Tom McIntyre's Weekly Commentary & Outlook

McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday July 2nd, 2018.

Financial markets are dealing with a lot of macro noise issues. Such as elections, political scandals or intrigues, fantasies about trade wars. All in a vacuum of underlying fundamental data. Hence the daily swings which are hard to explain.

One thing I feel is likely is that global growth rates have already seen their peak for this year and most likely next as well.

DOW 5-day

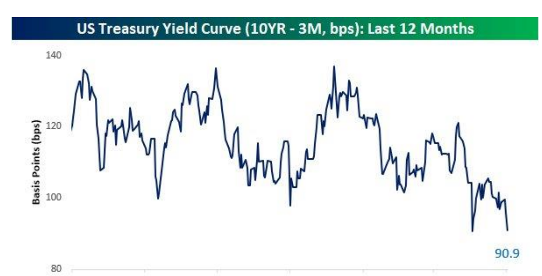
Nasdaq 5-day

As the charts above illustrate both the ***Dow Jones Industrial Average*** and the ***NASDAQ Composite*** declined last week by 1.3% and 2.4% respectively.

Markets & Economy

While the media fixates on the looming trade disputes (which I donĉt think will ultimately occur) there is something which has been going on for 18 months which does impact the global economy. Namely, monetary policy in the US which has been tightened 7 times since the election of Donald Trump. This has produced a very strong dollar which has eviscerated gold and emerging markets (i.e. China) and is producing a global slowdown in economic activity.

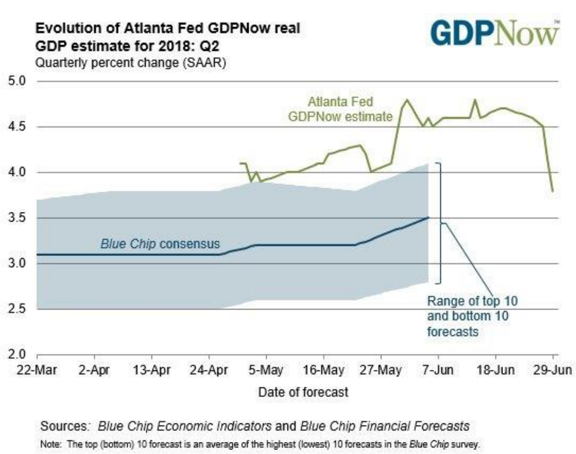
The EU remember, reported just a .4% growth rate in their 1st quarter. Japan has already gone negative and is the worldĉs 3rd largest economy. The yield curve continues to compress with every hike by the Fed (see chart below comparing the spread between the 10-year bond & short-term bill yields). The danger of an inverted yield curve is higher today than in many years.



Even Fed board members are now acknowledging this unwelcome development. Of course, as I have previously said, should a pronounced slowdown happen the media will blame Trump and his trade disputes. This even though the Fed has been having a very depressing impact on global economic growth since the day Trump was elected. Hence the blame will be misplaced but try and explain that to anyone. If I were President Trump I would pay much closer attention to the Fed than to OPEC for instance.

Oil prices haven't risen because OPEC is rigging the price. They have moved higher as demand over the past four years increased while development of oil reserves collapsed, as discussed in previous updates. In fact, given the problems in major OPEC nations such as Iran, Libya and Venezuela there simply is not that much spare capacity left in the world. Prices need to go up. Investments need to be undertaken and more oil must be found and economically developed. Only demand destruction via a sharp global economic pull back could temporarily change this. This is not likely to happen.

There was further evidence of these trends last week. The 1st quarter GDP was revised down to 2%. Even more important, the Atlanta Fed has lowered its reading of Q2 (see chart below) to 3.8% which is a drop of over one percent in a week. Pretty amazing given the quarter is over now. What other group of forecasters could be so wrong as at the Fed? To think that it is these kinds of bad forecasts which had the Fed embark on a tightening policy for nearly two years. Given the lag time of policy, it might just be kicking in now. Last week's report on pending home sales for May in the US was a huge disappointment. This might be revealing because housing is both interest rate sensitive and the month of May is just about the best month for home sale activity. It doesn't get better for the industry the rest of the year.



All in all, it is time to stop and see just where this economy is going. While it is true that the inflation rate finally hit the Fed's goal of 2% after 6 or 7 years of forecasting, it is likely that it does not go higher if the global economy is peaking as I believe it is.

