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WEEK IN REVIEW DOW PUNCHES 750 POINTS HIGHER AFTER JOBS DATA

Review of the week ended January 4, 2019

- **US non-farm payrolls rise 312,000, wages firm**
- **Business sentimentality slumps further**
- **China trade clash affecting US companies**
- **Brazil swears in new president**

Stock Market News

U.S. stocks staged a major rally to close out the week, more than erasing Thursday's sharp losses after a better-than-expected jobs report showed employers adding new personnel at a robust pace.

Also bolstering sentiment were remarks by Federal Reserve Chair Jerome Powell.

The Dow Jones Industrial Average DJIA rose 746.94 points, or 3.3%, to 23,433.16, while the S&P 500 index SPX advanced 84.05 points, or 3.4%, to 2,531.94. The Nasdaq Composite Index COMP advanced 275.35 points, or 4.3%,

to 6,738.86.

At session highs, the Dow rose as much as 832.42 points, the S&P 500 90.16 points, while the Nasdaq surged 297.18 points.

Friday's performance saved markets from what had been the worst start to a year for the Dow and S&P 500 since 2000, according to Dow Jones Market Data.

After Friday's close, the Dow is up 0.5% on the year, the S&P 500 1%, while the Nasdaq has advanced 1.6% over the first three trading days of 2019.

MACRO NEWS

Strong jobs report calms slowdown fears; Powell softens message

Thursday's very weak US manufacturing data raised fears that the US economy is beginning

to downshift along with the rest of the global economy, but Friday's employment report put those fears to rest, at least for the near term. The US economy added an astonishing 312,000 jobs in December, nearly doubling

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expectations for a rise of 175,000. Average hourly earnings rose 3.2% year over year. The unemployment rate rose to 3.9% from 3.7% as new applicants were added to the labor force. Also on Friday, markets welcomed comments from Fed chair Jerome Powell in which he communicated that the central bank will be patient as the economy evolves but is fully prepared to shift its policy position significantly if necessary. Powell also said the Fed would not wait to alter the pace of the balance sheet runoff if necessary, a shift in tone from his December press conference, at which he showed that the balance sheet reduction is likely to remain on autopilot. The Fed chair said he would not resign if asked by US president Donald Trump and that no meeting with the president was scheduled.



Worldwide growth slipping into lower gear?

While the US manufacturing zone spent much of 2018 growing more quickly than its developed market partners, it appears that its paced slowed radically as 2018 drew to a close. The clearest sign of the slowdown was the publication of the closely watched Institute for Supply Management's manufacturing purchasing managers' index (PMI) on Thursday. That measure tumbled more than five points in December, to 54.1 from a vigorous 59.3 in November, the biggest

one-month decline since Lehman Brothers collapsed in the fall of 2008. Survey partakers pegged the recent loss of confidence mainly on the continuing US-China trade conflict. Around the world, China's manufacturing PMI fell into contraction territory in December, below 50, while the eurozone PMI slipped to 51.4, suggesting weakness is spreading around the world.

White House declares US companies could face China trade hit

Word that Apple had lowered Q1 revenue guidance by 8% — its first preannouncement in ten years — on significantly slower sales in China incited Kevin Hassett, chairman of the White House Council of Economic Advisers, to warn that many other companies may face lower earnings in China until the United States secures a trade deal with China. China's economic pain gives the US advantage in trade negotiations, Hassett said. Meanwhile, a partial US government shutdown has stretched out to day 13, one of the longer standoffs in the last few years. President Trump refuses to sign a funding bill until Congress appropriates money to partially fund a border wall. So far, there has been no inclination to budge on the issue on the part of Democratic leadership, with the party holding a majority in the House of Representatives and possessing the seven votes needed in the Senate to reach the 60-vote threshold for passing legislation. The longest shutdown in history lasted 21 days beginning in December 1995.

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Brazil inaugurates market-friendly president

Jair Bolsonaro, the first right-of-center president since Brazil ended its military tyranny in the mid-1980s, was sworn into office this week, swearing to fight corruption, open up markets and carry out structural reforms. He hit the ground running, announcing on Thursday his government's intention to privatize 12 airports and 4 seaports. Reform of the state pension plan is also one of Bolsonaro's top priorities. Investors have been willing to listen to the new president's reform message, making

Brazilian equities a standout with their 15% return in 2018.

US-China trade discussions resume next week

US-China trade talks at the vice-ministerial level will resume next week, China's commerce ministry announced today. This was one of a bustle of headlines including those referring to a series of cuts amounting to 100 basis points by late January to the People's Bank of China's reserve requirement ratio. China continues to fine-tune economic policy in an effort to support growth.



MAJOR STOCK MOVES

Apple Inc. AAPL shares rebounded, rising 3.9%, following Thursday's 9.9% decline spurred by the company cutting its revenue guidance, citing weaker iPhone sales in China.

Shares of Netflix Inc. NFLX closed up 9.1%, after Goldman Sachs added the stock to its conviction list and said a 36% pullback since July presents an attractive buying opportunity.

Coty Inc. COTY shares are up 4.7%, after JPMorgan analyst Andrea Teixeira raised her rating on the stock from sell to neutral, arguing that the beauty-products company's stock has hit a "rock bottom" valuation. The stock is down more than 49% over the past six months.



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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Jan 7	Eurozone	Retail sales
Mon, Jan 7	United States	ISM non-manufacturing PMI, factory orders
Tue, Jan 8	Eurozone	Economic sentiment indicator
Wed, Jan 8	Canada	Bank of Canada rate-setting meeting
Wed, Jan 9	United States	Minutes of December FOMC meeting
Fri, Jan 11	United Kingdom	Industrial production, gross domestic product
Fri, Jan 11	United States	Consumer Price Index



ONE LAST THING



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