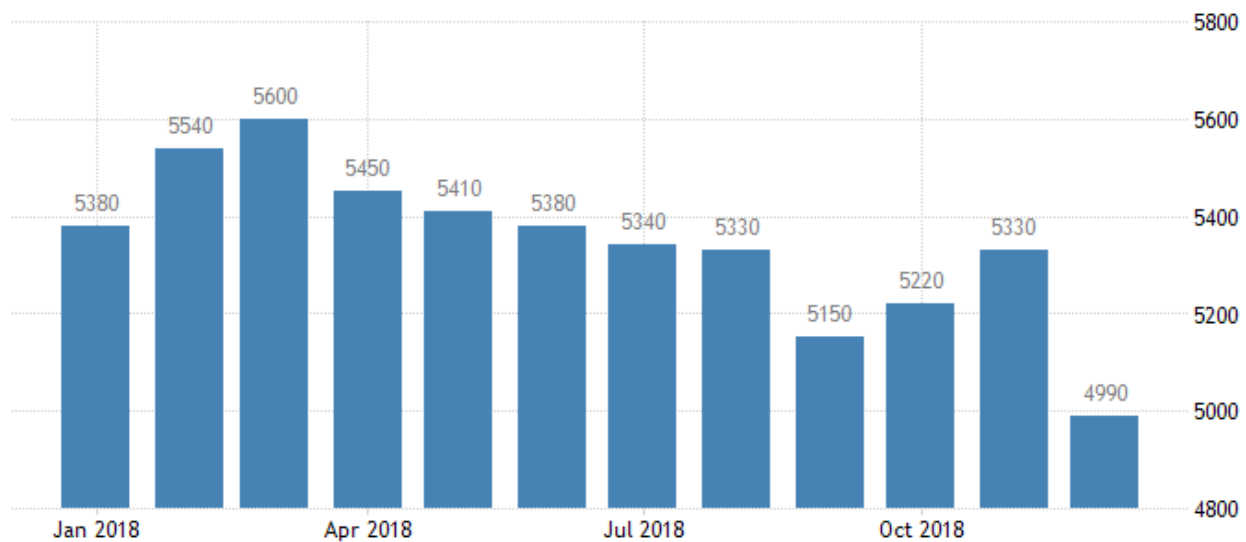


This Week in the Markets

The Top- Down

Realtors, and anyone trying to sell a home, are both shaking their heads this week as news hit that existing home sales fell 6.4% in December. Freddie Mac's chief economist Sam Khater blamed it on a 'mental recession' adding that we've entered into a period where there has been 'a constant stream of negative headlines' that has begun to wear on the motivation of buyers..

Existing Home Sales



SOURCE: TRADINGECONOMICS.COM | NATIONAL ASSOCIATION OF REALTORS

Source: NAR

A problem has emerged outside New York City as the inventory of homes for sale in the Hamptons has skyrocketed, rising 82% from last year's level. Tough to tell what it says about Wall Street money looking for a place to cool its heels in the summertime. What is clear, is that prices are going to need to come down to clear out inventory. Maybe Ken Griffin will show up with his wallet and pick a few places off.

Buyer's Market on Long Island

Take Your Pick

The number of homes for sale in the Hamptons jumped in the fourth quarter

Home inventory



Source: Miller Samuel Inc. and Douglas Elliman Real Estate

Bloomberg

Source: Bloomberg

Outside of the hard numbers, there are a pair of elephants in the room that are looking a little a little old these days.

Shutdowns & Trade Wars



Source: Elephant National Park

Everyday a new headline emerges that highlights the chipping away of both business and consumer confidence as it relates to the political gamesmanship going on. A game that forced the president to blink.

Here is a boots on the ground look at how the federal shutdown is impacting Harrisburg, Pennsylvania and Columbia, Missouri. Maybe the late Friday announcement of a deal to cover bills for three weeks will actually lead to something of substance.

