Tom McIntyre's
Weekly Commentary & Outlook

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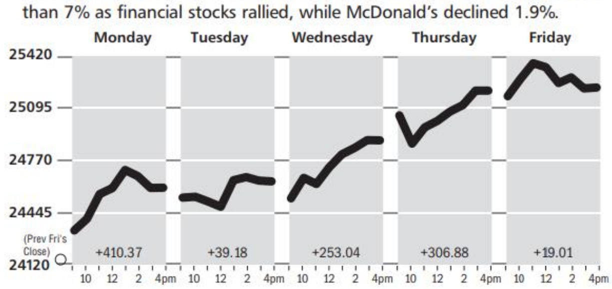
This is Tom McIntyre with another client update as of February 20, 2018.

We saw a big bounce back for stocks last week as the forced selling brought on by various strategies seems to have exhausted itself until the next round of crazy day trading strategies blows up.

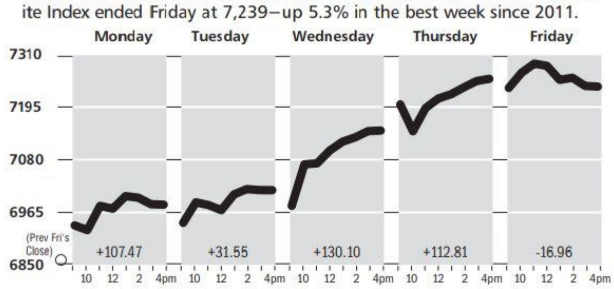
FIVE-DAY DOW COMPOSITE

Call It a Comeback: The Dow soared 4.3% last week as stocks bounced back from their first correction since 2016. Goldman Sachs climbed more than 7% as financial stocks rallied, while McDonald's declined 1.9%.



FIVE-DAY NASDAQ COMPOSITE

Tech Talks: Tech stocks led the market's recovery, powered by strong results from giants like Cisco and Applied Materials. The Nasdaq Composite Index ended Friday at 7,239—up 5.3% in the best week since 2011.



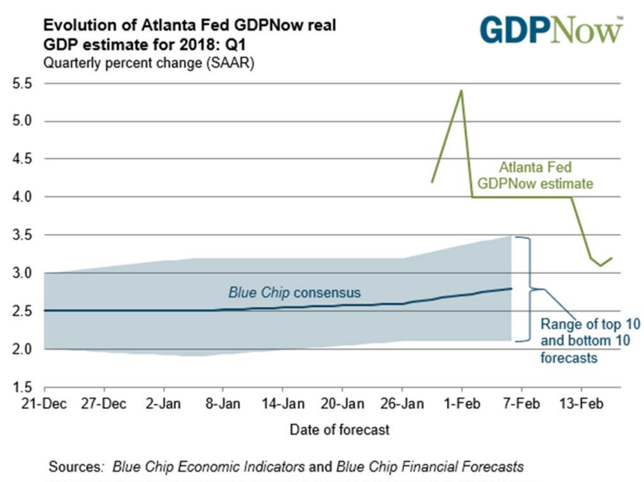
As the charts above illustrate, both the ***Dow Jones Industrial Average and NASDAQ Composite*** bounced back strongly last week. In fact, it was their best week in 5 years which of course followed their worst week in 9 years. That should tell anyone right there that something other than fundamentals were at work.

Markets & Economy

Earnings and consumer sentiment remains quite strong. The Trump tax cuts are now being felt and the publicûs attitude is reflecting their approval after being warned that getting larger pay checks would be the worst thing they could hope for.

On the other hand, the economy is still showing its familiar signs of improving but itûs not booming. Retail sales figures for the crucial month of December were disappointing and previous months were revised lower. The trade deficit continues to reflect large deficits which is not the worst thing but will reduce the reported growth rate for the US economy.

In fact, as seen below from the Atlanta Fed, the estimate for the 1st quarter of this year is around 3% which is still quite good but just a few weeks ago that estimate had been a rather unlikely 5%.



The most important factor though remains wage growth. The tax cuts will be experienced this month via updated withholding tables. This should be a positive. At the same time the bonuses offered to now millions of employees are improving confidence. In other words, the tax cuts and whatever their impact is have barely even been felt. This should be a tailwind for the economy throughout the year.

The clouds on the horizon are the knee jerk concerns that a better economy will create inflation and thus higher interest rates. This thinking has pervaded the economic profession since the 1970ôs. Sadly, it is still prevalent in the economics profession as well as the Federal Reserve.

It is crazy to pursue a policy of fiscal stimulus while at the same time restricting monetary policy. While this is not happening yet, it is the concern which troubles the markets more than the crazy trading of the past few weeks.

