Your weekly market update

View this email in your browser

Market Update

14 March 2017

Donald Trump has hit the Wall that he cannot overcome. This will make the Trump rally difficult to keep going. After 7 years of enjoying interest rates close to zero, the party is over in America. There are several scenarios that can develop, but the long-term outcome is clear.

In the short term, higher interest rates should increase demand for the dollar and American assets, so we could see a higher S&P 500 in combination with higher interest rates. See inflation chart below:

Fed chair, Janet Yellen, announced new rate hikes as the economy will probably moderately expand in the coming years, labor market conditions will strengthen, and inflation will be around 2% in the medium term. Of the above reasons, practically only one reason, inflation, is the trigger for higher interest rates. Economic growth was even stronger a few years ago, but the Fed didn't immediately raise rates. The labor market has also been strong for a while as unemployment has reached natural levels. The unemployment level hasn't changed much in the last year and a half.

Therefore, the only reason why the Fed will be raising rates is inflation. For seven years, inflation wasn't an issue and it would have been political suicide to tighten monetary policy while it wasn't necessary and things were good. With inflation breaking the 2% level, the days of easy monetary policy may be gone. The Fed is forced to control inflation and keep it around 2% in order to prevent the economy from overheating. An overheated economy, with credit on steroids, leads to a difficult recession like the one we experienced in 2009. Therefore, a small recession will be good for the economy as it will weed out all the businesses that are alive only thanks to low interest rates. This will create the basis for future, stable, and sustainable economic growth. The Fed is forced to increase interest rates while both Europe and Japan continue with their crazy easing policies, the dollar is getting and will probably get even stronger. Higher interest rates will only increase global demand for the dollar and American assets which could lead to further increases in asset prices and an even stronger dollar.

Emerging countries and corporations might have difficulties in repaying dollar denominated debt which could put pressure on them and lead to an outflow of funds. Funds will rush to security, American dollar, pushing it higher

Ahmet Jakupi FINANCIAL SOLUTIONS

Ahmet Jakupi Financial Solutions (AJFS) is a leading integrated solutions private wealth management firm.
We are Fiduciaries for our clients, serving their interests, building long-term trusting relationships and partnerships for over 20 years. As Fiduciaries we are completely focused on serving our client's interest and adding value to their lives

For more info
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
twitter: @jakupiahmet

and pushing asset prices and inflation higher. This will not be good for the economy in the long term, but is a possible scenario that would keep markets high.

Such a scenario will be only for a short time as a strong dollar makes the American economy less competitive on a global scale. In the long term, this will lead to lower productivity and lower corporate international revenues and earnings. Apart from lowering international earnings, higher interest rates will also increase the cost of debt. This will, in time, put pressure not only on corporate earnings, but also on public budget.

The European Central Bank president Mario Draghi reiterated his assessment on Thursday that underlying price growth remains subdued even after inflation accelerated to 2% nominally above the institution's goal. Policy makers have zoomed in on core inflation, the measure that excludes volatile components such as food and energy to justify record low interest rates and a 2.28 trillion euro ($2.4 trillion) asset-purchase program that is currently set to run until at least December. The rate remains stuck below 1%. What's worse is that the trend has consistently pointed down in the Euro's 18 year history, suggesting structural weaknesses may be at play.

Years of crises and below-potential growth have left resources idle and unemployment close to 10%. Goods and services inflation, components contributing to the core rate, show few signs of picking up. Inflation expectations are receding. After policy makers' preferred gauge of future price developments approached levels of below but close to 2% at the end of last year signalling the ECB's goal was in sight .

Approximately three quarters of Euro zone countries have seen rates accelerating above 1.5% in January. Annual price gains, driven mostly by the impact of a slump in oil in 2015 and a surge last year, will fizzle out toward the end of this year. There is widening gap among individual Euro members, as inflation stood at 0.2% in Ireland and 3.1% in Belgium in January. The European Central Bank undoubtedly has the most difficult job. It's a struggle to impose the same monetary policy on a group of countries that evidently need quite different monetary policies.

Oil prices dropped below $50 a barrel on Thursday for the first time this year, extending the 5% plunge a day earlier as the market worried that growing American crude producers may undermine efforts to rebalance global supply and demand. April West Texas Intermediate crude slid $1.12, or 2.2%, to $49.16 a barrel, after trading as low as $48.79 earlier in the session. Prices, which briefly attempted a rebound overnight, haven't settled at levels this low since late November. May Brent crude lost $1.14, or 2.2%, to $51.97 a barrel. It is clear that the battle for market share between American shale producers and OPEC is still on. Many analysts attributed the sudden drop in crude prices to oil stockpiles being at record level. Additionally, this is the ninth consecutive weekly climb reported by the Energy Information Administration, which also revealed a rise in weekly domestic production to their highest level in more than a year.

China's fixation to prove to the world that GDP will be on target at 6.5% is alarming. In order to achieve this target, the issuance of commercial and business loans is sky rocketing. Additional, debt restructuring, spare capacity removal and right sizing of corporations are not happening. All the politburo is doing is passing the buck down the line. An economic time bomb.

Share Tweet Forward +1 Share
