



INCISIVE INVESTOR

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WEEK IN REVIEW VOLATILITY REBOUNDS

Review of the week ended October 12, 2018

- **Shares slip despite firm interest rates, style rotation**
- **China fast-tracks economic support efforts**
- **IMF decreases global growth view**
- **Trump bashes Fed**
- **Italy faces downgraded credit rating**

U.S. stocks rose to close higher on Friday, with equities rebounding from a multiday rout that slashed 1,400 points from the Dow Jones Industrial Average at its worst and left the Nasdaq on the precipice of a correction.

The Dow Jones Industrial Average DJIA whipsawed but ended the day up 287.16 points, or 1.2, to 25,339.99. Earlier in the day, the Dow flirted with another day of losses, turning red after hitting a session high of 25,467.55.

The S&P 500 SPX added 38.76 points, or 1.4%, to 2,767.13, snapping a six-day losing streak, its longest such stretch of losses since a nine-day drop that ended in November 2016.

The Nasdaq Composite Index COMP staged the most impressive comeback of the three adding 167.83 points, or 2.3%, to 7,496.89, its

best daily performance since March 26.

For the week, the Dow is down 4.2%, the S&P lost 4.1% and the Nasdaq fell 3.7%, representing their worst weekly performances since March. Both the Dow and the S&P have fallen for three straight weeks, while the Nasdaq has dropped for two.

Market slides as worry grows

For months, US equities have ignored macro issues such as the deepening US-China trade crack and have advanced despite typically weak seasonal patterns ahead of US midterm elections. This week, the market began to pay attention to those factors, and others, including an upside breakout in long-term interest rates. Higher bond yields occasional timely equity investors to question future earnings and growth expectations.

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China to counter tariffs

The People's Bank of China announced this week that effective Monday it will reduce the reserve requirement ratio most commercial banks must hold by 1%, to 14.5%. This is the fourth such cut this year and comes amid government efforts to support the domestic economy via a variety of means, including tax cuts and infrastructure spending, to offset the economic strain from US tariffs. One bright spot in the news was the announcement that US president Donald Trump and Chinese president Xi Jinping will meet at the G20 summit in late November. Sure to be on the plan is China's record trade surplus with the United States, which hit \$34.13 billion in September. Also this week, US treasury secretary Steven Mnuchin warned China against employing competitive currency depreciation to improve its competitiveness.

IMF lowers global growth forecast

The International Monetary Fund, referring to

trade protectionism and instability in emerging markets, downgraded its global economic growth outlook for this year and next. It now sees global gross domestic product growth of 3.7% in 2018 and 2019, down from the 3.9% estimate for both years in April. The IMF forecasts a 2018 US growth rate of 2.9%, supported by tax cuts and other monetary stimulus. Downside risks to global growth have risen in the past six months while the potential for upside surprises has receded, according to the World Economic Outlook.

Trump rebukes Fed over rate hikes

President Trump blamed the US Federal Reserve for this week's market slump, refracting blame from the growing trade conflict with China. "They're so tight. I think the Fed has gone crazy," he said. Later, National Economic Council director Larry Kudlow said he thinks that Fed Chairman Jerome Powell is "on target" and that the president is not dictating policy to the Fed.



Italian credit rating at risk

Credit rating agencies Moody's and S&P Global have Italian sovereign debt under review for a downgrade, and both organizations are

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expected to deliver their judgements in the second half of October. Italy is rated two notches from falling out of the investment-grade category. A one-notch downgrade is reportedly priced into the market now. Italy's populist government is proposing large spending increases that have it on course for a disagreement with European Commission budget watchdogs. Italian yields rose to a four-and-a-half year high this week amid the renewed scrutiny from Brussels and the ratings agencies.



Optimism increases for Brexit deal

While hopes for a provisional Brexit deal have grown lately, divisions remain within the government of Prime Minister Theresa May over how long the backstop plan to keep the United Kingdom in the European Union customs union should remain in force. One side wants the deal to last only until the end of the two-year post-Brexit transition period, while another, led by Chancellor of the Exchequer Philip Hammond, expect a longer transition, given the difficulties surrounding avoiding the creation of a physical border between the Republic of Ireland and Northern Ireland. The UK and EU hope to have a text that can be temporarily agreed at a summit in Brussels on 17 October. Any deal reached will need to be ratified by a closely divided UK parliament.

MAJOR STOCK MOVES

Shares of JPMorgan fell even as it reported third-quarter earnings and sales that beat expectations. Shares were down 1.1%, as investors worried about the source of future earnings growth.

Citigroup's third-quarter earnings came in ahead of forecasts but sales missed expectations. The stock rose 2.1%. Wells Fargo reported adjusted earnings that missed expectations but revenue that topped forecasts. Shares gained 1.3%.

PNC Financial Services Group Inc. PNC reported adjusted earnings that topped analyst forecasts, and revenue that grew more than expected. Shares sank 5.6%.

Technology stocks were heavily traded, as investors saw deals to be had following heavy losses earlier in the week. Apple Inc. AAPL rose 3.6% while Google-parent Alphabet Inc. GOOGL GOOG added 2.7%. Microsoft Corp. MSFT rose 3.5%.

Amazon.com Inc. AMZN surged 4% on Friday but lost 6.8% for the week and tumbled into correction territory.

Wedbush Securities upgraded Fitbit Inc. FIT to outperform. Shares rose 2.7%.





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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Oct 15	Japan	Industrial production
Mon, Oct 15	United States	Retail sales
Tue, Oct 16	China	Consumer price index
Tue, Oct 16	United Kingdom	Unemployment
Tue, Oct 16	United States	Industrial production
Wed, Oct 17	United Kingdom	Brexit summit, Consumer price index
Wed, Oct 17	Eurozone	Consumer price index
Wed, Oct 17	United States	Minutes of Federal Open Market Committee meeting
Thu, Oct 18	United Kingdom	Retail sales
Fri, Oct 19	China	Retail sales, gross domestic product
Fri, Oct 19	Canada	Retail sales, Consumer price index
Fri, Oct 19	United States	Existing home sales



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