Tom McIntyre's
Weekly Commentary & Outlook

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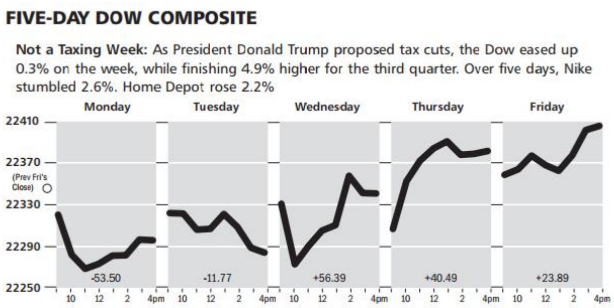
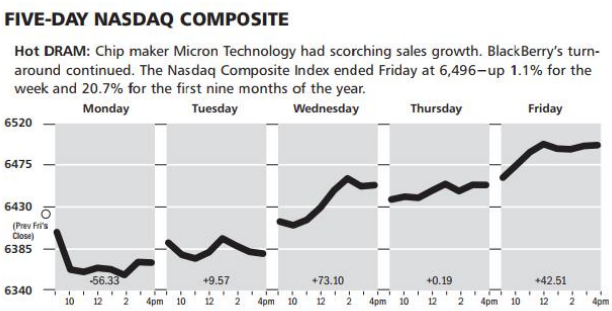
This is Tom McIntyre with another client update as of October 2nd, 2017.

Another quiet week with modest gains led by energy names for a change.



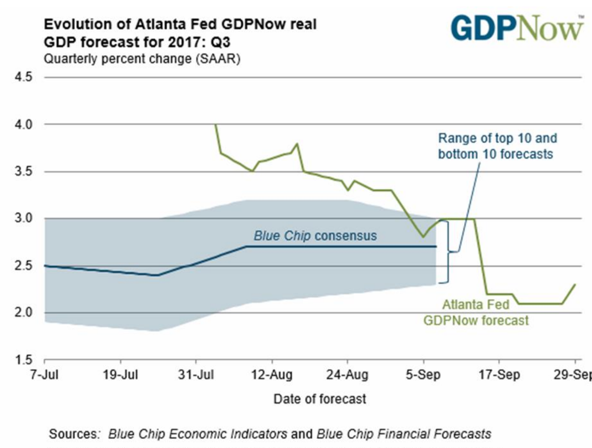


As the charts above illustrate, the **Dow Jones Industrial Average** was basically flat while the **NASDAQ Composite** gained just over one percent for the week.

Markets & Economy

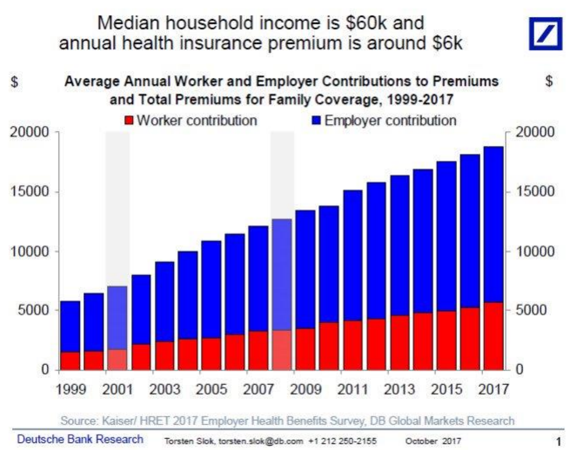
The long-awaited plan for reforming the tax code was announced last week. It was just an outline of a proposal which could have been issued last February but for some reason has just now been disclosed. Since Congress only now will attempt to move this into a final product the outlook for passage is at best 50%. The market does like the idea of lower tax rates and its impact on future after-tax earnings. Thus, the market is being supported by the prospects of its passage. Hope there is no disappointment.

The other thing supporting stocks is the perception that growth is accelerating based upon the quarterly report for the 2nd quarter showing a 3.1% growth rate. Of course, few people discuss the 1% rate for Q1 or the rather downbeat estimates for the rest of the year. Looking below at the chart from the Atlanta Federal Reserve shows their expectation of just 2.3% for the 3rd quarter while the New York Fed estimates just 1.5% for the third quarter and just 2% for the final quarter of this year.



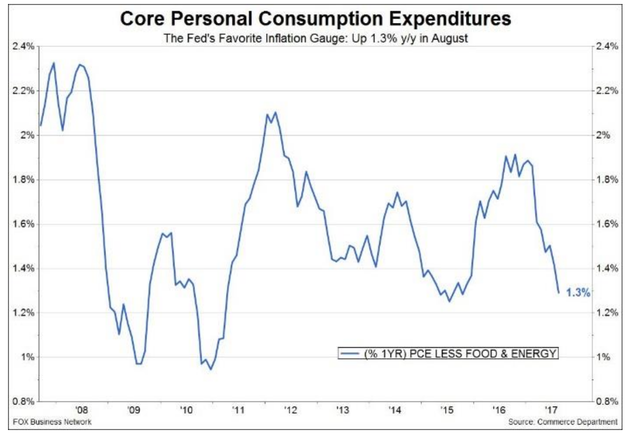
Whatever the final numbers are, the fact remains the year 2017 is not a noticeably different year than all the Obama years. Namely an economy underperforming because of high taxes and burdensome government spending and rising health care costs.