For a broader look at how this is impacting the nation, read *Business Insiders* recap of RBC's greatest hits collection of how the near 1,000,000 furloughed workers is impacting industry and commerce. *Bloomberg* also has a rundown of all the shutdown news worth the digital ink. Moran Stanley's CEO, James Gorman, is on record saying that it is 'extremely negative' if the shutdown continues, with Boeing is beginning to say the same thing. Good news though, the Department of Defense still has the lights on.

Open for War



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

1/19/2018

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE

SUBJECT: Guidance on the Government Shutdown

Our government will shutdown at midnight tonight. We in the Department of Defense will continue carrying out our fundamental responsibility to defend our Nation and the American people.

We will continue to execute daily operations around the world - ships and submarines will remain at sea, our aircraft will continue to fly and our warfighters will continue to pursue terrorists throughout the Middle East, Africa, and South Asia. While training for reservists must be curtailed, active forces will stay at their posts adapting their training to achieve the least negative impact on our readiness to fight.

I recognize the consequences of a government shutdown. You have my personal commitment that the Department's leadership will do our best to mitigate the impacts of the disruptions and any financial burdens to you and your families.

Steady as she goes - hold the line. I know our Nation can count on you.

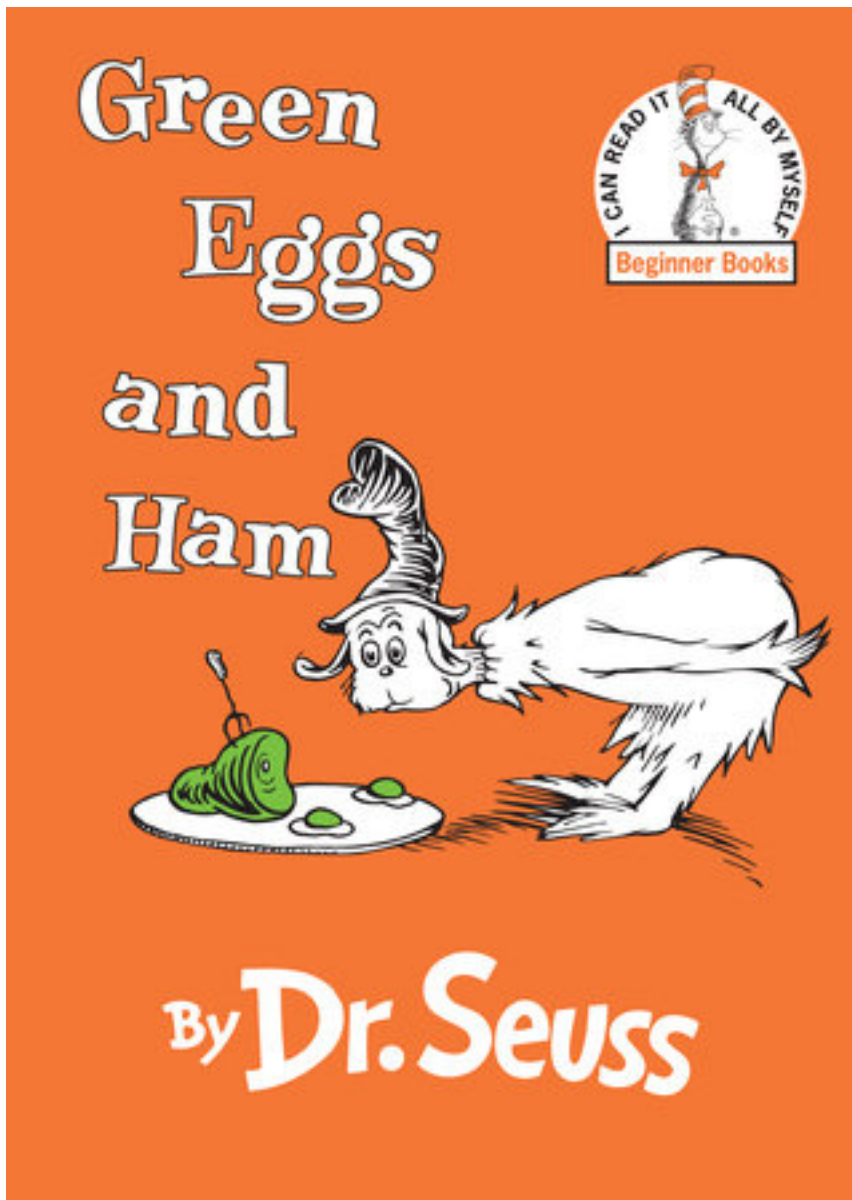
STAY ALERT.

