



INCISIVE INVESTOR

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WEEK IN REVIEW

QUESTIONSTRONG JOBS REPORT PUTS FED RATE CUTS IN

Review of the week ended July 5, 2019

- **Stocks set records, bonds not so much**
- **Replacement prospect for Draghi replacement**
- **Hong Kong protest continue**
- **Japan and South Korea open fresh front in trade war**
- **Trump nominates two to Fed board**

Stock Market News

U.S. stocks closed slightly lower Friday, though above session lows, after the monthly government payrolls report estimated the economy added a better-than-expected 224,000 jobs in June, reducing the chances of multiple Federal Reserve rate cuts by the end of the year.

Equities logged weekly gains. The main U.S. stock indexes ended a holiday-shortened session on Wednesday at simultaneous record highs for the first time in 17 months.

U.S. markets were closed on Thursday for Independence Day.

The Dow Jones Industrial Average DJIA shed 43.88 points, or 0.2%, to finish at 26,922.12,

the S&P 500 index SPX declined 5.41 points, or 0.2%, to close at 2,990.41, while the Nasdaq Composite Index COMP gave up 8.44 points, or 0.1%, ending at 8,161.79.

At session lows, the Dow was down 232.67 points or 0.8%, the S&P shed 27.73 points, or 0.9%, while the Nasdaq had retreated as many as 76.57 points, or 0.9%.

On Wednesday, the Dow rose 179.32 points, or 0.7%, at 26,966, its first record close since Oct. 3, while the S&P 500 index set its third straight record close, rising 22.81 points, or 0.8% to 2,995.82. The Nasdaq Composite Index ended the day at an all-time high of 8,170.23, adding 61.14 points, or 0.8%.

The trio of equity gauges finished at all-time highs on the same day for the first time since Jan. 26, 2018, according to Dow Jones Market Data.

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MACRO NEWS

EARLY EDITION

The following reflects the week ended July 3rd to account for the holiday this week.

Stocks does well, not so for bonds

The S&P 500 Index advanced to record highs this week as the markets welcomed a fragile trade truce between the US and China. Investors are fully pricing in a quarter-point cut at the July 31st meeting of the Federal Open Market Committee and also pricing in around a 30% chance of a half-point cut as inflation expectations sag. The yield on the benchmark 10-year US Treasury note fell to 1.95% on Wednesday morning, the lowest level since late 2016. Equity investors anticipate that a fresh wave of global economic stimulus will help the US economy avoid a recession in the next year or two, though bond investors seem less convinced.

Lagarde considered to replace Draghi at ECB

European leaders have nominated International Monetary Fund Managing Director Christine Lagarde to succeed Mario Draghi as the president of the European Central Bank. Prior to running the IMF, Lagarde was the French finance minister. Markets welcomed the nomination by driving European yields lower in the expectation that Lagarde will maintain the ECB's expansive

monetary policy. Leaders also nominated German defense minister Ursula von der Leyen to lead the European Commission, replacing Jean-Claude Juncker.

Hong Kong protests turn even more violent



In Hong Kong, protestors stormed and ransacked the territory's legislative chamber after weeks of peaceful protest against a law that would allow the territory's government to extradite to China people charged with certain crimes. The escalation caused China to hint that it could intervene in Hong Kong, calling the violent protest a direct challenge to Beijing's authority. With sensitive trade talks with the US underway, criticism from Washington on the matter has been muted.

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Japan, South Korea tensions create new dimensions in trade war



The US and China are not the only countries engaged in trade battles at the moment as years-old tensions between Japan and South Korea prompted the opening of a fresh front in the trade war. This week Japan imposed export controls on the sale of materials vital to South Korea's electronics industry. The dispute follows a ruling by the South Korean Supreme Court that a Japanese steel company must compensate Koreans for forced labor during the period leading up to World War II, when Korea was colonized by Japan.

