

## Stimulating

Round and round we go, where stimulus talks end, nobody knows. Silly as that sounds, it's the truth. President Trump wants to go big, as does Nancy Pelosi to a certain extent. Mitch McConnell in the Senate can't quite get his guys on board, even though some of their jobs might depend on it. All of which makes Capitol Hill the place to be these days, in theory.

“What is thy bidding?”

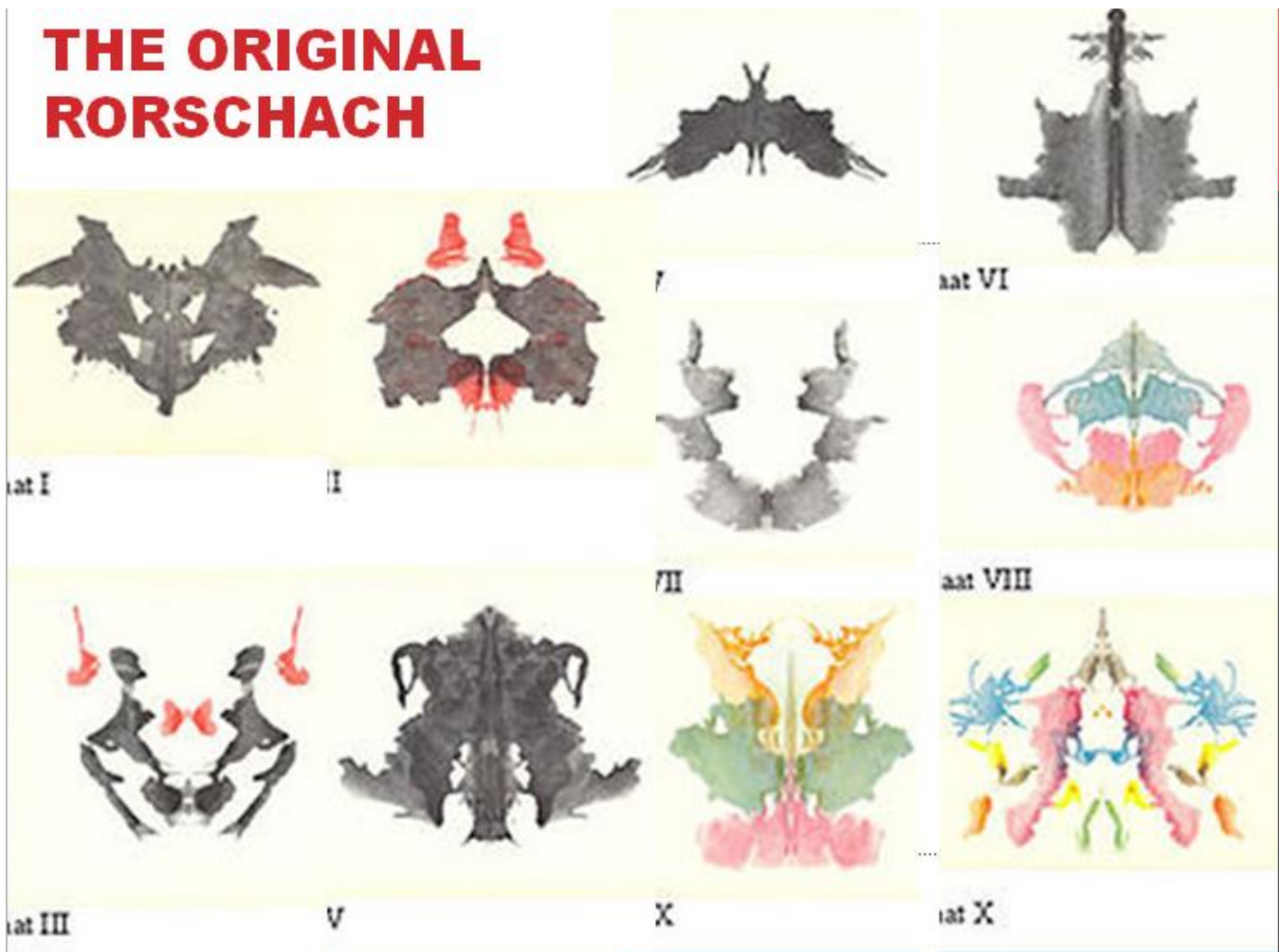


## Chart-a-Palooza

Every so often we find ourselves going down the rabbit hole and finding ourselves a whole bunch of charts that tell the picture of where we are in the markets and the economy. This is such a week for that. The only counsel we would provide, is that not only does every single one tells a story, there is also a confirmation bias Rorschach test embedded in each one.

