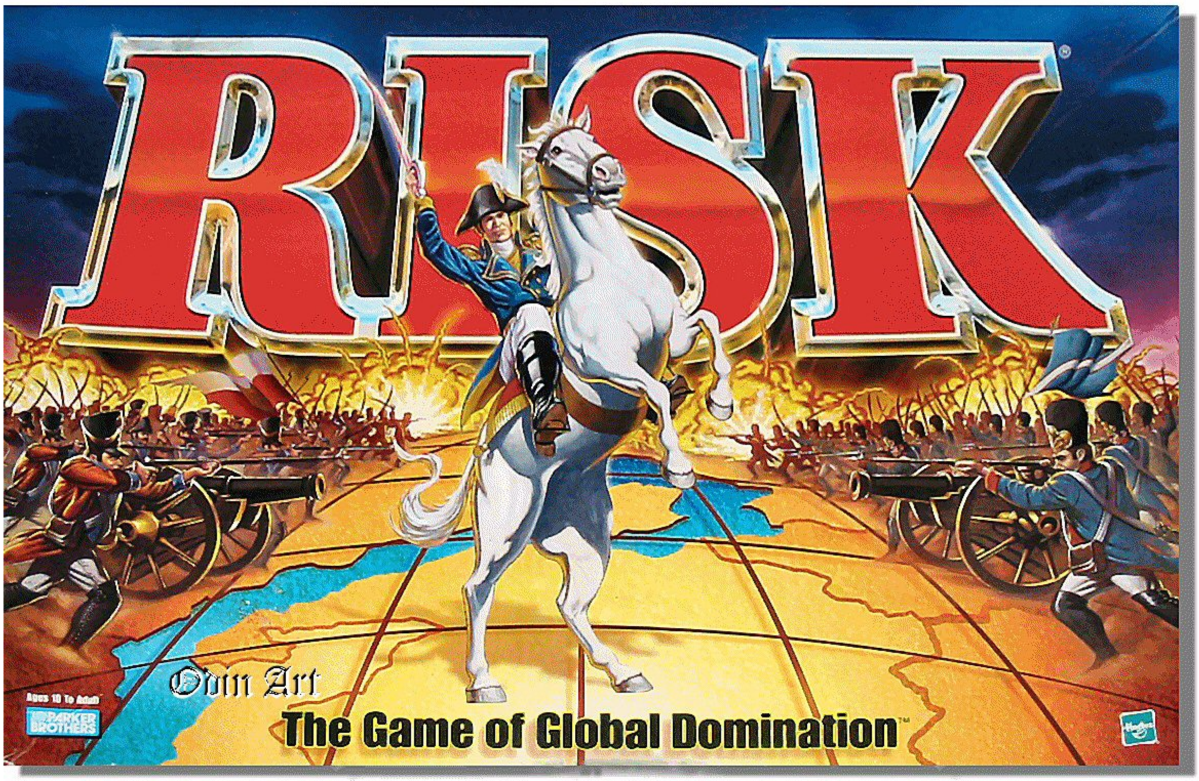
Welcome Back…



That's right, just as everyone stepped away from their turrets, risk has returned with a vengeance. Markets are now feeling the heat and beginning to act more as if there is trouble brewing that the central bank stimulus can't compensate for this time. So, strap in for a bigger than usual edition of *This Week in the Markets* that covers it all.

We are spending this week in the San Francisco Bay Area and will be visiting clients, partners, and companies all week. If you are interested in meeting to dive deeper into our strategies or what we are seeing in the markets, reach out and we will make it happen.

The Economy

While it was a big week for market making news with the likes of plunging interest rates, and renewed fears of currency wars, it was relatively uneventful on the actual hard data side. Instead the press, including the *New York Times* and *Wall Street Journal* ran articles that talked about how Jerome Powell's unorthodox style is causing waves in the market that are not easy to catch and ride. We know, we've been hit by a few ourselves.

