Tom McIntyre's Weekly Commentary & Outlook

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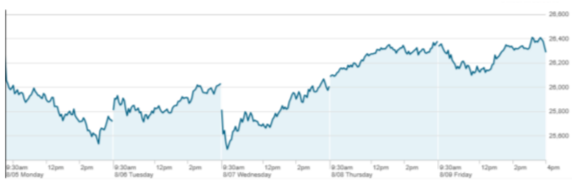
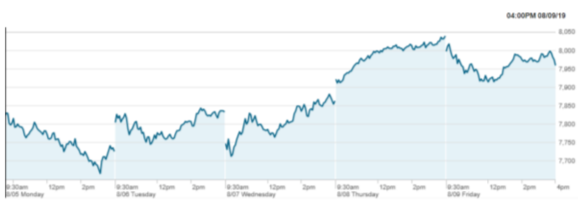
This is Tom McIntyre with another client update as of Monday, August 12th, 2019.



Dow 5-day



Nasdaq 5-day

These past two weeks have seen much day-to-day volatility. Albeit last week, as the charts above illustrate, both the Dow Jones Industrial Average and the NASDAQ Composite fell by well under 1%.

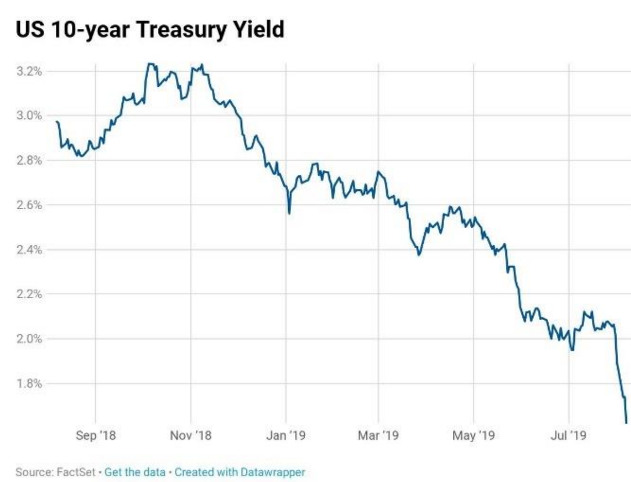
Markets & Economy

While earnings season has completed itself for the June quarter, the focus of investors is firmly planted on various macro and unknowable outcomes.

First is global monetary policy. I think it is most important as well. Most countries via their monetary policies are tinkering with their currency exchange rates. In the past a US president would deign not to comment on such matters, but President Trump is different. He has called out our Federal Reserve for not paying attention to the world we live in.

As I've written many times, the US dollar is the world's reserve currency. One cannot conduct policy as if it were the 1960's without considering the rest of what the world is doing. What this means is that for the past three years the hiking of interest rates and focus on non-existent inflation showed they had their head in the sand. This goes for both Yellen and her successor Powell. Reluctantly even the Wall Street community now recognizes this.

Look at the chart below, showing the yield of the US treasury bond yield during this period of tight policy. Markets voted with their feet and every time the FED hiked the yield fell on treasuries. Powell should listen to the markets, not his staff and their abhorrent economic forecasts.



As a result of the past three years of poor policy choices, the world now looks like this. In the next chart one can see that there is now 15 TRILLION dollars' worth of sovereign debt with NEGATIVE yields. The US is paying higher interest rates than third world countries running basket case economies.

@CharlieBilello	The Negative Bond Yield Matrix													
Country	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	20-Year	30-Year	50-Year
Switzerland	-0.71	-1.04	-1.05	-1.05	-1.03	-0.98	-0.92	-0.89	-0.95	-0.87	-0.61	-0.49	-0.31	-0.19
Germany	-0.73	-0.81	-0.84	-0.82	-0.78	-0.75	-0.71	-0.66	-0.63	-0.52	-0.36	-0.22	-0.02	
Netherlands		-0.78	-0.79	-0.78	-0.71	-0.64	-0.59	-0.52	-0.48	-0.40	-0.26	-0.16	-0.01	
Denmark		-0.83	-0.78		-0.73			-0.62		-0.48		-0.26		
Japan	-0.19	-0.21	-0.24	-0.26	-0.27	-0.28	-0.28	-0.26	-0.22	-0.19	0.00	0.15	0.29	
Austria	-0.61	-0.75	-0.69	-0.69	-0.61	-0.56	-0.48	-0.44	-0.38	-0.29	-0.03	0.10	0.34	0.49
Finland		-0.73	-0.72	-0.70	-0.65	-0.60		-0.40		-0.26	-0.05		0.21	
Sweden		-0.62			-0.64		-0.45			-0.22	-0.05	0.23		
France	-0.62	-0.71	-0.75	-0.72	-0.64	-0.57	-0.49	-0.41	-0.33	-0.24	-0.07	0.29	0.62	0.81
Belgium	-0.63	-0.63	-0.73	-0.70	-0.64	-0.56	-0.42	-0.34	-0.30	-0.18	-0.05	0.32		
Slovakia	-0.39				-0.36	-0.63		-0.17	-0.08	-0.13			0.69	1.01
Ireland	-0.56		-0.52	-0.50	-0.43	-0.33	-0.24		-0.09	-0.01	0.36	0.55	0.91	
Slovenia	-0.07	-0.30	-0.51		-0.35		-0.24	-0.17		-0.03		0.70		
Spain	-0.49	-0.50	-0.48	-0.40	-0.26	-0.20	-0.08	-0.02	0.09	0.24	0.66	0.67	1.14	
Portugal	-0.40	-0.54	-0.38	-0.29	-0.23	-0.09	-0.02	0.08	0.19	0.28	0.66	0.84	1.18	
Malta	-0.29		-0.25		-0.25					0.30		0.91		
Cyprus	-0.07		-0.04		0.08		0.28			0.50				
Italy	-0.15	-0.04	0.33	0.57	0.85	0.99	1.11	1.26	1.30	1.54	2.06	2.24	2.59	2.80
Bulgaria	-0.20		0.30		0.18		0.37			0.45				
United States	1.76	1.60	1.56		1.56		1.65			1.76			2.31	

