightly more gentle news to the human and animal kingdoms, a family in Hawaii freed a whale shark from a heavy fishing line it had become entangled in. Healthcare Provider Dignity Health did what we would consider to be a pretty fantastic job of turning another rescue of a whale shark into an inspiring message about helping others.

One Lucky Whale Shark



Source: Daily Mail

The Stillwater View: Go out there and enjoy the waning days of summer as school starts next week!

To subscribe or unsubscribe to Stillwater Capital's "This Week in the Markets" please e-mail contact@stillcap.com.

DISCLOSURE: *Stillwater Capital, LLC is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Stillwater Capital, LLC and its representatives are properly licensed or exempt from licensure. This website is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stillwater Capital, LLC unless a client service agreement is in place.*

Stillwater Capital, LLC provides links for your convenience to websites produced by other providers or industry related material. Accessing websites through links directs you away from our website. Stillwater Capital, LLC is not responsible for errors or omissions in the material on third party websites, and does not necessarily approve of or endorse the information provided. Users who gain access to third party websites may be subject to the copyright and other restrictions on use imposed by those providers and assume responsibility and risk from use of those websites.

General Notice to Users: While we appreciate your comments and feedback, please be aware that

any form of testimony from current or past clients about their experience with our firm on our website or social media platforms is strictly forbidden under current securities laws.