

Reflexive Crossroads...

If ever there was an emotional and reflexive moment in economic history, this is it. Given the magnitude of the possible swings one way or the other, this crossroads is a big one, possibly the biggest. Either way, three short months in, and the dumpster fire that is 2020 is beginning to take an emotional toll, but it still makes for a very solid hipster tee shirt.

Pretty Much



On one side we have the central banks around the globe, unloading the arsenal of cheap money and distressed asset purchases. Sitting on the other, is a deer in the headlights public that has probably never before felt such a need to sit on their wallets. In very simple terms, the reflexive moment comes from the risk that we enter a recession because the consumer thinks we are entering a recession. Which is just the point Nobel Prize winner Robert Schiller made last week, as the feeling of euphoria and panic have never co-existed so closely in such a short duration.

The Cycle

Fear, Hope, and Greed

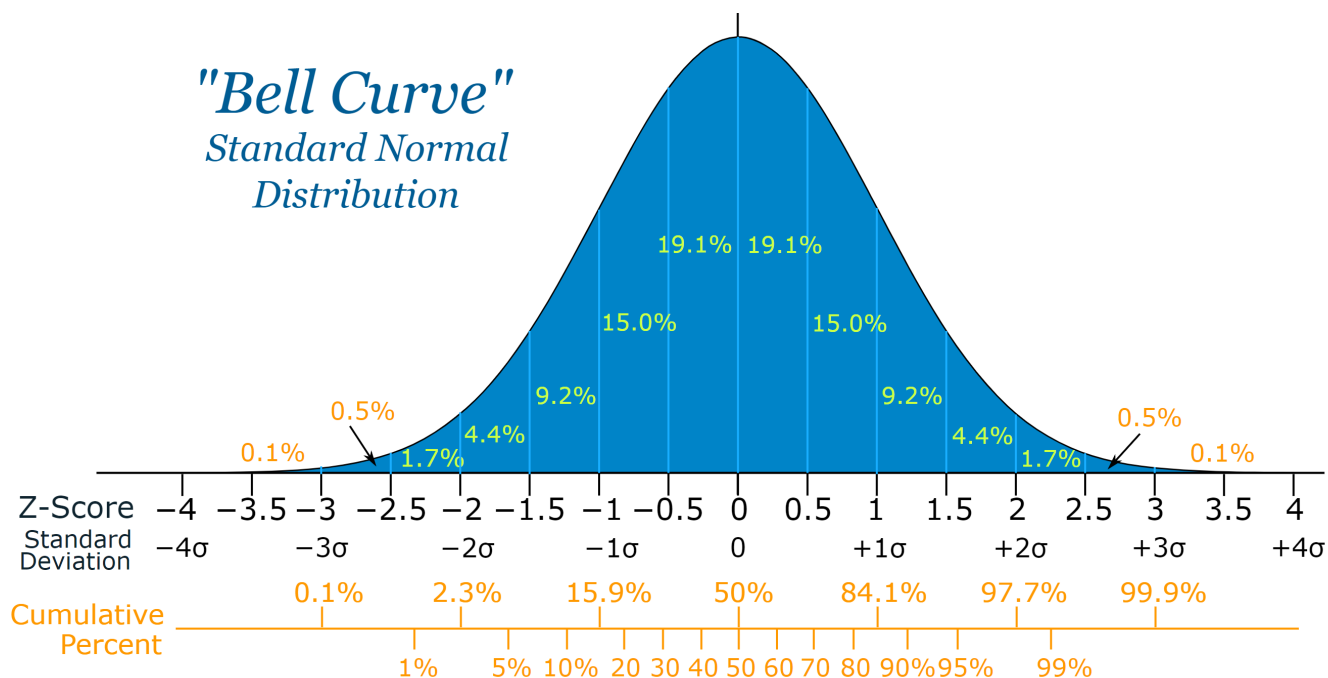


Markets

Feeling dazed and confused right now? You are not alone, as Bloomberg wrote over the weekend, and where we are headed from here is almost anyone's guess, whether we are left tail moving further out, or at the middle of the curve now heading to the right tail. Either way, so far in 2020 we have touched both sides.

