Tom McIntyre's

Weekly Commentary & Outlook

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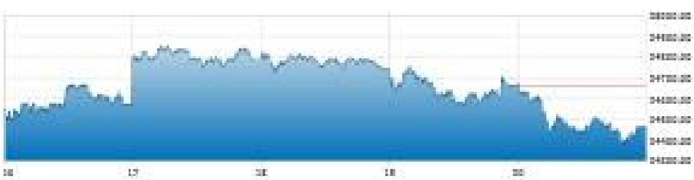
This is Tom McIntyre with another client update as of Monday, April 23rd, 2018.

Stocks have spent the month of April concerned about macro things such as monetary policy, trade disputes and inflation. In other words, depending upon the day, the mood can swing 180 degrees from the previous.

Dow Jones Industrial Average 5-day



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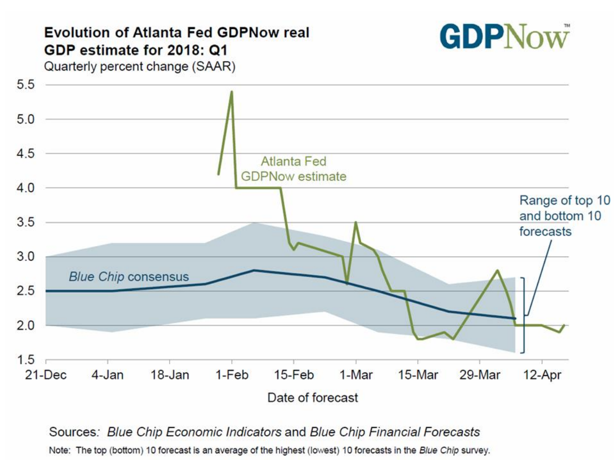
Nasdaq Composite 5-day

As the charts above illustrate, last week saw both the ***Dow Jones Industrial Average*** and the ***NASDAQ Composite*** gain fractionally but on a year-to-date basis the Dow is down slightly while the NASDAQ is up slightly.

Markets & Economy

We have now entered 1st quarter earnings season. The March quarter which started out with the Atlanta Fed estimating a 5% growth rate, which we thought was absurd at the time, has now ended with most economists looking for just a 2% growth rate or perhaps even lower.

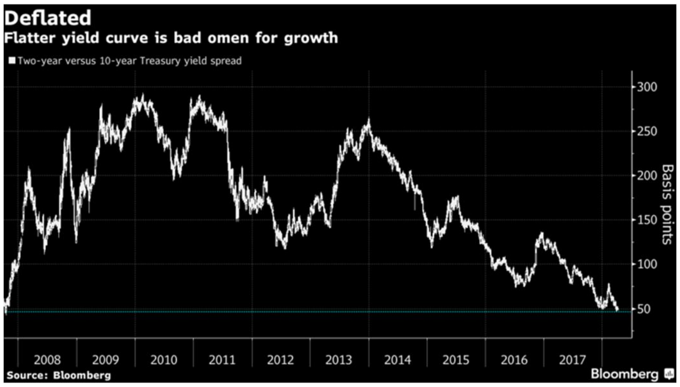
The latest estimate from the Atlanta Fed is shown below, for what that is worth.



During this unremarkable quarter, the financial press has treated us to a non-stop narrative which is summed up as follows: the economy is at full employment or beyond (thatôs a joke), inflation is threatening to come back (largely based upon oil prices which no one pays attention to when they decline but they do when they recover) and the Fed must act to reign in all this economic activity which will be either helped by the tax cuts or hurt by the tax cuts (depending upon the day).

As you can see most if not all the commentary coming from the financial press is pure garbage. Even worse it is the sort of garbage they have been spewing forth for ten years starting with the Federal Reserve. I simply point to the record. Inflation targets while predicted have come in below for as long as I can remember. Economic growth forecasts are always great somewhere down the road but in the here and now we always have excuses for sub-par growth. The markets deal discount the future via their investment choices. Thus, it passes judgement via asset prices every day.

The chart below graphs the yield curve. It has been declining to an almost inverted status. This is the market saying to all the above narratives that it doesnât believe them. It doesnât believe the Fedâs forecasts for growth or inflation. As a result, it views the 5 interest rate hikes over the past 18 months with concern. Even more so it DOES believe the Fed wants to and will hike rates into the future thus slowing growth even further. Thus, the longer end of the yield curve is falling giving you the prospect of the yield curve becoming inverted. Donât let anyone convince you that this would be good.



