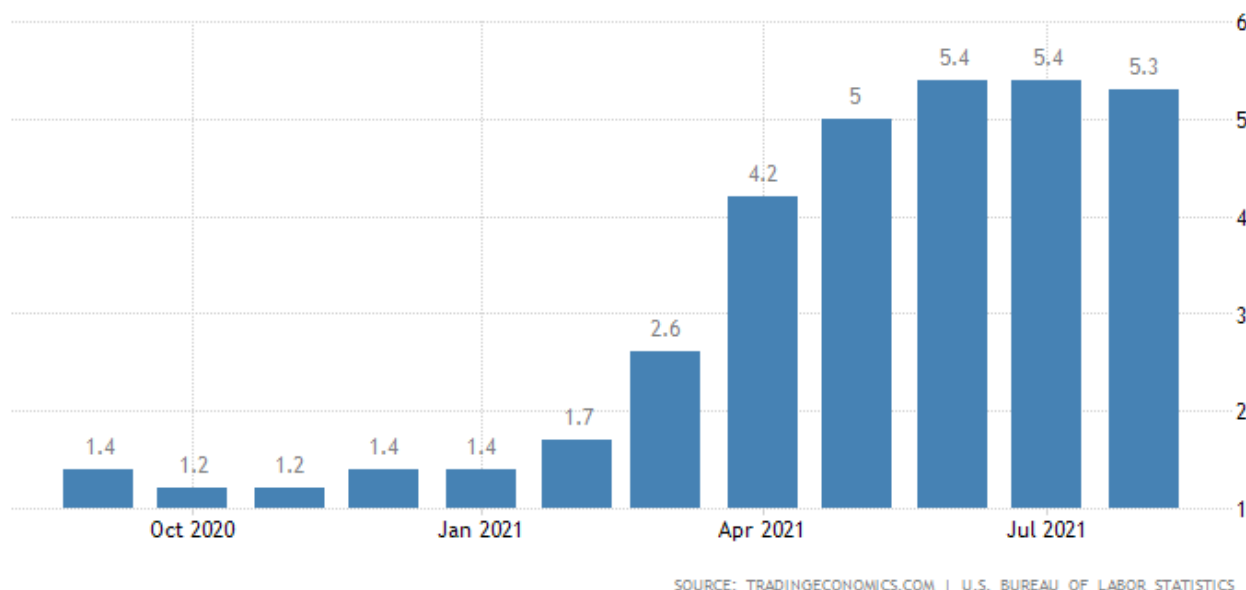


This week...

Another quiet week overall from the top-down. That said, what we are getting is important as the September consumer and producer price report on Wednesday and Thursday will tell us a lot about the spike we are seeing in what we are paying. While Goldman Sachs and JP Morgan are saying fade the headlines and be a better buyer, we are taking the other side and join the other guys with pointy economic hats who think stagflation is going to be with us for longer than anticipated. And its not just here, Europe has the same problem.



Commodities have been on an absolute tear this year with crude oil and natural gas leading the way. From the Light Sweet to Saudi Sour, you can't get away from the news that fermented fossils are up, way up. Europe in particular is getting pounded with price increases.