This explains why interest rates refuse to follow Fed policy and if a real trade war develops that will just make things worse. Trump knows this and I believe he will not do anything stupid. People under estimate him at their peril but still do it all the time.

What to Expect This Week

The 4th of July holiday occurs on a Wednesday this year. Thus, most of the week's action will be today. The rest of the week will be holiday impacted to one degree or another. No earnings this week but we do get an employment report to play with on Friday which might make for interesting reading. In any case, we will update you in two weeks.

Enjoy the 4th everyone.

NVS 12-month

GSK 12-month

Symbol: NVS

Shares of ***NOVARTIS*** moved higher last Friday after the company announced plans to spin off its ALCON EYE CARE business to shareholders and buy back up to $5 billion in stock. The move is an effort to refocus the Swiss group on prescription drugs. The ALCON unit, which was bought in 2011 expanded into implantable lenses for cataract sufferers, surgical devices and contact lenses. ***NVS*** made massive investments into ALCON to reverse falling sales and losses, although revenue is again growing as it posted a $90 million first-quarter operating profit.

Once the unit is spun off and distributed among investors, ALCON will have its main listing and headquarters in Switzerland, where it would be a contender for the benchmark Swiss Market Index, SSMI. ***NOVARTIS*** plans to seek shareholder approval for the spin-off next February. The buyback is due to wrap up by the end of next year. Since 2013, ***NVS*** has exited vaccines, dumped its animal health business and this year unloaded its consumer health joint venture with GLAXOSMITHKLINE for about $13 billion. ***NOVARTIS'*** annual dividend yield for investors is 4 percent.

Symbol: GSK

Speaking of ***GLAXOSMITHKLINE***, the company is facing a good problem: unprecedented demand for its new shingles vaccine SHINGRIX. While more than 1.5 million Americans have received the medication since the end of last year, others are having to wait, prompting the U.S. Centers for Disease Control and Prevention to warn of shortages. ***GSK*** says it has increased deliveries significantly and have been vaccinating people against shingles far faster than in the past but has acknowledged it is struggling to keep up with demand.

Earlier forecasts predicted SHINGRIX annual sales of around $2 billion, but analysts now say the increased demand could lead to more than $3 billion this year for the Company. The treatment is given in two doses separated by two to six months. The condition is caused by reactivation of a virus that is also responsible for chickenpox. Nearly all adults over 50 have the virus dormant in their nervous system and are at risk of it being reactivated with advancing age. Shares of ***GSK*** are up 14 percent so far in 2018 and offer investors an annual dividend yield of more than 6.5 percent.

ENB 12-month

DEO 12-month

Symbol: ENB

Shares of ***ENBRIDGE*** enjoyed a late-week surge after the Minnesota Public Utilities Commission approved its Line 3 Replacement project. The Commission approved ***ENB's*** preferred route for the project, meaning there wonôt be any material change in the projectôs cost. In April, a Minnesota Administrative Law judge ñsuggestedò a different route for the pipeline from the route ***ENBRIDGE*** originally proposed, which would have cost ***ENB*** significantly more money to accomplish.

The pipeline itself runs between Hardisty, Alberta, and Superior, Wisconsin. The Line 3 is being replaced because it is aging, first placed in service back in 1968. Since 2010, the pipeline has been operating at 390,000 barrels per day ï nearly half of its capacity. In 2010, ***ENB*** reduced the pressure on the pipeline to ensure its safe operation. The replacement will allow ***ENBRIDGE*** to restore the pipelineôs original capacity. The Line 3 replacement is expected to cost the Company $7 billion with nearly $4 billion of that amount on the Canadian side. Based upon the Public Utilities Commissionôs approval, the Company is reaffirming its guidance for this year and into the future. The annual dividend yield for ***ENB*** is 6.3 percent.

Symbol: DEO

Beverage maker ***DIAGEO*** is close to opening a GUINNESS brewery in the US for the first time in more than 60 years. The 270-seat restaurant and tap room, currently under construction in Baltimore is expected to open for thirsty Americans August 3rd. According to the Beer Instituteôs 2016 report, the US drinks industry contributes more than $250 billion to the economy each year. But the sector is undergoing rapid change as younger consumers turn away from big US brands in favor of European labels or domestically-produced craft beer.

GUINNESS currently brews in 49 countries, but until now has had a limited footprint in the United States. The Company briefly owned a brewery in New York from 1949 to 1954. Shares of ***DIAGEO*** have gained nearly 19 percent over the past 12 months.