The Economy

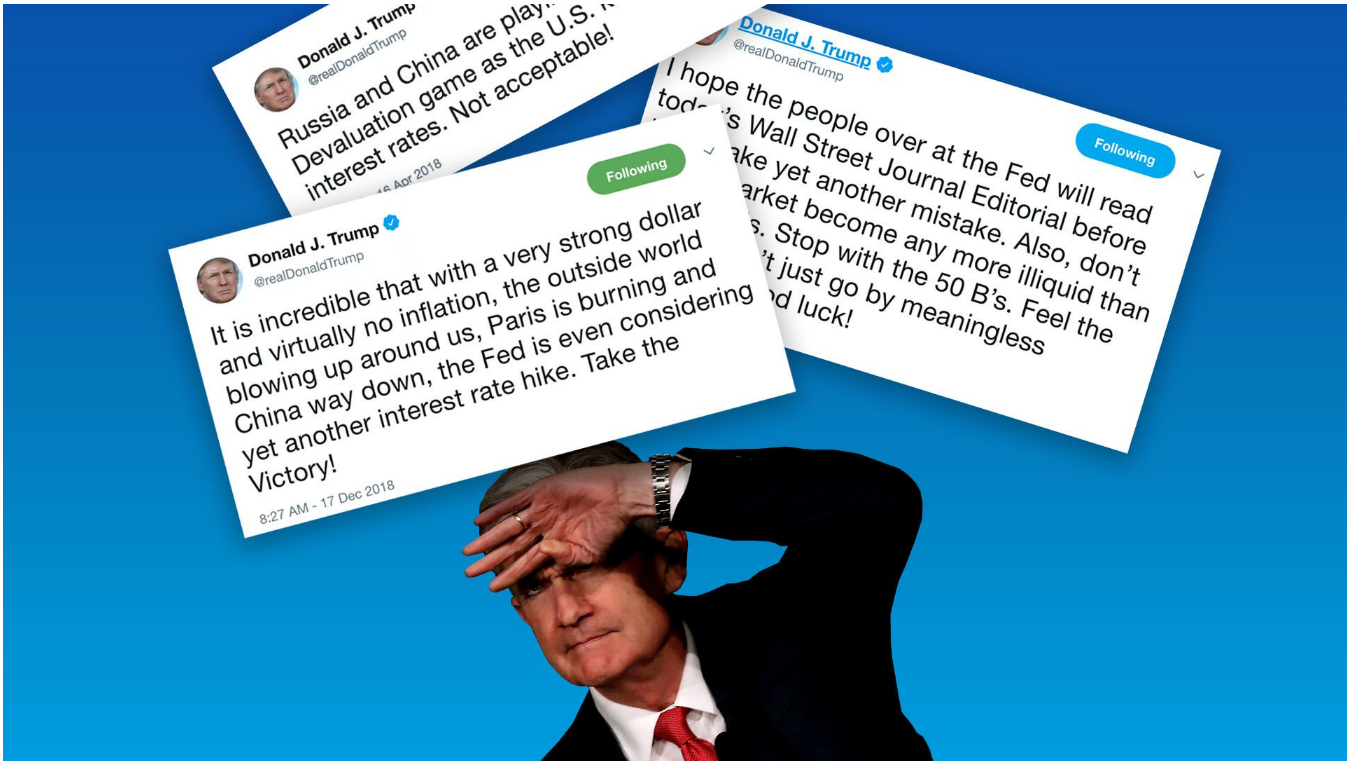
It was a quiet week from the top-down, as the economic calendar was light and the China v. U.S. trade fight sat on the stove at a low simmer. That didn't stop Morgan Stanley's Mike Wilson from coming out saying if this keep up, it will draw in a recession as companies won't be able to offset higher input costs, therefore placing margins at risk. On Thursday, China's Commerce Secretary, Gao Feng, said that they would come back to the table when the United States adjusts its 'wrong actions'. *Bloomberg* provided a great scorecard on which side is winning and which side is losing. Right now, they are calling it a draw.

Squaring Off

Source: YouTube

The Federal Reserve released minutes from the April meeting, and the news is they will be patient for 'some time' , and take a rate cut off the table. This disappointed those that had jumped onto the lower for longer thesis, and rode the risk-on trade which has been in place all year. None of which has changed President Trump's view that rates are too high, and the Fed is going to take us into recession.