Tail Risk Abound

"Bell Curve" Standard Normal Distribution

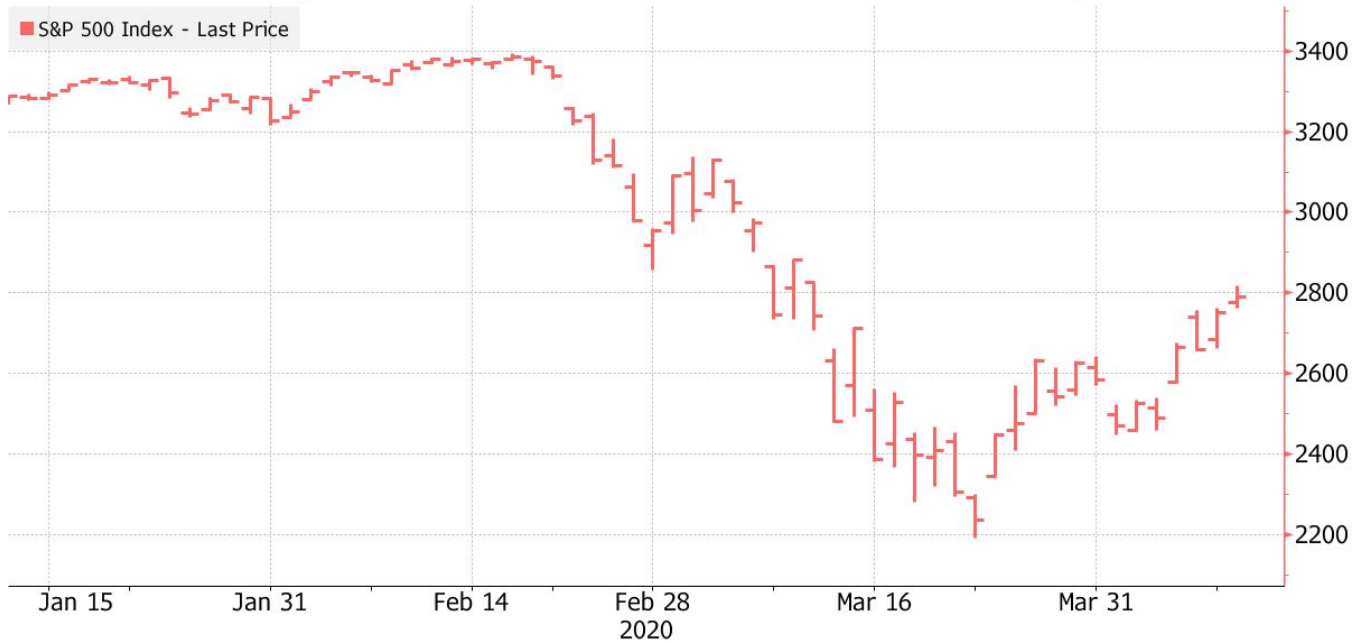


Goldman Sachs spoke their opinion this week that the, 'whatever it takes' moves being made in monetary policy, coupled with tailwind from the fiscal side, has likely put a bottom in for stocks, at least for now. This is also our position, but not Jeff Gundlach's, who thinks the March lows will be taken out in April, and this was before the Fed's most recent opening of its wallet.

Is the Bottom In?

