

Stillwater Capital - This Week in the Markets



The Top- Down

It was a quiet week on Wall Street with the only headline grabbing news being a 70% retracement of the losses handed out the week prior. Markets are closed on Monday, therefore the mountains call. Enjoy the long weekend, wherever your travels may take you.

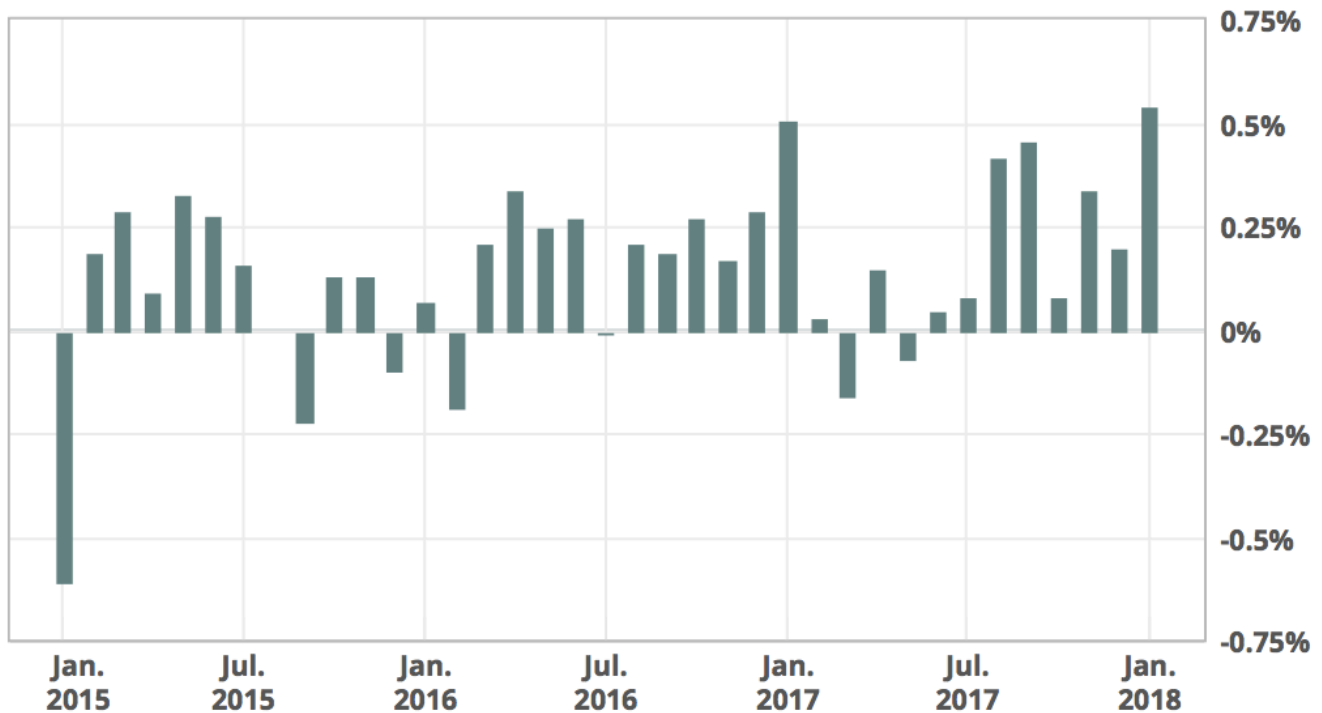
Squaw Valley, USA



Source: Squaw Valley, USA

Rarely has a consumer price index report taken on more importance than it did this week, when on Wednesday the Labor Department reported that prices are indeed on the rise. Coming in hot, as they say on the Street.

CPI



Source: Bureau of Labor Statistics

Stillwater View: For ten years the market has rode higher on the foundation of an expectation of low inflation and a low interest rate environment where central banks would backstop everything with endless accommodation. Times are indeed a changing. Time to fasten your seatbelts, as Bette Davis said, it's going to be a bumpy night. .

Goldman's CEO Lloyd Blankfein gets the early credit for calling this one right. While he appreciates the earnings boost that tax reform creates, it could have been better timed. Coming instead when the global economy was walking on its own two feet, expanding in a synchronous manner around the globe. Weaning itself off the government supplied quantitative adrenal drip.

Stillwater View: Mr. Blankfein picked up a 9% raise and a couple extra million last year. It's always the Goldman guys.

His former counterpart at the Goldman Sachs, Gary Cohn, is now the top economic advisor to President Trump. He countered that the near term noise surrounding inflation and deficits doesn't have him worried.

President Trump Signs the Tax Reform Bill



Source: NBC News

Stillwater View: Well, that escalated quickly. With the ink barely dry, evidence is emerging that the timing of tax reform could prove problematic. Add to that the newfound concerns that deficits might actually matter, rates are on the rise and an unruly move higher will become a headwind for the market this year.