You Seeing Me?

# THE ORIGINAL RORSCHACH



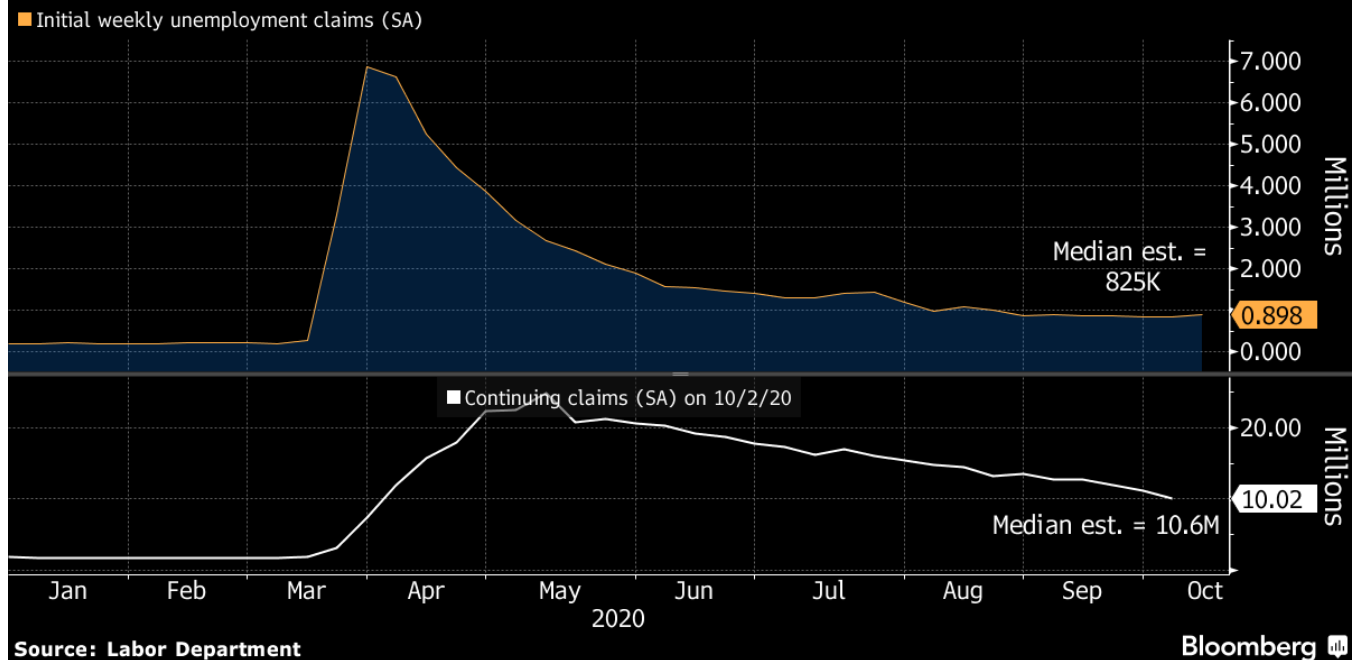
## The Economy

The biggest economic news of the week, was the further flattening of the jobs recovery curve. What has emerged is a picture of stagnation as the world waits for more stimulus, or better Covid-19 infection statistics. Either way, the grim reality is now setting in that the first few rounds of stimulus are beginning to wear off. But that really hasn't slowed the market down yet, as we seem to reach new highs week after week.

