

Stillwater Capital - This Week in the Markets



This Week in the Markets is coming to you live this morning from Jackson Hole, Wyoming. For those who have ever wondered, the image we use for our commentary hails from here and is of the majestic Grand Teton mountain range that sits just north of town.

The Top- Down

There was literally nothing of note on the economic calendar this week, although, that didn't make it a quiet one as trade tensions are beginning to boil over.

Last Friday, President Trump declared \$50 billion in tariffs on Chinese goods entering the United States. On Monday, Trump reloaded, threatening another \$200 billion and then another \$200 billion should China retaliate because of the first \$200.

All in, that would be \$450 billion in tariffs against the \$500 billion we imported from China last year, or more simply stated, almost the entire book of goods sent our way. By way of comparison, they imported only \$130 billion worth of our goods, a reality that gives Xi far less to work with than Trump.

Qingdao Port, Eastern China



Source: The Wall Street Journal

All of this has the Chinese Shanghai Composite hitting multi-year lows. At home the Dow Jones went negative on the year.

Shanghai Composite



Source: Bloomberg

Stillwater View: If your head is spinning right about now you are not alone. These moves are coming fast and furious and sector rotation is happening under the surface of an otherwise calm market.

While we would never pretend to see inside the mind of Donald Trump, he may very well think that since he was elected the market spotted him a good 25% to play with. Therefore, making him far less concerned with volatility in a market that he himself called a “a big fat bubble”. Of course, that was on the stump in 2016. Now it’s all his, baby!

Making America...and Markets Great Again



Source: CNN Money

With the market devoid of economic data this week we took the time to go back and look for top-down triggers that are driving the market this year. And it didn't take long to find them.

Each up leg up of the market this year has started around the 1st of the month. This lines up almost perfectly with the release of the monthly employment condition, also referred to as the jobs report, from the Labor Department.

April had a particularly strong effect on the market and juiced a major move higher for risk assets. A big short squeeze also ensued.

