Assante® WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – April 24, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
April 25	New Home Sales	March 17	520 k	592 k
April 27	Durable Goods Orders	March 17	0.4%	1.7%
April 27	Pending Home Sales Y/Y	March 17	2.47%	2.60%
April 28	GDP Growth Rate Q/Q Adv.	Q117	2.5%	2.1%
Canada				
April 26	Retail Sales	February 17	-0.06%	2.20%
April 26	Budget Balance	February 17	-$1.8B	$1.2B
April 28	PPI Y/Y	March 17	2.5%	3.5%

Key Earnings:
April 24: Barrick Gold Corp., Newmont Mining Corp., Seaspan Corp., Twitter Inc., Volvo AB
April 25: AT&T Inc., Coca-Cola Co., Credit Suisse Group AG, Metro Inc., Polaris Industries Inc.
April 26: Cenovus Energy Inc., Deutsche Lufthansa AG, Global Infotech Co. Ltd., Hershey Co.
April 27: Amazon.com Inc., Deutsche Bank AG, Expedia Inc., First Capital Inc., GoPro Inc.
April 28: Exxon Mobil Corp., General Motors Co., Imperial Oil Ltd., Japan Airlines Co. Ltd.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian inflation eases back

After hitting a two-year high of 2.1% in January, annual growth in Canada's consumer price index (CPI) slipped lower for a second straight month, as Statistics Canada reported a 1.6% figure for March. Much of the softening in the recent reports has been within the transportation sector where gasoline prices dropped a cumulative 6.0% from January levels. Despite this brief decline, they remain 8.5% higher on a year-over-year basis and early April data suggest a monthly increase when these figures are eventually released. Looking at the less volatile figures referenced by the Bank of Canada, its CPI common, which is most closely correlated with the output gap, was unchanged at 1.3% (Y/Y) in March. In fact, this measure has been remarkably stable ranging from 1.3% to 1.7% for the past five years.

U.S. industrial production data send mixed signals

The U.S. Federal Reserve reported that industrial production jumped 0.5% in March, led by an 8.6% surge in output from utilities, the largest on record dating to 1939. Accordingly, year-over-year growth in production rose to 1.5%, the strongest since February 2015. For the first quarter as a whole, annualized growth came in at the same 1.5%, the best since the final quarter of 2014. Yet, despite the strength of the headline results, the data show no indication of an overheating economy. The bulk of the March gain in utilities was due to a rebound to normal heating demand, following an exceptionally warm February. As well, manufacturing output recorded its first decline in seven months. At 76.1%, overall capacity utilization remains below both the cyclical peak 79.2% (November, 2014) and levels (85%) typically associated with actual capacity constraints.

Britain's unexpected early election opens new chapter for the pound

British Prime Minister Theresa May stunned the U.K. political world on April 18 by calling for an early general election. In an unexpected statement, May announced that she was seeking a June 8 poll. The decision is a sharp reversal of policy, as she had repeatedly ruled out an early election. Pessimistic on the pound since Britain voted to leave the European Union, Deutsche Bank changed its view with respect to the currency, calling May's decision "a game-changer for both the U.K.'s Brexit negotiations and sterling". The statement proved true, at least initially, as the pound jumped to a 10-week high of US$1.2629 within an hour of the surprise announcement. Still, the early election could mean further uncertainties and more economic volatility for the United Kingdom.

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 17

▲ According to China's National Bureau of Statistics, the nation's GDP accelerated 6.9% to 18.07 trillion yuan (US$2.63 trillion) year-on-year in the first quarter of 2017, compared to a 6.8% expansion in the final quarter of 2016. It is the strongest growth since the third quarter of 2015. The 6.9% expansion of the world's second-largest economy represented about 30% of global growth in the first three months. The expansion was powered by faster growth in industrial output, fixed-asset investment and retail sales. Meanwhile, fiscal spending rose by more than 20% in the first quarter while exports increased 16.4% in March. The GDP figure was slightly stronger than expected.

April 18

▲ The British pound strengthened sharply after Prime Minister Theresa May called an early general election in June. By midday in London, it was trading at US$1.2629, recovering from an intraday low of US$1.2550 before the unexpected election announcement. It was the highest trading level in 10 weeks. The pickup in currency suggests some material optimism following May's surprise announcement. However, it is an early response and may add another layer of complexity to the already uncertain economic circumstances of the U.K.

