

Your weekly market update

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Market Update

31 March 2016

President Trump problems keep expanding as he is not able to resolve the core issue at hand. The President believes that he won the election in spite of the Republican Party. However, the vast majority of Republicans believe that it was a resounding victory for the GOP with Donald as President.

The fact of the matter is within any political party there are faction. Rule #1: "No faction gets everything it desires." Rule #2: "Success requires the understanding that trade offs are at the heart of each hard fought dispute to ensuring a win-win strategy." A clear example of a lack a win-win approach was seen in the abandonment of repealing Obama Care as the Republicans were split into three factions. Political cohesion within the GOP has not been achieved let alone the coming together of America for the greater good. So regardless of the fact that the current administration controls both the House and Senate, the present state of the administration is dysfunctional at worst. At best, unfamiliarity with the political arena is taking a toll on leadership and much needed fiscal policy reform.

Keep an eye on the American greenback as current policy conflicts with market forces putting the evaluation of the dollar under attack.

This weeks news wires are all about the Federal Reserve and what is next. It is now obvious that fiscal policy driven economic stimulus is slow coming. The promise of helicopter money is just not unfolding as quick as needed. Why? Simply put the productivity rate in America is not growing fast enough. Including many other



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developed nations, debt accumulation is ramping up at a faster rate than economic gains. Interest rate suppression by the Fed has come to an end. The black eye the Trump administration received last week over repelling Obama Care has resonated deeply with institutional investors and global markets. In fact, Trump made the same fatal error as President Obama by putting health care before economic growth. How ironic. President Trump's ability to deliver change as promised is not unfolding as he so wished. Even though the appetite for risk is back on, as treasuries take a beating, markets are cautiously pushing ahead with a slow rebound developing this week.

Britain formally filed under article 50 to leave the EU. Brexit will not be pretty nor seamless. Prime Minister Theresa May's speech this week was full of grandiose statements and optimism. Difficult times lay ahead for Britain. Scotland has made clear its intentions to leave the UK and remain in the EU.

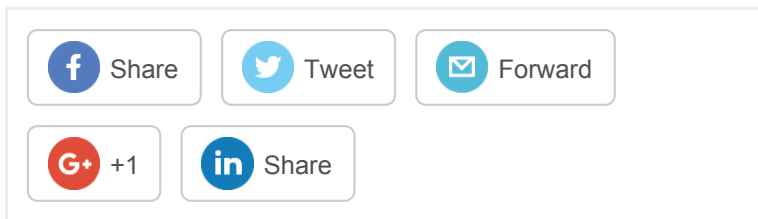
So called "Fracklog" loomed over the oil market, threatening to derail any signs of an oil price recovery. Since the collapse of oil prices in 2014, shale oil energy producers have capped off ready to go energy oil wells. This represents an undocumented reserve supply of oil. As soon as oil prices rebounded to some higher point, the shale industry would bring thousands of already drilled wells online, and that sudden rush of new supply would push prices back down. From North Dakota to Texas, there are more than 3,000 wells that have been drilled but not tapped. Add into this OPEC ineffective measures to reduce production opens the door for price decline.

The supposed stability being portrayed in China's recent economic reports doesn't look so rosy in the scope of the big picture. Politburo leaders are determined to hit 6.5% GDP regardless of the house of cards being built on bad debt and easy lending policies. China has been viewed in the past as an economic giant that will overcome all. Views have shifted rapidly to caution and even imminent collapse.

Divergence of American and Canadian policy has placed concern with the Bank of Canada. However just as America, the Bank of Canada will be very limited on using monetary policy to drive

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economic growth. All hopes were that the Federal budget would be filled with fiscal policy stimulus. This did not happen. Let's be very clear, what is happening South of the boarder will hurt Canadian manufacturing. A drop in America's corporate tax rate equal to Canada's will see business leave South. Add to this a proposed boarder tax, which will only reaffirm the desire of firms to leave Canada as business residing in America would avoid this deeply dreaded border tax. The present federal budget seeks to drive tax higher. Our Government both at the Federal and Provincial level need to develop strategies such as tax reduction and lowering electricity bills to keep Canadian manufacturing alive. The renegotiation of NAFTA will not matter if business on mass relocate south. GDP in Canada continues to beat expectations at 0.60% above forecast. It is important to note that present growth is being fuelled by record level debt spending stimulus and is not organic. The billion dollar question is "once the spending stops will Canada continue to grow or even be able to sustain itself burdened by never before seen debt levels."



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