Tom McIntyre's

Weekly Commentary & Outlook

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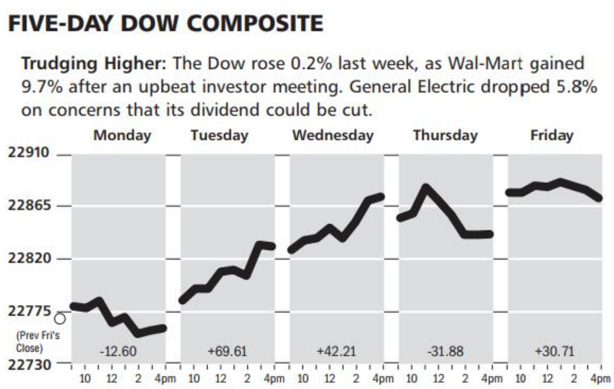
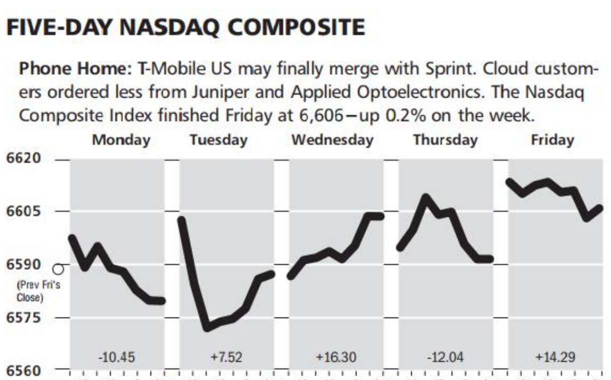
This is Tom McIntyre with another client update as of October 16th, 2017.

Markets have spent the past two weeks quietly going about their business, as hopes of tax cuts to come and the subsequent boost to earnings provided all the support despite global headlines.





As the charts above illustrate, the **Dow Jones Industrial Average** gained just .4% last week while the **NASDAQ Composite** was barely positive by .24%.

Markets & Economy

Earnings reports are just now filtering out in quantity except for the big money center banks to which no one pays much attention. As such the past couple of weeks have seen markets focus on current Fed policy and who President Trump will name as the new Chairman.

As noted the Fed wants to claim success in its administration of the economy but that would not be true. They continue to focus all their bragging rights around the unemployment rate being so low. As we have long pointed out, you can have a low number if you simply stop counting the 96 million people of working age who are not considered part of the work force.

The irony is, this same group not considered part of the work force by the government, is considered part of the pool of people to receive federal and state benefits such as food stamps, Medicaid, unemployment insurance and disability benefits. Just to name a few.

Therefore, it is imperative for the economy to start to grow above the 2% threshold we have seen since Obama entered the White House in 2009.

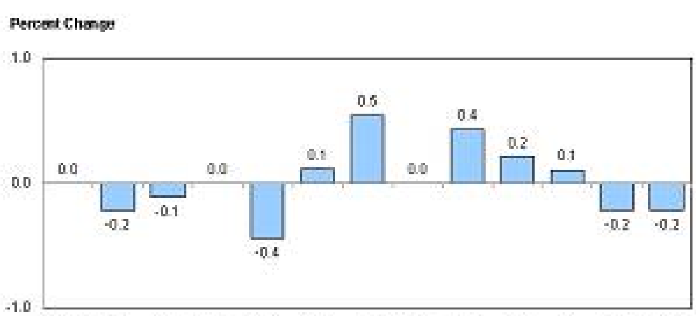
This is where the proposed Trump tax cuts hope to make a difference. So far all we have is an outline and to my mind, the list is heavy on redistribution of wealth versus growth incentives. Marginal tax rates must come down and they are not. Capital gains taxes must be cut and they are not.

This proposal is being stage managed to avoid criticism that the cuts favor the wealthy. It should be an obvious observation that if the top 10% of earners pay over 70% of the income tax that any adjustment will go disproportionally to them. Journalists should go back to school and learn some arithmetic.

