Tom McIntyre's Weekly Commentary & Outlook

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This is Tom McIntyre with another client update as of Monday June 25th, 2018.

As we said last week there are many things going on out there around the world. While the perception remains that the US economy is booming, there is now some concern that the growth is peaking. It's always something.

As the charts above illustrate, the **Dow Jones Industrial Average** fell 2% last week ostensibly over trade policy concerns. Of course, the **NASDAQ Composite** while down .6% on the week is still up nicely on the year. Emerging markets as well as gold are getting crushed by the strong US dollar.

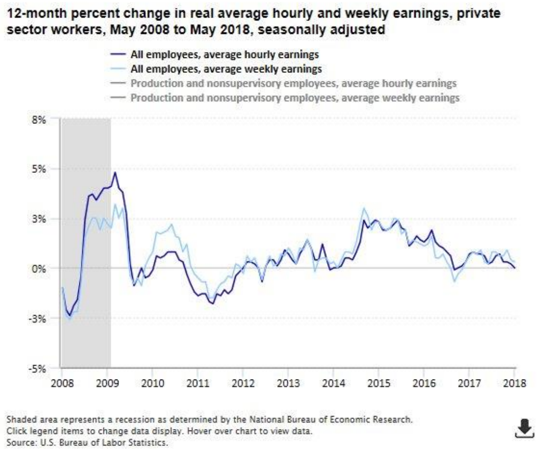
Markets & Economy

Trade policy has overtaken market sentiment as the number one issue. President Trump is clearly setting down his marker that fair trade is critical and by that he doesnôt mean rhetorically speaking but by taking steps that can be quantified and measured. Clearly, the US over the decades has been too lenient with our trading partners on issues such as tariffs and technology transfers. The problem now is how to change the global system without upsetting the apple cart. I believe the US has the upper hand in these negotiations as we are by far the worldôs largest market. Having said this the forces of globalism and the corporate elites at many of these global companies are vehemently opposed to changing the status quo which has gone on for decades under administrations of either party.

From my point of view the trade issues will get resolved because it is in everyoneôs interests to do so. On the other hand, the restrictive monetary policy being followed by the US Federal Reserve is much more of a problem. You can see this everywhere. Emerging markets are getting smashed with the strength of the US dollar as is the price of gold. How many times have the gold bugs pushed that archaic metal and it seems that it hasnôt been a hedge since the inflation days of the 1970ôs.

Of course, that is the problem. Too many economists and government bureaucrats globally are stuck in the 1970ôs. They see inflation behind every rock. As soon as anyoneôs economy gets on solid footing they attempt to ñslowò it down to avoid overheating. I love these expressions. Does anyone even remember what an overheated economy looks like?

Look at the chart below showing the lack of wage growth:



This chart is not what one sees during inflation. Without wage growth you will not get inflation. This is confirmed by the recent collapse in commodities. They donôt go down during inflationary cycles. The answer of course is that the Fed is chasing a ghost from the 1970ôs.

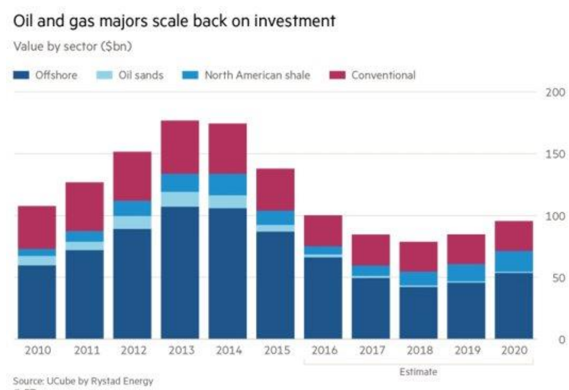
Further evidence of the lack of inflation comes from the chart below of food prices over the past year. Again, the lack of inflation is evident and yet no one talks about it. Just a recitation of the need for higher interest rates to prevent overheating. It is so boring and so 1970ôs.

If the Fed continues to tighten at the short-end of the bond curve while longer-term interest rates fall then they will cause the next recession. I hope President Trump starts to pay more attention to this as he moves on trade and other issues. These people at the Fed are basically religious fanatics and have been largely responsible for every business cycle downturn in the last 125 years.

Look no further than a few stops around the world. This morning the Swiss 10-year government note came in at a MINUS 12 basis points. Even our 10-year bond yield has fallen back to well below 3% this morning. The global markets are screaming to the Fed that they are too tight. Of course, a real trade war combined with this sort of monetary policy would be bad news but hopefully saner heads will prevail.

