



# INCISIVE INVESTOR

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## WEEK IN REVIEW: STOCKS BREAK WINNING STREAK

### Review of the week ended May 12, 2017

- **Stocks break winning streak**
- **Tidewater Inc to file for bankruptcy**
- **Volatility touches multi-decade lows**
- **Trump agenda tougher sell after Comey firing**
- **Macron cruises to French presidency**
- **South Korea elects new president**

U.S. stocks closed slightly lower on Friday to record their first weekly retreat in nearly a month as investors weighed an uncertain political environment stemming from President Donald Trump's firing of former Federal Bureau of Investigation Director James Comey.

The Dow Jones Industrial Average fell 0.1%, to finish at 20,896.61. The S&P 500 index slipped 0.2%, to close at 2,390.90. The S&P 500's subdued action on Friday marks the 13th straight session that the large-cap index moved less than 0.5%, the longest streak since September 1995, according to the Dow Jones Data Group. The Nasdaq Composite Index edged up to end at 6,121.23. For the week, the Dow is off 0.5% and the S&P 500 fell 0.4%. The Nasdaq Composite rose 0.3%, its fourth straight weekly gain, although the smallest in the streak. Tidewater Inc. ended down 0.9% to 88 cents after the oil services company said it expects to file for bankruptcy by May 17th. The

stock is down 88% since the first of the year. Equities were little changed on the week amid presidential elections in France and South Korea and fresh political turbulence in Washington. The yield on the US 10-year Treasury note, at 2.34%, saw scant net change on the week. West Texas Intermediate crude oil firmed modestly, to \$47.50 a barrel from last week's \$45.50.

### **VIX bounces from 24-year lows**

Volatility, as measured by the Chicago Board Options Exchange Index (VIX), fell to its lowest level since 1993 this week amid unusually calm equity trading conditions. The VIX, at 10.6 on Friday morning May 12th, is running at roughly half of its twenty-year average, according to Reuters. Analysts are struggling to explain the unusually placid market environment, with one well-known pundit this week pinning the blame on social media. The VIX slipped as low as 9.7 on Monday 8 May.

## US consumer perks up

US retail sales expanded at the fastest rate in three months in April, while prior months' data were revised higher. Strong labor markets and modestly rising wages are supporting consumption. Consumer prices in the US remain subdued, rising 0.2% in April after falling 0.3% in March. Core CPI rose 0.1% in April, and was up 1.9% versus a year ago.

## Legislative calendar grows more challenging for Trump

President Donald Trump's health care reform and tax cut agenda have faced significant legislative headwinds for some time, but those headwinds stiffened considerably after the president removed from office embattled Federal Bureau of Investigation director James Comey. Measures that require a 60-vote majority in the 100-seat United States Senate will be extremely difficult to enact given the charged political environment. Republicans, with 52 senators, hold a slim majority.

## EARNINGS NEWS

As of May 11th, with 457 of the S&P 500 companies having reported, earnings are expected to increase 14.7% in Q1 versus a year ago. Excluding energy, earnings are expected

to grow 10.4%. Revenues are expected to grow 7.3%, or 5.3%, excluding energy. The next-twelve-months P/E ratio is 17.8%, according to Thomson Reuters.

## GLOBAL NEWS

### Macron outperforms expectations

Centrist Emmanuel Macron was expected to easily beat right-wing populist Marine Le Pen in the second round of the French presidential election, but his margin of victory proved to be even larger than expected. Macron received 66% of the vote to Le Pen's 34%. He must now forge a governing majority in the National Assembly, with two-round parliamentary elections scheduled for June 11th and June 18th.

### South Korea's president aims for warmer North Korea relations

Newly-elected South Korean president Moon Jae-in took office on Wednesday and vowed to resolve the security crisis on the Korean peninsula as soon as possible, including by traveling to Pyongyang, under the right conditions. On the economic front, Moon is expected to push for the reform of South Korea's conglomerate system, as well as to seek higher corporate taxes.

## THE WEEK AHEAD

- **China reports retail sales and industrial production data on Monday, May 15**
- **US industrial production is released on Tuesday, May 16**
- **Japan releases its Q1 gross domestic product figures on Wednesday, May 17**
- **The United Kingdom releases its April retail sales report on Thursday, May 18**