Tom McIntyre's
Weekly Commentary & Outlook
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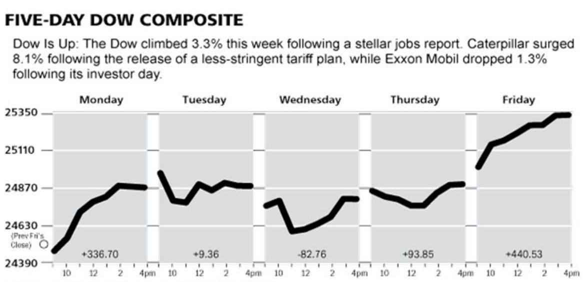
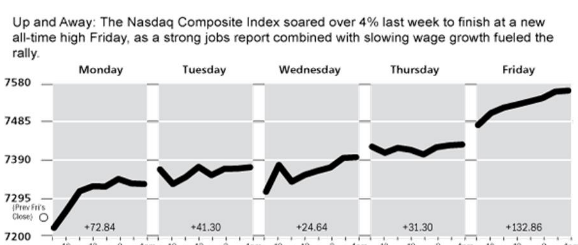
This is Tom McIntyre with another client update as of March 12, 2018.

Markets have shrugged off the boogie man of higher interest rates caused by imaginary inflation and have moved higher based upon strong earnings, favorable outlook and corporate merger activity some of which we are involved in.





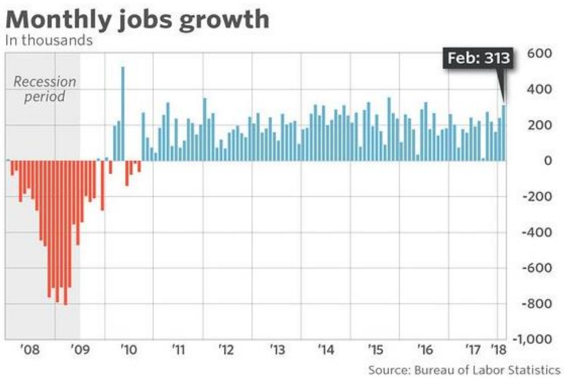
As the charts above illustrate, last week saw the **Dow Jones Industrial Average** gain over 3% to go positive once again for the year while the **NASDAQ Composite** led by technology holdings (think MSFT, CSCO, AMAT, AKAM and QCOM) was higher by better than 4%.

Markets & Economy

The amount of drivel in the financial press concerning the health of the economy and its implications for monetary policy and inflation is right out of the play book of the 1980ôs or 90ôs. Now that we have an economy which is growing in response to lower taxes and regulations, the economists view inflation as the consequence. To which I ask, where is the proof of that?

First, while the economy is doing quite well this comes after a decade or more of sub-par growth. Second, the notion that wages are now growing so rapidly that prices will need to rise to compensate is analysis right out of the 1980ôs. Just think Amazon and its disruptive impact on so many industries if you think that inflation is a serious problem. Just look around the world and show me where inflation is the problem. You canôt, but our domestic financial media is as lazy as the national media. They have a narrative and they are sticking to it. Luckily the markets know better.

Last Fridayôs stellar employment report (see the next several charts) is illustrative of just what Iôm talking about. The non-farm payroll jump of over 313K jobs was the biggest positive surprise relative to expectations since 2009 (thank you experts). Even better, the hyperventilation that wage growth would be out of control was dashed when that number was reported to have fallen off. For the year-ended in February the wage gains were 2.3%. Very much on the trend line we have seen for years.



Once again the inflation priests in the economic profession, who have never actually run a business, have seen their theory of tighter labor markets leading to inflation dashed. Of course, sadly, this view is embraced by the Federal Reserve Board. The danger remains that they try to hit the brakes on an economy which is accelerating but is doing so out of the new opportunities being created by the new economic policies of the Trump administration.

The very simple proof of this was contained in the employment report. I saw very little mention of the fact that despite the huge pop in jobs the official unemployment rate ticked higher to just 4.1%. Why would that be? The answer is that the labor force INCREASED by over 806K people. The participation rate moved up to 63%. This is only explained by the conviction of people that job opportunities are there and it is time to get off government programs and pursue them. Remember, I have often noted that the ñofficialò unemployment numbers ignore the nearly 95 MILLLION real people of working age not included.

Now that opportunities are popping up, they are returning to the work force. This important development proves the lie to the notion that the labor force was getting older and lifestyles were changing to favor being out of the labor force rather than in it.

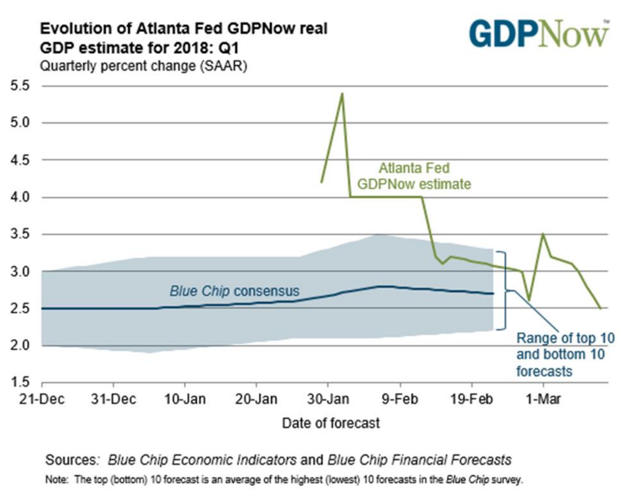
Incentives matter. Lower taxes matter. Expanding job opportunities matter. The plunging participation rate of the Obama-years had everything to do with having the wrong incentives. Even worse, the demographics of the labor force was telling us that all along. It is the older workers who did not want to retire whilst it was the younger folks where the decline had been most pronounced and frankly had the worst implications for our future.

