Tom McIntyre's

Weekly Commentary & Outlook

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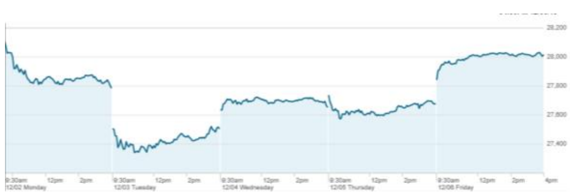
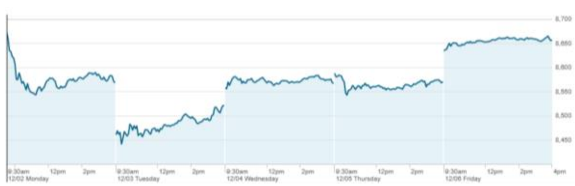
This is Tom McIntyre with another client update as of Monday, December 9th, 2019.

Financial markets continue to ignore negative macro headlines as Fed inspired liquidity and better-than-expected earnings have supported stocks into perhaps a strong year-end.



Dow 5-day



Nasdaq 5-day

As the charts above illustrate, both the Dow Jones Industrial Average as well as the NASDAQ Composite were flat, at near-record levels at the close last week. Friday's response to a superb employment report for November just about erased the 4-day decline which the stock market had endured earlier in the week.

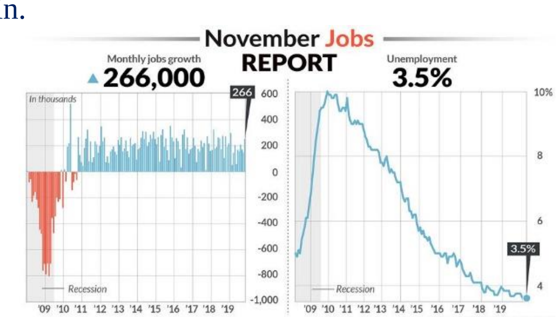
Markets & Economy

The recession talk featured so prominently two months ago with an inverted yield curve, has proven either to be wrong or premature. The Federal Reserve Board has been forced to lower interest rates and to engage, again, in quantitative easing (simply means they buy securities and inject cash into the banking system). This has alleviated the concern that they would continue blithely to run the global economy into the ground, based upon their errant forecasts.

As a result, while the damage to the economy has been done, the market no longer sees a recession around the corner. This could change of course. The trade talks with China are up in the air while the more important trade deal with bipartisan support with Mexico and Canada is being held up in Congress by Speaker Pelosi. Pelosi is frightened that this deal will help the US economy in 2020. Thus, helping the President's chances of reelection. Sadly, this is the world we live in.

At present though, while we have been told for nearly two years that the trade wars and Fed policy were going to bring about a recession and inflation there is not any evidence of these issues. The economy's growth rate has slowed to be certain but as I have said many times, a moderate economy with non-existent inflation is very conducive to a strong market despite certain sectors having difficulty (think retail).

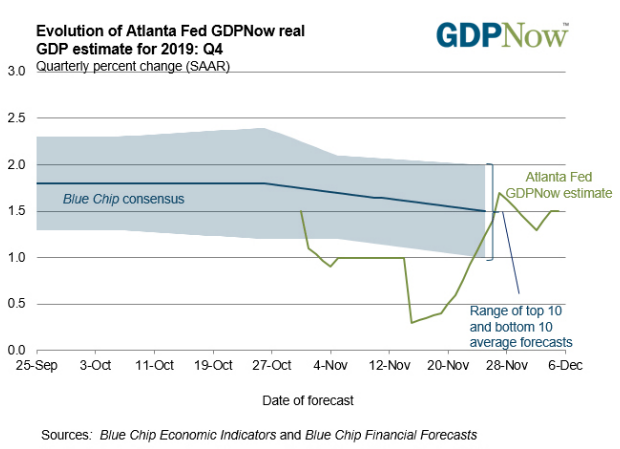
Last Friday's report (see the following two charts) was clearly signaling the above. The gain of 266,000 jobs and the upward revisions to previous months have absolutely confounded the CNBC crowd. Additionally, wage growth of 3.1% is exceeding inflation rates and the unemployment rate of 3.5% is at a 50-year low again.