President Trump should be very concerned, not with the price of oil recovering as that creates jobs and exports, but with why the Federal Reserve insists upon hiking rates repeatedly even while the economy has NOT broken out of its sub-par growth of the Obama years. Remember, President Obama benefited from an accommodating Fed while Trump maybe having to overcome a serious policy mistake. Should the economy struggle then the media will blame Trump and tax cuts when the real culprit would be the Federal Reserve, as is true in most business downturns.

Clearly, I donât expect this will happen but neither do I expect this nirvana which now represents the consensus of economic forecasts. Earnings are rising but these macro worries have put stocks on hold for now.

What to Expect This Week

Earnings will flow strongly this week. There will be economic news but the biggest will come on Friday with the 1st report on Q1 GDP growth. While that is looking backwards it will provide some basis for establishing economic expectations going forward. Anything above 2% would be good news.

Finally, the chart below from the ECRI, concerning their index of Leading Economic Indicators, continues to show a rolling over of growth expected until the end of the year. This is not what pundits are making the case for but it does seem to be what the bond market is thinking. Over the last nine years since the market bottom in March of 2009 we have been treated to this fake growth/inflation scare about six times. I expect this year to be no different. Of course, as I remind people, markets favor below trend growth. It keeps the Fed at bay and allows for financial engineering to thrive.

Blackstone

Johnson & Johnson

Symbol: BX

Symbol: JNJ

BLACKSTONE GROUP beat Wall Streetôs expectations with its first quarter earnings report and announced a tripling of their share buyback program. Economic net income was 65 cents per share during the quarter, which handily beat estimates of 46 cents. ***BX*** posted total revenues of $1.77 billion, also better than called for by analysts.

Although overall economic net income of $791.7 million was down from 2017ôs first quarter, fee-related earnings were higher, to $332.9 million from $290 million. ***BLACKSTONE's*** total assets under management stood at a record-high $449.6 billion as of March 31st, with total dry powder to engage in future deals up to $92.8 billion.

BX declared a quarterly distribution of 35 cents per common unit, which will be paid on May 7th. The Company also announced a SPECIAL DISTRIBUTION of 30 cents, which will be paid out over the next three quarters to unit holders.

Revenues at ***JOHNSON & JOHNSON*** jumped 12.6 percent higher during the first three quarters of 2018, helping the health care giant beat analystôs earnings projections. The maker of baby products, medical devices and the immune disorder drug Remicade had net income of $4.37 billion or $1.60 per share on revenues of $20.01 billion.

J&J's three business segments all posted healthy gains. Sales of prescription drugs soared 19.4 percent to $9.84 billion. The consumer products division posted gains of 5.3 percent to $3.4 billion, with sales of beauty products leading the way, up 10 percent. In the medical devices area, which includes contact lenses, artificial joints and surgical devices, ***JOHNSON & JOHNSON*** reported a 7.5 percent uptick in business. The Company forecast full-year earnings in the range of $8 to $8.20 per share, with revenue in the range of $81 to $81.8 billion.

Symbol: BA

Talk of trade tariffs between AMERICA and CHINA created a somewhat bumpy ride for investors of ***BOEING***, but the aerospace giantõs stock has remained resilient thru Wall Streetõs recent turbulence. Shares of ***BA*** have trended higher in the weeks following the announcements as investors brush off worries that ***BOEING*** will suffer from proposed Chinese import fee hikes.

China is experiencing an airline expansion boom, meaning that nation needs ***BOEING's*** planes now more than ever. Itõs estimated that only about 3 percent of ***BA's*** aircraft backlog for 2018-2019 is for Chinese customers, which represents earnings and revenue of 4 to 5 percent overall. Moreover, with substantial deposits already made on 2018 orders by Asian buyers, odds are improving that there wonõt be many near-term cancelations. Chinese Airlines may simply swap their orders for 326 NG aircraft, to orders for the 737 MAX jet, which would skirt the tariff, meaning even less impact to ***BOEING's*** bottom line. Over the past 12 months, shares of ***BOEING*** have gained more than 89 percent.

Symbol: EPD

The Board of Directors at ***ENTERPRISE PRODUCTS PARTNERS*** will be raising the quarterly distribution for unitholders, AGAIN. The new quarterly distribution will be 42.75 cents per unit, representing a year-over-year hike of 3%. The increased distribution, which on an annualized basis translates to a distribution of $1.71 per unit, will be paid on May 8th to unitholders of record as of April 30th.

The hike marks the 55th CONSECUTIVE QUARTERLY DISTRIBUTION INCREASE by The Partnership, and the 64th distribution raise overall since ***EPD's*** initial public offering in 1998. The current yield on ***ENTERPRISE PRODUCTS PARTNERS*** is 6.4 percent.