

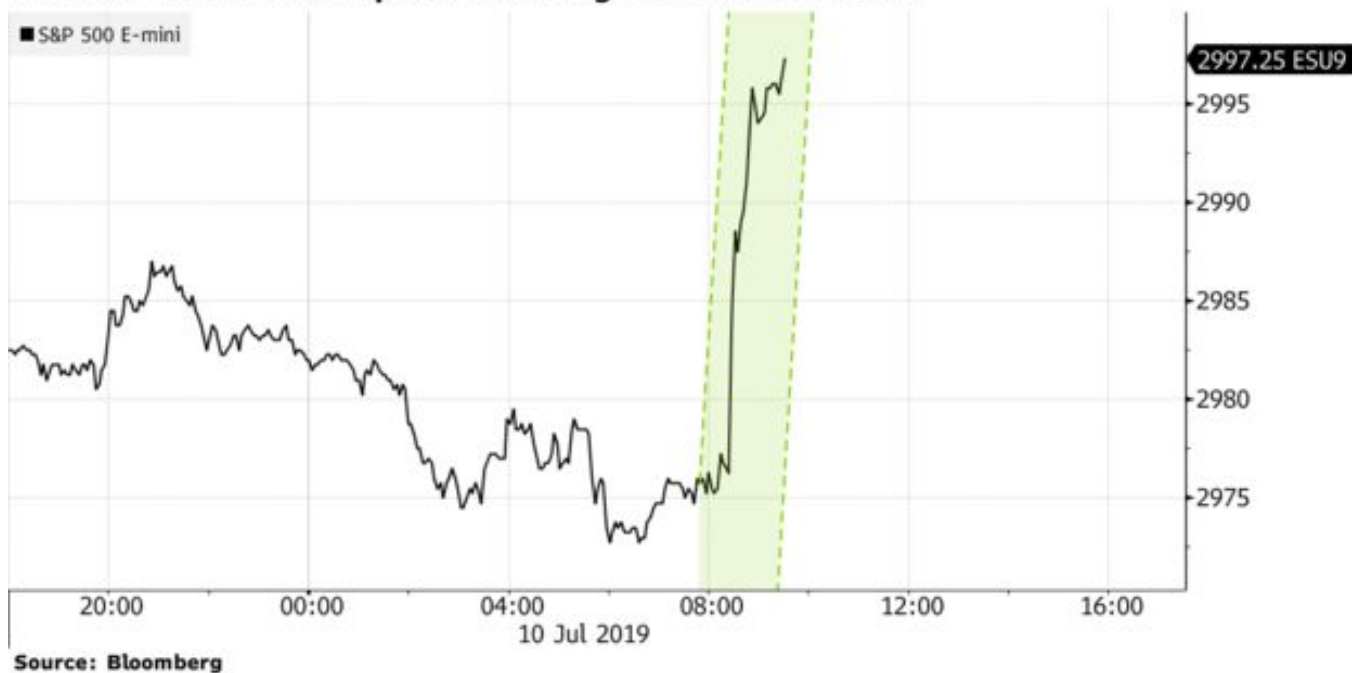
The Economy

Jay Powell headed up to Capitol Hill this week to provide his semi-annual report on the state of the economy and the direction of interest rates to Congress. His comments did nothing to change the mind of a market that believes a fat 50 basis reduction in rates is coming at the end of July.

The Bar Opens Early

Rate Cut is Coming

The S&P 500 futures spiked following Powell's comments



In his testimony, Powell laid out the reasons for a dovish embrace, ‘it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook.’ Those of us who theorize that the size and speed of the change in the Fed outlook is unwarranted were granted a gift on Thursday, when consumer inflation rose more than expected.

All that said, Powell made it clear that any action to remove him by President Trump would be a fool’s errand. An inside source we know has led us to believe that Jerry and Don talk all the time and they are actually on very good terms. Determining that everything you see in public to indicate otherwise is simply an act.

