

Your weekly market update

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Market Update

23 March 2018

This week has it all. Global tension, trade wars, resignations and “Stormy”. What can I say as I’m left speechless.

Another “from out of nowhere boomerang” hits the Trump administration. John Dowd resigns as lead lawyer for the special counsel investigation on the Russian investigation.

Global trade wars will officially go beyond just words and be enacted this week by President Trump targeting China’s economic aggression. Tariffs on Chinese imports worth as much as \$60 billion could be unveiled stoking deep fears of a global trade war under the 1974 American Trade Act. Chinese leadership is readying to retaliate with their own tariffs on American exports of soybeans, live hogs, and sorghum. A UDSA spokesman reported that America stands ready to defend producers that will be harmed by foreign retaliation of trade wars focusing on protecting farmers and ranchers, which tend to be first line targets. Darker skies may be ahead for American exports if it decides to pull out of NAFTA as Mexico and Canada consume nearly 33% of American agricultural goods. Canada and Mexico have been promised by the President a pass on tariffs if NAFTA negotiations favour the current administration. It is important to note that America has a history of aggressive tariffing on foreign exports. It was the passage of the Smoot-Hawley Tariff Act that triggered America’s economic collapse of the Great Depression, not an over-heated equity market.

Congress reached an agreement avoiding another government



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shutdown. A \$1.3 trillion increase in debt with defence spending receiving \$80 billion, domestic spending \$63 billion, \$1.6 billion for a boarder wall with Mexico and \$100 million for autonomous car research.

The Eurozone experienced its weakest economic expansion in more than a year as reported by IHS Markit's composite output for private sector growth. IHS composite index dropped from 57.1 to 55.3 in February. The outcome of trade wars delving blows to consumer and business confidence. How the ECB policymakers manage these turbulent times will be critical. This week the EU and UK leaders will meet in Brussels to discuss vital issues in moving forward with Brexit. Unresolved issues remain with the Irish and Scottish boarders. Preparing for uncertainty and the economic fallout the Bank of England will look to keep interest rates unchanged.

Finally, governments around the world are willing to "stop looking the other way" as the tech giants have had little to no scrutiny on how personal and private data is used for profit by the new titans of the information world we live in. Facebook's head honcho, Mark Zuckerberg, stated after a colossal breach of data involving Cambridge Analytica "This was a major breach of trust....and I'm really sorry this happened". Data collection firms, now more than ever, have the ability to track, analyze, and forecast how each person will behave given a set of events. Tech titans have flourished as government regulators lagged to understand how to best apply privacy rules on data being collected.

Oil prices have risen nearly 10% over the past two weeks boosted by a weaker American dollar. OPEC is holding fast on production restrictions and an unexpected reduction report this week stating that American crude inventories dropped. As prices near \$70 barrel for Brent crude and \$64.48 for WTI profit takers rushed to cash in on the surprise announcement of a decline in oil inventories in America.

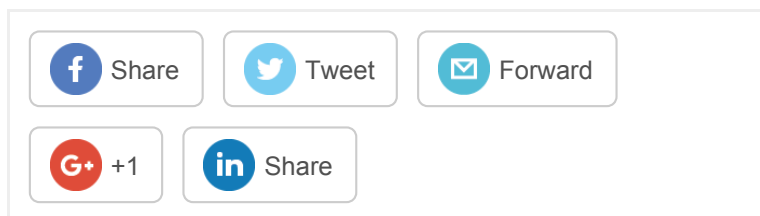
China's leadership prepares for slowing economic growth as global trade wars move from rhetoric to enactment. The world's second largest economy had a powerful start to the year as economic growths was spreading around the globe. Is President Trump using

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trade negotiations as a way to get Chinese leadership to bend and look to make specific exemptions after the fact as done with the EU, Mexico, Australia and Canada. Regardless, Chinese leadership will not take this laying down as the leadership looks to target very specific tariffs on American goods and open doors to other nations who are friendly to global trade. This could effectively close off American exports to China. Let's take a moment to look at how the last trade war with Japan went.... Not well. Japan was also the second largest economy looking to become number one. What followed for Japan was a 30 year Kondratieff economic winter.

The Canadian economy added 15,400 net new jobs last month with the unemployment rate edging down to 5.8%. Employment gains were due to part time hires offsetting deep declines in full time positions. Stat's Canada reported job gains in February were driven by 50,300 public sector jobs. The private sector shed 39,300 full time jobs and generated 54,700 part time jobs in February.

It is a well known fact that Canadian consumers have taken on record level of debts like never before. However a little known secret is that corporate Canada has debt levels equal to 60 cents of debt on every American dollar of sales revenue they generate. Aggregate Canadian debt has risen four fold since the peak of the last business cycle with a record issuance of debt in 2017 of \$77 billion USD. Record debt hurt net profits and net profits take a direct bite out of forward price earnings ratios which is why Canadian corporations are selling at a discount to the benchmark. Actually, they are at their cheapest levels relative to the S&P index. The S&P/TSX has lagged behind the S&P 500 for much of the past decade. The higher debt levels compared to American corporations explains the underperformance of Canadian corporations.



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