

## 'Let Markets Be Markets'

Whether you categorize yourself as skeptically positive, a perma-bear, raging bull, cautiously negative, or have no party affiliation, this has got to be a frustrating and confusing time for most everyone, as the delta between the underlying economy and asset prices has never been wider. And with the Federal Reserve now creating a new 'moral hazard backstop', asset pricing will never be the same. For the sake of our credibility, what we ask for is that markets be allowed to be markets again, at least at some point.

### Price Discovery



## The Fed's Next Move

Last week we posted the commentary from Mohammad El-Erian, where he talked about how the Federal Reserve needs to be cognizant of the fact that the unintended consequences of their actions might be to create 'Zombie markets'. We agree, but want to use a different analogy, and compare it to participation awards handed out in tee-ball vs. World Series trophies earned in the major leagues.

### The 2009 Yankees



In the case of the former, every kid playing tee-ball gets the same award however good or bad they play. In our analogy, regardless of the fundamentals of a corporate bond right now, the Federal Reserve is going in and handing out participation awards in the form of direct purchases at levels above where the market might ordinarily be pricing the paper. So, who cares if little Timmy is no good, can't hit, and runs the bases backwards, he is going to get the same award as the kid who shows up, does the work, and hits the ball to the street.

Little Timmy



To the point we made in the intro, once the 2020 COVID inspired dumpster fire subsides, the Fed should take a deep look at itself and decide what it wants to be in the future. If the answer is the commissioner of the Southside YMCA Tee-Ball league, so be it. If instead, they declare that the market will decide who gets championship rings, and also who goes home empty handed, then we will get back to asset pricing that rewards good corporate behavior and actually punishes the bad.

Bad Man Ramirez



As a business that thrives when markets operate without intervention, our biggest concern is that the Fed's next target for asset purchases will be equity ETFs and individual stocks. If that's the case, you are going to want to get long the equivalent of the Bad News Bears as a team along with Tanner, Lupus, Ogilvie, Engelberg, and Kelly Leak individually.

