Tom McIntyre's Weekly Commentary & Outlook

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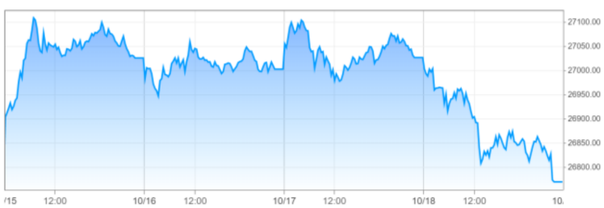
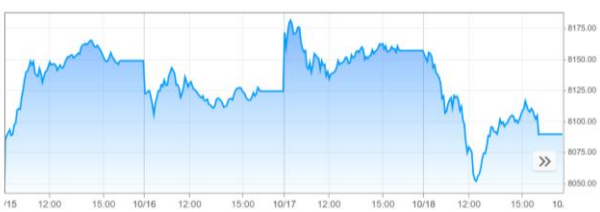
This is Tom McIntyre with another client update as of Monday, October 21st, 2019.

Markets continue to absorb the headlines on the world scene. Earnings are flowing and the debate about the outlook for the economy continues to rage on.



Dow 5-day

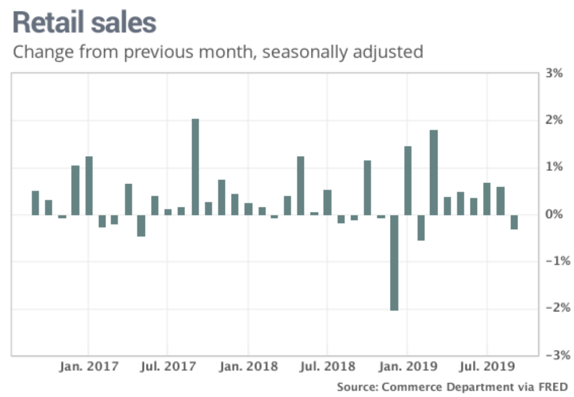


Nasdaq 5-day

Despite this, last week (see charts above) saw the ***Dow Jones Industrial Average*** fall just slightly while the ***NASDAQ Composite*** gained .4%. Not much to write home about.

Markets & Economy

Last week's dismal report on September retail sales was the most impactful economic report. As the next chart shows, the month of September saw a decline of .3%. While August was revised higher, this report weighed heavily upon the notion that the economy was holding up.



In fact, when you combine this with the weak consumer and producer price inflation reports, the picture of the economy differs quite markedly from what the administration posits and what the Federal Reserve Board expects and forecasts (are they telling us the truth or just protecting their previous horrid forecasts?).

Perversely, the impact on financial markets has been muted. The FED announced a return to Quantitative Easing (as we predicted many times over the past year). Of course, they said they won't call it that, but it is what it is. There is a dollar shortage in global financial markets. That is the fault of central bankers everywhere and especially in the United States.

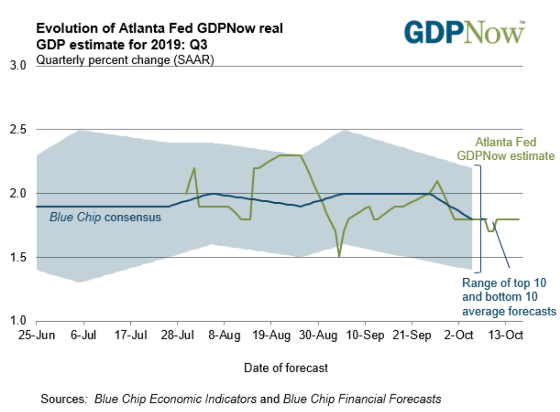
This calls not only for the easing, which we have already seen but for the FED to increase, once again, their balance sheet. Without getting too crazy, that simply means the FED is buying assets (US Treasuries mostly). This provides support for risk-based assets of all kinds but principally equities. That is now important support to the stock market offsetting all this blather about trade wars, recessions, etc.

This support is based upon the notion that FED policy will become even more accommodative. On October 30th, the FED is expected to lower interest rates again and they sure better as the market has discounted it. By the way, the response in the bond market so far to the changing monetary policy is positive.

You can tell that quite simply from the fact that you hear nothing anymore about an inverted yield curve. The reason is that it is no longer inverted. I hope the FED takes the victory and keeps marching onwards. They have been tone-deaf for two years at least. Trying to blame President Trump when their own models about growth, unemployment, inflation have been ghastly in error. Why does Wall Street have such reverence for this central planning type of organization with little actual accountability?

While last week's news about a so-called agreement with China made for positive headlines. No one is sure what was agreed to or when, etc. In other words, I wouldn't pay too much attention to this supposed good news and EQUALLY, would not pay much attention to the negative consequences to the economy this dispute might cause. Their predictions of such problems over the past two years have not materialized and frankly, the FED has much more impact on events than our trade with China.

All in all, the debate on Wall Street is simply about how all these factors shake out. What will be the impact of the economy going forward into a presidential election cycle featuring very different visions of future economic and domestic policy? Right now, the Atlanta FED expects growth of 1.8% annual rate in Q3 (see chart below). I would say that would be a good outcome but clearly, the economy continues to lose momentum. FED policy will be key to the future in my view.