Less Jobs

## Wrong Way

### Filings for U.S. jobless benefits unexpectedly climbed last week

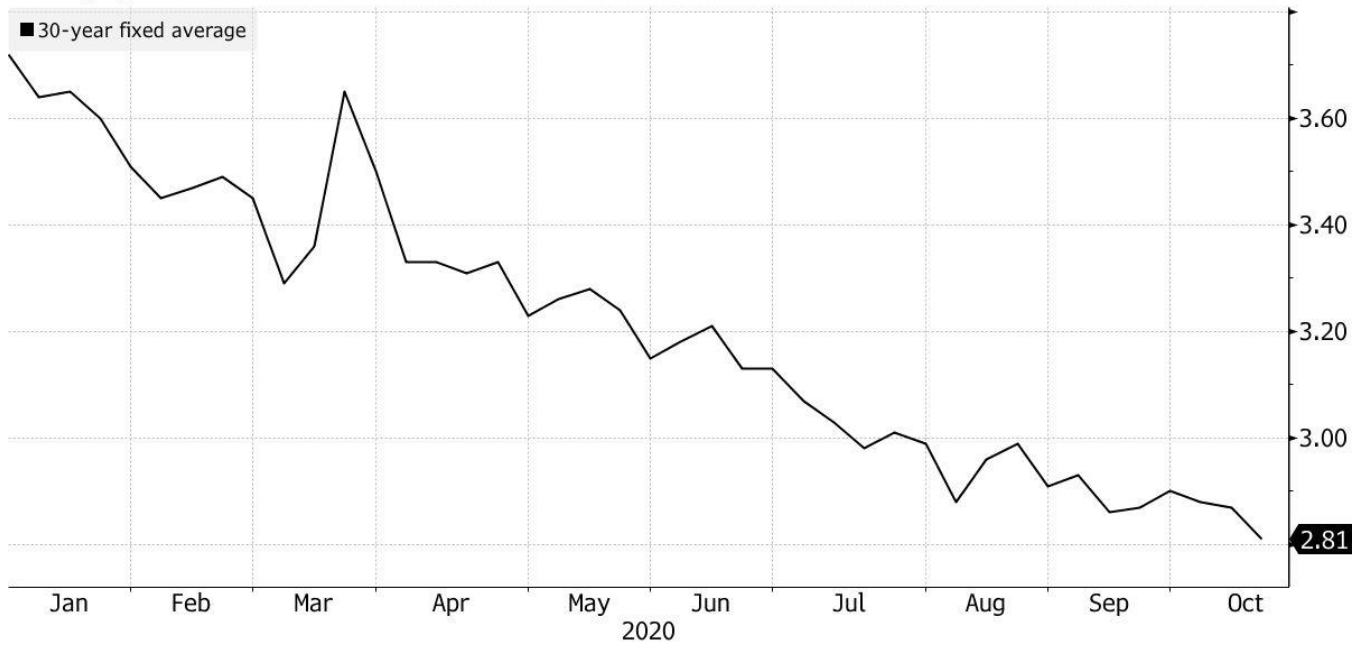


In a sign of the cheap money times, mortgage rates have been hitting lower lows and dough can now be had at the best rate in 50 years. As you will read in Howard Marks' most recent memo (see below), every time rates tick lower, the cost to borrow gets better for all things that need financing. Residential real estate, the most widely held asset class, has a tendency of performing very well when the living is easy.

## Cheaper by the Month

# Another Record Tumbles

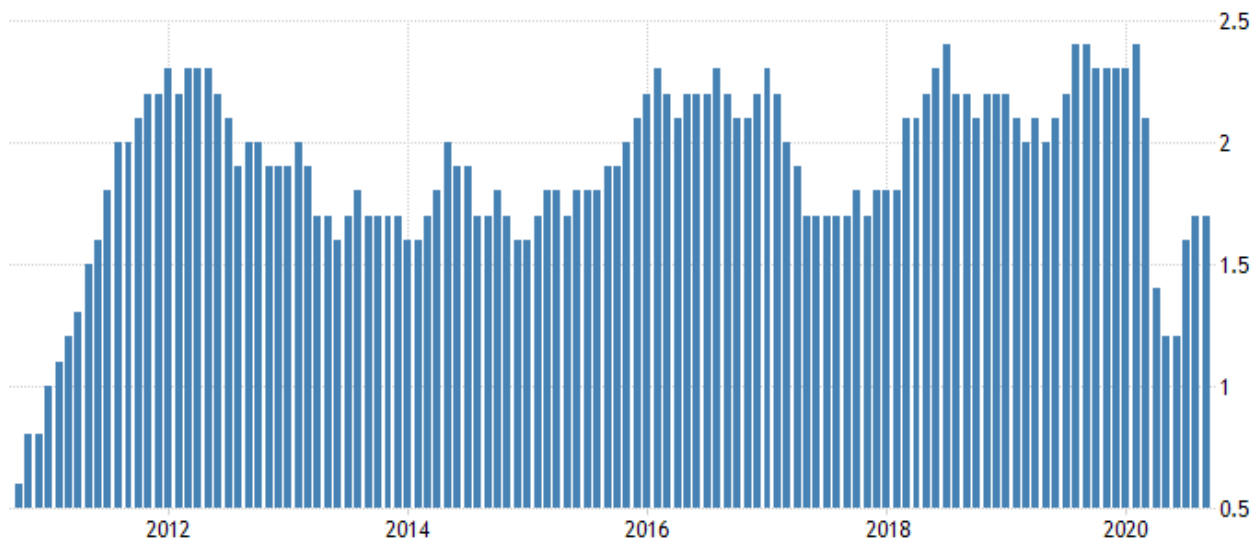
Mortgage rates have been on a downhill slide since March



Source: Freddie Mac/Bloomberg

In news that should (continue) to surprise nobody, consumer price inflation remains subdued. The chart below shows 10 years' worth of CPI, which during that time the rate has never exceeded 2.5% and has barely been able to average north of 2%. At this point, inflation is irrelevant as money can flow as freely as it wants without causing the consumer any pain.

