Tom McIntyre's
Weekly Commentary & Outlook

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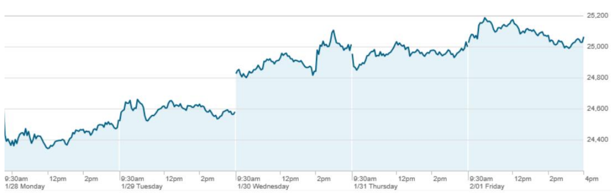
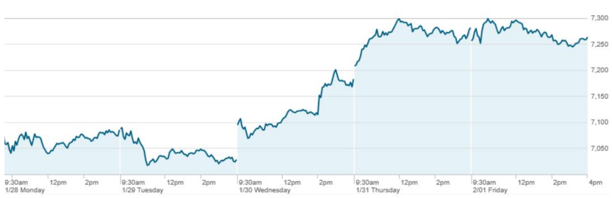
This is Tom McIntyre with another client update as of Monday February 4th, 2019.

Stocks continued their rebound last week as the Fed confirmed its recent admission that they have been very wrong about their outlook on the global economy. This dovish move led to the 2019 rally continuing into its 6th week.



Dow 5-day



Nasdaq 5-day

As the charts above illustrate, both the ***Dow Jones Industrial Average*** (led by Boeing) and the ***NASDAQ Composite*** gained 1.3% and 1.4% respectively. The DJIA has regained the 25,000 level. Where have all the doomsayers gone this morning?

Markets & Economy

Two very big developments happened last week that we highlighted one week ago. The Fed on Wednesday, both in their statement and in the press conference following, confirmed that the economy, especially globally is slowing down (as has been obvious for many months). They also acknowledged that inflation is now falling again, despite never really hitting their so-called target of 2%. Thus, they basically said that everything they have been basing their policy decisions on for the past year, when they hiked rates nine times, has been wrong.

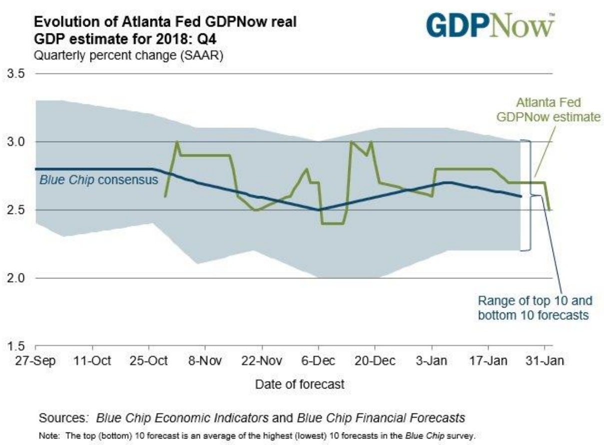
Amazing isnøt it? It took the financial markets to have their worst quarter in ten years last December to frighten the Fed into submission. President Trump publicly criticizing them also helped. This put the fear into the Fed that if a recession came about they would be blamed and could not escape scrutiny which is their usual way of handling crises which they themselves help to create.

Now, none of this is to say that no damage has been done to the global economy, it has been. Italy is now officially in recession. The entire Euro zone is barely above zero for a growth rate and this at a time when the ECB still maintains zero interest rates and quantitative easing. Of course, the picture is similarly lackluster in the emerging markets as well as Japan and China.

Iøve often written here that when one looks around the world and sees zero to negative interest rates, there is still something not right going on. Our Federal Reserve Board still runs policy based upon a 1980øs view of the world when the USA was the global economy for all intents and purposes. Thank goodness the markets, along with the President, has caused them to snap out of it.

Now due to this policy error by the Fed the growth rate in our country has slowed. The constant drumbeat about higher interest rates and the concomitant strength in the US dollar have served to take growth from above 4% to what is now estimated to be above 2% which is what passed for normal in the Obama years.

The next chart from the Atlanta Fed shows their current estimate for the 4th quarter last year down to 2.5%. This will be the 3rd quarter of a slowdown and it will be followed by a 4th when the 1st quarter of 2019 is all said and done.



Having said all this, the other important macro item last week was yet another stellar employment report for the US economy (see chart below). Over 300K jobs were created but most importantly the participation rate is expanding as some of those 95 MILLION Americans who were not counted in the labor force return to look for work, which is now available. This caused the official unemployment rate to reach 4% but how it got there is the key item.

In fact, this development puts a lie to another of the Fedôs woeful 1980ôs thinking. That is that the US economy faced a labor shortage which was going to cause wages to sky rocket higher and create an inflationary spiral. What a joke. Does anyone anywhere hear any company talking this way? Yes, there are shortages in various skill areas, but this is a question of training, not a lack of people to train. Even the Fed, in their comments last week, paid some heed to this.

All in all, when you put the two pieces together it explains why stocks have recovered their swoon so quickly. The Fed has switched the script from good economic news is bad for interest rates to good economic news is just plain good. Given the weakness abroad and the drop in commodities everywhere the Fed will now wait until they see a problem rather than just conjuring problems up out of thin air. Very bullish development for the stock market now that the Fed has stepped aside. Growth is now back in as the desired outcome.

