Tom McIntyre's Weekly Commentary & Outlook

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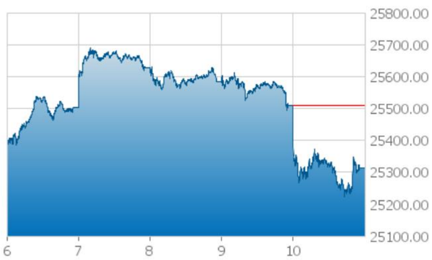
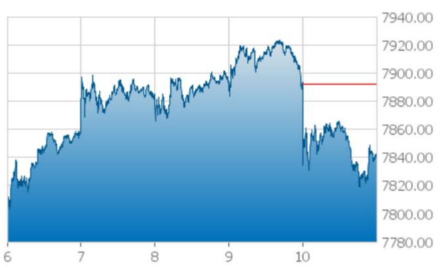
This is Tom McIntyre with another client update as of Monday August 13th, 2018.

Stocks continued to hold onto gains from superior earnings reports despite the headwinds from the concerns over Turkey as well as the usual drama emanating from Washington DC.



Dow 5-Day



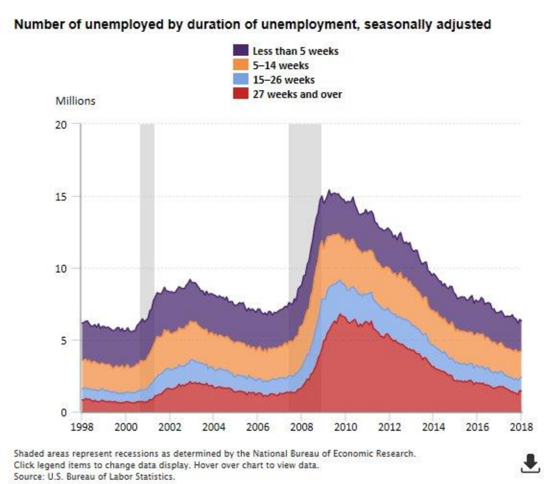
Nasdaq 5-day

As the charts above illustrate, last week saw the ***Dow Jones Industrial Average*** falling less than 1% point while the ***NASDAQ Composite*** gained less than 1% point. Gains in Apple offset the continuing, and frankly understandable, concerns over the various social media companies and their efforts to interfere with the free speech issues as well as previous concerns over privacy. This story is early, and it should serve as a negative towards their valuations going forward.

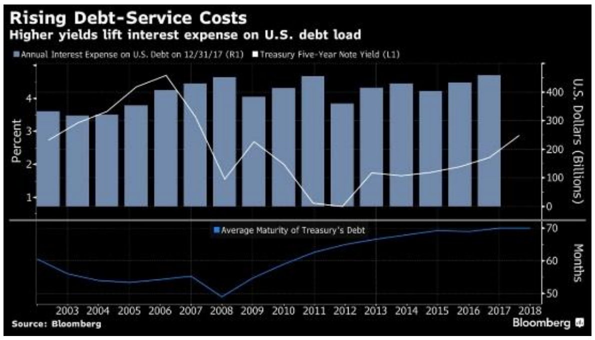
Markets & Economy

The earnings reports have certainly come in well for the names in our portfolios. When you have a growing economy and lower corporate tax rates, one can expect the sort of news which was largely reported (see our comments below). This was borne out by the recent unemployment report which showed the rate of unemployment to have fallen below 4% once again.

