

Stillwater Capital - This Week in the Markets



The Top- Down

Equity markets are poised to rip higher today on news that the economy added 313,000 jobs in February versus expectations of 200,000. Wage inflation remained tame at 2.6% .

Hiring Surge



Source: Bloomberg

After the close of market on Tuesday, Gary Cohn announced he was leaving his post as president Trump's chief economic adviser. The straw that broke Gary's back was the decision to slap tariffs on imported steel and aluminum. A move orchestrated by economic isolationist Peter Navarro that the *New York Times* called 'Economically small and symbolically huge'.

The market reaction was immediate with equity futures selling off following the announcement. They rebounded on the news that Canada and Mexico weren't to be included, but might be if they don't get on board with a re-negotiated NAFTA.

Stillwater View: You should be surprised that anyone was actually surprised by Mr. Cohn's departure. Gary delivered the goods for the free marketers who wanted lower taxes and less regulation during his 14 month residency.

The Dow...7,000 Post-Election Points Later



Source: MacroTrends

The best quote overheard on Wednesday morning was delivered by Steven Weiss on CNBC's Fast Money program. He compared the current policy chaos in the White House to Chauncey Gardner a.k.a. Chance the Gardner when he provided his counsel to the president in Stanley Kubrick's cult classic, 'Being There'.

Chance the Gardner



Source: Amazon

Weiss' point was that it's seemingly apparent that whomever has the last opportunity to speak with the president before he heads out of the Oval Office, was the most likely to win the policy debate. 'In the springtime there will be flower.'

And if your Thursday wasn't full enough already, there was the news that arrived late in day that our 'dodder' of a president would be meeting face to face with the 'Rocket Man' himself, Kim Jong-un, to discuss, among other things, the ongoing threat of a nuclear war.

'Rocket Man' and the 'Dodder'



