

Your weekly market update

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Market Update

05 February 2016

The Bank of England moved forward in their asset purchase program as of January 25th, 2016 buying 8.4 billion British pounds of Gilts (government loans and bonds) with residual maturities ranging from 3-7 years all the way up to 15 years and greater. The British Central Bank made it clear it was purchasing evenly across all maturity classes. Bank Governor Mark Carney, (Canada's former Bank of Canada governor) must be looking to hold yields down across all sectors and keep the British pound low.

We are seeing the outflows of capital from the emerging nations and their respective currencies. The American dollar and gold have been the biggest benefactors with Canada looking to follow suit. Our Loonie has rebounded and risen again above 73 cents in only a brief period of time. What is driving the Loonie is a bounce back in commodity and oil prices.

While a strong dollar is a positive for vacationing Americans, it is bad news for American companies with significant international business because it makes American exports more expensive for foreign buyers and reduces the conversion of foreign profits from foreign currencies into dollars. It is only going to get worse. Wall Street economists predict that the American dollar will appreciate by another 4% against the Euro and by another 6% against the Japanese yen.

In the third quarter of 2015, the strong US dollar decreased the average American company's earnings by 12 cents per share, and a growing list of American companies are suffering even more dollar-related pain. Just as in Canada's recent past having a high flying Loonie hurt manufacturing so will a strong American dollar.

The American dollar must weaken soon before indications of slowing productivity rates and falling factory orders become a long term issue. The American Federal Reserve must decide on what it is to do with an appreciating greenback. Lowering interest rates will certainly help deflate a desire to invest and hold American cash. Both the EU, Japan and China are buying assets to keep their currencies low. As, I mentioned above the UK just jumped into the fold also. Most nations are looking to suppress their currency values and internal bond yields while America is looking to move in the opposite direction solely. American multinationals on average generate more than half of their revenue in foreign currency.

An appreciating dollar is killing sales and at the same time killing the exchange value on goods sold in other currencies. Even though many of these corporations are posting record sales



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revenue in USD is down.

How long can the Federal Reserve resist taking action I believe is purely dependant on the Fed keeping a limit on economic intervention and remaining somewhat subdued till we near the Federal election in November. A national election brings upheaval and uncertainty for any country. However, when you are the global super power going through such a critical transition the whole world feels the change. At present the Federal Reserve feels America's economy can handle turbulence.

A clear pattern of development is that mature economies around the world plunging into negative interest rate territory very quickly leaving Americans little options. One option is to stay the course, accept the realities of a strong home currency along with weakening economic performance and GDP. Along side this strategy, America would have to embark on massive fiscal policy spending (i.e., infrastructure programs) and resist monetary easing. I don't believe politicians have ware with all to bring about such gigantic budget spending. America in general is extremely resistive to any type of taxation. The other option is to stay interest rate increases and avoid the dollar from further appreciating.

In Canada, we are witnessing this very change the Federal Reserve maybe contemplating. For such a mandate a Bernie Sander's type candidate would have to win. America just as Canada is in deep need of infrastructure renewal not just in road work but utilizes, power lines, waterways and sewage work programs.

As I write this article, our Prime Minister just gave Alberta a cheque for \$700 million dollar and city Mayors all over Canada are queuing up to ask for federal development dollars ranging from light rail projects, water and sewage plants, road work projects and more. This economic phenomenon we are seeing role out in Canada is also being implemented in other developed nations and some emerging economies. For global economies to sustain and serve the growing population base better interconnectivity must be built. Over seven billion people live on our planet all requiring the trappings of a quality life.

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