

Weekly Commentary – June 19, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 20	Current Account	Q1 17	-\$109.8B	-\$112.4B
June 23	Markit Manufacturing PMI Flash	June 17	53.7	52.7
Canada				
June 22	Retail Sales	April 17	0.3%	0.7%
June 23	Inflation Rate	May 17	0.1%	0.4%
Key Earnings:				
June 19: Blue Star Capital PLC, IBEX Technologies Inc., Scottish Investment Trust PLC				
June 20: Adobe Systems Inc., FedEx Corp., La-Z-Boy Inc., RWS Holdings PLC, SAS AB				
June 21: Carmax Inc., China Gas Holdings Ltd., e.Digital Corp., Petroneft Resources PLC				
June 22: Accenture PLC, Barnes & Noble Inc., Mastek Corp., Sonic Corp., WSI Industries Inc.				
June 23: BlackBerry Ltd., Celesio AG, Finish Line Inc., Naspers Ltd.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian manufacturers extend gains

Statistics Canada announced that national manufacturing sales jumped 1.1% in April to a new record high of \$54.4 billion. The move came on the back of March's downwardly revised 0.8% gain (originally reported as 1.0%). The April advance suggests that manufacturing, as a whole, did carry some momentum into the second quarter. However, gains were not universal, as eight of the 21 major sub-sectors recorded a decline. In addition, while the national figure was a new high, only three of the provinces (British Columbia, Quebec and Prince Edward Island) recorded new all-time highs. Still, with the continued weakness in the Canadian dollar, further support for Canada's manufacturing sector can be anticipated over the medium term.

U.S. Fed hikes interest rates again

The U.S. Federal Reserve Board's Open Market Committee (FOMC) met the financial markets' expectations by raising interest rates at the conclusion of its latest two-day policy meeting. The federal funds rate is now set in the range of 1.0% to 1.25%, the highest level since the rate was cut to 1.0% on October 29, 2008. At the same time, the Fed released its updated economic forecast. Its latest projections for both broader economic growth and inflation were largely unchanged from their March estimates. However, underscoring the strength of the job market that was highlighted in the press release, the unemployment rate is expected to be lower for the balance of the forecast period. For 2017 it is forecast at 4.3% (compared to March projections of 4.5%). It is then expected to drop to 4.2% for both 2018 and 2019. This is down from the March forecast of 4.5% for both years.

U.K. inflation hits new high

In the wake of the recent election and the now-delayed start to the pending Brexit talks, the U.K. received some additional worrisome news. The nation's consumer price index rose 2.9% on a year-over-year basis in May. This is the fastest pace of inflation since June 2013. In addition, this marks the fourth consecutive month with annual price growth above the 2.0% level. According to the Bank of England's Monetary Policy Framework, "Price stability is defined by the government's inflation target of 2.0%." Much of the recent move up was attributed to weakness in the British pound as import prices and the cost of pre-packaged vacations abroad saw material increases. At the same time, recent statistics on incomes has shown further inflation

erosion as weekly earnings (excluding bonuses) increased by 2.1% on an annual basis in the first quarter of 2017. It is widely expected that the currency will remain under pressure once the Brexit talks actually get underway.

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 13

▲ The U.K. Office for National Statistics reported that the consumer price index rose 2.9% (year-over-year basis) in May, higher than the 2.7% in April. It is the highest inflation rate since June 2013 and is above the Bank of England's 2.0% target. The drop in the value of the currency was key in this report, as prices of imports and holidays abroad helped drive the overall index higher. These results were above expectations.

■ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) was unchanged (on a seasonally adjusted basis) in May. The index increased 2.4% for the 12 months ended May 2017, down from 2.5% in April. Excluding volatile food and energy components, the index rose 0.3% for the month and 2.1% on a year-over-year basis. These results are mixed with the headline figure coming in slightly below expectations, while core PPI-FD was slightly above market consensus. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

June 14

■ The U.K. Office for National Statistics announced that the unemployment rate remained unchanged at 4.6%, a 42-year low, during the February to April measurement period. In addition, the employment rate was also stable, remaining at an all-time high of 74.8%, while the number of people employed rose by 109,000. These results are in line with market consensus. The data shows continued resilience, despite ongoing uncertainty on the political and international trade fronts.