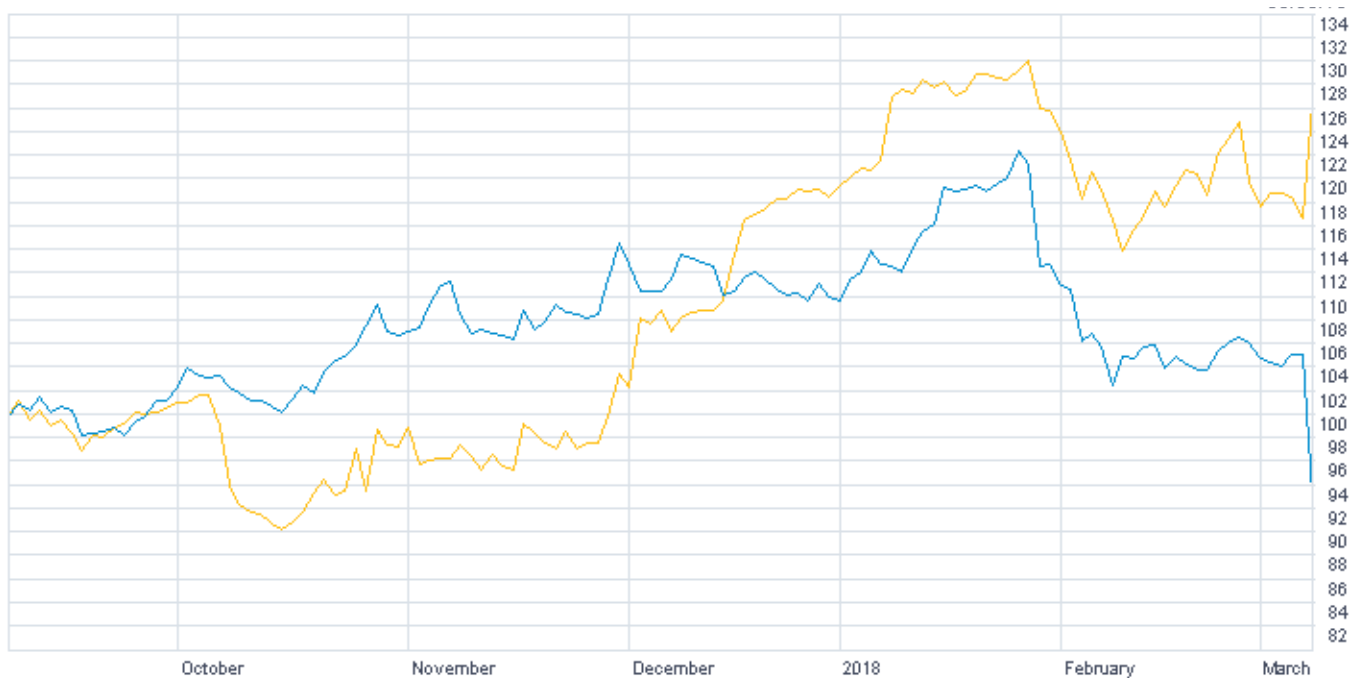
Source: CNN

Stillwater View: Every day we get to wake up, pinch ourselves, and be reminded once again that, yes indeed this isn't a dream. It's all really happening.

The Bottom-Up

Cigna announced this week plans to acquire Express Scripts, the largest pharmacy benefits manager, in a \$67 billion cash and stock transaction. *Bloomberg* reviews he deal.

Cigna v. Express Scripts



Source: Nasdaq

Stillwater View: Stillwater has held a short position in Express Scripts for a considerable time. Here is an insider look at what happens when a portfolio manager is short a buyout.

Step one, release an expletive.

Step two, determine the impact on the portfolio.

Step three, cover the short.

Step four, live to fight another day.

While unpleasant, this buyout was only a setback to an otherwise good year so far. Costing 40 basis points of performance from an otherwise respectable 3.5% low volatility year-to-date return for Stillwater's main hedged strategy.

By contrast the S&P 500 has risen 7.5%, fallen 11% and is currently up 2.5% in two and a half short volatility filled months. In case you're wondering, regulators require that we compare our returns to a major market index.

What began last year in consumer stocks has continued into 2018 as the growth oriented discretionary sector has far outperformed staples.

A strong domestic economy with an ever improving employment picture continues to drive the former. While higher interest rates and concerns of inflationary cost pass through have hampered the latter.

Consumer Discretionary v. **Consumer Staple**



Source: Nasdaq

Discount retailers hit the skids this week as Dollar Tree reported a punk holiday quarter. This followed the recent poor news out of Costco, Wall-Mart, and Kroger. Sadly, it appears that the end of era is near as Toys ‘R’ Us is reported to be shutting down.

Geoffrey Waves Goodbye



Source: Landmark Creations

Meanwhile, the ongoing saga of the Nordstrom Company continues. as the family turned their noses at an offer to go private that appeared to be below their desired expectations.

