Assante® WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – February 20, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 21	Markit Manufacturing PMI – Flash	February 17	54.5	55.0
February 22	Existing Home Sales	January 17	5.60 M	5.49 M
February 24	House Price Index	December 16	0.40%	0.50%
Canada				
February 22	Retail Sales Y/Y	December 16	3.77%	3.00%
February 24	Inflation Rate	January 17	0.07%	-0.20%

Key Earnings:

February 20: North American Palladium Ltd., HSBC Holdings PLC, Nordson Corp., BlueScope Steel Ltd., CSG Ltd.
February 21: Education Realty Trust Inc., Franklin Electric Co. Inc., La-Z-Boy Inc., McDermott International Inc.
February 22: Western Energy Services Corp., Tesla Inc., Rubicon Technology Inc., High Liner Foods Inc., HP Inc.
February 23: Alumina Ltd., Emergent BioSolutions Inc., Gildan Activewear Inc., Intuit Inc., Leon's Furniture Ltd.
February 24: Enwave Corp., Arbor Realty Trust Inc., Foot Locker Inc., Ottoman Fund Ltd., Revlon Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian manufacturing surges to close 2016

December results from Statistics Canada showed a 2.3% gain in manufacturing sales, matching November's revised rate. The combined surge pushed manufacturing sales growth to a 9.0% (annualized) pace in the final quarter of 2016. This is the strongest quarterly figure since the fourth quarter of 2011 (13.7%). Despite this advance, manufacturing activity remains well below historic norms. December employment levels in the sector were 5.0% below the post-recession high and 27.7% below the all-time high recorded in November of 2002. Not surprisingly, GDP output from the sector has largely matched the pattern of employment with the peak in output occurring in October of 2000. While structural changes in the domestic economy suggest that manufacturing may never be as large a proportion of the economy as it once was, having the Canadian dollar remain well below par against its U.S. counterpart will provide ongoing support.

U.S. inflationary pressures build

While the word continues to circulate, fears of "deflation" are fading further from the minds of economists, globally, but even more so in the U.S. As recently as September 2015, the consumer price index was in negative territory (year-over-year).The latest data from the U.S. Bureau of Labor Statistics revealed a 0.6% (seasonally adjusted) advance in the CPI in January, sufficient to drive the year-over-year growth rate to 2.5%. This is the fastest pace of inflation since March 2012 (2.7%). Along with continued signs of improvement in the labour market, these stronger price data reinforce the notion that the Federal Reserve will hike interest rates several (likely three) times in 2017. Recent comments from Fed Chair Janet Yellen that "waiting too long for accommodation would be unwise" point to a rate hike sooner, rather than later. Analysts continue to speculate on the probability of a move as early as the next policy meeting (March 14 to 15), but the subsequent meeting (May 2 to 3) appears to be a more popular target.

German and Eurozone growth disappoint

Germany, Europe's largest economy, saw a 0.4% (quarter-over quarter) expansion in GDP during the October-December period. The data was weaker than consensus estimates but stronger than the downwardly revised 0.1% increase in the previous quarter.

The overall growth rate for 2016 was confirmed at 1.9%, which was the strongest advance in half a decade. Growth was led by higher government spending, stronger private consumption and increased construction activity. As Europe's economic powerhouse, Germany's less-than-expected fourth quarter results also provided the basis for disappointment in the growth figure for the 19-nation Eurozone as a whole. According to Eurostat, GDP expansion in the final three months of 2016 came in at an identical 0.4%, with the year-over-year figure at 1.7%. Mirroring Germany's data, net trade was a drag as imports outpaced exports. Germany's consumption-driven upturn is expected to continue well into 2017, leading growth in the region as a whole. However, accelerating inflation and the uncertain near-term future of global trade represent material risks to further growth.

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

▲ According to Japan's Cabinet Office's preliminary estimate, the Japanese economy expanded at a 1.0% (annualized) pace during the final three months of 2016, following a revised 1.4% growth rate in the previous period. External demand was the main driver as exports rose 2.6%, the fastest in two years. Yen weakness against the U.S. dollar underpinned the improvement in trade. There was virtually no growth in domestic consumption. Although the figures are marginally weaker than market expectations, the October-December period saw a fourth straight quarterly expansion of Japan's GDP and point to at least some positive impact from Abenomics.

February 14

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) increased 0.6% (seasonally adjusted) in January. The index increased 1.6% for the 12 months ended January 2017, matching the year-over-year growth figure seen in December. The monthly result is above consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ Germany's federal statistical office announced that GDP rose 0.4% in the October-December period, following a downwardly revised 0.1% increase in the previous quarter. On a year-on-year basis, the German economy expanded 1.2%, compared to 1.5% growth in the previous three months. Growth in the final quarter of 2016 was mainly driven by increased domestic demand and government spending, with trade acting as a drag on growth. For 2016 as a whole, GDP expanded by 1.9%, its greatest gain in half a decade.

