Assante WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – January 30, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 30	Personal Spending	December 16	0.49%	0.20%
January 30	Pending Home Sales Y/Y	December 16	-0.07%	-0.40%
February 1	Markit Manufacturing PMI – Final	January 17	54.4	54.3
Canada				
January 31	PPI Y/Y	December 16	1.43%	1.40%
January 31	GDP	November 16	0.19%	-0.30%

Key Earnings:
January 30: Mattel Inc., Sysco Corp., Rayonier Advanced Materials Inc., Graco Inc., Banco de Chile
January 31: Amorepacific Corp., Chubb Ltd., Imperial Oil Ltd., Indigo Books and Music Inc., Xerox Corp.
February 1: Dominion Resources Inc., Capstone Turbine Corp., HTC Corp., Mellanox Technologies Ltd.
February 2: Teledyne Technologies Inc., Sierra Wireless Inc., Haynes International Inc., Coty Inc.
February 3: Clorox Co., Acorn International Inc., Hershey Co., Atwood Oceanics Inc., Johnson Outdoors Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Loonie volatility continues

The Canadian dollar's susceptibility to the vagaries of U.S. politics has been on display since the presidential election on November 8. The rapid devaluation to US$0.736, in the wake of President Donald Trump's surprise victory, quickly gave way to a more optimistic view that allowed the currency to rise 3.9% against its U.S. counterpart through mid-December. Continued uncertainty over the true direction of U.S. foreign policy saw the Canadian dollar trade from US$0.765 to $0.735 and back to US$0.767 over a brief 21 trading sessions heading into the new year. Most recently, the Bank of Canada's revelation that a rate cut was back on the table, followed by Trump's inauguration speech, left the loonie to depreciate by more than two cents in two days. There is little reason to think that stability will return any time soon, as foreign exchange traders await the next policy statement from the White House.

Cooling trade winds blow in the U.S.

The U.S. Bureau of Economic Analysis announced that the economy grew by 1.9% (annualized) in the fourth quarter of 2016, a significant cooling from the 3.5% pace (on the same basis) seen in the third quarter. For the year as a whole, GDP expanded at a 1.6% rate. This matches the 2011 result as the weakest since the outright decline (2.8%) reported during the recession for 2009. Detailed results show that net exports subtracted 1.7% during the October-December period, the most since the second quarter of 2010. Also troubling was the accumulation of inventories, which added a full per cent to GDP growth. Consumer spending was also less robust but still grew at an annualized 2.5%. However, the drag from the trade results will focus additional attention on the policies of the new administration in the U.S.

Japan enjoys its first trade surplus since 2011, for now

Contrasting the moribund domestic economy, Japan's finance ministry announced the nation's first trade surplus in five years. The 4.1 trillion yen surplus in 2016 represented a dramatic change from the 2.8 trillion yen deficit just one year earlier. Much of the improvement was linked to demand from China, currency weakness versus the U.S. dollar and relatively soft oil prices. The report also showed a US$60 billion trade surplus with the U.S. alone, the largest with any nation. The news comes at a sensitive time, politically. Among President Donald Trump's first acts was to formally pull the U.S. out of the Trans-Pacific Partnership. This move, together with his comments regarding the imposition of a "big border tax" on motor vehicles, raises considerable uncertainty over the outlook for Japan's exports, specifically, and global trade more generally.

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 23

▲ Statistics Canada reported that wholesale sales edged up 0.2% to $56.9 billion in November, a second consecutive increase. At the same time, inventories rose the same 0.2% to $73.3 billion during the month, a fourth consecutive advance. On a year-over-year basis, overall wholesale sales are now up 2.6% while inventories are up 0.8%. The monthly sales advance was somewhat weaker than expectations. Activity at the wholesale level can be an indicator of future consumer trends.

January 24

▲ IHS Markit reported that the Eurozone manufacturing PMI edged up to 55.1 January from 54.9 in December. This is the highest reading in 69 months. However, this move higher was offset by a decline in the service index to 53.2 (a four-month low), from 54.3 in December. The combination brought the Eurozone composite PMI down to 54.3 in this report from 54.4 in December. Inflation and sustained growth in the private sector played critical roles during this period. The manufacturing PMI exceeded market expectations while both the services and composite results were weaker than anticipated.

▼ According to the U.S. National Association of Realtors, existing-home sales declined 2.8% to a seasonally adjusted annual rate of 5.49 million units in December from an upwardly revised 5.65 million in November (originally a 5.61 million-unit pace). On a year-over-year basis, sales were up 0.7%. For 2016 as a whole, sales stood at 5.45 million and surpassed 2015 (5.25 million) as the highest since 2006 (6.48 million). The monthly report was somewhat weaker than anticipated. Activity in the housing market has a significant "ripple" effect on the broader economy.

January 25

▼ The Munich-based Ifo Institute reported that its German business sentiment index registered an unexpected slip in January to 109.8, from a three-year high of 111.0 in December. The decrease was mainly driven by weakness in manufacturing. Political uncertainty also had a negative impact on the index. These results are weaker than expected.

▲ Japan's finance ministry announced a trade surplus of 4.1 trillion yen in 2016, a dramatic change from the 2.8 trillion yen deficit in 2015 and the nation's first trade surplus in six years. Exports jumped 5.4% (year-over-year) while the imports tumbled 2.6% (on the same basis). The improvement came on stronger exports to China, the weakening in the yen against the U.S. dollar and relatively soft oil prices. These results are well above consensus estimates.

January 26

▲ The U.K. economy grew by 0.6% (quarter-over-quarter) in the final quarter of 2016, matching the 0.6% expansion in both the second and third quarters. Growth during the fourth quarter was dominated by services industries, with a strong contribution from retail sales and travel agency services. Production industries were essentially flat during this period. On an annual basis, the U.K. economy expanded by 2.0% in 2016, slower than both 2015 (2.2%) and 2014 (3.1%). These results are stronger than market expectations and show no evidence of material fallout from the Brexit vote.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 259,000 (seasonally adjusted) in the week ending January 21, an increase of 22,000 from the previous week's revised level. The previous week's level was revised up by 3,000 to 237,000. The four-week moving average was 245,500, a decrease of 2,000 from the previous week's revised average. This is the lowest level for this average since November 3, 1973 when it was 244,000. The previous week's average was revised up by 750 to 247,500. These results are somewhat weaker than consensus estimates.

▼ The U.S. Census Bureau announced that new-home sales totalled 536,000 units (seasonally adjusted annual rate) in December 2016. This is 10.4% below the upwardly revised November rate of 598,000 units and 0.4% below the December 2015 level of 538,000 units. These results are weaker than 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 (LEI) increased 0.5% in December, following 0.1% increase in November, and a 0.2% increase in October. The monthly move was largely due to the improving sentiment on the outlook for the U.S. economy. This figure is stronger than market consensus. The report suggests that the expansion in the U.S economy may accelerate modestly into the new year.

January 27

▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew at an annual rate of 1.9% in the final quarter of 2016. This is the “advance estimate” prepared with preliminary data and is often subject to substantial revision. In the third quarter, real GDP increased 3.5% on the same basis. These results are weaker than expected as the market was looking for a smaller deceleration from the third quarter spike. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The Thomson Reuters/University of Michigan index of consumer sentiment edged higher to 98.5 in the month-end reading for January. This is higher than both the 98.2 level recorded mid-month and the 98.2 reading for December. This is stronger than market expectations and is another indicator of the likely pattern of consumer spending.