Erik, Peter and Blake Nordstrom



Source: Seattle Times

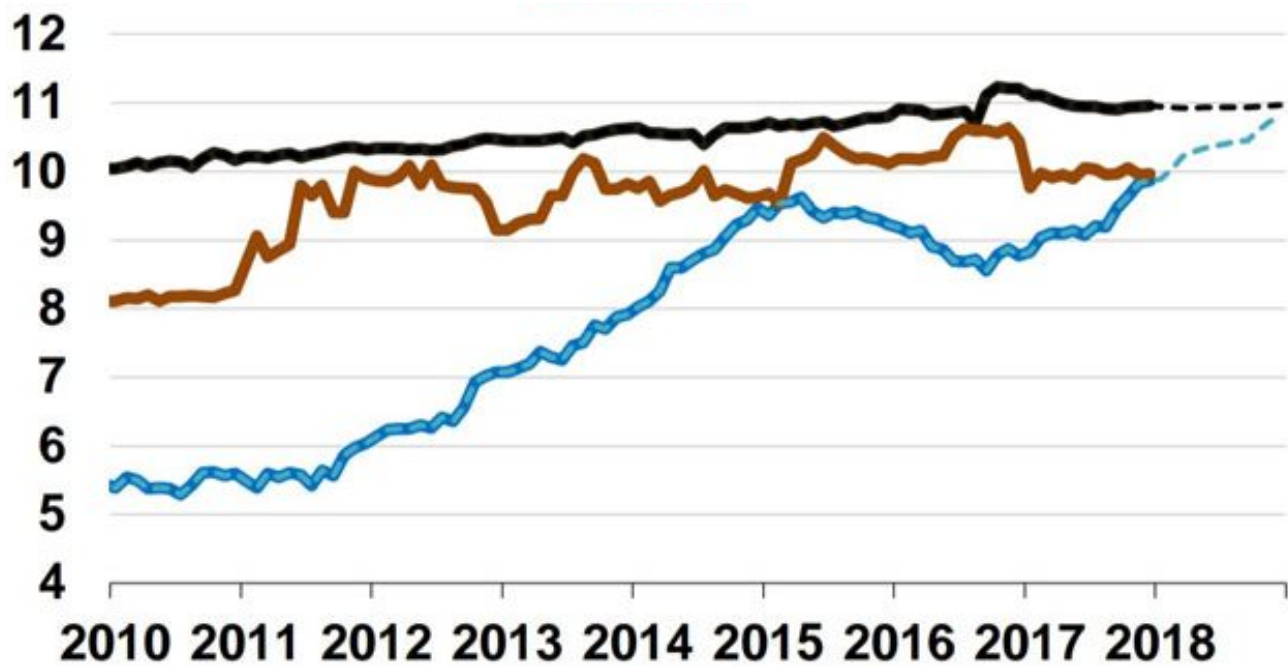
Stillwater View: The consumer sector remains a minefield. So many of the old bricks and mortar retailers were left for dead last year, only to rise (aggressively) from the Amazon induced ashes.

Staples had been a place to hide and clip a dividend, but with rates on the rise these bond equivalents have joined utilities and real estate as laggards in an otherwise strong market.

CERAWeek, one of the petroleum industries largest gatherings, took place in Houston. Top of mind was the debate about how much increased domestic oil production will keep an overhead ceiling on prices. The U.S. is poised to take over as the world's largest producer.