Brightening Outlook

Goldman removes prediction for near-term S&P 500 downside to 2,000



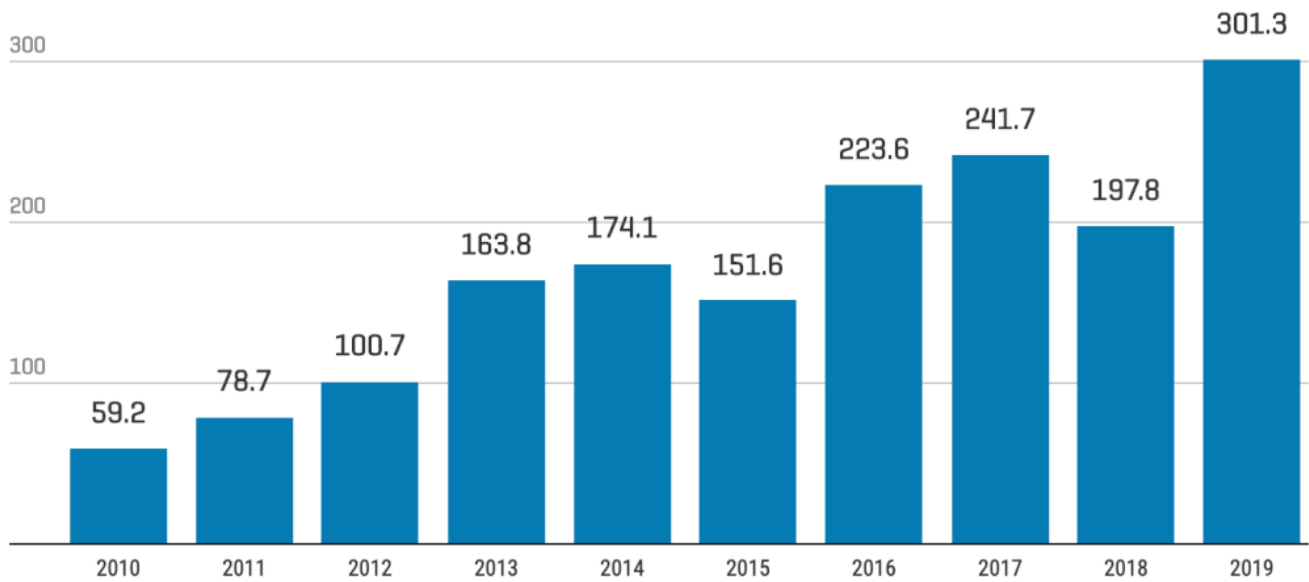
Source: Bloomberg

We have now entered into a bifurcated market, where high grade equities and fixed income will provide the smoothest path forward as there are now big battles to be fought in the more heavily levered corners of the market, such as hospitality, energy, and real estate. Case in point, on Monday the Wall Street Journal reported the situation is so bad in corners of the entertainment industry that cash burn models for the next 30, 60, and 90 days are being grinded by private equity. Regardless of the number, the write downs will be significant.

Lots of Dough

U.S. Private Equity Fundraising

Capital raised for U.S. PE funds in billions (\$)



SOURCE: PitchBook

FORTUNE

Crude Oil

The Opec+ deal agreed upon over the weekend wound up being a cut of 9.7 million barrels per day. The range had been as low as 5 million and an aspirational 20 million, all against a daily average of 100 million. With this two year deal now in place, price stability is possibly also in place. Longtime observer of all things energy, Daniel Yergen, explained that in this case President Trump acted more as a divorce mediator in what he called his 'biggest and most complex deal ever'. We agree and think that given the support Opec, Mexico, Russia, and the United States has thrown at the situation, the risk has shifted more toward missing the upside than fearing the downside.

West of Texas

THE UNRELENTING PERMIAN

WTI futures Permian oil output



Source: Energy Information Administration; NYMEX

Bloomberg

If we do happen to slip, and have another round of selling pressure on exploration and production stocks and bonds, a nationalization of certain assets is not out of the question for both national security, and the risk of huge job losses that don't come back at the turn of a dime. The New Republic published a thoughtful piece in mid-March titled, [A Moderate Proposal: Nationalize the Fossil Fuel Industry.](#)

America First



The Economy

Over the weekend on CBS's Face the Nation, the president of the Minneapolis Federal Reserve, Neil Kashkari, said the likelihood of a 'V shaped' recovery is not high, as we could be facing a series of shutdowns over the next 18 months. It's worth listening to Neil, as he had a front row seat during the last financial crisis and was a partial architect of the now famous 'Break Glass' plan that became TARP.

Neil Kashkari & Hank Paulson



Opinions about what is on the horizon for the economy are as abundant as space on a commercial flight right now, and we don't plan on providing a constant flow of updates on who is saying what. When an opinion we see is worth passing along, we will. Our view is that speculation on shapes of the recovery might as well be a parlor game at this point. Our overriding thoughts and concerns surround how this episode in economic history will affect consumer and investor behavior over the long term. We have all heard the stories of how

the Great Depression forever changed that generations willingness to engage in the economy in the ways we know today, and stacking cash in your mattress was a real thing. Whether that will happen again remains to be seen. What we do know however, is the millennials trying to establish an economic foundation just had a very real shock that put a giant crack in it. A year ago, The Atlantic ran a story about how the next recession would destroy the millennials, and that looks like it might be the case.

