Tom McIntyre's
Weekly Commentary & Outlook

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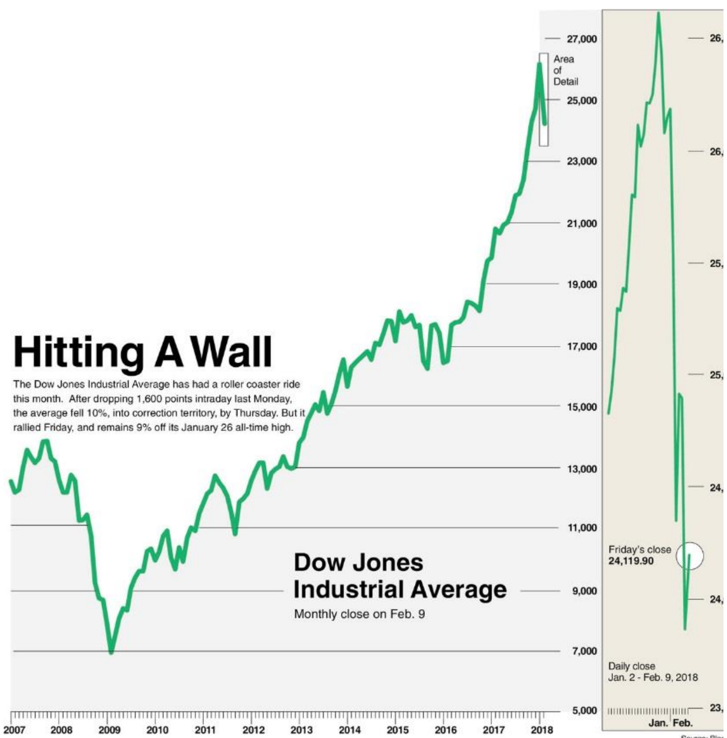
This is Tom McIntyre with another client update as of February 12, 2018.

Markets succumbed to an avalanche of forced selling last week as the return of volatility threw a wrench in the speculative positions held by many investors and hedge funds.



Last week was the worst in many years for stocks. As the chart above indicates the ***Dow Jones Industrial Average*** lost over 5% and the two-week decline has seen the market’s first 10% correction in many years.

Markets & Economy

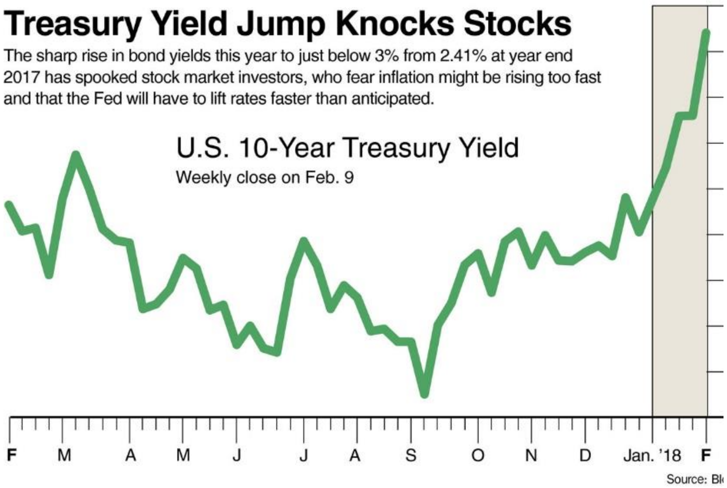
Without getting too technical, much of the volatility over the past two weeks is tied to a very speculative strategy which essentially bets on the volatility of the stock market. For the past several years there has been little of such volatility and mutual funds, ETNs, and hedge funds devised a strategy to exploit this.

This strategy worked; until it didn’t. Once volatility spiked, these leveraged products were exposed for the speculative vehicles they were and they had to be liquidated. This caused more volatility and the markets simply had to (and will have to) absorb the forced selling until that trade is neutralized. Of course, in the process many others who have been caught on margin are similarly wiped out.

