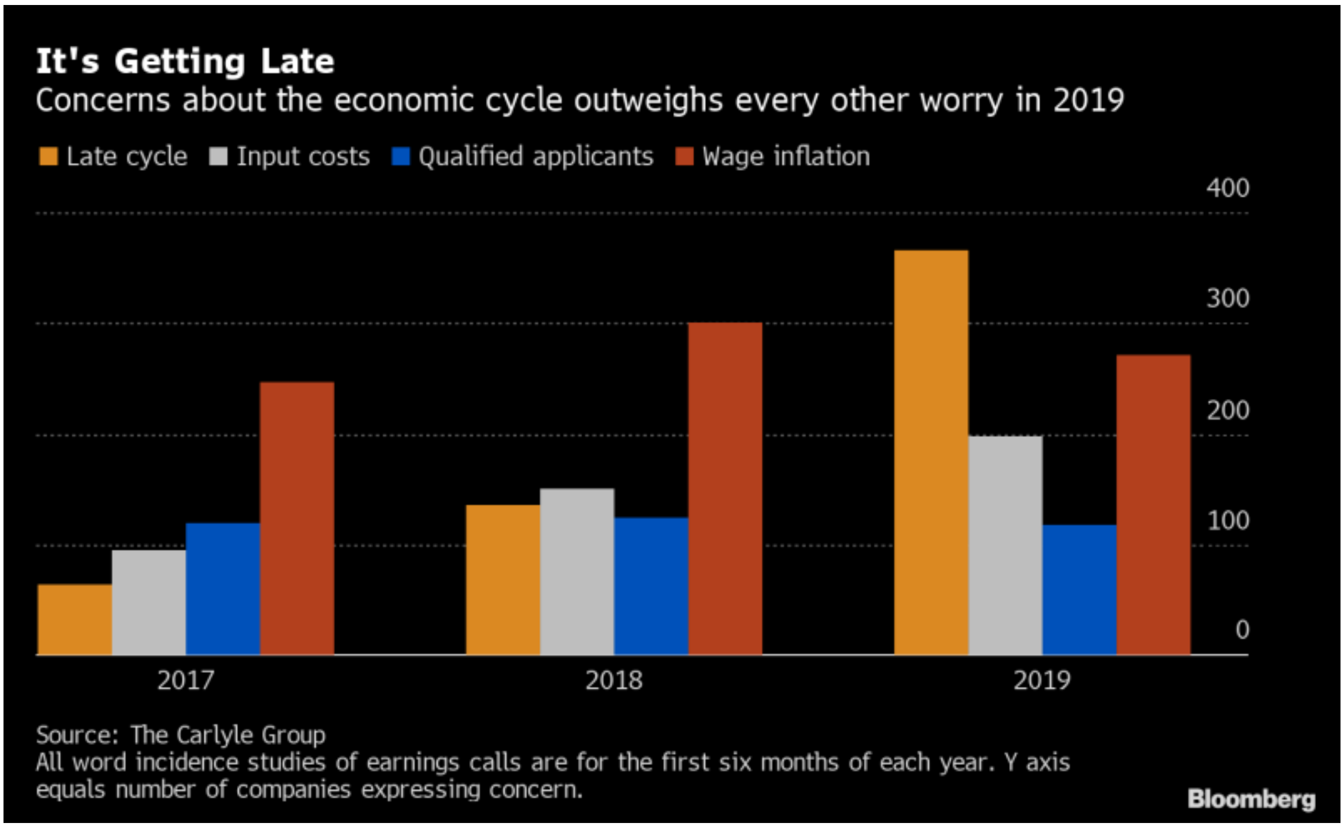
Mixed Messages

The Federal Reserve met this week, and while the outcome was somewhat predetermined, there was dissention in the central bank ranks. With his 'no-answer' answers to questions about the direction of rates, Chairman Powell has earned himself the nickname the 'Artful Dodger'. Meanwhile, the United States' top bankers are now as divided as the European's are, with a lot for them to contemplate.



All of which makes sense, given the fact that the OECD cut the forecast it made for global growth just four months ago. The best analogy we can come up with is that the global economy is looking like a wilted sunflower right now, and the equity market thinks global central bankers have the fertilizer to perk it back up. Or perhaps they should let this play out naturally and get ready for fresh growth in the spring.

