Our Commentary

Dear Readers,

This edition marks the 98th time we have delivered Stillwater Capital's *This Week in the Markets*. We produce it for private investors, professionals in almost every sector of the economy, and for those who work in various fields of finance.

Over the next two weeks we will be making some improvements. They include an upgraded format, more consistent Friday morning delivery, broadening our reach through social media, and our inaugural effort to bring you a weekly podcast.

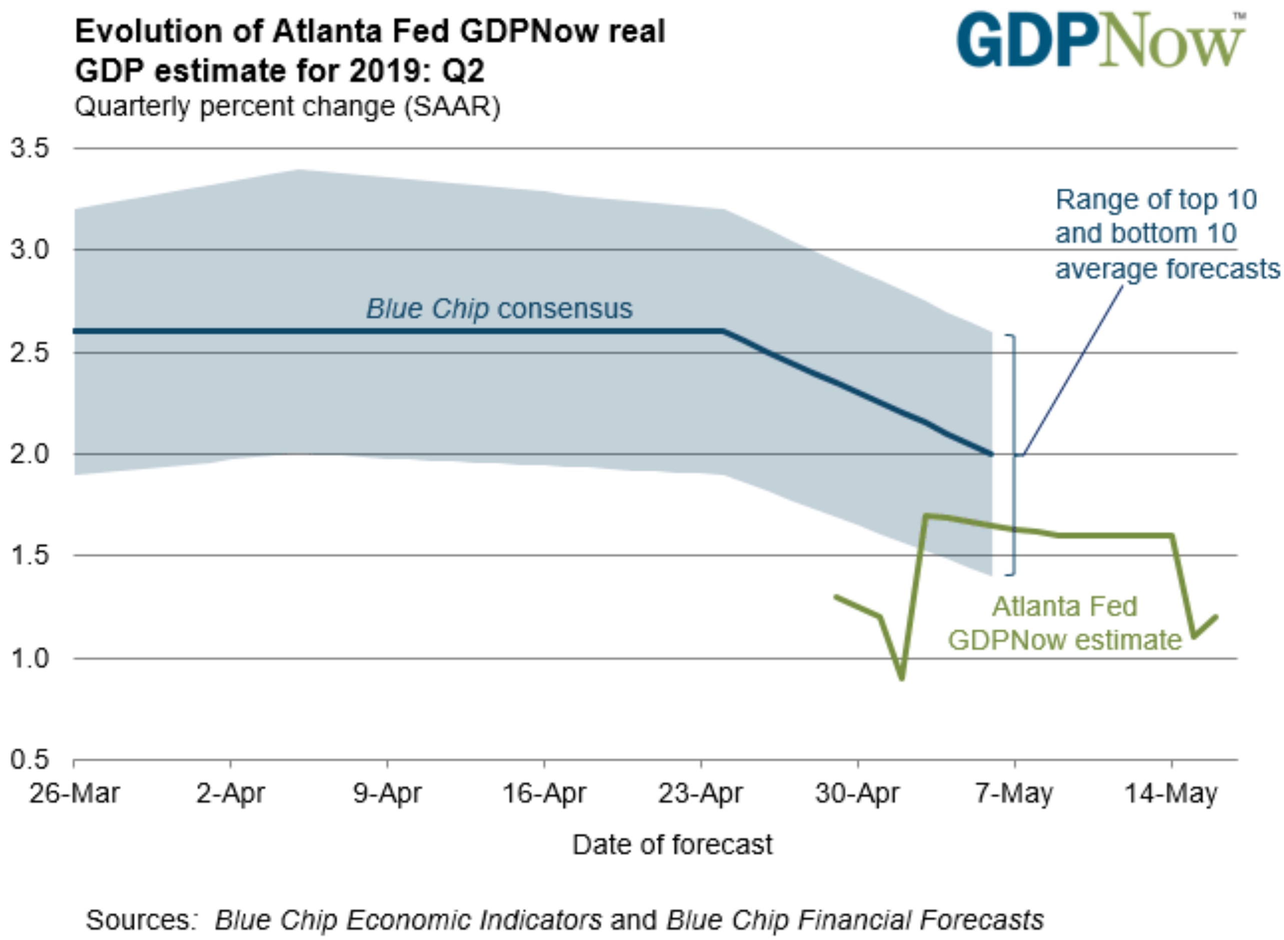
When we turn the corner on our 100th edition in two weeks, we will be ready to make the next 100 even better. Thanks for your readership over the past two years.