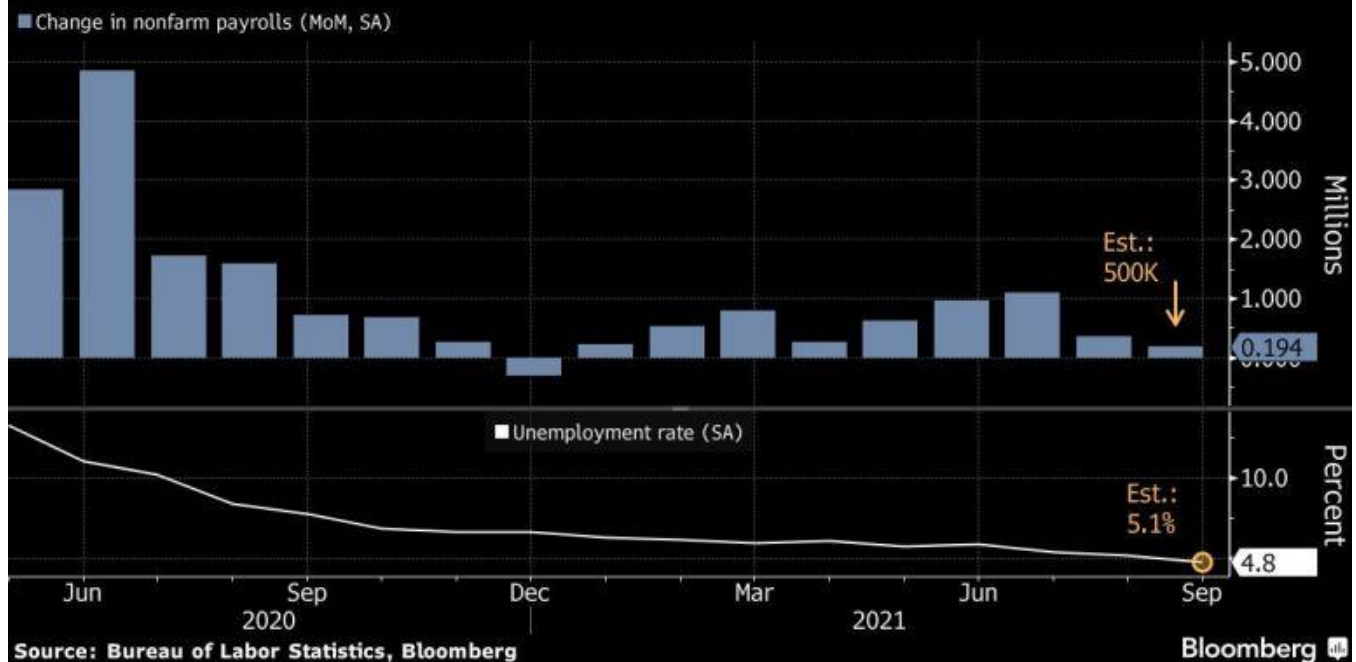
Prices for gasoline are hitting five-year highs in places like California. And keep in mind, that hits the guy mowing lawns and the guy printing money on Sand Hill Road. While the bourgeoisie is more insulated, the proletariat is taking it in the hind quarters.



The much-anticipated September employment report came in well below expectations as only 194,000 new jobs were added to the economy. Consensus was around 500,000 and this new news has market watchers re-thinking the call that the Fed is behind the curve when it comes to tapering its bond purchase program.

Below Forecast

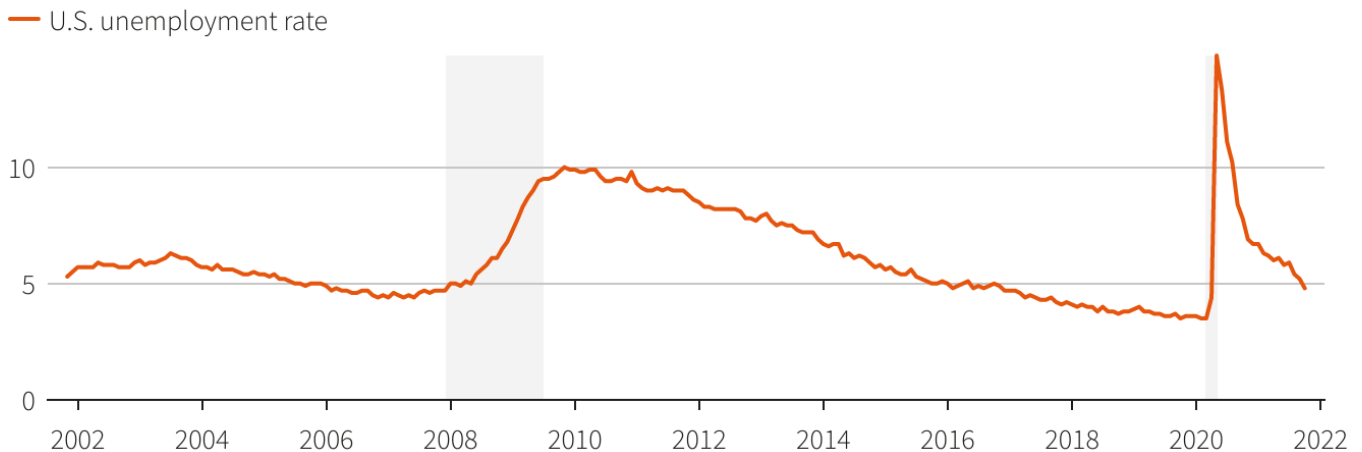
U.S. economy added just 194,000 workers in September as the jobless rate declined



But still big picture, at 4.8% the unemployment rate is inching towards where it stood pre covid. A loss in government jobs skewed the number lower while leisure and hospitality continued to recover. As is the case across the restaurant industry, its getting tougher and tougher to fill jobs and employers are being forced to juice the pot in terms of pay to get people back in the line or on the floor.

