

This weekend Stillwater introduces the first edition of our newest work, 'Mid Current'. So named because someplace out in the middle of a current of water is where the bigger, smarter, and fatter fish like to hole up. While 'This Week in the Markets' is a quicker whip around the world of finance, if we are doing our job right, Mid Current will take you out deeper to where the bigger ideas live.



One of the world's all-time greatest traders, whose name belongs in the hedge fund hall of fame, provided us the assist to get us started off. The man in question is no other than Stan Drukenmiller, the onetime head trader for George Soros. If you don't think Stan is worth listening, do so at your own peril as he put up an average return of 30% from 1981 until he handed back investors their money in 2010. And in case you hadn't heard, he also never had a losing year.

Drukenmiller and Soros



## Stan Sees It Too

The reason Stan leads us off is that he made an appearance last month on CNBC in the wee early morning out west (5:30 am), but it was well worth being awake for as he spoke the closest thing to the truth that we have heard out of anybody recently. The punchline was the Fed is totally out of sync with reality and they are throwing too much jet fuel on the fire just to get 20 more basis points of inflation out of the economy. While they may have been right in doing it when the global economy was looking into abyss, the circumstances have changed, but Federal Reserve policy hasn't.

From Bad, to (Really) Good

# OUR PANDEMIC YEAR—A COVID-19 TIMELINE

On March 11, the WHO declared COVID-19 a pandemic. Here is a look back at a year in disruption.

## A MYSTERIOUS NEW ILLNESS

Images appear of Wuhan in lockdown, where officials attempt to contain a mysterious virus. Soon after, new cases and deaths related to (what's later named) COVID-19 surge in Europe.

## THE WORLD SHUTS DOWN

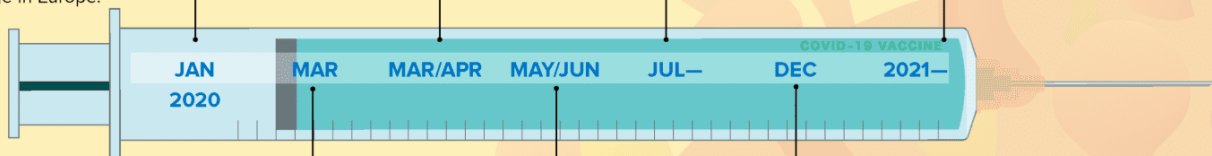
Countries seal borders; sports teams cancel seasons; schools close and employees go home. People start wearing masks and "social distancing."

## UPTICK IN MENTAL HEALTH ISSUES

People struggle as continued unemployment and/or working from home without childcare/school takes its toll. U.S. break records for daily cases/deaths.

## LIGHT AT THE END OF THE TUNNEL?

2021 begins with a race to vaccinate. Cases and deaths begin to fall. But the variants are still a threat, vaccine rollout is uneven, and we are still wearing masks.



## THE VIRUS SPREADS, CASES MULTIPLY

The Grand Princess cruise ship, docked outside of San Fran, has passengers with COVID-19; Bay Area is first in the U.S. to announce shelter-in-place orders; hospitals become overwhelmed as cases grow; there is a nationwide shortage of PPE.

## FLATTENING THE CURVE—FOR A WHILE

After "flattening the curve," cases begin to skyrocket again as states "reopen" in different phases. Researchers continue to race to identify treatments and make vaccines.