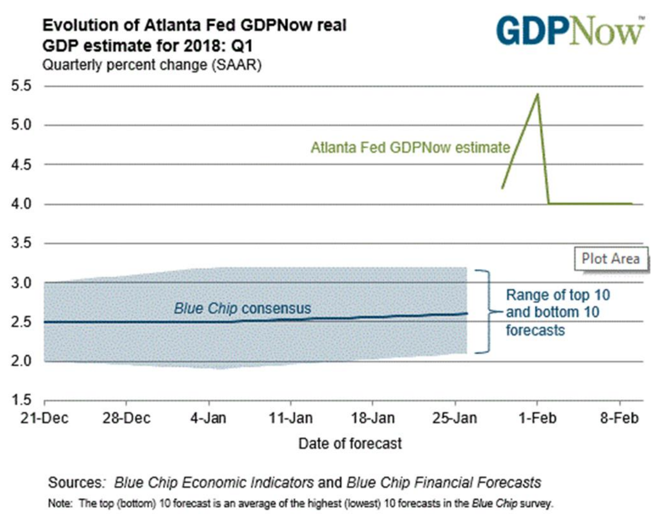
Now inevitably when these periods happen pundits will talk nonsense about market valuations, technical analysis or inflation and interest rates etc.

These are always important and markets are always dissecting their impact on asset prices. But believe me, there has been no move or prospect in either interest rates or the outlook for inflation that would be responsible for last week.

Look at the chart (top of next page) of the US government 10-year government bond. It has reached 2.85% up about 50 or 60 basis points. This level of rates is very low historically. Of course, the reason the yield has moved higher is the growing conviction of improving growth prospects both here in the US and around the globe. Hardly a bad thing.



The current Atlanta Fed forecast for Q1 growth as shown below is 4%. That would be fantastic and be a plus for equities in general.



Now as to inflation. The latest employment report for December showed year over year wage growth of 2.9%. This is slightly better than we have seen in the Obama years but is absolutely NOT the reason to expect higher inflation rates. People working more and earning more IS NOT inflationary and don't believe anyone who asserts such.
My point here is that the economic fundamentals remain very good. The economy is growing, tax rates have fallen, dividends are rising (see our company write-up notes below) and stock prices will follow but not in lock-step.

The earlier chart of the market shows the damage done over the past few weeks. It also shows the market is simply back to where it was in December.

It is the speed of the decline which causes the usual outrageous explanations for the market tumult.

The real cause is not easily discussed or understood. Suffice to say if you had invested your money in these crazy volatility strategies you would then understand. Therefore, we invest in successful and profitable names. Those who can take advantage of market turbulence via buybacks or increasing dividends. These past couple of weeks should also serve as a reminder of the dangers of investing using margin in strategies which are speculative at the very best.

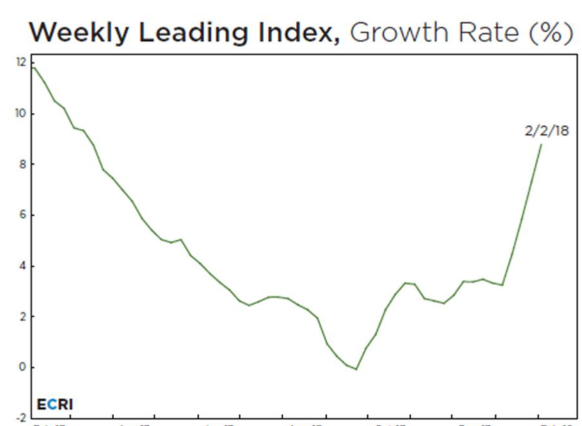
What to Expect This Week

Who knows? Once you introduce the notion of forced selling there really isn't any way to know how much of it is out there. Markets simply need to absorb it through buybacks and via money coming off the sidelines as bargain prices in individual names get created.

The earnings season continues but is running out of steam. There will be some economic data this week about the Consumer Price Index which may attract more attention than usual given the concerns talked about above.

Though in reality the technical aspects of the market look likely to continue to dominate the day-to-day action.

Finally, the latest from the ECRI on their leading economic indicators shows ñblue skyò for the upcoming year. Again, another indication that the real world would not recognize the goblins scaring the stock market right now.



BA one-year chart

Symbol: BA

The Worldôs largest maker of commercial aircraft reported a spectacular year-end quarter and boosted production goals for 2018. ***BOEING***ôs core earnings nearly doubled to $4.80 per share from $2.47 a year earlier, buoyed by rising plane output and a $1.74 per share gain from changes to the U.S. tax laws.