Federal Reserve Chair Jerome Powell

Source: The New York Times

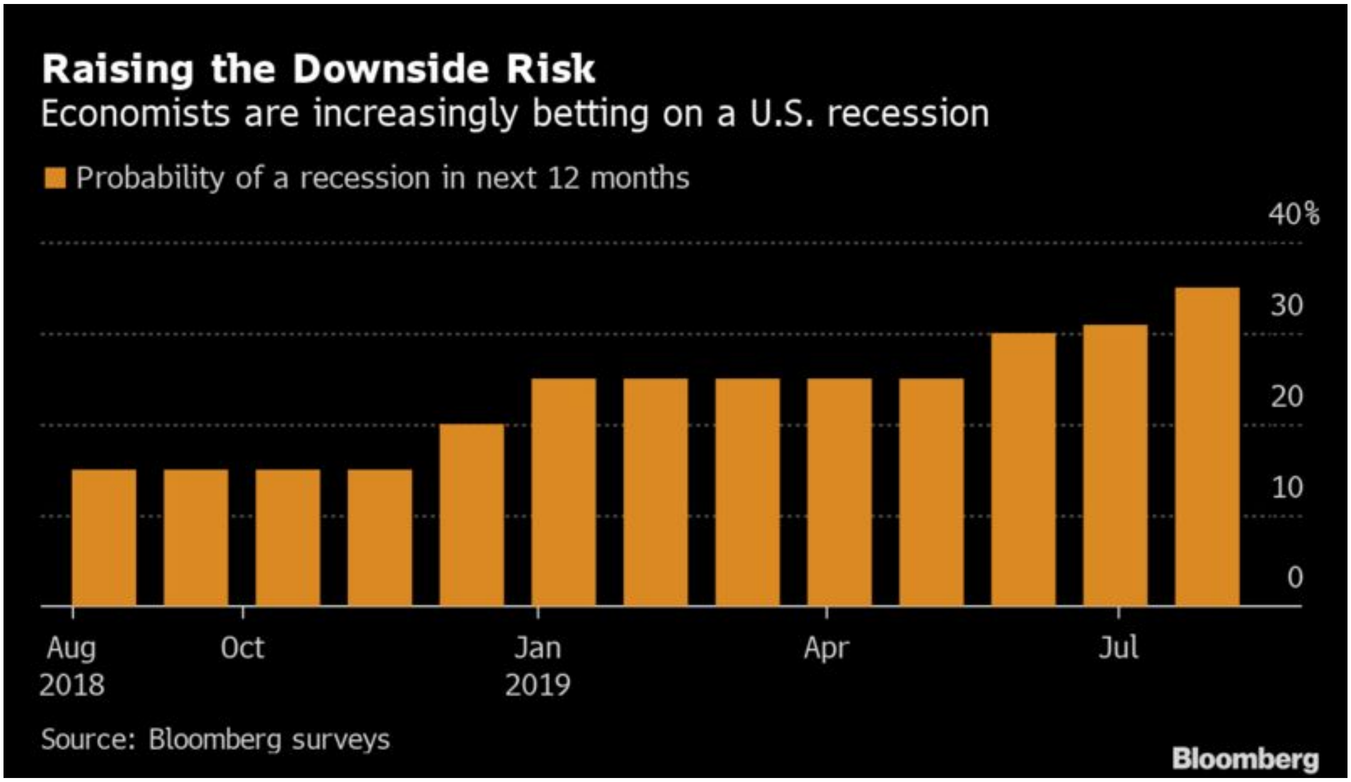
The *Journal* article contained two great quotes from observers who have been around the economic block a few times. The first came from Mohamed El-Erian, the chief economic adviser at Allianz, and it spoke to the Pavlovian nature of our current markets. He said stock and other asset markets "have been conditioned for years to rely on central banks. Any misplaced word here or there leads to an exaggerated move,"

The other quote came from former Treasury secretary Larry Summers, and it too highlighted how the rapid changing of gears is not building credibility for the Fed. His quote was that 'the Fed keeps overconfidently predicting the future of an unpredictable economy. More communication given the inevitable errors means less credibility as the Fed runs from one side of the boat to the other.' Like we said earlier, these waves that are being created have rouge qualities about them.

The Great Wave of Kanagawa

Source: Kazoart

The increased noise and confusion have led economists to raise their level of risk , assuming that the U.S. enters a recession in the coming year. The current consensus is it's a 35% chance, double what it was a year ago. All that being said, there is a famous quote about economists accurately predicting 10 of the last 7 recessions. Game on!



The Markets

Even with the Monday selloff, Tuesday rebound, and Wednesday's massive roundtrip, the equity market is lacking a capitulation move where the 'bid wanted' sign gets hung. This is making technicians very dissatisfied and unwilling to call a near-term bottom. With the sheer volume of equity trading now on auto pilot, we think there is a greater than 50% chance of some form of 5% to 10% intraday move in the near future. Don't be surprised when it does happen.

Room to the Downside

Our guy, Jim Cramer, added his two cents to the narrative by lambasting the thin futures market for causing undue swings in the indexes. Jim blamed 'pajama traders' for Monday's post close drop of 600 futures points which reversed into a flat open on Tuesday. We too see it every day, and it makes for a not so pleasant environment to make money in. For those who subscribe to Grassy Knoll thinking, there very much could be a force operating behind the curtain that paints the tape.

Oz the Great and Powerful

Source: HBO

To add to the concerns surrounding the global economy, it appears that currencies are becoming the weapon of choice for China in it's battle with the U.S. Keep in mind, America has the upper hand in the tariff war as we import 50% more from China than they do from us. And when all hell breaks loose, look for anything that is not nailed down to be fair game. Ironically, the currency that led to the 1997 Asian contagion crisis is now one of the region's most stable.

