This Week In…

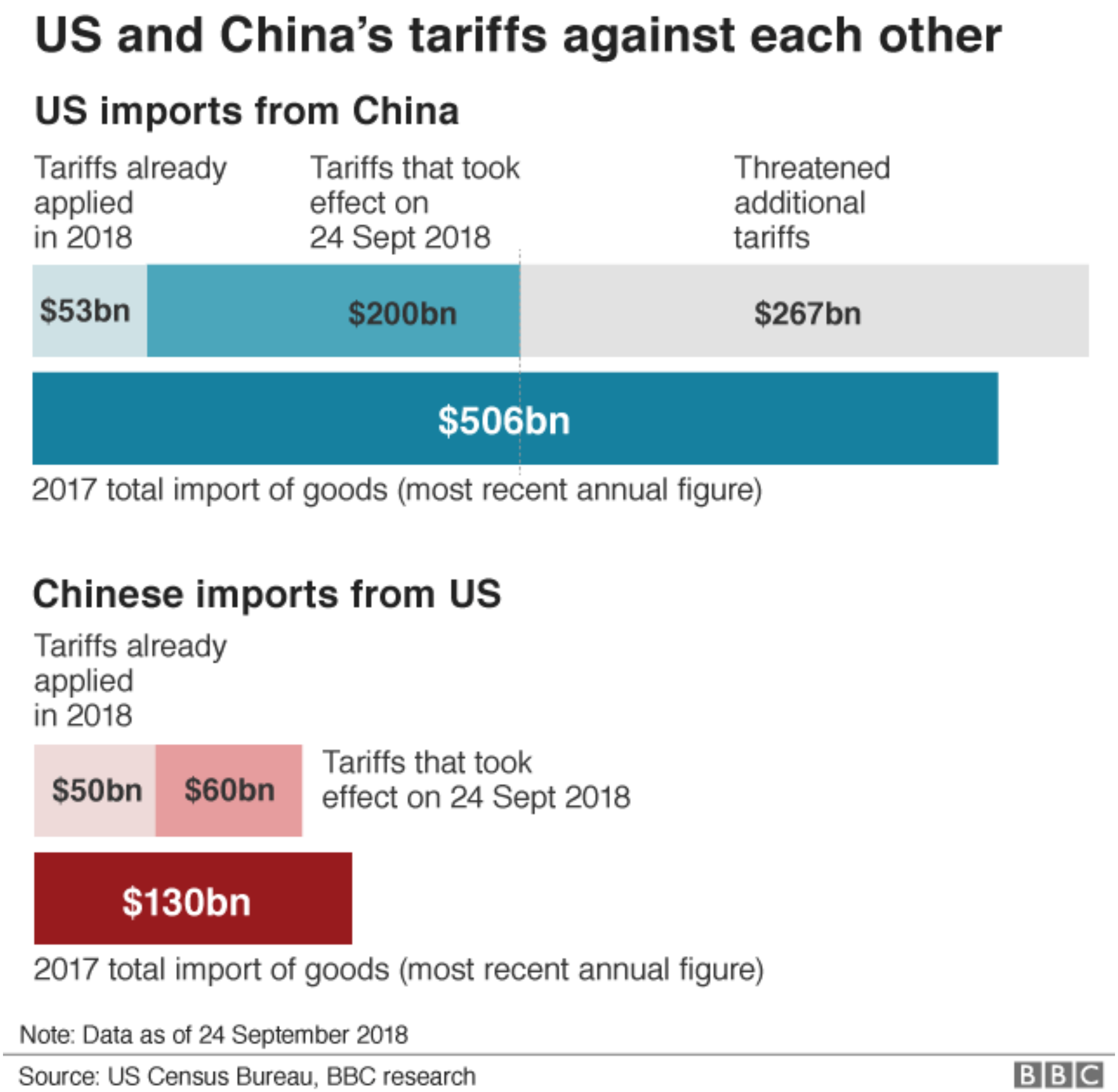
Economics

The trade war brinksmanship continues between China and the United States, this week crossing over an important line. Thursday night a deadline that would have bought each side more time, and prevented some tariffs from being imposed, came and went without resolution.

The markets expected something else as the lead up to this moment was filled with positive posturing and a very deliberate orchestration of meetings at the highest level.

And as we now know, never underestimate the power of the "Trump Put", it's frighteningly real, and he knows it. It was most certainly the reason a 350-point loss for the DJIA turned into a 135-point gain. Late Friday, China was given a 30-day stay, after which they laid out what they want to make this all go away.

