Tom McIntyre's
Weekly Commentary & Outlook
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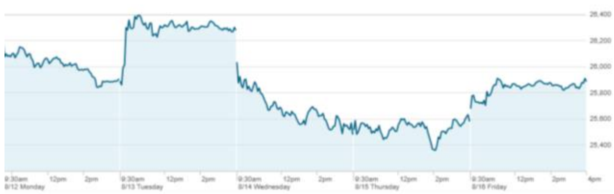
This is Tom McIntyre with another client update as of Monday, August 19th, 2019.

Markets were all over the place last week but finished the week on a positive note and have started out strongly higher this morning. As the charts below illustrate, the Dow Jones Industrial Average declined net 1.5% last week while the NASDAQ Composite fell less than one percent.



Dow 5-day

Nasdaq 5-day

Markets & Economy

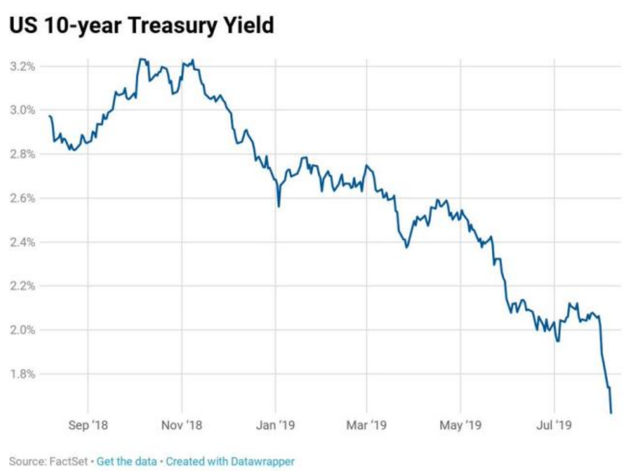
As we hinted last Monday, the financial markets have become more concerned with the "macro" factors impacting the global economy. BREXIT fears are being planted to try and scare the UK from following through on their decision to leave the EU. The British economy has retreated into negative growth. Thus, the concern is even scarier for some but in fact is preposterous. The UK should leave and move on. It is the EU which has the problems. Germany is already in recession (see next chart). Italy could easily elect to leave the EU in the next election cycle. European leaders run the gamut from incompetent to feckless. There is no reason to be optimistic about the EU's future. Britain has a chance to get out before this becomes more pronounced and it will ultimately be a positive for them and for global growth.

Over in Asia, the riots continue in Hong Kong, but the violence is being contained. While China could intervene, that would really represent a breaking point for the Western world's ability to look the other way on China's behavior. It is disruptive but the risks to China, if they deploy their military in violation of the 1997 treaty with Great Britain, are great. Given they are currently suffering in their trade dispute with the US, now doesn't seem the time to double down on stupid.

Overlaying all these concerns though is whether the US will follow the world into a lower growth path or even recession. After writing about the inverted yield curve for the past 18 months and warning that the Fed was clueless, now everyone is singing that song.

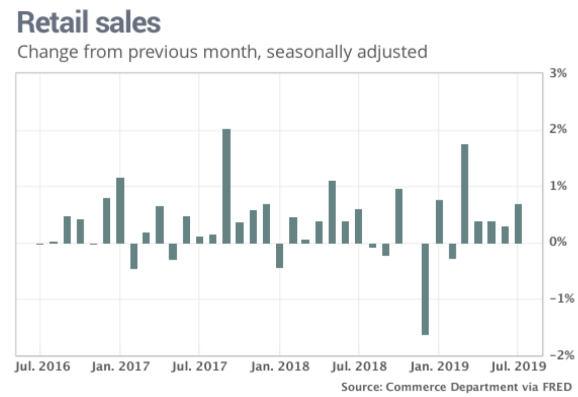
Gone are the days when pundits came on television warning of the return of inflation and the end of the bond bull market. Hopelessly wrong; as they have been largely for over twenty years.

The chart of the Ten-year Treasury Note, shows how the market reacted every time the clowns at the Fed acted over the past several years. Even today, they are adding greatly to the markets' worries by not acknowledging their errors and offering a plan to correct the situation. To be clear, these global negative interest rates are weird, but it was the global central bankers who put them there. You cannot have the US dollar be supported by capital flights from around the world, as trillions seek safety, and a positive yield which only the US Dollar can provide. For the Fed to have misunderstood this, even until today, is just a travesty.



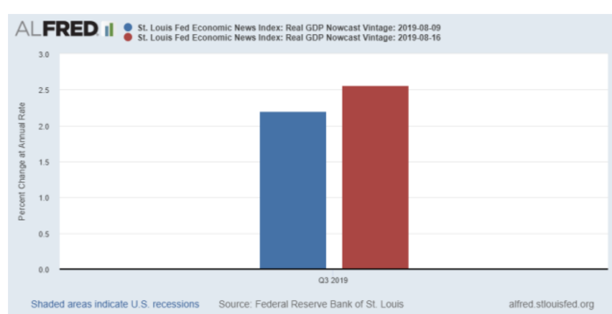
Even the ultimate central planner himself, Alan Greenspan, the former Fed chairman, said last week that he can see US government yields falling to ZERO. That statement has now basically revealed to any observer of monetary policy that Janet Yellen was wrong, and the current Fed chief Powell is clueless. President Trump may be blunt, but he is also accurate. The Fed can have its independence, but it must also be held accountable. They simply have been wrong for too long and too often to escape criticism, however much the beautiful people in DC don't like it.

The good news, of course, is that the US economy is not in recession and is not likely to fall into one unless the media can cause a meltdown in financial markets. Our fundamentals, while not what they were, are still good. Last week's report on retail sales (see chart below) was strong. People are working, wages are growing, inflation is low etc. Not the sort of thing that recessions are born of.