Daily Crude Production in Millions of Barrels

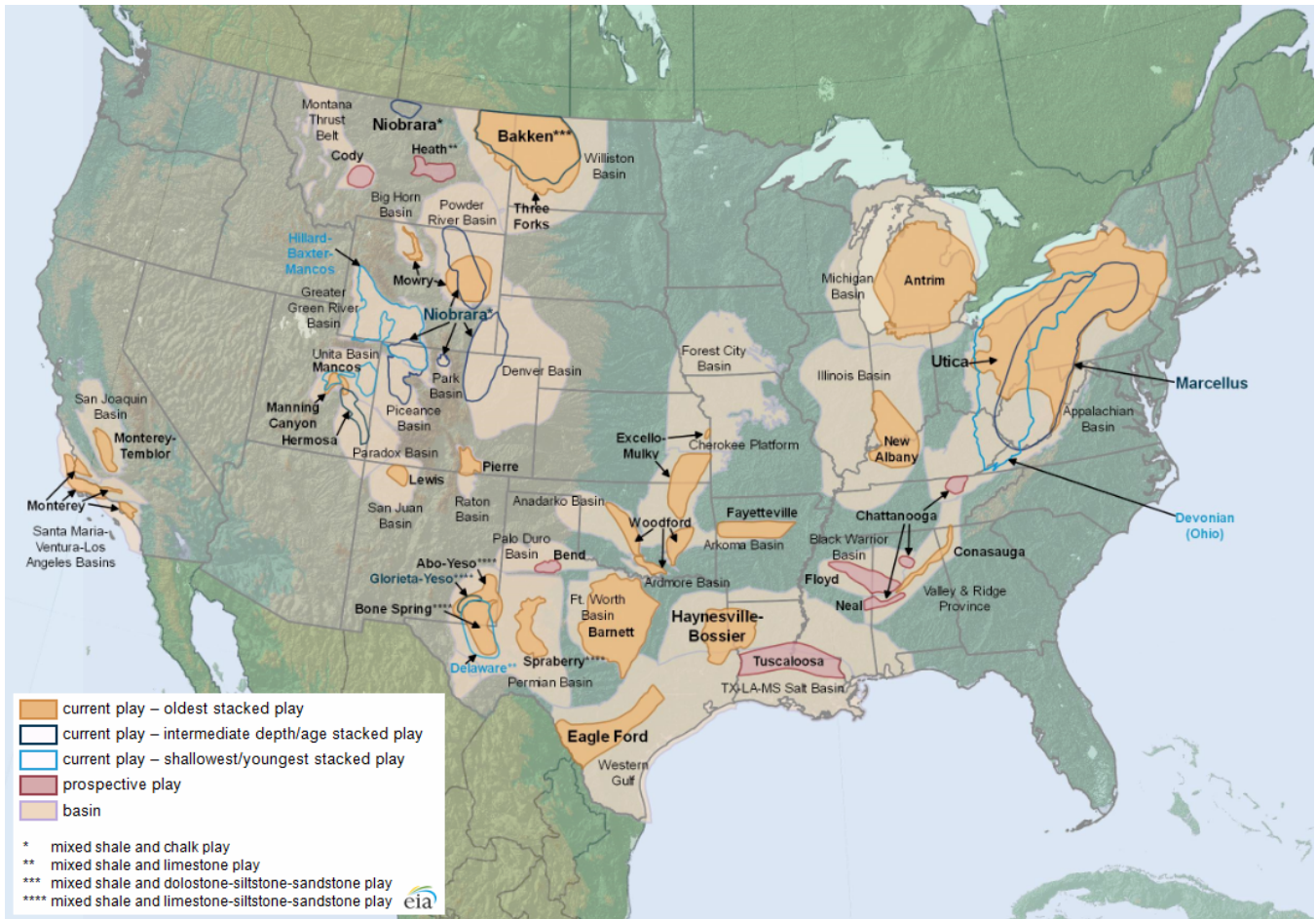
Russia, Saudi Arabia, United States



Source: Energy Information Administration

EOG Resource’s former head Greg Papa thinks the market is overestimating the impact. Meanwhile Chevron’s CEO Michael