Six Months of Employment Fueled Rallies



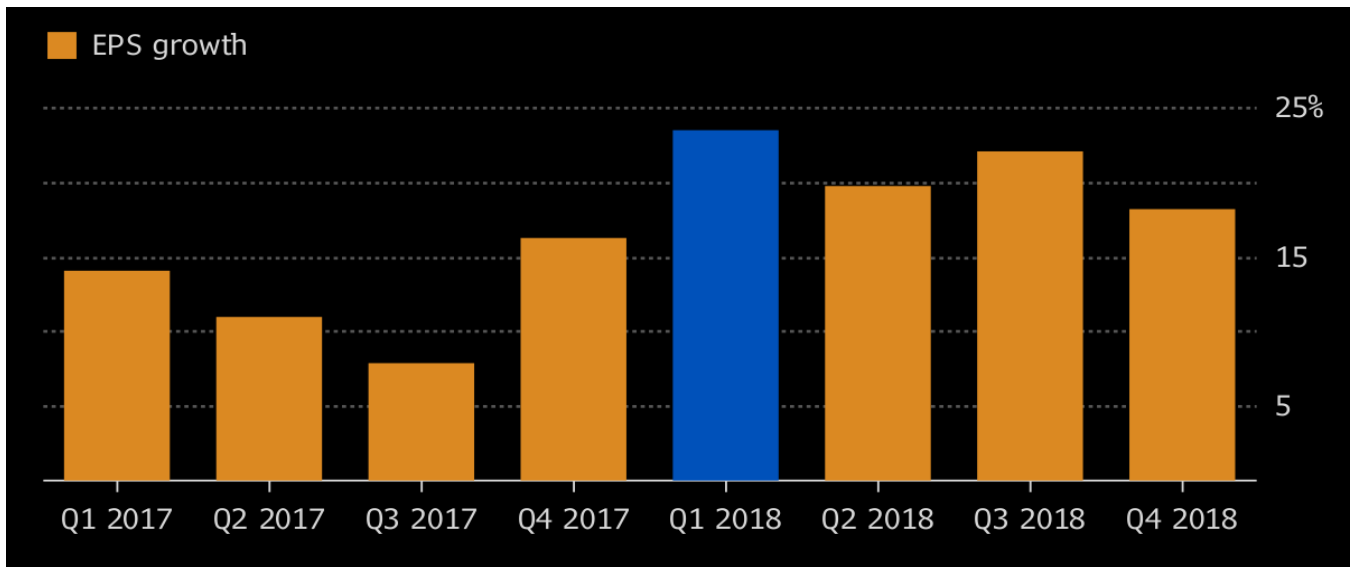
Source: Nasdaq

Stillwater View: So there is your broad market driver, as obvious as the day is long. At least for now with the trade related turbulence upon us, and risk off in effect, the next key date to watch for is July 6th, two days after the real fireworks.

The Bottom-Up

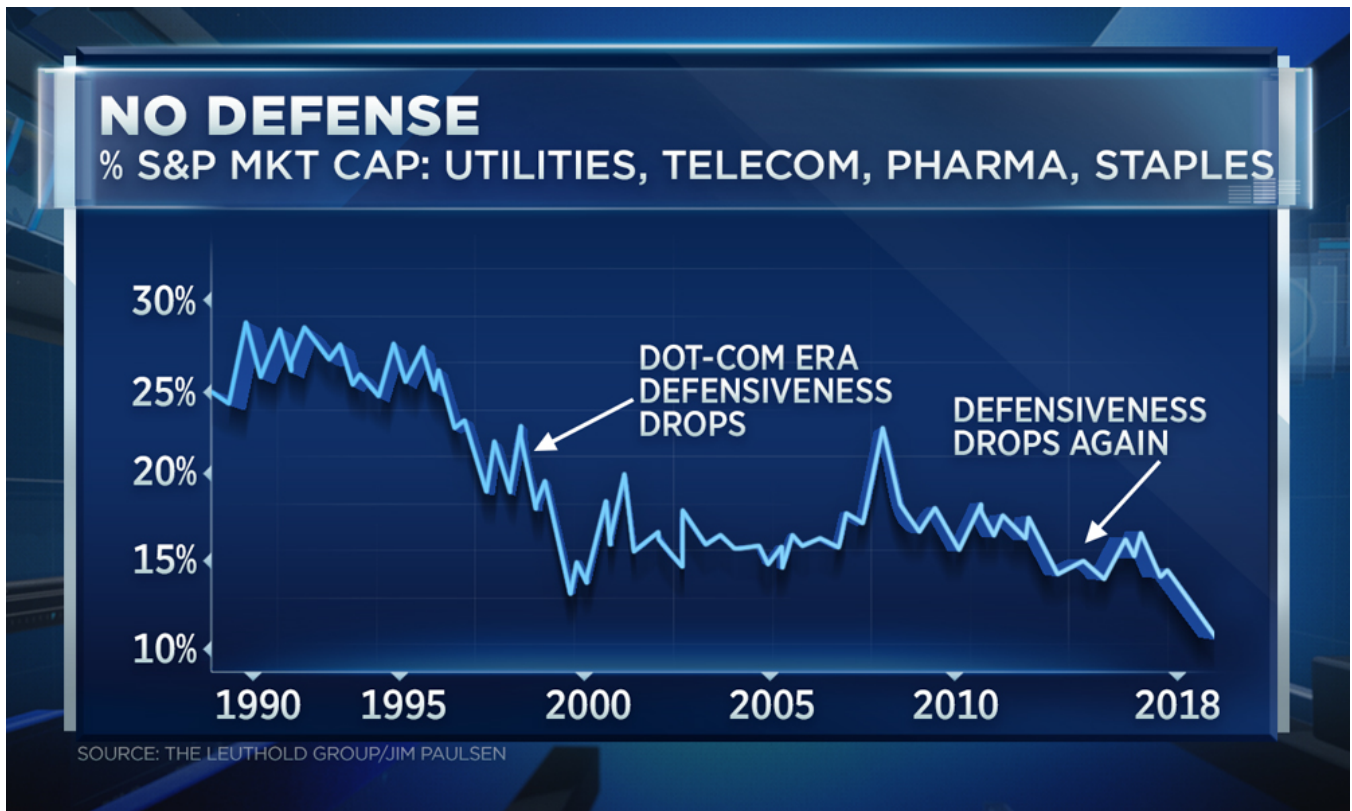
With waves crashing over the global trade bow, most companies are hunkered down waiting for the end the of quarter to announce another round of record earnings. Or so it would seem. Many on Wall Street are beginning to believe that perhaps the best is baked in and we are at peak earnings. Therefore, leaving us with the perception that as we move forward, it's only bound to get worse.

