Tom McIntyre's

Weekly Commentary & Outlook

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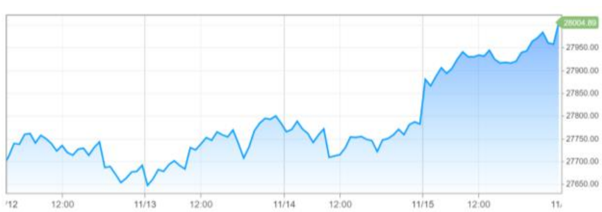
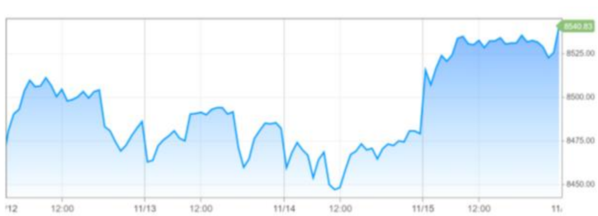
This is Tom McIntyre with another client update as of Monday, November 18, 2019.

The stock market has continued to advance, despite macro negative headlines, for two reasons. Earnings are hanging in there in general, but the bigger reason is the change in policy by the FED. Lower interest rates and the resumption of quantitative easing has served to not only support stocks but to push them forward even as the economy loses momentum.



Dow 5-day



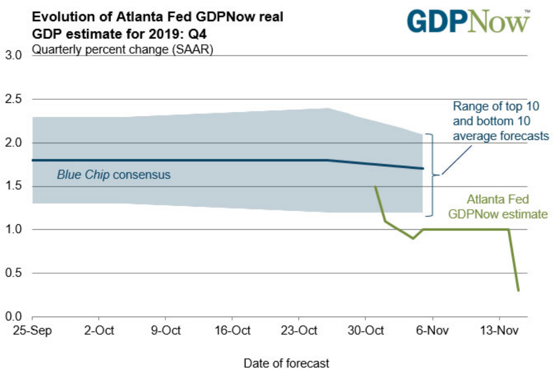
Nasdaq 5-day

As you can see from the charts above both the ***Dow Jones Industrial Average*** as well as the ***NASDAQ Composite*** finished last week at all-time highs. Just remember that when you think about all the dire warnings that get issued daily about the stock market from the so-called experts.

Markets & Economy

Over the past couple of weeks, the Federal Reserve Board dropped rates again and the yield curve has returned to a positive slope. While the FED denies it, their work is not done. Just as the current joke of a chairman issued a rosy forecast last week, has the estimates for the fourth quarter of this year plummeted to barely above break even. The chairman stated the US economy is in a "good" place and future adjustments are no longer needed. Once again, the FED has proven their economic forecasting is just bad. Maybe they should try their hands at weather forecasting.

Last week's report on retail spending and industrial production had virtually every economic team now making the FED's forecast seem way too optimistic, as it has been for eighteen months or longer. One can see from the latest estimate from the Atlanta Fed (shown next page) that their growth rate for Q4 is now just .3% on an annualized basis. As a result, the yield curve, while still positive, has flattened from its near-term peak. This is the market, once again, warning Chairman Powell to get with the program and he will. He has no choice and no credibility. If he wants to risk a recession next year, his career and reputation would never recover. Just this morning, Powell visited the White House to explain his thinking. More importantly it gave the President a chance to explain his view of the economy and FED policy.



Over the past fifty years or so, the FED has risked recessions when they feared inflation and what it could do. Given the lack of inflationary pressures anywhere in the world (except in government administered markets such as healthcare and education) the question that should logically be asked is: what in the world was the FED doing from the time Donald Trump was elected in November 2016 until earlier this year? The answer is: they were engaged in one long policy error for ill-fated concerns which were proven wrong. That being, the threat that a booming economy would cause inflation. I've been hearing that one since the 1980s and it's because these policy makers are stuck in that time frame.

As far as the markets and economy are concerned, stock markets love a slow growing economy because it brings rates down. The refinancing risk is less for successful companies etc. On the other hand, for most people the slower economy will impact hiring, income, and spending over time. This has already started in terms of retail sales. Employment, while slower, has not declined to the point of the official unemployment rate moving higher. In fact, the September report was a pleasant surprise (see next chart). The 128K increase in jobs along with higher adjustments to previous months was just right for investors. No recession in sight. On the other hand, the momentum in the employment arena has ceased and is not likely to return. Even the energy patch, which is America's largest and most successful sector, is suffering from a slowdown in drilling and exploration. Why? Price of oil and natural gas is too low. Tell that to the FED please.

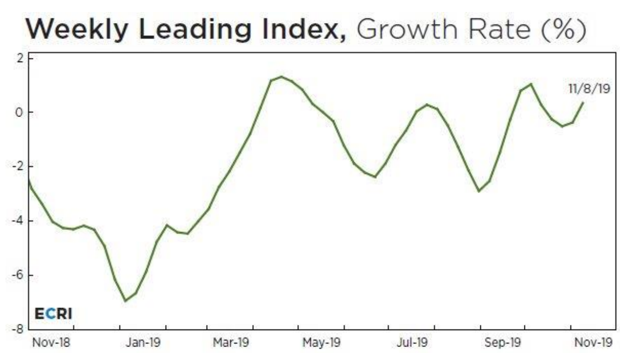
When you add this all up, markets have done well as they typically do in slowdowns. The key is not to let the slowdown turn into a recession. Fed Chairman Powell needs to be on guard. Growth is falling everywhere in the world now. That means interest rates can only go in one direction, and that is lower. The FED can either follow or lead. Up to now they have been a reluctant follower. There are risks to such a strategy. I'm certain that this morning's visit with the president reinforced this notion.

