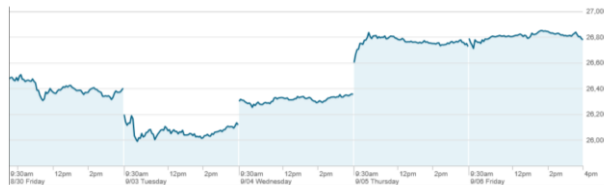




This is Tom McIntyre with another client update as of Monday, September 9th, 2019.

Markets have returned to stability these past two weeks as certain “macro” concerns retreated from the limelight although by no means have, they been solved.



Dow 5-day



Nasdaq 5-day

As the charts above illustrate, last week saw the **Dow Jones Industrial Average** and **NASDAQ Composite** gain 1.5% and 1.8% respectively. This morning markets are quietly higher.

Markets & Economy

For most of the month of August the stock market has wrestled with the concern that FED policy errors combined with the difficult negotiations with China would produce a pronounced global slowdown. Certainly, as we have demonstrated the global economy is weak. China’s economy has been dealt a serious blow by the efforts of the Trump administration to put the US relationship with that country on a fair and safe (from a national security point of view) basis.

Over the past few weeks the Chinese have agreed to return to negotiations but let’s face it, we have seen this movie many times. I doubt that China is ready to capitulate. Saving face for their government is very important. At the same time, they have this problem with Hong Kong which is hugely important to future relationships with the West. The eight million people of China don’t want Chinese rule and are waving US flags in protest. Contrast that with the various protests so common nowadays in our country. What aren’t we teaching people in schools these days?

In any case, with the Chinese issue on the backburner, the financial media is obsessed with a US recession which is not taking place. Sadly, these very SAME people who one year ago supported the FED’s mistaken policy of tightening due to an over heating economy are now saying a recession is unavoidable and they prey it comes in time for the presidential election next November.

This isn't just me pontificating. Over the past few weeks, the former New York Fed president publicly advocated that the FED follow policies whose impact would in his mind hurt the President's reelection chances. Now this clown, was until recently, the second most powerful person at the FED and a former partner at Goldman Sachs. To say that he revealed himself and what others in the "swamp" want is very much an understatement.

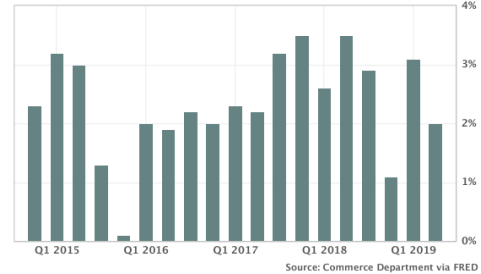
Now to be fair, this was so over the line that he has received universal criticism, but just remember one thing; the criticism isn't about what he said but that he did so publicly. The swamp in DC lost their cover and he has blunted any and all criticism of President Trump concerning the FED and their policy. Not only has Trump been correct on the substance but he has been correct about the motivation.

Having said all this the mantra of FED "independence" lives on. As such, the next meeting on September 17/18 will be a focus. Personally, the FED seems likely to disappoint again by cutting rates just 25 basis points. This despite a slowing jobs market (see chart below on last week's report).

There can be no denying it though, the economy is being held back by the FED and macro issues. Offsetting this are low gasoline prices (inflation in general), higher wage growth and historically low unemployment. Thus, we had a 2% growth economy in the 2nd quarter (see chart below).

Real GDP

Change from previous quarter at annual rate, seasonally adjusted



Of course, compared to the rest of the world this looks fantastic. Compared to last year's nearly 3% it is a slowdown. The FED needs to reverse and get ahead of this trend.

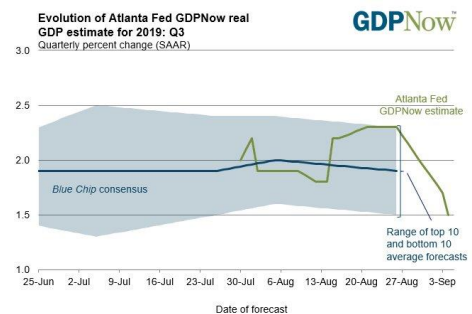


The 130K increase in jobs was flattered by a jump in federal hiring of 28K for the census. Thus, the report was a weak one and the talk about recession and trade is impacting business planning but so far NOT consumer confidence or spending (see chart below on latest confidence reading).

The outlook for the 3rd quarter is drooping as well. The Atlanta Fed estimates (see chart below) just 1.5% growth. This forecast is identical to the New York's Fed estimate. At this point with inflation falling and growth falling the FED next week should do more than the minimum but they won't.

