

Stillwater Capital - This Week in the Markets



The Top- Down

Rates continue to take center stage as the move past 3% has stalled out. And yet that hasn't changed the intense interest in the debate. This week, JP Morgan's CEO Jaime Dimon provided his opinion that yields on the ten-year were headed to 4%.

Sonal Desai, director of research at Templeton Global Macro agrees. Reiterating that the markets are underestimating the prospect for higher US growth, which brings with it increased wage inflation and eventually higher interest rates.

April CPI came in below market expectations. Meanwhile, speculative short positions short Treasuries remain at very high levels.

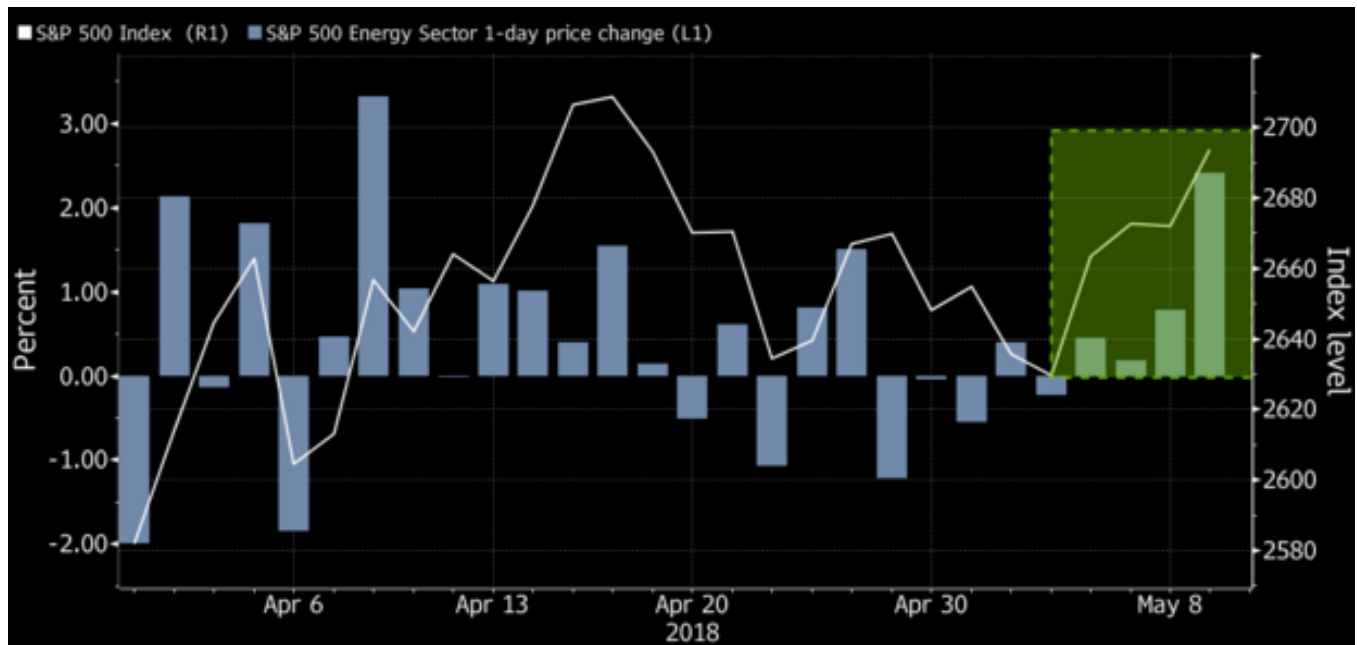
Net 10-Year Treasury Short Positions



Source: Bloomberg

The equity markets have seen a solid snapback this week with energy and technology leading the way. The oil market already had demand pull from a strong global economy going for it, and then the missiles started to fly. Bank of America thinks the commodity could reach \$100 next year.

