Tom McIntyre's
Weekly Commentary & Outlook

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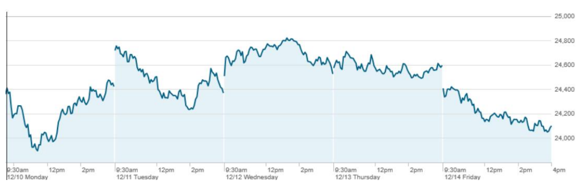
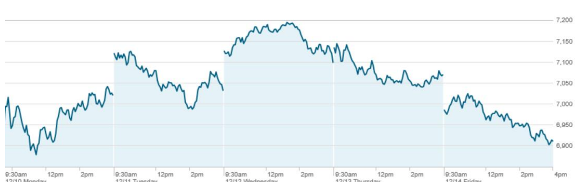
This is Tom McIntyre with another client update as of Monday December 17, 2018.

Markets have now faced squarely the concerns we have been discussing for months, that is, has the FED blown it? Gone are the days of concerns of an overheating global economy. Today the markets are greeted with stories of policy mistakes, previous financial blow-ups and various other doomsday scenarios.

In other words, investor sentiment has changed on a dime although the prospects for the US economy certainly have not.



Dow 5-day

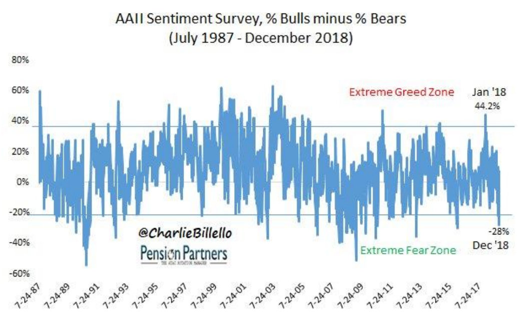


NASDAQ 5-day

As the charts above show, both the ***Dow Jones Industrial Average*** and ***NASDAQ Composite*** fell last week and are either negative or flat for the year. It seems worse, since all the give-up has occurred suddenly.

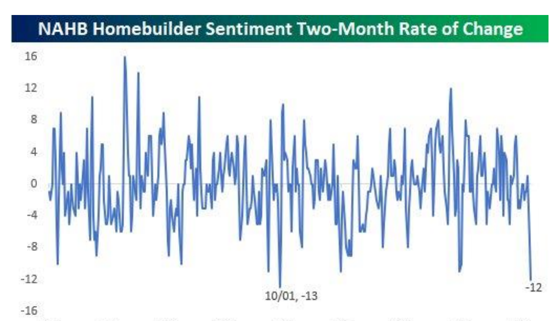
Markets & Economy

Investor sentiment is now reflecting both the decline recently in stock prices but also the growing and obvious concern that the financial mediaôs misplaced optimism of exuberant growth was indeed incorrect. Look at the next chart for investor sentiment and you really get the picture. Of course, history does say that when investors are this negative, then it is time to get back in. Probably hard to do here today with year-end tax selling and a Fed interest rate hike on the docket. It is instructive though, that sentiment has swung wildly in a negative direction.



Now, back to the economy. While most economists are still expecting a strong fourth quarter, that sentiment is now starting to draw more skepticism. This concern is not without its indicators.

The chart below shows the collapse in homebuilder sentiment which has occurred over the past couple of months. In addition, the nearly 30% fall in oil prices isnôt a good sign for global growth and isnôt optimal for future stable oil prices. Producers will cut back their efforts. The economy will take a hit and estimates of future production levels will prove too optimistic.



The big problem though, is the Federal Reserve Board. They have obsessed about normalizing interest rates even as the rest of the world isnôt even trying due to anemic growth.

This has produced an extremely strong dollar which is much more of a factor in trade imbalances than anything that has happened via the Trump tariff discussions. The result is that many of those who so confidently wanted and expected the Fed to tighten are now expressing the concern that a recession is growing more likely. Well which is it? Are we booming or are we risking a recession? This dilemma is exactly why Iôve recommended the FED just stop until data comes in. Certainly, the data that has been coming in shows a downturn in commodities, an inverted yield curve, poor auto and home sectors and now, falling inflation.

