

Weekly Commentary – June 12, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 13	PPI Y/Y	May 17	2.54%	2.50%
June 14	Inflation Rate	May 17	0.26%	0.20%
June 14	Retail Sales	May 17	0.29%	0.40%
June 16	Housing Starts	May 17	1.20 M	1.17 M
Canada				
June 16	Foreign Securities Purchases	April 17	\$12.50B	\$15.13B
Key Earnings:				
June 12: Alarmforce Industries Inc., North West Company Inc., Polydex Pharmaceuticals Ltd.				
June 13: Capstone Turbine Corp., H&R Block Inc., Telecom Plus PLC, Wesco Holdings Inc.				
June 14: Liontrust Asset Management PLC, Progressive Corp., Worldwide Healthcare Trust PLC				
June 15: Immune Pharmaceuticals Inc., Pure Gold Mining Inc., Sky Solar Holdings Ltd.				
June 16: Premier Investment Corp., Real Estate Credit Investments Ltd., Record PLC				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian job growth improves

May data from Statistics Canada revealed a resurgence in domestic job growth with another 54,500 jobs added during the month, following a modest 3,200 advance in April. The gain was sufficient to drive the annual growth rate to 1.8%, the strongest pace since February, 2013. Despite a modest uptick in the unemployment rate to 6.6% from April's cyclical low of 6.5%, the move was attributed to a 78,400 gain in the labour force. The report struck another positive note with job gains in full-time positions coming in at 77,000. Even though the Bank of Canada has been clear about its expectations for a moderation in economic activity in the second quarter of this year, the job market has seen some resilience over the first two months of that quarter.

U.S. jobless claims data keep a low profile

The latest report from the U.S. Department of Labor (DoL) showed that initial jobless claims totalled 245,000 for the week ending June 3. The weekly report was largely overlooked as the Bureau of Labor Statistics' far more encompassing (and disappointing) job market report for May, released six days earlier, continued to hold the market's attention. Nevertheless, the 245,000 figure in the DoL report was the 118th consecutive weekly reading below the 300,000 level, which is typically held out as the benchmark for a healthy job market. This is now the longest run below 300,000 since a stretch of 161 straight weeks ending in April 1970. In April 1970, the labour force consisted of some 82.7 million individuals. In contrast, the labour force has grown to 159.8 million. While this is still just one statistic, it has shown remarkable consistency for an extended period.

South Africa slips into second recession in eight years

South Africa's statistics office surprised analysts by announcing that overall GDP had contracted by 0.7% (annualized) during the first quarter of 2017. The drop came on the back of a 0.3% decline (on the same basis) in the final quarter of 2016. The back-to-back contractions signal the first recession since 2009. The slowdown comes even as rains have aided the country in its recovery from the 2015 drought, which proved to be the worst since records were first kept almost a hundred years ago. Weakness was widespread, with all industries except agriculture and mining contracting during the quarter. Political uncertainty has also hampered President Jacob Zuma's efforts to implement growth-oriented reforms. In addition, Zuma's recent dismissal of his

finance minister Pravin Gordhan provoked a backlash of credit-rating downgrades for the nation's debt instruments. At this juncture there appears to be little chance of a near-term move back to stronger economic growth.

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

June 5

■ The U.S. Bureau of Labor Statistics announced that non-farm labour productivity was unchanged during the first quarter of 2017, while unit labour costs rose 2.2% on an annualized basis. With the market anticipating a mild decline in productivity, these figures are slightly stronger than expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

▼ The U.S. Census Bureau reported that factory orders decreased 0.2% in April. This followed an upwardly revised 1.0% increase in March (originally reported as +0.2%). Excluding transportation, new orders increased 0.1% in April. Given the upward revisions to the previous data, these results are somewhat stronger than anticipated. The orders data indicate how busy factories will be in the coming months as manufacturers work to fill those orders.

▼ The U.S. Institute for Supply Management announced that its Non-Manufacturing Index recorded a 56.9 reading in May. It was down 0.6 points from the 57.5 level registered in April, but remained above the key 50.0 (generally expanding) level for an 89th consecutive month. This figure is below consensus expectations. This result indicates continued growth, but at a somewhat slower rate in the non-manufacturing sector.