Energy Leads the Rally



Source: Bloomberg

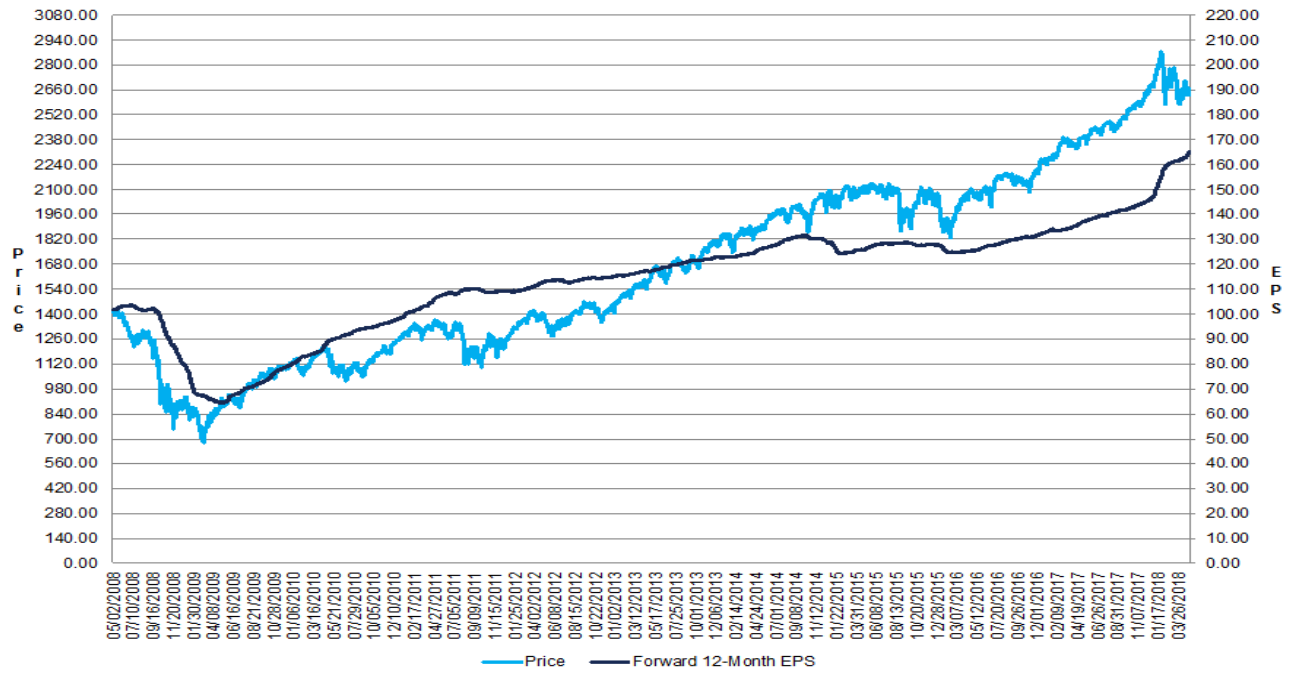
Stillwater View: Still bullish on the price of crude oil as the current environment is reminiscent of the late cycle move in 2007 and 2008 to \$140. Though this time supply should keep a lid on prices.

The Bottom-Up

First quarter 2018 earnings are in, and what a quarter it was . Experiencing an overall increase of 24% from the prior year, the biggest jump since the 34% rise in Q3 of 2010. This has helped to close the valuation gap and makes it easier to understand how 2018 could be a good one for the broad market. Even though under the surface sector turbulence continues.

