

## ***This Week In...***

### ***Economics***

It was a huge week for economic releases, both here and abroad. This market is so well bid, even the slightest hint of good news is bought with both hands. With the domestic markets a few points away from a new record, the bad is bought as well. A true “Goldilocks” moment, a phrase we find tiresome.

### **What, Me Worry?**

#### **No Eyes for Surprise**

**U.S. and European stock markets are shrugging off poor economic data**

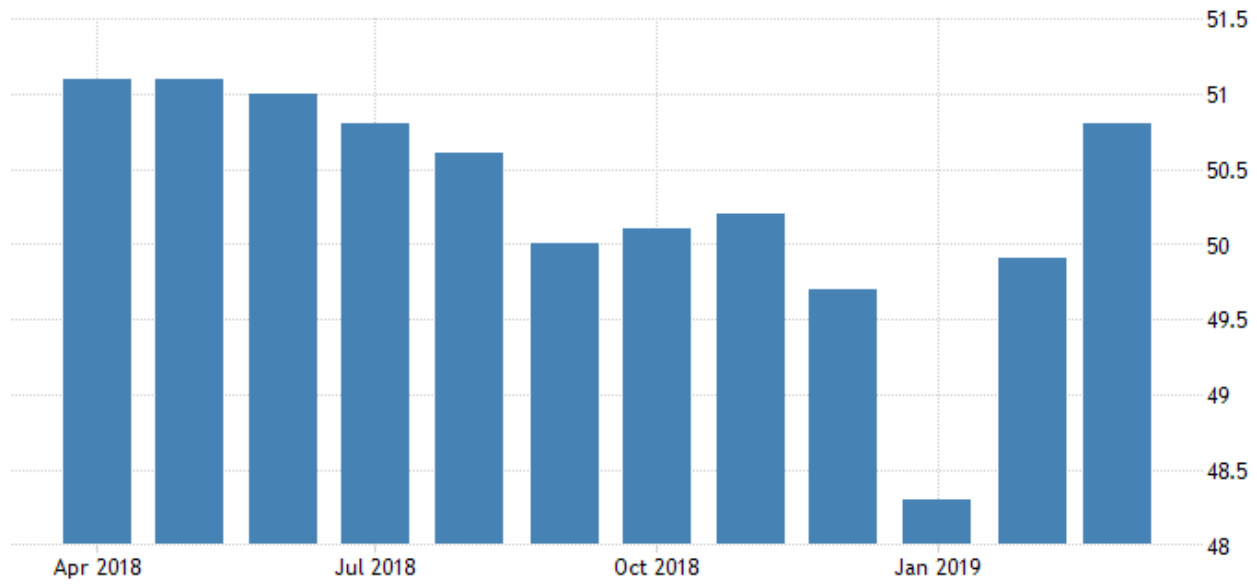


Source: Bloomberg, Citi

*Source: Bloomberg*

On Monday, we got news that Chinese manufacturing was building off last month's anticipated bottom, providing the Chinese stock market everything it needed to pop 2%. This sparked a global rally in risk assets, and the safety of government bonds became slightly less interesting.

### **Chinese Manufacturing PMI**



*Source: Trading Economics*

With an apparent trade compromise likely between the globe's two largest economies, optimism that there will be a rebound in manufacturing is beginning to sound more and more real. Morgan Stanley's former chief economist Steven Roach thinks that if it becomes real, you fade the news and take profits. "When the dust settles, there'll be some realization that this is not a fundamental breakthrough — that the conflict will be enduring," he said Wednesday. "Take profits very quickly, which would be my sense." Good luck with that. Meanwhile, president Trump is touting an "epic" deal is in the works.

