

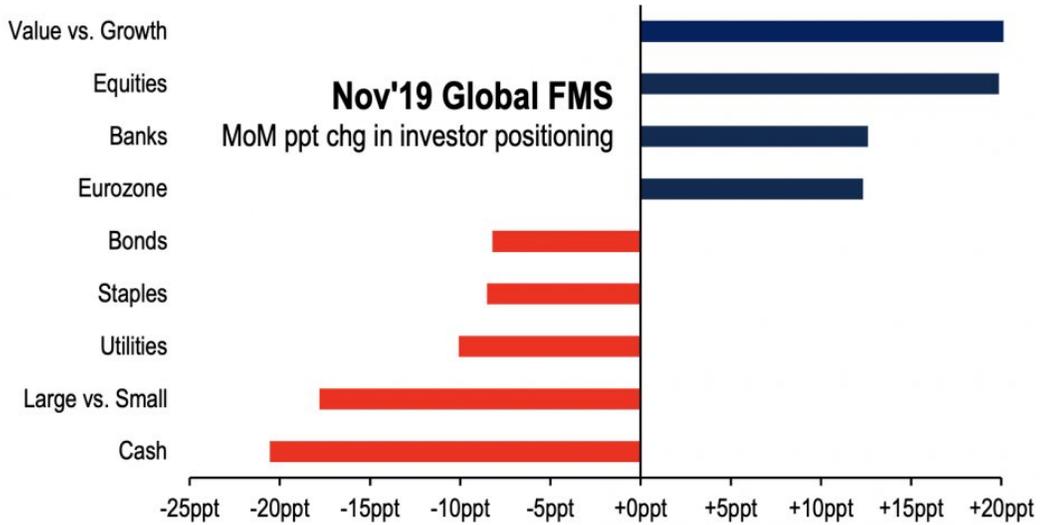
The 'Grey Swans' Takes Flight



A short two months ago, caution was in abundance and risks were on the rise. Fast forward to today, and suddenly that narrative has been turned on its head and the 'grey swans' have formed up and are flying tight. Look no further than Merrill Lynch's most recent survey of investor sentiment to see how fast the pendulum has swung, and as legendary macro trader Paul Tudor Jones observes, there is in place an 'explosive combination of monetary and fiscal forces' at work here driving the markets higher.

Cash Becomes Trash

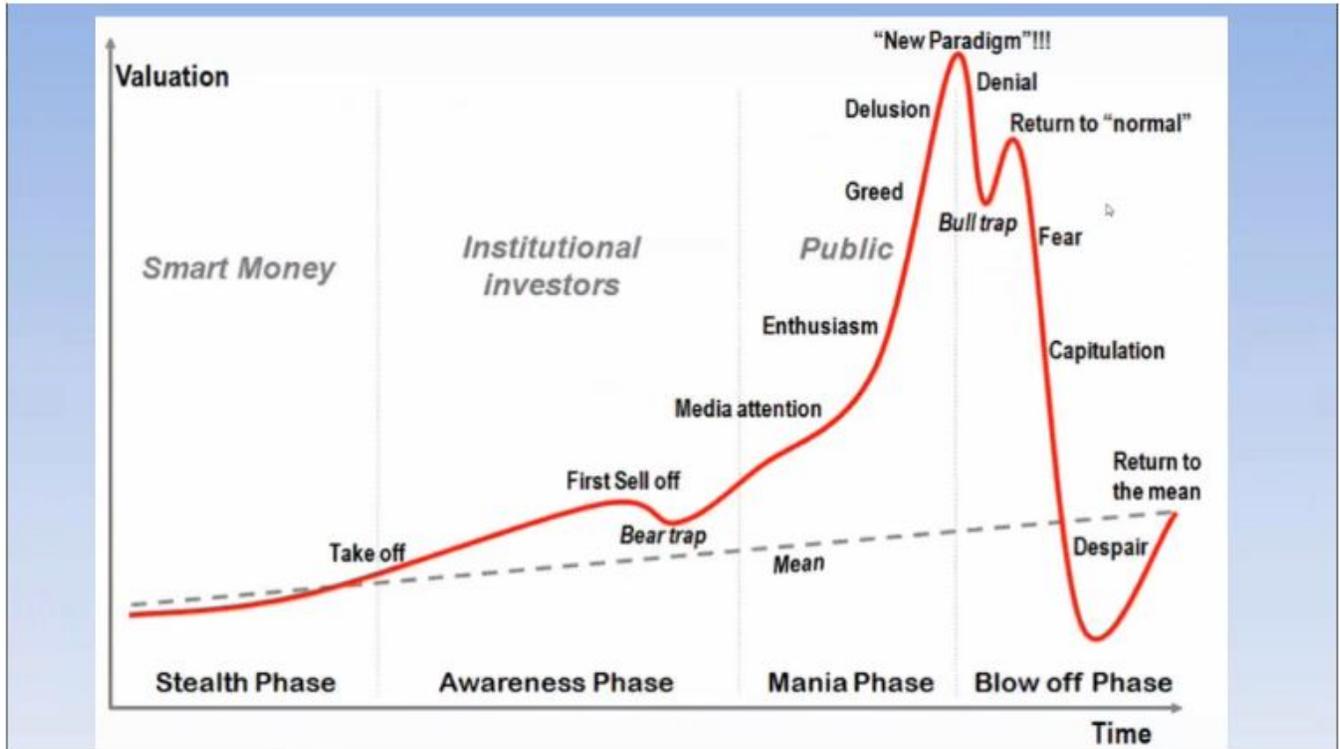
Exhibit 1: Major-FOMO drives risk-on rotation



Source: BofA Merrill Lynch Global Fund Manager Survey

The same Merrill piece included this cautionary note about where we are in history. In it Michael Hartnett, the firm's Chief Market Strategist, states "We enter the next decade with interest rates at 5,000-year lows, the largest asset bubble in history, a planet that is heating up, and a deflationary profile of debt, disruption, and demographics," Keep in mind, this is Mother Merrill, not some schlock shop operating out of a strip mall. So we got that going for us, which is nice.

