



# INCISIVE INVESTOR

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## WEEK IN REVIEW

### DOW TUMBLES AS STOCKS FALL ON GLOBAL GROWTH FEARS

#### Review of the week ended December 14, 2018

- **Encouraged by the US, China revisits industrial policy**
- **No finale to May's Brexit nightmare**
- **Partial US government shutdown a possibility**

#### **Stock Market News**

Stocks fell sharply Friday, ending the week on a bleak note and sending the Dow Jones Industrial Average into correction territory after a batch of weaker-than-expected economic data out of China and Europe sparked fresh worries about the state of the world's second-biggest economy and prospects for global growth.

The Dow DJIA fell 496.87 points, or 2%, to end at 24,100.51, for its lowest close since May 3. The S&P 500 index SPX shed 50.59 points, or 1.9%, to close at 2,599.95, its lowest finish since April 2. The Nasdaq Composite Index COMP dropped 58.59 points, or 0.8%, to finish at 6,910.66, marking its lowest close since Nov. 20.

The drop left the Dow more than 10% below its October 3 record high, meeting the widely used definition of a correction. The blue-chip gauge joined the S&P 500 and the NASDAQ in correction territory.

#### **MACRO NEWS**

##### **Soft data help insight China trade talks**

Though high-level talks are still in the initial phase, China has signaled an inclination to make changes to its Made in China 2025 program, which lays out industrial policy for certain high-tech industries. Whether the

changes will calm US negotiators remain to be seen. Early indications are that China is willing to allow the participation of foreign companies in the plan. One allowance would be China's dropping of numerical goals of increasing domestic content to 70% by 2025. Elsewhere, China has resumed purchases of US soybeans

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US-made autos to their pre-trade war level of 15% from 40%. China's need to engage more deeply with the US on trade seems to be driven by a sharp decline in domestic economic activity. Auto sales have fallen for five straight months and could post their first year-over-year decline in sales since the early 1990s. The pace of industrial production slowed more than anticipated in November, rising at a 5.4% year over year pace compared with October's 5.9%. Retail sales reflected the slump in auto sales, rising 8.1% year over year in November compared with forecasts for a 9.0% pace. Meanwhile, the White House this week made it official: Tariff rate hikes formerly scheduled to come into place on January 1 will be delayed until March 1, when talks with China are set to close.



## **May survives confidence vote but exits EU summit empty handed**

It was an unrestrained week for British Prime Minister Theresa May. After repetitively vowing to hold a parliamentary vote on the United Kingdom-European Union separation agreement notwithstanding clear signs the measure would go down to defeat, the government abandoned the vote at the eleventh hour. May then began a fast and exciting tour of European capitals, trying to gain concessions from the EU in order to make the deal more pleasant to members of her Conservative Party. Those efforts failed

completely, leaving the Brexit process in messy confusion. After surviving a confidence vote in her own caucus, May then attended an EU summit but received no fresh promises from the EU concerning the Irish backstop. Earlier in the Brexit process, the options seemed limited to either a "soft" or "hard" Brexit. However, today the range of possibilities has expanded to include a second referendum, an extension of the process past the 29 March Brexit date if agreed upon by the UK and EU member states or even a unilateral UK revocation of Article 50, an option made possible by a recent ruling by the European Court of Justice.

## **Partial US government shutdown threatening**

Seven appropriations bills need to be approved by December 21 or about 25% of the US government will run out of funding. President Donald Trump insists he will not sign the funding bills unless they include \$5 billion to fund a border wall. So far, Trump has rejected an offer from Democratic law-makers of \$1.6 billion set aside for border security. A two-week funding extension was put into place on December 7, so another temporary measure could be put in place. The new Congress will be sworn in on January 3, dramatically changing the makeup of the House of Representatives, which will be under Democratic control. Government shutdowns have usually lasted a few days in recent years — and have not had significant market impact — but there appears to be little willingness to negotiate at present.

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## Jobless claims retreat to near lows

One of the most helpful early warning signs of a slowing economy is a persistent rise in weekly jobless claims. Economists were beginning to grow concerned as claims have been edging higher over the past several months. However, this week's decline in claims to 206,000 was close to the 49-year low of 202,000 posted in

mid-September. Elsewhere, US data were mixed this week. Retail sales rose 0.2% in November, as expected, while industrial production rose a more-than-expected 0.6%. Flash purchasing managers' indices were weaker than first estimated, with the manufacturing PMI slipping to a 13-month low of 53.9 in December from 55.3 in November.



## MAJOR STOCK MOVES

The S&P 500 financial sector entered bear-market territory, defined as a 20% pull back from a peak, with Friday's close, according to Dow Jones Market Data.

Johnson & Johnson JNJ was the Dow's biggest loser Friday, with shares tumbling 10%, after a Reuters report alleged the company knew for decades that its baby talcum powder was sometimes contaminated with the carcinogen asbestos. Johnson & Johnson said the report was "one-sided, false and inflammatory." The decline knocked around 100 points off the Dow.

Shares of Costco Wholesale Corp. COST fell 8.6%, after a Thursday evening earnings release showed the retailer missed revenue expectations for the fiscal first quarter.

Adobe Inc. ADBE stock fell more than 7%, after the software company missed earnings expectations for the fourth quarter.

Shares of Starbucks Corp. SBUX were in focus Friday, following its investor day Thursday, when the company announced ambitious plans for expansion in China, as well as a plan to return \$25 billion to shareholders between now and 2020. The stock fell 2.3%

XPO Logistics XPO stock was in focus after the release of a short seller report on Thursday that accused the company of hiding poor returns with aggressive accounting tactics. The company responded to the report, accusing it being "intentionally misleading." The stock rose nearly 16%, after falling more than 26% during trade Thursday.

Sealed Air Corp. SEE stock rose 4.8%, after the company approved a restructuring plan.



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## THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, 1 Dec 18	United States	Housing starts, building permits
Wed, Dec 19	United Kingdom	Consumer price index
Wed, Dec 19	United States	US Federal Reserve meeting
Thu, Dec 20	United Kingdom	Bank of England Meeting
Thu, Dec 20	United Kingdom	Bank of England Meeting
Fri, Dec 21	United Kingdom	Q3 gross domestic product
Fri, Dec 21	United States	Durable goods orders, personal income/spending

## ONE FINAL NOTE



### DOES YOUR CHILD NEED TO FILE AN INCOME TAX RETURN?

When your child has income, there's a good chance that he or she will need to report it and pay taxes. [Click to learn more.](#)

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