Tom McIntyre's
Weekly Commentary & Outlook

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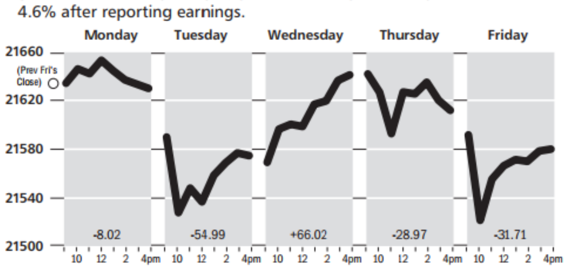
This is Tom McIntyre with another client update as of Monday, July 24th, 2017.

Earnings season has started well for us and the markets. This slow growing economy has produced a falling US dollar and bond yields that are once again falling despite the Fed.

These factors all act to keep the bull market intact. As the charts below indicate the Dow Jones Industrial Average was basically flat last week while the NASDAQ Composite gained over one percent.

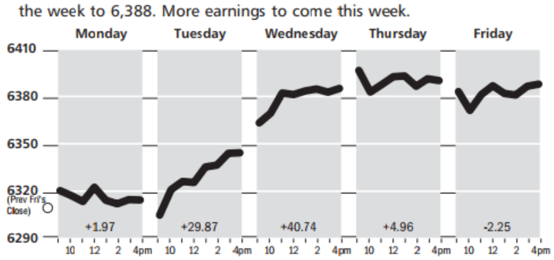
FIVE-DAY DOW COMPOSITE

Dip, Dip, Dip: The Dow fell 0.3% during an earnings-heavy week. Nike gained 3.4% after getting upgraded at Morgan Stanley, while IBM fell 4.6% after reporting earnings.



FIVE-DAY NASDAQ COMPOSITE

Just Short: The Nasdaq Composite ended a 10-session winning streak on Friday with a slight decline. Still, the tech-driven index rose 1.2% on the week to 6,388. More earnings to come this week.



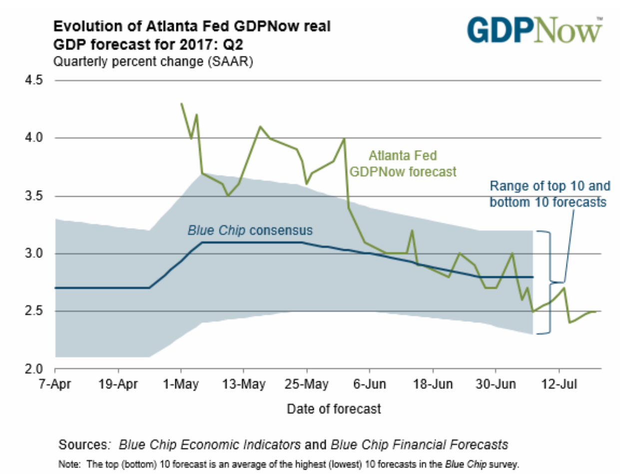
The Markets and Economy

Not much news to speak of on the economic front last week. The barrage of data from the previous week along with the different tone coming from Chairman Yellen have convinced most market participants that we have probably seen the last move higher in rates this year. With a new Chairman, due to take office early next year, all bets are now off on a never-ending threat to raise interest rates. This is good news for the stock market but remember it implies this weak-kneed economy continues.

Not only has the economy not gathered any momentum but the inflation data continues to roll over and is now up year on year only about 1.5% and declining. I'm sure you have seen the many articles about gasoline prices being the lowest since 2005. The problem, of course, is that income growth has similarly not done well as the number of healthy working age people not in the labor force have reached nearly 100 million. Yet these people still need to eat and consume goods and services without necessarily having the means with which to afford them. That is where this constant need for government programs comes in and explains why, in a year of so called full employment, the US is running a deficit of around 700 billion dollars and growing. Just how big would that number be in a genuine slow down?

While the media won't focus upon it, the data has been so one sidedly bad that **Fed** members are starting to tone down their rhetoric. This is good for stocks, bad for the dollar and good for bonds. Of course, there are many moving parts. The Trump domestic agenda could suddenly come to life and reinvigorate the economic outlook. Even so, that would impact next year. The year 2017 is now baked in the cake.

Most people are now expecting the GDP report this Friday to show a number around 2% (sound familiar? It should). The Atlanta Fed's latest projection shown below has their estimate at 2.5%. We shall see. Don't think it makes much difference- the slow growth economy perception is not going to be impacted by any number that starts with a 2.

