

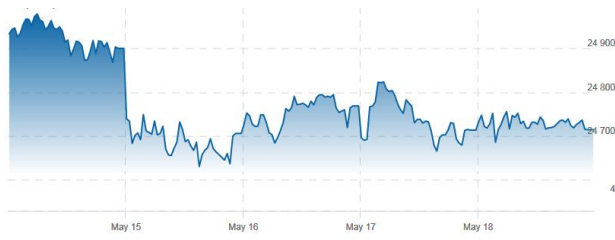


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This is Tom McIntyre with another client update as of Monday May 21st, 2018.

Stocks traded in a narrow range last week after the 8-day rally which preceded it.



Dow 5-day



Nasdaq 5-day

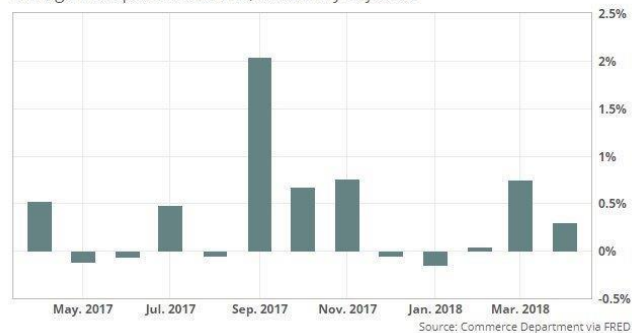
Contradictory data on the economy gave both bulls and bears reason to chirp. When it was all said and done though, both the **Dow Jones Industrial Average** as well as the **NASDAQ Composite** were lower by less than one percent (see charts above). This morning's news of a trade deal with China has stocks soaring at the opening even though it shouldn't come as much of a surprise. The US has always had the advantage despite media scare tactics.

Markets & Economy

Well there was something for everyone in last week's economic data. Retail sales were not a disaster. While helped by higher gasoline prices there was a pick-up in various categories of goods sold. That is a positive (see chart below). It is interesting to note though, that restaurant and bar sales declined which may be impacted by the higher pump prices. Hard to tell but since that category of employment has led for years it may not bode well for employment data going forward.

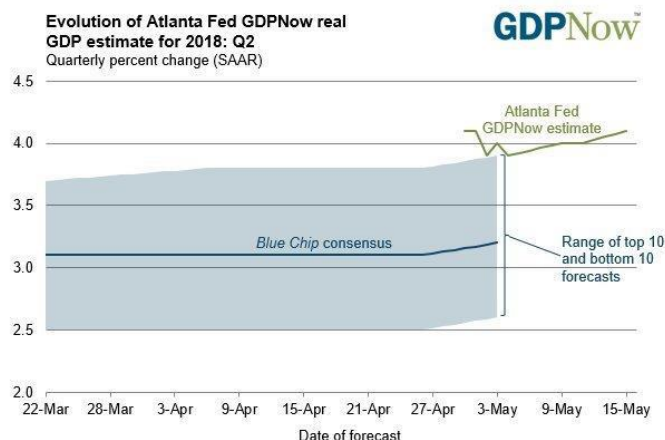
Retail sales

Change from previous month, seasonally adjusted



Offsetting this were disappointing numbers from housing as the higher interest rates are clearly impacting both building and purchases. Not to mention that refinancing is now simply a non-factor for individuals to lower their mortgage expenses. To the extent the Fed persists in its desire to raise rates this trend should only get worse over time.

Additionally, business inventories grew more slowly than expected. This is an indication that businesses are being more cautious than the media in their view of how well the economy looks out to the end of the year. All in all, though, the general perception is that we have a very strong economy on our hands with staying power. The chart below from the Atlanta Fed shows its current estimate for annualized GDP growth in the 2nd quarter to be above 4%. Their numbers come down as a rule as we get closer to the end of the time involved but never the less this is a strong estimate now.



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
 Note: The top (bottom) 10 forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

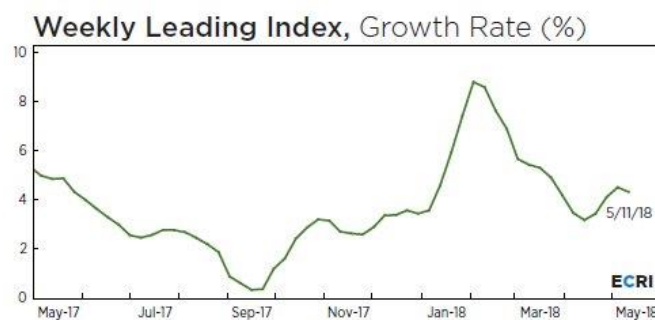
One additional word of caution though. The strength of the US dollar is pronounced. This is usually associated with periods of less inflation and/or capital flight from other places in the world. To that end I mention two countries, Japan and Italy. Japan last week slipped into negative growth once again and it remains the globe's 3rd largest economy. In addition, Italy has finally forged a new government which is ripping up the old rules of the EU. While not calling for a pullout of the Euro and/or the EU, it comes close. The centralized bureaucrats in Brussels are going to have a hard time trying to hold on as both the UK and now Italy are either getting out or virtually getting out. Something to watch as the Euro weakens against the dollar.

