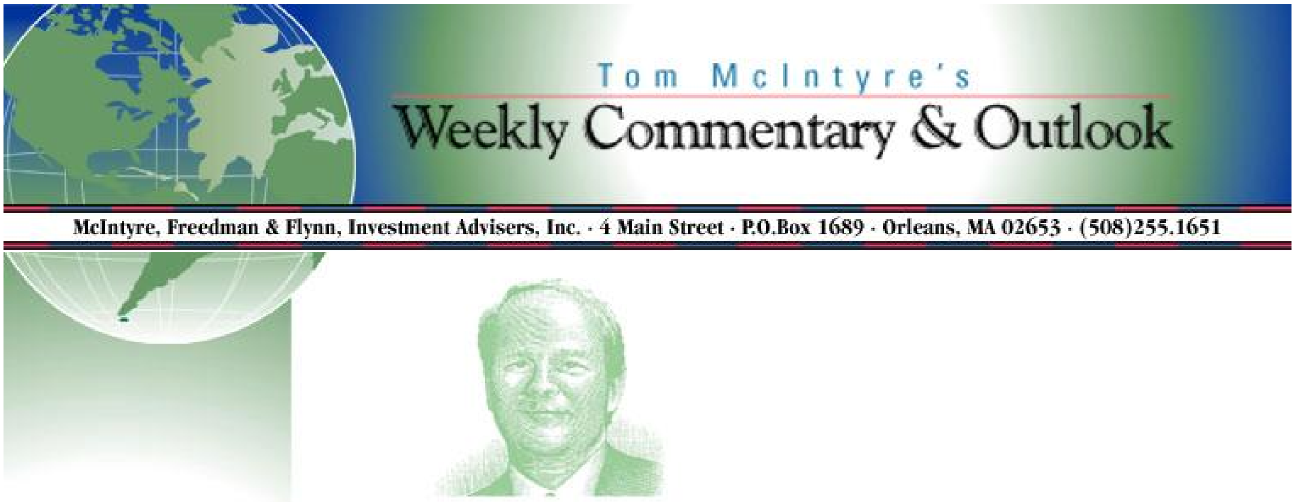
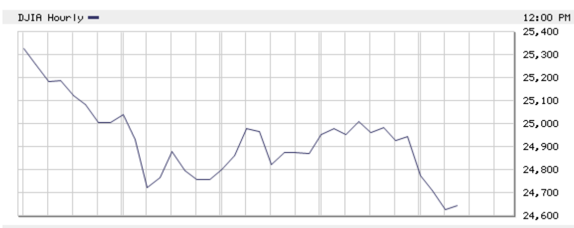
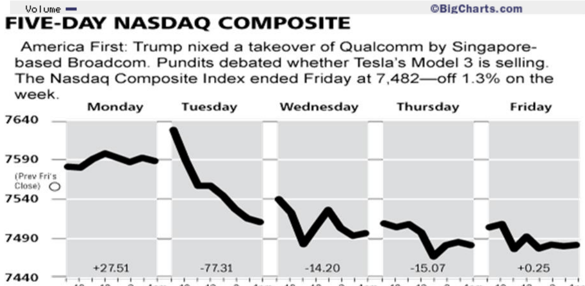


This is Tom McIntyre with another client update as of Monday, March 19, 2018.

Stocks were on the defensive for most of last week. Trade wars, real or imagined, contradicting data on the economy and fear of a Federal Reserve policy mistake this week all weighed on sentiment.





As the charts above illustrate both the ***Dow Jones Industrial Average*** as well as the ***NASDAQ Composite*** declined over 1%. This morningõs sell off in stocks led by Facebook has now taken the Dow back to even for the year.

Markets & Economy

Sadly, most of the day-to-day movement in the stock markets are being influenced by macro headlines which themselves are fraught with fake news as well as press bias to a whatever is the narrative of the day. Todayõs narrative is that the economy is doing so well that the Federal Reserve Board must ñcatchò up with the economic cycle by having as many as FOUR interest rate hikes this year.

All I can say to that is look at last weekõs data on retail sales (lousy) or housing starts, sales or permits which all came in much below expectations. Clearly something is amiss here. Rising interest rates may already be playing a role here. As a result, these data points are exacting their toll on market expectations for growth.

The chart below which shows just how dramatically the Atlanta Fed has lowered its expectation for the GDP outlook in the quarter soon to end. We are now forecasted to come in below 2% growth. When you combine this with the lackluster wage growth story you just wonder what all the hype about the economy has been about.

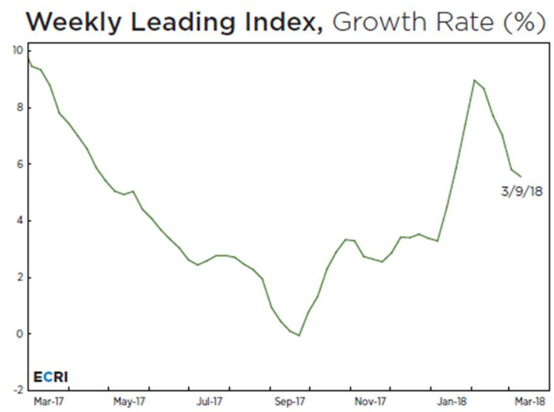
Clearly, though there are some positives. Consumer sentiment is at multi-year highs. Last monthôs employment report showed over 800K people returning to the labor force <u>and</u> they are finding jobs. So, it is a mixed picture and that is just my point. The media today must have a narrative. For many years it was that the US economy was at a new and lower growth rate and we needed to accept it. That was never true. Neither is it true that we have jumped to some growth rate, which is double what we have been experiencing. Such moves are rare and the tax cuts have barely begun to influence data other than sentiment.