## CPI

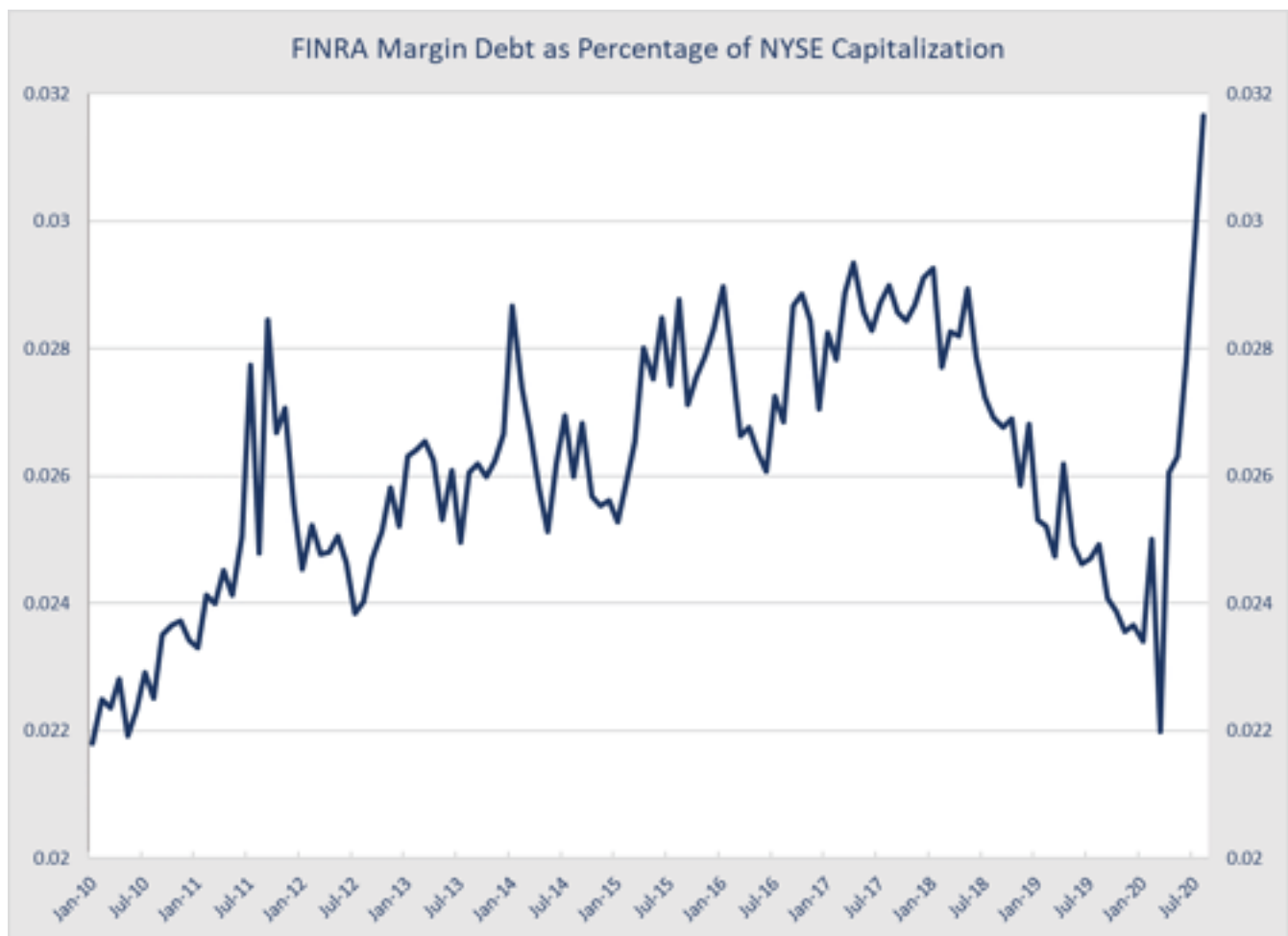


SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

## Trading

In a scary sign of the times, margin debt has gone through the roof this year, and could threaten an otherwise robust rebound in the equity market. We've been watching this movie since 1996, and know what happens on both sides of this chart. While everyone loves leverage on the way up, when margin calls kick in, it's look out below. This isn't to say we are predicting a problem, especially if the tailwind of stock market momentum continues. What we would say though, is the combination of a market juiced with derivatives, and the story the chart below shows, we have a combustible situation on our hands right now.