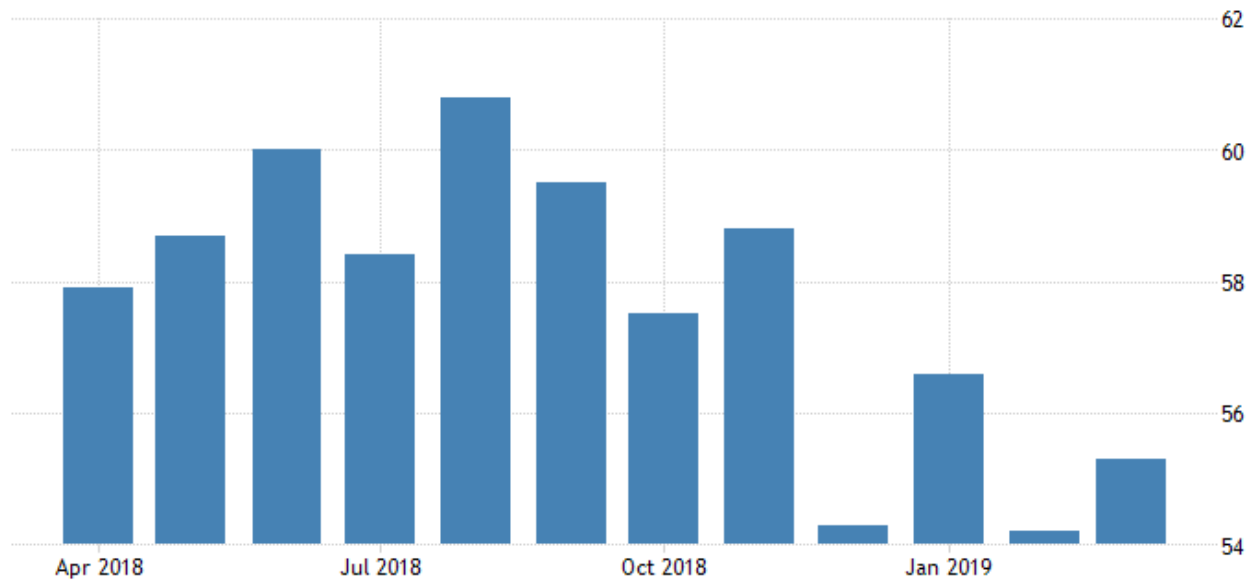
## **Presidents Xi and Trump**



*Source: WSJ*

Here in the U.S., the March purchasing managers' report didn't show much of a rebound for the manufacturing economy. For data geeks out there, the new orders component of PMI hasn't confirmed we are out of the woods yet.

### **PMI New Orders**

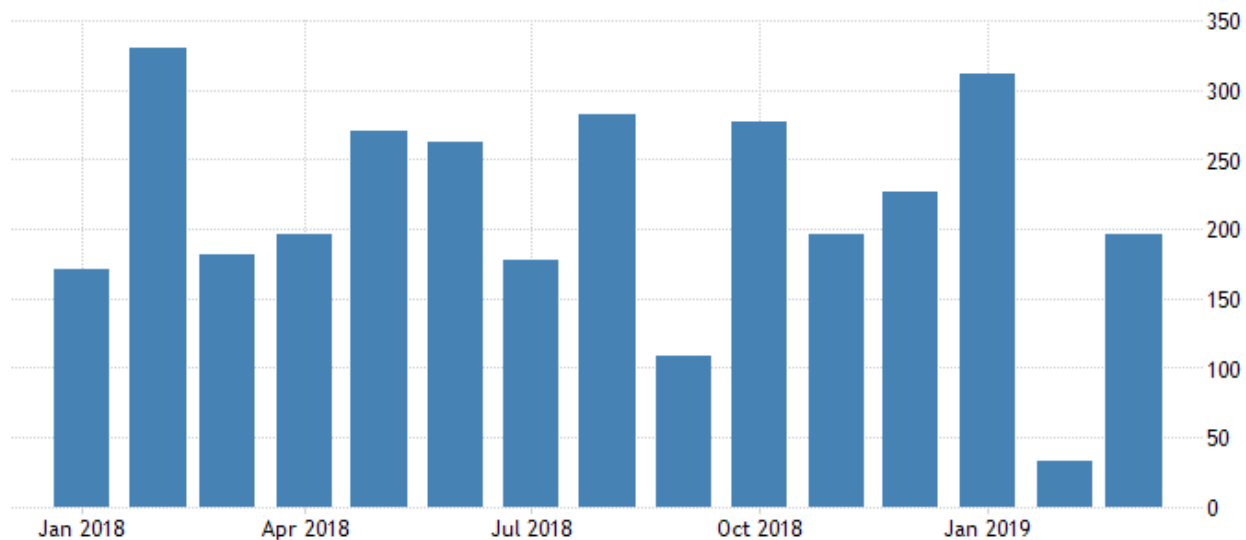


Source: Trading Economics

President Trump pulled out the ugly stick again this week, and smacked Fed Chair Powell over the head with it. In an interview with the *Wall Street Journal*, Trump claimed to have told Powell in early March, “I guess I’m stuck with you”. In another choice moment, Trump said that “Mnuchin gave me this guy.” The president is so focused on the market as a barometer for his success, he actually called Powell on March 8<sup>th</sup> to let him know that the February jobs report was not to his liking. The economy added a scant 20,000 news jobs versus expectations of 200,000.

On the subject of jobs, the March employment report came in somewhat lukewarm on Friday. The Labor Department reported a gain of 196,000 payrolls against expectations of 175,000. Last month’s dismal 20,000 was revised upward to 33,000. Wages showed tepid growth once again.

## Twelve Months of Job Gains



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Source: Trading Economics

The last thing we will say on the one-way war of words between Trump and Powell, is that by all accounts it appears things have shifted, and neither party is looking clean. On the one hand, the president is exacting his brand of chaos on policy. On the other, is the unprecedented action of the Fed as they blasted away all expectations of further rate hikes this year. If this is the new normal, look for volatility to reign and tail events to become the new norm. Note to Jerome Powell, Trump just made himself your daddy, and your daddy now want's lower interest rates and the return of quantitative easing.