## NEW HOPE, NEW MUTATIONS

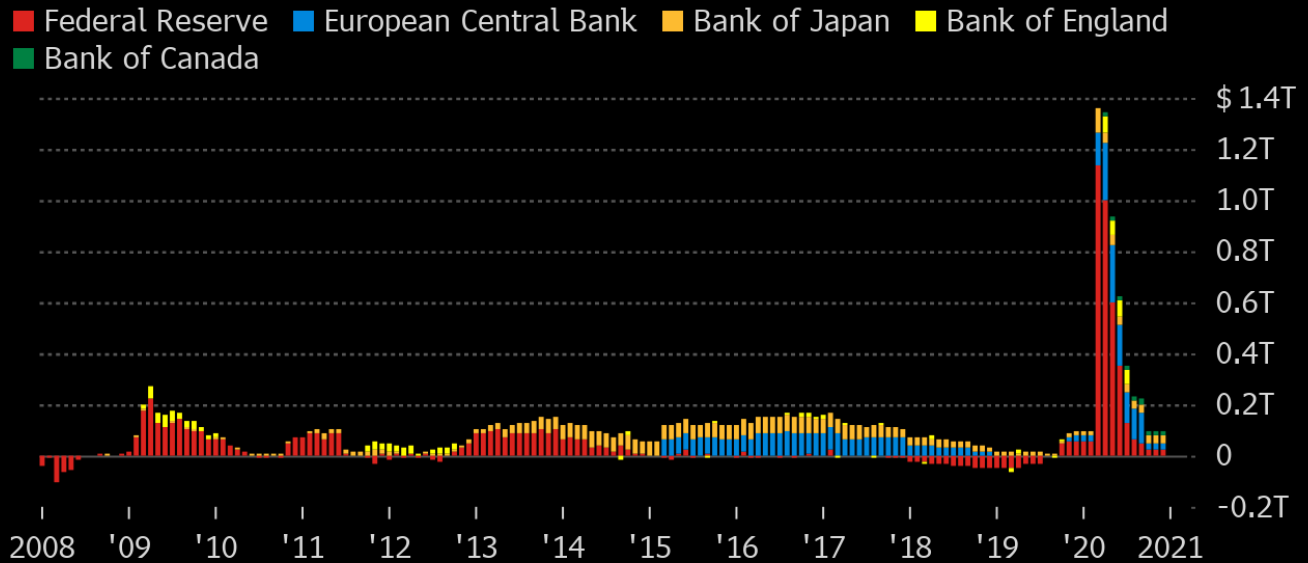
The FDA authorizes two vaccines. Major variants begin to circulate, some of which might impact the effectiveness of vaccines.

A couple of points to be made on policy decision at the Federal Reserve, first, they went BIG! Like beyond the scope of comprehension from everything we've known previously. As Drukenmiller points out, in six weeks during the spring of 2020, the Fed did more asset purchases than they did during all of the global financial crisis. Powell basically solved for a black hole, but it never showed up, and yet the purchasing plan continues. Looser for longer, sure, but to what end?

That's \$41 Billion a Day!

## Quantitative Easing

Net asset purchases for G-7 central banks approached \$1.4 trillion in March



Source: Bloomberg Economics

**Bloomberg**

Another point Stan makes, and it's a very good one in terms of asking what the Fed is thinking at this point, is retail sales are not only back, but they are also now way above trend line. Keep in mind, when you look at the chart notice that it took several years after the global financial crisis for things to get back to normal. Here we are talking about months. And while travel getting put on hold might explain some of this, it doesn't explain all of it.

A \$200 Billion Swing



# Fueled by Stimulus Checks, U.S. Retail Sales Soar

Monthly retail and food services sales in the United States (seasonally adjusted)



\* March 2021 figure represents an advance estimate based on a subsample of the Census Bureau's full retail and food services sample

Source: U.S. Census Bureau



statista

And if you think this is a painless recovery, you are wrong. The pain being felt now is in the pinch consumers are feeling for the prices they are paying for goods, services, and assets. Last week, for the first time in my life, I put down a tri-tip I was about to buy because it was \$10 more than the last time I looked. Seriously? A simple steak with three corners had gone from \$20 to \$30 in the blink of an eye. Thanks a lot, Jerome Powell, you just killed BBQ season.

