Your weekly market update

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Market Update

19 January 2018

Market conditions have moved to optimism. As Sir John Templeton stated: Bull markets are born on pessimism, grows on scepticism, climbs on optimism and comes to an end on euphoria. At present, investors have optimistic visions with the last leg coming upon us as euphoria will eventually take hold. Why are investors so optimistic? Well, lower taxation means bigger profits. Lower regulation means a greater ease of generating those profits. Capital reparations allows formative influx of capital spending back to America. Infrastructure is the cherry on top as it will be necessary to beef up infrastructure to handle all the new demands commerce will need to thrive. Canada has been applying the very same over the last two years.

Tax cuts will see corporations having room to increase dividends and buy back shares. Capital repatriation is the next wave with potential for trillions to flow in. Infrastructure spending will be Trump's next fiscal stimulus spending program all pending on the administration passing the $1.5 billion increase in the debt ceiling over the next 10 years. Will there be a government shut down as the democrats hold the key as DACA is their weapon of choice to bring President Trump to the bargaining table? After this hurdle is crossed, the Trump administration has a short window as the bi election starts during the second quarter and third quarter of 2018 and he could find himself in the same position as president Obama, powerless in getting anything approved in congress or by the senate after his second year. All the past president's had to rely on was his executive order to bring about change.

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President Trump's much cherished wall with Mexico and the destruction of NAFTA is meeting extreme resistance from automakers and manufactures not just form North America but all around the world as their supply chains and on demand manufacturing would be disrupted and send costs soaring. It would not be just GM, Ford and Chrysler but all auto manufactures from VW, Mercedes, BMW, Toyota, Hyundai, Kia, Honda etc. Aerospace manufacturers and part makers would also be hurt in the process. NAFTA has allowed for a very integrated web of manufacturing parts across multiple boarder crossing without triggering double taxation.

Mario Dragi, ECB chair, has signalled that it may be time to end qualitative easing in the Eurozone as the jobless rate fell below January 2009 crisis levels to 8.7%. Last month unemployment fell by 107,000 claims. Additionally, economic growth picked up by 8.0%. Inflation in the Eurozone remains muted and stubbornly low at 1.4%. Greece and Portugal have seen the biggest drops in unemployment. The lowest unemployment rates are in the Czech Republic (2.5%), Malta and Germany (3.6%).

General pessimism has taken hold of Britain as the cost of Brexit weighs heavy on consumers as we see data indicating less spending and a heavy drop in home prices. The largest drop in home pricers since 2009. A reduction in interest from foreign buyers and the fear of big job losses in the capital financial industry are hurting housing prices. Home prices in London dropped by 3.5% last month. London was Europe's financial services capital. Brexit has since see France, Ireland and Germany aggressively court investment firms, banks and insurance companies away.

Try as they may OPEC and Russian will fail at pushing oil prices higher. The International Energy Agency (IEA) reported that global oil stock piles have tightened last month. American energy produces in excess 10 million barrels a day, over taking Saudi Arabia in oil production. America will be the number one energy producer. Energy dependance to foreign supply is over. The more OPEC and Russia push to tighten, the faster America energy producers will rush to fill the void as indicated by the constant rise of oil for the third straight week.

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The pace of growth in China's economy accelerated for the first time in seven years as exports, construction and consumer spending all climbed rapidly according to government officials. Various signals do suggest growth is higher, allowing the government to ramp up spending. However, getting a true read on the health of the worlds second largest economy is not an easy task as official government numbers point to a slow and steady growth, even though all other countries post plenty of peaks and valleys. Regional officials in China are admitting their economic numbers have been overstated and wrong. Outside experts number crunching point to very different results with usually weaker results. Officially the National Bureau of Statistics announced the economy expanded 6.9%. Such exponential growth has come at the cost of furious borrowing resulting in China's sovereign debt rating being downgrades pushing borrowing cost higher.

The Bank of Canada announced an interest rate increase of 0.25% making home ownership harder adding salt to the wound created by the new lending rules launched January 2nd, 2018. No doubt Canada has had a stellar economic period of growth and now the economic brakes need to be applied. Finance Minister Bill Morneau is forecasting growth for 2028 to be at just 1.7% through to 2022. Lower growth numbers will hurt federal tax revenue and leave little room to further spend on fiscal stimulus. Going from 3.7% GDP to 1.7% will definitely hit government coffers hard. Add into this a slowing housing market which leaves most consistent economic engine coming to a dramatic slow down. Oil price rebounds have allowed Western Canada to recover. A recent announcement by the Liberal government sees immigration growing to 340,000 annually as a way of pushing economic growth according to government reports each 15,000 new skilled workers will add 0.1% of growth to GDP.

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