Tom McIntyre's Weekly Commentary & Outlook

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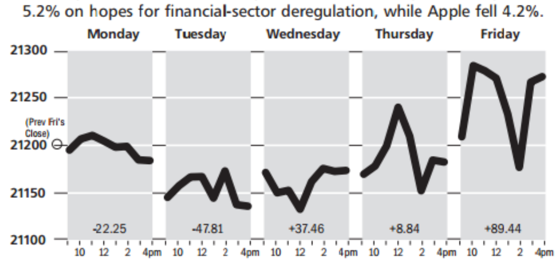
This is Tom McIntyre with another client update as of Monday, June 12th, 2017.

Last week was a strange one given the sector rotation which seemed to dominate the trading. Energy stocks may have bottomed while the highflying NASDAQ stocks stumbled badly on Friday and are lower again this morning.

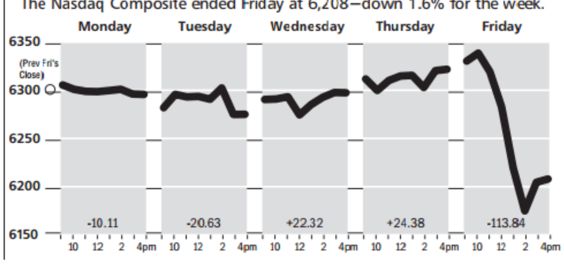
FIVE-DAY DOW COMPOSITE

Storm Meet Rock: The Dow rose 0.3% last week to finish at an all-time high, even as the Nasdaq got clobbered. JPMorgan Chase gained 5.2% on hopes for financial-sector deregulation, while Apple fell 4.2%.



FIVE-DAY NASDAQ COMPOSITE

Sky High: Alibaba's growth forecast lifted shares of its 15%-owner, Yahoo!. Bitcoin computing hopes boosted chipmakers Nvidia and AMD. The Nasdaq Composite ended Friday at 6,208–down 1.6% for the week.



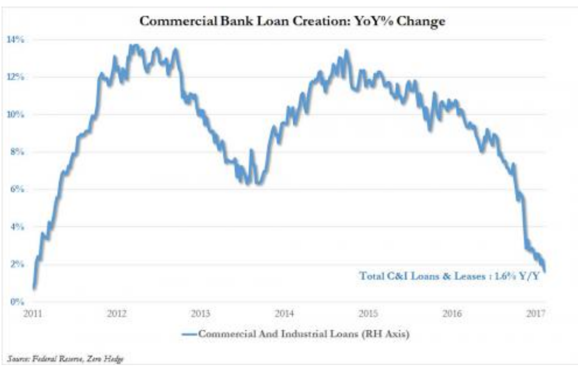
Overall though, the markets held up as evidenced by the charts which show the Dow Jones Industrial Average slightly higher on the week while the NASDAQ Composite fell 1.6% for the week considering Friday's key reversal of sorts.

Markets & Economy

The news for markets was not good last week. Congressional testimony combined with unexpected election results from the UK have called further into question just how much of the Trump economic agenda this Congress either will, or is even interested in passing. This combined with the continued poor economic data (for the most part) has brought down estimates for economic growth for this year. In fact, it is so bad that many pundits are now publicly wondering why the **Federal Reserve** is poised to raise rates when they meet this week (more on this on the next page).

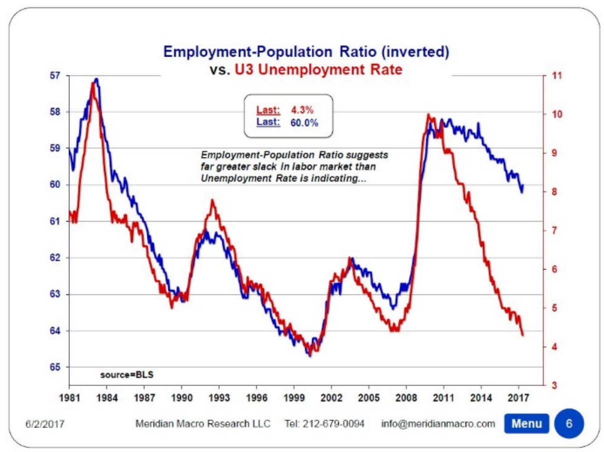
With earnings season over the debate in investor's minds is the outlook. The price of most things, such as energy, has been falling despite OPEC production cuts and the energy sector has underperformed the market until last Friday. On the other hand, the high-flying NASDAQ stocks were being priced upon some future notion of growth which is being called into question. Thus, we are getting some sector rotation.

For my mind, the economy is soft and not improving. The best evidence for this is the chart below on loan growth. It is now rolling over. Whenever this happens, a recession cannot be ruled out. Raising the price of loans (through higher interest rates) in the absence of demand for loans is a pretty basic "NO-NO" but the **FED** seems willing to do it.



In fact, the economic data has been going in the negative direction while the market's estimate of the likelihood of higher **FED** induced interest rates have been increasing. See the chart below for a graphic illustration of what I am talking about. You don't need to be an expert on the economy or the **FED** to ask yourself why would this tighter monetary policy be implemented now.

For some reason, the **FED** just lives and dies off that monthly employment number which is a meaningless statistic. The chart, referenced in the next column, shows why. It shows the percentage of the working age population employed. It is down to 60% from nearly 66% some ten to fifteen years ago. The bevy of government programs have now created an under society which no longer needs to work and they don't. But our government doesn't count these people as being in the labor force and thus it produces this phony "low" employment rate of 4.3%. The reality is quite different and that is why incomes are not growing, retail sales have been disappointing and market determined longer term rates have been falling.

