



August 25th, 2017

The Top-Down

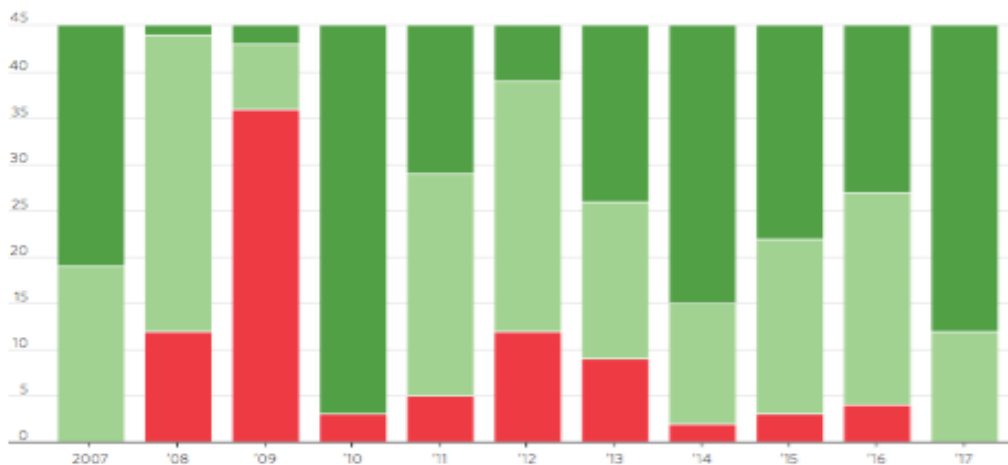
The Fed’s annual August gathering in Jackson Hole continues today with speeches from Janet Yellen and ECB head Mario Draghi. Earlier in the week, Kansas City Fed President Esther George provided her view that rates should be [heading higher](#), even with subdued headline inflation. The [Kansas City Fed](#) hosts the event. For those with an interest in the history of this gathering of central bank policymakers there is [“In Late August”](#).

Stillwater View: The Jackson Hole symposium became less of an academic gathering and more of an [event to watch](#) beginning in 2008 as the markets Pavlovian response during the Bernanke quantitative easing years was to rally. This year is different in that it’s the first time in a decade where there is [synchronized global growth](#).