Instead of taking note, the FED, two weeks ago, finally reversed course, blaming it on BREXIT or trade wars etc. Certainly no one expects them to admit they were wrong. As a result, their move was small, and their commentary showed just how reluctant they were to acknowledge reality. As such, the markets have shown them what they can do.

The problem today is that correct or not more and more forecasters are raising their probabilities for a recession. The FED doesn't meet again until the middle of September. The US dollar is skyrocketing, the yield curve is inverting, and deflation is now in clear view.

When you add to this the riots in Hong Kong and the rhetoric coming out of Washington DC concerning trade talks with China the doom and gloom is gaining ground. It now seems quite clear that admitting China into the World Trade Organization decades ago was the wrong thing to do. Under at least three presidents the situation was allowed to reach this point and now the price will be paid.

China is clearly more vulnerable as an economy. They have already responded with devaluing their currency. Banks are failing over there and of course Honk Kong is exploding with social unrest. But they do have an advantage with time. Their government doesn't face an election in 15 months while here in the US we do. Many people feel that they are not in a hurry to cut a deal and will wait until a friendlier president possibly occupies the White House.

The news coming from Europe is also disquieting. The UK recorded a negative 2nd quarter growth rate. The German manufacturing sector is in free fall and Italy is facing a snap election this fall which will certainly bring in the anti-EU party there as well. In other words, the establishment has so screwed things up that it is unpredictable how Europe will look in four months' time.

As a result, and with the blessing of the new ECB president, look for extraordinary measures to be further taken to "stimulate" their region. I don't know if that will be successful, but it certainly will play havoc with currency markets and maybe even our FED will take note.

In other words, barring something out of the blue from the FED, which I don't think is in the cards, the markets will have months longer of muddling through.

What to Expect This Week

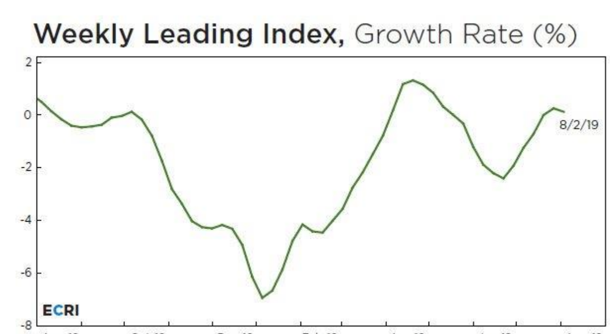
It's August and investors want to relax but these macro matters are keeping people on a knife's edge of response. Right now, the odds remain slim of a recession, but they are increasing. This could make next year's election cycle even more unbearable.

This week will see reports on retail sales and inflation. The sales report has the possibility of either helping or hurting sentiment. We will see how that goes. One positive short-term impact has been the fall in oil prices, despite the embargo on Iran etc. Of course, the reason for the pull back is concern over slowing demand due to a slowing global economy. This is not good.

The longer-term price of oil is not helped. The price of oil today is not enough to keep that industry exploring and investing. This has led our economy over the past few years. Even worse, when investors figure out our oil production in the future cannot be sustained with these prices then the price of oil will have to rise significantly.

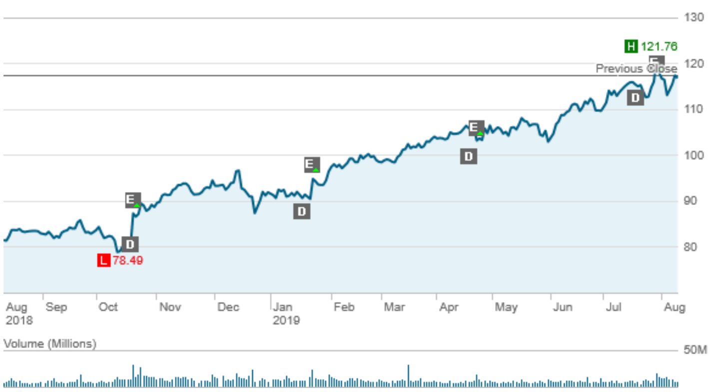
This too needs watching.