### “Listen Up, Sonny”

**Donald J. Trump** Verified account @realDonaldTrump

Follow Follow @realDonaldTrump

Had the Fed not mistakenly raised interest rates, especially since there is very little inflation, and had they not done the ridiculously timed quantitative tightening, the 3.0% GDP, & Stock Market, would have both been much higher & World Markets would be in a better place!

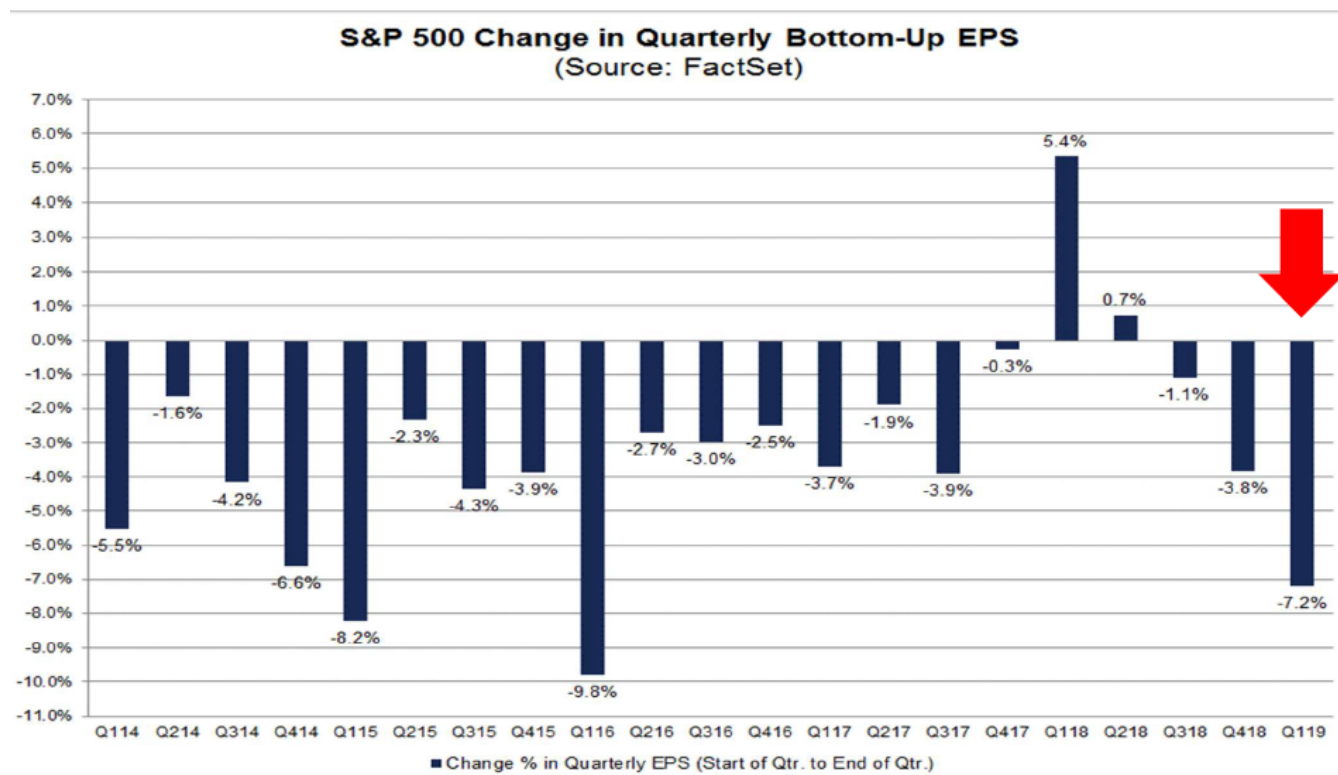
2:41 PM - 29 Mar 2019

Source: Twitter

## Earnings

Goldman Sachs came out this week with another warning that the outlook for Q1 earnings “were getting grimmer by the day.” If bottom up analysts are correct, the 7.2% quarter over quarter decline will be the third worst in six years.

