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Market Update

19 May 2017

President Trump just can't keep it together and markets are fed up as equities drop to September lows. The American greenback also got hit very hard with November lows. Gold prices shot up all in the same day. The VIX rocket hitting a 43.00% rise at above 14.98. What are institutional investors telegraphing? One, the Trump trade is not just over but has been derailed by the Commander in Chief. Second, impeachment is a reality. Former FBI director Comey's release of memos have been damning for the President. It is ironic that President Trump's tweets will be the hail of bullets that impeaches this President. Everything just got real. Never has the leader of the world's greatest super power been such a destructive force in a short period of time. At present, this scandal will provide Democrats and Republicans alike the necessary ammunition to pressure the current administration. Watergate and Richard Nixon come to mind. Given all the uncertainty and safe haven investing, Chairwoman Janet Yellen's fear of Trump's over heating America has all been removed. An interest rate hike by the Fed has been highly anticipated for the past few weeks. All this has been removed.

Let's be clear, America needs fiscal stimulus change and must move away from quantitative easing. It just might not be Trump who delivers needed change. Will Vice President Pence be up for the challenge? If Pence is somehow intertwined with Russia, Rex Tillerson, Secretary of State, could end up as the new leader of the

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world's super power. We are witnessing history unfold right in front of our eyes. For the current administration to survive, as the impeachment calls press forward, staying on track and on script to the improvement of America's economic health is vital. If the administration moves off script, support and confidence from the business community will evaporate. Historically, in America when a President and his administration is under scandal, critical reforms are not placed.

America's industrial machine expanded production last month at the fastest pace in more than three years as manufacturers and mines recovered from a March downturn.

The Federal Reserve said Tuesday industrial production at factories, mines and utilities shot up 1% in April from March, biggest gain since February 2014. Factory production rose 1% after declining 0.4% in March. Mine production increased 1.2% after falling 0.4% in March. And utility output rose 0.7% after surging 8.2% in March. Factory production has risen three of four months this year. Manufacturing has recovered from a rough patch in late 2015 and early 2016 caused by cutbacks in the energy industry and a strong dollar, which makes U.S. goods costlier in foreign markets.

The United States has officially indicated its desire to renegotiate the 1993 North American Free Trade Agreement, triggering a 90-day consultation window before formal talks begin. The clock was set ticking today in a letter from America's Trade Rep, Robert Lighthizer. Commerce Secretary, Wilbur Ross, says he is putting Congress and trading partners on notice that, "free and fair" trade is the new standard. President Trump has stated repeatedly that the manufacturing industry has been decimated by NAFTA, a deal which the White House considers deeply unfair.

Steady and not spectacular is the economic outlook for the EU. Since President Macron's victory the Union has been on a honeymoon of sorts with the new French leader. A nationalist win in France, would have done greater damage to economic stability for the EU by many folds than Brexit and Grexit combined.

The German economy defied increased political risks and picked up speed in the first quarter of 2017 as companies invested more, consumers and the state continued to spend and exports soared despite the threat of rising protectionism. This new found economic momentum should hold well for Chancellor Merkel's re-election bid. It is the strongest quarterly growth rate since the first quarter of 2016, when the economy grew 0.7%.

Oil prices rose on the anticipated cut in production by OPEC members. However as in the past few months American shale oil producers have continued to ramp up production making for choppy oil prices. Over the next 5 years, as the necessary infrastructure is built to transport oil and gas via pipelines, North America as a continent could easily lead the world in oil out put and sales abroad. Where does this put oil prices long term? One fact is certain, geopolitics will no longer have the same impact on the market price for oil. OPEC's choke hold on the entire world over oil ended with the lifting of sanction against Iran and its government's ability to sell oil into global markets.

China's economy has shown more signs of cooling with manufacturing and the services sector dipping in April. The latest data comes as the politburo attempts to reign in booming property prices and unconstrained borrowing. Two recent surveys indicate activity in the world's largest economy eased back in April. Manufacturing slowed more than expected as demand was hit by government moves to curb risk associated with a run of high demand borrowing in China. The National Bureau of Statistics official purchasing managers index (PMI) of factory activity fell to a six month low of 5.2% from the multi year high of 51.8 in March. A reading above 50 separates growth from contraction.

Canadian Real estate prices are the second highest in the world. New Zealand, Norway and Australia are in the same boat. House hold debt has gone through the roof along with housing affordability including rent. So far Canadians are managing household debt payments due to low interest rates. What has changed in the mad rush for developers to build medium and high density condos to fill. There is a lot of talk about a housing crash. First of all, what is a real crash? Think Toronto 1989. Home prices fell off the proverbial cliff. The average cost of a home in Toronto hit a whopping $273,698, a 30-year high. Then the bottom fell out. Home prices did not recover to their past highs till 2005.

The market crash of 1989 was due purely to massive unemployment as factories outsourced their manufacturing to Mexico and China. Today's overheated market is all about speculation house flipping. You can blame reality tv and the general over hyping of massive profits to be had by buying and selling real estate. A whole industry sprang up out of nowhere in "how to invest in real estate and flipping homes". Well, the party is over. Speculators never add value to markets and add no value to the economy. Quite the opposite they erode wealth on a broad scale.

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