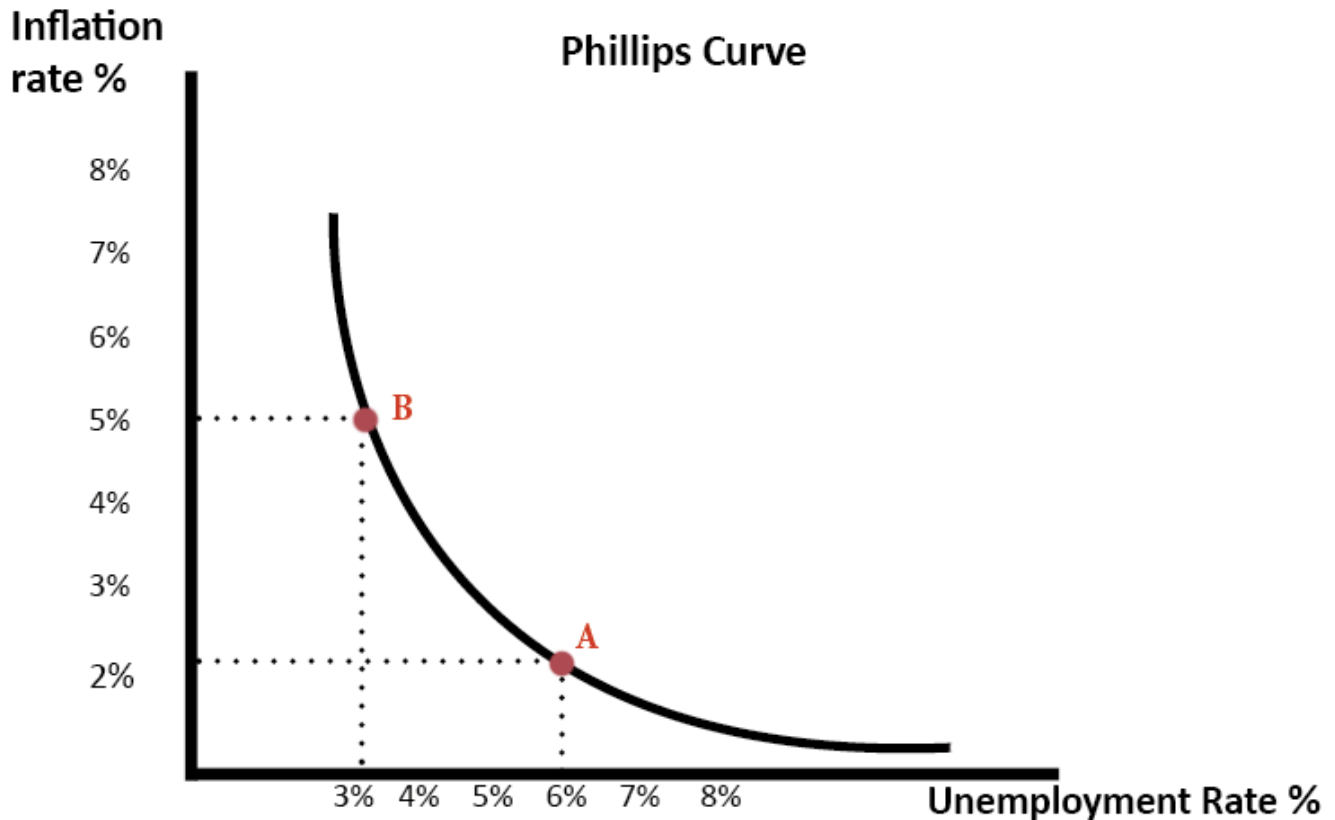
‘I’m the Captain Now...’



Source: The Washington Examiner

The last thing we will say, hopefully for a while on the subject, is that in the twenty plus years of observing markets, we have never seen a more apparent synchronization of efforts by the Fed and the Executive Branch of government to support markets. And as a result, never before has the erratic nature of the men at the top also made for a more challenging environment for those of us who hedge risk. According to Powell, 'it's different this time', which it never really is, just ask Howard Marks. In the meantime, pour one out for the 'curve' William Phillips created.

'Here Lies Bill's Curve'

