Tom McIntyre's Weekly Commentary & Outlook

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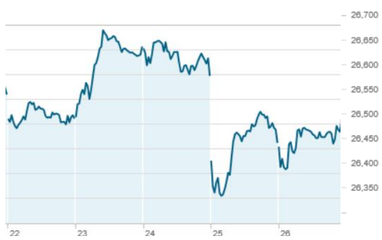
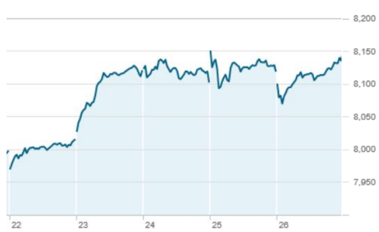
This is Tom McIntyre with another client update as of Monday, April 29, 2019.

Another positive week for the stock market despite some high-profile earnings disappointments.



Dow 5-day



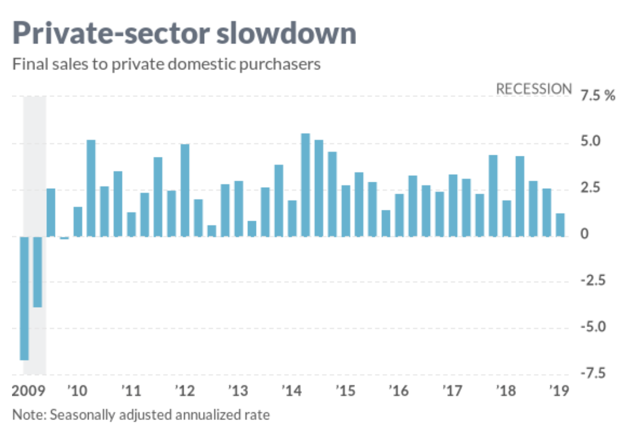
Nasdaq 5-day

As the charts above illustrate, the ***Dow Jones Industrial Average*** was basically flat while the ***NASDAQ Composite*** gained nearly 2%. The Dowĝs performance was held back by component 3M which suffered its worse daily decline since the 1987 market crash. Money simply flowed into the other components.

Markets & Economy

On Friday, the government reported itĝs 1st estimate of GDP growth for the opening quarter of 2019, the announced rate was a positive 3.2% (see chart below). While this was much better than expected, it really was not nearly as good as it appears. We suggested a few weeks ago that the lower foreign trade deficit would goose the results and it did.

What also served to add to the 1st quarter growth rate was the 3rd consecutive quarter of inventory accumulation. What this all means is that the actual final demand for the final quarter (see chart below) came in at the lowest rate since the end of 2015.



This goes a long way to understanding this morningôs report on inflation trends in the country. The Fedôs best data point here is the PCE number. This morning it came out flat for March and is now falling on a year over year basis. In other words, despite the headline growth rate that is being celebrated, the reality is that final demand is slowing (think 3Môs disastrous report) and inflation is falling. Therefore, the long end of the bond curve rallied late last week. This is hardly what markets do if concerned about inflation, a soaring economy or another Fed policy mistake.

Now having put the number into perspective, I need to make two important further points. First, even with these caveats, the economy got through the statistically worst quarter of the year much better than was expected at the beginning of the year. Donôt forget, the year started on the heels of the worst quarterly performance of stock market in many years. The year began with the Fed predicting multiple interest rate hikes and with investors convinced of a looming recession.

Fast forward to today and the world looks different. The economy wasnôt sidelined by the absurd notion of the impact of a partial government shutdown (Federal and state spending added considerably to the quarter). It wasnôt derailed over trade wars, both real and imagined. It wasnôt derailed by a rebound in oil prices which is a positive for the US economy as we are the largest such producer in the world. Of course, we should want the sweet spot of higher oil prices which gains us independence but does not impact global demand. I donôt think oil prices have yet attained that level, but we have gotten off to a good start.

The second point is that investors are convinced, via the inverted yield curve and falling inflation, that the Fed will simply become a non-entity for this year. That is a positive. By implication, investors have lessened their concerns about a forthcoming recession.

Notably, it has been the pattern for the past many years that the 1st quarter of the year is the weakest. Now, even adjusting for the goofy impacts of this yearôs numbers that will hurt the future, this will be offset by the usual stronger trends of the rest of the year.

All of this is to say that barring shocks (which cannot be barred) the chances of a recession have been lessened and pushed out. This is good news for investors. A steady paced growth rate with low inflation and a Fed which has learned to shut up is a good background. How long will that last? I wish I knew.

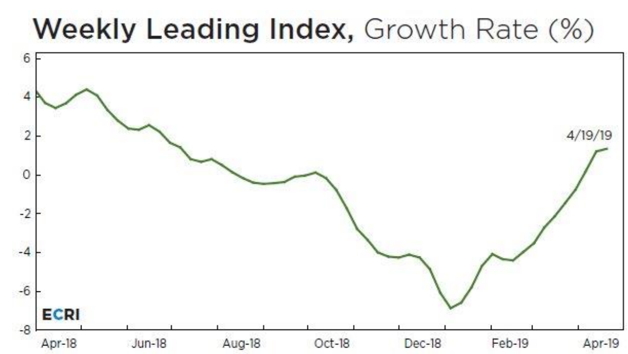
What to Expect This Week

The Fed does meet but as mentioned above I think that neither they nor economists expect any earth-shattering news. Pundits will talk but expect no surprises. Basically, they will say they are watching from the sidelines and now is the time to do nothing.

