



INCISIVE INVESTOR

Randall Fielder, President & CEO

1400 Broadfield Blvd. Suite 200

Houston, TX 77084

713-955-3555

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WEEK IN REVIEW

TURBULENT TAILSPIN KICKS OFF A WILD WEEK



U.S. stocks closed lower Friday after President Donald Trump suggested that a near-term deal between the U.S. and China on tariffs was unlikely soon. However, equity indexes managed to claw back most of the sharp losses that commenced a turbulent five-day stretch for Wall Street.

The Dow Jones Industrial Average DJIA closed 90.75 points, or 0.3%, lower at 26,287.44, with the index turning positive at one point during the session, erasing a roughly 280-point decline.

The S&P 500 index SPX slipped 19.44 points, or 0.7%, to end at 2,918.65. Meanwhile, the tech-heavy Nasdaq Composite Index COMP declined 1% to 7,959.14, off 80.02 points. All three benchmarks suffered declines of at least 1% at Friday's nadir.

For the week, the Nasdaq lost 0.6%, the S&P 500 lost 0.5%, while the Dow ended the week off 0.8%.



info@park10financial.com

www.park10financial.com



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Currency shifts in focus as trade tensions rise

China allowed its currency, the yuan, to weaken past seven to the dollar on Monday for the first time since the global financial crisis. The action was seen as a countermeasure meant to offset some of the drag on China's economy caused by a fresh round of US tariffs. It sparked heavy selling in global equity markets early in the week, though efforts to control the currency's fall helped steady the markets later in the week. While a weakening currency makes Chinese goods more reasonable overseas, rapid currency devaluations can spark capital outflows, further destabilizing markets. The US Department of the Treasury argued against the currency move by labeling China a currency manipulator, which sets off a year-long process of negotiations involving the International Monetary Fund. Also this week, China officially halted purchases of US agricultural products while US president Donald Trump said the US will not be doing business with China's Huawei without a trade deal.

Central banks continue cutting interest rates

Some Asian central banks cut interest rates this week. The Reserve Bank of New Zealand

cut the most aggressively, dropping its official cash rate a half-percent to 1%. The Reserve Bank of India cut its repo rate 0.35%, to 5.40%, while the Bank of Thailand and the Central Bank of Philippines each cut rates by a quarter-point. The moves come during the aftermath of last week's cut by the US Federal Reserve and the escalating trade clash between the US and China.

UK economy reduced in Q2



The British economy shrank in Q2 for the first time since the fourth quarter of 2012 as activity was negatively affected by worries over a slump in worldwide trade and the increasing chance of a disorderly Brexit or a general election. It was reported this week that the European Union's base case is now that there will be a no-deal Brexit.

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Fed set to launch payments system for banks



The US Federal Reserve announced this week that it will develop a faster payment system for banks that will allow instant round-the-clock payments starting in 2023 or 2024. The service will vie with the bank-owned Clearing House Payments Company. According to the Fed, a second payments provider will lower costs, improve effectiveness and reduce the susceptibility of the financial system.

Former chairs promote Fed independence

Former Fed chairs Greenspan, Bernanke and Yellen wrote a Wall Street Journal op-ed this week saying that they are united in the conviction that the Fed must be permitted to act independently and in the best interests of the country. Policymakers need to be free of short-term political pressure and should be allowed to do their jobs without the threat of removal or demotion for political reasons, they said. The former officials also said that policy based on political needs tends to lead to higher inflation and slower growth in the long run.

Italian elections appear likely



After months of speculation, Italian Deputy Prime Minister Matteo Salvini has set in motion the dissolution of the country's unusual left-right coalition government after 15 months. Salvini's party, the League, holds a wide lead in opinion polls and is expected to be in a position to form the next government with support from smaller right-of-center parties. Italian bond spreads widened Friday on concerns that a League-led government would be likely to butt heads with the EU over budget shortages.

EARNINGS NEWS

With nearly 90% of S&P 500 voters having reported for Q2 2019, blended earnings per share, the combination of reported data and estimations for those who have yet to report, is now -0.8% year over year, while revenue is expected to grow about 4% compared with the same quarter a year ago, according to FactSet Research. Expectations at the start of the reporting period were for a deeper decline in EPS of around -2.7%.



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HEADLINERS

As oil prices fall, Saudi Arabia is considering added production cuts.

Pakistan has suspended two-sided trade with India and expelled India's ambassador in reaction to India's ending the special status of Kashmir and Jammu, giving the Indian government greater control over the disputed region.

The Treasury Department reports that it collected \$63 billion in tariffs in the 12 months to June. The US is on pace to bring in \$72 billion in tariffs this year, though that figure could go beyond \$100 billion if the 10% tariff on the remainder of Chinese exports to the US comes into effect in September.

Germany is contemplating deserting its balanced budget in order to make investments in a climate protection program. The additional government outlays are expected to provide a modest fiscal stimulus at a time when the German manufacturing sector is being beaten by doubt surrounding the US-China trade battle and Brexit.

Against a pretty downbeat global economic backdrop came news on Friday that Japan's economy grew much faster than was thought in Q2, expanding at an annual rate of 1.8%, compared with expectations of a more muted 0.4% rise. The consumer spending and capital expenditure components were especially strong and healthy.



MAJOR STOCK MOVES

Shares of Uber Technologies Inc. UBER were down 6.8% after the ride-hailing service reported a huge \$5.24 billion quarterly loss.

Shares of Gilead Sciences Inc.'s GILD ended 0.7% higher after its drug Biktarvy was approved for the treatment of HIV-1 in China, the company said Friday.

J.C. Penney Co. Inc. JCP received a delisting

notice from the Securities and Exchange Commission because its shares have been trading below a threshold for an extended period. Shares of the company, at 60 cents, were down 13.5% in Friday action and have shed 42% thus far in 2019.

McDonald's Corp. stock MCD rose 1.4%, to pace the Dow's gainers on Friday. The fast-food behemoth's stock was headed for a fourth-straight gain, and a third-straight record close.

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THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, Aug 13	United Kingdom	Unemployment rate
Tue, Aug 13	Eurozone	ZEW economic sentiment survey
Tue, Aug 13	United States	Consumer price index
Wed, Aug 14	China	Retail sales, industrial production, fixed asset investment
Wed, Aug 14	Eurozone	Gross domestic product, industrial production
Wed, Aug 14	United Kingdom	Consumer price index
Thu, Aug 15	Japan	Industrial production
Thu, Aug 15	United Kingdom	Retail sales
Thu, Aug 15	United States	Retail sales, industrial production
Fri, Aug 16	United States	Housing starts



THE FACTS ABOUT INCOME TAX

Millions faithfully file their 1040 forms each April. But some things about federal income taxes may surprise you. [Click to learn more.](#)

-Randall Fielder
(713-955-3555, randall@park10financial.com)