



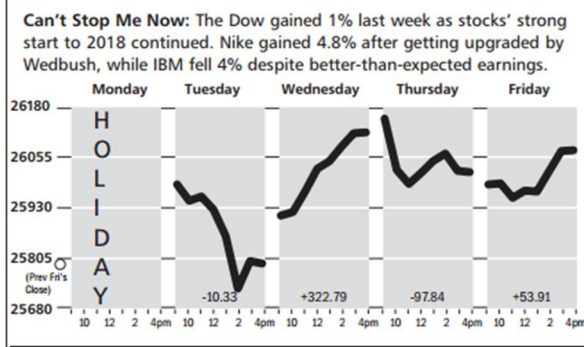
This is Tom McIntyre with another client update as of January 22, 2018.

Markets continue to shrug off warnings of over valuation and government shut downs etc. The reason is quite simple. The economy is growing above 2% again for the 1st time in over a decade. This combined with lower corporate taxes and very low interest rates gives many but not all companies a chance to grow for the 1st time in a long while.

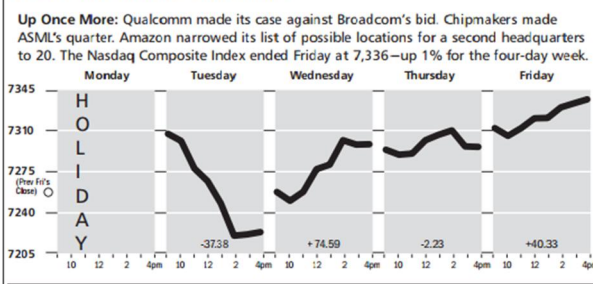
US Government's so called limited government shutdown. As most realize, those dependent upon the government continue to get their checks so politics aside no one takes this seriously as there was absolutely no reason for it to begin with.

Markets & Economy

FIVE-DAY DOW COMPOSITE



FIVE-DAY NASDAQ COMPOSITE



As a result, the markets once again were positive last week. As the charts above illustrate, both the **Dow Jones Industrial Average** and the **NASDAQ Composite** gained 1% in the holiday shortened week and this morning show little concern over the

We are still early in the year-end earnings cycle. Most reports have been good (see our comments below) but clearly the optimism amongst corporations is higher than ever. Even Jamie Dimon the CEO of JP Morgan now thinks the economy will grow by 4% this year.

That is roughly double the rate of the 8 years of the Obama administration. Investors have forgotten what it is like in this environment. Most think it won't happen or if it does will mean much higher interest rates and a market sell-off. They sound like a broken record. These people have been out of sync with the market since 2009 when the world mysteriously didn't end. They have been calling for it ever since.

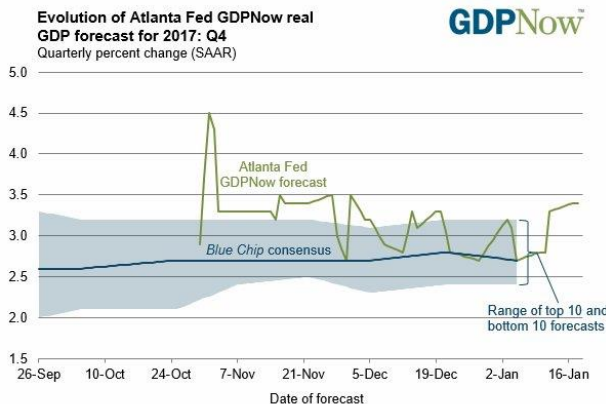
I do feel that significantly higher interest rates would eventually hurt the stock market but I don't think that is likely for two reasons. First, the impact on the federal deficit (remember that \$21 TRILLION problem) would really put a crimp into the flexibility to engage in President Trump's spending priorities on defense and/or infrastructure.

Secondly, there is no reason for rates to sky rocket as core inflation remains below 2% and recently has

shown signs of weakness not a surge. Thus, while a stronger economy brings with it higher rates, it doesn't mean they will sky rocket absent an inflation threat. Rapidly rising rates though would bring with it the threat to end the economic growth cycle, which is just beginning, after a decade of sub-par growth.

While it makes for great punditry to call the top in the market, spend a little time looking at the past several years and remind yourself of just how wrong these pundits have been with no accountability.

The chart below shows the Atlanta Federal Reserve Board estimate for the 4th quarter growth rate. Their estimate is for 3.4%. This is significant for two reasons. First it would be the 3rd consecutive quarter of such fast growth (corresponding to the Trump time as president) and secondly this was achieved BEFORE the impact of this year's tax cuts.



