Tom McIntyre's
Weekly Commentary & Outlook

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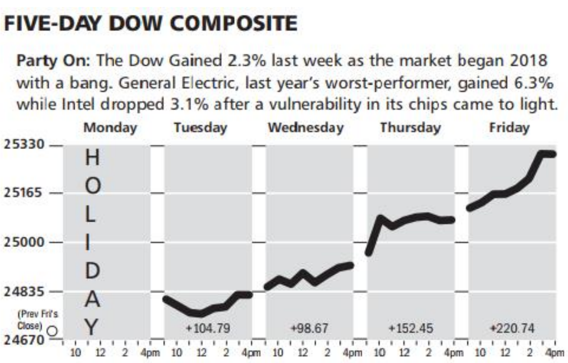
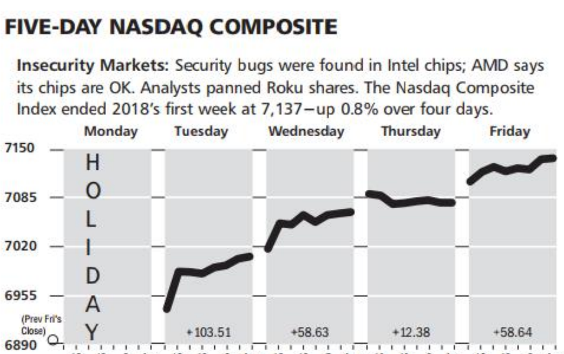
This is Tom McIntyre with another client update as of January 8th, 2018.

The new year has started out where last year left off. The prospect of higher economic growth and lower tax rates for the corporate sector and many individuals is simply too powerful for the bears to deal with at present.





As the charts above illustrate, the ***Dow Jones Industrial Average*** gained 2.3% in the 1st week of trading (led by our holding in Boeing) while the ***NASDAQ Composite*** gained 3.4% on the prospects of the growth expectations for 2018.

Markets &Economy

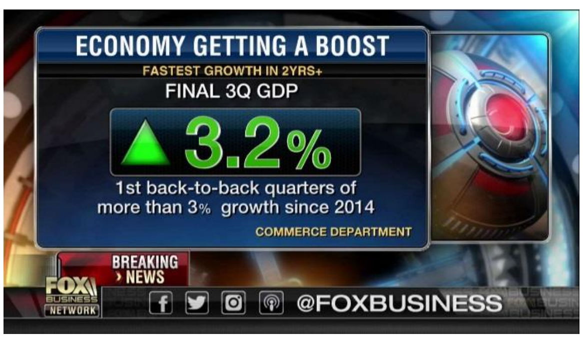
There can no longer be doubt that the stock market likes lower tax rates, higher future growth expectations, and the prospect for still very low interest rates. It helps that corporations have announced in response to the passage of the tax reform bill they plan wage increases, one-time bonuses and other ideas for sharing in the tax savings. Even here in Massachusetts, one of the utility companies has announced lower utility rates due to the cut in the corporate tax rate. What has happened to that melt down scenario that so many promised if Congress passed this bill? Honestly, the number of people who have predicted bad things would happen because of tax cuts is an embarrassment to economic analysis and shows just how partisan not only the politicians are but so many business pundits as well.

Lower regulation, lower taxes, and higher investment plans is a combination that hasnøt been seen in decades in this country. To think it will lead to a bad economy is just plain nuts. In fact, the only realistic concern for 2018 is that the FED thinks the economy is doing so well that it can hike interest rates with impunity. That would be wrong as inflation is still falling and growth is still on the come. Plus, donøt underestimate the importance that vibrant equity markets have on future growth. You cannot have one without the other. Plain and simple.

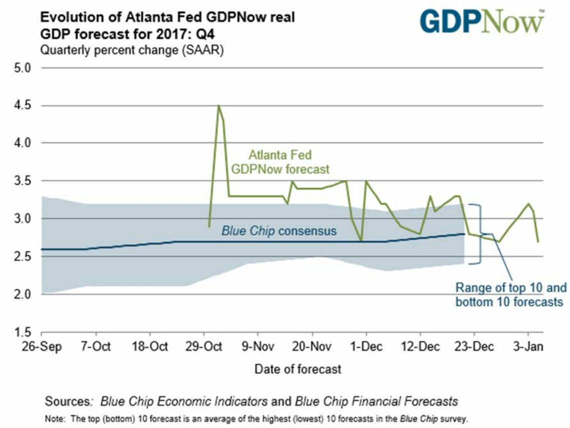
Last week saw the government report a rather disappointing December jobs report caused by the loss of jobs in the retail sector which should not surprise anyone given the nationwide store closings. While the official employment rate stayed the same at 4.1%, just 148K non-farm payroll jobs were created including a disproportionate number of bartenders and waitresses.

