Weekly Commentary – February 26, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 27	Durable Goods Orders	January 18	-0.9%	2.9%
February 27	Wholesale Inventories Advanced	January 18	0.22%	0.40%
March 1	Personal Spending	January 18	0.53%	0.40%
March 1	ISM Manufacturing PMI	February 18	58.58	59.10
Canada				
February 28	PPI Y/Y	January 18	2.16%	2.20%
March 2	GDP Growth Rate Q/Q	Q4 17	0.5%	0.4%

Key Earnings:
February 26: Encompass Health Corp., Intelsat SA, PDC Energy Inc., RAIT Financial Trust
February 27: Foresight Energy LP, HEICO Corp., Macy's Inc., Premier Financial Bancorp Inc.
February 28: Box Inc., CTi Biopharma Corp., Lowe's Companies Inc., New York REIT Inc.
March 1: FS Investment Corp., Gap Inc., NRG Energy Inc., Progressive Corp., Sotheby's
March 2: J.C. Penney Company Inc., Olympic Steel Inc., Revlon Inc., WhiteHorse Finance Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian consumers step back

Statistics Canada announced that retail sales tumbled 0.8% in December, the weakest single-month result since March 2016. In addition, significant downward revisions to the three months ending in November dramatically softened the total results for the final quarter of the year. Growth in consumer spending, which appeared to be on track for an annualized rate above 7.0%, came in at 6.1%. While this remains a solid quarter for retail spending, it does raise some questions about the contribution to overall GDP growth at the end of 2017. In addition, with the weaker-than-anticipated job numbers for January 2018, momentum in consumer spending is in question for early 2018.

U.S. housing market continues to provide mixed signals

The National Association of Realtors reported a surprising 3.2% slump in existing home sales in January for a 5.38 million-unit pace. This is the lowest level since September 2017 (5.37 million) and the year-over-year decline of 4.8% is the largest annual decline since August 2014 (5.5%). However, the U.S. Census Bureau announced that housing starts in January were at a seasonally adjusted annual rate of 1,326,000. This is a 9.7% advance on the December 2017 level and falls just 2,000 short of the post-recession high recorded in October 2016. In a separate report, the latest data for new homes revealed a new record high for the median sales price ($335,400) in December. One of the more interesting developments in the U.S. housing market has been the modest recovery in home ownership rates. After peaking at 69.4% in the second quarter of 2004 (this data only goes back to 1980), a secular decline pushed it to a historic low of 63.1% in the second quarter of 2016. Since then, a steady decline has seen it return to 64.0% in the final quarter of 2017.

U.K. unemployment rate jumps for the first time in two years

The U.K. Office for National Statistics announced that the nation's unemployment rate rose to 4.4% in the fourth quarter of 2017, up from the 42-year low of 4.3% in the previous quarter. This was the first increase since February 2016. According to the report, 1.47 million people were out of work in the three months to December, an increase of 46,000. Despite the increase in unemployment, there was partially offsetting news from a rise in the number of employed individuals. There was also an increase in the number of full-time employees and a decrease in part-time and self-employed workers. However, the labor market remains firm, showing more previously inactive people seeking work. Pay growth also improved with average weekly earnings (excluding bonuses) up 2.5% year-over-year. The paradox of both rising unemployment and wages is unlikely to alter monetary policy. Despite this data and serious concerns over Brexit, the Bank of England has signalled its intent to raise interest rates as early as May.

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 20

▼ Statistics Canada reported that wholesale sales declined 0.5% to $63 billion in December, the first decrease in three months. At the same time, inventories rose 1.7% to $82.8 billion during the month. On a year-over-year basis, overall wholesale sales are up 7.7%, while inventories are up 8.0%. The monthly sales results were weaker than expectations. Activity at the wholesale level can be an indicator of future consumer trends.

