



INCISIVE INVESTOR

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WEEK IN REVIEW: DOW CLOSES AT 11TH STRAIGHT RECORD

Review of the week ended February 24, 2017

- **US equities setting records**
- **Fed hints at possible March rate hike**
- **Trump supports border tax for US**
- **Le Pen gaining in French polls**
- **Greece considering reforms**

The Dow industrials and S&P 500 finished at records Friday as the Dow continued its streak of closing highs and daily gains despite a selloff of financial and energy shares. The Dow Jones Industrial Average rose 11.44 points, or less than 0.1%, to finish at 20,821.76, its eleventh straight session of record closes, led higher by shares of Wal-Mart Stores Inc. and Johnson & Johnson Inc. and hampered by shares of Goldman Sachs Group Inc. For the week, the Dow closed up 1% for its third week of gains. The S&P 500 index closed up 0.2%, at a record 2,367.34, with utilities and telecom stocks leading gains and energy and financial stocks weighing on the index. For the week, the S&P 500 closed up 0.7% for its fifth straight week of gains. The Nasdaq Composite index finished up 0.2%, at 5,845.31, just shy of a record, for a 0.1% gain on the week and its fifth straight week of gains.

Investors remain optimistic that US president Donald Trump will cut taxes, reduce regulation and implement a sweeping infrastructure

spending program. The S&P 500 Index is up 5.3% year to date and has gained over 21% over the past 12 months. Market volatility increased slightly this week, but continued to remain relatively low. The yield on the 10-year US Treasury bond fell 2.9% this week to 2.34%, as of early Friday morning. Oil prices remained relatively unchanged this week.

Fed hints at potential March rate hike

In minutes released this week, US Federal Reserve officials signaled the potential for a rate hike at its next policy meeting in March. Citing potentially increased spending and reduced taxation under the Trump administration, the minutes suggest that the Fed may act more aggressively to keep a lid on inflation. The central bank increased the federal funds rate to between 0.5% and 0.75% in December and indicated then the potential for three quarter-percentage-point increases this year. Markets are expecting two rate hikes

in 2017, and while odds of an increase have risen for March, they still remain low, at around 22%, according to data from CME.

Trump shows support for border tax

Donald Trump said this week that he supports a form of the proposed "border adjustment tax" (BAT), a tax on all imports. Trump suggested that such a tax would entice companies to relocate manufacturing operations to the United States, which would create more US jobs. Retail stocks have been pummeled in recent months over speculation that a border tax would be implemented. The retail industry imports most goods it sells in the US. J.C. Penney announced this week that it would close more than 100 stores, and rivals Kohl's and Macy's announced they would lease some of their retail space to other retailers in an effort to generate more revenue from real estate assets. Under the proposal, US export income would be tax free, which could benefit some energy companies, such as crude oil exporters.

GLOBAL NEWS

Frexit fears rise on Le Pen's gains

While French presidential candidates François Fillon and Emmanuel Macron still hold commanding leads over Marine Le Pen in the upcoming elections, the right wing candidate has narrowed the gap, according to French polls released this week. Ms. Le Pen favors dropping out of the euro currency, and the markets aren't taking any chances. In reaction to the polls, the spread on French five-year government bonds rose to its highest level since the Eurozone debt crisis. Trading volume for credit default swaps on French government debt also surged as spreads spiked. Credit default swaps (CDS) are held by some investors for insurance against debt defaults. Rising CDS spread levels indicate that investors believe the chance of a default has increased.

Greece considering reforms

Greece agreed to legislate pension and other structural reforms this week, generating some optimism that negotiations on its bailout terms would resume after months of gridlock. Yields on Greek government debt fell to their lowest level in a month, although much work remains to be done.

THE WEEK AHEAD

- **US president Trump is scheduled to speak to Congress on Tuesday, February 28**
- **French GDP data are scheduled to be released on Tuesday, February 28**
- **Preliminary US fourth-quarter GDP data are scheduled to be released on Tuesday, February 28**
- **PMI Manufacturing Index data are released on Wednesday, March 1**
- **US initial jobless claims figures are released on Thursday, March 2**
- **US Federal Reserve chair Yellen is scheduled to speak on Friday, March 3**