Would someone tell me why the Fed would raise rates into this environment. They have as a result, as in the past, put themselves in a corner. If they stop, people will they think they see weakness (itôs there). If they donôt stop, people will worry about a policy mistake (which has already happened).

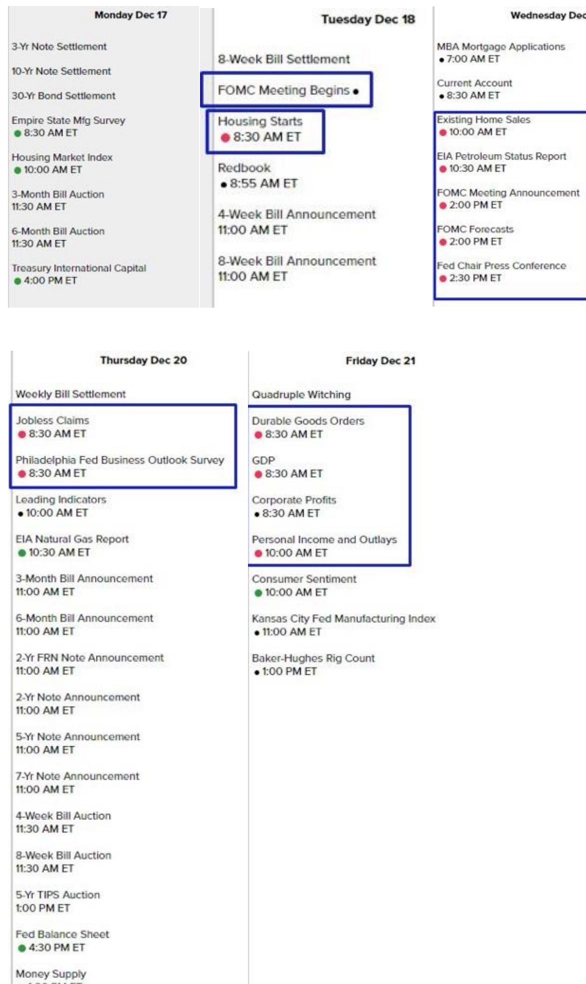
Therefore, this morning, once again President Trump has criticized the Fed for their poor analysis and actions. The media likes to make fun of Trump, but he is 100% correct on this one. The Fed should stop before they are forced to retreat in the face of various global concerns. Remember, there are negative interest rates throughout Europe and Japan. The emerging markets are in deep trouble. The Fed needs to do more than blink. They need to stop and wait for events to unfold.

Having said all this, the US economy is decelerating and the prospects of gridlock in DC are now apparent. There will be no major fixes coming from the next Congress, just investigations and posturing for the 2020 elections. The Fed then, is the only game in town and it must change course starting this week. Next year could still see a decent year for the domestic economy but not if the Fed creates the background for a financial markets disruption. The warning signs are there. Does anyone see them?

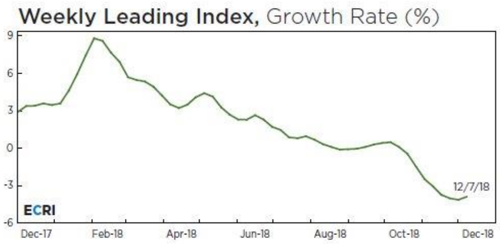
All of this is to remind people of the strength of our portfolios. Many of our names continue to excel in this slowing economy by increasing earnings and raising their dividends. In addition, by being the strongest, they will feast on any setbacks suffered by their competitors as the FED continues its risky course of policy.

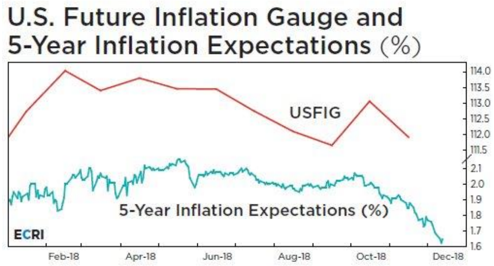
What to Expect This Week

This is last real week of the year prior to Christmas and New Yearôs. The chart below shows the schedule for the week but it all comes down to Wednesdayôs meeting announcement from the Fed. Will they give the market something or will they stick with the ñnothing to see hereò policy of raising rates? I suspect they will continue the blinking which has been going for the past few weeks.



