Tom McIntyre's

Weekly Commentary & Outlook

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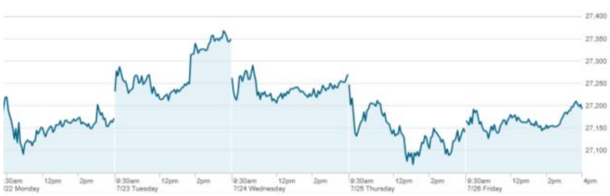
This is Tom McIntyre with another client update as of Monday, July 29th, 2019.

Stocks generally grinded higher last week as most high-profile earnings reports came in ok, especially given the reduced expectations. The better than expected GDP report also helped overall sentiment but didn't change the outlook for future policy moves.

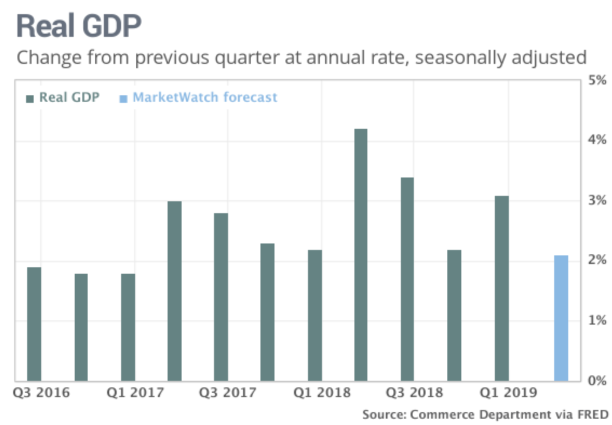


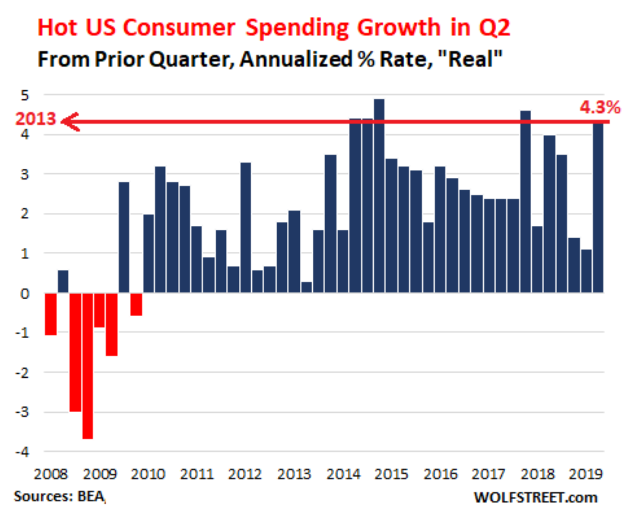
Dow 5-day

Nasdaq 5-day

Markets & Economy

Last week the government report showed that 2nd quarter GDP growth came in at an annualized rate of 2.1% (see first chart in next column). This was better than most expected driven by strong consumer spending growth of around 4.3% (see second chart in next column). Business investment however was another matter. Macro concerns over trade issues (even though the trade deficit increased, opposite of what trade wars are expected to produce) as well as Brexit and a very strong US dollar has cast a pall over business confidence. This is compounded by a weakening global economy of which we have mentioned over many months.

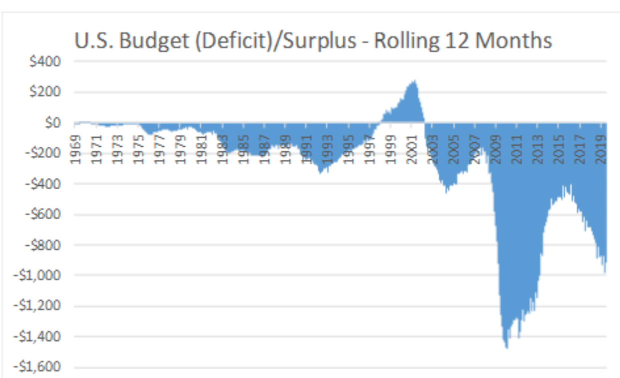




All told, the consensus is that the FED, when it meets this week, will announce the beginning of the rewind of its mistaken tightening policy since the election of President Trump. Even Janet Yellen, the previous chairman of the FED, now says that she would vote to ease. Of course, she blames trades issues going forward but that is just a very transparent attempt to deflect any and all blame for the policy error which she initiated and has been in effect for nearly three years. The slowdown in Europe, South America and emerging markets has been going on for some time. Would someone please clue her in?

In addition, the FED which just last month told us that the dip in inflation was "transitory" is now toying with how to get inflation higher. In other words, they have been wrong again and the easing policy to be embarked upon this week will soon be joined by another round of quantitative easing just as is being implemented around the world. Keep in mind I observe these items not because they are good in and of themselves but because many years ago the global monetary authorities hooked markets and banking systems on this sort of drug. To take it away precipitously would kill the patient.

It should be clear, the only tightening in interest rates that can be sustained must be caused by economic growth. Absent growth, the idea of hiking rates in fear of inflation is simply people caught up in a time warp of the 1980's. We do not and never will have that again. Growth policies must be advanced by every country that has the will power. Obsession with regulation, which strangles growth, will just elongate the cycle. The result is that the US budget has now been agreed to. This year's deficit (shown below) will come in at around 4% of GDP.



The problem of course is simple. The higher the total debt to be serviced, the lower the interest rates needed. Even zero or negative rates as we see around the world. The monetary authorities need to pursue growth now at all costs. Inflation isn't a realistic issue, so the global economy needs to step up. The problem is that bureaucrats both here at home and certainly in Europe don't want to risk their positions. The EU for instance should simply go away, it won't anytime soon but ultimately it will. It remains an impediment to growth and in that sense, it remains part of the problem.