June 6

▼ South Africa's statistics office reported that the South African economy contracted an annualized 0.7% in the first three months of 2017, following a 0.3% drop in the previous three-month period (on the same basis). The back-to-back declines point to a technical recession. It is the first recession since 2009 as both trade and manufacturing recorded negative growth rates. These results came as a surprise as the market consensus expected a rebound into positive territory.

June 7

▲ The Australian Bureau of Statistics reported that the Australian economy expanded 0.3% in the March quarter of 2017, compared to a 1.1% growth rate in the December quarter of 2016. The economy grew 1.7% on a year-over-year basis. Positive contributions from final domestic demand and changes in inventories were able to offset weak net trade and a drop in dwelling investment. The slowdown raises concerns about the outlook for the resource-rich economy, which has not seen back-to-back quarterly declines in GDP in over 25 years. The results are in line with market expectations.

▼ Statistics Canada reported that building permits issued by Canadian municipalities fell 0.2% to \$7.1 billion in April, following a 4.9% drop in March. Lower construction intentions for single-family dwellings were mainly responsible for the national decrease. The value of building permits declined in four provinces in April, led by Ontario and Alberta. On a year-over-year basis, permits are down 3.3%. With the market looking for a rebound, these results are well below consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

June 8

▲ China's General Administration of Customs announced that the nation's trade surplus had widened to US\$40.81 billion in May from April's \$38.05 billion, but was down from the \$44.70 level recorded in May 2016. China's exports rose 8.7% from a year earlier, while imports expanded a significantly greater 14.8%. China's trade surplus with the U.S. was \$22.0 billion in May, up from \$21.34 billion in April. This will remain a sensitive point, politically. The overall May surplus was below consensus expectations.

▲ Japan's statistics bureau reported that the country's GDP saw slower growth than originally believed in the first quarter. Revised estimates show that overall GDP grew by an annualized 1.0% in Q1/17, down from an initial estimate of 2.2% (on the same basis). However, virtually all of the revision (-1.0%) was due to significantly lower estimates of inventory accumulation by private companies. As inventories can fluctuate significantly without necessarily altering underlying economic growth, the figures suggest Japan's economy is still largely on track. However, the overall results are below market forecasts.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 245,000 (seasonally adjusted) in the week ending June 3, a decrease of 10,000 from the previous week's revised level. The previous week's level was revised up by 7,000 from 248,000 to 255,000. The four-week moving average was 242,000, an increase of 2,250 from the previous week's revised average. The previous week's average was revised up by 1,750 from 238,000 to 239,750. These results are in line with consensus estimates.

▼ The Canada Mortgage and Housing Corporation announced that housing starts totalled 194,663 units (seasonally adjusted annual rate) in May. This is down from the 213,498-unit level in April (originally reported as 214,098) and is the weakest seen since November 2016. Urban starts were hard-hit, as multiple urban starts decreased by 10.8% to 118,694 units in May and single-detached urban starts decreased by 8.9% to 59,824 units. The overall results are below market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada announced that its New Housing Price Index jumped 0.8% in April, the largest monthly increase since May 2016. Once again, higher prices in Toronto and Vancouver led the index gain. On a year-over-year basis, the index is up 3.9%, the fastest pace since May 2008. These results are stronger than consensus expectations and suggest continued, uneven price advances across geographic markets.

June 9

▲ Statistics Canada announced that 54,500 jobs were created in May. At the same time, the unemployment rate rose by 0.1 percentage points to 6.6% as the labour force climbed by 78,400. In line with the recent gains, employment was up 1.8% (+316,800) from 12 months earlier. These results are considerably 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.

▲ Statistics Canada also reported that Canadian industries operated at 83.3% of their production capacity in the first quarter of 2017, up from 81.8% in the previous quarter and the highest level since the third quarter of 2007. Increases in capacity utilization in manufacturing, construction, and mining and quarrying more than offset the declines in oil and gas extraction, and forestry and logging. These results are much stronger than expected. Despite the sharp advance, the current level of utilization does not suggest any significant capacity constraints and does not represent a material risk to inflation.

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