The Return of Thai Baht?

Bonds are on some kind of an epic rally, as the drop in interest rates has taken on a velocity that is too fast for comfort when this week the 10-year dipped below 1.6%. And it's not just here in the United States where rates are crashing through the floor. *CNBC* reported this week that $15 trillion in government bonds worldwide are now trading with negative yields. That's right, $15 trillion worth of debt that you pay the debtor interest to own, and a full 25% of the global market. As Highland Capital's founder Mark Okada said on Bloomberg, 'negative rates are simply negative'. It's a crazy world we live in.

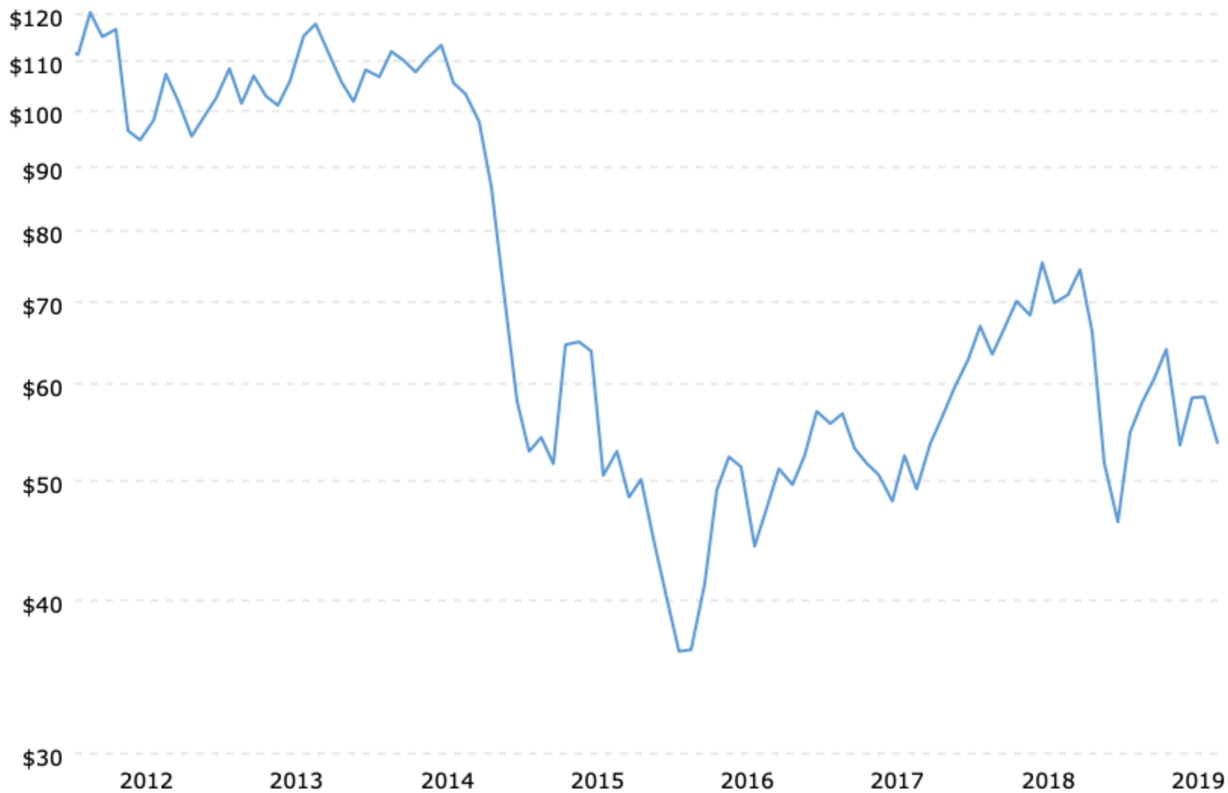
Madness, Sheer Madness!

With the absolute crushing of rates, one would think that residential real estate would be flying off the shelves. Sadly, for those looking to book a high price with multiple bids in hand, this isn't the case. Real estate brokerage firm Redfin reported that only 11% of offers written by their agents were involved in bidding wars, down from 45% last year. In the hottest markets the affordability gap is starting to narrow, and not because wages are going up. It's because prices have started to come down.

Sweltering in the Flyovers

To add to the mayhem felt globally, oil prices have decided to join the fray and selloff on fears that there is too much being pulled from the ground, and not enough being consumed downstream. The price drop was of such a large magnitude, that the Saudis are now looking to bring together other producers to drop production in an effort to stabilize prices. Meanwhile, we've entered bear market status. Awesome, another market where natural asset pricing between buyers and sellers gets smothered by outside influence.

West Texas Intermediate Crude



Source: Macrotrends

The key point to much of this is that markets work when they work naturally. Once you start going down the path of intervention, whether it be by central banks or cartels, you create distortions in the true value of assets. And once that begins, booms and busts take longer to build and are bigger in size.