Jim Mattis

Source: The Department of Defense

Meanwhile D.J. Donald got into it on Wednesday with a little Johnny Cochrane inspired tweet stating that if you 'build a wall, crime will fall'. Both men play bit parts while being compared to Jessie Jackson's reading of 'Green Eggs and Ham' on *Saturday Night Live* years ago. Now *that* was a performance.

"I Would Not, Could Not..."



Source: Random House

To wrap up the top-down this week we are going to vent some frustrations. Life in the markets isn't easy to begin with, and it gets tougher to make a buck by the day. But as we like to say, there are no crybabies in the casino. Although for some reason, this moment though feels different.

On the bullish side, the president uses the stock market as a barometer for how he is doing. With both the shutdown and the escalation of the global trade war, variables he can directly control, the thought is that he can claim some form of victory and make them both go away tomorrow. Meanwhile, his Commerce

Secretary, Wilbur Ross, says China and the United States are 'miles and miles' from resolving things.

Remember This?



Donald J. Trump ✓

@realDonaldTrump

Follow



Tariffs are the greatest! Either a country which has treated the United States unfairly on Trade negotiates a fair deal, or it gets hit with Tariffs. It's as simple as that - and everybody's talking! Remember, we are the "piggy bank" that's being robbed. All will be Great!

6:29 AM - 24 Jul 2018

Source: Twitter

So here is the conundrum, to get a return you need to be invested, unless of our course you can short the market. Cash pays you very little, and you actually lose 2% a year as buying power gets eroded by inflation. So in reality, how much 'offense' can you play to score points, while at the same time protecting those points with a good 'defense' in a late cycle market? Playing well on both sides is not an easy task, having said that, if it were little kids would be doing it.