The Bottom-Up

Last week's selloff caused a major spike in equity correlation, a not uncommon move when fear strikes. As the *Wall Street Journal* wrote this morning, that can be scary.

Three-Month Correlations

■ S&P 500 sectors ■ S&P 500 stocks

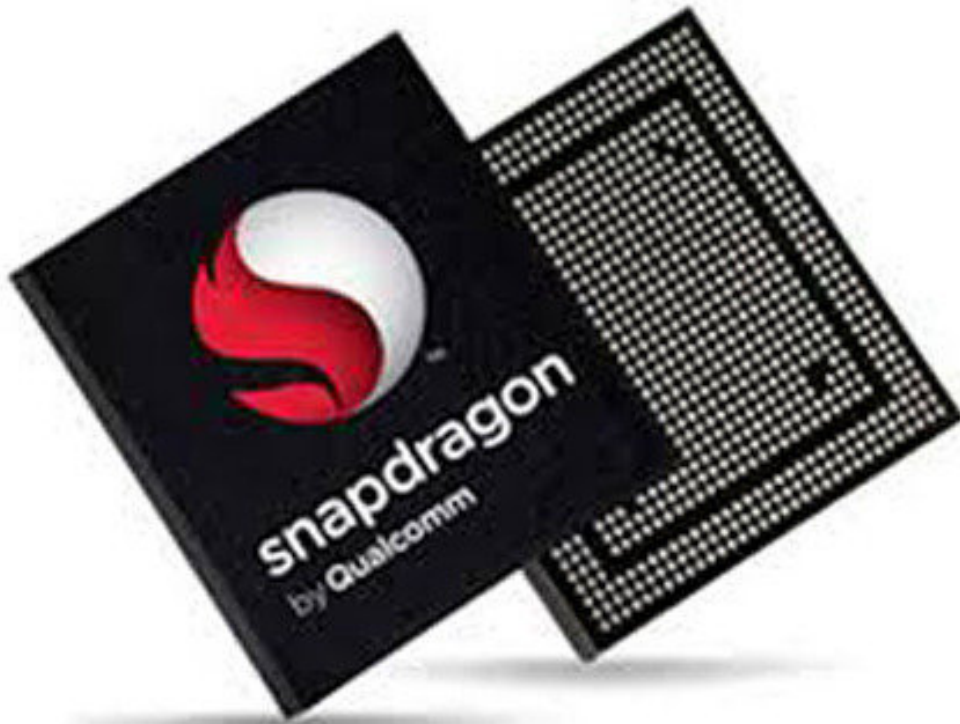


Source: Goldman Sachs

Stillwater View: Stock pickers hate it when correlations spike, as everything ‘trades together’ and outperformance relies more on timing market swings than picking stocks. With the relative clarity of hindsight, last week’s market moves continue to look more like the disorderly unwind of levered derivative products.

Qualcomm continues to rebuff Broadcom, calling their \$121 billion bid ‘too low’. ‘American’s Best City’, San Diego, is beginning to worry what life with a slimmed down version of the chipmaker is going to look like.

Qualcomm Snapdragon Chip



Source: Qualcomm

Up & Down Wall Street

This week an obscure sounding release from the SEC called a 13F-Report garnered a lot of attention as it provides a look into what hedge funds are buying and selling. The report is not limited to the 2 & 20 crowd as Warren Buffett's and other large institutional stock holders also report.

Stillwater View: Hedge funds are clearly making an 'all clear' bet on the economy and the consumer, increasing holdings in discretionary companies and cyclical sectors. .

Buffett's Berkshire-Hathaway bought more Apple and cleaned out the last of his ill-fated venture into IBM. The little technology company from Cupertino, California is now his largest holding. The brand new campus is showing signs of early growing pains.