U.S. unemployment rate drops in September

The jobless rate fell to 4.8% in September and is now a full 10 percentage points below its peak in April 2020. The unemployment rate has fallen far faster after this recession than the previous one. It is already where most Federal Reserve officials had estimated it would be at the end of the year.



Note: Shaded areas are recessions

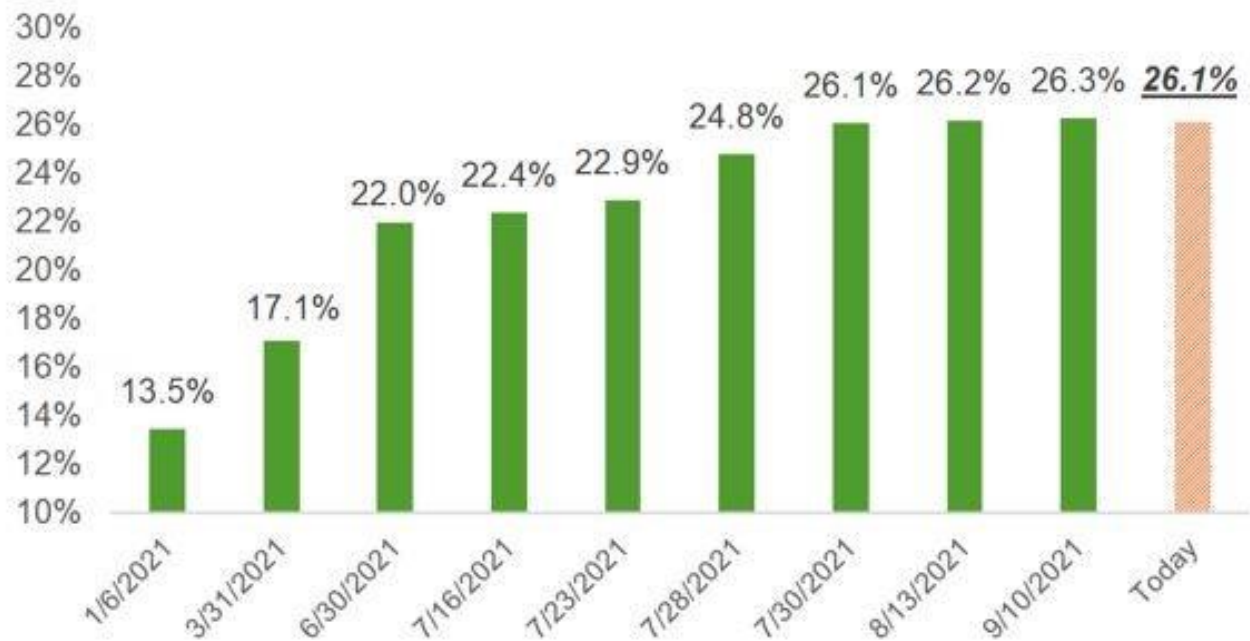
Source: Bureau of Labor Statistics

Earnings results for the third quarter start to come in later this week with and it's a huge week for financials. Here is the non-exclusive list of the banks we know that are set to report: JP Morgan, Bank of America, Wells Fargo, PNC Financial, Goldman Sachs, Morgan Stanley, Citigroup, and U.S. Bancorp. And that's a lot of dough to check in on.



Expectations are still running high with a robust 25% increase on the table for the S&P 500. And to be clear, that is not a small number by any stretch of the imagination.

Evolution of 2021 Q3 Earnings Growth Estimates



Source: Zacks Investment Research Inc.