Finally, look at two charts (top of next page) from the ECRI. The first, is their familiar one of the leading economic indicators which shows nothing to write home about. The second, is their chart on the trend in inflation. One can see that it has recently dropped like a stone. Something is going on and I hope the Fed is paying attention. Anyone who says the Fed needs to raise rates to fight off inflation must be immediately rejected as being in a clueless state.





Company Stories

The quarterly dividend of ***ENBRIDGE*** will be increasing by 10 percent in 2019. The Companyȏs board of directors authorized the new quarterly payout of 55 cents to be distributed March 1st to stockholders of record February 15th. This latest hike will mark 2019 as the 24th year that this leading midstream energy infrastructure provider has increased its dividend. The current annual dividend yield of 6.85 percent will increase because ***ENB*** has been strengthening its overall businesses by shedding non-core assets and adding profitable growth projects to its existing backlog.

Late last year, ***ENBRIDGE*** unveiled its three-year outlook, which anticipated that the Companyȏs distributable cash flow per share and dividend would expand at a 10 percent compounded annual growth rate through 2020. ***ENB's*** front office is making good on that promise. The rating agency, MOODYȏs, is also impressed with ***ENBRIDGE's*** balance sheet to the point they are reviewing the Companyȏs debt for a possible upgrade.

ENB one-year

DOMINION ENERGY is also raising its annual dividend by 10 percent next year. ***D's*** board of directors agreed to a 2019 dividend of $3.67 per share of common stock, up from $3.34 per share. The first quarterly dividend of 91.75 cents will be payable in March. ***DOMINION*** serves nearly 6 million residential and business customers in 18 states with electricity or natural gas. This new quarterly payout makes it the 16th consecutive year that ***DOMINION*** has raised its dividend. Shares of the Richmond, Virginia based company have risen 15 percent over the past 6 months.

D one-year

In a move to strengthen its pharmaceutical business, ***GLAXOSMITHKLINE*** is acquiring TESARO, a biopharmaceutical company based in Waltham, MA, which features a major marketed product to treat Ovarian Cancer. ***GSK*** will pay $5.1 billion for TSRO, $75 per share in cash, which represents a premium to TESAROôs 30-day average share price. The transaction is expected to be completed during the first quarter of 2019, pending regulatory approvals, including clearance by the US Federal Trade Commission.

Approximately 22,000 women are diagnosed with ovarian cancer each year in America and more than 65,000 women are diagnosed annually in Europe. TSROôs cancer product, ZEJULA is currently approved for use in both the US and EUROPE as a treatment for this cancer. ZEJULA may prevent cancer cells from repairing their damaged DNA, which can cause cancer cells to die.

To help pay for this acquisition, ***GLAXO*** is selling part of its consumer healthcare nutrition brands, including HORLICKS, to UNILEVER. This divesture should net GSK over $3 billion. Shares of ***GLAXOSMITHKLINE*** have gained 7.5 percent over the past year, while paying shareholders an annual dividend yield of 5.69 percent.

GSK one-year

Regional bank ***PEOPLE'S UNITED FINANCIAL*** is expanding its footprint in the Boston area by acquiring Belmont-based BSB BANCORP in an all-stock deal valued at $327 million. The transaction is expected to close by the second quarter of 2019, subject to customary regulatory approval, and BSBôs shareholdersô consent.

PBCT's CEO Jack Barnes says the acquisition will deepen and expand the bankôs presence in the Greater Boston area, particularly in the suburbs west of the city. The deal is expected to be accretive to ***PBCT's*** earnings by 3 cents, based on fully phased-in cost savings. Once the deal is done ***PEOPLE'S UNITED's*** deposit market share will increase from 13th to 8th in the Boston market. ***PBCT*** pays an annualized dividend which yields to shareholders 4.59 percent.

PBCT one-year