

Your weekly market update

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Market Update

24 March 2017

The Trump reflation trade which has pushed markets and confidence higher has hit a plateau after the first sixty days.

Gallup polls show approval ratings are also at an all time low for President Trump at 37%. With every day forward it is becoming clear that dissension among Republicans is high. President Trump is experiencing fierce lasting headwinds. As we have discussed in earlier market updates, the Federal Reserve is firmly in charge of the speed of economic expansion not the administration. Fiscal stimulus is in the hands of the current administration and it is not going well. The Federal Reserve just made Trump's ability to reflate the economy that much harder by raising interest rates by another 0.25%. Institutional investors and equity markets took all this in stride as it was expected. Where institutional investors are not made to feel comfort is around the healthcare reforms. Revisions to healthcare are being put first before fiscal stimulus. This is the same error that President Obama made. In any western country, changes or reform to the healthcare act is a quagmire, filled with defeated political attempts on both sides of the political divide.

History repeats it self almost always. At present the number of geopolitical hot spots are near all time highs, economic unions are being challenged if not altered. Protectionism is rapidly growing along with nationalism. Pull all this together and we have another cold war era. Russia and China are vastly building up their military might. Proxy wars are a constant event throughout the Middle East, Ukraine and North Korea, via the Chinese, are show casing



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their military advancement. Such events do not bring about global economic growth. If anything they ensure segmentation and fracture of economic growth to only a few economic players. There will be definite winners and losers. Before the American election, the general populous was optimistic that change was needed and President Trump was going to deliver. America got a business man, high rise developer and celebrity, as a President. Leading a company is one thing. Leading a nation is quite different. Leading the world's greatest super power with a global obligation is a whole difference realm.

Business leaders are at best benevolent dictators and at worst outright villains in their pursuit of wealth. Business is not mandate to deliver for the greater good of the people. So America has a President that runs the nation as the boss "my way or the high way". Did Donald Trump really think it would be that easy to "drain the swamp". All governments are embedded with career politicians that coalesce in order to survive another day. The amoeba comes to mind. Just look at what is going on within the Republican party. Each and every day more Republicans are opposing the President's will and his administration. Now take that same opposition and extrapolate this to NATO partners and pro American nations. Last week I was fortunate to spend time with a leading political mind on Europe and Russia. The question I asked was "Is there any merit to the rumours that Russia influenced the American election?". His resounding answer was "Yes". Why mangle to influence a Trump victory? Simple, Trump is a newbie in politics and political leadership which will lead to a political ineptness of the incoming administration. In other words, lots of political dissension, lack of cohesion within the Senate and Congress, overall, awkward and powerless leadership. So this is what is presently at hand. For the Trump administration, this should be a slam dunk just like it was for President Ronald Regan. Just like then and now, the Republicans controlled the Senate and Congress giving the President strong resolve to get things done quickly. During Regan's time communism was brought to ruin, democracy was expanding and global capitalism was rising rapidly. The exact opposite is now going on. Internally the American government has never been is such upheaval while simultaneously alienating most of the world.

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Having lived in Europe during the fall of communism and the iron curtain, I clearly know the resolve and power of America in creating change. The outbursts of joy and utter feeling of freedom seeing the Berlin wall go down was powerful.

It is the responsibility of the government to create favourable economic policy (fiscal stimulus) and not drive protectionism. North America as a whole is on the right footing based on economic data. What has market's pausing is the lack of process and fiscal stimulus from the current administration. Rippling effects are felt across the world and most dramatically in Mexico and Canada. Equity markets need to see clear results , direction and leadership. All of which is lacking along with confidence.

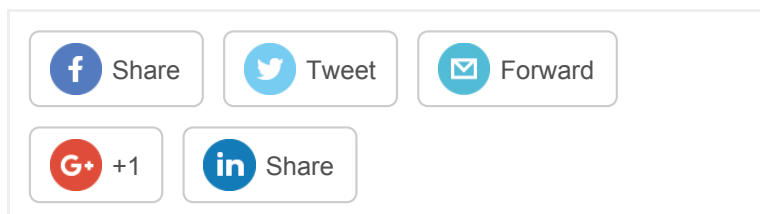
The old continent is feeling the economic effects of Trump policy as markets retreat. Tariffs and boarder taxes will definitely hurt EU's industry heart land as American consumption of EU goods is at record highs. The original EU treaty turns 60. However there was not much to celebrate as Britain divorces the Union and Greece refused to right size their balloting debt. To placate EU member, the ECB just doled out 235 billion Euros.

The American Energy Information Administration (EIA) reported American inventories climbed by almost 5 million barrels to 533.1 million last week, far outpacing forecasts for an increase of 2.8 million. A persistent increase in American oil production, together with a rise in imports from Canada, contributed towards a large build in crude oil inventories. The market remains nervous about rising American production, which is also reducing the effectiveness of output cuts by the OPEC and some non OPEC countries. At the present rate of inventory build up oil prices will test new lows. American shale producers want to grow market and they will continue to bring OPEC to their needs.

OECD, the organization for economic cooperation and development, reported that China's economy is sitting on a house of cards. Currently corporate debt represents 175% of GDP. Real estate prices are out of control and highly leverage. Overall GDP is expected to fall below the required 6.5% GDP this year. Economic growth in China is not driven by innovation but through debt accumulation. We all know how this fairy tale will end.

Canada's economic number seems to continue to surprise. The much awaited anticipated Federal Budget was no shocker. The deficit will continue to grow over time. Fiscal stimulus strategies are working as GDP is higher by 0.5%. Looming concern is our red hot real estate market that has no end in sight. If we go back about 10years, the province gathered the municipalities of South-Western Ontario to agree on limiting urban sprawl. All the municipalities jumped on board as this would mean increased pollution density which drives property tax revenue. Well, the plan was a great success. Municipalities have a growing tax base as housing move from low density to medium and high density. The problem with this strategy is when adding increased immigration with little to no land left to develop within the closed off boundaries the supply of new homes for sale dramatically declines. Ten years ago at any given time you would have about 18,000 homes for sale just in the GTA. Today that number is below 1,500. Natural inclination is to compare B.C and specifically Vancouver. Such, is not a true comparable as Vancouver does have limited land for development, surround by the ocean. In such a case rapid gentrification is welcomed and needed so is the move form low to high density housing.

The situation in Ontario and specifically in the GTA is fully an artificially induced state of appreciation. By limiting land development, prices move higher. Add into the mix unregulated market speculation and unrestricted buying by foreigners, all fuelled by easy borrowing and low interest rates we come to present day prices. Ontario has plenty of land. New government policies must come in to control the madness. This is not sustainable and it is economically unhealthy. The Ontario real estate markets are highly leveraged and a protracted economic softening will see prices rapidly decline. It is unwise and fool hearty to believe Canada's economy cannot survive solely on the real estate market as the engine of economic growth.



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