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INCISIVE INVESTOR

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WEEK IN REVIEW
NASDAQ EXITS BEAR MARKET

Review of the week ended February 15, 2019

- **US December retail sales fall unexpectedly**
- **US may delay tariff hike on China goods**
- **US Congress passes bill including border funding**
- **Brexit quagmire perseveres**

Stocks rallied to close higher Friday, with the Dow and the Nasdaq gaining for an eighth straight week, on progress in U.S.-China trade negotiations. Expectations for talks to continue next week in Washington has added fresh hope that a resolution was near, even if the two countries appeared far apart on key points.

Stock markets will be closed Monday in observance of the Presidents Day holiday.

The Dow Jones Industrial Average DJIA rose 443.86 points, or 1.7%, to 25,883.25, while the S&P 500 index SPX gained 29.87 points, or 1.1%, to 2,775.60. The Nasdaq Composite Index COMP rose 45.46 points, or 0.6%, to 7,472.41, enough to exit bear market.

The blue-chip index surged 3.1% for the week, marking its best weekly winning streak since November 2017. The S&P 500 climbed 2.5%, its third straight week of finishing higher and the Nasdaq added 2.4%, its longest weekly stretch since August 2016.

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Weak US retail sales, uptick in jobless claims draw attention

US retail sales unexpectedly fell in December, belying anecdotal reports of robust holiday sales from retailers. Sales slumped 1.2%, substantially failing to meet analysts' expectations of a 0.1% advance. The weak sales data prompted downward revisions of Q4 and Q1 economic growth forecasts. As MFS global investment strategist Rob Almeida highlighted in a sector meeting, "While holiday traffic, whether in-store or online, may have been robust, how much discounting took place in order to drive volume? An endless supply of goods from Internet platforms with infinite shelf space — from toys to shoes to apparel and beyond — is weighing on retailers' pricing power. It comes down to simple supply and demand. And this may explain the gap between what was reported anecdotally versus the total dollar amount retailers took in." Weekly jobless claims data were also disappointing, with the four-week moving average of claims rising to its highest level in over a year. While a persistent uptick in jobless claims has traditionally been one of the best leading indicators of recession, it is likely that only after a few more months will the data reflect a visible change in trend. January industrial production data disappointed on Friday, falling 0.6%, a much weaker performance than expected.

US and China make trade development

With two weeks to go in the US-imposed 90-day window to negotiate a trade deal with China, media reports suggest that US president Donald Trump is considering extending a moratorium on raising tariffs on Chinese imports for an additional 60 days. Negotiators met in Beijing this week to try to reach agreement over US demands for structural reforms from China and over the thorny issue of verification. Progress was made, and the Wall Street Journal reports that the two sides are closer to issuing a memorandum of understanding that could form the basis of an agreement. When agreement on issues such as intellectual property and forced technology transfer is close, Trump and Chinese president Xi Jinping are expected to try to push a deal over the finish line. Optimism over a potential deal

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US government shutdown avoided

Congressional negotiators have cobbled together a package to fund approximately 25% of the US government for the remainder of this year. The agreement includes $1.375 billion dollars for barriers along the southern border of the United States, which is significantly less than the $5.7 billion sought by the White House. President Trump is expected to sign the bill but is also expected to declare a national emergency in an attempt to shift more funds to border barrier construction.

May suffers another defeat in UK Parliament

A motion to back British Prime Minister Theresa May's efforts to renegotiate the terms of the Brexit withdrawal agreement was defeated in Parliament on Thursday, as was a motion calling for a three-month Brexit delay. With just six weeks to go until the United Kingdom is scheduled to withdraw from the European Union, how the exit will shake out remains very much in doubt. Perhaps the UK's chief Brexit negotiator, Olly Robbins, has the inside track. He was overheard by a reporter in a Brussels bar saying that a reworked deal or a significant Brexit delay are the most likely results.

Germany scarcely averts technical recession

German GDP was unchanged in the final quarter of 2018 in the wake of a Q3 decline, allowing Europe's largest economy to narrowly avoid falling into a technical recession, or two consecutive quarters of negative growth. Slowing global growth and ripple effects from ongoing US–China trade friction continue to weigh on demand for European exports, as exemplified by the dramatic 4.2 % drop in Eurozone industrial production in December.

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EARNINGS NEWS

With 79% of the constituents of the S&P 500 Index having reported for Q4 2018, blended earnings per share, which combines reported data with estimates for those who have yet to report, shows that earnings growth is running at a 13.1% year-over-year pace while revenues are seen rising 7% compared with the same quarter a year ago, according to FactSet Research. Estimates for Q1 continue to be lowered, however, with analysts now expecting earnings per share to decline around 2.5% this quarter.

Shares of Newell Brands Inc. NWL skidded 21% after the consumer-products company beat fourth-quarter earning and revenue expectations, but offered a downbeat outlook for 2019.

PepsiCo Inc. PEP gained 3% after the firm issued fourth-quarter earnings and revenue that were in line with expectations.

Deere & Co. DE shares dropped 2.1% after the agricultural-equipment manufacturer fell short of earnings estimates for its fiscal first-quarter, though it beat sales expectations.

Shares of Arista Networks Inc. ANET jumped 9.6% after the cloud-computing company beat fourth-quarter expectations and provided an upbeat guidance for first-quarter sales.

Nvidia Corp. NVDA rose 1.8% after the chipmaker issued fourth-quarter performance and 2019 outlook that was better than projected.

Shares of Mattel Inc. MAT tumbled 18.3%, notching its worst daily drop since Oct. 4, 1999, when shares cratered 29.6%. Friday's decline for the toy maker came after it revealed that sales would remain flat this year.

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THE WEEK AHEAD

Date	Country/Area	Release/Event
Sun, Feb 17	United States	Commerce Department releases section 232 report on auto tariffs
Tue, Feb 19	United Kingdom	Unemployment rate
Wed, Feb 20	United States	Minutes of January FOMC meeting
Thu, Feb 21	Global	Flash purchasing managers' indices
Thu, Feb 21	United States	Durable goods orders, existing home sales
Fri, Feb 22	Eurozone	Consumer price index
Fri, Feb 22	Canada	Retail sales

SHOULD YOU TAP RETIREMENT SAVINGS TO FUND COLLEGE?

There are three things to consider before dipping into retirement savings to pay for college.

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