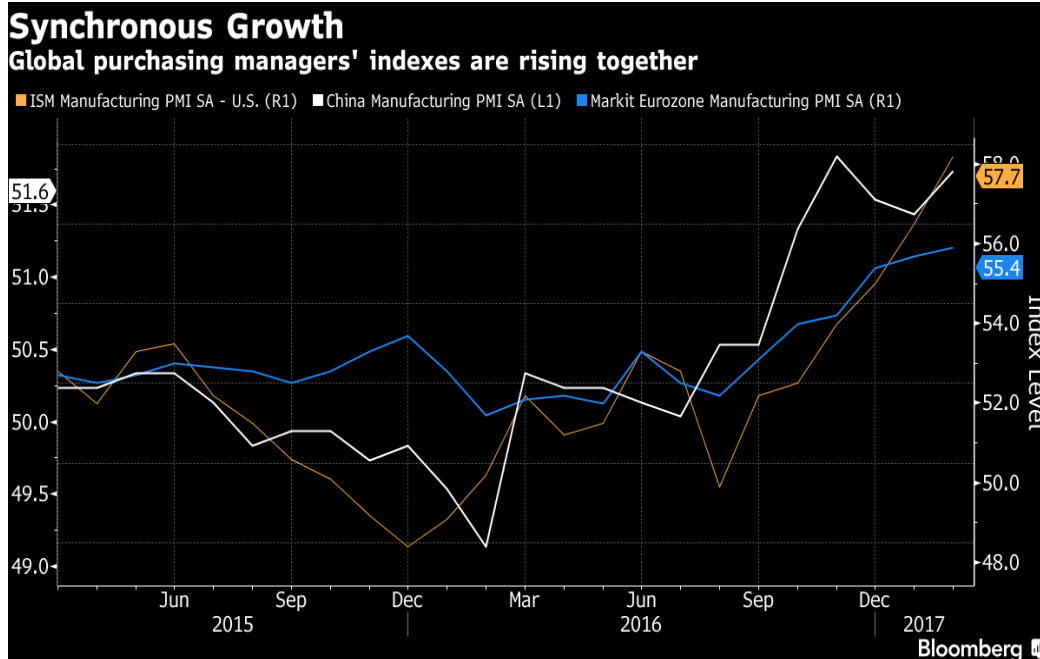
Growing In Sync

Number of major economies tracked by the OECD with:

■ Accelerating growth ■ Slowing growth ■ Contraction

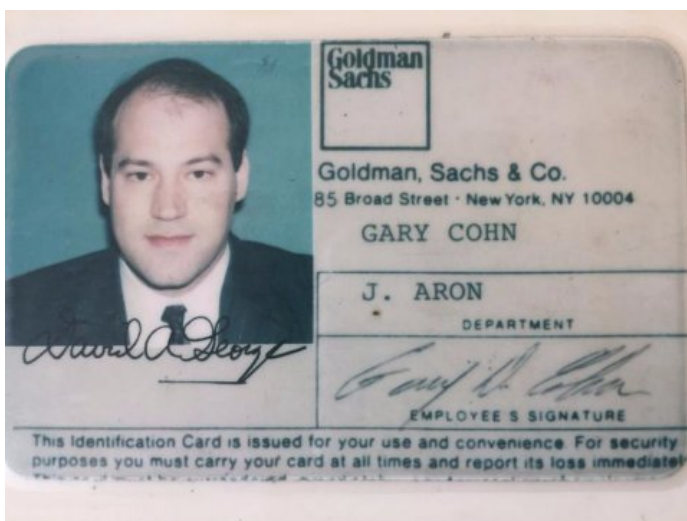


Note: 2017 is a forecast based off first and second quarter data for most countries
Source: Organization for Economic Cooperation and Development



Stillwater View: This will likely be Janet Yellen’s last Jackson Hole conference as the odds of [Gary Cohn](#) taking the top spot at the Fed are increasing. That being the case, she should hold a press conference tonight from a seat in the [Million Dollar Cowboy Bar](#) and proclaim, “I did my job, gave the market QE cover for a 32% rise during my time here and am completely fine watching how this plays out from the sidelines. Now pass me a cold [Moose Drool.](#)”

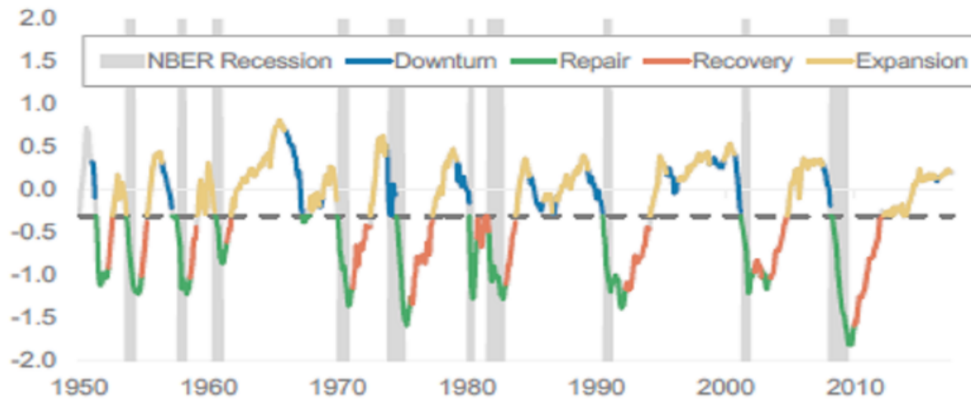
Moving on to the probable next Fed Chairman, Mr. Cohn’s [experience in the markets](#) will be invaluable as the road ahead is looking far different than the one we are leaving behind. He and current Goldman Sachs CEO Lloyd Blankfein worked as options traders at J. Aron, the commodities trading firm acquired by Goldman in 1981. The story of the [Wall Street](#) climb of the middle-class kid with dyslexia is inspiring. [Malcolm Gladwell](#) profiled Cohn in “[David and Goliath: Underdogs, Misfits and the Art of Battling Giants](#)”.



