Tom McIntyre's Weekly Commentary & Outlook

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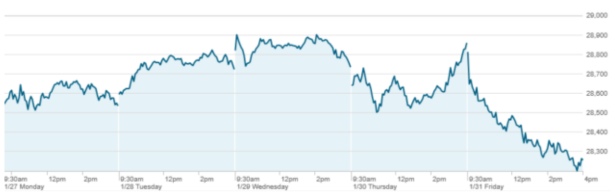
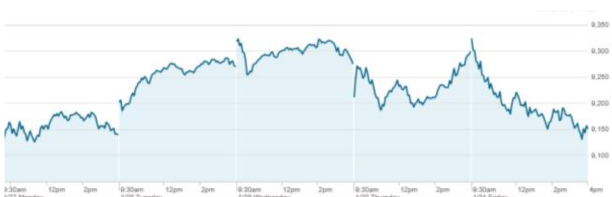
This is Tom McIntyre with another client update as of Monday, February 3rd, 2020.

The new year has gotten off to a good start in terms of the economy and earnings reports. Unfortunately, the fears of the potential human and economic damage done from the discovery of the Coronavirus in China has overtaken market sentiment.



Dow 5-day



Nasdaq 5-day

As a result (as one can see from the above charts) the stock market has once again become gripped with fears of an economic slowdown in 2020 despite the resolution of many issues that dominated sentiment last year; namely trade wars and Federal Reserve Board monetary policy.

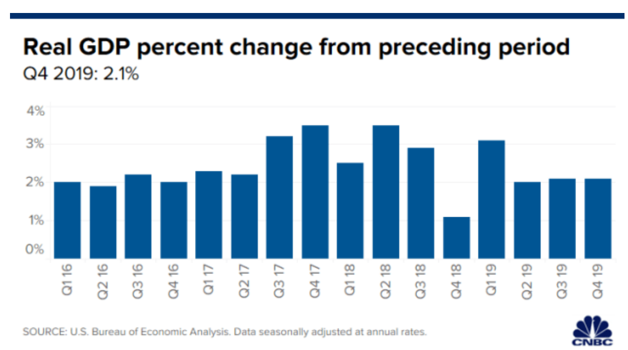
For last week, the ***Dow Jones Industrial Average*** fell 1.2% while the ***NASDAQ Composite*** dropped just .8%, albeit from near-record levels.

Markets & Economy

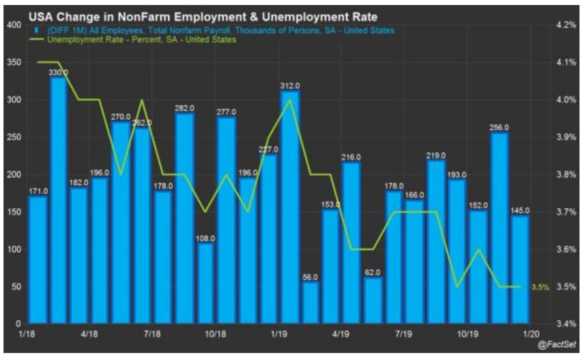
The news from China has now eclipsed a lot of good news elsewhere. Such as Brexit is in the history books. Impeachment has been solidly rejected, though no one took it seriously to begin with, but at least it is over. Trade disputes with China have been settled and the new USMCA has been agreed to by the US Congress well over a year after it had been submitted. It received 89 votes in the Senate. Why then did the House of Representatives hold things up? One guess!

Finally, monetary policy from the FED has come full circle in the past twelve months. Interest rates will either stay at current levels or fall in 2020. Thus, the appeal for shares in companies with rising dividends becomes even stronger.

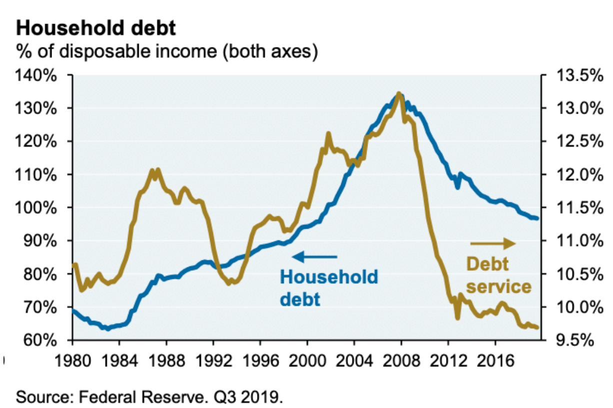
All these factors served to get markets off to a good start in 2020. The 4th quarter of 2019 GDP growth rate came in at 2.1% (see chart below). A result which was much better than believed possible back in October of last year.



In addition, the January jobs report showed a gain of 145K new jobs and a record unemployment report (see chart on next page). While the report itself was viewed as soft, the longer-term trend, as shown in the second chart, shows consistent month after month job gains. Very good news for the economy and stock market.



The final chart on this subject which measures the ability of consumers to service (that means to pay their bills) their debt obligations have fallen to a low not seen in over 40 years. In other words, it is not just the level of debt but more importantly the ability to pay it back that counts. On that score, things are in very good shape.