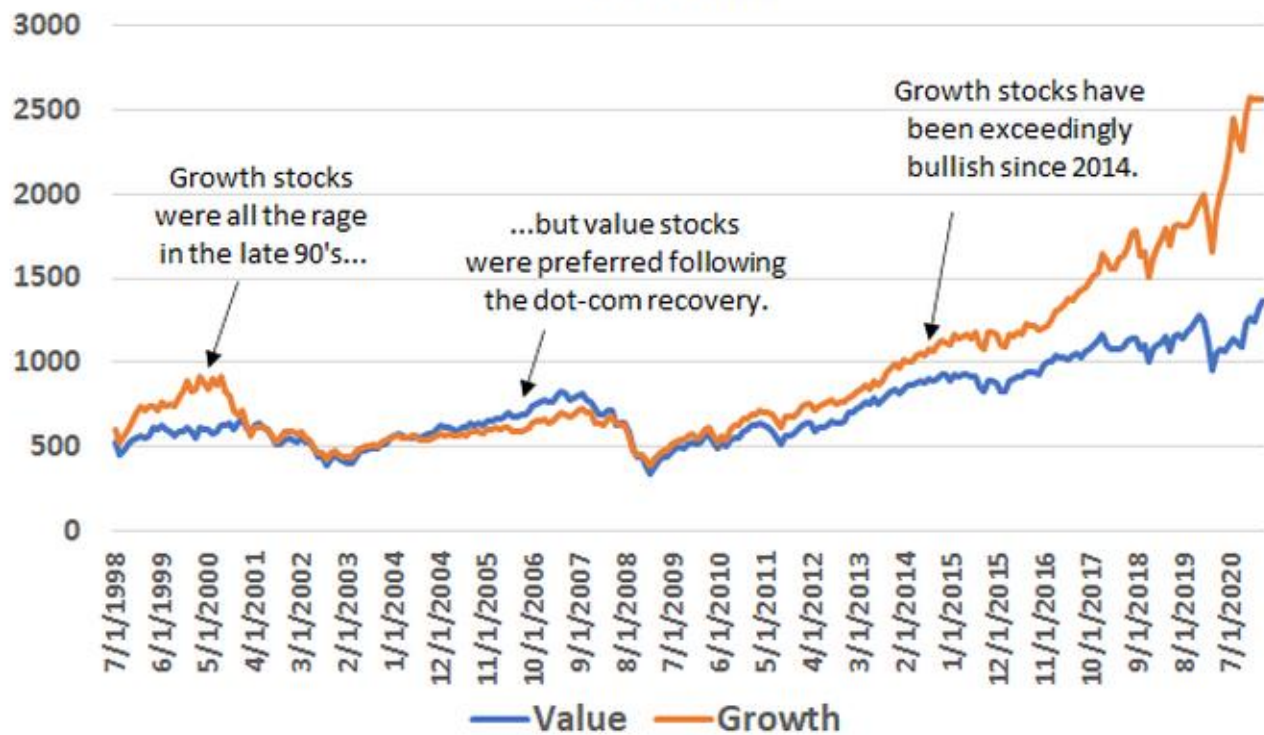
As longtime watchers of the health of the income statement, it's not lost us that the outlook for margins is looking strong for the next couple of years. So while it pains us as to how expensive stocks are these days, there are decent reasons to think they can grow into valuation over time.



Source: Zacks Investment Research, Inc.

In terms of recent stock market action, a subtle change is happening under the surface as higher interest rates are starting to take a toll on relatively expensive growth sectors. For all you chart geeks out there, present company included, check out Yardeni's recently updated ['Style Guide'](#) that will give you all the granular details on the subject you will need.

S&P Barra Value Index vs. S&P Barra Growth Index 1998 - 2021



Front and center in the growth versus value firefight is Cathy Woods' ARK funds. She undoubtedly not only hit it out of the park last year with a 150% return, she hit it out of the planet. But on Wall Street it's easy come, easy go as they say. The flagship fund is now down north of 10% on the year and saw \$2 billion in outflows in the third quarter, its biggest draw on record.



Earlier this year, the Big Short, Michael Burry took a shot at her funds buying put contracts on the largest ARK ETF. At the time Cathy defended herself by saying this is nothing like 1999. That is yet to be seen, but for sure is being heard. For us what we know is this, for every right tail two sigma event, there is usually a left tail out there of the same or similar magnitude.



This brings us to the growth stock de jour, Facebook. After a very hard-hitting Wall Street Journal report, the [Facebook Files](#), that found evidence of what we already knew, that is the company's business development practices key in on the vulnerable. In this case it was adolescent teen girls with a frontal lobe filled with the fear of missing out on things that are cool, notably a stellar young adult figure. The company owns the Insta, and that's the key culprit. Hell, we know adults who fall prey to the same FOMO.



Oh, and don't forget the regulatory antitrust risk. All of this leads us to the belief that while the stock has a healthy membership in the exclusive FANG club, we think the business practices are gross and disgusting and Mark Zuckerberg pays false homage to the damaging wake it casts. Feel free to put this statement from 'Zuck' in the bullshit files of life.

"I wanted to reflect on the public debate we're in. I'm sure many of you have found the recent coverage hard to read because it just doesn't reflect the company we know. We care deeply about issues like safety, well-being and mental health. It's difficult to see coverage that misrepresents our work and our motives. At the most basic level, I think most of us just don't recognize the false picture of the company that is being painted."

All this leads to our assertion that what is good for the company is not good for the mental health of a lot of people. For this reason, and the antitrust risk, we think it's a short and plan to have it on that side of the ledger when our version of ESG Fundamental Long/Short gets launched later this year. Because if placing positive bets on companies with great social and governance practices is good, shooting against bad actors is even better. Don't take our word for it, take Barclays.



