



INCISIVE INVESTOR

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WEEK IN REVIEW: EMPLOYMENT REPORT DISAPPOINTS

Review of the week ended April 7, 2017

- **US March nonfarm payrolls rise 98,000**
- **US launches missile attack against Syria**
- **Trump, Xi hold summit**
- **Fed to begin shrinking balance sheet**
- **European manufacturing speeds up**
- **South Africa suffers credit downgrade**

U.S. stocks closed fractionally lower Friday, posting weekly losses after staggering through a choppy session as investors digested weaker-than-expected March jobs data and President Donald Trump's late Thursday airstrike against Syria.

The Dow Jones Industrial Average finished down at 20,656.10. Wal-Mart Stores Inc. and defense contractor Boeing Co. led gainers. For the week, the Dow industrials declined less than 0.1%. The S&P 500 declined to close at 2,355.54, with six out of the index's 11 sectors finishing lower as utilities, consumer-discretionary, and financials led decliners. The S&P 500 shed 0.3% for the week. The Nasdaq Composite Index finished down at 5,877.81 and down 0.6% for the week.

Global equities were little changed this week despite an uptick in geopolitical jitters following the US missile strike on a Syrian airbase and a potential shift in tactics by the US Federal Reserve later this year. The

lackluster employment report, coupled with the attack against Syria, helped push US 10-year Treasury notes to 2.28%, their lowest intraday yield of 2017, on Friday morning. Oil prices firmed after the attack, with West Texas Intermediate crude rising to \$51.94, up from \$50 a week ago. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), remained subdued, at 12.8 on Friday versus 12 a week ago.

US nonfarm payrolls up less than expected

US payrolls expanded by 98,000 in March, well below the 180,000 consensus forecast. In addition, both January and February payrolls were downwardly revised. However, the unemployment rate dipped 0.2% to 4.5%, the lowest level since May 2007, while average hourly earnings rose 2.7% versus a year ago, down from 2.8% in February.

US attacks Syrian airbase

In response to a chemical weapons attack in

Syria by the regime of Bashar al-Assad, the United States launched nearly five dozen Tomahawk cruise missiles targeted at the airfield from which the attack is believed to have been launched. The missiles struck infrastructure at the airfield, according to the administration, but did not target chemical weapons storage facilities because of the potential for civilian casualties.

Trade, North Korea top Trump-Xi agenda

US president Donald Trump and Xi Jinping, China's president, held talks at Trump's Mar-a-Lago Club in Palm Beach, Florida, late this week. The leaders discussed trade relations between the world's two largest economies as well as security concerns, particularly over North Korea.

Fed eyes balance sheet, stock valuations

The minutes of Federal Open Market Committee meetings rarely make much news, but the summary of the March meeting did so on several fronts. The committee discussed shrinking the Fed's mammoth \$4.5 trillion balance sheet beginning late this year by allowing some of the assets it acquired in the wake of the financial crisis to mature. However, the committee did not outline specifically how it will change its reinvestment policy. Those specifics are expected later in

2017. Also newsworthy was that members of the committee opined on asset valuations more directly than usual: "Some participants viewed equity prices as quite high relative to standard valuation measures. It was observed that prices of other risk assets, such as emerging market stocks, high-yield corporate bonds, and commercial real estate, had also risen significantly in recent months."

GLOBAL NEWS

European manufacturing hits highest reading in nearly six years

The Eurozone purchasing managers' index in March rose to its highest level in nearly six years, reaching 56.2 from 55.4. That's the highest since April of 2011. European retail sales rose solidly for the second month in a row in February, rising 0.7%. In the United States, the Institute for Supply Management's manufacturing index eased to 57.2 in March from February's 57.7.

South Africa's rating cut after Gordhan sacked

Credit rating agencies Standard and Poor's and Fitch each downgraded South Africa's sovereign credit rating one notch to BB+ in the wake of the sacking of former finance minister Pravin Gordhan. Weakening standards of governance and public finances were to blame.

THE WEEK AHEAD

- **Fed chair Janet Yellen participates in a discussion at the University of Michigan on Monday, April 10**
- **The UK consumer price index is released on Tuesday, April 11**
- **UK unemployment data are reported on Wednesday, April 12**
- **The Bank of Canada's interest rate decision is announced on Wednesday, April 12**
- **China reports its trade balance on Thursday, April 13**
- **The United States releases retail sales and consumer price data on Friday, April 14**