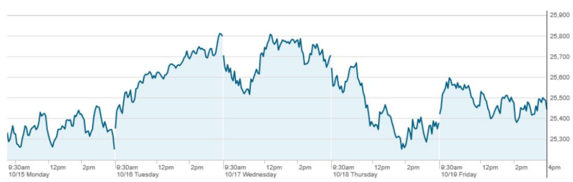
Tom McIntyre's Weekly Commentary & Outlook

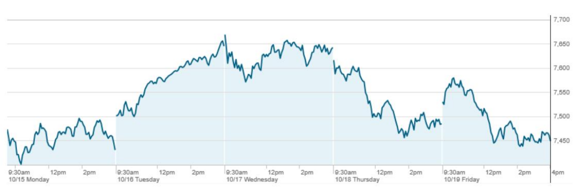
McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday October 22, 2018.

After daily swings up and down the Dow Jones Industrial Average gained just .4% last week while the NASDAQ Composite moved lower by .6% (see charts below). Concerns ranged from Italy to the outlook for the global economy and everything in between.



Dow 5-day



Nasdaq 5-day

Markets & Economy

We are seeing daily gyrations in the stock market as concerns seem to have replaced optimism about the future. This being October though, is when these sorts of things happen frequently. While the earnings season is now in full swing and results are coming in well (see our comments below on various holdings) the macro concerns over higher interest rates and other matters is dominating day by day psychology. In other words, the market has become a little emotional, once again, in October.

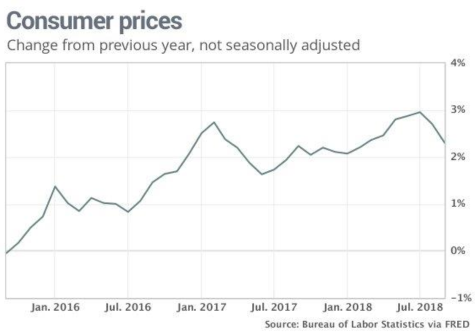
The recent jobs report was weak while the previous reports were revised to show even more strength. The official unemployment rate of 3.7% is being used by the Fed as justification for continuing to implement ever higher interest rates. This preposterous policy has finally drawn direct criticism from President Trump. While many donõt like him to say so, I feel it is fair game. The Fed is determined to engineer an economic slowdown and should be called out for it. Their stated inflation targets have not been achieved and the unemployment rate belies the fact that nearly 95 MILLION working age people in this country are not counted as being in the labor force.

In other words that 3.7%, while impressive, needs to be balanced by reality.

Recently, this concern has been focused by two very weak retail sales reports (see chart below). The September report showed the worst performance for restaurants since September of 2001. Perhaps it was the hurricane, but it is hardly an indication of a strong consumer.

In addition, the inflation numbers are rolling over. See the next chart which shows this. Remember, the Fed has been supposedly worried about the strong consumer driving up prices and thus the need for higher rates. This thinking is so 1970õs but then again so is the conventional thinking which dominates the Fed.

It is correct for the president to call them out as he is doing his level-best to grow the economy, not to micro-manage it. The Fed needs to be independent but that does not mean not accountable. They have a terrible record of forecasting and have played a large part in economic cycles of the past. In other words, it is time for them to stop and evaluate what is going on before keeping this auto pilot policy of raising interest rates every two months.

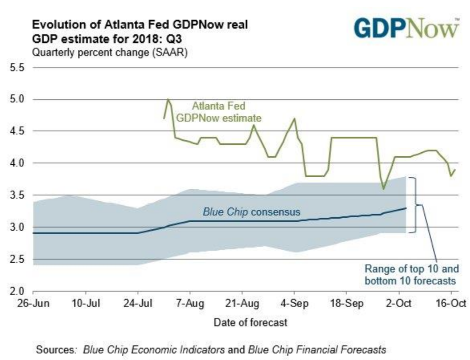


Further evidence of this is in the auto and housing sectors. Month after month there is disappointment with their results. This is what higher rates have wrought.

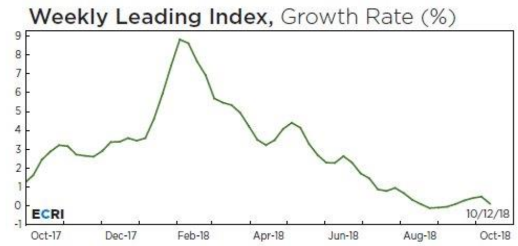
What to Expect This Week

Earnings season will continue forth. We are doing well on that score. While the market is volatile during the month of October due to various technical selling pressures, this will soon end. This will be followed by what is usually a year-end rally. Of course, we need to evaluate the results of the mid-term elections before we can get there. This is another reason the next couple of weeks will be choppy for the financial markets.

The chart below by the Atlanta Fed still estimates 3rd quarter growth of nearly 4%. While still too optimistic it nevertheless says that stocks will recover unless the Fed induces a recession. Of course, the Fed thinks they are saving the economy from getting too strong. As you can see, someone needs to be corrected.

