Tom McIntyre's
Weekly Commentary & Outlook
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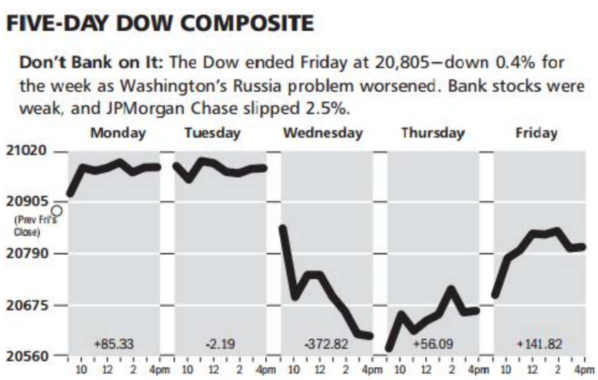
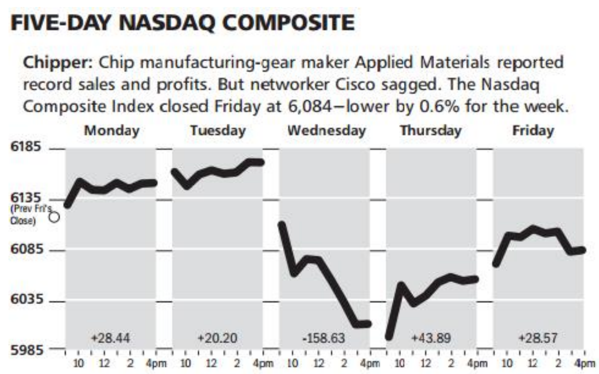
This is Tom McIntyre with another client update as of Monday, May 22nd, 2017.

Markets were buffeted daily by the drama playing out in DC and the media circus coverage. Obviously, the uncertainty being presented is lessening the chances of significant congressional action on the Trump agenda. Thatøs not a positive. Having said that, markets proved resilient as earnings are ok even as economic growth concerns pick up to the point where it is by no means certain the **Fed** will hike rates next month. We shall see.





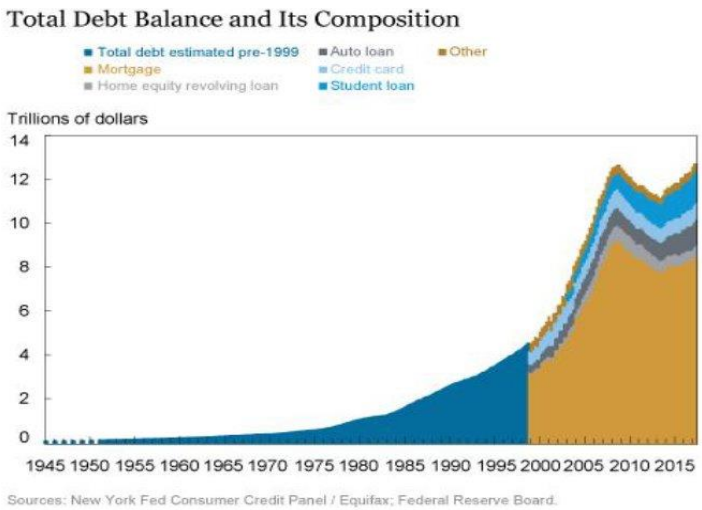
As the charts above illustrate both the **Dow Jones Industrial Average** as well as the **NASDAQ Composite** fell by around one-half of a percentage point.

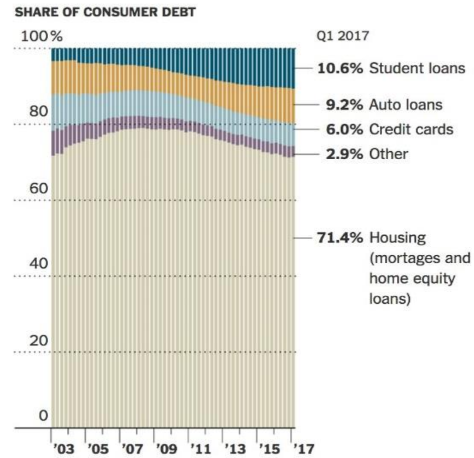
Markets & Economy

Specific corporate news (such as Blackstoneøs announcement over the weekend, see comments below) are being reacted to but the overall market tune is being set to the headlines and virtual hysteria emanating from the mediaøs fight with President Trump. The goal of which is to see his removal from office. While this seems unlikely, the fact it is even being discussed is a significant problem for getting anything done in Washington DC.

Apart from that (if one can do so) the debate about the economy and prospects for the rest of the year continue. Some things are going well, such as the previously mentioned resurgence in the energy sector here at home. Whether it be impending record domestic production, exports of liquefied natural gas or lower gasoline prices it is all a huge positive for our economy and position in the world. OPECøs agreement to extend production cuts is an effective surrender to the power and efficiency of our energy sector. President Trumpøs policies will further this trend.

Offsetting this though is nearly everything else. The consumer sector is tapped out due to rising expenses and lack of income growth. The chart on the following page shows that America has now set a record for total debt. The second chart shows the various components of this debt and thatøs where things get worrisome.





First, we know that student debt is growing quickly (guaranteed by the US government of course) and this explains the ceaseless increases in the cost of going to college. These loans are not looking good and some people in Congress are calling for debt forgiveness (currently they cannot be forgiven even in bankruptcy). In other words, a bailout. Horrible idea.

