Tom McIntyre's

Weekly Commentary & Outlook

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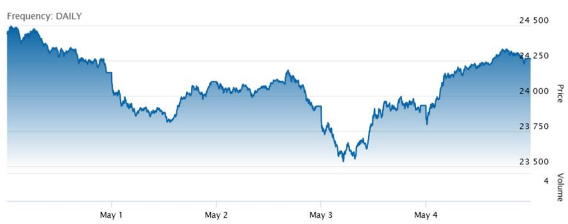
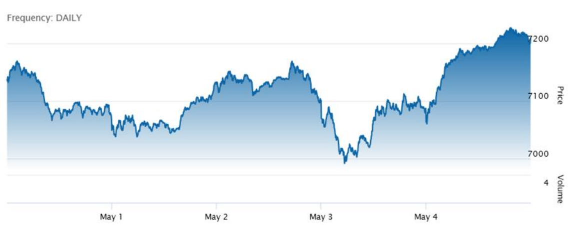
This is Tom McIntyre with another client update as of Monday May 7th, 2018.

Markets struggled most of the week but reversed on Thursday and rallied Friday and this morning. Excellent earnings combined with some soft economic data led to the change of heart.



Dow 5-day



Nasdaq 5-day

As seen in the charts above, the ***Dow Jones Industrial Average*** fell fractionally last week while the ***NASDAQ Composite***, led by Apple, gained 1.25%.

Markets & Economy

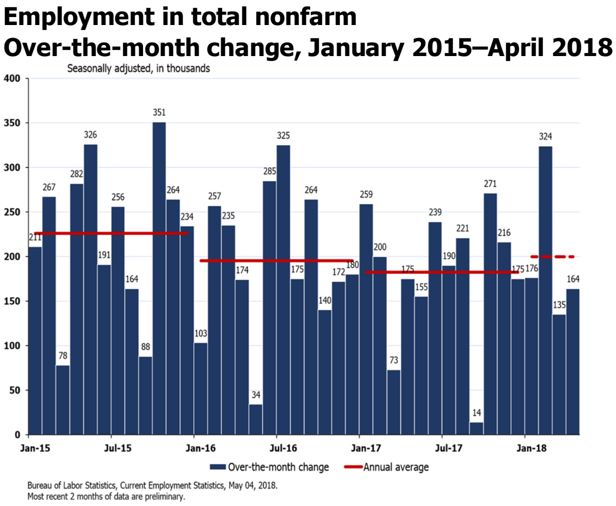
Given the craziness in DC and the events happening (or not happening) around the world, investors should be happy with the resilience of the stock market. The Federal Reserve Board met last week but did nothing other than to promise to raise rates in the future over some perceived inflation threat. This threat is currently getting the veneer of truth due to the rally in oil prices but that is very shallow analysis.

When oil prices collapsed four years ago it was supposed to lead to lower inflation and a stronger economy. Neither of those things happened. Jobs were lost, the economy limped along Obama style and inflation was everywhere and always about to happen but didn't.

What did happen was discovery of new oil fields around the world declined and today we have a situation where demand from the global economy is outstripping new supply. The US is thriving with its shale revolution but the rest of the world's production is suffering led by Venezuela. OPEC is meeting their quota on production cuts because they are basically tapped out. Given the likelihood of President Trump tearing up the Iran deal one can expect (and markets do) that supply will become more of an issue and hence the price is rising.

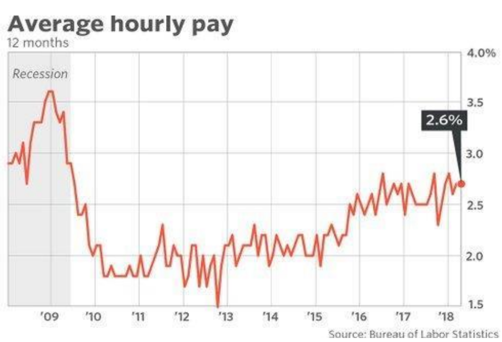
My point here is that rising oil prices should not be used as an excuse for the return of inflation. Oil is down 50% from four years ago and that doesn't even account for the inflation which has taken place. The Fed and pundits are wrong to pass off simplistic explanations for what is going on.