## Pour One Out



Right now, a little over a year into this, it's free lunch for everyone. Seven days a week, twice on Sunday, and every day that end in 'y' for that matter. Problem is, somebody at some point needs to pay the bill. And the reality is that when it comes due, the people who benefited the most will likely be long gone. As Drukenmiller points out, this situation is not good, will likely get much worse and will probably cost the U.S. dollar the right to be called the world's reserve currency. Bottom line, even if a relatively good case pans out, the United States will be running at a high level of debt relative to GDP for decades.

"Hey buddy, can I borrow a dime?"

## THE CORONAVIRUS DEFICITS WILL DWARF THE “GREAT RECESSION” AND RIVAL WORLD WAR II DEFICITS

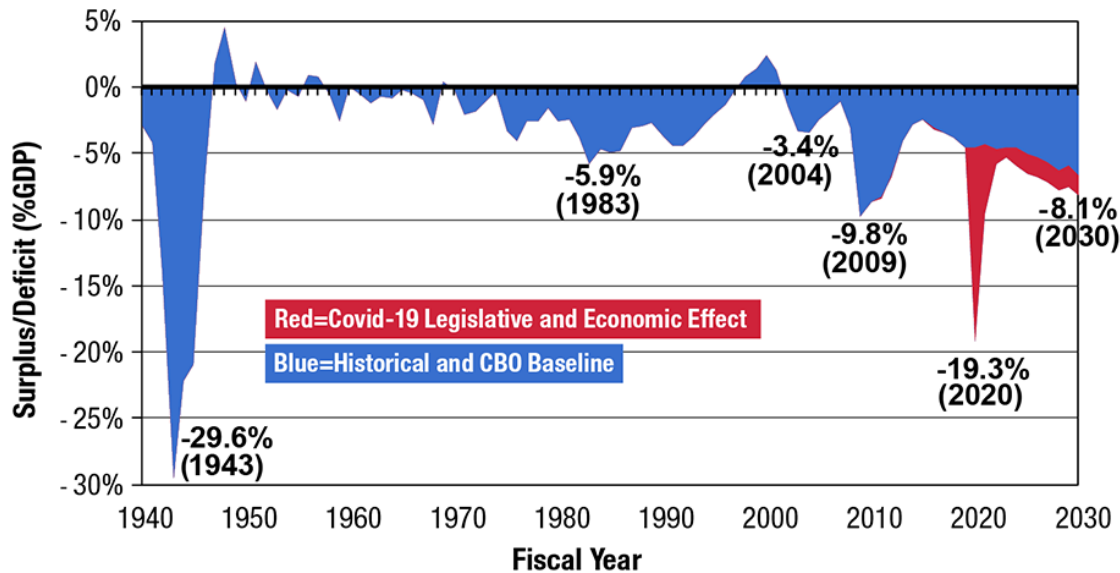


Chart: Manhattan Institute / Estimated using Jan. 2020 CBO baseline and historical data,  
CBO bill scores, and author estimates of economic costs as of April 2020.  
By Brian Riedl, Manhattan Institute (@Brian\_Riedl)

Quick digression, the interview Stan gave on CNBC was on the same week as when his opinion piece, *“The Fed is Playing With Fire”*, about the Fed being out of synch ran in the *Wall Street Journal*. Hopefully you aren’t out of ‘free’ reads yet this month and can enjoy the content free of charge. It’s well worth the quick read. He makes the same points as he did on television, and the punchline remains the same.

*“With its narrow focus on inflation expectations, the Fed seems to be fighting the last battle. Just because the Fed hasn’t faced big trade-offs in recent decades doesn’t mean trade-offs aren’t coming or that they no longer exist. Chairman Jerome Powell needs to recognize the likelihood of future political pressures on the Fed and stop enabling fiscal and market excesses. The long-term risks from asset bubbles and fiscal dominance dwarf the short-term risk of putting the brakes on a booming economy in 2022.”*

To bring this full circle, and back to the idea of laying your line out in the Mid Current, let’s look at the question of what we are looking at here. For starters, the mid current of the liquidity river got about ten times as wide as it’s ever been. It’s a great metaphor for what we have seen in the past eighteen months. The middle of the river is usually tough to get to, and



to find some willing *Salmo Trutta* even harder. But this time the middle of the river has come to you, and the 24 to 28 inch brown trout are swimming into your hand. And we don't think that's too much of an exaggeration.