Closing the Gap on Valuation

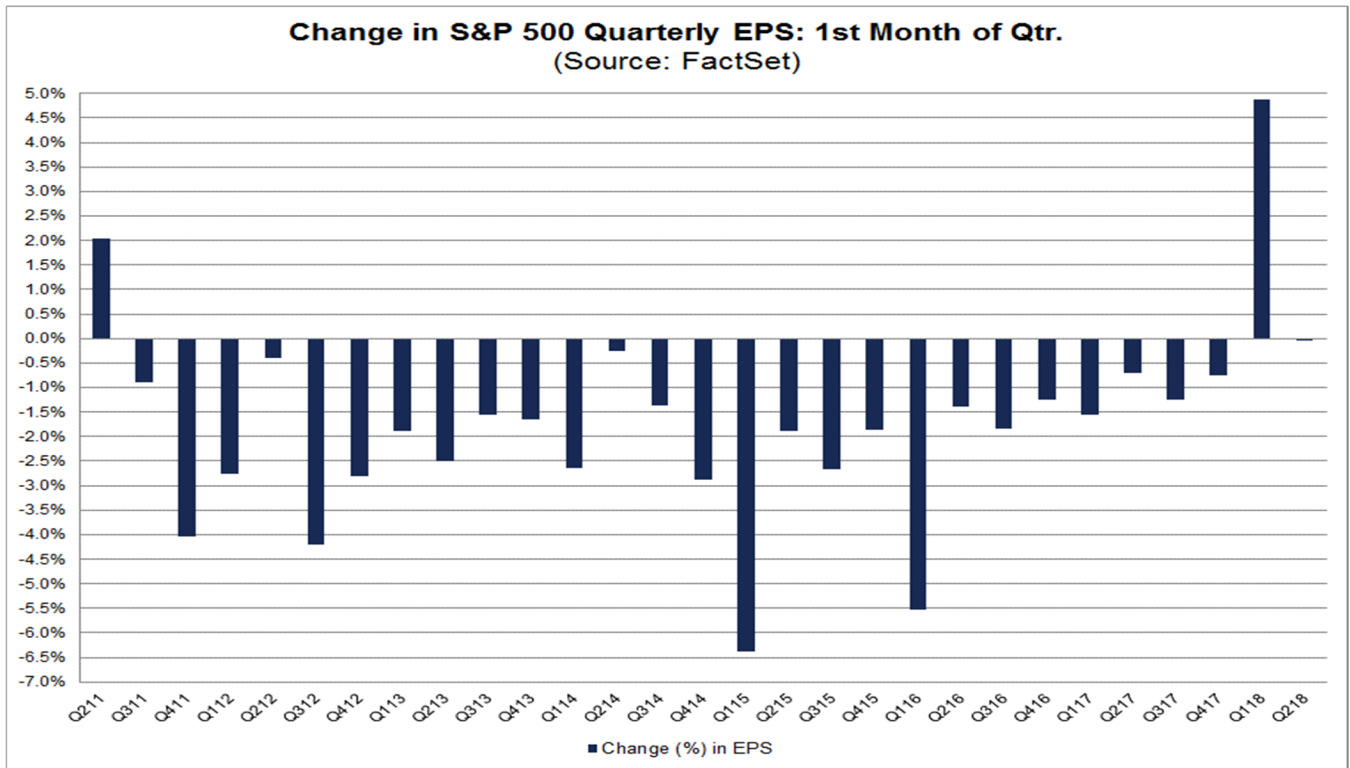
S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)



Source: FactSet

And the second quarter is looking strong as well...

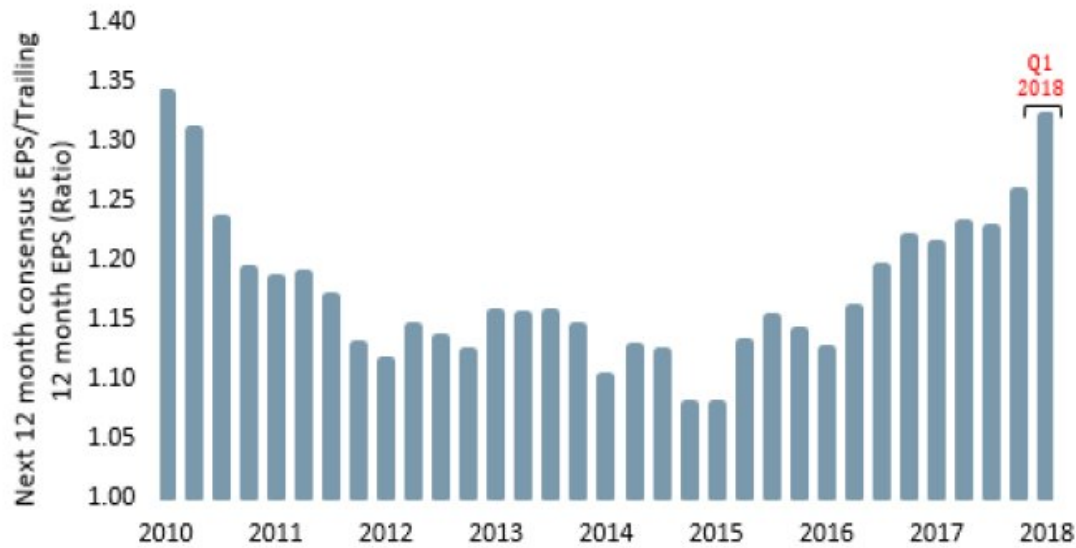
Earnings Estimates Are Moving on Up



Source: FactSet

Stillwater View: Earnings are the biggest and most powerful driver of the equity markets. And right now it looks like there is smooth air ahead in the near term. As George H.W. Bush would say, CAVU. Ceiling And Visibility Unlimited. Though some speculate that Q1 was the peak and a deceleration air pocket is lurking on the horizon.