Also, on Friday is the employment report for April. I donôt like the focus this report typically gets but lately it has lost its ability to cause volatility. The reason is that no one seriously believes that the Fed is watching the job creation number as a key to hiking interest rates. In other words, they can report virtually any number and it will have no impact. Hence investors no longer worry.

Of course, earnings will continue to pour in. So far, we have been doing just great (see our updates below). Hope it continues.

Finally, the chart below of the ECRIôs economic indicators shows a slight pull back. Their commentary recently has focused on the weakness coming from Canada as well as internationally. We here in America should not take it for granted that the economy in the US is the envy of the world as President Trump often says. That is not political. That is simply a fact and a change in policies could impact this directly.



It was a record-setting quarter for **HERSHEY CO**. Shares hit all-time highs after the candy and snack maker announced quarterly revenue and profit which topped Wall Streetôs estimates. Sales in North America alone rose 3.2 percent to $1.81 billion and would have been even higher if the Easter season had not extended into April. **HERSHEY** earned $1.59 per share, 12 cents better than expectations.

Sales of snacks outpaced candy at **HSY** during the quarter. The company bought cheese puff maker Pirate Brands for $420 million last fall, which paid immediate dividends. The addition of SkinnyPop popcorn, beef jerky maker Krave and BarkThins to **HERSHEY's** portfolio helped produce an increase in net sales of 2.3 percent to $2.02 billion. The company reaffirmed 2019 guidance of earning between $5.63 and $5.74. Shares of **HERSHEY** have gained 34 percent over the past 12 months.

HSY one-year

Shares of **MICROSOFT** notched new ALL-TIME HIGHS last week after producing yet another stellar earnings report. Thanks to strong gains from its expanding cloud services division, **MSFT** reported net income of $8.81 billion, or $1.14 a share for its fiscal third-quarter. Revenue rose to $30.57 billion from $26.82 billion in the year-ago quarter. Both numbers easily topped Wall Streetôs estimates.

Demand for **MICROSOFT's** cloud offerings drove commercial cloud revenue to $9.6 billion during the quarter, a gain of 41 percent year-over-year. Other segments of the business also excelled including Azure revenue rising 73 percent, Dynamics sales rising 43 percent, Office 365 Commercial sales rising 30 percent. **MICROSOFT's** market capitalization exceeded the $1 TRILLION mark after the earnings announcement, becoming only the second public US company to achieve such status since APPLE COMPUTER. Shares of **MSFT** have gained 35 percent in the last 12 months.

MSFT one-year

Shares of **BOEING** were mostly unchanged after announcing reduced first quarter earnings last Wednesday. The worldôs largest aircraft maker posted a quarterly profit of $3.16 per share on revenues of $22.9 billion, this as the companyôs flagship 737 Max 8 jets were grounded around the world after two fatal crashes. **BOEING** has suspended its forward-looking guidance and halted share buybacks.

During the quarter, **BOEING's** commercial airplane revenues were $11.8 billion, reflecting fewer 737 deliveries, but offset by strength in its other lines. Revenues in defense, space and security segments saw a 2 percent rise in Q1, bolstered by higher activity in **BOEING's** satellites, weapons and surveillance aircraft business.

BOEING has indicated the effects of the 737 groundings will cost at least $1 billion in the near term. That said, **BA** has a total aircraft backlog of $487 billion, more than 5,600 planes on order from companies around the world. CEO Dennis Muilenburg says once the FAA restores the grounded planes to flight, **BOEING's** job will be to re-earn the trust and confidence of customers, regulators and the flying public. Shares of **BOEING** are 18 percent higher so far in 2019.

BA one-year

Shares of **PEPSICO** have been soaring, hitting all-time highs in April thanks to solid improvements to its diversified food and beverage offerings. **PEP** beat Wall Streetõs expectations with its first quarter, earning 97 cents per share, some five cents better than expected. Revenue increased 2.6 percent to $12.88 billion, also a beat.

PEP's North American beverage revenue, which has lagged in recent years, increased 2.2 percent, while its FRITO-LAY North America revenue continued to impress, growing 5.5 percent. For the full year, **PEPSICO** reiterated guidance, saying that it expects full-year organic revenue growth of 4 percent. **PEP** expects to pay $5 billion in dividends and buy back $3 billion of its stock in 2019. Shares of **PEP** have risen 24 percent over the past 12 months.

PEP one-year

Another stock that has had a meteoric past year, is **PROCTOR & GAMBLE**. For its fiscal third quarter, the consumer staple giant reported earnings which beat the street AND RAISED ITS ORGANIC SALES GROWTH FORECAST FROM 2 PERCENT TO 4 PERCENT. PG earned $1.06 per share on revenue of $16.46 billion.

PROCTOR & GAMBLE was able to grow overall organic sales while raising prices on some items, which shows the company didnõt have to discount its way to boost earnings. The beauty division remained one of the brightest spots with 9 percent organic sales growth. Gross margins were positive for the first time in more than two years. As we mentioned last week, **PROCTOR & GAMBLE** raised its dividend for the 63rd straight year, a good sign for ongoing outperformance. Shares of **PG** have gained an impressive 45 percent in the last 12 months.

PG one-year