Tom McIntyre's

Weekly Commentary & Outlook

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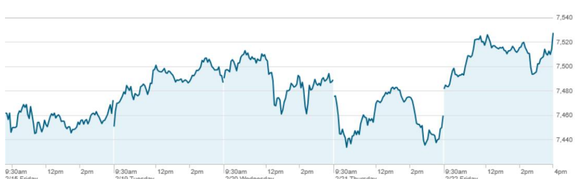
This is Tom McIntyre with another client update as of Monday February 25th, 2019.

Stocks rose for the 9th consecutive week. This corresponds, of course, to FED chairman Powell admitting they got it wrong again on inflation, the economy and economic policy.

As a result, two things are playing out. First the economy is slowing dramatically due to last year's policy miscues by the FED. Secondly, the markets are looking through this as the FED retreats, oil prices move higher and even the trade war nonsense seems to be evaporating.

Dow 5-day



Nasdaq 5-day

As one can see from the charts above, the ***Dow Jones Industrial Average*** gained .57% last week while the ***NASDAQ Composite*** moved higher by .74%

Markets & Economy

It seems that slowing economic news is now regarded positively given the FEDôs new and more correct view of the world. Thanks to President Trump and the December sell off in the stock market (which has subsequently been recouped) the Federal Reserve Board is now a toothless tiger again. They can do nothing but give speeches and be thankful they reversed policy due to the pressure.

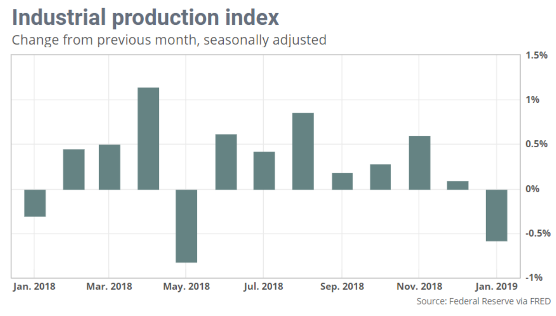
In the past, the FED would have continued their merry bureaucratic way of raising rates until a financial crisis erupted. Donôt worry though, we have plenty of them around the globe. You can count the EU countries and virtually all emerging markets among them.

One good way of measuring this is to watch the global supply of sovereign bonds selling for zero or below in terms of their yield. The number is reaching record levels. This tells you right there that the global economy is not strong and does not need the US making matters worse by tightening monetary conditions (remember the Dollar is the worldôs reserve currency).

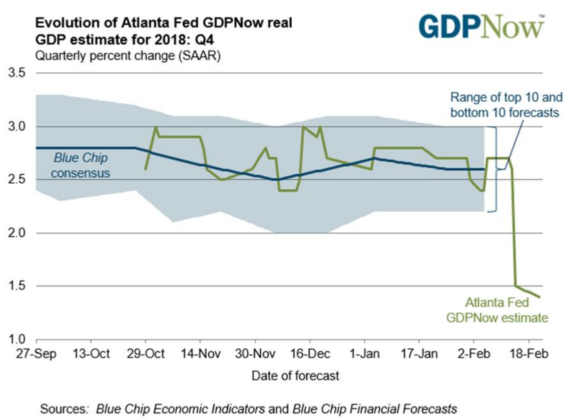
Finally, the FED understands that we no longer have a 1970ôs style economy on our hands. It is not ideal to have interest rates this low but the time for worrying about that, for the worldôs central bankers, was ten years ago. That reality is now baked into the cake of global economy.

As mentioned above, the amount of business news dedicated to concerns about a global slowdown leading to a recession is rising daily. Of course, the media bringing you these stories is the same one who said all last year that the FED needed to clamp down on a US economy growing too rapidly. If only we ever had that problem. One thing is for sure, donôt believe in narratives spun by the press. Rather focus on data and those whose analysis was been accurate in the past (unlike the Federal Reserve Boardôs for instance).

The reality is, this last year ended with a dud given retail sales and industrial production (see chart below).



The Atlanta Fed, which had long forecasted very strong growth, now expects just 1.4% growth in last yearôs 4th quarter (see chart below). The opening quarter for 2019 will be even worse.



Thus, many cannot understand why markets do better in todayôs climate versus last yearôs strong economy one. The answer is the market looks forward. Last year, policy makers wanted to induce a slowdown without admitting it (Trump made this impossible). Today, policy makers want to get things moving again. Thus, stable to lower interest rates, less regulation and trade disputes settled will be the playbook. This is all positive for stock prices as we head into the year.

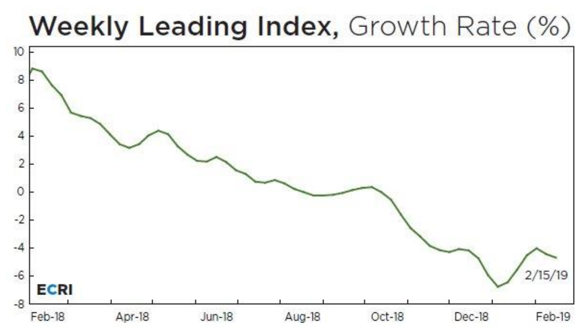
Having said all of that, each company must find ways of delivering for their shareholders even in this environment. Last Fridayôs debacle in Kraft shares (a huge holding of Berkshire Hathaway) which dropped nearly 25% due to a trifecta of shocking disappointments. So, while the FED has retreated, portfolio holdings must still go out and perform. In that regard we are doing quite well (see our comments below).

