Tom McIntyre's Weekly Commentary & Outlook

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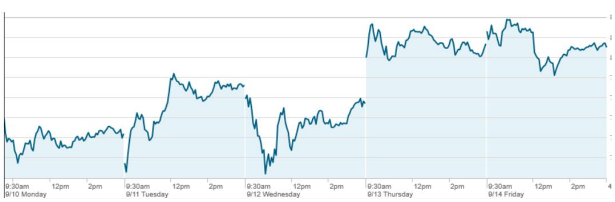
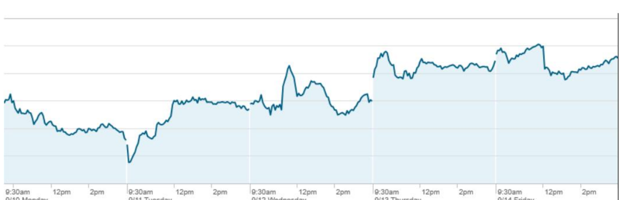
This is Tom McIntyre with another client update as of Monday September 17th, 2018.

Markets continue to be resilient in the face of the ten-year anniversary of the financial collapse of 2008 as well as the usual daily concerns over the economy, Fed policy and the always topical subject of "trade wars".

While these subjects give the pundits much to fill the air waves with, the stock market is focusing on the impact of any moves on the future of the economy. For the US it seems the market has a much view of more constructive view of the future than the media or official punditry class on television. Nothing new about that, I suppose.



Dow 5-day

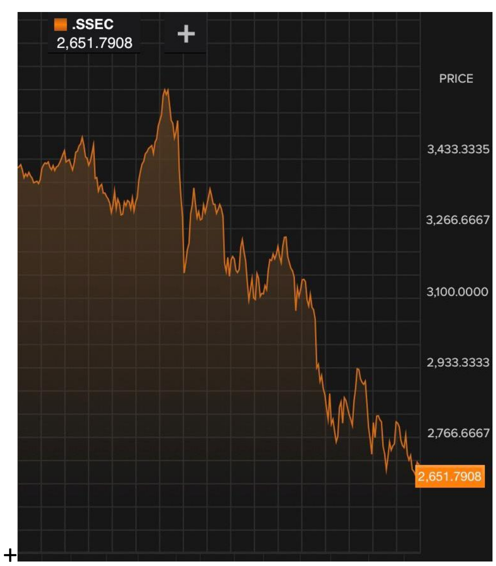


Nasdaq 5-day

As the charts indicate, both ***the Dow Jones Industrial Average*** as well as the ***NASDAQ Composite Average*** gained one percent or better last week. Not bad considering that September (as we are constantly told) is the worst month historically for stock market performance.

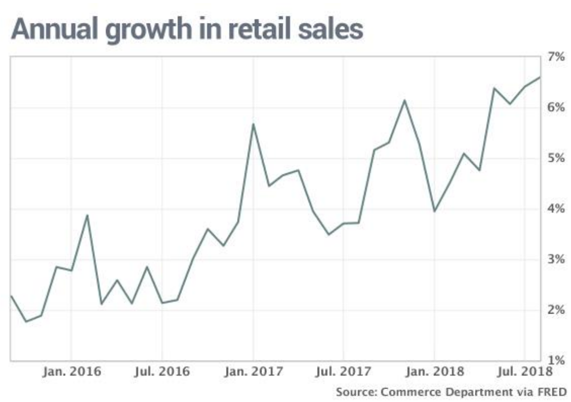
Markets & Economy

The background remains the same, trade disputes figure into the daily news. As I said last week, the media should point out the advantage which the US has in these negotiations, being the largest importer by far in the world. Look at the chart below of the Chinese stock market which is down over 20% this year and compare that with our markets. Clearly the concern expressed in the news each day about trade wars is being felt by the export driven countries of China and the emerging world. Their sole bet is that political forces here at home will force the Trump administration to back off. I don't think that will happen.

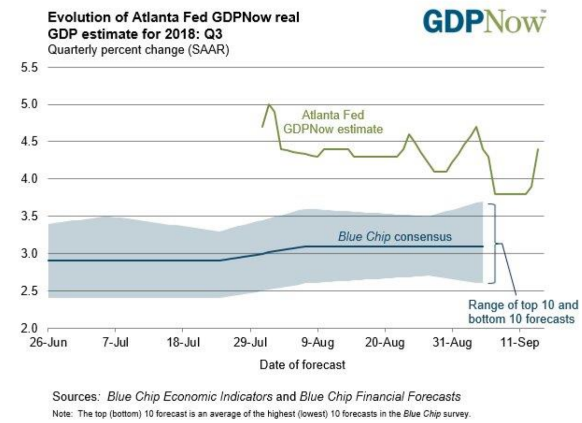


Incidentally, the other worry about these trade disputes has been their impact on inflation to the consumer. Last week's anemic reports on both consumer and producer price increases once again shows that these concerns are being overblown, no doubt for political reasons. With the upcoming mid-term elections, the media is trying to convince Americans that higher prices for goods is the price for forging new and fair-trade agreements. Donõt think this will work because the economy is doing well.

