



# INCISIVE INVESTOR

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## WEEK IN REVIEW US STOCKS RALLY AFTER MIDTERM ELECTIONS

### Review of the week ended November 9, 2018

- **U.S. stocks surge behind of midterm elections**
- **U.S. oil prices fall into bear market territory**
- **U.S. imposes sanctions against Iran**
- **Fed keeps interest rates steady**

U.S. stocks finished Friday on a low note, halting a four-session rally, after a selloff in oil prices, a hotter-than-expected reading on producer prices, and uneasiness about the housing market resurrected fears of an uncertain path for the economy here and abroad.

The Dow Jones Industrial Average DJIA fell 201.92 points, or 0.8%, at 25,989.30, and the S&P 500 index SPX lost 25.82 points, or 0.9%, at 2,781.01, while the Nasdaq Composite Index COMP retreated 123.98 points, or 1.7%, at 7,406.90.

Each of the three major indexes, however, recovered from session lows, as the Dow had been down as much as 1.2%, the S&P as low as 1.5%, and the Nasdaq had dropped as much as 2.4%, intraday.

However, for the week, all three main benchmarks posted gains. The Dow registered

an increase of 2.8%, the S&P 500 returned 2.1% over the past five sessions, while the Nasdaq eked out a 0.7% gain.

### **MACRO NEWS**

#### **U.S. stocks rally following midterm elections**

Midterm elections this week confirmed expectations: Democrats gained control of the House while Republicans held on to their majority in the Senate. In response, on Wednesday, US stocks strengthened to their highest levels since the October selloff as investors' fears about the elections and potential radical economic policy changes reduced. Both the Dow Jones Industrial Average and the S&P 500 Index rose 2.1% and are up 5.9% and 5.2%, respectively, year to date. The divide in Congress may lead to legislative gridlock for the rest of U.S. president Donald Trump's term; also, a

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Democratic House means that the Trump administration is likely to face an attack of congressional investigations.



## **U.S. oil drops for a ninth consecutive session, entering a bear market**

U.S. oil prices fell from their previous peak of \$76.41 a barrel to \$60.67, roughly a 21% decline, which placed them in a bear market. After reaching four-year highs in early October, oil prices went into a downward spiral due to doubt surrounding global economic growth and rising production. Also, the Trump administration's recent decision to issue momentary Iranian oil import sanction waivers to eight countries and recent data showing a rise in U.S. oil inventories put downward pressure on U.S. oil as fears of oversupply increased. Following suit, Brent crude oil is also moving closer to bear market territory, recently falling 19.2% from its four-year high in October. Worldwide stocks fell Friday as oil prices continued to lose steam and markets viewed falling prices as a sign of a weakening global economy.

## **U.S. intensifies sanctions against Iran**

On Monday, the Trump administration levied a second round of economic sanctions on Iran — targeting its oil, shipping and banking sectors — in an attempt to stop its actions in the Middle East opposed by Trump. Furthermore, SWIFT, a global financial-messaging service that assists cross-border transactions for financial institutions, was ordered to halt transactions involving some of the blacklisted Iranian banks. To ease the effect on countries trading with Iran, the U.S. granted provisional waivers to eight governments — China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey — that will allow them to buy Iranian oil for six months, easing fears of a supply shortage. In response, Iran's president, Hassan Rouhani, promised that the country will break the sanctions as it considers them unfair.

## **Fed chooses to keep rates steady at its November meeting**

At its meeting on Thursday, the U.S. Federal Reserve decided to leave short-term interest rates at 2% to 2.25% after having raised them in September. Consistent with the central bank's economic stance at its last meeting, the Fed officials maintain that the labor market and economic activity have continued to strengthen. Household spending remains strong, and both headline and core inflation are near 2%, in line with Fed's target. A major change that the officials noted is that business investment had moderated from its fast pace earlier in 2018. The Fed's positive and cheerful

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outlook hints that it is on track to raise rates again by the end of the year.

## **U.S. attorney general quits**

A day after the midterm elections, U.S. attorney general Jeff Sessions resigned at the insistence of President Trump. The resignation came after Trump persistently expressed his disapproval with Sessions' decision to recuse himself from the justice department's investigation of Russia's involvement in influencing the 2016 presidential race. Matthew Whitaker, Sessions' top aide, will act as attorney general until a permanent replacement can be found.

## **North Korea-U.S. nuclear talks delayed**

North Korea cancelled talks to discuss its nuclear program with U.S. secretary of state Mike Pompeo, lowering hopes for progress towards denuclearization. No reason for the rescheduling was given, but many view it as North Korea's attempt to pressure the U.S. into granting some early relief from sanctions before any nuclear talks resume.

## **EARNINGS NEWS**

With close to 90% of the constituents of the S&P 500 Index having reported for the third quarter, blended earnings-per-share growth continues to run at around 25%. Meanwhile, revenue growth rose to 9.4%, but still remains a little below last quarter's 10% growth.

## **MAJOR STOCK MOVES**

Shares of the Walt Disney Co. DIS were in focus after the entertainment behemoth late Thursday reported fourth-quarter earnings that beat expectations. Profit for the latest quarter rose to \$2.32 billion, or \$1.55 a share,

up from \$1.75 billion, or \$1.13 a share, in the year-earlier quarter. The stock rose 1.7% Friday.

Shares of General Electric GE sank than 5.7%, after JPMorgan Chase & Co. downgraded the outlook for the conglomerate's stock.

Proctor and Gamble Co. PG stock was in focus Friday, after the firm announced a reorganization, shrinking the number of business units from 10 to six and streamlining its management structure. The stock rose 1.2% Friday

Yelp Inc. YELP shares tumbled 26.6% Friday, after the company missed Wall Street sales targets and lowered fourth-quarter guidance, in a Thursday evening release.

Dropbox Inc.'s shares DBX advanced 3.3% Friday, after the cloud-storage company reported more cash from each user and grew its paying-customer base in the third quarter, according to a Thursday earnings report, as the company continued to narrow its losses and grow sales faster than Wall Street's expectations.

Activision Blizzard Inc. ATVI shares took a hit Friday, down 12.4%, after the company reported third-quarter profits below Wall Street estimates.

Shares of Skyworks Solutions Inc. SWKS fell .8.1%, after the semiconductor company issued disappointing guidance for fiscal first quarter of 2019.

CenturyLink Inc. CTL stock declined 10.3% after a Thursday-evening earnings report that showed revenue and profits falling faster than expected.



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## THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, Nov 13	Japan	GDP
Tue, Nov 13	United Kingdom	Unemployment rate
Wed, Nov 14	United Kingdom	Consumer price index
Wed, Nov 14	Japan	Industrial production
Wed, Nov 14	Eurozone	GDP, industrial production
Wed, Nov 14	United States	Consumer Price Index
Thu, Nov 15	Australia	Unemployment rate
Fri, Nov 16	Eurozone	Consumer price index
Fri, Nov 16	United States	Industrial production



## EVENTS ON WALL STREET

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