Bryan Goligoski
Founder, Stillwater Capital

The Economy

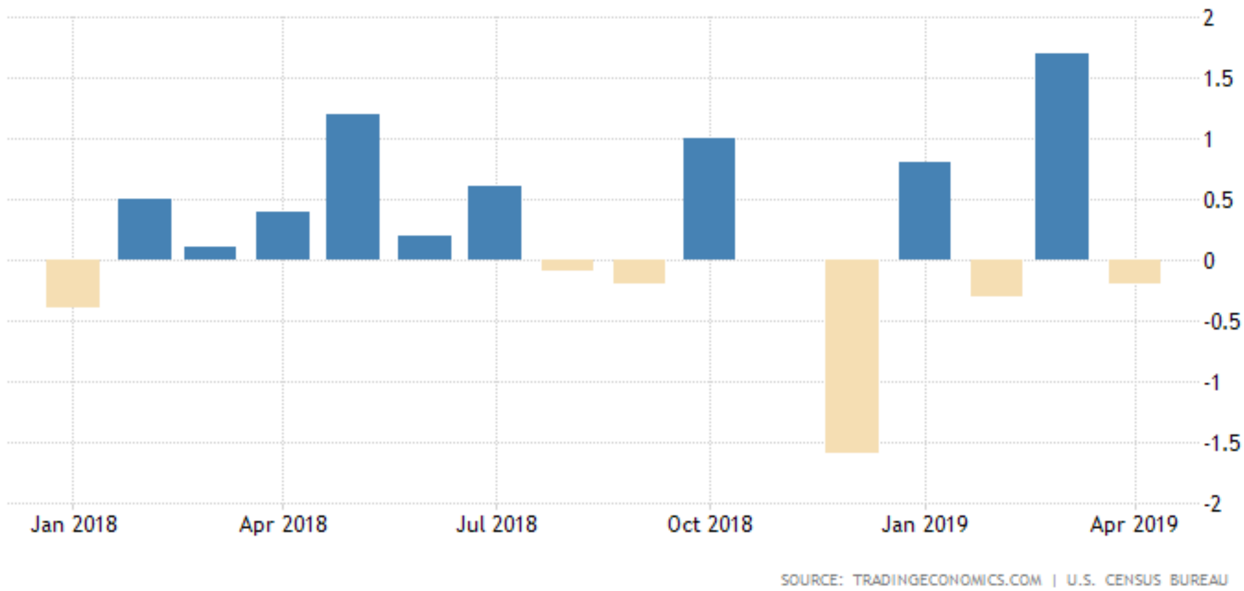
The dual Trump and Powell "put" remain in place, while markets try to make sense of how much gas this economic engine has in it, or did the yellow "low fuel" light just go on? One thing is for fairly certain, the market is pricing in at least a quarter tank left. Meanwhile, the indicators seem to be telling a slightly different story. The well watched Atlanta GDPNow forecast is calling for second quarter growth to be an anemic 1.2%

Fifty Basis Point Delta



This week, little Ms. Debbie Downer showed up and sprinkled bad news here and in China, as retail sales came in well below expectations.