Trump scheduled to nominate two to Fed board

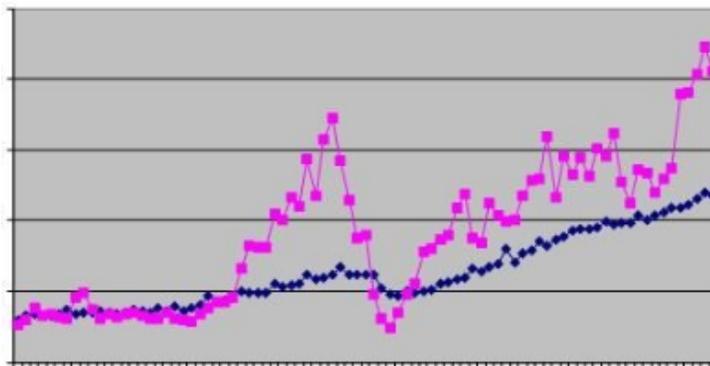
US President Donald Trump said on Tuesday that he intends to nominate two new members to the US Federal Reserve Board of Governors. The nominees are Judy Shelton, an economist who is currently US executive

director at the European Bank for Reconstruction and Development and Christopher Waller, the director of research at the Federal Reserve Bank of St. Louis. Shelton has been a noted Fed critic and has advocated for lower interest rates. Waller is an advocate of central bank independence.

Australia cuts rates

The Reserve Bank of Australia lowered interest rates for the second consecutive meeting, cutting its the official cash rate to 1% from 1.25%, a record low, in response to rising unemployment, a slowing economy and uncertainties surrounding global trade. Australia's economy is growing at its slowest pace since the immediate aftermath of the global financial crisis.

Stock buyback pace slows in Q1



The pace of stock buybacks slowed for the first time in seven quarters in Q1, the Wall Street Journal reported this week. Members of the S&P 500 Index bought back \$205.8 billion in Q1, down from a record \$223 billion in Q4. Buybacks have been the biggest source of demand for stocks, more than twice that of exchange traded funds, the second biggest demand source. A downturn in buybacks could be a headwind for the market.



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Headliners

After revising its budget, Italy expects to receive a reprieve from the European Union regarding disciplinary action over its debt burden.

Russia and Saudi Arabia have agreed to extend oil production cuts of 1.2 million barrels a day for another six to nine months.

Trump and North Korea's Kim have agreed to restart nuclear talks.

June manufacturing purchasing managers' report summary: US rises to 51.7 from 51.1 in May, China official PMI steady at 49.4, Eurozone down to 47.6 from 47.7.

White House trade adviser Peter Navarro, a China trade hawk, says US talks with China are headed in a good direction but notes that it is a very complicated process and a potential deal is still a long way off.



MAJOR STOCK MOVES

Semiconductor stocks were under pressure Friday, after South Korean smartphone and chip maker Samsung Electronics Co. Ltd. 005930 warned of a 56% decline in second-quarter profits, suggesting broader weakness in chip demand.

The PHLX Semiconductor index SOX fell 0.6% Friday, while shares of Nvidia Corp. NVDA fell 1.5% and Intel Corp. INTC stock declined 0.4%.

Financial stocks got a bid, as bond yields rose following the jobs report. The Financial Sector was among the only S&P 500 sectors showing gains Friday, while Goldman Sachs Group Inc. GS and JPMorgan Chase & Co. JPM were two of the nine Dow components that gained ground.

The SPDR S&P Pharmaceuticals Exchange Traded Fund XPH fell 1.6% after President Trump said he was preparing an executive order that would allow the U.S. to buy drugs based on the lowest price paid by developed countries.

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THE WEEK AHEAD

Date	Country/Area	Release/Event
Wed, Jul 10	China	Consumer and producer prices
Wed, Jul 10	United Kingdom	Industrial production
Wed, Jul 10	Canada	Bank of Canada meets
Thu, Jul 11	United States	Consumer price index
Fri, Jul 12	China	Trade balance
Fri, Jul 12	Japan, Eurozone	Industrial production
Fri, Jul 12	United States	Producer price index



SYSTEMATIC WITHDRAWALS IN RETIREMENT

Taking regular, periodic withdrawals during retirement can be quite problematic. [Click to learn why.](#)

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