The Bubble Lifecycle



Source: Finance & Career

The good news for those of us who remain skeptical is that spikes like this are often times a contrarian indicator, as CNBC pointed out in March of this year. More recently, a Bloomberg columnist shared his opinion that the Fear of Missing Out ethos 'doesn't cut it' anymore.

Edvard Munch's Scream



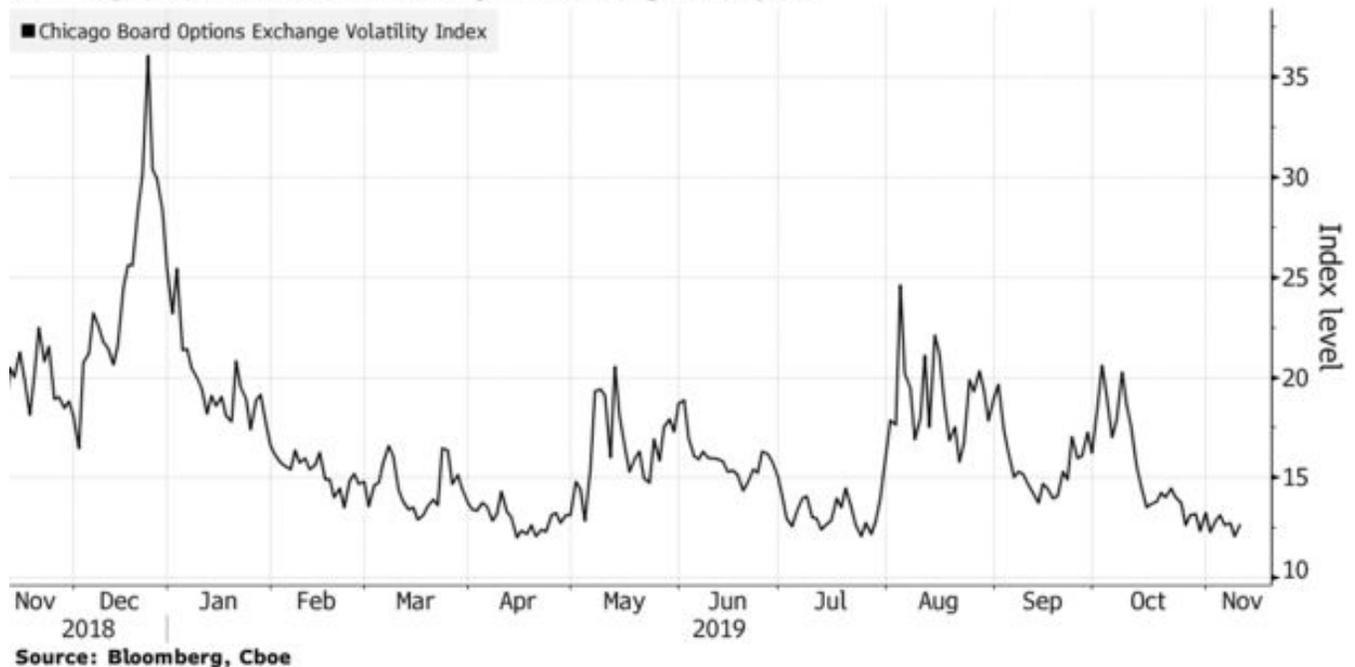
Source: The Independent UK

Running counter to what the Merrill poll showed, UBS is staking a claim that the world's wealthy are getting more bearish by the day. In a survey the investment company conducted recently, the average cash position is 25% with 55% thinking there will be a significant decline before 2020 is out. To round things out, a strong 80% of respondents think there will be higher volatility in the days ahead. That would be good news for Wells Fargo, as one of their top market strategies explains that 'we kinda hate this market'.

Time to Tack the Yacht?

Too Calm

Wealthy investors see volatility increasing next year



What can't be denied in this discussion, is the very strong chance that global bond yields have bottomed and are now headed higher. This trend started in early October and has accelerated as of late, sending our 10-year Treasury Note to a yield of 1.83, brought global negative rates back from the abyss, and re-inverted the yield curve here at home. Not bad for two months' worth of work as the \$15 trillion of bonds that you had to pay to own has been cut by 30%.

