



# INCISIVE INVESTOR

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## WEEK IN REVIEW: NASDAQ FALLS ON TECH SELLOFF

### Review of the week ended June 9, 2017

- **Nasdaq leaders are big losers**
- **Comey testifies on Russia probe**
- **UK vote muddles Brexit process**
- **ECB drops possibility of lower rates**
- **Eurozone maintains faster growth**

The Nasdaq skidded nearly 2% as the technology sector abruptly fell in afternoon trade. The Nasdaq's retreat comes on the heels of an early record and marked the biggest one-day decline for the Nasdaq since May 17, when it tumbled more than 2.5%. Meanwhile, the Dow closed at a record on Friday. The Dow Jones Industrial Average rose 0.4%, to end at 21,271.97, for a weekly gain of 0.3%. The S&P 500 edged down to finish at 2,431.77, falling 0.3% on the week.

Apple Inc. sank 3.9% in its biggest one-day drop since January 2016. The overall technology sector XLK fell 2.5%. Other major tech stocks were also sharply lower. Facebook Inc. (FB) skidded 3.3%, Alphabet Inc. (GOOGL) the parent of Google, lost 3.4%, Microsoft Corp. (MSFT) dropped 2.3% and Amazon.com Inc. (AMZN) shed 3.2%. The tech sector's tumble also follows a warning from Goldman Sachs that highfliers such as Facebook, Amazon, Apple, Microsoft and Alphabet—which had significantly contributed to the market's multimonth rally—may be overextended.

Deeper losses were limited by the energy and financial industries, both of which advanced on the day. Energy shares gained 2.5% while financials were up 1.9%. J.P. Morgan Chase & Co. rose 2.4% and Goldman Sachs Group Inc. (GS) climbed more than 1.7%. Exxon Mobil (XOM) added 1.9% while Chevron Corp. (CVX) was up 2.3%.

The yield on the US 10-year Treasury note rose to 2.20% while West Texas Intermediate crude extended its drop to \$45.50 from \$47.35 a week ago after a forecast from the Energy Information Agency projected that US domestic oil output will top 10 million barrels a day in 2018. Equity volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), remained historically muted, virtually unchanged at 10.

### **Former FBI chief testifies**

Former Federal Bureau of Investigation director James Comey testified before the Senate Intelligence Committee regarding the FBI's investigation into Russia's interference in

the 2016 US presidential election and President Donald Trump's desire that the Bureau end its investigation of his former national security advisor Michael Flynn. Comey said he would leave it to Special Counsel Robert Mueller to decide whether the president's conduct rose to the level of obstruction of justice. With Mueller's investigation in an early phase, there will likely be many months of continued policy paralysis in Washington.

## GLOBAL NEWS

### May severely weakened in UK vote; Tories lose majority

Prime Minister Theresa May's gambit to improve her Brexit bargaining position by calling a snap election did exactly the opposite, increasing the uncertainty around the Brexit process. The Conservative Party lost its outright majority in the House of Commons but will be able to form a government with the backing of the 10 members of Northern Ireland's Democratic Unionist Party. Politically, May is seen as living on borrowed time, and could be replaced as party leader in the near future. Early indications are that May's failure to secure a larger parliamentary majority undermines the case for a "hard" Brexit, which

the Tories campaigned for. That is one reason — along with a weaker pound — that markets have taken the election outcome in stride so far. A softer Brexit is seen as less disruptive to UK business interests. One side note: A very poor showing by the Scottish National Party is seen as halting momentum toward a second referendum on Scottish independence.

### ECB drops rate-cut reference

With the economy on the upswing, European Central Bank president Mario Draghi announced on Thursday that the bank is dropping its bias toward cutting interest rates, but it retained its bias toward increasing quantitative easing, if necessary. The bank raised its growth forecast while at the same time cutting its inflation outlook.

### Eurozone economy leads the pack

Purchasing managers' indices released this week show that the Eurozone continues to outperform other developed economies. The Eurozone composite PMI, which measures both manufacturing and services, stood at 56.8, unchanged from April. Meanwhile, the United States clocked in at 53.6 and the UK at 56.7, just below April's 56.8 three-year high. Japan's composite PMI registered 52.6 and China's 51.5.

## THE WEEK AHEAD

- **United States releases producer price index on June 13; another price index and retail sales and FOMC meeting and Yellen press conference is released on June 14; reports the industrial production on June 15**
- **China releases retail sales and industrial production on June 14**
- **Eurozone releases industrial production on June 14 and consumer price index on June 16**
- **Japan reports BOJ rate decision**