



**This is Tom McIntyre with another client update as of Monday, July 8<sup>th</sup>, 2019.**

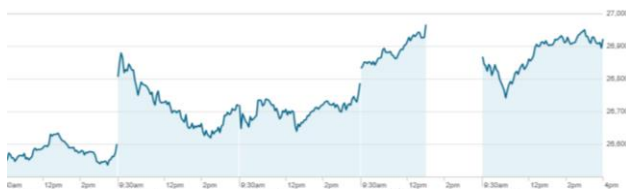
*Stocks remain resilient despite declining investor sentiment, analyst downgrades on future corporate earnings and very downbeat news coming from virtually around the globe.*

*President Trump is certainly correct about one thing, right now the US economy is absolutely carrying the load for the global economy. Stock prices have rallied over that underlying strength and the notion that the Fed now gets it. Of that latter idea, I remain skeptical.*

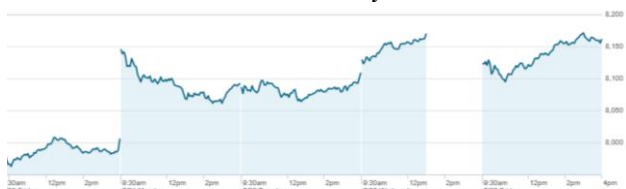
### Markets & Economy

Now we know the stock market likes to look ahead. The fact that the indices have rallied despite very negative investor sentiment is a positive. Expectations for second quarter earnings are very muted but individual names still would be at risk should they announce anything truly horrific.

The economic data remains a mixed bag. Last Friday's employment report (see results below) was on the surface much better than expected. I would caution however, that this survey is based upon a lot of assumptions and surveys. While the gain in non-farm payrolls was substantially better than expected, the overall trend there is slowing along with many other economic indicators.



*Dow 5-day*



*Nasdaq 5-day*

As the charts above illustrate both the **Dow Jones Industrial Average** as well as the **NASDAQ Composite** closed near their all-time highs last week.

This, despite virtually daily analyst downgrades over such high-profile names as Apple (which picked up a big one this morning). Additionally, investment houses are making macro calls about the market overall being overvalued. To which I say what is the market overvalued compared to what exactly?



In fact, this “good” news has been greeted with concern by the stock market. Fears are growing that the Fed just may hide behind this good report to find a rationale for not cutting rates at their July 31<sup>st</sup> meeting. That would not be good, especially if it came within the framework of a poor earnings season. Keep in mind it was the Fed which caused last year's fourth quarter sell off, not Trump trade disputes as the media would have you believe. Monetary policy has been in a tightening mode for over two years. What do people think the result of

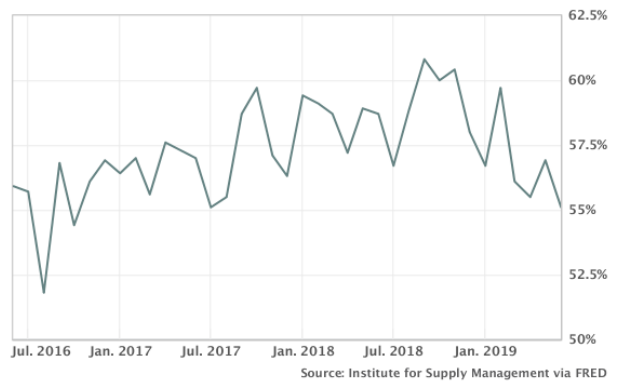
this was meant to cause? The Fed wanted a slowdown and it has produced one. To be sure it is more pronounced over seas but remember how much of our major firm's profits flows from outside the country.

We shall get some clarity (or not) when the latest dolt to be chairman of the Fed testifies this week to Congress about the economy and forthcoming policy moves. I hope he isn't drawn into the DC game of commenting on the President etc. but I'm sure he will seek to deflect from any notion that his decisions would be in any way impacting a slowing US economy let alone a flat global economy. In other words, I look for Chairman Powell to continue the time worn tactics of saying little of substance but to clearly cast blame on other institutions for any slowdown that might come. This testimony will set the stage for how the week plays out.

Now, to place some perspective on how things are going, please review the next two charts. The 1<sup>st</sup> is the latest forecast from the Atlanta Fed about Q2 growth. It is just 1.3%. When that number comes out the media will have a hey day blaming trade wars with no word about US monetary policy. That would be bad analysis and born out of political bias to a very large degree.

The second chart below shows a graph of the ISM services survey which has now fallen to a two-year low. This is not good, and the Fed needs to respond to this as well as other indications such as an inverted yield curve which are telling them they have gotten it wrong. If the market sees that acceptance it can look through the abyss. If the Fed delays this recognition, stock prices will stagnate until they do.

## ISM services



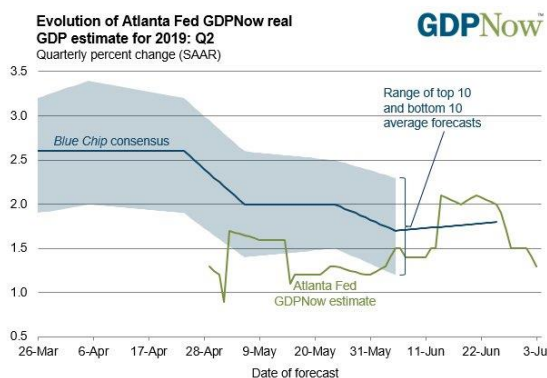
## What to Expect This Week

The testimony from the Fed Chairman will have everyone on pause until tomorrow as the 2<sup>nd</sup> quarter earnings really will start next week (although PepsiCo is tomorrow).

