Tom McIntyre's
Weekly Commentary & Outlook

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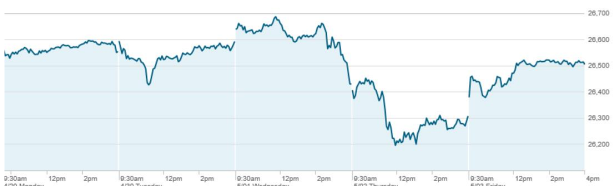
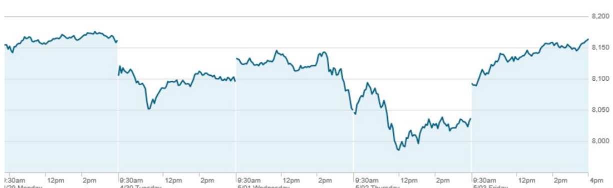
This is Tom McIntyre with another client update as of Monday May 6th, 2019.

The stock market continued its rise last week, albeit selectively, based upon earnings results which continue to be fine for our portfolios.



Dow 5-day



Nasdaq 5-day

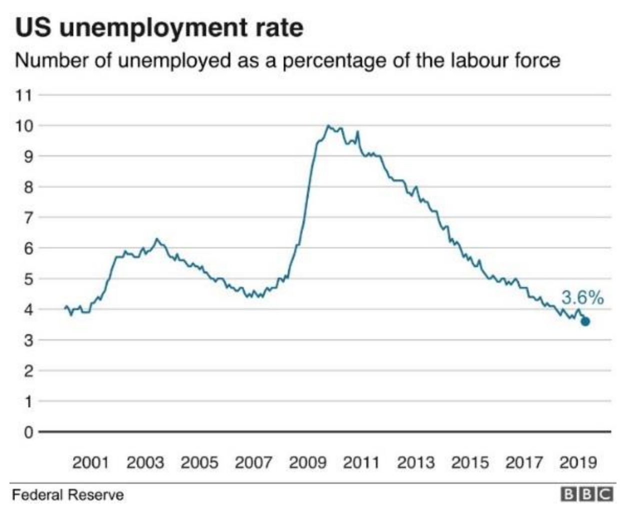
As the charts above illustrate both the ***Dow Jones Industrial Average*** as well as the ***NASDAQ Composite*** were basically flat last week but we did have some exciting movers (see our comments further below).

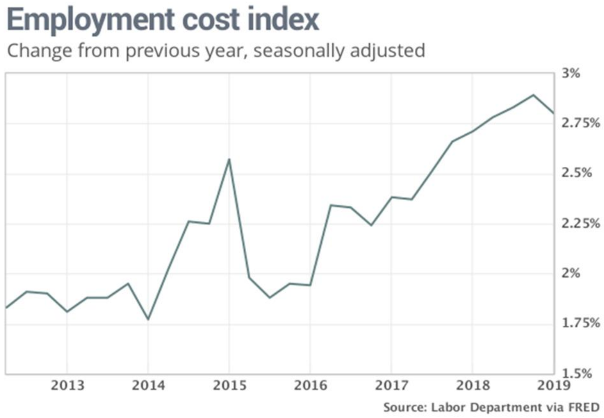
Markets & Economy

This morning the markets are all upset about the on-going trade talks with China. Keep in mind, this has been upsetting markets for well over a year now, but it has neither stopped the markets nor the economy. Thus, until and unless some actual developments take place, I would advise investors to look elsewhere for their entertainment.

Last week was notable because on Friday the government issued its payroll number for April. Not only did it furnish a superb report of a **FIFTY-year** low in the official unemployment rate, but it also showed moderation in the year-over-year wage gains and separately showed that US productivity jumped at an annual rate exceeding 3%. All of this is just a fancy way of saying things could not be much better. This, combined with the previous weekôs artificially strong GDP growth for the 1st quarter, has put to rest most concerns of a recession any time soon.