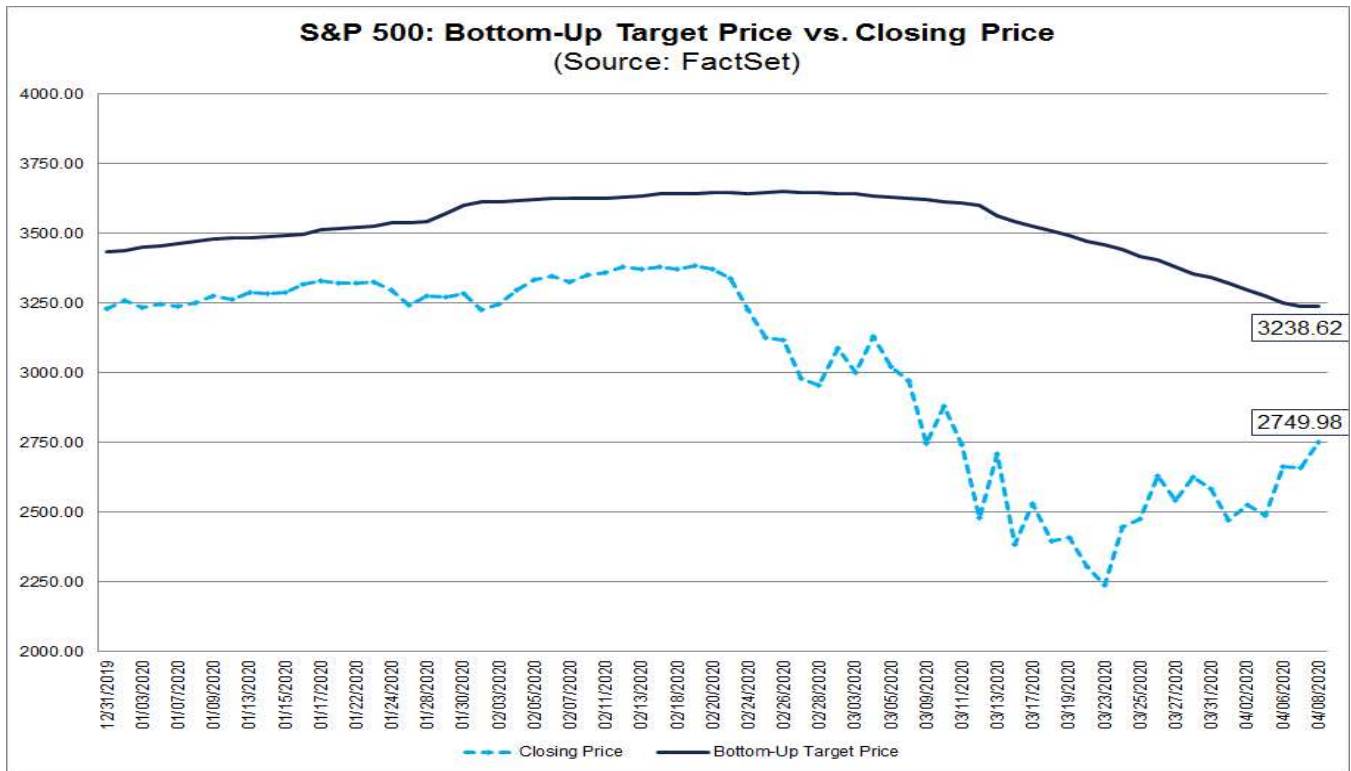
Beyond Repair



Earnings

Analysts are now getting an idea of just how bad earnings are going to be for the rest of 2020, and it's not a pretty picture. That said, the aggregate price target for the S&P 500 is still 18% above the levels it stands today. This observation comes from Factset's always well written and explained, Earnings Insight. Former Deutsche Bank chief market strategist, Ed Yardeni, thinks we will see a 25% contraction.

Spread Narrowing



Hedge Funds

Hedge fund performance through the first quarter had a very wide dispersion. The top decile returned a very impressive 18.5%. That cohort included trend following, relative value, multi-strategy, and global macro funds. The bottom decile lost a very non-impressive 30%. A lot of these funds were long leaning long/short strategies. And then there was the well-chronicled 20% loss of the world's biggest hedge fund, Bridgewater. Clearly not what investors expected out of a firm built on 'radical transparency'.

