Tom McIntyre's

Weekly Commentary & Outlook

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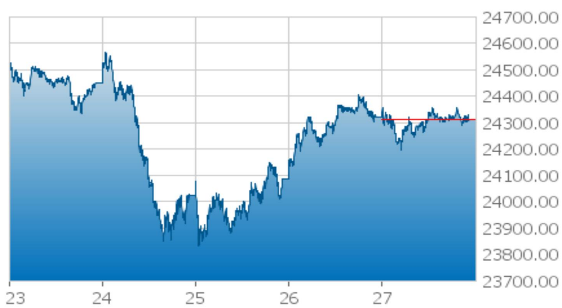
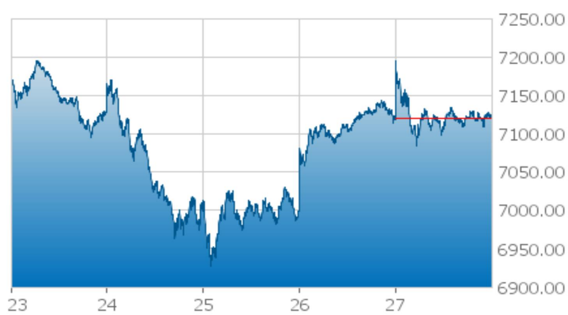
This is Tom McIntyre with another client update as of Monday, April 30th, 2018.

Markets settled down last week as overall excellent earnings (see our comments below) offset the growing consensus that the economy was so strong that repeated interest rate hikes are likely. I don't agree with this consensus but I can't argue that it exists.



Dow 5-day



Nasdaq 5-day

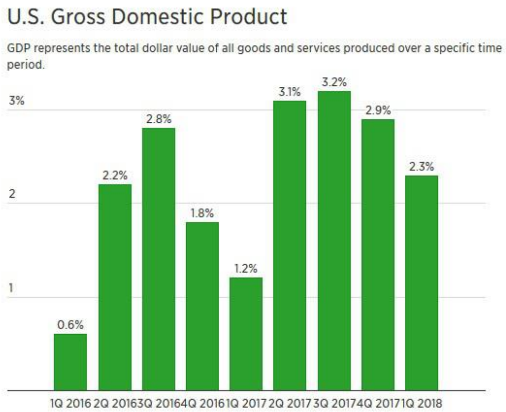
As the charts above illustrate, while many individual names had great weeks (Boeing), overall both the NASDAQ Composite and Dow Jones Industrial Average fell by less than 1 percentage point.

Markets & Economy

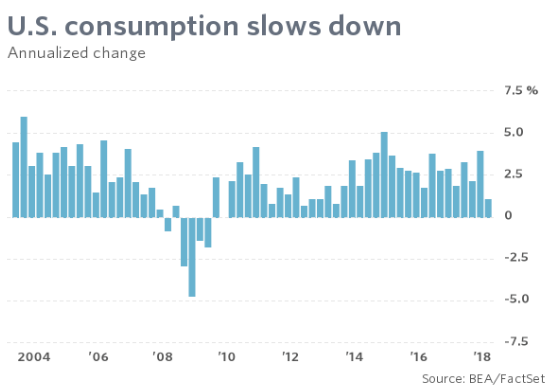
The big news last week came with the deluge of mostly pleasing earnings reports and outlooks which included in many cases dividend hikes etc. As we have pointed out, this background serves to buffer the stock market whenever the macro news gets out of hand with the sensational financial media reporting such as the recent trade ñwarsò stories etc. Currently, that is all speculation and frankly our trading partners, including China, need the US far more than the other way around. Letôs see where the negotiations lead before we join the crowd of panic button pushers.

More concerning to me is the constant drum beat that higher interest rates are needed to slow this economy down. Think about it, President Trump and his agenda is all about speeding up growth and freeing the animal spirits of the US economy. Yet, the Federal Reserve can only and always does talk about the looming threats of inflation and scarce resources. Even worse, for some reason the Fed whose track record on forecasting is abysmal is given a free pass for whatever they continue to estimate.

Clearly, the 1st quarter GDP (see chart top of next page) was a disappointment but it didnôt move the narrative one inch. The rate of growth was estimated at just 2.3% on an annualized basis. Better than previous yearsô 1st quarters but really is it anything to get excited about? Even worse, the paltry rate achieved was done via inventory accumulation (bad for future growth) and an improvement in the trade deficit (thank you President Trump).



Actual personal consumption was a laggard (see chart below) and many sectors which are interest rate sensitive such as housing simply didnôt do much. In other words, it was a totally unremarkable quarter. Upticks in manufacturing and the booming energy sector (which is a very good thing for our country) were offset by higher interest rates etc.



All of which is my way of saying, ñwhy canôt the policymakers not only get on the same page but just wait to see what their actions already taken accomplish?ò In the Fedôs case, 5 interest rate hikes since Trump was elected (which is 5 more than in all of 8 years of the Obama administration) should be given time to gauge its impact. Clearly, if inflation were a problem then circumstances would be different. But inflation is not a problem and donôt let anyone tell you it is.

To the extent prices are rising it is a result of government interference in healthcare, education (via guaranteed loans) etc. Where markets can function, there is a lack of pricing power. Amazon has exploited this and one could look at the carnage in retailing to understand.

