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WEEK IN REVIEW TURKEY'S LIRA CRISIS SPURS FEARS

Review of the week ended August 10, 2018

- **Plunging Turkish lira has ECB edgy**
- **US-China trade commotion intensifies**
- **No-deal Brexit fears increases**
- **Saudi Arabia cuts diplomatic ties with Canada**

The S&P 500 on Friday notched its worst daily drop since late June amid a broad global equity retreat that was fueled by a mounting currency crisis in Turkey, which has raised the alarm for possible contagion into other markets.

The U.S. dollar DXY viewed as a haven relative to other currencies, muscled to its firmest level in 14 months against major rivals.

The S&P 500 SPX lost 20.30 points to 2,833.28, a slide of 0.7%, marking its third straight down session and the worst one-session slump since June 27, according to Dow Jones Market Data—a statistic that highlights the narrow range the broad-market index has traversed in the past several weeks.

The Dow Jones Industrial Average DJIA fell 196.09 points, or 0.8%, to 25,313.14. Friday was the Dow's third straight daily decline, as well as its biggest one-day percentage fall

since July 11. Friday's decline helped to push the Dow into negative territory for the week, for a drop of 0.6%.

The Nasdaq Composite Index COMP fell by 52.67 points to 7,839.11, a retreat of 0.7% that scuttled an attempt at an nine-session win streak for the technology-heavy benchmark. Still, the recent series of gains for the index helped it retain a weekly advance, up 0.4%.

Meanwhile, the Russell 2000 index RUT of small-capitalization companies, a gauge that has been resistant to fears of trade wars and the impact of a strengthening dollar on sales, outperformed its larger-cap peers, closing 0.2% lower at 1,686.80.

Overall, Friday's losses knocked the S&P 500 and the Nasdaq from near-record levels, but market participants have mostly viewed the day's retreat as fairly contained thus far.

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ECB frets over Turkish bank exposures

A steep drop in the Turkish lira has shaken the European Central Bank, according to the Financial Times. The Turkish currency has fallen over 73% year to date and more than 18% just overnight. Turkish local currency government bond yields have swelled above 20%. The currency crisis has raised concerns among regulators that several large European lenders are overly exposed to Turkey. As is often the case, Turkish borrowers have significant exposure to debt denominations in euros and dollars, so as the lira falls, their ability to pay back those debts erodes. The Turkish crisis has helped push the euro to its lowest level against the dollar, around 1.1450, in over a year. Further pressuring Turkish assets on Friday morning was news that US president Donald Trump tweeted that the United States will double steel and aluminum tariffs on imports from Turkey in response to the detention of an American pastor that Turkish president Recep Tayyip Erdogan believes helped organize a rebellion against him.

China matches US tariff hike

The US put in place tariffs on an added \$16 billion in mainly Chinese industrial goods, bringing to \$50 billion the total amount of imports from China subject to the new 25% levies. China quickly matched the US action as the country's state media highlighted China's readiness for a lengthy trade war with the US. Strong July export data from China was a surprise for the market, though some analyst suggest exporters are trying to ship goods to the US ahead of further tariffs.

Pound suffers amid Brexit uncertainty

Currency markets took to heart comments from the United Kingdom's trade minister, Liam Fox, that there is a 60/40 chance of a "no-deal Brexit." Without a deal, the UK could leave the European Union next March without having an agreement in place outlining the future relationship between the two. Fox blames refusal to cooperate on the part of EU negotiators for the rising risk of no deal being struck. Meanwhile, Bloomberg reports that British prime minister Theresa May is stepping up the government's preparations for any breakdown of Brexit negotiations. The pound fell to its lowest level in a year, slipping as low as 1.2725 against the dollar.



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Saudi Arabia cuts diplomatic ties with Canada

Upset over comments by Canadian foreign minister Chrystia Freeland relating to Saudi Arabia's treatment of women's rights activists, the Saudis cut off diplomatic relations with Canada, recalled students studying there and ordered the Saudi central bank to sell its Canadian holdings. The United States, a close ally of both countries, has thus far declined to take sides and has called on both nations to resolve the matter diplomatically.

EARNINGS NEWS

With 90% of the constituents of the S&P 500 Index having reported for the second quarter, blended earnings per share growth is running at 24.6% compared with the same quarter a year ago while blended revenue growth is nearly 10%. Both measures compare favorably with the outstanding figures posted in Q1. Price-to-earnings ratios have held steady over the past three months, in spite of the market's strong fundamental performance, with the S&P 500 trading at 16.7x next twelve months' earnings.



MAJOR STOCK MOVES

Overstock.com Inc. OSTK surged 7.9% a day after news about a private-equity investment overshadowed a larger-than-expected quarterly loss for the online retailer.

Intel Corp. INTC fell 2.6% after Goldman Sachs downgraded the stock and cut its price target, citing competition and margin concerns.

Dropbox Inc. DBX lost about 10%. The retreat comes after a second-quarter earnings report, which also included news that Chief Operating Officer Dennis Woodside was stepping down and a post-IPO lockup on shares would expire earlier than previously planned.

Redfin Corp. RDFN tumbled 22.4% a day after it forecast slower revenue growth in the third quarter.





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THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, Aug 14	China	Retail sales, industrial production, fixed asset investment
Tue, Aug 14	Japan	Industrial production
Tue, Aug 14	Eurozone	Gross domestic product, industrial production
Wed, Aug 15	United States	Retail sales, industrial production, unit labor costs
Thu, Aug 16	United Kingdom	Retail sales
Fri, Aug 17	Eurozone	Consumer price index
Fri, Aug 17	Canada	Consumer price index



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