



# INCISIVE INVESTOR

Randall Fielder, President & CEO

1400 Broadfield Blvd. Suite 200

Houston, TX 77084 713-955-3555

## WEEK IN REVIEW US-CHINA RESUME TRADE TALKS

### Review of the week ended August 17, 2018

- **US and China arrange for lower-level trade talks**
- **Turkey receives bailout from Qatar amidst political tiff with US**
- **Italy strives for abandoning EU spending restraints after bridge collapse**
- **US Q2 reports record-high household debt**

U.S. stocks rallied for a second session Friday, with the Dow Jones Industrial Average closing at its highest since February as optimism that the U.S. and China will eventually resolve their trade standoff offset fears about Turkey's currency crisis.

However, weak tech names, notably Tesla Inc., Nvidia Corp., and Applied Materials Inc., limited the Nasdaq's upside momentum.

The Dow industrials DJIA gained steam as the session progressed to rise 110.59 points, or 0.4%, to 25,669.32, its highest close since Feb. 26. For the week, it rallied 1.4%. The S&P 500 index SPX climbed 9.44 points, or 0.3%, to 2,850.13, rising 0.6% for the week.

The Nasdaq Composite COMP added 9.81 points, or 0.1%, to 7,816.33 for a weekly drop of 0.3%. The iShares PHLX Semiconductor ETF SOXX a popular index that tracks semiconductor manufacturers, fell 0.8% on

weakness in quarterly results from chip makers Nvidia NVDA and Applied Materials AMAT Analysts have also noted that tech companies have the most exposure to foreign sales.

### **US and China plans to conduct lower-level trade talks later this month**

After more than two months without talks, the US and China announced that they will meet in late August for lower-level trade talks, which hinted at progress towards resolving the spiraling trade clash. The meeting will happen just before an added \$16 billion in US tariffs on Chinese goods is scheduled to go into effect. However a positive sign, it is unlikely that the talks will lead to development given the low level of the communications. The stock market assembled Thursday morning, with the S&P 500 Index up about 0.8%, as investors grew more hopeful that the resumption of

[info@park10financial.com](mailto:info@park10financial.com)

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talks could signal an end the growing trade war. Furthermore, the news boosted the Chinese yuan and aided in slowing China's stock market losses.



## **Qatar bails out Turkey in the middle of disagreement with US**

Turkey secured a \$15 billion investment from Qatar on Wednesday to help fund economic projects, investments and deposits. In response, the Turkish lira had extended its recent gains against the US dollar, but the gain was short lived. As pressures from the political spat with the US remain elevated, the currency fell 7.4% Friday morning, down more than 35% against the dollar this year. In reprisal to the Trump administration's announcement last week on doubling tariffs on its steel and aluminum imports, Turkey announced on Wednesday that they would impose steep tariff hikes on American products including cars, alcohol and tobacco. Turkey continues to

refuse the release of Pastor Andrew Brunson and, in response, the US threatened to impose more economic sanctions if he is not freed.

## **Bridge collapse has Italy calling for desertion of EU budget cap**

In the middle of existing concerns over spending restrictions, the bridge collapse in Genoa has Italy pushing the European Union to abandon the budget cap, claiming that the country's infrastructure would have been in better shape if the restrictions were not enforced. The EU strongly disagreed that its budget rules were preventing Italy from spending enough on infrastructure and stated that the country was receiving 2.5 billion euros for infrastructure for the 2014-2020 period. The financial markets have already started to grow concerned that Italy might attempt to break free from the spending constraints.

## **US household debt achieves record high**

US household debt rose 3.5% in the second quarter of 2018 from a year earlier, reaching a record \$13.2 trillion. The rise was driven by an advance in mortgage borrowing, which rose 3.5%, to \$9 trillion. Debt has been trending higher since the first quarter of 2013 and has increased for 16 consecutive quarters. While borrowing advanced, loan delinquencies fell in the second quarter, mostly due to more well-timed payments of student loans. Student debt delinquencies have been falling over the last year, a reflection of the strong labor market, according to researchers at the Federal Reserve Bank of New York.

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## US growth driven by strong retail sales

Retail sales grew 0.5% in July (over June), which was ahead of economists' forecast of 0.1%. On a year-over-year basis, sales grew by 6.4%, more than doubling the pace of inflation. Vigorous hiring, low unemployment and tax cuts are providing households with more disposable income. Additionally, the strong demand improved manufacturing output by 0.3% in July and 2.8% year-over-year. The strong economic outlook is likely to keep US Federal Reserve on track to raise rates in September.

## MAJOR STOCK MOVES

Tesla Inc. TSLA shares slumped 8.9% after Chief Executive Elon Musk told the New York Times the past year had been “excruciating” and “the most difficult and painful” of his

career.

Nvidia and Applied Materials both reported earnings late Thursday. A decline in cryptocurrency-mining sales weighed on Nvidia, sending shares down 4.9%, while a weaker-than-expected guidance pushed Applied Materials shares down by 7.7%.

Nordstrom Inc. JWN soared 13% after the retailer posted better-than-expected earnings and raised its outlook.

Farm-equipment maker Deere & Co. DE fell after issuing a downbeat growth outlook but since has recovered to rise 2.4%.

DSW Inc. DSW shares sank 4.9% after the stock was downgraded to negative from neutral at Susquehanna Financial Group due to higher costs and margin pressure.





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## THE WEEK AHEAD

Date	Country/Area	Release/Event
Wed, Aug 22	Canada	Retail sales
Wed, Aug 22	United States	Existing home sales, FOMC minutes
Thu, Aug 23	Eurozone	Manufacturing PMI
Thu, Aug 23	United States	Manufacturing PMI, housing price index
Thu, Aug 23	Japan	Consumer price index
Fri, Aug 24	United States	Durable goods orders



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-Randall Fielder  
(713-955-3555, randall@park10financial.com)