



This is Tom McIntyre with another client update as of Monday May 20th, 2019.

Stocks take their daily cue from the headlines surrounding the trade talks (now ceased) between the U.S. & China. Earnings season is over now, and summer is around the corner (except in the Northeast).



Dow 5-day



Nasdaq 5-day

Last week the **Dow Jones Industrial Average** fell just .7% despite the daily hysteria. The **NASDAQ Composite**, which is more closely impacted by trade concerns, fell 1.3%.

Markets & Economy

My overview of the trade issues is the fight is necessary; the US is in the driver's seat (except for political infighting here at home) and the amounts we are discussing are not that significant to the US economy with its nominal size of 22 TRILLION dollars. Thus, placing tariffs on 200 billion dollars' worth of goods can hurt but it will not bring about a collapse.

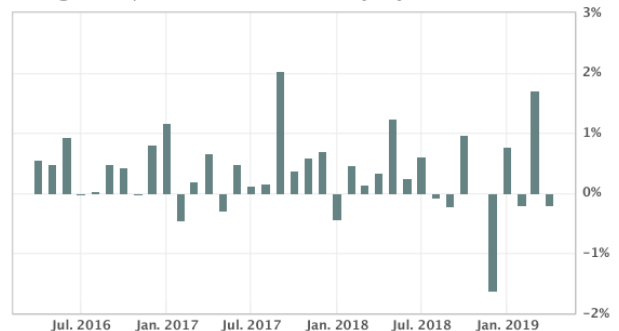
Offsetting this news from China was last Friday's agreement with Canada and Mexico on dropping steel and aluminum tariffs. This is important and

shows that ultimately a deal with China will get done and that improves American security (control of intellectual property rights) and puts the trade practices on a reciprocal relationship. Remember, China exports 5 times the goods to our country as we do to theirs. The US is in control if the politics in this country don't undercut President Trump.

Aside from the trade disputes, the concern over a slowing economy is receiving little attention. I earlier pointed out that the strength in Q1 was overstated and enhanced with some statistical anomalies. This is playing out in the second quarter, there really hasn't been a pick-up in economic activity. Last week showed industrial production falling and even retail sales went negative (see chart below). The housing sector is not bouncing, despite falling mortgage rates. Automobile firms are having trouble finding buyers whose loans don't go bad. Just this morning Ford announced layoffs of 7K people worldwide. Things are not getting stronger. Don't let anyone convince you otherwise.

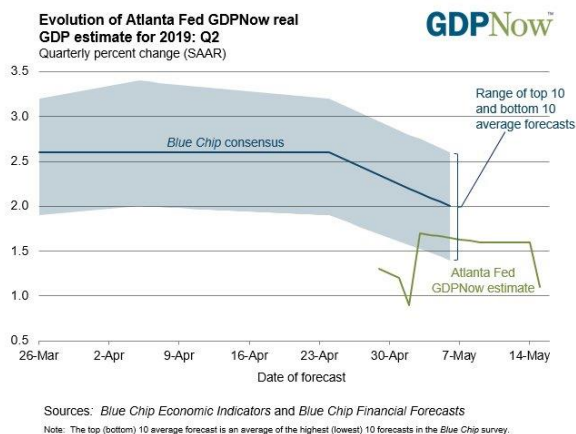
Retail sales

Change from previous month, seasonally adjusted



Source: Commerce Department via FRED

The Atlanta Fed now estimates that Q2 will come in at just a 1.1% annualized growth rate (see chart below). The only thing stopping the Fed from cutting interest rates right now is the erroneous conclusion that the unemployment level is too low and that there are wage pressures in the system. Tell that to those 7K Ford employees. It just doesn't wash to me.



