Tom McIntyre's
Weekly Commentary & Outlook
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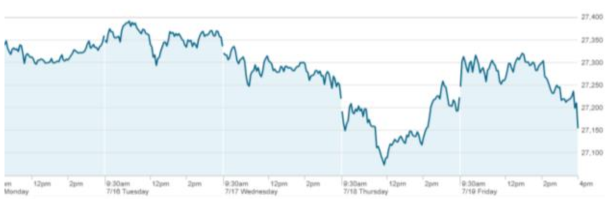
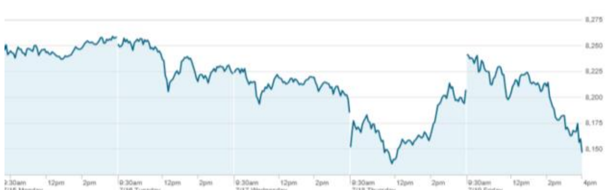
This is Tom McIntyre with another client update as of Monday, July 22nd, 2019.

Stock markets remain strong over all as the Fed has capitulated and indicated a rate cut is coming on July 31. Just a question of how large. My, how wrong this over glorified group of central planners has turned out to be.



Dow 5-day

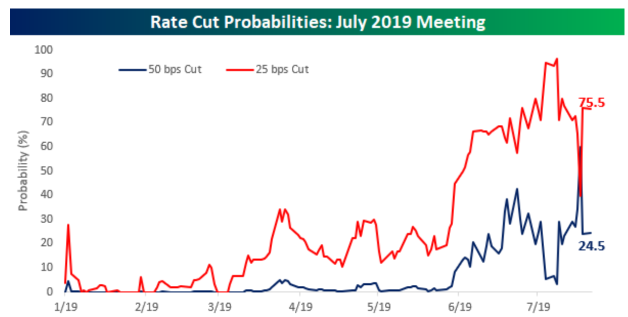


Nasdaq 5-day

As the charts show, last week the *Dow Jones Industrial Average* fell just .65% while the *NASDAQ Composite* dropped 1.2% led by Netflix.

Markets & Economy

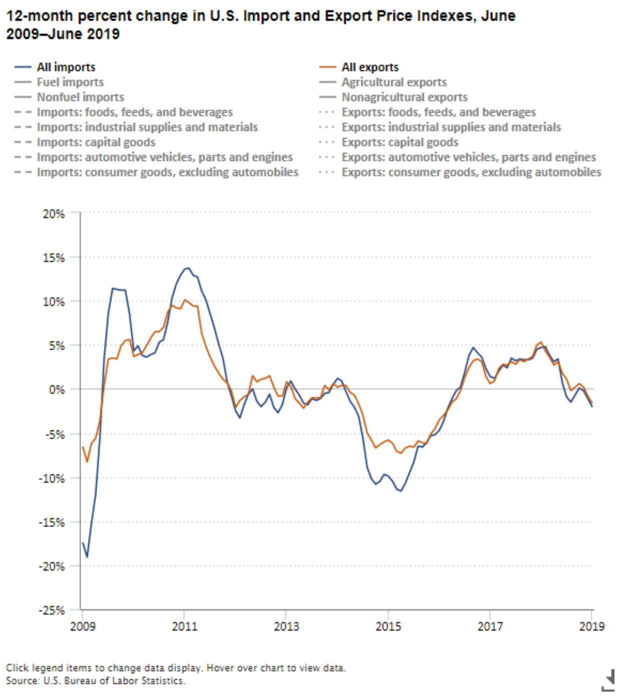
Earnings season is now well underway, and reports have come in around the diminished expectations that had been established (our names doing better, so far). While the bulk of the numbers have yet to be reported, the focus on investors so far though has turned to just how much of a drop the Fed plans for the July 31st meeting. The next chart shows the quickly changing perceptions (which drive daily market volatility) of whether it will be cut by 50 basis points or just 25 basis points.



Last week's ultimate folly in Fed board members speaking came when on the same day the NY Fed president implied the Fed was going big, but by the end of the day the Fed needed to put out a clarification. My advice is simply to give fewer talks and only when you have some idea of how your remarks will be interpreted. Don't forget these people are supposed to be the smartest economists around and yet stuff like last week happens all the time.

