Tom McIntyre's
Weekly Commentary & Outlook
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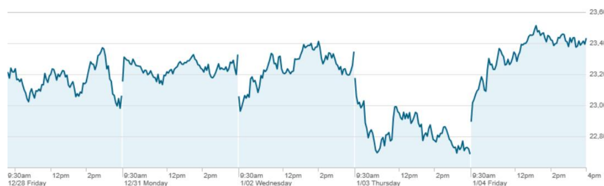
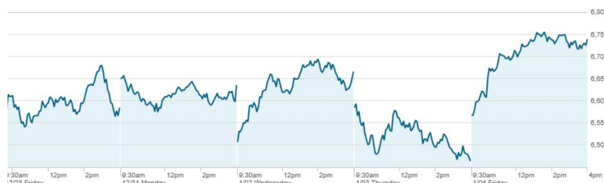
This is Tom McIntyre with another client update as of Monday January 7, 2019.

Markets experienced volatility both up and down to end last year and to open the New Year. Sadly, it took this response from financial markets to get the attention of the central planners at the Federal Reserve Board to relent. This happened just last Friday and that, along with a uniformly strong employment report, sent stocks soaring to end the 1st week of 2019.



DOW 5-day



NASDAQ 5-day

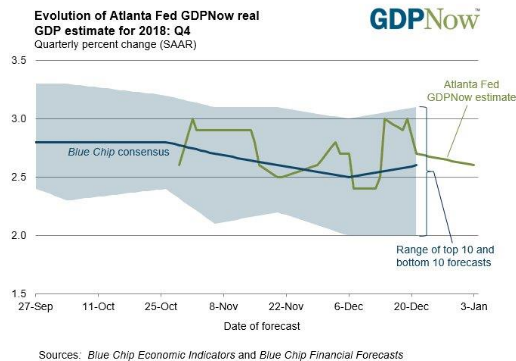
As the charts above illustrate, the ***Dow Jones Industrial Average*** gained 1.6% last week while the ***NASDAQ Composite*** gained 2.3%. Both, despite a huge decline in Apple, as they announced a seldom seen miss in their revenue expected for the December quarter. The fact that this bad news by a market leader was shrugged off, helped by the changed rhetoric from the Fed, might indicate the worst is over but we must be patient.

Markets & Economy

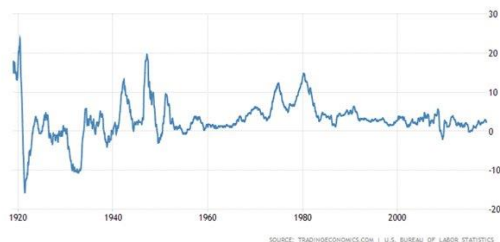
It would be amusing, if it werenźt so sad, to watch the financial media congratulate Fed Chairman Powell on his massive retreat from his disastrous comments of three weeks ago. Gone are the legions of Wall Street experts who agreed that the U.S. and global economy needed to be reined in. I had to laugh last Friday, as previous Chairman Yellen was there to applaud Powell for his balanced thinking. Talk about the blind leading the blind. To think this group is virtually worshipped by the Wall Street community is pathetic but is apparently the only world they feel comfortable in.

The reality is of course simple. The U.S. economy peaked out in the 2nd quarter last year. While the employment report last Friday was stupendous (see the chart below), if one can believe employment reports. It is an accepted notion that job creation is a lagging indicator. All one must do is look at forward looking indicators of employer sentiment and markets such as the bond or commodity markets and one would quickly conclude (though not those on the Federal Reserve Board of Governors) that the slowdown in Q1 of the new year will be dramatic.

The Federal Reserve Board of Atlanta estimates that Q4 came in at 2.6% growth (see chart on next page). This would be great, but they have consistently been too optimistic. But that is the past. The 1st quarter of the new year will be a dud. Look for GDP numbers just north of break even. Part of this is the seasonal trends and part will be the slowing of the global economy, which Powell now seems to be anticipating. Better late than never.



Therefore, inflationary expectations are falling. Look at the chart below to see why. Inflation hasnøt gone anywhere (except government induced inflation via regulatory costs) since the 80øs. Of course, that is the period from which these central bankers (planners) base their analysis. That is why they have been wrong for the past thirty years and why their mistaken policies have led to every recession and/or financial panic of those years.



The markets have reacted to this with emotion nearly every day. Last week wasnøt helped by the news from Apple. Blaming a slowdown in China might be a convenient excuse but they said just the opposite in November. Appleøs problems in China are now becoming obvious to most. Luckily it has earnings and dividends to provide value, but growth investors will look elsewhere. Perhaps to names such as Microsoft which is growing quickly and remains a triple A credit. One of the few in the world.

I briefly mentioned the employment report earlier. This report from Friday was, on paper, just stupendous. Not only were 312K jobs created, which included high paying manufacturing jobs, but it also showed a significant return to the Labor Force of over 400K people as opportunities abound. It also explains why the holiday season sales data was so strong. Higher wages and more jobs equal more spending. That is the world that the Fed wanted to bring down. Very sad.