Too Radical?

RADICAL TRANSPARENCY AT BRIDGEWATER: THE BASICS



Everything is recorded.

All meetings and interviews, with few exceptions, **are filmed and made public** to all employees.



Everyone follows the “Principles.”

Each employee has a copy of Dalio’s exhaustive management philosophy guide, which contains **210 lessons**.



Complete honesty means nothing held back.

Talking behind someone’s back makes someone a “slimy weasel,” according to the Principles, and is a **fireable offense**. All tensions, even with Dalio himself, must be brought to that person.



Employees have “baseball cards.”

Employees use an internal iOS app called **Dot Collector** to rate each other’s attributes. Averages are collected in “baseball cards” for each member of Bridgewater.



Pain + reflection = progress.

The above equation is fundamental to Dalio’s Principles. Each employee uses an iOS app called **The Pain Button** to log negative work experiences for the purpose of later discussion and resolution.

Stillwater’s offer as an outsourced short selling specialist is still available. Skill on that side of the ledger has been what makes us different and resulted in a positive 2018 to the tune of 3.25%. This in the face of equity long/short funds that lost an average of 8% that year. It

has also helped us tremendously in 2020 and worked to provide less than half the downside of the market in Q1. As we also believe in transparency, here was what the short book looked like coming into the year. Performance shown is for January 2nd through March 23rd, the presumptive bottom for now.

Stillwater's Short Book in Q1

Industrials

Boeing -62%
Spirit AeroSystems -67%
FedEx -25%

Technology

Facebook - 29%
Salesforce - 12%
Dynatrace - 16%
Snap Inc. - 33%
Uber - 32%
Lyft - 55%

Materials

BHP Billiton -42%

Financial

Affiliated Managers - 47%
Legg Mason + 27%
Franklin Funds - 40%
Prudential Financial - 59%
Wells Fargo - 54%

Energy

EOG Resources - 60%
Haliburton - 79%
Oil States - 87%
Pioneer Resources - 62%
Schlumberger - 67%
Diamondback Resources - 81%

Consumer Staple

Kraft-Heinz - 34%

REIT

Vornado - 57%

Consumer Discretionary

Chewy + 8%
Home Depot - 26%
Home Depot Supply - 43%
Netflix + 9%
Peloton - 15%
Real Real - 69%

Diversions

Since talking about things to do, or places to go, during a time like this seems rather fruitless, we decided to keep it in-house and rank a few of Ken Burns best documentaries. While most have a dark moment here or there, by and large they end with an inspiring message. While his professional website lists the forty films he has worked on over the years, we give you our four favorites.

Up first, is the dramatic recounting of the Civil War he produced in 1990. The film ran on five consecutive nights in the fall of that year and touched 39 million viewers, a record for PBS at the time. In classic Burns fashion, the nine episodes ran to nearly twelve hours. While David McCullough did the narrating, our favorite character was Shelby Foote with his smooth southern drawl.

Burn's Seminal Work



Another great production, and one that we watched only recently, was Burns' production of The Roosevelts, a film that covered everyone from the gentrified Hyde Park side of the family, to the very rugged and ambitious Teddy Roosevelt. The portrayal of the latter's charge up San Juan Hill in Cuba with his Rough Riders was some of the best storytelling contained in the documentary, and showed a lot about what Teddy was truly all about.

Roosevelt's Famous Charge



One of his most recent releases, Country Music, hits some really high notes, no pun intended. But also has a few longer segments that could have been tightened up. We felt that it took too long to establish the origins of the genre and left some untied loose ends with the abrupt finish at the Garth Brooks Era, leaving out much of the great work being produced in the last decade. But the film redeems itself with the segment on Willie and Waylon and the rest of the original members of the Outlaw Country set.

The Highwaymen



And finally, there is our hands down favorite, one that exemplifies the idea of American greatness. It is the telling of how our countries National Parks came to be. The subtitle of the film says it all ‘America’s Best Idea’, as it is true we have had many. The reason we like the film so much, is due to the granular detail Burns takes us on in regards to how several of the larger parks like Yellowstone, Denali, the Grand Canyon, and Acadia National Park came to be. Because these are all thriving today, the filmmaking imagery is spectacular, and provides a nice escape during a time when a relaxing distraction is called for.

Horseshoe Bend



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