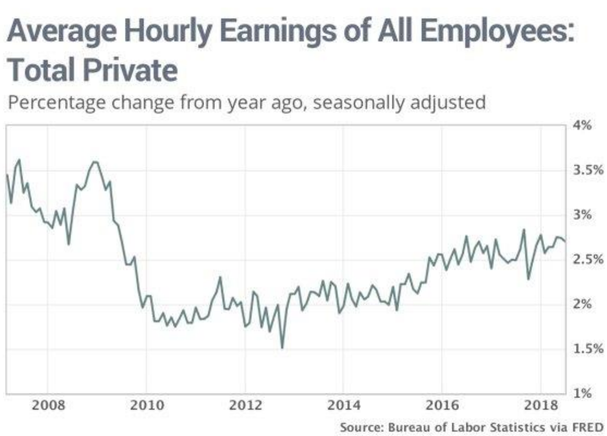
As the chart below does show, however, that it does not mean the workforce is tapped out. In fact, the number of long-term unemployed remains very high as does the number of people unemployed (let alone uncounted) in general. The notion that there is a labor scarcity is a fiction made up in DC and embraced by the Federal Reserve Board. The reality of course is that skill sets have been ignored and replaced by government hand-out programs which have served in the short-run to cause shortages in certain industries. Time and proper incentives will fix this. NOT higher interest rates.



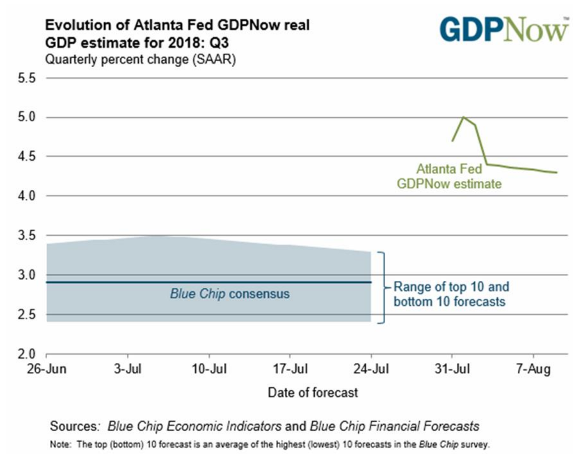
The idea embraced by the DC crowd that we need to slow down this economy is one built in the 1970ôs and perpetuated today by the elites of both parties. Not only will this hurt the economy but look at what it is doing to the government deficit problem as the servicing of the $21 trillion in debt jumps (see chart below). Thus, through this policy error we not only hurt growth but raise interest expense which does not purchase goods or provide services to the American people. What a tragedy. Thank you, Eggheads in DC.



One can monitor this carefully by looking at the next chart which shows (all the claims to the contrary) that real wages in this country have not had anywhere near the jump which either the Trump administration or the Fed seems to think. In short it is a fantasy which is being used by the Fed to justify raising rates at a time of falling commodity prices (CRB today is at a six-month low), very strong US dollar (just ask China or Turkey) and a growing trade deficit as emerging markets collapse under the weight of these factors.



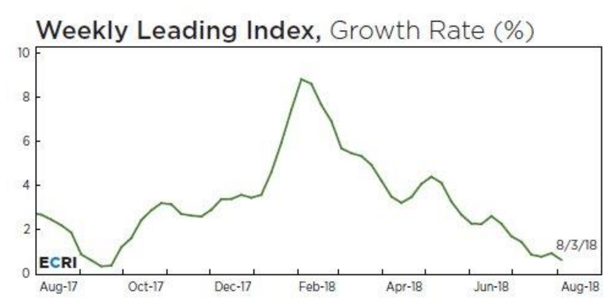
The perception today is that the growth rate here at home will continue to excel. The Atlanta Fedôs estimate for Q3 (chart shown below) shows a 4.3% pop. This will never happen. Anything greater than 2.5% will be fantastic. By the way, the US bond market continues to agree with me (or I with it) as long-term bond yields refuse to move higher thus producing an ever-flatter yield curve. Something which should not be dismissed as a classic sign of slower economic growth.



What to Expect This Week

Itôs August and things will be slow. I expect that the resolution of matters with Turkey, Mexico and other nations will influence trading if anything does. Donôt look for much action until after Labor Day which is early this year.

