Tom McIntyre's
Weekly Commentary & Outlook

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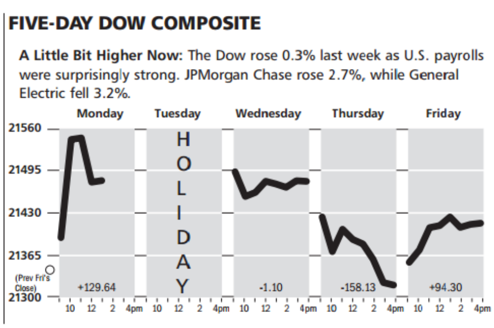
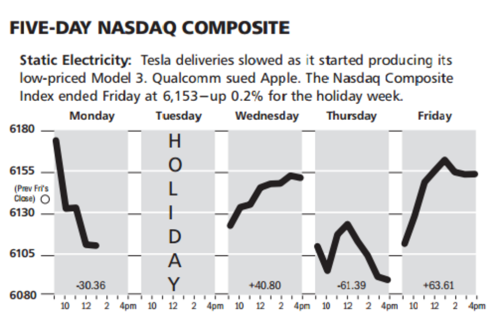
This is Tom McIntyre with another client update as of Monday, July 10th, 2017.

Markets have been marking time the last few weeks. Holidays, concerns about President Trump's economic agenda and dealing with potential Federal Reserve moves have all served to place stocks on hold until earnings season begins later this week for the 2nd quarter.



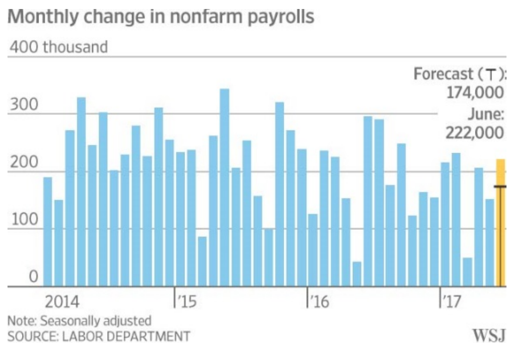


As the charts above illustrate, both the Dow Jones Industrial Average as well as the NASDAQ Composite rose fractionally last week amidst quiet trading around the Independence Day holiday on Tuesday.

Markets and Economy

Sadly, very little has changed in the past few weeks. The concerns then have not been alleviated. If anything, they are becoming more of a problem given the lack of progress on the Trump agenda by a Congress controlled by his own party. This has redefined the notion of DC gridlock. On the other hand, it often has been said that markets like gridlock. Frankly, stocks continue to hold their own but individual air pockets such as the retail and restaurant sectors are feeling the pinch of a tapped-out consumer. This notion gets little attention in the press as the narrative perpetuated in DC is that our economy is undergoing something of an inflection point of growth. That is not happening.

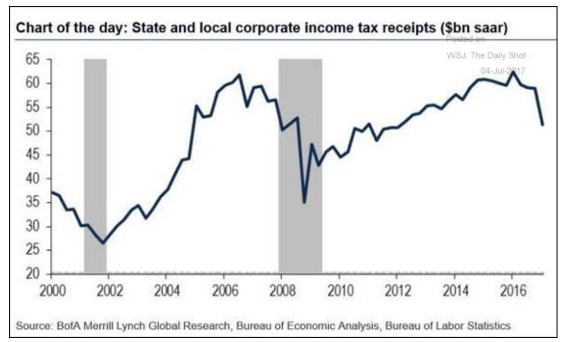
Friday's employment report was "better" than expected, or was it? You can see from the two charts on the next page that some 222K new jobs were supposedly created with the official unemployment rate moving slightly higher to 4.4%. Sounds great, but really it's just more of the same. The second chart shows the meager gains in average hourly earnings reflecting the poor mix of minimum wage and part-time jobs which have served as the hallmark of this recovery for the past several years.