Finally, the chart below from the ECRI of leading economic indicators shows basically a slowing economy but not one which has been knocked down to a different level.



Shares of household products giant ***PROCTOR & GAMBLE*** hit ALL-TIME HIGHS last week after reporting its strongest quarterly growth in the past 13 years. ***PG's*** 4^{th} quarter revenue and profit beat Wall Street expectations with organic sales rising 7 percent! Price hikes across the board contributed 3 percentage points alone to organic sales growth. Adjusted EPS rose to $1.10 per share, beating the average analyst estimates of $1.05 as all 10 global categories grew organic sales.

The Company reported a net loss of $5.24 billion during the quarter, due to an $8 billion non-cash write-down of its Gillette personal grooming division. But strong sales from ***PG's*** OLAY and SK-II beauty products along with booming sales from the fabric and home care units which includes TIDE detergent and FEBREEZE air fresheners helped offset the write-down. ***PG's*** net sales rose 3.6 percent to $17.09 billion in the fourth quarter, beating analysts' average estimate of $16.86 billion. ***PROCTOR & GAMBLE's*** stock has simply taken off over the past 12 months, gaining 43 percent for shareholders.



PG one-year

Shares of ***ENTERPRISE PRODUCTS PARTNERS*** hit FOUR-YEAR highs last week after reporting record results for its second quarter, increasing its cash distribution for unitholders and signing a major deal with CHEVRON to develop a crude oil port. ***EPD*** earned 55 cents during the second quarter compared to 31 cents from the year-ago quarter. Revenues were 8.28 billion. Each of ***EPD'S*** business segments reported increases in gross operating margin compared to the second quarter of 2018.

EPD signed long-term agreements with CHEVRON that advance its proposed offshore crude project in the Gulf of Mexico. ***ENTERPRISE'S*** Sea Port Oil Terminal, or SPOT, is one of at least eight similar projects off the Texas and Louisiana coasts proposed to export oil from the region's shale fields. All the projects aim to carry rising shale production from the Permian Basin of West Texas and New Mexico to overseas markets. A total of 2.3 million additional barrels per day of shale is expected to reach the U.S. Gulf Coast in the next year as volumes rise and new pipelines begin operation. CHEVRON has agreed to use ***EPD's*** crude oil transportation, marine terminals and storage facilities, which include its Houston storage facilities.

As for the new distribution for unitholders, it goes to 44 cents, representing a 2.3 percent increase of the distribution declared with respect to the second quarter of 2018. The current yield to investors is nearly 6 percent. The improved payout will happen on August 13^{th} for unitholders of record July 31^{st}. ***EPD's*** units have gained 15.5 percent for investors so far in 2019.

EPD one-year

MERCK continues to impress. The drug company beat Wall Street's sales estimates by almost A BILLION DOLLARS in the second quarter, and raised its sales and earnings forecast as its blockbuster cancer drug KEYTRUDA is now on pace to become a $10-billion-a-year product. ***MRK*** predicts 2019 overall sales of $45.2 billion to $46.2 billion and adjusted earnings per share of $4.84 to $4.94, which are both higher than the Streets' previous estimates.

MERCK earned $1.30 per share, smashing the average estimate of $1.16. Sales rose 12.4 percent during the quarter to $11.76 billion, ahead of the $10.96 predicted. Sales of KEYTRUDA surged 58 percent to $2.36 billion in the second quarter, also benefiting from its use to treat renal cancer and melanoma. Sales of ***MERCK's*** GARDASIL vaccine to prevent cancers associated with human papillomavirus rose 45.7 percent to $886 million. Overall vaccine sales at ***MRK*** rose 33 percent to $2 billion, also boosted by the Company's measles-mumps-rubella shot. Shares of ***MERCK*** are within striking distance of all-time highs and have gained 29 percent over the past 12 months.

GLAXOSMITHKLINE posted stronger-than-expected quarterly earnings and lifted its full-year profit guidance, as sales from its vaccine franchise offset the loss of exclusivity of the Company's top-selling ADVAIR asthma treatment. ***GSK*** reported earnings of 78 cents a share, much better than Wall Street's forecast of 64 cents. ***GLAXOSMITHKLINE*** posted revenue of $10.04 billion during the quarter, also better than expected.

Improved sales figures from ***GSK's*** SHINGRIX shingles vaccine led the way to the earnings beat. ***GLAXOSMITHKLINE*** now expects 2019 adjusted EPS to decline in the range of -3% to -5%, which is BETTER THAN the previously given guidance of -5% and -9%. CEO Emma Walmsley told investors that ***GSK*** expects to complete a joint venture with PFIZER shortly, "laying the foundation for the creation of two great companies: one in Pharmaceuticals/Vaccines: one in Consumer Healthcare". ***GSK*** reaffirmed its dividend for the remainder of 2019, which pays investors a 5 percent annual yield. Shares of ***GLAXOSMITHKLINE*** have gained nearly 6 percent so far this year.

MRK one-year

GSK one-year