McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday, January 6th, 2020.

Last year ended on an upbeat note as fears of recession seem to have drifted away as FED policy has completely changed over the past twelve months and trade disputes seem to be near a resolution.

Dow 5-day

Nasdaq 5-day

As the charts above illustrate, last week's holiday-shortened trading produced virtually no change in the stock market. The ***Dow Jones Industrial Average*** fell fractionally while the ***NASDAQ Composite*** gained fractionally.

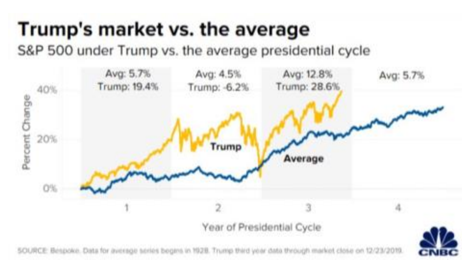
Of course, there were, as always, news events to dominate daily trading given the situation facing the world vis a vis Iran. This has spiked the price of oil modestly but as I have been saying the price of oil was too low for replacement decisions to make sense and in the long run, the higher price for oil is good for the economy, the markets, and most importantly our national security.

Markets & Economy

The world remains a dangerous place, but the US is back in its traditional position of leading the discussion rather than reacting to events. That is why there has been no panic in the markets as confidence remains quite high that the US will do what is required to avoid an out of control situation. Of course, no one knows the future but in decades past, the sort of events happening today would have sent equity markets much lower and oil prices much higher. The fact that neither is happening indicates that markets are convinced the doomsday scenarios always present in the media will not materialize.

In any event, one cannot predict the future. What one can do is look at where we are and the outlook for stocks from this point forward. Last year was a very positive one for stocks but don't forget, the 2019 numbers were goosed higher because the stock market in Q4 of 2018 had its worst quarter in years over the fear of a misbegotten FED policy. That seems so long ago, but last year's performance reflects its low starting point and must be placed into that context.

One should take a longer-term view of how the markets have reacted to the Trump administration versus previous cycles. The chart below shows that whatever the media thinks of President Trump, the markets and economy like the results quite a bit. His trade battles were going to wreck the economy. They didn't. His meddling in FED policy was a danger to the future of the world. This of course was and is nonsense. The FED is notorious for getting things wrong. It seems strange, in our democracy, this group's record and logic are immune from criticism. No longer. In the upcoming year, the voting members of the FED are less hawkish and thus very unlikely to threaten stock prices in a presidential election year. Especially for no reason.

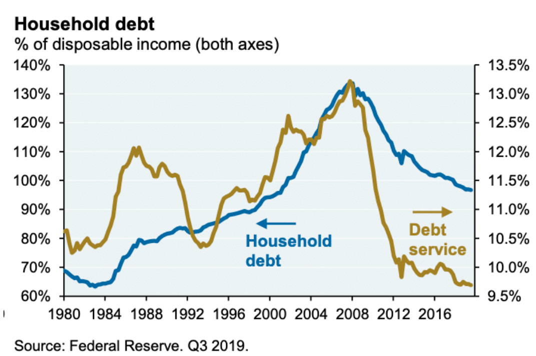


The chart below shows the extended forecasts for GDP growth and inflation for the next couple of years. Slow growth and inflation well below their goals spell out that the FED is on the sidelines and more likely to engage in quantitative easing than anything else. I will be the first to admit the FED is in a box of limited choices but this box was created over many years, if not decades, of bad monetary policy and has very little to do with the global economy which Trump inherited in 2017.

Forecast Comparison

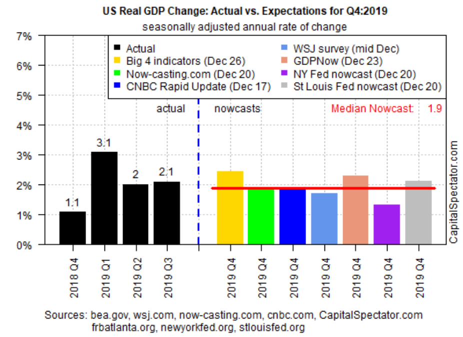
	2019		2020		2021		2022	
	Dec	Sep	Dec	Sep	Dec	Sep	Dec	Sep
GDP growth (Q4/Q4)	2.0	2.4	1.7	2.1	2.0	2.2	2.2	2.1
Core PCE inflation (Q4/Q4)	1.6	1.6	1.3	1.3	1.3	1.3	1.4	1.4
Real natural rate of interest (Q4)	0.9	0.9	0.9	1.1	1	1.1	1.2	1.2

Part of the hallmark of today's global economy is rising debt levels and falling interest rates, including negative rates, virtually everywhere but in the US. What these two trends have produced is unfortunate but should also now be undeniable. Interest rates cannot rise to any meaningful degree. Central Bankers don't like to admit this because it removes their power over markets. Quite simply, they must follow markets. This was the lesson the FED was forced to swallow last year, and the chart below shows this.



The chart shows that while the level of debt being created is rising quite rapidly, the servicing of that debt is remaining in a comfortable range. Quite simply the economy will do just fine under these circumstances. If you want to create a recession, then cut spending by trillions or raise rates or both. That would do it. Honestly, though the Federal government will never reduce spending in absolute terms. Our form of government would most likely not survive this given that between defense, interest expense, and entitlement programs the spending is on automatic pilot in one direction and that is up. Don't believe any politician who says otherwise.

