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WEEK IN REVIEW STRONG US PAYROLLS CALMS NERVOUS MARKETS

Review of the week ended June 1, 2018

- **US unemployment rate falls to 18-year low**
- **US puts steel tariffs on allies, reverses course on China**
- **Preparations resume for Korea summit**

The Dow Jones Industrial Average DJIA, rose 219.37 points, or 0.9%, to close at 24,635.21, recouping a large chunk of Thursday's losses. The blue-chip index ended the week 0.5% lower, however.

The S&P 500 SPX, rose 29.35 points, or 1.1%, to finish at 2,734.62 and booked a 0.5% weekly gain. The Nasdaq Composite Index COMP, rose 112.21 points, or 1.5%, to 7,554.33, ending the week 1.6% higher. The tech-heavy index is about 1% away from its intraday high set on May 13.

Trump pulls out of talks with Kim

A sudden shift in tone from North Korean officials in recent weeks prompted US president Donald Trump to cancel a summit with North Korean Leader Kim Jong Un, Trump said in a letter to Kim. The meeting had been scheduled for 12 June in Singapore. US secretary of state Mike Pompeo said that summit preparation talks had broken down,

making a successful outcome for the summit unlikely. Differing interpretations over the term "denuclearization" were at the core of the recent uptick in friction between the two sides. In his letter, Trump left open the option of future talks should the North Korean leader have a change of heart. For its part, North Korea indicated it is open to resolving differences and willing to meet at any time.

Solid US labor report lifts spirits

During a chaotic week that included a near-crisis over the European common currency and the beginnings of a trade war, the US reported a drop in its unemployment rate to the lowest levels since April 2000. In April, unemployment fell to 3.8% while the economy added 223,000 new jobs. Average hourly earnings advanced at a 2.7% annualized rate. Thus far, in 2018, nonfarm payrolls have grown 207,000 per month on average. The early market reaction to today's report has been positive, with equities rallying

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and Treasuries detaching some of their safe-haven bid. The improved data lift the odds that the US Federal Reserve will hike interest rates four times this year, though the present odds favor only three hikes.

Steel tariffs on allies commence; China levies renewed

US president Donald Trump allowed exemptions from steel and aluminum tariffs to expire last night, resulting in 25% levies being imposed on imports of steel from the European Union, Canada and Mexico. Aluminum imports will be subject to a 10% duty. The move to force tariffs on NAFTA (North American Free Trade Agreement) partners of the United States amid the renegotiation of the trade pact was perhaps the most surprising aspect of Thursday's announcement. Some see it as a bargaining tactic aimed at bringing about an agreement amid long-drawn-out talks. The European Union reacted to the tariffs by imposing levies of its own, against a total of €2.8 billion of US imports. Among the items subject to the levies are blue jeans, bourbon and motorcycles. In addition, this week, the Trump administration reversed course by reinstating tariffs on \$50 billion in imports from China and taking steps to protect US intellectual property by restricting Chinese investment in certain US technology companies, ending a two-week old truce in the trade war. US commerce secretary Wilbur Ross is scheduled to arrive in Beijing this weekend for talks with Chinese officials. China is said to be prepared to place tariffs on US agricultural imports, a move that would hit

Trump's political base in the US heartland.



Summit is on again

While a new date for talks between President Trump and North Korean leader Kim Jong Un has not been announced, preparations for a meeting have resumed. A week ago, Trump pulled out of the planned 12 June summit in Singapore, but left the door open for future talks. The president said on Thursday that talks between US secretary of state Mike Pompeo and North Korean diplomats this week in New York went very well and that a top North Korean official is expected to deliver a letter from Kim to him at the White House today. Trump, lowering expectations, told reporters that it may take more than one meeting to come to an agreement on the denuclearization of the Korean peninsula.

US Q1 growth revised lowered slightly

The US economy grew at a 2.2% annual pace in the first quarter of the year, the Bureau of Economic Analysis reported this week. That's

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down a tick from the government's earlier 2.3% estimate. However, a faster pace of growth is expected in the second quarter, two Federal Reserve models show. The Atlanta Fed's GDPNow estimates a 4.7% growth pace in Q2, while the New York Fed's Nowcast sees 3% growth. Strong manufacturing data from the Institute for Supply Management reinforce the case for a Q2 rebound, with the ISM purchasing managers' index coming in at 58.7, well above expectations.