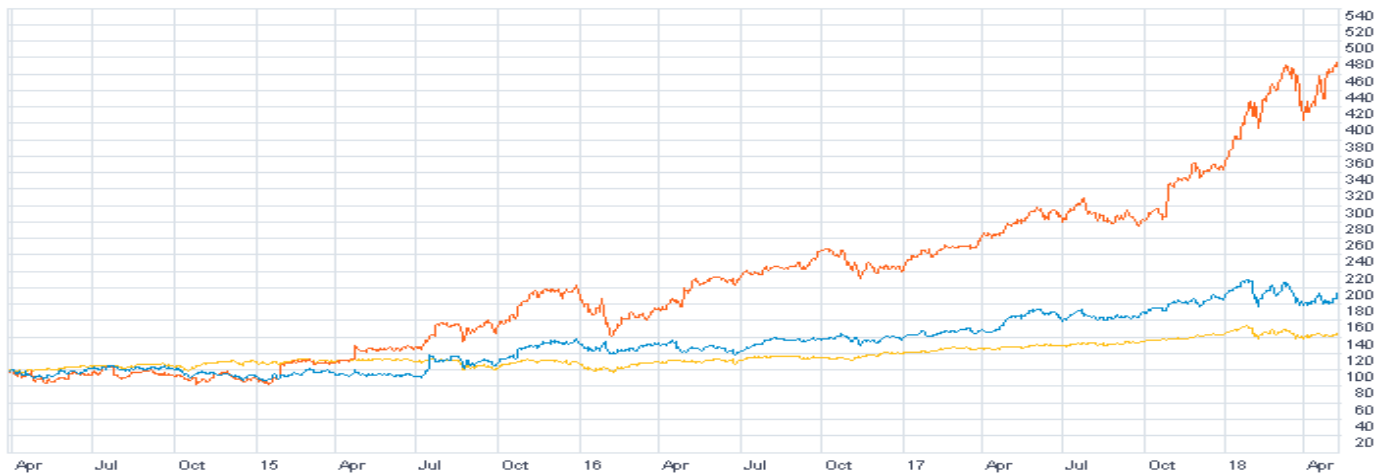
Peak Earnings in Q1 2018?



Source: FactSet and Bank of America/Merrill Lynch

The Berkshire Annual meeting became a virtual Apple love fest as Charlie Munger said that the 75 million shares the company added to its 165 million holdings wasn't enough and he wished they had bought more. And if it makes you feel any better, Buffett wishes he had bought Google and Amazon too. He called the later a 'business miracle'.

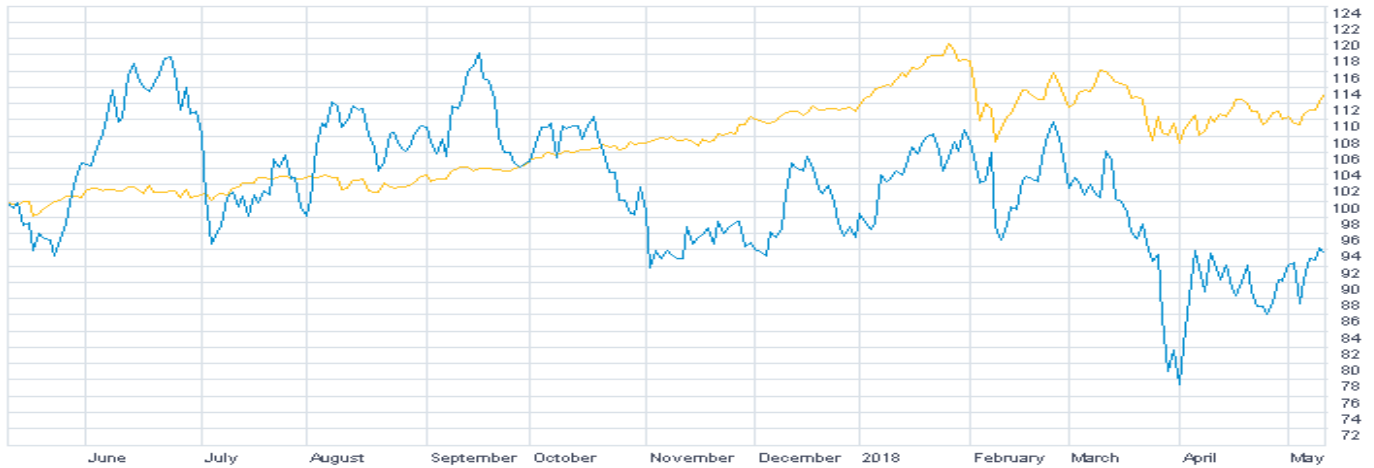
Amazon, Google vs. S&P 500 – A Decade of Outperformance