Thus, it is imperative not to slow the economy in nominal terms. The growth rate for the last quarter of 2018 shown below is expected to come in around 2% which is improved from where we were a few weeks ago. Inflation is a nonevent and so it is necessary to keep the economy growing otherwise the trend of debt growth would outpace even zero interest rates. The FED now seems to know this, and markets have been reassured by their acquiescence to this reality.



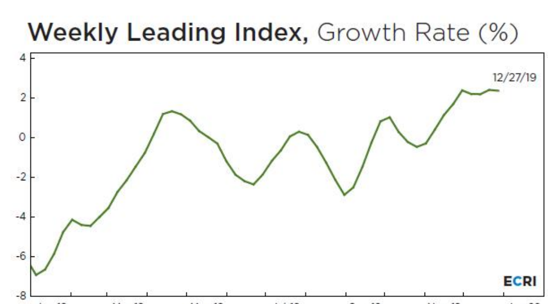
What to Expect This Week

The monthly employment report for December is out on Friday. Early reports of consumer spending seemed quite healthy, but employment growth has given off mixed signals the past year. Still strong overall but certain sectors (like the energy patch) have pulled back. Of course, it is still a very statistically challenged report so it could be strong or weak depending upon assumptions.

Of course, long before Friday, we will have to deal with Congress coming back and what news, if any, comes out of the middle east. Something is expected, the question is what, where and when.

I think the two crosscurrents will cause more than the usual pause for investors to see what the lay of the land is starting to look like for 2020. For my money, the trade deals finally getting done and the lower interest rates should provide tailwinds to the economy as the year gets further down the road.

Finally, the update from the ECRI on their leading indicators shows little progress but their commentary is beginning to show some indications of a better economy later this year although they still do not rule out a formal slowdown. It certainly seems like last year had the potential for a recession far greater than this one, but a shooting war would take all bets off the table.



Shares of ENTERPRISE PRODUCTS PARTNERS rose nearly 5 percent after the company's CEO suggested EPD may consider converting to a corporation from its current master limited partnership status. And just out today, a major brokerage suggests such a conversion could add $3-$4 in value to the price of the stock. Pipeline companies like EPD once viewed the MLP model as a smart way to raise new capital while approaching retail investors. Now, with lowered corporate income tax rates, ENTERPRISE has more reason to make the switch.

Separately, ENTERPRISE and ENBRIDGE have agreed to jointly develop and market a deep-water offshore crude oil export terminal capable of fully loading Very Large Crude Carriers (VLCC's). Under the terms, ENB and ENTERPRISE will work to finalize an equity agreement which will allow ENB an option to purchase an ownership interest in EPD's Sea Port Oil Terminal (SPOT). The SPOT project consists of onshore and offshore facilities, including a fixed platform located some 30 nautical miles off the Texas coast in approximately 115 feet of water. SPOT is designed to load VLCC's at rates of approximately 85,000 barrels per hour, or up to approximately 2 million barrels per day. In addition to an annual dividend yield of 6.23 percent, shares of EPD have gained 7 percent over the past 12 months.

EPD one-year

Meanwhile, ENBRIDGE announced it is hiking its dividend by nearly 10 percent starting in 2020. The new quarterly payout of .6144 cents will be made on March 1st of the new year to stockholders of record as of February 14th. This marks the 25th CONSECUTIVE year of dividend increases by the midstream energy provider. The dividend yield moves up to 6.3 percent for investors.

In addition to the dividend increase, ENBRIDGE now expects earnings to be marginally higher in 2020 than its 2019 expectations. Distributable cash flow per share for 2020 is expected to be in the range of $4.50 to $4.80, higher than the earlier projection of $4.30 to $4.60. Shares of ENB hit a 52-week high after the dividend announcement and have gained over 21 percent over the past year.

ENB one-year

DOMINION ENERGY is raising its annual dividend for the 17th straight year! The board of directors at DOMINION agreed to boost the annual dividend from $3.67 to $3.76, a 2.5 percent increase for 2020. The first new payout of 94 cents will be made in March. This will raise the annual dividend to nearly 5 percent. DOMINION provides electricity and natural gas to nearly 7.5 million customers in 18 states. Shares of the utility have risen 13 percent over the past 12 months.

D one-year

Shares of MERCK rose to new 19-year highs after the company picked up FDA approval for its investigational vaccine for Ebola virus disease. ERVEBO is the first vaccine approved by the FDA for the prevention of Ebola caused by the Zaire Ebola virus in adults. The approval comes almost three months ahead of the scheduled date of March 14th, 2020. MERCK's ERVEBO was granted conditional marketing approval in Europe last month.

Meanwhile, the FDA's Oncologic Drugs Advisory Committee voted to approve new indications for MRK's superstar drug KEYTRUDA and LYNPARZA. The committee voted 9-4 in favor of approved KEYTRUDA for the treatment of patients with high-risk, non-muscle invasive bladder cancer, and 7-5 to approve LYNPARZA as a first-line maintenance treatment for those suffering from metastatic pancreatic cancer. MERCK's stock has risen 19 percent over the past 12 months.

MRK one-year