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FINANCIAL, LLC

INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS CLOSE HIGHER AMID CHINA TRADE TALKS

Review of the week ended May 10, 2019

- **US increase tariffs as China hesitates on trade**
- **Geopolitical setting weakens**
- **China's credit progression slackens**
- **Fed sees higher asset assessments**

U.S. stocks clawed back from early losses to close higher Friday after key negotiators cast a positive glow on trade talks. But the S&P 500 and the Nasdaq logged their worst week of 2019 as tensions between the U.S. and China remain elevated in the wake of the Trump administration's move to raise import duties on $200 billion in Chinese goods.

The Dow Jones Industrial Average DJIA rose 114.01 points, or 0.4%, to end at 25,942.37, recovering from a deficit of more than 350 points. The S&P 500 index SPX gained 10.68 points, or 0.4%, to 2,881.40, while the Nasdaq Composite Index COMP climbed 6.35 points, or 0.1%, to 7,916.94.

For the week, the Dow fell 2.1%, its biggest weekly loss since March. The S&P saw a 2.2% weekly fall and the Nasdaq shed 3%, the biggest losses for both since the week ending Dec. 21.

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US, China attempts to restore trade talks

Nearest the final moment, China reportedly backed away from numerous concessions it made earlier in negotiations toward a complete and thorough trade agreement with the United States. Chief among the issues is the Chinese government's unwillingness to write into law many of the commitments it made during the months-long negotiations. The sharp reversal in China's negotiating stance impelled the administration of US president Donald Trump to increase levies from 10% to 25% on $200 billion of goods imported from China earlier today while threatening to enforce a 25% tariff on an additional $325 billion in Chinese goods in short order. In reply, China promised to take "appropriate countermeasures." Though hopes for an agreement have reduced, President Trump, after receiving a letter from Chinese president Xi Jinping, said Thursday afternoon that a deal is still possible. Talks continue today in Washington.

Geopolitical situation becomes more uncertain

Tensions between the US and Iran strengthened this week as the US dispatched an aircraft carrier strike group and a bomber task force to the Middle East amid indications of planned attacks on US interests in the region by Iran or its proxies. Further increasing concerns was news that Iran will end some of its promises under the 2015 Joint Comprehensive Plan of Action, which was meant to limit the country's nuclear program. Iran said it will begin stockpiling heavy water and low-enriched uranium, and it threatened to rebuild nuclear facilities and resume enriching uranium unless Europe, China and Russia agree to help Iranian oil sales and banking transactions within 60 days. European leaders were quick to reject the ultimatum. In other news, fears of increased authoritarianism in Turkey accompanied word that the mayoral election in Istanbul, Turkey, which the ruling party lost in March, will be re-run. The resistance party's candidate holds a small lead over the candidate from Turkish president Recep Tayyip Erdogan's PKK party. Finally, multiple short-range missile tests by the North Korean military have raised concerns that ballistic missile tests could be recharged, increasing regional tensions. Strains increased further when the US apprehended a North Korean ship carrying coal in violation of United Nations sanctions.

Credit growth decelerates in China

Total social financing, the broadest measure of credit and liquidity in the Chinese economy, grew much slower than projected in April, at half of March's pace. Analysts expect the slowdown to prompt China's central bank to further reduce monetary policy, especially as trade tensions with the US grow.

Fed reports elevated asset prices and high levels of corporate debt

The US Federal Reserve issued its second financial stability report this week. It showed that the central bank remains concerned by the high levels of nonfinancial corporate debt, especially with regards to the leveraged loan market. The central bank expressed concerns that a shock to the economy from slowing worldwide growth, trade tensions or a disruptive Brexit could expose weaknesses in the US financial system. However, the Fed also pointed out that the financial segment appears robust, with leverage low and funding risk limited. Asset estimates remain high relative to their historical ranges and risk enthusiasm remains elevated, the report said. Despite an increase in equity market volatility this week, one global market strategist notes that is possible that high yield bond prices have remained fairly firm. However, when credit markets delay equities on the downside, they can catch up quickly.

Two central banks follow different courses

With both Australia and New Zealand experiencing sluggish growth and below-target inflation, the odds of the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) each cutting interest rates were about 50-50 arriving into this week. Therefore, it was no surprise that the RBA left rates unchanged while the RBNZ cut its overnight cash rate a quarter of a percent to 1.5%. Forecasters anticipate the RBA to cut rates before the end of the northern summer.

European Commission cuts German growth projection

EUROPEAN COMMISSION

Economic growth in Germany, Europe's largest economy, is expected to grow just 0.5% in 2019, down from the European Union's earlier forecast of 1.1% growth this year. At the Eurozone level, the growth outlook was trimmed to 1.1% this year as opposed to an earlier 1.2% forecast. Italy is expected to grow just 0.1%, making it problematic for the country to remain within European Union shortage limits.

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EARNINGS NEWS

With 90% of the constituents of the S&P 500 Index having reported for Q1 2019, blended earnings per share, which combines reported data with estimates for those who have yet to report, shows that earnings growth has lowered less than 1% compared with the same quarter a year ago. Revenues are expected to rise 5.3% year over year.

Uber Technologies Inc. UBER shares slumped 7.6% to $41.57 after the company's debut on the New York Stock Exchange. The ride-hailing firm priced its IPO on Thursday afternoon at $45 a share, which is expected to raise the company at least $8 billion.

Shares of Symantec Corp. SYMC sank 13% after the firm reported an earnings miss and downbeat guidance on Thursday evening, and said that CEO Greg Clark had left his role.

Shares of Viacom Inc. VIAB rose 2.6% after the entertainment content company reported fiscal second-quarter earnings that beat expectations, but a wider decline in revenue than Wall Street had expected.

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THE WEEK AHEAD

Date	Country/Area	Release/Event
Tue, May 14	United Kingdom	Unemployment rate
Tue, May 14	Eurozone	Industrial production
Wed, May 15	China	Retail sales, industrial production, investment
Wed, May 15	Eurozone	Gross domestic product
Wed, May 15	Canada	Consumer price index
Wed, May 15	United States	Industrial production
Thu, May 16	Australia	Unemployment
Fri, May 17	Eurozone	CPI

UNDERSTANDING MARGINAL INCOME TAX BRACKETS

Here is an inside look at how marginal income tax brackets work.

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