Fed votes to ease Volcker Rule

The US Federal Reserve Board voted this week to soften rules put in place in the wake of the global financial crisis, which limited banks' ability to engage in proprietary trading. The board voted unanimously to ease the industry's regulatory burden, with the greatest relief coming for smaller banks. Four other federal agencies are expected to follow the Fed's lead. The proposed regulatory relief has garnered bipartisan support.

MAJOR STOCK MOVES

Shares of Google parent Alphabet Inc. GOOG, rose 3% after reports that the company is increasing its market share in online advertising in light of European Union's new

privacy law.

Shares of Lululemon Athletica Inc. LULU, jumped 17%. The apparel retailer late Thursday reported forecast-beating earnings and issued better-than-expected guidance.

Zuora Inc. ZUO, soared 21% after the business-subscription software company late Thursday announced results and an outlook that topped expectations.

On a more downbeat note, shares of Costco Wholesale Corp. COST, slipped 0.7% after the retailer late Thursday reported sales below forecasts. The company also said it'll raise its minimum wage for 130,000 U.S. store staff.

Ulta Beauty Inc. ULTA, rose 0.7% after an earnings beat late Thursday.

Abercrombie & Fitch Co. ANF shares slumped 8.4% even a the apparel retailer reported first-quarter revenue that beat expectations.

Big Lots Inc. BIG, tumbled 5.6% after closeout retailer gave a downbeat outlook.

Micron Technology Inc. MU, rose 1.7%, rebounding after an 8% slump on Thursday that came after a Morgan Stanley downgrade.

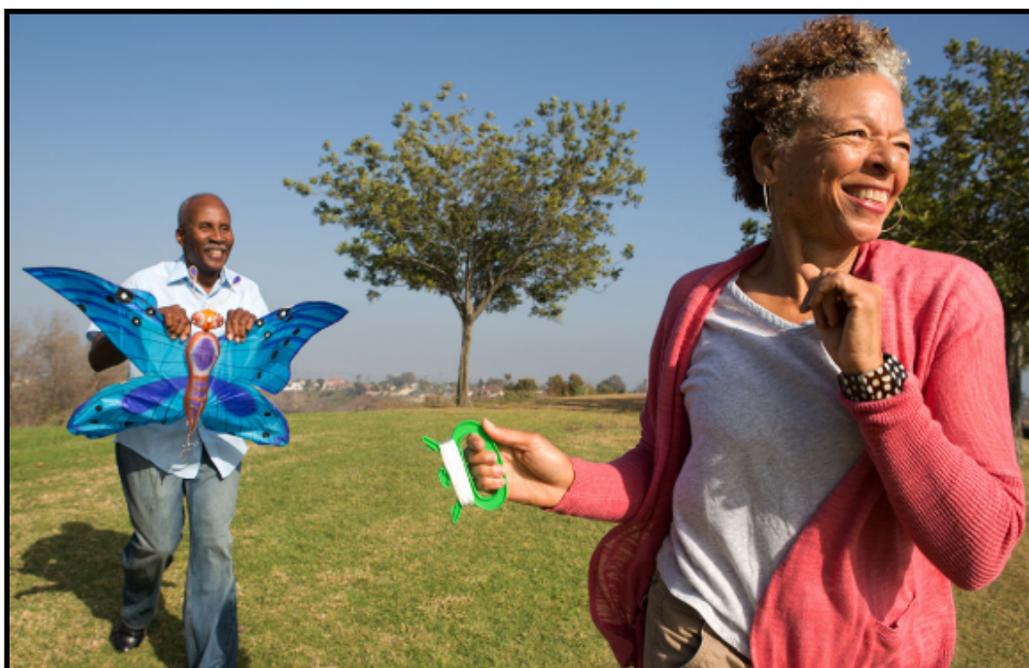




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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Jun 4	<u>eurozone</u>	Producer price index
Mon, Jun 4	United States	Factory orders
Tue, Jun 5	global	Service sector purchasing managers' indices
Tue, Jun 5	<u>eurozone</u>	Retail sales
Thu, Jun 7	<u>eurozone</u>	Gross domestic product
Fri, Jun 8	Japan	GDP
Fri, Jun 8	China	Trade balance
Fri, Jun 8	Canada	Unemployment



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