Tom McIntyre's
# Weekly Commentary & Outlook
McIntyre, Freedman & Flynn, Investment Advisers, Inc. · 4 Main Street · P.O.Box 1689 · Orleans, MA 02653 · (508)255.1651

***This is Tom McIntyre with another client update as of Monday July 16th, 2018.***

***Markets continue to deal with the macro news stories of summit meetings, oil prices, political headlines including tariff nonsense and of course economic fundamentals.***


*Dow 5-day*

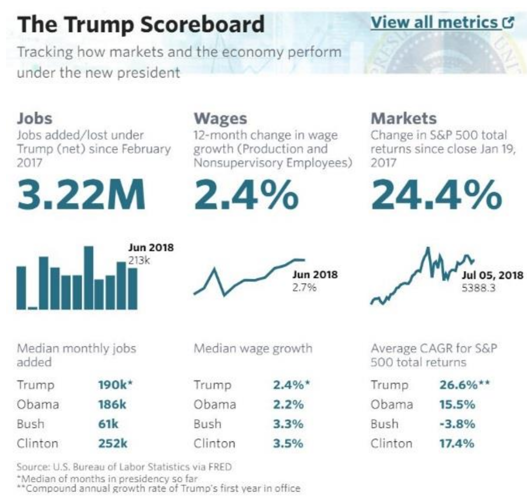

*Nasdaq 5-day*

Thus, it remains very important that the stock and other markets are seeing through this confusion and rewarding investors for their patience. As the charts above illustrate, both the ***Dow Jones Industrial Average*** and the ***NASDAQ Composite*** gained 2.3% and 1.8% respectively last week amidst all this noise.

## <u>Markets & Economy</u>

To begin with I thought it would be appropriate to look back longer term on what has happened since President Trump took office.

Looking at the first chart below you can easily understand why the markets have been rallying. By this I mean both the stock market and the US Dollar (see second chart below).





This stands in contrast to the rest of the world which is suffering from a slow growth rate or the lack of one entirely. China is slowing down and their currency is dropping as a result. Some would argue this will help them offset any tariffs placed upon them but believe me China does not want a run on their currency to develop. This would destabilize their already weak financial infrastructure. It is just another indication that contrary to the baloney spewed forth on television, it is the US which has the advantage here if domestic politics doesnôt get in the way. Time will tell.

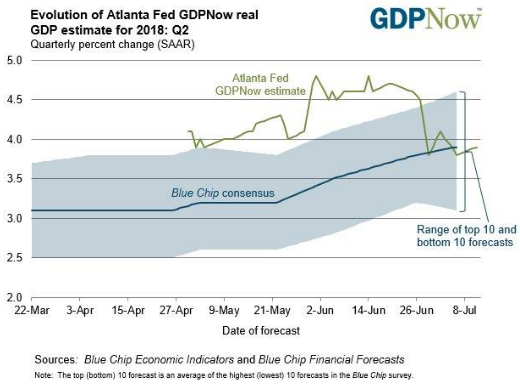
That is the big picture which shows the US is not only the dominant economy in the world but that the difference is growing. You would never know this from the media coverage but facts are facts. Even todayôs summit with President Putin is portrayed as a meeting of equals. Yet, Russia spends barely one tenth on defense as does the US. Only in terms of nuclear warheads do they possess the power of our country. Their population is less than half of ours and itôs shrinking. As most serious people understand the next 100 years for the world will be determined by how China evolves vis-a-vis the United States more than Russia.

As far as the present US economy is concerned, it is doing just fine. One week ago, Friday, the government reported another nice gain in employment. Interestingly to me, the official unemployment rate jumped back up to 4%. This was because over 600K people jumped back into the labor force.

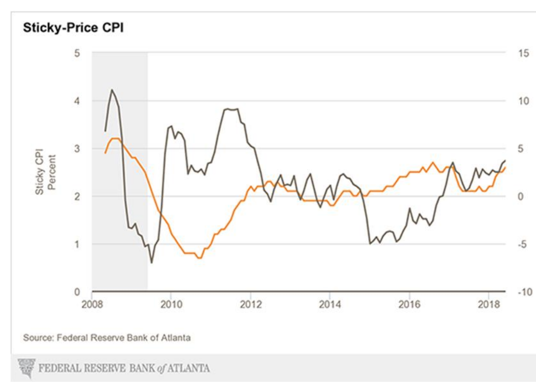
This is significant for two reasons. First there are some 95 MILLION working-age healthy Americans not being counted in the labor force. The fact that so many have been enticed back is a huge positive for our economy. More income means more tax revenue which means a smaller deficit over time. More people working also cuts down on the federal and state assistance programs. Remember the best program is a job.

Secondly, this development last week puts the lie to the notion in the popular financial press that the US suffers from a labor shortage. Clearly, we suffer from people with certain skills but they can and should be trained. First, they must want to get back. That is happening, the rest of it will sort itself out over time and as economic incentives dictate. This is great news and something which is not even commented on.

Finally, the second quarter is over and the growth rate could be quite something. The Atlanta Fedôs estimate (see chart below) is still at 3.9%. I still think that anything over 3% should be viewed as a big development.




