

## Weekly Commentary – April 3, 2017

*Alfred Lam, MBA, CFA*  
*Senior Vice President & Portfolio Manager*

*Richard J. Wylie, MA, CFA*  
*Vice President, Investment Strategy*

### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
April 3	Total Vehicle Sales	March 17	18.50 M	17.58 M
April 5	ADP Employment Change	March 17	272.7 k	298.0 k
April 5	Markit Services PMI Final	March 17	52.9	53.8
April 6	Challenger Job Cuts	March 17	40.6 k	37.0 k
April 7	Average Hourly Earnings	March 17	0.26%	0.20%
<b>Canada</b>				
April 6	Housing Starts	March 17	208.4 k	210.2 k
April 7	Employment Change	March 17	26.9 k	15.3 k
<b>Key Earnings:</b>				
April 3: Continental Materials Corp., Manchester and London Investment Trust PLC, Sinovac Biotech Ltd.				
April 4: Global Payments Inc., Hudson's Bay Co., Sirius XM Canada Holdings Inc., Utilitywise PLC				
April 5: Bed Bath & Beyond Inc., Europa Oil and Gas Holdings PLC, PureTech Health PLC				
April 6: COGECO Inc., Gerresheimer AG, Pacific Assets Trust PLC, RPM International Inc.				
April 7: AFI Development PLC, H and R Century Union Corp., Tangshan Port Group Co. Ltd.				

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian growth accelerates

Statistics Canada reported that GDP by industry grew by 0.6% (M/M) in January, topping the \$1.7 trillion mark for the first time ever. The monthly advance pushed year-over-year growth to 2.3% and capped the best eight-month period of economic growth (+3.1%) since the September 2009 to April 2010 (+3.3%) period. Apart from the headline figure, the underlying data also provided some welcome news. Industrial production surged by 1.5% during January to move to \$365 billion, the first new all-time high since December of 2005. The beleaguered manufacturing sector also put together a third straight advance, capturing a new post-recession high in output of \$180 billion. The broad strength in this report suggests that the Canadian economy did carry some positive momentum into 2017.

#### U.S. consumer exuberance appears to be cooling

Updated data from the U.S. Bureau of Economic Analysis revealed an upward revision to fourth quarter GDP growth. The increase to 2.1% annualized from the previously reported 1.9% was attributed primarily to new estimates of personal consumption expenditure (adjusted for inflation, or real PCE). Growth in real PCE was revised upward from 3.0% to 3.5% for the final quarter. However, in a subsequent report for the month of February, real PCE declined 0.1%, following a 0.2% drop in January. The back-to-back declines are the first since three consecutive declines were recorded in February to April of 2009, during the height of the recession. As consumer spending accounts for just over 69% (in 2016) of overall GDP, the weak start to 2017 for consumers suggests more muted growth in the overall economy when the data is released at the end of April.

#### U.K. economy remains robust amid Brexit activity

At the end of the momentous week that saw the Brexit process finally triggered by Prime Minister Theresa May, the final reading for U.K. fourth-quarter 2016 economic growth was revealed. The revised 0.7% (Q/Q) figure was an upgrade on January's estimate of a 0.6% expansion. At this juncture, the final effects of the U.K. leaving the European Union remain uncertain, but

doomsday predictions in the immediate aftermath of the referendum vote have not been borne out. Inflation rose to 2.3% in February, the highest in three-and-a-half years; unemployment has continued to fall and currently stands at an 11-year low of 4.8%. Annual GDP growth slowed down to 1.8%, yet it is the second strongest figure among G7 leading industrialized nations. Although business investments have contracted, consumer confidence has not suffered. Still, the U.K. has not yet actually left the EU and the real changes are still on the horizon.

## 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

### March 27

▲ The Ifo Business Climate Index for Germany increased to 112.3 in March 2017 from an upwardly revised 111.1 in February, reaching its highest level since June 2011. The current conditions index strengthened to 119.3 from 118.4, while the expectations component rose to 105.7 from 104.0 in February. The trade and industry component improved to 17.4 from 15.0 with a strong gain in manufacturing sector. Construction and retail confidence also edged higher while sentiment fell among wholesalers. The readings are stronger than expected, suggesting the Eurozone's biggest economy is gaining momentum.