## TroutCoin



Where does that leave us? Without sounding too much like the hyperbolic Bill Walton, we are in one of the greatest asset bubbles the world has ever known. Period. Hard stop. The Fed has turned on an 'all gas, no brakes' policy that is going to leave a serious mark in terms



of letting free markets decide the course of risk and reward. We are now living in a world where the 'break glass' program is the norm.

Forever Broken



Before we get to how we make money in future, let's review. In the span of a little over a year I would be retired and flying private if I....

- 1) Backed up the truck and loaded it with every piece of junk bond paper I could find.

'One Man's Junk...'

## US Junk Bond Yields Hit Record Low

### ICE BofA US High Yield Index



Source: St. Louis Fed, Ice Data Indices

WOLFSTREET.com

- 2) Speculated in a digital currency that quite literally has no intrinsic value whatsoever, but the kids seem to like trading it.

DogeCoin



- 3) Quit a theoretical job working for Warren Buffet at Berkshire and begged Cathie Wood to hire me.

Wood-Stocks





- 4) Bailed on the uber glamorous world of hedge funds and hung my shingle as a 'lowly' residential real estate broker.

Stan Lo = Legend!!

# PACIFICA

MARKET DATA RESEARCH | Q3 2017 vs Q3 2018

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- 5) Sold every relatively high quality, dividend paying stock, of companies that have been around for decades, and would never go out of business because of balance sheet strength and bought a basket of 'meme' stocks. Whatever the hell that means!

## Meme-A-Palooza



- 6) Owned 'Hometown Deli' in Paulsboro, New Jersey, which by way of a shell company structure is valued at \$100,000 million on \$20,000 in average annual sales.

## Smoked Turkey, No Mayo





- 7) Been a Special Purpose Acquisition Corporation (SPAC) banker or had a company that I could have rolled into one.

Twelve Years In One

# TRACKING SPAC IPOs IN THE U.S. SINCE 2005

2020 has been a big year for SPAC IPOs in America. 248 new “blank check” companies have gone public, an increase of more than 300% compared to 2019.

AVERAGE IPO SIZE

\$350M

# OF SPAC IPOs → 248

\$300M

\$250M

\$200M

\$150M

\$100M

\$50M

\$0

## WHAT ARE SPACS?

Special Purpose Acquisition Companies (SPACs) are shell companies created specifically to raise capital, with the intent to buy a private organization and turn it public. It's a way to bypass the traditional IPO process.



2007 was a big year for SPACs, before the global financial crisis hit.

In 2020, SPACs have raised over \$82 billion in capital—more money than the past 10 years combined.

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

28 37 66 17 1 7 16 9 10 12 20 13 34 46 59 248

Figures as of Dec 30 2020  
Source: SPAC Data, SPAC Insider



- 8) Anything else besides being a prudent manager of other people's assets in alternative equity structures designed to produce lower volatility returns over the long term, especially when the world is confronted with horrible things like a global pandemic.