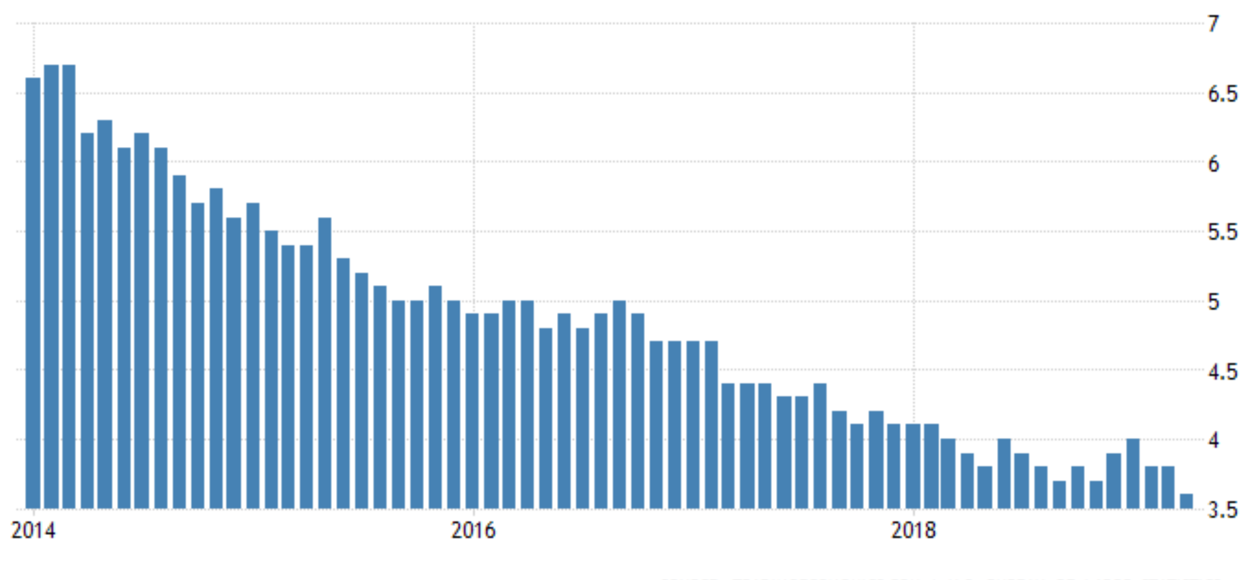
Domestic Retail Sales



Source: Trading Economics

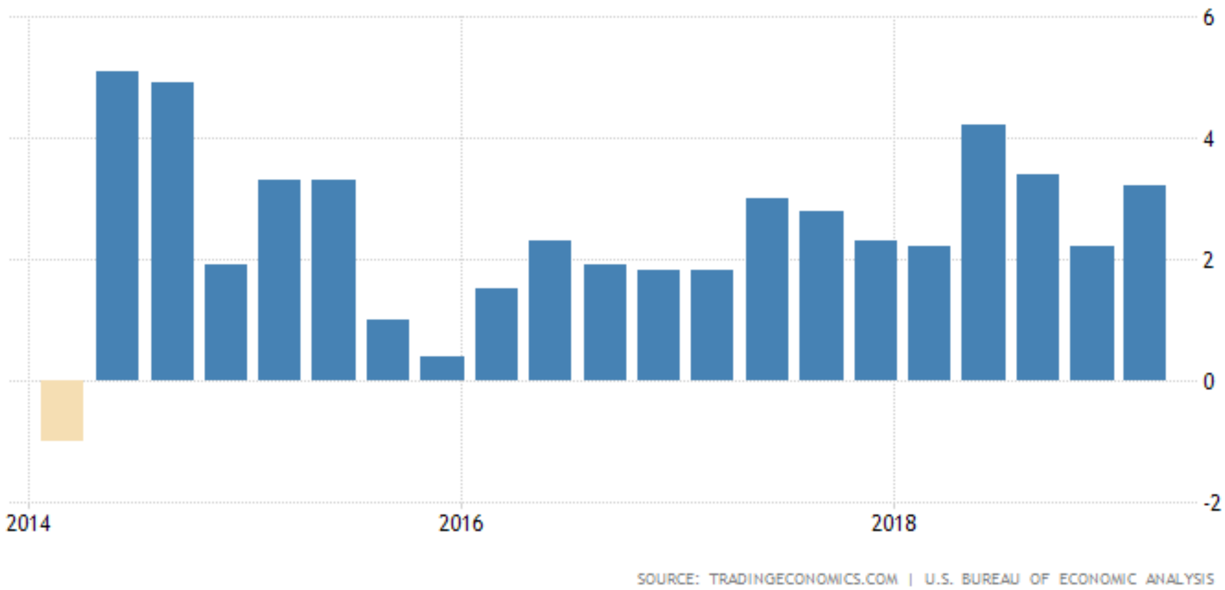
Back to the "Trump Put". Last year *CNBC* hosted the president for a wide-ranging interview, which included his understanding that he was 'playing with the bank's money'. The phrase is actually 'playing with house money', but don't let the semantics faux pas take you away from the real message. Like it or not, or just like it straight up, Trump has an extremely hot economic hand to play right now.