Wirth shared his opinion that we are in the ‘early innings’ of shale’s growth.

Domestic Shale Fields



Source: EIA

Ryan Lacey, ConocoPhillips CEO, pointed out that the energy sector remains very under-owned.

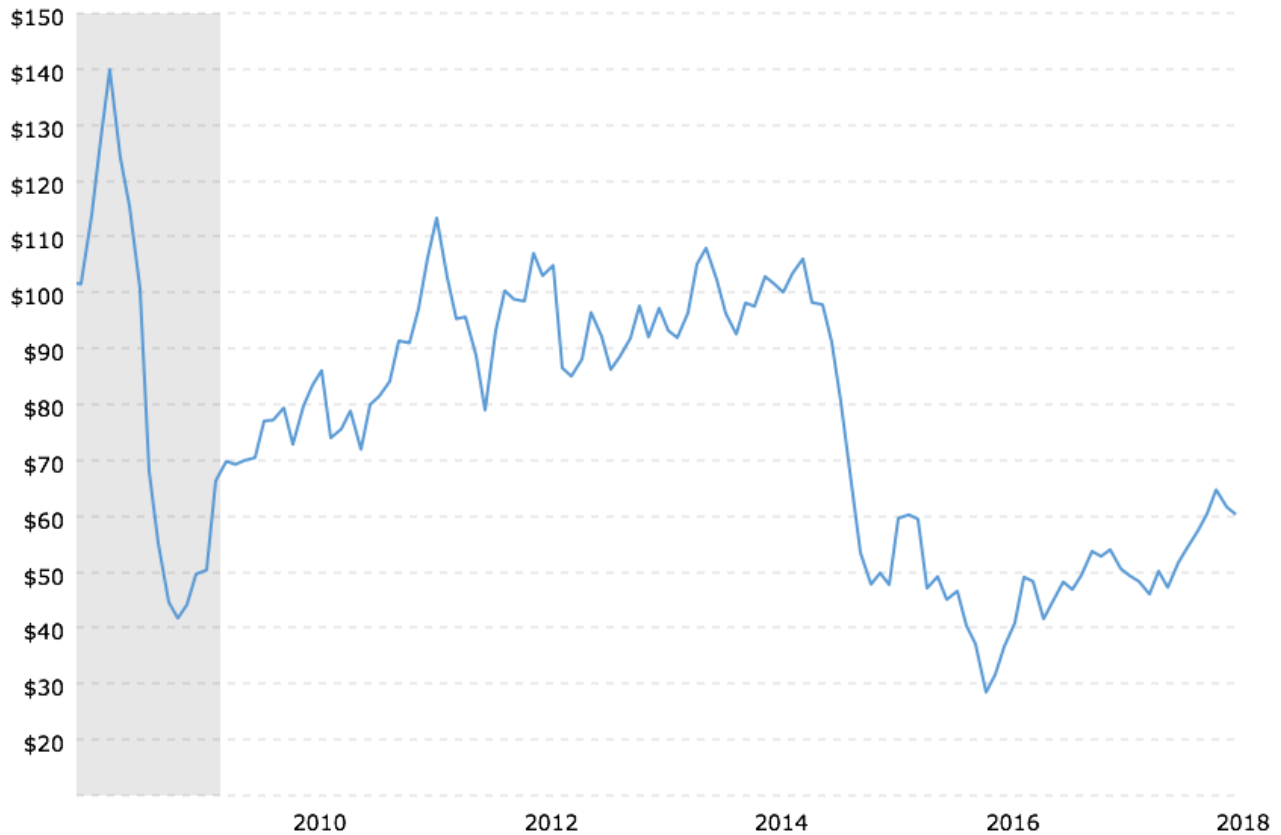
E&P (XOP) v. Oil Service (OIH)



