



July 14, 2017

The Top-Down

Federal Reserve Chair Janet Yellen was on Capitol Hill this week, testifying about economic conditions during the Fed's [semi-annual report](#) to Congress. She poured [cold water](#) on the idea that President Trump's economic agenda would create 3% GDP growth. *Bloomberg* provides you with everything you needed to hear from Chair Yellen in under [two minutes](#).

Weekly mortgage applications [dropped again](#) as prices for homes remained high while demand from those looking to re-finance continues to be strong. The [Consumer Price Index](#), [Retail Sales](#) and Industrial Production were all released this morning prior to the open.

The trio of Morgan Creek's [Mark Yusko](#), Odey's [Crispin Odey](#) and Deutsche Bank's chief economist, [Mikihiro Matsuoka](#), all reiterated their cautious views on the market. With Yusko and Odey providing rather dire outlooks. J.P. Morgan's CEO, Jaime Dimon was more measured in [his remarks](#), commenting that the QE unwind might be more disruptive than anticipated but will not derail the economy.

Stillwater View: If your strategic market call has been that this is a liquidity driven rally, and that the Fed has created a false sense of safety via an unsustainable "sugar high", then this is your moment to grab the mic and say it's time to get defensive. Given the correlation that QE has had with market performance, it's a reasonable position to take. Fed balance sheet in blue, S&P 500 performance in red.



The Week Ahead: The calendar takes a breather next week with few economic releases or Fed speeches of note. Markets will instead be gearing up for the next FOMC meeting on July 25th, the second quarter GDP print on the 28th and the July jobs report on August 4th. The Kansas City Fed’s Jackson Hole [economic symposium](#) takes place later in August.

The Bottom-Up

Earnings from [J.P. Morgan](#), [Wells Fargo](#) and [Citigroup](#) were released this morning and the banking sector is trading lower on a more tepid outlook from the companies.

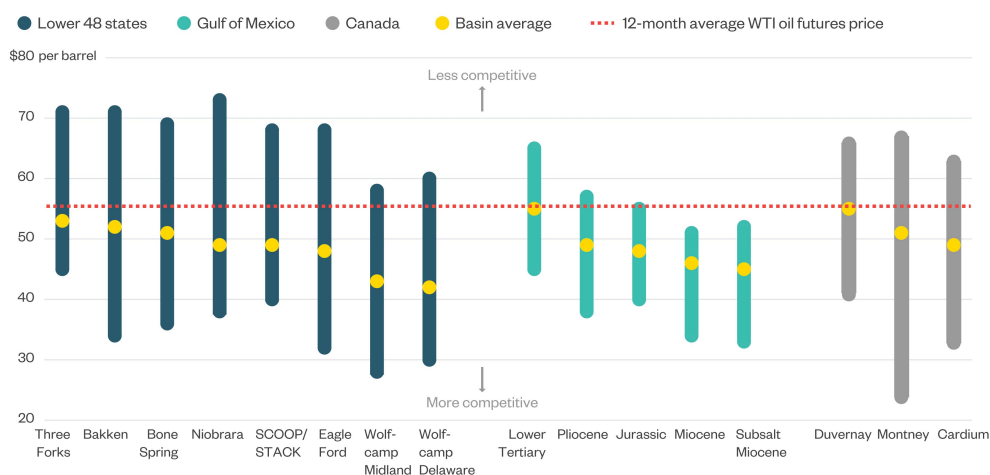
Wells Fargo faced headline risk this week as Janet Yellen confirmed that the Fed was ready to [act against the lender](#) if the facts warrant. Senator Elizabeth Warren continues her attack against the bank’s board of directors, [seeking removal](#) of all 12 members.

Amazon [Prime Day](#) came and went, setting records along the way. It was another tough week for retail as [Abercrombie & Fitch](#) failed to find a buyer and [Gymboree](#) filed for bankruptcy. Silver lining, Target reported an [increase](#) in same-store sales and the stock popped 5% on Thursday, leading other beaten down retailers higher on the day. Wal-Mart was [upgraded](#) at Goldman this morning as the bank thinks the company can “sidestep the Amazon juggernaut”.

Crude prices put up a fight this week and are currently trading in the upper \$40’s. The chart below from Wood McKenzie shows \$45 as the average breakeven for most North American shale plays. Higher still for the Gulf of Mexico and Canada. The threat that electric cars may have put a top in [oil demand](#) is beginning to look like a real possibility.

Point Break

Breakeven oil prices for North America's shale basins and the Gulf of Mexico vary widely, but on average they look competitive even with oil below \$60 a barrel



Source: Wood Mackenzie

BloombergGadfly

Note: Breakeven prices reflect projected level needed to generate a 10 percent return on drilling and completion costs in 2017.