Just as importantly, this report for the time being is evidence that the ill-fated policy by the Fed can still be reversed in time to avoid a dangerous hit to the economy. It is now accepted that the last hike for this cycle from the Fed has occurred. This would be positive for stocks. The next thing to be on the lookout for is the interest rate yield curve to expand and for commodity prices, especially oil, to rally. Only then will you see the stock market resume a broad rally. In the meantime, we are approaching earnings season. I donøt expect Apple to be the only high-profile name which disappoints investors.

What to Expect This Week

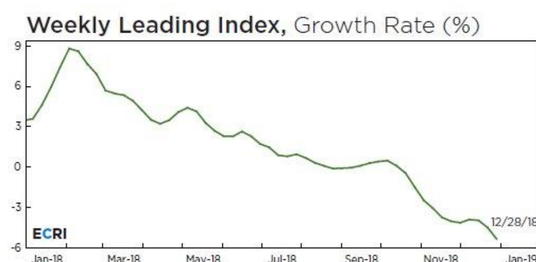
The government has been under a partial shutdown for three weeks. The world has not ended, and it is a shame that for $5 billion dollars (out of a 4 TRILLION-dollar budget) the democrats will not pass a budget to build a wall for national security purposes. This is something they have supported in the past. Thus, there seems some hypocrisy here. Even worse, the faceless DC bureaucrats sit at home without a payroll check. Not sure how this plays out, but it certainly will not be a positive for growth in the Q1.

As a result, economic data scheduled for release may see delays (see the chart below). Thus, markets are stuck with the daily sentiment swings discussed above along with any news announcements from companies. Earnings warnings would be the thing to watch most carefully.

Delayed Releases Due to Government Shutdown		
Advance Goods Trade Balance (bn USD)	-76.0	-77.0
Wholesale Inventories MoM	+0.5%	+0.8%
Retail Inventories MoM	--	+0.9%
New Home Sales MoM	+4.5%	-8.9%
Construction Spending MoM	+0.2%	-0.1%
Factory Orders	+0.3%	-2.1%
Factory Orders Ex Trans	--	+0.3%
Durable Goods Orders MoM (Prelim)	--	+0.8%
Durable Goods Orders Ex Trans. MoM (Prelim)	--	-0.3%
Capital Goods Nondef Orders MoM (Prelim)	--	-0.6%
Cap. Goods Nondef Shipments Ex Air MoM (Prelim)	--	-0.1%

**Due to the government shutdown, the above indicators have been delayed. Their release is dependent on the government reopening.*

Finally, the chart of the ECRIøs leading economic indicators shown below is not a sign of encouragement. Letøs hope that with the Fed now on the sidelines that the damage is contained. I do believe that the trade disputes will ultimately not hurt the global economy but until done, continue to give the naysayers something to complain about the Presidentøs policies. This, while ignoring such stellar news such as last Friday Employment data.



Shares of ***BOEING*** moved higher after the worldøs biggest plane maker boosted its quarterly dividend and increased the size of its share buyback program. ***BA*** will pay a quarterly dividend of $2.055 per share, up 20 PERCENT from the previous payout, and replaced their existing share buyback program with a $20 billion program. ***BOEING*** purchased around $9 billion worth of shares under the previous plan and the buyback will resume this month and be made over the next 24 months. Over the past six years, The Companyøs dividend has increased 325 percent, while buybacks have hit 230 million shares. The new annual dividend yield for the stock will be over 2.5 percent.

BA beat Street forecasts and raised its profit and revenue guidance for the full year when it published third quarter earnings. A key metric for its bullish outlook is ***BOEING's*** backlog of business. Total future orders have grown to $491 billion, which includes 5,800 commercial airplanes. The backlog for the defense, space and security business unit is some $58 billion, of which 31 percent represents orders from customers outside of the U.S.

BA one-year

GLAXOSMITHKLINE's shares moved higher after the drug maker said it would combine its consumer health division with U.S. rival PFIZER to create a new division with $13 billion in annual sales. ***GSK*** also plans to split its remaining pharmaceutical business into two separate divisions, one focused on over-the-counter drugs, the other on prescriptions and vaccines. ***GSK*** will own 68 percent of the newly-created group and has over £1 billion in divestments planned over the near-term.

PFIZER believes the deal will add $650 million in cost synergies and add to the groupøs bottom line for the first three years of the formation. This new merger is the second major corporate deal for ***GLAXO*** in as many weeks, after purchasing ovarian cancer drug specialist TESARO for about $5.1 billion on December 3rd. Even with the large purchase of TESARO, which may not be accretive to earnings until 2022, ***GLAXO*** CEO, Emma Walmsley says her company remains committed to its current dividend policy and will continue to payout 49 cents quarterly, yielding over 5.5 percent annually to investors.

GSK one-year

THE HERSHEY COMPANY stock got a boost after a major analyst gave shares a rare DOUBLE UPGRADE. BANK OF AMERICA reversed its previous rating on ***HSY***, bringing its price target on the chocolate company from under the stockøs current level to well above. The analysts raised ***HSY's*** rating from õUNDERPERFORMö to õBUYö and raised the price target to $120 a share from $92, representing an 11.5 percent upgrade.

HERSHEY has made investments and divestitures to position itself for higher growth recently. The chocolate, candy and gum categories have been slowing down, but operating profit in other areas have been improving, which led to the double upgrade. Shares of ***HSY*** are up more than 13 percent over the past six months and pay investors an annual dividend yielding nearly 3 percent.

HSY one-year