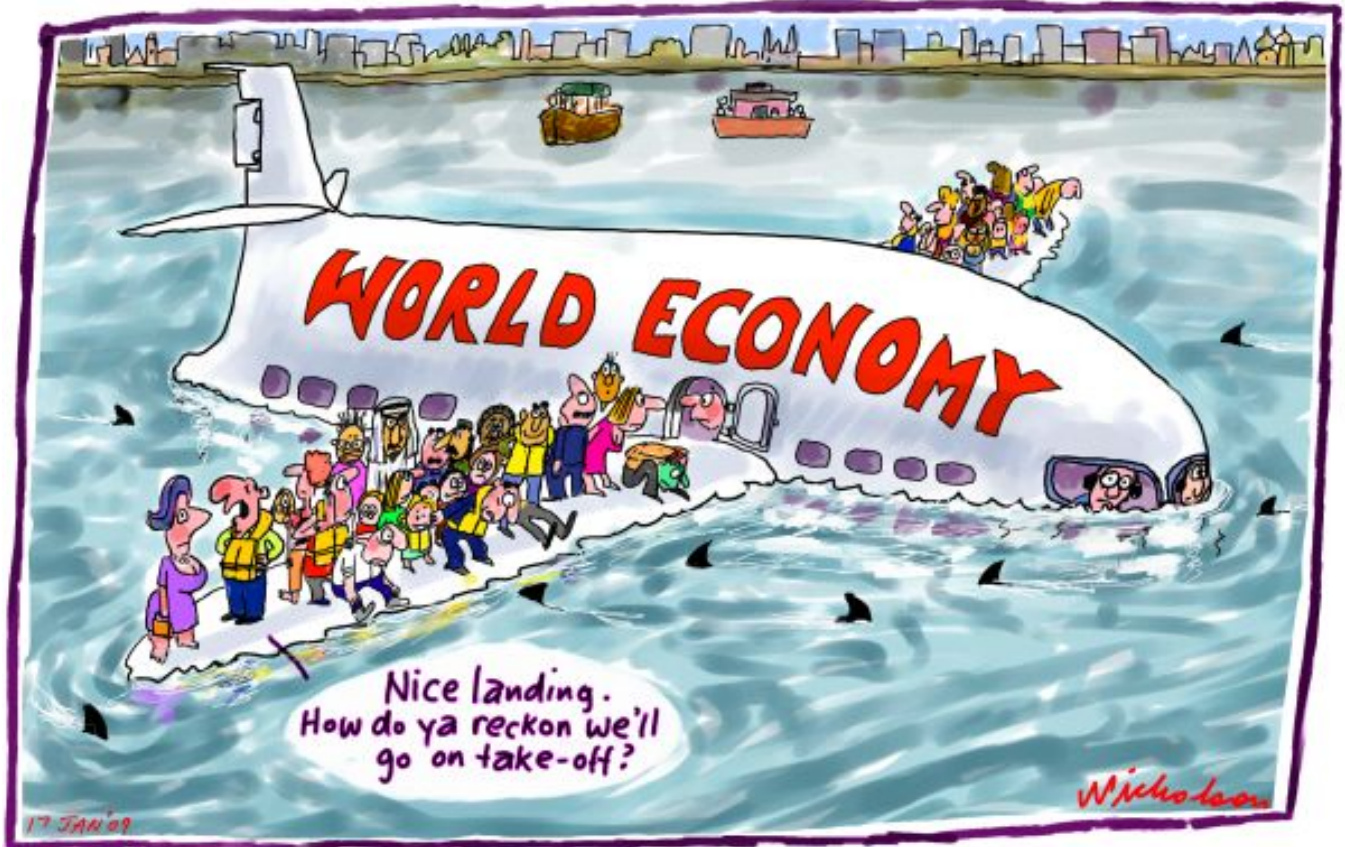
Which One Wins?



Source: NBC Sports

What we know is this, there are two huge external events that can go away any time and cause the market to rally big. On the flip side, every day that goes by we are one step closer to a recession that lies out there on the horizon. For any fund manager who calls themselves a 'long-term' investor the next 24 months could very well be the most harrowing testing ground since the global financial crisis of 2008.

'We're Going in the Hudson'



