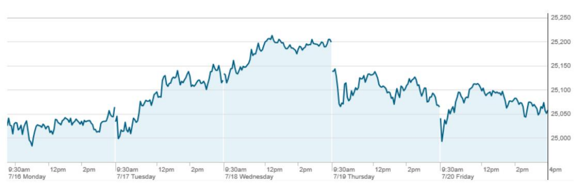
Tom McIntyre's Weekly Commentary & Outlook

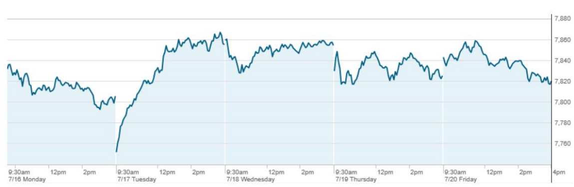
McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday July 23rd, 2018.

Markets, as always, dealt with many issues last week but solid earnings especially from some of our names such as Microsoft and JNJ (see comments below) once again served to buttress an increasingly selective stock market.



Dow 5-day



Nasdaq 5-day

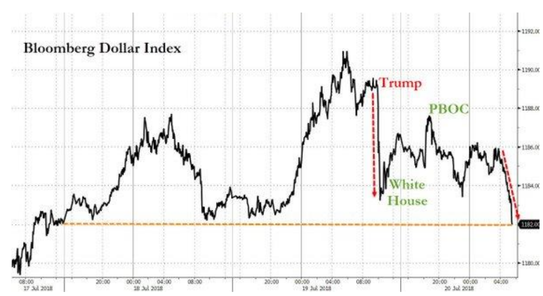
As the charts above illustrate, the **Dow Jones Industrial Average** was fractionally higher last week while the **NASDAQ** was fractionally lower (Netflix was the culprit here).

Markets & Economy

With all the discussion about trade, and now monetary policy, it is important to sit back and analyze what is important for stock prices. Earnings and the level of interest rates are key. Presently, earnings are rising strongly for many names while interest rates have not really broken out to much higher levels despite the constant drumbeat from the Fed and economists stuck in the 1970ôs.

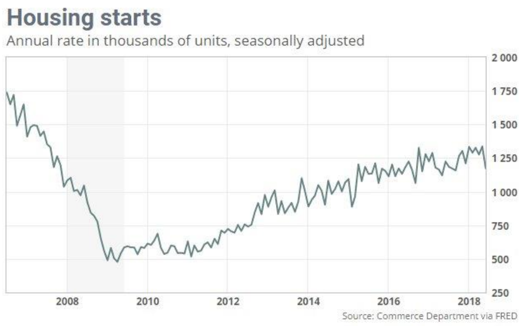
Last week President Trump finally noted what I have been discussing for many months. That is the disconnect between what his administration is doing, by growing the economy, being offset by the policy which the Fed is employing. Namely, raising rates often and predicting future hikes constantly.

The presidentôs comments did have an impact. Look at the chart below of the US Dollar reacting. Remember, as Iôve commented previously, higher rates at home has caused the US Dollar to surge. This has put pressure on emerging markets and their currencies. In Europe rates are still zero or below.

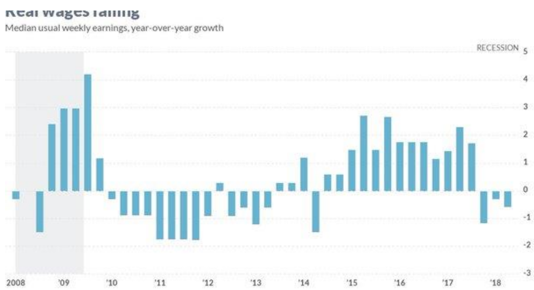


The president has also pointed out that with the US debt now heading for 21 TRILLION dollars, higher rates will further exacerbate our budget deficit problems which are worsening given the spending spree currently being embarked upon.

