

## Weekly Commentary – February 5, 2018

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
February 5	Markit Composite PMI Final	January 18	53.8	54.1
February 5	ISM Non-Manufacturing PMI	January 18	56.38	55.90
February 6	Exports	December 17	\$200.80B	\$200.22B
February 6	Imports	December 17	\$252.10B	\$250.72B
<b>Canada</b>				
February 6	Balance of Trade	December 17	-\$1.20B	-\$2.54B
February 9	Unemployment Rate	January 18	6.0%	5.7%
<b>Key Earnings:</b>				
February 6: First Financial Corp., Healthcare Services Group Inc., RGC Resources Inc.				
February 7: Arrow Electronics Inc., General Motors Co., UDR Inc., Walt Disney Co.				
February 8: Barnwell Industries Inc., Hasbro Inc., Natus Medical Inc., Primerica Inc.				
February 9: Expedia Inc., Goodyear Tire & Rubber Co., New York Times Co., Twitter Inc.				
February 10: ImmunoGen Inc., Moody's Corp., NGL Energy Partners LP, Ventas Inc.				

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian economy rebounds in November

Updated figures from Statistics Canada revealed a 0.4% gain in real GDP by industry during November, following a less than 0.1% advance in October. The resurgence was mostly due to a 1.8% advance in manufacturing activity. Despite this gain and the subsequent post-recession high for the sector, manufacturing output remains almost 10% lower than the peak seen in October 2000. Regardless, the broader gains in the economy over the course of 2017 suggest that the calendar year GDP expansion (this data is scheduled to be released on March 2) will likely beat the Bank of Canada's latest forecast of 3.0%, and allow 2017 to surpass 2011 (3.1%) as the strongest year yet of the post-recession period.

#### Yellen departs with the Federal Reserve on hold

The U.S. Federal Reserve left interest rates unchanged following its latest two-day policy meeting, the final meeting under Federal Reserve Chair Janet Yellen. The target range for the federal funds rate was maintained at 1.25% to 1.50%. The Fed last raised interest rates by 0.25% on December 13. The press release that accompanied the announcement clearly pointed to future rate hikes under incoming Federal Reserve Chair Jerome Powell. He will be sworn in as Chair of the Board of Governors on February 5 and a rate hike may follow as soon as March 21. The press release stated that "The committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate." Analysts have interpreted the addition of the word "further" as possibly signaling as many as four 25 basis point (a basis point is 1/100<sup>th</sup> of one per cent) rate hikes over the course of 2018.

#### Eurozone economy strongest in a decade

The European Commission's statistics gathering agency announced that the Eurozone economy experienced a 2.7% expansion (year-over-year) in the fourth quarter of 2017, thanks to a 0.6% (quarter-over-quarter) advance. The growth pace in the final quarter was slightly lower than the 0.7% (on the same basis) expansion seen in both Q2 and Q3 2017. Nevertheless, the economies of the 19-nation region expanded 2.5% for 2017 as a whole, the fastest pace since 2007 (3.4%). While the quarterly

data for all individual countries was not available, France (+0.6%), Spain (+0.7%) and Belgium (+0.5%) recorded similarly solid rates of growth. The strong close to the year suggests that the Eurozone carried material momentum into 2018.

## 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

### January 29

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.4% in December and personal consumption expenditures (PCE) also increased 0.4%. Based on revised figures, personal income increased 0.3% and PCE increased 0.8% in November. Given the upward revisions to the previous data, this report was somewhat stronger than market expectations. Income and spending patterns of consumers are critical factors in the health of the broader economy.

### January 30

▲ The European Commission's statistics agency announced that GDP in the Eurozone experienced a 0.6% rise (quarter-over-quarter) in the fourth quarter of 2017, slightly lower than the 0.7% expansion seen in the previous quarter (on the same basis). On a year-over-year basis, GDP grew 2.7%. For 2017 as a whole, the economies of the 19-nation region expanded 2.5%, the fastest pace since 2007 (3.4%). The results matched consensus estimates. The strong close to the year suggests that the Eurozone has carried some momentum into 2018.

▲ The U.S. Conference Board announced that its consumer confidence index increased in January from December's upwardly revised level. The index stands at 125.4, up from 123.1 in December (previously reported as 122.1). The Present Situation Index decreased slightly from 156.5 to 155.3, while the Expectations Index increased from 100.8 to 105.5. With the upward revisions, these results are stronger than market expectations. Consumer confidence is an indicator of spending patterns.