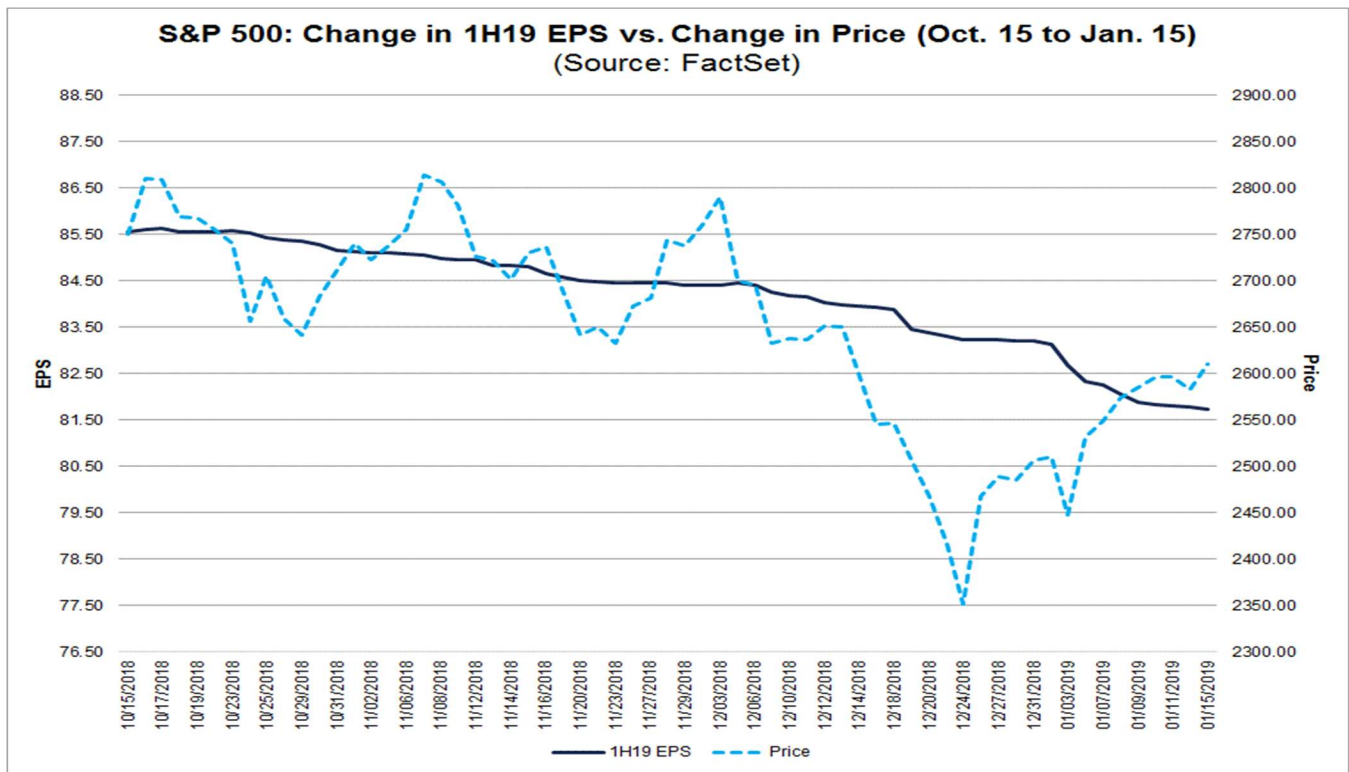
Source: Luxury Gold Bars

The Bottom Up

The bigger problem for those of us who are practitioners of the art of portfolio management is to reconcile with the markets when stocks are going to begin to discount a recession. Fourth quarter stock performance last year was abysmal, and every indicator says the selloff was based on a bottom up slowdown in earnings not top down economic concerns.

The chart below shows first half 2019 S&P 500 earnings expectations going from \$85.50 to \$81.50, a 5% decrease. The market did not have that priced in, as the S&P 500 slid 20% tip to tail during this period.

Earnings Down 5% - Market Down 20%



Source: FactSet Earnings Insight

With less than 15% of the S&P 500 reporting, in some cases it's beginning to look like December priced in too much bad news. For others, not so much.

- Airlines earnings came with mixed results. American Airlines reported ahead of what the Street thought it was going to do, and raised expectations for next year. Southwest Air was good, but not great. Company CEO Jerry Kelly said the shutdown 'could break the system.
- The news from Ford Motors was all over the place. Auto sales were higher, but as CNBC reported, layoff and pension costs are eating into earnings.
- Raw materials producer Freeport McMoRan , dropped 12% on weaker copper pricing. The commodity is called Dr. Copper because of its ability to diagnose economic expansion or contraction

The Doctor Is Out



Source: Macrotrends

- Our favorite herb and spice maker, McCormick & Co. missed earnings estimates after raising guidance last quarter. Not the kind of inconsistency you want to see out of consumer staple company. Meanwhile, Piper Jaffrey downgraded Post Holdings out of fear of a slowdown in frozen products.
- The big news this week in terms of earnings related stock performance was in the semiconductor sector. Thursday was a huge day, the best in a decade, for the likes of Xilinx and LAM Research, with each rallying more than 10% on the news. Not bad for a sector that has been hit hard the past four months.