Source: Nasdaq

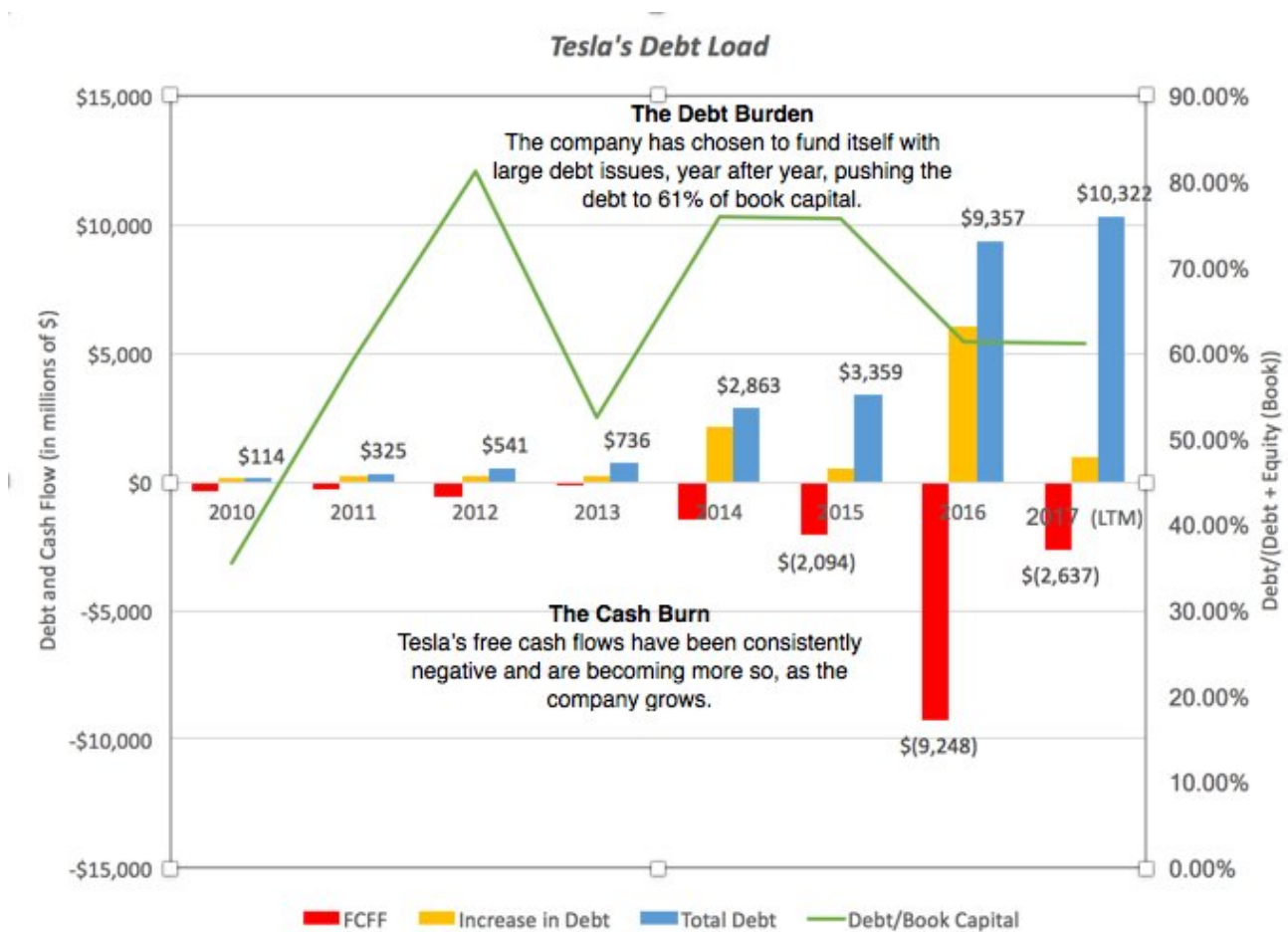
Buffett also had some choice words for Elon Musk. Meanwhile this week, the RBC analyst that called Musk out on Model 3 production made it clear that he was going to hold management accountable.