For my money, I think the Fed will go small. Remember, their number one mission is NOT to have any blame for economic problems be laid upon their doorstep. If they were to act more dramatically, even the most clueless of observers will conclude their monetary policy of higher rates and quantitative tightening for the past two years has been wrong and unnecessary. The Fed would much rather blame the so-called trade wars for any problems with the economy. There are problems with that though.

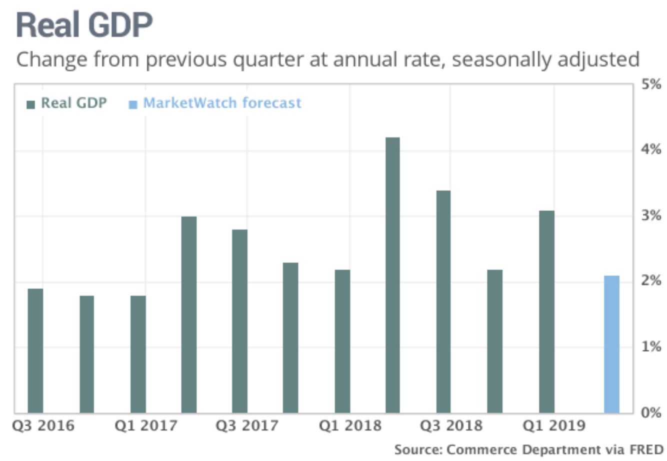
Look at the next chart which shows NEGATIVE import/export prices in our economy for the past year. This result is the exact opposite of what the Fed said would happen (along with Wall Street types). The simple fact of the matter is that global growth has been slowing for over a year now. Emerging markets are being strangled by the super strong Dollar and this is a result of Fed policies. In our world though, it is fair to criticize President Trump who is pursuing growth policies, but it is somehow against our culture to criticize the central planners in DC whose record of economic forecasts is simply horrible.



In any case, it is a positive for the stock market that the Fed is changing tact. There may be some disappointment over the smaller rate cut but frankly the last thing anyone wants to portray is that the Fed is worried about the economy even though they are.

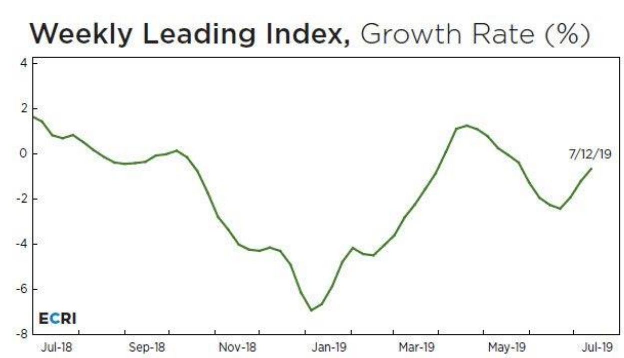
What to Expect This Week

Earnings season roars on and we expect many reports. In addition, there will be many economic reports of significance. Later this week comes the GDP estimate for Q2 (see the next chart of historical trend). The consensus is for the quarter to come in at just 1.7%. You can just imagine the rhetoric coming out of the White House over this slow down. The media will blame Trump trade policy while the president will blame monetary policy. If you are the Fed, you need to retreat with whatever amount of dignity the markets will allow you to retain.



In addition, the ECB is also meeting this week. This will be the last meeting under their current leader. The economy there stinks and is slowing. Interest rates are negative and going further south. Even Germany is struggling. All that bad news though is good for equities overall. It is now expected that the ECB will soon join Switzerland and Japan as huge buyers of equities in order to stimulate growth. Isn't it amazing how only in America did we delude ourselves (not me) that the economy was back to normal again and needed normal interest rate structure? The ONLY way that will happen is to unleash the power of the US economy and GROW. Anyone that thinks 1-2% growth (if you can get it) will deliver better times is simply watching too much CNBC.

Finally, the graph below of the ECRI's leading economic indicators shows an uptick in an overall down trend. In other words, nothing truly indicating things are likely to get better or worse from here. The key for investors though is that the Fed is once again on our side. Short-term drops aside, this should be a support for the bull market to continue.



