Tom McIntyre's
Weekly Commentary & Outlook

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This is Tom McIntyre with another client update as of Monday June 4th, 2018.

Markets continue to vacillate between excellent economic prospects here at home versus macro headlines of unrest coming from such places as Italy, Brazil, Turkey and frankly just about all the rest of the world.

While the price of oil has pulled back slightly the perception remains that the world is awash in oil. That thinking is so 2015. Todayôs reality is that after four years of underinvestment the danger really lies in the other direction. OPEC is quickly becoming a paper tiger as several of its members, including Venezuela and Iran, are facing political difficulties which will continue to cast a pall over future supplies.

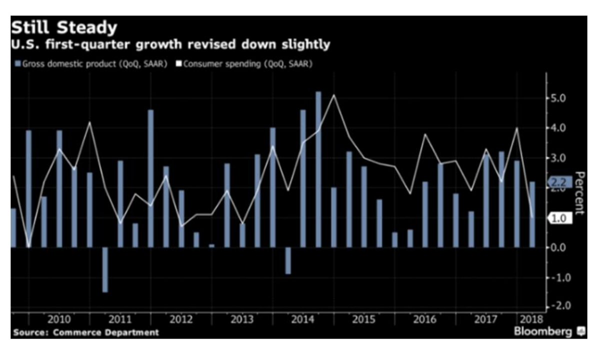
All in all, markets are doing fine given the mixed background of macro news. Last week the ***Dow Jones Industrial Average*** fell by .5% while the ***NASDAQ Composite***, led by Microsoft, moved higher by 1.6% (see following charts).

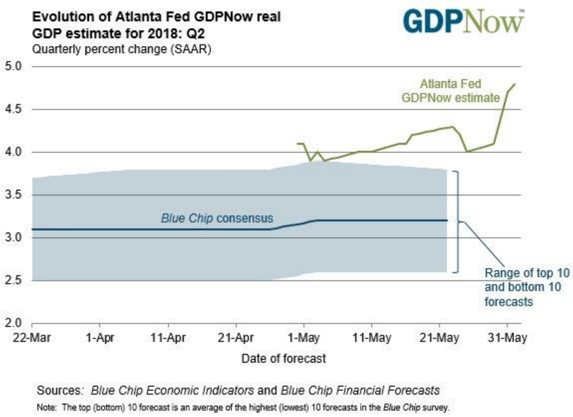
Dow Jones 5-day (Monday 28th holiday)

Nasdaq 5-day (Monday 28th holiday)

Markets & Economy

Last week the government revised downwards the growth estimated in this yearôs 1st quarter (see chart below) to 2.2%. This really is nothing to crow about but it did represent the best 1st quarter of a year in sometime so perhaps there is reason for optimism for the rest of this year. In fact, the Atlanta Fed in its most recent estimate for the 2nd quarter (see second chart) estimates a rate of growth well over 4%. I doubt that we shall see a number that good but anything over 3% should be viewed quite favorably for growth prospects.





There are things that the media seems to be overlooking. Interest rate sensitive sectors of the economy, namely housing, simply are not doing well. Refinancingôs have stopped and sales of new and used homes are falling behind estimates consistently. Consumer spending recovered in April as the Trump tax cuts kicked in but higher gasoline prices will hurt going forward. Incidentally, the inflation gauge most favored by the FED remains below 2% on a core basis for the past twelve months. So, the popular narrative in the financial media about inflation coming back is false as it has been now for the past nine years of their flogging it.

My take is that todayôs economy is more vibrant than anything seen during the Obama years but it is not some sort of economic boom as was experienced in the 1980ôs. Time will tell but with higher oil prices, higher interest rates and confusion in many important economies around the world (think Italy, Spain and Turkey just to name a few) plus the trade disputes dominating the news and it just remains hard for me to see a true boom happening this year.

Last Friday saw the employment report for April come in with a resounding gain of 223K non-farm payroll jobs (see next chart). Amazingly, the ñofficialò unemployment report showed just a 3.8% unemployment rate. This sounds too good to be true and it is. Once again, the labor participation rate is falling and as a result the unemployment rate is falling. There are now over 95 MILLION working age people in America who are not considered part of the work force. To me the notion that we are near full employment with this number sitting on the sidelines makes the 3.8% figure very misleading.