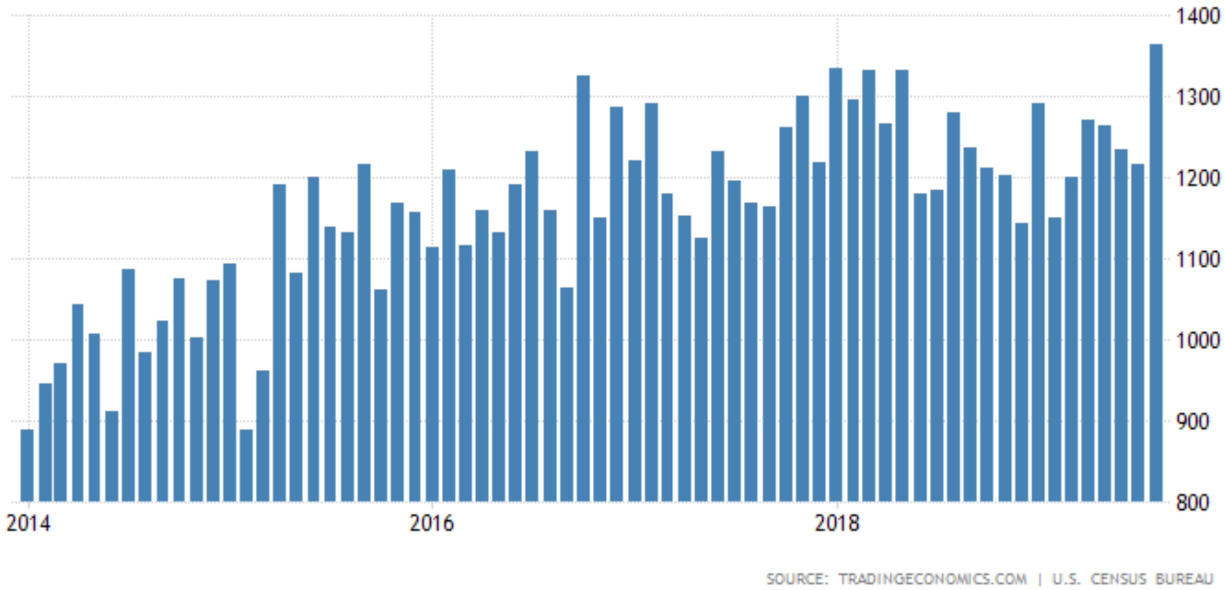
Programming Note

We ran out of clock this week to take you inside the wonderfully awful world of mutual funds, a subject near and dear to many of our readers. But no need to hang your heads, as we will do it justice in seven days' time. Whether you work at one, distribute one, or are the eventual buyer or owner of said funds, you are going to want to take the time to dive deep with us. In the meantime, enjoy what this week has to offer.

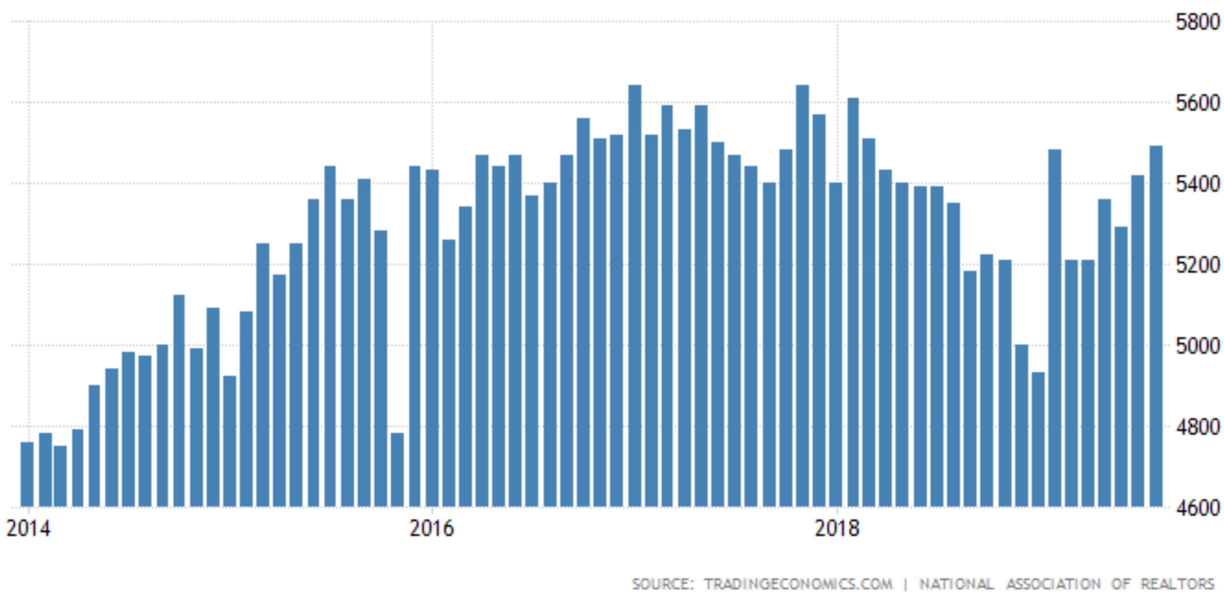
The Economy

Aside from the aforementioned 25 basis point decrease in the Federal Funds rate, it was a quiet week for hard data on the economy. The news that did hit the tape, housing starts and existing home sales, both supported the notion that the steep drop in interest rates isn't just pushing on a string, and that real animal spirits are being conjured up in the housing market.