China Needs A Bigger Boat



Source: BBC

The prognostication started early across Wall Street as the research team at Bank of America penned a piece on Friday laying out how they get to 5% market downside if this continues. US Bank has the S&P 500 at risk of falling 10% if an all-out trade war breaks out. Barclays plan for the moment is to get defensive with ownership of utilities and the consume staple sector.

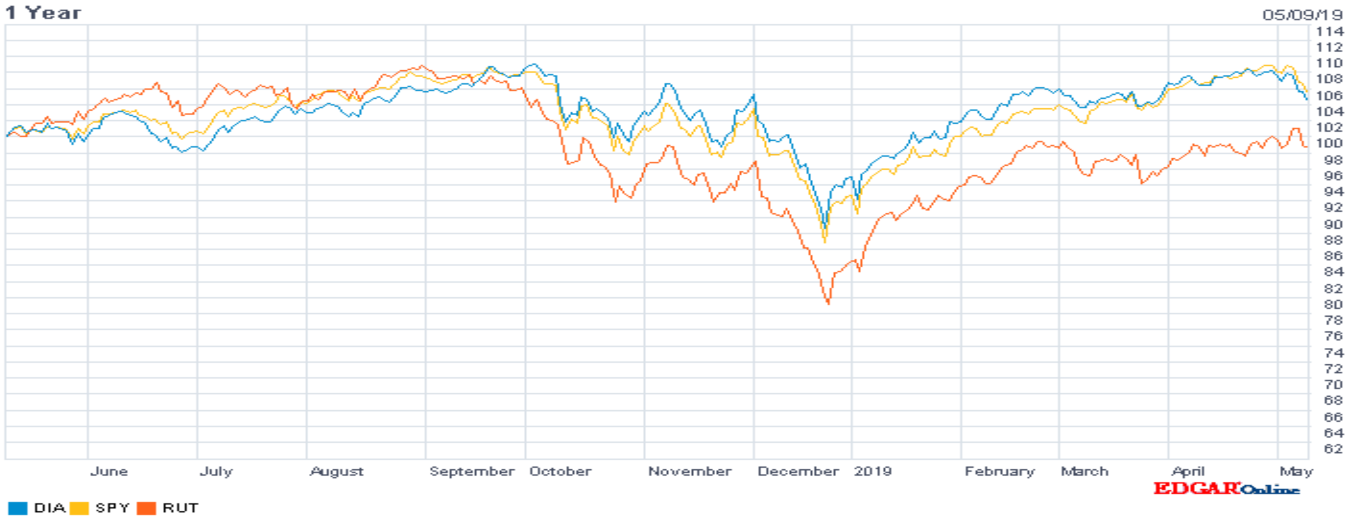
Elevator Down?

Source: Bloomberg

DoubleLine founder, Jeff Gundlach made the rounds in New York this week with an appearance at the Sohn Conference and then on *CNBC*. At the former he said of the Democratic presidential hopefuls 'short them all'. At the latter he opined there was 'a 50% chance of new tariffs' with China, and that Trump should get off the monthly exclamations about how strong 'his economy' is. Although at the end of the day, Gundlach continues to hold out that we are in a bear market.

"A bear market is really more about cycles and manias and then things one by one rolling over and the market getting narrower and narrower, and I think all of that has been happening over about an 18-month time period,I think that we're in the late cycle ... [and] to characterize the last 15 months as a bull market is just wrong."

