

Weekly Commentary – January 15, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 16	Consumer Inflation Expectations	December 17	2.63%	2.61%
January 17	Industrial Production Y/Y	December 17	3.7%	3.4%
January 17	NAHB Housing Market Index	January 17	74.29	74.00
January 17	Foreign Bond Investment	November 17	\$4.2B	-\$22.1B
Canada				
January 18	ADP Employment Change	December 17	26.8 k	59.2 k
January 19	Foreign Securities Purchases	November 17	\$11.7B	\$20.81B
Key Earnings:				
January 15: Century Bancorp Inc., Jewett-Cameron Trading Company Ltd., MVC Capital Inc.				
January 16: ADTRAN Inc., Cohen & Steers Inc., Kinder Morgan Inc., UnitedHealth Group Inc.				
January 17: Goldman Sachs Group Inc., MGIC Investment Corp., Skyworks Solutions Inc.				
January 18: American Express Co., First Financial Bancorp, Mellanox Technologies Ltd.				
January 19: First Horizon National Corp., General Electric Co., Schlumberger NV				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing shows solid results for 2017

The Canada Mortgage and Housing Corporation reported a sharp 13.8% monthly decline in Canadian housing starts in December. However, the strength in starts seen over the past year left 2017 with the highest annual average (220,544) since 2007 (228,378). In addition, Ontario revealed its best results (80,191) since 2004 (86,117) and British Columbia (43,545) had its strongest year since the data was first collected in 1990. Similarly, Statistics Canada data for November showed that new home prices in Vancouver rose 8.7% on a year-over-year basis, the fastest pace since July 2007. However, the opposite was seen in Toronto. New home prices were up a respectable 4.7% (on the same basis), but this was down from the 28-year high (9.9%) reported in April 2017.

U.S. consumers end 2017 on a strong note

Updated figures from the U.S. Census Bureau revealed a 0.4% (seasonally adjusted) gain in retail and food services sales for the month of December. The advance was sufficient to end 2017 with a calendar-year gain of 4.2%, the strongest since 2014 (4.3%). Perhaps more importantly, the strong December report, coupled with upward revisions to earlier data, lifted the fourth quarter advance to an annualized 11.3%, the best single-quarter figure since the final quarter of 2010 (11.7%). The figures point to firm overall GDP results to close out 2017 and significant momentum in consumer spending heading into 2018.

Eurozone unemployment rate hits nine-year low

The European Commission reported that the Eurozone's unemployment rate decreased to 8.7% in November 2017, 0.1% lower than October. The November reading is the lowest since January 2009 and continues the downward trend, which began in 2013. Despite the strong result for the region as a whole, some member nations still see elevated unemployment levels. Notably, Greece (20.5%) and Spain (16.7%) continue to struggle with high jobless rates. Nevertheless, every country experienced a decline in its jobless rate over the previous 12-month period, with Greece actually leading the way (from 23.2%). The broad-based

improvements are expected to fuel further strengthening in personal consumption and allow the European Central Bank additional flexibility as it removes excess liquidity from the market.

German GDP growth fastest in six years

Germany's federal statistical office reported that the nation's economy grew by 2.2% in 2017, following a 1.9% result in 2016 and 1.7% in 2015. This was the fastest annual GDP growth rate since 2011 and the eighth consecutive year of the current expansion. Domestic demand was the main driver during the year as personal and government consumption rose by 2.0% and 1.4%, respectively. Other key contributors were investment (3.0%) and net exports (0.2%). Further, the Deutsche Bundesbank, Germany's central bank, forecasts economic growth will rise to 2.5% in 2018. Thanks to record-low interest rates, the German government has saved some €290 billion since 2008 and the fiscal surplus totalled 1.2% of GDP, the most since the country's reunification. Clearly, the country is well positioned to continue leading economic growth in the Eurozone.

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 8

▲ The European Commission announced that its Business Climate Indicator (BCI) for the Eurozone increased to 1.66 in December, 0.17 points higher than November. The December reading is the highest level since the data was first collected in 1985 and follows a steady, increasing trend in 2017. The BCI was higher than consensus expectation. This indicator is important as it provides an assessment of both current and future business conditions.

January 9

▼ The Canada Mortgage and Housing Corporation announced that housing starts totalled 216,980 units (seasonally adjusted annual rate) in December. This is down from the five-year high of 251,675 recorded for November (originally reported as 252,184). The decline in housing starts was due to a drop in multiple starts. With the market looking for an even larger pullback, this result is above consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ The European Commission stated that the Eurozone's unemployment rate decreased to 8.7% in November, 0.1% lower than October. The November rate is the lowest since January 2009 and continues the downward trend that began in 2013. This result matched consensus expectations. The unemployment rate is a good indicator of the macroeconomic environment and is evidence that the Eurozone economy is strengthening further.

January 10

▼ Statistics Canada reported that building permits issued by Canadian municipalities dropped 7.7% to \$7.7 billion in November, the first decrease in three months. Five provinces posted declines led by Newfoundland and Labrador, and Quebec. Nationally, construction intentions fell in every component with the exception of single family dwellings. On a year-over-year basis, permits are up 1.3%. These results are significantly weaker than expected. Permits are an indicator of the future level of activity in the construction sector.

January 11

▲ The U.S. Department of Labor announced that initial jobless claims totalled 261,000 (seasonally adjusted) in the week ending January 6, an increase of 11,000 from the previous week's unrevised level of 250,000. The four-week moving average was 250,750, an increase of 9,000 from the previous week's unrevised average of 241,750. These results are weaker than consensus estimates.

▼ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) declined 0.1% (seasonally adjusted) in December. The index increased 2.6% for the 2017 calendar year, following a 1.7% rise in 2016. These figures are below consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.1% in November, following an identical increase in October. New home buyers in Ottawa saw the largest monthly price increase (+0.5%), following a 1.0% rise in October. On a year-over-year basis, the overall index is up 3.4%. These results are nominally weaker than consensus expectations but suggest continued improvements in net worth for homeowners.

▲ Germany's federal statistical office reported that Germany's GDP grew by 2.2% in 2017, following a 1.9% expansion in 2016 and 1.7% in 2015. This was the fastest annual growth rate since 2011. This result is somewhat weaker than consensus estimates. This report adds further evidence of continued improvement in economic health across the Eurozone.

January 12

▲ The U.S. Census Bureau announced that retail and food services sales were up 0.4% (seasonally adjusted) for the month of December and were 5.4% above December 2016 levels. Excluding autos, sales were up an identical 0.4% during the month and up 6.3% on a year-over-year basis. These figures are in line with consensus estimates. 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 0.1% (seasonally adjusted basis) in December, and rose 2.1% in 2017. A 0.4% increase in the shelter sub-index accounted for most of the December advance. These results matched expectations and are consistent with the U.S. Federal Reserve's expectations of neutral inflationary pressures.

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