Tom McIntyre's
Weekly Commentary & Outlook
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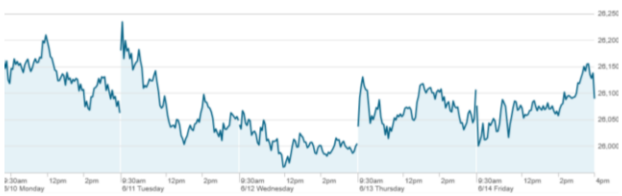
This is Tom McIntyre with another client update as of Monday, June 17th, 2019.

Stocks have rallied the past two weeks, as fears of an economic slowdown have been offset by expectations of an easier monetary policy (better late than never).



DOW 5-day

Nasdaq 5-day

As the charts above illustrate, the ***Dow Jones Industrial Average*** moved higher by just .4% last week while the previous week saw a much stronger move to the upside. The ***NASDAQ Composite,*** for its part, moved higher by .7% despite constant fears of what the impact of the trade dispute with China will mean for the sector.

Markets & Economy

The 2nd quarter is wrapping up and markets have no longer been able to ignore the collapse in inflation amidst lower outlook for economic growth. The Federal Reserve Board now agrees that last year's rate hikes were, in fact, a policy error. Their job now is to correct those moves but do so without bringing attention to the faulty forecasts once again turned out by the eggheads in Washington DC.

The chart below, on US inflation, as measured by input prices for the past year, shows a decline of 1.5% year on year. Remember, the Fed continues to forecast that inflation falling is transitory (wrong) and the consensus economists' thinking is that the various tariff applications (they have been miniscule up to now) would produce higher inflation. How wrong can these people be and still maintain their high paying jobs as well as the worship which exists in the investment community?

Commodity prices have been falling and not in a transitory way. The price of oil falling is not because of excess supplies per se, but because of slowing growth either real or imagined. In either case, the Fed should have taken notice long ago instead of making excuses. They now admit the turn is here.

The recent payroll report for May was a strong disappointment. Again, the fears of a tight labor market, causing inflation, have melted. The accepted economic relationships of the '70s and '80s really need an update. That means fresh blood at the Fed, and of course, the powers that be are preventing that from happening. While the stated unemployment report showed record low rates, as we have detailed countless times, that number can be whatever the government wants it to be if they don't count people in the workforce, to begin with. With the Labor Participation Rate still near multi-generational lows, the notion that there is a tight labor market is quaint but wrong. There is a skill imbalance for sure in many industries but that has to do with education, skills etc. The ability to live off government programs while diminishing under the Trump economy remains an impediment to future growth. The answer is certainly not to raise interest rates out of some irrational 1970s fear of inflation. Anyone who remembers the '70s should easily understand the point I am making.

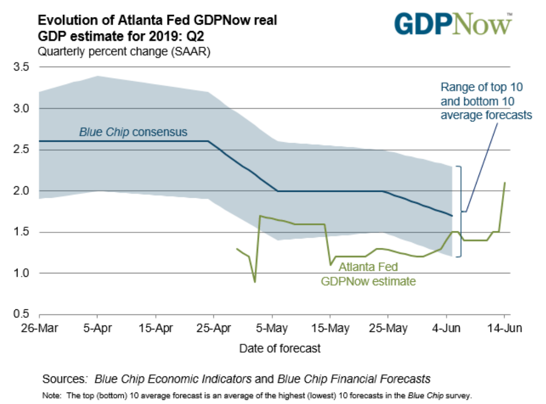
The news is not all bad which is why markets are still doing well, although not in all sectors. Last week's retail sales report was much improved (thus Walmart at 52-week highs) and previous months results were revised upwards from their initially reported putrid levels. Additionally, the standoff with Mexico has been quickly averted and at this point that represents a positive not a negative. So, take a deep breath beltway-types. Also, due to everything discussed above, mortgage rates are at two-year lows. Isn't that a strong message of disapproval by markets to Washington DC central planners (think Fed). They have tightened monetary policy for over two years and because they have harmed the economy and created an inverted yield curve it has produced the lowest mortgage rates in over two years. Now the question is will banks lend to borrowers. I hope so.

One final note to mention about the macro situation; globally there now exists over 12 TRILLION face dollars of government debt trading at or below ZERO interest. With the US having the global reserve currency and with a tightening monetary policy there was ever only one way this could go. A slowdown followed by a recession. The Fed knows this now and should act immediately. They will blame Trump's trade strategies and that will be their smoke screen to avoid responsibility for their previous actions once again. Watch what they do and pay little attention to how they justify it. Their number one goal is to retain their place in the economic power structure of the global economy

What to Expect This Week

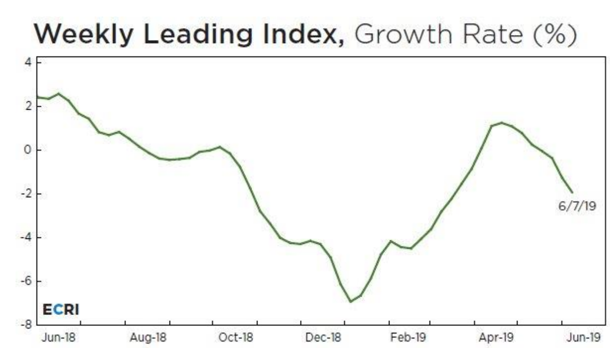
As circumstances would have it, the Fed meets for two days this week. Their announcement on Wednesday surely will move the markets. They might even adjust interest rates downwards (I give that a 33% chance). At a minimum, they must not lose the confidence of the markets that they will reverse, and soon, their ill-fated policy since the election of Donald Trump.