Secondly, the recent trends in credit card, housing and especially auto debt is concerning. Just this morning Ford fired its CEO. Supposedly things were going well at this company but you don't fire your CEO if that is the case. They announced a 10% workforce reduction as inventories of new cars are building up everywhere. Used car prices have been falling precipitously and that is a bad sign for prices of new cars. Banks are pulling back on loans and the car industry is in trouble if you ask me.

Over in the important housing sector, new starts have fallen in 3 of the past 4 months. Costs have gone up and the ability to obtain mortgages is also being restrained. All of this is to say that the economy is struggling. Thus, raising interest rates by the **FED** when debt is at an all-time high increases the risk to the economy given that income growth remains anemic. In the end, this means that the politicians need to focus on issues that impact Americans and stop trying to rerun last fall's election. Otherwise, this lackluster economy will extend itself into next year which is an election year when it is even less likely to achieve breakthrough legislative changes.

What to Expect This Week

President Trump will conclude his overseas trip which has gotten off to a good start. Deals on security and economic cooperation are being made and that is good. We just need Congress to join in the party.

The economic news of the week will be interesting but it should be clear that the market is in a holding pattern right now based upon Trump's political agenda. Markets aren't focused on the anemic economy we have going for us today and for the last 8 years.

Finally, a glance at the chart below of the ***ECRI's*** leading indicators shows a continued loss of momentum. No recession but no growth spurt either.

SYMBOL: BX

BLACKSTONE GROUP shares are trading nearly 6 percent higher Monday morning after it was announced the worldŏs biggest private equity manager is doing a substantial infrastructure deal with Saudi Arabiaŏs *PUBLIC INVESTMENT FUND. PIF* has agreed to commit $20 billion and **BX** plans to raise the same amount from other investors. With leverage, this means **BLACKSTONE** will have MORE THAN $100 BILLION IN PURCHASING POWER FOR INFRASTRUCTURE PROJECTS, primarily in the USA. The management fee income generated for **BX** will be substantial.

Infrastructure investing has gained renewed attention as President Trumpŏs administration vows to direct more private money toward improving roads, bridges and airports. The agreement between **BX** and *PIF* is a non-binding memorandum of understanding, as the organizations continue to negotiate final terms. Shares of **BLACKSTONE GROUP** have gained 25 percent in the past year.

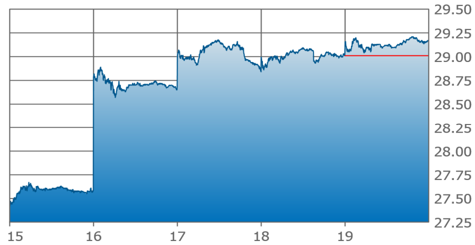
SYMBOL: WMT

Shares of **WAL-MART** surged to a new 52-week high last week after releasing a stellar first-quarter earnings report which topped **Wall Street's** expectations. **WMT** saw online sales rise 63 percent from the previous quarter, with customer traffic rising for the tenth quarter in a row. *THIS IS IN STARK CONTRAST WITH MANY RIVAL RETAILERS THAT SAW BOTH SALES AND TRAFFIC DROP.*

The worldŏs largest retailer earned $1 per share, beating expectations by 4 cents. Revenue for the quarter was $117.54 billion, in line with most estimates. **WMT's** gains in the on-line space were fueled by changes in its shipping strategy and a discount for shoppers who physically pick up their online orders. **WAL-MART** now offers free two-day shipping for online purchases of its most popular items with a minimum order of $35.

Sales at stores open at least a year rose 1.5 percent, at the top end of the Companyŏs estimated range. This resulted as overall customer traffic also increased 1.5 percent. The Companyŏs grocery business reported its best quarter in more than three years. **WAL-MART's** guidance for the current quarter is in the range of $1 dollar to $1.08 a share. Shares of **WMT** have gained 14 percent so far in 2017 and pay investors an annual dividend yield of 2.5 percent.

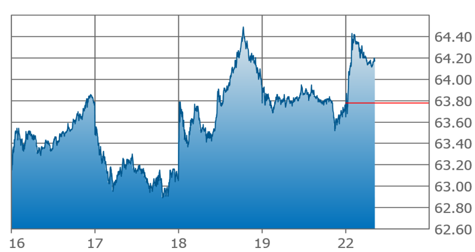
SYMBOL: VOD



VODAFONE shares also gained substantial ground last week after releasing an upbeat forecast for cash generation in its quarterly report AND RAISING ITS FINAL DIVIDEND by 2 percent. Excluding a $5 billion write-down on ***VODAFONE INDIA***, the Company reported adjusted core earnings which were up 5.8 percent to 14.1 billion euros, numbers which beat market expectations.

CEO Vittorio Colao says the British telecom giant will grow by between 4 and 8 percent this year, in the area of 14 to 14.5 billion euros. This should generate about 5 billion euros of cash, up from the 4.1 billion euros last year. This cash generation, combined with growth and a robust balance sheet enabled VOD to ñconfirm a progressive dividend policyò. At these levels, the dividend coverage will surpass 1.5x for the first time since at least fiscal 2013, suggesting that the dividend payments should be well protected. Shares of VODAFONE have moved 21 percent higher this year, with an annual dividend yield of 5.5 percent.

SYMBOL: MRK



More positive news for **MERCK's** powerful immunotherapy drug KEYTRUDA. The U.S. Food and Drug Administration (FDA) just approved two new indications for KEYTRUDA for certain patients with advanced bladder cancer who have stopped responding to chemotherapy. KEYTRUDA, which has also been approved for those afflicted with lung cancer, is being developed for more than 30 tumor types in nearly 500 clinical trials. Shares of the drug company have gained 15 percent over the past 12 months.

The market will be closed to celebrate Memorial Day May 29th, our next commentary will be June 5th.