

Your weekly market update

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# Market Update

15 September 2017

## A house that is divided will fall.

President Trump keeps on surprising everyone including his own party members by excluding the GOP on critical issues like the debt ceiling and DACA specifically how the government deals with “Dreamers”. If you call the recent actions of the administration in charge as building partisanship then I must have failed to grasp the understanding of the word. This is more akin to open handed back stabbing. Will the President be able to drop corporate tax rates from a high of 35% to a low of 15%. Here is why the debt ceiling is so important to Trump: with all the lost federal tax revenue by cutting the tax by more than 50% the current administration will generate a rapid ballooning federal debt with an anticipation that multinational and foreign corporations will relocate on mass to American shores. So, the President is bent on having both the Federal tax cut and DACA resolved an in place by December. Paul Ryan majority house leader made it clear that the President must act through and work with Republican members in order to ensure success.

President Trump is on course to ring in the New Year without having passed almost any of his campaign promises into law. Chief Financial Officers (CFOs) from some of the world's largest firms are increasingly pessimistic that the former New York businessman would be able to pass several of key agenda items into law by the end of 2017. CFOs across a wide range of industries were asked to describe how confident they were the Trump administration would be able to deliver on six key legislative priorities. The results



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showed that CFOs believed it was unlikely any of the agenda items would be reformed by the Republican controlled Congress this calendar year. The six legislative areas were medicare reform, building a border wall with Mexico, infrastructure spending, personal tax reform, corporate tax reform and capital repatriation. The President and his administration know they need to start making campaign promises materialize and are pulling all the stops to prove the nay sayers wrong. I remember a speech President Abraham Lincoln gave stating "A house divided against itself cannot stand."

Regardless of all the political insanity, America's economic engine continues to make material progress. Real gross domestic product (GDP) increased 3.0% in the second quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. The growth rate was 0.4% more than the "advance" estimate released in July. In the first quarter, real GDP increased 1.2%. The second quarter increase in real GDP reflected increases in both consumer spending on goods and services as well as increases in business investment, exports, and federal government spending. The increase in consumer spending was led by increases in housing and utilities; other services, notably in communication services; and other nondurable goods, primarily in prescription drugs. The increase in business investment reflected increases in all three components: equipment, intellectual property products, and structures.

In Europe, the Bank of England held interest rates steady however stating a hike in interest rates is likely to be needed in the coming months. The announcement by the BOE aided the British pound to rise to new highs of \$1.3317 against the American dollar. In the Eurozone there was steady rather than spectacular growth in the first three months of the year. It expanded 0.5% from the previous quarter, with the first quarter up 1.7% year on year. The best performing nations of 19 countries was Finland with 1.6% growth. Of the four largest eurozone nations, Spain was top with 0.8% followed by Germany at 0.6%. France managed 0.3% and Italy just 0.2%.

Nearly twenty days after Hurricane Harvey made landfall between Port Aransas and Port O'Connor in Texas, there are a number of

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signs emerging that the refinery hub of America is returning to some semblance of normalcy. Here are three such examples:

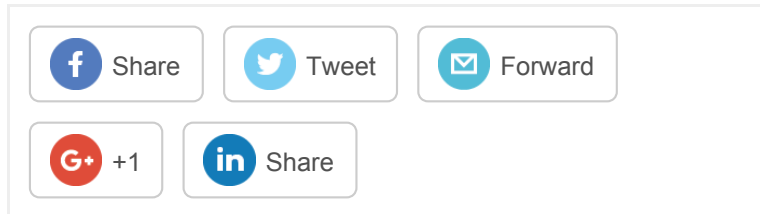
Crude waiting offshore is gradually dropping after peaking at the beginning of the week at 31 million barrels ,the highest since January. At the start of the week, we saw nearly 50 tankers ready to deliver to Texas refineries. Buoyed by reduced OPEC supply, WTI oil jumped above the psychologically \$50 a barrel Thursday, topping this level for the first time in five weeks and aiming for the highest closing since the end of May. In its latest short term Energy Outlook, published on Tuesday, the EIA stated the effect of the supply disruptions on the Gulf Coast will last for a while, which will boost the uncertainty around oil and gas prices in the coming weeks.

China posted a rare flurry of disappointing data on Thursday including its slowest growth in investment in nearly 18 years suggesting the world's second-largest economy is finally starting to lose some momentum as borrowing costs rise. Factory output and retail sales also grew less than anticipated, though a rebound in property sales and construction starts is likely to keep China's overall growth relatively robust and comfortably on target ahead of a key leadership reshuffle. Next the Canadian Real Estate Association has downgraded its sales forecast this year as national home sales slipped 9.9 per cent in August compared with a year ago. Analysts had widely expected China's August data to show industrial output and retail sales growth had accelerated after fading slightly in July, while investment was seen as only marginally softer.

A year-long government led construction (artificial stimulus) boom has lifted demand and prices for everything from cement to steel and glass, helping offset an expected drag from property cooling measures and a regulatory crackdown on riskier types of financing. August's data suggested the strong boost from Beijing's infrastructure building spree may be starting to fade.

In Canada, we are riding a blissful high of GDP growth. Economic business investment rose 1.7% in the second quarter, following a 3.3% recovery in the first. Oil and gas driven spending led the turnaround, rising 15% from a year earlier. How durable is this

economic boom is the billion dollar question. Investments in the oil sands are winding down, with several major projects have or are nearing completion and no prospect of new investments for the foreseeable future. Much of the apparent gain in the first quarter to \$165.1 billion simply represented a return to more normal levels of investment after the impact of the Hebron oil platform came and passed in 2016. Further slowing the economy has been the unwinding of the three year boom in Canada's housing market, which began in the second quarter after the average price of a house reached nearly \$1 million in both Vancouver and Toronto. Both the BC and Ontario governments slapped taxes on home purchases by foreign buyers, which led to a one time drop in demand. The Bank of Canada's move to raise interest rates will start to curb demand on an ongoing basis, including the negative impact of a higher dollar. The Canadian Real Estate Association has downgraded its sales forecast this year as national home sales slipped 9.9% in August compared with a year ago. The CREA expects sales to decline by 5.3% year over year to 506,900 changing hands this year, or 20,000 fewer than previously forecast in June. Throw into the mix if America does cut federal taxes to 15% which would leave Ontario's advanced manufacturing exposed. Corporate tax rates across Canada average a tad over 20%. This leaves Ontario manufacturers looking across the boarder for lower taxation states in America.



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