



INCISIVE INVESTOR

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WEEK IN REVIEW BREXIT DEAL BRINGS TURMOIL

Review of the week ended November 16, 2018

- **UK Prime Minister may face challenge amid Brexit turmoil**
- **Oil price decline extended**
- **China may offer trade concessions to US**
- **Global growth decline**

U.S. stocks closed mostly higher Friday after comments from President Donald Trump once again sparked hopes that a trade dispute with China could be resolved in the near term. But the Nasdaq bucked the trend to finish lower as a decline in chip maker shares, led by Nvidia Corp., dented sentiment in the technology sector.

The Dow Jones Industrial Average SPX climbed 123.95 points, or 0.5%, to 25,413.22 and the S&P 500 index COMP rose 6.07 points, or 0.2%, to 2,736.27. The Nasdaq Composite Index DJIA shed 11.16 points, or 0.2%, to 7,247.87.

For the week, the Dow fell 2.2%, the S&P 500 dropped 1.6%, while the Nasdaq declined 2.2%.

MACRO NEWS

UK-EU decide Brexit deal, but UK

Parliament consent in doubt

Months of discussions between the UK and the EU came to an end this week with both sides agreeing on a draft withdrawal settlement. The agreement was validated by Prime Minister Theresa May's cabinet on Wednesday evening but hopes for the treaty's ultimate passage dimmed greatly after Dominic Raab, the man who negotiated the Brexit agreement, resigned as Brexit Secretary on Thursday. Raab said that the proposed regulatory system for Northern Ireland presents a "very real threat to the uprightness of the United Kingdom" and that he cannot support an unspecified backstop arrangement where the EU holds veto power over the UK's ability to exit the customs union. Three other cabinet ministers also resigned and additional letters of no confidence from members of May's Conservative Party were submitted,

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raising the threat that May could face a forthcoming leadership challenge. Against this frenzied environment, it is difficult seeing the deal, which many Brexit supporters perceive as a cave to EU demands, passing parliament in its current form. An EU summit to approve the deal has been scheduled for November 25. The UK Parliament is expected to vote in mid-December.

Oil slumps amidst supply surplus

In a sign of how inconsistent commodity markets can be, the price of a barrel of West Texas Intermediate (WTI) crude oil fell to its lowest level in nearly a year a month after reaching a one-year high. WTI spiked above \$76 in early October, pressured by supply fears ahead of the impending re-imposition of US trade sanctions on Iran. However, an increase in US shale oil inventories overwhelmed the controls on Iranian crude, sending prices tumbling nearly \$20 over the last 6 weeks. Oil futures waned for a record 12 days in a row before ending that streak on Wednesday during reports of deeper-than-expected OPEC production cuts.

China considering trade allowances in advance of Trump-Xi meeting

Chinese officials have been sending calming signals on trade to US negotiators in advance of a planned meeting between US president Donald Trump and China's Xi Jinping late this month on the sidelines of the G20 conference in Buenos Aires. China is believed to be considering making concessions to the US on intellectual property protections, opening

markets in some key sectors and increasing purchases of some US goods, such as soybeans. Few see a complete and thorough trade agreement being struck when the leaders meet, but there is hope that a short-term truce can be accomplished while negotiations over difficult issues, such as China's subsidies to favored industries, are hashed out.



Japan and Germany experience growth setbacks

Economic growth deteriorated in Japan and Germany during the third quarter. In Japan, a series of natural disasters struck during the period as third quarter economic growth declined at a 1.2% annual rate. The decline is expected to be short-term, with a Q4 bounce back expected. Germany posted a 0.2% quarter-over-quarter decline, owing in part to bottlenecks caused by new auto emissions standards. A bounce back is expected in Germany as well, though the European economy has been losing speed and power for much of 2018 as the pace of global trade has slowed this year. While US growth has been quite strong and healthy so far this year, concerns are increasing as to whether it can survive a deeper global soft patch.

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Fed's Powell content with US economy

Federal Reserve chairman Jerome Powell partially credited Fed policy for the solid US economy, referring to low unemployment, strong growth and stable inflation, in an appearance at the Federal Reserve Bank of Dallas. The Fed chair says he has good reason to think that the economy will remain strong, though he did note possible headwinds from other countries. Separately, the Fed announced that it will review the strategies tools and communications practices it uses to pursue monetary policy and will discuss the review during the second half of 2018.

EARNINGS NEWS

With more than 90% of the constituents of the S&P 500 Index having reported earnings for the third quarter, it is shaping up to be another stellar quarter, very much in line with the outstanding performance during first two quarters of 2018. Blended earnings per share have shown a 25.7% year-over-year rise, while sales have expanded by 9.4% compared with the same quarter a year ago, down slightly from the 10% topline growth rate posted during the first two quarters of the year. However, increasing headwinds from slowing global economic growth are raising concerns that Q3 could be the peak quarter for earnings this cycle.

MAJOR STOCK MOVES

Nvidia NVDA shares fell 19%. Nvidia had already declined 22% in the past three months, and the PHLX Semiconductor Index SOX a popular product for wagering on semiconductor shares, is down 1.2%. The selloff was sparked Nvidia's quarterly results

which missed revenue expectations for the third quarter and a forward guidance that was well below expectations. The selling was compounded by Stifel Nicolaus cutting its price target for the firm from \$200 to \$250.

Shares chip maker Advanced Micro Devices Inc. AMD fell 3.9% on broader concerns about the health of the chip sector.

Applied Materials Inc. AMAT rose 1.1% after the company reported a revenue beat, but guidance that fell short of Wall Street's targets.

Nordstrom Inc. JWN tumbled 14% after the retailer reported earnings for the third quarter well below analysts expectations.

California utilities PG&E Corp. PCG and Edison International EIX surged after investors fled these stocks earlier in the week on concerns that these companies may be held responsible for the deadly, ongoing wildfires in California.

Investors were soothed by assurances by California State Public Utilities Commission President Michael Picker, made in an interview with Bloomberg, that the state would be very reluctant to allow these firms to go bankrupt. PG&E shares soared 38% while Edison International jumped 15%.

Post Holdings Inc. POST rallied 5.6% after the company reported fiscal fourth-quarter earnings and said it plans to sell a 20% stake in its Active Nutrition unit via an initial public offering.

Shares of Viacom Inc. VIA advanced 2.5%, following an earnings report that showed the media giant beating earnings and sales expectations for the fiscal fourth quarter.



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THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, Nov 20	United States	Housing starts and building permits
Wed, Nov 21	United States	Durable goods orders, existing home sales
Thu, Nov 22	United States	Thanksgiving holiday
Fri, Nov 23	United States/ Eurozone	Flash purchasing managers' indices



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