Thus, the wage gain for the year was just 2.5%. Again, reflecting the poor quality of jobs being created. It is also the fact that the number of jobs gained last year was lower than in 2016. Clearly, the lack of income gains and falling inflation should have warned the FED of their errors in jumping rates at every chance. It is ironic that they were so aggressive in tightening once President Trump took office. This policy must moderate or it will become a major headwind for the reality of a much stronger economy in 2018. Monetary policy is not much discussed these days but in my opinion, bears close watching as the new Chairman of the Federal Reserve takes over this month.

As one can see by the chart below the third quarter growth rate in GDP came in at 3.2%. This is the second quarter of such growth in a row. Something that was almost unheard of in 8 years of the Obama presidency.



Clearly though, the markets are interested in the future. The Atlanta Fed estimate for the fourth quarter of last year is shown in the chart, top of next column, at a recently reduced 2.7% due to trade deficits mostly. While others still have the US growing above 3%, this estimate plus the weak December jobs report should show everyone that higher economic growth for 2018 is not guaranteed (please FED wait until you see evidence of growth and/or inflation).



While the NY Fed is still going with a 4% growth rate for the new year, I will wait and see. Early signs are good whether it be retail sales or manufacturing plus the positive impact of tax cuts but letôs give it time to play itself out.

What to Expect This Week

Earnings reports will start out later in the week but early indications are that they will be good. On Friday will be updates on retail sales and the Consumer Price Index. That will be interesting to note as we step into the New Year.

Overall though the action will really start next week after the Martin Luther King federal holiday, one week from today. Next week will bring a resolution to the budget deals in DC, or not, and that along with earnings will be the focus.

Finally, a look at the ECRIôs chart of the leading economic indicators shows a holding pattern after some recent gains. All in all, the year will not really get rolling for another couple of weeks as more information is released concerning various corporate outlooks.

Our next review will be in two weeks due to the holiday one week from today.

12-Month

Symbol: BA

Itôs a new year, but the same story for shares of BOEING is up, up and away! The #1 gainer in the Dow Jones Industrial Average for 2017, hit more new, all-time highs in the first week of trading for 2018. Friday alone shares of BA gained more than 10 points, breaking thru the $300 per share level for the first time.

The worldôs largest manufacturer of commercial aircraft is in talks to take over control of Brazilôs Embraer airline. Brazilôs government has the power to veto any agreement, and have said they would bless a joint venture or partnership, but not a BA takeover. For BOEING, a joint venture is unacceptable but they could offer concessions to sweeten the deal including some government veto powers in some areas and agreements to keep jobs and the name. Over the past 12 months, shares of BOEING have gained some 94 percent.

12-Month

Symbol: D

DOMINION ENERGY is acquiring South Carolina Electric utility SCANA CORPORATION (SCG) in a stock-for-stock merger. DOMINION will provide SCANA shareholders 0.6690 shares of D common stock for each share of SCANA common stock, the equivalent of $55.35 per share, about $7.9 billion. Including assumption of debt, the value of the transaction is approximately $14.6 billion.

Following the conclusion of the all-stock deal, the merged entity will be able to provide services to roughly 6.5 million clients across eight states. Dominion expects the acquisition to boost its bottom line once the transaction closes and will likely raise its dividend. DOMINION projects compounded earnings growth of more than 8 percent.

Upon deal closure, DOMINION is expected to make a payment of $1.3 billion to current South Carolina customers, meaning each client of SCANA will likely receive $1,000, depending upon the amount of electricity used in the last 12 months prior to the merger.

12-Month

SUNCOR

Symbol: SU

The energy sector has been heating up as weather around much of America has been experiencing a deep freeze. Shares of SUNCOR have benefited from the surge in demand. SU offered an upbeat business update last week, stating that upstream production of 736,000 barrels of oil equivalent per day was achieved, matching record production from the third quarter of 2017. Oil sands operations produced approximately 447,000 barrels per day from their Fort Hills plant, while Syncrude produced 325,000, also near all-time highs.

With rising crude oil prices during the fourth quarter, SUNCORôs upstream realized prices were strong. SU benefited from efficient and reliable upgrader operations during the quarter, with utilization rates of 93 percent at the SUNCOR base plant, and 94 percent at Syncrude.

SUôs stock has bucked the trend of many other energy providers, gaining nearly 14 percent over the past year. The Company officially reports quarterly earnings on February 7th.