Tweet Bombs



Source: Axios

The Markets

The aforementioned 'risk-on' trade took a big break this week, as fear around the edges began to show up in asset prices. It wasn't just the U.S. that took a hit, but the emerging market bull run of 2019 was headed for the corner of the ring as well. Right on time for those who buy into the idea that you 'sell in May and go away'. Northern Trust's chief strategist, Kate Nixon, appropriately dubbed this a 'whack-a-mole' kind of market, getting hit every time it pops its head up. Interactive Brokers billionaire founder, Thomas Petterfy, says he would not be going into the summer un-hedged.

Not There Yet

None of this has dissuaded Deutsche-Bank's Chief Strategist, Binky Chadha, from sticking with his call that while we need to correct slightly now, there should be a solid rebound into the latter half of the year. So much so, he thinks there is 30% upside to the S&P 500 before we turn the page on 2019. This puts Binky at the top of the bullish spreadsheet. These projections were from January 1st of this year. Even with this week's selloff, the S&P 500 is still up 13% on the year. At this point, this is spot on with the average of all strategists.

The Battle of Running Bulls

Strategist	Firm	2019 S&P target	% upside	2018 S&P target
Binky Chadha	Deutsche Bank	3250	35.3%	2850
Brian Belski	BMO	3150	31.1%	2950
Keith Parker	UBS	3150	31.1%	2900
Dubravko Lakos-Bujas	JP Morgan	3100	29.1%	3000
Tom Lee	Fundstrat	3025	25.9%	NA
David Kostin	Goldman Sachs	3000	24.9%	2850
Andrew Garthwaite	Credit Suisse	2925	21.8%	2875
Sean Darby	Jefferies	2900	20.7%	2855
Savita Subramanian	BoA Merrill Lynch	2900	20.7%	2800
Tobias Levkovich	Citibank	2800	16.6%	2675
Mike Wilson	Morgan Stanley	2750	14.5%	2750
	average	**2995**	**13.3%**	**2832**

Source: TalkMarkets

Venture Capital

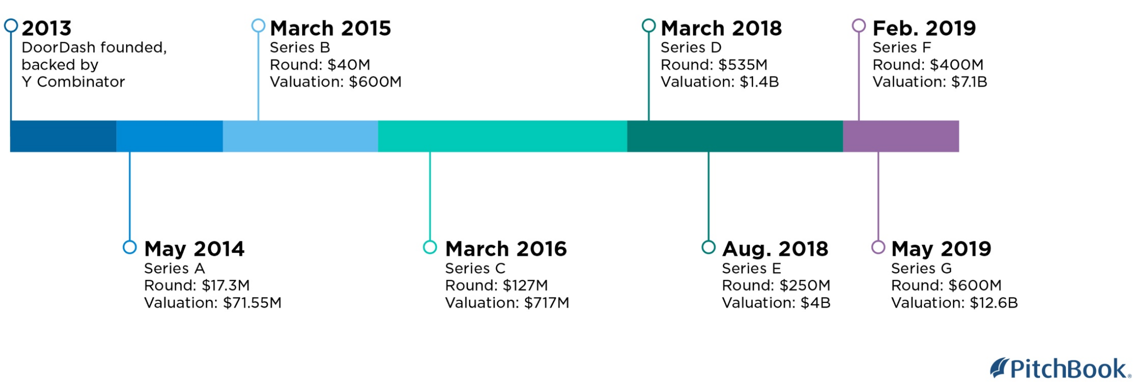
Every week the chorus of those who think the IPO cycle is reaching its nadir grows, and we have to admit, we agree. How do we know? The quality, and profitability of companies ringing the opening bell at the NYSE or Nasdaq grows by the week. Some of which are years away from being baked enough to be in the public markets. To highlight this fact, look at the Renaissance IPO ETF, which holds companies that have become public in the past two years. The chart below shows that IPO has the same upside capture as the S&P 500, but less downside protection. Not a particularly good risk v. reward profile.

IPO v. SPY

One of the more controversial people in the tech investing ecosystem, Chamath Palihapitiya, has gone on record several times calling the current environment of venture investing 'a bizarre Ponzi balloon'. The idea being that VC firms live in this circular bubble, each investing at various later rounds, and pumping up valuations before taking an overhyped and not ready for prime-time company public. This is indeed how it feels today.