Rounding out the week, and giving you something to look forward to, at least if you are a Grateful Dead fan, is the Sotheby's 'From the Vault' auction.

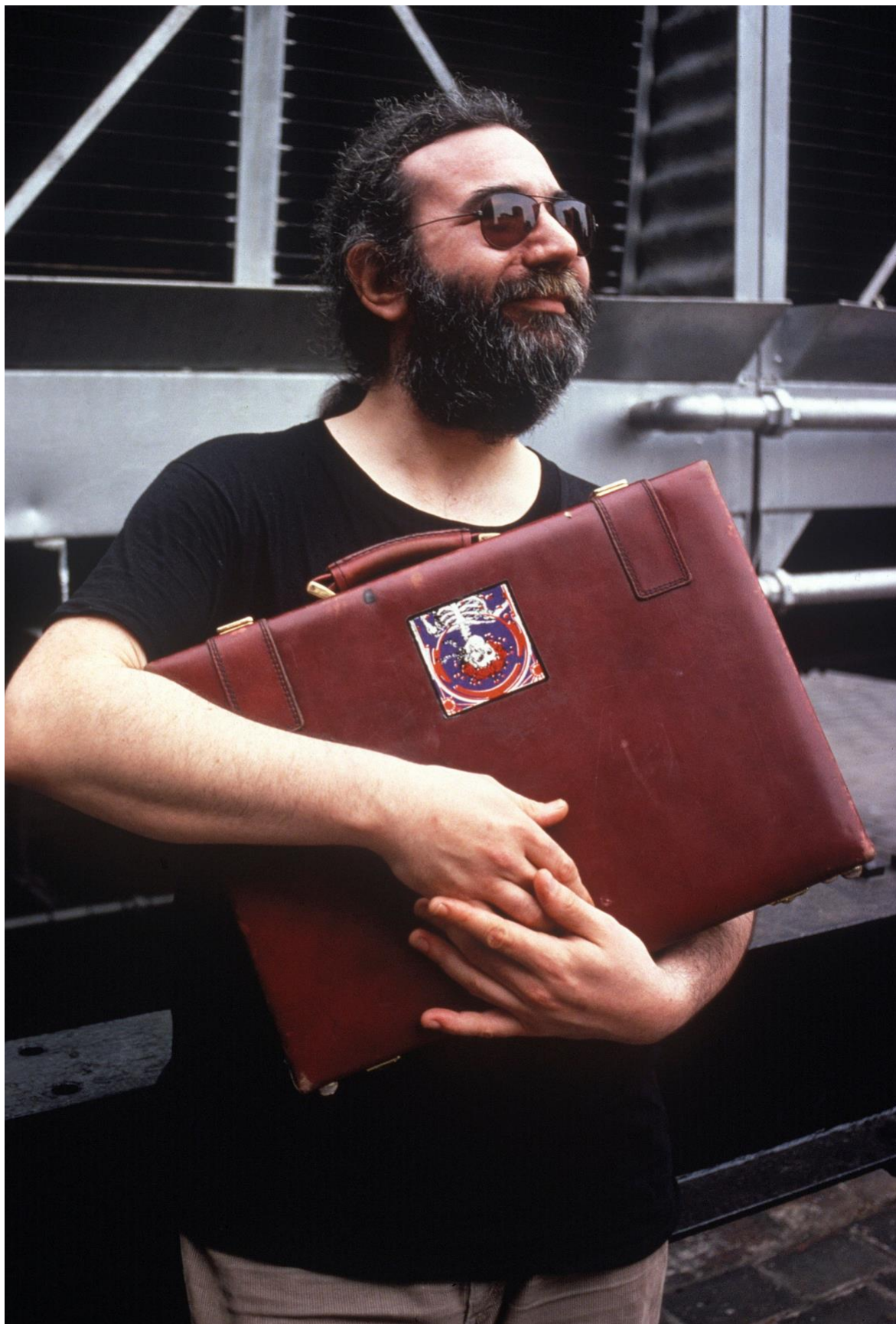
Sotheby's



But if you plan on bidding, you better bring tour checkbook or no-limit Amex as items are already being bid up well above the anticipated range. We are talking everything from Jerry Garcia's pants to the bands acid making kit.



Auction ends on the 14th and as they say in the business, bid early and bid often. In Jerry we trust, my friends. Because life is indeed a long strange trip with plenty of great stops along the way.



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