### January 31

▼ Germany's statistics gathering agency reported that the nation's harmonized unemployment rate experienced a slight decrease to 3.6% in December, as the number of unemployed workers fell by 13,000 (seasonally adjusted) during the month. The dip follows an upwardly revised 3.7% unemployment rate in November 2017. This is the lowest jobless rate (calculated using this methodology) since October 1980. This reading was broadly in line with market expectations. Strong global trade and improving domestic consumption have accelerated demand for workers, particularly those involved in manufacturing.

▲ Statistics Canada announced that real GDP by industry grew 0.4% in November, following October's flat results. Goods producing industries rose 0.8% after declining 0.5% in October. Meanwhile, services producing industries rose 0.3% after posting a 0.2% gain in October. The increase in November was led by manufacturing and mining, quarrying, and oil and gas extraction. On a year-over-year basis, GDP growth stands at 3.5%. These results matched market expectations. 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) declined 0.1% and its Raw Materials Price Index (RMPI) fell 0.9% in December. On a year-over-year basis, the indexes are up 2.2% and 6.2%, respectively. Lower prices for energy products were seen during the month. These figures are 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.

■ The U.S. Federal Reserve left interest rates unchanged following its latest two-day policy meeting. This was the final meeting under Federal Reserve Chair Janet Yellen. The target range for the federal funds rate was left at 1.25% to 1.50%. The Fed last raised interest rates by 0.25% on December 13. The press release that accompanied the announcement underscored the continued strengthening of the labour market. It also pointed out that inflation had continued to run below 2.0%, but further stated that it was expected to rise this year. The Fed left the door open for another rate hike under incoming Federal Reserve Chair Jerome Powell, perhaps as early as March 21. The announcement of unchanged interest rates at today's meeting is in line with expectations. Monetary policy, as decided by the Fed, has significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

### February 1

▼ The U.S. Department of Labor announced that initial jobless claims totalled 230,000 (seasonally adjusted) in the week ending January 27, a decrease of 1,000 from the previous week's revised level. The previous week's level was revised down by 2,000 from 233,000 to 231,000. The four-week moving average was 234,500, a decrease of 5,000 from the previous week's revised average. The previous week's average was revised down by 500 from 240,000 to 239,500. These results are in line with consensus estimates.

▼ The U.S. Bureau of Labor Statistics announced that non-farm labour productivity decreased at a 0.1% (annualized) rate during the fourth quarter of 2017, while unit labour costs rose 2.0% on the same basis. These figures are considerably weaker than market expectations. Productivity growth is important for long-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

▲ Switzerland's State Secretariat for Economic Affairs (SECO) announced that its consumer confidence index rocketed to a 5.0 reading in the first quarter of 2018, up from the -2.0 level in the previous quarter. This is the highest and first positive reading since the first quarter of 2011 and was considerably stronger than consensus forecasts. As a forward indicator, it reflects the higher level of optimism consumers have in the broader domestic European economies.

▼ Retail sales in Switzerland experienced a 0.7% decrease in December 2017, following a 1.5% rise in November. However, sales are up 0.6% on a year-over-year basis after an upwardly revised 0.3% increase in the previous month (on the same basis). These results are somewhat weaker than the consensus forecast. A main contributor to the annual sales increase was the 3.0% climb in sales of food, beverage and tobacco. Non-food sales hampered sales by a negative 0.4%.

▼ The U.S. Institute for Supply Management reported that its Purchasing Managers Index edged lower to a 59.1 reading in January. This is a 0.2-point loss from December's revised 59.3 figure, but remains well above the key 50.0 (generally expanding) level for a 17<sup>th</sup> consecutive month. The reading is above expectations and indicates continued growth in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.7% in December, following a downwardly revised 0.6% gain in November (originally reported as 0.8%). On a year-over-year basis, construction was up 2.6%. Given the revision, these figures are in line with consensus estimates. These results indicate additional expansion in the construction sector.

### February 2

■ The U.S. Bureau of Labor Statistics reported that the unemployment rate was unchanged at 4.1% in January and non-farm payroll employment rose by 200,000. In addition, 2017's total payroll gain was revised up by 230,000. During January, employment continued to trend up in construction, food services and drinking places, health care, and manufacturing. The unemployment rate was stable in large part due to a 518,000 gain in the labour force. With the benchmark revisions, these results are stronger than consensus expectations. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

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