However, it is this latter narrative which seems to be begging the Fed to hike rates with abandon. This is absurd and I will prove it. The yield on the US Treasury 2-year Note is now many times higher than the yield on the German 30-year bond. Both economies have similar inflation and growth rates. There should be convergence, not this disconnect. Why would our economy require many times the level of interest rates that Germany has? The answer is that it doesnôt. Somewhere out there is the possibility of a policy error. In Germanyôs (EUôs) case the risk is inflation, by being too loose. That is nonsense as Europe cannot grow even at 1% these days. In the case of the US, the risk is higher rates cause a slowdown or worse. That is what the data might be hinting at.

Of course, the daily drama over tariffs etc. doesnôt help but right now that is simply posturing which impacts investor sentiment. Nothing has been decided and with the appointment of Larry Kudlow to the White House chief economic policy maker post I doubt greatly that any trade wars are coming. Remember, Trump is a negotiator and wants a better deal for the economy. That is his goal not some other political outcome. Markets like results and they will ultimately accept the outcomes.

<u>What to Expect This Week</u>

More drama from Washington DC. This includes not only the White House but there is a two-day Fed meeting which concludes Wednesday. Expectations are that they will raise rates and will continue to provide commentary on this booming economy. What they say under the new Chairmanôs 1st meeting will largely set the tone for trading for the rest of the week. Baring something out of left field this will be the item on most traderôs check list. Finally, the chart below from the ECRI as to their index of leading economic indicators continues to show an economy running out of steam but hardly looking like it is ready to roll over. The FED and their outlook will be key. Right now, most commentators want/expect higher rates. As usual most of those commentators are wrong and they will be this time as well. The sooner this reality comes about the better for the stock market.



QUALCOMM

QCOM one-year

The news flow continues to swirl around the fate of QUALCOMM reaching a fevered pitch by late last week. First President Trump blocked a $117 billion hostile bid from Singapore-based rival BROADCOM LIMITED to acquire QCOM, citing national security concerns. Then former QUALCOMM CEO and former board chairman Dr. PAUL JACOBS threw his hat in the ring, announcing he would be exploring ways to acquire the company himself, potentially taking it private.

While Jacobs supported QUALCOMMôs resistance to AVGOôs bid, he increasingly clashed with other members of the board over how QCOM defended itself. JACOBS has reached out to several global investors, including Japanôs giant holding company SOFTBANK, to see if he can arrange funding to take the Company over. SOFTBANK already holds major stakes in semiconductor and software design company ARM, wireless provider SPRINT and e-commerce giant ALIBABA.

Shares of QUALCOMM rose on Friday, as these developments were reported. The Companyôs Annual Stockholders meeting is scheduled for this Friday, March 23rd in San Diego. Stay tuned.

MRK one-year

Shares of MERCK moved higher last week after the FOOD & DRUG ADMINISTRATION (FDA) granted a Priority Review for the Companyôs KEYTRUDA drug to treat patients with advanced cervical cancer with disease progression during or after chemotherapy. This is THE FIRST filing acceptance and Priority Review granted by the FDA for an anti PD-1 therapy regarding cervical cancer.

KEYTRUDA works by increasing the ability of the bodyôs immune system to help detect and fight tumor cells. In 2017 approximately 12,820 cases of cervical cancer were diagnosed in the U.S. The five-year survival rate of women with stage IV disease is an estimate 15-16 percent. While screenings and vaccinations have resulted in declining cervical cancer rates, the disease continues to affect women in the US and throughout the world.

MERCK has the pharmacological industryôs largest immune-oncology clinical research program, which currently involves more than 700 trials studying KEYTRUDA across a wide variety of cancers and treatment settings.

MDT one-year

Medical device-maker MEDTRONIC picked up FDA approval for its new, continuous glucose monitoring system for diabetes patients between the ages of 14 to 75 years. MDTôs GUARDIAN CONNECT system will help diabetes patients become aware of potential high or low glucose events up to 60 minutes in advance of potential trouble. The systemôs users will have exclusive access to the MDTôs SUGAR IQ smart diabetes assistant. This technology helps patients deal with regular complications related to diabetes which could arise from food intake, insulin dosages and other factors.

MEDTRONIC has witnessed a 13 percent rise at constant exchange rates in its diabetes business revenues during the third-quarter of fiscal 2018. MDT expects double-digit growth in the segment in the fourth quarter of fiscal 2018. An aging population, unhealthy lifestyle, a rising awareness and high expenditure in healthcare are likely to drive growth for MDT in the highly competitive diabetes market.