## The Trippel B- Bears



## Politics

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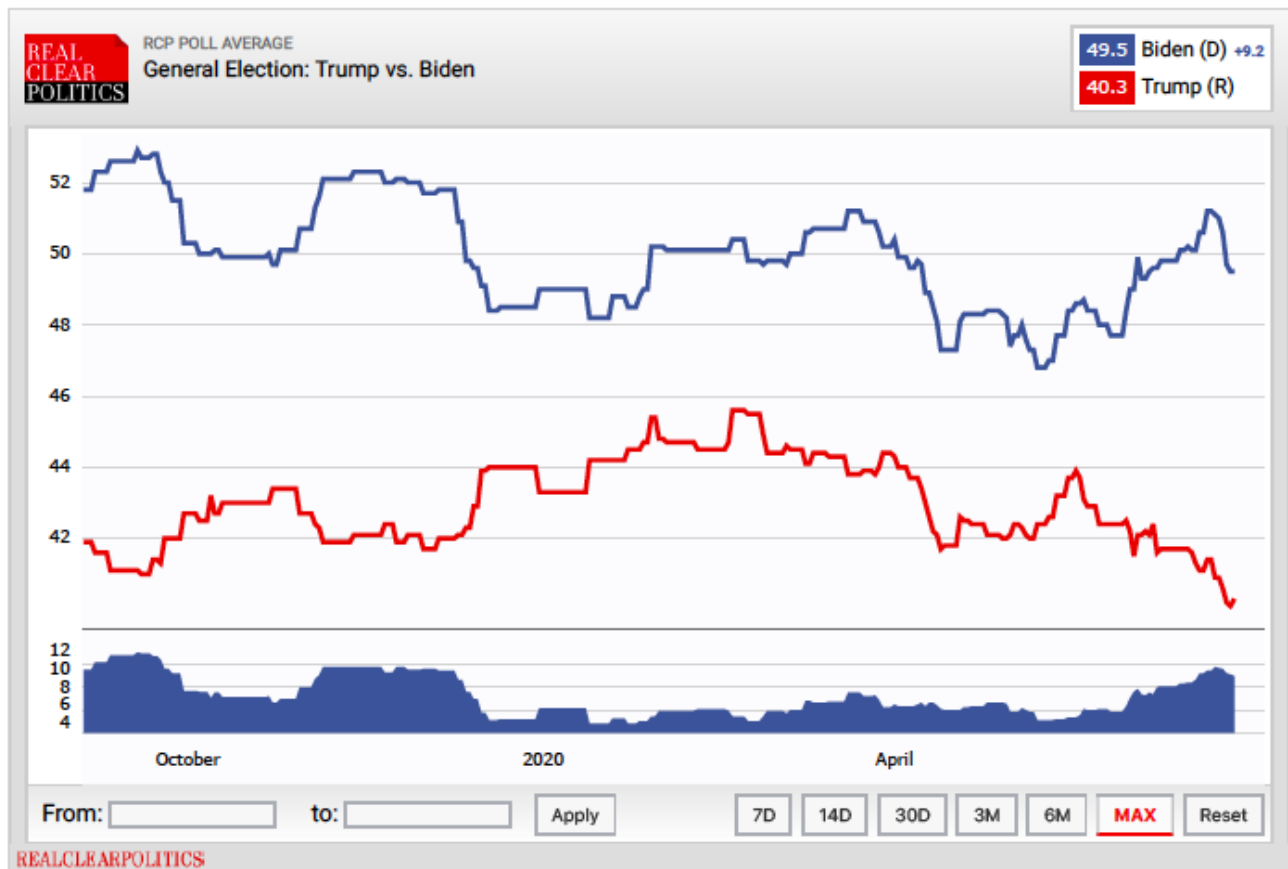
To say that the political backdrop today feels like the Theater of the Absurd is not only insulting to reputable Theaters of the Absurd, it's worse. While everyone gets to choose how to navigate this strange time in history, tuning it out as much as humanly possible has been our course of action. That's not to ignore the importance of the issues, but the ideological war is a hot one right now, and heroes who rush in are coming out heavily wounded. That leaves some of us longing for the days of yore, however far back that yore goes.

## A More Genteel Time



Back to the market moving subject at hand. With the campaign trail largely headed on a social media path with rare public events, it's tough to know if the polls showing former Vice President Joe Biden leading and headed to the White House next January are real. While the numbers below look promising for Biden, it's not the general election that matters. It's six states: Ohio, Michigan, Pennsylvania, Wisconsin, Florida, and Arizona.

## The Spread Widens



Contrast the general election polls right now with the stock market, and you get a very different story. Thanks in large part to a flood of liquidity from the Fed, equities are near their prior all-time highs. And as has been highly publicized, President Trump sees the S&P 500 as the only poll that matters to him, which in his mind means the electorate wants the status quo and will hand him the keys for four more years to 1600 Pennsylvania Avenue.

