



INCISIVE INVESTOR

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WEEK IN REVIEW: DOWN DAY, UP WEEK & QUARTER

Review of the week ended March 31, 2017

- **Stocks finish higher for the week and quarter**
- **Trump's agenda in question after health care defeat**
- **US economic growth revised slightly up**
- **NAFTA changes may be modest**
- **United Kingdom starts Article 50**

The tech-heavy NASDAQ closed short of another record Friday while the Dow industrials and S&P 500 finished lower, but all three finished higher for the week and the quarter. The Dow Jones Industrial Average on Friday declined 0.3%, to finish at 20,663.22, led lower by shares of Exxon Mobil Corp. and DuPont. For the week, the Dow finished up 0.3%, but 0.7% lower for the month, while notching a 4.6% gain for the quarter. The S&P 500 index closed down 0.2%, at 2,362.72, with financial and telecom stocks weighing on the index. The S&P 500 closed up 0.8% for the week, down less than 0.1% for the month, and up 5.5% for the quarter. The Nasdaq Composite index finished down less than 0.1%, at 5,911.74, snapping a five-session streak of gains. The NASDAQ rose 1.4% for the week, 1.5% for the month, and nearly 10% for the quarter.

Equities rose this week as did oil prices, while yields on 10-year US Treasury notes held steady at 2.41%. West Texas Intermediate crude advanced to \$50 from \$47.80 last Friday, while global Brent rallied to \$52.70 from \$50.60 last week. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), held steady near 12.

Will Trump play it safe or go big?

After suffering a stinging defeat in his first major legislative initiative, President Donald Trump is likely to turn his focus to taxes in the hope of unifying the Republican congressional caucus. That may prove easier said than done, as the approximately \$1 trillion in savings over 10 years that was expected from the repeal of Obamacare and its replacement with the American Health Care Act (AHCA) is now off the table. Trump must now decide whether to risk further political capital by advocating an

ambitious comprehensive tax reform plan or to play it safe and advocate a smaller program of tax cuts. Should negotiations drag on, markets may not receive the fiscal stimulus that they've been expecting this year.

US growth revised up

Q4 US gross domestic product was revised up to a 2.1% annual rate this week from an earlier 1.9% reading. Corporate profits showed healthy growth of 9.3%, though the persistent US trade deficit restrained economic growth. Sluggish growth is expected to persist into the first quarter of 2017.

US to seek modest NAFTA changes

A leaked draft of a US Department of Commerce memo this week showed that the Trump administration will seek quite modest changes to the North American Free Trade Agreement, countering more bombastic proposals made on the campaign trail by President Trump prior to his election. Trade jitters have been receding in recent weeks, but investors will keep a close eye on the first meeting between Trump and Chinese president Xi Jinping in Palm Beach, Florida, on April 6-7.

GLOBAL NEWS

Beginning of the end

The United Kingdom formally began the process of withdrawing its European Union membership this week by triggering Article 50 of the Lisbon Treaty. The UK and EU now enter into a two-year negotiation to iron out such thorny issues as the legal status of EU citizens residing in the UK and that of UK citizens living within the EU, "hard" or "soft" borders and how —and how much it will cost-- to extract the UK from the EU's finances. EU president Donald Tusk said a free trade agreement can only be discussed once sufficient progress has been made on the divorce process. Also this week, the Scottish parliament voted 69-59 to authorize a second referendum on independence from the UK. Scotland voted to remain in the EU in last June's Brexit referendum.

German unemployment falls to record low

Unemployment in Germany, Europe's largest labor market, fell to a post-reunification low of 5.8% in March, as joblessness fell by 30,000. That was more than the 10,000 that economists had predicted.

THE WEEK AHEAD

- **The Bank of Japan releases its Tankan report on Monday, April 3**
- **Euro-area retail sales are reported on Tuesday, April 4**
- **The US Federal Reserve releases the minutes of its March Federal Open Market Committee meeting on Wednesday, April 5**
- **Trump and Chinese president Xi meet in Palm Beach on Thursday-Friday, April 6-7**
- **The United States releases its March employment report on Friday, April 7**