Tom McIntyre's
Weekly Commentary & Outlook
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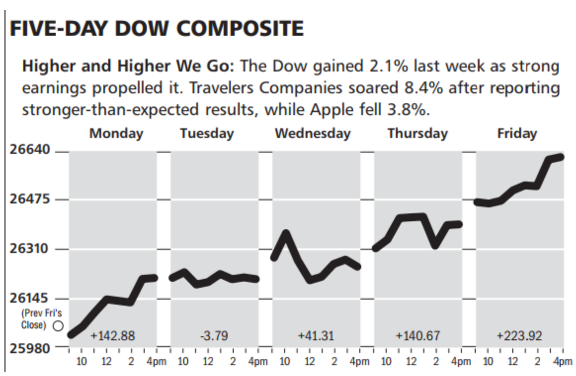
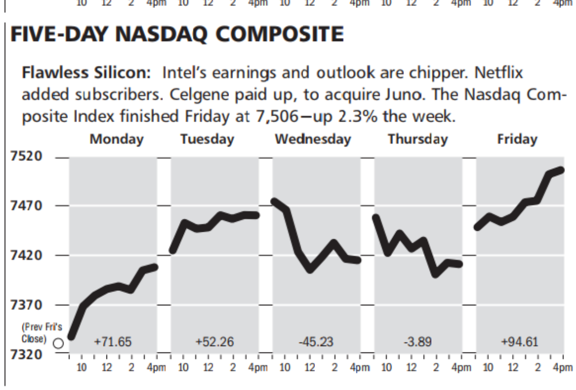
This is Tom McIntyre with another client update as of January 29, 2018.

Markets continued higher on optimism over economic prospects for the new year. This notion was further enhanced by President Trump's successful trip to Switzerland where he stressed the need for growth over regulation and central planning.





As the charts above illustrate, both the ***Dow Jones Industrial*** and the ***NASDAQ Composite*** gained over **2%** last week. This January is poised to be one of the best and historically that bodes well for the overall year.

Economy & Markets

The government reported that their 1st estimate for growth in the 4th quarter GDP came in at subdued 2.6%. This was lower than most economists had been expecting but still very respectable.

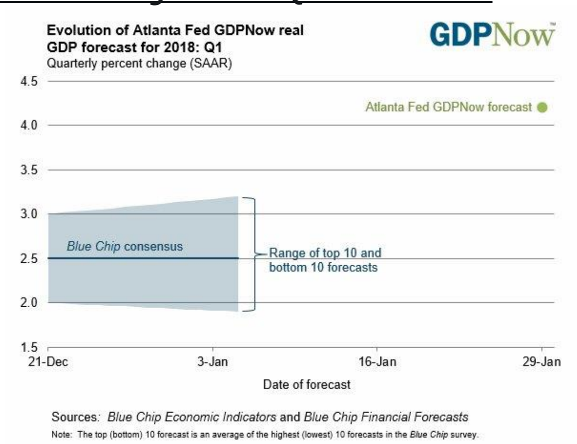
Upon looking at the details however, the report is much more encouraging. Look at the chart below for the growth in consumer spending. It was the best in over three years at a rate of 3.8%. The problem (if there was one) for the economy was the trade deficit which we mentioned a few weeks ago.

Because America is the largest economy in the world and is growing faster than its trade partners, the level of imports coming into the country is growing disproportionately. President Trump has focused on this trade issue and the prospect for open and fair trade deals. In the short run, if we continue to grow faster than our partners, the deficits will grow and this acts as a depressant to calculated growth rates but it does represent a mixed blessing of sorts.

All in all, the trade deficit in last year's 4th quarter knocked nearly 2% off the annualized growth rate. This estimate is historically out of whack and is likely to come down when the updated numbers are released.

In any case, the markets are about the future and not the past. For the first quarter of 2018 the Atlanta Federal Reserve (see chart below) is currently estimating growth exceeding 4%. Remember the tax cuts have not even showed up yet via lower withholdings. This will certainly have an impact, as will the hundreds of major firms announcing wage boosts and bonus payments now that corporate taxes have been reduced.