DJIA, S&P 500, R1K.... No Bull Here

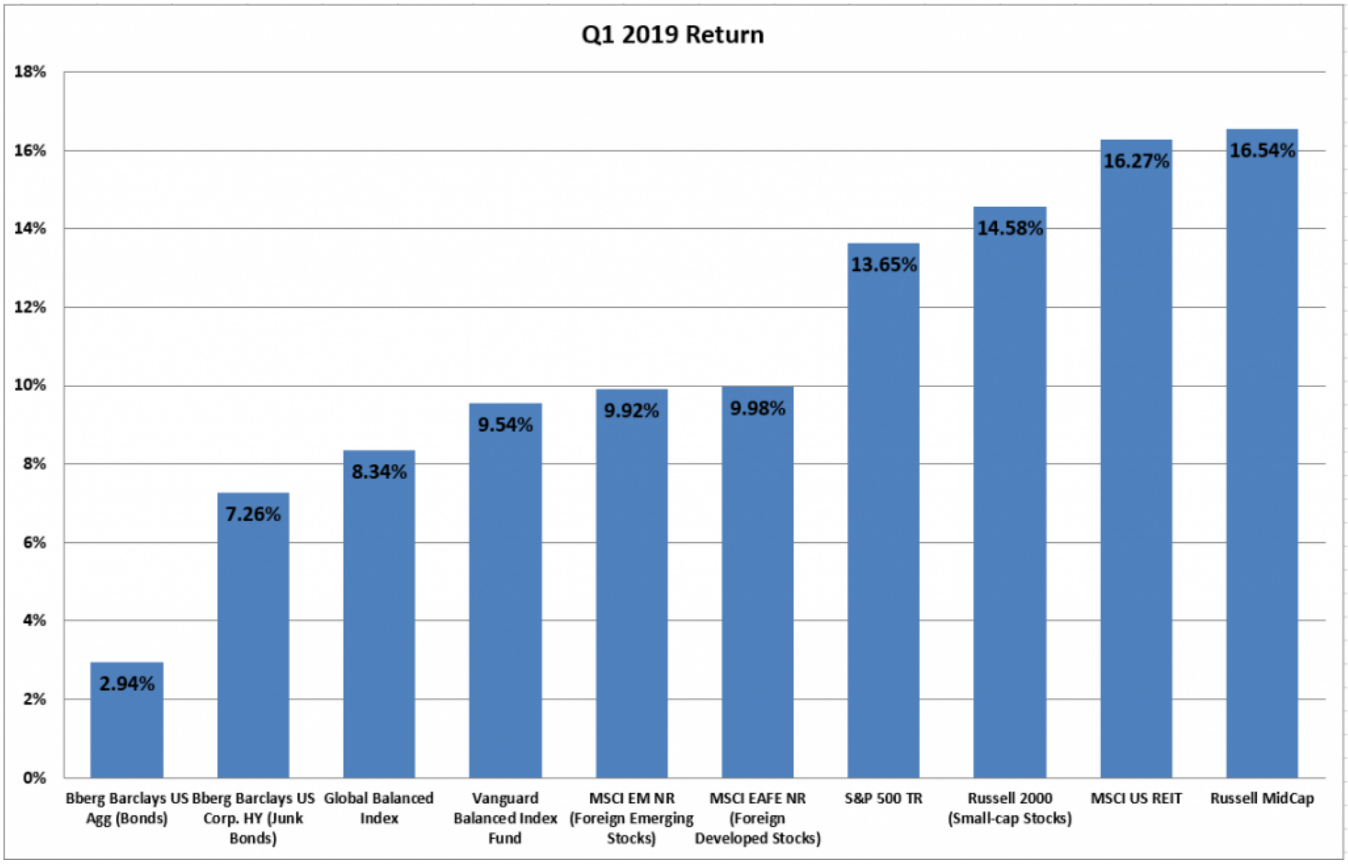


Source: Nasdaq

As any regular reader of these pages knows, we are card-carrying member of the Jeff Gundlach fan club. You don't get to $130 billion under management, own the stage every time you get on it, and not be afraid to make contrarian calls that work, without having a special mind about markets. One of the ideas that we have been grappling with, and Jeff has spoken about as well, is the fluid nature of the Powell Fed.

Over the past 18 months Powell has said we are in a special time of growth out to the horizon, then pulled a dizzying 180 on higher interest rates out of concern for a slowdown, and four months later is sitting on an economy that appears to be firing on most, if not all.

Let the Good Times Roll!

