

Stillwater Capital - This Week in the Markets



The Top- Down

The 2018 inflation scare is quietly fading as the February consumer price reading came in softer than economists thought. Yields reacted accordingly as the ten-year slipped to 2.84%.

Core CPI



Source: Bloomberg

While on a call with investors later on Tuesday, DoubleLine's Jeffery Gundlach, held true to his belief that the S&P 500 would trade negative on the year. A move made even more likely if the ten-year yield made an 'accelerated move' above 3%.

With deficits on the rise, and the Fed on the sideline, Gundlach thinks this is an increasing possibility.

Ten-Year Yield



Source: Macrotrends

On Tuesday morning president Trump fired Secretary of State Rex Tillerson. Tillerson had fallen out of presidential favor months ago and his departure was anticipated. The former Exxon CEO learned of his dismissal via Twitter. Reinforcing the president's 'management by chaos' brand.

And Then There Were None...And a Presidency of One



Source: The Hill

Stillwater View: A week doesn't go by where we aren't forced down the White House well. And to be clear, we aren't looking to pick a political fight. Far from it. But when policy and personnel decisions spill over into the markets as much as they have, it matters.

Prior to his departure, there was conjecture on Wall Street that when Gary Cohn left for greener pastures, there would be a 1,000 point slide in the DJIA. Turns out consensus was wrong, at least for now. The market reacted with a relative big yawn. Even though Gary's resignation was tied to Trump's decision to go even more all-in on America first policies. .

The former Bear Stearns Chief Economist, and current CNBC commentator, Larry Kudlow will replace Gary Cohn as the president's chief economic advisor at the National Economic Council.

Larry Kudlow at Bear Stearns



Source: CNBC

While Larry is a veteran of Wall Street, and has seen plenty in his career, his prognostication have fallen short of the mark on many occasions. A point the *Washington Post* makes when the paper proclaims that ‘he may have been more wrong about the economy than anyone alive’.

Stillwater View: Track record aside, Larry Kudlow is a very proud American, and by all accounts a good person. How long he lasts in the White House is anyone’s guess.

While not well advertised, Kudlow has faced down some very serious addiction demons in his life and survived to tell the tale. While sober for 23 years, his vices almost cost him everything. His wife went so far as to seek a court order to prevent him from raiding his retirement accounts to buy more cocaine.

Stillwater View: Well done Larry, well done. Clean living and economic prosperity are indeed very much worth fighting for. Good look with the new gig.

The Bottom-Up

The White House stepped in on Monday and told Broadcom to walk away from its proposed bid to acquire Qualcomm. And they did.

In an [executive order](#), president Trump wrote that the merger ‘might impair the national security’ of the United States’. The issue comes down to the next generation of cellular technology, 5G. *The Los Angeles Times* reports on what the technology is and [why it’s important](#).

Tech industry watchers at c|net provide a [look inside the 5G issue](#). And for those looking to venture further down the rabbit hole there is the [report](#) from the Committee on Foreign Investment in the United States (CFIUS) that Trump relied on to make his decision. Columnist Sachs Segan, at [PC Magazine](#), agreed with the decision, but not for the reasons one might expect.

Qualcomm’s Snapdragon Chip



Source: Fortune

Stillwater View: Anytime you can get President Trump and the New York Times [editorial board](#) to agree on something, it is worth a mention.. The Financial Times reports this morning that former Chairman Paul Jacobs is trying to [warm up a bid](#).

Tesla continues to lose more high level staff from its [finance department](#). Last week it was Chief Accounting Officer Eric Branderez. This week the company’s Treasurer and Vice President of Finance, Susan Repo, also left the electric carmaker.

Late Wednesday CNBC reported that parts used in production of the Model S were so flawed that up to 40% of the cars produced have unreliable parts. As one might expect, morale on the production line is suffering.

Tesla Model 3



Source: Tesla

Stillwater View: Stillwater holds a short position in Tesla and has recently covered similar negative wagers in the shares of Ford and General Motors.

Up & Down Wall Street

David ‘D.J. D-Sol’ Solomon beat out Harvey Schwartz to grab the inside rail to become the next CEO at Goldman Sachs. Meanwhile, the current leader of the investment bank, Lloyd Blankfein announced that the rumors of his demise were greatly exaggerated. Tweeting that he feels like ‘Huck Finn listening to his own eulogy’.

