



# INCISIVE INVESTOR

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August 16, 2019

## WEEK IN REVIEW

# STOCKS STILL SEEN DOWN FOR WEEK



U.S. stocks were on the rise Friday, but Wall Street was still on track for weekly losses, as U.S. Treasury yields recovered from multi-year lows and investors continued to track U.S.-China trade negotiations.

Trading has been volatile this week with investors buffeted by good U.S. economic data offset by the ongoing dispute between the U.S. and China over trade policy which has dampened some company earnings and hit the farm sector in particular.

By Friday afternoon, the Dow was on pace for its 8th one day 1% move of the month, the most 1% moves since December 2018 when it had 12 days that saw 1% moves in either direction. Similarly, the S&P 500 index was likely to see its 7th one day 1% move of the month, the most 1% moves in

either direction since December 2018 when it had 10 such moves.



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## MACRO NEWS

### Ongoing trade battle remains fluid

The US-China trade conflict continues to make news as market-supportive headlines keep getting pushed off the page by less positive ones. Markets were relieved midweek as the United States announced it was delaying the burden of tariffs on several categories of imports from China until after the holiday season, but that news did not deter China from announcing that it intends to take necessary countermeasures to match the US tariffs. Face-to-face negotiations are expected to resume within two weeks, and China has asked the U.S. to meet it halfway on trade issues. However, US President Donald Trump said that a trade deal needs to be reached on "our terms," though he said he believes the trade war will be fairly short, noting that US and Chinese negotiators had a very good conversation this week.

### Hong Kong growth projections lowered amid protests

Air traffic out of Hong Kong was severely disrupted this week as protestors occupied the city's international airport and clashed with police. The lengthy nature of the protests has resulted in Hong Kong's government suggesting it will downgrade its forecast for gross domestic product to 0% to 1% this year from its earlier 2% to 3% forecast. The government also revealed an economic

support package worth \$2.4 billion to offset some of the economic drag from the protests. President Trump this week for the first time linked the protests in Hong Kong to the continuing trade negotiations with China, saying the country must respond humanely to the protests if it wants to strike a trade deal. Trump's statements came amid signs that the Chinese government is gearing up to employ the Chinese People's Armed Police to suppress the protests, massing a force in Shenzhen, just across the border from Hong Kong.

### Yield curve inverts



The spread between the US two-year Treasury note and the 10-year note fell below zero for a time this week, setting off a recession warning bells. However, the inversion is not yet persistent, and in the past five such episodes the beginning of the recession averaged 22 months after inversion. Global bond yields continue to tumble, with US 10-year notes falling to their lowest level in three years and German, British and Japanese yields falling to record lows. The US 30-year bond yield fell below 2% for the first time on record.

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## Anticipation grows for ECB package



Expectation of an aggressive package of additional reducing measures from the European Central Bank at its September meeting is helping fuel the global bond rally after a member of the bank's governing council made a forceful case for additional accommodation in an interview with the Wall Street Journal. In case anyone questions the accuracy of the Journal's reporting, Finnish central banker Olli Rehn tweeted out a link to the article. Rehn said the ECB is preparing a strong package of measures and that it is important to overshoot expectations rather than undershoot. The starkest example of Rehn's determination to signal a strong move was his declaration that the ECB has not ruled out purchasing equities as part of its quantitative easing program, a once-unthinkable prospect.

## Argentina's Macri defeated at polls

Incumbent Argentine President Mauricio Macri suffered a shockingly large defeat in the primary stage of Argentina's presidential

election on Sunday, losing to Peronist Alfredo Fernandez by 15 points. Polls had forecasted a close race in advance of October's election. Markets plunged as a result, pricing in the prospect that the market-friendly Macri will almost certainly be defeated by the left-leaning Fernandez this fall, opening up the possibility of another debt restructuring.

## Trudeau in ethical trouble

Canadian Prime Minister Justin Trudeau violated the country's Conflict of Interest Act, according to Canada's ethics watchdog. He attempted to persuade former Justice Minister Jody Wilson-Raybould to overrule a decision not to grant a delayed prosecution agreement to SNC-Lavalin, a major employer in the politically important province of Quebec. The findings are a blow to Trudeau and his incumbent Liberal government in the run-up to October's general election.

## EARNINGS NEWS

With Q2 earnings season winding down, 92% of S&P 500 constituents having reported for Q2 2019, blended earnings per share, the combination of reported data and estimates for those who have yet to report, is now -0.7% 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%. Looking ahead to Q3, analysts are lowering estimates further, forecasting a 3.2% EPS decline.

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## HEADLINERS

Germany's economy contracted in 0.1% in Q2 as the continuing slowdown in global trade folded with exports. News this week that economic sentiment in Germany spiraled lower in August suggests a strong rebound in the third quarter is unlikely.

US economic data this week showed relative pliability as core retail sales expanded 1% in July and regional Fed surveys from New York and Philadelphia beat expectations. However, industrial production slipped in July as the manufacturing sector remains challenged.

Brexit doubt continues to build as opposition

lawmakers and rebel Conservatives discuss tabling a no-confidence motion when the British Parliament returns on September 3rd. A general election is looking increasingly likely, though the timing remains unclear.

Italian Prime Minister Giuseppe Conte addresses the Italian Senate on Tuesday after a call for new elections by Matteo Salvini, the leader of the League, and that could result in a vote of no confidence. Italy's president, Sergio Mattarella, could then put together another governing coalition, potentially teaming the Five Star Movement with the Democratic Party, or he could call a general election, which polls suggest would be won by the right-leaning League.



## MAJOR STOCK MOVES

Shares of farm-equipment maker Deere & Co. DE was up Friday after it topped expectations for revenues, but fell short on earnings.

Nvidia Corp. NVDA issued second-quarter earnings after the close Thursday that beat Wall Street expectations for the second quarter. The company surpassed estimates for both earnings and revenue for the quarter following several quarters of weak performance for the company and the chip-making industry more broadly, which

had lead Nvidia's stock to fall 22% between April and Friday's close. Shares rose 6.9% early Friday.

Fellow semiconductor firm Applied Materials Inc. AMAT also reported better-than-expected fiscal third-quarter earnings and revenues late Thursday, though it provided slightly weaker-than-hoped earnings guidance for the fourth quarter.

General Electric GE had its worst day in 11 years Thursday on Madoff whistleblower's fraud claims, but bounced Friday after CEO Larry Culp called the accusation "market manipulation" and bought nearly \$2 million worth of the company's stock.

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## THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Aug 19	Japan	Trade balance
Mon, Aug 19	Eurozone	Consumer price index
Tue, Aug 20	Canada	Consumer price index
Tue, Aug 20	United States	Minutes of July Fed meeting
Thu, Aug 22	United States	Fed's Jackson Hole Symposium
Thu, Aug 22	Global	Flash purchasing managers' indices
Thu, Aug 22	Eurozone	Minutes of July ECB meeting
Fri, Aug 23	Canada	Retail sales



## A CHEAT SHEET FOR SENDING YOUR KID TO COLLEGE

Dropping off your son or daughter is loaded with emotions; [here are a few tips](#) for a smoother experience.

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