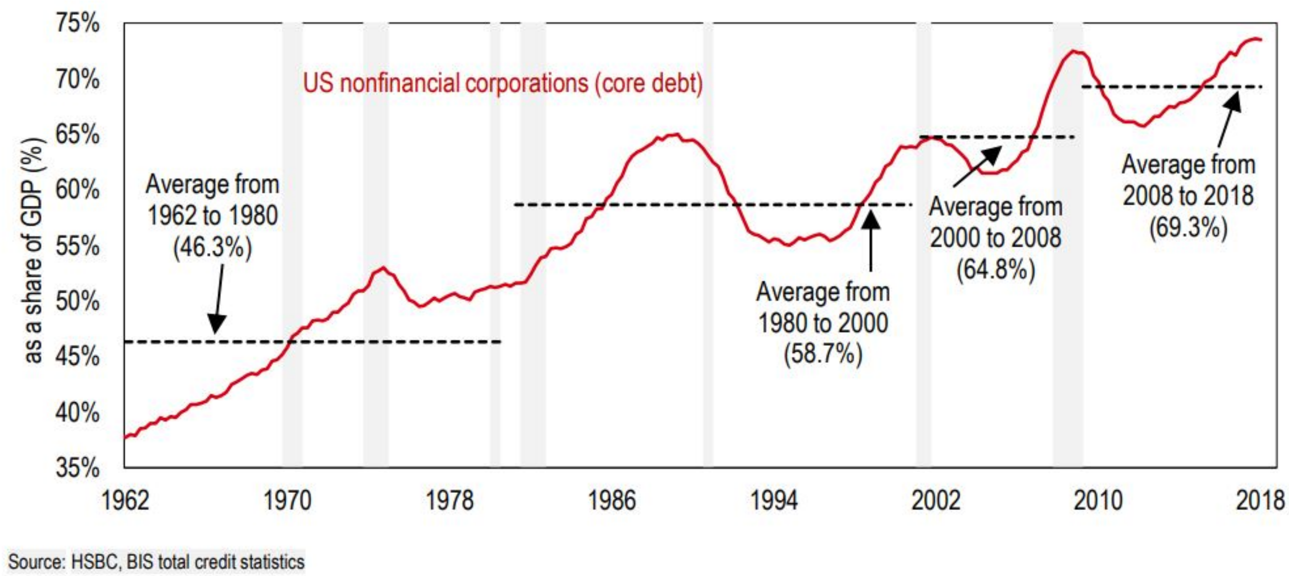


Source: Wealth Advisors

Markets

The man who called the end of the debt super cycle, Steve Eisman, is sounding the alarm again. This time the big problem is going to be in the corporate debt markets. In his words 'it won't cause the next recession, but it will be where the most pain is felt.'