Building Permits

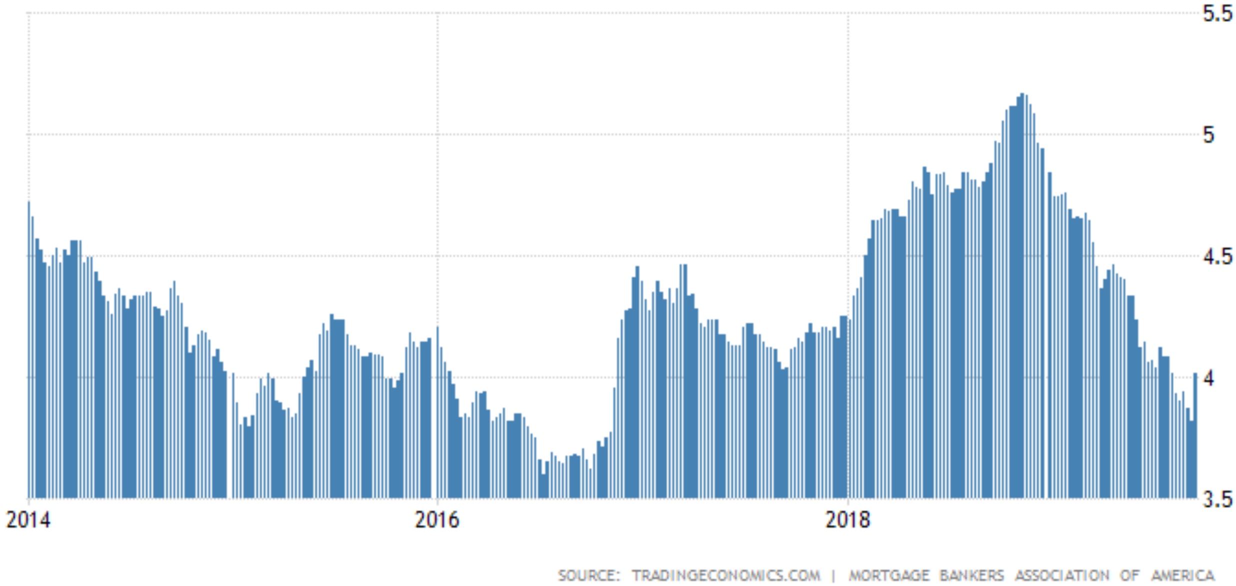


Existing Home Sales



Bottom line, if residential real estate didn't react well to a drop in interest rates of this magnitude, that would be cause for some pretty sizeable alarm.

