Tom McIntyre's

Weekly Commentary & Outlook

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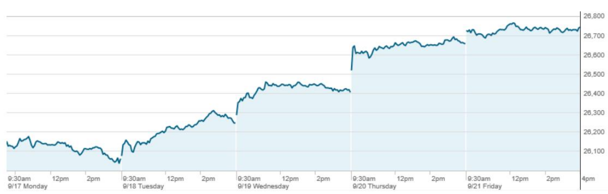
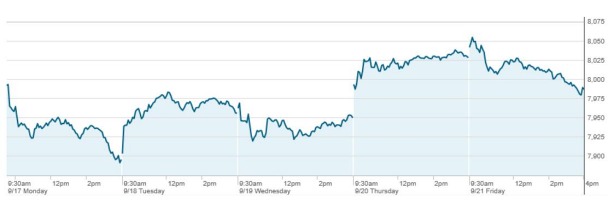
This is Tom McIntyre with another client update as of Monday September 24th, 2018.

Stocks, as measured by the ***Dow Jones Industrial Average***, closed at an all-time high despite the media filled background of news on tariff wars and other issues. The ***NASDAQ*** slipped as concern over the ethics of companies such as Facebook, Twitter and Amazon appear to be setting the stage for regulation and/or break-ups. I think that is inevitable, concerning their importance to the new information age but slimy/partisan bias.



Dow 5-day



NASDAQ 5-day

As the charts above illustrate, the ***Dow Jones Industrial Average*** gained over 2% last week while the ***NASDAQ Composite*** slipped fractionally for the reason mentioned above.

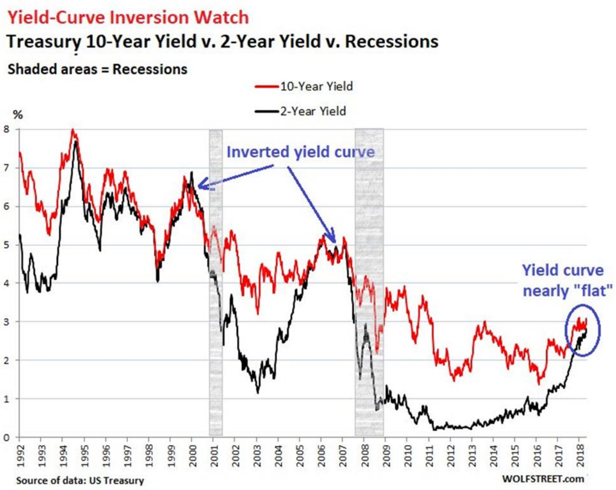
Markets & Economy

As we approach the end of September, markets are not yet focused upon earnings which are still several weeks from being reported. It is the macro issues such as this weekôs Fed meeting or the outcome of the Supreme Court confirmation hearings which will keep traders watching their screens.

I would like to state though, that focusing too much on the short-term worries is the best way yet to miss out on opportunity. The chart below shows the aggregate increase in stock market value since the election of President Trump. An event by the way which virtually all pundits dismissed as possible but if it did happen would doom both the economy and the markets. That is why it simply doesnôt pay to act on their analysis. If you want to be entertained, thatôs ok, just donôt think it carries forth into the arena of investments. That is determined by policy decisions and other fundamental factors.

Speaking of which, the policy meeting this week by the Fed is expected to raise interest rates, yet again. As you know, their entire rationale for doing this is ñwe are doing great, so letôs try and slow things downò. They cannot point to inflation as a looming problem and with the sub-par growth elsewhere in the world, there is the risk that global growth will slow further. Of course, the various trade issues could also impact on this.

If one looks at the graph below of the yield curve over time, one can clearly see that when the Fed hikes rates at the short end, but the long end doesnðt follow; that is the markets telling the Fed to cool it. We currently have a very flat yield curve. Should it go negative due to the Fed making good on its forecast of jumping rates repeatedly then it would be a classic warning sign of a recession in the works.

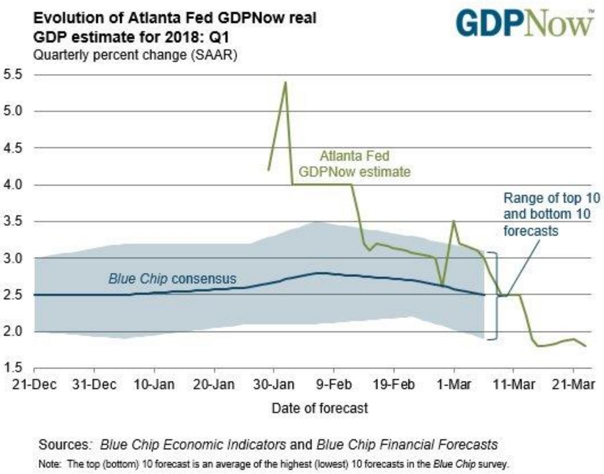


Everyone knows this, so the standard response is always ñthis time is differentò. Well that is wrong and usually given by various eggheads working at the Federal Reserve or various investment firms. Monetary policy, much more than President Trumpðs negotiations over trade deals, remains the single biggest threat to the longevity of this amazing recovery.