“Margin call, gentlemen.”

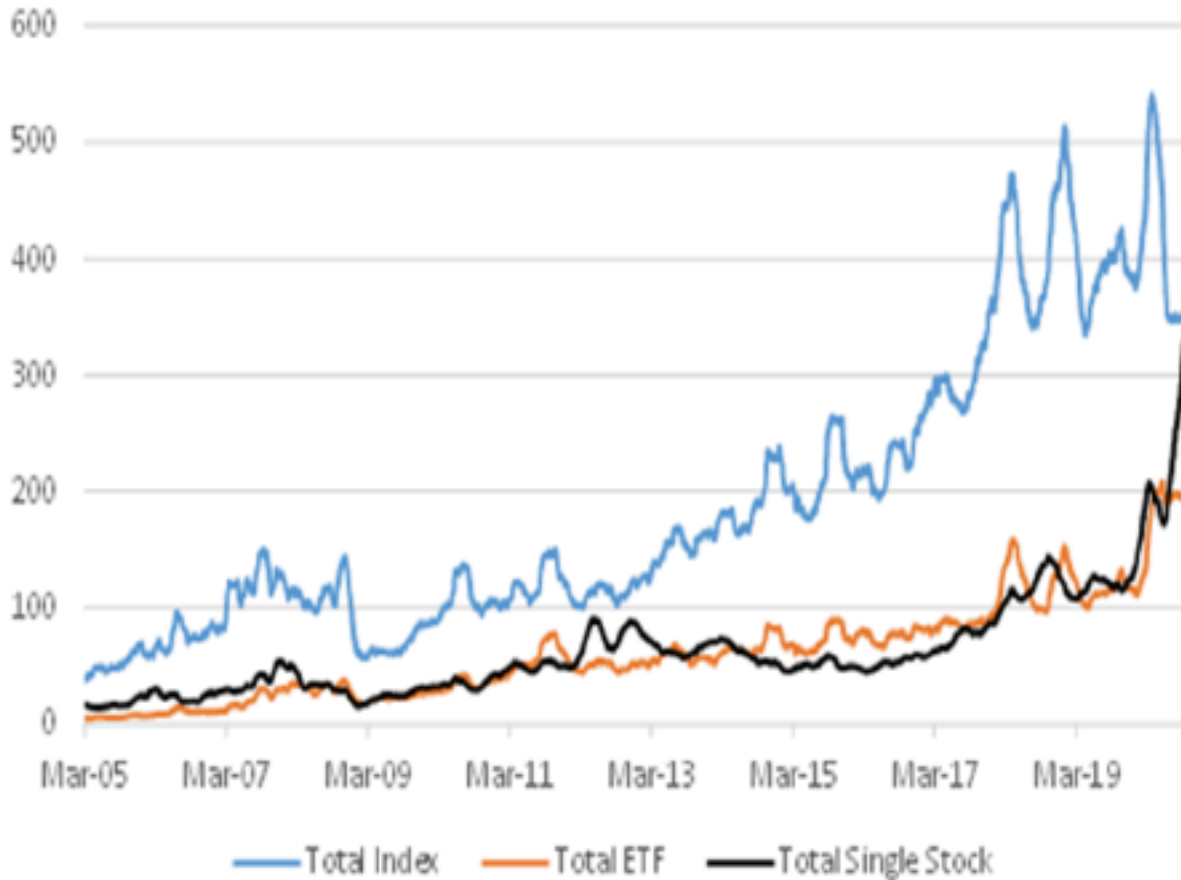


In further news that should raise a flag of yellow or red hue, is the return of the NASDAQ whale. Thought to be Softbank, this creature of mythical proportion in 2020 isn't afraid to get very long the market through equity derivatives, and the remora class of small retail investor isn't afraid to go along for the ride. We have been consistent with our caution on

the situation for a while as it reeks of 1999 speculative excess. That said, with the Fed sitting there willing to hit the ask, there is a big backstop in place.