Unemployment Lower Still



Source: Trading Economics

GDP Stable for Now



Source: Trading Economics

Interest Rates Well Behaved

Source: Trading Economics

One of the only things we can find resembling an indicator that is currently flashing yellow is Manufacturing ISM. Although this doesn't mean others won't start soon. It simply says you are chasing ghosts right now to find evidence we are seeing a slowdown, dramatic or otherwise, in the economy.

The Ghouls Gather

Source: Pottermore

The Markets

Speaking of ghouls, those who are watching 'Dr. Copper' might be thinking the economy is about to bump it's head as prices for the metal have come down.

The 'Dr." designation goes back years and describes the predictive nature that the commodity has had on prescribing the health of the global economy. If that relationship is still tightly correlated, the move to de-risk should be on. In this pricing chart, the bulls see a 'pause that refreshes', the bears a 'head and shoulders' top.

The Doctor is In or Out

Source: MacroTrends

Cryptocurrencies spent the better part of 2018 becoming a punch-line for jokes about manias and bubbles. Not this year. With a little help from Marshall "Eminem" Mathers, we welcome all y'all speculators and evangelists into the big casino of Wall Street. Because…

Guess whose back, back again?
Crypto's back, tell a friend!

With respect for those who are deep true believers of the idea of crypto, we can offer you nothing but praise for your resilience after having been wiped out last year. To anyone else out there looking for counsel as to why Bitcoin has doubled this year, we offer you little or nothing in the rhyme or reason of it all.

Our best guess is that the cryptos are such an ethereal concept that if it goes up in a day when the market is down, it's called a "store of value". If it goes up on a good day, it's "beta hugging juice" in a market that can't get enough of such a thing in 2019.