<u>What to Expect This Week</u>

Earnings season is coming to an end, so markets will turn their attention to such matters as this weekôs summit meeting in Vietnam with North Koreans (what a wild statement that is from a historical perspective). In addition, you never know when the President will say or tweet something which can move an otherwise quiet market (like todayôs comment about oil prices).

In addition, on Friday the government finally gives us its 1st report on 4th quarter GDP. This now is old news, but it should reinforce just how much the FED is not going to be relevant for some period. This is good. Stocks do better when the narrative shifts away from worrying about FED policy errors.

Finally, the chart below of the ECRIôs index of leading economic indicators continues to not get worse or much better. Thus, the softness can be expected to continue into the spring. This means that portfolios should be in names which have excellent prospects but whose shares are depressed and in names which are defensive in nature but doing well in this slow growth world that we are once again in.



Walmart Retail sales in America recorded their biggest drop in more than nine years in December, but that didnôt stop ***WALMART*** from having a great quarter and bucking the trend. ***WMT*** solidly beat expectations with its earnings and RAISED ITS DIVIDEND for the 46^TH YEAR IN A ROW. The most stunning statistic came from U.S. same store sales which improved 4.2 percent for the quarter which ended January 31st. Analysts on Wall Street had expected ***WALMART*** to improve less that 3 percent in stores opened at least one year.

Adjusted earnings per share came in at $1.41, which was 8 cents better than expectations. Total revenue increased 1.9 percent to $138.8 billion, also beating estimates. Online sales jumped 43 percent during the quarter, helped by the expansion of ***WMT's*** online grocery pickup and delivery services and a broader assortment on its website. ***WALMART*** will add grocery deliveries to 800 more stores by the end of the year, bringing the total to 1,600 stores. Grocery sales currently make up 56 percent of total revenue. ***WMT*** announced a dividend increase of 2 percent to $2.12 per share. The next quarterly dividend of 53 cents will be payable on April 1st to shareholders of record at the close on March 15th.

WMT one-year

Shares of ***CISCO SYSTEMS*** surged after the Dow component topped earnings estimates for its second quarter, announced a 6 percent dividend increase and boosted its share buyback program by $15 billion. ***CSCO*** benefited from strong growth in its newer businesses such as application software and cyber security.

CISCO reported net income of 63 cents a share or $2.8 billion during the quarter, which is a big turnaround from the previous year-on-year quarter, when the Company posted an $8.7 billion loss. Total revenue rose 4.7 percent to $12.45 billion. Both numbers topped analystsô estimates.

The board at ***CSCO*** declared a new quarterly dividend of 35 cents per common share, which is an increase of 2 cents over the previous quarterôs dividend. It will be paid on April 24th to all shareholders of record as of the close of business on April 5th. The board also approved adding $15 billion to the authorized stock repurchase program of $10 billion already in place. The Company is forecasting third-quarter profit of 76 to 78 cents. Shares of ***CISCO SYSTEMS*** have risen more than 14 percent in the past 12 months.

CSCO one-year

Medtronic Shares of medical technology maker ***MEDTRONIC*** got a boost after the company announced earnings beats on both top and bottom lines for its fiscal third quarter and RAISED GUIDANCE for fiscal 2019. ***MDT*** reported revenue of $7.54 billion world-wide, as higher sales were reported in its surgical products and restorative therapies divisions. Earnings came in at $1.29 per share, 5 cents higher than predicted.

Revenue outperformance in ***MDT's*** minimally invasive therapies and restorative therapies groups, as well as broad strength across emerging markets led to the earnings beat. ***MEDTRONIC*** bumped up their projections for 2019, now expecting full-year earnings to be in the range of $5.14 to $5.16 per share, up from its previous forecast of $5.10 to $5.15. Shares of ***MEDTRONIC*** are up more than 16 percent in the past 12 months.

MDT one-year

AKAMAI TECHNOLOGIES also beat the Street with a record-setting fourth quarter earnings report. The worldôs largest cloud delivery platform experienced its fifth consecutive quarter of operating margin improvement thanks to the rapid growth of their cloud security business, robust seasonal traffic and a continued focus on operational success. ***AKAM*** posted record revenues of $713 million during the quarter, up some 8 percent year over year. Earnings per share were 57 cents during the quarter, also well ahead of estimates.

AKAMAI hit on all cylinders during the quarter. ***AKAM's*** web division revenue was up 9 percent year over year, Media and Carrier division revenues were up 8 percent, and Cloud Security Solutions GAINED 36 PERCENT year over year. Shares of ***AKAM*** have come roaring back since the 2018 Christmas holiday season and are 14 percent higher so far in 2019.

AKAM one-year

RYDER SYSTEM is back on track after the logistics giant reported record revenue in 2018 and fourth quarter earnings that beat expectations. ***RYDER*** rolled out earnings of $1.82 during the quarter, much better than the $1.37 reported in the same quarter a year ago. Revenue during the period was $2.27 billion.

Revenue at the truck leasing company hit a NEW HIGH OF $8.4 billion last year, which is 17 percent higher than the company generated in 2017. CEO Robert Sanchez says The Company is executing on its IT and new product development to combat disruptive trends in the industry. ***RYDER*** is forecasting earnings per share of between $5.18 and $5.48 for this year, based on strong forward contract orders. Shares of ***RYDER*** are up 33 percent year to date.

R one-year