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WEEK IN REVIEW RATES, OIL REPORT MULTI-YEAR HIGHS

Review of the week ended May 18, 2018

- **US 10-year Treasury note reaches seven-year high**
- **North Korea considers withdrawing from summit**
- **NAFTA deadline passes without reaching deal**
- **US capex spending escalating faster than in years**

U.S. stocks closed mostly lower on Friday, with major indexes posting a weekly decline as investors grappled with lingering uncertainty over trade negotiations between the U.S. and China, as well as bond yields that climbed this week to the highest level since 2011.

The Dow Jones Industrial Average DJIA, just barely closed in the green, ending up by 1.11 point to 24,715.09, essentially unchanged on the day. The S&P 500 SPX, fell 7.16 points, or 0.3%, to 2,712.97. The day's losses were concentrated in the financial and energy sectors, which fell 0.9% and 0.8%, respectively. Consumer staples, the weakest sector of 2018, dropped 0.6%. The Nasdaq Composite Index COMP, declined 28.13 points, or 0.4%, to 7,354.34. For the week, both the Dow and the S&P fell 0.5%. It is the third weekly decline of the past four for both. The Nasdaq sank 0.7%. The small-cap benchmark Russell 2000 index RUT, rose 2 points to 1,627.24, a gain of 0.1%

that took it to its third straight record close. The index has risen in 11 of the past 14 sessions, and it rose 1.3% for the week. That marked its third straight positive week, its longest such streak since January.

Interest rates and oil prices upsurge together

A combination of solid US economic data and concerns over the potential for the re-imposition of US financial sanctions on Iran helped push oil prices to their highest levels since 2014 this week, pushing global Brent crude above the \$80 mark on Thursday. Yields on US 10-year notes increased as well, trading as high as 3.12% as firmer oil and solid US economic growth prompted renewed inflation concerns.

North Korea throws doubt on summit

After several weeks of constructive dialogue in the lead-up to a scheduled June 12th summit

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in Singapore between North Korean leader Kim Jong Un and US president Donald Trump, North Korean officials threatened to pull out of the meeting if the United States insists on North Korea giving up its entire nuclear program before being rewarded with economic aid and security assurances. Additionally, North Korea stiffened this week at the resumption of US and South Korean military exercises, calling the drills a rehearsal for an invasion and going so far as to break off talks with South Korea late in the week. US officials insist that the summit remains on track, though President Trump indicated in public comments on Thursday that he was less certain. South Korean president Moon Jae-in will arrive in Washington early next week to meet with Trump in preparation for the Singapore summit.



NAFTA May deadline missed

Negotiators from the US, Canada and Mexico failed to meet a 17 May deadline for a NAFTA

agreement imposed by the speaker of the US House of Representatives, Paul Ryan. The officials were unable to unify in agreement that could then make it through the legislative process before the end of this session of Congress. While Mexico's economy minister, Ildefonso Guajardo, said a deal can be made by the end of May, US trade representative Robert Lighthizer said the three countries are nowhere close to a deal, citing issues around intellectual property, agriculture, energy and labor. No date has been set for the next round of talks.

US business spending rebounds

Capital expenditures by members of the S&P 500 Index are expected to expand by 24% compared with the same quarter a year ago, the Wall Street Journal reported this week. That is the fastest pick up in corporate spending since 2011, and a record for the first quarter of the year. While capex is important for long-term corporate profits and increasing economic productivity, in the short run it detracts from companies' ability to make payouts to investors in the form of rising dividends or stock buybacks.

US economy firm holds its footing

This week's data releases show a US economy that continued to expand moderately in April. Retail sales rose 0.3% last month while industrial production rose a healthy 0.7%. In April, the Leading Economic Index rose 0.4%, its sixth-straight monthly advance. The solid economic backdrop, combined with an uptick in oil prices, helped push the yield on the

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benchmark US 10-year Treasury note to an intraday peak of 3.12%, its highest level since 2011.

EARNINGS NEWS

With nearly 93% of S&P 500 companies having reported, blended earnings for Q1 2018 show a 24.5% advance in earnings per share versus the same quarter a year ago while revenues rose 8.3% year over year. Energy, financials, materials and tech were big winners this quarter while the real estate and consumer staples sectors were notable earnings stragglers.

MAJOR STOCK MOVES

Deere & Co. DE, rallied 5.8% higher even after an earnings miss.

Campbell Soup Co. CPB, dropped 12.4% after the company cut its full-year guidance. The company also said Chief Executive Denise Morrison will retire, effective Friday. Board member Keith McLoughlian will serve as interim CEO. Campbell Soup shares are down more than 28% year to date.

Shares of Applied Materials Inc. AMAT, slid 8.3% after the chip maker on a weak sales outlook. That weighed on chipmakers broadly, which in turn pressured the technology sector. The PHLX Semiconductor index SOX, -1.44% closed down 1.4%, while the tech sector ended down 0.5%.

Nordstrom Inc. JWN, shares tumbled 10.9% after the retailer reported weaker same-store sales growth.

THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, May 21	Japan	Trade balance
Wed, May 23	Global	Flash manufacturing purchasing managers' indices
Wed, May 23	United Kingdom	Consumer price index
Wed, May 23	United States	FOMC minutes
Thu, May 24	United Kingdom	Retail sales
Thu, May 24	Eurozone	ECB meeting minutes
Fri, May 25	United Kingdom	Gross domestic product
Fri, May 25	United States	Durable goods orders



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EIGHT MISTAKES THAT CAN UPEND YOUR RETIREMENT

There are common mistakes you can avoid when saving for retirement. Pursuing your retirement dreams is challenging enough without making some common, and very avoidable, mistakes. [Here are eight big mistakes to steer clear of, if possible.](#)

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