Companies & Earnings

After posting market doubling performance this year, Disney took a 7% header this week when high expectations weren't met by Wall Street. Turns out the Force wasn't with the media and entertainment goliaths new Star Wars Land attraction at Disneyland. Our boots on the ground source says that the hype was so high going into the opening two months ago that people held off on making their reservations.

'But Do You Serve My Kind?'

Source: Disney

Bloomberg served aficionados of bubbly water a favor this week, when they chronicled the rise of the semi-hipster brand of the effervescent quench, Topo-Chico. The history of the brand goes back to the late 1800's, the legend of the source even further. Prior to Coca-Cola buying the company last year, distribution was limited to northern Mexico and southern states like Texas.

As the article points out, a brand like this can't just be stocked in every market around as that would run the risk of it joining the war breaking out against LaCroix, a short position we've highlighted in the past. Aside from loving the way it tastes, there is also the catchy Robert Ellis tune that highlights how good the bubbly water goes with lime.

Topo Chico…And Lime

Source: The Dallas Observer

Warren Buffett, and his partner 3G Capital, are one again suffering the wrath of changing tastes as Kraft-Heinz continues to crater while its brands fall out of favor. This time around the company was forced to write down the value of Velveeta and Cool-Whip by $1.2 billion, which follows a previous write down of $15 billion for Kraft and Oscar Mayer. A little over two years ago the company was worth $90 billion, today it's worth a third of that. A look at what's on the shelf tells the story of the companies' challenges.

Struggling Brands

Source: Money

In news that helps confirm the shift in consumer tastes, the shares of Beyond Meat continue to defy the skeptics, even as the valuation of the company goes through the stratosphere. Originally valued at $2 billion when the IPO occurred back in May, the company rose to $12 billion at the end of last month. The 700% move in the shares caused insiders to cash in some chips last week when Beyond Meat issued a secondary offering.

This took some of the juice out of the stock as the fresh inventory of shares weighed on the stock price, that said, the company is still worth a cool $9 billion. While we don't have an active position in the shares, this has similar markings to the aforementioned bubbly water craze, and BYND could be the next LaCroix. Be on the lookout for Walls Street's first vegan ETF to come out shortly.