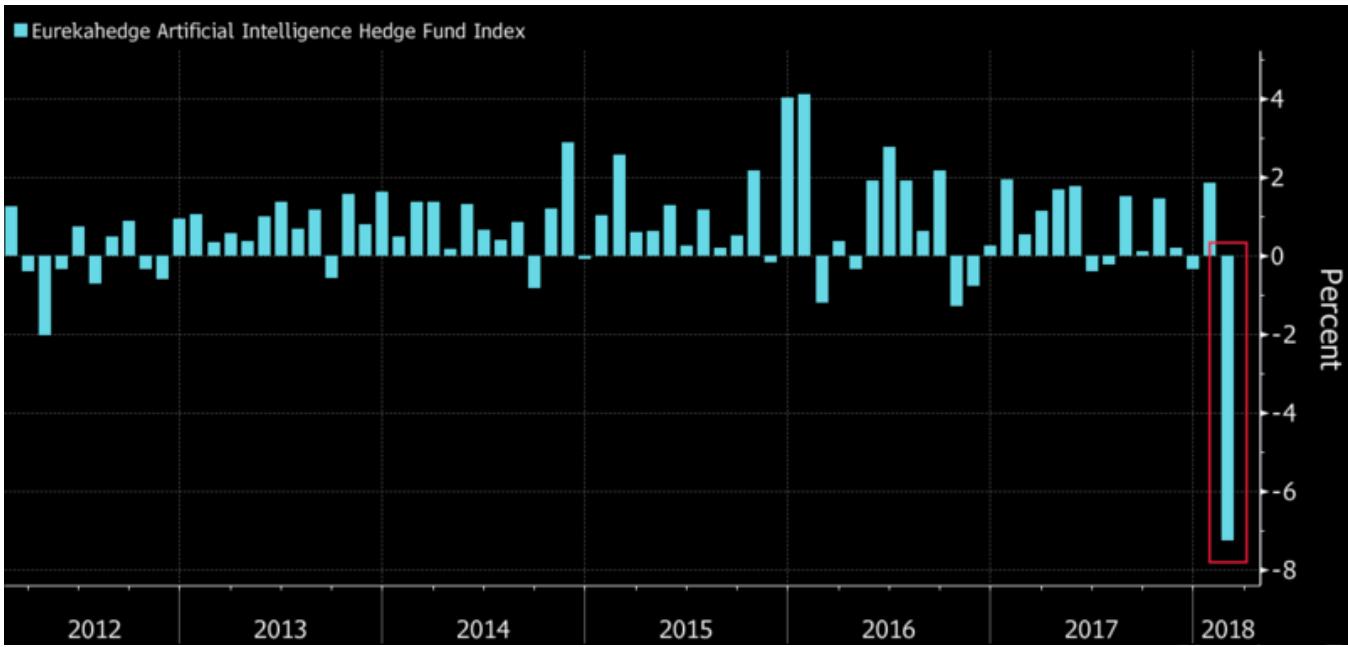
Bloomberg provides their opinion on what this says about the Goldman’s culture and what we would have done without Blankfein and J.P. Morgan’s Jaime Dimon during the decade that followed the global financial crisis.

Season Finale!

The Jamie & Lloyd SHOW

Turns out, that alternative intelligence isn't as easy to apply to portfolio management as was thought. *Bloomberg* reports that AI based quant funds lost 7.3% last month, compared to 2.4% for their human based hedge fund counterparts. Two Sigma, the \$52 billion quant manager, is suffering right alongside.

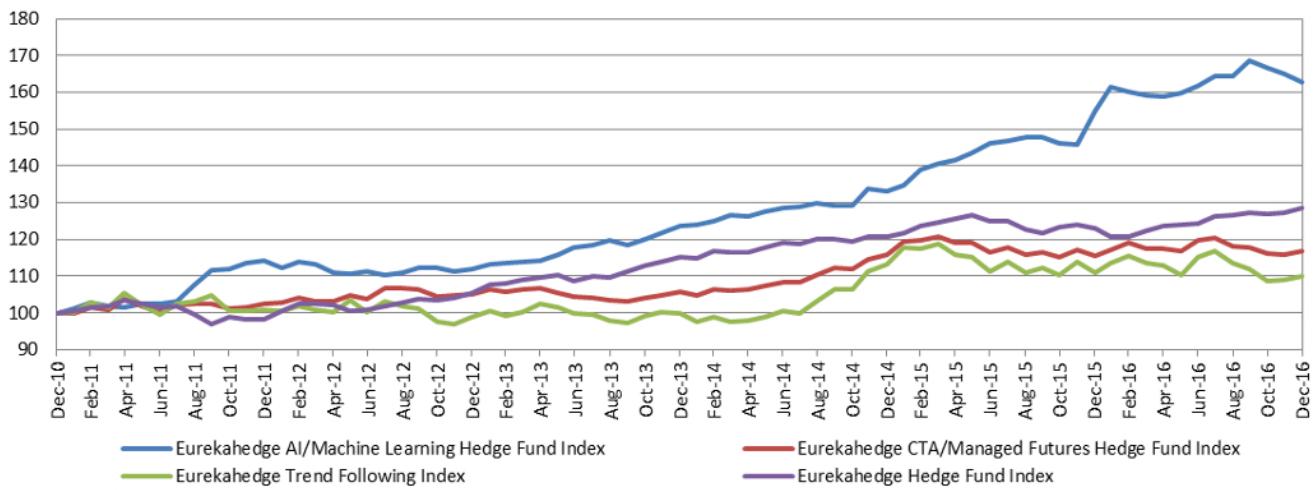
AI's Tough February



Source: Bloomberg

Keeping things in perspective, up until last month, quantitative and artificial intelligence funds had been working from a position of performance strength against other hedge fund varieties. Past monthly disruptions have proven to be short-lived.

