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WEEK IN REVIEW SINGAPORE SUMMIT SCRAPPED

Review of the week ended May 25, 2018

- **Trump cancels summit with North Korea**
- **US-China trade deal tentatively agreed**
- **Fed signals June rate hike**
- **US growth rebounds while Europe and Japan falter**

U.S. stocks ended mostly lower Friday as a plunge in crude-oil futures, sparked by reports that OPEC and major oil-producer Russia were considering increasing output, slammed shares of energy-related companies. The three main benchmarks, however, managed to produce a weekly gain, led by outperformance in the internet and technology sector.

Markets will be closed on Monday in observance of Memorial Day and total composite trading volume on Friday — the third lowest of 2018 at 5.7 billion shares changing hands — reflected investors leaving early ahead of the holiday.

The Dow Jones Industrial Average DJIA retreated by 58.67 points, or 0.2%, to 24,753.09. The S&P 500 SPX closed down 6.43 points, or 0.2%, at 2,721.33. The Nasdaq Composite Index COMP meanwhile, added 9.42 points, or 0.1%, to finish the week at 7,433.85.

For the week, the Dow gained 0.2%, the S&P 500 logged a 0.3% advance, while the Nasdaq closed out the trading period with 1.1% return.

Trump pulls out of talks with Kim

A sudden shift in tone from North Korean officials in recent weeks prompted US president Donald Trump to cancel a summit with North Korean Leader Kim Jong Un, Trump said in a letter to Kim. The meeting had been scheduled for 12 June in Singapore. US secretary of state Mike Pompeo said that summit preparation talks had broken down, making a successful outcome for the summit unlikely. Differing interpretations over the term "denuclearization" were at the core of the recent uptick in friction between the two sides. In his letter, Trump left open the option of future talks should the North Korean leader have a change of heart. For its part, North Korea indicated it is open to resolving differences and willing to meet at any time.

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US and China make progress on trade

While stopping short of agreeing to the US demand that China slash its trade surplus by \$200 billion, negotiators from the US and China agreed to a framework in which China will increase purchases of US products — particularly agricultural and energy-related products — strengthen intellectual property protections and improve market access to US companies. Already this week, China has cut its passenger car tariff from 25% to 15% and ordered state-owned enterprises to increase purchases of US goods. However, many details are yet to be worked out. The US also agreed to the outlines of a deal that would save Chinese mobile phone giant ZTE. The US will allow the firm to import American-made components if it makes significant changes in its management and board of directors, as well as pay possible fines. That proposed deal is getting pushback from Capitol Hill because it would not sufficiently punish ZTE for evading US trade sanctions on North Korea and Iran.

Fed likely to stay the course

Minutes of May's meeting of the Federal Open Market Committee show that the US Federal Reserve is likely to maintain its pace of gradual policy tightening. Another quarter-point hike at the 13 June meeting is widely expected by markets, which are trying to determine whether the Fed will hike a total of three times or four times in 2018. The odds of a fourth hike decreased after the release of the May minutes.

PMIs show solid US growth but slowdown in



PMIs show solid US growth but slowdown in Europe and Japan

The pace of global growth dipped in the first quarter of the year, but economists had expected a rebound in Q2. The United States looks to be living up to expectations, but data from Europe and Japan continue to disappoint. In the eurozone, the May flash composite purchasing managers' index fell to an 18-month low of 54.1 in May, down from 55.1 in April. In Japan, the flash manufacturing PMI declined to 52.5 from 53.8 in April. In the US, the flash composite PMI rose to 55.7 in May from 54.9 in April, a three-month high. Rising input costs were a notable feature of the US report, reaching a 5-year high.

US banking regulations eased

President Trump signed a bill into law Thursday that rolls back some of the regulatory burden placed on small- and medium-sized banks in the wake of the global financial crisis. The law raises the threshold on systemically important banks to \$250 billion in

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assets from \$50 billion previously while easing mortgage loan reporting requirements for the majority of banks, among other measures.

Mexico gives ground on NAFTA

In ongoing North American Free Trade Agreement negotiations, Mexico has offered that at least 20% of an automobiles' value come from higher-paid workers in response to a US demand that 40% of content come from workers making at least \$16 an hour. Mexico, in return, wants the US to drop a sunset provision stipulating that the treaty would automatically expire if not renegotiated every five years. The concession came in the wake of reports that the US is considering a 25% tariff on all imports of cars and trucks.

EARNINGS NEWS

With earnings season 97% complete, the Q1 scorecard shows that compared with the same quarter a year ago, S&P 500 earnings per

share rose 24.6%, while revenues increased 8.4%. Energy, materials and technology were the best-performing sectors.

MAJOR STOCK MOVES

Energy stocks were among the most active of the day. Exxon Mobil Corp. XOM fell 1.9% while Chevron Corp. CVX was down 3.5%. Both stocks are Dow components, which exacted a roughly 40-point toll from the price-weighted blue-chip gauge.

Foot Locker Inc. FL soared nearly 20.2% after profit and sales for the sportswear maker beat forecasts.

Zoe's Kitchen Inc. ZOES shares plunged 40% after the restaurant chain posted a bigger-than-expected first-quarter loss.

Shares of Gap Inc. GPS fell by about 15% after the retailer missed earnings expectations and reported weaker same-store sales late Thursday.

THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, May 29	China	Trade balance
Wed, May 30	Japan	Retail sales
Wed, May 30	<u>eurozone</u>	Economic sentiment indicator
Wed, May 30	United States	Q1 preliminary gross domestic product
Wed, May 30	Canada	Bank of Canada rate-setting meeting
Thu, May 31	Japan	Industrial production
Thu, May 31	China	Purchasing managers indices
Thu, May 31	<u>eurozone</u>	Consumer price index
Thu, May 31	US	Core personal consumption expenditures
Thu, May 31	Canada	Gross domestic product
Fri, Jun 1	global	Manufacturing PMI
Fri, 1 Jun 1	US	Employment report



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