



INCISIVE INVESTOR

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WEEK IN REVIEW: 3 IN A ROW FOR THE MARKETS

Review of the week ended February 10, 2017

- **US markets up to record levels for 3rd week in a row**
- **DOL rule clears court challenge**
- **IMF doubts Greek debt sustainability**
- **Trump promises “big league” tax reform**
- **China’s FX reserves extend drop**
- **Brexit bill clears UK House of Commons**

U.S. stock-market indexes registered fresh records Friday and posted a third straight weekly gain, as investors focused on President Donald Trump’s pledge to move quickly on changes to the tax code—which has the potential to deliver a jolt to corporate earnings.

Friday’s record closes come a day after all three main indexes closed at all-time highs, after Trump promised to announce a “phenomenal” tax policy in a few weeks.

The S&P 500 index rose to 2,316.10—a second straight record finish. Over the week, the index climbed by 0.8%.

The Dow Jones Industrial Average moved up to 20,269.37, led by gains in Caterpillar Inc. and Nike, Inc. The blue-chip gauge logged a 1% weekly climb.

The Nasdaq Composite Index advanced to 5,734.13. The tech-heavy index ended the week 1.2% higher.

Yields on 10-year US Treasury notes, at 2.43%, changed little. Oil prices were steady too, with West Texas Intermediate crude holding at \$54.10 per barrel and global Brent dipping to \$56.66 per barrel from \$57.10 a week ago. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX) fell to 10.9 from 11.15 last week.

US earnings moving up

As of 7 February, Thomson Reuters reports that fourth-quarter earnings for the S&P 500 Index are expected to increase 8.2% from the fourth quarter of 2015. Of the 300 companies in the S&P 500 that have reported to date for the fourth quarter of 2016, 68% have reported earnings above analyst expectations. The Q4 2016 blended revenue growth estimate is 4.3%. The forward four-quarter (1Q17– 4Q17) P/E ratio for the S&P 500 is 17.4.

Judge finds in favor of DOL rule

A US federal judge upheld the legality of the

US Department of Labor's fiduciary rule on Wednesday. The rule, scheduled to go into effect on 10 April, would require financial advisors to act in their clients' best interest when advising them about retirement accounts. Critics say the rule will limit consumer choice and make giving advice too costly.

GLOBAL NEWS

Greek debt drama restarts

Once again Greece faces a deadline to receive bailout funds from its international backers, but so far it has not fulfilled the terms of its prior commitments. With heavy debts coming due in April and July, Greece hopes to strike a deal at the last EU summit before the European election calendar kicks off in March. Finance ministers meet on February 20th, with Greece near the top of their to-do list. There is mounting concern that several European partners will not participate in the bailout any longer if the International Monetary Fund doesn't. The IMF this week called Greece's debt burden unsustainable and called for debt forgiveness. Germany's finance minister said debt cannot be forgiven as long as Greece remains a member of the euro area, though German chancellor Angela Merkel later said the Eurozone must remain together as one

bloc.

China's reserves dip

Having peaked in 2015 at over \$4 trillion, China's foreign exchange reserves slipped below \$3 trillion in January, according to government data. Beijing has been selling down reserve assets for the past 18 months to try to stem capital outflows from the Chinese mainland.

House of Commons backs Brexit

The UK House of Commons voted on Wednesday to allow the government to begin negotiations with the European Union. The bill now goes before the House of Lords, which can delay but not halt the triggering of Article 50.

Trump speaks with Asian leaders

US president Donald Trump spoke by phone for the first time with Chinese president Xi Jinping and reaffirmed the US commitment to the One China policy. That policy was called into question during the presidential transition, when Trump had direct contact with Taiwanese president Tsai Ing-wen, an apparent breach of protocol. Trump urged closer US-China ties in the call, according to the White House. The US president met with Japanese Prime Minister Shinzo Abe at the White House on Friday.

THE WEEK AHEAD

- **Japan reports Q4 preliminary gross domestic product on Monday, February 13**
- **The Eurozone reports preliminary Q4 GDP on Tuesday, February 14**
- **The United Kingdom releases consumer price data on Tuesday, February 14**
- **The United States reports retail sales, industrial production and consumer price data on Wednesday, February 15**