AI Funds Hold the Long-term Lead



Source: EurekaHedge, [AI the New Frontier for Hedge Funds](#)

Stillwater View: Every strategy has their day in the sun. Some much longer than others. A tidal wave of investor dollars has been flowing into quant strategies, away from those focused on fundamentals. Maybe that will begin to change in a new more volatile world for markets.

This week provided a sober reminder that not all private equity and venture investments work out as planned.

Toys ‘R’ Us has filed for bankruptcy and announced this week it was closing all of its stores, even the haunted ones. Dealing a rare blow to KKR, Bain & Company, and Vornado. Meanwhile the Bain and Thomas Lee backed iHeartMedia, formerly Clear Channel, also took the big dirt nap.

The swirling scandal at Silicon Valley blood testing startup, Theranos, came to a head this week when founder Elizabeth Holmes, and former president Ramesh ‘Sunny’ Balwani were charged with committing a massive \$700 million fraud. The former agreed to settle the latter is going to fight it. CNNtech provides the chronological rise and fall of the former unicorn that was once valued at over \$9 billion, \$4 billion of which was owned by Elizabeth.

Ms. Holmes with Bill Clinton and Jack Ma



Source: The Clinton Global Initiative

Turns out the S.E.C frowns on it when you claim that a contract with the Department of Defense is worth \$100 million while it only generates \$100,000 in revenue.

Excerpt of the S.E.C. Complaint Against Theranos

The complaints further charge that Theranos, Holmes, and Balwani claimed that Theranos's products were deployed by the U.S. Department of Defense on the battlefield in Afghanistan and on medevac helicopters and that the company would generate more than \$100 million in revenue in 2014. In truth, Theranos's technology was never deployed by the U.S. Department of Defense and generated a little more than \$100,000 in revenue from operations in 2014.

Source: Securities & Exchange Commission

Diversions

Instead of boring you with another round of ‘whose hot and who’s not’ as the NCAA men’s basketball tournament gets underway, we remain nostalgic, focusing instead on the history of the name ‘March Madness’, which teams have the worst records, the most memorable teams, and toughest losses. There is also an oral recounting of the broadcast history of the tournament with a ‘kiss off the glass’.

Stillwater View: Tournament prediction, Virginia vs. Kansas in the final. The Jayhawks win 72 to 68. Defense almost always wins championships, just not this year. Rock Chalk Jayhawk!

If Kansas pulls it off, this will be the second championship won by the team in San Antonio. The last was in 2008 when Mario Chalmers sank a three point shot with 2.1 seconds left on the clock to send the game into overtime. KU would ultimately prevail against Derrick Rose and his Memphis Tigers.

‘Super Mario’

UCLA

UMBC

Sports Illustrated

www.SI.com

03:51

NFL DRAFT
WILD-CARD
QBS

by LEE JENKINS
Page 44



Oregon's
Dennis Dixon

Mario's Miracle

NCAA CHAMPIONS

Kansas Storms
Back to Beat
Memphis

BY GRANT WAHL



mchalmers

Mario Chalmers hits a
three-pointer to push the
title game into overtime

\$4.50

JSA
W379033



For readers who had a rooting interest in that nice little team out of Westwood, there is always hope for next year. Especially now that Shaquille O'Neil's son, Shareef, has committed.

Like Father, Like Son...at Least we UCLA Fans Hope!



Source: The Spun

The science world lost a giant this week, with the passing of Stephen Hawking. He died on Tuesday, coincidentally coinciding with Albert Einstein's birthday. Business Insider provides us a short with a journey through some of Mr. Hawking's finer quotes.

Our favorite, "It's a waste of time to be angry about my disability. One has to get on with life and I haven't done too badly. People won't have time for you if you are always angry and complaining."

Stillwater View: If you ever find yourself reflecting on being dealt a tough hand in life, think back to that quote and the image of a young and carefree Stephen Hawking motoring about on his boat. He indeed experienced a life well lived.

Stephen Hawking



Source: Vintage News

CNBC's wealth reporter, Robert Frank, previewed the upcoming auction of the late David Rockefeller's collection of fine art. Included is a nostalgic interview with David's son, David Rockefeller Jr., from the family home on the Hudson River.

The sale is expected to bring in between \$500 million to \$1 billion, with the proceeds distributed to twelve charities of the elders choosing. Christies will be handling the auction.

Monet's Water Lilies



Source: CNBC

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