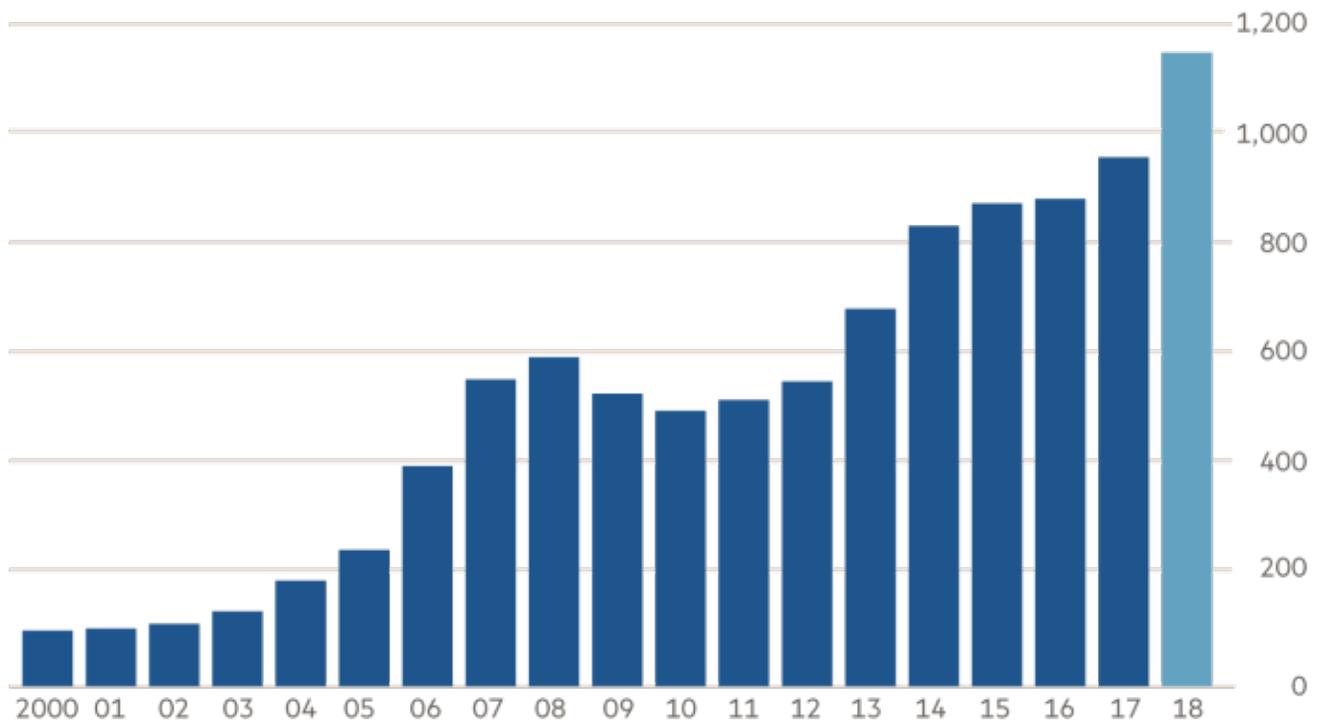
'Wait, Now I'm Getting Paid?'



There is one area of the market that does have some on Wall Street worried, and this would be the collateralized loan market, or CLO. There are vast pools of bundled debt where the underlying holdings are below investment grade loans to businesses, they belong to a higher yielding variety, and have begun to show signs of stress through spread widening, an early indication that there is tension under the surface. Which begs the question, has Wall Street learned anything, or will they slam this trade into the wall like they did in the runup to 2008? If history is going to repeat itself, this is where it will.

US leveraged loan market swells beyond \$1tn

Value of outstanding US leveraged loans (\$bn)



Sources: S&P Global Market Intelligence's LCD
© FT

The 'Grey Swan' Explained

Trying to explain the volatility and sub-plots of the past twenty-four months in the markets is not an easy thing to do. During these two years we've had a period of global synchronous growth, a Federal Reserve that reacted by raising rates, a global stock market that didn't like it, a nascent trade war between the U.S. and China, a Fed 'pivot' in reaction to rapid deterioration of the global economic fundamentals, and a now white hot equity and bond market that is addicted to the firehose of liquidity. All of which has gotten us to a little better than even in most global markets.

