

## *Corona Fatigue? Not Here!*



One month into lockdown, and there is very little in the way of consensus as to how the current pandemic, and the significant economic damage it caused, is going to play out. What we do know is this, Wall Street and academia are busy producing a Library of Congress sized amount of research and prognostication on the subject.

Writing & Reading



The other thing we know is that our e-mail is filled with promotions for strategies that were 'well positioned' for the market move down, and now back up. Some had the goods to get it done, while most didn't. With the market having cut the Q1 losses in half, some are going to claim getting both sides right. Now, there is some serious damage to performance and explanations are needed. But life goes on in the world of finance, and while we are no technicians, the 2,600 to 3,000 levels would appear to us to be the new range. Which is a tough way to live if you are in need of an actual return.

S&P 500



## ***Markets***

While a flood of opinions exist right now, some good and some bad. We are going to go with someone we think is as smart as they come, Jeff Gundlach, founder of DoubleLine. While his is mostly a bond shop, he isn't afraid to opine on the direction of equities. This week, he stepped out with another bearish call that a retest of the March lows was very plausible. Full disclosure, he has been saying that since, you guessed it, the March lows. Meanwhile, the S&P 500 has halved the 20% loss it experienced in Q1 2020.

## The Bond King



While we might have been a little early given the strength of the last few days, we agree with this stance and have increased short positions significantly last week and now stand at 80% long, 20% cash, and roughly 40% short, which gets you to 20% net exposed. Our short positions are primarily in index and sector-based ETFs. Shorting individual stocks is extremely difficult in this environment, as any positive news on flattening the pandemic curve sends the most beaten down sectors like energy, REITs, cruise lines, hotels, Las Vegas and retailers soaring.

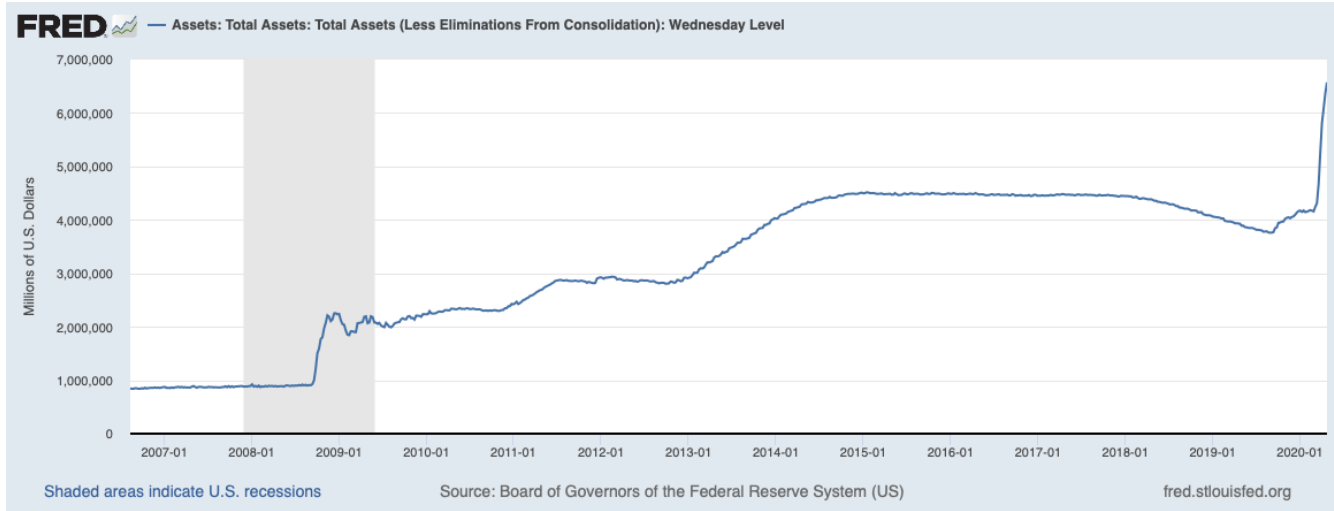
## A Binary Combination



While Gundlach, who's firm manages a stout \$150 billion, may be bearish at this point in the recovery, others are not. This week, Goldman Sachs opened up about their opinion that stocks can go up, even as the headlines read economic collapse. Which is exactly what they have been doing over the past few weeks.

