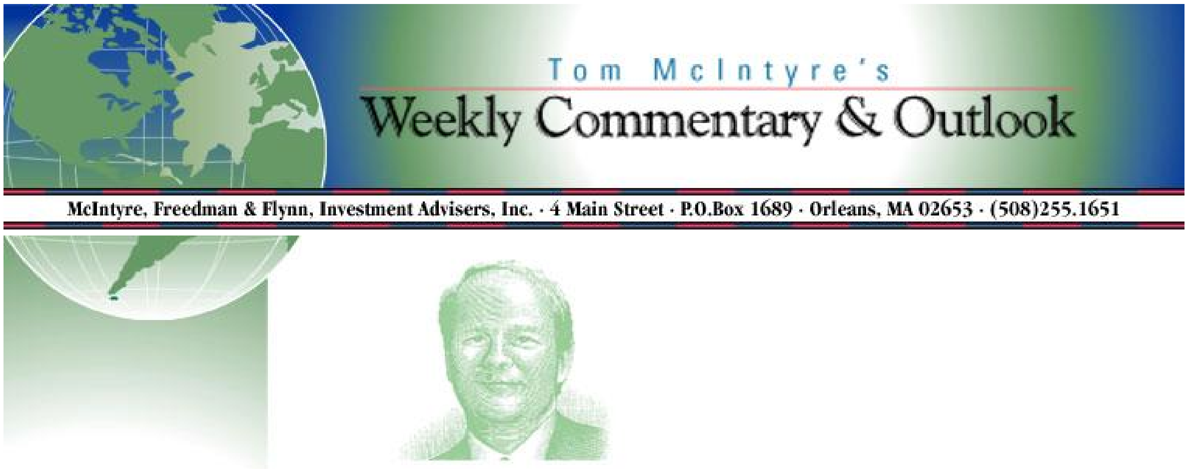
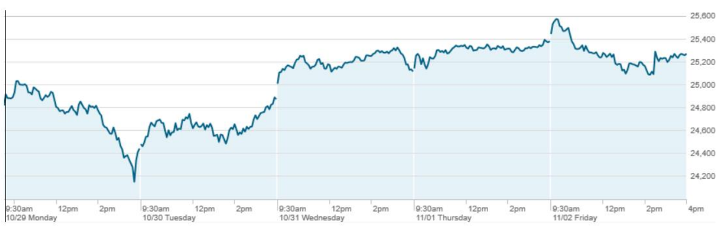
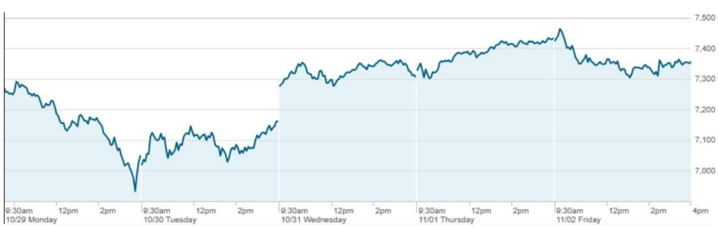


This is Tom McIntyre with another client update as of Monday November 5, 2018.

The 1st week of November saw daily moves up and down but solid earnings in the end put the market higher for the week albeit with some high-profile disappointments of sorts (Apple).



Dow 5-day



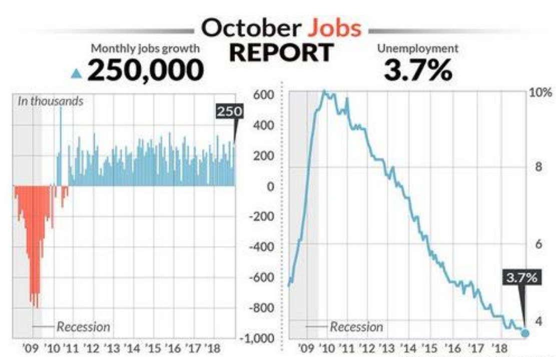
NASDAQ 5-day

For the week, both the ***Dow Jones Industrial Average*** as well as the ***NASDAQ Composite*** rose around 2.5%. A nice improvement over the action which dominated the month of October.