Wild Ride



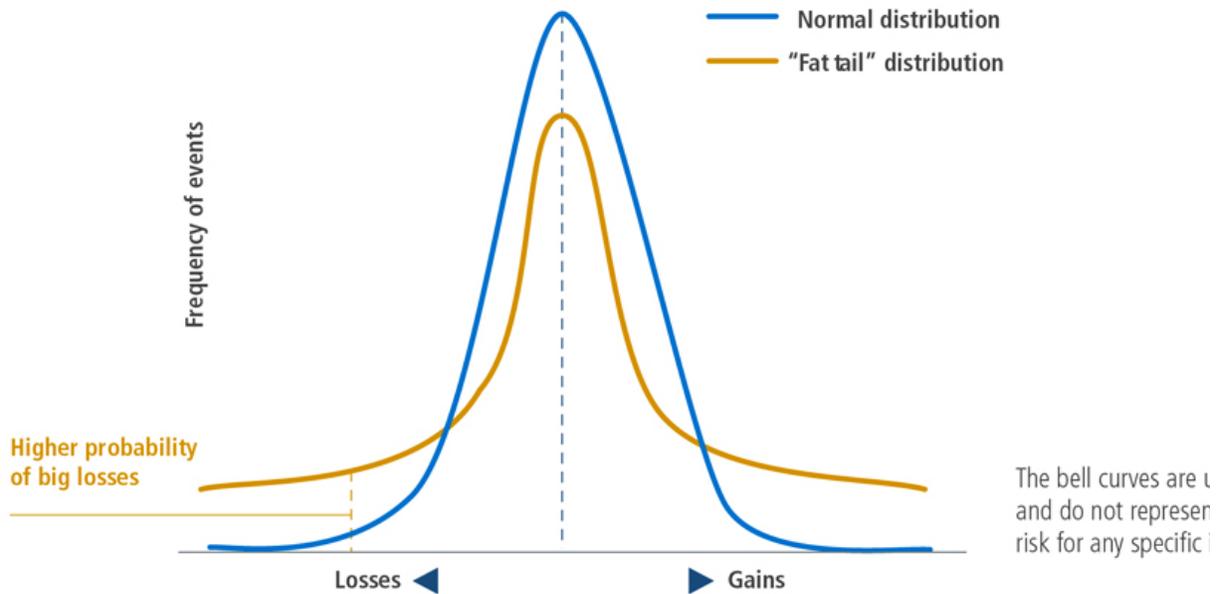
Source: Best Travel Places

In an attempt to make sense of it all, we'd like to introduce the idea of the 'grey swan'. The idea being that the aforementioned series of events all had rare 'black swan' characteristics, yet none manifested themselves into a true tail event. Instead, they have traversed the bell curve providing both bulls and bears a taste of what they want, yet fully satisfying neither.

Something for Everyone

FIGURE 1: MARKET TAILS MAY BE “FATTER” THAN NORMAL

Tail events are very rare in a normal curve, but market tails are in fact “fatter,” or more frequent, than many people realize.



Source: PIMCO

Instead, the combination of monetary, fiscal, economic, geopolitical, and corporate events we are experiencing have manifested themselves into a flock of ‘grey swans’. Sometimes they fly randomly around creating random volatility, at other times they line up and fly in formation, creating the feel that their larger, and much darker sibling is at the doorstep. This happened in the fall of last year, and again in the first quarter of this one. And since October, they appear to have lined up in a formation that is signaling the all clear to load up on risk assets. How long they can stay in the air is the question we all want to know.

Swans in a Row



Source: Lens & Cover

Companies

In news that we think surprised a lot of people, Google's 'Project Nightingale' was recently outed by the Wall Street Journal, and the details are a little frightening, even for those of us who aren't scared by the risk of Big Data Brother breathing down our neck. For those who care about these things, the search engine of the past is no longer your search engine, it's someone else's.