A big part of this comes from the Yankee Stadium sized backstop that the Federal Reserve has put in place. With the most recent moves of buying junk bonds and an expanded municipal bond program, it's tough to bet against the assets they are now long. It's a trade that has never failed, and this expansion of the Fed balance sheet is twice the size of an astonishing 2X the size of QE1.

## Mass Infusion



## ***The Fog of Economic War***

From the sounds of everything we hear from Wall Street and Main Street, we are now wandering through a certain Fog of Economic War that is similar to the days and months after September 11<sup>th</sup>, 2001. Aside from the grief the world was feeling, there was the constant drumbeat of where the ‘ sleeper cells ’ were hiding out, and what kind of havoc they were going to unleash. In response, the United States went out looking for them where we thought they lived, both at home and abroad.

### Searching for the Enemy

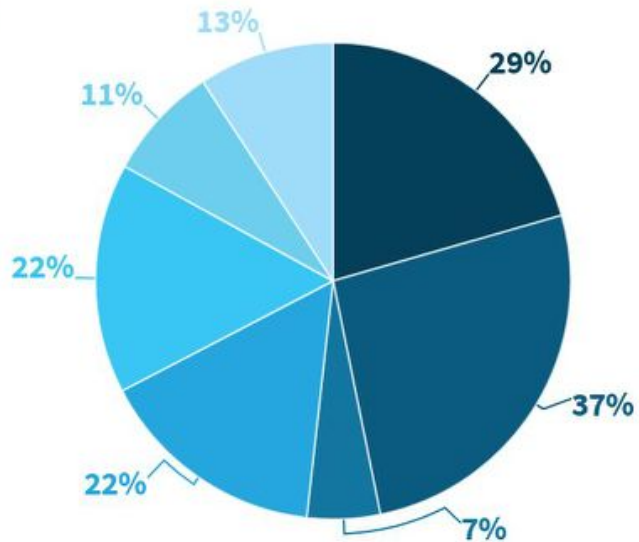


Our sleeper cells right now are of the kind that look like cancelled health care coverage, the threat of very high long-term unemployment, and the frightening fact that the paycheck to paycheck guy or gal is going to be three or four payments behind. If the estimates are correct, this impacts 60% of the consumer economy.

Tough Hand

## Why Are You Living Paycheck to Paycheck?

- I don't make enough money each month at my current job
- My cost of living is too high
- I don't know how to budget properly
- I have too much debt
- I am unemployed
- I have bad spending habits
- Other



Respondents could select more than one answer.  
Last updated Aug. 16, 2019

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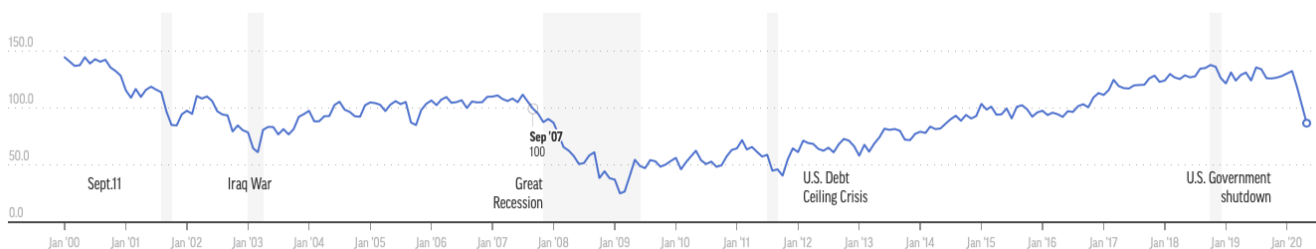
## The Economy

One reason we took last week off from publishing *This Week in the Markets*, and are even slow out of the gate this week, is that flack being thrown up into the air by all the truly frightening numbers we see is making it extremely hard to form a firm opinion about where we are headed. This week's marker de jour was the implosion in consumer confidence.

