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Market Update

23 September 2016

The American Federal Reserve took a hold position on interest rates. As noted in the past two updates, market data for August tends to be non representational of on going economic activity in industrialised nations with North America being no different.

September is like the start of new business year with everyone returning back from family, long weekend getaways and much needed vacations. Recapping our progress year to date is always key.

Our investment strategies have been to redirect and focus client assets into North America while reducing EU and European holdings and not participating in Chinese-Asian holdings except for a reduced concentration in Japan. Client holdings in oil have been dramatically reduced in October of 2014 from highs of 30% to a low of under 5%. Markets have been very turbulent and I believe this will continue. However our strategies have client portfolios above 5.3% ytd while paying out distributions of 6% annualized.

Here is a quick overview of the issues plaguing global economies:

The Brexit down draft will continue to hurt the EU and Britain itself. Europe is headed into difficult economic times forcing the EU and other European nations to find other means of stimulating



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economic growth. Additionally, the EU has the ugly task of right sizing Italian banks in the months ahead while Britain makes desperate appeals to hold on to the banking sector. Financial Services is the life blood of Britian's economic engine. Have the entire industry transfer over to the EU mainland in two years time would be devastate. The British parliament is pulling all the stops out to keep financial services from transferring out.

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Major headwinds for China:

The current leadership is now just looking at calling bad corporate debt. State owned Chinese banks have to write off in the coming months and the year bad loans that will make the great recession of 2008-2009 look like a correction. Since only 2% of investment capital resides in China economic shock will stay with Asia. It is important to note that this is state money funding bad business leaving the dragon nation in deep economic pain for years to come. However state activity in funding new ventures has not ended. As part of the strategic plan to lead China out of this debacle, state banks are now pouring funds into start up technology companies, oil distillation and refineries. Unrestricted state funding of non profitable enterprise has lead to the collapse of manufacturing in China and most recently the steel industry on a global level. The constant tide of job lay offs and global deflation in the goods we buy directly correlate to China's rise into making all things cheap. Such a strategy has not change only to move into tech and oil products.

Oil:

The price of oil will continue to struggle between \$40.00 and \$50.00 a barrel as OPEC nations fight it out with Iran for market share. Iran is reporting daily production of \$3.6 million barrels a day. Saudi Arabia put out about \$11 million barrels a day. All oil producing countries are ruling their current operating oil sites at maximum. Oversupply is running at about 1.6 million barrels per day at the moment and any deal to curb production will probably

aim to stop the over supply in oil from getting any worse. If Iran and the Saudi's fail to reach an agreement on production, Iran has the capacity to substantially increase production.

Such a scenario would see oil drop to the \$30.00 a barrel level. Add to this China which now is aggressively refining and selling oil distillates at ruinously low prices. Even if crude prices recover, the price for distillates will be deflating.

Fiscal Stimulus:

Once the federal election in America is over, central banks around the world along with the Federal Reserve will push for direct injection of cash into economic projects. Central banks will use monetary tools to a greater extent that QE. Ontario is a prime example of direct injection of cash by governments which has near out of control deficits. All expectations are that Canada will experience similar explosion of deficits in the year ahead.

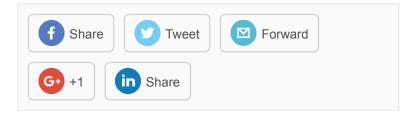
Given the above, central banks will have limited scope and desire to raise interest rates at the significant pace intended.

Once the American election passes, markets will kick into high gear. As economic plans for growth will be made clear and fuel optimism.

We continue to see deflation coming from Asia and other emerging nations. Fiscal stimulation will be a widely applied tool by central bankers including China. The American Federal Reserve will have a difficult task in raising interest rates as global malaise will be prolonged.

Here in Canada, sluggish oil prices will keep our Loonie staying low. Real estate prices look to have peaked both in Vancouver and Toronto. In Ontario the provincial government is looking into opening up parts of the green belt around the GTA to development which will see prices soften. High prices in the GTA region are

seeing home owners re locate to areas such as Kitchener, Waterloo and Guelph. Go Bus and Train serve to drive the appeal.



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