What, then, is the problem with the daily forecasts of doom and gloom? Much of it (80%) is political. Can anyone even imagine the coverage other administrations would receive with such results? Remember, every news item, whether it be general or business, must now be seen and presented through the prism of the news media's bias. The next 11 months of presidential election lead-up will give both sides many examples of spin action.

For the moment though, the current situation is conducive to a better 2020 than 2019 was. The reason was the capitulation over the summer by the Fed to its policy error of last year and rhetoric of earlier this year. The relative strength of the US economy now further gives President Trump the upper hand in his negotiations with China, whose economy is really struggling.

This is showing up in the economic data as well. The trade picture for the US economy is improving despite the super-strong US dollar. This combined with better-than-expected retail sales has moved the expectations for Fourth Quarter GDP growth upwards from near break-even one month ago. The latest estimate from the Atlanta Fed (shown below) has risen to 1.5%. This isn't great but given where we were a few weeks ago represents a huge improvement.



Thus, with just a few weeks left in this year, the market is feeling much different about the future than it did last year at this time when the Fed dominated the concerns.

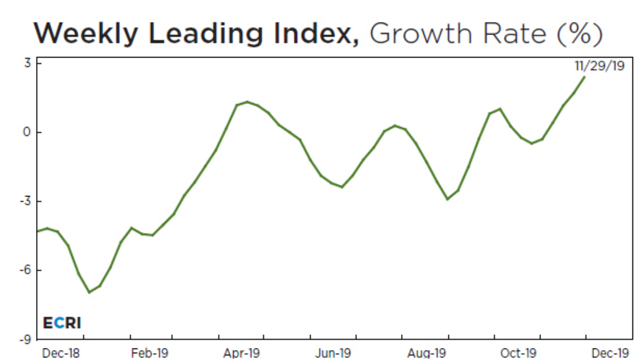
Today there is a confidence that Trump will, one way or another, deal with China and the Fed will simply get out of the way of the economy. This doesn't mean a boom by any means. It simply means that recession talk is now on the back burner. That is the background that bull markets are usually supported by.

What to Expect This Week

There will be much macro noise this week. UK general elections are on Thursday, where the Tory party is expected to win. If they don't, that would be a problem over there. In the US, the soap opera known as impeachment will get some attention but no support, while today's release of the DOJ's IG report will color news from DC for the rest of the week. I expect many confusing headlines but nothing that will upset the markets from either of these matters.

There will be additional economic data points on inflation (or the lack thereof) this week. Finally, the Federal Reserve Board has a two-day meeting which is expected to produce no changes in policy. If they can just combine that with keeping their statement both written and verbal under wraps that would be good. Too much talking from them eventually causes heartburn for markets. Their track record of forecasting is abysmal, but people must take heed of their thinking.

Finally, the ECRI's chart of leading economic indicators shows some improvement. Maybe 2020 will be a better year for the economy than 2019. President Trump sure hopes so.



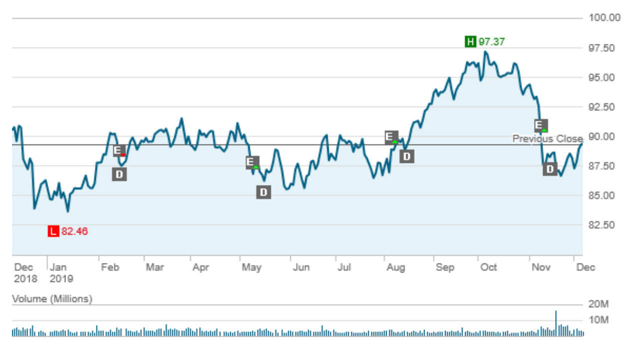
Shares of medical device maker, **MEDTRONIC** hit NEW ALL-TIME HIGHS after the company released a better-than-expected quarterly earnings report and raised its full-year earnings forecast. The world's largest standalone medical equipment manufacturer earned $1.31 per share on sales of $7.71 billion. **MDT** has been beefing up its minimally invasive and robotic surgery device businesses through acquisitions to make up for slowing growth in its top-earning stents and heart pump units.