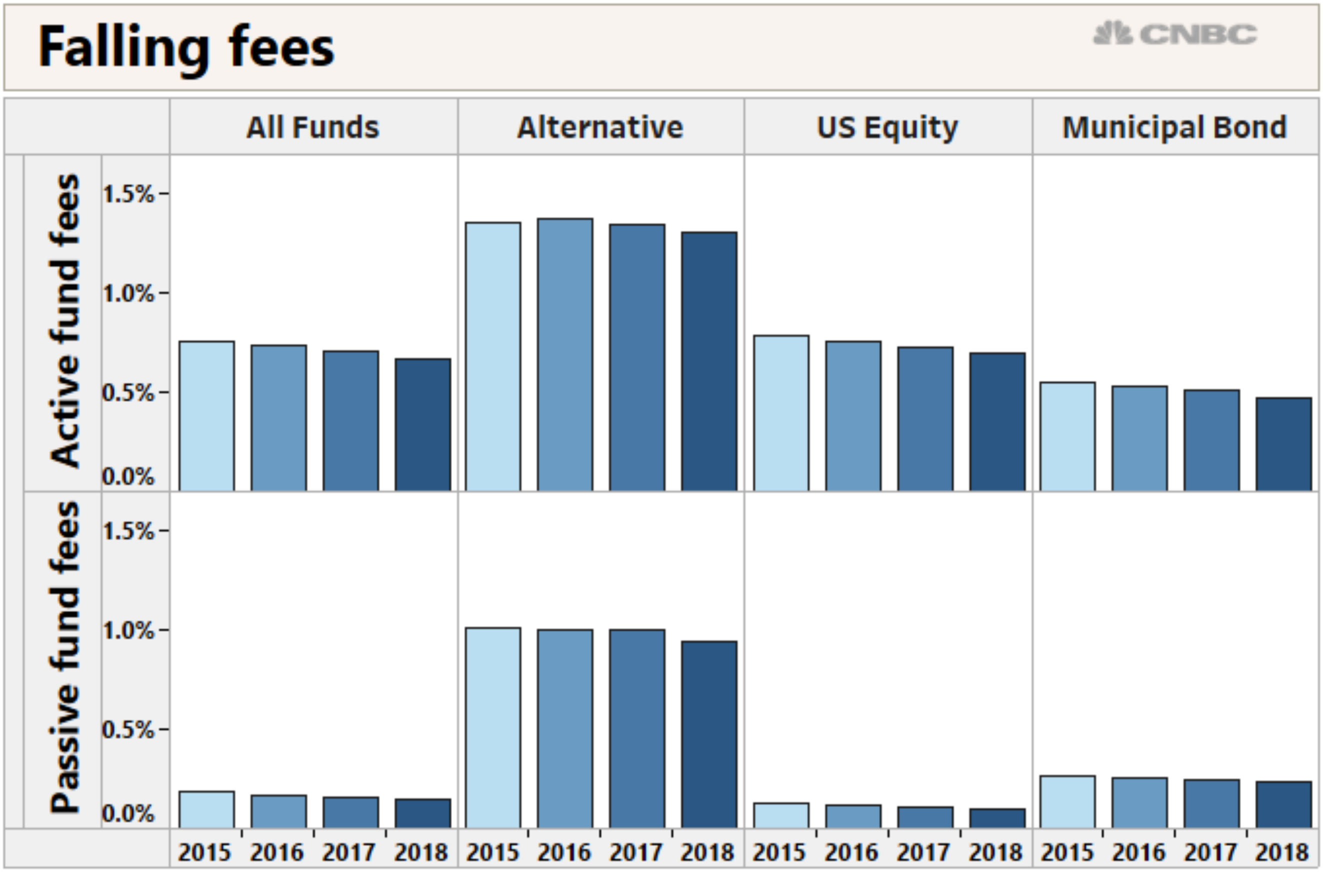
Beyond Sanity

Source: Fortune

Wall Street

Now that we've talked about all the fun stuff in the food and beverage indusrty, we turn our attention to something a little less fun, and far more serious for those of us who ply our trade on Wall Street. *Bloomberg,* for the second time this week, produced a very well written and researched piece about the 'existential crisis' the asset management industry is facing.