Beyond this, the reduction in corporate taxes is good and will produce growth. Overall not only is the package a mishmash but it remains problematic that it can be passed in a Congress for which the democrats will oppose totally and all it takes are the usual suspects on the Republican side to gum up the works.

Never the less, I think the chances are that something will pass and markets will cheer into year-end. Even more to the point, the economy needs the help.

Look at the chart of after tax income for this country below. It is flat over the past year and down the past two months. This explains why the economy is struggling especially in retail. It explains why growth breaking out to the upside is a fantasy. It also explains why inflation cannot get going except in areas that the government has screwed up such as Obamacare. This pessimism is confirmed by noting the uptick in bad consumer loans just now being reported by the big banks. It seems that in this economy the number of student, car and credit card loans becoming delinquent is rising. Explain that Chairman Yellen!

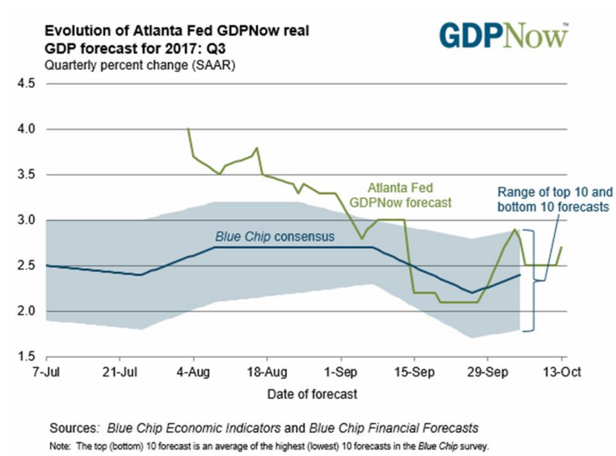


From September 2016 to September 2017, real average hourly earnings increased 0.2 percent, seasonally adjusted. The increase in real average hourly earnings combined with no change in the average workweek resulted in a 0.2-percent increase in real average weekly earnings over this period.

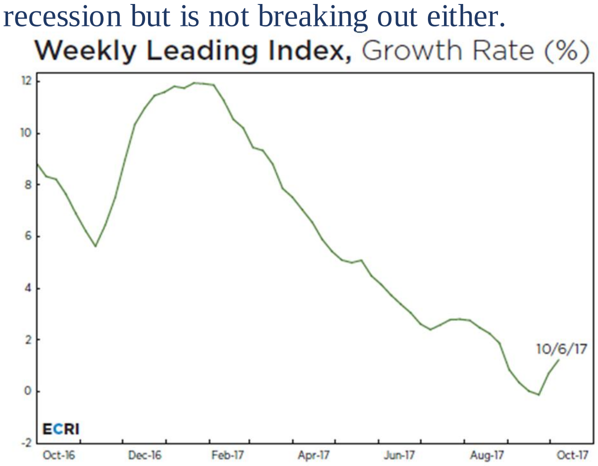
The Fed, in its latest meeting, admits how wrong they have been about this but continue to shrug it off and assume that the low unemployment rate will cause inflation to move higher. This analysis is so much rooted in thinking from the 1970ôs and 80ôs that it disgusts me. These people have been wrong and continue to be and yet are lauded for being the calm and supreme visionaries behind monetary policy.

I hope President Trump introduces a new brand of thinking when he announces his choice to become the next Chairman over the next couple of weeks.

In the meantime, though, stocks love this 2.5% economy. The latest estimate (shown below) from the Atlanta Fed expects a Q4 growth rate of just above this. The New York Fed is more pessimistic. Either way, slow growth with little inflationary pressures continue in the background which this bull market has enjoyed for 8 years.



Finally, the chart below from the ECRI on their leading economic indicators shows an uptick. Once again implying that the economy is not in danger of recession but is not breaking out either.



