



# INCISIVE INVESTOR

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## WEEK IN REVIEW HURRICANES END PAYROLL STREAK

### Review of the week ended October 6, 2017

- **Stocks end down for the day, up for the week**
- **Nonfarm payrolls fall in wake of hurricanes**
- **Fed short list makes rounds**
- **Trump expected to decertify Iran nuclear deal**
- **Global economy continues to purr**

The S&P 500 and Dow Jones Industrial Average logged minor losses Friday, though the NASDAQ eked out a closing record and major indexes added to their string of weekly gains as investors mostly shrugged off a September jobs report that showed the first monthly drop in payrolls in seven years.

The Dow Jones Industrial Average declined less than 2 points to 22,773.67, just barely ending a seven-day win streak. The S&P 500 fell 0.1%, to finish at 2,549.33, putting an end to an eight-day streak that has taken it to repeated records. Eight of the primary 11 S&P 500 sectors ended lower on the day.

The Nasdaq Composite Index ended slightly higher, eking out a record close. The tech-heavy index ended up rose 0.1%,

to 6,590.18.

All three benchmarks posted solid weekly gains. The Dow industrials rose 1.7% while the S&P 500 was up 1.2%. Both have risen for four straight weeks. The NASDAQ rose 1.5% in its second straight weekly gain.

Hopes for a tax reform package also helped push the yield on the US 10-year Treasury note to 2.38% from 2.32% a week ago. West Texas Intermediate crude oil slipped to \$49.50 a barrel from \$51.50 last Friday while equity volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), closed at a record on Thursday and traded at 9.50 early Friday.

### **US payrolls fall for first time since September 2010**

Non-farm payrolls shrank by 33,000 in

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September, the first monthly decline since 2010 and sharply below analyst expectations for an increase of 75,000 jobs. However, the month's results were undercut by hurricanes Harvey and Irma, and the difficulty analysts had in analyzing the impact the storms had on the labor market allowed markets to shrug off the surprise contraction. The unemployment rate fell to 4.2% from 4.4% while wages increased by 0.5% to an average of \$26.55 an hour, per Labor Department data. Hourly pay saw a 2.9% year over year rise, up from 2.7% in August. Those gains, too, were likely affected by the hurricanes. It is likely to be another month or so before the storms' impacts work their way through the data. An unexpected positive effect of the hurricanes was a spike in September auto sales as consumers replaced vehicles damaged in the storms.

## **Trump reportedly narrows the Fed chair field**

Bloomberg News reported this week that aides to US president Donald Trump have narrowed the list of candidates for chair of the US Federal Reserve to four, or perhaps five, people. Trump has reportedly spoken with Fed chair Janet Yellen about re-upping, though she is not expected to receive reappointment, according to the report. Sitting Fed governor Jerome Powell,

former governor Kevin Warsh and National Economic Council director Gary Cohn have all reportedly spoken with the president about the position, while Stanford University economist John Taylor has apparently not been interviewed but is said to be under consideration. All are known quantities to the markets, with Warsh and Taylor seen as the most hawkish of the group.

## **Puerto Rico's bonds gyrate after talk of restructuring**

An offhanded comment from President Trump that the \$73-billion debt of Puerto Rico may get wiped out sent the island's general obligation bonds skidding in price this week. Trading near 44 cents on the dollar before the comments, the bonds fell to around 30 cents before stabilizing, according to the Wall Street Journal. The White House later indicated that it does not intend to get involved in Puerto Rico's restructuring.

## **First steps toward US tax reform underway**

The US House of Representatives took the first step toward passing a tax overhaul by approving a fiscal-year 2018 budget blueprint. Congress must pass a budget before a tax bill is allowed, under Senate budget reconciliation procedures, to pass

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in that body with only 51 votes, rather than the 60 needed to end a filibuster. Passage of the House measure ups the odds that tax reform could be enacted early in 2018.

## GLOBAL NEWS

### Iran nuclear deal expected to be decertified

In a move that will likely draw criticism from European allies, President Trump is expected next week to decertify that the Iran nuclear deal — designed to restrain Iran’s nuclear ambitions — is in the security interests of the US. Presently, the president must certify the agreement every 90 days. If the president withholds certification, Congress then has 60 days to decide whether to re-impose sanctions on Iran. It is possible that the pact will ultimately hold together if Congress does

not apply sanctions.

### Global economy continues expansion

Figures from the United States, Europe and China released this week all showed continued solid economic growth. September figures for the US manufacturing and services sectors both showed their strongest readings in more than a decade, but the US data may have been somewhat distorted by the recent hurricanes. The Institute for Supply Management manufacturing index rose to 60.8, the highest level since September 2004, while the nonmanufacturing reading came in at 59.8, a level not seen since August 2005. European data were similarly robust, and China also showed continued upward momentum.

## THE WEEK AHEAD

Date	Country/Area	Release/Event
• Mon, Oct 9	United States	Bond market closed for Columbus Day
• Mon, Oct 9	Canada	Markets closed for Thanksgiving
• Tue, Oct 10	United Kingdom	Industrial production
• Wed, Oct 10	US	Release of Federal Open Market Committee minutes
• Thu, Oct 12	Eurozone	Industrial production
• Fri, Oct 13	China	Trade balance
• Fri, Oct 13	US	Retail sales, Consumer Price Index

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