Tom McIntyre's
Weekly Commentary & Outlook

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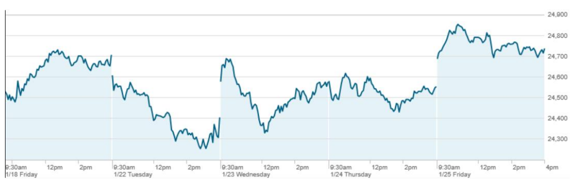
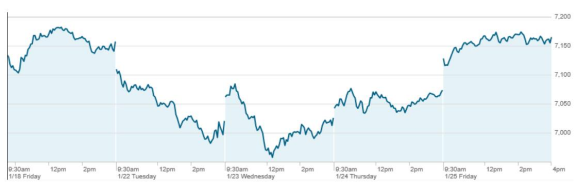
This is Tom McIntyre with another client update as of Monday January 28th, 2019.

Stock prices continued to recover from the Fed induced year-end sell-off. The Fed has blinked and has been joined in blinking by other central banks in Japan, China and most recently Europe. The reality is that once again these central planners have brought about a threat to the world's economy and so on cue they have changed course and are now turning stimulative.



DOW 5-day



Nasdaq 5-day

As the charts above illustrate, both the ***Dow Jones Industrial Average*** and the ***NASDAQ Composite*** were marginally higher last week but have gained in each of the first 5 weeks of this year. What has changed since last month? In essence, the outlook for monetary policy.

Markets & Economy

The markets have had to deal with confusion over Brexit, the partial US government shut down (very little true impact), fears of a slowdown engineered by the Fed which could turn into something worse and of course the daily headlines coming out of the media about trade disputes and other matters Washington DC.

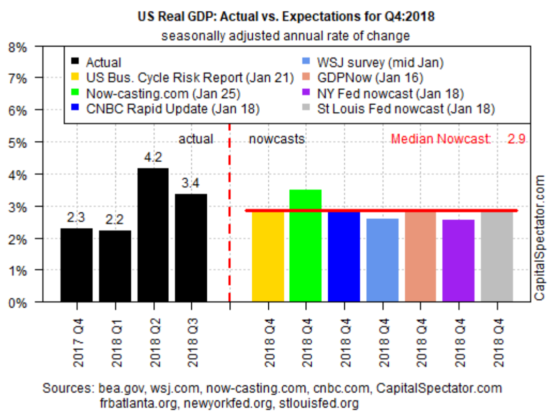
Given this background, it is a wonder that simply getting the Fed off its back has allowed the stock (and bond) markets to turn their attention to other things. As a result, the yield curve has steepened which is a positive for future growth. Oil prices have recovered from their December collapse which is another sign of better times and most importantly stock prices, at least here at home, have gotten off to a good start despite some real nasty warnings coming from the likes of Apple and this morning from Caterpillar.

Thus, we are now in a healing stage in my opinion. Damage was done by the Fed. The extent of which can be seen in various firmsô outlook for the new year. On the other hand, the US economy is still in growth mode, but growth rates are slowing. This has been my view for some time now. With the Fed pulling a 180-degree turn, the prospects for later this year are improving at least in terms of sentiment.

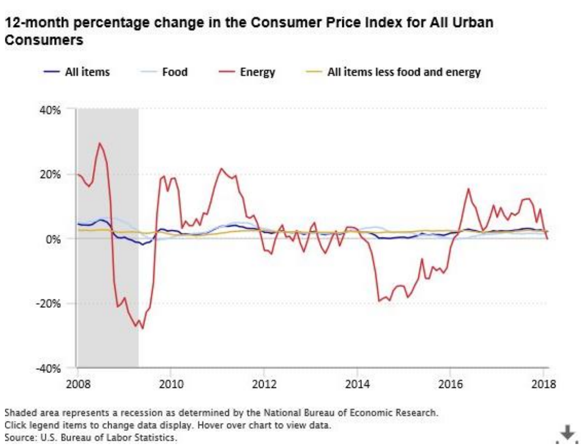
Speaking of the Fed, not only have they blinked in terms of hiking interest rates, but they are blinking away in terms of their promises to shrink their balance sheet which has been depriving the globe of liquidity for the past year. The notion that the global economy could withstand that policy of ñquantitative tighteningò was nothing but a fantasy convened to the eggheads living in DC. All market indicators were telling them NO for months and they ignored it until the stock market showed real signs of trouble last month.

With the pressure from President Trump on their ill-fated policies, the Fed has blinked. Fearful that if a recession does materialize later this year they would be blamed. In the past they were protected by the financial media but this time they would not have been able to hide so they simply turned tail and the rest is history.

Now, as I have always said the damage they have caused is real. It is just the extent of it which the market must try to figure out. Having said that, the early indications are that growth will wrap up last year just fine. See chart below for estimates of the fourth quarter. Clearly, jobless claims and various other reports continue to show the overall economy doing just fine. Corporate commentary though is something else. Loan growth of all sorts is lagging, and various interest rate sectors are not doing well. That needs to sort itself out over time.



The Fed now acknowledges these matters and further notes that inflation has not and is not likely to become a problem (see chart below of last yearôs CPI results). One must wonder why it took them so long to get to this rather obvious conclusion. Then again what can one expect from people locked up in DC creating computer models for the economy based upon the 1970ôs and 1980ôs? Very sad but itôs over now and that is bullish for stocks and commodities ultimately.