Thirty Year Fixed Rate



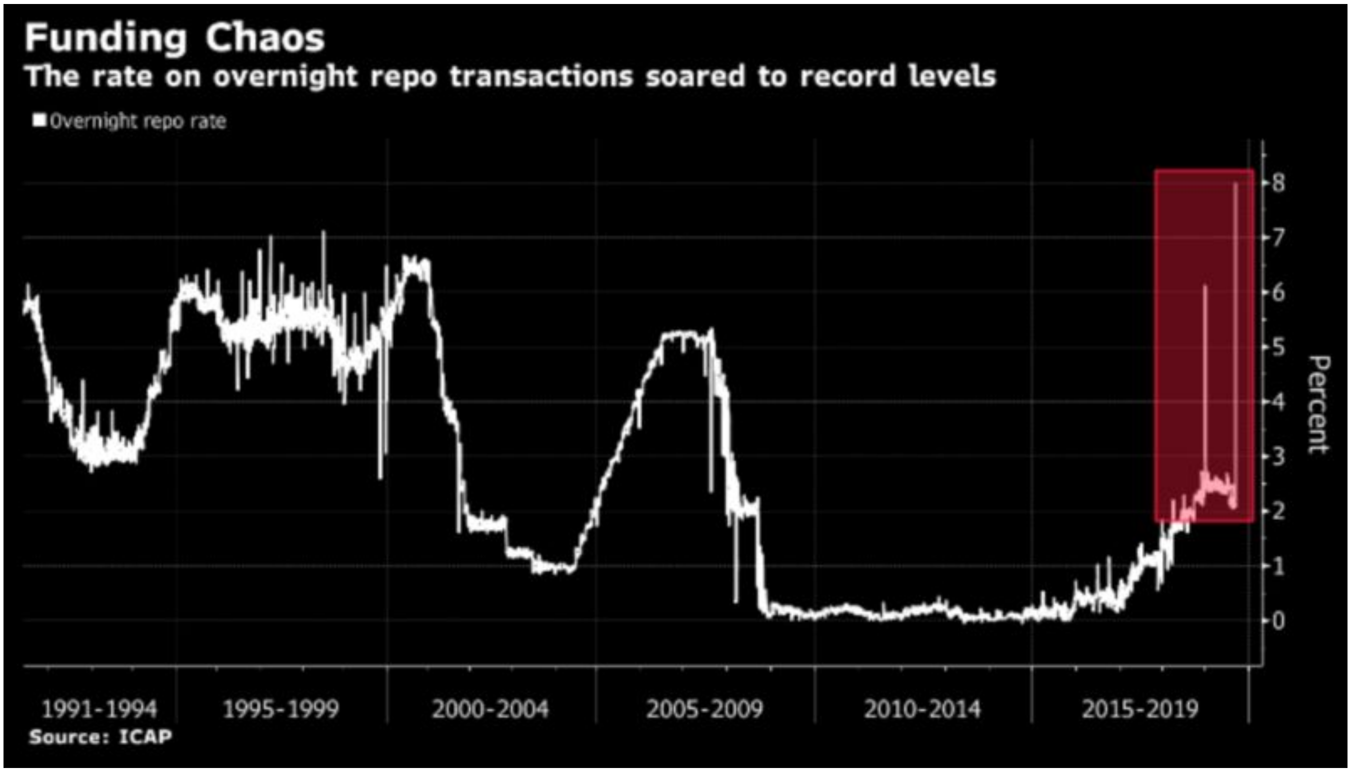
Markets

The quiet conditions continued in the markets, aside from a late Friday selloff on the news that an agricultural delegation headed to Montana and Nebraska had turned around and whatever they planned to talk about to build goodwill would have to wait. The breakoff in détente cost the market all of 100 basis points.

(Don't) Meet Me in Montana

A corner of the debt market that is both everywhere, and at the same time cloaked in mystery, experienced a disruption the likes of which has not been seen since the financial crisis. The market in question is the overnight lending market, and it is the closest thing there is to the grease that makes our corporate financial wheels spin.

