

## Weekly Commentary – April 10, 2017

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### Economic Calendar

| Date                                                                                                 | Release              | Period      | Consensus | Previous |
|------------------------------------------------------------------------------------------------------|----------------------|-------------|-----------|----------|
| <b>U.S.</b>                                                                                          |                      |             |           |          |
| April 13                                                                                             | PPI Y/Y              | March 17    | 2.38%     | 2.20%    |
| April 14                                                                                             | Retail Sales         | March 17    | 0.35%     | 0.10%    |
| April 14                                                                                             | Business Inventories | February 17 | 0.39%     | 0.30%    |
| <b>Canada</b>                                                                                        |                      |             |           |          |
| April 10                                                                                             | Housing Starts       | March 17    | 208.4 k   | 210.2 k  |
| <b>Key Earnings:</b>                                                                                 |                      |             |           |          |
| April 10: Century Bancorp Inc., Dynasty Metals & Mining Inc., SPH REIT, TyraTech Inc.                |                      |             |           |          |
| April 11: Cogeco Communications Inc., Industrial Securities Co. Ltd., Poplar Co. Ltd., Toshiba Corp. |                      |             |           |          |
| April 12: Alliance Global Group Inc., Delta Air Lines Inc., Newtech Co. Ltd., Tesco PLC              |                      |             |           |          |
| April 13: Bauer AG, Citigroup Inc., E J Holdings Inc., JPMorgan Chase & Co., Subaru Co. Ltd.         |                      |             |           |          |
| April 14: Aqualine Ltd., Furuno Electric Co. Ltd., Pacific Net Co. Ltd., Takeda Machinery Co. Ltd.   |                      |             |           |          |

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian job market marches on

The latest figures from Statistics Canada revealed that the economy added another 19,400 jobs in March, marking a fourth consecutive gain. While this in itself is not particularly impressive, employment growth over the past eight months (273,700) is the strongest in almost seven years. The bulk of the new jobs in March were full time (18,400) positions. As well, the manufacturing sector recorded 24,400 new jobs, the best single month gain since August of 2002. Still, even with this advance, growth in this sector is flat on a year-over-year basis. In addition, the recent strength in Canada's broader labour market has not yet produced similar growth in wages. Despite recent improvements, there is no evidence to suggest any overheating in the domestic job market.

#### U.S. employment report raises questions

Even though a moderation from the surprisingly strong January and February jobs reports was anticipated, the Bureau of Labor Statistics' March announcement raised some doubts over the real strength of the U.S. job market. The 98,000 gain in non-farm payrolls was the weakest since May 2016. Conversely, the 4.5% unemployment rate is a new post-recession low and came despite another 145,000 gain in the labour force. Wage growth was relatively stable as average hourly earnings climbed 0.2% for the month and 2.7% on a year-over-year basis. With many analysts suggesting that weather patterns overrode the BLS' seasonal adjustment factors, it appears that the market will have to wait for the release of the April data to get a better read on the U.S. job market.

#### Brazil's trade surplus balloons despite meat scandal

Updated data from Brazil's statistics office revealed that the country's exports outweighed imports by more than US\$7 billion in March, marking the largest trade surplus on record for the country and a whopping 61.1% increase on the previous year. Surprisingly, pork sales jumped 33.4% compared to March 2016, while chicken and meat sales increased by 7%. The gains came against the backdrop of the country's ongoing meat scandal. Police allege that bribes were paid to inspectors to improperly certify meat for trade. Exports dropped to virtually zero in the immediate aftermath. However, two weeks later countries including the two biggest importers, China and Hong Kong, began lifting bans suggesting that the Brazilian government had sufficiently

calmed their fears. Brazilian officials commented that the surplus was here to stay. However, given the possible lags, the real impact of the scandal may yet emerge.

### Longer View

Following several years of a general expansion in the price-earnings ratio of equities, we believe returns from this asset class will moderate somewhat and become more closely tied to the rate of growth in company earnings. With equity market volatility increasing to at least the normal range, it's important to keep in mind that equities are best suited for long-term investing, and that the allocation in your portfolio should reflect your investment horizon and risk tolerance. Fixed-income investments, while generally providing limited income in today's low interest rate world, are an effective diversifier in a portfolio. When there is extreme pessimism in the equity market, fixed-income tends to outperform. There is no one asset class that looks better than others, in our view, as their current valuations accurately reflect their potential and risk. Talk to your professional advisor to ensure your portfolio is optimized and continues to meet your needs.