Xilinx FPGA



Source: Electronic Design

Private Companies

Looks like Joe Montana, the original GOAT, is getting into the business of cannabis cultivation as it was announced this week that he joined the board of directors of Caliva, one of California's leading suppliers of weed, joints, and vape pens to retailers. Joe Cool and Carol Bartz, the former CEO of Yahoo! both participated in a \$75 million A round financing that recently closed. Montana has an altruistic reason to invest as he has seen the ravages of opioids and benzos on former NFL players who face chronic pain and addiction.

Caliva Products



Source: Caliva

While we neither endorse nor condone cannabis products, we think Joe Montana is a pretty reasonable and thoughtful guy. If it's good by him, it's probably good by most. While Caliva has wrapped up its series A funding round, a series B is also in the works. If you are interested, please let us know, and we will point you to the right people at the company. Please keep in mind, Stillwater does not sell securities of any sort, have any contractual relationship with this company, nor give any advice on private transactions.

Davos-a-Palooza

The World Economic Forum, better known as Davos for the Swiss town it takes place in, wrapped up on Friday after a veritable brigade of the world's top CEO's met to talk shop. This year's event was Trump free in presence, but not in spirit, as the unorthodox management style of the president tends to keep the world's leaders on edge. China's Xi also took a pass this year, and George Soros filled the vacuum by calling him 'the most dangerous opponent to open society'.

CNBC has made it a point to setup what can only be described as the most stunning set in financial news history. At the very least it beats the shots taken from the floor of the NYSE.