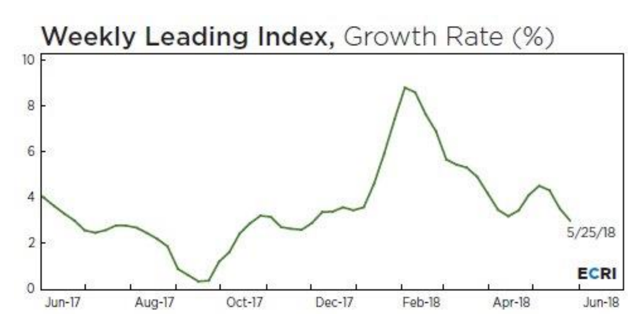
Donôt get me wrong, the numbers are fine but not some sort of a boom. Frankly, the markets agree with me. Long-term interest rates have fallen over the past two weeks which is inconsistent with the popular boom theory. As I have said many times, given the number of hikes already done, given the lack of wage growth here at home (just 2.7% year over year), given the distress around the globe and given the uncertainties with the various trade disputes, it just seems prudent to leave things alone from a policy perspective. The eggheads at the Fed donôt agree, letôs see just what kind of damage they do going forward.

What to Expect This Week

Well there will be some economic numbers released but nothing is going to change the narrative described above.

Most importantly, and by extension impossible to predict, will be the developments as they occur for the upcoming summit meeting with North Korea which supposedly will happen early next week. Markets will be transfixed with this as it gets closer. In addition, the trade and tariff battles will continue which will also have different impacts depending upon the headlines. Itôs nice to own very successful companies on a long-term basis versus chasing your tail trying to outguess such things day by day.

Finally, our look at the weekly ECRI index of leading economic indicators shows continued slowdown in the year-over-year growth rate. Thus, their expectation is of a slower growing economy not a boom. Remember though a growing economy without a boom is the ideal scenario for the stock market. It keeps earnings rising but interest rate levels at bay.



MDT 12-month

Symbol: MDT

Shares of ***MEDTRONIC*** surged to nearly all-time highs after it surpassed quarterly earnings expectations by resolving lingering issues in its diabetes unit and posting double-digit growth for its pain therapies. For the quarter, the medical-products maker reported adjusted profit of $1.42 per share on $8.14 billion in sales, rising 7 and 2.9 percent respectively.

MDT's diabetes devices generated $645 million in sales, rising 26 percent. The Company noted strong demand for its new sensor-augmented insulin pump systems. ***MEDTRONIC's*** minimally invasive therapies beat expectations by 11 percent with sales of $2.24 billion, while the restorative therapies group grew 9 percent to $2.13 billion. For the year, ***MDT*** expects to see 4 percent to 4.5 percent organic sales growth with adjusted profits coming in around the $5.10 to $5.15 per share mark. ***MEDTRONIC's*** stock is up 9 percent this year and recently received several upgrades from Wall Street analysts.

AKAM 12-month

Symbol: AKAM

AKAMAI continues to gain market share in the cloud security solutions area. ***AKAM*** now serves some 500 financial institutions, 400 of which implement their cloud systems, including ALL THE TOP 25 U.S. banks and 22 of the top 25 in Europe. Even though cloud security represents just 22 percent of ***AKAMAI's*** revenues, the growth in the division is up 36 percent year over year. The Company now processes 1.7 trillion domain name system queries per day for over 100 million domains. Management says its cloud security business revenue run-rate is now up to $600 million per year.

AKAMAI's shares have gained nearly 60% over the past 12 months, as the Companyôs stock has made several 52-week highs in the month of May and has operating margins of 30 percent.

GSK 12-month

JNJ 12-month

Symbol: GSK

Symbol: JNJ

GLAXOSMITHKLINE and ***JOHNSON & JOHNSON*** have been granted approval from the EUROPEAN COMMISSION to start marketing JULUCA, a groundbreaking two-drug HIV treatment for patients in the Eurozone. This drug combines two approved HIV drugs, Tivicay and Edurant, into a single, once-daily pill for the treatment of virologically suppressed HIV-1 infection. JULUCA gained approval in the United States in November of last year and has generated sales of more than 10 million Euros in the first quarter of 2018.

JULUCA reduces the number of medicines HIV patients take without compromising on the efficacy of a conventional three-drug regimen.

Separately, ***GSK*** has received approval from the US FOOD & DRUG ADMINISTRATION for the use of ARNUITY ELLIPTA, a once-daily inhaled medicine for the maintenance treatment of asthma in children from as young as 5 years. This makes ARNUITY one of the few once-daily treatments for asthma licensed in the USA in this younger age group, where there remains a significant need for convenient and effective treatment options. Shares of ***GSK*** are up 15 percent so far in 2018, and rewards investors with an annual dividend yield of more than 6.5 percent.