Tom McIntyre's

Weekly Commentary & Outlook

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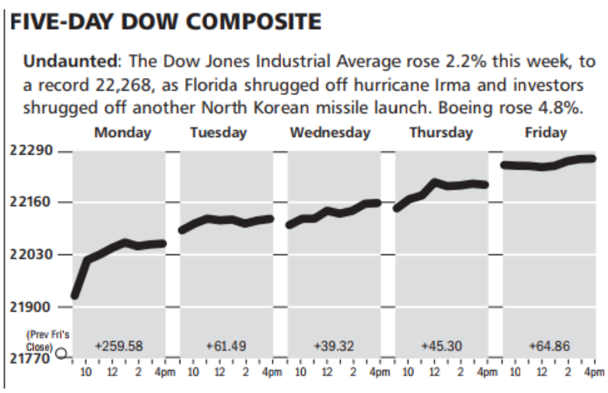
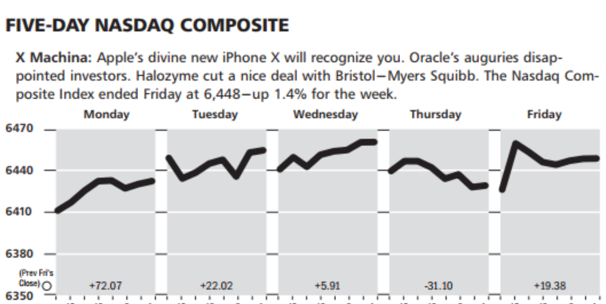
This is Tom McIntyre with another client update as of September 18th, 2017.

The last month of summer has produced continued rallies in stocks and bonds. Earnings are boosting stock prices while slower economic growth has rallied bonds and depressed the Dollar. These are bullish for investors but not so much for the rest of America.



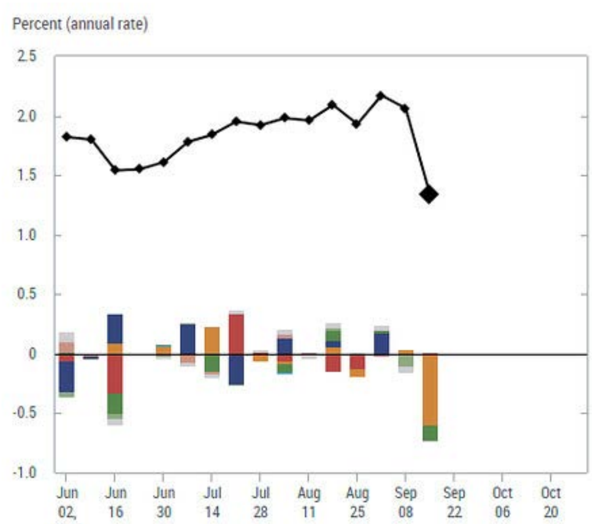


As the charts above illustrate the Dow Jones Industrial Average, as well as the NASDAQ Composite, have continued to rally despite natural disasters and no movement yet upon the Trump domestic agenda. The bears must be very disappointed.

Markets & Economy

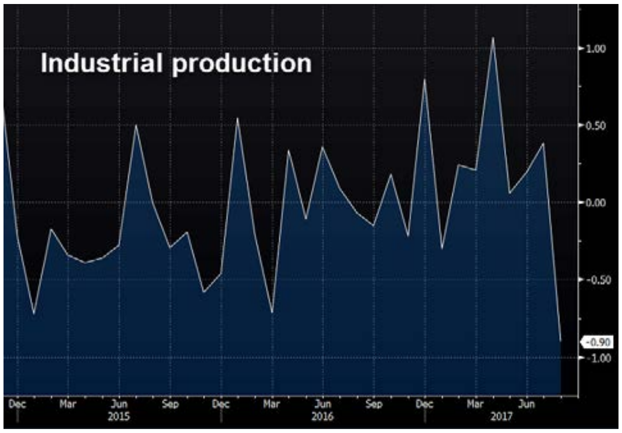
Over the past month, the economy has slowed and that was before the two natural disasters. While it is true that the 3rd quarter GDP report came in at an annualized 3%, that was a rebound from a weak Q1. For the rest of the year, everything is looking weaker but the rebuilding efforts in Texas and Florida will have various impacts.

Never the less the chart below shows how quickly the estimates for the current quarter are falling. This is also impacting a declining outlook for inflation. This trend has been so dramatic that even the brain-dead members of the Federal Reserve Board are now stating publicly (goodness knows what they say privately) that their forecasts have been wrong. That is no surprise to readers of this commentary.



The Fed is now following the bond market by dialing back expectations for any more interest rate hikes this year. Clearly, their rationale and timing have been very harmful to economic growth.

Look at the two charts below which show recent trends in industrial production and retail sales. Retail sales importantly is being impacted by slower automobile sales and importantly for the part-time job market the slowdown in restaurant business.



When you throw in the very disappointing jobs report for August (before the data for either hurricane) you can see how the future is cloudy but clearly getting worse.

For investors though the resultant decline in interest rates has been good for stock prices (see our updates in individual holdings below). The lower dollar is helping America's largest companies compete overseas and that too is helping buttress stock prices.

In other words, as we have been saying all this year, 2017 looks a lot like the Obama era. Apart from regulatory relief, there has been no policy changes from DC and in fact, the Fed has acted to restrict monetary policy for some bizarre reason which their members are now increasingly questioning.