What to Expect This Week

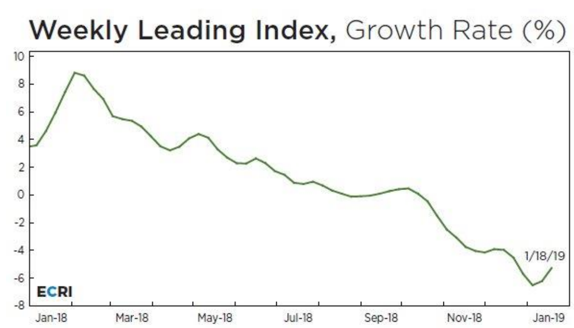
This is going to be an action-packed week. Many companies will be reporting their Q4 earnings. Some will disappoint for the reasons discussed above. Many will do just fine (see our comments below of our holdings). Ultimately though, the end of the threat of never-ending interest rate hikes and other monetary tightening will be viewed as bullish for stocks. Just a question of company selection, prices and patience.

In addition, this week does see the Fed meet. They will do nothing. However, they will open their mouths which is always dangerous. They are proud and may be reluctant to bless the de facto change in their policy. They may try to have their cake and eat it too sort of thing. That could cause the markets some indigestion. It is hard for them to simply admit the risk they have put the global economy in and may choose to focus on happy talk about the economy and that sort of thing. The reality is this, any attempt by them to go back to last yearôs thinking will see a market response much worse than the fourth quarter of last year. They wonôt risk it, but the slight possibility of confusion is a risk for stocks.

On Friday, the employment data for January will be announced. Given the record LOW claims for unemployment benefits I donôt think this report will be market moving one way or the other. It should be good but hard to imagine so good that the usual suspects will run out and talk about the Fed getting back on the hard policy course. By far, the explanations by the Fed chairman on Wednesday should take precedence over whatever comes out of this report.

Finally, the weekly chart of the ECRIôs weekly economic indicators is shown below. While a slight improvement, it is nothing to get excited about. In addition, there is a link to an analysis of their data by their chief economist. It is a six-minute summary of where we are in the economic cycle and is provided for your convenience.

https://www.businesscycle.com/ecri-news-events/news-details/economic-cycle-research-ecri-lakshman-achuthan-business-cycle-bloomberg-interview-turning-points-in-global-growth-market-risk-recession



Shares of ***BOEING*** have been taking off since the worldôs largest planemaker announced several record-breaking sales numbers for the fourth quarter and year. Despite supplier woes and tough tariff talk, ***BOEING*** delivered 806 new aircraft in 2018 to clients around the world. During the fourth quarter alone, ***BA*** delivered 238 commercial airplanes an increase of some 14 percent from the record 209 reported a year ago.

The latest numbers indicate that some fuselage and engine delays at suppliers last year are largely behind ***BA*** as it gears up to meet surging demand for airplanes amid booming air travel customers.

These impressive numbers keep ***BOEING*** the worldôs biggest plane maker for a seventh straight year. ***BA's*** success means they are taking market share away from main competitor Airbus. ***BA*** is also setting up to beat Airbus for aircraft orders on a like-for-like basis after booking 893 net orders in 2018. The Company is ramping up for an even bigger 2019. ***BA*** sees surging demand for its most popular product, the 737 MAX jetliner, as well as every one of their twin-aisle aircraft. ***BOEING*** shares have risen 9 percent over the past 12 months.

BA one-year

WALMART is on pace to generate about $16 billion in its growing e-commerce business in fiscal-year 2018 which ends this month. Thatôs an increase of 40 percent over last year and slightly faster than Amazonôs 37 percent year-over-year growth. A big key to ***WMT's*** growth is in groceries.

Believe it or not, MOST PEOPLE visit a ***WALMART*** to buy groceries. The division made up 56 percent of the Companyôs unit sales last year. ***WMT's*** footprint of 4,761 stores in the U.S. gives it a significant advantage over Amazon when it comes to food delivery. ***WMT*** has nearly 2,100 grocery pickup locations and 700 pickup towers. It has had tremendous success with its grocery pickup service and management is now using its newfound expertise in this area to begin grocery delivery.

By the end of 2019 WMT expects to cover about 40 percent of the U.S. population with delivery through about 800 stores. Thatôs a coverage area that Amazonôs Whole Foods Market canôt match. Shares of ***WALMART*** are up 10 percent in the past six months.

WMT one-year

The beat goes on for ***MERCK's*** wonder drug KEYTRUDA. The Company received five new approvals from regulators in Japan, including three expanded uses in advanced non-small lung cancer, one in melanoma and a new indication in advanced microsatellite instability-high tumors. ***KEYTRUDA*** was first approved for use by patients in Japan two years ago. Cancer is the leading cause of death in Japan, and lung cancer is the second most commonly diagnosed variety. ***MERCK*** has been one of the strongest performing major drug companies on the NYSE in 2018, with shares up some 19 percent during the past 12 months.

MRK one-year

Shares of ***PEOPLE'S UNITED FINANCIAL*** moved higher Thursday after reporting fourth-quarter earnings which topped Wall Street estimates. Operating EPS rose to 36 cents in the December-quarter, well ahead of current estimates, and much better than ***PBCT's*** fourth quarter of 2017, in which the Company earned 31 cents. Net interest income increased to $332.6 million during the quarter, while non-interest income increased to $88.7 million. Overall, revenues in the quarter totaled $421.3 million, in line with most estimates. ***PBCT's*** annual dividend yield for investors is 4.18 percent. THIS WAS THE BEST QUARTER for ***PBCT's*** growth and margins since we have owned shares for our clients.

PBCT one-year

ENTERPRISE PRODUCTS PARTNERS announced they will be raising its quarterly distribution for the 58th STRAIGHT QUARTER. ***EPD*** will be hiking the distribution to 43.5 cents per common unit, which will be paid to limited partners on February 8th for unitholders of record January 31st. This consistent distribution hike reflects ***EPD's*** strong midstream operations, backed by long-term pipeline transportation contracts with shippers. The annual distribution rate equates to a better than 6.3 percent annual payout.

EPD one-year