### March 28

▲ The U.S. Conference Board announced that its consumer confidence index improved sharply in March from February's upwardly revised level. The index now stands at 125.6, up from 116.1 in February (previously reported as 114.8). This is the highest level since December 2000 (128.6). The Present Situation Index rose from 134.4 to 143.1 and the Expectations Index increased from 103.9 last month to 113.8. These results are considerably stronger than expectations. Consumer confidence is an indicator of spending patterns.

### March 30

▼ The U.S. Department of Labor announced that initial jobless claims totalled 258,000 (seasonally adjusted) in the week ending March 25, a decrease of 3,000 from the previous week's unrevised level of 261,000. The four-week moving average was 254,250, an increase of 7,750 from the previous week's unrevised average of 246,500. These results are slightly weaker than consensus estimates.

▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product grew at an annual rate of 2.1% in the fourth quarter of 2016. The previous growth estimate was 1.9%. In the third quarter, real GDP increased 3.5% on the same basis. The upward revision was attributed to personal consumption expenditures (PCE), which increased more than previously estimated. These results are stronger than expected as the market was looking for a more modest upward revision. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) increased 0.1% while its Raw Materials Price Index (RMPI) rose 1.2% in February. On a year-over-year basis, the indexes were up 3.5% and 23.7%, respectively. Similar drivers were seen in each index. Higher prices for meat, fish and dairy products were largely responsible for the IPPI increase. Animals and animal products drove the RMPI higher. These figures are broadly in line with expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▼ According to Brazil's government statistics agency, retail sales volumes excluding cars and building materials declined 0.7% month-over-month in January 2017, following a downwardly revised 1.9% drop in December. Declines were widespread across subsectors with sales weakening in the office, computing and communication equipment and supplies subsector (-4.8%), and the fuels and lubricants subsector (-4.4%). On a year-on-year basis, retail sales tumbled 7.0% after a 4.9% drop in the previous month. Both monthly and yearly figures are weaker than expected.

▲ According to Germany's federal statistics office, consumer prices rose by 1.6% in the year to March 2017 after reaching a four-and-a-half year high of 2.2% in February. It was the lowest inflation rate in four months and the first slowdown in annual inflation in nearly a year. Rising energy prices and higher food costs were the main drivers behind the overall increase, however, they both rose at a much slower pace than in February (5.1% compared to 7.2% and 2.3% compared to 4.4%, respectively). The results missed market expectation, taking some pressure off the European Central Bank to wind up its monetary stimulus program.

### March 31

▲ According to the U.S. Bureau of Economic Analysis, personal income increased US\$57.7 billion, or 0.4% in February. Personal consumption expenditures (PCE) increased \$7.4 billion, or 0.1%. Based on revised figures, personal income increased 0.5% and PCE increased 0.2% in January. While income figures for February were in line with expectations, spending results were marginally weaker. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▲ Statistics Canada announced that, on a monthly basis, real GDP by industry grew 0.6% in January, after rising 0.3% in December. Goods-producing industries grew for the seventh time in eight months, increasing by 1.1% in January. Service-producing industries rose 0.4%, their highest monthly growth rate since June 2015. On a year-over-year basis, overall GDP growth stands at 2.3%. These results are significantly stronger than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ According to the U.K. Office for National Statistics, the economy advanced 0.7% (Q/Q) in the final quarter of 2016, following a downwardly revised 0.5% expansion in the previous period. The improvement was mainly driven by continued strong consumer spending and exports. Household spending jumped by £2 billion during the final three months of 2016. Meanwhile, business investment contracted for the fourth consecutive time. The quarter-on-quarter figures are in line with expectation. However, on a year-on-year basis, GDP for the last quarter advanced 1.9% following a 2.0% expansion in the previous period. Looking at 2016 as a whole, GDP growth slowed to 1.8% from 2.2% a year earlier. The year-on-year figure is marginally weaker than consensus estimates.

▲ The Institute of Supply Management reported that its Chicago Purchasing Managers Index rose to a 57.7 reading in March. This is above February's 57.4 mark and well above the key 50.0 (generally expanding) level. With the market looking for the index to move lower, the reading is well above consensus expectations and indicates another acceleration in manufacturing activity within the region.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment slipped to 96.9 in the month-end figure for March. This is weaker than the 97.6 level recorded mid-month but ahead of the 96.3 reading for February. The index has been above the 90.0 level since mid-November, but the current reading is weaker than market expectations. This is another indicator of the likely pattern of consumer spending.