Remember though that in a slow growing global economy the big firms have the advantage and our portfolios have many of them. At the same time for those firms not hitting their profit estimates this year has been very difficult. Just look at the collapse or bankruptcy of many famous retail names which were once thought of as blue chips. Slow and steady is key and financially strong names do better than those who need to come to market for financing.

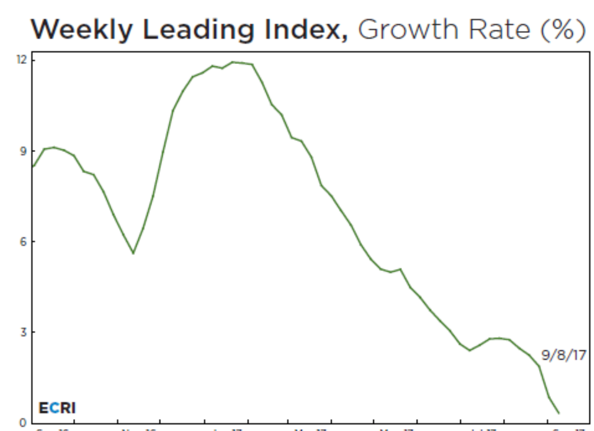
<u>What to Expect This Week</u>

President Trump goes to New York for United Nations meetings. Who knows what might come of this but we will watch as the problems of North Korea and terrorism have not gone away in the past month.

Additionally, the Federal Reserve Board has a two-day meeting culminating with their policy announcement and press conference on Wednesday. They have been defanged at this point as the slowing economy and rallying bond prices have basically check mated any prospects for their continued stance of raising rates.

They cannot raise rates simply because the market will interpret that as actually raising the prospects of a recession next year. That is why the four hikes over the past twelve months has produced the lowest mortgage rate of the past twelve months. The markets have checkmated the Fed once again.

Finally, our latest look at the ECRI leading economic indicators shows nothing in their data to think the economy is going to break out of its 2% GDP range.



Tax reform, if it can be passed, could be transformative but we are a long way from that. The political will to accomplish this has not been demonstrated to me up to now.

BOEING

Symbol: BA

Biogen

Symbol: BIIB

The sky's the limit for BOEING these days. Stock of the world's #1 commercial jet maker hit a fresh all-time high last week after the CEO said BA will increase production of its 787 DREAMLINER. Dennis Muilenburg said 787 outputs will rise to 14 per month in 2019 from the current pace of 12 per month. BOEING recently lifted its operating cash flow guidance for 2017 to $12.25 billion from $10.75 billion. Muilenburg said the increase is "another signpost of the strength of the marketplace" for the Company.

The orders continue to come in as MALSYSIA has agreed to buy 10 of BOEING's 787-9 aircraft and our Navy signed a deal to spend $677 million to buy 14 F-18 fighter jets. Shares of BA are the best-performing component this year on the Dow Jones Industrial Average. Over the past 12 months, BOEING shares have risen an eye-popping 95 PERCENT!

Shares of BIOGEN have been on an upward tear recently. BIIB ascended to a fresh 52-week high after results from its Alzheimer's disease treatment showed promise at the two-year and three-year marks. Data from a long-term study of ADUCANUMAB is proving to be of continued benefit in the rate of decline of amyloid deposits in patients with prodromal or mild Alzheimer's.

A common theory ties Alzheimer's to the buildup of plaque deposits in the brain. BIIB is among those bio-tech companies working on drugs to reduce those amyloid deposits. BIOGEN plans to share more data at an upcoming medical congress. The Alzheimer's disease market represents a huge commercial potential and a successfully developed product could generate billions of dollars in sales once launched. Shares have risen 23 percent so far in 2017, with most of the gain coming over the past three months.

Walmart
Save money. Live better.

Symbol: WMT

The battle for online grocery supremacy continues as WAL-MART announced it has opened its 1,000th online grocery pickup location in Seattle. The service, first launched by WMT in Denver in 2013, allows customers to order groceries from a selection of more than 40,000 items online, then pick them up through kiosks in the parking lot, modeled in a similar fashion as a gas station. WAL-MART's fiscal second-quarter earnings shows it is succeeding in its efforts against AMAZON.com. The Company reported adjusted earnings of $1.08 per share, exceeding Wall Street's expectations. The world's largest retailer posted revenue of $123.36 billion in the period, also beating Street forecasts. WMT expects full-year earnings in the range of $4.30 to $4.40 per share. WAL-MART's stock has gained 16 percent so far in 2017 and pays investors an annual dividend yielding over 2.5 percent.

Dominion Energy

Symbol: D

The chief executive officer of DOMINION ENERGY says to look for the Company's dividend to increase substantially in the very near future. CEO THOMAS F. FARRELL, II, says DOMINION believes it has the solid financial footing to raise its dividend by 10 PERCENT PER YEAR, beginning in the fourth quarter of 2017 through 2020, subject to approval by the board of directors.

DOMINION expects to receive between $7 billion and $8 billion in cash contributions from DOMINION ENERGY MIDSTREAM (DM), of which it is the general partner. These contributions include general partner cash flows, limited partner cash flows and proceeds from asset dropdowns. Last week D's board of directors declared a quarterly dividend of 75.5 cents per share of common stock, payable on September 20th. That dividend payment is 8 percent higher than the 70 cents per share dividend paid in September of 2016. DOMINION's current annual dividend yield is nearly 4 percent already.