Debt to GDP

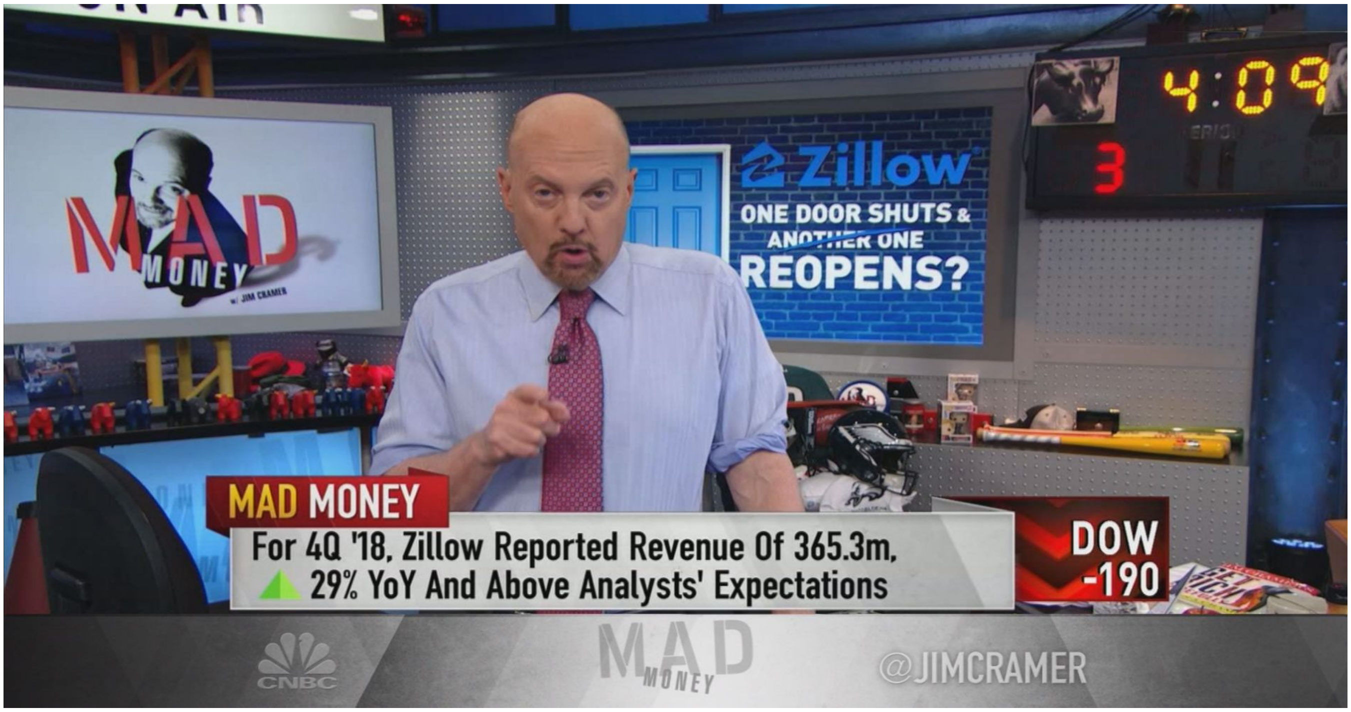


Source: HSBC

Speaking of pain, Eisman felt it on Thursday when his biggest short idea, Zillow, popped 20% on news that earnings came in ahead of what the Street was expecting, and the shorts got squeezed. The thesis is that the company's new plan to start flipping houses is doomed, just like most of those who try it themselves.

A month ago, *CNBC's* Jim Cramer laid the thesis out, providing an analysis at both sides of the trade. Kudos to you, Jim. Nice job explaining what a long/short debate is supposed to look like.

Judge Cramer



Source: CNBC

The New York Times did us a favor this week when they ran a piece about the technology wealth flight from San Francisco to, you guessed it…Austin, Texas. This dovetailed nicely with the piece we put together last week on a similar trend of the flight out of other high-tax states, and what it takes to prove your new home is truly your new home. Full disclosure, reading the *Times* article may make you very jealous, or at the very least perturbed at the lifestyles of the newly rich Lyft and Uber alumni.

Welcome to 'Camp Austin'

Source: Austin Statesman

Former Countrywide CEO, Angelo Mozilo made an appearance at Anthony Scaramouch's SALT conference in Las Vegas this week. In a Tuesday interview with *Bloomberg's* Erik Shatzker, he predicted a 'route' in high end residential real estate based largely on the loss of mortgage and property tax deductions.

As has been previously reported here, the inventory of ultra-high-end homes in high tax states is growing, and prices are starting to take a hit. Mozilo's call is that there is 40% downside and maybe more, to the higher end of the market. To be fair, this is the guy who was at the tip of the sub-prime meltdown spear and also the orange colored poster boy for its demise.