## Non-Confident

### A further deterioration in Consumer Confidence

Consumer Confidence Index declined further in April, following a sharp decline in March. The index is a survey of households that forecasts spending and the economy as a whole, based on the consumers' optimism. The latest decline reflects rising worries about the outbreak.



Source: Conference Board

AP

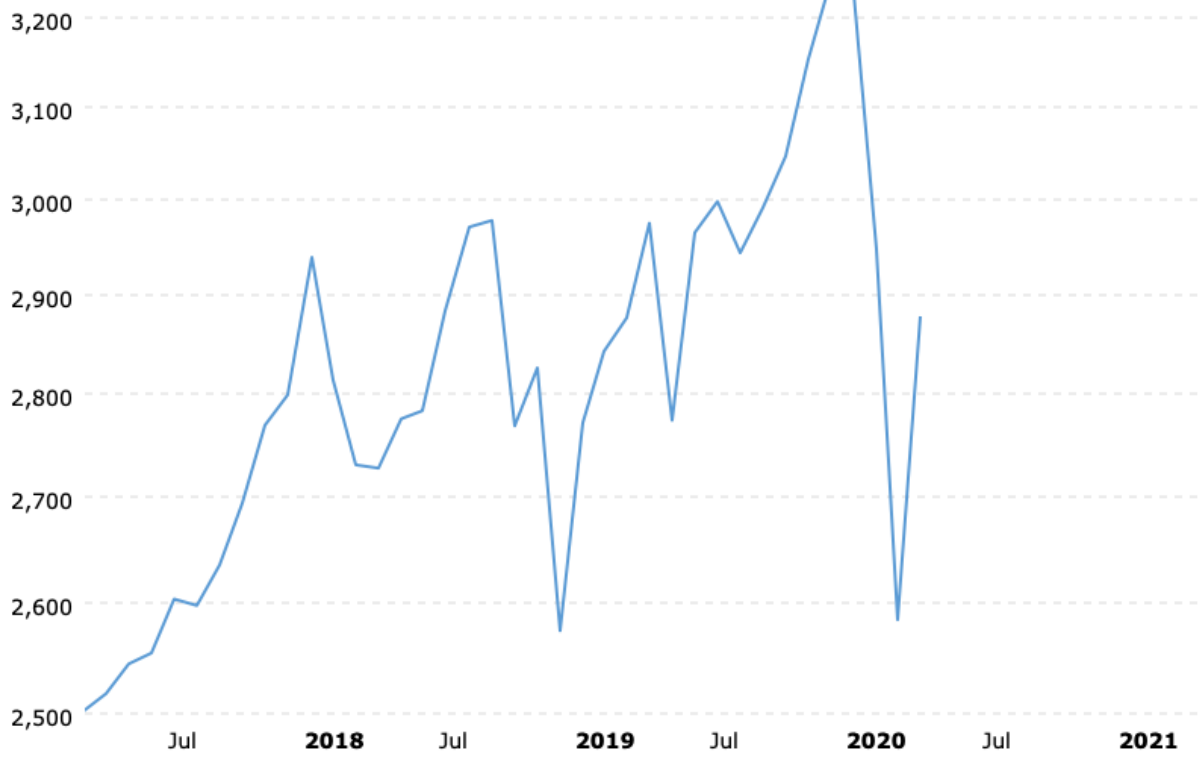
In light of that, it's been better to settle in and let the forest come into focus, avoiding staring too closely at the trees. Right now, the latter is dangerous, because these singular trees are about on scale with the General Sherman Sequoia.