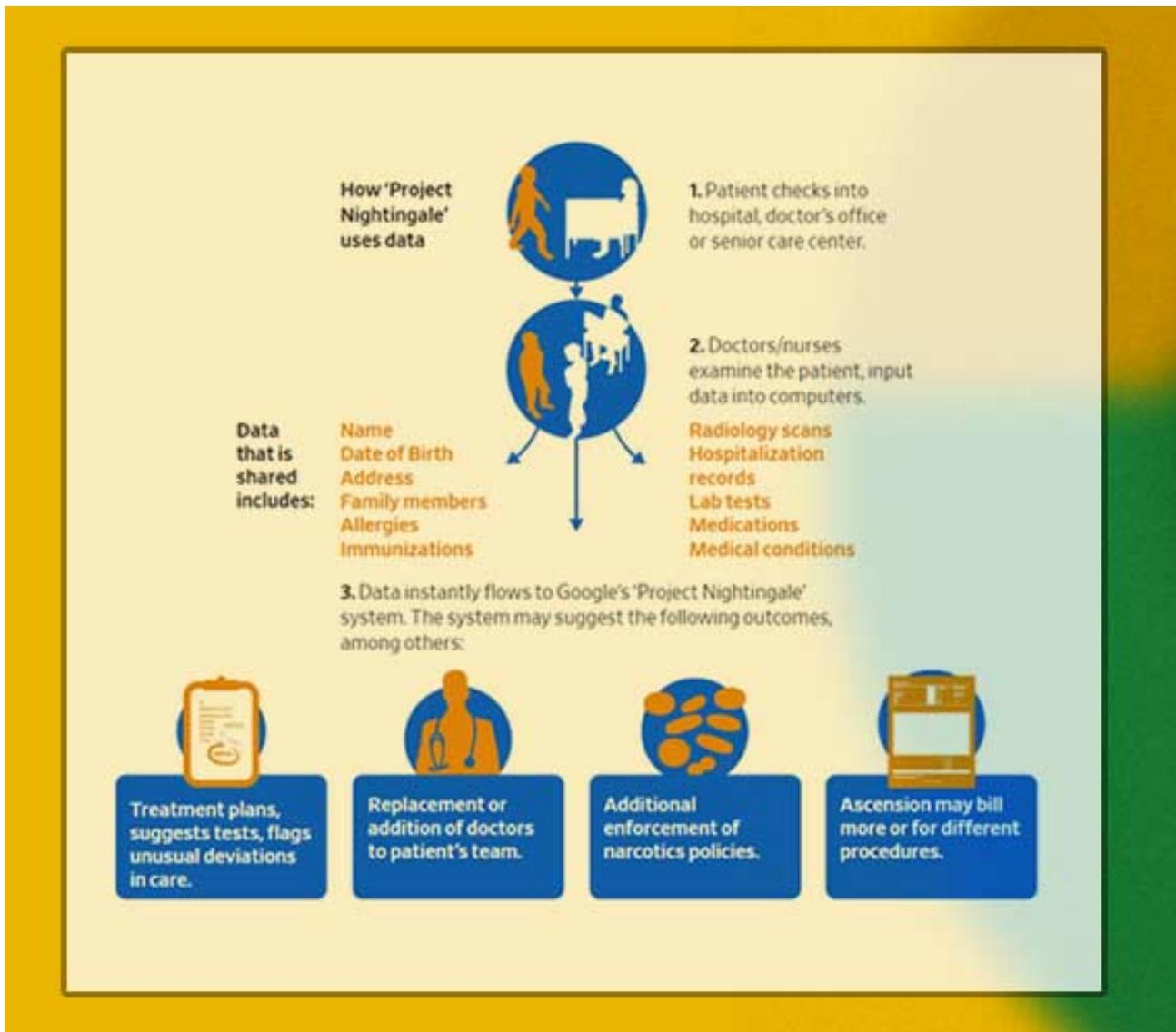
The Data Mine



Source: CBS News

The 'project' started in 2018, when Google and Ascension, one of the countries largest hospital networks, agreed to a two-way deal whereby the latter uses Google's G-Suite to create greater efficiencies in their business, while the latter provides patient data to the search provider. And therein lies the rub. Under current law, health care providers can share your medical information just as long as is it is for the sole purpose of advancing patient care. Where that line lies now is the subject of fa ederal probe into the agreement and its execution.

Project Nightingale



Source: Google

In news that will make anyone who thinks that vaping is just an extension of the nasty and addictive habit that is smoking happy, San Francisco based Juul Labs is cutting 15% of its staff and \$1 billion in marketing expenses as it tries to gain back control of the narrative that it's products are provided for the good of society. Netflix is getting in on the act of exposing the epidemic with its upcoming docuseries titled *Broken* which premieres on November 27th. If vaping isn't really designed to be used by minors, why the rainbow of flavors.

In the Tobacco Aisle



Source: Insider.com

Ralph Lauren's results are back on track, after a period where the brand wandered off into uncharted territory. New-ish CEO Patrice Louvet gives credit to the turnaround in sales to a greater focus on younger buyers, tie-ins with the anniversary of the sitcom *Friends*, and a 25% reduction in its bricks and mortar footprint. The timing could not be better, as HBO is set to premier *Very Ralph* on Tuesday, a show which pays homage to the founder and the brand celebrating its fiftieth year. Not bad for a guy who once described himself as 'dirt poor'.

Ralph Lipschitz, nay Lauren



Source: Business Insider

Litman Gregory Investment Forum

Our industry colleagues at Litman Gregory hosted a great investment symposium in San Francisco this week. The lineup of speakers was exceptional, both from inside the firm and from those that sub-advise their liquid alternative strategies. Special thanks to Mike Pacitto for making this happen. While we don't promote other firm's strategies very often, Litman deserves a strong look for investors seeking true alternative exposure.