### Weekly Summary

#### April 3

▼ The European Union's statistics agency announced that the unemployment rate in the Eurozone fell to 9.5% in February 2017, down from 9.6% in January and from 10.3% in February 2016. It is the lowest rate since May 2009. Among the member states, the lowest unemployment rates in February 2017 were recorded in the Czech Republic (3.4%) and Germany (3.9%), while the highest were in Greece (23.1%) and Spain (18%). The unemployment rate in the Eurozone is in line with market expectations.

▲ According to IHS Markit, the final Markit Eurozone Manufacturing PMI jumped to 56.2 in March 2017, up from 55.4 in February. It was the highest reading since April 2011. Growth rates for production and new orders accelerated to near six-year highs in March, and companies reported a surge of orders from both domestic and export clients, fuelling faster job creation. The PMI data signalled that growth was centred in Germany, with its final Markit manufacturing reading moving to a 71-month high of 58.3 in March 2017 from 56.8 in February, boosted by a sharp increase in orders for intermediate goods. Both the Eurozone data and the German results are in line with expectations.

▼ The U.S. Institute for Supply Management reported that its Purchasing Managers Index edged lower to a 57.2 reading in March. This is a 0.5 point loss from February's 57.7 figure but remains well above the key 50.0 (generally expanding) level for a seventh consecutive month. The reading is in line with expectations and indicates continued growth in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.8% in February, following an upwardly revised 0.4% decline in January (originally reported as -1.0%). On a year-over-year basis construction was up 3.0%. With the revisions, the monthly growth figure is broadly in line with consensus estimates. This result indicates continued volatility in the construction sector.

#### April 4

▼ Statistics Canada announced that Canada's merchandise trade balance slipped into a \$972 million deficit in February. Exports were down 2.4%, with decreases in eight of 11 sections. Imports edged up 0.6% on higher imports of special transactions trade, and motor vehicles and parts. Since the market was looking for another surplus in this report, these results are considerably weaker than expected and are a negative sign for overall GDP growth.

▼ The U.S. Census Bureau announced that the country's international trade deficit in goods and services narrowed to US\$43.6 billion in February, down \$4.6 billion from \$48.2 billion in January (previously reported as \$48.5 billion). February exports were \$192.9 billion, \$0.4 billion more than January exports. February imports were \$236.4 billion, \$4.3 billion less than January imports. The trade deficit was smaller than expected. The somewhat improved results will be less of a drag on overall GDP growth.

▲ According to Brazil's statistics agency, the country logged a trade surplus of US\$7.145 billion in March 2017, 61.1% higher than a \$4.435 billion surplus a year earlier. It is the largest trade surplus since 1989 when the government first started compiling

the data. Exports jumped 20.1% in March over the same month of 2016 to \$20.085 billion, while imports edged up slightly by 7.1% to \$12.94 billion. The ongoing meat scandal appears to have had less of an impact on export numbers than some had anticipated. The trade surplus is stronger than market expectations.

▲ According to the Australian Bureau of Statistics, the country's trade surplus widened 138% to A\$3.57 billion in February 2017 from an upwardly revised \$1.50 billion surplus in January. It is the second-largest surplus on record. The surge appeared to be due less to exports, which rose 1% on the month to \$32.4 billion (seasonally adjusted), and more to imports, which fell 5% on the month to \$28.83 billion on the same basis. Although the trade surplus beat market expectations, analysts were not optimistic about what this result signalled for the economy as weakness in imports could suggest that there is some softening in momentum on domestic demand.

