Tom McIntyre's
Weekly Commentary & Outlook

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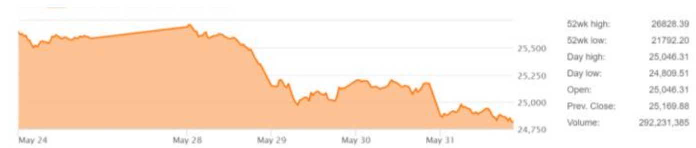
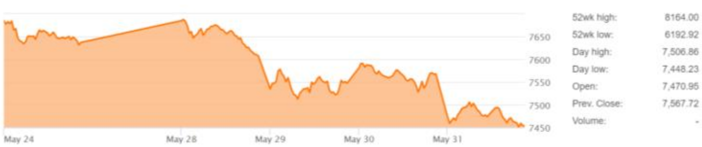
This is Tom McIntyre with another client update as of Monday June 3rd, 2019.

Stocks suffered their 6th consecutive decline last week on macro developments changing investor perceptions.



Dow 5-day



Nasdaq 5-day

As the charts above illustrate, the Dow Jones Industrial Average dropped just over 3% while the NASDAQ Composite fell 2.4%.

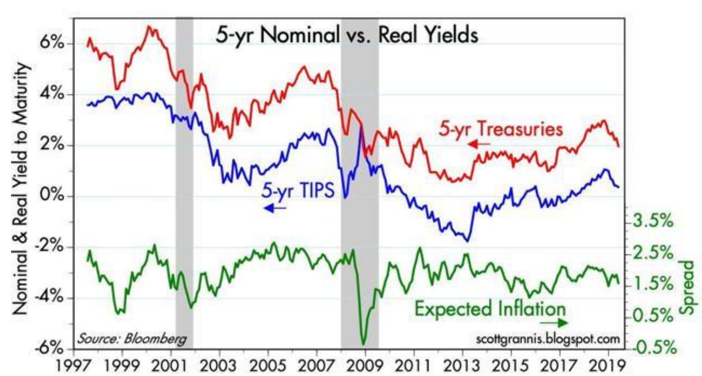
Supposedly, this decline related to trade news headlines but as usual I have a much different take on this.

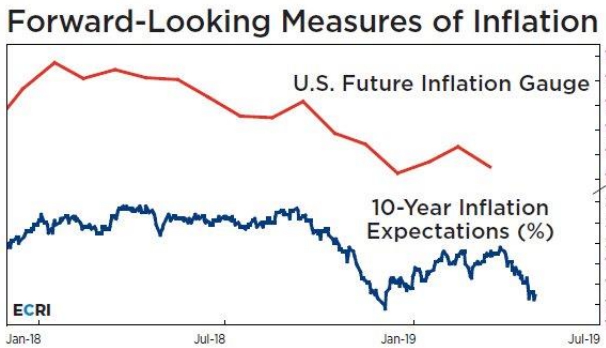
Markets & Economy

Anyone, who has read my updates, knows that many times I have said this economy peaked in terms of growth in last year's 2nd quarter. The markets, both bond, commodities and global indices, all gave the same message. During most of this time though, the Federal Reserve Board maintained its policy of monetary tightening which inverted the yield curve. This created concern over a recession late last year and once again today. The stock sell-off late last year forced the Fed to admit its policy error but out of ego they could not reverse policy. They simply announced that they would no longer carry on with this mistake and continued bogus analysis. The DC analyst crowd once again applauded, and stocks rebounded but bond yields never did. Interest-rate sensitive sectors also never recovered; these include retail, transportation, housing, and automobiles etc.

More recently, as this weak data started to become obvious to even the most obtuse, various trade disputes have once again jumped into the forefront. Experts appear on television every two seconds to say how it will impact inflation and the economy. Let me tell you something, so far these trade issues have mostly been threats and dares. To the extent they have occurred, they have had a miniscule impact on the economy.

What this all means is that it is politically correct to argue against Trump administration policies, but it is beyond the pale to state the actual obvious which is that the Fed has indeed blown it once again. Look at the following two charts. The 1st chart depicts the trend in interest rates versus the expectations for inflation, both in very long downtrends. The 2nd chart simply shows the trend in inflation expectations which have been going south for a long time, despite the predictions that tariffs would raise prices.





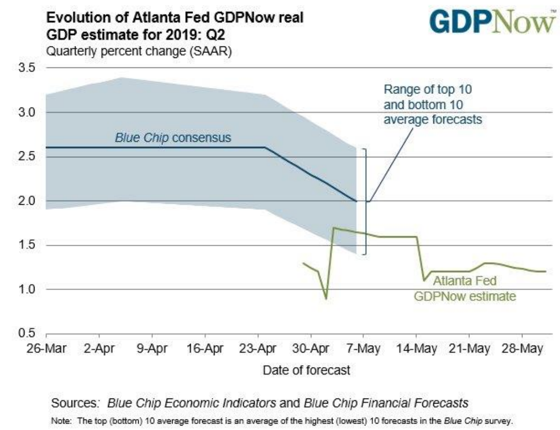
The final piece to this puzzle is the Fed insists that the downturn in inflation would be "transitory". The reality is, they have not hit their inflation target of 2% in so long that no one, other than the adoring crowd in DC, even listens to them on this subject. Watch the markets not the Fed talking heads. That goes for former Fed people like the lightweight Queen herself, Janet Yellen. Tell me a forecast she got correct rather than the many she was forced to change policy for being wrong. Truly a failure in terms of her leadership there.

When you put what the markets know and are predicting, and you overlay the threat of various trade actions which are in the news (although they are in the future and may or may not occur) one can see that the "risk off" trade is in control. That means lower rates, falling commodity prices (oil down 8% last week), inverted yield curves here at home and negative interest rates around the world.

