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Market Update

02 December 2016

Interest rate hikes are weighing heavy on markets as economic data points to a strengthening American economy and the need to raise interest rates by the American Federal Reserve. The department of Labor reported that employers added 178,000 workers in November, a solid gain that definitely clears the way for the Fed to raise the benchmark interest rate when it meets later this month. The official unemployment rate dropped to its lowest level in more than nine years, 4.6 percent, from 4.9 percent the month before, but average hourly earnings ticked down 0.1 percent. Revisions to the September and October data removed 2,000 jobs from the employment gains for those months. Over the last three months, increases have averaged 176,000. The official jobless rate is the lowest since August 2007. A broader measure of unemployment that includes part-time workers who would rather work full time or those too discouraged to keep looking also slipped down, to 9.3 percent from 9.5 percent. Hourly wages dipped last month, slowing the pace of annual wage growth to 2.5 percent. The labor force participation rate also ticked down, to 62.7 percent. So the data indicates the American economy is currently at capacity and that direct investment and fiscal stimulus will be needed sooner than later to keep adding jobs and wage growth. Even though the data initially looks good, it is a speed bump toward the desired goal of making America great again.

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please visit our website
www.ahmetjakupi.com

or contact us at:
Tel: 1-519-570-4754
Fax: 1-519-954-4754
email: ahmet@ahmetjakupi.com
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The American Federal Reserve has taken a stance to allow for economic growth and inflationary pressures to run hot before intervening with interest rate hikes which has resulted in a stronger than desired American dollar. The greenback will continue to strengthen as interest rate hikes become a reality.

The EU and Britain are in a grand mess. Both sides are being hit hard over the Brexit vote and lack of fiscal reforms. Unemployment is above 9% with GDP at 1.2% and interest rates below 0%. Italy is about to enter a banking crisis. For the ECB, the days of endless printing is coming to an end with the Euro Dollar and the green back hitting par soon.

OPEC confounded its doubters and sent crude oil prices soaring by agreeing to its first production cuts in eight years. The deal, designed to drain record global oil inventories, overcame disagreements between the group's three largest producers Saudi Arabia, Iran and Iraq and ended a flirtation with free markets that started in 2014. It was also broader than many had expected, extending beyond OPEC. Most strikingly, Russia agreed to unprecedented cuts to its own output. The impact on the energy world was immediate. Benchmark oil prices gained as much as 10 percent in New York and the share prices of energy companies around the globe jumped alongside the currencies of large exporters. Whether that's sustained will depend on how strictly members of the Organization of Petroleum Exporting Countries stick to the agreement, something they haven't always done in the past.

After weeks of often tense negotiations, the eventual alignment of OPEC's biggest producers points to the increasing dominance of Iran among the group's top ranks. It's allowed to raise output to about 3.8 million barrels a day, a victory for a country that's long sought special treatment as it recovers from sanctions. Saudi Arabia previously proposed that its regional rival limit output to 3.707 million barrels a day, delegates said.

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The newest method of strengthening Chinese corporations and the overall economy has nothing to do with investing internally in China. It does however have to do with the aggressive buy out of companies on a global level. Due to relatively easy financing funded by the Peoples Bank of China, business owners in China are buying up non Chinese firms like crazy as a way to diversify and prop up ailing domestic growth. This will result in a further gutting of wealth out of China into global markets. Leaving the dragon nation resembling more and more Russia. Oligarchs diligently invest 90% of their holdings outside Russia during the late dates of Boris Yeltsin and the early years of Vladmir Putin.

The Canadian economy grew 3.5% during the third quarter, bouncing back from the second quarter slump brought on by last May's Alberta wildfires. The economy grew 0.9% during the quarter, equivalent to an annualized rate of 3.5%. Rebounding from the 1.3% decrease in the second quarter, and it beats economists' average expectations of a 3.38% gain. Exports of energy products, rebounding from a second quarter decline, boosted growth, as reported by Stats Can. Exports of goods and services rose by 2.2% during the third quarter, reversing a 3.9% decline in the second quarter. According to Stats Can growth was driven by a 6.1% increase in the energy sector, following a 5.1% decline in the second quarter as a result of the Fort McMurray wildfires. Exports of goods were up 2.3%, while service exports advanced 1.4%. Bank of Canada Governor Stephen Poloz, earlier this week touted service exports as key to returning Canada's economy to full capacity.

The third quarter growth is a big turnaround from the second quarter ended June 30, when Canada's economy shrank by 1.3%. The initially announced second quarter decrease of 1.6% was on Wednesday revised to a drop of 1.3%. No one expected the downturn to continue into the third quarter. The second quarter decrease had more to do with the Alberta wildfires that shutdown the Fort McMurray oil sands in May than broader economic

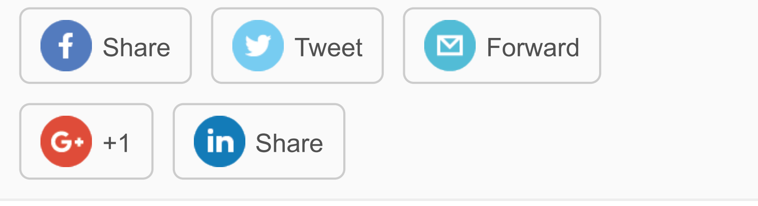
conditions.

The Canadian labour market unexpectedly added 10,700 net jobs last month and the unemployment rate slid to 6.8%, but the latest numbers raise questions about the quality of the work. Statistics Canada's November employment survey shows yet another monthly decline in the more desirable category of full-time work a figure more than offset by a gain in part-time jobs. The report says the market added 19,400 part-time jobs last month and shed 8,700 full-time positions. Compared with November 2015, Canada gained 183,200 jobs overall for an increase of 0.1 per cent but over that period full-time work fell by 30,500 positions, while the part-time category piled up an additional 213,700 jobs. Last month's data did beat the expectations of a consensus of economists, who had predicted Canada to shed 20,000 positions in November and for the jobless rate to stay at seven per cent, according to Thomson Reuters. There's one particularly troubling tidbit to be found amid Canada's surprisingly strong third-quarter growth: residential investment hit the skid.

It looks like real estate prices peaked this year. The prime culprit for this downturn in residential investment, according to the economist, was a subcategory that serves as a proxy for real estate commissions, which had been more than three standard deviations above its long term average as a share of GDP right around where the similar America category was sitting 11 years ago which was the peak of the American housing market.

The run up in residential investment as a whole in past years, bears eerie resemblance to what transpired south of the border in the 2000s. If history repeats itself, moving past this peak in total commissions real estate earned (a proxy for total real estate activity) serves as an early warning sign that a key driver of economic growth has been tapped out which could foster more widespread weakness further down the road. Ahead of the American housing bust, the downturn in brokers' commissions and other ownership transfer costs started in the fourth quarter of 2005,

well before the beginning of the financial crisis.



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