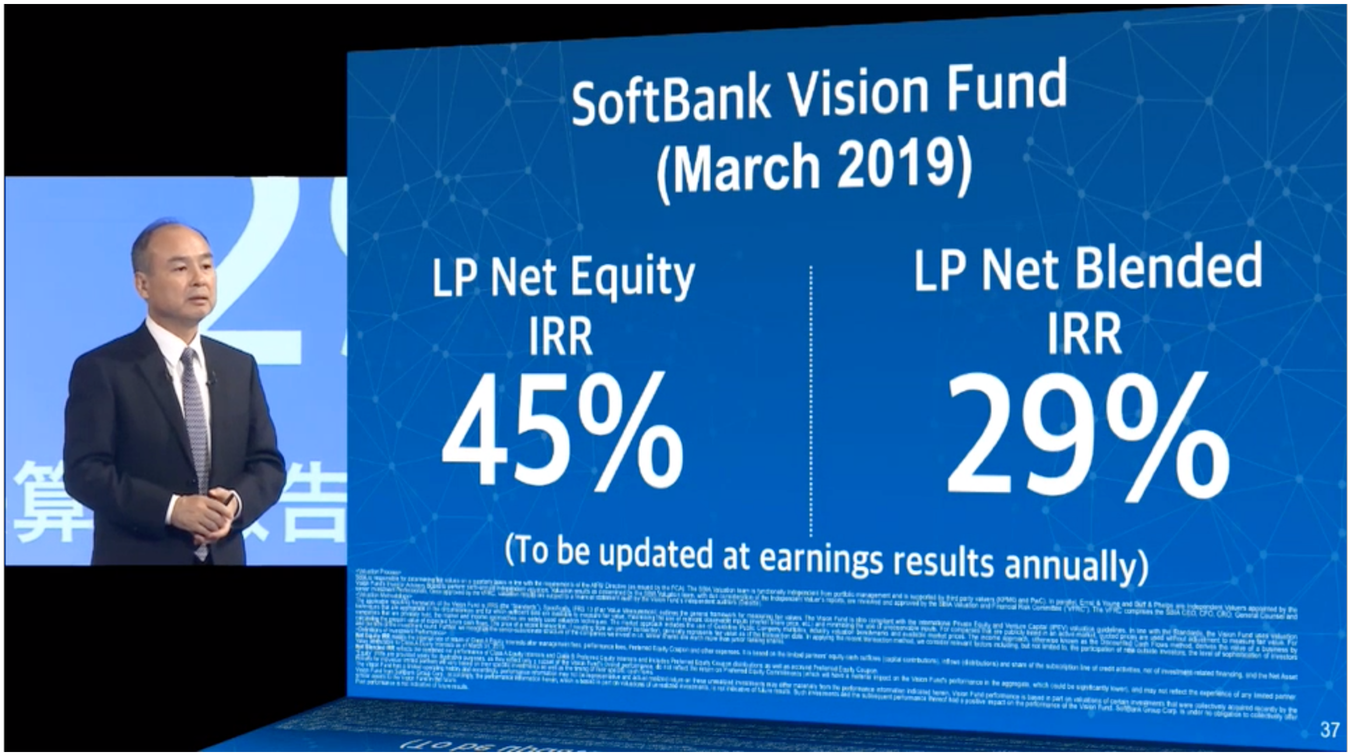
The Wall Street Journal profiled the situation twice on Friday. Once with a story entitled "Public Markets Expose the Myth of Unicorns." In the other, it chronicles the astronomical rise in DoorDash's private market valuation. The food delivery service is currently valued at $13 billion, up 10x from where it was valued in early 2018.

Bubblicious



But not everything is sunny and 72 in venture land, you ask SoftBank's Mayoshi Son how it feels to be down 18% on his 21.7 million Series G-1 shares. The price for the $7.7 billion of stock is $48.77, and its trading just north of $40 today. That said, he has still done well for his limited partner investors, at least on paper.

Paper Tiger?



Source: TechCrunch

Full disclosure, while Stillwater doesn't endorse Ponzi schemes, we are certainly benefitting from the current state of unicorn hysteria. We just happen to sit in a position to bet against the shares as the hype fades and the hangover kicks in. Find me someone who likes a hangover, and you've also found me someone with a major drinking problem. As long as Fed Chair Powell keeps spiking the punchbowl with 80 proof Vodka, we think that trade continues.

