



This is Tom McIntyre with another client update as of Monday, October 7th, 2019.

Stock markets continued to fight back against various macro concerns. The principal one being the chance that the US would follow the rest of the world into a global slowdown which borders upon recession.

So far there is little evidence of this, given the economic data. Markets, however, absent hard news such as earnings reports are subject to media speculation about trade wars, political battles, recession fears etc. Overall the underlying strength of stock prices does bode well as these concerns are not new and so get priced into asset prices.

Markets & Economy

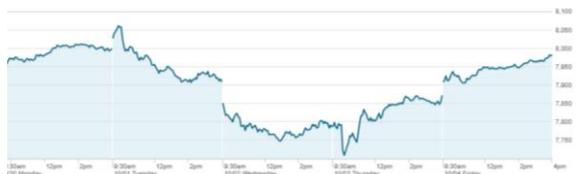
Recession fears got a mid-week jolt when the latest nationwide survey of the manufacturing sector showed a reading in the range which would indicate a dramatic slowdown. Many things contributed to such a number including the uncertainties over the China trade talks, the GM strike which comes at a bad time, and a super strong US dollar which results from our FED's policy error of the past two years etc.

There is no doubt the US economy is slowing. We have alerted you for well over a year to this effect and often wondered what the clowns in DC were thinking. Even today while the FED is reversing its policy mistakes, there remains mixed thinking coming out of that body. Many FED governors see the US economy as impervious to events happening everywhere around the globe. They don't understand yield curves, trade imbalances, the US role as being the reserve currency and what that entails as examples.

All of this sits on top of the very precarious negotiations which will resume this week with China. To make matters worse the Chinese have hinted that they might be inclined to wait out Congress' ill-fated attempt to impeach a president when there is just 12 months to an election. In any event, for this and other reasons, I would be surprised to see a breakthrough this week or anytime soon. This, of course, will mean the FED will move to lower rates again at the end of this month and embark on another round of



Dow 5-day

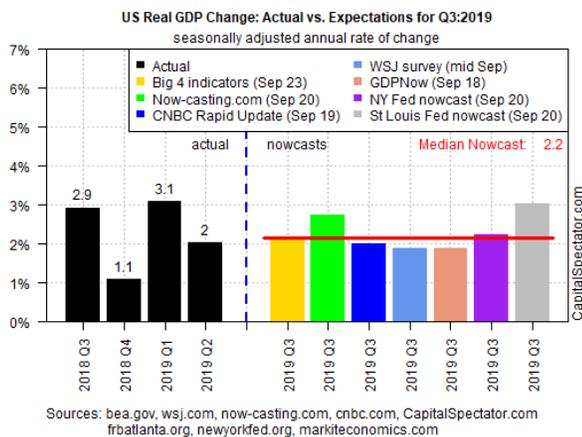


Nasdaq 5-day

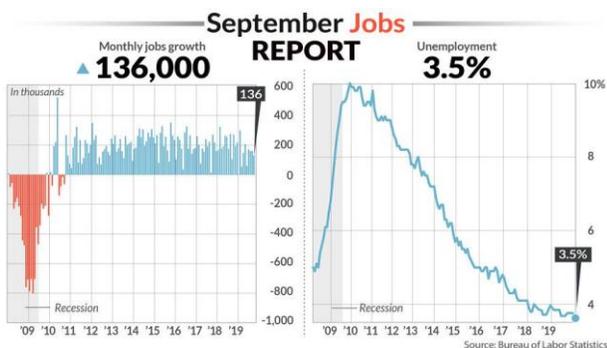
As the charts above illustrate last week saw the **Dow Jones Industrial Average** lose nearly 1% while the **NASDAQ Composite** gained about .5%. So, nothing much to see there.

quantitative easing. What this means is that the stock market will be supported by the central banks again even while the slowing economic cycle may hurt individual names.

In any case, all is not lost. The latest consensus for growth in Q3 GDP (shown below) is above 2%. That would be a wonderful result if it happens. Compared to the rest of the world the US is the “Garden of Eden” for economic growth. Is it any wonder then, why stocks are doing well in the aggregate? They pay generous dividends and increase them in a world where the return on fixed income assets is falling to close to zero.



It was also reported last week that unemployment fell in this country to a FIFTY-YEAR low (see chart below). Clearly, this is not the stuff that recessions are made of. While the rate of job creation is slowing, it is still growing. While the growth in wages is slowing, it is still improving. The US with all the problems the media foists upon you every day is the envy of the world as are **our financial markets**. One would never know it from the media coverage.



