Tom McIntyre's

Weekly Commentary & Outlook

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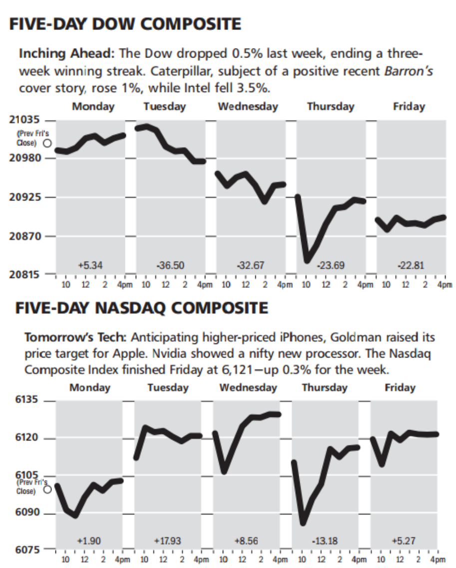
This is Tom McIntyre with another client update as of Monday, May 15th, 2017.

Markets continue to tread water. A slowing economy, as judged by the data, is being offset in the hopes the Trump agenda finds its way through Congress. This is resulting in a stalemate whereby a handful of stocks keep the averages up especially in the NASDAQ market.

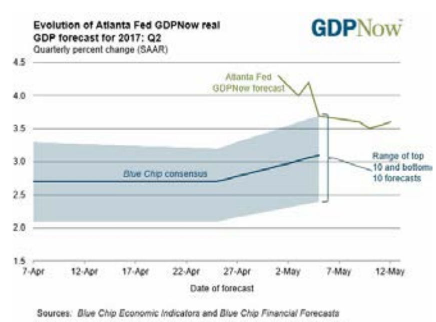


As the charts above illustrate, the **Dow Jones Industrial Average declined by one-half of a percentage point while the NASDAQ Composite moved fractionally higher**. Not much considering all the hoopla going on down in DC.

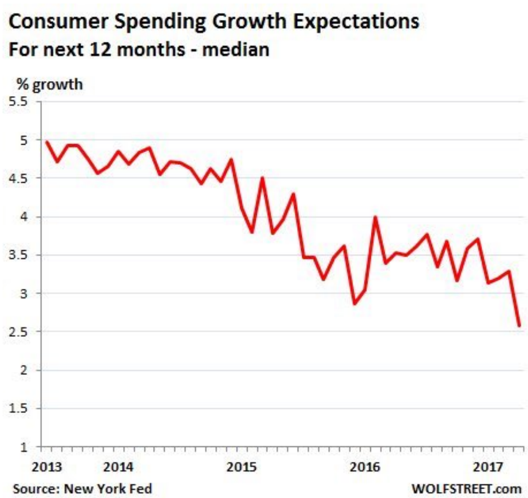
Markets & Economy

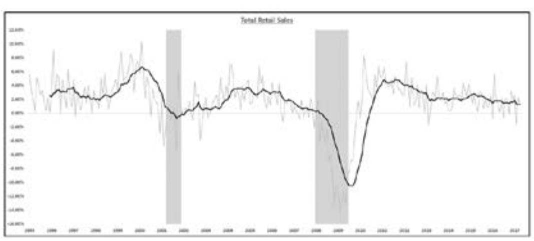
The theme for 2017 continues to be that economic pick-up is right around the corner. This notion has existed for every year since 2009, but never has come about. This year appears to be no different as the recent data continues to suggest a slowing economy even while official government pronouncements offer a much rosier scenario, but you know what they say about rosy scenarios?

First, look at the current forecast from the Atlanta Federal Reserve Board for GDP growth in the 2nd quarter (current quarter) this year. They currently are estimating a rebound in growth to well over a 3% annualized rate. This is at odds with the data pouring in, and is reminiscent of their analysis several months ago which initially showed great optimism for the 1st quarter only to be adjusted down as actual data points overwhelmed the forecast.



In the present case let's examine the latest from the consumer sector: The latest report on spending plans which account for around 70% of the economy show a decline which has trended lower for many years. *The reason quite simply is the lack of real income growth as evidenced by the second chart below*. Real income today remains lower than it was several years ago, and while lower energy prices help, this is more than offset with Obamacare premiums and education costs, etc.





Therefore, retail sales are consistently disappointing and additionally are changing from department store sales to online sales (see 3rd chart next column for that). This is causing havoc for most retailers as we have highlighted and the store closings around the US is becoming a bigger story every day.

It doesn't stop there! Same store restaurant sales have now fallen three months in a row. This also calls into question the monthly additions supposedly coming from this sector. I doubt those additions are either real or if they are will be sustained as this trend continues.

Additionally, deterioration in credit card payments, student loan defaults and a surge in problem automobile loans is also getting some notice. Add to this the *absurd notion* that higher interest rates are needed to calm this economy down, and you have the makings for continued subdued economic activity.

All is not lost! Tax cuts are still in the future, but Washington DC now consists of the establishment of both parties fighting against the Trump Administration which continues to search for competence in terms of dealing with the Congress.