What to Expect This Week

Lots of economic data points but nothing will move the needle. More talk about tax cuts but that is clearly a year-end thing.

Importantly, earnings reports will start with a vengeance. It will be nice to focus on individual fundamentals versus this macro stuff for a change.

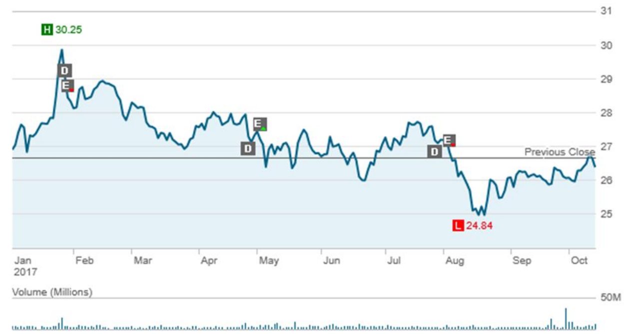
Symbol: WMT

Shares of WAL-MART hit multi-year highs last week after The Company put out a healthy business forecast for the months ahead at its annual investor day conference. WMT believes its U.S. online sales will soar 40 percent in the fiscal year ending January 2019, with overall net sales to rise by at least 3 percent in the same period.

WAL-MART plans to invest in more than 1,000 online grocery pickup locations in the coming months, a strategy it believes will keep the retail giant ahead of the competition, specifically AMAZON.COM. The Company plans to open fewer than 15 new Supercenters and fewer than 10 Neighborhood Markets in the U.S. for fiscal 2019. But the cutback on brick and mortar operations will allow WALMART to reallocate resources to support their increasing online and e-commerce efforts. The Company plans on capital expenditures to be in the $11 billion-dollar range for both fiscal years 2018 and 2019.

To top it all, WAL-MART is putting its money where its mouth is, by increasing its share buyback program. Over the next two years, WMT will buyback approximately $20 billion in company stock. The new program replaces an earlier buyback effort announced in October of 2015. Bucking the downward trend of most major retailers, shares of WAL-MART have increased MORE THAN 25 percent in 2017.

Symbol: EPD



ENTERPRISE PRODUCTS PARTNERS announced it is raising its quarterly cash distribution for unitholders once again. The new distribution of .4225 cents per common unit works out to $1.69 per unit on an annualized basis, which represents a 4.3 percent increase over the same rate from the third quarter of 2016. This is the 53rd CONSECUTIVE QUARTERLY INCREASE.

The new distribution will be paid on November 7th to unitholders of record as of the close of business on October 31st. EPDôs increase to their distribution was reduced slightly from past quarterly increases. Jim Teague, the CEO at ENTERPRISE said the moderation in distribution growth was decided upon to strengthen The Companyôs distribution coverage, increase the retained distributable cash flow available to self-fund growth opportunities and reduce unitholder dilution.

EPDôs current payout to unitholders is 6.4 percent on an annualized basis. The Company has approximately $9 billion of capital projects currently under construction with additional projects under development. ENTERPRISE will report quarterly earnings on November 2nd.

PEPSICO

Symbol: PEP

PEPSICOôs fiscal third quarter earnings beat profit expectations, which offset a sales miss and a lowered sales growth outlook. PEP earned $1.48 a share, easily beating Wall Streetôs expectations of $1.43. Revenues increased to $16.24 billion from $16.03 billion year over year. The big gainer for PEPSI was in the FRITO-LAY North America division, where sales of chips and healthy snacks increased 3 percent over the previous quarter. North American beverage sales fell 3 percent despite a pick-up in non-carbonated drink sales.

PEP has topped earnings expectations for the past four consecutive quarters and is often mentioned as a potential takeover target by other food conglomerates. Shares of the second largest food and beverage business in the world are 8 percent higher so far this year and pay investors a 3 percent annualized yield.