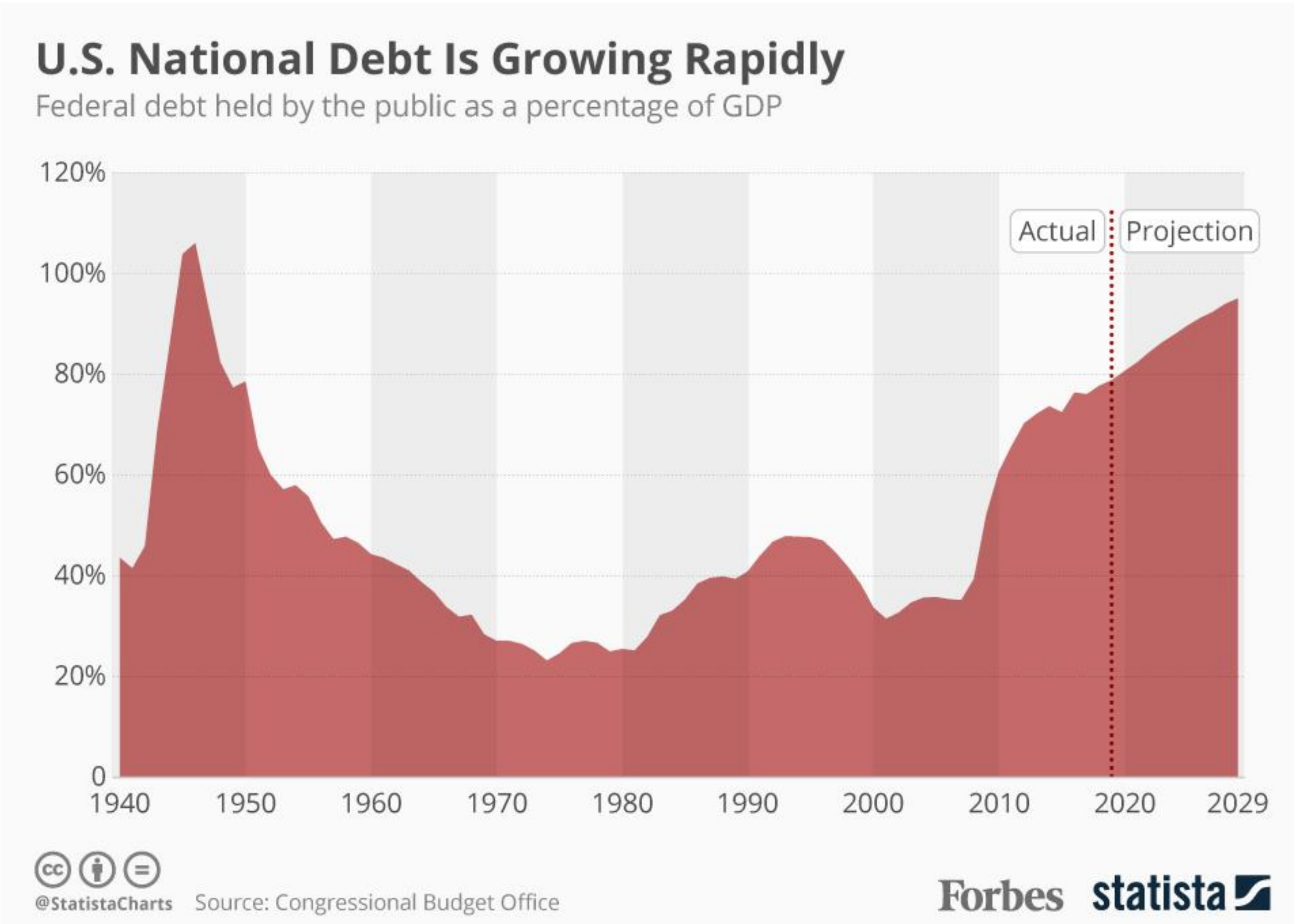
Black Swan Like



On a normal day, billions of dollars in very short-term debts are bought and sold. The rate is usually very low as the duration is incredibly short. The last time it got at all interesting was in the throes of the Global Financial Crisis and even the most stable of companies were cut off from the market as it froze into a complete panic. Then CEO of General Electric, Jeff Immelt, famously called Treasury Secretary Hank Paulson to let him know that even the safest paper could not be floated.

This time around overnight rates rocketed from below 1% to as high as 10%, that is until the Federal Reserve Bank stepped in and flooded the market with billions in liquidity. The 'repo surge' can be blamed on a few technical items like corporations needing to pay out cash for taxes. What can't be ignored, is the liquidity that has been sucked out of the system by our rising deficits, and the deluge of longer dated treasuries that need to be sold to finance it.

This is Bad



One of the best on Wall Street, DoubleLine's Jeffrey Gundlach, calls the deficit and national debt 'totally out of control'. In a great interview with CNBC in May, Gundlach points out that much of our recent GDP growth has been driven by an explosion on the liability side of the governments balance sheet. We also think his negative view of Facebook is the right call, as Stillwater is short the shares for clients, and plans to increase the size of that position soon.

