Weekly Commentary – February 19, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 21	Markit Composite PMI Flash	February 18	54.01	53.80
February 21	Markit Manufacturing PMI Flash	February 18	54.94	55.50
February 21	Markit Services PMI Flash	February 18	53.66	53.30
Canada				
February 22	Retail Sales Y/Y	December 17	6.13%	6.50%
February 23	Inflation Rate	January 18	-0.02%	-0.40%

Key Earnings:
February 19: Genomic Health Inc., Morning Star Inc., Mosaic Co., Re/Max Holdings Inc.
February 20: FirstEnergy Corp., Home Depot Inc., Oasis Petroleum Inc., Rogers Corp.
February 21: Acadia Realty Trust, Neogenomics Inc., Pacific Drilling SA, Synopsys Inc.
February 22: CVR Energy Inc., Goldman Sachs BDC Inc., InterDitigal Inc., Nordson Corp.
February 23: Cinemark Holdings Inc., HMS Holdings Corp., Pinnacle Entertainment Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian manufacturing eases off to close 2017

Statistics Canada announced that manufacturing sales edged 0.3% lower in December, dramatically reducing the year-over-year growth rate to 3.7% from November's 6.4% pace. Despite the softer headline figures, however, this decline followed November's record high and manufacturers actually saw material improvement during the final quarter of the year. Overall sales rose an annualized 11.6% during the October to December period, the strongest since the fourth quarter of 2011. The growth allowed 2017 to record the largest calendar-year advance (+6.0%) in six years (+7.4% in 2011). The December decline was due mainly to lower sales in the petroleum and coal products industry and the food manufacturing industry. While export demand appears to remain firm, the weak domestic employment results, recorded in early 2018, may represent a risk to further growth in manufacturing activity.

U.S. consumers step back

January data from the U.S. Census Bureau revealed a surprise 0.3% (seasonally adjusted) decline in retail and food services sales during the month. Revisions to prior figures also wiped out a 0.4% gain in December and scaled back November's previously reported 0.9% advance to 0.8%. Annual growth in retail demand had been estimated as high as 6.0% in November. However, the latest reading is a far more modest 3.6% in the January results. Job growth has been steady and accompanied by modest income gains. Coupled with recent tax cuts, these factors should help buoy demand. Still, analysts suggest that increasing credit-card debt, in the face of rising interest rates, has dampened household spending in the latest period.

Japan's economy in longest expansion phase in 28 years

Japan's Statistics Bureau announced that the nation's GDP expanded 0.5% (on an annualized basis) in the final quarter of 2017, following a downwardly revised 2.2% increase in the third quarter. This was the eighth consecutive quarterly advance and the longest continuous expansion since the late 1980s. This growth was led by domestic demand, notably, private consumption (+0.5%), which grew for the first time in six months. Consumer spending on phones, cars, food and beverage all increased in the fourth quarter, and the economy has seen improvements in employment and income environments. The appearance of a long-elusive "virtuous cycle" of rising business investment and consumption in Japan seems unlikely to derail in the short term.

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 13

▼ The U.K. Office for National Statistics announced that its consumer price index (CPI) experienced a 0.5% decrease (month-over-month) in January, following a 0.4% increase in December 2017 (on the same basis). On a year-over-year basis, the inflation rate stood at 3.0% in January, unchanged from the previous month. These readings are slightly stronger than the consensus forecast. The unchanged CPI continues to validate the view that the downtrend in inflation is likely to be very gradual.

February 14

▼ The U.S. Census Bureau announced that retail and food services sales were down 0.3% (seasonally adjusted) in January, but were 3.6% above January 2017 levels. In addition, December's sales gain of 0.4% was revised to 0.0%. Excluding autos, sales were largely unchanged during January and were up 4.2% on a year-over-year basis. These figures are weaker than expected. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▲ Japan's Statistics Bureau announced that the nation's GDP expanded 0.5% on an annualized basis, following a downwardly revised 2.2% increase in the third quarter. This was the eighth consecutive quarterly advance and the longest continuous expansion since the late 1980s. The positive contribution largely came from household consumption (0.3%) and capital expenditure (0.1%). Still, the overall result was weaker than market expectations. This report adds evidence of continued improvement in Japan's economic health.

▲ In its "flash" estimate, Germany's federal statistical office reported that the nation's GDP experienced a 0.6% rise in the fourth quarter (quarter-over-quarter), easing slightly from the 0.7% expansion seen in the previous quarter (on the same basis). On a year-over-year basis, GDP grew by 2.9%, 0.1% lower than the prior period. Both the quarterly and annual figures fell short of consensus estimates. Even though GDP growth eased a little towards the end of 2017, it remains on its strongest path of growth since 2011 and continues leading the Eurozone economy.

February 15

▲ The U.S. Department of Labor announced that initial jobless claims totalled 230,000 (seasonally adjusted) in the week ending February 10, an increase of 7,000 from the previous week's revised level. The previous week's level was revised up by 2,000 from 221,000 to 223,000. The four-week moving average was 228,500, an increase of 3,500 from the previous week's revised average. The previous week's average was revised up by 500 from 224,500 to 225,000. These results are in line with consensus estimates.

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) rose 0.4% (seasonally adjusted) in January. The index increased 2.7% for the 12 months ended January 2018, slightly higher than the 2.6% result posted in December. These figures matched consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow at a more robust pace in February. The Philly Fed general business conditions index climbed to 25.8 from 22.2 in January. With the market braced for a pullback in this indicator, this result is well above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▼ The U.S. Federal Reserve announced that industrial production edged down 0.1% in January, following four consecutive monthly increases. On a year-over-year basis, industrial production was reported to have gained 3.7%. Capacity utilization for total industry dipped lower to 77.5% from a downwardly-revised 77.7% in December, but was up from 75.7% a year earlier. These results are weaker than expected. The modest softening in production and utilization may help offset some of the recent signs of inflationary pressures.

▼ France's statistics gathering agency reported that the unemployment rate decreased to 8.9% in the fourth quarter of 2017, 0.7% lower than the previous quarter's reading. This drop was the largest since the financial crisis in 2008 and was the lowest level recorded since the first quarter of 2009. This reading easily beat consensus expectations. The sharp fall in unemployment gives a cushion to lawmakers as a major overhaul of labour laws come into force. This report provides further evidence that the French and European Union economies are strengthening further.

February 16

▲ Statistics Canada reported that Canadian investors acquired a record $22 billion in foreign securities in December, mainly foreign shares. Meanwhile, foreign investors reduced their holdings of Canadian securities by $2 billion, led by a divestment of Canadian bonds. Foreign investment was weaker than consensus expectations. Foreign investment reflects the relative attractiveness of Canada as an investment destination and can influence the value of the currency.

▼ Statistics Canada announced that manufacturing sales declined 0.3% to $55.5 billion in December, following a revised increase of 3.8% in November. The decline was mainly the result of lower sales in the petroleum and coal products industry and the food manufacturing industry. On a year-over-year basis, manufacturing sales rose 3.7%. This is weaker than market consensus. This data is closely watched as it can create high-value employment and remains one of the slowest to recover from the 2008-09 recession.

▲ The U.S. Census Bureau announced that housing starts in January were at a seasonally adjusted annual rate of 1,326,000. This is 9.7% above the revised December estimate of 1,209,000, and is 7.3% above the January 2017 rate of 1,236,000. At the same time, the number of building permits issued in January was at a seasonally adjusted annual rate of 1,396,000. This is 7.4% above the revised December rate of 1,300,000 and is 7.4% above the January 2017 figure of 1,300,000. These figures are stronger than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.