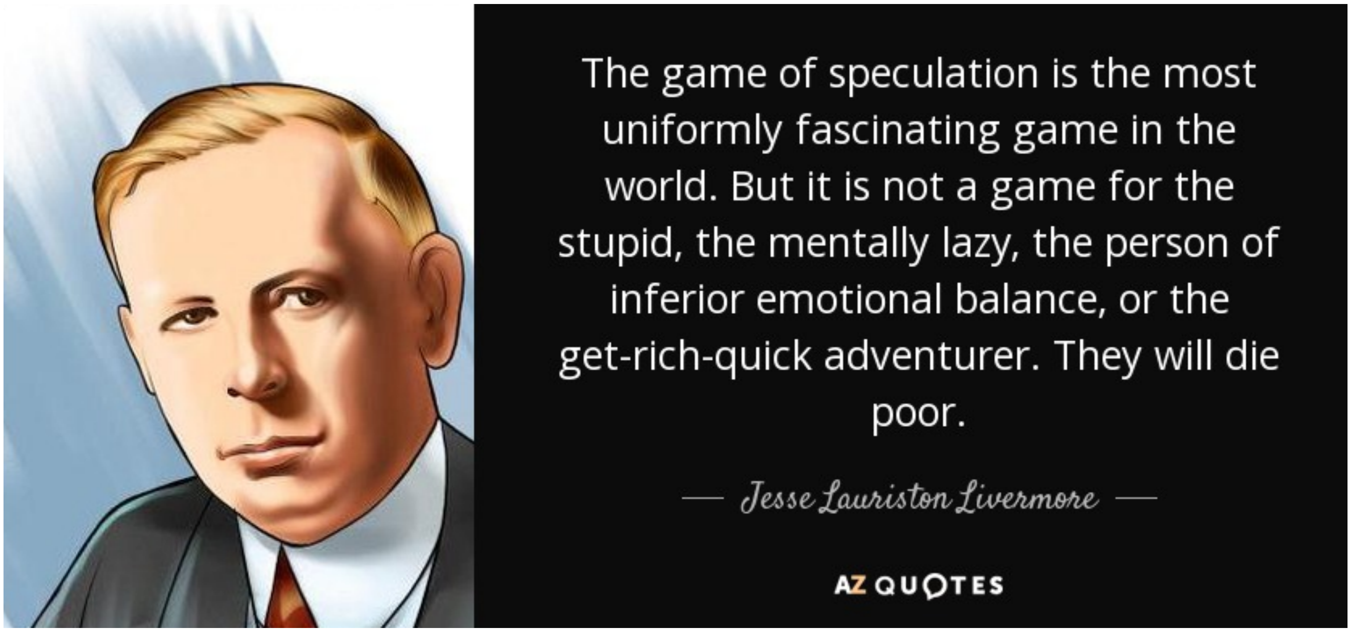
Bitcoin Comes Alive…Again

A reminder to everyone, for a whole host of good reasons, Stillwater does not make individual stock or asset class recommendations in these pages, or any others we publish for broad distribution. Instead, we talk about ideas we have for the markets, what we are doing for clients or in certain strategies, and occasionally invite you to become an investor of ours.

With that being said, if we were to *theoretically* take a position on this, it would be to *perhaps* take a few discretionary investment dollars, open the appropriate account, and buy yourself some Bitcoin or a basket of other cryptocurrencies. Most importantly, be sure to only look at your statement once a year, if that. The volatility alone will throw you off the trade.

In moderation, speculation can be an okay thing. Taken in too large a dose and it can be bad for your health. Just as it was for the author of *Reminiscent of a Stock Operator*, Jesse Livermore. He passed away from lead poisoning in 1940.

The Master Speculator



Around Wall Street

Goldman Sachs planted a huge flag in the registered investment advisor (RIA) world this week when they announced the acquisition of Newport Beach based United Capital.

This was a further move by the storied banking and trading firm to de-risk their balance sheet and move into the more pedestrian, yet more stable, investment advisory business. They had previously purchased Ayco, a specialized company-sponsored advisory firm, and also opened Marcus, their mass affluent lending arm. Whether you are part of the bourgeoise or the proletariat, Goldman now has you covered.

Goldman Sachs net revenues: $37 billion

Marcus online bank deposits: $35 billion

Marcus loans: $5 billion

Ayco AUM: $35 billion

United Capital AUM: $25 billion

Source: Company data; SEC Form ADV

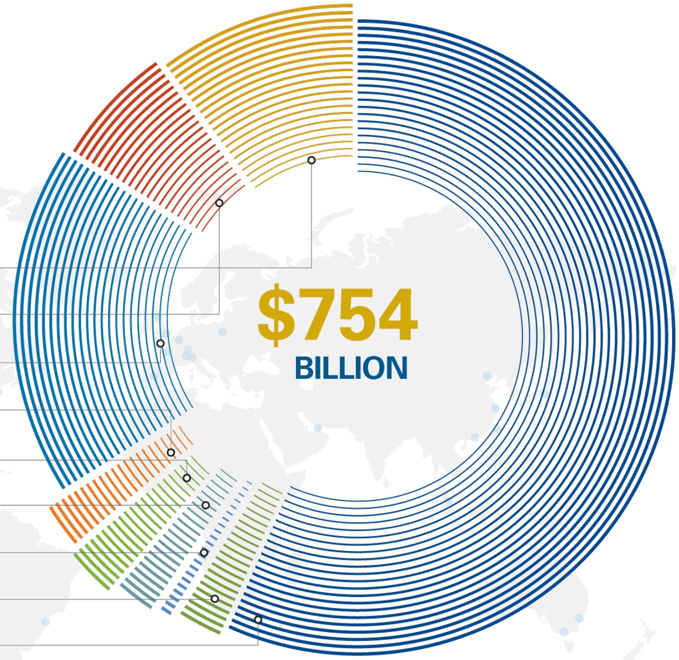
In good news for shareholders of Legg Mason, and bad news for those of us short the struggling asset manager's stock, activist investor Nelson Peltz and his firm, Trian, may be looking to take a large position with an interest in cutting costs, boosting fees, grabbing a couple of board seats, and maybe pushing some dead weight out. This is not Peltz's first dance with the once dominant asset manager.