## Trees Through the Forest



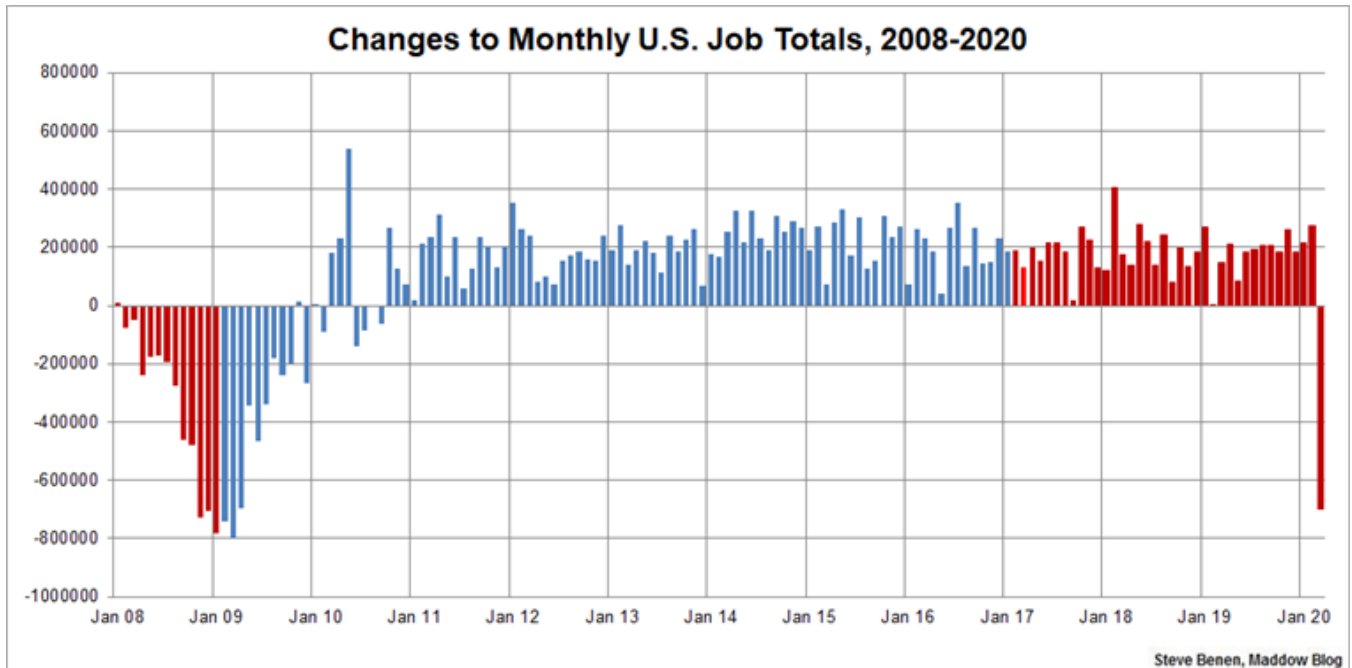
Our biggest General Sherman in existence today is the one showing the number of currently unemployed. When they say our situation rivals that of the Great Depression, they aren't kidding. And that should cast a cautionary backdrop, even those riding this robust bounce in the equity markets higher.

Got Dramamine?



But maybe the big print below is the point of all of this. Hear us out. In March 2009, in the throes of the Great Recession, the market bottomed. This was the same month that job losses peaked. The bears pointed to 750,000 people added to the unemployment lines as a horrible number. Yes, it was, but it was better than the 800,000 from the month prior, and it only improved from there. So is March 2020 the peak, and will it only get better from here? Possibly. If so, and history repeats itself, big happy days are here again for markets.