▲ Eurostat released data showing that the Eurozone economy expanded at a quarterly rate of 0.4%, matching the third quarter figures. On a year-over-year basis GDP grew 1.7%, down marginally from the 1.8% rise in the third quarter. The results mirrored data released in Germany, as declining exports slowed down the overall growth. The results were somewhat weaker than expected.

February 15

▼ The U.K.'s national statistics office reported that the number of unemployed workers in the country fell by 7,000 to 1.6 million people in the October-December period. This left the jobless rate steady at 4.8%, an 11-year low. Average earnings, both including and excluding bonuses, rose 2.6% (annualized) in the last quarter, down from 2.8% and 2.7%, respectively, in the previous period. The figures showed continued stability in the U.K. labour market and were broadly in line with expectations.

▲ Statistics Canada reported that manufacturing sales increased for the second consecutive month, up 2.3% to $53.5 billion in December, following a revised increase of 2.3% in November. The growth was mainly the result of higher sales of transportation equipment, as well as petroleum and coal products. In line with the back-to-back gains, sales on a year-over-year basis are up 4.1%. This report is much stronger than the market consensus. This data is closely watched as manufacturing can create high-value employment and it has been one of the slowest sectors to recover from the recession.

▲ The U.S. Census Bureau announced that retail and food services sales were up 0.4% (seasonally adjusted) for the month of January and were 5.6% above January 2016 levels. Excluding autos, sales were 0.8% higher during the month and up 5.3% on a year-over-year basis. Previous data were revised higher in this report. With the revisions, these figures are stronger than expected. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▲ The U.S. Bureau of Labor Statistics reported that the consumer price index increased 0.6% (seasonally adjusted basis) in January, the largest one-month gain since February 2013. A sharp rise in the gasoline index accounted for nearly half the advance. Over the last 12 months, the index increased 2.5%. These results were well above expectations and provide further support for any tightening moves contemplated by the Federal Reserve over the balance of 2017.

▼ The U.S. Federal Reserve announced that industrial production decreased 0.3% in January following a downwardly revised 0.6% increase in December. On a year-over-year basis, industrial production was unchanged. Capacity utilization for total industry dipped to 75.3% from 75.6% in December and 75.7% a year earlier. These results are weaker than expected. The softening in production and relatively low utilization suggest significant untapped capacity.

▲ The U.S. Census Bureau announced that business sales rose 2.0% in December and were up 5.2% from December 2015 levels. At the same time, inventories climbed 0.4% and were up 2.0% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of December was 1.35. The December 2015 ratio was 1.40. These results were much stronger than consensus expectations. Strong business sales suggest stronger economic growth while diminishing inventories/sales ratios suggest a business need to replenish dwindling stockpiles.

February 16

▲ The U.S. Department of Labor announced that initial jobless claims totalled 239,000 (seasonally adjusted) in the week ending February 11, an increase of 5,000 from the previous week's unrevised level of 234,000. The four-week moving average was 245,250, an increase of 500 from the previous week's revised average. The previous week's average was revised up by 500 to 244,750. These results are somewhat stronger than consensus estimates.

▼ The U.S. Census Bureau announced that housing starts in January were at a seasonally adjusted annual rate of 1,246,000. This is 2.6% below the upwardly revised December estimate of 1,279,000, but is 10.5% above the January 2016 rate of 1,128,000. At the same time, the number of building permits issued in January was at a seasonally adjusted annual rate of 1,285,000. This is 4.6% above the upwardly revised December rate of 1,228,000 and is 8.2% above the January 2016 figure of 1,188,000. These figures are stronger than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in February and at a more rapid pace. The Philly Fed general business conditions index jumped to 43.3, a new post-recession high, from 23.6 in January. These results are well above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

February 17

▲ Statistics Canada reported that foreign investors added $10.2 billion of Canadian securities to their holdings in December, largely through acquisitions of shares. Canadian investors increased their holdings of foreign securities by $6.7 billion, led by purchases of non-U.S. foreign shares. As a result, international transactions in securities generated a net inflow of funds of $3.6 billion into the Canadian economy in December and a record $147.5 billion for 2016 as a whole. Moreover, foreign investment in Canadian securities has exceeded Canadian investment in foreign securities by $634.4 billion since 2009, following the global financial crisis. Foreign investment for the month was above consensus expectations. Strong foreign investment reflects the relative attractiveness of Canada as an investment destination and can influence the value of the currency.

▼ The U.K. Office for National Statistics announced that retail sales volume declined by 0.3% month-over-month in January, following a 2.1% plunge in December (upwardly revised). In the three months through January, sales dropped 0.4%, the weakest quarterly performance since 2013. Rising prices, particularly for fuel and food, were held out as significant factors in this decline. The results are well below market expectation.

▲ The U.S. Conference Board announced that its Leading Economic Index (LEI) increased 0.6% in January, following a 0.5% increase in December. The monthly move was broadly based with factory data giving the index an additional lift. This figure is stronger than market consensus. The report suggests that the expansion in the U.S. economy should continue well into the next quarter.