Tom McIntyre's
Weekly Commentary & Outlook

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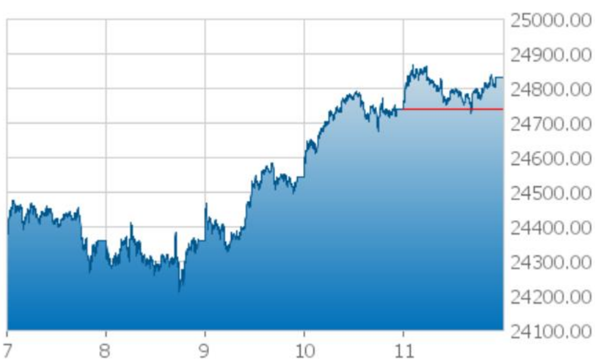
This is Tom McIntyre with another client update as of Monday May 14th, 2018.

Stocks have rallied for seven straight days as indications mount that trade war talk is just that and that the economy is still in "goldilocks" territory.



Dow 5-day

Nasdaq 5-day

As the charts above illustrate, both the **Dow Jones Industrial Average** as well as the **NASDAQ Composite** gained over 2% last week. For the 1st time in a while this puts the Dow in the green, slightly, for the year.

Markets & Economy

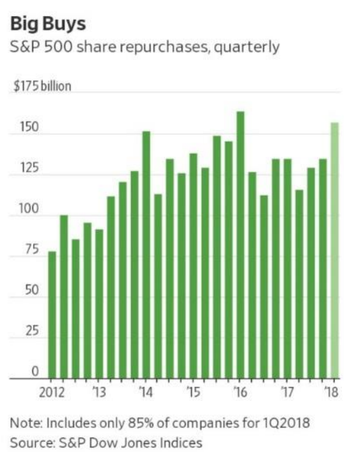
The economic data was benign last week. Wage growth remains soft and inflation data once again came in light despite the virtual non-stop warnings from Fed governors and their acolytes in the media that we were experiencing a break out in inflation. Whilst they blame this on oil prices that is an argument which doesnât hold any weight. When oil prices collapsed there were no calls for lower rates based upon temporary declines then in inflation.

In fact, the one constant, then and now, is the lack of wage growth. In the chart below, one can see that whether oil prices are collapsing or rising the impact on overall real wage growth is indistinguishable. Such being the case it should not be cited one way or another for reasons to explain the need for higher interest rates.

In fact, one argument which is incontrovertible is that higher energy costs in the economy at the margin hurt the purchasing power of the consumer.

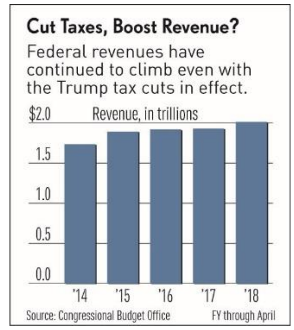
The answer then is certainly NOT to raise interest rates which would exacerbate the problems for consumers even further. Sometimes the lack of common sense let alone ability to analyze economic trends by the experts amazes me. One thing for sure is the markets have responded to the Fedôs five tightening moves by giving us the flattest yield curve since the 2008 recession. Hope the clowns there are watching.

Currently the economy is by all accounts doing well and perhaps better than in the Obama years but it is not booming. This is good news for the stock market. Iôve said many times this 2.5% growth economy is providing huge profits which have now been helped by the Trump tax plan. As a result, corporate buybacks are higher than ever and with Appleôs announcement last week ($100B buyback) this is a solid bid for stocks which has only gotten stronger.



For many years I have said this bull market in stocks has been hugely supported by financial engineering. This includes preferential tax treatment for dividends, buybacks and even merger activity. Nothing is changing here. We shall see if the economy does break out later this year or not.

Finally, one further note on the economy is shown in the chart below on tax receipts. The month of April saw a huge influx of money to the federal government which recorded its highest monthly surplus. Thatôs great news but sadly the trends in government spending is now on pace to grow just as strongly.

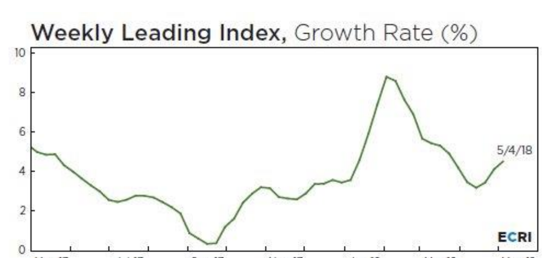


Clearly, two things emerge from this. First the naysayers concerning receipts from the Trump tax plan have been proven wrong just as they were for JFK, Reagan, and Bush. Second, the problems our country has with its deficits concerns the level of spending not the level of taxation. Ronald Reagan said this many years ago and it is without question the truth. Neither this country nor any other will ever balance its budget via higher taxes. Economic growth is the answer and for that you need lower taxes. Even Italy under its newly formed government this morning recognizes this and is proposing a 15% flat tax. Wish them luck as the bureaucrats in Brussels will be fighting them at every stage.

