Tom McIntyre's Weekly Commentary & Outlook

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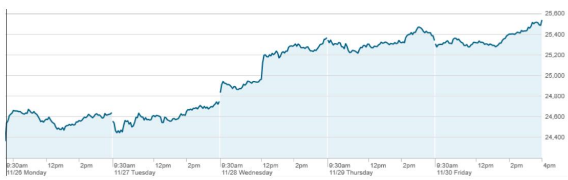
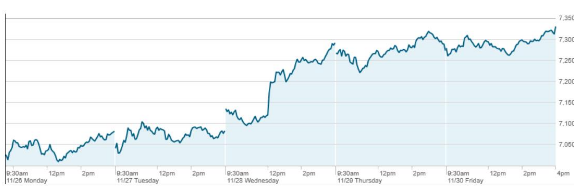
This is Tom McIntyre with another client update as of Monday December 3, 2018.

After a poor showing two weeks ago for the holiday shortened Thanksgiving week, the market put in its best performance in seven years last week as the Fed officially blinked and listened to President Trump, the markets and yours truly.



DOW 5-DAY



NASDAQ 5-DAY

For the last week (see charts above) the ***Dow Jones Industrial Average*** gained 5.2% to offset the previous weekõs sickening decline while the ***NASDAQ Composite*** gained 5.6%. This morning markets have continued to rally on weekend news coming from trade discussions with China.

Markets & Economy

There has been a growing discussion about the absurdity of monetary policy in this country. One must give President Trump credit as he has taken on the sacred ñcowò by giving his opinion of monetary policy. The traditional types inside the beltway are horrified but one must remember that, other than oil spikes in the seventies, every business cycle over the past 100 years has been aided and abetted by poor monetary policy based upon poor economic analysis.

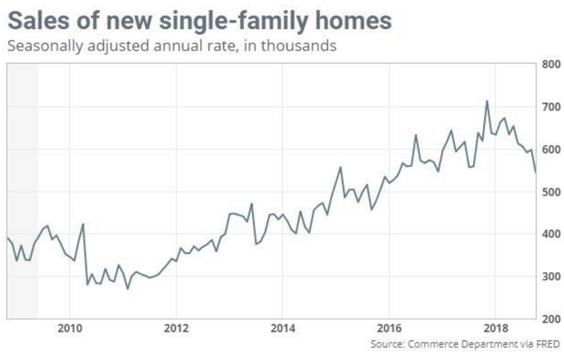
For Trump to state the obvious is good news and it has worked. Last week, in a widely publicized speech, the Fed chairman basically said the Fed was now near neutral. This means the endless cycle of rate hikes is ending. In fact, given the weakness in housing, auto and emerging markets, one could even say they have gone too far already. In this day and age, the establishment will never give Trump any credit. This is compounded furthermore by their lack of understanding of the economy. Thus, for some reason they accept Fed forecasts blindly, despite a track record for which a coach in the NFL would last about two seasons.

The Fedõs blind analysis is based upon the hokiest of data. The official unemployment rate is at 3.7% so by 1970õs thinking inflation must be happening. The only thing is, that it isnõt.

Look at the chart below on the Fedõs inflation measurement called the core PCE. It has remained below its target for many years and is showing signs of rolling over once again. It has increased just 1.8% over the past 12 months. Below the Fedõs stated target. The recent decline in oil prices of 20% the past month will only bring lower pressure on this index.

In addition, last weekôs high-profile announcement from GM of 15,000 job layoffs tells you all you need to know what is going on there.

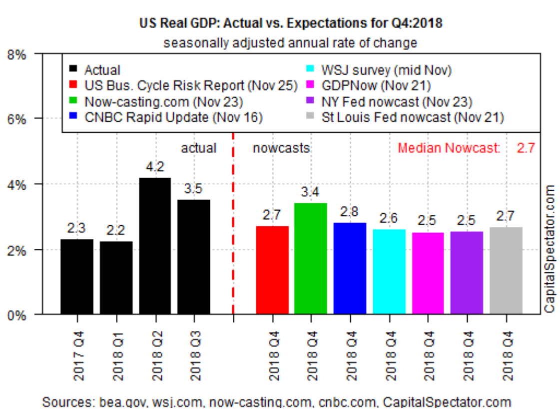
Even in real estate, the best news is long behind us. Look at the chart below of the decline of single family homes, which just hit a 3 year low.



Of course, wage growth, while improved, is still having a hard time making headway. In other words, as has always been the case, the FED is worried about the WRONG thing once again.

It is an institutional problem. It makes no difference who is chairman, the policy remains the same. They follow past trends and assume what has happened will continue and then relate it to what happened in the 1970ôs. Very important for Trump to call them out. It just might save us from an economic downturn.

Over the past few weeks the final GDP for Q3 came in at an outstanding 3.5%. This however is a downshift from the second quarter. In addition, as the chart below shows the consensus estimates for Q4 is for just 2.5% growth. Still good by Obama era standards but again would represent a downturn from Q3.



Really, you donôt need to be a Fed economist to understand that a flat yield curve, slowing economic trends, super strong dollar, falling oil prices and a decline in inflation measures all indicate that maybe a pause is needed. It took President Trump to get them focused. We would be better off without this politically influenced institution, which people need to remember is simply a creation of Congress. It is not a gift to the country from on high.

In any case, the retreat by the Fed is what we had hoped for in previous outlooks as being the precursor to a rally. I always knew it would happen. The question has simply been when and how much damage to growth would they do first. I do believe they have hurt prospects for next year that cannot be immediately recouped but markets look ahead. The past several months has been discounting the damage of monetary policy and thus a pause would be viewed as bullish.