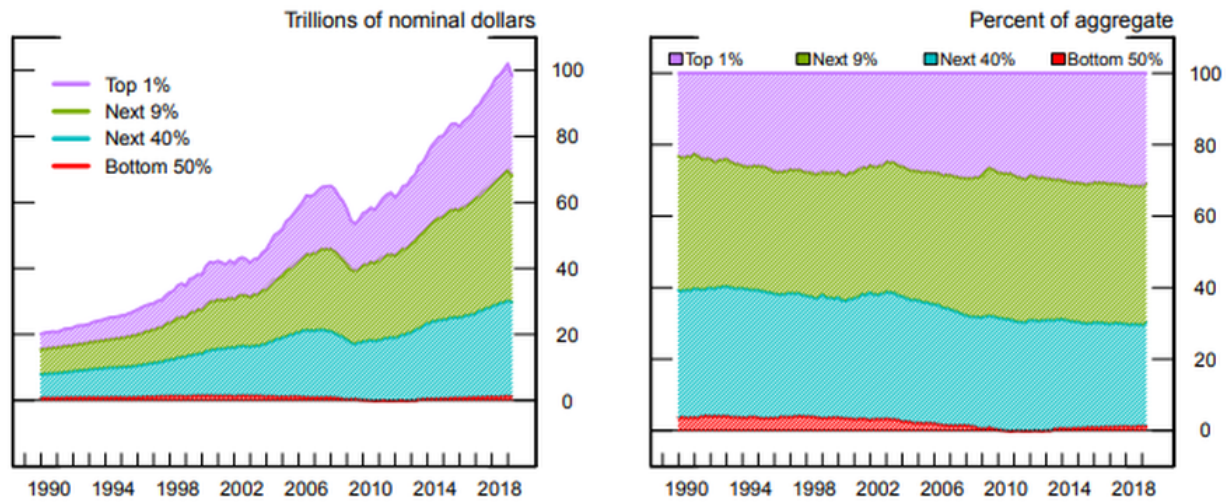


www.economicshelp.org

With partisan rancor at a fever pitch, the subject of the effects of a low to zero interest rate policy have once again come to the surface. This week it was Republican Senator Pat Toomey of Pennsylvania, who praised the current Fed chair for unwinding the more liberal and loose policies of former Fed Chairs Ben Bernanke and Janet Yellen.

The Senator then picked up his lunch pail and hard hat while lamenting the wealth gap created by ZIRP and the damaging effects it has had on society. Full disclosure, Toomey formerly headed the Club for Growth, the right of center political and economic advocacy group founded by Stephen Moore. Nice work Pat, you loved it on the way up, and now out of convenience, you are taking the other side. We would call Toomey a duplicitous ass, but we would hate to insult all other duplicitous asses.

Now You Care?!?!



(a) Level (b) Share

Figure 2: Net Worth by Wealth Percentile Group

Source: Fortune

BlackRock, the world's largest asset manager, came out with their thoughts for the second half of the year, and sure enough, they see the economy downshifting and markets doing well. Another week, another round of the worse it gets, the better it is for stocks and bonds. At some point bottom-up fundamentals will matter again. As for today, it's all just one big macro trade gone right, or wrong, depending on which side of it you are on.

Buy 'Em

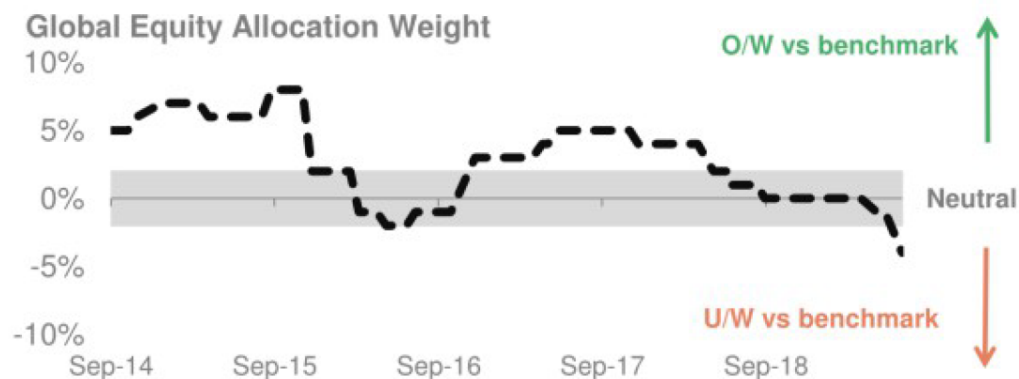


Source: Young Trader

Morgan Stanley has gone out with a call for investors to de-risk from equities as the outlook for stocks looks particularly poor over the next quarter and into year end. They did so for the same reasons everyone else sees a correction coming, diminishing growth prospects and a trade war that won't go away.

Sell 'Em

Exhibit 1: We lower our overall equity weight to its lowest level since initiation








The Markets

While we aren't entirely sure where the Economy and Markets diverge, we did our best this week to separate the two. In doing so, we find it only highlights how much the top-down macro view has been driving things for the past year and a half.