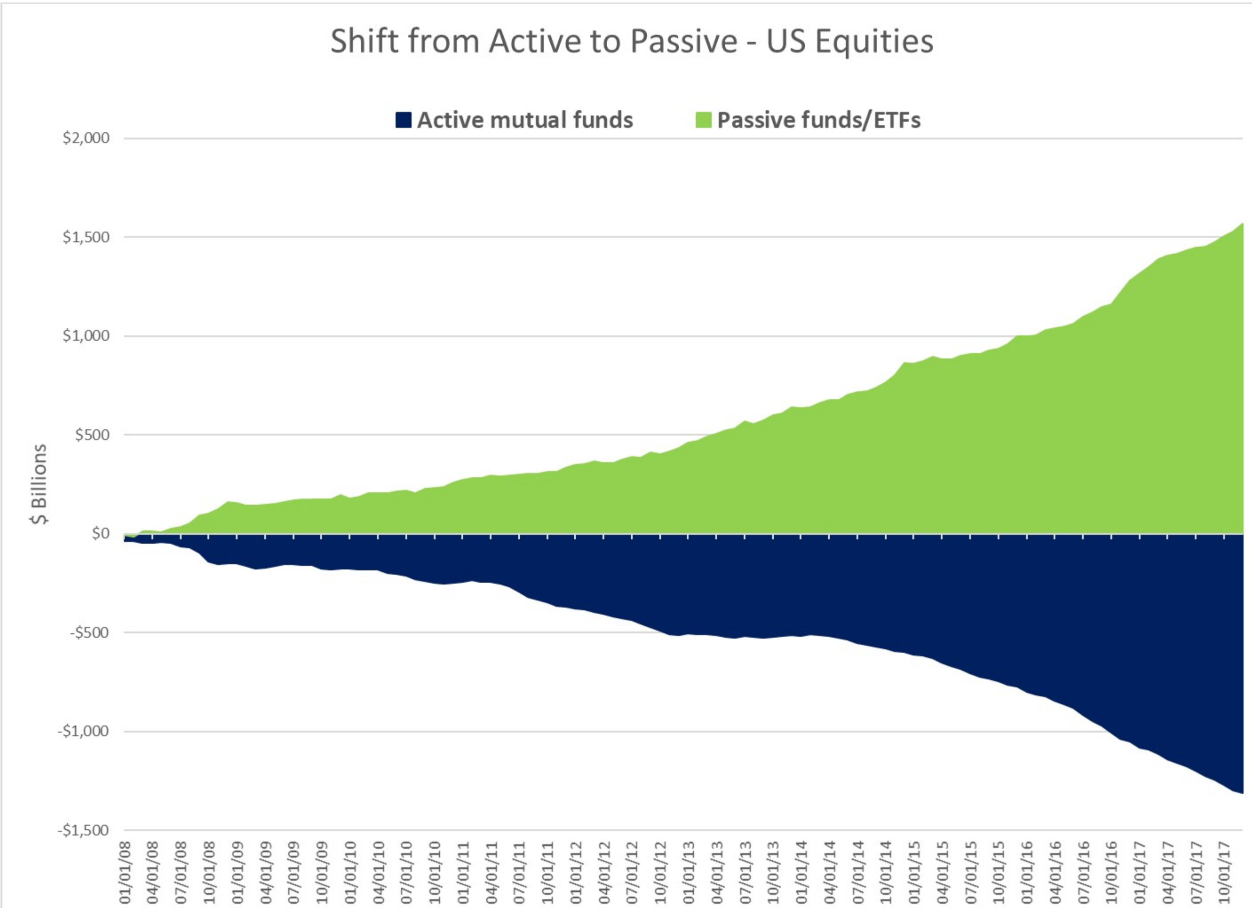
Bad for Business, Good for the Consumer



SOURCE: Morningstar

Whether you are an end consumer who is paying less, or the firm that tries to put investment products on the shelf, you should read the piece to help better understand the monumental shifts that have taken place over the past decade, and how a cool $74 trillion is still on the line, along with a lot of well-paying jobs.

The Painful Picture for Active Managers



Source: ModernIR

If that story wasn't enough to put veteran Wall Streeters into a deep depression, the rest of the across the board negative headlines that came out surely will. For any of our professional colleagues not already on edge, there was the *New York Post* headline that declared this to be the hardest time ever to find a job. Layer on top of that the huge cuts in headcount at Citigroup, Barclays, HSBC, Legg Mason, and UBS.

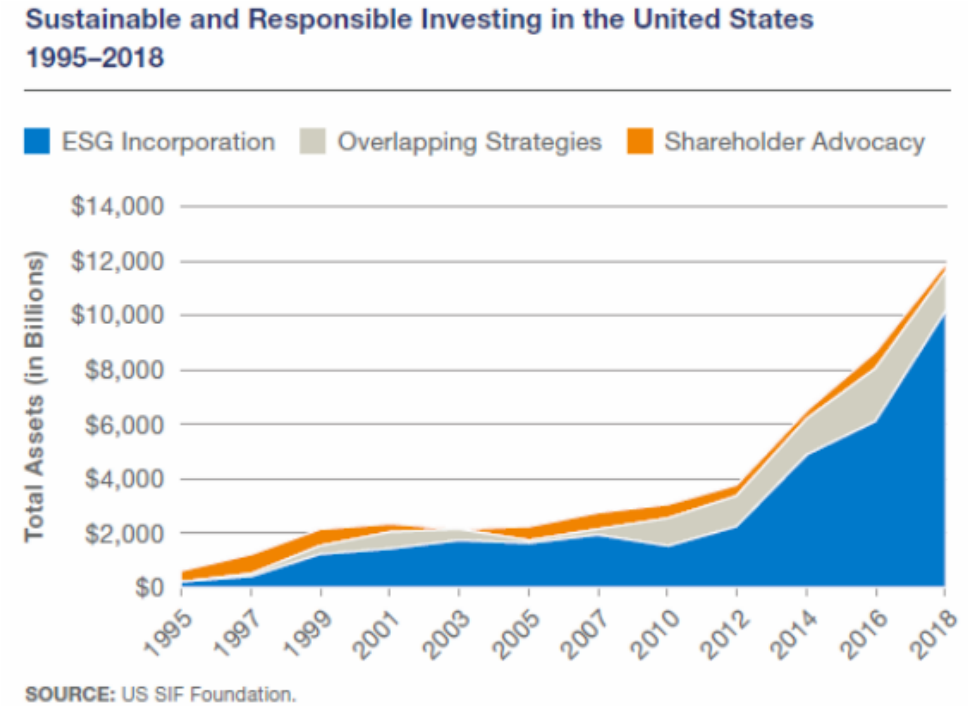
Bottom line, the times have changed, and what once made banks money doesn't anymore. On top of that, the power of technology and innovation has squeezed humans out of the equation, and those jobs aren't coming back anytime soon. Need proof? Recruiters are now telling those who have recently lost Wall Street jobs they should look into doing something else.

'To the Good Times'