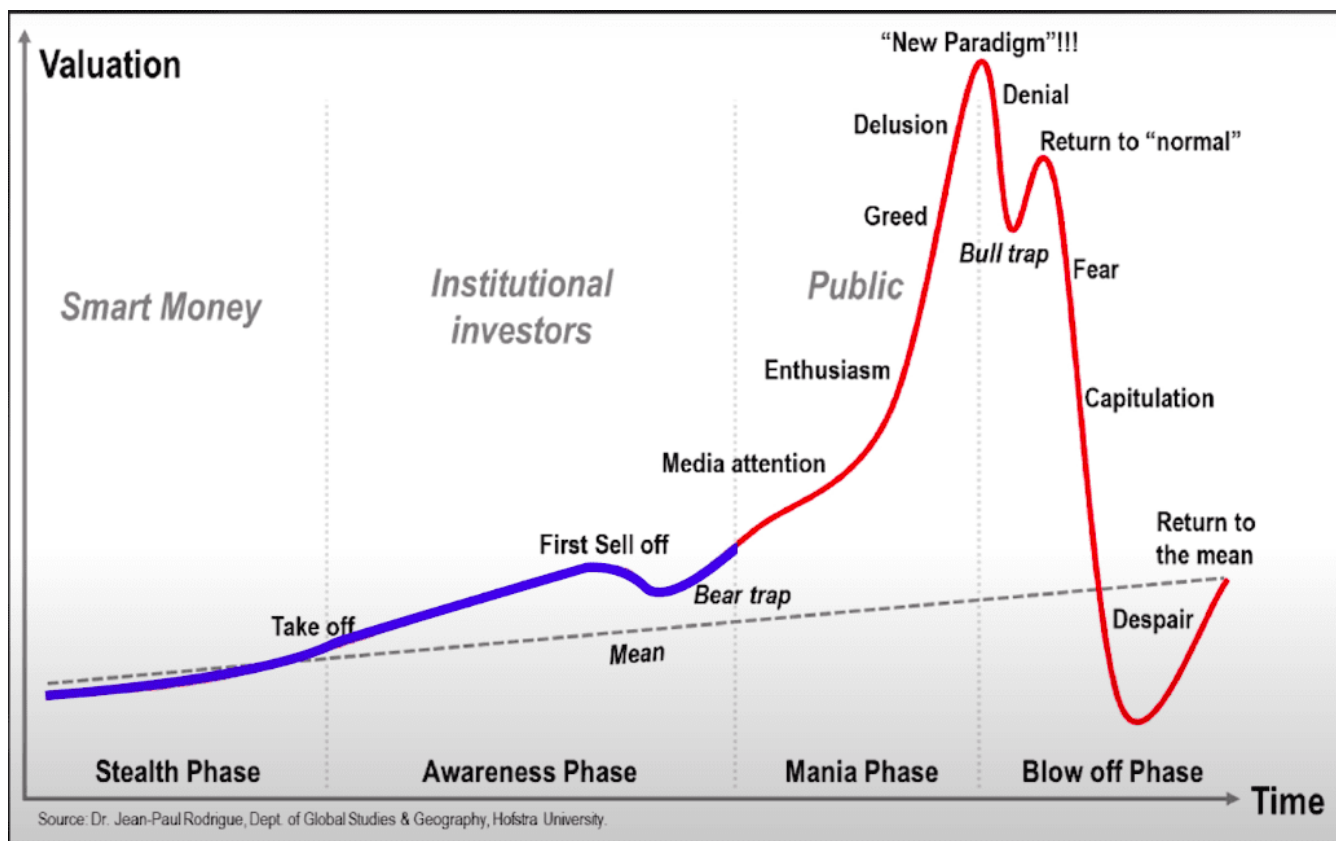
Worldwide Reach



So where does that leave us, and what are we to do. For starters, let's be clear as the day is long, we are in what can only be described as one, if not the, greatest asset bubble in history. No clue if it's the third, sixth, or ninth inning, but we would wager on it being late innings. Could be wrong, as we have been before. But this feels to us like the mania phase.

New Paradigms...Across the Board





When it ends, and it will, there is a decent chance we enter into a Japan style market that does little but go sideways to down over the next several years. The timing would match up with an aging baby boomer population that is entering the draw down phase of retirement, matched by some really strong headwinds for the generation entering their 30s and 40s.

Historic Repeat?



With that, we wish everyone happy hunting out there. Whether it be for houses, SPACs, digital coins based on dogs, meme stocks, or rational central bank behavior given a changed set of circumstances, we hope you find it.

Open for business as always, Stillwater will keep grinding it out, looking for opportunities on both sides of the ledger. Or at the very least our own *salmo trutta*, hanging out in mid current waters.

‘Coming for you...again!’



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