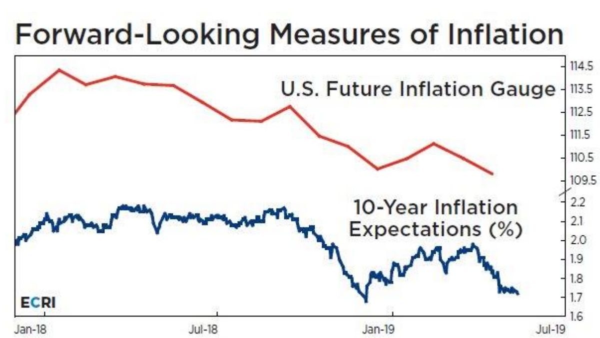
They have their work cut out changing now because Q2 is shaping up a little better than feared. The Atlanta Fed (see chart below) now shows a 2.1% expected growth rate. Hardly a disaster if it comes in there.



Markets simply will be waiting for Wednesday to react.

Finally, below are two charts from the ECRI. The first is the index of leading economic indicators which shows continued weakness. The second is the chart on their future inflation indicators. That index started falling last September and is still falling. In their opinion, the Fed has been wrong, and woefully so, for at least that length of time of their assessment and I agree. Thus, the week's market direction will be determined by what the Fed does, if anything, and what the Fed says. I wish I had a crystal ball but that's the not the reality.





Last week, the Board of Directors at ***NATIONAL FUEL GAS*** approved a 2.4 percent increase in the dividend. This will raise the quarterly dividend from 42.5 cents to 43.5 cents per share for an annual payout rate of $1.74 per share. ***NFG*** has paid dividends for 117 consecutive years and has increased its annual dividend for 49 STRAIGHT YEARS.

The new dividend is payable July 15th to shareholders of record on June 28th. ***NATIONAL FUEL*** reported second-quarter earnings in May of $90.6 million, or $1.04 per share, in line with expectations. ***NFG*** reaffirmed its earnings guidance for fiscal 2019. The Company is expecting earnings between $3.45 to $3.65 per share. ***NFG's*** stock price has risen 6 percent so far in 2019.

NFG one-year

It has been a strong start to the year for oil and natural gas transmission company ***ENBRIDGE.*** The Canadian energy transporter earned 61 cents per share in the first quarter of 2019, well ahead of Wall Street's estimates. Revenue during the quarter came in at $9.67 billion. First-quarter profit came in at $1.49 billion. ***ENB*** reaffirmed its 2019 distributable cash flow guidance in the $4.30 to $4.60 per share range.

Operationally, ***ENB's*** systems ran well and near capacity during the quarter. CEO Al Monaco says ***ENBRIDGE's*** gas transmission systems were in high demand given the colder weather experienced during winter and an unusually cool spring. During the quarter MOODY's upgraded some of ***ENB's*** senior debt while maintaining a positive outlook on the rating. Shares of ***ENBRIDGE*** have risen 11 percent so far in 2019. ***ENB's*** annual dividend yield to shareholders is an attractive 6.39 percent.

ENB one-year

It was a fantastic first quarter for ***ENTERPRISE PRODUCTS PARTNERS***. The Company reported RECORD NET INCOME of $1.3 billion, or 57 cents per unit, beating analyst's expectations. This was much better than the year-ago quarter when EPD earned $901 million, or 41 cents per unit. The provider of midstream energy services posted revenue of $8.54 billion during the period.

Distributable cash flow at ***EPD*** INCREASED 18 PERCENT to a record $1.6 billion for the first quarter of the year when compared to Q-1 of 2018. Importantly, ***ENTERPRISES's*** DCF provides 1.7 times coverage of the distributions declared for unitholders. During the quarter, ***EPD*** raised its first quarter distribution 2.3 percent versus 2018, making it 59 consecutive quarterly increases for the partnership. Capital investments were $1.2 billion during the period, including $62 million of sustaining capital expenditures. ***ENTERPRISE*** is one of our top income producers, yielding 6 percent per unit. Shares of ***EPD*** have risen nearly 18 percent so far in 2019.

EPD one-year

DUKE ENERGY also beat the Street when it reported its first-quarter earnings. The electric utility earned $1.24 per share, 3 cents higher than estimates, and a full 40 cents better than the year-ago first quarter. Revenue for the quarter came in at $6.16 billion, slightly ahead of the year-ago results.

CEO Lynn Good says ***DUK*** has more than 1,250 megawatts of new regulated and commercial renewables projects in the works with the goal of providing cleaner energy across ***DUK's*** footprint. The Company affirmed its 2019 full year EPS guidance in the range of $4.80 to $5.20 per share. ***DUKE ENERGY's*** annual dividend yield is 4.28 percent, with shares rising 21 percent over the past 12 months.

DUK one-year