You have heard me mention many times the cost which Obamacare has added to the cost of living and the chart below shows it clearly. The very high cost of insurance and deductibles has served to crimp the spending of the American consumer. At the same time, the huge increase in the Medicaid rolls has put a hurt on state budgets across the land. Currently, Pennsylvania, Illinois, and Connecticut are virtually bankrupt and may soon be unless policies are changed. Thus, the inability of Congress to address the Obamacare issue has seriously just pushed this dangerous can down the road.

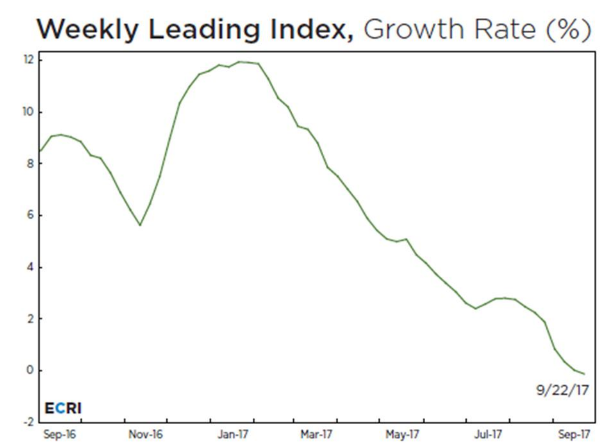


Interestingly, the mainstream media and official Washington DC continues with the narrative of a strong economy which requires higher interest rates to ñslowò things down. The administration pushes this as evidence that their policies are working (even though not yet enacted) while the Federal Reserve Board and their acolytes in the media push it to justify what is going to go down in history as a policy error by raising interest rates while there is nominal growth and inflation is falling (except in the government controlled health care sector).

The evidence for this is shown in the next chart. The Core PCE inflation measure has been in a free fall this year and is well below the Fedôs target. The Fed is playing with fire to be tightening policy while this is happening. This bares watching.



Finally, the weekly chart of the ECRIôs leading economic indicators just does not demonstrate any evidence of an economic growth spurt. Frankly though, as I have said many times, stocks like a 2% growth rate even if the cost to society of this underperformance is huge over time.



What to Expect This Week

The week will be dominated by two things:

1) The employment report on Friday which will be influenced by the impact of the natural disasters of last month. I do expect weakness but it will be dismissed for this reason.

2) The reaction to the Trump tax plan outline. Itôs only an outline and Congress will write the legislation. Letôs see what comes of this and whether this hopelessly forlorn Congress can pass this in the very short time left this year.

Symbol: MSFT

As MICROSOFT's revenues are growing, so are its payouts to shareholders. Thanks to a boom in its Cloud Computing business, MSFT's revenues rose 13 percent last quarter. Consequently, MICROSOFT is raising its quarterly dividend to 42 cents a share; a 7.6 percent increase from the previous quarter. The dividend is payable on December 14th to holders of shares on November 15th. This brings the Company's annual dividend yield to 2.2 percent.

Over the past three fiscal years, MICROSOFT has spent $38 billion on share buybacks and close to $33 billion in dividends paid AND STILL HAVE OVER $132 BILLION IN CASH on their balance sheet. MSFT earned some $50 billion in net income during that period and shares are up 20 percent so far in 2017. The Company reports third quarter earnings on October 26th, with analyst estimates of 72 cents a share.

Symbol: SU

Crude Oil prices have been rising in recent weeks and shares of SUNCOR ENERGY have benefitted from the move. Shares of SU have gained momentum since the Company posted positive net earnings in the first half of 2017 compared to a loss in the same period of 2016. SUNCOR's hydrocarbon production and Oil Sands net earnings rose from a loss last year to a profit this year.

SUNCOR also witnessed a 26 percent year-over-year rise in net refining earnings in the first half of this year. Several analyst upgrades recently have helped the stock gain more than 24 percent over the past 12 months. SU pays an annual dividend yield of 3 percent.

Symbol: BA

The orders keep flying in for BOEING! The DOW JONES INDUSTRIAL AVERAGE's top performing stock this year picked up newly signed contracts for over $13 billion to deliver new planes to TURKISH AIRLINES and QATAR AIRWAYS. TURKISH AIR will pay $11 billion for BOEING to build forty 787-9 DREAMLINERS. This represents demand for long-haul aircraft amid declining orders for many other wide-body models.

QATAR agreed to purchase two 747-8 Freighters and four 777-300ERs (extended range) aircrafts for a total of $2.16 billion. BOEING has delivered 3,482 commercial airplanes to its customers in the last five years. BA's backlog remains more than healthy, with 5,665 airplanes currently under contract. Shares of BOEING are up an eye-popping 93 PERCENT over the past 12 months.

Symbol: MRK

MERCK's wonder drug, KEYTRUDA picked up yet another FDA APPROVAL. The therapy has been approved by the government for patients suffering from advanced gastric cancer. KEYTRUDA is already approved for many types of cancers and treatment settings including lung cancer, melanoma, head and neck cancer, classical Hodgkin lymphoma and bladder cancer.

KEYTRUDA has quickly become a top-line driver for MERCK, bringing in sales of $881 million in the second-quarter, up 51 percent sequentially and 180 percent year over year. Shares of MRK are up 9 percent so far in 2017 and pay investors a 3 percent annual dividend yield.