Tom McIntyre's
Weekly Commentary & Outlook

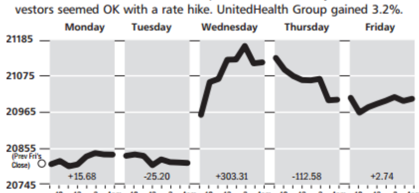
McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

This is Tom McIntyre with another client update as of Monday, March 6th 2017.

Trading has turned mixed with various sectors continuing to power ahead while others, namely retail and energy names, are not doing much. Overall the Trump rally held forth on the strength of his well-received speech last Tuesday. This was somewhat offset by Fed talk later in the week as well as continued media outbursts concerning the new administration.

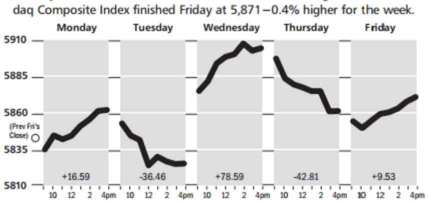
FIVE-DAY DOW COMPOSITE

Dow 21,000: The Dow rose 0.9% last week–and closed above 21,000 for the first time–as President Trump struck a conciliatory tone, and investors seemed OK with a rate hike. UnitedHealth Group gained 3.2%.



FIVE-DAY NASDAQ COMPOSITE

Over The Top: Alphabet announced its subscription YouTube TV bundle. Security-tech firm Palo Alto Networks had trouble making sales. The Nasdaq Composite Index finished Friday at 5,871–0.4% higher for the week.



As the charts above illustrate, the **Dow Jones Industrial Average gained under 1%** last week while the **NASDAQ Composite rose by .44%**.

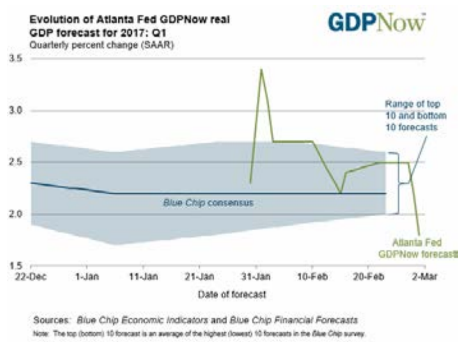
Markets & Economy

Sentiment and cheery outlook continue to buttress this rally in stock prices and the case for higher interest rates. One can see this in the various reports on consumer and business optimism which are being released. This includes *positive outlooks from both the industrial sector as well as the services surveys*. This optimism has given the **Federal Reserve** talking heads the confidence to raise the expectation that they will hike rates when they meet later this month.

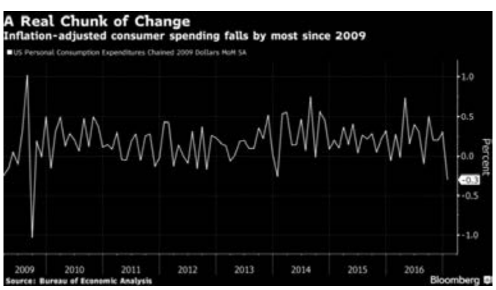
Stock prices are no longer in fear of such hikes because the belief remains strong that the Trump agenda will be implemented. That being the repeal of *Obamacare*, income tax cuts and a reversal of the regulatory overkill which was the hallmark of the Obama administration. *The problem I have with all of this is that nothing has happened legislatively*. It is still the case that Trump doesn't even have his cabinet approved in its entirety yet. Even worse, the Republican leadership in Congress seems to be heading down the same road of not achieving expectations that we have become accustomed to seeing.

As such, the risk to the stock market rally is that the Trump agenda becomes side tracked while the **Fed** is raising interest rates in anticipation of much stronger economy. This would be a one-two punch for stock prices. I don't expect it, but that is the risk which seems to be creeping into stock prices.

Just look at the next chart from the Atlanta Federal Reserve for GDP growth estimates for this quarter. It has dropped below 2%. *Sound familiar?* It should because that is the lousy economy we have had for several years. Optimism is strong, but activity has so far not been following in its footsteps.



The evidence for this is also seen in the next chart showing consumer spending for the 1st month of 2017. It was atrocious! The net result was the worst drop in inflation adjusted spending since 2009.