▼ The U.S. Census Bureau announced that retail and food services sales were down 0.3% (seasonally adjusted) for the month of May but were 3.8% above May 2016 levels. Excluding autos, sales fell an identical 0.3% during the month and were up the same 3.8% on a year-over-year basis. These figures are weaker than expected. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▼ The U.S. Bureau of Labor Statistics reported that the consumer price index decreased 0.1% (seasonally adjusted basis) in May. Over the last 12 months, the index increased 1.9%. These results were below expectations.

▲ The U.S. Census Bureau announced that business sales were flat in April but were up 5.6% from April 2016 levels. At the same time, inventories slipped 0.2% lower on the month but were up 2.3% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of April was 1.37. The April 2016 ratio was 1.42. These results were somewhat weaker than consensus expectations. Soft business sales coupled with diminishing inventories, unless they are reversed, will likely represent a drag on GDP results for the quarter.

▲ The U.S. Federal Reserve raised interest rates following its latest two-day policy meeting, with the target range for the federal funds rate set at 1.0% to 1.25%. The statement highlighted positive economic developments in the labour market and increases in both household spending and business fixed investment. The text of the release continued to contain the phrase “economic

conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.” The policy shift at the meeting was widely anticipated and is in line with expectations. Monetary policy, as decided by the Fed, has a significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

June 15

▲ The Australian Bureau of Statistics announced that 42,000 jobs were added during the month of May, while the unemployment rate dropped by 0.2 percentage points to 5.5%. The national employment figures have historically been volatile, but the stronger trend in recent months has suggested a sustainable improvement. 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.

▼ The U.S. Department of Labor announced that initial jobless claims totaled 237,000 (seasonally adjusted) in the week ending June 10, a decrease of 8,000 from the previous week's unrevised level of 245,000. The four-week moving average was 243,000, an increase of 1,000 from the previous week's unrevised average of 242,000. These results are somewhat stronger than consensus estimates.

▲ The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in June but at a less robust pace. The Philly Fed general business conditions index dropped to 27.6 from 38.8 in May. With the market looking for a sharper decline, these results are above expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▲ Statistics Canada reported that manufacturing sales rose 1.1% to a record high \$54.4 billion in April, mainly due to higher sales in the petroleum and coal product, and primary metal industries. On a year-over-year basis, manufacturing sales rose 7.6%. This is much stronger than market consensus. This data is closely watched as it can create high-value employment and manufacturing was one of the hardest-hit sectors during the 2008-09 recession.

■ The U.S. Federal Reserve announced that industrial production was unchanged in May following an upwardly-revised 1.1% increase in April and smaller increases in both February and March. On a year-over-year basis, industrial production was reported to have gained 2.2%. Capacity utilization for total industry slipped lower to 76.6% from 76.7% in April but was up from the 75.6% level recorded a year earlier. These results are weaker than expected. The neutral capacity utilization figure suggests that the U.S. economy continues to operate with material constraints.

June 16

▼ The U.S. Census Bureau announced that housing starts in May were at a seasonally adjusted annual rate of 1,092,000. This is 5.5% below the revised April estimate of 1,156,000, and is 2.4% below the May 2016 rate of 1,119,000. At the same time, the number of building permits issued in May was at a seasonally adjusted annual rate of 1,168,000. This is 4.9% below the revised April rate of 1,228,000 and 0.8% below the May 2016 figure of 1,178,000. These figures are weaker than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada announced that its foreign investors acquired \$10.6 billion of Canadian securities in April, mainly acquisitions of government debt instruments. At the same time, Canadian investors reduced their holdings of foreign securities by \$9.9 billion, the largest divestment since January 2016. The foreign acquisition of Canadian securities was below expectations. Foreign investment flows can significantly influence the relative strength of the Canadian dollar.

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