Now an update of the OPEC meeting which we discussed last week. They did meet and they did try to paper over the fact that they are neither unanimous about what to do but in fact are in many cases powerless to do much. As a result, the price of oil has jumped back up. The announcement of a production increase is mostly for public consumption. Really only Saudi Arabia has much spare capacity left. The reasons are two-fold.

First, see the chart below on the decline in oil investment in long-term projects since 2014. The world consumes over 100 million barrels per day. This requires new production to be found, developed and be economically viable. The upshot from the last few years is the world is not replacing the oil it is consuming.



Secondly, global politics is conspiring against a fall in prices. Global demand is up while major producers are seeing their production either collapse, as in the case of Venezuela, or be restricted by political unrest such as in Iran and Libya. In short, supply disruptions are always around the corner. Given that global inventories have been reduced to normal or below levels there is no longer any room for error. The answer for the US of course is to stay on the course of President Trump and work like crazy to improve our ever-improving energy industry. That is surely one of the areas of todayôs better than expected economy.

What to Expect This Week

Wish I could say. The economic reports mean little. Itôs all macro now and we will simply try to take advantage of any short-term price action when they present themselves. One thing may be happening though, the Fed may be getting a little gun shy about their policy. They do not want an inverted yield curve and a hint of change there would do wonders for market psychology.

BA one-year

The worldôs largest plane maker has made a huge deal with the worldôs largest air cargo carrier. **BOEING** received a new order from FedEx Express for 12 each of the 767 Freighters and 777 Freighters. The 24 new widebody jets will cost FedEx $6.6 billion.

The 767 Freighter is an extended range jet. It can carry approximately 58 tons of revenue cargo on intercontinental flights. The 777 Freighter is the worldôs longest range twin-engine freighter. It can fly 4,900 nautical miles with a payload of some 112 tons. With the 777 Freighter, FedEx has been able to connect Asia with its hub in Memphis, Tennessee, with non-stop service. The 777 also uses 18 percent less fuel compared to the airplanes it replaces and provides quieter takeoffs and landings which meet airport noise standards.

Demand is surging in the air cargo industry recently with global demand growing by nearly 10 percent in 2017 and another 4 to 5 percent growth forecasted for this year. **BOEING** basically owns the midsize and large cargo aircraft space, while competitor AIRBUS focuses almost entirely on passenger planes. Including last weekôs FedEx order, **BA** has now sold more than 50 widebody freighters in 2018. Shares of **BOEING** have gained 67 percent in the past year.

PBCT one-year

Northeastern regional bank **PEOPLE's UNITED FINANCIAL** is acquiring a neighboring institution in First Connecticut Bancorp, Inc. (FBNK). The all-stock transaction is valued at $544 million. FBNK, which was started before the Civil War, is a diversified consumer and commercial bank with assets of $3.1 billion which will be added to **PBCT's** $44 billion asset base.

PBCT expects the transaction to be 5 cents accretive to earnings per common share based on fully phased-in cost savings, with a tangible book value earn-back of approximately 3 to 5 years. The deal is expected to close during the fourth quarter of 2018. Several analysts have raised their ratings on PBCT after the deal was announced. Shares of **PEOPLE's UNITED FINANCIAL** are up 8 percent over the past 12 months.

Medtronic

MDT one-year

The Board of Directors of medical-device maker **MEDTRONIC** has approved another dividend increase for its shareholders. The Board is raising the quarterly cash dividend 9 percent, from 46 cents to 50 cents. This marks THE 41st CONSECUTIVE YEAR of increases in the dividend payment from **MDT**. Since 2008, the dividend per share has grown by 300 percent, and has grown at a 17 percent compounded annual growth rate over the past 41 years. The new dividend is payable on July 25th to shareholders of record at the close of business July 6th. Shares of **MEDTRONIC** have gained 8 percent so far in 2018.

National Fuel

NFG one-year

The Board of Directors at **NATIONAL FUEL GAS** has approved another raise of its dividend for common shareholders. The annual increase is 2.4 percent, which on a quarterly basis takes the payout from 41.5 cents per share to 42.5 cents per share. The annual rate goes up to $1.70 a share. This dividend is payable July 13th to shareholders of record at the close of business June 29th. **NATIONAL FUEL** has paid dividends for 116 CONSECUTIVE YEARS and has increased its annual dividend for 48 STRAIGHT YEARS.