Tesla & S&P 500



Source: Nasdaq

Tesla Debt and Free Cash Flow



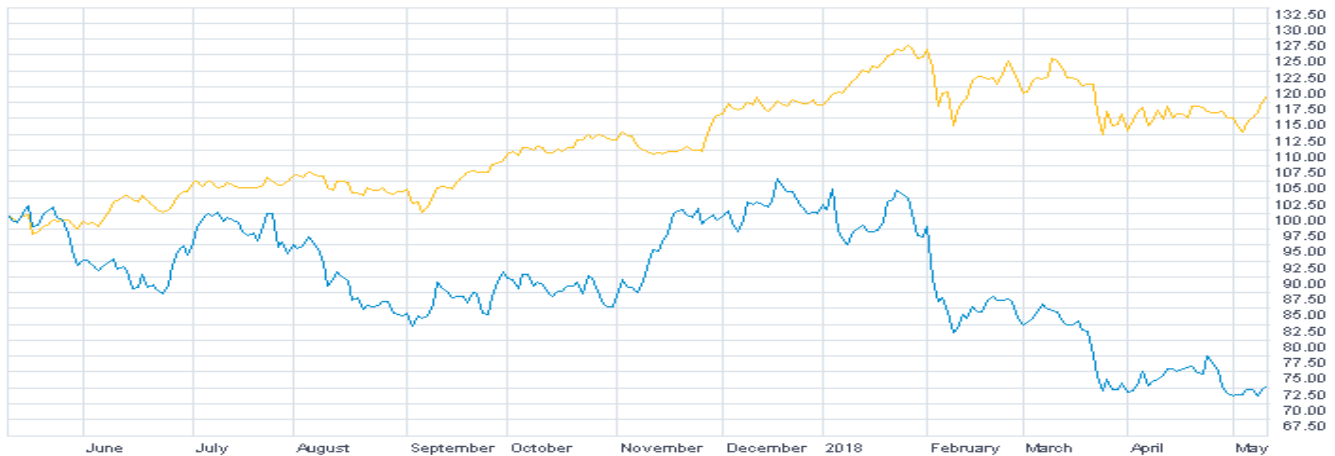
Source: Aswath Daomodaran

Stillwater View: Elon, focus on the fundamentals of the company and the stock will take care of itself. The concern isn't about near term Model 3 productions, it's about cash flow and serving the debt you have taken on. And for now we sit on the other side of his trade.

Up & Down Wall Street

The situation at Deutsche Bank continues to devolve as the once proud bank embarks on its fourth restructuring in three years. This week it was reported that the next round of cuts are likely focused on some recent, and expensive, recruits in the US.

Deutsche Bank vs. S&P 500



Source: Nasdaq

Stillwater View: We wish out friends and colleagues at DB well as this process unfolds.

Softbank's Mayoshi Son let the deal cat out of the bag hours before Walmart was to make their acquisition of Flipkart official. On the company's Tuesday earnings presentation, he made reference to the pending deal only to correct himself shortly thereafter. "With regards to Flipkart, it's not officially announced yet," he said with a weak smile TechCrunch reported. "Maybe I should not have mentioned that ... Well, I can't take it out!"

Trump with Mayoshi Son in 2016



Source: CNBC

The acquisitions provides Walmart instant access to a consumer market that it has been trying to break into for a decade, with little to show for it. The retailing giant has just 20 wholesale stores in India reflecting the challenges of entering that market.