Are These the Good Old Days?



Source: Bloomberg

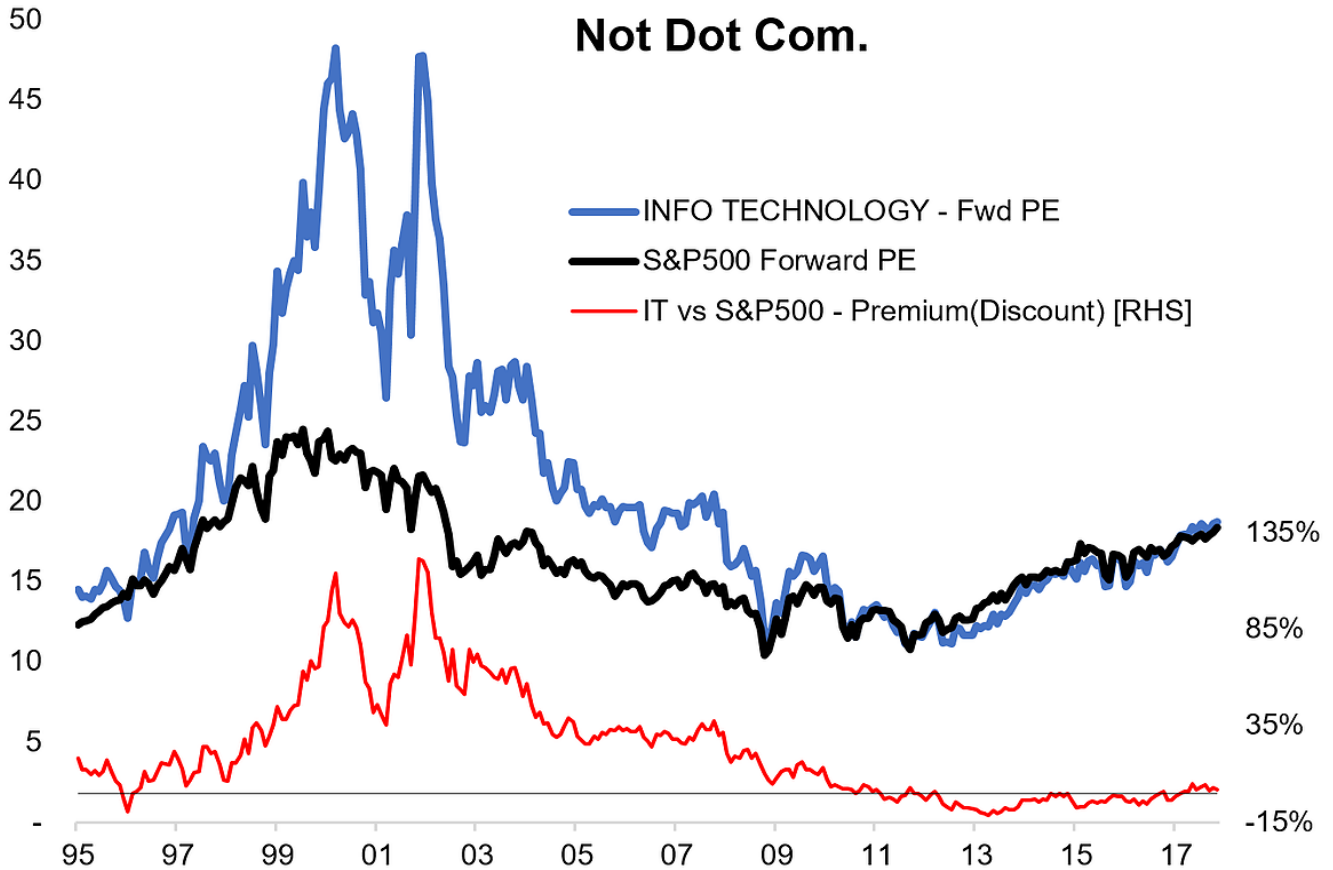
To set the stage for where we are right now let's go to a recent *CNBC* interview with [Jim Paulsen](#) of the Leuthold Group. Jim makes a lot of good points about the narrowness of this market, one of which is that stocks offering defense have gone from 20% of the S&P 500 to 10% today. Replaced in large part by technology, led by the FAANGS.