Of course, a super strong dollar will hold down inflation and hurt US exports but this morning's news of a deal with China is over shadowing this. It was never very likely of a trade war but it makes for scary headlines in the media and for volatility in day-to-day trading. This deal should be very good news for major US industries such as farming and of course aviation (Boeing).

What to Expect This Week

Well the biggest announcement may have already occurred this morning. While economic data will continue forth, the lead up to the Memorial Day weekend should get progressively quieter. Having said this, any day the announcements coming from DC can always impact trading. As markets get thinner towards Friday perhaps this dynamic will come into play even more so.

Finally, the Chart of the ECRI's leading economic indicators doesn't show the boom that the Atlanta Fed is showing. Of course, the ECRI is used for forecasting while the other is viewed as a current snap shot.



My view remains the same. The threat to the global economy comes from the Fed overplaying its hand. Higher interest rates given the international landscape and flat yield curve just doesn't seem to be the right call to me. Neither would a confrontation in DC between President Trump and those seeking to run him out of office. The time to do that will come at the next scheduled election. It is time for the country to let the 2016 election be done.



WMT 12-month

Symbol: WMT

A bounce back in online sales helped **WALMART** report better than expected profit and revenue for the first quarter of 2018. The world's largest retailer posted a first-quarter profit of \$2.13 billion. Earnings, adjusted for non-recurring costs, were \$1.14 per share, 2 cents better than industry analysts were expecting. Revenue at stores opened at least a year rose a solid 2.1 percent. Overall revenue rose 4.4 percent to a staggering \$122.69 billion.

WMT has been spending more on its workers to improve the in-store experience, while building fewer big stores to focus on its online presence. Sales via the internet rose 33 percent in the first quarter, a strong showing after a disappointing 23 percent increase in the final quarter of last year. The Company expects to see 40 percent growth on online sales this fiscal year. **WALMART** intends to grow through acquisitions as well. This month **WMT** bought a controlling stake in FLIPKART, India's largest online retailer. The \$16 billion deal is **WMT's** biggest acquisition yet in its quest to battle **AMAZON** for internet shopper dollars.



CSCO 12-month

Symbol: CSCO

CISCO SYSTEMS also reported better-than-expected quarterly earnings results this past week. **CSCO** earned 66 cents in its fiscal third quarter, 10% higher than the year-ago quarter. Revenues at the networking leader increased 4.4 percent year over year to \$12.46 billion.

Strength came from the Company's Security and Applications segments, as **CISCO** continues to transition successfully from its traditional business of high-end switches and routers to growth areas such as security and the Internet of Things. Product sales increased 4.7 percent to \$9.3 billion, while services increased 3.4 percent to \$3.16 billion. Shares of **CISCO SYSTEMS** have gained almost 28 percent over the past 12 months.



AMAT one year

Symbol: AMAT

APPLIED MATERIALS, the world's largest supplier of chip-making equipment, produced a record-setting quarter. **AMAT** earned \$1.09 per share in the fiscal second-quarter of 2018, 43 percent higher year over year. **AMAT** recorded revenue of \$4.57 billion, some 29 percent higher year over year.

The Company generated \$611 million in cash from operations during the quarter and returned \$2.6 billion to shareholders through \$2.5 billion in share repurchases and dividends of \$105 million. For the current quarter, ending in August, **APPLIED MATERIALS** expects its per-share earnings to range from \$1.13 to \$1.21, with revenue projections in the range of \$4.33 to \$4.53 billion. The stock of **AMAT** has risen nearly 17 percent in the past 12 months.



VOD one year

Symbol: VOD

There's a change coming at the helm of **VODAFONE**. Long-serving CEO, Vittorio Colao, announced he will be stepping down in October of this year after 10 years guiding the Company. He will be succeeded by the telecom firm's Chief Financial Officer, Nick Read. The announcement of Colao's departure comes less than a week after **VODAFONE** announced a \$22 billion deal with **LIBERTY GLOBAL** in which **VOD** will be taking over operations in Germany, the Czech Republic, Hungary and Romania.