



INCISIVE INVESTOR

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WEEK IN REVIEW: STOCKS END 2 WEEK DECLINE

Review of the week ended April 21, 2017

- **Stocks higher after 2 down weeks**
- **US tax reform likely delayed**
- **Corporate earnings are higher**
- **Tensions on Korean peninsula high**
- **UK's May calls snap election**
- **Four seek to advance to French runoff election**
- **China's growth picks up**

U.S. stocks finished lower on Friday, but still managed to notch their first weekly gain in three weeks and largest in two months, as President Donald Trump told the Associated Press he would be releasing a "massive tax cut package" in the coming week.

Stocks moved off their session lows after Trump's announcement, with the S&P 500 index shedding 0.3%, to 2,348.70, while the Dow Jones Industrial Average fell 0.2%, to 20,547.76. The Nasdaq Composite Index was off 0.1%, to 5,910.52. Strong corporate earnings helped support stocks, offsetting anxieties surrounding Sunday's first-round vote in the French presidential election. Oil prices fell 2.4%, capping off a weekly drop of roughly 7%.

For the week, the Dow industrials rose 0.5%, the S&P 500 advanced 0.9%, and the NASDAQ surged 1.8%, following two weeks of declines.

US Treasury yields continued their drift lower to 2.22% as investors remain concerned about the French elections and the diminished prospects of US fiscal stimulus. Oil prices gave back all of last week's gains, with West Texas Intermediate dropping to nearly \$50 from last week's close of \$53.25. Volatility, as measured by the Chicago Board Options Exchange Volatility index, moderated to 14.7, down from 16 last week.

US tax reform may be delayed

Treasury Secretary Steven Mnuchin downplayed the odds of Congress being able to pass tax reform ahead of the scheduled August recess. Earlier in the year, Mnuchin said he intends to overhaul the unwieldy US tax code by August, but the inability of the House Republicans to agree on a plan to repeal and replace Obamacare has delayed potential policy wins on other high priority policy issues, such as improving infrastructure.

1st Quarter Earnings Are Higher

Of the 82 companies in the S&P 500 Index that have reported earnings through 20 April, 74.4% have exceeded analyst expectations, according to Lipper. That is above the long-term average of 64% and the four-quarter average of 71%. First-quarter earnings are expected to rise 11.1% from Q1 2016. Excluding the energy sector, the earnings growth estimate declines to 7.3%. The blended revenue growth estimate for Q1 is 6.6%. Excluding energy, it falls to 4.7%. The next-twelve-months P/E ratio for the S&P 500 is 17.3x.

GLOBAL NEWS

North Korea threatens preemptive strike

In the wake of a failed missile test last weekend, North Korea this week threatened the United States, South Korea and Japan with a “super-mighty preemptive strike” after Secretary of State Rex Tillerson said the US is reviewing ways to compel the North Korean regime to re-engage diplomatically. Meanwhile, the US navy is moving an aircraft carrier battle group toward North Korea as US and South Korean forces conduct annual training exercises.

May looks to strengthen her hand

British prime minister Theresa May this week

called for an early general election in the United Kingdom in an attempt to strengthen her hand in upcoming Brexit negotiations. May’s Conservative Party holds a 20% lead in most opinion polls, which suggests that the Tories will build on their slim 17-seat majority.

Four candidates bunched near the top of French polls

The first round of the French presidential election takes place on Sunday, 23 April, with four candidates within striking distance of victory. The National Front’s Marine Le Pen and centrist Emmanuel Macron hold slight leads over Republican François Fillon and leftist Jean-Luc Mélenchon. The betting odds favor Le Pen and Macron advancing to the runoff on 7 May, in which Macron, the more establishment candidate, is expected to triumph. The most destabilizing outcome would be a match-up between Le Pen and Mélenchon in the runoff, as both candidates are anti-European Union.

China reports upbeat Q1 growth

China’s economic growth rate accelerated to 6.9% in the first quarter, the fastest pace in six quarters. Additionally, retail sales rose 10.9% year over year in March, handily beating estimates, as did industrial output, which rose 7.6% in March. Analysts had expected fiscal and monetary stimulus to wane in 2017, but so far it has not.

THE WEEK AHEAD

- **France holds the first round of its presidential election on Sunday, April 23**
- **The Bank of Japan meets to set interest rates on Thursday, April 27**
- **The United States releases durable goods orders on Thursday, April 27**
- **The United Kingdom reports Q1 GDP on Friday, April 28**
- **The US releases revised Q1 GDP figures on Friday, April 28**