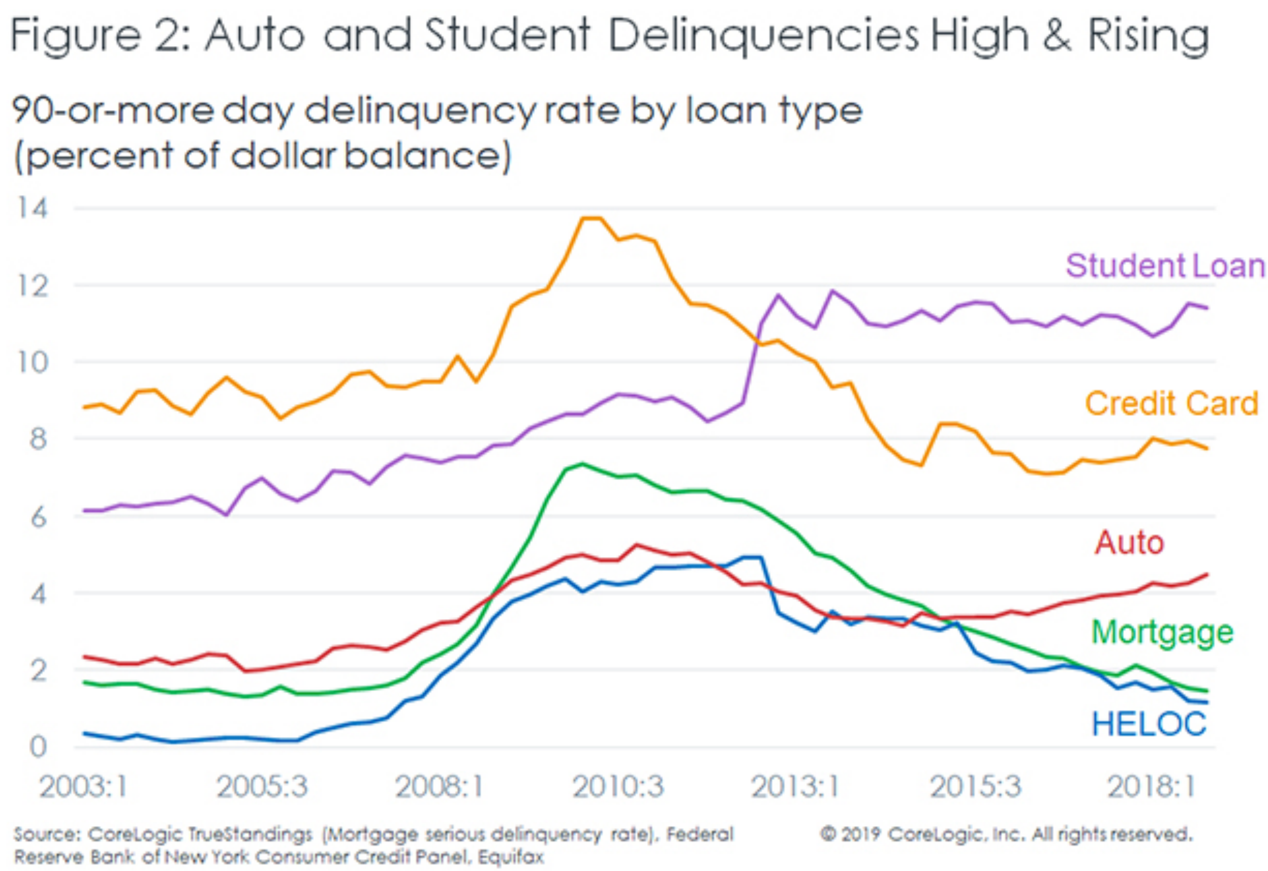
Angelo Mozilo

Source: SALT

In a move that few would oppose, except for banks, credit card issuers, a majority of Republicans in the House, AOC. and the Bern, are proposing that credit card rates be capped at 15%. The current average is 17.5%, but be late on a few payments and this quickly goes to 25%. Capping a rate, that by all accounts is usurious? We will take that seven days a week, and twice on Sunday.

Back to the here and now, auto delinquencies are beginning to creep up to levels not seen in a decade. In their April 2019 Economic Outlook piece, CoreLogic takes a whip around the different consumer credit classes. If you weren't afraid of student loan debt before, you will be now.

Degrees of Debt



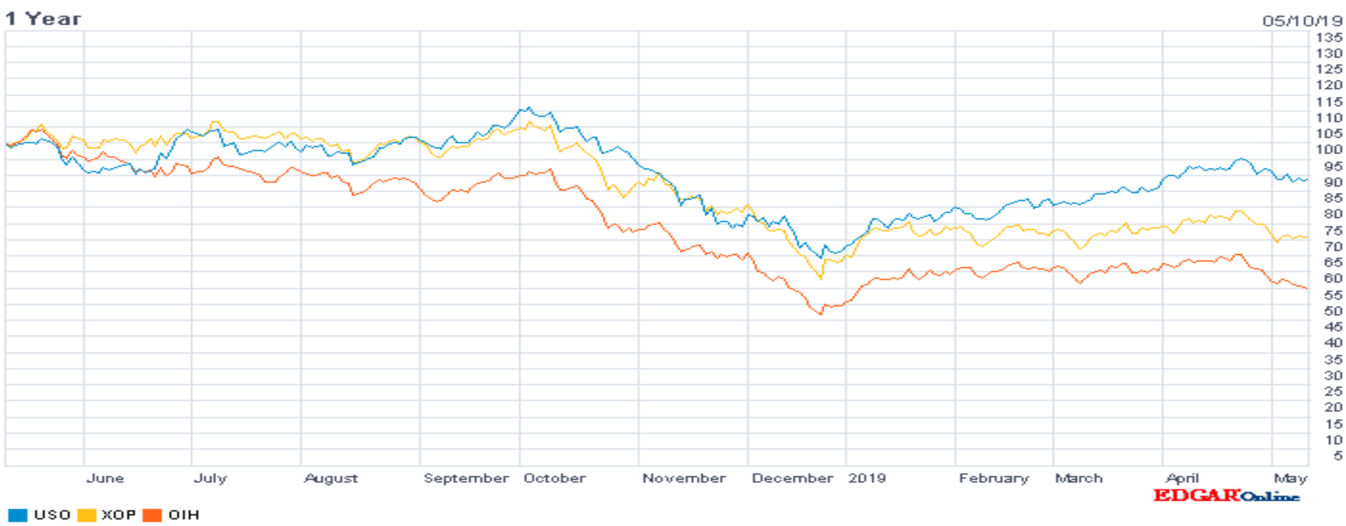
Source: CoreLogic

One area of the market we have been watching as of late is oil, exploration and production, and the oil service sector. On our spin through the sectors this week we noticed how absolutely horribly the likes of Schlumberger and EOG Resources have done against crude oil itself. Knowing the sector for a long time has given us a good eye for inflection points. With that in mind, we are going to put on what is known in the business as a relative value spread trade.