▼ The U.S. Census Bureau announced that housing starts in March were at a seasonally adjusted annual rate of 1,215,000. This is 6.8% below the upwardly revised February estimate of 1,303,000, but is 9.2% above the March 2016 rate of 1,113,000. At the same time, the number of building permits issued in March was at a seasonally adjusted annual rate of 1,260,000. This is 3.6% above the upwardly revised February rate of 1,216,000 and is 17.0% above the March 2016 figure of 1,077,000. The starts figures are weaker than market expectations, but the permits results are stronger. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada announced that foreign investors acquired a record $38.8 billion of Canadian securities in February. This investment was largely in Canadian equities with the vast majority resulting from cross-border merger and acquisition activities. Foreign investors also acquired $3.0 billion of Canadian debt securities during the month. Canadian investors acquired $6.3 billion of foreign securities, mainly U.S. instruments. The foreign acquisition of Canadian securities was well above expectations. Foreign investment flows can significantly influence the relative strength of the Canadian dollar.

▲ The U.S. Federal Reserve announced that industrial production expanded 0.5% in March after rising 0.1% in February. On a year-over-year basis, industrial production was reported to have gained 1.5%. Capacity utilization for total industry rose to 76.1% from 75.7% in February and 75.4% a year earlier. These results are marginally stronger than expected. The improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

April 19

▲According to the European Union's statistics agency, consumer prices in the Eurozone increased 1.5% year-on-year in March of 2017, backing off the four-year high of 2.0% posted in February. It is the biggest monthly drop in the inflation rate in over a year. The annual increase in energy prices slowed to 7.4% from 9.3% while food and drink prices eased to 1.8% from 2.5%. Core inflation, which strips out the effects of those volatile components, stood at 0.7% year-on-year in March. Both inflation and core inflation figures were in line with market expectations. The European Central Bank's governing council will decide monetary policy next Thursday, but most economists believe it will not act to tighten monetary policy until at least December.

April 20

▲According to its Ministry of Finance, Japan logged a ¥614.7 billion trade surplus in March 2017, 17.5% smaller than a ¥744.9 billion surplus a year earlier, as exports rose less than imports. For March, merchandise exports jumped 12.0% year-on-year to ¥7,229.1 billion, compared to an 11.3% increase a month earlier. This is the fastest increase since January 2015. Exports within Asia were strong (16.3% year-over-year), helped by improved Chinese demand for autos and auto parts. However, imports rose 15.8% on the same basis in March. The trade surplus figures were stronger than market expectations.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 244,000 (seasonally adjusted) in the week ending April 15, an increase of 10,000 from the previous week's unrevised level of 234,000. The four-week moving average was 243,000, a decrease of 4,250 from the previous week's unrevised average of 247,250. These results are in line with consensus estimates.

▲The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in April but at a less robust pace. The Philly Fed general business conditions index dropped to 22.0 from 32.8 in March. The index has been positive for nine consecutive months and remains at a relatively high reading. These results are below market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

April 21

▼ Statistics Canada reported that consumer prices dropped 0.2% (seasonally adjusted, monthly basis) in March after falling 0.3% in February. On a year-over-year basis the CPI was up 1.6%, well below the 2.0% reported in the prior month. All three of the Bank of Canada's new measures of core inflation remained below their 2.0% target. CPI common, which the central bank says is most closely correlated with the output gap, held steady at 1.3%. However, the overall results are below market expectations.

▼ According to the Office for National Statistics (ONS), retail sales in the United Kingdom slumped 1.8% month-over-month in March 2017, following an upwardly revised 1.7% rise in February. For the first quarter, the sales volume declined 1.4%, following a 0.8% rise in the final quarter of 2016. It was the first quarterly fall since 2013 and the biggest since the first quarter of 2010. The declines were seen in sales of food, textiles, clothing and footwear, and auto fuel while sales of household goods remained flat. Both monthly and quarterly results were weaker than market expectation. Consumers in the U.K. not only face pressure caused by the accelerating inflation, there is also a period of heightened political uncertainty after the prime minister's surprise announcement of an early election.

▲ According to Markit Economics, the Markit Eurozone Composite PMI climbed to 56.7 in April 2017 from 56.4 in March, reaching the highest reading since April of 2011. Both service and manufacturing sectors improved faster (56.2 from 56, and 56.8 from 56.2, respectively), with further strong growth in employment in both sectors. Meanwhile, price pressure remained among the strongest seen over the past six years. Another report published by the European Commission showed that the DG ECFIN flash estimate of the consumer confidence indicator in the Eurozone rose markedly to -3.6 in April 2017. That was a 1.4 point improvement from the -5 reading in March, and the highest reading since March 2015. Both the Markit Composite PMI and the consumer confidence indicator figures are stronger than expected, indicating a somewhat positive outlook of the economy of the Eurozone in 2017.

▲ According to the U.S. National Association of Realtors, existing-home sales increased 4.4% to a seasonally adjusted annual rate of 5.71 million units in March from a downwardly revised 5.47 million in February (originally a 5.48 million-unit pace). March's sales pace is 5.9% higher than a year ago and surpasses January as the strongest month of sales since February 2007.
These results are stronger than consensus expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.