## Whale Sighting

**Figure 2: Single stock option volume has spiked in 2020 and now accounts for ~38% of total option volume**



Source: J.P. Morgan Quantitative and Derivatives Strategy, Bloomberg.

## Hedge Funds

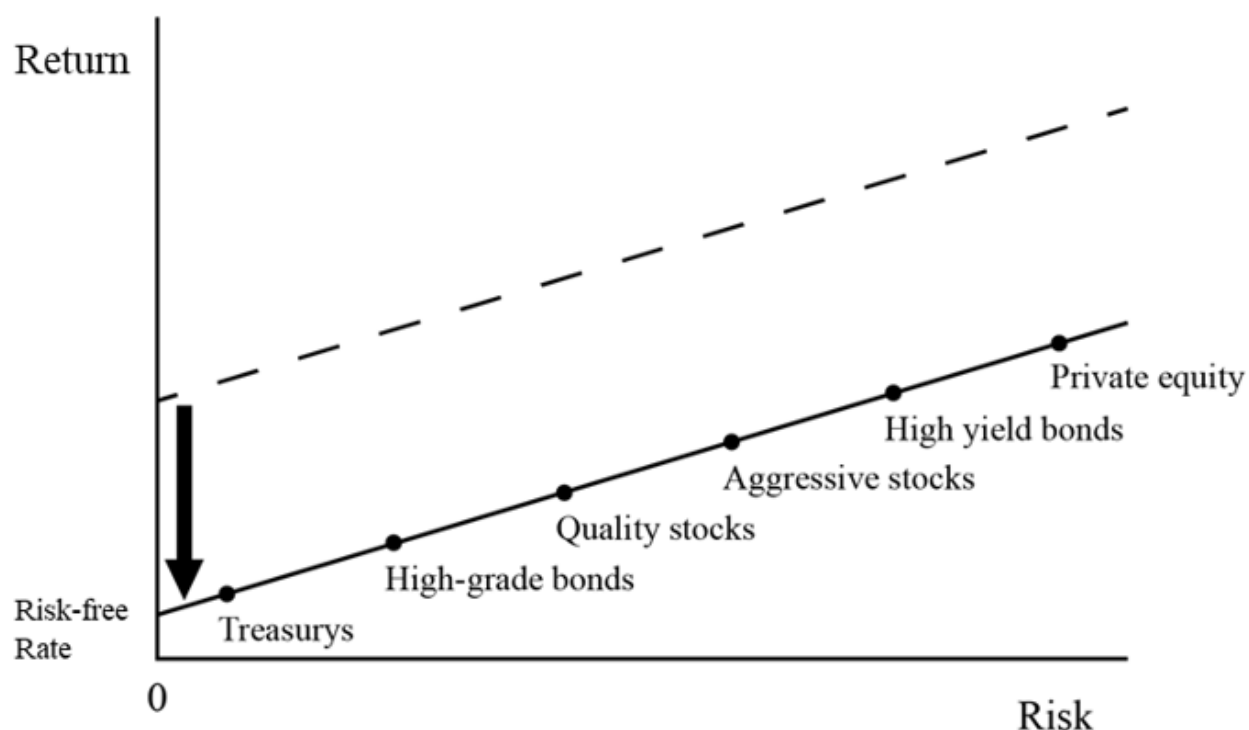
Oaktree founder, Howard Marks, released his most recent 'memo', *Coming into Focus*. It was an extension of the piece he published two months ago, *Time for Thinking*. He described his current cautious view this way...

As I'm sure is my bias, I lean toward defense at this time. In my view, when uncertainty is high, asset prices should be low, creating high prospective returns

that are compensatory. But because the Fed has set rates so low, returns are just the opposite. **Thus, the odds aren't on the investor's side, and the market is vulnerable to negative surprises. This is how I described the prior years, and I'm back to saying it again.** The case isn't extreme – prices aren't grievously high (assuming interest rates stay low, which they're likely to do for several years). But it's hard in this context to find anything mouth-watering.

If you are a little bit of a newbie, or even a lot a bit, and believe Marks' description and analysis of why low interest rates matter, take a look at the chart below. When the Fed uses monetary policy to drive down the cost of money, the risk-free rate nears zero. If you are running a pension fund and need to earn at least 7% for the actuarial math to work, you are going to allocate more assets to the riskier end of the spectrum. Doing so should draw out the animal spirits in the economy and get money flowing into assets that otherwise might be avoided. As they say in the business, to make money you need to 'buy em' when there is blood in the streets'.