In this case we will be going long $0.50 of the XOP and $0.50 of the OIH, against $1.00 of USO, the crude oil tracker ETF. Because we will be dollar neutral, our net exposure is $0.00. If we are right, the spread between all three will narrow and we will at the very least not lose money in our USO short and make money in XOP and OIH. If we are 100% right, and if you were really jazzed up on the idea, you would add some leverage to get things going.

In this case we are simply going to make it an outsized position totaling 10% of the portfolio, with 5% and 5% on each side. We will get back to you with the results as the trade plays out. As always, this is not a recommendation, but us being transparent and instructive about what we are doing with client money.

Crude Oil, E&P, Oil Service



Source: Nasdaq

The SALT & Sohn Conferences

It was a big week on the hedge fund conference circuit as New York City hosted the Sohn Conference, and SALT made a comeback in Las Vegas. Both had their moments as the alternative investing landscape continues to evolve and change.

Sohn, so named after Ira Sohn, a 29 year old Wall Streeter who passed away from cancer far too young, brings together some of the biggest names in the world of hedge funds. The marquee is filled with the likes of Robbins, Gundlach, and Einhorn. As always, *CNBC* did an outstanding job covering the gathering. Einhorn, who was coming out of triage after a bruising loss of 30% last year, recommended AerCap as a long and GATX as a short. He also went after Tesla, and Elon Musk, again.

Pulling Zero Punches

Source: CNBC

Out in Las Vegas, 'The Mooch' held court at the Skybridge Alternatives conference, or SALT to all those attending. Ticket prices ranged from zero for qualified institutional investors to $10,000 for those looking to sell their services to the well-heeled crowd.

To give you an idea of where the business is these days, *Institutional Investor* magazine asked about SALT whether or not "anyone with money will show up." The Wall Street Journal added on this week, profiling for their readers that the 'big stars' aren't showing up like they once did. Avenue Capital's Marc Lasry bailed out before the event started so he could catch the Milwaukee Bucs close out the Boston Celtics in game five of the Eastern Conference semi-finals.

