

Your weekly market update

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Market Update

16 September 2016

Economic Data for August is almost always skewed due to the fact students quit part time jobs in preparation for school. Manufactures tend to wind down production due to re tooling and deploy mandatory plant closures. Additionally, the warm weather sees employees take advantage of holiday time. Such practises have not changed much in the business world and sweep across most sectors including the financial markets. In short August data is not very reliable in forecasting.

So this week's article will be focused on current trends that are shaping markets. The American Federal Reserve has been and continues to be the ultimate bellwether of economic movement around the world. Federal Reserve policy makers will gather in Washington Sept. 20th and 21st. Recent comments from voting members have sent mixed signals about whether they'll lift rates or wait at least until the December meeting. Speaking Monday in Chicago, Fed Governor Lael Brainard said "the case to tighten policy preemptively is less compelling" in an environment where declining unemployment has been slow to spur faster inflation. Boston Fed President Eric Rosengren, a voting member this year on the Federal Open Market Committee, argued Friday there was a reasonable case for gradual tightening.

Even though consensus may be mixed an interest rate hike



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announcement in September will definitely slow global economic growth. Most central banks have exhausted their ability to drive interest rates lower which means that they could do very little to help stimulate economic growth in the event of a slow down. America has room to maneuver to pull back interest rates, however this would be cause for loss of confidence in the Fed's ability to manage monetary policy. As I have mentioned, an interest rate hike just before a Federal election is not desired or favorable. All the negativity and call of doom each time the Fed looks to hike interest rate would only be amplified due to the election. At present markets are taking a pause to digest the likely hood of a rate increase.

The bigger issue at hand is the divisive and destructive nature of the current election cycle in America. Why has it reached such a boiling point? Both the Republican and the Democratic camp have been heavily influenced by the populist movement which is fed up with the rout and decay present in politics on a global level. The defining factors of a political party have changed from democrat (liberal) and republican (conservative) to open policy and closed policy. Millennial and generation x are looking to see beyond the confines of each party and understand the key drivers. "Red" and "Blue" matter less and policy content is key. Neo conservative republicans stand for low taxation, small government, tax cuts and are very driven to have open economic trade globally. Unfortunately for Trump, his supporters want to wall off America, bring about tariffs and cancel all trade deals expect with "our friends". Bernie Sanders supporters feel just the same way as Trump supporters even though they are democrats. Hillary Clinton has had to add adaptive change in platform policy and so has Donald Trump which creates a wishy washy election. The reason this American election cycle does not appear too similar to past elections is that the boundaries have been re drawn from "Red verse Blue" to "open verse closed".

So far markets have not changed their stance on a democratic win and remain focused on the action of the Federal Reserve.

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Money managers are bracing for a last minute exodus of as much as \$300 billion out of prime money market funds in America.

At the center of the upheaval are prime funds which seek higher yields by buying securities like commercial paper. Investment Company Institute data show that their assets have touched \$789 billion and have already plunged by almost \$700 billion since the start of 2015. The outflow has shattered demand for bank derived short-term debt and rippling across financial markets. Institutional prime and tax exempt funds will have to end an over 30 year tradition of fixing shares at \$1 as the new rule kick starts on Oct. 14. Only those funds that hold only government debt will be able to maintain that level. It is important to note that the effect will be limited to American Institutional money markets. However, \$300 billion will be looking for a new home to rest which will inflate any market sector it chooses as safe haven. Additionally, large institutional investors may choose alternative investment mandates such as gold or the American dollar. Regardless, \$300 billion in funds moving around will be noticed in the month ahead. Fixed income investors have had to contend with the threat of "dead money" as yields are negative and the potential for capital loss is high. Institutional prime money market funds have been a regular safe have in the collapsing government bond world. Expect to hear the term dead money and how investors are bracing for change.

We are at the end of a long credit expansion cycle and monetary easing. However global economies are weak and not able to withstand such a shock which re affirms the need to direct inject money into five of the economies in the G8. America, Canada, Britain, Germany and Japan will lead the way. China, the EU, Australia, Sweden and Norway will follow. Helicopter money will be a widely applied to by central banks around the world as the effectiveness of quantitative easing comes to a close.

Real estate prices continue to be an ongoing concern in the GTA.

As housing prices continue to climb, an increasing number of Canadians don't think now is a good time to invest in their homes, according to a semi-annual survey of investors' view on a range of asset classes. The Manulife Investor Sentiment Index, now in its sixteenth year, revealed that "investing in your own home as an asset class" dropped four points in the last six months and has consistently fallen since May 2014, down 9 points in total. Investing in your own home encompasses the purchase of a home, paying off a mortgage and investing in renovations. While 80% said owning a home was their primary goal, only 25% of respondents who currently rent said they plan to buy a home in the next 12 months. Many real estate markets are red hot right now, which makes it difficult for Canadians to purchase a home, even if it is a priority for them. There are concerns that this housing bubble might just burst. A cooling period is much more in the cards.

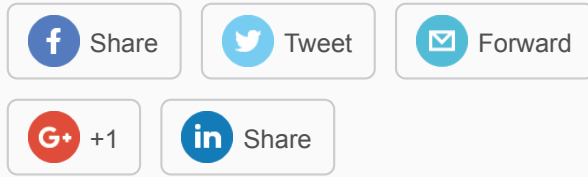
Canadians are divided on whether it is a good time to buy a house. Nearly a quarter (23%) of Canadians felt it was not a good time to buy a home. When surveyed respondents felt it was not a good

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financial situations in order to buy a home (20%).

Only one-third (35%) of Canadians believe it's a good time to buy a house right now because mortgage rates are low. The most optimistic investors are from Atlantic Canada, 45% believing it's a good time to buy a house as the housing boom has not hit that part of Canada. British Columbia was the least optimistic with only 23% saying it is a good time to buy. What is clear from this report is that buyer enthusiasm and sentiment has peaked and we are seeing the tail end of the real estate market boom in prices.

A very interesting and telling stat is the sentiment of owning versus buying into retirement. Nearly three quarters (73%) of those who are 65 years or older plan to rent rather than own their homes.



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