Source: YouTube

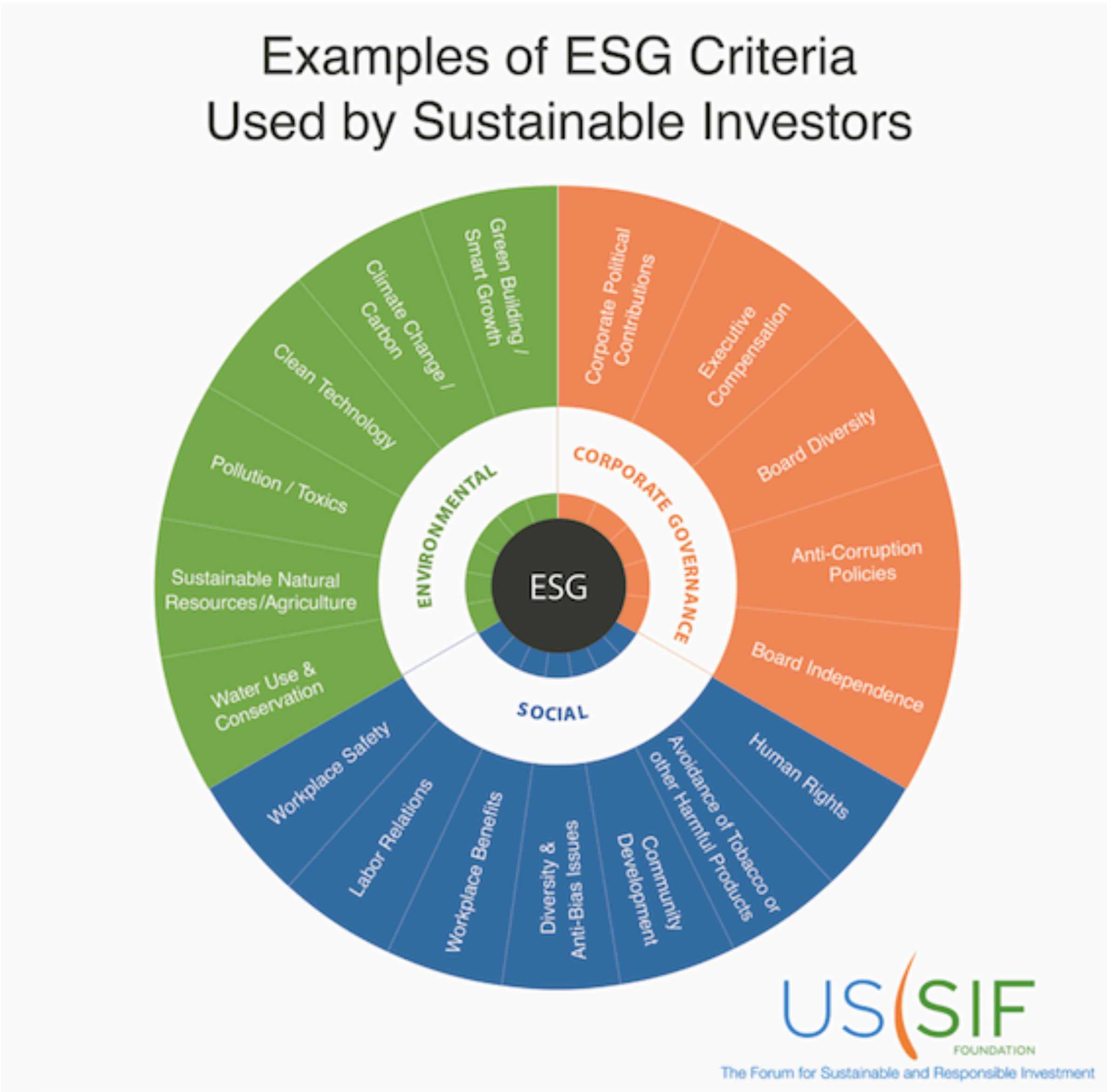
While the stories we just told are not ones that paint a bright picture, there are still areas where innovation and expansion is happening. Among this basket are opportunity zones, cannabis, crypto, and ESG funds. The latter stands for environmental, social, and governance and those are factors used in the asset selection process. Among the various equity fund categories, ESG has seen some of the strongest growth in assets under management, and it continues to expand. This includes ETFs, actively managed funds, and hybrids of the two.

Funds Flowing to ESG



Next week we are going to take a deeper dive into the world of ESG which will include looks at the good, the bad, and the mediocre ideas being developed in the factories of Wall Street. And to be clear, factories these are. How do we know? The author has worked inside some of the biggest ones out there, knows how the process works, and next week will show our readers how the process works, and what to look out for.

Broad Spectrum



Last note on the subject for this week is a picture posted by David Geffen from his yacht, the Rising Sun off Belearics in Espana. Onboard that day was a gaggle of leaders from finance, entertainment, and energy. The group pictured below has a collective net worth of $120 billion and includes Lloyd Blankfein, Jeff Bezos and his new girlfriend Lauren Sanchez, Joshua Kushner, and Michael Kives, not to mention Geffen himself. So, what's the tie in with ESG? The group was part of a much larger set of A-listers who traveled to Spain to be a part of a 'Google Camp' focused on climate change.