Lasry & Clinton Courtside

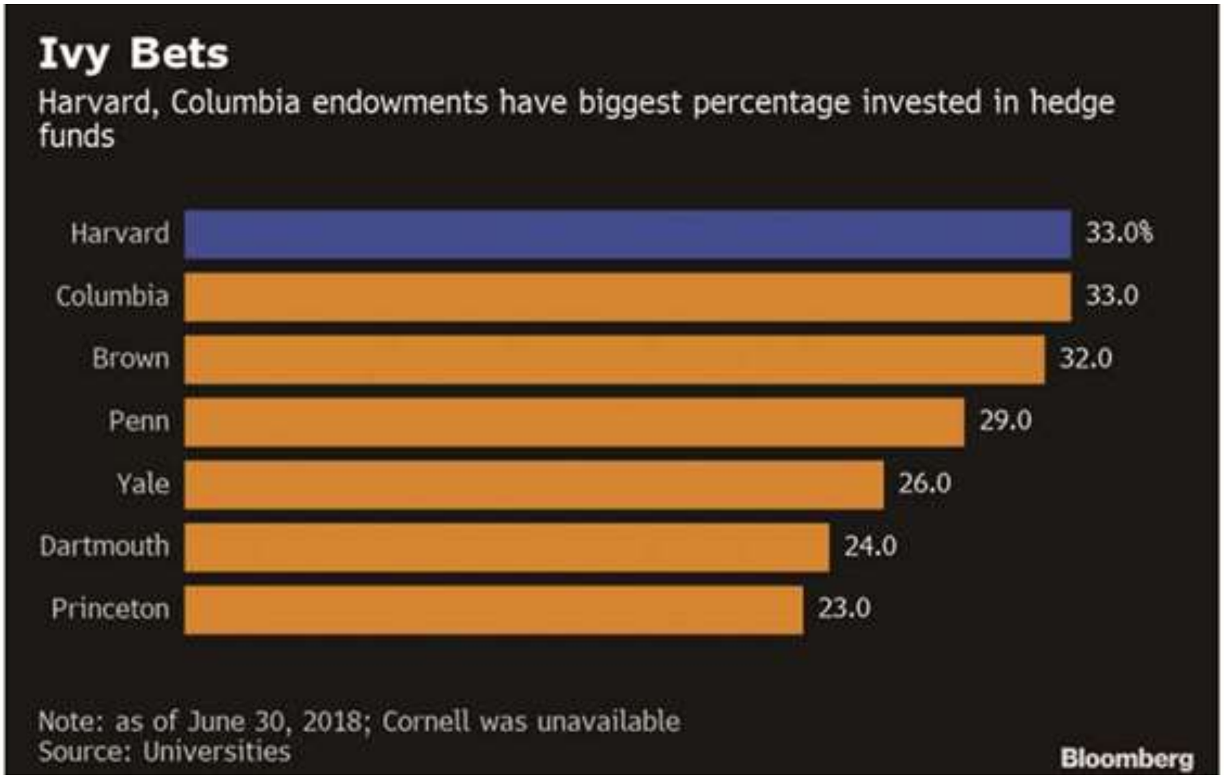
Source: DailMailUK

Turns out big money did show up, although perhaps not for the reasons you might expect as the stages and hallways of the Bellagio were filled with veterans of the last two presidential administrations. Including John Kelly, who fired Anthony after 11 days on the job as White House spokesman. The *Atlantic* explores the mysteries of Anthony Scaramucci.

Hedge Funds

Harvard University is making a contrarian move, and placing more money back into hedge funds. The decision by N.P. "Narv" Narveker is designed to position the endowment for the next phase of the market cycle. You can read into this as he is looking to get defensive as the sand slips through the hourglass of our bull market. A move that others endowment managers should be considering, but most likely won't. As we say around here, de-risk when you can, not when you have to.

Leafy Allocations



Source: Bloomberg

Turns out there are still Apocalypse funds in existence, a rare snowflake in the world of hedge funds. This week, *Bloomberg* profiled Russell Clark and Horseman Capital. Clark provided a great interview explaining his views and why he thinks this might be his last interview in a swan song type of year.

As the chart below describes, his style is a rare, but apparently desired, crisis alpha generator. Doing best when the market is at its worst. Which as you would expect, is losing most when the market is at its best. His loss of 25% in 2019 is proof of that.

The Negativist Correlation

Source: Bloomberg

All that being said, the man still manages close to $600 million, which should show you the staying power of clients who think the end is near, or at least need a hedge in place if it is. Because these are our pages, and if we don't self-promote every once in a while, who will, our most defensive strategy is currently running 20% net short and is up 1% on the year as of Friday. Not bad considering that there is a beta rally to end all beta rallies on right now. Inquiries are always welcome

Toro!

Source: WJLA

In news loosely related to hedge funds, New York Heli-taxi operator Blade is now offering rides from mid-town to LaGuardia, Newark and JFK for $195. While we would never want to be categorized as part of the bourgeoise, $200 to get you from New York to any one of those airports during rush hour is a pretty good deal seeing that you are going to be in $50 for an Uber anyway.

Let's face it, a swing over the downtown skyline is 1,000% better than a slow roll through Queens or the meadowlands of New Jersey.

Wheels-Up

Source: TripAdvisor

Diversions – The Food & Wine

The 2019 James Beard Awards were announced this week, and the number one restaurant in the land serves Israeli cuisine and is located in Philly. Not a combination many would expect. If you are a foodie, or a foodie adjacent, take a few minutes and check the list and find an award winner near you to try. Pho 79 in Garden Grove, you've been warned, I'm headed your way next weekend.

Zahav, Philadelphia

Source: Bloomberg

Since this is the Food & Wine edition of *Diversions*, we wanted to pass along to you the sage advice of Bobby Flay provided on what it takes to successfully open your own restaurant. The number one thing according to Bobby is to be 'overcapitalized and over patient'. Which sounds like good advice for any startup.

Last year, our partners and friends at SumZero hosted an interview with Vanderbilt University's CIO, Anders Hall. The title, you guessed it, '*Why Starting a Hedge Fund is Like Opening a Restaurant*'. No words truer have been said.

Iron Chef Flay

Source: Vanity Faire

As summer approaches, so does Food & Wine Festival season. Sadly, many of these have been taken over with arts and crafts booths, kettle corn, and stages filled with local cover bands. That said, there are still some special ones that should be attended…at least once in life. Click the link under the name of each to get the down low on headliners, entertainment and tickets.

BottleRock Napa Valley
May 24th through May 26th

The Aspen Food & Wine Classic
June 14th through 16th

Source: Food & Wine

Taste of Chicago
July 10th through 14th