Tom McIntyre's Weekly Commentary & Outlook

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This is Tom McIntyre with another client update as of Monday, September 23rd, 2019.

Markets continued to show stability. The ability to sidestep continuing macro headlines, which absent corporate news, might have been expected to be more impactful upon trading, is impressive.

Dow 5-day

Nasdaq 5-day

As the charts above illustrate, last week saw the ***Dow Jones Industrial Average*** fall by 1% and the ***NASDAQ Composite*** fall just .7%. This, despite the news of the disruption which took place in the oil markets due to the attack in Saudi Arabia. A story, which over the past several decades, would normally have sent markets into a tailspin.

Markets & Economy

While last week featured the oil disruption story on Monday and the Fed meeting announcement on Wednesday, the averages didn't get too excited one way or the other. Clearly, the oil markets, while concerned, have not gone crazy. In fact, oil prices are well lower than they were one year ago. Go figure.

From my point of view, the tremendous success at home, given the revolution in fracking, has made America a much more secure name in being able to absorb mid-east oil supply disruptions. Frankly, the real danger to the oil market is the low price of oil causing the rig count to fall dramatically and for US oil production to flatten out over recent months. Going forward, the threat to higher oil prices comes not only from international trouble but simply because the price is not high enough to justify exploration or drilling domestically. Either way, it seems, absent a global economic collapse, the price of oil must go higher. I just hope it is a moderate jump to ensure supply rather than a violent one in response to some global disruption.

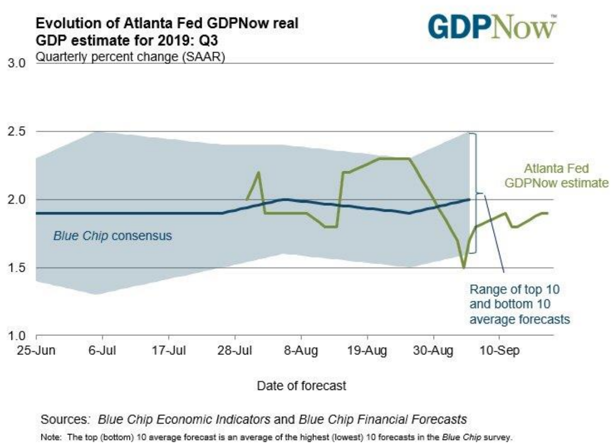
In any case, the stock market's ability to basically shrug this off either shows massive complacency or more likely the conclusion that currently, oil supplies globally are not in jeopardy. With the tensions in the mid-east, I think that might prove to be overly optimistic.

Last week also saw the Federal Reserve Board announce, on Wednesday, that yes, they will cut rates again (a continuing admission of their previous policy errors). While they did the minimum expected, they also engaged in what will be the beginning of a new round of quantitative easing. In short, there is a global need for dollars and the FED must provide it. The rest of the globe needs dollars to fund themselves. The negative interest rates which exist virtually everywhere else in the advanced world is an indication of a huge problem. For the FED to have been raising rates with this backdrop was wrong. They won't admit it, but they do understand it.

The markets were disappointed by the FED's attempt to say they were correct even as they continue to reverse policy. Rather than focus on the ineptitude of their Chairman, the markets focused upon the continuing expectation for easier policy moving forward. This combined with economic reports, which generally show a US economy doing reasonably well, is supportive of stock prices. Remember, the rest of the world has problems which go much deeper.

Europe is in recession and their banking system is simply a joke. The UK is starting to make our political system look fantastic as they try and figure out BREXIT. Of course, the situation in the emerging markets and China is caught up in trade fights and constant public spats. I don't look for this to be resolved anytime soon but do expect market sentiment to be swayed back and forth throughout.

At the end of the day though, the US economy remains the envy of the world. Recent growth expectations for this quarter hover around 2% at an annual rate (see chart below).



Historically, when the FED is easing and the economy is coming in for a soft landing, the stock market does great. This cycle does feature many unique characteristics. BREXIT, trade frictions, political squabbles, including next month's election in Canada and last week's inconclusive election in Israel just to name a few.