Power Yachting

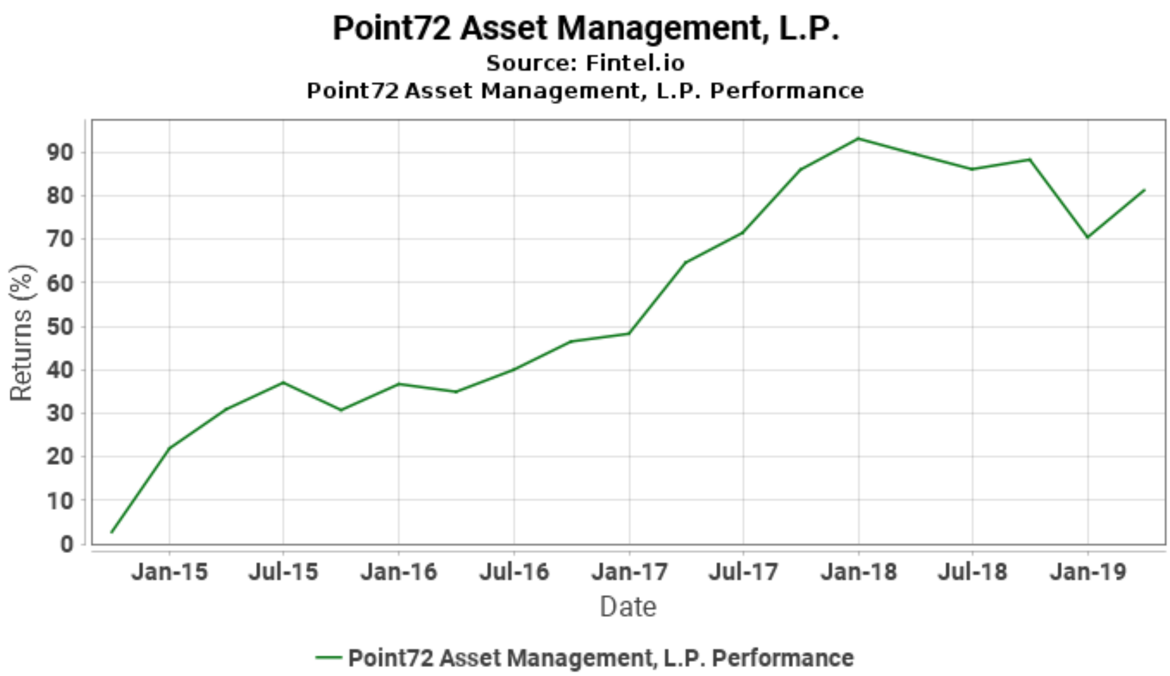
Source: TMZ

Hedge Funds

Our friends at the *Wall Street Journal* report it's been interesting year inside Steve Cohen's Point72 Asset Management group. On top of his main fund trailing the roughly 20% return of the S&P by half, it turns out that the gains he has put up have been bolstered by money managed not by Point72, but a sub-advisor who used to work for him.

The manager is Melvin Capital, which is up a stout 47% this year. The article goes on to chronicle the long-time professional feud between Cohen and Citadel founder Ken Griffin and is well worth the time to read.

Bull Market or Skill?



Last month, a *Bloomberg* headline read that the sudden jump in hedge fund exposure was now flashing a warning for equities. Turns out they were right. And now a month later hedge funds are getting whipsawed as they have turned bearish and are quickly bringing down net exposure. For what it's worth, we've been running with a low net for most of the year and can report that our performance has picked up materially in the past month.

Most Shorted Underperform This Year

Hedge Fund Bets

Most shorted stocks have trailed the market this year

Source: Goldman, Bloomberg

Diversions

We don't plug a whole lot of television in these pages, but this week we felt compelled by the sheer quality of The Chef Show on Netflix. The plot theme has actor, and star of the film, Chef John Favreau traveling the country with legendary Asian fusion chef Roy Choi. The hook set happened when we watched the conversation they had with Austin pitmaster Aaron Franklin. We truly had no idea he put that much effort into butchering the brisket before it went into the smoke. The man is truly a master of his craft.

Choi, Favreau, and Franklin

Source: Netflix

Since we are food heavy this week, let's keep the theme going. Turns out the Shark Tank's own Kevin O'Leary spends about $1,000 a day on food. Of course he does run on a busy schedule, and picks up a few tabs along the way, but still, a g-bone a day is a g-bone a day. Fellow CNBC host, Jim Cramer, also has a tie in with food outside of his day job. The former hedge fund trader owns Bar San Miguel in Brooklyn, and when he is not on TV, he can be found there busing tables.

Finally, there is Buzzy Gedud, the former owner of Herzog Heini and Gedud brokerage he sold in 2000 for a billion to Merrill Lynch. He owns the Doughnut Pub in Lower Manhattan. Four years ago Buzzy divulged to *Bloomberg* that by owning The Pub he knew he would always have something to pay his rent with. Good call Buzzy, fried dough>>>stock trading.

As Good as It Gets

Source: Bloomberg

To round out the subject of food, if you find yourself headed to the Monterey Peninsula for Car Week, stop by Phil's Fish Market on the way for the world's greatest Cioppino. Automobile Magazine provides a guide to how to best enjoy the event. The week concludes with the bucket list worthy Pebble Beach Concourse d'Elegance on Sunday. For those who are headed there, enjoy.

The Splendor

Source: tflcar