Now, one month doesnôt change the world but it is very encouraging to see businesses and employees responding so dramatically to the policy changes. That is why stocks remain resilient despite the daily obsession of higher interest rates etc. I have often said that rising rates, from their level of virtually zero, in response to true growth is positive for stocks. The negative interest rates which still exist in Europe and elsewhere is not normal or healthy for the financial system. However, donôt confuse a better economy with some sort of return to an inflationary world of higher interest rates. This is not the 1970ôs, 80ôs or 90ôs. Todayôs global growth is predicated upon productivity improvements and strong international competition. Both of which will keep inflation under control.

Of course, the risk to this scenario remains policy errors. Currently there are two which must be monitored. The first is monetary policy becoming too restrictive. The second would be a true trade war based upon tariffs etc. Again, the bluster is there but so far, the reality hasnôt presented itself.

What to Expect This Week

Despite last weekôs strong employment data, growth estimates for the economy have been falling. See the Atlanta Fed estimate of 2.5% for Q1 below. Europe is barely above zero yet for some reason they seem to think things are quite strong. Everything is relative I suppose.



This weekôs updates on retail sales and industrial production will fill in some of the blanks for the 1st quarter.

Finally, the graph (top of next page) from the ECRIôs index of leading economic indicators shows further weakness.

Their own analysis is calling for a second half slow down and is consistent with the lagged impact of the higher rates we have already seen. Housing is weak and the spring season is soon to be upon us. All of this is to say that the current obsession with inflation may soon be replaced with concern about a slowdown. Sadly, there is no accountability by economists for being wrong most of the time. They still get paid.

One-year Chart

Symbol: AKAM

Shares of **AKAMAI TECHNOLOGIES** hit fresh, 52-week highs last week after the Company announced it has beefed up its stock buyback plan and intends to work with activist investor ELLIOTT MANAGEMENT on new initiatives to improve company operating margins. **AKAM**ôs board of directors has increased its share repurchase authorization by $417 million to $750 million overall. **AKAMAI** says it plans to complete the stock buyback by the end of this year. These actions could lead to **AKAM** making upwards of $5 per share.

The Company will be adding two new independent directors to its board. **AKAM** is embarking on a path to achieving operating margins of 30 percent in 2020, which is up from the 24 percent achieved in 2017. ELLIOTT MANAGEMENT recently disclosed it has taken a 6.5 percent equity stake in **AKAMAI**. **AKAMAI** is the biggest provider of content delivery network, or CDN services, which increase the speed of e-commerce transactions, business software downloads and video streaming to mobile devices. **AKAM** has moved into high-margin web security services as media customers migrate traffic to internal networks. Shares of **AKAMAI** have gained 16 percent in 2018 so far.

One-year Chart

Symbol: QCOM

Despite the ongoing drama created by BROADCOMôs (AVGO) takeover bid, chipmaker **QUALCOMM** is raising its dividend. The board of directors at **QCOM** have approved a 9 percent increase in the Companyôs quarterly cash dividend. The new dividend will increase from 57 cents to 62 cents per share of common stock, and will be effective for quarterly dividends payable after March 21st. This will raise **QUALCOMMôs** annualized dividend payout to $2.48 per share of common stock. The Company has consistently raised its dividends for shareholders in recent years.

CEO Steve Mollenkopf praised the dividend hike and said the Company is looking forward to the pending acquisition of NXP and expect the strong combined cash profile of **QCOM** and NXP to further strengthen the foundation for future capital returns for stockholders.

BROADCOM has plans to move its corporate home to the USA, within three weeks. Additionally, AVGO says they promise not to sell critical national security assets to foreign buyers if its deal to buy **QUALCOMM** is approved. Itôs another effort by the Singapore-based firm to appease U.S. security concerns. BROADCOM has offered $117 billion to acquire **QCOM**, while our government has raised concerns that Chinese companies will take advantage of any openings to take the lead in the next generation mobile phone networks known as 5G. **QUALCOMMôs** annual shareholder meeting, which was postponed by U.S. authorities to review the merger deal, is now slated for April 5th. Shares of **QUALCOMM** have risen more than 26 percent in the past six months.

One-year Chart

Symbol: MO

Speaking of dividend hikes, **ALTRIA GROUP** is raising its dividend as well. The board at **MO** in increasing the quarterly payout by 6.1 percent to 70 cents per common share. The new dividend will be payable April 10th to shareholders of record as of March 15th. The new annualized rate is $2.80 per common share, a yield better than 4 percent.

ALTRIA has increased its dividend 52 TIMES IN THE PAST 49 years. This is the second raise in the past 12 months The Company says the increase is consistent with its intention to return a large amount of cash to shareholder in the form of dividends with a payout ratio target of approximately 80 percent of its adjusted diluted earnings per share.