First up, is a recap of the first six months of 2019 from *Bloomberg*. In it they point out how 'freakish' June was when just about everything rallied in the face of a deteriorating backdrop. Our favorite furrowed browed prognosticator, Art Hogan, speculated that a 'lot of gains for the year have already been booked', and that nobody thinks we will annualize the 19% year to date return we've been given so far. We agree with the latter but take exception to the claim that gains have been booked. Art, 2000 is calling and it wants its tired trading phrases back.

Super Freak

Riskier assets defy headwinds to post a stellar six months

Asset	Performance	Best since
S&P 500	 17.3%	▲ 1997
European Stocks	 14.0	▲ 1998
U.S. Corporate I-Grade	 9.7	▲ Record
U.S. Corporate High Yield	 9.8	▲ 2009
WTI Crude	 27.8	▲ 2016

Source: Bloomberg

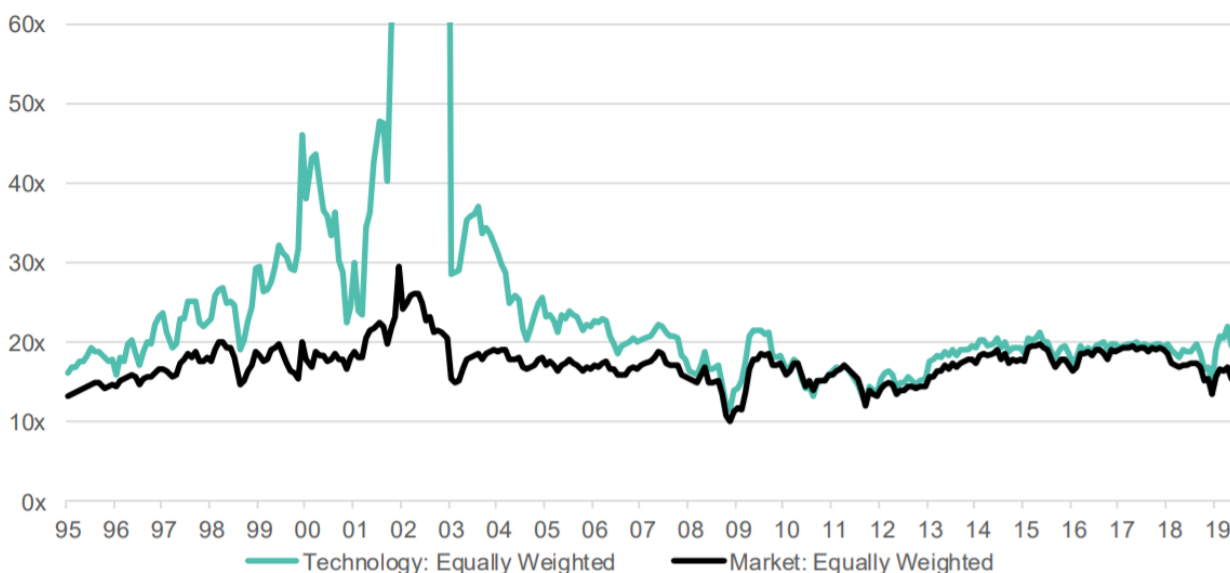
Note: Compares percentage-point gains with previous first halves

Bloomberg 

There is a growing divergence between tech stock valuation and company growth rates. With P/E ratios hitting 15-year highs you would think that revenue and profits would be on the rise as well. Turns out, not so much. A research report from Bernstein showed tech earnings are estimated to decline 10% over the next 12 months. This while the rest of the market's growth slows by a little over 1%.

Tech Wreck Coming?

EXHIBIT 10: **Historical Equal-Weighted P/FE Multiples: U.S. Tech vs. Market**



To wrap up this week's 'festive' look at the markets, we give you *The New York Times*' article entitled *Wall Street's Unexpectedly Hot First Half of 2019*. In it they talk about how the conveyor belt of bad news in the first six months was met by stocks riding an escalator higher. None of which makes sense, unless of course you follow the path that has made you the most money over the past year and a half. That is, fade consensus with everything you had, at the nadir of bearishness and bullishness. Hear that current buyers? You'd best beware.