## Earnings Rolling Over



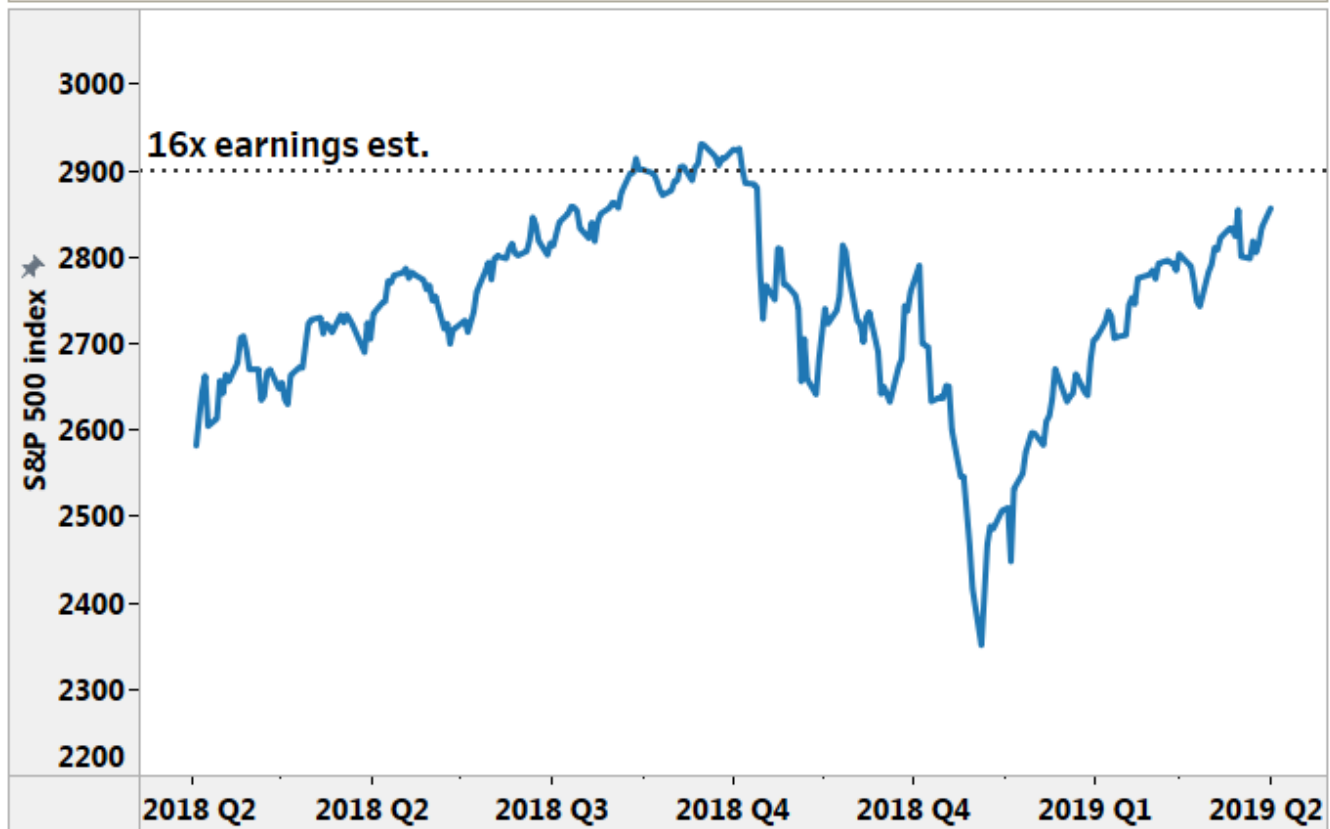
Source: Goldman Sachs & FactSet

Not far behind Goldman Sachs on the earnings slowdown bandwagon was J.P. Morgan, as they warned that 2020 consensus earnings were now coming down, and the market is up against a valuation ceiling. Whether it breaks through depends on two things. The first, resolving the trade standoff with China. The second, the Fed getting even more dovish and exciting the market with the next move being a cut in interest rates.