Of course, to the main stream economists still stuck in the 1970ôs people going to work and an economy growing at this rate is just too much good news. They will point to the inflation rate poking its head above 2% (see chart below) as a reason to just keep hiking rates. To me this is the risk to the global economy. Higher rates continue to hurt interest rate sensitive parts of the economy and cause the DOLLAR to rise versus other countries. This is not good and really needs to stop.



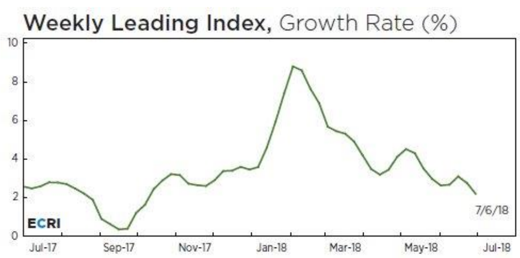

The US yield curve is as flat as a pancake which is the marketôs way of telling the Fed to stop. But these eggheads will not listen. They will raise rates until they cause a recession and then the media will blame Trump. If I were President Trump, I would let the Fed know that rising interest rates is more dangerous to the economy than rising oil prices which remain at half the levels of five years ago.

## What to Expect This Week

This morningôs report on retail sales for June was another bullish report which proves my point that higher oil prices have not put a damper on consumer spending. In my view, the longer oil prices remain low, thus making the discovery of new reserves put on the back burner, the more likely there will be an oil shock somewhere down the road. The world needs more oil and quickly.

This will also be a big week for corporate earnings which we will monitor and update you on.

Finally, the ECRI weekly update on future economic indicators continues to flash yellow. This would seem to imply that perhaps the recently completed quarter will be the best one for the year. We shall see.




## Company News


*DUK one-year*

***Symbol: DUK***

**DUKE ENERGY** is raising its dividend for the 92nd CONSECUTIVE YEAR. The utility company announced it is hiking the quarterly dividend by 4.2 percent, from 89 cents to 93 cents per share. The dividend is payable on September 17th to shareholders of record on August 17. With this increase, **DUKE ENERGY** is expected to pay annualized dividends of $3.71 per share in the next 12 months. **DUK's** annual dividend yield is 4.6 percent ï higher than most other American utility companies over the past 5 years.


*BIIB one-year*

***Symbol: BIIB***

Shares of **BIOGEN** took off like a rocket, surging more than 18 percent after the biotechnology company and Tokyo-based EISAI Co. announced POSITIVE RESULTS from a mid-stage trial of a treatment for Alzheimerôs disease. The analysis at the 18-month point of an 856-patient Phase-2 clinical study demonstrated statistically SIGNIFICANT SLOWING in cognitive decline and reduction of amyloid beta accumulated in the brain. Amyloid beta are the protein fragments that are found in the brains of patients suffering from the disease that some believe cause it.

This drug is one of several treatments **BIIB** is testing to find a cure for Alzheimerôs. Many analysts upgraded shares of **BIIB** and raised their price targets after the announcement. Alzheimerôs is the most common form of dementia and affects about 50 million people worldwide. There is still no cure for the disease or way to stop its progression. Shares of **BIOGEN** are up 24 percent over that past 12 months.


*PEP one-year*

***Symbol: PEP***

Shares of **PEPSICO** moved sharply higher last week after the Company announced a solid beat in quarterly earnings. The beverage and snack giant earned $1.82 billion during the second quarter, $1.28 per share, which is a full 10 cents better than Wall Street expected. Revenues rose to $16.09 billion, ahead of the $15.71 expected. The solid quarter was driven by higher sales of **PEPSI** products in its Europe Sub-Saharan Africa unit and its Frito-Lay North American division. The North American unit of Frito-Lay increased operating profit a full 5 percent, while revenue increased 4 percent. Beverage sales lagged snacks, with revenue dropping 1 percent in North America. The quarter would have been even better, if not for a $777 million provisional transition tax expense, which led to a tax rate increase.

**PEPSICO**, like rival COCA-COLA is looking to find the right balance of healthy drinks and its classic sodas to match with consumersô changing taste. Both companies have been promoting flavored sparkling water brands. **PEP** reaffirmed its full-year earnings forecast of $5.70 per share. The Company recently raised their annual dividend 16 percent which now yields 3.3 percent to shareholders.


*EPD one-year*

***Symbol: EPD***

Another quarter, another increase for **ENTERPRISE PRODUCTS PARTNERS'** cash distribution. The board of directors of **EPD** have declared a quarter point increase for unitholders to 43 cents per common unit, or $1.72 per unit on an annualized basis. The new distribution will be paid August 8th to unitholders of record as of the close of business July 31st.

This distribution, which represents as a 2.4 percent increase over the distribution declared with respect to the second quarter of 2017 is the partnershipôs 56th CONSECUTIVE QUARTERLY DISTRIBUTION INCREASE, and the 65th overall increase since **ENTERPRISE's** initial public offering back in 1998. The annualized yield is over 6 percent. **EPD** reports second quarter earnings August 1.