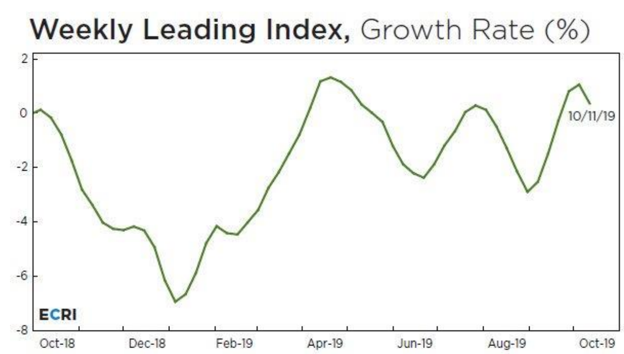
What to Expect This Week

Earnings season is in full swing. We continue to watch our holdings carefully. We have some cash and are entering historically the best time of the year for stocks although that was not the case last year.

Also, in the news this week will be the possibility of a done deal with BREXIT. Markets would like to get rid of that uncertainty. Additionally, today up in Canada is a general election. It is possible that a more business-friendly government could take power. In any case, experts think the election is close.

The US has an important trade deal with Canada and Mexico which needs congressional approval. Of course, the importance of these two countries to trade dwarfs that of China. The deal is a popular one in Congress, but the Speaker will not allow a vote. Thus, proving that those who criticize China trade disputes but prevent North America from adopting this new free trade zone are being hypocritical.

Finally, the chart below from the ECRI on their leading economic series shows new momentum. Thus, the humdrum economy of the present may persist into year-end. It is critical that the US not fall into a recession next year. Nothing to indicate that will happen but we don't want growth to fall any further.



Shares of COCA-COLA (KO) made a solid move higher on Friday after the company announced better than expected earnings for the third quarter and raised estimates for future cash flow. Improving international sales and low-sugar offerings like COCA-COLA ZERO SUGAR drove revenue growth. The beverage giant reported a profit of 56 cents a share on sales of $9.5 billion, ahead of estimates of $9.43 billion.

There were improving metrics all around. COKE ZERO, the drink maker's sugar-free soda saw double-digit sales growth, while traditional COKE experienced a 3 percent growth around the world. The company's sports drinks and water franchises saw 2 percent growth, while tea and coffee volume grew 4 percent.

Looking into the final months of 2019, COKE expects organic revenue growth of at least 5 percent, a modest increase from its prior forecast, with full-year operating income growth of between 12 and 13 percent. Shares of COCA-COLA are up 19 percent over the past 12 months and pay investors an annualized dividend yield of 3 percent.

KO one-year

Shares of JOHNSON & JOHNSON (JNJ) moved higher last week after third-quarter earnings beat estimates and the company raised full-year guidance. The health care giant had net income of $4.833 billion, or $1.81 a share during the past three months. This is up from $3.934 billion, or $1.44 a share in the year-earlier period. Adjusted earnings were $2.12 a share, ahead of the Streets' estimates of $2.00. Sales rose nearly 2 percent to $20.729 billion, also ahead of consensus estimates. All three sectors, Pharmaceuticals, Medical Devices, and Consumer products saw gains. JOHNSON & JOHNSON is now expecting full-year earnings in the range of $8.84 to $8.89 per share, up from prior guidance of $8.73 to $8.83.

JNJ shares got a second boost after reports surfaced Wednesday that the company is close to agreeing to a multi-billion-dollar settlement with state attorneys general over its role in the nation's opioid crisis. JNJ may be offering to pay upwards of $4 billion to wipe out claims against it linked to an impending trial in Cleveland. Shares gave up some of the week's gains Friday afternoon after JNJ announced a voluntary recall of one lot of its signature Baby Powder as trace amounts of asbestos were found in samples from a single bottle purchased online.

JNJ one-year

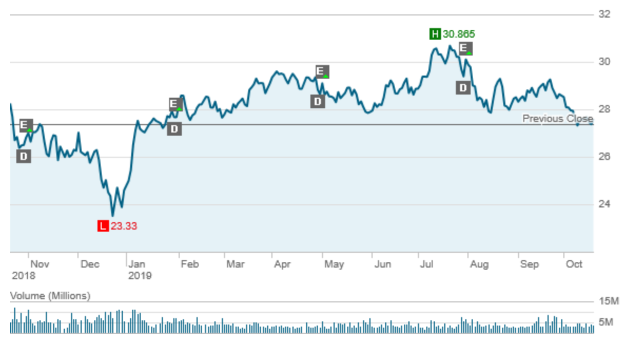
Shares of regional bank PEOPLES UNITED FINANCIAL (PBCT) gained nearly 5 percent Friday after it exceeded third-quarter earnings estimates. The company earned 34 cents, a penny better than estimates. Net income was $131.6 million compared with $113.5 million reported in the prior-year quarter. Revenues were up 14 percent year over year to $454.7 million. Most of the gains came from an increase in loan activity and lower expenses.

PEOPLES UNITED CEO, Jack Barnes, said on the earnings conference call that the acquisition of UNITED FINANCIAL earlier this year is on track to close in the fourth quarter of 2019, which should boost financial returns across Connecticut and western Massachusetts. PBCT has gained 14 percent so far this year and pays out dividends which yield 4.5 percent annually.

PBCT one-year

Another quarter means another quarterly cash distribution INCREASE announced by ENTERPRISE PRODUCTS PARTNERS (EPD). The quarterly payout increases to $0.4425 per common unit, or $1.77 per unit on an annualized basis. This distribution, which represents a 2.3 percent increase over the distribution declared with respect to the third quarter of 2018, will be paid Tuesday, November 12th to unitholders of record as of the close of business on Halloween, October 31st.

This is the partnership's 61st CONSECUTIVE quarterly raise, making the annualized yield an attractive 6.4 percent. ENTERPRISE will announce its earnings for the third quarter next Monday, October 28th.



EPD one-year