S&P 500



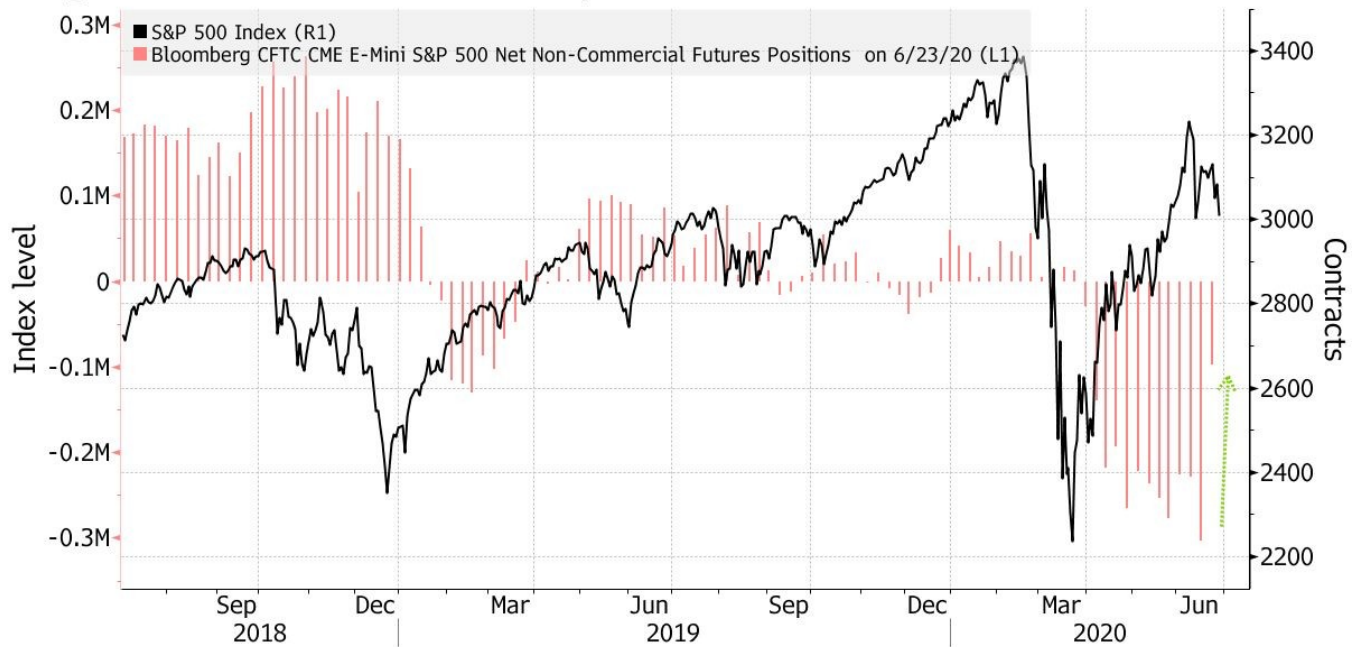
## Hedge Fund

Given the past few years less than stellar performance of most hedge funds, it should come as no surprise that those trying to hedge using S&P 500 futures are scrambling to cover and get out. This, after 'the most hated' 40% rally in stock market history, at least according to Bloomberg. That said, there have been winners this year among the many losers.