In addition, the Fed has already moved once to reverse course and they will be cutting rates aggressively starting next month. The real stickler is the trade dispute with China. Of course, our dispute with China is over much more than trade. National security is also key, and it would have been better if the previous three presidents had not allowed the global economy to develop the way it did. That is not President Trump's fault, but it is his job to try and right the ship. In the meantime, this uncertainty isn't helping.

When you sort it out however, the current estimate for Q3 GDP by the St Louis Fed is for plus 2.6% (see chart below). If that is achieved it would be fantastic. Anything around 2% is much better than current market expectations. Critical to next year though, is the speed with which the Fed corrects their policy errors of the past and any clarity, which I don't expect, on China trade issues. I think they are just going to try and see if Americans will back Trump in this fight or retreat. I have no idea about that right now.

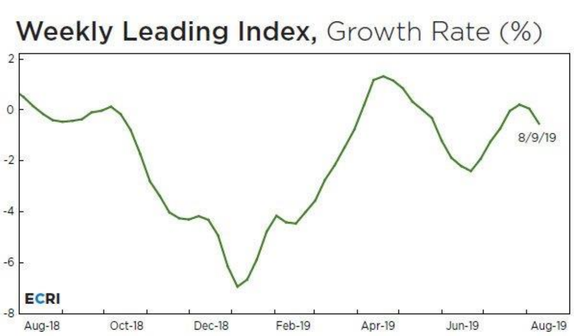


Our portfolios are doing better than these crazy markets. Earnings, dividends etc. are moving higher. A 2% economy with dividend yields, in many cases, exceeding interest rates makes the names we hold very attractive. Of course, share prices will go up and down on crazy days but there is value there. These companies have been around a long time and will improve their competitive position as others fall aside. Just look at Walmart's earnings from last week (see comments below). The stock is at an all-time high today.

What to Expect This Week

Sadly, it's a quiet week on paper for the market. You know this to be the case when the biggest item on traders' minds is the speech on FRIDAY by Fed Chairman Powell. Given his track record, when he opens his mouth bad things happen. The speech is being offered from Jackson Hole, Wyoming. This is where the cabal of global central bankers/planners meet to discuss our futures. The whole set up is pretentious beyond belief and another indication of how out of touch the elite have become. They still don't understand the shifts in attitudes around the world.

Finally, the weekly data from the ECRI shows a decline. Nothing to get excited about here. To me it just indicates that the Fed needs to unwind hikes now while things are good just as they hiked for no good reason other than things were good. Sadly, that's about the extent of their analysis. Though it does come with nice graphs and presentations.



Company Stories

Hand it to **WALMART** for being the brightest exception to other major retail chains who are floundering. The world's largest retailer reported quite strong second-quarter results last week and RAISED ITS EARNINGS EXPECTATIONS for the rest of 2019. **WMT** posted earnings of $1.27 a share during Q2, as revenue rose nearly 2 percent to $130.4 billion. U.S. same-store sales rose 2.8 percent at **WMT** locations and 1.2 percent at SAM'S CLUB stores. **WMT's** U.S. e-commerce sales continued its meteoric climb, gaining 37 percent during the quarter, and a 35 percent at SAM'S CLUB.

WMT's performance was helped by shoppers who simply spent more at its stores and websites, indicating the U.S. consumer economy has not lost steam as some media sources would have you believe. The retailer gets 56 percent of its revenue from its food and grocery division, which allows the Company to manage the pressure from tariffs better than many rivals. **WMT** is currently on a 20 quarter, or five-year streak of growth in America, unmatched by any other retail chain. **WMT** now expects U.S. same-store sales to rise at the upper end of the 2.5 to 3 percent range for the remainder of the year, with e-commerce growing another 35 percent. Shares of **WALMART** have hit all-time highs recently, having gained over 21 percent so far in 2019.

WMT one year

Thanks to another impressive quarter from its Security Applications division, **CISCO SYSTEMS** beat expectations with its fiscal fourth quarter earnings report. **CSCO** reported earnings of 83 cents per share, topping Wall Street's estimates and coming in 19 percent higher than a-year-ago quarter. Revenues increased 6 percent year-over-year to $13.428 billion, also higher than expected.

CSCO's security segments helped drive the year-over-year growth, climbing 14 percent from the previous quarter. The growth was attributed to solid demand for web security, unified threat, network security and advanced threat solutions. Other contributors for **CSCO** was its product sales gaining 7 percent to $10.12 billion and software and solution services increasing 4 percent to $3.31 billion.

CSCO returned $6 billion to shareholders during the quarter through share buyback and dividends. The Company bought back 82 million shares during this period.

Shares of **CSCO** have gained 8 percent so far in 2019.

CSCO one year

Shares of semiconductor equipment maker **APPLIED MATERIALS** moved higher Thursday afternoon after the company beat Wall Street's targets for its fiscal third quarter and provided in-line guidance for the current quarter. **AMAT** earned 74 cents a share on sales of $3.56 billion in the quarter which ended July 28th, 4 cents ahead of expectations.

AMAT returned $724 million to shareholders during the quarter, including $528 million in share repurchases and dividends of $196 million. CEO and President Gary Dickenson said that despite a challenging market environment **AMAT** is delivering solid a financial performance. For the current quarter, **AMAT** expects to earn 76 cents a share on sales of $3.685 billion, which is in the middle of its guidance. **APPLIED MATERIALS** is poised to outperform in the semi-conductor sector once volatility from trade talks abate with China. Shares of **AMAT** have gained 43 percent year-to-date in 2019.

AMAT one year