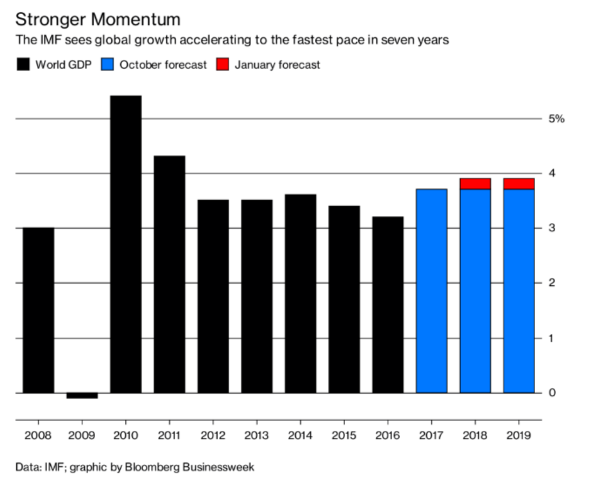
On January 29, the #GDP Now model forecast for real GDP growth in Q1 2018 is 4.2%



One thing I hope everyone can now understand, corporate taxes ultimately are paid for by the consumer and through lower wages. They are a cost of doing business. If you lower those taxes only good things can come. Lower prices, higher stock prices or higher wages, all are conducive to a growing economy.

This is why President Trump was treated so kindly by many of those who don't like him personally. Results count in the business world and just maybe that paradigm will translate into the political arena.

As a result, many of Trump's previous detractors such as Jamie Dimon of JP Morgan and the IMF are now forecasting higher growth in 2018. See the chart below for the IMF's latest changes to growth estimates.



For years the IMF has done nothing but lower their estimates as the data has come in. Seldom can I remember them raising their estimates. They have been too optimistic for the last several years and it is nice to see them recognize that less regulation and lower taxes brings growth. Let's hope it lasts.

What to Expect This Week

While earnings will be coming out in droves this week, the week will also be dominated with other macro events.

Tuesday will see the State of the Union speech. Clearly investors are waiting to see what that will contain. On Wednesday will be a Federal Reserve meeting which will be the current Chairman's last. Hopefully she will bow out quietly.

Finally, on Friday the employment data for January will come out. While I continue to discount the data from this report, the market does place much emphasis upon it. I don't look for any of these items to change the outlook but we just must get through them. No one likes to be surprised.

BIIB One-year chart

Symbol: BIIB

Shares of BIOGEN hit new 52-week highs last week after reporting a strong fourth quarter and year-end earnings report. BIIB posted better-than-expected revenues during the quarter and offered upbeat expectations for 2018. BIOGEN's rare-disease treatment SPINRAZA powered much of the fourth-quarter surge in revenue, bringing in some $363 million alone. This treatment recently became FDA approved to treat the often-fatal disease, spinal muscular atrophy.

For the year, BIOGEN grew revenues 7 percent year-over-year. Non-GAAP earnings per share grew by 8 percent. The Company added seven clinical programs to its neuroscience pipeline in 2017. BIOGEN says earnings per share in the new year should run between $24.20 and $25.20. They see revenue for 2018 in the range of $12.7 billion to $13 billion. These projections are both higher than analysts had expected, helping shares move dramatically higher after the earnings announcement. BIOGEN has gained 43 percent for shareholders over the past 12 months. For those of you owning BIIB shares, we sold the spin-off shares of BIOVERATIV (BIVV) once the company announced they were being acquired for a handsome premium.

NVS One-year chart

Symbol: NVS

Shares of Swiss drug-maker NOVARTIS hit 52-week highs last week as well after announcing their earnings, which included a boost to their dividend. NVS reported fourth quarter adjusted earnings of $1.20 per share on profits of $1.98 billion. The results beat Wall Street expectations by four cents. NOVARTIS' revenue during the quarter was $12.92 billion, a 5 percent increase from the same period in 2016.

The quarter was driven in part, by strong performances from its Psoriasis treatment COSENTYX and blood pressure medicine ENTRESTO. These two drugs alone accounted for over $2.6 billion in sales. Overall, NOVARTIS' Pharmaceuticals and Ophthalmology segments showed profits for the year, up 4% and 6% respectively. Sales from the Generics division were down slightly due to pricing pressure.

NOVARTIS expects overall sales and core operating income to grow mid-to-high single digits in 2018. Shares of NVS have risen 30 percent over the past year.

DEO One-year chart

Symbol: DEO

The combination of serious cost-cutting and increased marketing is proving to be a successful cocktail for the world's largest spirits company. DIAGEO shares reached all-time highs last week after reporting organic net sales growth of 4.2 percent over the past six months, which ended in December. Earnings per share at DEO was 3.5 percent higher than analyst expectations with the spirits group leading the way with a profit of $3.15 billion. DEO also announced an interim dividend increase of 5 percent per share.

The Company spent 7 percent more on marketing its products such as Johnnie Walker Scotch and Smirnoff Vodka. At the same time, DIAGEO has embraced a new, 3-year cost-cutting initiative which has helped make its business more efficient world-wide, providing funds to use for generating future sales. The belt-tightening program is on track to save $1 billion by 2019. DEO is calling for mid-single digit growth in 2018. Shares of DIAGEO have tacked on 26 percent over the past 12 months.