This week both Citigroup and Morgan Stanley provided a [cautionary outlook](#) on where we are in the economic cycle. They counsel to be prepared for a shift in the markets as the third longest U.S. expansion begins to show signs of aging.

Morgan Stanley's reading of the economic cycle.

Exhibit 7: Our US cycle model – late-cycle reading

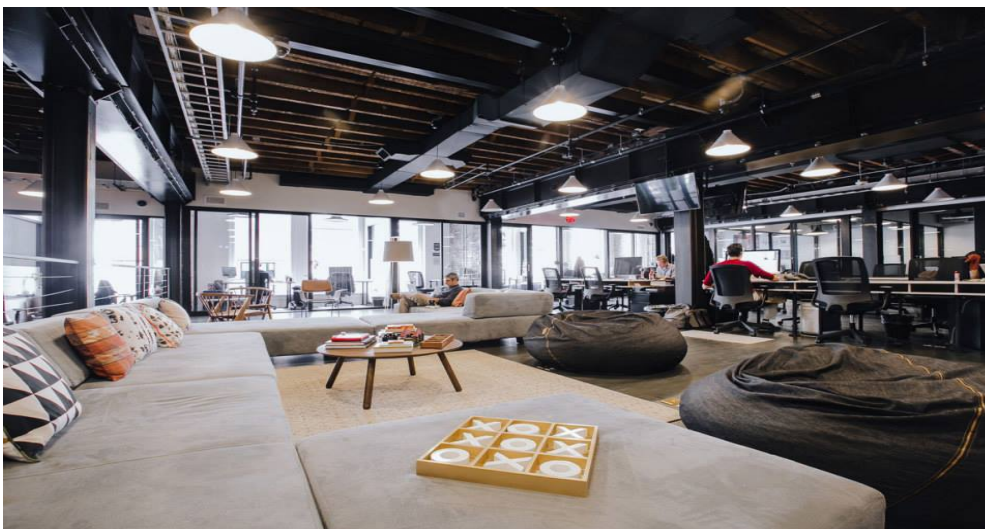


Source: Bloomberg, Haver Analytics, NBER, Morgan Stanley Research

Stillwater View: The risks on the horizon are coming into greater focus. Position your assets accordingly. This is best done when markets are relatively calm and prices are in your favor.

The Bottom-Up

The focus this week turns to private companies as SoftBank invests [\\$4.4 billion](#) into WeWork, the coworking [office space solution](#) for the new “gig” economy. The investment values the New York based startup at \$21 billion, placing it [third on the private valuation list](#) behind Uber and Airbnb.



The news this week for Uber was not as good as several publicly traded mutual funds that hold shares in the company reduced their [estimated market value](#) by up to 15%. Vanguard, Principal Financial and Hartford Funds all lowered their share price to an assumed \$41.46. BlackRock on the other hand, wrote up their estimated value to \$53.88. Most mutual funds came in during the 2014 money raising round when shares were valued at \$15.50. There is the [open feud](#) between Benchmark Capital and Travis Kalanick as well as the [ongoing search](#) for a new CEO that is negatively impacting valuation.

Stillwater View: It's a little-known rule that publicly available mutual funds can invest up to 15% of their assets in [private companies](#). This can be a strong performance kicker during a bull market. One that sometimes needs to be searched out in the fine print of performance reporting.