The Week Ahead: Second quarter earnings season [begins in earnest next week](#) and the market focus will largely be on technology companies. The sector will need strong earnings growth and forward guidance to support the E side of extended P/E multiples.

Up and Down Wall Street

Goldman Sachs co-president, David Solomon, mixes it up as [D.J D-Sol](#) when he is not attending to his day job.

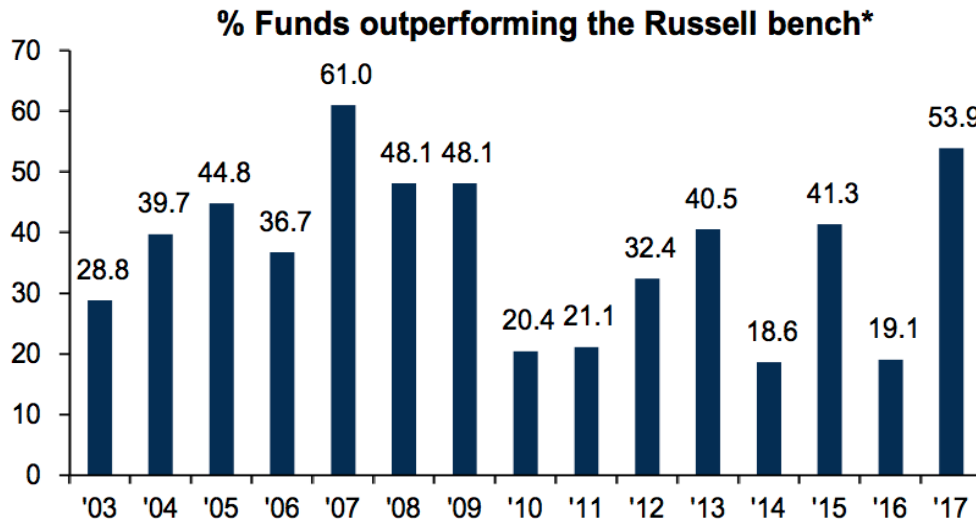
Stillwater View: I will now officially stop cracking back on my eldest son's dream of becoming the next EDM legend. A sporting young disk jockey by the name of Calvin Harris has been routinely pulling in \$50 million a year for said services.

As mentioned last week, David Einhorn's troubles from 2016 have continued into this year. According to the [Wall Street Journal](#) and [CNBC](#), \$400 million has left the firm so far. Dmitry Balyasny, manager of \$12 billion in hedged assets, laments that ETFs have [changed the game](#). And it's not necessarily for the good in his style of management. Louis Bacon's Moore Capital is [trimming 7% of staff](#) as the macro fund is facing headwinds as well.

Stillwater View: To quote Jefferies Chief Market Strategist David Zervos, "No crybabies in the casino." Especially if you are an apex predator clipping a 2% management fee and 20% carry on profits. Opportunities on the long and short side abound. Have a straight forward repeatable process and execute on it.

On the flip side, there was good news for active mutual fund managers as Merrill Lynch [released a report](#) showing that 54% are beating their respective Russell benchmarks at mid-point this year. The second highest in fifteen.

Chart 7: % of large cap active funds beating the Russell benchmark, 2003-2016 and 1H17



*% of funds outperforming the benchmark is based on Russell 1000 benchmark for all funds prior to 2015 and the fund's respective benchmark (R1000 for Core funds, R1000 Value for Value funds and R1000 Growth for Growth funds) in 2015 and onward

Source: BofA Merrill Lynch US Equity & US Quant Strategy, Lipper

Diversions

Apple's new headquarter, Apple Park, will open later this year and the aerial [views of the property](#) are spectacular. The Santa Fe Opera's, "[The \(R\)evolution of Steve Jobs](#)", premieres this Saturday and will make its way to [Silicon Valley](#) later this year.

[Wimbledon finals](#) are this weekend. The ageless [Venus Williams](#) will play in her ninth at The All England Lawn Tennis Club on Saturday. The Sunday men's final pairing will be decided later this morning. If you are looking to host a [Breakfast at Wimbledon](#) party, the BBC can help with the menu. According to *Esquire*, "[Pimm's Popsicles are Real, And They're Spectacular](#)".

Summer festivals roll on...

- [Paw Palooza](#), dogs on Cape Cod, Massachusetts. July 15th and 16th.
- [Surf Rodeo](#), music and surf in Ventura, California. July 15th and 16th.
- [Smoke on the Mountain](#), barbecue in Galax, Virginia. July 21st & 22nd
- [Newport Jazz Festival](#), jazz in Newport, Rhode Island. August 4th through 6th
- [The Lake Tahoe Concourse d'Elegance](#), Gar Woods in Lake Tahoe, California. August 11th and 12th.

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