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Market Update

16 February 2018

It has been 4 years since bond yields were this high, which caused investors to panic and the VIX to soar as long term investors ran for the door forcing market volatility multiple times higher. Last year volatility hit all time lows which is not the norm. Add into the mix an overshadowing concern that short term rates are out pacing long term rates. In less that 2 weeks, view points have changed. Inflation is not ready to leap out of control. Ten year bond rates are now at their highest. Interest rates will continue to increase over time, not just in North America but across Europe and into Asia. As with any potential interest rate hike by central banks, it makes all markets panic until it is clear the rate of progression. Investor attitude grew in complacency last year as they piled into high risk asset classes reflecting speculation and not investing. The last two weeks have allowed for investors to sober up and move away from speculation to quality holdings. The good thing about this market correction is that everything was hit across all sectors and around the globe.

On the political side, Trump's administration keeps making progress regardless of his ongoing Russian probe. President Donald Trump has added a second and vital engine to economic fiscal stimulus which is infrastructure spending. A coming together of private and public funding will see the Federal government hand out $200 billion to corporations willing to take on much needed infrastructure programs like updating and expanding roads, utilities and transit programs such as high speed and light rail. How this exactly unfolds in the hands of the current administration will be closely watched.

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The EU economy hit a 10 year high water mark by growing by 2.5% in 2017. The strongest growth since 2.7% gap in 2007. However, economic headwinds with higher energy prices, rising political uncertainty and a very messy UK exit still looms large.

Russian efforts in Syria pay off as a deal was signed for exclusive rights to produce oil and gas in Syria. Huge battery arrays are undermining the need for peak energy gas fired power plants. Energy storage is the hoy grail of renewable and energy storage production. As the cost of industry battery arrays declines and storage efficiency climbs, burning fossil fuels at today's levels will continue to fall long term. Oil prices for WTI, North Sea Forties, Russian Urals, and Atlantic diesel have fallen to their lowest levels in several months. Oil rig counts continue to climb as 29 more rigs came on line as of February 10th in America and 27 more internationally.

China's biggest economic and political threat is not the west or trade wars. China has out of control debt levels which means even the leadership has to be modest about economic growth. Last year's spending spree kept the Chinese economy away from a recession but the momentum has not translated into growth for 2018. Can the Chinese economy hold together under gargantuan debt levels and rising debt servicing costs? No economy has been able to survive mounting debt without a major restructuring and without receiving a major downgrade in credit ratings which will only drive investors in Chinese debt to demand higher interest rates or abandon buying Chinese bonds altogether.

Here at home, our economy shed an alarming 88,000 jobs. This represents the single largest one month drop since the last recession. One hundred and thirty-seven thousand jobs were lost in the part time job market with only 49,000 new jobs generated. Job creation is necessary for that economic growth can continue. Let's hope this is a temporary spike due to a jump in minimum wage.

Canadian home sales dropped sharply in January at their lowest monthly levels in three years amid a decline in listings due to the new tight lending rules. Listings dropped by 14.5% from December to January. December sales were inflated due to any last minute buyers jumping in before the new lending rules. The biggest drop in Canada was in the golden horseshoe area. Vancouver on the other hand continues to climb hitting new highs. Economists are calling for a soft landing for housing however by coupling higher interest rates to come along with tight lending rules means the fully pipelines will become elevated. All the above make for perfect storm for downward pressure on prices. We have moved form a sellers market to a buyers market for those that can still buy.

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