While the chart below is a year old, the AUM level at Legg is the same. At $450 billion, Western Asset Management is their largest manager. It was acquired in 1986, helping to pave the way for the parent and affiliate model of investment companies. Nuveen would later take the same route to offset the firm's reliance on its municipal bond business. These can work out well, until they don't. For example, aside from WAMCO and Calrion, the rest of the managers under the Legg Mason umbrella look like a herd of dinosaurs whose better days are behind them.

The Legg Mason Brands

Breakdown of AUM by Affiliate (USD)
as of March 31, 2018

Brandywine GLOBAL	Global value investing	$ 76.3 Billion
CLARION PARTNERS	Real estate investment specialists	$ 45.6 Billion
ClearBridge Investments	Active global equity	$ 135.0 Billion
EnTrustPermal	Global alternative asset manager	$ 16.3 Billion
MARTIN CURRIE	Active equity specialist	$ 18.5 Billion
QS Investors	Quantitative and multi-asset manager	$ 13.9 Billion
RARE	Global listed infrastructure	$ 4.2 Billion
Royce&Associates	Small-cap equity specialists	$ 16.6 Billion
Western Asset	Global value investors in fixed-income	$ 426.0 Billion

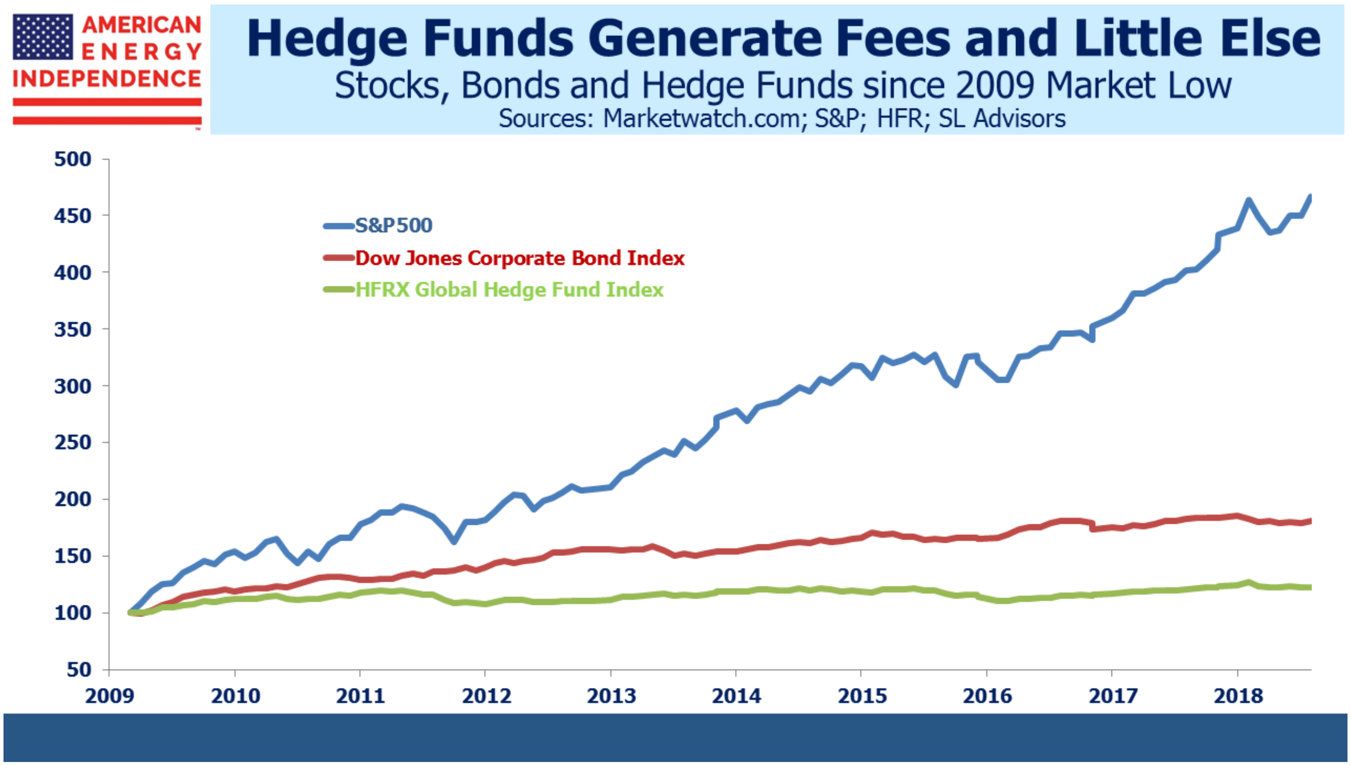


Source: Legg Mason

This week, *Bloomberg Businessweek* ran a great article that profiled Steve Diggle, a veteran hedge fund manager who was once co-head of a $5 billion bucket of money that was one of the largest funds in Asia. After minting dough in the 2002 bursting of the dot.com bubble and financial crisis, he meandered through running hedge funds and his own family office.

Nowadays he is trying to upend the status quo of the antiquated hedge fund fee structure and business plan. In his words, “We lost our way because rather than performance machines we just became asset gatherers. If the industry is to go forward, it needs to reinvent itself rather than continue with a flawed model.” If we get to vote on this idea, it’s a resounding yes, plus an amen brother. The model is indeed broken, even if a well-run ‘hedged’ strategy isn’t. If your career is invested here, do yourself a favor and read the article.

True Story



Source: SL Advisors