Markets & Economy

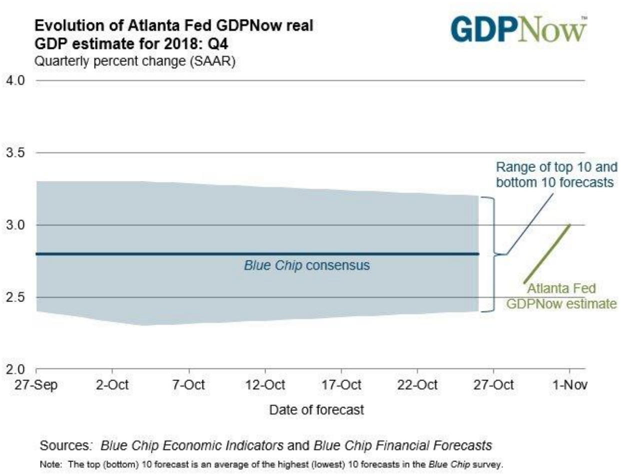
As usual the markets have been buffeted by the macro themes of trade policy, upcoming election results, outlook for the economy and of course monetary policy. Given all the varying opinions, many market participants are taking a wait and see approach to gain some clarity. The elections of course will be held this Tuesday and President Trump seems scheduled to meet with the Chinese leader in a few weeks, where anything can happen. I won't hazard a guess, but the Chinese economy and financial markets have really been struggling this year. They just might be ready to get serious if the President is not repudiated at the polls which now appears unlikely.

As far as the economy is concerned, the news is just fantastic. Friday's employment report was just about text book perfect (see chart below). Unemployment stayed at historic lows, manufacturing jobs increased, wages seem to have increased, productivity is rising, and inflation is falling especially given the recent correction in oil prices. In other words, President Trump couldn't have hoped for a better backdrop in which to hold the mid-term elections. We shall see if America has taken notice of this impressive feat or not.



Of course, not everything is helping the stock market. The good news is regarded by the Federal Reserve Board as justification to raise interest rates as if they were on auto pilot. The problem here is that the economy is doing well but warning signs are there to take notice of. The rest of the world is struggling. I mentioned Chinaôs issues, but Europe is also struggling and so is Latin America. In short, the strong US dollar and lousy policies overseas have served to lower the estimates of global growth going forward. This has brought oil prices down as well. While good for inflation it has not changed the Fedôs view that our economy might just be too hot. This is a notion born in the 1970ôs and bares no relationship to the modern global economy. Various skill sets are scarce but people to train and learn them are not. The idea that ever-higher interest rates is the answer is absurd.

The near-term outlook is still looking just fine. The Atlanta Fed estimates a Q3 GDP growth rate to come in at 3% (see chart below). If this happens then 2018 will truly be a breakthrough year for the US economy. Hardly though does it indicate one that is on the verge of becoming too ñhotò, whatever that means to the eggheads in DC.



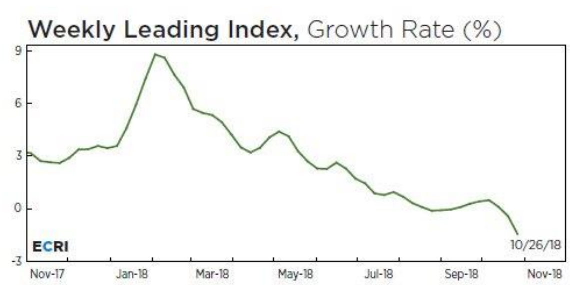
What to Expect This Week

Earnings season is just about over for Q3. We had a very good outcome and many of our more conservative names did their jobs of outperforming when the markets got nasty. Rising dividends, share buybacks, and brand domination is a good way of not getting caught up in a market swoon.

There will be a Fed meeting on Tuesday and Wednesday. Nothing more is expected to happen as they have previously signaled that a December move is likely. Even more so now that the employment picture remains ostensibly strong.

Finally, the big item this week will be Tuesdayôs election results. Obviously, the Trump agenda has helped the economy. Should the Republicans lose the House, the next two years will be gridlock and perhaps a trip down impeachment lane. Sometimes gridlock is viewed positively but I donôt think that will be the case today. The markets have no doubt priced in this scenario as nearly everyone predicting these things expect the Democrats to win. This, of course, was the scenario just two years ago but beltway types have no shame when it comes to remembering their very poor record of forecasts whether its political or economic.

