

Weekly Commentary – January 16, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 18	Inflation Rate Y/Y	December 16	1.73%	1.70%
January 18	Industrial Production	December 16	-0.02%	-0.40%
January 18	Manufacturing Production Y/Y	December 16	0.27%	0.10%
January 19	Building Permits	December 16	1.217 M	1.212 M
Canada				
January 20	Inflation Rate Y/Y	December 16	1.15%	1.20%
January 20	Retail Sales Y/Y	November 16	3.65%	3.80%

Key Earnings:

January 16: Alphria Inc., Bankers Investment Trust PLC, Progress Software Corp.
 January 17: Linear Technology Corp., Synovus Financial Corp., Unitedhealth Group Inc.
 January 18: Customers Bancorp Inc., Trident Ltd., Kinder Morgan Inc., Plexus Corp., Fastenal Co.
 January 19: Alaska Air Group Inc., Celanese Corp., Nautilus Inc., Western Alliance Bancorp., Luby's Inc.
 January 20: Rockwell Collins Inc., Legg Mason Inc., Citizens Financial Group Inc., General Electric Co.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing market shows resilience

Canada Mortgage and Housing Corporation reported that housing starts had bounced back in December to close out the year. Starts rose 10.6% during the month, largely reversing the 14.4% decline seen in the previous two months. Still, on a quarterly basis starts fell 1.4% (quarter-over-quarter). Statistics Canada revealed that residential building permits slipped 1.6% lower in November from October's all-time high, but still stood with a 24.7% year-over-year advance. In addition, Statscan's new housing price index revealed a twenty-second consecutive monthly gain in November. The increase left the NHPI with a 3.0% (year-over-year) improvement, the strongest gain since June 2010. As has been the case recently, the generally robust overall housing figures do not convey the underlying geographical variation.

U.S. consumers wind up 2016 on a strong note

The U.S. Census Bureau announced that retail and food services sales rose 0.6% (seasonally adjusted) in December to a new all-time high. Auto sales led the way climbing 2.4% during the month and topping off a record year for the industry. Continued strength in the labour market and apparent optimism in the wake of the presidential election supported another advance in consumer spending. In conjunction with the November and October gains, overall sales rose at an annualized 6.8% pace in the final quarter of the year. This is the best quarterly performance since the second quarter of 2014 (+9.5%). This continued strength on the consumer front will likely dampen expectations for a material softening in GDP results for the fourth quarter of 2016.

German economy accelerates in 2016

Germany's Federal Statistics Office announced that the economy expanded by 1.9% in 2016, the fastest pace since 2011. The improvement was largely attributed to a 2.0% advance in consumer spending. However, growth was also broad-based. Government expenditure rose 4.2%, investment grew by 2.5% and construction spending was up 3.1%. Trade was a detractor on a net basis, but both exports (+2.5%) and imports (+3.4%) increased over the year. Analysts indicated that the European Central Bank's expansionary monetary policy, coupled with continued strengthening of the nation's labour market, were primary drivers.

As well, it appears likely that the consumption-driven upswing in Germany will continue as long as the ECB maintains its current policy. However, rising inflation may eventually pose a risk to consumer spending and household savings.

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 10

▲ The French official statistics office, INSEE, announced that industrial production in France rose 2.2% in November, following a 0.1% decline in October (previously reported as -0.2%). The sharp rebound in production for the European Union's second-largest economy was driven primarily by an increase of 2.3% in manufacturing output. The overall result is well above expectations and suggests an acceleration in economic activity to close out the year, following two disappointing quarters.

▲ Canada Mortgage and Housing Corporation announced that housing starts totalled 207,041 units (seasonally adjusted annual rate) in December. This is up 10.6% from the upwardly revised 187,273-unit level in November (originally reported as 183,989). The gain in housing starts was due to an increase in starts in urban areas. These results are above market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ Statistics Canada reported that the value of building permits issued by Canadian municipalities totalled \$7.8 billion in November, down 0.1% from the previous month. The decline was largely the result of lower construction intentions in Alberta, following a 44.6% spike higher in the province during the previous month due to impending changes to the Alberta Building Code. Given the prior month's sharp move, these results are broadly in line with expectations. Permits are an indicator of the future level of activity in the construction sector.

▲ The U.S. Census Bureau announced that wholesale sales rose 0.4% in November from the revised October level and were up 3.4% from the November 2015 level. The October estimate was revised downward to 1.1% (originally reported as 1.4%). At the same time wholesale inventories rose 1.0% for the month and were up 1.4% on a year-over-year basis. This report is in line with market expectations. Activity at the wholesale level can be an indicator of future consumer trends.

January 12

▲ Germany's Federal Statistics Office announced that GDP advanced by 1.9% for the year 2016. This is the strongest growth rate since 2011. According to the data, consumer spending rose 2.0% last year and public expenditure increased by 4.2%. The primary contributor to the sharp increase was domestic demand, due to the European Central Bank's expansionary monetary policy and continued strengthening of the nation's labour market. These results were stronger than expected.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 247,000 (seasonally adjusted) in the week ending January 7, an increase of 10,000 from the previous week's revised level. The previous week's level was revised up by 2,000 to 237,000. The four-week moving average was 256,500, a decrease of 1,750 from the previous week's revised average. The previous week's average was revised up by 1,500 to 258,250. These results are somewhat stronger than consensus estimates.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.2% in November. The advance was largely driven by price increases for new housing in Ontario. On a year-over-year basis, the index is up 3.0%. These results are in line

with consensus expectations and suggest continued modest improvements in net worth for homeowners, but with significant regional variation.

January 13

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) increased 0.3% (seasonally adjusted) in December following a 0.4% gain in November. The index increased 1.6% for the 12 months ended December 2016, a significant change from the 1.1% decline reported on the same basis for December 2015. These figures are slightly below consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ The U.S. Census Bureau announced that retail and food services sales were up 0.6% (seasonally adjusted) for the month of December and were 4.1% above December 2015 levels. Excluding autos, sales were up 0.2% during the month and up 3.4% on a year-over-year basis. These figures are in line with market expectations. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▲ The U.S. Census Bureau announced that business sales rose 0.1% in November and were up 2.3% from November 2015 levels. At the same time, inventories climbed 0.7% and were up 1.5% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of November was 1.38. The November 2015 ratio was 1.39. These results were marginally weaker than expectations. The sharp increase in inventories may signal a need to reduce the accumulation.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment edged down to 98.1 in the mid-month reading for January. This is virtually unchanged from the 98.2 level recorded for December. However, the market was looking for an improvement, making this result weaker than expectations. This is another indicator of the likely pattern of consumer spending.

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