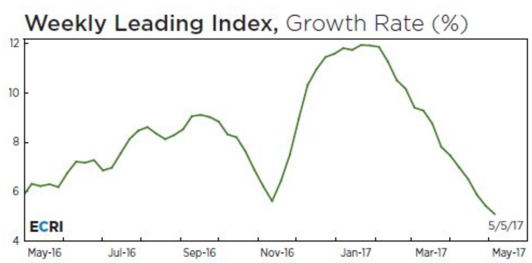
In addition, the rebound in the US energy industry and our ability to become energy independent in time is a win all the way around. This sector is now helping the US economy after being in retreat during the past two years. The latest pledge today by OPEC and Russia to continue their cutback in production is a public surrender to the vitality and efficiency of the US energy sector. This is a huge plus now AND longer term.

Thus, the picture is mixed! Therefore, stocks are stuck in the mud except for a handful of NASDAQ names. The broad-based stock rally ceased months ago and will require improved visibility on the economy to get going again.

What to Expect This Week

Very quiet on the news front both in terms of earnings and of the macro data. As always, news from DC on events can then have oversized reaction should they occur. President Trump takes his first foreign trip on Friday and that should produce some interesting coverage of the world's perspective to the change in leadership here in the US.

Finally, the weekly look at the ECRI's leading economic indicators shows it now hitting a 54 week low in terms of the annual growth rate. Again, nothing about this to project that accelerating growth is just around the corner.



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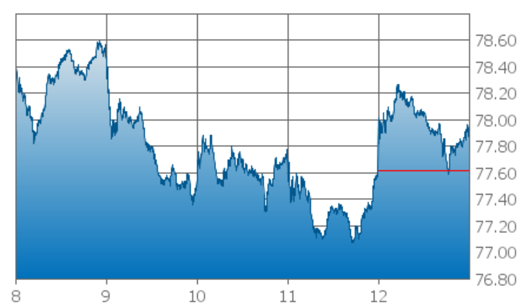
SYMBOL: NVS

Shares of drug maker **NOVARTIS** hit a new 52 week high, after reporting a strong first-quarter earnings report. NVS had core earnings of $1.13 per share, beating consensus estimates of $1.10. Revenues came in at $11.5 billion, roughly in line with estimates.

NOVARTIS operates under three segments: Pharmaceuticals, Ophthalmology, and Generics, all of which posted incremental gains. The Pharma division recorded sales of $7.7 billion, up 2 percent from the previous quarter. NVS's Ophthalmology division posted sales of $1.4 billion, up 1 percent. And sales in the Generic group were 2.4 billion, also up 1 percent. Chief Executive Joe Jimenez says he remains confident the Swiss drug maker will return to growth in 2018, as spending to promote new drugs start paying off. Shares of NVS are up 10 percent so far in 2017, and have received several price upgrades from the financial media recently. **NOVARTIS'** annual dividend yield is 3.4 percent.

SYMBOL: BA

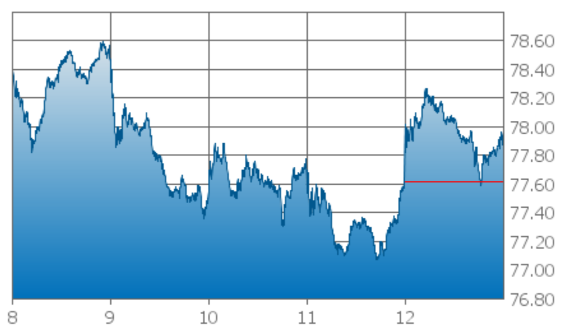


Shares of **BOEING** continue to climb, hitting new ALL-TIME HIGHS AGAIN LAST WEEK. The Aerospace giant reported adjusted earnings of $2.01 per share for the first quarter of 2017. That beat **Wall Street** estimates by more than 5 percent. The Company's revenues amounted to $20.98 billion during the three-month period.

BOEING reported world-wide commercial deliveries of 169 planes during the first quarter, which was down slightly as BA prepares to retool and launch a new version of its popular 737 jet. A key metric in evaluating **BOEING** is its order backlog. The number of signed contracts at the end of the first quarter grew, up to $479.5 billion, more than the $473.5 billion reported at the end of 2016.

Cash flow in the first quarter amounted to $1.63 billion, a $1.1 billion improvement from the same period last year. BA raised its full year earnings forecast, up to a range of $9.20 to $9.40 per share. Shares of **BOEING** have RISEN 39 PERCENT for investors over the past 12 months.

SYMBOL: D



Energy provider **DOMINION** also did better than expected with its first quarter numbers. Operating earnings increase 1 percent to 97 cents from 96 cents earned a year ago. The year over year increase is primarily due to higher revenues from regulated growth projects and lower electric capacity expenses. The quarter would have been even better if not for the negative impact of a mild winter weather season. President Trump wants the USA to become a global force in liquefied gas production, and **DOMINION** is well positioned to profit from an uptick in production of this energy source.

DOMINION's VIRGINIA POWER electric customer base increase by 24,832 from the prior-year quarter. The Company's cash position also improved in the first quarter to $1.36 billion, which is 14 percent higher than the year ago period. **DOMINION** reiterated its full-year earnings guidance in the range of $3.40 to 3.90 per share. **DOMINION's** shares have gained 8 percent in the past 12 months and pay investors an annual dividend yield of nearly 4 percent.