## The Bottom Was In



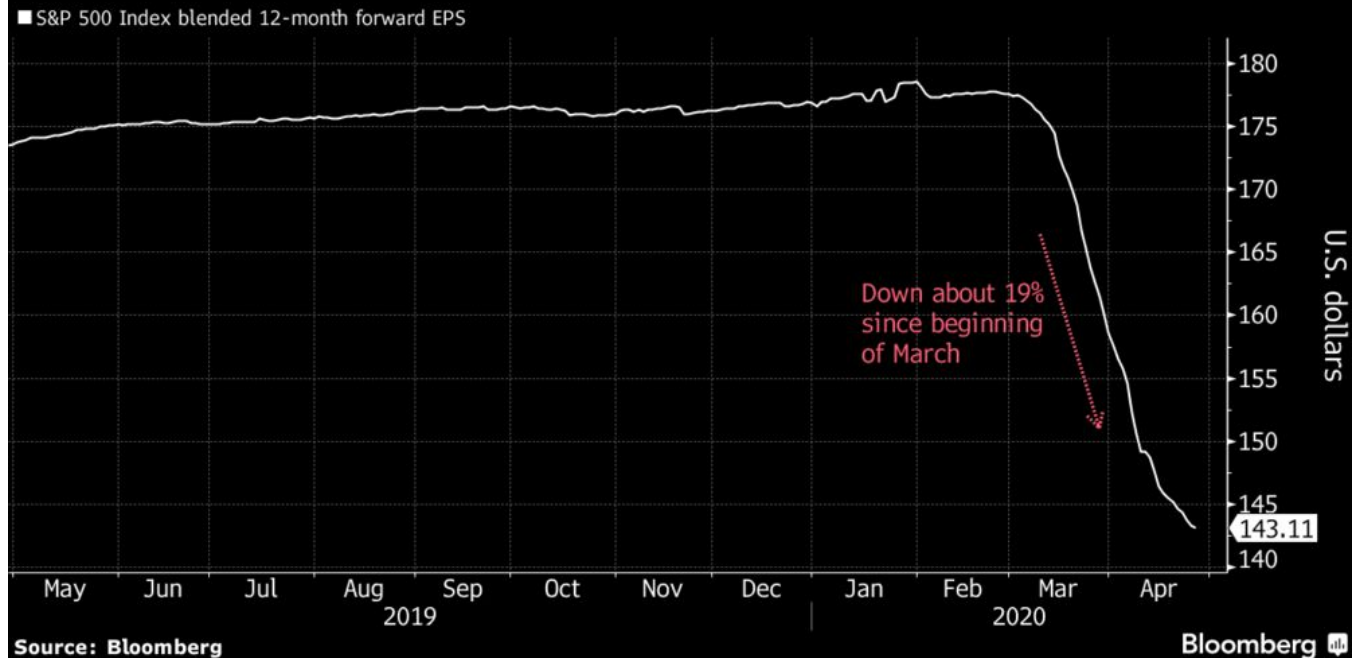
## ***Earnings***

First quarter earnings season is upon us, and whether or not the reduced expectations are met is borderline worthless. Since the Corona crisis erupted, S&P 500 earnings per share estimates have contracted by about 20%. This matched the markets loss for a time, almost to the decimal. Not so much anymore, as the market has rallied back big, while corporate profit estimates appear to have not bottomed yet. One would reasonably expect to see some sort of spread narrowing one way or the other. Logic would say, that it's stocks that are getting it wrong, not earnings estimates. Those following the Fed balance sheet would most likely disagree.