QQQ, SPY, DIA



Companies

A supplier of industrial goods, that is little known to most, coughed up a hairball this week. The company was Fastenal, and the hairball was weaker earnings based on higher costs, slowing sales, and a trade situation with China that has caused those buying for the supply chain to hold off on writing bigger tickets.

Not So Fast(enal)

FASTENAL AT A GLANCE

2,227 BRANCHES


COUNTRIES WITH IN-MARKET LOCATIONS
26


\$1.3 BILLION
 INVENTORY VALUE

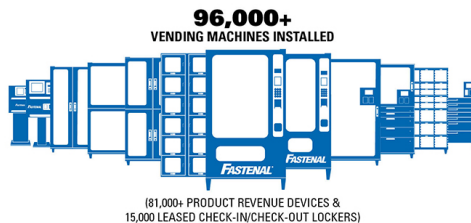

894 ONSITE LOCATIONS


850 MILLION
 POUNDS DELIVERED
 148 MILLION MILES DELIVERED

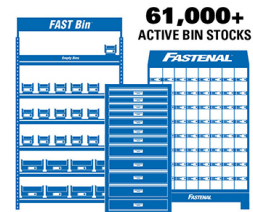

434,000+
 FASTENAL SCHOOL OF BUSINESS
 COURSE COMPLETIONS


21,644 EMPLOYEES


41 MILLION
 ORDERS PROCESSED


96,000+
 VENDING MACHINES INSTALLED
 (81,000+ PRODUCT REVENUE DEVICES &
 15,000 LEASED CHECK-IN/CHECK-OUT LOCKERS)


142,000+
 EMPLOYEE SAFETY COACHING,
 TRAINING, & INSPECTION EVENTS


61,000+
 ACTIVE BIN STOCKS


65%
 OF NATIONAL ACCOUNT
 CUSTOMERS UTILIZE
 E-COMMERCE FOR A
 PORTION OF THEIR SPEND


2018 | **NET SALES \$5.0 BILLION** **NET EARNINGS \$751.9 MILLION**

Apple co-founder, and our fellow Homestead Mustang, Steve Wozniak told TMZ, yes TMZ, that if you are on it 'you should find a way to get off Facebook'. His reason was not a sinister vendetta against the company, but a belief that until there are options available to raise your privacy level, it was best to be avoided. We agree and think there are more sinister things at work in social media. So much so, that our clients hold a short position in the shares of Facebook, and now we can also count on President Trump for being on the same side of the trade.

Zuckerberg on The Hill



Source: NBC News

The menu is so good, nay addicting, at Chick-fil-A that McDonalds, and others, are now being forced to come up with answers to the quickest growing genre of fast food, the southern fried chicken sandwich. Earlier this year the maker of such epicurean wonders as the chicken sandwich and the spicy deluxe became the third largest player by revenue in fast food. With \$10 billion in annual sales, it's topped only by Starbucks with \$20.5 billion, and McDonalds coming in at \$38.5 billion.

Southern Invasion



Around Wall Street

Deutsche Bank, the once dominant German money-center bank, pulled the plug on 18,000 employees this week, in the largest bloodletting on Wall Street since the Lehman collapse. The move to get out of the equity trading business is kind of like the last guy at the bar being asked to turn out the lights as closing time has long since passed. *The Telegraph* provided a look at the 'Day of Despair' as it happened. If you want to go further down the dark rabbit hole, read what *Forbes* had to say about the death by a thousand cuts not being over.

The Once Proud DB



JUSTIN TALLIS/AFP/GETTY IMAGES

Source: CNN

The other grim reality is that Wall Street doesn't have room for nearly 20,000 resumes, it simply doesn't. Bottom line, if you have a five handle on your age right now, you might as well open up a throwback fern bar. Those of us with a four, your next stop will not be for more money, it will be for less, and your paycheck will now be your year-end bonus. You thirty somethings out there have a chance, until of course the next global financial crisis arrivers, after which you will get washed out. Then you and your buddies can open a craft brewery in Encinitas and live the dream. Wait a minute, on second thought....