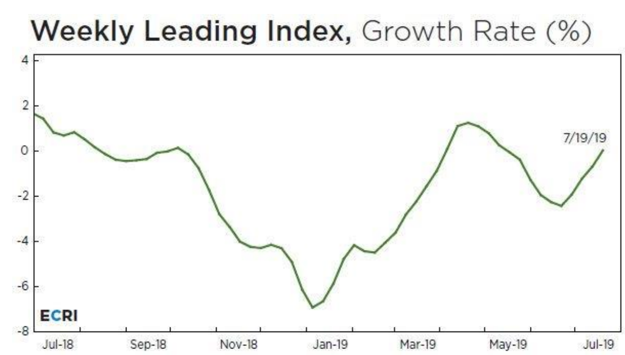
What to Expect This Week

As mentioned above, the FED will announce its move on Wednesday. They need to couch whatever they do with happy talk about their view of future actions. Markets have risen in large part due to a rosy expectation of their announcement.

Additionally, many important earnings reports are due as the season keeps rolling in. As if the week could take any more data, on Friday comes the employment report for July. The expectation is for a gain of nearly 200K non-farm jobs. Given the low weekly claims I would hope not to be disappointed.

Consumer sentiment remains strong, but markets remain concerned. Those low treasury bond yields are telling you something. Hope the FED is listening finally.

The final chart below from the ECRI on their leading economic indicators is showing some improvement in trend. This is true in other data as well. Remember though, the FED must now view disinflation as the threat. Enough with the inflation nonsense which comes out of the 1980's. Start looking around the world.



Shares of ***COCA-COLA*** soared to ALL-TIME HIGHS last week after the world's largest beverage maker beat analysts' estimates for quarterly profit and raised its organic revenue forecast for the full year. Thanks to increased demand for its water, sports drinks and namesake zero-sugar beverages, ***KO*** reported earnings of $2.6 billion, or 63 cents per share, compared to $2.3 billion, or 54 cents a share in the comparable year-earlier quarter. Sales came in at $10 billion, better than a year-ago and beating Wall Streets' estimates.

COCA-COLA in recent years has expanded well beyond its iconic brown carbonated drinks, delving into both the hydrating and non-hydrating world of beverages, including its purchase of British coffee chain COSTA, which it plans to produce coffee-infused carbonated drinks with. ***COKE*** is raising its guidance for operating income for the rest of 2019, now expecting it to increase between 11 and 12 percent, instead of a previously stated 10 and 11 percent. Shares of this Dow Jones component have risen more than 17 percent over the previous 12 months and pay shareholders a 3 percent annual dividend.

KO one-year

Aerospace and defense giant ***BOEING*** reported a second-quarter loss on weakness in commercial airplane sales, although the loss was narrower than expected. ***BA*** reported a net loss of $2.94 billion, or -$5.21 a share after a profit of $2.2 billion in the year-ago period. Due to the FAA's grounding of the 747 MAX fleet, overall commercial aircraft revenue dropped 66 percent to $4.72 billion. As a result, ***BOEING*** has reduced production of the 737 until it is clear the jet will be returned to flight. ***BA*** booked a charge earlier in the week of nearly $5 billion in the quarter to include compensation the plane maker will have to pay airlines for the delayed deliveries.

BOEING will issue a new 2019 earnings outlook at a future date, as the current forecast, which was suspended in April following two fatal crashes involving the MAX does not reflect the recent charges. Despite all of ***BA's*** recent issues, shares have managed to gain 7 percent so far in 2019.

BA one-year

Shares of ***HERSHEY*** reached new ALL-TIME HIGHS last week after the chocolate maker beat earnings expectations and announced an INCREASE TO ITS QUARTERLY DIVIDEND. Net income rose 38 percent from the year-ago quarter to $312.8 million, or $1.48 per share, in the second quarter. One of the keys to the quarter: ***HERSHEY*** raised product prices on its candy and snack offerings by an average of 2.5 percent that will soon be increased by a total of 10 percent as one of the few companies that can do so successfully. This allowed ***HSY's*** adjusted gross profit margin to expand 200 basis points to 46.5 percent in the quarter.

Simultaneously, the Board of Directors at ***HERSHEY*** authorized hiking the quarterly dividend 7.1 percent, from 72.2 cents to 77.3 cents per share on its common stock. The new dividend is payable September 16th to shareholders of record August 23rd. This makes it 359 CONSECUTIVE REGULAR DIVIDEND PAYOUTS on the Common Stock. Shares of ***HSY*** have moved sharply over the past 12 months, up 58 percent.

HSY one-year

The King of brewers, **AB InBev**, beat their earnings expectations last week after beer sales grew at their fastest pace in OVER FIVE YEARS. Helped by consumption increases in Latin America, Europe and Africa, ***BUD*** reported that beer volumes rose by 2.1 percent year-on-year in the April-June period, a rate unmatched over the past five years. Earnings per share came in at $1.25, a 14.7 percent increase from the year-ago quarter. Revenues at ***BUD*** beat Wall Street's expectations slightly during the quarter.

Consolidated revenues at ***ANHEUSER-BUSCH INBEV's*** three global brands – BUDWEISER, CORONA and STELLA ARTOIS improved 8 percent around the world and 11.3 percent outside their respective home markets. ***BUD*** expects strong revenue and core profit growth to continue through the rest of 2019 as well. Bank of America upgraded the shares of the stock this morning. Shares of ***BUD*** have risen a sudsy 52 percent so far in 2019.

BUD one-year