

January 11th, 2014

American equity markets performed extraordinarily well in 2013 all without the aid of politicians and much needed fiscal reform. Investors gave up on the political scene early in the year choosing to focus on economics. Due to the lack of fiscal reforms the Federal Reserve has been left with only a few tools to keep America's economy growing and not over heating by switching from stimulus to stimulus tapering. The billion dollar question is at what rate of speed will the Fed apply tapering going forward?

America is still very much at the early stages of economic recovery. I would compare current economic progress similar to Canada's recovery during our deep recession of 1989. So far, America's progress equates to our progress from 1992-1993. Canada's recovery fuelled two decades of choppy but strong growth. Unemployment numbers continue to be a going concern lacking quality jobs with no true wage inflation. So much more is needed state side to ensure a continually growing economy.

Politically, President Obama's administration will accomplish little. The administration has failed American in their time of much needed economic reforms.

The EU and Europe are now about real reforms. The actual hard work was much needed four years ago in debt restructuring of national and banking debt. This will be a true test of EU resolve requiring deep change. On the other hand, EU corporations are lean and performing extremely well with global consumers. European products are all the rage commanding premium prices.

Asia is the big question. Japan's economic reform has stalled as China's politburo endorses massive trillion dollar economic stimulus plans to move China at light speed. This will mean China will once again be exporting deflation to developed nations which is currently hurting Japan's manufacturing and exporting sectors and also making economic reform for Japan near impossible.

China will march on by spending trillions to expand economically and exporting deflation to developed nations. China's ability to produce goods cheaply has not ended. Chinese corporations are now employing industrial 3D printers and high end robotics to reduce the cost of goods. The last untouched realm for China is car manufacturing and export. At present, a state owned Chinese firm is in talks to buy Europe's second largest automaker, Peugeot of France. This gives China the framework and entry into the auto industry it desperately requires. Presently, China can produce a car at 1/3 the price but lack long term quality. Would you buy a car for \$5000 to \$8000 if it was only good for 5 years? Hyundai, Toyota, Honda and VW all started with such cars against the flavoured North American brands only to now dominate the US and Canada market.

Oil prices continue to breach new levels as oil stays around \$92 a barrel. Prices rose Friday to close at \$92.72, up \$1.06 a barrel. Gold prices also rose \$17.50 to \$1,246.90 as concerns about fiscal reform and unemployment still weigh heavy in America.

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Canada is going from doing all things right to political fragility. Federally, our political leaders have declared a balanced budget will be had soon. In time of weak global growth and a still recovering American economy is austerity right for Canada? Attaining a balanced budget due to economic surplus is one thing but moving to austerity to present Canadians with a balanced budget allowing conservatives to announce tax cuts for voters. Is this sound economic policy or election engineering? Job creation has been lagging in Ontario and other parts of Canada excluding some western provinces. Manufacturing has been deeply neglected by politicians and so has Ontario and eastern Canada. Our Loonie did take a dive to 4 year lows but a 85 cent Loonie for manufacturing and exporting would be better than a balanced budget.