Happiness in a Pint

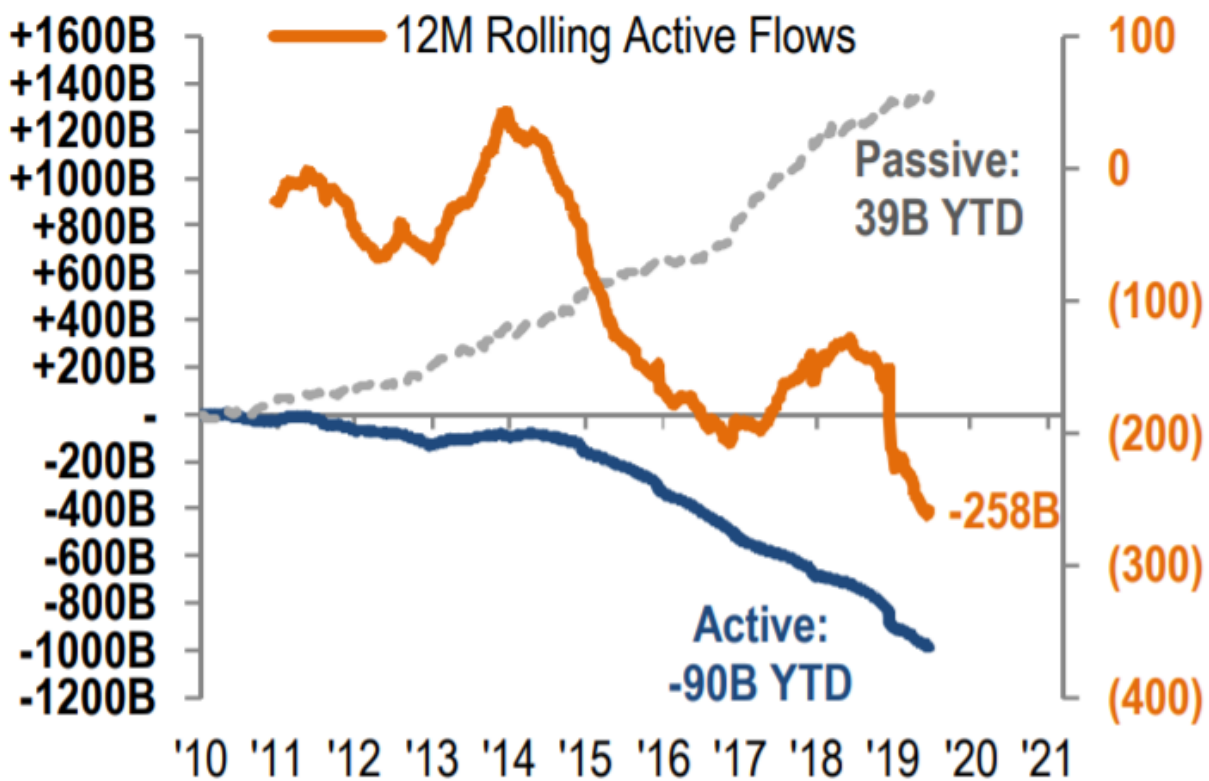


Source: Craft Beers of San Diego

And if that news wasn't bad enough to make an old-fashioned analyst or portfolio manager want to cash in his or her chips, the next piece will. This week J.P. Morgan released a research pointing out that between ETFs and algorithms, close to 80% of all stocks are now traded on autopilot, without a single human decision being made. Meanwhile, the flood of assets away from active managers and into passive continues.