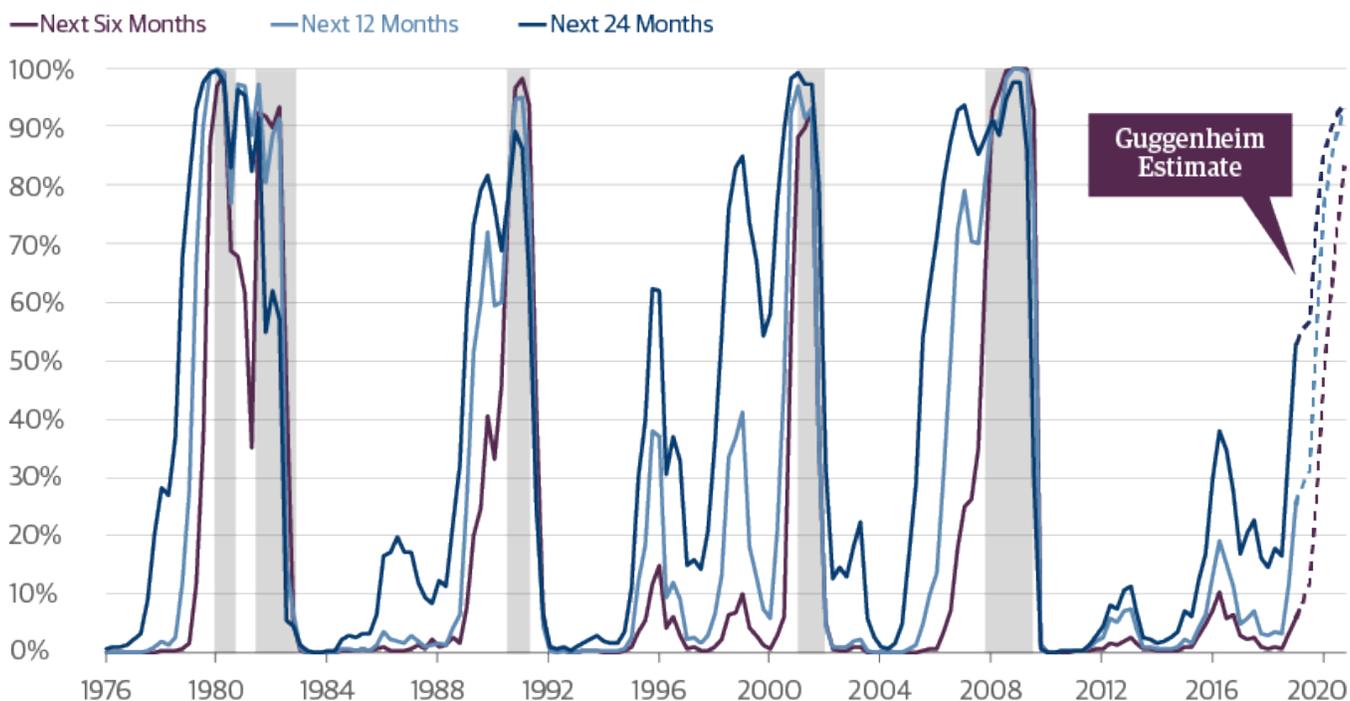
LITMAN GREGORY
ASSET MANAGEMENT

Headlining the speaker marquee were Guggenheim's Scott Miner and DoubleLine's Jeffrey Gundlach. Both shared a somewhat similar view, they simply take different ways to get there.

Both are sub-advisors to the Litman Gregory Masters Fund. Here is a summary of each's most noteworthy comments.

Minerd, who one might describe as a skeptical bear, believes that the respite the Fed pivot provided early this year provided the market with an 'Indian Summer' that will cool off in time. Prior to the 180 degree turn by the Powell, Guggenheim's recession radar had the prospects of a 2019-2020 slowdown running high. The challenge in managing around this is mastering the art of putting risk back in portfolios for roughly twelve months, and then taking it off in time for the inevitable. Which by his own admission, is no easily executed task.

Guggenheim's Recession Forecast



Jeff Gundlach wrapped up the day in a wide ranging conversation with Litman's CIO, Jeremy DeGroot. And by wide ranging, we mean everything from markets to politics, tariffs, Fed policy, the meaning of 'killing it', and living in the real world of patio furniture. His thoughts and comments are always so rich, the hour quite literally flew by.

Jeffrey Gundlach



Source: Bloomberg

The conversation with Gundlach started off with him framing his near-term investment horizon as eighteen to twenty-four months, espousing the notion that there is any benefit in timing smaller moves. He also proudly conferred that he has never had a drawdown that was bigger than the markets. His big picture view is that interest rates have bottomed, at least for now, and that a big top is being put in place for the U.S. equity markets, with January 2018 marking the beginning of a more volatile period that will eventually culminate to make our markets look like dead money compared to the rest of the world.

S&P 500



A decent amount of Gundlach's time was spent on discussing politics, and the impact the levers President Trump has at his disposal to support the market. And this Friday was no exception to that rule. But to show you how shallow the understanding actually is, and how much the quant machines influence the markets, 'Phase One' of a trade deal was intended to be an agreement by China to buy a few soybeans...for delivery in two years, and nothing more. This manipulation further juiced the FOMO inspired melt-up we've seen for the past two months.

Kudlow Throws Side Eye



Source: CNBC

Gundlach also pointed out with a high degree of certainty, that there will not be a true trade deal before the election, as China has nothing to gain from agreeing to stop stealing trade secrets. That's different than a deal getting done to roll back tariffs, which Trump will want to further juice the market.

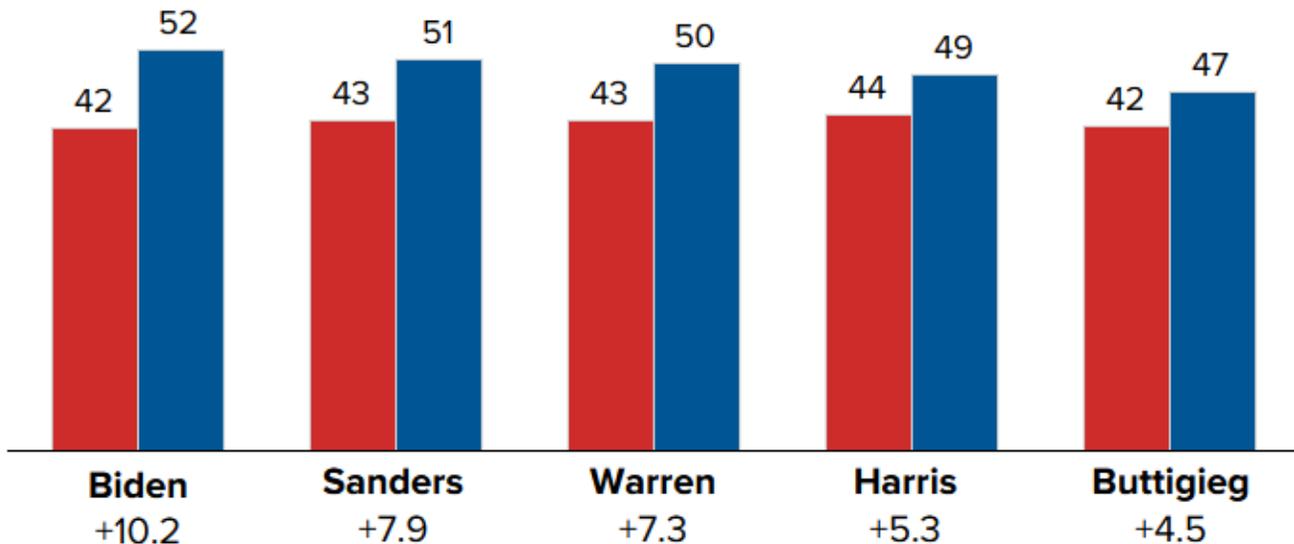
On the 2020 election, his view is that there is a good chance of a three-horse race with Trump, Bloomberg, and either Warren or Sanders as the third candidate. Though he did believe that we've seen 'peak' Warren after her Medicare for All proposal landed with a thud when the price tag was unveiled. He went on to say that a Trump v. Biden contest would be no match, and that 'Mayor Pete' sounds like the best of all the Democrats, without saying much at all. He drew laughs when he compared the whole Democratic primary process to a Game of Thrones episode.