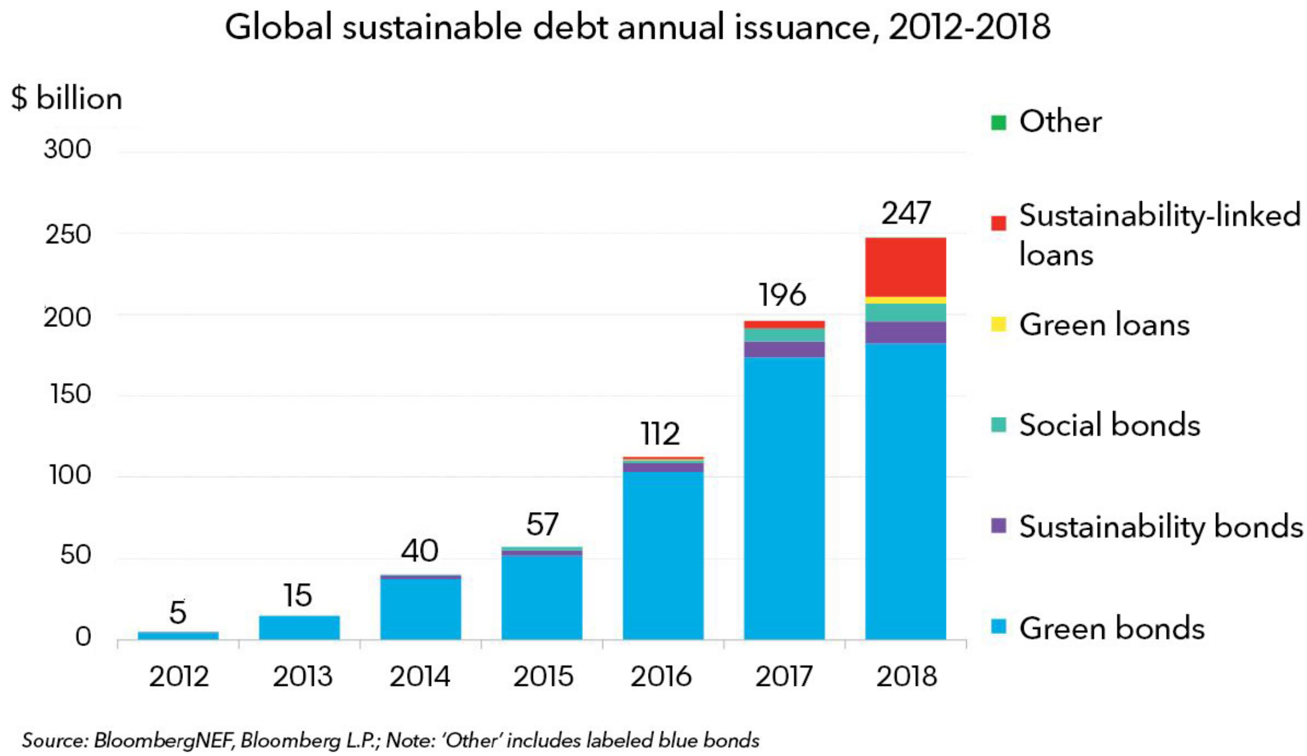
In related news, Mark Zuckerberg met with Donald Trump at the White House this week while in D.C. on a charm offensive with those looking into the many aspects of the social networks business. In a Tweet, Trump called the meeting 'nice'.

The Prez & The CEO

Source: CNBC

If you are looking for an area of the market where there is plenty of liquidity, along with demand, it's the bond market for projects deemed 'green' by the borrowers. With the huge push to lower carbon footprints and to further attempt to comply with the Paris Accords, cities, counties, and states are going out looking for borrowers to finance water and solar projects. This week, Bloomberg reported that the market for these securities is booming.

Global Green Debt



A recent article in Governing, highlighted the way one of the first issuances in the green bond market took place, a $350 million sale that occurred in 2014 to fund a phase of DC Water's Clean Rivers Project. The story also details the steps the agency had to go through to ensure that the covenants imbedded in the debt were both measured and adhered to.

Dirty Water…In D.C.????

Source: DC Water

Companies

It was a tough week for FedEx. It started off on Tuesday with underwhelming earnings and a conference call that CNBC's Jim Cramer called the 'most dispirited call about the economy in a very long time.' The news sent the shares down 15%, adding to the brutal run the stock has been on since peaking in January of 2018.

Rough Landing

On Friday, the Wall Street Journal reported that one of its pilots was detained for illegally transporting ammunition, which wound up being plastic air pellets. Fox News ran with a quote from "The Coming Collapse of China author Gordon Chang that this was part of a 'hostage-taking binge' the country is engaging in.

International Incident Worthy?

The drama surrounding WeWork boiled over this week, as the company announced that it was shelving plans to go public…for now. That didn't stop the presses from rolling, further exposing the world to the brilliant mind of Adam Nuemann. *The Wall Street Journal* took the lead, telling the story about how the hard driving CEO liked to fly over the Atlantic Ocean in a G650 while smoking breakfast cereal sized boxes of weed, which didn't fly in Israel, literally. That said, we do like his sophisticated palate and taste for Don Julio 1942, as well as his 'Thank God It's Monday' attitude.

Bernstein made a call that we can really appreciate this week when they said Netflix will need to fall another 20% before it bottoms out, this would be on top of the already 20% the stock has retreated since the company reported a disappointing change in fundamentals last month. Even CEO Reed Hastings admits that the times they are a changing. In the research note, analyst Todd Junger wrote,

"The Q2 miss, coupled with the upcoming Disney+ launch in the US (and Apple as well, and more to come), has come together to make investors reevaluate their confidence in Netflix's subs and pricing growth."

Our appreciation is grounded in the fact that we are short the shares at an average price of $345, and it currently trades at $270, or 17% less. If we get the second leg down that Bernstein predicts, the shares would be trading at $230, and we think they will get there. Our clients picked up another 7% of the downside move on Friday.