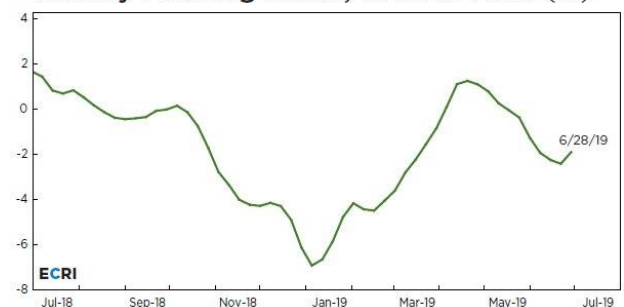
Reports on inflation are expected this week as well but by now I hope you have figured out that while inflation is much talked about there has not been any "there there" in decades.

One last point on global monetary policy, last week the EU named a career bureaucrat and convicted crime person to head the ECB. She has been appointed to positions her entire life and has little to show for it. Her claim to fame is that she will do what the powerful want. In this case it will be to ease monetary policy in Europe as that zone's tepid growth falls into recession. This global easing will make it harder for the Fed to stand pat. President Trump is correct again in assessing that easy policies abroad are making his trade disputes harder to win. Get the Fed on board please.

Finally, the ECRI weekly chart of economic indicators continues to show no burst of growth anytime soon. They are not calling for a recession like so many others, but the Fed needs to get out from under their policy errors of the past two years.



## Weekly Leading Index, Growth Rate (%)



**BOEING** *BOEING's* sales got off the ground at the PARIS AIR SHOW. The Company won its first order for the 737 MAX jet since its grounding in mid-March. IAG, the parent company of BRITISH AIRWAYS, signed a letter of intent to purchase 200 of the 737 MAX aircraft in a deal valued at \$24 billion. Shares of **BOEING** shot up \$19 on the day of the announcement. This order was much needed for **BOEING** and shows returning confidence that the MAX will be restored to flight in the not-too-distant future.

Also, in PARIS last month **BA** took in an order from ASL AVIATION to purchase 20 737-800 Converted Freighters. This plane carries more payload (52,800 lbs.) and flies farther (2,000 nautical miles) when compared to earlier 737 classic freighters. It also offers operators improved fuel efficiency, lower operating cost and higher reliability than previous standard-body freighters. Shares of **BOEING**, despite recent troubles, are trading 9 percent higher so far in 2019.



*BA one-year*

**Blackstone** Shares of **BLACKSTONE GROUP** hit multiple ALL-TIME HIGHS last month, as the Company converts from a publicly traded partnership to a corporation effective July 1, 2019. Existing unitholders will receive final K-1 forms for the period January 1, 2019 through June 30, 2019. After the conversion, shareholders will receive the annual Form 1099-DIV and dividends will be qualified for U.S. tax purposes.

This conversion for the world's largest private equity asset manager unlocks opportunity for equity value appreciation by removing ownership restrictions and meaningfully expanding its global investor universe. In other words, more investors will be attracted to the stock. **BLACKSTONE's** financials are rock solid, with their first quarter producing \$2 billion in revenue, a 15 percent year-over-year increase. **BX** has also been growing assets under management, with \$43 billion additional assets last quarter, for a grand total of \$510 billion. Several firms upgraded their opinion of the stock last month, which has RISEN 49 PERCENT OVER THE PAST SIX MONTHS.



*BX one-year*



Shares of **MERCK** also hit multiple ALL-TIME HIGHS in June as the Company

continues to rack up approvals around the world for its medicines. In Japan, the Pharmaceuticals and Medical Devices Agency approved LYNPARZA as a treatment after first-line chemotherapy in patients with BRCA-mutated ovarian cancer. LYNPARZA, developed along with AstraZeneca, is the only PARP inhibitor approved in Japan and is fundamentally changing how physicians can treat this aggressive type of cancer. PARP inhibitors are a group of pharmacological inhibitors of the enzyme poly ADP ribose polymerase, they are developed for multiple indications; the most important is the treatment of cancer.

Meanwhile, here in the U.S., the FDA has granted accelerated approval for the expansion of KEYTRUDA to treat metastatic small cell lung cancer in third-or-later-line settings. Data the FDA looked at demonstrated that treatment with KEYTRUDA achieved a high response rate in the patient population surveyed. **MERCK's** 'wonder drug' is continuously growing and expanding into new indications, treatment settings and markets globally. Last month the drug received continued approval as the first-line treatment for recurrent or metastatic head and neck squamous cell cancer. KEYTRUDA generated sales of \$2.27 billion in the first quarter of 2019, up 5.6 percent sequentially and 55 percent year over year. Over the past 12 months, **MERCK** stock has gained nearly 36 percent for shareholders.



*MRK one-year*



Shares of **MEDTRONIC** gained ground recently after

announcing they are raising their dividend by 8 percent. **MDT's** board of directors declared a quarterly disbursement of 54 cents a share, up from 50 cents. The medical device maker marks the 42<sup>nd</sup> STRAIGHT YEAR in which the company has raised its dividend. The new dividend will be payable July 25<sup>th</sup> to shareholders of record as of July 8<sup>th</sup>. Shares of **MEDTRONIC** have risen 13 percent over the past 12 months.



*MDT one-year*