## Return v. Risk



In news that slipped under the radar last month, Canyon Partners, a fixture of the Los Angeles high yield hedge fund world, is making plans to move anyone willing to the Republic of Texas. Word on the street, as reported by Bloomberg, is that billionaire founders Josh Friedman and Mitch Julius might be amongst those looking to migrate south.

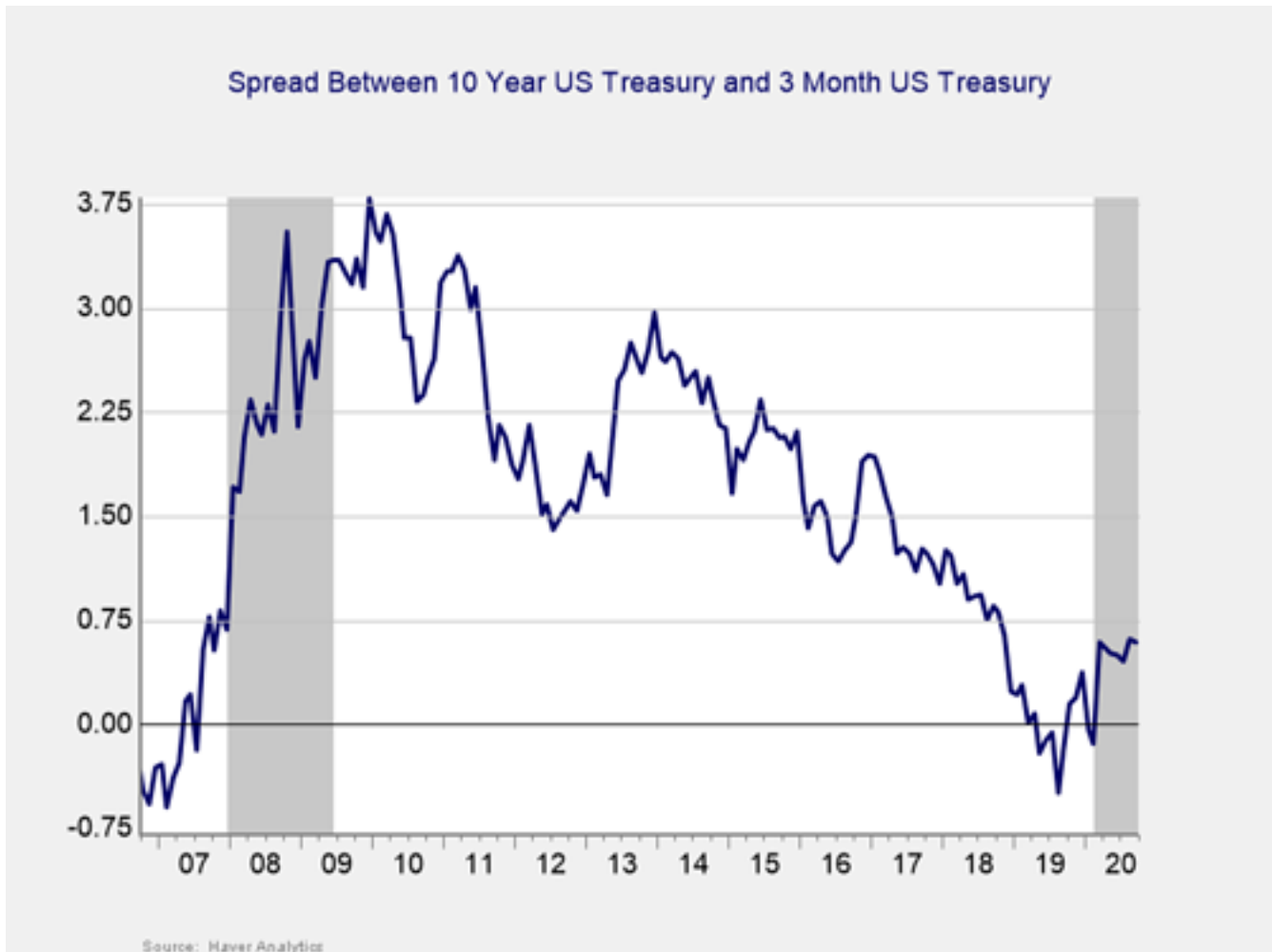
Josh & Mitch



## Bank Earnings

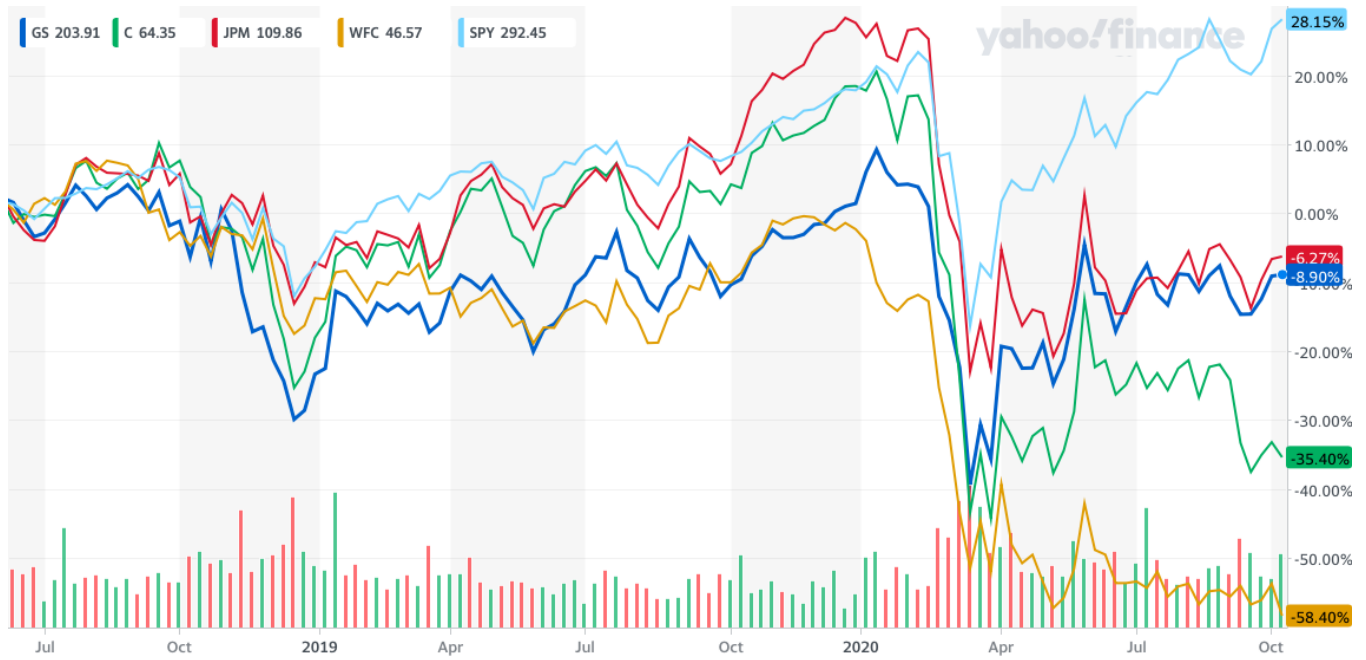
Banks have been a notable non-participant in the mega rally we have seen since April. While trading at some of the ‘white shoe’ firms on Wall Street has made the show interesting, the business of borrowing short and lending long in this environment has proved to be a challenge, even as the yield curve has moved away from inversion.

Rates a Headwind



In terms of the ‘good, the bad, and the ugly’, as we wrote earlier, if you had a trading division this year, chances are good you have been putting up profits. Those that took advantage of the trading environment include Goldman Sachs, Citi, and J.P. Morgan. While traditional lenders like Bank of America and Wells Fargo have all lagged due to the Covid-19 crisis. Welcome again to the tale of two Wall Streets.

SPY, GS, JPM, C, WFC



## Fine Dining

New York City has gone from the ‘city that never sleeps’ to the ‘city that always sleeps’ under the cloud of Covid-19. Star chef, Eric Ripert of Le Bernadin, got back in the kitchen this week with a re-opening at 25% capacity. In an interview with Bloomberg, Ripert painted a challenging picture for the restaurant industry in the city as culinary tastes, and the desire to go out, have likely changed forever. Eric was a longtime friend of the late Anthony Bourdain, a culinary personality that was loved and is now very much missed.

## Ripert & Bourdain



It goes without saying, but we will anyway, just about anybody in the foods and culinary arts business right now is trying to ‘pivot’ in ways not thought of before. In May, the venerable Peter Luger in New York started providing take-out and delivery, something unheard of at the start of the year. In a related development, [Goldbelly](#), the online access point to some of the highest of high-end cuisine, is seeing a renaissance in its business. This weekend, pull up a glass of wine or a beer and take a tour through the site. We did so on Friday, and came across the infamous [Bonci Pizza](#) from Rome, among other purveyors we are looking to try.

## Bonci & His Pizza



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