Investors looking to cash in a venture capital or private equity position should connect with us, as we now have the ability to introduce you to a firm that is in the business of buying private holdings. As we like to say, de-risk when you can, not when you have to. Transactions are executed through a separate broker-dealer that is not affiliated with Stillwater Capital.

Companies

Unless you live under a rock, it's been hard to have missed the implosion of the shares of Tesla this year, as the bears are being proven right about the company as its facing increased competition and slower sales right when it needs the cash flow to keep the production plates spinning and to service an ever increasing debt load. Credits due in 2025 traded at $82 this week, with a yield slightly north of 9%. Maybe Elon Musk was on to something last year.

Joking Aside...Bondholders Hope

Source: Twitter

Chinese technology company, Huawei (Waah-Way), has been put in the corner by President Trump, calling the company 'something that is very dangerous' because of security risks. A move that some, if not many, find dubious. NPR goes in-depth on the issue and points out some of the flaws of his argument. Those that disagree with Trump say that it can't both be a 'security risk' and a bargaining chip in a deal with China. You can see how that would be confusing.

For this, and other good reasons, we have held short positions in Skyworks Solution and Taiwan Semiconductor. Both companies are on the exposure risk list with over 5% of revenue coming from Huawei. The company is a huge provider of cell phones to European carriers.

In the Crosshairs

Source: Huawei

The shoe industry is up in arms over tariffs with Nike & Adidas, calling the potential of 25% increase '<u>catastrophic</u>' for their business, and potentially the economy as a whole. They did so in a letter dated May 20th, signed by 170 footwear providers. They closed the letter with this…

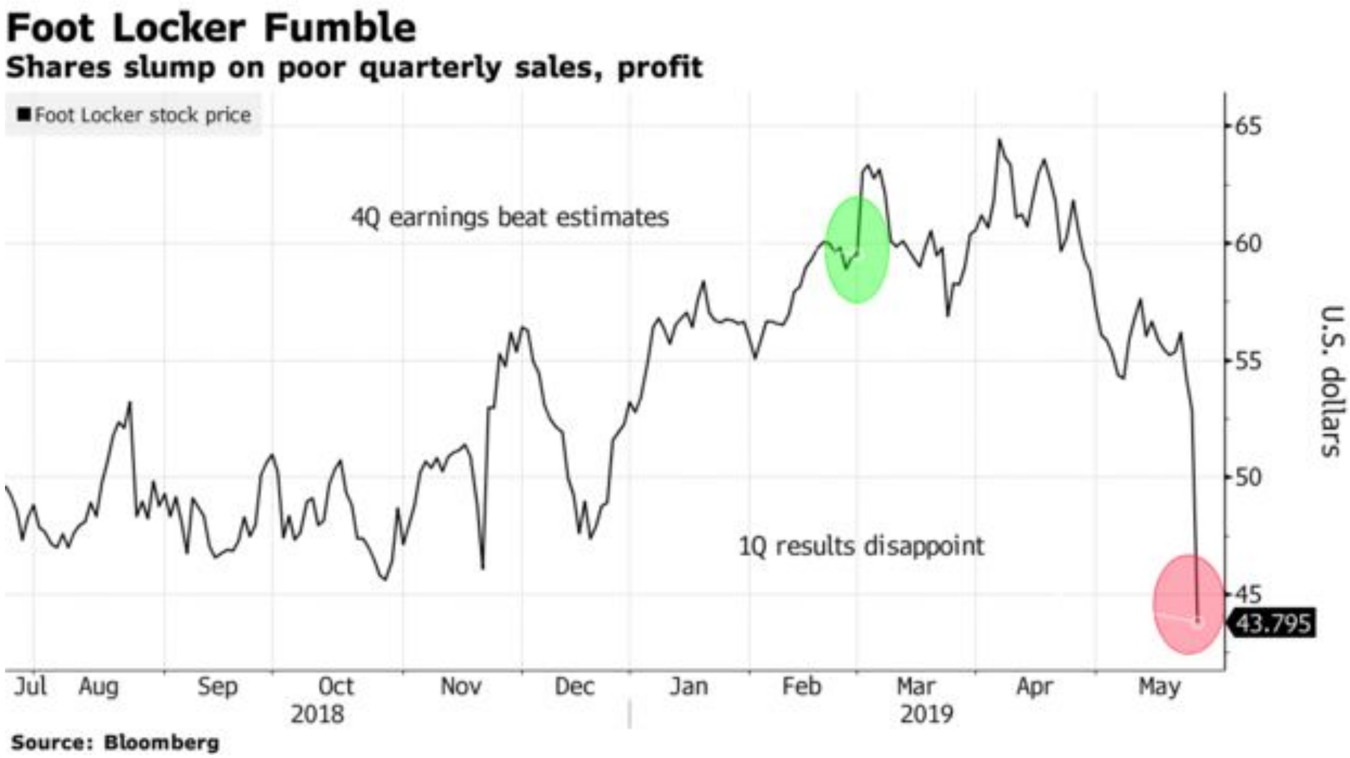
"On behalf of our hundreds of millions of footwear consumers and hundreds of thousands of employees, we ask that you immediately stop this action to increase their tax burden. Your proposal to add tariffs on all imports from China is asking the American consumer to foot the bill. It is time to bring this trade war to an end."