But as opposed to the tech bubble of the late 1990's these now have robust cash generating business models with pristine balance sheets. No wonder they have gone from a high beta cyclical sector to modern day staples. As the saying goes, this time it's different. Until it's not of course.

While the chart below is dated from last year, it does do a great job of painting the picture of a technology market that is nowhere near as heated as it was during the previous bubble.

Tech Markets of a Different Stripe

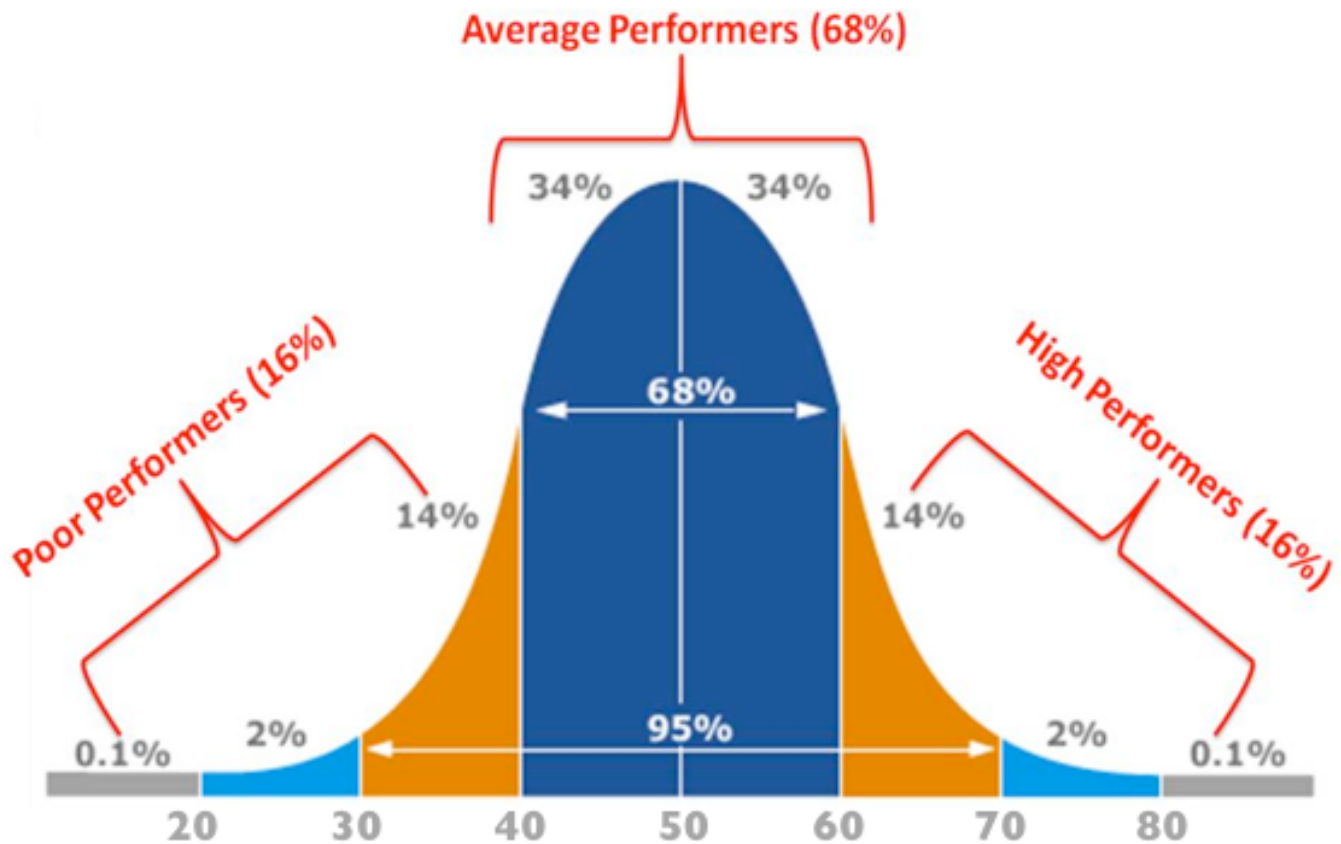


Source: Top Down Charts

Up & Down Wall Street

Since we have a lull in the action on Wall Street this week, Stillwater wanted to take a step back to reflect on where the major players sit with regard to the market and what's coming next. From left tail, to right tail, and everything in between we have a pretty broad spectrum to choose from. All of which are proven commodities on Wall Street.

For Whom the Bell Curve Tolls



The left tail crowd includes David Stockman who thinks “we are going down 50%.”. Dan Loeb believes that something happened in February and that a “negative shift” has happened. And then there is the globe-trotting Mark Mobius who thinks we could be looking down the business end of a 30% correction that is currently unforeseen.

The fat middle is made up of those like Leon Cooperman who think the market is fairly valued. Goldman Sachs’ chief strategist David Kostin said as much yesterday when he reiterated the firm’s view that there is overhead resistance ahead and only 3% upside this year and another 5% next. Oak Tree founder Howard Marks thinks the easy money has been made and is acting accordingly. And finally there is PIMCO’s Dan Ivascyn who believes the current situation is “more fragile” and that it’s time to reduce risk.

On the right side of the tail there is Jaime Dimon and Warren Buffett who think we are in the sixth inning with the one through four hitters due up. The billionaire hedge fund manager David Tepper thinks just as much. As mentioned here last week, the Tiger in winter Julian Robertson feels like there is value in the FANG stocks as they look cheap.

Twenty Years of the S&P 500



Source: Macrotrends

Stillwater View: And this my friends, is what makes a market!

We count no fewer than six billionaires on this list. Name all of them without a Google search and you win tickets to the Dodgers in the playoffs this year Game on!*