Source: Nasdaq

Stillwater View: This moment in time, as global growth appears strong, is proving to be a great test for the price of crude oil. If it can't find a sustained higher level now, with all the demand pull in place, it's most likely headed for a long term range of \$40 to \$50 per barrel.

West Texas Intermediary Crude



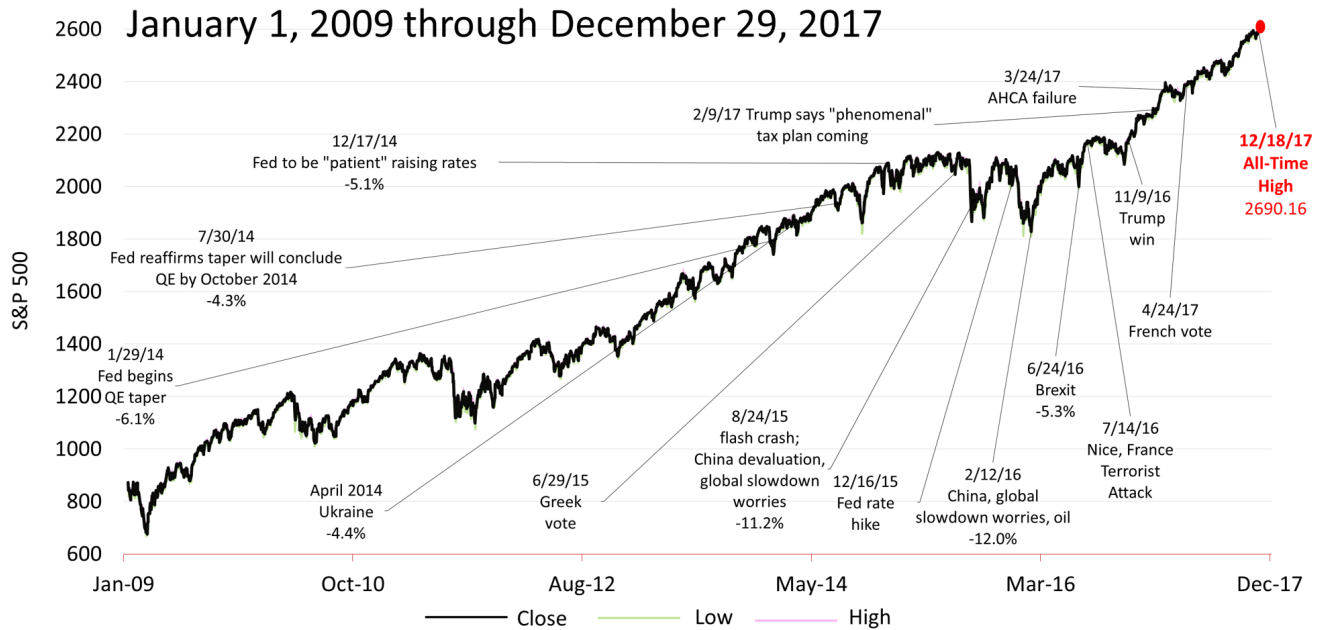
Source: Macrotrends

Stillwater View: Stillwater continues to lean long the energy sector with modest success to show for it. In our view, the sector holds all the right characteristics for outperformance in 2018. That includes the aforementioned under-ownership.

Up & Down Wall Street

Today marks the nine year anniversary of the March 9th, 2009 market bottom. In retrospect, it held all the telltale signs of capitulation. Those who lived through it experienced a ‘fog of war’ in the markets rarely seen.

S&P 500



Source: Standard & Poor's

Stillwater View: On this date nine years ago, I rounded up every 30 year old I could find who called Santa Barbara Asset Management their professional home. I gathered them in my office and told them for the rest of their professional lives nobody could ever tell them they hadn't seen a bear market.

Following my eloquent comments I lit a religious candle featuring St. Lazarus and I explained to my young audience that 'we were he and he was us', at least professionally speaking. Dead, and with no hope of resurrection. But like Lazarus, we too would rise from grave and live again.

While I had hoped my gallows humor and witty prose would work to help raise spirits, I had no idea just how well it would. You're welcome global central bankers and owners of equities...you're welcome! Independent eyewitness accounts of the proceedings available upon request.

Saint Lazarus

DEAR PATRON AND ASSISTANT
OF THE POOR AND SICK.
WITH THIS PRAYER I REQUEST
YOUR ASSISTANCE,
AND WITH THE AID OF THE
HOLY SPIRIT MAY THE
LORD ALWAYS PROTECT ME
DURING SICKNESS OR IN
HEALTH.

SAINT LAZARUS GIVE ME THE
STRENGTH TO OVERCOME ALL
THE TEMPTATIONS ON EARTH.
IN THE NAME OF THE FATHER,
THE SON AND THE HOLY SPIRIT.

AMEN.

THE VODOU STORE
HAITIAN VODOU - NEW ORLEANS VODOO
HOODOO - WITCHCRAFT - CONJURE
WWW.VODOUSTORE.COM

CAUTION: Burn candle within sight, never leave unattended or near anything that can catch fire. Keep away from drafts. Keep out of reach of children and pets. Place on a stable heat resistant surface. Do not touch or move candle while burning or when it is hot. Keep wick centered and trimmed to 1/4" to prevent excessive flame or smoke. Do not let wick trimmings or other debris drop into wax.

ST. LAZARUS

Source: The Vodou Store

Diversions

The famed Japanese cherry blossoms are coming early to Washington D.C. this year. The National Parks Service announced that full bloom will occur between March 17th and the 20th. Two weeks earlier than usual.

Cherry Blossoms in the Potomac Tidal Basin



Source: Washington Post

It was announced this week that the famed TWA Flight Center at JFK International would be repurposed as a hotel. Closed since the carrier went bankrupt in 2001, the building has held a historical designation that has kept it preserved all these years.

T.W.A. Flight Center at JFK



Source: NJ.com

Stillwater View: Historic designation aside, to true architectural aficionados, the fact that the T.W.A. Flight Center survived this well while mothballed for 17 years is nothing shy of spectacular.

King Tut, that Funky Tut, is coming to Los Angeles later this month when the largest ever exposition of his treasures goes on display. The exhibition opens on March 24th at the California Science Center and celebrates the 100th anniversary of the discovery of his tomb.

Tutankhamun



Source: National Geographic

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