Absurdly, Friday's report continued to show gains in retail and restaurant sectors. These two areas are declining severely and all one must do is read the news to understand the reasons. America is over built with retail stores and places to eat. The competition is enormous and is compounded by the lack of income growth to support the ambitious plans of these chains to expand. This trend is going to persist for a long time.

Even the consumption of gasoline, which costs less than at any time since the summer of 2005 (without adjusting for inflation), has fallen significantly below levels of last year. Something is not right about this economy and the pundits don't really want anyone to know it.

Finally, look at the chart in the next column on government receipts. They are falling off a cliff recently. This simply doesn't jive with the notion of jobs and income growth which the media happily talk about daily. As of last count, at least seven states have not been able to agree to a new fiscal year budget due to unexplained declines in their revenue collection. Of course, Puerto Rico is already bankrupt, Illinois is soon to follow and even last week the city of Hartford, Connecticut hired bankruptcy counsel. If these jurisdictions are having these problems when employment is supposedly this strong, what happens during the next slowdown? Of course, it is also a reflection of the growing number of government dependents that have been created which in turn explains why so many people (95 MILLION) who are of working age are not considered to be in the labor force. They do, however, get consideration for government programs which cost money.



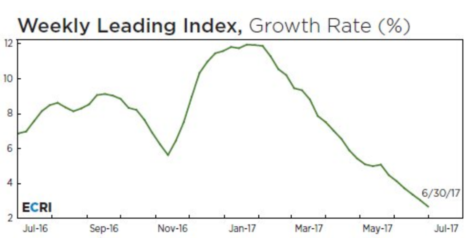
Perversely, while Trump's growth agenda goes nowhere in Congress, the Federal Reserve has convinced itself and the business press of the narrative of "normalizing policy". This is code for they want higher interest rates and to reverse their previous policy of quantitative easing. All of this at a time when debt in this country has reached record levels. This debt has begun to experience worrisome performance now especially in student debt, auto debt, and even credit card debt. I believe the **FED** has already made a policy mistake that is showing up in the decline in inflation numbers which we have been reporting on these past several months. Should their error, combined with the lack of tax cuts, bring about a recession these **FED** members will be gone and the blame will go to President Trump. Janet Yellen's term as Chairman of the **FED** expires next February. She should not be taking such aggressive steps while she sat on her hands for four years during the Obama administration. The numbers on the economy just don't support her newfound get tough policy. But what does she care? She will be gone in six months.

What to Expect This Week

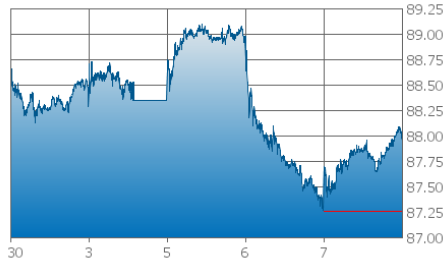
Some banks kick off earnings season late this week. They have already previewed a difficult quarter given lack of loan growth etc.

There will be many economic data points this week as well including Friday's retail sales. As we have noted for months the data no longer matters. It is the **FED**'s interpretation of it and its forecasted policy moves which dictate the market's attention. To that end, this week's testimony from FED Chairman Yellen to Congress on Wednesday and Thursday will be important. To date, all the evidence of weakness both in terms of growth and decline in inflation has been termed "transitory". Of course, transitory has been going on for several years now but it is their way of ignoring what they want. Instead, Yellen will focus on the bogus unemployment rate and use this as a crutch to justify higher rates and the shrinkage of the **FED**'s balance sheet. Neither of which should go on while the outlook for the economy is in question. Remember too, her other justification for action is the **FED**'s forecasts which should also cause you to think back on how horribly wrong these forecasts have been over the years.

Finally, the graph below from the **ECRI** on their view of leading indicators shows a fall to a 64-week low. Thus, no love coming from that direction either.



