

Weekly Commentary – January 9, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
January 10	Wholesale Inventories	November 16	0.9%	-0.1%
January 13	Retail Sales	December 16	0.41%	0.10%
January 13	PPI Y/Y	December 16	1.56%	1.30%
Canada				
January 11	Housing Starts	December 16	187.9 k	184.0 k
Key Earnings:				
January 9: American Power Group Corp., Formosa Plastics Corp., Global Payments Inc., Commercial Metals Co.				
January 10: Progress Software Corp., Hickok Inc., Limoneira Co., TSR Inc., SemiLEDs Corp.				
January 11: Saratoga Investment Corp., Volt Information Sciences Inc., Cogeco Communications Inc.				
January 12: Educational Development Corp., Leading Brands Inc., Taiwan Semiconductor Manufacturing Co. Ltd.				
January 13: Wells Fargo & Co., First Horizon National Corp., Singapore Press Holdings Ltd., BlackRock Inc.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian job market makes it five-straight

Updated figures from Statistics Canada revealed a fifth consecutive gain in overall employment (+53,700) as a surge in full-time positions (+81,300) was more than sufficient to offset a decline in part-time jobs (-27,600). The five-month total job gain (+201,700) is now the strongest seen since the June to October of 2007 period, before the recession. In addition, the unemployment rate edged higher from 6.8% to 6.9% in December. However, this was due entirely to a 68,500 increase in the labour force. Even though much of the economic data points to a material slow-down in GDP growth during the final quarter of 2016, the improving employment picture suggests that consumer spending will be supportive heading into 2017.

North American trade reflects relative currency values

The U.S. Census Bureau reported that imports rose by US\$2.4 billion in November. Increased imports from Canada accounted for 38% of that change (US\$0.9 billion). During November, the Canadian dollar averaged only US\$0.744. While it has taken some time to materialize, the weakness in the currency has allowed Canada's trade picture to improve significantly. In November, Canada posted its first merchandise trade surplus since September 2014, although the improvement was not limited to trade with the U.S. Exports to countries other than the United States rose 9.5% to a record C\$12.0 billion during the month. The surprise advance in Canada's trade balance will help to offset weaknesses in the domestic economy.

Eurozone inflation jumps in December

Eurostat announced that Eurozone consumer inflation surged higher to 1.1% (year-over-year) in December. This was well above the 0.6% rate (on the same basis) in November and is the fastest pace since September 2013 (also 1.1%). The advance took inflation closer to the European Central Bank's target of "below, but close to, 2%." ECB chief Mario Draghi has said he expects inflation to reach the target by 2018 or 2019. In the wake of the financial crisis, deflationary fears have prevailed in many regions, including Europe, and policymakers have employed a wide range of stimulus programs aimed at boosting inflation. While these updated headline figures are welcome news, the main contributor to the increase was a sharp rise in energy prices. Core inflation rose to only 0.9% from 0.8%, suggesting that the ECB will likely maintain its current policy.

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 3

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved higher to a 54.7 reading in December. This is a 1.5 point gain from November's 53.2 figure and remains above the key 50.0 (generally expanding) level for a 4th consecutive month. The reading is above expectations and indicates an acceleration in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.9% in November, following an upwardly revised 0.6% gain in October (originally reported as +0.5%). On a year-over-year basis, construction was up 4.1%. The monthly growth figure is above consensus estimates. This result indicates continued improvement in the construction sector.

January 4

▲ The European Union's statistics agency, Eurostat, announced that Eurozone inflation spiked higher to 1.1% in December, compared to 0.6% in November. The main contributor to the increase was a sharp rise in energy prices. Against this backdrop of higher inflation, attention will be refocused on European Central Bank policy. These results are well above consensus estimates.

January 5

▼ The U.S. Department of Labor announced that initial jobless claims totalled 235,000 (seasonally adjusted) in the week ending December 31, a decrease of 28,000 from the previous week's revised level. The previous week's level was revised down by 2,000 from 265,000 to 263,000. The four-week moving average was 256,750, a decrease of 5,750 from the previous week's revised average. The previous week's average was revised down by 500 from 263,000 to 262,500. These results are stronger than consensus estimates.

▲ Statistics Canada reported that its Industrial Product Price Index rose 0.3% while its Raw Materials Price Index dropped 2.0% in November. On a year-over-year basis, the indexes are up 1.4% and 4.1%, respectively. These figures are broadly in line with expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

■ The U.S. Institute for Supply Management announced that its Non-manufacturing Index recorded a 57.2 reading in December. It was unchanged from the identical 57.2 level registered in November, and remained above the key 50.0 (generally expanding) level for an 83rd consecutive month. This figure is above consensus expectations as the market was looking for a mild decline. This result indicates continued growth, at the same rate in the non-manufacturing sector.

January 6

▲ Statistics Canada announced that 53,700 jobs were added in December and the unemployment rate rose by 0.1 percentage points to 6.9%. In line with the recent gains, total employment was up 1.2% (+214,100) from 12 months earlier. These results are dramatically stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

▲ The U.S. Bureau of Labor Statistics reported that the unemployment rate edged higher by 0.1 percentage points to 4.7% in December, and non-farm payroll employment rose by 156,000. However, the November gain in non-farm payrolls was revised higher to 204,000 from 178,000. In December, job growth occurred in health care and social assistance. Given the revisions, the employment figures are broadly in line with expectations. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

▲ Statistics Canada announced that Canada's merchandise trade balance with the world recorded its first trade surplus since September 2014, going from a \$1.0 billion deficit in October to a \$526 million surplus in November. Exports rose 4.3%, while imports were up 0.7%. Since the market was looking for another deficit in September, these results are considerably stronger than expected. They are a positive sign for overall GDP growth.

▲ The U.S. Census Bureau announced that the country's international trade deficit in goods and services was US\$45.2 billion in November, up \$2.9 billion from \$42.4 billion in October, revised. November exports were \$185.8 billion, \$0.4 billion less than October exports. November imports were \$231.1 billion, \$2.4 billion more than October. The trade deficit was larger than expected. The weaker trade results will hamper overall GDP growth.

▼ The U.S. Census Bureau reported that factory orders fell 2.4% in November. This followed an upwardly revised 2.8% increase in October (originally reported as +2.7%). Excluding transportation, new orders actually rose 0.1% in November. Given the revisions to the previous data, these results are in line with expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

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