To that background it is no longer enough for the Fed to wait and see. They should take the steps, which Larry Kudlow called for months ago (Trump administration economic czar), and immediately drop short-term rates 50 basis points. The Fed needs to be proactive in reversing their mistake of the past two years. The problem is that would be tantamount to admitting that they have been WOEFULLY wrong this entire cycle and that the Trump administration has been correct (GASP).

I'm a simple person. Stop the politics and do what is correct. The world needs looser monetary policy and a lower dollar. Only the Fed can do this. They can either get ahead of it or as is typical they can wait until it is too late then panic into a series of cuts. The Fed is like a bad tv show which repeats itself over and over.

Unless that happens the estimates for growth will continue to fall. The Atlanta Fed estimate for Q2 (see the next chart) is 1.2%. This shouldn't come as a surprise to anyone who reads these updates.

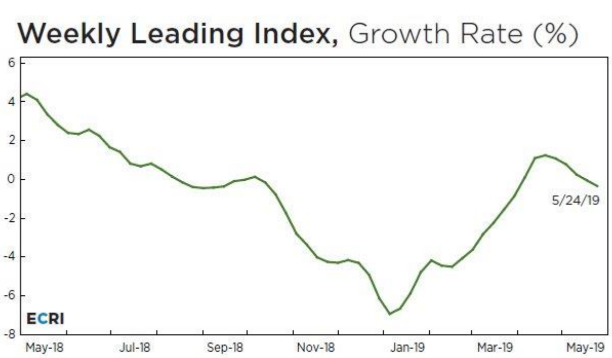


What to Expect This Week

There are no earnings reports, so the focus will be on macro events. These include investigations in DC, trade disputes and their progress and meetings overseas where President Trump will be this week for various meetings. All these matters are simply not predictable.

What is quite certain, in my estimation, is that the Fed needs to swallow its pride and act. This will simply be reversing some of the unnecessary damage they have done under Yellen and now her successor who is equally clueless. It is telling that Trump tried to appoint two new and out of the box thinkers to the Fed and the Senate found ways to say no. The inaction in DC is bipartisan. That much is clear.

Finally, the chart below of the ECRI index of leading indicators shows nothing other to illustrate lackluster economic activity the rest of this year. For what it's worth, their own analysis does not call for a recession just a lackluster economy. Sadly, I can't but help agree with them.



Medical device-maker **MEDTRONIC** had an excellent fiscal-fourth quarter and offered a better than expected forecast for 2020. Net income during the quarter was $1.17 billion, which on a per-share basis showed a profit of 87 cents. Earnings, adjusted for one-time gains and costs, were $1.54 per share. The results beat Wall Street's expectations. Revenue was $8.15 billion in the period, also comfortably surpassing Street forecasts. For the year, **MEDTRONIC** reported profit of $4.63 billion, or $5.22 per share on revenue of just over $30 billion.

MDT's minimally invasive therapies business, which makes surgical instruments used to treat hernia and kidney ailments, brought in revenue of $2.26 billion in the fourth quarter, above estimates. **MEDTRONIC's** restorative therapies unit was bolstered by its buyout of robotic surgery systems maker Mazor Robotics. The unit generated $2.22 billion in revenue, ahead of the consensus estimate of $2.17 billion as well.

MEDTRONIC expects 2020 full-year adjusted earnings between $5.44 and $5.50, above analysts' expectation of $5.44. Shares of **MDT** have gained 5.5 percent over the past 12 months and we expect the Company to raise its dividend later this year.

MDT one-year

The **DowDuPont** 3-way stock separation is complete. **CORTEVA AGRISCIENCE, Inc.** is the last piece of the puzzle to be spun off and IS TRADING, FOR THE FIRST TIME, ON THE NYSE TODAY. The symbol for this seed and pesticide maker is **CTVA**, which is joining the S&P 500 index. DowDuPont is being renamed DuPont de Nemours, Inc. and its symbol is changing from **DWDP** to **DD**. Each **DD** stockholder will be entitled to receive one share of **CORTEVA** common stock for every three shares of **DD** common stock held by such stockholders. In addition, the new **DuPont** has executed a reverse stock split WHICH HAS ALSO TAKEN PLACE TODAY. **DD** shareholders will get 1 new **DuPont** share for every 3 shares held. This means the **DD** share price will triple, with the number of shares being reduced, excluding **CORTEVA's** value.

DOW Inc., which makes chemicals used in cosmetics, paints and packaging, is the other entity spun off from **DWDP**, which happened on April 1st. So, to summarize, if you owned shares of DWDP, you will now hold shares of **DOW**, **DD** and **CTVA** in your portfolio.

DOW one-year

Shares of **QUALCOMM** declined after a federal judge in San Jose, CA ruled that the Company's patent licensing practices stifled competition, siding with the Federal Trade Commission which was suing the company on allegations that it violated antitrust law. The judge ordered **QUALCOMM** to renegotiate license agreements at reasonable prices. The ruling, if it stands, could open the door for **QCOM's** license customers like APPLE and SAMSUNG to press the company to reduce the fee it charges for its patent licenses, which would impact financial results in the future. This ruling comes, surprisingly, one year after another government agency had supported Qualcomm's business practices.

QUALCOMM strongly disagrees with the ruling and plans to seek to overturn it and **QCOM** may have a shot since one of the five sitting FTC commissioners wrote in a Wall Street Journal op-ed, calling for the courtroom decision to be reversed. This case has been controversial since it began in the final days of President Barack Obama's administration over two years ago. Stay tuned.

QCOM one-year