BA delivered an industry-record 763 jets in 2017, but the Company isnôt resting on its laurels. ***BOEING*** says it aims to ship between 810 and 815 commercial aircraft in 2018, a 7 percent increase. Helped by a hunger for new jets, ***BOEING's*** forecasted core profit would rise to $13.80 to $14.00 a share this year, well ahead of analystsô average estimates.

Despite the rising output, ***BA***ôs orderbook keeps on growing. ***BOEING*** claims its total backlog, which includes military aircraft and other products, has climbed to $488 billion worth of future sales. Shares hit all-time highs, once again, in February. Shares have gained 100 percent in the past 12 months, and an impressive 13 percent higher to start off this year alone!

MSFT one-year chart

Symbol: MSFT

Life continues to be good for ***MICROSOFT*** in the ñcloudò. Thanks to its increasingly profitable cloud division, ***MSFT*** reported better-than-expected second-quarter revenue and profit results, with the stock hitting new ALL-TIME HIGHS. Excluding items, ***MICROSOFT*** earned 96 cents per share, easily beating analystsô average expectation of 86 cents. Revenue climbed 12 percent to $28.92 billion, also better than expected.

Revenue from the intelligent cloud segment rose 15.3 percent to $7.80 billion in the quarter, including 98 percent growth for AZURE, its flagship product. This marks the 10th consecutive quarter of more than 90 percent revenue growth for AZURE, which directly competes with AMAZONôs and GOOGLEôs web services. The acquisition of LINKEDIN has also started to pay dividends, adding $1.3 billion during the quarter. Shares of ***MICROSOFT*** have gained more than 37 percent for investors over the past 12 months. We fully expect ***MSFT*** to raise their dividend for shareholders in the very near future.

Blackstone

SUNCOR

BX one-year chart

Symbol: BX

Sharp gains in its private equity unit and strong performances by its real estate, credit, and hedge fund businesses helped ***BLACKSTONE GROUP*** beat earnings estimates during the fourth quarter. The worldôs largest manager of alternative assets reported quarterly economic net income of 71 cents per share, well ahead of analystsô average expectation of 67 cents. Revenues during the quarter came in at $1.88 billion, also better than consensus estimates. **BLACKSTONE's** assets under management rose to a record $434.1 billion in the fourth quarter, up from $387 billion in the previous quarter. ***BX*** raised its quarterly distribution to 85 cents per share, payable to unitholders on February 20th.

The value of ***BLACKSTONE's*** private equity funds, which account for a quarter of its assets, rose 6.8 percent in the three months ending in December. Fourth-quarter distributable earnings, the actual cash available for paying dividends, was up 94 percent on the year at $1.2 billion. This was due to ***BLACKSTONE*** taking advantage of strong corporate valuations to exit some of its profitable investments. The Company now has over $94 billion in dry powder to invest in more deals for 2018. Shares of ***BLACKSTONE GROUP*** hit a new 52-week high in February and are up nearly 10 percent in the past year.

SU one-year chart

Symbol: SU

Shares of ***SUNCOR ENERGY*** rose after the Company beat Wall Streetôs expectations with its fourth-quarter report. Adjusted earnings at ***SU*** were $1.09 billion, or 62 cents per share for the quarter. Revenue generated was $7.12 billion in the period, also better than expected. For the year, ***SU*** reported profits of $3.51 billion on revenues of $25.34 billion.

SUNCOR's board approved a DIVIDEND INCREASE to a new quarterly dividend of 36 cents per share on its common shares, payable March 26th to shareholders of record March 5th. This dividend represents a 12.5 PERCENT INCREASE OVER THE PRIOR QUARTER, and marks 16 consecutive annualized dividend increases at the Canadian power company.

BCE one-year chart

Symbol: BCE

Thanks to a 5.1 percent increase in overall service revenue, ***BCE*** beat expectations with its 4th quarter, and announced they will be RAISING THEIR DIVIDEND for common shareholders.

The BELL of Canada earned an adjusted 76 cents per share on earnings of $684 million, which is 2.5 percent higher than the previous quarter. ***BCE*** also saw wireless services revenue grow 10.6 percent during the quarter. Free cash-flow grew an impressive 6 percent for all of 2017.

The *dividend will increase* 5.2 percent or 15 cents per share, from $2.87 to $3.02 per year. The new dividend will become effective with ***BCE's*** first quarter payout, which will be made April 15th to shareholders of record March 15th. This represents ***BCE's*** 10th consecutive year of 5 percent or better dividend increases.