The economists now think, based upon the 1970ôs, that growth equals inflation. In todayôs global world that simply isnôt the case. We see evidence of this every day. Last weekôs report on housing starts (see chart, top of next page) was another dud as was this morningôs report on existing home sales. This is an interest sensitive area and it is not doing well.

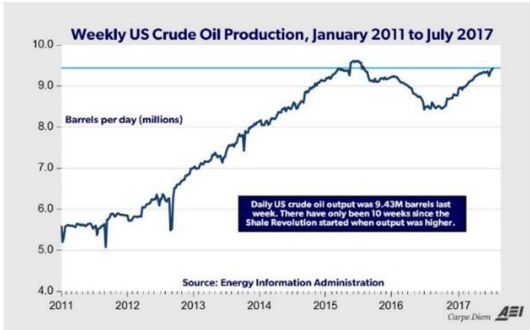


At the same time wages are not growing (see chart below). They are barely keeping up with inflation and this isnôt what you see if there is a demand push to prices about to take place.



In other words, the Fed should just wait and see. The nearly inverted yield curve should serve to warn them that the sidelines is the best place to be for now. This is especially true until the various trade disputes are settled and can be analyzed. Essentially, the markets are telling the Fed to cool it and they should listen. Of course, now that President Trump has commented that might make it more difficult for them to do, but at least the public is now on notice that it would be the Fedôs policy error that paved the way to any slowdown in the economy.

For the present, these macro issues must be watched but so far, our economy and profits are doing just fine especially in the energy space. Looking at the next chart of domestic oil production, this is not a fluke, nor will it be short lived. The long-term success of our energy sector will be huge in the future growth of our economy as well as our international security. This trend is still early, as most still think oilôs price will collapse. That would only happen if there is a global economic collapse.

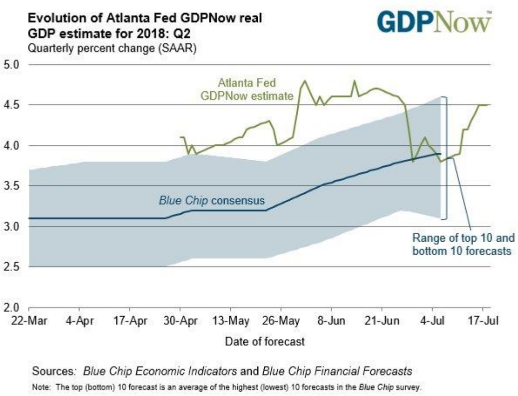


What to Expect This Week

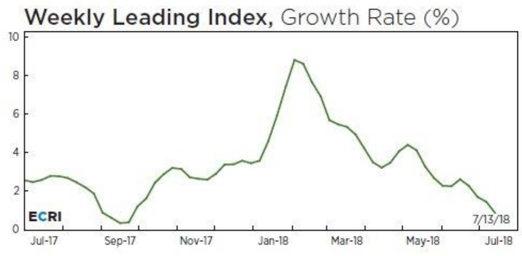
This will be THE week for earnings reports. About one third of the S&P 500 report this week alone. We will have our hands full.

Additionally, this morningôs lackluster report on existing home sales for the traditionally important month of June tells me that this interest rate sensitive sector cannot endure much higher interest rates. The good news is that ultimately, I donôt think it will have to.

On Friday comes the GDP report for the June quarter. The Atlanta Fed is still estimating a growth rate well more than 4% (see chart below). That seems to be too optimistic, but we shall see.



Finally, the ECRIôs chart of leading economic indicators shows little sign of this boom of Q2 continuing for the rest of the year. On the other hand, they have been too pessimistic in their views. That is why I will be ecstatic with any print above 3%.



NVS one-year

MSFT one-year

Symbol: NVS

Shares of Swiss pharmaceuticals giant **NOVARTIS** spiked higher after reporting net profits rising 3 percent in the second quarter amid strong growth for some of its top products. Earnings per share of $1.29 and revenues of $13.2 billion were better than the consensus estimates on Wall Street. For Q2, **NVS** reported revenue growth of 7 percent year-over-year thanks to a 5 percent increase in operating revenues and a 2 percent bump due to favorable foreign exchange rates.