Last weekõs report on retail sales, while a disappointment, still showed a healthy jump on a year-over-year basis. Previous months were revised upwards so there is nothing to fear yet. I do share the concern that higher interest rates are having an impact on interest-rate sensitive industries such as housing and automobile sales. Iõm also concerned that the worsening government budget deficit, at a time of supposed full employment, is dangerous. The worst component of the deficit blowout is the Fedõs policy of higher rates. So, in an upside-down world, the Fed is raising rates which blows out the budget and then complains that the deficits are rising. Only in Washington DC could so many smart people be so stupid.



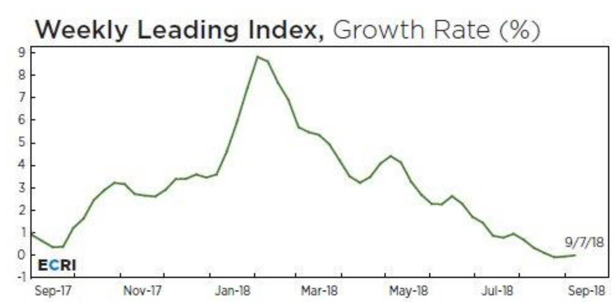
Most importantly though, is that growth in the economy is proceeding nicely. The chart of the Atlanta Fedõs estimate (next chart) still shows over a 4% jump in the 3rd quarter. I donõt think it will get there but anything over 3% is just great. Eventually, this kind of growth and a resolution of the trade issues, especially with China will flow through to improving budget numbers. This does presuppose though that the Fed tapers off its kamikaze policy of jumping rates every two months or so. Nowhere else in the world (except Turkey) do you see these increases; neither do you see the inflationary impacts so often predicted but which donõt seem to make it through to final prices. This is the weak point in the current economic set-up and bears watching.



What to Expect This Week

Well if the whole week is like this morning, itõs going to be another yawner. Last week markets were concerned by the impending hurricane. This week there is little corporate or macro news, but one never knows. On top of this, Yom Kippur is on Wednesday which may further slowdown trading.

Finally, the weekly look at the ECRIõs leading economic indicators shows that its year-over-year growth rate is near zero. Clearly, they see a significant slowdown. They are not alone in their view of the future, but they certainly have been too pessimistic for a very long time.



One-year (Symbol: QCOM)

One-year (Symbol: MRK)

QUALCOMM shares jumped late last week to multi-year highs after the Company announced a new, accelerated share buyback program with major banks. The Californian chip-maker will move up the purchase of $16 billion in shares as part of an overall $30 billion buyback program announced earlier this year after the company did not acquire NXP Semiconductors. **QUALCOMM** CEO Steve Mollenkopf said ñWe remain on track to complete a large majority of the announced program by the end of fiscal 2019.ò

Several analysts upgraded shares of **QUALCOMM** on this buyback news, highlighting **QUALCOMM's** continued effort to cut costs. Also, analysts saw the potential for the Company to resolve issues with APPLE and HUAWEI, with whom they have supplied chips but have been embroiled in ongoing licensing and royalty disputes. Shares of **QUALCOMM** have gained more than 46 percent in the past year.

MERCK's cancer drug KEYTRUDA continues to rack up positive reviews from regulators for various disease application. The FDA granted priority review for the drugôs treatment for advanced or metastatic, non-squamous non-small cell lung cancer in patients whose tumors have expressed themselves. The application was based on the pivotal Phase 3 KEYNOTE-42 trial which demonstrated a significant improvement in overall survival.

Earlier in the week, the EUROPEAN COMMISSION approved KEYTRUDA in combination with another chemotherapy drug for the first-line treatment of metastatic non-squamous non-small cell lung cancer in adults whose tumors have not mutated. This approval is the first in Europe for such a combined therapy. It is based on data from the Phase 3 KEYNOTE -189 trial which demonstrated a significant survival benefit as compared with standard-of-care chemotherapy alone, reducing the risk of death in these patients by half. Analysts predict KEYTRUDA could deliver more than $10 billion in annual sales for **MERCK** by 2020. Shares of **MERCK** ARE ALSO TRADING NEAR MULTI-YEAR HIGHS.

One-year (Symbol: BA)

Shares of **BOEING** neared all-time highs last week as orders for new aircraft continue to materialize from our government and private industry. The U.S. Air Force awarded **BOEING** a $2.9 billion contract for 18 KC-46A tanker planes. This becomes the fourth production lot for the Company from the Air Force, bringing the total contract to 52 tankers. Eventually, **BOEING** plans to build 179 of the 767-based refueling aircraft for the Air Force to replace its legacy tanker fleet. Tanker deliveries are expected to begin later this year.

Meanwhile, Air Peace of Nigeria signed a new order for ten 737 MAX 8 airplanes. Air Peace already operates 737s between major cities in Central and West Africa and is looking to expand its fleet to launch international flight operations soon. The 737 MAX 8 can fly up to 3,850 nautical miles between refueling, saving carriers like Air Peace up to 20% in overall energy costs per flight. The 737 Max IS THE FASTEST-SELLING AIRPLANE IN **BOEING** HISTORY, accumulating more than 4,700 orders from 102 customers worldwide. Shares of **BOEING** have been áairborneô the last few years, moving 47 percent higher over the past 12 months.