## Pass the Dramamine

# Topping out?

CNBC



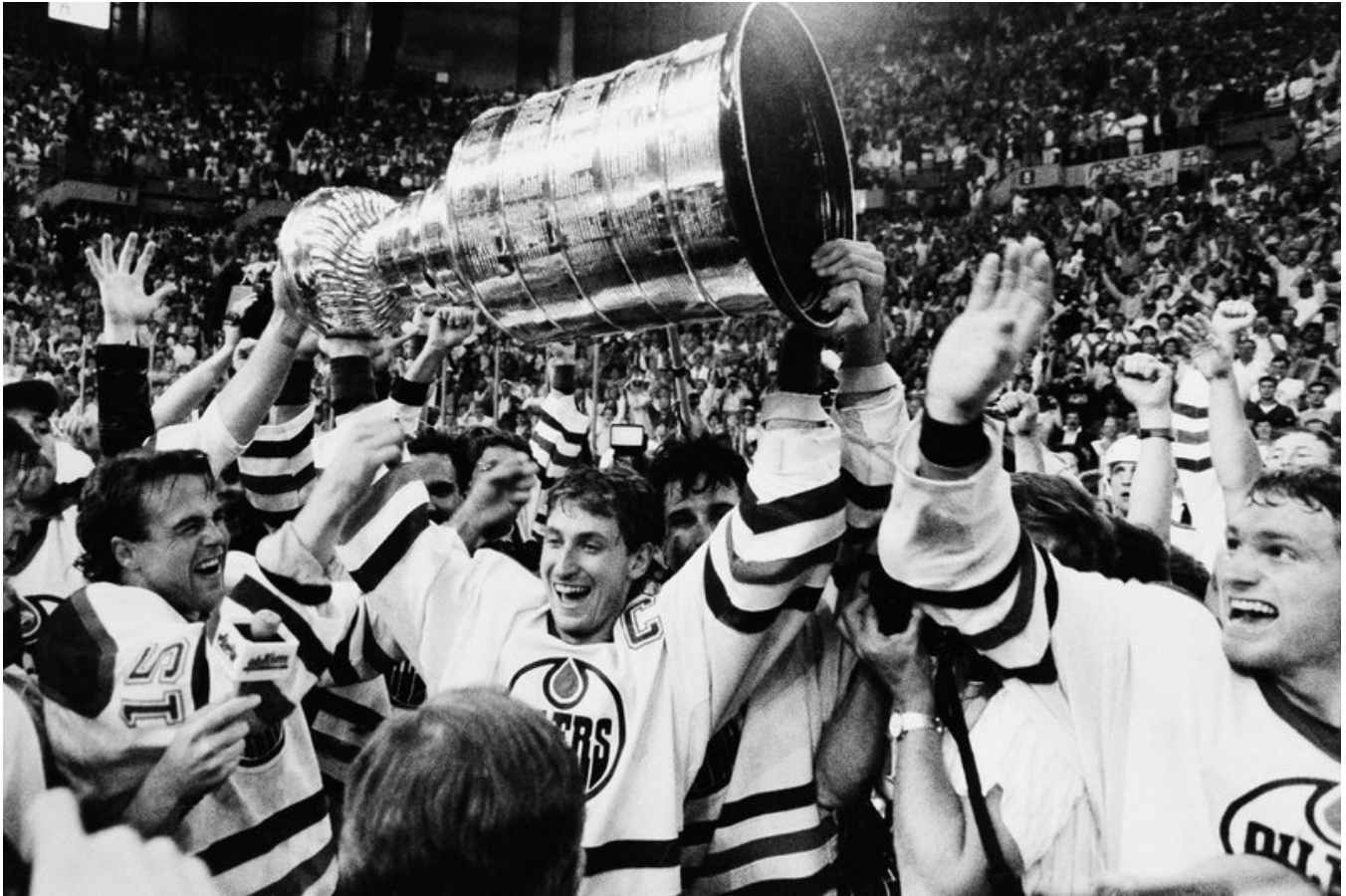
Source: CNBC

## ***Economics & Earnings***

In a first here at Stillwater, we are marrying economics and earnings to provide some context to what is going on in the market. With so many indicators pointing negative, and the market pointing positive, the thoughts of the “Great One”, Wayne Gretzky, resonate. Gretz was once asked why he was better than everyone else on the ice. His response, “I skate to where the puck is going, not where it’s been.”

## **Hoisting the Cup**





*Source: NPR*

In January, consensus was that we were in some sort of bear market and an economic slump was headed our way. Turns out, that was the near-term nadir for pessimism and fear. Anyone who bought it, speculating that the worst was priced in, has been handsomely paid. They skated to where the puck was going, at least in the first quarter.

We still hold out the belief that the worst is yet to come, which has made us about as popular as a red headed step child at the family reunion. Maybe instead we are Wayne Gretzky, and the puck is headed back our way once the Fed's monetary amphetamines wear off.

## ***Companies***

Tesla's very bad horrible year just got even worse this week when the company announced that Q1 sales would be 30% lower than the previous quarter. Yes, that's right, we said 30%. This of course has the bears growling once again.



Whitney Tilson, the one-time hedge fund manager, thinks there is downside to \$100 in the shares. Its currently trading at \$275.

To be fair, Tilson's hedge fund went out of business last year after failing to raise enough assets to make a legitimate run at it. Those that can teach, teach. Those that can do, do. Meanwhile Tesla stock goes up a lot, and down a lot, making very little progress either way.

## S&P 500 vs. Tesla



Source: Nasdaq

Following the rule that there are two sides to every story, the tailwind that consumers enjoy via a vis lower drug prices through generics, is pinching the retailers that sell them. This week it was Walgreens, which reported punk earnings and a diminished outlook going forward. “The pharmacy trends are not only impacting our business,” Walgreens CEO Stefano Pessina said Tuesday on a conference call, “They are impacting the overall market and will likely continue to do so over the coming months.” We have an idea, stop putting a store on every block, and in every strip mall parking lot. It’s just a thought.

## Poppin Pills



*Source: Gordon Brothers*

## ***Wall Street***

The usually ebullient J.P. Morgan's CEO Jaime Dimon showed a more cautious side this week, when the company released the annual letter to shareholders. The many challenges include central bankers not getting policy right, American leadership globally being diminished, and a “new normal” of market volatility, the kind of which we saw at the end of 2018.

