Tom McIntyre's
Weekly Commentary & Outlook

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This is Tom McIntyre with another client update as of Monday September 10th, 2018.

Stocks have shown resilience over the past month (August is statistically the 2nd worst of the year). It has done so for a reason. Fundamentals are good although there are ALWAYS things to worry about.

Dow 4-day

Nasdaq 4-day

As the charts above illustrate the **NASDAQ Composite** has encountered some issues as privacy and partisan censorship issues are impacting some market leaders such as Facebook. Overall though, growth is still valued and hence the marketôs stability despite day-to-day volatility.

Markets & Economy

All the daily news stories have blended together recently. The impact of which has been remarkably minimal on markets. Over the past month, stocks and bonds have been stable while most commodities are falling despite the ostensible strength in the economy.

The Trump administrationôs battle over trade disputes has seen a breakthrough with Mexico and the European Union. At the same time, Canada and the big one of China continue to show push back.

One thing is for sure. The media will not tell you this, but the US has the advantage in these talks if it can remain politically strong. The US economy is the largest, and the only one growing, and it imports far more than it exports. Thus, other nations have a lot to lose in pursuit of unfair trading practices. The quicker this is resolved the better, but it had to be addressed by someone after decades of neglect by administrations of both parties.

Fortunately, despite daily warnings of doom and gloom from the same pundits who have a history of incorrect prognostications, our economy is growing at its fastest pace in decades. Lower taxes, lower regulation and a business-friendly administration has done wonders for the US economy. Will it continue? That is the question the markets are dealing with daily. Caught up in this are the upcoming elections and the outcome of the various trade disputes. While no one knows the outcomes the one thing we can say is it looks good out there today.

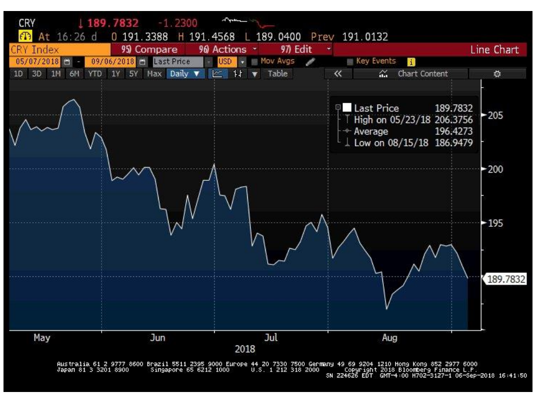
Last Fridayôs employment report for August (see 1st chart below) was another good one especially on the wage front (see 2nd chart). Hourly earnings are up nearly 3% over the past year and that is higher than over the past decade.

The growth rate in the US economy over the past three to six months is above 4% which is higher than the unemployment rate of 3.9%. That hasnôt happened in over 100 years and puts the lie to those saying Trump policies are having no impact. I will note though, that these spectacular numbers receive NO notice in the media as this country is fixated on personality versus policy/results.

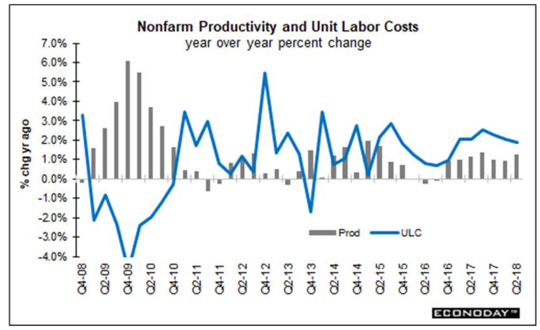
Having said all of that, the US economy will not continue to grow above 4%. The FED will not tolerate it (absurd) and will act to constrict policy going forward. Already, housing and automobile sales are suffering. That will not change.

My gripe with the FED remains. Its willful ignorance of the lack of inflation with which this growth is coming with. Look at the two following charts.

The first shows a graph of commodity prices. They have been falling along with a rising US Dollar. This is not a sign of inflation, just the opposite.



The second chart shows the unit labor costs are still very low and even declining. This means that the growth in the economy is real rather than being achieved via higher prices (economists call that nominal growth). In other words, this is a great economy which is being reflected via stock prices. The media neither understands it nor wants to discuss due to their bias. Todayôs 3%-plus economy is something to preserve and not try and talk down as goes on each day.

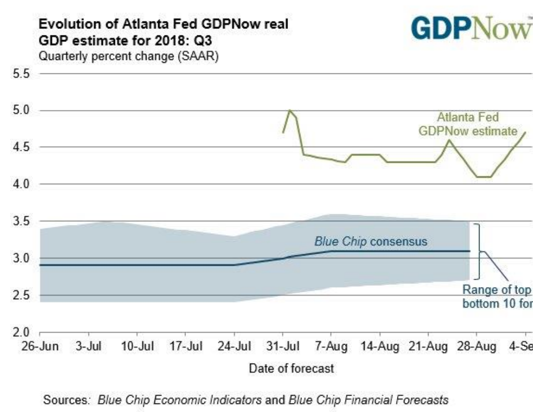


Make no mistake, the risks of policy reversals via elections or bad monetary policy etc. are real but currently the markets donôt think these policies will be pursued. Time will tell.

