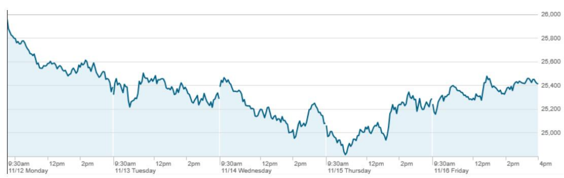
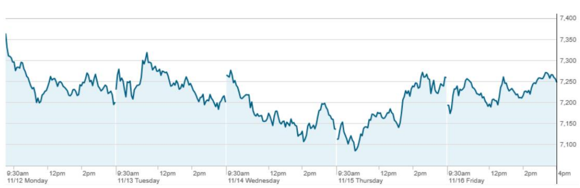
Tom McIntyre's
Weekly Commentary & Outlook
McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday November 19th, 2018.

Stocks continue to vacillate as conflicting outlooks about the economy have replaced the previous unbridled conviction of an ever-expanding economy.



DOW 5-day



NASDAQ 5-day

As the charts above illustrate, both the **Dow Jones Industrial Average** (led by Apple) and the **NASDAQ Composite** (led again by Apple and Facebook) declined last week by just over 2%. In Appleôs case the demand for $1,000 phones is lagging and in Facebookôs case the scandals are coming in daily. Facebook will have to be broken up and regulated. How that will play out for investors is not possible for me to understand.

Markets & Economy

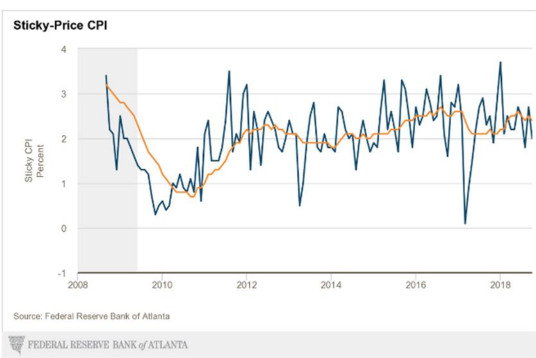
Now that the mid-term elections are over, for the next two years anyway, there will be no major legislative accomplishments from Washington DC. In many ways that has often historically been viewed as a positive. While President Trump can move on foreign policy, regulation and judicial appointments (due to increased Republican majority in Senate) there simply will be no stomach for major domestic legislation. Everything now will be simply posturing for the 2020 presidential elections. That is simply the reality.

Given this political backdrop, what then is the current state of the economy? I would say that we still have a strong but decelerating economy. The fourth quarter of 2018 looks to be below 3% but still a good one especially, judged by pre-Trump standards. The recent decline in oil prices, which has come about for technical and international reasons, should help the consumer in the all-important holiday season. President Trump, by issuing waivers on the purchase of Iranian oil, has kind of blind-sided those OPEC nations which increased production with the expectation that Iran would be forced out. I view the recent decline as temporary and in fact, to the extent it delays or cancels exploration projects, it just makes the coming oil shortage that more likely.

Closer to home, the debate about the Federal Reserve is coming more into focus. There are now growing observers who say that the Fed policy of raising rates based upon their backward view of the world is wrong. More importantly, the bond market continues to say so by shrinking the yield curve as the Fed tightens (see next chart). A flattening yield curve is the classic signal that investors are concerned about a slowing economy. Given that Europe, Japan, and most emerging markets show no growth at all, is that of any wonder to anyone?

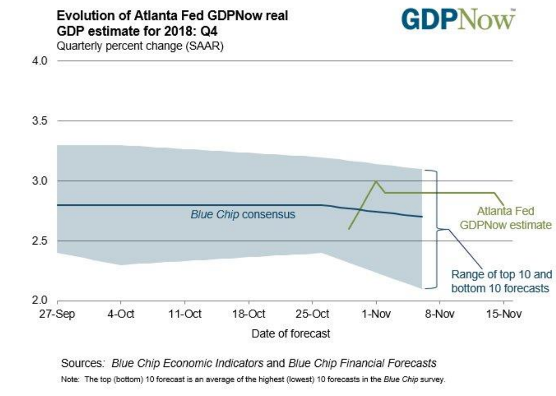
Even the recently enshrined Vice Chairman of the Fed stated last week that policy was getting close to neutral and that future moves should be ñdataò dependent. Of course, this is exactly what Iôve been arguing for many months. It is the Fedôs version of blinking. What does this mean for policy? Probably nothing for the upcoming December meeting but those hikes built into models for next year are not likely to be seen. That would be good for stocks.

Currently though, there are arguments for both sides. Many people think inflation is rising but the numbers just donôt bear that out (see chart from Atlanta Fed below). Inflation is running around 2%. With the recent 20% fall in oil this is likely to see a downward dip in the near-term.



On the other hand, retail sales for October turned a very nice rebound from two lack luster months. This, combined with the historically low unemployment rate gives credence to the 1970ôs notion that inflation is set to move higher. Itôs just not going to happen, but you will still hear much about it.

