Tom McIntyre's
Weekly Commentary & Outlook
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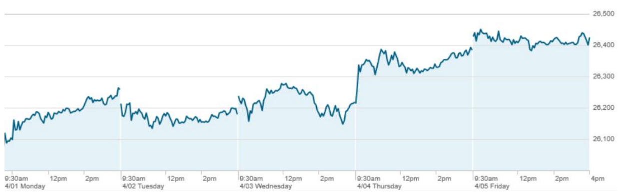
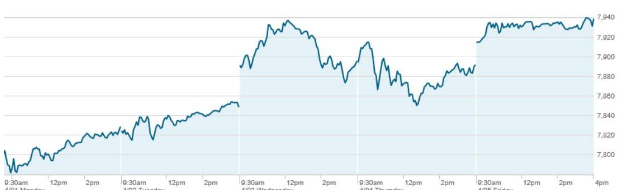
This is Tom McIntyre with another client update as of Monday April 8th, 2019.

The 1st week of the 2nd quarter saw stocks off to a strong start.



DOW 5-day



Nasdaq 5-day

As the charts above illustrate, both the ***Dow Jones Industrial Average*** (as newly constituted, see our comments below on Dow Chemical) and the ***NASDAQ Composite*** both rose nearly 2%.

Ostensibly the reason for this is a growing consensus emerging that central bankers, including our own, will reverse course and begin to ease policy once again.

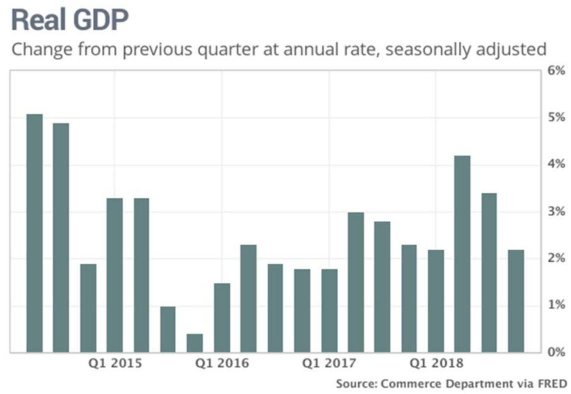
Markets & Economy

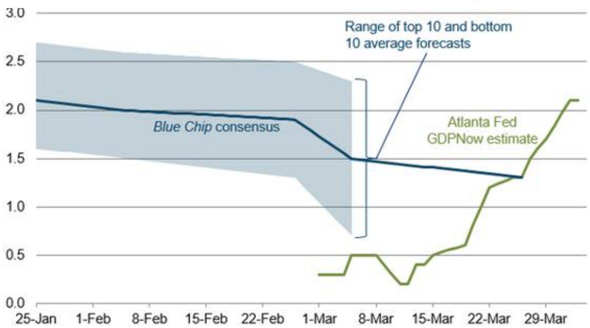
While it is still too early for earnings reports, which will begin in earnest later this week, the stock market is taking comfort from the fact that Central Bankers now recognize the true threat to global economic growth is deflation. That is why there now exists over 11 TRILLION dollarsô worth of sovereign debt trading at negative yields. Meaning these governments can essentially borrow for free. This reflects many things, chief among them is the fact that globally the world has never truly recovered from 2008. Higher regulations, reluctance to write off bad debts and the absurd policies of various central bankers have prevented most countries from starting over after the financial collapse of 2008.

That is why inflation has continued to be a dream of the 1970ôs economists who run monetary policy both here and abroad. They somehow think that the 1970ôs type global economy is right around the corner. We really need some new blood in these institutions, but the beltway insiders are very reluctant to allow President Trump to pick his appointees. The same is true in Europe where they are on the verge of naming a German to succeed the head of the ECB. Woe be to the European Union economy should that day ever happen.

In any case, this slower growth scenario is the preferred one for the stock market. An economy which is growing over 2% allows for very low interest rates, strong cash generation and financial engineering. That is what the bull market since 2009 has been all about. Trumpôs tax cuts, less regulation and energy independence make America the best investment opportunity by far, but it will not be enough to maintain an outsized growth rate.

Last week the 4th quarter GDP growth rate was reduced to 2.2% (see chart on next page). That was the third consecutive quarterly decline in this metric. The first quarter of 2019 will be the 4th slower quarter despite the upward estimates shown from the Atlanta Fed (see chart on next page). Keep in mind our monetary authorities have been working for over 2 years to slow this economy and they have succeeded. The question now is, have they gone too far? The markets say yes, as witnessed by the inverted yield curve that everyone is talking about this year for which we highlighted repeatedly last year. Sadly, last year the beltway narrative was global growth so strong that steps needed to be taken to stop it. That was laughable then and is sad now.





Last week also saw another very weak retail sales report. This shouldnôt surprise anyone given poor car sales, sloppy home sales etc. One really must ask with the unemployment rate so low and wages ostensibly rising at their best clip in a decade (see chart below), what exactly is the problem? One thing for sure is that much of this has been accomplished with higher levels of debt. The Fedôs tightening has increased substantially the interest rate on this debt. Thus, offsetting all the Trump administrationôs efforts to jump start growth. The Fed now needs to reverse course and quickly.