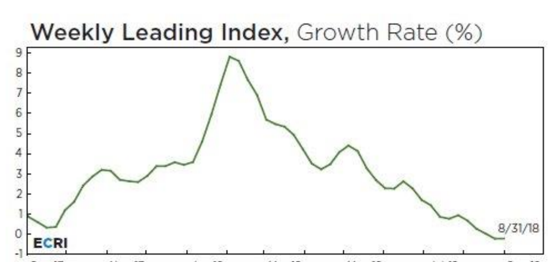
What to Expect This Week

Summer is over, and it is too early for much corporate news thus most of the action will be macro in nature and as such will be unpredictable. Therefore, investing long term in successful firms in a growing economy is the strategy to hold on to.

The graphs below show two visions of the future. The first from the Atlanta Fed shows an estimate for Q3 growth exceeding 4%. That would be unbelievable if it happens.



The second chart from the ECRI shows their reading of leading economic indicators to still be soft. While these people are good they have really been quite mistaken about economic growth over the past 18 months. Two views and I think somewhere in the middle would be a great background for markets if it comes about.



WMT one-year

MDT one-year

Symbol: WMT

Shares of **WALMART** shot higher after the Company posted impressive second-quarter fiscal 2019 results and raised guidance for sales and earnings through the remainder of the year. Thanks to improved e-commerce sales and a decrease in interest expenses, **WMT's** adjusted earnings of $1.29 per share came in well ahead of analystsô expectations and almost 20% higher than the same quarter in 2017. Total revenues advanced 3.8 percent to roughly $128 billion, also higher than Street expectations.

Domestically, **WALMART** recorded net sales of $82.8 billion, marking the Companyôs HIGHEST GROWTH RATE IN MORE THAN 10 YEARS. E-commerce sales in the segment jumped 40 percent higher, a 33 percent rise when compared to the first quarter. **WMT** has enhanced its online assortment of items with 1,100 new renowned brands and increased grocery pickup. The worldôs largest retailer now has grocery pickups in more than 1,800 locations and is on track to reach nearly 40 percent of USA households by the end of this year. Internationally, segment sales at **WMT** went up 4 percent to $29.5 billion.

With **WMT** hitting on so many improving metrics, the Company has adjusted its full-year guidance higher, with earnings per share predicted to be in the $4.90 to $5.05 per share range, which is above the previously stated $4.75 to $5.00 area. **WALMART** stock has risen some 21 percent over the past year.

Symbol: MDT

Shareholders of device-maker **MEDTRONIC** were given a double-dose of good news recently, a superior earnings report and a dividend increase. The Companyôs Q1 fiscal earnings were $1.17 per share, 6 cents better than expectations and 5 cents more than the same quarter last year. **MDT** posted overall revenues of $7.38 billon, $3.86 billion of that figure is from sales in the U.S. More growth was reported in non-USA developed markets, where the Company revenue increased 4 percent.

Like many of our holdings, **MEDTRONIC** is increasing its earnings and revenue projections for the rest of the year. **MDT** is looking to earn $5.10 to $5.15 per share, with revenue growth in the range of 4.5 to 5 percent. Shortly after the earnings release, the Board of Directors approved a new cash dividend of 50 cents per share, representing a 9 percent increase over the prior year. This means **MEDTRONIC** has increased its annual dividend payment for the PAST 41 CONSECUTIVE YEARS. The new dividend is payable on October 19th to shareholders of record on September 28th. **MEDTRONIC's** stock has risen 17 percent over the past 12 months.

CSCO one-year

Symbol: CSCO

Shares of **CISCO SYSTEMS** hit all-time highs earlier this month. **CSCO** reported powerful fiscal fourth-quarter earnings of 70 cents per share on revenue of $12.8 billion. The results were 6 percent higher than a year ago and much higher than Wall Street had anticipated. **CSCO** experienced broad-based growth among all regions and business sectors. Subscription sales now represent 56 percent of its software revenue, which is up from 51 percent in the year-over-year quarter.

CISCO offered fiscal-year 2019 guidance of 5% to 7% growth and earnings per share in the range of 69 cents to 74 cents. Investors cheered this news, sending the stock 7 percent higher after the announcement. Shares of **CISCO** HAVE RISEN 49 PERCENT in the past 12 months.

MO one-year

Symbol: MO

Speaking of raising dividends, **ALTRIA** is increasing theirs. The Board of Directors at the tobacco conglomerate authorized a 14.3 percent increase in the regular quarterly cash dividend, up from 70 to 80 cents per share. **MO** will pay the new quarterly dividend on October 10^{th} to shareholders of record this Thursday, September 14^{th}. The forward annual dividend yield for **ALTRIA** will be a substantial 5.35 percent. This represents the SECOND DIVIDEND INCREASE for 2018. The Company is expected to post adjusted earnings of $4.35 per share in fiscal 2019 and saw its stock rise when management mentioned potentially getting into the growing ñcannabisò market.