Elevation 5,120 Feet



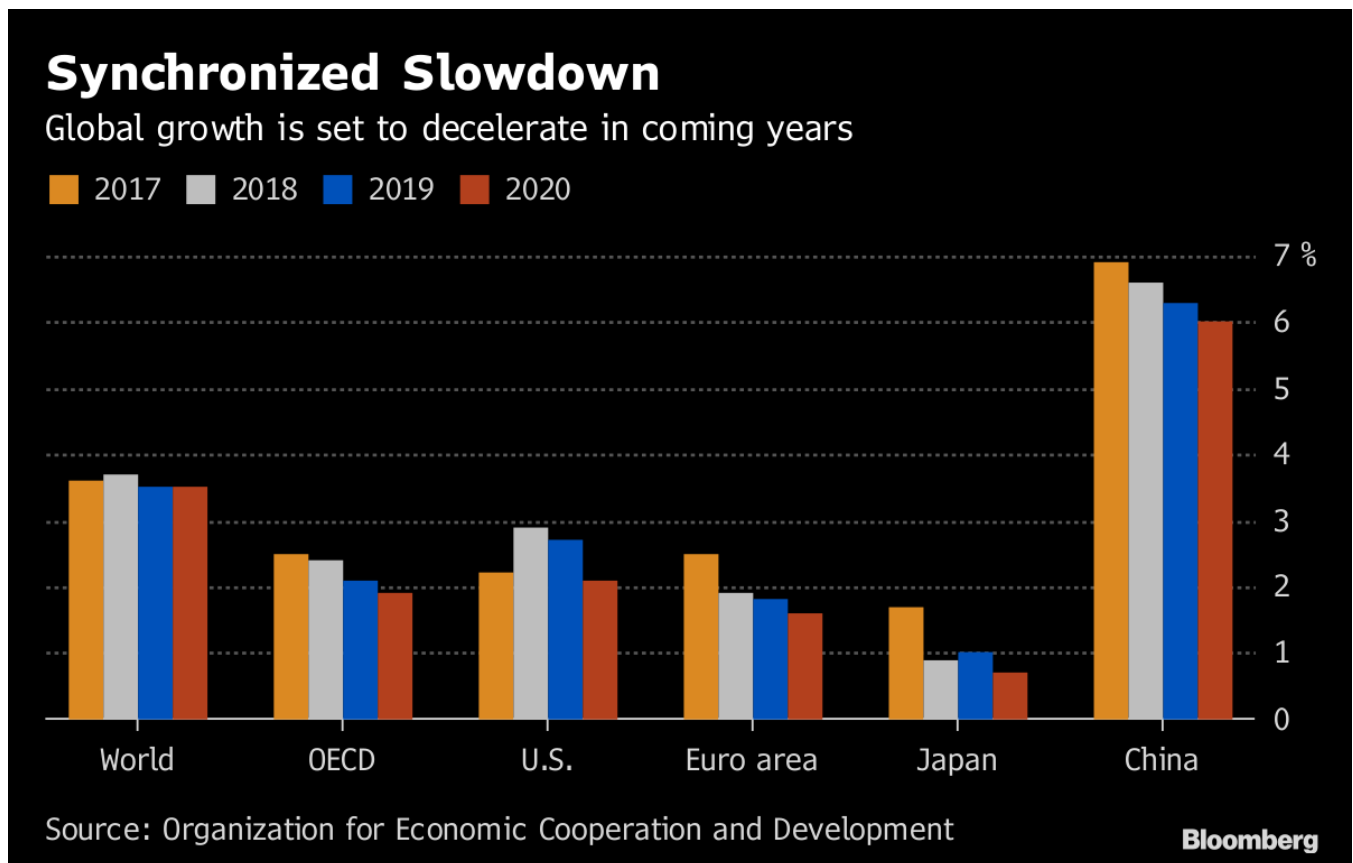
Source: CNBC

Here are some of the highlights, or lowlights, depending on what you are looking for. Too early for a Bloody Mary?

- Bridgewater's Ray Dalio warned of the very real risk of a global recession in 2020. Dalio told CNBC "It's going to be globally a slow up. It's not just the United States; it's Europe; and it's China and Japan,"
- While not actually at the conference, Baupost's Seth Klarman had attendees talking when news of his sobering annual letter reached Switzerland. In it, he wrote "It can't be business as usual amid constant protests, riots, shutdowns and escalating social tensions,"
- Blackstone's Steve Schwarzman was a little bit more optimistic, saying the economy will decelerate, but from a very high level. He was also confused as to where the notion of a recession exists when the economic indicators

back home look so good. “I don’t see any recession. I don’t know where that came from except the last two months of the year. Consumer confidence is down a little bit, which I think comes from some of the dysfunction, but they are still spending a lot of money,” Schwarzman said.

How Slow Does Growth Go?



Source: OECD

Up & Down Wall Street

If UBS clients are any barometer of market sentiment, then it’s pretty bad out there. Early in the week the Swiss investment bank reported that \$13 billion left the firm in the fourth quarter, \$8 billion of which came from the wealth management division.

Like Morgan Stanley, UBS set about de-risking after the 2008 financial meltdown. The savior was supposed to be the managing of the worlds 1%. Turns

out, even that isn't totally immune to market volatility. And now the bonus pool is getting smaller.