## **The Ever-Dashing Jamie Dimon**



*Source: USA Today*

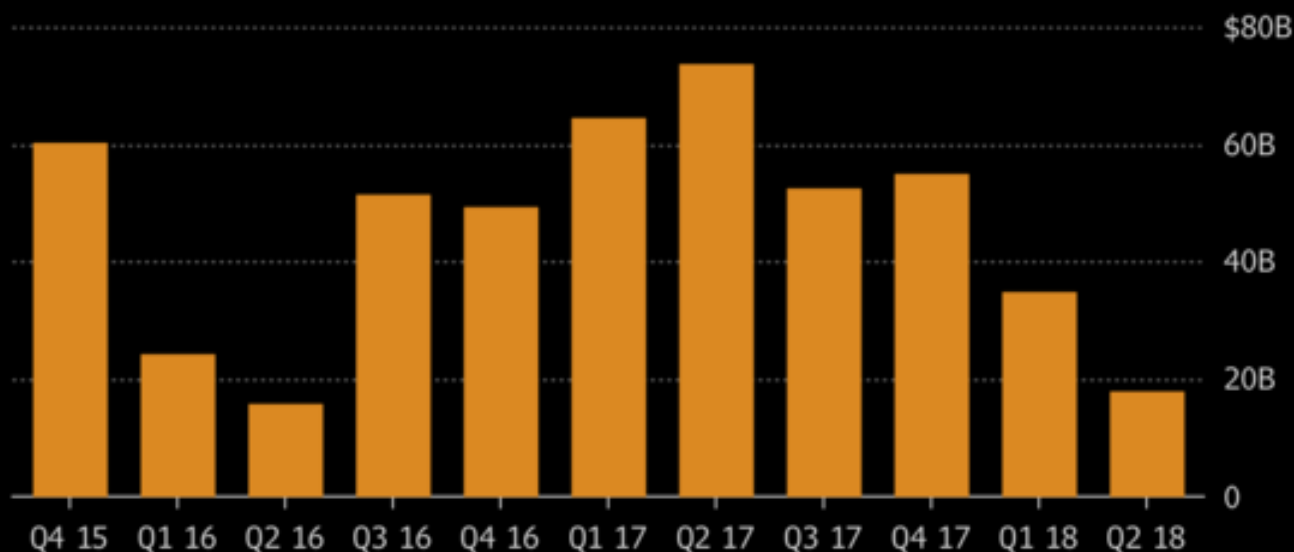
BlackRock made big news this week when they announced a major overhaul and alignment of the business in an effort to cope with a new reality in asset management. Aside from moving some bodies around, and some out the door, the world's largest manager of assets made a pretty clear declaration that they needed to diversify away from margin crushing ETFs, and into alternative investments, an area we know well, and advocate for as much as possible.

**Easy Come, Easy Go**

## Falling Flows

Money going into BlackRock's iShares products has plummeted

■ iShares net inflows



Source: Bloomberg

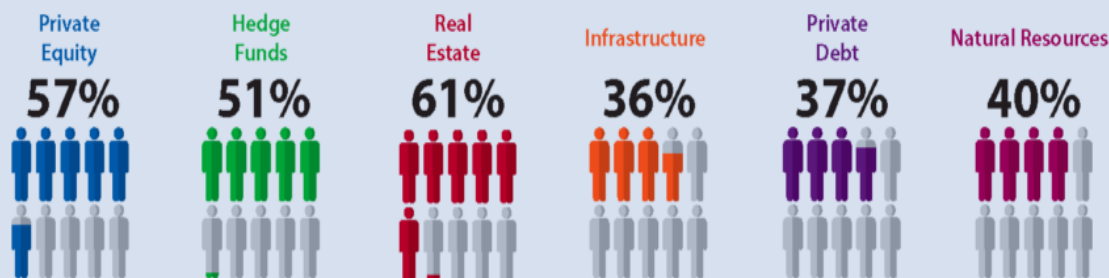
Bloomberg

Source: Bloomberg

To give you an idea of how big an influence alternatives have on BlackRock's earnings statement, while they represent only 2% of assets, alternatives account for 9% of revenue. That's enough to get a guy, or gal, up in the morning. BlackRock's brother from the same mother, Blackstone, just announced plans to raise \$20 billion for its next buyout fund. Bottom line, there is still large buckets of money looking for a place to invest outside of traditional stocks and bonds.