It remains a mystery to me just why the **Fed** and its media followers constantly strive to oversell the growth of this economy. No one believes them (which explains the Trump Presidency) and thus they lose their effectiveness in terms of future policy moves. Until the Trump agenda is placed into law and has a chance to impact economic growth, the economy is set up to continue to disappoint. Needless to say, the continued disputes in *Washington DC* in the current administration also serve to question the likelihood and timing of just what policies will be enacted. In the meantime, the **Fed** moving, based upon investment "surveys" of better times ahead, (if you ask me) is a risky proposition.

What to Expect This Week

The calendar shown below gives you the highlight of economic reports, but the big one is Friday's employment report for February. This report should be the final nail in the coffin for the **Fed** to just go ahead and raise interest rates. It would take a truly shocking number for them to reverse course now after the number of speeches recently offered that set the table for a hike.

Monday Mar 6	Tuesday Mar 7	Wednesday Mar 8	Thursday Mar 9	Friday Mar 10
Market Focus »	International Trade C ★ 8:30 AM ET	MBA Mortgage Applications 7:00 AM ET	Weekly Bill Settlement	Employment Situation C ★ 8:30 AM ET
International Perspective »	Gallup US ECI 8:30 AM ET	ADP Employment Report C ■ 8:15 AM ET	Challenger Job-Cut Report 7:30 AM ET	Baker-Hughes Rig Count 1:00 PM ET
Simply Economics »	Redbook 8:55 AM ET	Productivity and Costs C ■ 8:30 AM ET	Jobless Claims C ★ 8:30 AM ET	Treasury Budget C ■ 2:00 PM ET
Gallup US Consumer Spending Measure 8:30 AM ET	4-Week Bill Auction 11:30 AM ET	Wholesale Trade 10:00 AM ET	Gallup Good Jobs Rate 8:30 AM ET	
Factory Orders C ■ 10:00 AM ET	3-Yr Note Auction 1:00 PM ET	EIA Petroleum Status Report ★ 10:30 AM ET	Import and Export Prices C ■ 8:30 AM ET	
4-Week Bill Announcement 11:00 AM ET	Consumer Credit C 3:00 PM ET	10-Yr Note Auction 1:00 PM ET	Bloomberg Consumer Comfort Index 9:45 AM ET	
3-Month Bill Auction 11:30 AM ET			Quarterly Services Survey 10:00 AM ET	
6-Month Bill Auction 11:30 AM ET			EIA Natural Gas Report 10:30 AM ET	
TD Ameritrade IMX 12:30 PM ET			3-Month Bill Announcement 11:00 AM ET	
Neel Kashkari Speaks 3:00 PM ET			6-Month Bill Announcement 11:00 AM ET	
Treasury STRIPS 3:00 PM ET			30-Yr Bond Auction 1:00 PM ET	
			Fed Balance Sheet 4:30 PM ET	
			Money Supply 4:30 PM ET	

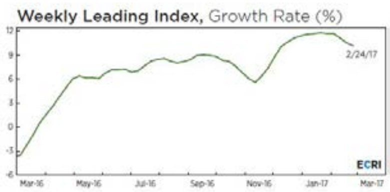
ECONODAY.

Important Legal Notice: Econoday has attempted to verify the information contained in this calendar. However, any aspect of such info may change without notice. Econoday does not provide investment advice, and does not represent that any of the information or related analysis is accurate or complete at any time. Legal Notices © 1998-2016 Econoday, Inc. All Rights Reserved.

★ Market Moving Indicator
■ Merit Extra Attention

Finally, a look at the leading index of economic indicators from the ECRI shows that it has lost momentum but still expects a better economy later in the year. We shall see if this series, which is heavily influenced by the direction of stock prices, is making a good call or merely reflecting the rally in stocks since the election of Donald Trump last November.

Due to my travel schedule, the next update will be in two weeks where we will update our thoughts on both the economy and what the **Fed** decided to do at their March meeting.



