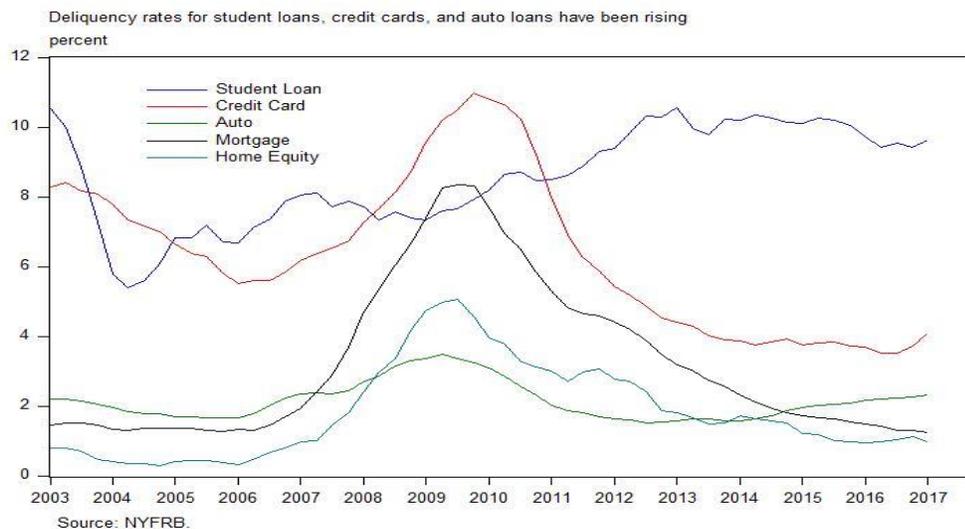




August 18th, 2017

The Top-Down

Delinquency rates for [credit debt](#) are beginning to signal that we are reaching the latter innings of the third longest economic expansion in U.S. history. The St. Louis Fed provides a useful [interactive chart](#) to view the trend.



Stillwater View: While there has been only a slight uptick in delinquencies, the important factor is that we are no longer “good and getting better”, we are now “good and getting worse”.

The Fed is as [confused as everyone](#) by the lack of wage inflation in what looks like a fully employed economy, and admitted as much this week when the July FOMC meeting minutes were released. New York Fed President William Dudley commented in an [interview](#) that prices appear to be appropriate given where the economy is today. The former Goldman Sachs economist provided the view that the Fed is not looking to manage the stability of asset prices over time.

“I don't think it's reasonable to think that the Federal Reserve is somehow going to manage financial asset prices so that they are completely stable over time. They are going to go up and down, depending on the economic environment.”

Stillwater View: In 2009 the Bernanke led Fed, via quantitative easing, targeted asset prices. With the financial system on stable footing and assets very much reflated, it's much easier to say the Fed doesn't target.

The markets dropped the “geo” from it's politics this week as the flare up with North Korea passed from the [front page](#). On Tuesday, all eyes turned to [Trump Tower](#) in Manhattan. The following day the remaining members of the Strategic and Policy Forum and Manufacturing Jobs Initiative disbanded, freeing them from the tether of the President. Andrew Ross Sorkin and his colleagues at the *New York Times* reported how the [situation unfolded](#).

On Thursday speculation grew that one of the only adults left in the room, economic advisor [Gary Cohn](#), was on his way out as well. The co-author of Trump's “Art of the Deal” speculated that a [Presidential resignation](#) was indeed likely by the fall, if not sooner.

Stillwater View: One person's left tail event is another's right one. While a low probability, if there is a transition in power at the White House, the market will likely respond favorably.

The Bottom-Up

Tesla raised [\\$1.8 billion](#) in the high yield market last week. And “the Dean” provides his opinion on the intriguing [debt puzzle](#).

Stillwater View: Buy the car not the stock. Currently short Tesla.



Snap shares are getting [dumped](#) by most in the hedge fund community, but George Soros is holding on. Appaloosa's founder David Tepper and others are loading up on [Chinese consumer companies](#). Berkshire Hathaway is moving on from [General Electric](#).

News hit this week that the Chinese government was scrutinizing the business practices of multi-level-marketing companies. The shares of [NuSkin](#) and [Herbalife](#) did not react well.



35

Stillwater View: The multi-level-marketing world is a binary one. You either [believe in it](#) or [you don't](#). And if you don't, [be prepared](#). Stillwater takes the stance that if the products offered by those companies are as good as advertised there should be no problem selling them through a traditional distribution model.

Up and Down Wall Street

Andy Hall says goodbye to [oil trading](#) and good riddance to algorithms.

Stillwater View: While always envious of the title "Oil God" and his \$100 million payout from Citi, the reality is that Andy was always a bull on oil. From his February 2016 letter to investors.

"In the event that supply does not respond quickly to higher prices—a very real risk in our opinion—then prices would need to rise higher still—to levels that would destroy demand. So while the IEA talks of "the world drowning in a flood of crude oil" the extreme pessimism this sort of

rhetoric engenders is ultimately self-defeating and risks setting the stage for the exact opposite outcome.”

Turns out the IEA was right and the world is now drowning in a flood of crude oil.

