



# INCISIVE INVESTOR

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## WEEK IN REVIEW WORST WEEK SINCE 2008 FOR DOW AND NASDAQ

### Review of the week ended December 21, 2018

- Fed hikes rates and indicates continued hikes
- US government shutdown threat recharged
- China increases stimulus
- Brexit turmoil perseveres as EU prepares for no deal
- US growth revised a shade lower

### Stock Market News

The Dow just suffered its deepest weekly plunge since 2008 and the Nasdaq is officially in a bear market.

The miserable performance reflects deepening fears on Wall Street of an economic slowdown and overly-aggressive Federal Reserve.

The Dow closed 414 points, or 1.8%, lower on Friday. The Nasdaq plummeted 3%, closing in its first bear market since 2008. And the S&P 500 shed 2.1%.

For the week, the Dow lost 1,655 points, or 6.9%. That's the steepest weekly percentage loss since October 2008. The Nasdaq plunged 8.4% on the week, its worst since November 2008. And the S&P 500's 7.1% weekly loss was the worst since August 2011.

All three major indexes are down more than 12% in December. Stocks are on pace for the worst December since the Great Depression.

### MACRO NEWS

#### Markets pressured by hawk-like Fed

The relative lack of concern on the part of US Federal Reserve Chairman Jerome Powell

surrounding the recent downdraft in risk asset markets during his post rate-hike session on Wednesday sent markets tumbling to fresh 2018 lows. While noting the Fed is no longer on a preset course of quarterly rates hikes, he

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did little to alleviate investor fears that the Fed could be in the process of making a policy error by tightening monetary policy too much despite scarce evidence of inflation pressures building in the economy. Markets were mainly alarmed by Powell's insistence that the Fed's balance sheet reduction policy remains on autopilot and will not be adjusted in reaction to changes in the economic outlook. However, Federal Reserve Bank of New York president John Williams appeased markets a bit on Friday morning, saying that the Fed is listening to markets and is always ready to reevaluate its views. The Fed was not the only central bank to hike rates this week as Sweden's Riksbank raised short terms interest rates 0.25%, the first hike in seven years. Even after the rate hike, the central bank's policy rate remains negative, at -0.25%. The Bank of England (BOE) and the Bank of Japan held rates steady this week, though the BOE recognized that Brexit doubt has strengthened lately, weighing on the United Kingdom's growth outlook.

## **Partial US government shutdown threat has returned**

The threat of a shutdown of some US government departments appeared to retreat at midweek as the White House apparently abandoned demands for \$5 billion in funding for border security, and the Senate passed a temporary funding bill that would have funded the departments into February. However, a strong and negative reaction from President Donald Trump's conservative base

of supporters, including members of the House of Representatives, caused the president to revive veto threats unless more funding is set aside for a border wall. Funding for the departments, which includes the Department of Homeland Security, expires at midnight. The House has passed a substitute funding bill that includes more than \$5 billion in border security funds, but that bill is seen as having little chance of passing the Senate, where 60 votes are needed in order to avoid a delay. The latest drama from Washington has added to recent market volatility, a shift from earlier in the Trump presidency, when markets largely ignored day-to-day political internal fighting.



## **China supports its economy**

In spite of a slowing economy and weak domestic financial markets, China had, until now, been employing only targeted stimulus in an effort to keep its deleveraging efforts afloat. However, the government shifted its tone today, announcing significant tax and fee cuts, while hinting it stands ready to reduce monetary policy.

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## EU escalates preparations for a no-deal Brexit

The European Union defined and listed a series of measures that could come into force should the UK leave the EU without a change agreement on 29 March. Among the more important safety measures are temporary measures to maintain steadiness in financial markets by assuring that EU and UK investors can continue to use central counter parties to clear derivatives contracts for up to a year. Other important areas considered are transport and residency rights for UK citizens

residing in the EU. With no consensus on the way forward toward a deal with the EU, odds of the Brexit question being put back before the voters, either in the form of a second referendum or a general election, are rising.

## Q3 US GDP altered down a touch

The last look at Q3 US gross domestic product was changed a little bit lower, to 3.4% from an earlier 3.5% reading. With the market much more focused on Q4 GDP – and beyond – the data were taken calmly. GDP is expected slow further in the current quarter, with growth estimates clustered between 2.4% and 2.9%.



## MAJOR STOCK MOVES

Shares of Nike Inc. NKE are up 7.3%, after a Thursday-evening earnings release that showed the company beating Wall Street estimates for fourth-quarter earnings and revenue. The stock was also upgraded from to buy from hold at Pivotal Research.

Accenture PLC shares ACN are falling 2%, after the firm announced the acquisition of the private data-analytics firm Knowledge Group Inc.

Shares of Perrigo Co. PRGO are down more than 26% after the company disclosed that Ireland is attempting to collect €1.64 billion in back taxes and penalties.

Tech stocks are leading the market lower Friday, with high growth firms Facebook Inc. FB and Netflix Inc. NFLX losing more than 5% on the day.



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## THE WEEK AHEAD

Date	Country/Area	Release/Event
Thu, Dec 27	United States	New home sales
Fri, Dec 28	Japan	CPI, unemployment, retail sales
Fri, Dec 28	United States	Pending home sales



**ONE LAST THING**



## COUNTDOWN TO COLLEGE

Preparing for college means setting goals, staying focused, and tackling a few key milestones along the way. [Click to learn more.](#)

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