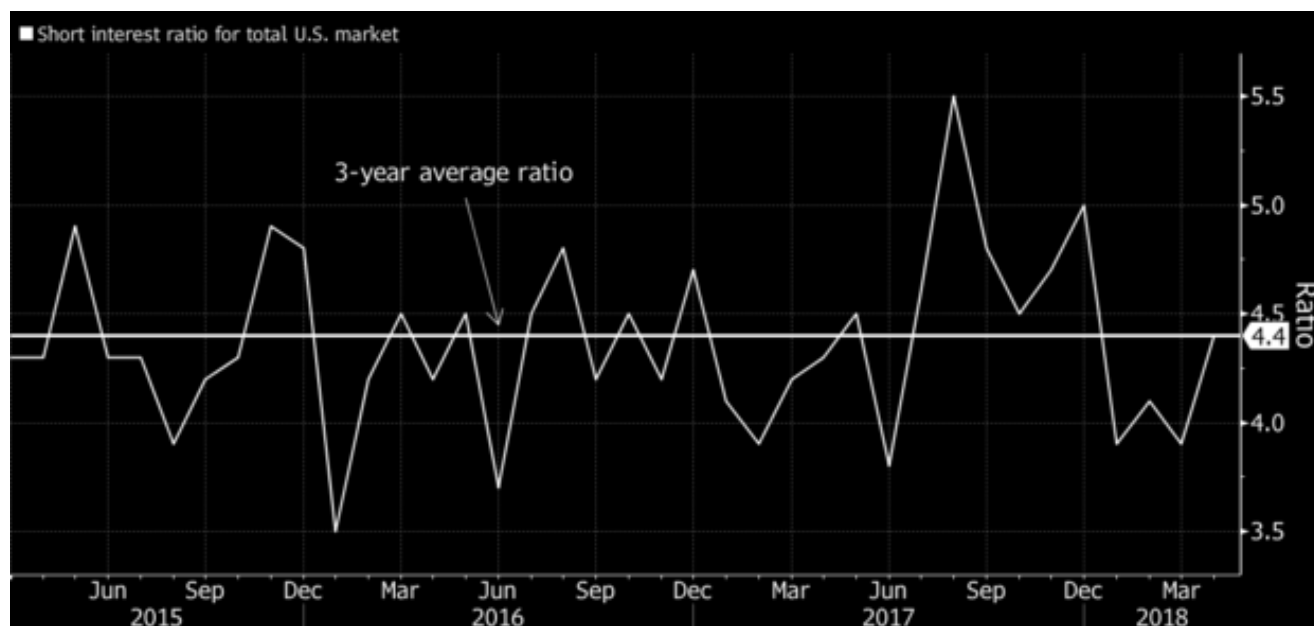
Bloomberg provides us with a lookback at previous strange – and bungled – merger announcements.

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- In 2014, a friend of hip-hop artist Dr. Dre posted a video online of the two celebrating his deal to sell headphone maker Beats Electronics to (notoriously secretive) Apple Inc. for about \$3 billion. The problem? The video dropped about a week before the deal was announced. “The first billionaire in hip hop, right here,” Dr. Dre says in the clip, which went viral before it was swiftly removed from Facebook.
 - In October, First Data Corp. accidentally sort-of announced its \$760 million deal for payments processor BluePay Holdings Inc. a day early, after a “draft news release inadvertently was posted briefly,” to its website. While talks were underway, no deal had yet been finalized and a conference call mentioned in the release was canceled.
 - We may never know which company Twitter Inc.’s then-finance chief Anthony Noto was talking about when, in 2014, he sent a public tweet that was (presumably) meant to be a direct message. “I still think

we should buy them,” he wrote to his thousands of followers. The tweet was deleted, but Twitter has made several small acquisitions since, including video streaming app Periscope in 2015.

Third Point’s founder Dan Loeb is getting more cautious on equities, advising his clients that the firm will have “have more balance on the short side” this year. His comments are noteworthy as Dan has been one of the more bullish hedge fund managers on Wall Street and benefited accordingly. This being said, his fund is flat through the first four months of the year.

Short Interest Ratio



Source: Bloomberg

Stillwater View: Dan is one the best in the business and we take his views seriously. Though we are surprised he is flat on the year. We also know that 2018 had become a profitable year for hedging and short selling. The bell went off on February 1st, and since then stock selection and sector rotation became important again after a year when a blind monkey could have made you money in equities.

The Equity Team at Simian Partners



Source: Marketwatch

What caused Bitcoin to tumble from its high this week? Might have had something to do with Warren Buffett calling bitcoin “probably rat poison squared”. Berkshire Chairman Charlie Munger added that trading in cryptocurrencies is “just dementia”. And as if that wasn’t enough, Bill Gates told CNBC that he would bet against bitcoin if he could.