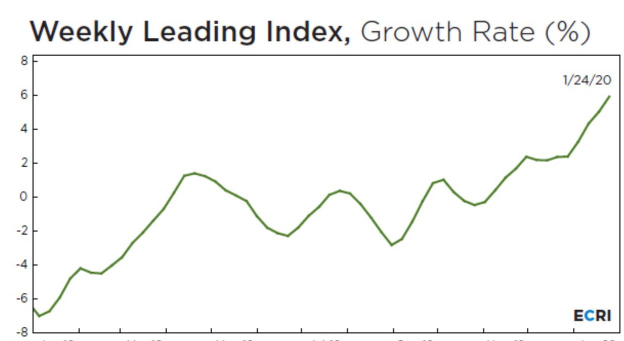


All in all, the economic backdrop in this country, while not perfect, is so much better than our trading partners that it is starting to show up in the polling on consumer confidence, right track/wrong track, etc. This is how the ***Dow Jones Industrial Average*** almost got to 30,000. Then the news from China hit and profit-taking took hold. Estimates for global growth have taken a hit and deservedly so. Prices for global commodities have fallen thus inflation is now going to come in lower than previously thought. In other words, we must see how this event unfolds. Longer-term, of course, is just one more reason for the supply chain globally to seek a safer place to operate. The US is the best choice for so many reasons. President Trump will now take on the EU and their bloated bureaucracy about trade. They stand no chance of getting out alive. The withdrawal of Great Britain has shrunk its economic footprint by 15%. Just today a poll showed over 50% of the Dutch people want out as well. If Italy had an election today the globalists would be routed. In other words, if I were part of the EU establishment, I would get trade deals done quickly with both the UK and the US.

What to Expect This Week

Earnings season continues but the focus will be on the data that continues to come out of China. Several of our companies (Glaxo) are heavily involved in developing a vaccine but under the best of circumstances, this is still a year away. China is a huge part of the global economy and this will hurt economic activity. Thus, the major US names have exposure, but it will be viewed as a one-time event unless it proves to be much more than that.

Finally, the latest from the ECRI's leading economic indicator shows that it has begun an uptrend. This was before the Chinese news so nothing to get excited about. It does imply however that the outlook for the US economy was starting the year off well before this virus outbreak.



MICROSOFT finished off 2019 with a tremendous quarterly earnings report. ***MSFT*** reported fiscal second-quarter net income of $11.65 billion, or $1.51 a share, on sales of $36.9 billion. These results easily outpaced Wall Street's estimates and the previous year's numbers of $1.08 a share and revenues of $32.47 billion. ***MICROSOFT's*** powerful cloud computing division once again led the charge – total cloud revenue was $11.9 billion during the past three months, up from $9.38 billion a year ago.

Other areas of ***MICROSOFT*** are healthy, too, with revenues reported from its productivity and business processes up 17 percent to $11.8 billion. Office Commercial products such as **Office 365** and cloud services revenue increased 16 percent, while Office Consumer products and cloud services increased 19 percent. **LinkedIn** revenue increased 24 percent from the year-ago quarter. Shares of ***MICROSOFT*** traded at all-time highs at the end of January, with several analysts boosting their estimates for the company. The stock has gained an impressive 65 percent for investors over the past 12 months and is one of only 3 or 4 companies with over a $1 trillion market value.

MSFT one-year

Shares of ***COCA-COLA*** are refreshing investors as well. The stock also hit all-time highs last month, capped off by a better-than-expected fourth quarter of revenue growth. Thanks in part to rising demand overseas and higher demand for its low-sugar offerings in the U.S., ***COKE*** reported a unit case volume INCREASE of 3 percent which is huge for a company of such size. The soft drink giant earned 44 cents per share during the quarter on revenue of $8.85 billion.

Here at home, ***KO*** was led by its trademark brand and products such as its caffeinated beverage **Plus Coffee** and **Coca-Cola Zero Sugar** soda, which experienced another year of double-digit volume growth. ***COCA-COLA*** rolled out a new energy drink, ***Coca-Cola Energy***, for customers with commercials running during the Super Bowl. Shares have risen more than 20 percent over the past 12 months.

KO one-year

Shares of Swiss drug giant ***NOVARTIS*** hit new all-time highs last week as well. ***NVS*** reported fourth-quarter earnings of $1.32 per share on sales of $12.4 billion, which topped the Street's estimates. ***NOVARTIS*** reported net sales from its innovative medicine division of $9.9 billion, up 10 percent from the same quarter last year. The growth came from increased sales of **ENTRESTO**, a drug that treats various heart conditions, and **ZOLGENSMA** for spinal muscular atrophy. ***NOVARTIS's*** top-selling medication **COSENTYX**, a plaque psoriasis drug, was up 25 percent in the U.S. during the quarter. ***NVS*** says it plans to **INCREASE ITS DIVIDEND** by 4 percent in March if approved by its board of directors. The new dividend, which will be approximately $3.02, will be paid on March 5th with shares going ex-dividend March 3rd. Shares of ***NOVARTIS*** have gained 20 percent in the past year. Also, its spin-off of **ALCON**, which we still hold for some clients, has performed well.

NVS one-year