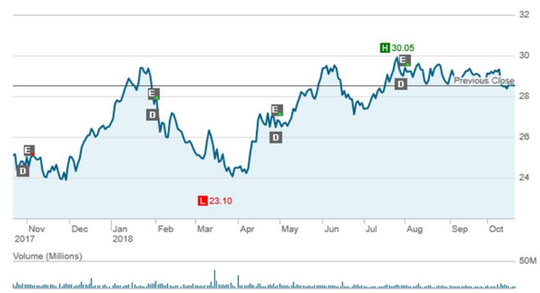


Finally, the update from the ECRI index of leading economic indicators shows nothing of a boom on the horizon. Just another indication, along with falling commodity prices, that the Fed should pause. That would be the signal for a strong rally to end the year.



Company News

Enterprise Products



EPD one-year

ENTERPRISE PRODUCTS PARTNERS (*EPD*) is raising its quarterly cash distribution once again. The board of directors at **EPD** approved raising the payout a quarter percent, to $0.4325 per common unit, or $1.73 per unit on an annualized basis. The new distribution represents a 2.4 percent increase over the distribution declared from one year ago. This makes it 57 CONSECUTIVE QUARTERS of raises at **EPD**, and the 66th overall distribution increase since **ENTERPRISE's** initial public offering in 1998.

In addition to **EPD** paying out an annual cash distribution of 6 percent, shares of the leading North American provider of midstream energy services have gained over 8 percent in the past year.

JNJ one-year

Shares of **JOHNSON & JOHNSON (*JNJ*)** moved higher last week after the Company posted solid third-quarter earnings and boosted its full-year profit guidance thanks to stronger-than-expected performance for key cancer treatments. **JNJ's** quarter came in at $2.05 per share, beating street forecasts and rising 7 percent from the same period last year. Group sales rose 2 percent to $20.3 billion as cancer drugs ZYTIGA and DARZALEX outpaced Wall Street estimates.

Worldwide **JNJ's** pharma sales rose 6.7 percent to $10.3 billion, offsetting a 0.3 percent decline in medical device sales, which still came in at $6.6 billion. Global consumer sales rose 4.9 percent to $3.4 billion. **JOHNSON & JOHNSON** sees adjusted 2018 earnings per share to be in the range of $8.13 and $8.18, an increase from the Companyôs previous projections. Shares of **JNJ** have risen nearly 10 percent in the past 6 months.

MDT one-year

MEDTRONIC (*MDT*) is bolstering its medical portfolio by acquiring Israeli company MAZOR ROBOTICS. **MDT** will be paying $1.34 billion, net of **MEDTRONIC's** existing stake in MAZOR and cash acquired, for the firm which specializes in robotic guidance systems for spine surgery. **MEDTRONIC** says this acquisition combines **MDT's** spine implants, navigation and intraoperative imaging technology with MAZORôS robot-assisted surgery systems.

This takeover will strengthen **MEDTRONIC's** position as a global leader in enabling technologies for spine surgery and drives MAZOR ROBOTICSô vision to bring its core technology to the forefront of the global market. **MDT** plans to showcase this ground-breaking technology at the upcoming North American Spine Society annual meeting in Los Angeles later this year.

This acquisition is expected to be modestly dilutive to **MEDTRONIC's** fiscal 2019 adjusted earnings per share but at the same time projects the acquisition will generate a double-digit return on invested capital by year four, with an increasing contribution thereafter. The boards of directors of both companies have unanimously approved the merger. Shares of **MEDTRONIC** have gained 21 percent over the past 12 months.

PEP one-year

PG one-year

PEPSICO (*PEP*) topped earnings expectations for the third quarter thanks to another strong performance from its FRITO-LAY unit and sequential improvement from its North American Beverage division. **PEP** earned $1.75 per share, an increase of 18 percent from the third quarter of 2017. Net revenue increased 1.5 percent despite the effects of unfavorable foreign exchange rates.

As mentioned, operating profit was strongest at FRITO-LAY, up 3.5 percent. Net revenue growth and planned cost reductions contributed to the gains for the chips and snacks group. **PEPSICO's** Latin America and Europe/Sub-Saharan Africa divisions also posted quarterly and year-over-year profit increases. Outgoing CEO Indra Nooyi announced **PEPSICO** is revising upward its full-year organic revenue growth target and given the strengthening U.S. Dollar, revising **PEPSI's** full-year core earnings per share target as well. **PEPSICO's** annual dividend yield is 3.5 percent to shareholders.

Shares of **PROCTOR & GAMBLE *(PG)*** moved decidedly higher Friday after the Company announced earnings highlighting its strongest quarterly sales growth in five years. The maker of TIDE detergent and GILLETTE razors said organic sales rose 4 percent in **PG's** fiscal first quarter. Beauty products fueled the gains, rising 7 percent, but the Company reported growth across several categories including grooming, health care and fabric.

P&G said profit rose 12 percent during the quarter to $3.2 billion or $1.22 per share, comfortably beating Wall Street estimates. Net sales came in at $16.69 billion, better than year over year numbers. The Company is maintaining is fiscal 2019 guidance for earnings per share growth of 3 to 8 percent, and organic sales growth in the range of 2 to 3 percent. Several analysts upgraded price targets for P&G this morning. Shares have gained 19 percent over the past 6 months.