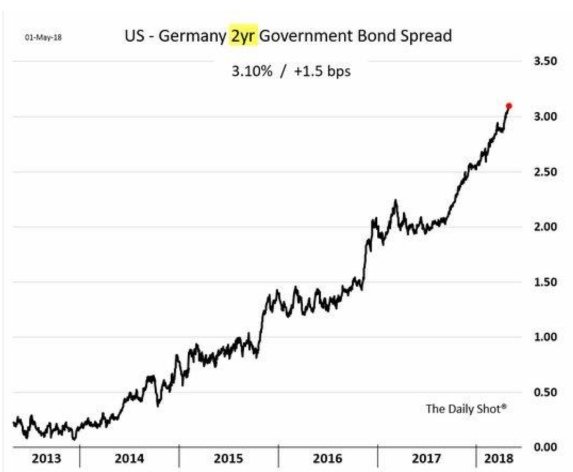
Last week did see another weak employment number. Only 164K non-farm payroll jobs (see chart on next page) were added and the participation rate fell back once again to levels which existed during the Obama years.



This had the perverse result in seeing the ñofficialò unemployment rate fall below 4% which is great on the face of it. However, as I have said if one doesn't count the 95 MILLION working age people then the unemployment number is not very helpful. Again, those calling for higher interest rates because of a statistic so flawed are engaging in a mistake.

As final proof of this, look at the following two charts:





The first chart shows wage growth. While we hear many people talking about a change to a higher number, the facts show otherwise. There has been no discernable jump in wage growth as of now. Thus, the notion of inflation resulting from this important factor is false. In fact, in listening to earnings call after earnings call the emphasis on cutting costs and improving productivity remains hugely important. Last week's government report on a lack of improvement in the economy from worker productivity is evidence that corporate America is not interested in bidding up wages.

Although certain industries are suffering from a shortage in labor (such as in energy services as that sector of the economy is booming) over all, the problem exists in the minds of economists only.

The second chart shows the difference between the US 2-year Treasury Note and its German equivalent. It is a massive gap. Germany, which has the same level of inflation and growth as the US, doesn't suffer from the repeated and constant threat of the European Central Bank raising rates. The reason is simple. Europe is not growing.

The blowback though, is that anyone who thinks the US can raise rates to the moon while our global competitors have zero or negative rates just doesn't know what they are talking about. Markets will not allow that to happen which is why the longer end of our yield curve continues to rally. The flatness in the yield curve is very telling.

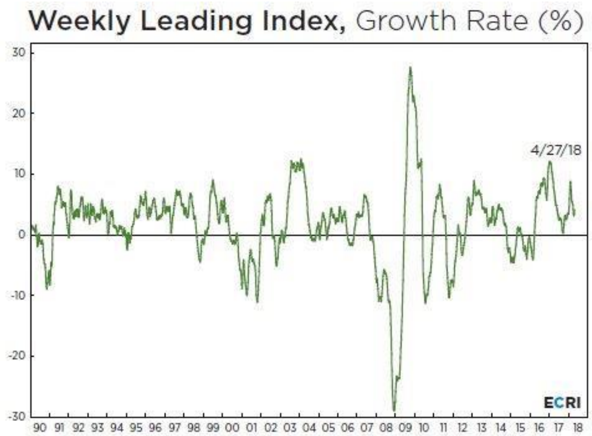
President Trump would be wise to pay attention to this differential even as he deals with our trade deficits. His goal of kick starting US economic growth to a higher level is threatened by a super strong DOLLAR along with interest rates not competitive with our trading partners.

What to Expect This Week

The big economic news was last week and earnings season will be winding down. Our holdings have done very well this 1st quarter. Sadly, with economic news receding, markets will be subject to macro news headlines which come each day whether they are true or not. Thus, focusing on fundamentals and long-term business plans remains our key for coping with this new world of daily óFake Newsô headlines.