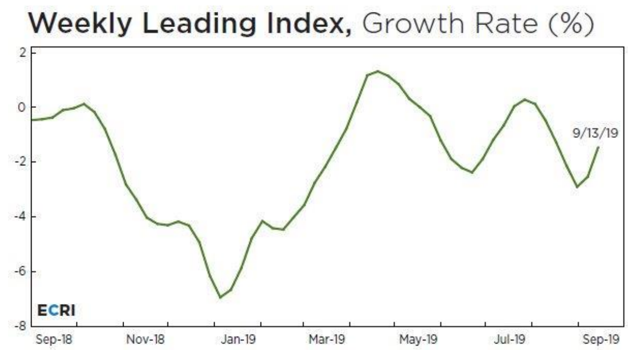
As earnings reports for the 3rd quarter are still several weeks away, look for headlines from outside the world of business to continue to have a disproportionate impact on day-to-day trading.

What to Expect This Week

The UN is hosting its annual meeting of global leaders in New York. Given what we discussed above, it is always possible that breakthroughs or setbacks could occur. We shall just have to see.

Economic reports this morning showed improvement in manufacturing. This is important as the press is trying to talk Americans into believing a recession is on the way. If so, it hasn't shown up in any of the current data such as retail sales, loan problems, etc. There is no question the economy is slowing, but estimates for the crucial holiday season show a nice 4-5% increase expected. This makes sense given the real-wage increases and job creation over the past twelve months.

Finally, the weekly ECRI chart of leading economic indicators shown below remains the same. Slow growth is the expectation going forward. The key is to be flexible with our portfolios as the economy and government policy for 2020 takes shape.



Company Stories

Shares of **MICROSOFT** rose to new all-time highs last week after the company announced a dividend increase and a new share buyback program. The board of directors at **MSFT** declared a new quarterly payout of 51 cents per share, reflecting a 5-cent increase over the previous quarter's dividend. That's 11 percent higher than the current dividend. The new amount is payable December 12th to shareholders of record on November 21st. The ex-dividend date will be November 20th.

The board also approved a new share repurchase program authorizing up to $40 billion in shares. **MICROSOFT** says the new repurchase program has no expiration date and can be terminated or changed at any time. **MSFT** has been one of the top-performing equities in our portfolios this year, gaining some 38 percent since the start of 2019.

MSFT one-year

Like Microsoft, shares of **BLACKSTONE GROUP** also moved up to all-time highs last week. The largest private equity firm in the world has been very active recently. **BX** added new properties in Germany and The Netherlands with the purchase of a Canadian real estate trust in a deal valued at $4.7 billion, including debt. Dream Global Real Estate Investment Trust went public in 2011. The company operates office and industrial properties across Western Europe. The offer values the equity of Dream Global at about $3 billion. The deal comes less than a week after **BLACKSTONE** separately said it raised $20.5 billion for its largest real estate fund ever, the Blackstone Real Estate Partners IX.

Late last week it was announced that **BX** is in advanced talks to buy and lease back the iconic Bellagio and MGM Grand Las Vegas casinos from MGM Resorts International. The Bellagio and MGM Grand are two of the crown jewels in MGM's portfolio of gaming resorts in the U.S. and China. Together, the properties have more than 10,000 rooms and about 315,000 square feet of casino space. If it happens, the cost of the deal could run **BLACKSTONE** between $6 to $7 billion. So far in 2019, shares of **BLACKSTONE GROUP** have risen more than 75 percent for investors.

BX one-year

It was another positive week for **MERCK** as the U.S. Food and Drug Administration keeps approving the wonder drug KEYTRUDA for more issues related to cancer. The FDA has approved the combination of KEYTRUDA and the Japanese drug, LENVIMA, for the treatment of women with advanced endometrial carcinoma that are not candidates for curative surgery or radiation. When diagnosed early, this form of cancer can have a good prognosis, however, for women whose cancer has progressed following prior therapy, there are few FDA-approved treatment options. KEYTRUDA plus LENVIMA can help address this unmet medical need.

MERCK also announced that the FDA has accepted its biologics license application seeking approval for its Ebola vaccine for the prevention of disease caused by the Zaire Ebola virus. The application was granted priority review and a decision from the FDA is expected by March 14th of next year.

The vaccine is also under review in Europe and has been submitted to the World Health Organization. **MERCK** has already shipped many doses of this investigational vaccine to the WHO to prevent outbreaks of Ebola, especially in African regions. Shares of **MERCK** have gained 20 percent over the past 12 months.

MRK one-year