A Billion Here, A Billion There

Figure 2: 12M Active Outflows at Record



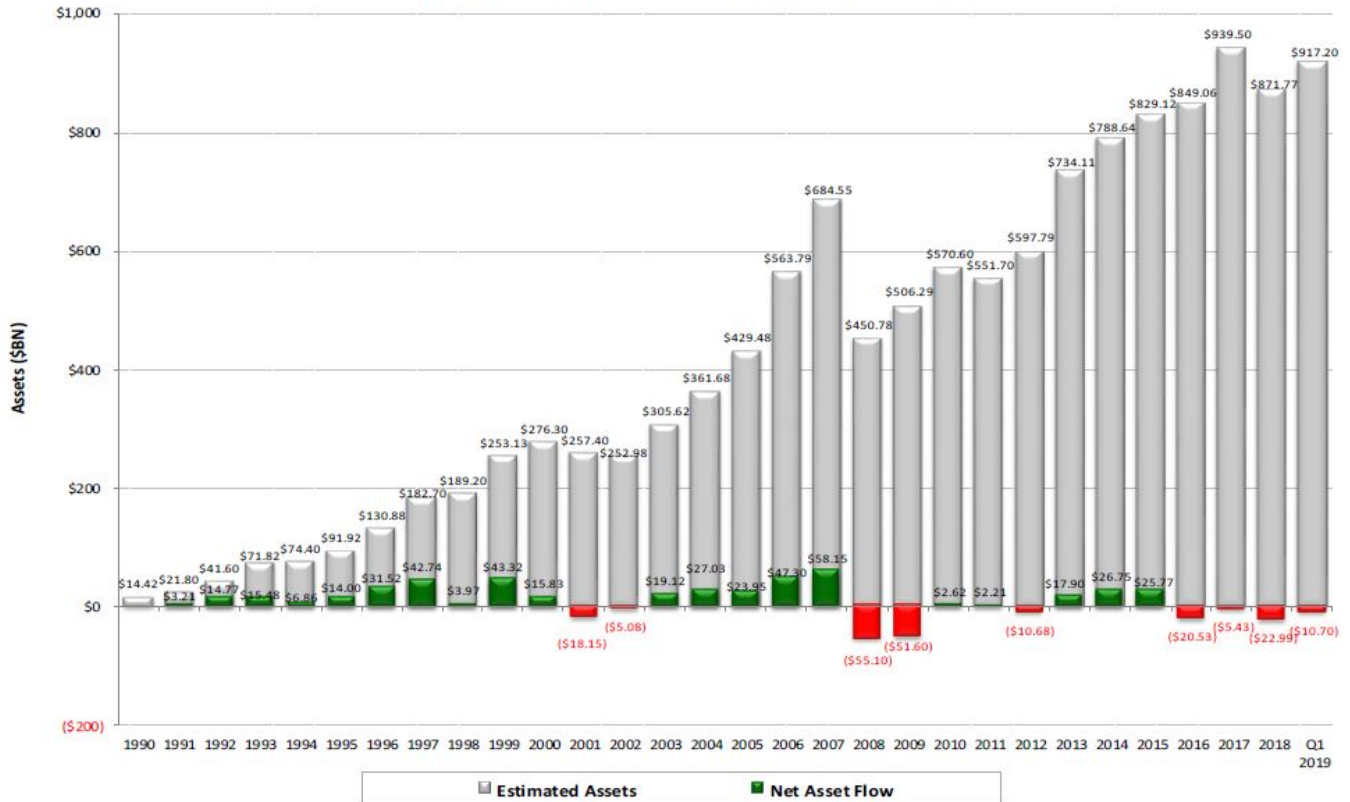
Source: J.P. Morgan

Now that we have that bundle of joy out of the way, let's write about something for everyone on Wall Street from a slightly more positive perspective. Turns out hedge funds are having the best first half in a decade, that's the good news. The bad news is that the best half means a whopping 5% return on average, with equity managers doing just a little better.

Stillwater's main body of work, the conservative Hedged Equity Income strategy, was up 5% as well. When you link it to last year's positive return, we are performing better than most. All that being said, hedging down risk in the first couple of months of the year caused us to leave some performance on the table. We soldier on however, because even though the inflows have been meager for our industry, there is still a trillion dollars of asset out there in need of good management.

Still a Lot of Money

Estimated Growth of Assets / Net Asset Flow Equity Hedge (Total) 1990 – Q1 2019



Diversions

Play at the All England Tennis Club wraps up today and tomorrow with the finals deciding the 2019 Wimbledon men’s and women’s champions. On the ladies’ side, Serena Williams will meet Russia’s Simona Halep. With a win, Serena will match Margaret Court’s record of 24 major championships. Halep is seeking her second major title in her first Wimbledon final. Earlier this week she admitted to only recently falling in love with grass. ESPN provides the [match preview](#). The men’s champion will be crowned on Sunday, when The Joker, Novak Djokovic, takes on Federer. ESPN previews that [matchup](#) as well.

Classic Moments at Wimbledon



Source: Reddit

Across the English Channel, in the bucolic hillsides and cobblestone streets of the French Countryside, the Tour de France will continue into the weekend with the 8th and 9th stages. If you thought Wimbledon went long, you were wrong. This 116 year-old road race goes an incredible 21 stages. That's right, a race that started on July 6th concludes on July 21st. The race organizers have a detailed [map and description](#) of each leg, and NBCSN has the [coverage throughout](#).

The French Tour



Tri-tip Over Red Oak



Source: DJ's California Catering