Assante WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – January 29, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 29	Personal Income	December 17	0.44%	0.30%
January 31	Chicago PMI	January 17	65.9	67.6
February 1	ISM Manufacturing PMI	January 17	59.1	59.7
February 2	ISM New York Index	December 17	55.01	56.30
Canada				
January 31	PPI Y/Y	December 17	2.5%	2.7%
February 1	RBC Manufacturing PMI	January 17	54.46	54.70

Key Earnings:
January 29: Alliance Holdings GP LP, Dominion Energy Inc., Under Armour Inc.
January 30: Dover Corp., HCA Healthcare Inc., McDonald's Corp., Pfizer Inc.
January 31: Facebook Inc., Invesco Ltd., Microsoft Corp., New York Times Co.
February 1: Alphabet Inc., DCT Industrial Trust Inc., Time Warner Inc., Visa Inc.
February 2: Chevron Corp., Estee Lauder Companies Inc., Roper Technologies Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian retails sales hold momentum in November

The latest data from Statistics Canada revealed a 0.2% increase in retail sales during November, breaking above the $50 billion mark for the first time. The monthly gain came despite a sharp 3.6% decline in sales from motor vehicles and parts retailers. Excluding autos, sales rose a far more robust 1.6% during the month. On a year-over-year basis, overall sales were up 6.5% and, excluding autos, rose 6.0% on the same basis. The recent strength in Canada's job market suggests that the December results will show continued improvement and are likely to produce a quarterly growth rate above 7.5% (annualized). Consumer spending at these levels would likely be sufficient to raise GDP growth above the 1.7% pace posted in the second quarter of 2017.

U.S. economic growth moderates

Initial estimates from the U.S. Bureau of Economic Analysis revealed a 2.6% (annualized) growth rate in overall GDP during the final quarter of 2017. The figure came on the back of a downwardly revised 3.2% pace (previously reported as 3.3%) for the third quarter and disappointed market participants that have become accustomed to a long string of surprises to the upside. Even though this is the first estimate for the fourth quarter and will be revised, it left the broader economy with a 2.3% growth rate for 2017 as a whole, which is stronger than 2016 (1.5%), but below the pace seen in both 2014 (2.6%) and 2015 (2.9%). Weaker trade balances and softer inventories were highlighted as the main detractors to growth. Nevertheless, the current expansion is in its ninth year and is poised to become the second longest on record, soon to surpass the February 1961 to December 1969 period (the March 1991 – March 2001 period currently holds the record as the longest expansion).

Eurozone confidence surges into 2018

The European Commission announced that the consumer confidence index's (CCI) initial (flash) estimate in the Eurozone jumped to a 1.30 reading in January 2018 from the 0.50 figure posted in December 2017. This is the highest level since August 2000 and stands only marginally lower than the all-time high of 2.10 posted in May 2000. It further extends the trend of improving confidence that began in early 2016 and reflects the higher level of optimism regarding the European economy and individuals' own circumstances. Recent data showed the Eurozone economy grew by 2.6% (year-over-year) in the third quarter of 2017, the fastest pace in over six years. The January CCI reading further suggests that consumers appear less sensitive to political uncertainty in the wake of elections in France and Germany, and the upcoming vote in Italy in March. These results should help to confirm the European Central Bank's outlook for favorable domestic demand fueling GDP growth in 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 22

▲ Statistics Canada reported that wholesale sales rose 0.7% to $63.6 billion in November, a second consecutive increase. At the same time, inventories dropped 1.2% to $81.1 billion during the month, the first decline in eight months. On a year-over-year basis, overall wholesale sales are up 10.8%, while inventories are up 7.3%. The monthly sales advance was somewhat weaker than expectations. Activity at the wholesale level can be an indicator of future consumer trends.

January 23

▲ The European Commission announced that the consumer confidence index's initial (flash) estimate in the Eurozone jumped to a 1.30 reading in January 2018 from the 0.50 level in December 2017. This is the highest reading since August 2000 and was dramatically stronger than the consensus forecasts for a minor increase. This indicator reflects the higher level of optimism consumers have in the general European economy, and in individuals' own circumstances.