The Apple Campus

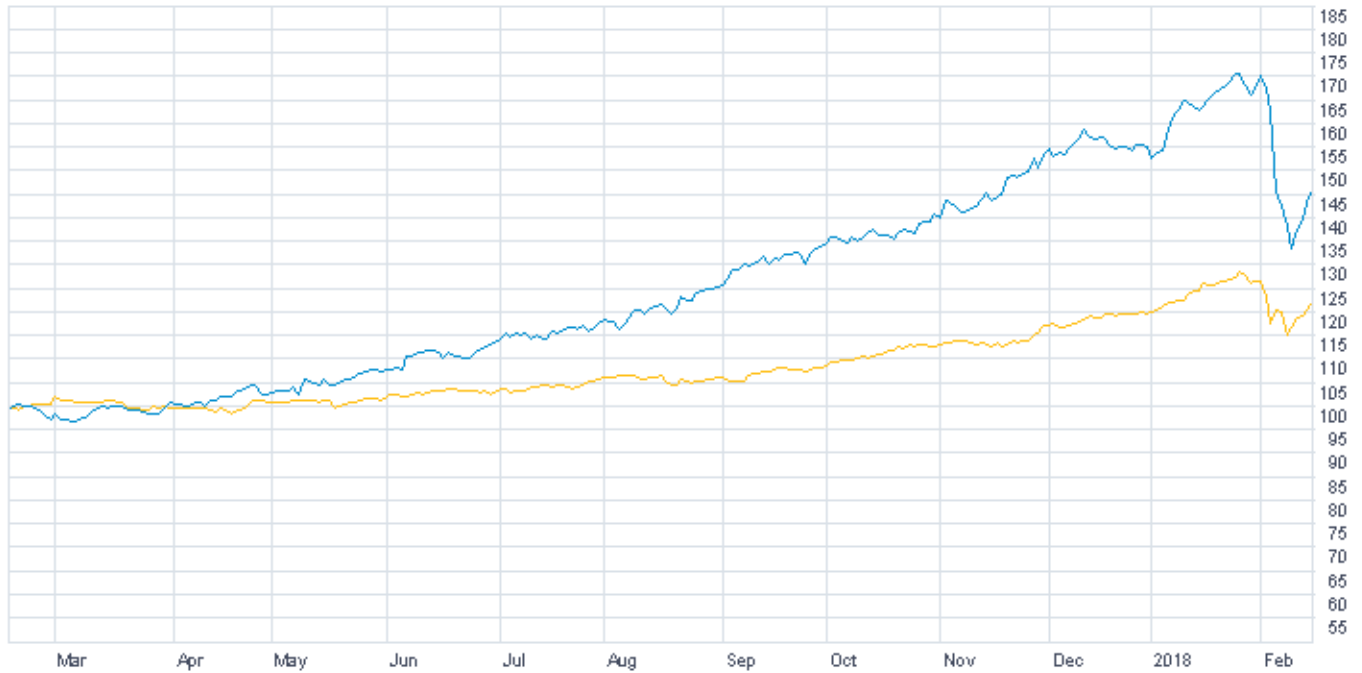


Source: The Verge

Stillwater View: While not a 13F filer, Stillwater Capital holds long positions in Huntington-Ingalls, Air Products, Donaldson, Silicon Valley Bancorp, McCormick, Apple, Amazon, Lockheed Martin and Union Pacific, among other long and short positions.

On the heels of last week's wild market moves, FINRA is looking into the prospect that traders manipulated the S&P volatility index, the VIX. Shares of the Chicago Board Options Exchange, CBOE, traded down 20% on speculation that increased regulatory scrutiny of volatility products would be bad for business.

CBOE v. DJIA



Source: NASDAQ

Wild weeks like last bring out all kinds of imagery of chaos on Wall Street. On the floor of the New York Stock Exchange there is the ever dependable Peter 'Einstein Tuchman, with his mouth always agape.

'Einstein' on the Floor of the NYSE



Source: CNN

Stillwater View: Peter knows exactly what's going on isn't surprised in the least. Bit never let the truth get in the way of a good (market) story.

Floor brokerage has been a dying business for years with most trading having moved over to the electronic exchanges. Yet there is still some magic left down there and the old timers stories are well worth listening to, including Einstein's.

Stillwater View: Even though technology has remade the 'floor' into a television studio, a trip down there is still a bucket list experience for anyone lucky enough to gain access. Contrary to what TripSavy has to say, there are still ways to get in.

Diversions

Shaun White passed the snowboarding torch to fellow American Chloe Kim in PyeongChang, where they both took home Olympic gold. Meanwhile, 17 year old Red Gerard announced that the youth had been served.

Meanwhile, Mikaela Shiffrin put on a clinic late Thursday with a top of the podium finish in the giant slalom. Sadly, last night Mikaela missed out in one of her best disciplines, the slalom.

American Mikaela Shiffrin Celebrates Gold



Source: Slate

Stillwater View: As the Wall Street Journal points out, Mikaela is Hall of Fame good because she honed her skills not on the sunny slopes out west but the challenging ice of the eastern mountains. The ubiquitous ice is similar to the conditions found on the World Cup circuit. She also believes in the healing touch of a power nap.

The Westminster Kennel Club Dog Show took place on Monday and Tuesday and the top prize went to Flynn the bichon fries. Crowd favorite Biggie the pug missed out and the Madison Square Garden audience let the judges hear their dissatisfaction.

Flynn the Bichon Fries Wins Best in Show



Source: New York Times

Stillwater View: The senior partner at Stillwater Capital who is charged with writing this weekly commentary, is in the market for a Cane Corso and would appreciate any advice on where one can acquire said hound.

It has indeed been a very dry winter in California. So much so that Yosemite's famous 'Fire Fall' has run dry. Occurring annually in February, the falls catch the setting sun at such an angle that it appears to be a glowing river of embers cascading down Horsetail Fall.

Yosemite's Fire Fall



Source: The Outbound Collective

Stillwater View: Sadly, the weather pattern in California has adopted a bi-polar personality. Too much one year and much too little the next. Pray for the (right amount) of rain.

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