Last Years Dodgers



Source: KABC

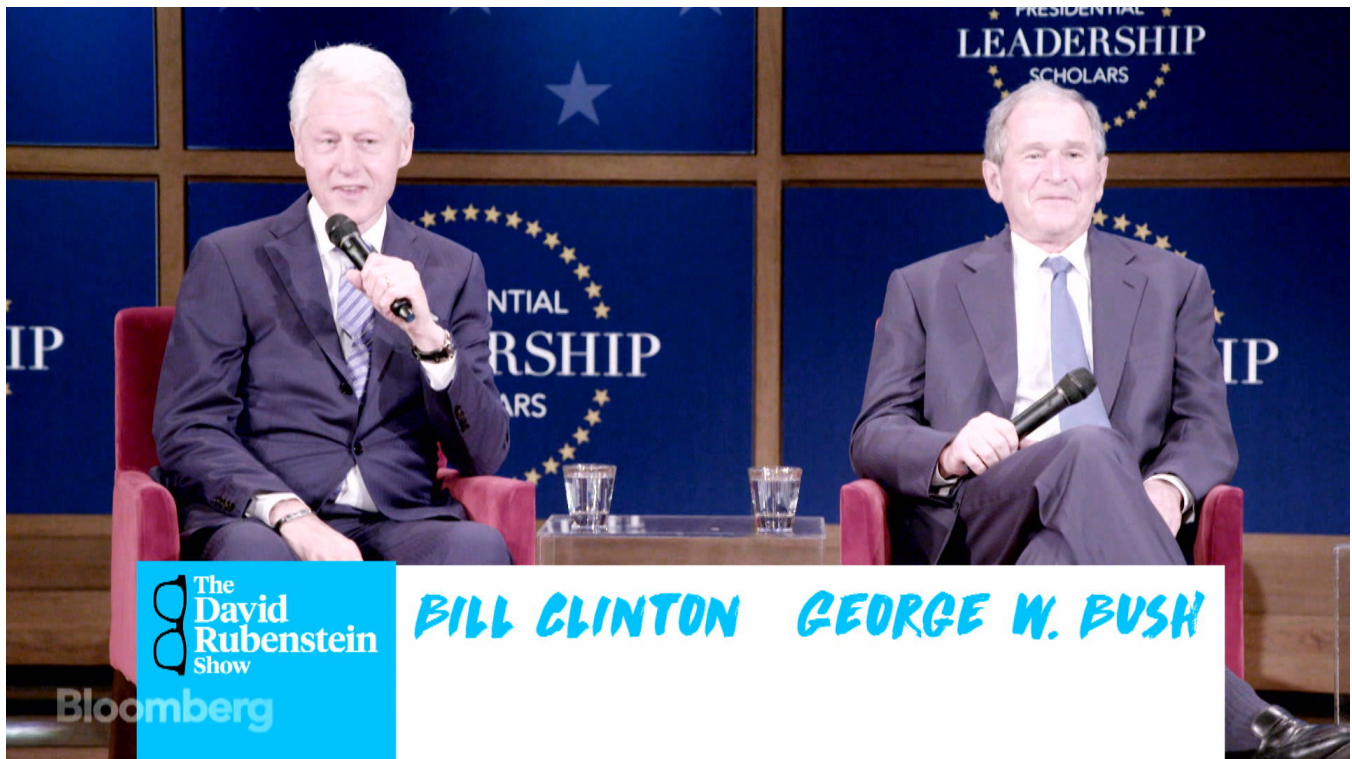
We tuned into *Bloomberg TV* earlier this week to catch a market update and were pleasantly surprised to see David Rubenstein sitting down with Apple's Tim Cook in the first episode of season four of his *Peer to Peer* program. Comical quote of the program...

Rubenstein: "Warren Buffett still uses an old flip phone...have you thought about how much your stock price would go up if he actually used the product?"

Cook: "I am working on it and told him I would personally come to Omaha and offer him tech support."

Last year we were introduced to the program and enjoyed watching Brian Roberts of Comcast, Phil Knight founder of Nike, Cellist Yo-Yo Ma, Paul Singer of Elliot, former presidents George Bush and Bill Clinton, and the prestigious list goes on.

Clinton v. Bush Round Two



Source: Bloomberg

Stillwater View: This really is a great program hosted by one of the true giants on Wall Street. The interviews are great and we can't sell them enough.

Side note on Rubenstein, David reached deep into his pocket to help finance the fixing of the Washington Monument following the damage it suffered during a rare east coast earthquake in 2011. True patriot.

David Atop the Washington Monument



Source: YouTube

Diversions

In what can only be described as one of the coolest stories we've ever heard, Mexican soccer fans caused what appears to be an "artificial seismic event" after taking down Germany 1 to 0 on Sunday. This was attributed to "mass jumping" at 10:35 am local time when the final seconds ran off the clock. Not only was this a big victory against the defending World Cup champion it was done so by a team and country with a very rich soccer tradition.

Nacho Librians Cheer on Mexico



Source: Buzz Feed

With springtime closed out and summer being ushered in it's time to grab your skis and head to the mountains. And no, we aren't talking about the Argentinian mountains where winter just arrived. We are talking about the Beartooth Mountains of Montana, where high mountain roads have just been opened and access to extreme skiing is now abundant.

This [drone video](#) was posted from mid-June two years ago and shows just how amazing the topography. Meanwhile, this [short film](#) from Rat Dog Productions gives you a feel for what you can expect. For the very daring there is the [Highway 212 jump](#) that if timed properly can clear a Chevy Silverado.

Skiing the Beartooth Mountains in June



Source: Backcountry Magazine

*The Dodgers are not likely to make the playoffs this year and that prize promotion assumes as much.

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