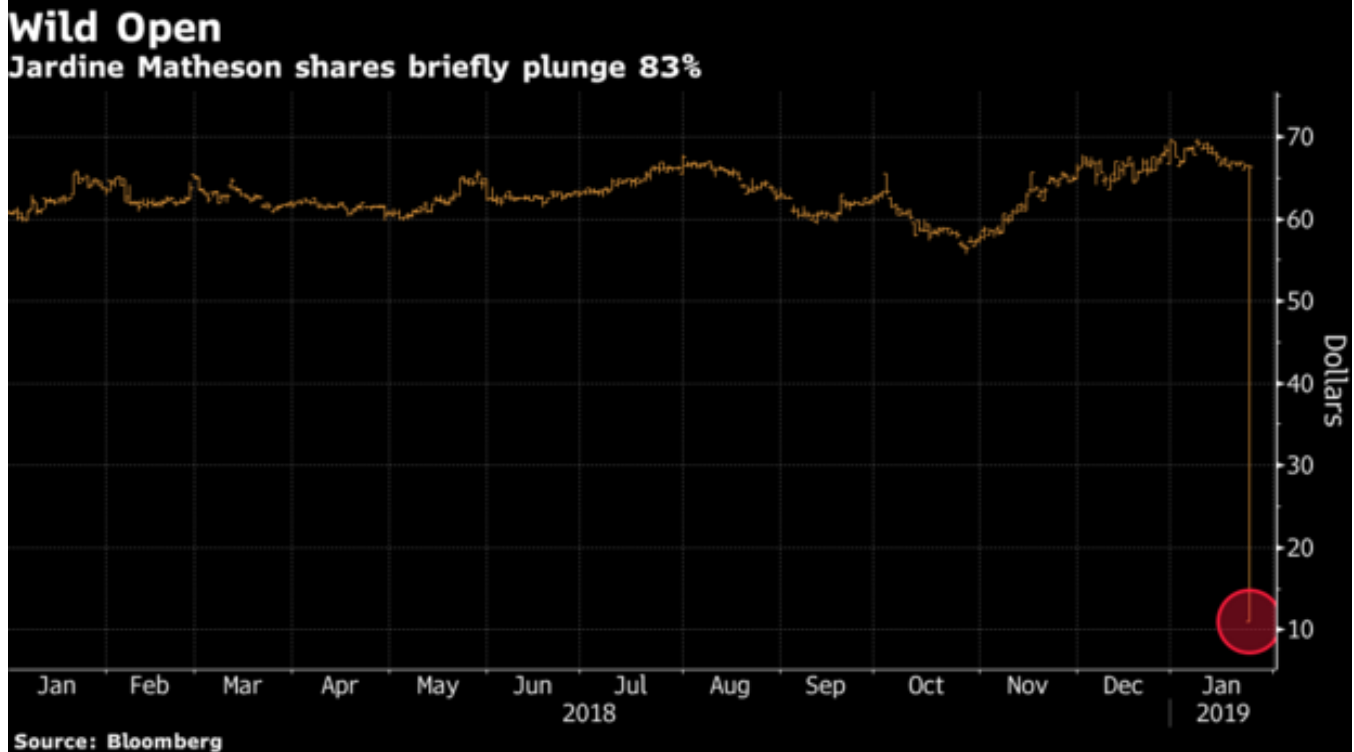
UBS Headquarters



Source: UBS

A 'fat finger' error is being blamed for the short term loss of 83% in Jardine Matheson, the 186 year old conglomerate. For those not in the know, a fat finger is when a trader adds a few more zeros on a trade or hits 'buy' versus 'sell'. What happens next is some very unintended, yet very exciting, consequences. Goldman and Morgan Stanley are asking for a do-over, and so are the Saints.

“What the...?”



Source: Bloomberg

Diversions

For less than \$1 million you can own a great place to retreat to when the zombie apocalypse arrives. Described as a 'doomsday preppers dream', it includes 22 bedrooms, a wine cellar, 16 inch cement walls, a solarium, two pipe organs, and wait for it, a gold mine.

Beyond Thunderdome



Source: S.F. Gate

Just in time for a crappy market, Showtime has signed up to produce the series *'Black Monday'*, the story of the 80's high life and 1987 market crash. First impressions is that it looks like the love child of *'Wall Street'* and *'Pulp Fiction'*. The series stars Don Cheadle, who in his own words, puts the 'brother' in Lehman Brothers.

Black Monday



Incredible to think a day that wiped out 25% of the value of the markets is barely noticeable on a long term chart of the markets. If you are looking, here's a hint, it's on the far left side.

Black Monday, Now Just a Blip



Source: Macrotrends

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