▲ The U.S. Census Bureau reported that factory orders increased 1.0% in February. This followed an upwardly revised 1.5% increase in January (originally reported as 1.2%). Excluding transportation, new orders increased 0.4% in February. Given the upward revisions to the previous data, these results are stronger than expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

#### April 5

▲ According to the IHS Markit, the United Kingdom's seasonally adjusted Markit/CIPS Services PMI Business Activity Index rose to 55 in March 2017 from 53.3 in February. It is the strongest increase so far in 2017. Incoming new work grew at the fastest rate in three months, while the pace of job creation fell to the weakest since August 2016. On the price front, average prices charged by service sector companies increased at the fastest rate since September 2008, and input price inflation slowed to a four-month low. The results are stronger than expected and firms remain optimistic about the year-ahead business outlook.

▼ According to surveys conducted by the U.S. Institute for Supply Management, the ISM Non-Manufacturing PMI Index in the U.S. fell unexpectedly to 55.2 in March 2017. It was down 2.4 points from the 16-month high of 57.6 in February, reaching the lowest reading since October of 2016. The loss of momentum is linked to weaker inflows of new work and slowed production and employment. The reading was below market expectation, although it still registered as an 87th consecutive month of growth.

#### April 6

▼ The U.S. Department of Labor announced that initial jobless claims totalled 234,000 (seasonally adjusted) in the week ending April 1, a decrease of 25,000 from the previous week's revised level. The previous week's level was revised up by 1,000 to 259,000. The four-week moving average was 250,000, a decrease of 4,500 from the previous week's revised average. The previous week's average was revised up by 250 to 254,500. These results are stronger than consensus estimates.

▼ Statistics Canada reported municipalities issued \$7.5 billion worth of building permits in February, down 2.5% from January. Ontario and Alberta led the five provinces that reported declines in February. The national decrease was mainly the result of lower construction intentions for single-family dwellings and institutional structures. On a year-over-year basis permits are up 3.9%. These results are weaker than expected. Permits are an indicator of the future level of activity in the construction sector.

▲ Germany's federal statistical office announced that the country's industrial orders bounced back, gaining 3.4% month-on-month in February 2017. This follows a downwardly revised drop of 6.8% in January, the biggest decline since January 2009. Domestic orders surged 8.1%, while foreign orders remained flat. Demand for intermediate goods advanced the most (8.5%), followed by consumer goods (2.7%) and capital goods (0.3%). Germany's factory orders have become extremely volatile since the summer due to sensitivity to seasonal and weather changes, and although the February results are weaker than expected, the trend for order books is positive.

#### April 7

▲ Statistics Canada announced that 19,400 jobs were added in March, while at the same time the unemployment rate rose by 0.1 percentage points to 6.7% as more people entered the labour market. In line with the recent gains, employment was up 1.5% (+276,4000) from 12 months earlier. These results are stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate fell by 0.2 percentage points to 4.5% in March, a new post-recession low. The decline came despite a 145,000 gain in the labour force. At the same time, non-farm payroll employment edged higher by 98,000. Employment increased in professional and business services and in mining, while retail trade lost jobs. The results are mixed relative to expectations. The improvement in the unemployment rate was greater than anticipated while the gain in non-farm payrolls is below consensus estimates. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

▼ The Office for National Statistics published the U.K. industrial production data, showing the overall industrial activity deteriorated further by 0.7% month-over-month in February 2017, after a downwardly revised 0.3% drop in January. It is the second consecutive month that the industrial production has fallen. Output declined across all categories, although the sharpest declines were seen in pharmaceuticals (-4.4%) and electricity and gas (-3.4%). Manufacturing production slipped 0.1% month-on-month, missing expectations of a 0.3% increase. On the year, industrial output slowed down to 2.8% from an upwardly revised 3.3% a year earlier. Both monthly and yearly results are weaker than expected, suggesting that the U.K. economy has lost a little momentum in Q1.

▲ According to Germany's federal statistics office, the nation registered a 19.9 billion euro trade surplus in February 2017, compared to an upwardly revised 14.9 billion euro surplus in January. Exports climbed 0.8% month-on-month in February while imports slid for the first time in five months by 1.6%. On a year-on-year basis, exports soared 3.1% to 102.3 billion euros while imports went up 3.7% to 82.4 billion euros. The results are in line with market expectations. In addition, according to the official data, Germany's industrial production increased 2.2% month-on-month while market expected a 0.1% fall. It is the second consecutive month of growth. The figures proved that February was another solid month for German industry performance.

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