Nike Factory in China

Source: Facebook

In related news, the shares of Foot Locker got pummeled this week when the company whiffed on earnings and threw water on the outlook for the rest of the year. The stock has lost a third of its value since peaking out in early April. What is further concerning, is that company had produced good results in late February, and everything looked like it was on the rails. So much for having visibility when the lightning strikes are coming out of clear skies.

A Little Footie?



Around Wall Street

Legend of Wall Street, David Tepper, is bowing out of managing outside money at Appaloosa Management and will convert it into a family office. Which means he is returning $3 billion of the $15 billion he runs, the remaining $12 billion being his own dough. *Institutional Investor* points out that he has returned capital in 8 of the last 9 years, it also discussed his positions and recent performance. Here is some of what he owns.

Micron Technology, 1.7% stake valued at $668.6 million

PG&E Corp, 4.4% stake valued at $438.9 million

Allergan, 0.96% stake valued at $437.2 million

Facebook, 0.08% stake valued at $370.6 million

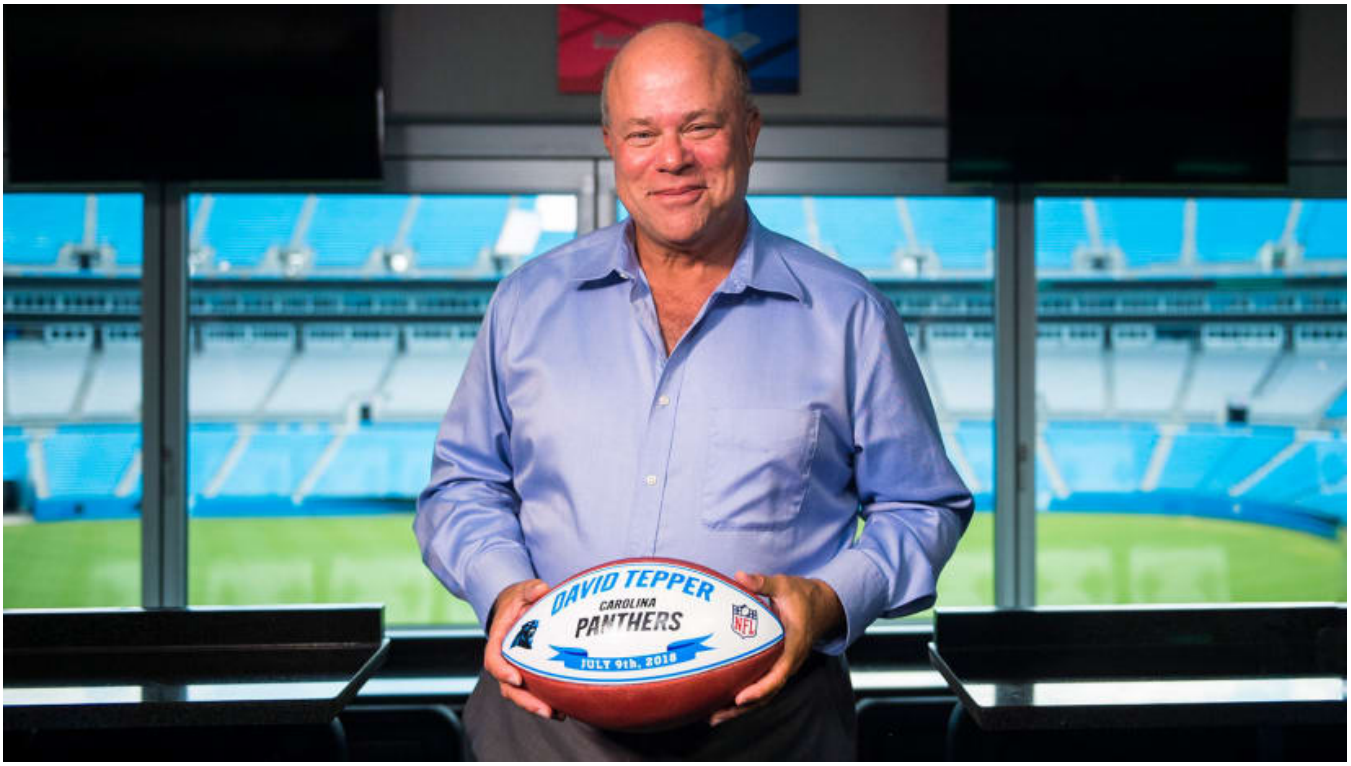
Amazon.com, 0.03% stake valued at $306.9 million

