Your weekly market update

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Market Update

19 February 2016

Globally the trend is now fully apparent. Central banks around the world have neared or are nearing their ability to drop interest rates. Once at zero you're done. So, time to shift gears. Governments around the world are embracing the concept of fiscal spending. Why? Well, interest rates are at all time lows. The planned infrastructure works projects for North America and Europe along are just gigantic. Once governments start to absorb all this low interest rate money, the days of cheap, easy money on a global level are gone. For most of us, we can all remember what the 1970's were like. Canada, America and Germany packed on record debt which lead to record government deficit levels. Borrow now and pass the payments on to the generations down the road. This will be the next tool and driver governments will use to stimulate growth and employment. Don't be fooled by all this warm and fuzzy government love. Pay back will be in the form of increased taxes disguised in some not so obvious forms. In the developed world, Canada is leading the pack when it comes to government spending programs and deficits so our dollar will get devalued hard and come under scrutiny by market forces. However, as we near America's federal election, certainly serious job creation and economic stimulus plans will be floated to the American people. As in Canada, the American people want change and want it in a big way.

After a three-day winning streak, the stock market tipped lower Friday. Market markers are closely watching government data and the oil market for bullish and bearish clues heading into the

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weekend. Despite the weaker action Thursday and early Friday, stocks remained on track to post a positive week.

The Bureau of Labor Statistics in America released their January Consumer Price Index numbers. The report came in unchanged. Analysts had been looking for a 0.1% drop in the CPI. The unchanged number will likely be seen as neutral. The market will accept a slightly higher-than-expected CPI, but would have been more concerned if it had been a lot higher than expected. So far investors are not pricing in an interest rate hike. Earlier this week, the St. Louis Fed President James Bullard made dovish comments, saying it would be "unwise" to continue rate hikes, the first of which came in December.

Meanwhile oil, whose sharp rally earlier in the week had boosted stocks, slumped overnight. Empty calls by Russia and Saudi Arabia to curb production will not hold oil prices for long. Oil prices are currently under pressure again as the American Energy Information administration report indicated higher-than-expected gain in American stockpiles. Oil also came under pressure from a report that a Saudi official said the country wasn't prepared to cut production.

In Canada, banks came under pressure as concerns around their total lending to the energy sector. American banks have been forced to right size their debt loads after the 2008-2009 recession. Canadian banks have not needed to take such action. Western Canada has not just been hit by the falling price of oil but also the collapse of the mining sector which will shed jobs very rapidly causing concern around the financial health of borrowers. Expect to see unemployment number to rise in western Canada fairly quickly.

Behind the scenes banks have been aggressively increasing the requirements to qualify for debt. So don’t expect banks in Canada to pass along cheap rates any longer. The Bank of Canada is expected to hold off any decision as it was caught off guard by the sudden climb in inflation hitting above 2%. The combination of our low dollar and a difficult growing season in California has sent fresh food prices through the roof.

Our client centric strategy is focused on capital preservation, monthly yield and growth. Capital preservation is critical. Historically, dividends make up 90% of the total market returns. Market growth will be hard to come by this year. In 2015, client portfolio finished positive despite negative markets.

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