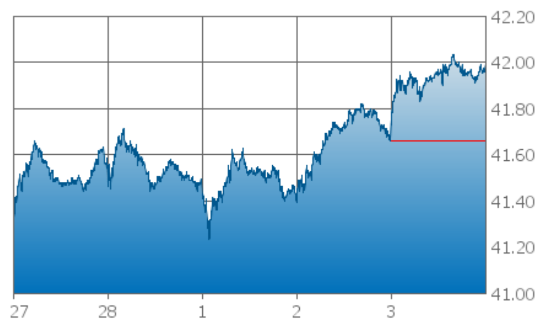
**

SYMBOL: MCD

Your experience when visiting the golden arches is about to change. **MCDONALD's** unveiled its long-term global growth plan during the Company's Investor Day event last week. MCD wants to bring more control, convenience and personalization to its customers using kiosks to place orders, staffed with guest experience leaders to assist in the process. CEO Steve Easterbrook says diners will be able to place their order and skip the front counter entirely, with their food brought right to their table. Customers will also be able to place orders directly on a mobile app for pickup, or have a kiosk recognize their app profile.

Mobile order and pay will be launched at 20,000 restaurants in some of **MCDONALD's** largest markets by the end of 2017. MCD's stock was upgraded by **Wall Street** analysts after the announcement. The Company plans to return $22 to $24 billion to shareholders in terms of dividends over the next three years. Shares are trading near their all-time high, and have risen 9 percent over the past six months

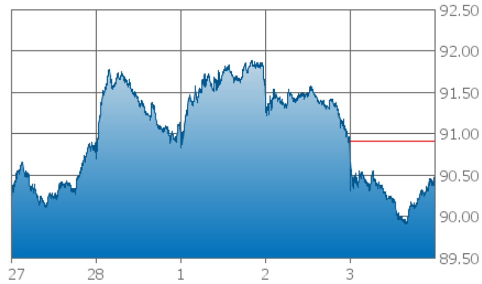
SYMBOL: GSK



GLAXOSMITHKLINE's full year results show the pharma giant is <u>improving</u>. All three major segments of its business (pharma, vaccines and consumer healthcare) saw healthy growth. Pipeline progress continues to impress for future revenue streams, and cash flow is also improving. GLAXO reported fourth-quarter core earnings of 70 cents per share, beating estimates of 57 cents. Quarterly revenues were up 3 percent to $10.3 billion, also topping expectations.

Pharmaceuticals were up 4 percent in the quarter, while consumer health products edged up 2 percent. GSK's Vaccines segment was flat. The Company expects to face generic competition for its top-selling ADVAIR this year which may impact revenue growth. Still, **GLAXO** expects core earnings per share to grow between 5 and 7 percent in 2017. Shares of GSK are trading nearly 9 percent higher so far this year, and pay investors an annual dividend yield of nearly 5 percent.

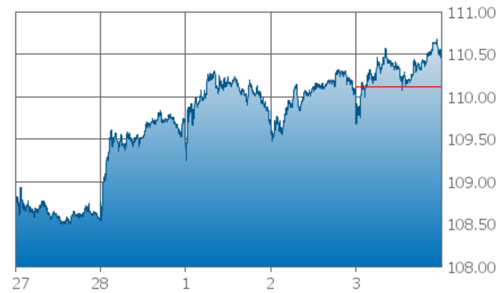
SYMBOL: PG



Shares of **PROCTOR & GAMBLE** hit a new 52-week high last month as the Company continues to execute on its cost control initiative by streamlining its product brands. News released in February that TRIAN FUND MANAGEMENT purchased $3 billion in shares of PG in the fourth quarter of last year also helped send the stock to these new levels.

Earnings at PG during the fourth quarter were $1.08 per share, beating estimates by 2 cents. Revenues were also better than expected, coming in at $16.9 billion. PG has trimmed its product brands down to 65 by exiting more than 40 others. The personal products Company issued upbeat fiscal year 2017 growth projections, to go along with its 3 percent annual dividend yield. Shares of **PROCTOR & GAMBLE** have risen 7.5 percent so far in 2017.

SYMBOL: PEP



PEPSICO finished its fiscal year on a strong note, as it reported a better than expected fourth quarter. Earnings came in at $1.20 beating expectations by 4 cents. Earnings rose 13.2 percent year over year, despite the adverse impact of currency headwinds on sales. Full year 2016 core EPS came in at $4.85, up 6 percent year over year. Revenues increased 3.7 percent primarily driven by higher demand for beverages and food/snacks in Latin America and Asia, the Middle East and North Africa.

PEP is expected to earn $5.09 per share for all of 2017, which implies the beverage maker will grow nearly 5 percent from last year. Management plans to return $6.5 billion to shareholders through dividends and share repurchases. Shares of **PEPSICO** are trading near its 52-week high, return a 3 percent annual dividend yield to investors, and remains a potential takeover target.