Finally, the weekly look at the ECRI index of leading indicators shows the ho-hum economy continuing, in their view at least. The Atlanta Fed thinks the Q2 growth rate will come in at 4% but they once thought that Q1 was coming in at over

5%. Remember, these are the people who control monetary policy. Hardly reassuring.



i'm lovin' it®

Symbol: MCD

Sales at **The Golden Arches** were humming worldwide as ***MCDONALD'S*** turned in better than expected earnings and revenue for the first quarter of 2018. Higher prices on the menu didnôt stop customers and it led to surprisingly strong comparable-store sales during the first three months of the year. Adjusted earnings came in at $1.79 per share, much better than the per-share earnings estimates of $1.67. Total revenue declined to $5.14 billion but still beat expectations. The drop was due to ***MCD's*** on-going move to convert more company-owned restaurants into franchised ones, thereby reducing overall revenue.

Sales rose 2.9 percent at established restaurants in the USA. Worldwide sales rose to 5.5 percent, stronger than the 3.6 percent forecast by Wall Street. Stock of ***MCDONALD'S*** moved more than 5 percent higher after its earnings report was released last week and was added to the prestigious Goldman Sachs ñconviction listò this Monday morning with a price target of $185 per share.

Enterprise Products Partners L.P.

Symbol: EPD

ENTERPRISE PRODUCTS **PARTNERS** reported RECORD operating and financial results for the first quarter of 2018. Liquid and natural gas pipelines had volumes of 6.2 million barrels per day and 13 trillion BTU per day, respectively. ***EPD's*** pipelines had volume increases in crude oil, NGL and natural gas production from its Permian basin operations, Rocky Mountains unit and Haynesville Shale regions.

Income for the first quarter was $900.7 million. Adjusted earnings were 39 cents per share, beating analystsô expectations. Overall revenue for the provider of midstream energy services was $9.3 billion in the period. Importantly for investors, distributable cash flow provided 1.5 TIMES COVERAGE of ***EPD's*** distribution for the quarter. CEO Jim Teague says the Company generated a 23 percent increase in distributable cash flow to a record $1.4 billion for the quarter. ***Enterprise*** has raised its quarterly distribution 55 consecutive times. ***EPD's*** annual payout to investors is over 6 percent.

Symbol: AKAM

An aggressive push into cloud security continues to pay off for ***AKAMAI TECHNOLOGIES***, as the Company trounced Wall Streetøs earnings estimates for first-quarter revenue and profit. Excluding items, ***AKAMAI*** earned 79 cents per share, 9 cents above consensus. ***AKAM's*** revenue rose 11.4 percent to $668.7 million, which is a healthy increase from the $600 million reported in the same quarter a year ago. Revenue specifically derived from cloud security business surged 36 percent in the quarter to $149 million.

AKAM guided to the June quarter earnings expectations of 81 cents a share, much higher than street estimates of 70 cents. In March, the Company increased its stock buyback plan after activist investor Elliott Management took a stake in ***AKAM.*** Several analysts raised their price targets for the stock $5 per share by 2020 after the report. Shares of ***AKAMAI*** have gained more than 10 percent so far in 2018.

Symbol: MRK

MERCK's wonder-drug KEYTRUDA helped the Company beat earnings expectations during its first quarter of 2018. Sales of the new therapy, which seems to combat any number of cancers in the body, rose more than 150 percent to $1.46 billion in the quarter, accounting for nearly 15 percent of ***MERCK's*** overall sales. ***MRK*** earned $1.05 per share, comfortably ahead of estimates of $1 per share. On the revenue side the Company reported $10.04 billion, a 6.4 percent increase from the first quarter of 2017.

The surge in KEYTRUDA sales more than offset decline in sales of ***MRK's*** shingles vaccine ZOSTAVAX and hepatitis C treatment ZEPATIER. During the conference call, CEO Ken Frazier said the Company has the power and the flexibility to do deals of any size and stage, which will drive long-term value and growth. Frazier didnøt offer any specifics, however. ***MERCK*** raised its full-year forecast for adjusted earnings to between $4.16 to $4.28 per share, above current expectations.