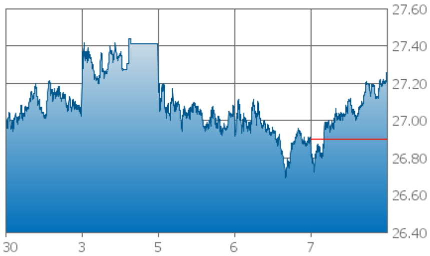
Symbol: MDT



Shares of **MEDTRONIC** got a boost after the Company raised its dividend and increased its stock buyback program. **MDT**'s board of directors approved a 7 percent increase in its quarterly cash dividend, raising the quarterly amount to $0.46 cents per ordinary share. This marks the 40th CONSECUTIVE YEAR INCREASE IN THE DIVIDEND PAYMENT for the Company. **MDT**'s dividend per share has nearly quadrupled over the past decade and has grown at a 17 percent compounded annual growth rate over the past 40 years. The new dividend is payable on July 26 to shareholders of record on July 7th.

At the same time, **MEDTRONIC**'s board authorized the expenditure of up to $5 billion for new share repurchases. The authorization replaces the previous 2015 repurchase plan. There is no specific time period associated with this new buyback. Shares of **MEDTRONIC** have rewarded investors, trading 23 percent higher so far in 2017.

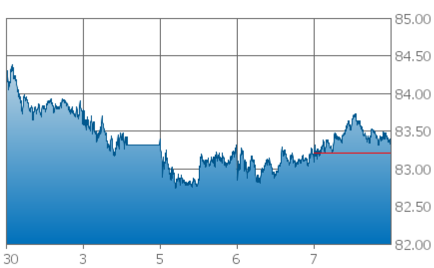
Symbol: EPD



ENTERPRISE PRODUCTS PARTNERS is raising its payout too. **EPD**'s board declared an increase in its quarterly cash distribution paid to partners to $0.42 cents per common unit, or $1.68 per unit on an annualized basis. This distribution, which represents a 5 percent increase over the distribution declared with respect to the second quarter of 2016, is the 61st distribution increase since **ENTERPRISE**'s initial public offering in 1998, AND THE 52ND CONSECUTIVE QUARTERLY INCREASE.

EPD's annual distribution rate is over 6 percent for current unitholders. The Company will announce its earnings for the second quarter of 2017 on Tuesday, August 1st.

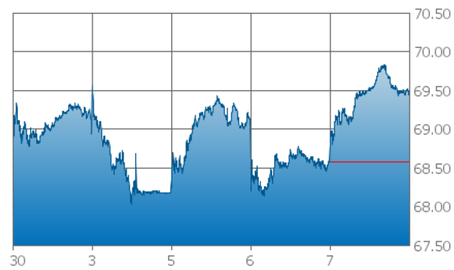
Symbol: DUK



Not to be outdone, **DUKE ENERGY** announced Friday THEY TOO ARE RAISING THEIR DIVIDEND for investors. The North Carolina power generator is lifting its quarterly dividend to .89 cents, a 4 percent increase. **DUK** will make the new dividend payable on September 18, to shareholders of record at the close of business August 18th.

This marks the 91st CONSECUTIVE YEAR in which the Company has a paid a dividend. The payout rate per share has increased by more than 30 percent since 2007. Shares of **DUKE ENERGY** have risen more than 7 percent so far in 2017, with an annualized dividend rate of 4.27 percent.

Symbol: MSFT



MICROSOFT confirmed a small round of layoffs last week. This is the latest move to re-align according to its most promising businesses. Upwards of 3,000 sales jobs could be trimmed, with most occurring outside the U.S.A. The layoffs are part of a larger plan to refocus the sales staff on selling cloud computing services. Over the past several years, **MSFT** has turned its focus toward cloud computing as it pivots away from the sluggish PC market and its legacy software business. **MICROSOFT** doesn't give specific revenue figures for its cloud computing platform AZURE but said in its most recent earnings report that AZURE revenues grew 93 percent. As of March, **MSFT** employed a workforce of over 120,000. Shares of **MICROSOFT** have risen 33 percent over the past 12 months.