▼ The Centre for European Economic Research's ZEW Indicator of Economic Sentiment for Germany decreased to a 17.8 reading in February, 2.6 points lower than the January level. The index measures the level of optimism that analysts have with respect to both the current and expected (six months) economic situation. Despite the drop on the month, the result still beat the consensus forecast. The German economy is expected to continue improving in the next six months on increased private consumption, which is in line with broader improvements in the economic condition globally.

February 21

▲ The U.K. Office for National Statistics announced that the nation's unemployment rate rose to 4.4% in the fourth quarter of 2017, up from the 42-year low of 4.3% in the previous quarter. This was the first increase since February 2016. Despite the increase in unemployment, there was partially offsetting news from a rise in the number of individuals employed. There was also an increase in the number of full-time employees and a decrease in part-time and self-employed workers. The unemployment rate was weaker than expected. However, the labor market remains firm, showing more previously inactive people seeking work.

▼ According to the U.S. National Association of Realtors, existing-home sales tumbled 3.2% to a seasonally adjusted annual rate of 5.38 million units in January from a downwardly revised 5.56 million in December (originally a 5.57 million-unit pace). Sales are 4.8% below the January 2017 pace and are well below consensus expectations for a rebound in the January 2018 data. Activity in the housing market has a significant "ripple" effect on the broader economy.

February 22

▼ The U.S. Department of Labor announced that initial jobless claims totalled 222,000 (seasonally adjusted) in the week ending February 17, a decrease of 7,000 from the previous week's revised level. The previous week's level was revised down by 1,000 from 230,000 to 229,000. The four-week moving average was 226,000, a decrease of 2,250 from the previous week's revised average. The previous week's average was revised down by 250 from 228,500 to 228,250. These results are somewhat stronger than consensus estimates.

▼ Statistics Canada reported that retail sales weakened in December, dropping 0.8% (seasonally adjusted). Sales were down in six of 11 subsectors, representing 42% of total retail sales. Lower sales at general merchandise, health and personal care, and electronics and appliance stores more than offset gains at motor vehicle and parts dealers, and food and beverage stores. Excluding motor vehicle and parts dealers, retail sales decreased 1.8%. Despite the monthly decline, year-over-year sales growth stood at 6.7%. These results are well below consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▲ The U.K. Office for National Statistics reported that the U.K. economy grew 0.4% in the fourth quarter of 2017 (quarter-over-quarter), easing slightly from the upwardly revised 0.5% expansion seen in the previous quarter (on the same basis). On a year-over-year basis, GDP grew 1.4%, 0.4% lower than the prior period. Both readings were slightly below consensus expectations. This report shows the weakest pace of expansion since the second quarter of 2012. In addition, while some signs remain positive, uncertainty surrounding Brexit will continue to raise questions with respect to future growth.

February 23

▲ Statistics Canada reported that consumer prices rose 0.5% (seasonally adjusted, monthly basis) in January after rising 0.1% in December. On a year-over-year basis, the consumer price index (CPI) was up 1.7%, following a 1.9% increase in December. Excluding energy, the CPI increased an identical 1.7% in January, matching the December gain. All eight major components increased during the month, with the household operations, furnishings and equipment index (+1.2%) recording the largest gain. All three new measures of core inflation, established by the Bank of Canada in 2016, showed underlying inflation just below their 2.0% target, ranging from 1.8% to 1.9%. CPI common, which the central bank says is most closely correlated with the output gap, climbed from 1.6% to 1.8%. The overall figures are above market expectations.

▲ The European Commission stated that the consumer price index in the Eurozone experienced a 0.9% decrease (month-over-month) in January, following a 0.4% increase in December 2017 (on the same basis). This decline was actually smaller than the consensus forecast for a considerably larger drop, but was the first decline since August 2017. On a year-over-year basis, the inflation rate stood at 1.3% in January, 0.1% lower than the previous month, but was in line with the market's expectations. However, the core measure, which is closely watched by the European Central Bank, edged higher for the first time in four months. The economic outlook in the Eurozone is still positive and the slight change in the inflation rate is viewed as a statistical artifact.