Consumer confidence stays high in August

Consumer confidence index totals 135.1 in August vs. 135.8 in July



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

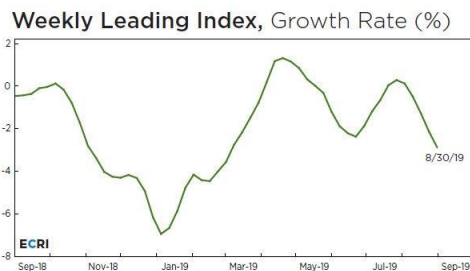
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

What to Expect This Week

The European Central Bank is meeting and is expected to announce further monetary moves to “stimulate” their woeful economy. Not sure how even more negative rates accomplishes this, but they will give it a try. This should increase pressure on the FED, but I doubt it will.

The US will also have another update on retail sales for August late in the week. Overall, though barring some macro headline concerning China or Brexit etc. the focus will be on NEXT week’s FED announcements.

Finally, the week’s update from the ECRI index of leading economic indicators shows no reason to expect a resurgence in our economy. The real question over the next few weeks is, will the FED take bites at reversing their ill-begotten policy or will they try and anticipate the slowdown in the making and be more proactive?



My guess is that the FED remains politically motivated and, in this instance, a dangerous obstruction to the future health of the global economy. Their history is to cause a crisis and then come in and rescue. It’s too bad, and Trump is correct to try and subject them to more accountability.

Company Stories

Medtronic

Shares of **MEDTRONIC** hit new ALL-TIME highs last week, after the world’s largest medical device company reported better-than-expected earnings and raised expectations for the next fiscal year.

During the quarter, **MDT** earned \$1.26 a share, which beat consensus estimates by 8 cents, and was nearly 8 percent better than the same quarter last year. **MEDTRONIC** reported quarterly sales of \$7.5 billion, which also beat the street and was also higher than the year-ago quarter. **MDT**’s diabetes group showed strong growth, as did its restorative and minimally invasive therapies groups. The cardiovascular division reported a slight decline in revenues. Given the overall strong results, **MEDTRONIC** raised its fiscal year 2020 earnings guidance from \$5.44 - \$5.50 to \$5.54 - \$5.60.

CEO Omar Ishrak, who has led **MEDTRONIC** since 2011 announced he will be stepping down from his post next spring. Geoff Martha, currently the leader of the Company’s restorative therapies group will succeed Ishrak, starting April 27th of 2020. Shares of **MEDTRONIC** have gained 19 percent for investors so far this year.



MDT one year



Shares of **DUKE ENERGY** also reached all-time highs last week as the company easily beat analysts' expectations with a strong second quarter AND announced they are raising their dividend. The power generator featured improving returns from all its segments as its regulated utilities, natural gas operations and commercial renewables performed better than in the same quarter from 2018. **DUKE** reported net income of \$820 million, or \$1.12 per share on revenue totaling \$5.9 billion. That compares with net income of \$500 million and revenues of \$5.6 billion.

DUKE is raising its quarterly payout for the 93rd CONSECUTIVE YEAR. The new dividend will be 94.5 cents per share, an increase of 1.85 percent from the previous dividend. The new payout will be made on September 16th, making the new annual dividend yield above 4 percent. Shares of **DUKE ENERGY** have gained 14 percent over the past 12 months.



DUK one year



ALTRIA and **PHILLIP MORRIS** announced last week they are in merger talks. This would reunite

MO and **PM** after more than a decade apart. The two companies split up back in 2008. If this happens, it would recreate a tobacco industry titan that sports a market capitalization in excess of \$200 billion.

The primary benefit **ALTRIA** would receive is from dramatically reducing their exposure to possible future FDA regulations designed to significantly reduce smoking rates. These have already been discussed frequently and include lower nicotine levels, banning menthol cigarettes and adding graphic warning labels to packaging. Secondly, **ALTRIA**, through their subsidiaries **JUUL** and **CRONOS** could benefit from **PHILLIP MORRIS'** expertise in managing a global supply network.

Shares of **MO** and **PM** traded lower on the news of this potential merger of equals, questioning whether a deal of this magnitude will eventually proceed. Shortly beforehand, **ALTRIA's** board announced a 5 percent dividend increase for its shareholders. This is the 50th year of dividend increases for Altria. The new payout is being raised to 84 cents per share, payable on October 10th to shareholders of record September 13th. **ALTRIA's** current annual dividend yield is over 7.5 percent.



MO one year