Shares of **MICROSOFT** moved to RECORD HIGHS late last week after announcing a second consecutive fiscal year of strong growth, ending with a blowout quarterly earnings report. Fiscal fourth-quarter profit of $13.19 billion or $1.71 a share was up from $8.87 billion or $1.14 a share a year ago. Revenue came in at $33.72 billion, up from $30.09 billion in the year-ago quarter.

MICROSOFT's gains in the past two years have largely come from booming growth for its cloud-computing product, AZURE, which rivals Amazon's Web Services. Intelligent cloud sales, of which AZURE is a part, rose $11.4 billion from $9.61 billion in the year-ago quarter. Productivity and business processes, a segment that includes LINKEDIN, OFFICE and other cloud-software products, recorded revenue of $11 billion, up from $9.67 billion. Even revenue from **MICROSOFT's** legacy personal-computer business improved slightly, from $10.81 billion to $11.3 billion. The total would have been higher if not for a slight decline in **MSFT's** Xbox-based gaming division, which declined 10% in the quarter. **MICROSOFT** raised its guidance for the full year and received several upgrades from Wall Street analysts. With the stock surging last week, **MICROSOFT** now has a market capitalization of over $1.045 TRILLION, the only publicly traded company worth more than $1 trillion.

MSFT one-year

BLACKSTONE GROUP's shares hit new ALL-TIME HIGHS in July and generated a strong second-quarter earnings report. The world's largest manager of private equity and real estate reported total assets under management of a RECORD $545 billion, up 24 percent year over year, driven by $151 billion of inflows over the past 12 months and positive investment performance. **BLACKSTONE** reported net income of 45 cents for the quarter. Distributable earnings, that is the cash available for paying dividends, came in at $708.9 million, also higher than a year ago.

BLACKSTONE will pay a second quarter dividend of 48 cents per share to record holders of common shares on August 5th. This was **BLACKSTONE's** first earnings report since officially converting from a partnership to a corporation, a move designed to boost its share price. Since making the announcement in April, shares of **BLACKSTONE GROUP** gained 25% and over 53 percent so far in 2019.

BX one-year

Shares of **NOVARTIS** soared to a four-year high last week after the Swiss drug company reported earnings and revenue better than expected for its second quarter and RAISED FULL-YEAR GUIDANCE. Thanks to stellar sales from drugs COSENTYX, ENTRESTO and LUTATHERA, **NVS** reported core earnings of $1.34 per share on $11.76 billion during the quarter.

NOVARTIS saw a 20 percent jump in second quarter core operating income to $3.6 billion with sales up 8 percent at $11.8 billion, beating analysts' projections. The Company now expects 2019 core operating income to grow at low double-digit to mid-teen percentages, up from a previous target in the high single digits. **NOVARTIS's** ENTRESTO heart failure medicine registered an 81 percent leap in second-quarter sales to $421 million. Inflammation drug COSENTYX, the company's top seller, reached $858 million, up 25 percent. Shares of **NOVARTIS** have gained 27 percent over the past 12 months and pay investors a dividend of 3 percent.

NVS one-year

Beverage and snack food company, **PEPSICO** reported quarterly profit that beat estimates as brands including Mountain Dew soda and Doritos chips boosted results. Second quarter earnings came in at $1.54 a share, compared to Street estimates of $1.50. Revenue of $16.44 billion was also ahead of analysts' projections.

PEPSICO's North American beverage unit was led during the quarter by its water brands, including its LaCroix competitor "Bubly", which helped offset volume declines in Gatorade and soda. Overall, the unit's sales were up 2.5 percent to $5.32 billion thanks in part to raising prices on certain items. **PEPSICO** has also benefited from higher prices in the U.S. on its chips and snacks, which have helped lift revenue at its Frito-Lay unit despite sluggish volume growth. **PEPSICO** has been cutting costs, including reducing head count, as it attempts to increase profit amid higher commodity costs and headwinds from foreign currency. The Company reaffirmed its overall revenue projections for the remainder of 2019. Shares of **PEP** have rallied 19 percent higher over the past six months.

PEP one-year