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## Market Update

10 November 2017

**The world we live in appears to be on high alert by as geopolitical events bring us closer to explosive conflict and terror.** President Trump has not done much to bring about a greater level of comfort and security as he promised. He has managed to stoke the fires of conflict without have a clear and concise foreign policy agenda. Even at home his immigration reforms are falling flat along with the grand wall with Mexico. Is the world a much different place since President Trump took power? Yes, tensions are at their highest with China due to an unclear approach. President Trump's trip to Asia is really about bringing a mutual understanding with China not just on trade and North Korea but also on stability measures in the Asian region. American efforts look not to materialize. Is America losing it grip on foreign policy and as a superpower?

Moving on to economic events, a broad poll conducted by the Wall Street Journal suggests most economists do not expect a dramatic shift from current monetary applied by past Fed Chair Janet Yellen to Jerome Powell. However, Fed chair Powell is much more open to financial deregulation. This has had a calming effect on equity markets.

The House Ways and Committee approved a sweeping bill to overhaul the nation's tax code on Thursday, setting up a vote by the full House and taking a major step on a key Republican



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or contact us at:

Tel: 1-519-570-4754

Fax: 1-519-954-4754

email: [ahmet@ahmetjakupi.com](mailto:ahmet@ahmetjakupi.com)

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legislative priority. The plan cuts corporate taxes to 20% from 35%, repeals the estate tax over time, and collapses the existing seven tax brackets into four, among many other measures. Dubbed the Tax Cuts and Jobs Act, the bill would also get rid of the deduction for state and local income taxes and take other steps to offset lost revenue, moves that Republicans have gambled on as they seek to enact the biggest change to the tax system in more than three decades. The bill passed the committee on a vote of 24 to 16. It moves next to the House floor for a vote, perhaps as soon as next week. Both the House and the Senate must agree on a single bill before sending legislation to President Donald Trump, and the two chambers differ over a number of issues including the estate tax and when the lower corporate tax takes effect. A major difference in the Senate plan is the delay of a cut in the corporate tax until 2019, versus next year. The House's bill would cut the rate to 20% from 35% beginning next year. The Senate Finance Committee unveiled its plan Thursday afternoon. The rate at which markets advance will be decided by next week's decision.

The European Commission enters key Brexit talks with the government with the eurozone economy in its best shape for a decade and activity in the United Kingdom weaker than expected six months ago. The commission sharply cut its forecast for UK growth this year and said it was likely to continue struggling in 2018 and 2019 even on the assumption that trade would not be disrupted by its departure from the EU. Forecasts produced by economists in Brussels stated the United Kingdom economy would grow by 1.5% this year rather than the 1.8% when the last assessment was made in May. Brussels believes that the United Kingdom's economy will slow further to 1.3% in 2018 and 1.1% in 2019 with growth of just 0.3% in every quarter for the next two years.

In Britain itself, London's house prices are falling at their fastest pace since the financial crisis, confirming the capital as the worst performing part of a slowing economy. Values fell for a sixth consecutive month in the city of London. If the provisional

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estimates are confirmed, the average price of a home in the capital was less than 582,000 (\$773,000), the lowest since the end of 2015. Is this a early bellwether that other developed city real estate markets are going to be entering a period of correction or is this purely a negative effect of Brexit?

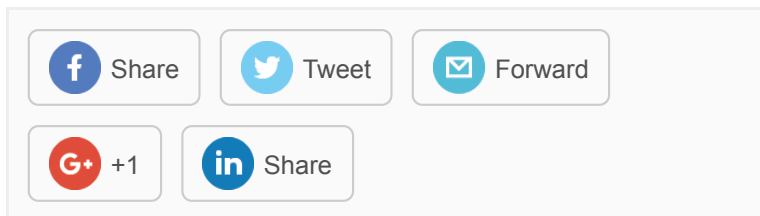
A power play by the most powerful man in Saudi Arabia took place over the weekend with rippling consequences for the future of OPEC's de facto leader and the world's second largest oil producer. Rising prices may also signal increase instability in Saudi Arabia as there are signs that the crackdown may have been meant to stave off a more substantive challenge to the future king from upper echelon figures in the Saudi hierarchy. The uncertainty in Saudi oil policy has created a temporary bull market. The turmoil within the Saudi ruling elite could signal a shift in policy in advance of the November 30th OPEC meeting in Vienna, where an extension to production cuts is expected to dominate the agenda.

China's economic debt level approaching three times annual output, comprised mostly of a complex web of corporate and household borrowing. China must ease its addiction to credit without creating a collapse in asset values that would seriously hamper the economy. At the same time, China's financial system is constantly being overhauled and opened up. This Thursday, the removal of foreign ownership limits on domestic banks signalled a further step toward a market economy. The challenge to rein in debt is a real threat to economic stability in the dragon nation and those nations linked to China economically.

Inflation has repeatedly fallen short of the Bank of Canada's two per cent target in recent years. Inflation in Canada slowed over the first half of this year and remained in the lower half of the Bank of Canada's target range even as the economy grew quickly. The Bank of Canada aims to keep inflation at 2%, the midpoint of a range of 1% to 3% by making changes to its key interest rate target. In keeping the rate on hold last month, the Bank of Canada stated less monetary policy stimulus will likely be required over time, however it will be cautious in making future adjustments to

the policy rate and be guided by the incoming economic data. Gaps may be appearing in the economic output in GDP is slowing along with international trade. A growing gap between an economic surge in the first half of this year and an outlook for much slower growth in coming months. GDP has gone from 4.5% annualized growth in the second quarter of this year to a flat reading in July and a decline of 0.1% in August, with manufacturing leading the declines, contracting by 0.1% after easing back 0.2% in July. However, jobs are still being created. Employment grew by 35,300 net positions in October, with many Canadians finding full time jobs and in the private sector, as reported by Statistics Canada. Our central bank has not yet incorporated the risk of more protectionist trade policies into their projection, given the range of potential outcomes and the uncertainty about timing.

However, the BoC acknowledges uncertainty about future American trade policy is having some impact on business confidence and investment spending, and this impact is reflected in their outlook. The full impacts of the new mortgage rules on the housing market are yet to be seen.



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**Our mailing address is:**

69 Glasgow St.  
Kitchener, ON  
N2G 2G8

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