The update from the ECRIôs index of leading economic indicators gives no reason to think the 3rd quarter will be a disappointment from a growth point of view. Frankly, slower reported growth could put the FED on hold and usher in a 4th quarter rally. The only problem will be those mid-term elections. Itôs always something.



Our next update will be the week after Labor Day. By then we should have a better read on things.

AKAM 1-year

Shares of ***AKAMAI (NASDAQ: AKAM)*** gained ground last week as Cloud Security Solutions revenue ramped up second-quarter earnings. The Company reported overall earnings of 83 cents per share, a 34 percent increase from the second quarter of 2017 and a 32 percent increase when adjusted for foreign exchange. Revenue was $663 million, a 9 percent increase year-over-year and 8 percent higher when adjusted for foreign exchange.

The sweet spot continues to be Cloud Security Solutions at ***AKAMAI***. During the quarter this growing division posted revenue of $155 million, some 33 percent higher than during the second quarter of 2017. The Web Division of the Company brought in $351 million, up 11 percent year-over-year, while revenue from Internet Platform Customers was $44 million. ***AKAMAI*** spent over $166 million to repurchase 2.2 million shares of its common stock during the quarter.

Shareholders have enjoyed owning ***AKAMAI***, witnessing a 15 percent gain in the stock price so far in 2018.

ENB 1-year

It was a powerful quarter for top Canadian pipeline operator ***ENBRIDGE (NYSE: ENB)***. The Company beat analystsôestimates for quarterly profit by reining in costs, and simultaneously growing its oil transportation business. Earnings during the past three months were $822 million, or 63 cents per share, a jump of 16.5 percent from the previous second quarter. ***ENB*** had strong operational performance across all business segments, including another quarter of record average production with its Liquids Mainline System.

ENBRIDGE transported 2.64 million barrels per day of crude oil to its customers across Canada and the United States during the quarter, up from 2.45 million barrels in the year-ago quarter. Distributable Cash Flow (DCF) was $1.858 million for the second quarter, compared to $1.324 million for the second quarter of 2017. Approximately $7 billion of new projects at ***ENBRIDGE*** are on track to come into service during 2018, $1.6 billion which have been brought into service year-to-date.

ENB has embarked on an aggressive assets sale program to reduce its debt, following its $28-billion acquisition of SPECTRA ENERGY last year. They have announced agreements to sell $7.5 billion of non-core assets this year, significantly above its original target of $3 billion. The Company is on track to achieve its stated financial guidance for the remainder of the year, with its outlook for DCF per share is expected to be in the upper half of the $4.15 to $4.45 per share range. Remember too, that the Company is projecting dividend hikes of 10 PERCENT PER YEAR, over the next two years.

Enterprise Products Partners L.P.

EPD 1-year

ENTERPRISE PRODUCTS PARTNERS (NYSE: EPD) reported record results for its second quarter thanks to strong volume growth across its integrated system of assets and the impact of higher natural gas prices from its NGL processing business. Operating income and net income were both significantly higher for ***EPD*** than the year-ago second quarter. Earnings per unit came in at 31 cents, beating consensus estimates.

Gross operating margins from the Companyôs NGL Pipelines & Services segment increased 20 percent to $914 million for the second quarter of 2018, up from $760 million for the second quarter of 2017. ***EPD’s*** natural gas processing and related NGL marketing business generated a 51 percent increase in gross operating margin to $310 million for the second quarter of 2018 compared to $205 million for the second quarter of 2017.

ENTERPRISE INCREASED ITS CASH DISTRIBUTION YET AGAIN! This makes the 56th consecutive quarter. The raise of 2.4 percent to 43 cents per unit was paid last week to unitholders of record on July 31. As importantly, ***ENTERPRISE*** reported distributable cash flow of $1.4 billion for the second quarter of this year, WHICH PROVIDES 1.5 TIMES COVERAGE of that 43 cents per unit cash distribution. In other words, the payout is more than covered. $5.3 billion of assets were placed into service at EPD in the second quarter.