The chart below from the ECRI shows its weekly look at leading economic indicators. It is now negative on a year-over-year basis. There is nothing to justify tightening but remember the Fed really doesnôt forecast. They simply straight line whatever the trends of the day until the data changes. Then they react. Which is why they have been one of the primary causes of every financial panic and/or recession since their creation over 100 years ago. Why they are so admired and held above accountability escapes me.



DWDP one-year

AKAM one-year

DowDuPont's stock rallied 11 percent higher last week after the Company announced strong earnings and a NEW SHARE REPURCHASE PROGRAM. Earnings per share during the third quarter came in at 74 cents for the agro-chemical giant, 3 cents better than estimates. **DWDP** raked in net sales of $20.12 billion, up 10 percent from the year-ago adjusted sales.

DWDP witnessed higher sales volumes and gains in local prices across all segments and geographic regions. Revenues from the Companyôs Materials Science division were $12.4 billion, up 13 percent from the year-ago quarter. Specialty Products revenues were $5.7 billion, an 8 percent gain year over year, while sales from the Agriculture group were up 2 percent.

DowDuPont remains on track to split into three separate businesses. Moving ahead, **DowDuPont** is seeing strong global demand for its products and has raised its merger cost synergy commitment to $3.6 billion from its earlier expectations of $3.3 billion. Savings from the deal have grown to $1.3 billion. The Company will be instituting the new share buyback program of $3 billion over the next two years.

Shares of **Akamai** popped 10 points higher after trouncing its earnings estimates last week. Thanks to a robust increase in revenues, lower tax rate, and favorable impact of cost reductions initiatives, **AKAM** posted earnings of 94 cents per share during the third quarter, well ahead of Wall Streetôs 83 cents call. Revenues of $670 million were also better than expected and 7 percent higher than the year-ago period.

The Companyôs top line benefited from robust performance out of its growing security products and Media and Carrier Division. Cloud Security Solutions, which makes up 25 percent of **Akamai's** total revenues, surged almost 37 percent year over year. The Web Division posted an 8 percent increase during the quarter, with the Media and Carrier Division gaining 6 percent versus the third quarter of 2017. Shares of **AKAM** have increased more than 35 percent for investors over the past 12 months.

KO one-year

EPD one-year

Strong sales of ñpremiumò water and sugar-free sodas powered third quarter earnings for **Coca-Cola Co**. The worldôs largest beverage maker posted adjusted net income of $1.88 billion, or 58 cents per share, three cents higher than the Street predicted. Revenues came in at $8.24 billion in the period, just above expectations.

Sales of Smartwater and sports drinks jumped 5 percent during the quarter, with particularly strong growth in China and Mexico. **Coke** says it will launch Smartwater in 20 markets by the end of this year, bringing it to a total of 32 countries. Global sales of sparkling soft drinks grew 2 percent, led by low-calorie and no-calorie versions of Sprite and Fanta. CEO James Quincey said that **Coca-Cola** Zero Sugar diet soda had its best sales quarter in 10 years.

In August, **Coke** announced a $5.1 billion acquisition of coffee company COSTA LIMITED, which is expected to close in the first half of 2019. The Company is focusing on ready-to-drink coffee beverages and coffee vending machines as well as selling pods and loose beans. Despite much speculation, **Coca-Cola** reiterated that they DO NOT have any immediate plans to get into cannabis-infused drinks. Shares of **KO** have risen 15 percent over the past six months and are near 52-week high levels, while also paying investors an annual dividend of 3.25 percent.

Enterprise Products Partners L.P.

It was a powerful quarter for **Enterprise Products Partners** as well. The Houston-based pipeline conglomerate posted revenue of $9.59 billion during its third quarter. Earnings, adjusted for non-recurring gains, came to 51 cents per unit, 5 cents better than Street estimates. **EPD** reported a 62 percent increase in gross operating margin to a record $2.1 billion for the quarter, compared to $1.3 billion for the third quarter of 2017. The Companyôs gross operating margin from its NGL pipelines & services segment alone increase 38 percent to a record $1.1 billion.

During the quarter, **EPD** announced they will INCREASE THE QUARTERLY CASH DISTRIBUTION 2.4 percent compared to Q3 in 2017. Whatôs great for investors is that **Enterprise's** distributable cash flow of $1.6 billion provides 1.7 TIMES COVERAGE of the 43 cents per unit cash distribution, meaning there is room to continue raising this payout. **EPD's** annual yield is better than 6 percent for unitholders and has risen 7 percent over the past 12 months.