All in all, the outlook, currently for the 4th quarter of the year is to finish with a 2.8% growth rate (see chart below). During the Obama years this would have been greeted with cheers. In todayôs world that is just an excuse to raise rates and slow things down. Wow, what a difference an administration makes.

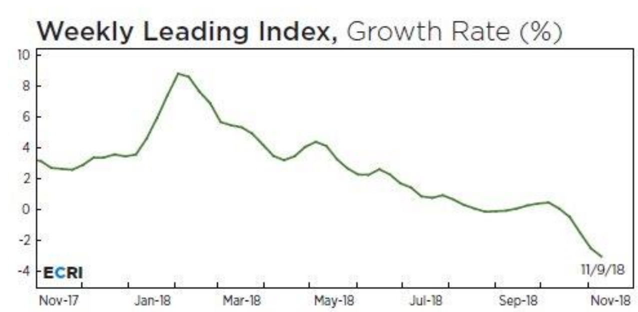


Remember though, the Fed is hamstrung. Not only is the yield curve flat but rates in our major trading partners are still near or even below zero. We donôt operate in a vacuum and there currently is not the room to raise rates, unless the Fed really does want to precipitate a recession as they have so often in the past.

What to Expect This Week

Of course, Thanksgiving is on Thursday so the real trading this week will take place early on. Right now, the concerns over a slowing economy are dominating. The popular FANG stocks are serving to hurt investor psychology when for years they supported it. In times like this, itôs nice to own many conservative names that are doing well and riding out the storm (see our company comments).

Finally, the ECRIôs index of leading economic indicators continue to show a loss of economic momentum as the year ends. They have been way too pessimistic this cycle, but it is the trend and changes thereof which I closely monitor.



Shares of **CISCO SYSTEMS** moved higher during trading Thursday after delivering first-quarter fiscal 2019 earnings which topped Wall Streetôs estimates. **CSCO** stock gained 6 percent on the day after announcing they earned 75 cents per share during the quarter, three cents better than expected. Revenues increased 7.7 percent year over year to $13.07 billion also beating Street estimates.

Strength was witnessed in several areas, including the tech giantôs Security and Applications segments, which drove year-over-year growth. Order strength and improving traction of The Companyôs subscription-based model were other positives. **CSCO's** hardware products, which make up 75 percent of total revenues, increased 9.2 percent to $9.89 billion. Services, which make up the other 25 percent of business, gained 3.2 percent to $3.18 billion.

Security-based revenues at **CISCO** climbed 11 percent, as The Company saw solid demand for web security, unified threat, network security and advanced threat solutions. **CSCO** has announced a new partnership with ALPHABET Inc. aimed at automating responses in its security centers. Shares of **CISCO SYSTEMS** have gained over 29 percent for investors over the past 12 months and has an annual dividend yield of nearly 3 percent.

CSCO one-year

WALMART, the worldôs largest retailer delivered strong third-quarter earnings results thanks to improving sales across a wide range of products. The Company promptly raised profit expectations for the full-year 2018 heading into the holiday shopping season. Adjusted earnings came in at $1.08 per share, six cents better than expectations and 8 percent better than the year-ago quarter. Total revenues advanced 1.4 percent to a staggering $124.9 BILLION.

Like other retailers, **WMT** is benefiting from a strong job market and rising consumer confidence. The Company looks to take full advantage of a shrinking retail landscape as well. Toys"R"Us and Bon-Ton stores have gone out of business while Sears has filed for bankruptcy, creating more opportunities to grab sales. **WALMART** sales at stores opened at least a year rose 3.4 percent during the quarter, thanks to a 1.2 percent increase in customer traffic and a 2.2 percent increase in transactions.

Since buying JET.com two years ago, **WMT** has been expanding online by acquiring brands and adding thousands of items. The Company has also been ramping up grocery delivery and pickup options. Grocery pickup is now offered at nearly 2,100 of its 4,700 U.S. stores, while grocery delivery is available in nearly 600 locations. **WMT** has also revamped its website with a focus on fashion and home furnishings. Bottom line, ONLINE SALES INCREASED 43 PERCENT during the quarter. Shares of **WALMART** have gained 17 percent over the past 6 months.

WMT one-year

APPLIED MATERIALS reported record annual revenue and improved operating income during its fourth quarter and fiscal year ended October 28, 2018. **AMAT** earned 97 cents per share on net sales of $4.01 billion, slightly better than its 4th quarter numbers in 2017.

For the year, **APPLIED MATERIALS** saw each of The Companyôs major businesses deliver double-digit growth, despite challenging conditions in the second half of the year. **AMAT** grew net sales by 19 percent to $17.25 billion. **AMAT** generated $3.79 billion in cash from operations, paid dividends of $605 million and used $5.28 billion to repurchase 102 million shares of common stock.

APPLIED MATERIALS DOUBLED their DIVIDEND last spring. We expect they will raise the payout again in 2019 and continue their aggressive stock buyback program. CEO Gary Dickerson was pleased with the report, stating that he expects the Companyôs role in areas of Artificial Intelligence and Big Data to increase the bottom line and shareholder value going forward.

AMAT one-year