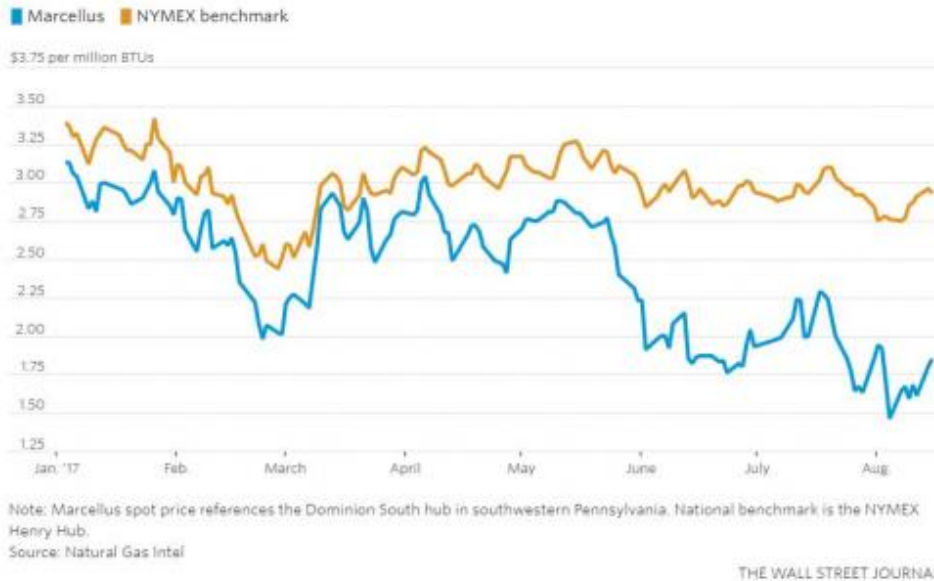
In public company news, Amazon announced that the [Whole Foods](#) acquisition will close on Monday and broad price cuts at the grocer are expected. Looks like no more Whole Paycheck. With that news [\\$12 billion in market value](#) was erased from traditional grocers market capitalization. Price wars in the aisle had been a tailwind for consumers much of last year.



Herbalife served up a Monday morning [curveball](#) to those who are short the shares, Stillwater Capital included, when it announced that talks that had been ongoing for nine months with a private suitor. The discussion ended without a deal. The company simultaneously announced a \$600 million share buyback between \$60 and \$68, with a sweetener to protect those that tendered shares in case a go private transaction was eventually reached. The latter part was the curveball.

Up and Down Wall Street

The struggles Goldman Sachs is facing in [commodities trading](#) continue. On top of their self-admitted [“blown call”](#) on oil, the *Wall Street Journal* reported this week that the [spread trade](#) placed on Marcellus shale gas in the second quarter cost the firm \$100 million when it failed to narrow.



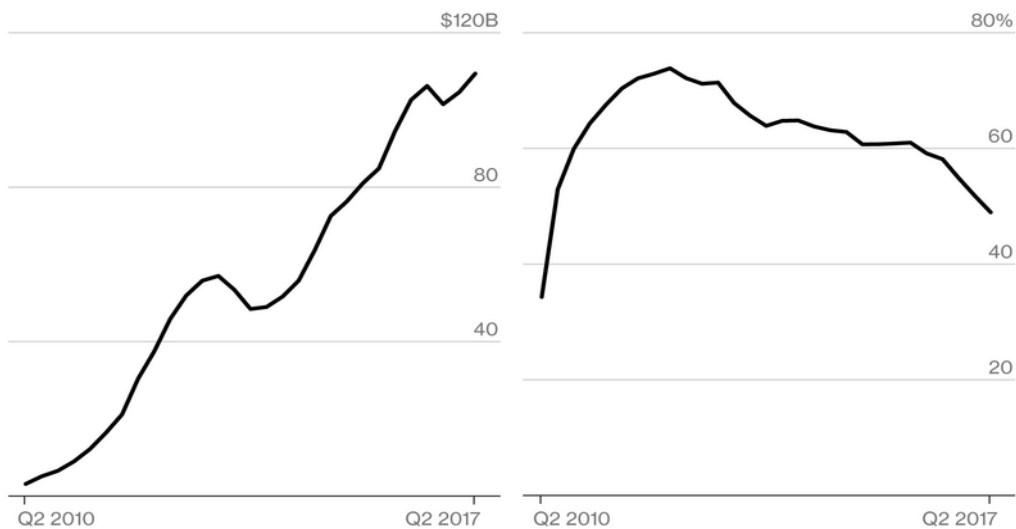
Los Angeles based DoubleLine announced that it would [cap assets at \\$150 billion](#) as opportunities in the debt markets wane. The firm currently manages \$110 billion primarily in fixed income. Bloomberg profiled the firms [“other Jeffrey”](#), Jeff Sherman, this morning.