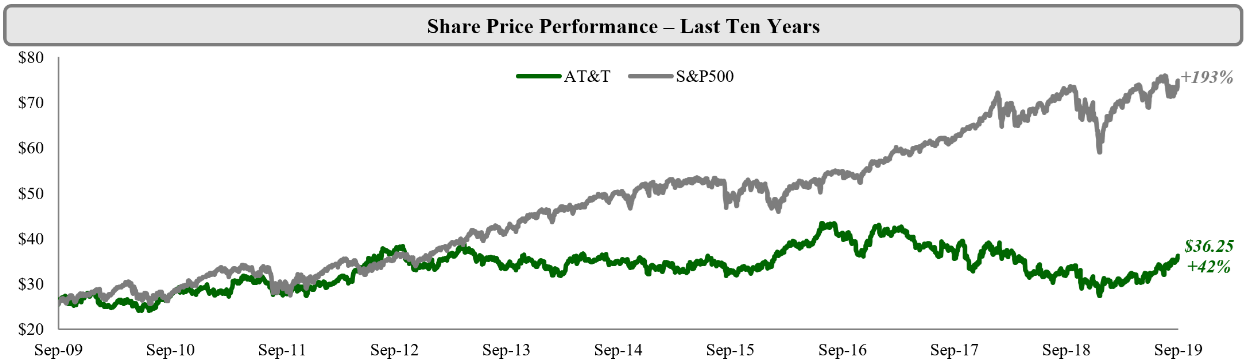
Streaming South

All in, that's slightly more than a 30% gain for the home team, and that on a 3% short will add a nice 100 basis points to performance this year. Next week, we will go into more detail about how this trade came about, and why it's important. In the meantime, let the streaming wars continue.

The Stakes are High

In related news, activist investor Elliott Management has chosen AT&T as its next target, asking in part that the company spin out DirecTV. The problem with that plan is the company needs to protect its dividend and can't do so without the free-cash-flow thrown off by the satellite TV provider.

Business Insider reports that the rumored departure of CEO Randall Stephenson led Elliott to pick up the pace as they want a say into who will run the company next. The letter they sent to the AT&T board this week included a thorough detailing of what ails the phone carrier, and what it needs to do to unlock 50% more shareholder value.



Source: Capital IQ as of September 6, 2019.

Note: S&P 500 share price performance indexed to AT&T's share price at the beginning of the period.

Around Wall Street

In what we consider to be big news in the commercial real estate world, Los Angles based Colony Capital is putting up for sale it's remaining legacy assets that it picked up three years ago in the ill-fated merger with NorthStar Asset Managements and go all-in on e-real estate.

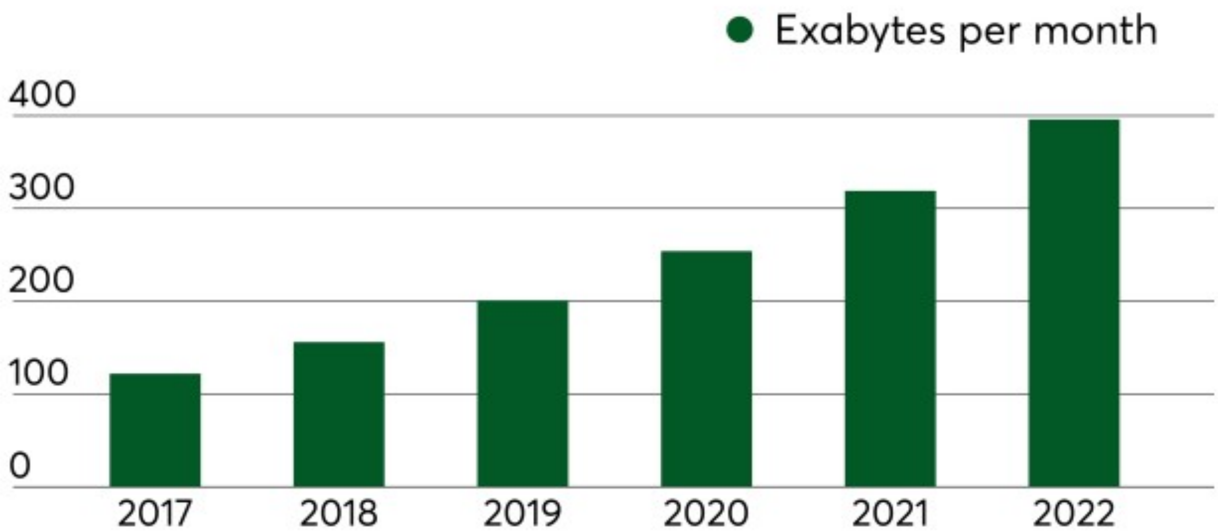
Colony CEO Tom Barack said it was he himself who is to blame, and that 'we mispriced it.' Not sure who the 'we' was if Tom is going to take ownership. The 'it' was a whole balance sheet full of hotels, senior living complexes, and other commercial properties that all came along with high levels of debt.

