

Weekly Commentary – January 22, 2018

Alfred Lam, MBA, CFA
Senior Vice-President & Chief Investment Officer

Richard J. Wylie, MA, CFA
Vice-President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 24	Markit Composite PMI Flash	January 17	54.19	54.10
January 25	Wholesale Inventories Advanced	December 17	0.22%	0.80%
January 26	Durable Goods Orders	December 17	0.42%	1.30%
January 26	GDP Growth Rate Q/Q Advanced	Q4 17	3.0%	3.2%
Canada				
January 25	Retail Sales	November 17	0.12%	1.50%
January 26	Inflation Rate	December 17	0.18%	0.30%
Key Earnings:				
January 22: First Community Bancshares Inc., Netflix Inc., ResMed Inc., Steel Dynamics Inc.				
January 23: Capital One Financial Corp., Kimberly-Clark Corp., Verizon Communications Inc.				
January 24: Cohen & Steers Inc., Ford Motor Co., General Electric Co., Sonus Networks Inc.				
January 25: American Airlines Group Inc., Biogen Inc., First Bancorp, Intel Corp., Starbucks Corp.				
January 26: Colgate-Palmolive Co., Gentex Corp., NextEra Energy Partners LP, PolyOne Corp.				

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada tightens further

Following its latest policy deliberations, the Bank of Canada raised its benchmark bank rate by 25 basis points (a basis point is 1/100th of one per cent) to 1.5%. This is the third rate hike in six months and the highest level since December 9, 2008. The press release that accompanied the announcement focused on the recent wave of strong economic data. Dramatic gains in Canada's job market have sent the unemployment rate to 5.7%, the lowest since consistent data were first collected in 1976. The release also specifically stated that "inflation is close to target, and the economy is operating roughly at capacity." While the statement did not mention household debt specifically, the bank likely views this as another reason to tighten. Barring any material problems on the international trade front, further tightening appears likely over the balance of 2018.

U.S. industry ends 2017 on strong note

The U.S. Federal Reserve reported a dramatic 0.9% gain in industrial production during December. The advance came on the heels of a downwardly revised 0.1% decline in November. Big gains for mining (1.6%) and utilities (5.6%) led overall production during the month. Industry strength late in 2017 was sufficient to raise the quarterly production gain to an annualized 8.2%, the strongest single-quarter result since Q2 2010 (8.6%). Growth in output for 2017 stood at 3.6%, the best calendar year figure in seven years. These results are expected to be reflected in another robust figure for overall GDP growth for the fourth quarter when the data are released on January 26.

Euro hits new high

The euro rose to a new three-year high of US\$1.2227 amongst heavy trading on January 15. Currency traders have been pushing the euro steadily higher for the better part of a month, as data pointing to the region's improving economic circumstances, coupled with increased expectations that the European Central Bank will continue tightening its monetary policy, have provided a significant boost. In addition, optimism that German politicians are moving towards a coalition government has provided additional support for the currency. International trade issues have been another macro factor affecting the currencies valuations

of all major trading nations for an extended period. The increase in the Eurozone's trade surplus to €26.3 billion in November will help bolster overall GDP results for the final quarter of 2017, even as Brexit approaches.

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 15

▲ The euro rose to a new three-year high of US\$1.2227 amongst heavy trading on January 15. The move came as U.S. securities markets remained closed for the Martin Luther King Jr. holiday. Currency traders have been pushing the euro steadily higher for the better part of a month, as data pointing to the region's improving economic circumstances, coupled with increased expectations that the European Central Bank will continue tightening its monetary policy, have provided a significant boost. In addition, optimism that German politicians are moving towards a coalition government has provided additional support for the currency.

January 16

▲ The U.K. Office for National Statistics reported that its consumer price index (CPI) increased 3.0% (year-over-year) in December 2017, down from November's near six-year high of 3.1% (on the same basis). This is the first decline in six months. The largest contribution to the downward move came from transport, particularly air fares, and to a lesser extent coach and rail fares. If the broader decline continues it would ease the current pressure on the Bank of England, which has publicly expressed concerns over low productivity growth and tightening labour markets.

January 17

▲ The U.S. Federal Reserve announced that industrial production jumped 0.9% in December after declining 0.1% in November (originally reported as +0.2%). On a year-over-year basis, industrial production was reported to have gained 3.6%. Capacity utilization for total industry rose to 77.9% from November's 77.2% and 76.0% a year earlier. Even with the downward revisions to prior data, these results are stronger than expected. The improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

▲ The Bank of Canada announced that it was raising the target for its key overnight interest rate to 1.25%. The bank rate was correspondingly increased to 1.50% and the deposit rate to 1.00%. The press release that accompanied the announcement highlighted that recent economic data have been strong, however, it also referenced uncertainties in international trade. The decision to raise interest rates by 0.25% was in line with market expectations. The next policy announcement is scheduled for March 7. Canadian monetary policy, as decided by the Bank of Canada, has significant influence on both the domestic economy and the value of the currency.

January 18

▲ China's national statistics bureau announced that the nation's GDP rose 1.6% in the fourth quarter, easing slightly from the 1.8% expansion seen in the previous quarter. It was the weakest quarterly growth rate of 2017 but matched consensus expectations. On a year-over-year basis, GDP growth stood at 6.8%, the same rate (on the same basis) as the prior period. This reading beat consensus forecasts of 6.7%. The growth pace accelerated in 2017 for the first time in seven years as consumer spending, exports and construction all climbed significantly.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 220,000 (seasonally adjusted) in the week ending January 13, a decrease of 41,000 from the previous week's unrevised level of 261,000. This is the lowest level for initial claims since February 24, 1973 when it was 218,000. The four-week moving average was 244,500, a decrease of 6,250 from the previous week's unrevised average of 250,750. These results are considerably stronger than consensus estimates.

▼ The U.S. Census Bureau announced that housing starts in December were at a seasonally adjusted annual rate of 1,192,000. This is 8.2% below the revised November estimate of 1,299,000 and is 6.0% below the December 2016 rate of 1,268,000. At the same time, the number of building permits issued in December was at a seasonally adjusted annual rate of 1,302,000. This is 0.1% below the revised November rate of 1,303,000 but is 2.8% above the December 2016 figure of 1,266,000. These figures are weaker 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 January but at a less robust pace. The Philly Fed general business conditions index eased to 22.2 from 26.2 in December. These results are below market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

Although the above information has been compiled from sources believed to be reliable, as at the date indicated, we cannot guarantee its accuracy or completeness. The information is provided solely for informational and educational purposes and is not to be construed as advice in respect of securities or as to the investing in or buying or selling of securities, whether express or implied. All data provided is subject to change without notice. The authors of this publication are employed by CI Investments Inc. or its affiliates. ©The Assante symbol and Assante Wealth Management are registered trademarks of CI Investments Inc. Assante Wealth Management and/or Assante Wealth Management and design are trademarks of CI Investments Inc. Neither CI Investments Inc. nor any of its affiliates or their respective officers, directors, employees or advisors is responsible in any way for damages or losses of any kind whatsoever in respect of the use of this information. © 2018 CI Investments Inc.