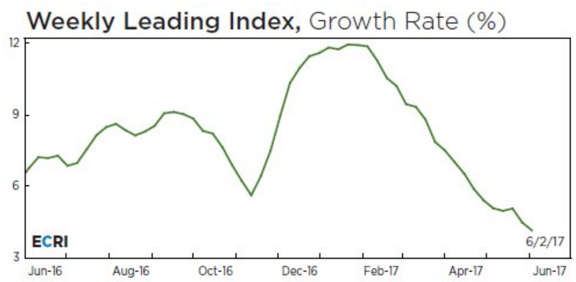


Mortgage rates hit a nine-month low last week despite the **FED**'s missteps of policy. Thus, in every way possible the markets have told the **FED** to stop but it seems certain that they don't want to admit the error of their ways. This will serve to limit us to another year of dismal economic growth unless the Trump agenda is implemented and that, of course, is caught up in the daily soap opera which exists in our nation's capital.

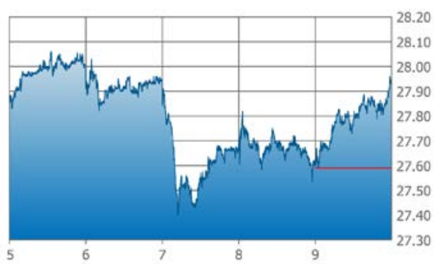
<u>What to Expect This Week</u>

There will be much news reported on the economy including retail sales, housing starts etc. However, the **FED** announcement on Wednesday will be the catalyst for the week. So far they have dismissed the economic weakness as "transitory". If they would indicate more concern that would be positive for the markets. We shall see.

Finally, the weekly look at the ECRI's chart below of the leading economic indicators shows the growth rate now hitting a 59-week low. So, there is not much to cheer for here either.



SYMBOL: GE



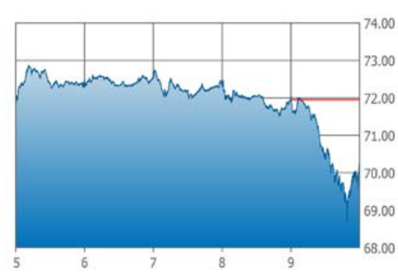
A much-awaited event for GENERAL ELECTRIC has taken place. Finally, after much speculation, GE has confirmed Jeffrey Immelt will be stepping down from his post after 16 years as chief executive and chairman of the manufacturing conglomerate. Immelt will be replaced by John Flannery, current President and CEO of GE Healthcare, effective August 1st.

Immelt was instrumental in helping GE navigate thru the financial crisis and changed the Company's direction by decreasing the focus on GE Capital and bringing it back to its roots. GENERAL ELECTRIC officially says "the leadership announcements are the result of a succession plan that has been run by the GE Board of Directors since 2011". Investors have become increasingly dissatisfied with several decisions Immelt had made in his long tenure which brought mixed results for the Company and a lower share price than when he assumed the reins back in 2001.

GENERAL ELECTRIC will be dimming the lights on part of its lighting empire soon. GE has formally started discussions with buyers on a sale of its Lighting unit, as the Company seeks to streamline its portfolio and focus on its core digital industrial assets. GE Lighting includes the Company's residential LED business and its traditional lighting products business.

The expected sale won't include its professional "CURRENT" lighting business unit, which provides more advanced energy technologies and digital networks to make commercial buildings and industrial facilities more energy efficient and productive. The Company says they may sell different parts of GE Lighting to various buyers. GENERAL ELECTRIC's stock pays investors a 3.5% annual dividend yield and moved 4 PERCENT HIGHER on today's Immelt announcement.

SYMBOL: MSFT

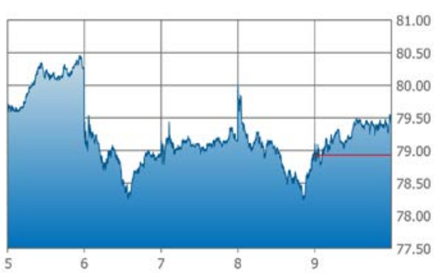


MICROSOFT continues to beef up its cyber security division. Last Thursday, MSFT acquired HEXADITE, a U.S.- Israeli provider of technology to automate responses to cyber-attacks. Financial terms were not disclosed but reports say MSFT paid upwards of $100 million for the company. HEXADITE will enable MSFT to add new tools and services to the Company's enterprise security offerings. MICROSOFT said earlier this year it plans to invest more than $1 billion annually on cyber security research and development in the coming years.

Separately, MICROSOFT is partnering with QUALCOMM (QCOM) to develop server chips. The goal is to challenge INTEL's supremacy in the data center processor market. Earlier in 2017, MSFT teamed up with QUALCOMM to accelerate AZURE's next-generation cloud services. If QCOM can provide MSFT with lower-priced processors, MICROSOFT could reduce its cloud data center expenses. For QUALCOMM, the partnership is a strategic move to lower its IT costs while strengthening its place in the cloud computing market.

Walmart

SYMBOL: WMT



WAL-MART keeps innovating its product delivery systems to get ahead of AMAZON for online groceries supremacy. WMT's new strategy to drive online grocery orders involves erecting a 20-by-80-foot building in a WAL-MART Supercenter parking lot that will serve as an automated kiosk to dispense grocery orders 24 hours a day.

According to the Company, this giant kiosk will be able to fulfill hundreds of orders a day, as customers pull up to the building, enter a pickup code and have their order automatically retrieved within a minute, at no extra charge.

The first American test store utilizing this concept is in Oklahoma City. WMT has also tried out the strategy in the UNITED KINGDOM. Shares of WAL-MART hit a new 52-week high last week and are trading 16 percent higher so far in 2017.