



Tom McIntyre's Weekly Commentary & Outlook

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This is Tom McIntyre with another client update as of Monday, March 26th, 2018.

As we hinted last week, markets were vulnerable to the “macro” stories of the week. These included trade wars (real and imagined), deficit busting budget agreements in DC and of course the litany of scandals and investigations which the media are using to foster doubt and confusion as to whether the USA has a government up to the task of leading the world.

As a result, and with little economic backdrop, other than the expected rate hike by the forlorn Federal Reserve Board, the stock market endured its worst week in years exacerbated by the scandal concerning Facebook. Sadly, the scandal is just the fact that investors pretended to not understand what Facebook essentially is. That’s the scandal if there is one.

As the charts illustrate, the **Dow Jones Industrial Average** fell 5.7% last week while the Facebook led **NASDAQ Composite** dropped 6.5%. What a week.

Markets & Economy

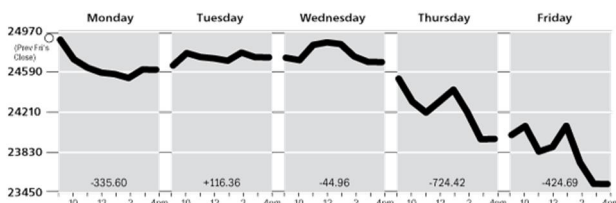
What a difference a weekend makes. This morning the market took off and rallied over 500 points as concerns retreated about the events listed in the introduction. As one can see this has become a very emotional and trendless market as these macro concerns continue to dominate investor short-term psychology. Thus, I have little to add to this day to day manic approach to markets.

I will say though that the fundamentals remain solid. Rising dividends, merger activity, buybacks will provide support to markets during times of turbulence. The one fundamental concern that I have is that monetary policy is being tightened despite the Fed’s own admission that the inflation targets not only have not been achieved but neither are they forecasted to be achieved. In addition, last week’s Fed commentary on the growth outlook similarly indicated that they didn’t expect the Trump tax cuts to stimulate higher levels of growth. Furthermore, as if to prove they are completely incompetent, the Fed expressed concern that tariffs leading to trade frictions could harm the global economy.

Thus, when you put it all together one must simply ask the question, is the Fed targeting asset (stock) prices or really acting in response to a much-improved economy. Their own analysis leads one to

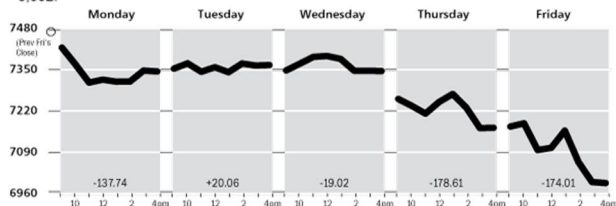
FIVE-DAY DOW COMPOSITE

Battered, Broken: The Dow dropped 5.7%, its biggest decline in more than two years, as tariffs tanked the market. 3M tumbled 9.2%, while Nike, which reported earnings, dropped 1.9%, making it the benchmark’s best performing stock.



FIVE-DAY NASDAQ COMPOSITE

Dislike: One-time darling Facebook fell completely out of favor with both users and investors as the shares dropped 14% on the week. That helped pull the Nasdaq down by 6.5% to 6,992.



conclude the former. This is a very dangerous game and one which has much more import to stock prices than these minor tariffs being announced (and then mitigated) by the Trump administration. Of course, it is ok to criticize Trump but it is unthinkable to take issue with the Fed despite a forecasting record which has been about as wrong as supposed experts could possibly be. Do they have an unspoken agenda? Or are they incompetent regardless of who the Chairman is? Bears watching.

Finally, the chart below of the ECRI's index of leading indicators shows a continued roll over but no significant decline. The spring housing season appears to be a weak one with the higher interest rates not helping. All in all, if I were to guess today, the year 2018 looks to see growth above 2.5% but not greatly so. In other words, everyone from the Fed to pundits of all stripes should just go away. They won't though and therein lies the problem.



What to Expect This Week

This is a holiday shortened week with Friday seeing the stock market closed in observance of the Good Friday holiday leading up to Easter Sunday. Thus, our next update will be in two weeks.

Economic news will be light this week as well. So, you guessed it. The macro headlines of the day will have the field all to itself and I don't hazard a guess as to what those headlines will be. Stay tuned.



GSK one-year chart

Shares of **GLAXOSMITHKLINE** gained nearly 5 percent Friday after the company won European approval of a two-drug regimen to treat HIV, and simultaneously announced that they **WOULD NOT** be buying **PFIZER**'s consumer healthcare business after all. The European Committee for Medicinal Products for Human Use backed the use of **GSK**'s two-drug combination for HIV patients, which is aimed at lessening the side effects of current treatments that typically combine three or four medicines. This drug combo was approved by the U.S. Food and Drug Administration in November. The new HIV treatment, **JULUCA**, is a fixed-dose once daily tablet that combines two previously approved drugs.

Initially, **GLAXO** was viewed as the frontrunner to buy the **PFIZER** healthcare unit, but the Company failed to make a final bid for the assets in the end. CEO Emma Walmsley said that **GSK** will continue to review opportunities that may accelerate the Company's overall strategy without compromising priorities for capital allocation. The **PFIZER** unit includes well know over the counter treatments such as **ADVIL** pain relief and **CENTRUM** vitamins which brought in over \$3.47 billion in 2017 sales. By not acquiring the **PFIZER** unit, **GSK** is preserving its 6 percent dividend yield for investors.



NVS one-year chart



BA one-year chart

Late last week, **NOVARTIS** received a FDA Priority Review designation for the use of its top-line cancer therapy **TASIGNA** to treat children suffering from Chronic Myeloid Leukemia (CML). In the United States, **TASIGNA** is now indicated for the treatment of adult and pediatric patients one year of age or older.

CML is a type of blood cancer where the body produces malignant white blood cells. This approval is the latest in a series of regulatory milestones by **NVS** in the fight against blood cancer. **TASIGNA** is approved in more than 122 countries for treatment of chronic phase Leukemia. The drug has also recently been approved by European regulators for pediatric patients suffering with CML there.

NOVARTIS increased its yearly dividend by 2% earlier this month, the 21st CONSECUTIVE DIVIDEND increase per share since the creation of the Company in 1996. A \$2.98 dividend will be paid out April 1st.

BOEING has delivered its very first 737 MAX 9 commercial aircraft. The all-new MAX 9 is going into service with **LION AIR** of **THAILAND**, a group which has an **ADDITIONAL 200 737 MAXs** on back order. This 737 is designed by **BOEING** to handle a capacity of up to 220 passengers and a maximum range of 3,550 nautical miles, which will help customers launch longer routes. The aircraft has three additional seat rows, compared to the 737 MAX 8.

The 737 MAX series is the fastest-selling airplane in **BOEING** history, accumulating more than 4,300 orders from 95 customers worldwide. Separately, **BOEING** delivered its first 787-10 DREAMLINER to **SINGAPORE AIRLINES** on Sunday. **BA** has 171 orders for this massive plane, which has a range of more than 6,400 nautical miles.