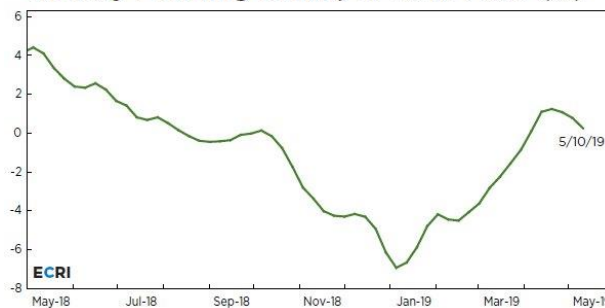
The key then, is to watch carefully how these various trends come together. A slowing economy is great for stocks. A recession or actual trade war is not.

What to Expect This Week

The week is almost completely devoid of important economic data. Some earnings reports for those firms on the quarter-ending April cycle will be announced but again the daily impetus will be on those China headlines etc. That is just a guessing game at this point.

Finally, the chart of the ECRI's leading economic indicators shows a recent loss of momentum to the upside. Thus, it appears from everything we know today, for the first time in many years the 2nd quarter will be weaker than the first. How will this play out in terms of politics, monetary policy and trade issues? We shall see. Right now, the consensus on a strong GDP growth economy for 2019 looks to be in some serious trouble.

Weekly Leading Index, Growth Rate (%)



Company Stories



WALMART announced its best first quarter in 9 years. Shares of the world's number #1 retailer moved solidly higher last Thursday after reporting quarterly earnings of \$1.13 a share from revenue of \$122.95 billion. **WMT's** profits were easily ahead of expectations with comparable-store sales growth exceeding 3 percent for a **FOURTH STRAIGHT QUARTER**.

Sales of groceries, **WALMART's** biggest business, helped fuel the increase along with a later-than-usual U.S. flu season, which boosted health and wellness product purchases. E-commerce sales in the U.S. **INCREASED** a robust 37 percent at **WALMART** during the quarter, also better than expected. While **AMAZON** still has the overall lead in web sales, **WMT** has the best-developed web grocery business with 2,450 stores offering curbside order pickup. **WALMART** is competing with Amazon by offering next day shipping convenience, further increasing the company's e-commerce strength. Additionally, **WALMART** aims to open 100 veterinary clinics within the next 12 months and launching **WalmartPetRX.com**.

Operating income grew 5.5% and gross margins came in better than expected due to a better merchandise mix in both stores and e-Commerce and less pressure from transport costs. On the downside, **SAM's CLUB's** same-store sales fell slightly short of estimates, dragged down by

reduced tobacco sales. Nonetheless, shares of **WALMART** have risen 20 percent over the past 12 months.



WMT one-year



CISCO SYSTEMS knocked the ball out of the park with their earnings report as well.

Fiscal third-quarter net income of \$3.04 billion, or 78 cents per share was better than analysts expected. The seller of hardware, software and services posted revenue of \$12.96 billion in the period, which also topped Street forecasts.

CISCO has successfully pivoted to software and cyber security to counter slowing demand for its routers and switches since companies increasingly opt for cloud-based services instead of building their own networks. Sales in **CISCO's** security business, which offers firewall protection and breach detection systems, rose 21 percent to \$707 million. Revenue in **CISCO's** infrastructure platform business, which includes switches and routers, rose 5 percent to \$7.55 billion, beating expectations.

CISCO sees its fourth quarter adjusted profit to come in between 80 and 82 cents per share, in line with most Street estimates. Shares of **CISCO** have gained 30 percent over the past 12 months.



CSCO one-year



Shares of **APPLIED MATERIALS** moved higher after the

company beat estimates with their quarterly report. **AMAT's** fiscal second-quarter net income of \$666 million, or 70 cents per share was 4 cents better than expected. The maker of chipmaking equipment posted revenue of \$3.54 billion during the quarter, which also topped the Street forecasts.

APPLIED MATERIALS returned \$814 million to shareholders including \$625 in share repurchases and dividends of \$189 million during the quarter. In March, **AMAT's** board approved a five percent increase in the quarterly cash dividend up to 21 cents per share. The company has bought back 8 percent of its outstanding shares over the past 12 months. Several analysts on Wall Street upgraded the stock after the earnings beat. Shares of **APPLIED MATERIALS** have gained over 30 percent year to date.



AMAT one-year