It was a tough week for businesses whose names involves Cambridge, Harvard, or Square. The first to announce it was closing up shop was Cambridge Square Capital, a hedge fund started by two former portfolio managers who were once at Harvard Management Co.

Meanwhile Night Market, an Asian street food restaurant that wistfully served 'numb nuts' called it quits. Neighbor, John Harvard's Brew House also on Harvard Square, announced it was shutting its doors after 30 years. With all due respect to the failed hedge fund, 'lick em' sticks' and a cold Lamplighter beer sound way better than an expensive underperforming hedge fund run by a couple of Harvard guys. Too soon?

Pour One Out

Source: Vimeo

Weekend Diversions

The PGA Championship rolls into the weekend at the 'people country club' in Farmingdale, New York. The course, Bethpage Black, is aptly nicknamed because it's not only open to the public, but is also one run by a 'municipality', which is where the term 'muni course' comes from. That said, the Black is not a place you want to find yourself if your game is on the rusty side. Tour veteran Brooks Koepka is on the non-rusty side of that trade, setting the course record on Thursday with a seven under score of 63.

Fore!!!

Source: New York Newsday

A country mile away from Bethpage, but still in New York, Christie's held an auction of post-war and contemporary art, and records fell like golf fans at closing time at the '19th Hole'. In all, $540 million of art moved by the gavel, including Robert Rauschenberg's *Buffalo II,* 1964, for $88 million.

Buffalo II

Source: Barron's

Also making news, was the $91 million sale of Jeff Koon's *Rabbit*. Not only was it the biggest amount ever paid for a living artists work, it also eclipses Koon's previous record sale of $58 million for an orange balloon dog. The *Rabbit* was purchased by Steve Mnuchin's art dealer father, Bob Mnuchin, on behalf of a discreet buyer.

Rabbit with Koons

Source: Fortune

In architecture news this week, the legendary I.M Pei passed away at the age of 102. *NPR* provided a retrospective look at Pei's life and work, while Curbed profiles his 'greatest hits'. He is pictured below in front of one of his most controversial works, the Louvre Pyramids. While widely accepted as one of his masterworks, it didn't start off that way as 90% of Parisians were against it when first unveiled in 1989.

I.M. Pei at the Louvre in Paris