Lots of Time

Trump behind in national 2020 polls

Head-to-head polls with leading Democratic candidates, based on RealClearPolitics polling averages

■ Trump ■ Democratic Candidate



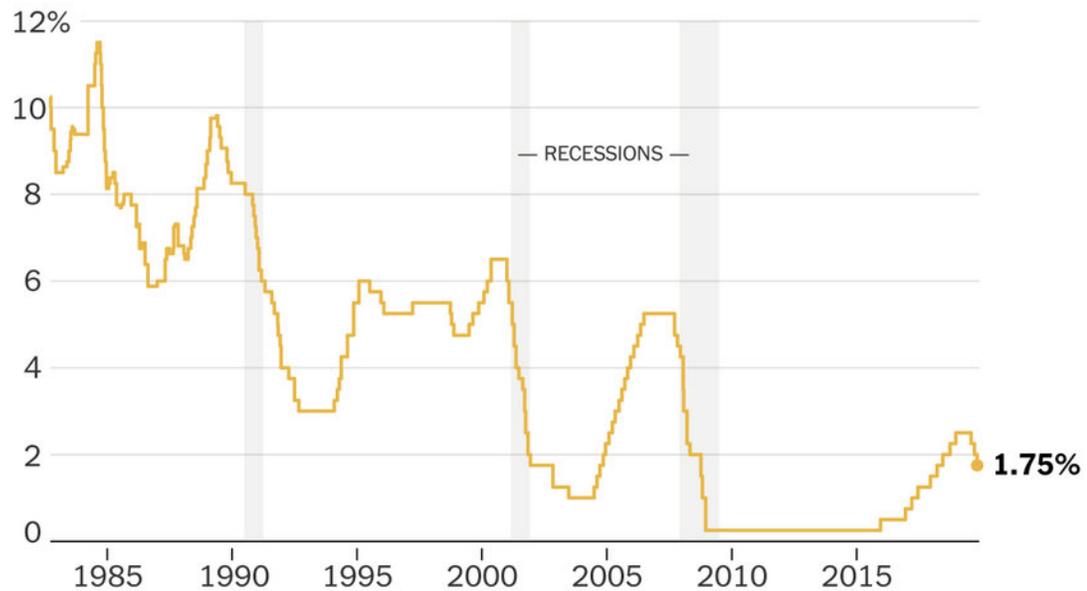
SOURCE: RealClearPolitics. Polls for Trump vs. Biden, Warren, and Sanders cover dates of 10/4-10/31. Polls for Trump vs. Buttigieg and Harris run from 10/15-10/31.



The last question of the day for Gundlach came from myself, and it centered around the decision by Chairman Powell and Fed to go right full rudder in January of this year and turn the rate hike boat square around. I asked him in the context of the impact this had on his firm's ability to probability forecast. As one might suspect, he wasn't thrilled with the abrupt nature of the 'pivot' on figuring things out, going so far as to call it 'shameless'. This is a point that we could not agree more with, at the same time acknowledging the rule there are no crybabies in the casino.

Three Cuts in 2019

Fed Funds Rate



Source: New York Times

Up and Down Wall Street

While we tend to be hard on the hedge fund industry, we do it out of 'love', and our hope is that we can find religion before the asset count takes an even greater hit. So, when we find those out there that 'get us', and want to see a healthy set of alternative investments, we draw as much attention to them as possible.

Long way of saying thank you to Bryan Payne, and the Teachers Retirement System of Illinois, for championing the cause. Watch his great interview with Bloomberg Markets to hear him [articulate the case](#).

More Than an Apple



The venerable management consulting firm, McKinsey and Company, did everyone in the asset management business a (painful) favor this week, by reminding us all how different our world is today from ten to twenty years ago. In their recently released paper 'Beyond the Rubicon', they deep dive on what got us here and what the plan for survival, as well as success, looks like. For practitioners and advisors, it's a piece well worth reading. Those of us practicing the craft, take note, we have two choices, evolve or become these guys....



Source: NDTV

Diversions

With Thanksgiving a short two weeks away, we wanted to get ahead of the curve and give you a few ways to ‘elevate’ this year’s feast. For starters, don’t be afraid to venture outside from your local grocer for your turkey, ham, or holiday roast. On the list of purveyors is [Greenberg Smoked Turkeys](#), [D’Artagnan Foods](#), [Harry & David](#), and the old over the top stand by, [Neiman-Marcus](#).