What to Expect This Week

The daily guessing game concerning the trade talks with China will continue unabated. I just wish the media would focus on Congress' unwillingness to pass the USMCA trade legislation which has bipartisan support (not Pelosi for some political reason). Our trade volumes with Canada and Mexico dwarf the numbers associated with the China talks but receive no coverage in the media. As a result, there is no political pressure to do the right thing for the American economy.

There will be some second-tier economic reports but the analysis above is not going to be changed by anything released this week.

Finally, the weekly chart of the ECRI's leading economic indicators shows maybe some improvement but you really must want to believe at this point. I think it is too late to avoid a disappointing Q4. Will that prompt FED action, Trump tweeting? Who knows? Individual names such as Walmart (see our comments below) will be a winner in any such environment.



Shares of ***APPLIED MATERIALS*** soared to ALL-TIME highs last week after the largest maker of machinery, used in the manufacture of semiconductors, topped earnings estimates and raised sales forecasts. Fiscal fourth quarter adjusted earnings at ***AMAT*** came in at 80 cents per share on sales of $3.68 billion. This reflected a healthy uptick in demand for semiconductor equipment across the company.

While earnings and sales at ***AMAT*** declined slightly from the year-ago fiscal fourth quarter, the vastly improved forward guidance suggests that dynamic will change in the current period. The company now projects first quarter adjusted earnings to be in a range of 87 to 95 cents a share on sales between $3.95 billion to $4.25 billion, better than the Street expected. ***APPLIED MATERIALS'*** uplifting report indicates there is strong demand out there from its major customers, the likes of INTEL, SAMSUNG and TAIWAN SEMICONDUCTOR. Shares of ***AMAT*** have been on fire over the past 12 months, gaining 84 PERCENT.

AMAT one-year

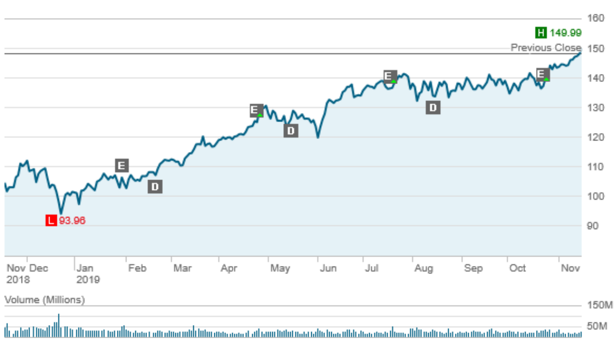
Speaking of ALL-TIME highs, shares of ***WALMART*** also achieved this status over the past week. The world's largest retailer reported better-than-expected third quarter US comparable sales and raised its annual earnings outlook. Sales at ***WALMART*** stores open at least a year, rose 3.2 percent in the quarter, better than analysts' opinion of 2.9 percent growth. Adjusted earnings per share increased to $1.16 per share, 7 cents better than estimates.

Online sales rose an impressive 41 percent, higher than the previous quarter's increase of 37 percent and greater than the company's own projections of 35 percent. ***WALMART*** gets 56 percent of its revenue from food and grocery sales, which allows it to manage the pressure from tariffs better than many rivals. Shares have gained over 27 percent so far in 2019. Most impressively, ***WALMART*** has now posted a 21-quarter, or over five-year, streak of US growth, unmatched by any other retail chain.

WMT one-year

Life continues to be great for ***MICROSOFT*** in the cloud. The company turned in another strong quarterly earnings report thanks in no small part to its expanding INTELLIGENT CLOUD division. ***MSFT*** beat revenue expectations, earning $33.1 billion during its fiscal first quarter 2020. Adjusted earnings per share came in at $1.38, 14 cents better than expected. Azure's cloud services revenue of $10.85 billion was also a beat.

But it wasn't just the cloud that helped ***MICROSOFT*** over the past three months. ***MSFT's*** consumer goods division pulled in $11.3 billion during the quarter with its WINDOWS OEM revenue, which is up 9 percent from a year ago. The company's SURFACE product line gained popularity as well, up 14 percent. The acquisition of LINKEDIN is also bearing fruit as the online business to business social network ramped up revenue by 25 percent from the same quarter in 2018. ***MICROSOFT's*** market cap is back over the $1 trillion mark again, as the stock is closing in on all-time highs. ***MSFT*** shares have gained MORE THAN 41 PERCENT for investors over the past 12 months.



MSFT one-year

Swiss drug giant ***NOVARTIS*** beat consensus earnings forecasts on both the top and bottom lines for its third quarter and raised its sales guidance for the year. ***NVS*** earned $1.41 per share, which was 19 cents better than a year ago. Revenue rose 10 percent year over year to $12.2 billion. ***NOVARTIS*** highlighted two treatments which helped the company beat estimates. Sales of anti-inflammatory COSENTYX were nearly $1 billion during the quarter, while ENTRESTO, a heart-failure treatment brought in $430 million. Both medications did better than analysts expected.

As for the upgrade, ***NOVARTIS*** now expects sales in 2019 for its focused medicine company to grow by a high single-digit percentage. Core operating income is expected to grow by a mid-to-high teen percentage. Shares of ***NOVARTIS*** have risen more than 14 percent over the past year, not including the April 2019 spin-off of Alcon, and pay shareholders an annualized dividend yielding 3.23 percent.

NVS one-year