Diversifying DoubleLine

The firm's largest fund now accounts for less than half of its assets

Assets Under Management

DoubleLine Total Return Bond Fund, % Firmwide Assets



Source: DoubleLine, Bloomberg data

Bloomberg

On Monday, the *Wall Street Journal* reported that the firms largest fund has [seen outflows](#) totaling 13% of assets under management over the past nine months. Founder Jeffrey Gundlach countered the report of the funds demise with several [less than complimentary](#) tweets directed at the *Journal*.

Born out of a [messy departure](#) from TCW, Gundlach and his newly formed DoubleLine team found backing from Howard Marks and Oaktree Capital. This move proved to be a profitable one for Oaktree as the original [\\$20 million investment](#) was estimated to be worth nearly \$1 billion in 2016.

Stillwater View: Jeff Gundlach is truly one of the best minds on Wall Street and his ideas are always deliberate, though never entirely consensus. You can question his delivery, but try to avoid being on the other side of his trades. His [Just Markets](#) presentation provides a great look at how he views the world. The name DoubleLine is an acknowledgment of the trouble that can ensue when someone crosses the double yellow line in the roadway.

Wall Street said goodbye this week to [James “Jimmy” Maguire](#), a fixture on the floor of the New York Stock Exchange for decades and the specialist trading Warren Buffett’s Berkshire Hathaway. Mr. Maguire started his career in 1949 and would go on to build a lifelong friendship with Mr. Buffett. Jimmy shared the nuances of his job in 2012, explaining that [\\$4,000 to \\$5,000 price moves](#) in the shares of BRK.A “makes for interesting times”. This morning they are quoted at \$268,565.06.



Diversions

“[Hamilton](#)” opened at the Pantages Theater in Los Angeles earlier this month and the Tony Award winning show will run through the end of the year. Opening night had everyone from Sean Combs, Steph Curry and \$10 dollar “lottery” winners enjoying the performance. The *Los Angeles Times* provides the [review](#) and *Fast Company*, the story on how creator Lin-Manuel Miranda is creating a [brand for the ages](#) around it.

“Let’s get ready to...get it over with!” Las Vegas will be the center of the boxing and mixed martial arts universe this Saturday night as Floyd “Money” Mayweather takes on Conor McGregor in a made for [pay-per-view](#) bout. The Killers are providing [the soundtrack](#).



To say this matchup has been [hyped](#) is like saying the Dodgers are playing decent baseball these days. [They are by the way](#), leading the National League West by 21 games. The odds are so in favor of Mayweather that some think it's [unsafe](#) for McGregor to get in the ring. For those longing for the more genteel days of the sport there is "[When We Were Kings](#)", the Oscar winning documentary that captured the 1974 Rumble in the Jungle between Muhammad Ali and George Foreman.

An underwater discovery team backed by Microsoft co-founder Paul Allen has found the wreckage of the [U.S.S. Indianapolis](#) in the Philippine Sea. The ship famously delivered the bomb dropped on Hiroshima to the island of Tinian. The story of the sinking and subsequent events as [recounted](#) by the fictional Captain Quint in "Jaws".

Jonathan Kaiman of the *Los Angeles Times* tells the story of the airman [shot down](#) over Lolo, high in the Chinese mountains, during World War II. The tall blonde character would become a mythical figure as he slipped into the shadowlands.



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