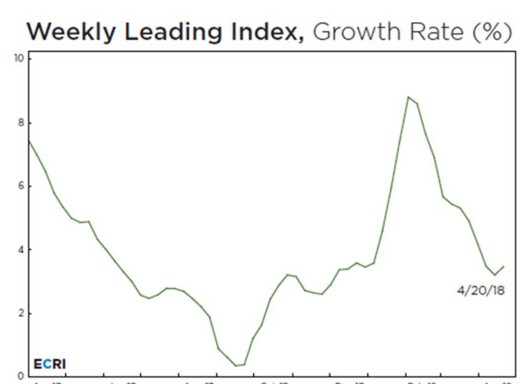
The markets do agree with me. All one should do is look at the very flat yield curve. Remember, the Fed influences short-term rates but markets set the longer-term yields. If the market really believed the popular narrative, which the Fed is peddling, then bond prices would be falling. They are not. Just as dramatic, the US dollar has been rising, gold has been falling and growth rates around the world are coming in much lower than expected. Last weekôs number from the UK on their economy was very disappointing. The rest of Europe of course has never even pretended to be recovering. My advice to DC power brokers is to stand pat and not feel that something must be tweaked every six weeks. If they had any pride they would consider their truly sad efforts to predict, let alone manage, this economy.

What to Expect This Week

The earnings season still has another couple of very busy weeks. In addition, this morning featured several deal announcements which included our own Walmart. Thus, the support for the stock market is strong but on any given day the scare mongering of the traders can create volatility. Nothing can be done about that other than to take advantage.

In addition, on Friday is the employment report for April. While last month was a disappointment, it was ignored. The narrative of higher interest rates is a clueless mantra in financial circles. Should this month be bad, will it be ignored? If it is strong then of course the narrative will be reinforced. Iôm not sure this report can either be believed or expected to be a positive for market psychology.

Finally, the chart below from the ECRIôs index of leading indicators shows lackluster outlook into the end of the year. Frankly, until I see otherwise, I tend to think that while earnings are strong the growth rate for 2018 will not be much different than was experienced last year. Better than the Obama years but nothing to crow about. Higher interest rates, in my view, represents the true threat to the break out on growth. Will the Fed allow it or not? That is the story the financial media is missing but is really the one to focus on.



Symbol: BA

BOEING's profit surged past Wall Street estimates in the first quarter. Booming demand for commercial jets pushed the worldôs biggest plane maker to raise forecasts for cash flow and earnings in what promises to be YET ANOTHER RECORD YEAR. BAôs core earnings, which exclude certain pension costs, jumped to $3.64 per share from $2.17 a year ago.

BOEING sold a record of 763 aircraft last year and has already announced a 9 percent rise in commercial deliveries in the first three months of 2018. The 184 deliveries this year are due to strong demand from airlines around the world dealing with booming passenger air travel demand.

Core operating margin rose to 10.7 percent from 8.5 percent a year ago, while revenue rose 6.5 percent to $23.38 billion. The Company raised its full-year operating cash flow forecast slightly to between $15 billion and $15.5 billion. With recent purchases by Chinese Airliners, so much for trade war concerns!

Symbol: MSFT

MICROSOFT had another exceptional quarter as revenue from its cloud computing unit broke records, once again. **MSFT** signed up more businesses to its AZURE cloud computing services and Office 365 productivity suite. Revenues at **MICROSOFT's** productivity and business processing unit, which includes OFFICE 365, rose 17 percent to $9 billion, topping analystsô average expectation of $8.73 billion. Overall, the software giantôs revenue rose 16 percent to $26.82 billion, also higher than the Street expected.

Net income rose to $7.42 billion, 95 cents per share in the third quarter ended March 31, up from $5.49 billion or 70 cents per share, a year earlier. Shares of **MICROSOFT** reached a new, all-time high on Friday. **MSFT** has gained nearly 40 percent over the past 12 months for investors. We expect the Company to raise its dividend soon.

Symbol: BIIB

Sales at **BIOGEN** were 11 percent higher than a year ago as the bio tech company beat Wall Streetôs expectations with its latest earnings report. **BIIB** reported first-quarter 2018 earnings of $6.05 per share, 2 percent better than expected by analysts. Quarterly revenues came in at $3.1 billion. The bottom line rose 16 percent year-over-year.

BIOGEN's multiple sclerosis (MS) drug revenues were $2.1 billion. Oral MS medication, TECFIDERA, experienced a sales increase of 3 percent year over year. The Companyôs newest drug, SPINRAZA, recorded revenues of $364 million in the first quarter with the number of patients receiving the drug increasing 16 percent in the United States and 56 percent outside of the United States.

Coca-Cola

*Symbol: **KO***

A visual makeover at **COCA-COLA** helped the beverage maker sell more soda in North America for the first time in nearly eight years. **KO** introduced four new flavors of Diet Coke in February, putting the sugar-free drink in skinny, colorful cans to try and lure back customers who had switched to other flavored fizzy water and other ow-calorie drinks. And it worked. Along with a new redesigned logo, overall volume rose 3 percent in the first three months of 2018. Adjusted earnings came to 47 cents per share, beating Wall Streetôs estimates.

CEO James Quincey said the relaunch was able to bring back people who had stopped drinking Diet Coke, as well as attract new drinkers such as millennials. The Company has also been selling off parts of its bottling business to focus on ramping up concentrate sales of its drinks. The move has helped **COCA-COLA's** profit rise 16 percent to $1.37 billion over the past year. **KO** pays an annual dividend yield of 3.6 percent.

Johnson & Johnson

Symbol: **JNJ**

JOHNSON & JOHNSON will be raising their dividend for the 56th CONSECUTIVE YEAR. The board of directors at **JNJ** approved a 7.1% increase in the quarterly dividend rate, from 84 cents per share to 90 cents. At the new rate, the indicated dividend on an annual basis is $3.60 compared to the previous rate of $3.36 per share. The next quarterly dividend is payable on June 12th to shareholders of record as of May 29th.