▲ The U.K.'s Markit Economics released three key flash Purchasing Managers Indexes (PMI). The Eurozone Composite PMI rose to 58.6 in January 2018, following a 58.1 result in December 2017. This is the highest in 12 years, but was somewhat weaker than consensus expectation. The Services PMI increased to 57.6 in January from 56.6 in December, beating the market forecast and is the strongest level since August 2007. The Manufacturers PMI, however, fell to 59.6 from December's 60.6 level and was well below consensus estimates. Together they suggest that the euro's recent strength and the rise in oil prices may have dented activity in the industrial sector, but the broader Eurozone economy appears to be strengthening in early 2018.

▼ According to the U.S. National Association of Realtors, existing-home sales dropped 3.6% to a seasonally adjusted annual rate of 5.57 million units in December from a downwardly revised 5.78 million in November (originally a 5.81 million-unit pace). Sales are 1.1% above the December 2016 pace. These results are weaker than consensus expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

January 25

▲ The U.S. Department of Labor announced that initial jobless claims totalled 233,000 (seasonally adjusted) in the week ending January 20, an increase of 17,000 from the previous week's revised level. The previous week's level was revised down by 4,000 from 220,000 to 216,000. The four-week moving average was 240,000, a decrease of 3,500 from the previous week's revised average. The previous week's average was revised down by 1,000 from 244,500 to 243,500. These results are somewhat stronger than consensus estimates.

▲ Statistics Canada reported that retail sales increased for the third consecutive month in November, rising 0.2% (seasonally adjusted). Sales were up in six of 11 subsectors, but this represented only 37% of total retail sales. Higher sales at gasoline stations, electronics and appliance stores, and general merchandise stores offset lower receipts at new car dealers. Excluding motor vehicle and parts dealers, retail sales rose 1.6%. The overall results are below consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▼ The U.S. Census Bureau announced that new-home sales totalled 625,000 units (seasonally adjusted annual rate) in December 2017. This is 9.3% below the revised November rate of 689,000 units, but is 14.1% above the December 2016 level of 548,000 units. This result is well below consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The U.S. Conference Board announced that its Leading Economic Index increased 0.6% in December, following an upwardly-revised 0.5% increase in November. The monthly move was largely due to gains in the Institute for Supply Management's new orders index. This figure is marginally stronger than market consensus. The report suggests that expansion in the U.S economy should continue into the first quarter of the new year.

January 26

▲ The U.S. Bureau of Economic Analysis announced that real GDP grew at an annual rate of 2.6% in the fourth quarter of 2017. This is the "advance estimate" prepared with preliminary data and is often subject to substantial revision. In the third quarter, real GDP increased 3.2% on the same basis. These results are weaker than expected as the market was looking for a continuation of the rapid growth in the prior quarter. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The U.S. Census Bureau announced that durable goods orders jumped 2.9% in December, following an upwardly-revised 1.7% increase in November (originally reported as 1.3%). Excluding transportation, new orders increased 0.6% in December. Excluding defence, new orders increased 2.2%. These figures are well above market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

▲ Statistics Canada reported that consumer prices rose 0.2% (seasonally adjusted, monthly basis) in December, after rising 0.5% in November. On a year-over-year basis, the consumer price index (CPI) was up 1.9% following a 2.1% gain in November. In December, six major components increased, while two declined. The transportation index (+0.6%) recorded the largest gain, while the household operations, furnishings and equipment index (-1.1%) registered the largest decline. All three new measures of core inflation, established by the Bank of Canada in 2016, showed underlying inflation still below their 2.0% target, ranging from 1.6% to 1.9%. CPI common, which the central bank says is most closely correlated with the output gap, edged up from 1.5% to 1.6% in this report. The overall figures matched market expectations.

▲ Japan's statistics bureau announced that consumer prices increased 1.0% (year-over-year) in December 2017, following a 0.6% rise (on the same basis) in November. This reading is the highest rate since March 2015. The main contributors to the upward move were a 5.2% increase in fuel, light and water charges, and a 1.8% advance in food prices. The overall results were marginally weaker than consensus expectations. The modest increase in price pressures at the consumer level reflects the more robust recent economic activity.