Over the weekend the President announced various details about trade issues with China. We shall see how this plays out. Markets are also responding positively to this today but who knows longer term. In addition, OPEC is likely to announce a cut back which should change psychology in this market. The world is not replacing its oil reserves at these prices. The drop in prices would just mean that when growth returns, the shortage in oil will be all the closer. President Trump would be better to stay clear of his call for lower oil prices. They are already too low to avoid a future spike.

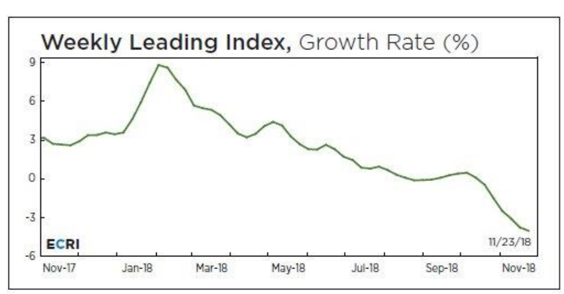
What to Expect This Week

Sadly, President George H.W. Bush died last Friday. A national day of mourning will be this Wednesday. As such the stock market as is its tradition will be CLOSED. Thus, the week will be a little different.

In addition, the federal government does face a potential shutdown for around 17% of its budget by the end of the week. It means little in substance, but the pundits will have a field day if it happens.

Finally, on Friday will come the unemployment report for November. The weekly claims numbers have been on the rise. We shall see if it starts to make an impact on the overall numbers this Friday.

Below is the weekly report from the ECRI on their leading economic indicators which shows more weakness. I hope the Fedôs version of gauging the future is picking up on some of these signals.



Thanks to robust sales at its cardiac and surgical product units, shares of **MEDTRONIC** moved higher last week after The Company came out with fiscal second quarter earnings which beat Wall Streetôs expectations. **MDT** earned $1.22 per share, 8 cents better than predicted and 25 cents higher than during the same year-ago quarter. Revenues at **MEDTRONIC** came in at $6.48 billion, nearly 2 percent higher than expected.

Sales across **MDT's** business units performed well, led by The Companyôs fast-growing diabetes segment which makes insulin pumps and glucose monitoring systems. Sales at this unit rose 26 percent, helped by the strong adoption of the MiniMED 670G system in the United States. **MEDTRONIC's** ñartificial pancreasò, as they call it, is the first device to automatically deliver the right dose of insulin to patients with type 1 diabetes.

During the quarter **MEDTRONIC** made a significant acquisition of MAZOR ROBOTICS for $1.64 billion, which will help bolster **MDT's** spinal robotics business. The Company RAISED ITS FULL-YEAR ORGANIC REVENUE GROWTH FORECAST to a range of 5 to 5.5 percent, up from its previously stated 4.5 to 5 percent. Shares of **MEDTRONIC** have gained 20 percent over the past 12 months and pay an annual dividend yield to investors of better than 2 percent.

MDT one-year

Shares of pharma giant **MERCK** have been one of the top-performing large cap stocks in the drug sector during 2018. **MRK** has set several all-time highs recently, increased its quarterly dividend and raised its earnings guidance. **MERCK's** third quarter results were equally impressive, earnings of $1.19 on revenues of $10.79 billion. Both numbers easily beat street expectations, thanks to strength in sales of its wonder cancer drug KEYTRUDA, and treatments in its Animal Health division.

The Pharmaceutical segment generated revenues of $9.66 billion, up 5 percent year over year as higher sales in oncology, vaccines and hospital acute care areas were strong. As for KEYTRUDA, the largest product in **MRK's** portfolio, sales were nearly $2 billion in the quarter, up 13 percent sequentially and 80 percent higher than a year ago. The increases were driven by the launch of new indications for first-line lung cancer globally. During the quarter, KEYTRUDA received FDA and EU approval for several new cancer treatments.

MERCK announced a 15 percent increase in its quarterly dividend from 48 cents to 55 cents per share. **MRK's** board also authorized a new share buyback plan of $10 billion, including a $5 billion accelerated repurchase plan. The Company raised its adjusted earnings guidance to the range of $4.30 to $4.36 from $4.22 to $4.30. Shares of **MRK** have risen MORE THAN 42 PERCENT over the past year.

MRK one-year

MICROSOFT’s stock market value closed above APPLEôs, for the first time in eight years on Friday, as they benefited from growth in cloud computing. Meanwhile, AAPL was hit by investor concerns about iPhone demand. ***MSFT*** recently raised its quarterly dividend by nearly 10 percent and has just won a $480 million-dollar contract from the U.S. Army. The new payout will be paid on December 13th to shareholders of record on November 15th.

Under CEO Satya Nadellaôs leadership, ***MICROSOFT*** has successfully transitioned to the next big technology wave ï cloud computing. The turnaround is directly linked to Nadellaôs appointment in 2014, who changed the overall direction of the company and saw the business opportunity in the cloud. Shares of ***MICROSOFT*** have risen more than 32 percent over the past 12 months.

MSFT one-year

Despite major storms in the southeastern part of the U.S., **DUKE ENERGY** reported solid earnings. The power company reported third quarter 2018 adjusted earnings of $1.65 per share, 8 percent higher than estimates and nearly 4 percent higher than during the third quarter of 2017. Total operating revenues came in at $6.6 billion, up 2.3 percent from a year ago. The upside reports were primarily driven by higher retail electric sales volumes and income tax benefits, partially offset by higher storm restoration costs and share dilution.

DUK upped slightly its adjusted guidance for all of 2018 during its conference call. Shares of the electric utility are up 18 percent over the past six months and pay investors an annual dividend yield of 4.19 percent.

DUK one-year