Sales for heart-failure drug ENTRESTO more than doubled from a year ago, while **NVS's** psoriasis treatment COSENTYX jumped 40 percent**.** **NOVARTIS'** worldwide geographical performance was impressive. Sales in the USA increased 3 percent to $4.5 billion during the quarter. Sales from European markets increased 13 percent to $4.8 billion. Asian, African and Australian markets increased a total of 7 percent to nearly $3 billion.

Next year, **NOVARTIS** will be spinning off its ALCON eye-care business, which also posted a profit this past quarter. The good news, is that even after separating from this division, **NVS** IS EXPECTED TO MAINTAIN AND GROW its $2.94 annual dividend. **NOVARTIS'** current dividend yield is nearly 4 percent.

Symbol: MSFT

Shares of **MICROSOFT** hit all-time highs last week after the Company recorded yet another blow-out quarter. The tech leader in cloud computing earned $1.14 per share, beating estimates of $1.08. **MSFT's** revenue of $30.1 billon was also comfortably higher than anticipated. The growth star of the show, once again, was the Intelligent Azure Cloud division, which brought in $9.6 billion, a 23 percent jump from the same quarter of 2017.

Several divisions exceeded expectations during the Companyôs 4th quarter. The Productivity and Business processes segment, which includes **MICROSOFT OFFICE**, saw $9.7 billion in revenue, a 13 percent increase year-over-year. **MSFT's** Personal Computing business was 17 percent higher, raking in $10.8 billion. The Company surpassed the $100 billion annual revenue mark for the first time, topping $110 billion.

MICROSOFT's shares are up about 24% this year, compared with a 5% gain in the S&P 500 index. The Company announced they believe they will report slightly better revenue growth than Wall Street is forecasting for the first quarter of the new fiscal year. No less than half a dozen analysts raised their price targets for **MSFT** stock. The annual dividend payout is $1.68.

JNJ one-year

BX one-year

Symbol: JNJ

Fueled by a 20 percent sales jump in its prescription drugs business, **JOHNSON & JOHNSON** posted an impressive 3 percent increase in second-quarter profits. JNJôs prescription medicine business, which had lagged its medical device business until a couple of years ago, accounted for half of its $20.83 billion in total revenue during the quarter. The Company reported earnings per share of $1.45, 5 cents better than 2017ôs second quarter. That revenue number also topped analyst expectations.

Prescription drug revenue totaled $10.35 billion. Three of **JNJ's** cancer drugs, DARZALEX and VELCADE for multiple myeloma, and ZYTIGA for prostate cancer saw their sales skyrocket, each rising between 30 percent and 71 percent. The medical devices and diagnostics products divisions brought in $6.97 billion, which was up 3.7 percent. The devices segment is now entering the third year of a restructuring program which has included several divestitures.

JOHNSON & JOHNSON says it expects full-year earnings to come in between $8.07 and $8.17 per share and revenue between $80.5 and $81.3 billion, in line with previous forecasts.

Symbol: BX

For the fourth time in the past five quarters, **BLACKSTONE GROUP** has beaten quarterly expectations. The worldôs largest investment manager posted profits of $1.09 per share, with adjusted earnings coming in at 90 cents per share. Wall Street was looking for 73 cents. Revenues were $2.63 billion during the period, also topping Street forecasts by a wide margin.

BLACKSTONE's total assets under management stood at $439.4 billion at the end of June, an increase of 18 percent year-over-year. Just as important, the Company has over $88 billion as dry powder to carry out future deals. **BX** returned nearly $200 million to unitholders through a SPECIAL CASH DISTRIBUTION of 10 cents per share. The Company repurchased 2.2 million units during the quarter. **BLACKSTONE** declared a second quarter distribution of 58 cents per common unit, payable on August 6th. The current annual yield for unitholders is 6 percent.