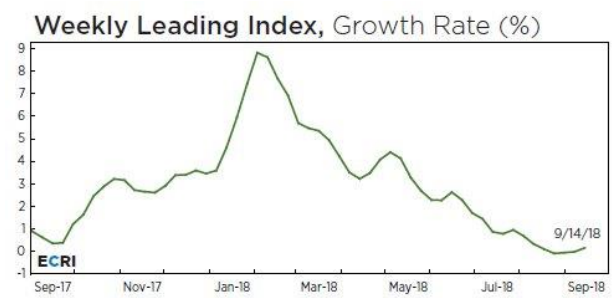
What to Expect This Week

As alluded to earlier, the Fed meeting and their outlook will be the biggest item on the list, but others exist as well. All one must do is turn on the television. I have no idea how things will work out by Friday or what markets will do in reaction. That is why we own strong names with rising earnings and dividends (see our updates below). To them this simply doesnðt mean anything.

As we end the month and quarter, the economy remains on a very firm footing. The forecast from the Atlanta Fed (next chart) still sees GDP growth over 4%. That will not happen but anything over 3% is just fantastic.



Finally, the leading economic indicator update from the ECRI shows its listless view of the future is still their call. This is just another reason not to get too carried away with these interest rate hikes. President Trump is correct to comment publicly about the danger of hiking rates so aggressively.



Company News

BX one-year

Shares of **BLACKSTONE GROUP** are hitting multi-year highs this morning after posting positive remarks about future business and a potential change to its corporate structure. During its investor day presentation, the worldðs largest alternative asset manager said it expects to grow over $150 billion from its fundraising pipeline in the 2018-2019 timeline. **BX** expects to grow fee-related earnings OVER 50 PERCENT within 2 years. **BLACKSTONE** also believes assets under management will grow to $600 billion within 2 years, $800 billion in 4-6 years, and $1 TRILLION in more than 8 years.

The Companyôs CFO says the firm is still actively considering conversion from a Limited Partnership to a C CORP. This move has already been done by rival firm KKR, which was favorably received by investors. Shares of **BLACKSTONE GROUP** have risen more than 18 percent this year alone.

MCD one-year

MCDONALD'S served up a solid dividend increase to its shareholders last Friday. **MCD's** board of directors approved the Companyôs 42^{nd} CONSECUTIVE ANNUAL DIVIDEND INCREASE, raising the quarterly dividend 15 percent, from $1.01 to $1.16 per share of common stock. The new payout will be made on December 17^{th} to shareholders of record at the close of business December 3^{rd}. This brings the fourth-quarter dividend payout to nearly $900 million.

MCDONALD'S has experienced increased capital allocation flexibility due to the evolution of the Companyôs business model and the effects of the Tax Cuts and Jobs Act of 2017.

KO one-year

The **COCA-COLA** company has been on a buying spree recently and hinted they may even be entertaining the idea of a beverage which contains cannabis. First, **COCA-COLA** has acquired Costa Limited, a global coffee platform with a footprint in more than 30 countries. **KO** will pay $5.1 billion to buy Costa, which was founded in London in 1971 and has grown to become a major coffee brand across the world. Next, **KO** has acquired Australian kombucha maker Organic & Raw Trading Co., which makes the MOJO brand of naturally fermented tea. Kombucha is the fastest-growing beverage category in the land down under.

COCA-COLA is also moving ahead with plans to take over Nigeriaôs leading juice company, CHI Ltd. A deal could be announced for the African company by early 2019. **KO** is also mentioned as a front-runner, vying for GLAXOSMITHKLINEôs Indian Horlicks nutrition business.

Earlier during the week, rumors swirled that **KO** was looking into CBD (cannabidiol)-infused beverages. The Company shot back that they ñhave no interest in marijuana or cannabisò, but quickly added that they are closely watching the growth of non-psychoactive CBD as an ingredient in functional wellness beverages around the world. No decisions about such drink has been made at this time. Stay tuned.

MSFT one-year

CSCO one-year

Shares of **MICROSOFT** moved to all-time highs after the software cloud giant announce it will be raising its quarterly dividend again. The Board of Directors is raising the dividend by 4 cents, to 46 cents, a 9.5 percent increase over the previous quarter's payout. The dividend will be payable December 13th to shareholders of record November 15th.

MICROSOFT has a pleasant problem, what to do with the excess cash the company currently holds. In the financial year ended June 30, the firm paid $12.7 billion in dividends and repurchased $10.7 billion of stock and still had plenty left over. **MSFT** also agreed to acquire programming storehouse GitHub for $7.5 billion and repaid some debt. The new dividend increase will eat up barely a fifth of the $5 billion in additional cash flow analysts believe the company will generate by the end of this year. Shares of **MSFT** have gained nearly 50% for shareholders over the past 12 months.

CISCO SYSTEMS hit several all-time highs last week. The Company reported strong earnings and revenue numbers, each of which topped Wall Street's expectations. **CSCO's** fiscal fourth-quarter revenues came in at $12.8 billion, a 6 percent increase year-over-year AND THE HIGHEST EVER RECORDED for the Company. Earnings per share were 81 cents, 11 cents higher than expectations and a 15 percent increase year-over-year.

During the quarter **CSCO** hit on all cylinders, as product revenue was up 7 percent and service revenue gained 3 percent. The Company has plenty of business going forward, with a $6.6 billion product backlog at the end of fiscal 2018, which is an increase of 38% over the end of fiscal 2017. Shares of **CSCO** have gained an impressive 47 percent over the past 12 months.