A 'Free' 20% Haircut

## Gloomy Outlook

S&P 500's earnings per share estimate has tumbled as the pandemic spread

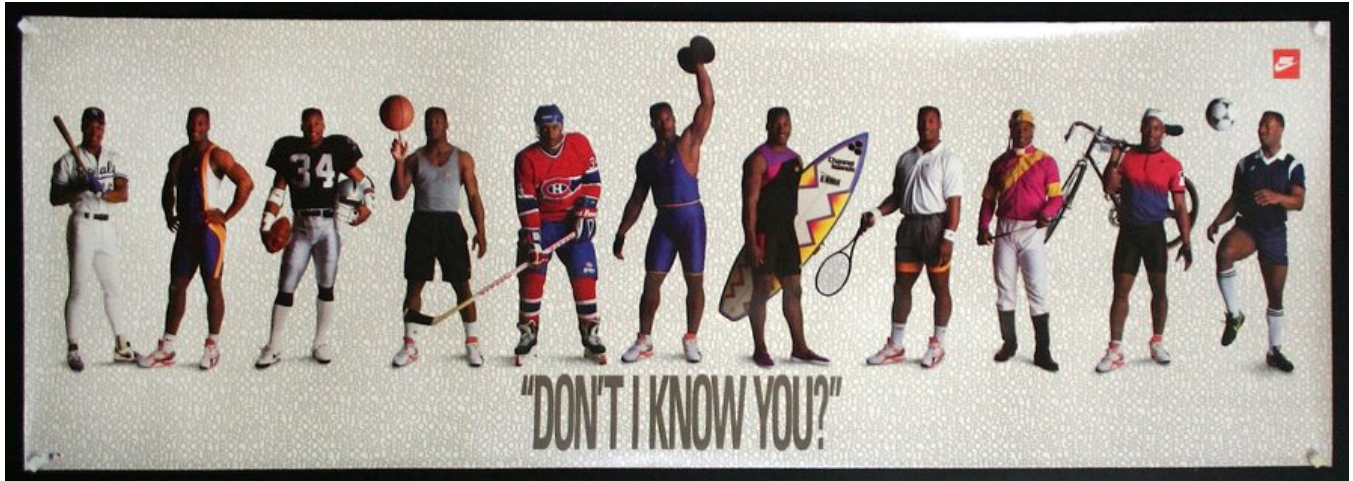


## Diversions

ESPN has been doing its best to fill airtime with some of the classic games or matches of the past 50 years. One of our favorite programs, 'The Worldwide Leader in Sport' has produced over the past decade, is the award winning series, 30 for 30. And for a whopping \$5.00 per month subscription to ESPN+, you can get full access to the archives. While there are many we've enjoyed, here are six of our favorites.

## You Don't Know Bo

While Bo Jackson's persona has faded from the limelight, this presentation of his lifetime of work in athletics will remind you what a force of nature he was. The film itself is interspersed with cartoon depictions of his early life that add a certain charm and nuance.



## The Two Escobars

While those who aren't into soccer might call this one a sleeper, don't make that same mistake. This production of 30 for 30 might actually be our favorite of all time, as it delves deep into Colombian 'narco-soccer', and follows the winding road of both Pablo and footballer Andreas Escobar, both of whom suffered their final moments in life at the end of gun barrel.



## Trojan War

In sport, there are a few teams that have a binary following. They are either loved or hated. Included in those are the Yankees, New England Patriots, currently the Astros, the Celtics of the '80's, Duke basketball, and USC football. For the haters in the latter class, there is Trojan War, the story of the bad turn that ended the storybook 2006 football season. Regardless of the outcome of the National Championship game, USC was a special program for a decade.



## Four Days in October

Speaking of binary relationships with teams, there is also the sometimes-derided Red Sox of Boston and their obnoxious fans to consider. That said, much respect must be paid to the comeback they put together in the fall of 2004, when they pulled out an American League Championship series against the Yankee's, all while being down 3 games to 1. They would go on to win the World Series and break the 86-year-old 'Curse of the Bambino'. One of our all-time favorite shirts describing how baseball fans felt was this one...



## Winning Time

To know Reggie Miller is to love Reggie Miller, or you can do what other people do, and that is to hate him for life. While smack talkers come and go, Reggie's face is carved on the Mount Rushmore of the craft. Winning Time is the story of the 1995 Eastern Conference Finals, when the rural agrarian Pacers took on the sharp elbowed Knicks of New York. What went down on the court between Patrick Ewing, John Starks, Miller, and Spike Lee is still reverberating around Madison Square Garden rafters. Though Spike and Reggie appear to have made amends.



## Fernando Nation

For San Francisco Giant fans, this selection will fall on deaf ears. For those that were there in Los Angeles, it was one of the defining moment for the franchise. It all revolved around the young 20-year-old Fernando, and when he took to the mound, all of Chavez Ravine shook. Love him or hate him, Fernando and his ability to breathe through his lizard eyes, was something special.



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