To which I say, tune out the media and their attempt to convince you that the trillions of dollars of wealth created in the stock market is either a mirage or is irrelevant. Believe me, the only way out of our problems is growth and when you have growth in this country someone is going to get rich. Stop being envious and start thinking about all the good which will flow from this.

What to Expect This Week

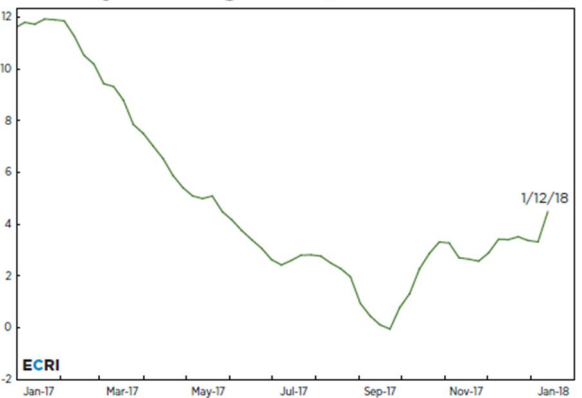
The actual report on 4th quarter GDP is announced this Friday (unless the government shut down

postpones it). This will provide the base level to work with in the new year. While there will be several other economic reports this week none will really change the narrative expressed above.

Of course, the press will obsess with the twists and turns of the government shutdown. To me, this is nothing but a diversion being created to confuse and perhaps obscure the many serious issues of the day both economic and perhaps strategic.

Finally, the graph below from the ECRI on their series of leading economic indicators shows a continued upturn but nothing implying a surge. Again, the need for much higher interest rates requires higher inflation (not likely as wages are still under pressure. See second graph below of the retail store closures announced).

Weekly Leading Index, Growth Rate (%)



All in all, this week like so many others will have investors watching the wrong thing. In this case the soap opera in DC.



Symbol: PBCT



Symbol: QCOM



PEOPLE'S UNITED FINANCIAL posted earnings which beat Wall Street's expectations in the fourth quarter. PBCT reported net income of \$106.2 million, or 30 cents per common share, which was three cents better than estimates. This was substantially better than the fourth quarter of 2016 when the bank earned \$75.9 million, or 24 cents per common share.

Full-year 2017 operating earnings of \$345.8 million were record setting for PBCT, the highest in the bank's 175-year history. The \$1.04 earnings per common share increased for the 8th consecutive year. Period-end loan and deposit balances were up 10 and 11 percent respectively from a year ago.

The Company declared a \$0.1725 per common share quarterly dividend payable February 15th to shareholders of record on February 1st. The current dividend yield on PEOPLE'S UNITED FINANCIAL common stock is 3.5 percent. Shares of PBCT have risen more than 20 percent since we re-entered the position late last summer, nearing multi-year highs.

Shares of QUALCOMM got a boost last week after the Company offered an improving revenue and profit outlook for this year and next. QCOM's forecast adjusted per share profit of between \$6.75 and \$7.50 on revenue of \$35 billion to \$37 billion. Analysts on average expected much less: profits of \$3.79 per share and revenue of \$23.59 billion.

The Company plans to achieve the profit target through a new \$1 billion cost reduction plan, gains from the NXP Semiconductors deal and by resolving current licensing disputes, especially with APPLE. AAPL and QUALCOMM are going thru a multinational legal dispute over QUALCOMM's licensing terms to the iPhone-maker.

QUALCOMM is also urging shareholders to re-elect its existing board and reject BROADCOM's \$70-per-share takeover offer, and at this stage, WE AGREE. With QCOM's stock price nearing the \$70 level already, it would be foolish for the Company to accept such a bid. We expect BROADCOM will come back with a substantially higher offer or the deal won't happen. Shares of QCOM have risen more than 28 percent over the past six months.



Symbol: MRK



Shares of MERCK took a giant leap forward last week, after its blockbuster drug KEYTRUDA showed to be highly effective in a late-stage trial for patients suffering from non-small cell lung cancer. The study found the combination of KEYTRUDA and two chemotherapy medicines helped lung cancer patients live longer and STOPPED the disease from advancing. Earlier concerns about KEYTRUDA's efficacy in this area had lowered the share price. Non-small cell lung cancer is the most common of two types of lung cancer, which kills more people than colon, breast and prostate cancers combined.

MERCK has already secured U.S. regulatory approval for its combination based on positive results from an earlier trial. These latest results increase the chances of a European regulatory approval. KEYTRUDA brought MRK more than \$1 billion in sales in the third quarter alone, and analysts expect the drug to generate peak sales of about \$8.2 billion by the year 2020.