The two charts below show the trends in the unemployment rate as well as the employee cost index for the economy. Essentially, these charts show a multiyear trend of lower unemployment which contrary to accepted Wall Street wisdom has NOT resulted in outsized gains in compensation. Wage growth has been doing better but the low unemployment rate hasnôt resulted in the cost-push inflation which dominates thinking inside The Beltway at the Federal Reserve.

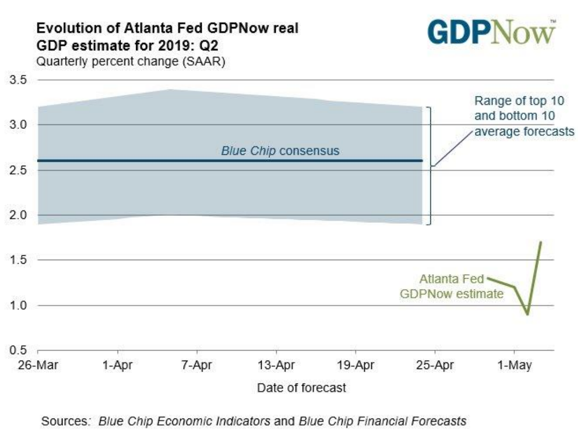




Of course, the reason for this is that there are now over 96 MILLION working-age Americans that aren't counted in the work force. Thus, the unemployment rate can be at a fifty-year low and not present a real picture of the labor market.

That is why last week's payroll report, like the previous week's GDP report, was much better on the surface. 490K people dropped out of the labor force in April. That's not good. The unemployment rate declined simply because of this fact alone. This explains why the bond market didn't have its usual Pavlovian response to sell off on ostensibly better than expected economic news. Even the Fed, which met last week, seem to admit to understanding the situation. The financial markets continue to expect the next move by the Fed will be to lower rates. Timing seems to be the only question.

In fact, estimates for future growth continue to be on the tepid side. The chart below from the Atlanta Fed shows their latest estimate for the 2nd quarter GDP growth rate to be just 1.7%. This also explains why mortgage rates continue to fall but sadly in this slow growth economy the demand for mortgages just isn't there. Hardly signs of an overheating economy.



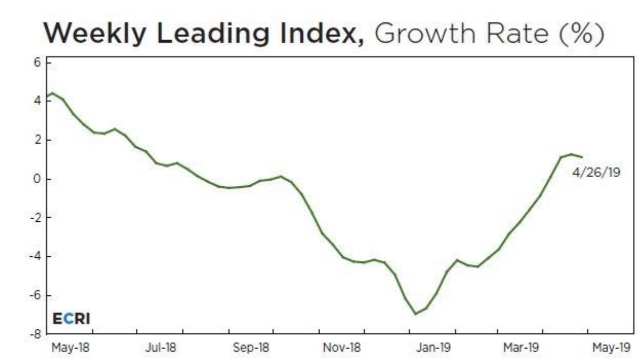
Finally, as mentioned above, this morning we now have the trade dispute with China back into the news. Just another uncertainty that needs to be worked through. All I can say is that the US economy remains the envy of the world and our advantages over China are enormous. Our markets are doing better, and they are much more reliant on exporting to us than we are in exporting to them. Thus, we have leverage. Where they have leverage is time. There are no elections in China. They like to delay and delay. Their current hope is to drag this out into the US presidential election cycle. They hope the end of Trump would mean the pressure on them would cease. Today's warning shot by our government is an attempt to disabuse them of that notion. Time will tell.

What to Expect This Week

Earnings will be ending but as mentioned above the big story will now be the China trade talks. Will they happen? Will there be a break through etc.? A little boring for sure but that is what traders will be focused upon.

While there will also be some minor economic reports concerning inflation, they won't tell us anything we don't already understand.