What to Expect This Week

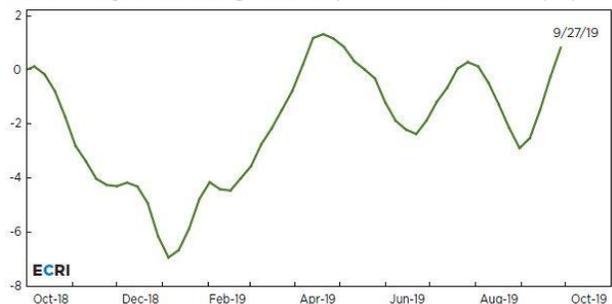
The FED chairman and other governors are speaking everyday somewhere but let’s face it, their impact is limited because they are so wrong so often. This now means that markets are dictating to the FED what their moves need to be. The FED won’t dare disappoint for fear of being blamed for any recession next year.

Additionally, some reports on inflation etc. are due but those reports will just add fire to the conclusion that the FED has missed its target and is trapped into a box of its own making. Inflation is falling, growth is falling, bond yields are falling, and the FED is left to catch up and to try and change the subject to trade disputes. Sorry, this same phenomenon has been going on for nearly two years. That’s how long the FED has been out of sorts with both the markets and the economic trends facing the global economy

Finally, the graph below of the ECRI’s leading economic indicators shows some improvement but is hardly decisive. Up is up though as they say.

Earnings this week will still be very few and far between. Thus, markets will take their cue from the unpredictable headlines which we talked about earlier.

Weekly Leading Index, Growth Rate (%)





Thanks to an upbeat third-quarter earnings report, shares of **PEPSICO** hit all-time highs last week. The beverage and food giant recorded better than expected sales and profits for the third quarter in a row. **PEPSICO** earned \$1.56 per share on revenue of \$17.19 billion, while analysts were looking for EPS of \$1.51 on revenue of \$16.93 billion. Organic sales were up 4.3 percent in the quarter.

In the food division, **FRITO-LAY** North America sales rose 5.5 percent to \$4.11 billion, while **QUAKER FOODS** North America revenue increased 1.6 percent to \$576 million. In Latin America, sales grew 1.93 percent to \$1.9 billion. **PEPSICO** Beverages saw strong growth around the globe as well. North America revenue increased 3.4 percent to \$5.64 billion, Europe Sub-Saharan Africa sales grew 5.9% to \$3.35 billion and revenue in ASIA, the **MIDDLE EAST** and **NORTH AFRICA** gained 4.6 percent to \$1.61 billion.

PEPSICO pleased the street by reaffirming their full-year fiscal 2019 guidance. Look for **PEP** organic revenue to grow 4 percent or more with core earnings of \$5.50 per share and free cash flow of \$5 billion. Shares jumped 3 percent higher after the earnings announcement Thursday and have rewarded investors with a 27 percent gain over the past 12 months.



PEP one-year



MICROSOFT is getting back into the smartphone market...again. At last week's new product rollout, **MSFT** announced a new **SURFACE TABLET** which will act as a smartphone too. The device, called the **SURFACE DUO**, is a tablet with two side-by-side displays that measure 5.6 inches each, and runs the Android operating system, not Windows. This will mark **MSFT's** third attempt in the smartphone market. The Company says its tablet-phone concept is geared towards corporate users, not the more competitive low-cost consumer arena where it has failed in the past.

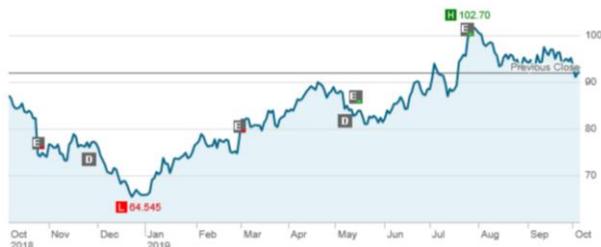
The rollout of the **DUO** is still about a year away, so there is time for **MICROSOFT** to work on perfecting the device. No cost figures have been released by the company yet. Shares of **MSFT** have gained over 18 percent in the past year.



MSFT one-year

AB InBev “This Bud’s for you” has taken on new meaning in Hong Kong. **ANHEUSER BUSCH InBev NV** raised over \$5 billion last week for its Initial Public Offering of Belgian brewer Budweiser Brewing Company. Shares began trading successfully under the ticker symbol **APAC** on the Asian exchange. **BUD** succeeded on its second try to bring the company public. This new listing represents the second-largest IPO this year, trailing only Uber Technologies.

The share offering helps **BUD** pare down the sizable debt created after its purchase of SABMiller in 2016. While **BUD** priced the offering at the lower end of its expected range, it partially exercised a right to increase the number of shares sold, bringing that total to 1.45 billion. There’s a further option for **BUD** to increase that amount within 30 days after listing, which could lift the overall value of the deal to as much as \$5.75 billion. Shares of **AB InBev** have risen 43 percent through the first 9 months of this year.



BUD one-year