Gobble Gobble



Source: Greenberg Smoked Turkey

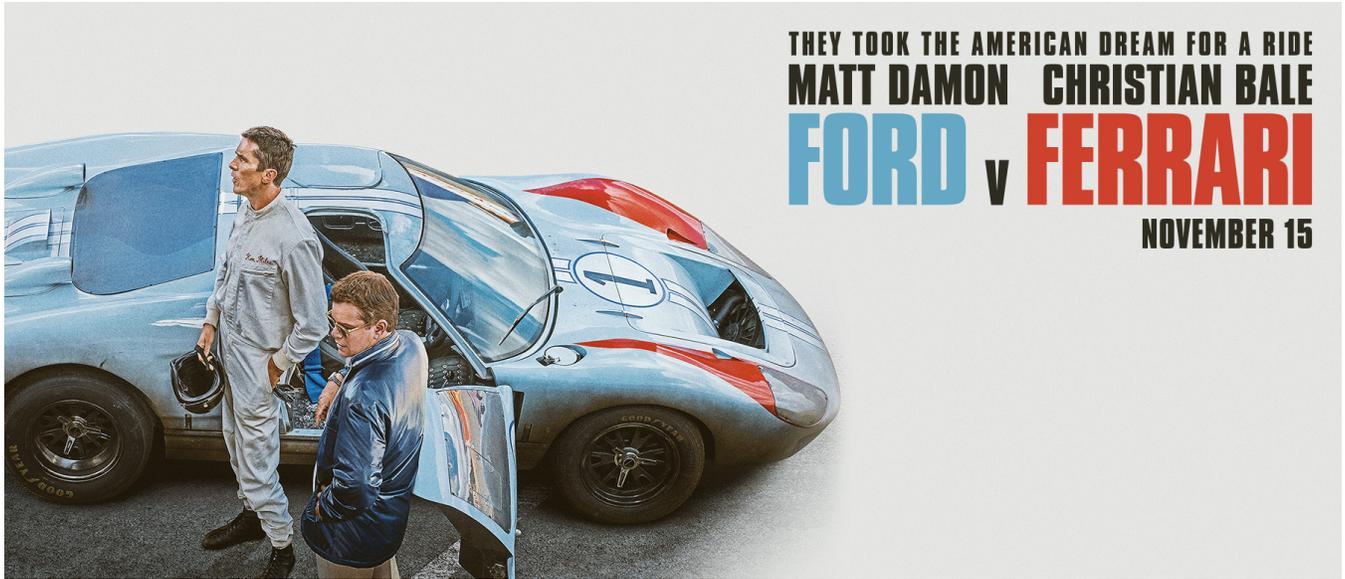
While some people love the complete tradition of being in the kitchen all day, we know that isn't for everyone. For those looking to go the complete other route there are the complete meal packages provided by the likes of [Blue Apron](#), [Hello Fresh](#), and [Williams-Sonoma](#). No judging here, because remember, this is your Thanksgiving too. Go out and make it your very own masterpiece.

Box-A-Gobble



Source: Hello Fresh

The new true to life car film, *Ford vs. Ferrari* has gotten a lot of attention along with great reviews. The film chronicles the buildup to the 1966 24 Hour Le Mans. In which, as you might have guessed, the Americans took down Italy for the first time in history.



The movie's success begs the question as to what other movies in the auto racing genre make the list as both notable and worth the two hours of your time. On the serious side of the ledger there is *Rush* and also Steve McQueen's *Le Mans*. Both of which rank high for those with a nose that appreciates the smell of engine grease, and a foot with a penchant for the floor.



On the flipside, are two films more in my genre of generating quotes to last a lifetime. First up is a 1981 epic, *Cannonball Run*. The film chronicles the coast to coast race involving every form of vehicle from Burt Reynold's ambulance to a Sammy Davis Jr. driven Ferrari, with his co-pilot being Dean Martin. The cast included Roger Moore, Terry Bradshaw, Farrah Fawcett, and Jackie Chan. To our Gen-x and Millennial readers, please do yourself a favor and find time to stream this one, soon.

Burt Reynolds Roger Moore

Farrah Fawcett Dom DeLuise

Dean Martin Sammy Davis, Jr. Adrienne Barbeau

Jamie Farr Terry Bradshaw Mel Tillis



*You'll root for them all...
but you'll never guess who wins.*

THE CANNONBALL RUN

GOLDEN HARVEST PRESENTS AN ALBERT S. RUDDY PRODUCTION • A HAL NEEDHAM FILM "THE CANNONBALL RUN"
Co-Starring JACKIE CHAN • MICHAEL HUI • Executive Producer RAYMOND CHOW • Produced by ALBERT S. RUDDY

PARENTAL GUIDANCE SUGGESTED
E MATERIAL MAY NOT BE SUITABLE FOR CHILDREN

Written by BROCK YATES • Directed by HAL NEEDHAM

Music Conducted by AL CAPPS

READ THE LEISURE PAPERBACK

"CANN

Which brings us to our final contribution, and that is the uber classic, Talladega Nights. The cast is led by one fast driving piece of American excellence, Ricky Bobby, played by Will Farrell. On the flipside is his arch nemesis, Formula One driver Jean Girard. The film concludes with them battling it out on the track, with a beautifully inspired run to the finish.

For me, the final scene is simply dessert to another full course feast that runs throughout. The scene most inspiring, and one that my immediate family will be replicating at this year's Thanksgiving weekend reunion, involves a whole boat load of things that aren't terribly good for you, and one epic toast by Mr. Bobby himself. Remember, if you ain't first, you're last.



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