Sales of **MEDTRONIC's** surgical instruments and endoscopy products netted $2.14 billion, better than expectations. **MDT's** cardiac and vascular unit missed Street estimates slightly for revenue, but still brought in $2.86 billion. **MEDTRONIC** says it now expects 2020 adjusted profit to be in the range of $5.57 to $5.63 per share, an increase from the prior forecast of $5.54 to $5.60. Shares of **MDT** have risen 24 percent so far this year.

Shares of Southeastern utility **DUKE ENERGY** got a rare double upgrade from influential investment firm GOLDMAN SACHS recently. The two-notch upgrade takes **DUK** from SELL to BUY with a $93-dollar price target over the next few months. GOLDMAN says the stock has lagged the sector index in 2019 and sees shares a compelling valuation in the mid-to-high $80's range.

DUKE completed a public offering of 28,750,000 shares last week as part of the utility's new financing plan for its $3.7 billion-portion of the Atlantic Coast Pipeline project. **DUKE** owns 47 percent of the proposed 600-mile pipeline which is designed to carry fracked gas to eastern Virginia and North Carolina from the Utica and Marcellus shale field in New York, Pennsylvania, and Ohio. Construction is currently being held up as the pipeline faces some legal issues. Shares of **DUK** have risen 4 percent in 2019, with investors enjoying an annual dividend yield payout of 4.2 percent.

MDT one-year



DUK one-year

BOEING's fleet of 737 MAX JETS is still waiting for FAA certification, but the company continues to pick up huge orders for its other aircraft. **BA** recently signed a contract with EMIRATES for delivery of 30, 787-9 Dreamliner airplanes to the Arabian airline. The deal which is valued at $8.8 billion was finalized at the Dubai Airshow. Demand for **BOEING's** Dreamliner is strong as its superior fuel efficiency and range have enabled airlines around the world to fly farther and less expensively.

BOEING's shares have been rising over the past month thanks in part to a third-quarter earnings report which beat revenue projections. Income during the quarter was $2.05 a share, down from $4.05 a year ago as lower 737 deliveries were partially offset by higher defense sales and services volume. Defense orders came in at $7.04 billion, a 2 percent increase, with global services climbing 14 percent to $4.66 billion. Overall revenue was $8.25 billion, beating Wall Street's expectations of $7.78 billion.

BOEING still says it believes regulatory approval of the 737 MAX's return to service will begin by the end of this year, and that it will gradually increase its 737-production rate to 57 per month from the current 42 per month by late 2020. Despite all the turmoil surrounding the company, shares of **BOEING** are up 10 percent so far in 2019.

BA one-year

Strong sales and stellar margins drove **PROCTOR & GAMBLE's** stock to new ALL-TIME HIGHS recently, as the company reported an impressive first quarter for their fiscal 2020 year. **PG** also raised fiscal sales and earnings projections, as its base business continues to strengthen. Revenues at **PG** were $17.80 billion in the quarter, up 7 percent from the same time frame in 2018. Balanced growth in volumes and pricing supported the top-line growth. Earnings per share were $1.37, up 22 percent from the year-ago quarter.

PROCTOR & GAMBLE now expects total revenues and organic sales to increase from 3 to 5 percent, up from earlier growth guidance of 3 to 4 percent. Earnings per share will likely increase 5 to 10 percent, which is up from the previous expectation of 4 to 9 percent growth. Shares of the world leader in household products are UP AN IMPRESSIVE 34 PERCENT for investors over the past 12 months.

PG one-year