## Follow the Flows

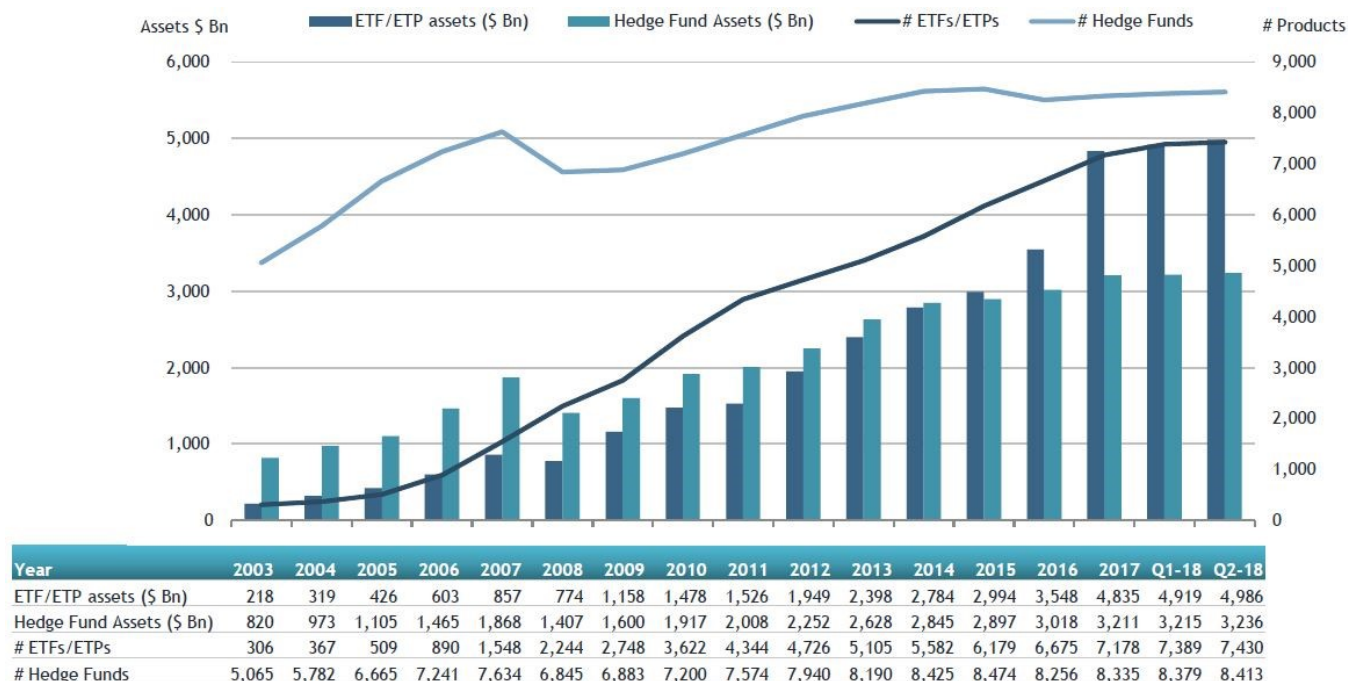
PROPORTION OF INSTITUTIONAL INVESTORS ALLOCATING TO EACH ALTERNATIVE ASSET CLASS



Source: CAIS

In a news flash that is neither news, nor a flash, hedge funds continue to underperform the market *even* as their correlation to the S&P 500 gets tighter and tighter. Last month, *Bloomberg* put out a great piece earlier this year that highlighted the struggles, and also the fact that despite the headwinds, hedge fund assets have remained sticky.

## Still Stable



Source: HFRI/Nasdaq

For those who like to dig into the details, Hedge Fund Research (HFRI) produces good material that gets very granular in their findings. Included in this, is the methodology they use to describe, and measure, the various hedge funds indexes they track.

## The Alternatives Menu

## Types of Hedge Funds



Source: Slide Team

### ***Diversions***

Final Four weekend is here, and this has to be one of the best lineups in recent history. No Duke to despise, or John Calipari to loathe, this year's teams are wonderfully un-common. Two have never even sniffed the Final Four, one team that slayed the giant, and finally a team that one year ago became the first number one seed to ever lose to a sixteen seed. Pull up a chair, this is going to be good.

### **The Penultimate**



*Source: MSN.com*

Now please provide us some leeway as we digress for a moment, the word penultimate might be the most overly misused word in the language of those who like to use fancy words. Nearly 99% of the time someone refers to it as the best, which it's not.

The word actually means "second to the last". Now let's use our new big word in a sentence, and do it in a Jim Nantz voice, "Today's games, between these four teams, is the penultimate test." As in, this is the last test before the final test. When you are at your next fancy cocktail party, and someone misuses the word and you correct them, give Stillwater a little love...and attribution.

**Second to the Last**





Source: *Language Log*

If you are a music fan, especially one who likes to go to festivals, April is your month. First up is the now massively commercialized Coachella Music Festival at the Empire Polo Grounds in Indio. The iconic event runs from April 12<sup>th</sup> through the 21<sup>st</sup>.

To prove to everyone that this author is as edgy as a bowling ball, I can report that of the 100 or so artists scheduled to play, I knew a grand total of three of them. Congratulations Jonelle Monae, I think I just ended your career.

**“Oh No!”**



Source: Grammy.com

The week after Coachella exists stage right, the far less commercialized Stagecoach Music Festival takes over in Indio. While we know far more of these artists, including Lynyrd Skynyrd, our primary interest would be the festivals epicurean smorgasbord.

