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WEEK IN REVIEW US ECONOMY INCREASES PACE

Review of the week ended July 27, 2018

- **Q2 US 4% growth**
- **Trade tensions lessen after Trump/Juncker discussions**
- **China scuttles tech merger**
- **US home sales pace declines**

U.S. stocks closed lower Friday following disappointing results from Twitter Inc. and bellwethers, including Exxon and Intel. The highly-anticipated release of gross domestic product data also showed that economic growth remains relatively strong but came in a shade below lofty expectations.

The Dow Jones Industrial Average DJIA slid 76.01 points, or 0.3%, to 25,451.06. The S&P 500 index SPX shed 18.62 points, or 0.7%, to 2,818.82 with seven of its 11 sectors lower as the technology sector sank 2%. The Nasdaq Composite Index COMP fell 114.77 points, or 1.5%, to 7,737.42.

For the week, the Dow added 1.6%, the S&P 500 rose 0.6%, and the Nasdaq fell 1.1%. Both the Dow and the S&P posted their fourth straight weekly gains, the longest such streak since January.

US economy grows at 4.1% in Q2

Economic growth fast-tracked in the second quarter, with gross domestic product expanding at a 4.1% annualized rate compared with an upwardly revised 2.2% pace in Q1. That's the fastest pace in nearly four years. Improved consumer spending and business investment, along with increased government spending, helped boost growth. Housing was a critic during the quarter as residential fixed investment fell 1.1% (for more on housing, see below). US exports were a bright spot in the data, though analysts think some of the foreign demand may reflect an effort to store goods in anticipation of increased tariffs.

US-EU trade strains lessen

Amidst very low expectations, US president Donald Trump and European Commission president Jean-Claude Juncker met at the White House on Wednesday. The leaders unexpectedly agreed on a solid agenda that

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will keep the two sides from increasing the continuing trade battle while negotiating the elimination of tariffs and subsidies on non-auto industrial goods. Also, they said they will work toward resolving the steel and aluminum tariffs and the EU's retaliatory tariffs. It is expected that no new tariffs will be put in place while negotiations are under way. As part of the agreement, the EU agreed to increase purchases of US liquefied natural gas and soybeans. While the proposed agreement is only the first step, it is the first sign of a de-escalation on the trade front in months.



China foils tech merger as trade battle expands

China's unwillingness to approve the merger of the US tech company Qualcomm with Dutch chip maker NXP Semiconductors has set the stage for an increase of trade tensions with the US. Eight other international regulatory bodies had approved the transaction, with China the singular holdout in spite of heavy lobbying in favor of the deal by top US officials. China, for its part, said the question of whether or not to approve the deal by Qualcomm's self-imposed deadline was an antitrust matter and not linked to US-China trade frictions. The deal's approval

had been expected because of the recent decision by the US to ease penalties on China's ZTE Corporation.



US home sales fall

Sales of existing homes declined for a third month in June while the pace of new home sales fell to its slowest pace in eight months amid fresh signs that the housing market is cooling. Firmer mortgage rates and very low inventory levels, as well as changes in tax incentives, may be interfering with sales. Residential investment was a modest drag on Q2 GDP growth.

MAJOR STOCK MOVES

Amazon.com Inc. AMZN gained 0.5% after the e-commerce company posted not only its biggest quarterly profit in history, but earnings that were double what was expected. The company extended its strong year-to-date rally and hit new records. It is up 55% thus far in 2018, playing a key role in boosting the market.

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Exxon Mobil Corp. XOM fell 2.8% after reporting second-quarter earnings and revenue that missed expectations. Chevron Corp. CVX also came in below forecasts, but its shares shook off an initial decline to rise 1.6%. Both stocks are Dow components.

Also weighing on the Dow was Intel Corp. INTC which sank 8.6% after the chip giant's earnings, revenue and upbeat outlook surpassed Wall Street forecasts late Thursday, but quarterly revenue growth for its best-growing segment fell short of expectations.

CBS Corp. CBS shares dropped 6.1% on reports that the New Yorker will publish an article on sexual-misconduct allegations against Chief Executive Leslie Moonves. The article reportedly discusses instances of unwanted kissing and touching over two decades ago.

Merck & Co. Inc. MRK fell 0.8% after it reported its results and gave an outlook.

Twitter Inc. TWTR tumbled 21% after it reported its second-quarter results and gave a third-quarter outlook that was below forecasts. The Global X Social Media ETF SOCL fell 4.1%.

Facebook Inc. FB extended losses after having its worst day on Thursday to fall 0.8% in the wake of its subdued outlook. However, Heather Bellini, analyst at Goldman Sachs, maintained a buy rating on the stock and cut her 12-month price target to \$205 from \$225.

Colgate-Palmolive CL reported adjusted second-quarter earnings that met expectations but sales that were below forecasts. Shares fell 0.4%.

Electronic Arts Inc. EA shares fell 5.7% after the videogame maker issued an earnings beat late Thursday but fell short of Wall Street targets for coming quarters.

Shares of Chipotle Mexican Grill Inc. CMG rallied 5.7% after the burrito chain posted better-than-expected results after the close Thursday.

BP PLC BP will buy the bulk of BHP Billiton Ltd.'s BHP U.S. onshore oil-and-gas unit for \$10.5 billion. U.S.-listed shares of BP was flat while BHP rose 1.4% on the New York Stock Exchange.

Starbucks Corp. SBUX climbed 1.4% after the coffee company produced results late Thursday that largely met Wall Street's expectations.





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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Jul 30	Japan	Retail sales
Mon, Jul 30	Eurozone	Economic sentiment indicator
Tue, Jul 31	Japan	Bank of Japan meeting, Industrial production
Tue, Jul 31	China	Purchasing managers' indices
Tue, Jul 31	Eurozone	Gross domestic product, consumer price index
Tue, Jul 31	United States	Core PCE price index
Tue, Jul 31	Canada	GDP
Wed, Aug 1	Global	Manufacturing PMIs
Wed, Aug 1	United States	Federal Reserve rate-setting meeting
Thu, Aug 2	United Kingdom	Bank of England rate-setting meeting
Fri, Aug 3	Global	Service-sector PMIs
Fri, Aug 3	Eurozone	Retail sales
Fri, Aug 3	United States	Nonfarm payrolls



AN INSIDE LOOK AT RETIREMENT LIVING

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