Finally, the weekly chart from the ECRI of their leading economic indicators shows no evidence of a boom anytime soon. Remember though, this goldilocks economy is a perfect background for investors. With the next Fed move towards easing, any unsettling days will be used to get into the market rather than get out.



Thanks to strong performances from its expanding cloud security business and media division, ***AKAMAI*** comfortably exceeded Wall Streetôs expectations with their first quarter earnings. ***AKAM*** earned $1.10 a share, 8 cents better than predicted and 39 percent better than the year-ago quarter. Revenue of $706 million was also better than estimates and 6 percent higher than the year-ago quarter.

Cloud Security Solutions revenues, which make up about a third of ***AKAMAI's*** overall business, surged 27 percent year over year. The growth was driven by strong demand for its three top line products. The Web Division at ***AKAM*** increased 7 percent year over year. The Media and Carrier Division recorded revenues of $330 million, an increase of 5 percent year over year. ***AKAMAI*** is getting more growth out of its international business as well, with an increase of 17 percent from foreign customers year over year. Shares of ***AKAM*** hit multi-year highs in April and are up more than 30 percent so far in 2019. Several analysts have raised their price targets to $100.

AKAM one-year

Shares of Swiss drug maker ***NOVARTIS*** moved significantly higher after beating expectations with its quarterly earnings and announcing they raised 2019 profit targets. ***NVS*** reported first-quarter core net income rising 13 percent to $2.81 billion, compared to the Streetôs estimate of $2.76 billion. Sales, excluding eyecare business ALCON which was spun off to shareholders last month, rose 7 percent to $11.1 billion, compared to the $10.9 billion expected.

NOVARTIS now sees 2019 core operating income growing at a high-single-digit percentage rate, up from the previous forecast of mid-to-high-single-digit percentage growth. Sales are seen accelerating thanks to heart treatment ENTRESTO and psoriasis medicine COSENTYX. Sales of COSENTYX, which is NVSôs best-selling drug, jumped 41 percent to $791 million during the quarter. Meanwhile, ENTRESTO sales ballooned 85 percent to $357 million. Shares of ***NOVARTIS*** have gained 21 percent over the past year and pay shareholders an annualized dividend yielding 3.5 percent.

NVS one-year

MERCK and its wonder drug KEYTRUDA have done it again. First quarter earnings were much better than expected when released last week. The company promptly raised its earnings and sales forecasts for the rest of 2019. ***MERCK's*** net income rose to $2.92 billion, or $1.12 per share in the first quarter, a big jump from the $736 million, or 27 cents per share ***MRK*** earned a year earlier.

KEYTRUDA has driven much of ***MERCK's*** recent growth as it maintains its lead as the initial treatment for advanced lung cancer, which is the most lucrative oncology market. Following positive data from recent studies, the drug is also expected to become the standard-of-care for some advanced kidney cancers. Sales of KEYTRUDA rose 55 percent from a year ago to $2.27 billion. Elsewhere, sales at ***MRK's*** vaccine unit increased 27 percent to $838 million. Sales of ***MERCK's*** measles, mumps, rubella and chickenpox vaccines have seen increased demand, given the recent outbreak of measles in the US and around the world. Shares of ***MERCK*** have gained nearly 40 percent over the past 12 months.

MRK one-year

GLAXOSMITHKLINE had a strong start to 2019, earning 79 cents in the first quarter, well ahead of the 66 cents Wall Street expected. Revenues also topped analystsôpredictions, coming in at $10.1 billion, a gain of 5 percent year over year. While sales in ***GLAXO's*** consumer healthcare and pharmaceuticals were up 1 and 2 percent respectively, the vaccines segment was the star of the show, increasing 20 percent. Not to be outdone, respiratory product sales grew by 25 percent.

GSK maintained its previous guidance for 2019, despite a slight decline in sales of its best-selling ADVAIR product and ***GSK's*** recent acquisition of TESARO. ***GLAXO's*** share are up 7 percent so far in 2019.

GSK one-year