**Tastebud-a-Palooza**



*Source: Greater Palm Springs*

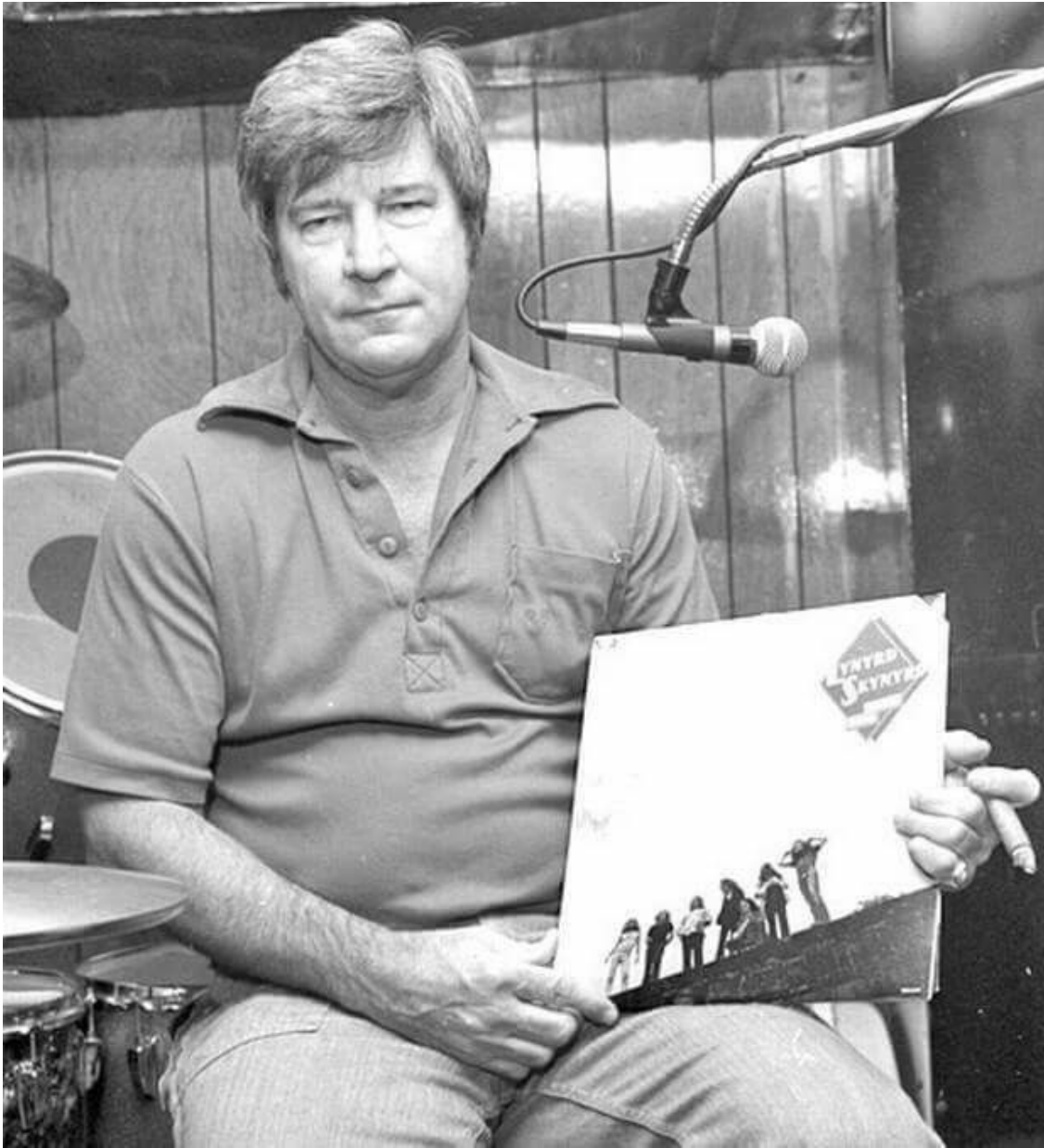
If there ever was an edition of *This Week in the Markets* that gave back useful cocktail party knowledge of popular culture and grammar, this is the one.

For \$100 dollars, who can tell us where the name Lynyrd Skynrd came from? Times up. Leonard Skinner was a gym coach at Robert E. Lee high school in Jacksonville, Florida, and was known as a bit of a disciplinarian.

Then, in 1962, along came Gary Rossington, Bob Burns, and Ronnie Van Zant. All three future founding band members, and offenders of the rules Leonard imposed on them. One day he sent them all to the principal's office, after which they colluded to name their band after him. Godspeed Leonard, or Lynyrd, may you rest peacefully in rock and roll heaven. In honor of the man, and the idea, I'll be naming my band the Eddie "the Batz" Battapaglias.

**Leonard Skinner 1933- 2010**





*Source: Los Angeles Times*

To round out our trio of big-time musical experiences, we give you New Orleans Jazz and Heritage Festival, or Jazz Fest, an event that has also commercially “jumped the shark”. But we don’t care because the lineup of headliners is beyond amazing.

It’s so good we barely know where to start, but here are the highlights: Van Morrison, John Prine, Dave Mathews, Katy Perry, Buddy Guy, Chris Stapleton, Ziggy Marley, Pitbull, Diana Ross, The Doobie Brothers, Jimmy Buffett, and Santana, to name a few.

Sadly, the headliners to end all headliners, The Rolling Stones, had to bow out due to an unspecified medical condition with Mick Jagger. A little band you might have heard of, Fleetwood Mac, is stepping in to fill the gap.

### **Laissez le Bon Temps Rouler**



*Source: Forbes*