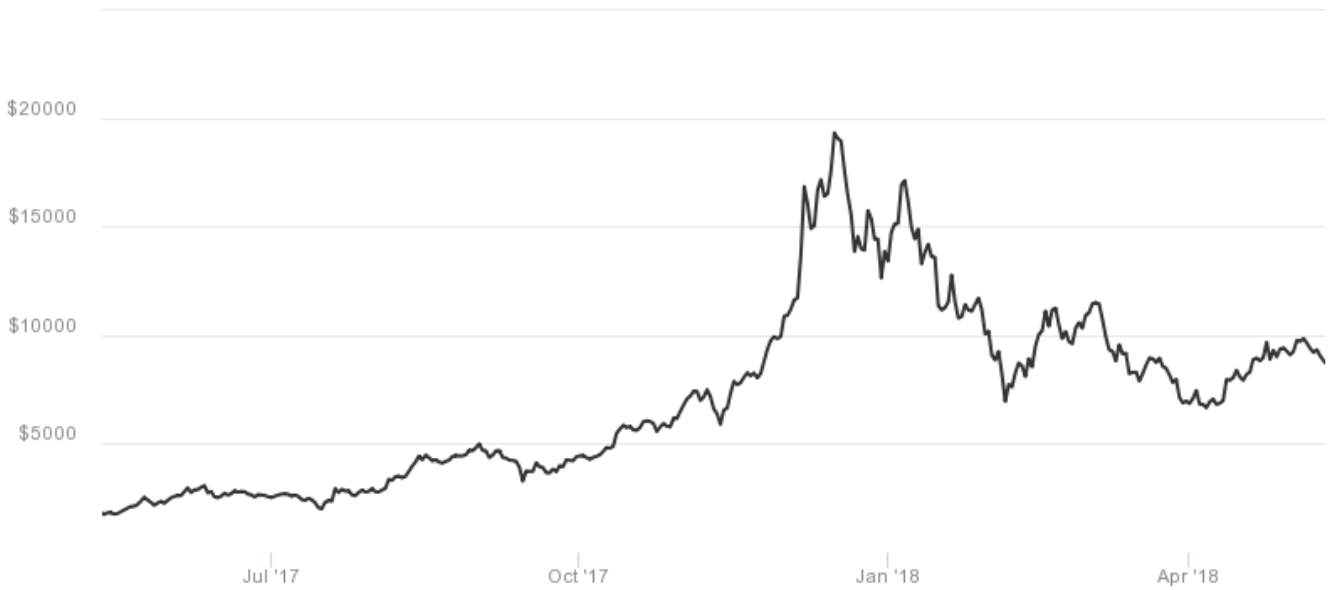
The Holy Trinity of Billionaires



Source: CNBC

Stillwater View: If that's not the trifecta of reason, we look forward to seeing what is.

Bitcoin



Source: Coindesk

The Shaquille O'Neil, the NBA Hall of Famer who has more nicknames than Liz Taylor had husbands, revealed his investment style at the BTIG charity trading day. Saying he “invests in things that are going to change people’s lives”, although every time he’s invested with a five year exit strategy, it has failed.

A (Very) Young Shaq with the Orlando Magic



Source: NBA

Stillwater View: Still bullish on Shaq Diesel after all these years. His lesson for the young to take \$75 of every \$100 earned and save it is priceless.

In venture funding, just as in life, there are winners and losers. This week highlighted both, as the aforementioned deal to bring Flipkart under the Walmart umbrella was in the former camp and the widely distributed list of who is going to get zeroed out if Theranos goes bankrupt, as is speculated to occur. Fortune has the story of how it’s all going down.

- \$150 million: **The Walton Family**, heirs to Walmart Founder Sam Walton
- \$125 million: **Rupert Murdoch**, executive chairman of News Corp
- \$100 million: **Betsy DeVos & her family**, Secretary of Education
- \$100 million: **The Cox family**, owners of media properties
- \$96 million: **Partner Fund Management**, investment management firm
- \$70 million: **Shareholders** who invested through venture funds

- \$30 million: **Carlos Slim**, media investor
- \$25 million: **Andreas Dracopoulos**, Greek shipping heir
- \$20: **The Oppenheimer family**, former owners of De Beers
- \$6.2 million: **Riley Bechtel**, former chairman of Bechtel Corp
- \$1 million: **Robert Kraft**, owner of New England Patriots

Stillwater View: While losing is never an easy thing, at least the aforementioned had that kind of size to begin with.

Diversions

Diversions of *'This Week in the Markets'* was inspired by the original *Weekend* section of the Friday *Wall Street Journal* which has now evolved into the real estate focused *Mansion*. *It's a guilty little pleasure* and we still love it. With that as inspiration, *Diversions* takes a walk to show some unique homes the market has to offer this spring.

First up there is Prince's 10,000 square foot island home in Turks & Caicos. Esquire reports that the home was valued at \$12 million at the time of his death.

The Home with Purple Dock & Driveway



Source: Esquire

For those looking for something extremely rare, the last remaining Ellis Island ferry can be yours for \$1.25 million. The Yankee ferry was built in 1907 and was converted by a past owner into a houseboat.

The Yankee



Source: Franklin | Ruttan

In Silicon Valley prices continue to defy anything resembling logic as a home in San Jose that was heavily damaged in a fire two years ago recently sold for nearly \$1 million. Which was \$100,000 over the asking price.

1375 Bird Avenue in San Jose, California



Source: Business Insider

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