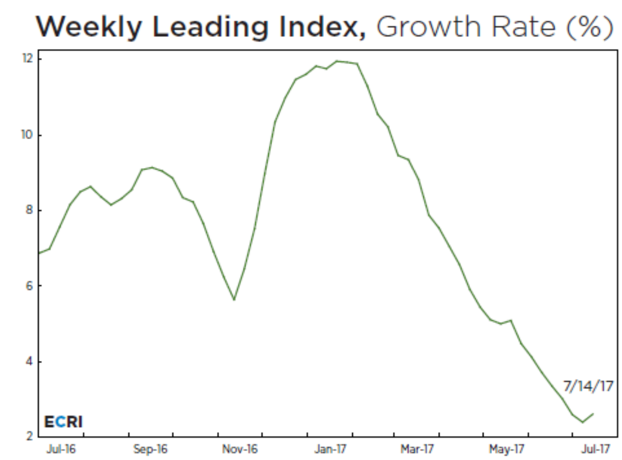


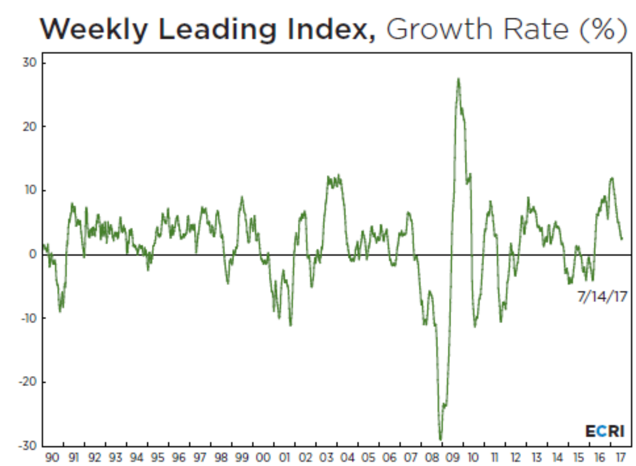
What to Expect This Week

Well, the **Federal Reserve Board** has a two-day meeting ending on Wednesday. To show how quickly things have changed, the meeting is now viewed to be an afterthought. Nothing is going to change. The only interesting thing to me is whether the statement will show any more signs that the **Fed** is evaluating their continued inability to forecast either economic growth or inflation. They have tried now for many months to simply say that their bad forecasts have been effected by "transitory" factors. I don't think anyone is taking them seriously anymore and one thing is for certain, the **Federal Reserve Board** doesn't care about missing forecasts but they do care greatly about their credibility. They will come around but only at the margins.

Finally, on Friday the government will give the official GDP report for Q2. Again, the slow pace expected will not surprise either the markets or anyone else. The key for the future still is being driven by the inability of the Congress to accomplish anything as they head into their summer recess.

In conclusion, below is the weekly chart of the ECRI's index of leading economic indicators. For the 1st time in a while there was an uptick.





Remember, a slow growth economy is very bullish for stocks as it keeps interest rates low which then provides for more investment flows into stocks. In that regard, there has been little change since the election of Donald Trump but there is still time for action, of course.

Microsoft

Symbol: MSFT

Shares of ***Microsoft*** hit all-time highs last week as its expanding cloud business helped drive a solid quarter. The tech giant exceeded estimates on its top and bottom line for the fiscal fourth quarter, boosted by continued success in the cloud division. The Company's net income more than doubled to $6.51 billion, or 83 cents per share in the quarter from $3.12 billion or 39 cents per share, a year earlier. Revenue rose 9.1 percent in the quarter to $24.7 billion.

MSFT's Intelligent Cloud unit, which contains its Azure cloud platform and Windows Server product, saw sales jump 11 percent higher year-over-year to $7.4 billion. Revenue in ***MICROSOFT***'s Productivity and Business Processes, which contains LINKEDIN and its Office 365 software, spiked 21 percent year-over year. ***MSFT*** acquired LINKEDIN for $26.2 billion in 2016. Shares of ***MICROSOFT*** have risen over 18 percent so far, this year. We expect ***MSFT*** to raise their dividend in the coming months.

Johnson & Johnson

Symbol: JNJ

Saying they expect sales growth to pick up in the second half of 2017, ***Johnson & Johnson*** reported better-than-expected quarterly earnings and RAISED its full-year profit forecast. The Company earned $1.83 a share in the second quarter, beating Wall Street's estimates by 3 cents. Revenue was $18.84 billion, in line with most analysts.

Sales for ***JNJ***'s prescription drugs business, its largest segment, was $8.64 billion. Growth came from sales of medical devices and diagnostics, which climbed 4.9 percent to $6.73 billion. ***JOHNSON & JOHNSON*** says it now expects full-year earnings in the range of $7.12 to $7.22 per share, up from an earlier projection of $7 to $7.15. Shares of the New Jersey drug maker have risen an impressive 17 percent so far this year, and pay investors an annual dividend which yields 2.5 percent.

Symbol: NVS

Swiss drug maker ***NOVARTIS*** also topped earnings estimates in the second quarter and lifted the outlook for full-year sales at its eyecare division. ***NVS*** earned $1.22 per share in the three months ending in June, solidly ahead of analysts' consensus call of $1.14. Group sales came in at $12.242 billion, down 2 percent from last year but ahead of Wall Street's forecast of $11.83 billion.

ALCON, ***NVS***'s eyecare division saw sales grow 3 percent from last year to $1.5 billion. As recently as May, ***NOVARTIS*** said ALCON was under strategic review for a possible sale. Now, CEO Joseph Jimenez believes the division will grow modestly higher than previously forecasted for the remainder of 2017. Jimenez did not rule out the potential of an IPO of ALCON in the future. ***NOVARTIS*** shares have gained 17 percent so far in 2017.

Symbol: BX

Thanks to gains in real estate holdings, ***BLACKSTONE GROUP*** reported a strong second quarter. BX earned an economic net income (ENI) of $705 million in the quarter, or 59 cents a share which is UP 36 PERCENT FROM A YEAR AGO. Distributable earnings, actual cash available for paying dividends, climbed 58 percent to $781.4 million from a year ago.

BLACKSTONE's real estate arm, which made up 28 percent of its total business, stood out as the firm sold property investments worth $14 billion in the quarter. Performance fees in the real estate business jumped 155 percent to $494.1 million, while investment income leapt 236 percent to $37.1 million. BLACKSTONE is the largest of U.S. buyout firms and managed $371 billion as of the end of the second quarter. Over the past year, shares of BX have risen 26 percent and pay investors a 6 percent annual dividend yield.