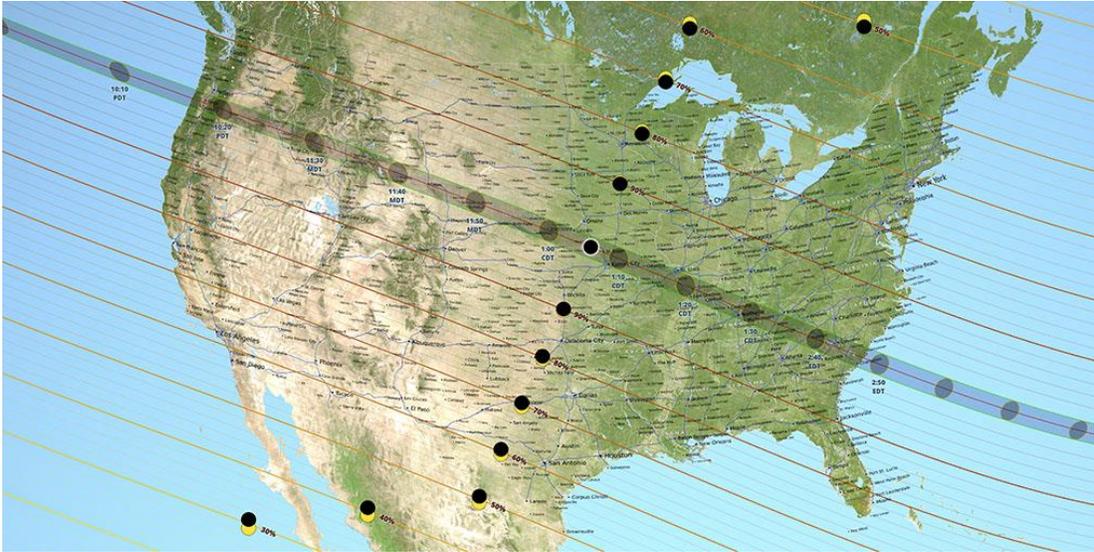


Sources: BlackRock Investment Institute, MSCI and Thomson Reuters, March 2017.

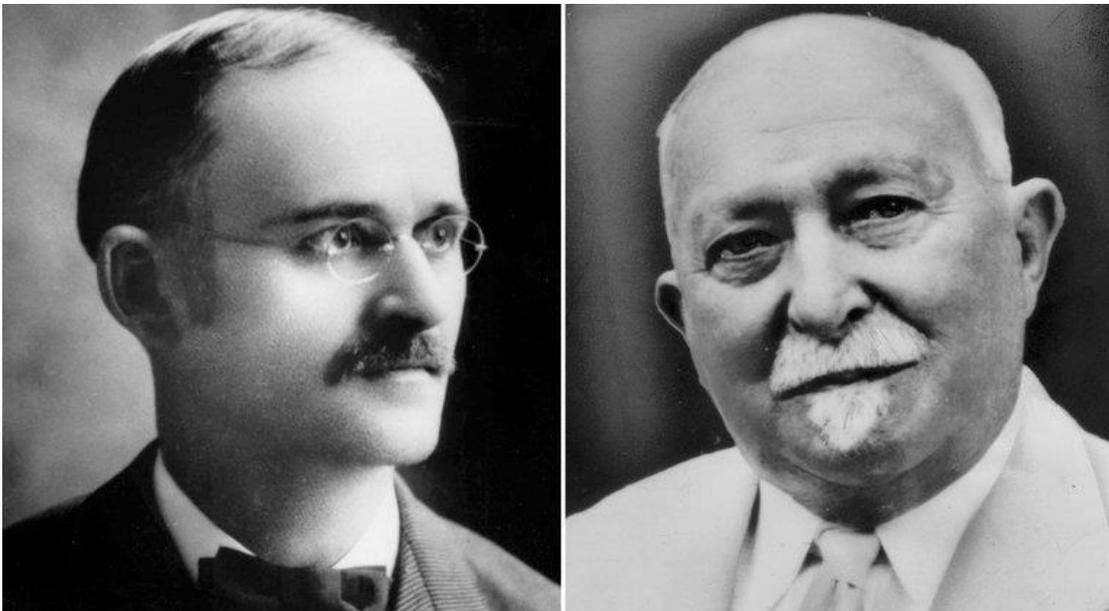
Notes: The relative performance of energy equities is based on the MSCI World Energy Index total return divided by the MSCI World Index total return, rebased to 100 at the start of 2014. The price of oil is based on the benchmark front-month Brent crude oil futures contract price.

Diversions

The “path of totality” will sweep across the United States on Monday. Enjoy the [total eclipse](#). Just make sure to wear the proper eyewear. [Bonnie Tyler](#) managed to capitalize on the moment as she will be performing aboard Royal Caribbean’s [Total Eclipse](#).



Late summer reading recommendation, [“The Kelloggs, The Battling Brother of Battle Creek”](#). The book chronicles the [feud between](#) the brothers and how it would encompass their lives.



While Harvey and Will dueled, Cap’n Crunch, was quietly building a Saturday morning sugar cereal empire.



To subscribe or unsubscribe to Stillwater Capital's "This Week in the Markets" please e-mail contact@stillcap.com.

DISCLOSURE: Stillwater Capital, LLC is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Stillwater Capital, LLC and its representatives are properly licensed or exempt from licensure. This website is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stillwater Capital, LLC unless a client service agreement is in place.

Stillwater Capital, LLC provides links for your convenience to websites produced by other providers or industry related material. Accessing websites through links directs you away from our website. Stillwater Capital, LLC is not responsible for errors or omissions in the material on third party websites, and does not necessarily approve of or endorse the information provided. Users who gain access to third party websites may be subject to the copyright and other restrictions on use imposed by those providers and assume responsibility and risk from use of those websites.

General Notice to Users: While we appreciate your comments and feedback, please be aware that any form of testimony from current or past clients about their experience with our firm on our website or social media platforms is strictly forbidden under current securities laws.

