

Weekly Commentary – February 13, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 14	PPI Y/Y	January 17	1.75%	1.60%
February 15	Inflation Rate Y/Y	January 17	1.81%	2.10%
February 15	Capacity Utilization	January 17	74.82%	75.50%
February 16	Housing Starts	January 17	1.16 M	1.22 M
Canada				
February 15	New Motor Vehicle Sales	December 16	156.2 k	163.3 k

Key Earnings:

February 13: Rent-A-Center Inc., Multi Packaging Solutions International Ltd., First Data Corp., Nelcast Ltd.
 February 14: Aerohive Networks Inc., Century Communities Inc., Fossil Group Inc., Neurocrine Biosciences Inc.
 February 15: Sonic Healthcare Ltd., Priceline Group Inc., Gladstone Commercial Corp., Cineplex Inc.
 February 16: Encore Wire Corp., Chefs Warehouse Inc., Mandalay Resources Corp., Euroseas Ltd.
 February 17: Donegal Group Inc., Heron Therapeutics Inc., Deere & Co., Enbridge Inc., Sands China Ltd.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian job market carries momentum into 2017

The latest employment report from Statistics Canada revealed a 48,300 gain in jobs during January, a 0.1% decline in the unemployment rate (to 6.8%) and a 65.9% participation rate (the highest since October 2015 at 66.0%). Clear momentum in the job market was unaffected by Statscan's long-ranging revisions to earlier data. The 239,000 jobs added over the past six months is the best half-year gain since May to November of 2002 and the 1.5% annual growth rate is the strongest in almost four years (2.2% in February 2013). The only negative within the report appears to be the continued growth in part-time employment (+5.6%, y/y) far outstripping that of full time employment (+0.6% y/y). While this report, on its own, will not move the Bank of Canada to the sidelines, there is a far less compelling case for interest rate cuts based on the labour market.

North American trade closes strong in 2016

December figures from the U.S. Census Bureau revealed a narrowing of the country's international trade deficit in goods and services to US\$44.3 billion. Exports rose to their highest level since October of 2014 while imports were the strongest since April of the same year. Domestically, Statistics Canada reported a \$923 million merchandise trade surplus in December. This was a second consecutive surplus and was sufficient to push the fourth quarter, as a whole, into surplus (\$204 million). This is the first quarterly surplus since the third quarter of 2014 and will likely prompt some upward adjustments to forecasts for GDP growth. However, the political environment represents material uncertainty with respect to international trade going forward.

More volatility for German industry data

Industrial orders in Europe's largest economy jumped 5.2% in December, marking the biggest monthly gain since July 2014 and completely erasing a 3.6% decline in November. A sharp gain in demand for German capital goods (both domestic and foreign) was the primary driver of the rise in contracts. These figures suggest that firms will be supporting Germany's economic growth going forward. However, coming right on the back of this report, the economic ministry revealed that industrial output experienced a 3.0% decline in December, the steepest monthly loss since January 2009, heading into the recession. The weakness was mainly due to a 3.4% drop in manufacturing output. Still, "special factors" such as cold temperatures and holidays also

played a role. Even though recent data in both orders and production has been volatile, the economic ministry struck an optimistic tone, suggesting that the high volume of orders in manufacturing and increased construction activity are signalling a near-term improvement in overall activity.

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

February 6

▲ Germany's economic ministry announced that historically volatile industrial orders jumped 5.2% in December 2016. This is a dramatic increase compared to an upwardly revised 3.6% drop in November and the biggest monthly gain since July 2014. The figure suggests that factories will provide support to the growth of Europe's largest economy in the coming months. The advance was driven by a surge in demand for capital goods (to 9.7% from -6.8% in November). The overall results are well above market expectations.

February 7

▼ Germany's economic ministry announced that industrial production dropped 3.0% in December, a significant shift from the upwardly revised 0.5% increase recorded in both November and October. This is the steepest monthly decline since January 2009. The sharp drop was mainly driven by weaker output in manufacturing and construction (3.4% and 1.7% decrease, respectively). These results are far weaker than consensus estimates. Considerable volatility in both industrial orders and production has been seen in the most recent data.

▲ Statistics Canada announced that Canada's merchandise trade balance with the world recorded its second consecutive monthly surplus, narrowing from an upwardly revised \$1.0 billion in November to \$923 million in December. Exports were up 0.8% on the strength of higher energy product prices. Imports increased 1.0%, mainly on stronger imports of aircraft and industrial machinery. Since the market was looking for a much smaller surplus in December, these results are stronger than expected. They are a positive 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\$44.3 billion in December from a revised \$45.7 billion in November. Exports were \$190.7 billion, \$5.0 billion more than November exports. December imports were \$235.0 billion, \$3.6 billion more than November imports. The trade deficit was smaller than expected. The trade data may result in a mild upward revision to the GDP growth figures.

February 8

▲ Canada Mortgage and Housing Corporation announced that housing starts totalled 207,408 units (seasonally adjusted annual rate) in January. This is up from the 206,305-unit level in December (originally reported as 207,041) and is the strongest seen since September 2016. The gain in housing starts was due primarily to an increase in multiple urban starts. These results are above market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

February 9

▼ The U.S. Department of Labor announced that initial jobless claims totalled 234,000 (seasonally adjusted) in the week ending February 4, a decrease of 12,000 from the previous week's unrevised level of 246,000. The four-week moving average was

244,250, a decrease of 3,750 from the previous week's unrevised average of 248,000. This is the lowest level for this average since November 3, 1973 when it was 244,000. These results are stronger than consensus estimates.

▲ Germany's economic ministry announced that the country's trade surplus surged to €252.9 billion in 2016, surpassing the previous high of €244.3 billion in 2015 and marking the largest surplus since records began after the Second World War. Total exports of goods climbed 1.2% from 2015, while imports rose a more modest 0.6%. The record high surplus was above consensus estimates, coming amid the new U.S. administration's recent criticism regarding Germany's dependence on foreign demand and complaints over U.S. automakers' access to the German market.

▲ The U.S. Census Bureau announced that wholesale sales jumped 2.6% in December from the revised November level and were up 6.8% from the December 2015 level. The November preliminary estimate was revised upward by 0.1%. At the same time, wholesale inventories rose 1.0% for the month and were up 2.6% on a year-over-year basis. This report is stronger than expected. Activity at the wholesale level can be an indicator of future consumer trends.

February 10

▼ Statistics Canada announced that the unemployment rate edged down by 0.1 percentage points to 6.8%, as 48,300 jobs were added in January. The decline in the unemployment rate came despite a 31,100 increase in the labour force. The recent string of employment gains has taken job growth to 1.5% (+276,100) from 12 months earlier. These results are considerably 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 United Kingdom's industrial production gained 1.1% (month-over-month) in December following a downwardly revised 2.0% increase in November, according to the country's Office for National Statistics. This produced a year-on-year growth rate of 4.3%, the fastest pace in near six years. Manufacturing climbed 2.1% in December, lifted by a sharp gain in pharmaceuticals (an 8.3% rise). Construction output also rose 1.8% in December. The overall results are well above market expectations. The strong figures since the start of the year have suggested the U.K. economy maintained a reasonable pace of growth despite Brexit concerns.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment fell to 95.7 in the mid-month reading for February. This is weaker than the 98.5 level recorded for January and appears to reflect the volatility in sentiment surrounding the political environment in the U.S. This is weaker than market expectations and is another indicator of the likely pattern of consumer spending.

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