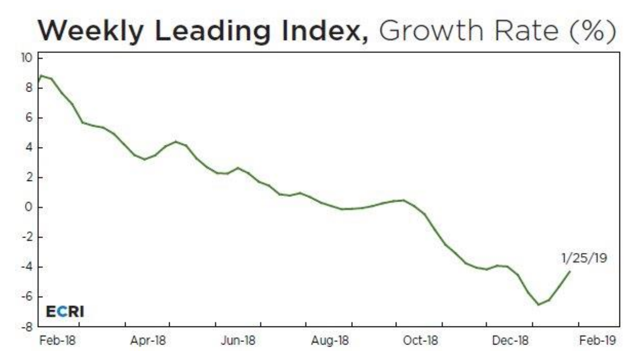
There are other issues out there, of course. Most imminently are the trade negotiations going on with China. However, as Iôve said many times, China needs a solution far more than the US. Just look at whose markets are doing well and whose economy is doing well. The answer is not China in either case. End of story.

What to Expect This Week

The Chinese market is closed all week to celebrate lunar new year, so this source of volatility over night is not going to be present. Earnings reports will continue to flood the micro news cycles and we continue to watch them and their outlooks carefully.

In addition, President Trump will give the State of the Union speech Tuesday evening. The markets always pay very close attention to any proposals made by this president unlike others in the past. Who knows what he will say or how it will be received.

Finally, the chart below of the ECRIôs leading economic indicators show improvement. Maybe the economy will regain its mojo by the middle of the year. The 1st quarter will be a slow one as is almost always the case. The partial government shutdown had very little permanent effect but there may be some timing issues. Certainly, the shutdown is not nearly important to markets and the economic outlook as the denizens of the DC swamp would have you think.



DIAGEO, the worldôs largest spirits company, beat half-year earnings and sales forecasts on stronger demand from China and India. ***DEO*** promptly raised its dividend by 5 percent and announced an addition to its share repurchase program, SENDING SHARES TO NEW ALL-TIME HIGHS last week.

The maker of Johnnie Walker Scotch and Smirnoff Vodka said organic net sales increased 20 percent in China alone, helped by strong demand for scotch and Chinese white spirits. In India, organic net sales rose 12 percent in the past six months, compared to the same period a year earlier.

DIAGEO has been restructuring in recent years to improve performance and streamline its beverage portfolio by selling off non-core businesses and underperforming labels. ***DIAGEO*** plans to buy back an additional $866 million of its shares over the next 12 months. ***DEO*** already has a $2.2 billion repurchase program currently in place.

DEO one-year

MCDONALD'S served up another solid quarter for its customers around the globe. The number one fast food chain earned $1.97 per share during the fourth quarter, easily beating Wall Streetôs estimates. This is the 14th consecutive quarter ***MCD*** topped street expectations. Revenues at the Golden Arches came in at $5.16 billion.

Same-store sales, a key metric for the restaurant industry, were strong globally. Internationally, ***MCDONALD'S*** same-store sales grew 4.4 percent. Here in the U.S., same-store sales grew at a 2.3 percent rate, in line with most estimates. Over the quarter, ***McDONALD'S*** introduced several new breakfast offerings, fresh beef quarter pounders, an expanded value menu and an improved mobile app for internet ordering. Shares have risen 13 percent over the past six months and are trading close to all-time highs.

MCD one-year

Several analysts upgraded shares of ***BIOGEN*** after the company reported strong fourth-quarter earnings that beat profit and revenue expectations. Profit for the last quarter rose to $944.9 million, or $4.37 a share after reporting a loss of $166.3 million, or a loss of $1.40 a share from a year ago. Revenue came in at $3.52 billion, ahead of expectations and better than the same quarter year over year.

The quarter was led by sales of the Companyôs most profitable multiple sclerosis drug TECFIDERA. This treatment brought in $1.11 billion for ***BIIB***, an increase from the previous yearôs fourth quarter. SPINRAZA, ***BIOGEN's*** spinal muscular atrophy drug accounted for $470 million in sales, also better than year ago numbers. ***BIIB*** also raised guidance, expecting to earn between $28 and $29 per share in 2019.

BIIB one-year

Itôs hard not to discuss ***BOEING*** just about every week. The Company announced record quarterly earnings, revenues and bookings for new planes last week. The worldôs number one maker of commercial aircraft reported EPS of $5.48, A FULL 41 CENTS HIGHER THAN WALL STREETôs EXPECTATIONS. ***BA*** reported revenue gains in several areas: Commercial Airplanes, up 14 percent, Defense, Space and Security, up 16 percent, while Global Services gained 29 percent.

BOEING booked 262 net orders in the fourth quarter and delivered 238 commercial airplanes, including the delivery of the 787th 787 DREAMLINER and the first 737 MAX Boeing Business Jet. Donôt worry about the future at ***BOEING***, either. The Company continues to maintain a monster backlog, with more than 5,900 commercial airplanes, valued at $412 billion. Even with last yearôs tough finish for stocks, shares of ***BA*** are up 11 percent over the past six months. ***BA*** raised its dividend last month and given these results, we expect further dividend increases in the future.

BA one-year

Shares of ***MERCK***, one of the best performing DJIA stocks in 2018, made a strong move higher last Friday after reporting better than expected earnings. EPS came in at $1.04, ahead of consensus. Full-year sales were $42.3 billion, a 5 percent increase from the prior year.

Much of the powerful results at ***MERCK*** were, thanks once again, its cancer treatment KEYTRUDA. Sales of this wonder drug soared 66 percent year over year in the quarter and constituted nearly 20 percent of the Companyôs total sales. KEYTRUDA is flatly becoming THE DRUG OF CHOICE against the most prevalent of diseases, lung cancer. KEYTRUDA sales could reach $10 billion for The Company this year alone. ***MERCK's*** stock rose 36 percent last year, far outperforming its overall peers. ***MRK*** provided bullish guidance during its conference call, saying it expects sales of at least $43 billion and earnings of $4.65 a share in 2019.

MRK one-year