

Your weekly market update

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## Market Update

02 March 2018

**New Federal Reserve Chairman Jerome Powell made his presence known as he surprised markets with his comments on interest rate hikes exceeding the three potential rate hikes that former Fed Chairwomen Janet Yellen made to four possible interest rate hikes in 2018.** Powell made it clear that as of December he sees the American economy on a growth mode. Markets are responding rapidly to such statements as interest rates could rise higher as yields jumped on 10 year bond yields closing in on the 3% mark. All of this fiscal stimulus is generally viewed as late in the business cycles which will force the Federal Reserve to apply the monetary brakes to economic growth. Fiscal stimulus this late in the game has historically caused the economy to over heat forcing the central banks to slow down economic growth too aggressively thus killing growth and bringing about a recession. The ten year government bonds are watched closely to gauge by how far interest rates can rise.

America looks to be entering a very complicated economic trade war by slapping other tariffs on China. Let's be clear China has been for decades product dumping into European and North American markets. However closing off your society to free movement of trade is not a long term solution. American Secretary of the Treasury just dropped a bomb by stating that America is willing to re enter the TPP trade agreement. What a total about face. I believe that the Trump administration will decide to change course as it realizes that 11 nations of America's biggest trade partners will carry on with the TTP (trans pacific partnership) with an amended agreement to be signed March 8th. Sounder minds



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look to have prevailed in the Trump administration about the implications of withdrawing. Just as with TPP, NAFTA talks are not going the way President Trump would have desired. So, I expect to see a softening and or reversal attitude towards NAFTA by the present administration. America needs to be a global player not an island of isolation walled by tariffs.

Prime Minister Theresa May of the United Kingdom was just thrown into a political tail spin as the EU leadership has put forward their own terms and conditions in writing on how Britain may leave the EU and at what cost. Prime Minister Theresa May has been suffering losses both in confidence and ministers support. Severe headwinds politically has continued to hurt the British pound and put a down draft on equity prices along with real estate, making British based assets look cheap for investors compared to American and Asian assets.

Oil prices just can't gain the momentum as OPEC and Russia desire. America is now closing in on getting the top spot as the world's producer of oil surpassing Russia as reported by the International Energy Agency. American energy producers ousted Saudi Arabian out of the number 2 spot last year. We are seeing a colossal amount of oil being pumped out with a forecast of 11.8 million barrels a day by end of 2018. American energy companies have been successfully grabbing market share from OPEC countries which agreed to limit productions.

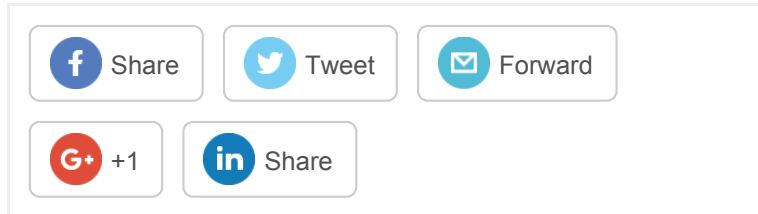
President Xi Jinping broke with Chinese leadership position by setting up himself to remain in power as supreme leader indefinitely. Why could this spell long term doom for China as a nation? Western society has been gentle with Chinese leadership as it was strongly believed that political liberalization would follow as the prospects of western style economy took shape. History has made it clear that when a leader grabs power with such permanence, reforms are less likely.

Canada's Federal budget saw an about face from the aggressive taxation of privately controlled Canadian corporations. However, Canadian businesses are at a growing disadvantage compared to the American counterpart. The 2018 budget failed to support our business community. South of the boarder billions of dollars have

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poured into corporate coffers allowing business to spend more on wages, new technology and overall capital spending. Let's compare. Small business owners in America can deduct \$1 million capital and technological improvements in the year the expenses are made. No one expects our tax code to be re written over night. However given that NAFTA is on the table the finance minister should be doing more to ensure Canadian business can thrive under a changing reality.



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