Whipsawed

## Cover Me

### Hedge funds have slashed net short positions in U.S. stocks

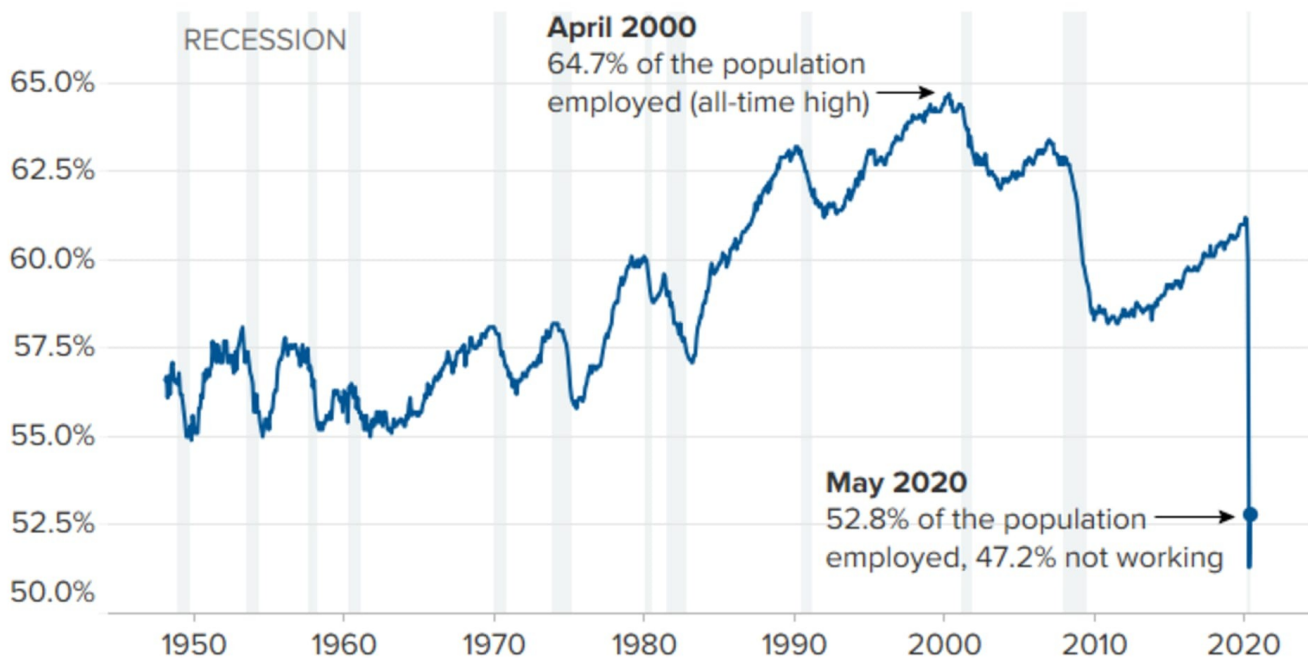


While two weeks does not make a trend, and we too are smarting from taking risk down in May, there is a sense of exhaustion to this rally and we aren't alone in that thinking. While we aren't complexly ignoring the rule not to fight the Fed, but with half of the adult population unemployed in the United States, can equity prices really be almost at new highs?

Riding the Negative Higher

## About half of U.S. population is jobless

Employment-population ratio since 1948



SOURCE: U.S. Bureau of Labor Statistics, Employment-Population Ratio, retrieved from FRED, Federal Reserve Bank of St. Louis. Data is seasonally adjusted. Adult population includes those 16+.



### Chesapeake Dirt Naps

On Sunday, the onetime king of natural gas and oil fracking, Chesapeake Energy, took the big dirt nap by filing for Chapter 11 bankruptcy protection. As part of the announcement, current CEO Doug Lawler disclosed some jaw dropping news on the price tag for egregious corporate spending on things like wine caves, ticket packages for the Oklahoma City Thunder, and a corporate campus designed after Duke University.

Chesapeake Blue Devils?



Much of this was the legacy of company founder, and former land man, Aubrey McClendon. While the energy industry has brought us some larger than life characters, perhaps nobody was larger than Aubrey. His death in 2016 in a single vehicle car accident brought closure to some of his personal demons, but opened up a Pandora's Box of others. Texas Monthly wrote a lengthy piece about his rise and fall shortly after his death in March of that year.

Better Days



### Fourth of July Diversions

Since this year is going to be a strange one in terms of what you can and can't do outside, we are offering up our A list of movies to be taken in this week. Town & Country did us the favor of teeing up nineteen of their own, of which we agree on many. Included in that list are Glory, The Longest Day, Top Gun, and Jaws, to name a few. Business Insider did the same, only in a slightly more irreverent way. Talladega Nights...really?

Mitchum, Fonda, Wayne



THE  
LONGEST DAY

The biggest name for the coming weekend will most certainly be the release of the recorded version of Hamilton, debuting on Disney+ on Friday. Business Insider gives you the look at what to expect, and how to order up the service ahead of time.

## Hamilton



Another film that is great for this time in history is Remember the Titans, a true story about high school football in Alexandria, Virginia at a time when student bussing was a hot button issue. Plus, the film gave us one of the all-time great life quotes, and that is to 'leave no doubt' in whatever it is you want to accomplish.

## Coaches Yost & Boone



Second year in a row that Patriot makes the list, and I can't see it ever falling off. As the title suggests, this is a movie based on the American Revolutionary War and stars Australian Mel Gibson, ironically. While there is dramatic license taken with some aspects of the film, this is Hollywood after all, the battle scenes are probably the best re-enactments you are ever going to see. While it can be a little rough around the violent edges at times, it's still worth the time and emotional commitment.

## The Patriot



That's what we have for you this week. Enjoy the Fourth of July, and all that goes with it this year. Remember what got us here as a country and think positively about where we are going. While it may not feel like it at times right now, we've most certainly 'got this'.

The Newly Sworn



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