Last weekôs employment report showed 196K increase in non-farm payroll jobs. Mostly these were in part time positions. While the report was ok, it was not a strong report. That explains why bond yields continue to move lower. It also explains why the Presidentôs chief economic adviser publicly called for a 50-basis point cut in interest rates. The ñbeautifulò people inside the beltway laughed but ultimately like so many things, the Trump administration will be proven correct and the Fed will be forced to pretend it didnôt make a huge policy error last year. Letôs see how much damage is done to global growth before that happens.

What to Expect This Week

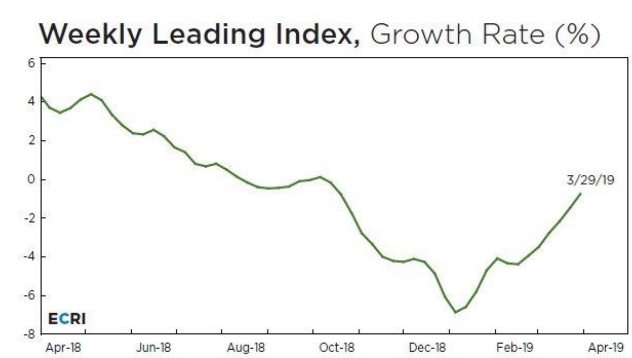
Earnings start to hit the news later this week led by the big banks. I doubt they will be anything to write home about.

On the macro front, the Brexit soap opera has a deadline for this Friday. It will most likely be punted again but there is a chance the UK could finally leave the EU. While I think that would be wonderful for the world, the markets might view that with some initial concern. We will watch it.

In addition, on Tuesday, Israel is holding national elections. Obviously, a change in government there could impact views of the Mideast and the oil markets etc.

On Tuesday, the Attorney General will testify to Congress. Your guess is as good as mine about the outcome. The impact on the markets will likely be that attention will be focused there rather than on market fundamentals. That would be par for the course.

Finally, the chart below shows the ECRIôs chart of leading economic indicators. The uptrend continues and their view (and mine) is that there will be no recession but bad policy choices with a slowing economy does raise the stake. Pay attention to the yield curve. If the Fed drops rates and yields rise that would be very positive for financial markets.



DOW INC. (DOW) replaced ***DowDuPont Inc.*** (DWDP) in the Dow Jones Industrial Average last Tuesday, April 2nd. This change follows ***DowDuPont's*** split into 3 companies, with DOW INC. being the first spin-off completed. DOW will be headquartered in Midland, Michigan and will operate as a materials science solution provider. Shareholders received one share of DOW for every 3 shares of ***DWDP*** owned. Agricultural chemical company, CORTEVA AGRISCIENCE is expected to be spun-off from ***DWDP*** in early June.

Last Wednesday, the Board of Directors of ***DowDuPont*** approved a reverse stock split of the Companyȏs common stock. ***DWDP*** will hold a special meeting of stockholders in May to gain their approval of this action. If agreed to, ***DWDP*** shares would be split either 2-for-5 or 1-for-3. The Company is doing this to keep the stock price of ***DWDP*** in the same price range as those of the other issues.

Replacing ***DowDuPont*** with DOW allows the ***Dow Jones Industrial Average*** to maintain its exposure to the Materials sector. Additionally, DOW is having a similar price weighting to the pre-spin-off ***DWDP***. We are keeping the spun-off components in our portfolios for the time being.

DWDP one-year

BOEING's disruptions to its 737 MAX deliveries will last longer than initially expected. Shares of ***BA*** are under some pressure today after the Company announced they plan to temporarily reduce production of its 737 aircraft. Beginning in mid-April, ***BA*** will cut production of the aircraft from 52 per month to 42. This will allow the Company to allocate resources toward certifying, fixing and returning the jets safely to flight.

BOEING is initiating this cut in production after it became clear that the 2 recent fatal crashes were due to software issues on the new jets, forcing regulatory agencies to ground the aircraft. ***BA*** has apologized for the loss of life, which is tragic, and vow they will ultimately remedy issues with their 737s and restore confidence in the flying public.

BA one-year

Shares of ***NOVARTIS*** hit fresh multi-year highs recently. The Federal Drug Administration approved the Companyõs Multiple Sclerosis drug MAYZENT for general use in adults. This treatment is used for patients with relapsing forms of MS, symptoms which present themselves in repetitive episodes. MS is a debilitating disease caused by inflammation or demyelination in the central nervous system. ***NVS*** says a market launch should commence in about a week. Eligible patients will not require a first dose observation unless they have certain pre-existing cardiac conditions.

NOVARTIS will complete its planned spin-off for its ALCON eye care business tomorrow. Effective April 9th ***NVS*** shareholders will receive one ALCON share for every five ***NVS*** shares or ADRõs held at the close of business today. ALCON shares will be listed on the SIX Swiss Exchange and the New York Stock Exchange under the ticker symbol ñALCò. We also plan on holding ALCON shares post spin-off. Shares of ***NOVARTIS*** have gained 17 percent over the past 12 months.

NVS one-year

The Board of Directors at ***APPLIED MATERIALS*** have approved a 5 percent increase in the quarterly cash dividend. The raise is from 20 to 21 cents per share, payable on the Companyõs common stock. The dividend will be payable on June 12th to shareholders of record as of May 23rd. In the first quarter of fiscal 2019, ***AMAT*** returned $952 million to shareholders through dividends and share repurchases. The Company has approximately $3.6 billion remaining on its current share buyback authorization as of the end of ***AMAT's*** last quarter. Shares of ***APPLIED MATERIALS*** have gained 30 percent so far in 2019.

AMAT one-year