What to Expect This Week

Earnings season is over and we did great. This week will see many economic data points. The most important is tomorrowôs report on retail sales for April. Expect another disappointment. The usual reasons will be forthcoming such as the timing of Easter or the record cold month etc. but pay no attention to these reasons. The economy is doing fine but it is not experiencing the inflation threats that still permeate economic thinking from the 1970ôs and 80ôs.

Finally, the chart below of the ECRIôs leading economic indicators, no exciting trends here just more of the same. My fear though is the Fed manages to continue with their series of policy mistakes. Why not wait and gather more data instead of continuing with this self-fulfilling narrative in which they have embarked?



ENB one-year

Symbol: ENB

ENBRIDGE handed investors a double dose of good news last week. The leading energy infrastructure company beat estimates with a solid first-quarter report and took a leap forward in efforts to trim its debt by announcing substantial asset sales.

For the quarter, ***ENB*** showed improvements from several business sectors. Operating income from its liquid pipeline segment was up almost 23 percent from a year ago. ***ENBRIDGE's*** gas transmission and midstream segment more than doubled year over year. Adjusted earnings came in at 82 cents Canadian, higher than the year-ago quarter of 57 cents. Total revenues in the quarter rose 14.2 percent year over year.

ENBRIDGE agreed last Wednesday to sell its Midcoast Operating LP gas midstream unit for $1.12 billion. Another deal, involving renewable-power assets in Colorado, Nevada, and Germany will be netting the Company $1.36 billion. With the divestitures, ***ENB*** is making good on a goal of making substantial asset sales to whittle down the $14.5 billion in borrowings it made to purchase SPECTRA ENERGY. CEO Al Monaco says asset selling may continue this year, as he says ***ENB*** is getting ña lot of inbound interestò from other energy companies. ***ENBRIDGE,*** which goes ex-dividend today, pays investors a 6 percent annual dividend yield and will be increasing that dividend 10 percent over the next 2 years.

VOD one-year

Symbol: VOD

VODAFONE GROUP is increasing its footprint in Europe. ***VOD*** has signed an agreement with LIBERTY GLOBAL PLC to acquire LIBERTYôs operations in Germany, Hungary, Romania, and the Czech Republic. The deal has a total enterprise value of $22.7 billion. The deal is expected to close in mid-2019 and is subject to regulatory approvals from the European Commission. However, the sizable acquisition does not require approvals from shareholders of both companies.

CEO VITTORIO COLAO of ***VODAFONE*** believes the transaction will help European customers transition to a ñGigabyte Societyò and generate significant value for ***VOD's*** shareholders. ***VODAFONE*** plans to finance the deal using a mix of cash in hand, fresh debt, and approximately $3 billion in convertible bonds. ***VOD*** also pays investors an annual dividend better than 6 percent.

DUK one-year

Symbol: DUK

Two of our top utility holdings reported better than expected quarterly results. ***DUKE ENERGY*** beat Wall Streetôs estimates for its first quarter, earning $1.28 a share, 14 cents higher than analysts predicted. ***DUK's*** revenue of $5.32 billion for the first quarter was an increase over the Companyôs revenue of $4.95 billion which was reported in the same period of 2017. The major utility reaffirmed its 2018 guidance, saying they expect to earn between $4.55 and $4.85 per share. ***DUK's*** annual dividend yield is over 4.5% for investors.

D one-year

Symbol: D

DOMINION ENERGY did better in their first quarter as well. Operating earnings of $1.14 beat consensus estimates by 10 percent. The year-over-year improvement was attributable to higher merchant generation margins, normal weather in its regulated service territory, and the impact of tax reform. ***DOMINION's*** total revenues came in at $3.466 billion, 3.3 percent better than predicted.

The Company increased its base, adding almost 27,000 new customers from the prior-year quarter. The consumption of electricity by all customers increased nearly 8 percent which helped to offset total expenses increasing 12 percent year over year. ***DOMINION*** reiterated for the full year in the range of $3.80 to $4.25 per share. ***D*** pays an annual dividend exceeding 5 percent and is expected to raise its dividend again this year.