No Good Offer Refused

Source: The Real Deal

To make a move this large is rather unprecedented and shows that, while they may have missed the early boat, they are convinced there is still plenty of ocean ahead. To get to their final digital destination they acquired, wait for it, Digital Bridge in July of this year. The new operating company goes by Digital Colony, and it looks forward to capitalizing on this…

Global IP traffic to triple from 2017 to 2022



Source: Cisco Visual Networking Index Global IP Traffic Forecast, 2017-2022

Sitting on the edges of downtown Los Angeles sits the non-descript One Wilshire tower. In its heyday, the 30-story building was home to a slew of lawyer's offices, and at least two floors of stock and bond trading. In 2001, Carlyle purchased it for $120 million. Six years later Hines Real Estate paid $287 million for the same building. Then in 2013 it was sold to GI Partners for a whopping $438 million, the highest price ever paid for an office building in downtown Los Angeles.

Why, might you ask, would an otherwise pedestrian piece of property in the ever struggling downtown appreciate 265% over twelve years? Because One Wilshire has become a data center so big, that it is considered the most highly connected Internet point in the western United States, carrying a third of all traffic from here to Asia. We mention this because there is no telling what Tom Barack is going to decide to do with the newly re-focused digital asset acquirer and operator.

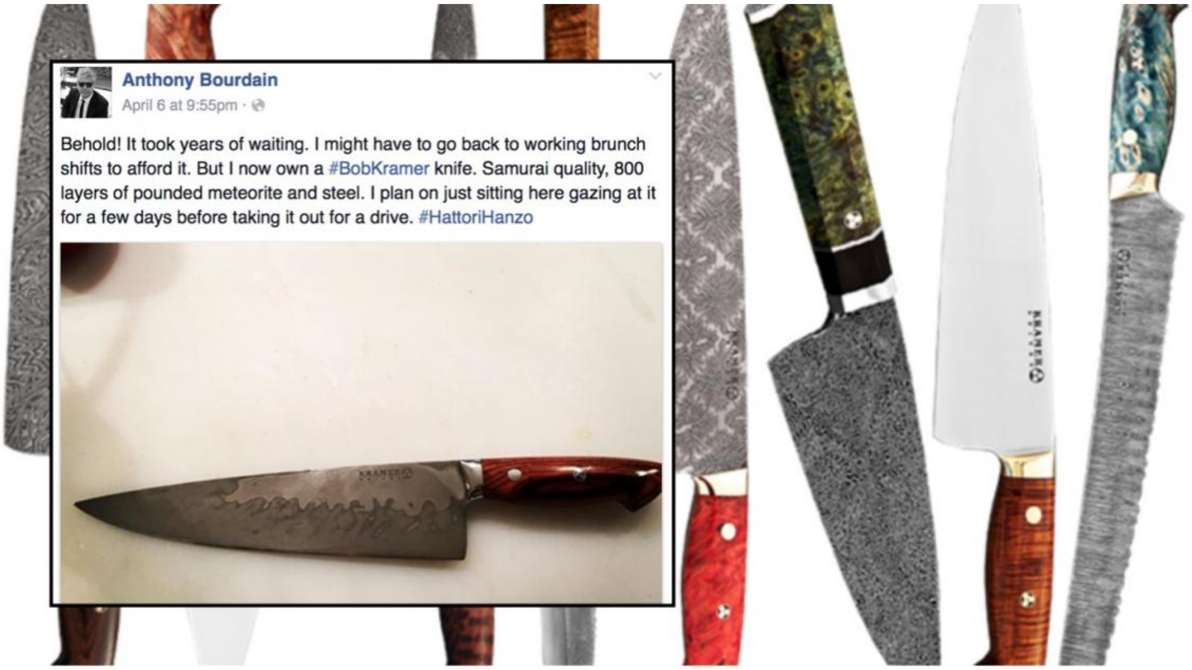
Tiny But Big

Source: CSUDH

Diversions

Items belonging to the late Anthony Bourdain will go up for bid next month, with an online pre-view beginning October 2nd. Possessions to be included in the auction will be his vintage bomber jacket, and his custom-made Bob Kramer chef's knife. Proceeds from the sale will go to his family and the Culinary Institute of America. The iGavel will begin to fall on the 200 items beginning on October 9th and will be open for bid through the 30th.

Who Will Give Me $6,000?



The San Francisco Chronicle eased us into the weekend with the list of the finalists for the 2019 Comedy Wildlife Photography Awards. After the year we've seen in the markets and on the global political stage, this one happens to speak to us.

We Feel Ya!

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