For my part, I will continue to watch the markets. US yields have risen at the short end while not moving at the longer end. This flatter yield curve is a strong indication that markets are not worried about inflation but rather a policy mistake by the Fed in response to the perception of a much stronger US economy.

Why donôt we just wait and see what the data shows. Right now, inflation is tame and wages are rising in sync with better growth and in line with productivity gains. In other words, leave well enough alone. There is absolutely no prospect of an inflationary surge like was seen in the 70ôs and early 80ôs. In fact, given the staggering levels of government debt, student debt, credit card debt, corporate high yield debt etc., it is very likely that a jump in rates today would have an outsized impact on the economy. This is something to watch.

The other thing to watch are rates in other countries. They remain much lower than the US and they are not in position to raise them. The US cannot go it alone on this. It would be the end of the economic cycle. It bears watching, as always.

What to Expect This Week

This is a holiday shortened week and there is not much economic news of any consequence. Thus, the narrative discussed above will be the backdrop for the day-to-day trading.

The weekly glance at the ECRIôs index of leading economic indicators shows a decline. In fact, their analysis of the data is calling for a slowdown later this year. Just another reason for the Fed not to get too carried away chasing the ghosts of inflation as if the year was 1980 or something.

Our next update will be in a few weeks due to my travel schedule and this shortened week of trading.

CSCO one-year chart a/o Feb 16, 2018

Symbol: **CSCO**

Shares of **CISCO SYSTEMS** reached all-time highs last week after the maker of computer networking and software services returned to growth. **CSCO's** second-quarter fiscal earnings and revenue reports beat Wall Streetôs expectations, they raised their quarterly dividend and authorized an additional stock buyback. **CSCO's** adjusted earnings came in at 63 cents a share, up 10 percent from a year ago. Revenue rose 3 percent to $11.9 billion.

CISCO's transition from its traditional business of high-end switches and routers to high-growth areas such as security, the Internet of Things and cloud computing is now paying off with improved earnings. **CSCO** announced a 14 PERCENT HIKE TO ITS QUARTERLY DIVIDEND to 33 cents per share and an authorization to buy back an additional $25 billion in shares, raising the total buyback to $31 billion.

As a result, **CSCO** now expects revenues to grow at the 3-5 percent level in the fiscal-third-quarter and earnings per share in the range of 64-66 cents, well above most street estimates. Shares of **CISCO SYSTEMS** have risen 31 percent over the past 12 months and will now offer an annual dividend yield of more than 3 percent.

AMAT one-year chart a/o Feb 16, 2018

Symbol: AMAT

APPLIED MATERIALS has followed much of the same script **CISCO SYSTEMS** put out. The worldôs largest supplier of tools for chipmakers reported first-quarter profit and revenue above analystsô estimates driven by higher demand for flat panel display and chips used in electronic items. They also raised their quarterly dividend and increased their share repurchase program.

AMAT earned $1.06 per share during the Companyôs fiscal-first-quarter, 58 percent higher than the same quarter in 2017. Revenue during the quarter was $4.20 billion, up 28 percent year-over-year. Sales from its semiconductor business, its largest, jumped 32 percent to $2.84 billion in the quarter.

AMAT is DOUBLING ITS QUARTERLY DIVIDEND, from 10 to 20 cents per share. The Company said it also approved a $6 billion share repurchase plan, which is an increase to the existing $2.8 billion program from a previous authorization. For the current quarter, AMAT expects net sales to be in the range of $4.35 billion to $4.55 billion, roughly 26 percent higher than Q2 from 2017. Shares of APPLIED MATERIALS have gained 54 percent over the past year.

PEPSICO

PEP one-year chart a/o Feb 16, 2018

Symbol: **PEP**

PEPSICO's sales topped Wall Streetsô forecasts in the fourth quarter, as higher demand from its snacks division made up for a decline in sales of its carbonated drink products. Adjusted earnings for the quarter were $1.31 a share, on revenues of $19.53 billion. **PEPSICO** also raised its annualized dividend 15 percent to $3.71 from $3.22 per share, effective with the dividend expected to be paid in June.

PEPSICO is focusing on developing products that have low or no calories and sugar, as well as innovating its core brands. With demand for salty snacks growing, **PEP** recorded a 2 percent rise during the quarter for brands like DORITOS and CHEETOS. The snacks business contributes about 25 percent of overall revenue. **PEPSICO** believes they will earn $5.70 per share for 2018, slightly higher than estimates. **PEPSICO's** dividend is nearly 3 percent for shareholders.