Alphabet Inc. (Class C), 0.04% stake valued at $166.96 million

NOTE: All holdings from filings as of March 31, according to Bloomberg data

Tepper joins the expanding list of hedge fund managers in their mid-fifties to early-sixties who are hanging it up. As they say, when the going gets tough, the tough bail out and buy sports franchises. He paid $2.275 billion last year for the Carolina Panthers, the highest amount ever doled out for an NFL franchise. Tepper is estimated to have compounded at least 25% over his career. The Panthers, with one Super Bowl appearance, not so much.

Master of the Game



Source: NFL

Stevie Cohen was the mystery buyer of Jeff Koons' *The Rabbit* at last week's contemporary art auction hosted by Sotheby's. Makes sense given his past purchases and love for objects de art that most of us would not understand. Not that he needed the money, but he did unload an Upper East Side triplex for $30 million perhaps to fill up the escrow account.

$30 Million of West Village Real Estate

Source: Bloomberg

Memorial Day Weekend Diversions

There is no dearth of events to attend this weekend to remember those who gave the ultimate sacrifice to provide us the freedom we enjoy today. With that, Stillwater gives you a quick whip around with plenty to do. Some of which is in the true spirit of the day, others are just ways to blow off steam and enjoy the extra 24-hours we are given.

Arlington National Cemetery

Source: Visit Fairfax

In the spirit of the Navy town that it is, San Diego has a series of patriotic remembrances, several of which take place in, around, and aboard the USS Midway. Up in San Francisco, a once great Navy town itself, there is a the 24th annual Uncle Franks (Something) Kicking Memorial Day Show. The *San Francisco Chronicle* also has the list of all the parades and remembrances up and down the Peninsula. There is also the BottleRock food, wine and music festival over in Napa.

The Navy's Blue Angels will be performing in Miami, Florida this weekend. For those of you who are into the Blues, and we are, here is the schedule the rest of the year. In October, I will be loading up a late model Suburban and taking a pack 12 to 18 years old's to San Francisco Fleet Week for the annual fix of thundering F-18 Hornet induced adrenalin.

The Sound of Freedom

Source: SF Gate

If you find yourself in Los Angeles there is a Godzilla-thon taking place at the Egyptian Theatre. Starting at 1:00 pm on Saturday, the festival will have you binge watching six films, back to back. They span in vintage from 1954 to 1976. And yes, most are dubbed in English.

Godzooki on the Far Right

Source: YouTube

Best auto racing day of the year takes place on Sunday, when the Monaco Grand Prix kicks off at 9:00 am eastern. Past champion Niki Lauda will be honored before the race with a moment of silence. Lauda passed away earlier this week. Once the tires cool in the principality, they warm up in Indianapolis, where 500 miles of left turns will take place. Coverage begins at 11:00 am eastern on NBC, race time is 12:45 pm. But wait, there's more! If your race car driving itch isn't scratched yet, the NASCAR Coca-Cola 500 gets going at 6:00 pm eastern on Fox.

Take Your Pick

Source: Pinterest

We will leave you this week with the photo below. It's of one of the first landing crafts to drop troops into the waters off Omaha Beach on D-Day 75 years ago. When you look at it, imagine the fear that those boys must have felt as they moved forward into what would seem like sure death. The idea of what they put on the line to get the job done and secure freedom for the world puts things in perspective. Enjoy the weekend and take time to remember why we get to live the lives we do.

Omaha Beach, D-Day

Source: DOD Live