

Weekly Commentary – June 5, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
June 5	Markit Composite PMI Final	May 17	53.9	53.2
June 5	Consumer Credit Change	April 17	\$16.30B	\$16.43B
June 6	IBD/TIPP Economic Optimism	June 17	50.95	51.30
June 9	Wholesale Inventories	April 17	-0.3%	0.1%
Canada				
June 8	Housing Starts	May 17	220.9 k	214.1 k
June 9	Capacity Utilization	Q1 17	82.73%	82.20%

Key Earnings:

June 5: Fuji Corp., Lombard Medical Inc., Navistar International Corp., Toshin Corp., VP PLC
 June 6: Canadian Solar Inc., Enzo Biochem Inc., Oxford Industries Inc., Sears Canada Inc.
 June 7: DavidsTea Inc., KMG Chemicals Inc., Picton Property Income Ltd., Transat AT Inc.
 June 8: Auto Trader Group PLC, Dell Technologies Inc., Hudson's Bay Co., Verifone Systems Inc.
 June 9: FreeBit Co. Ltd., Novus Holdings Ltd., Software Service Inc., Volt Information Sciences Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy surges in the first quarter

Updated figures revealed a 3.7% (annualized) gain in Canadian gross domestic product (GDP) during the first quarter of this year, more than triple the U.S. pace of 1.2% on the same basis. Interestingly, despite significant press coverage highlighting the recent strength of the U.S. economy, this latest report from Statistics Canada shows that domestic GDP growth averaged 2.3% over the most recent four quarters, exceeding the U.S. (1.9%) average growth rate. Canadian growth was widespread with only exports revealing a decline during the three-month period. Strong growth in household spending (4.3%) coupled with a rebuilding of inventories (\$12.3 billion), which more than reversed the fourth-quarter drawdown (\$2.5 billion), lead the advance. On a monthly basis, GDP by industry rose 0.5% (month-over-month) in March to close the quarter on a strong note. However, the Bank of Canada recently stated that the economy was unlikely to see near-term follow through on the strength anticipated in this report.

U.S. job growth tapers off

The latest data from the U.S. Bureau of Labor Statistics revealed a modest 138,000 advance in non-farm payrolls during May. The relatively soft monthly gain, coupled with downward revisions to prior data, capped the weakest three-month period for job growth (362,000) since May to July of 2012 (334,000). At the same time, the unemployment rate slipped 0.1% to 4.3%. This is the lowest rate since February 2001 (4.2%). However, the drop in the unemployment rate was attributed to a substantial 429,000 decline in the labour force, as the participation rate slipped to 62.7%. Wage growth registered a modest 0.2% for the month and stood at 2.5% on a year-over-year basis. Even though the U.S. job market appears, recently, to have reached a plateau, it is expected that the U.S. Federal Reserve will continue to move toward tighter monetary policy.

Brazil tentatively emerges from extended recession

Brazil's statistics agency reported that GDP grew by 1.0% (quarter-over-quarter) in the first quarter of 2017, following a downwardly revised 0.5% contraction in the previous quarter. This was the first advance since the final quarter of 2014 and the strongest gain since the second quarter of 2013. However, on a year-over-year basis, total output was still down 0.4%.

Nevertheless, the increase in output signalled the end of Brazil's worst recession on record. Still, Brazilian President Michel Temer will likely remain under pressure for reform as the nation continues to deal with the money laundering scandal, focused mainly on Brazil's state-run oil company Petrobras, which brought about the impeachment of his predecessor, Dilma Rousseff. The scandal has resulted in massive layoffs within the energy and construction sectors.

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

May 30

▲ Statistics Canada reported that Canada's overall current account deficit widened by \$2.3 billion (on a seasonally adjusted basis) in the first quarter to \$14.1 billion. The balance on international trade in goods posted a \$1.8 billion deficit in the first quarter, following a \$0.1 billion surplus in the previous quarter. The widening in the deficit was larger than anticipated. Current account deficits must be funded by borrowing from foreign lenders.

▲ Statscan also announced that both its Industrial Product Price Index (IPPI) (+0.6%) and its Raw Materials Price Index (RMPI) (+1.6%) rose in April, mainly due to higher prices for energy products. On a year-over-year basis, the indexes were up 6.3% and 17.7%, respectively. The price increases seen in these measures were broadly in line with market expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

May 31

▲ Statistics Canada announced that real GDP rose 3.7% (on an annualized basis) in the first quarter of 2017, after gaining an upwardly revised 2.7% in the fourth quarter of 2016 (originally reported as +2.6%). Strength was seen in the household sector where consumption expenditure jumped 4.3%. Meanwhile exports declined 0.3% (both on the same basis). On a monthly basis, real GDP by industry increased 0.5% in March, suggesting that the economy may have carried some positive momentum into the second quarter. Nevertheless, the Bank of Canada has cautioned that it anticipates a slowdown from this pace over the balance of 2017. Coupled with the revisions, these results are stronger than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ The U.S. Institute of Supply Management reported that its Chicago Purchasing Managers Index slipped to a 55.2 reading in May. This is down from April's 58.3 reading but remains well above the key 50.0 (generally expanding) level. The reading is below consensus expectations and suggests a moderation in manufacturing growth within the region.

June 1

▲ Brazil's statistics agency announced that the country's GDP grew by 1.0% (quarter-over-quarter) in the first quarter of 2017, following a downwardly revised 0.5% contraction in the previous quarter. This is the first expansion in two years and was boosted by a jump in exports and a smaller decline in consumer spending. These results are broadly in line with expectations.

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index edged higher to a 54.9 reading in May. This is a 0.1 gain from April's 54.8 figure and remains above the key 50.0 (generally expanding) level for a 9th consecutive month. The reading is above expectations and indicates a modest improvement in manufacturing activity.

▼ The U.S. Census Bureau announced that construction spending fell 1.4% in April, following an upwardly revised 1.1% gain in March (originally reported as -0.2%). On a year-over-year basis construction was up 6.7%. Given the scale of the revisions, the figure is largely in line with consensus estimates. This result indicates continued volatility in the construction sector.

June 2

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate fell by 0.1 percentage points to 4.3% in May, marking a new cyclical low. At the same time, non-farm payroll employment rose by a modest 138,000, while the April gain was revised downward from 211,000 to 174,000. The decline in the unemployment rate was due largely to a 429,000 drop in the labour force. Job gains occurred in health care and mining. The employment figures are weaker than market 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.

▲ The U.S. Census Bureau announced that the country's international trade deficit in goods and services widened to US\$47.6 billion in April from a revised \$45.3 billion in March. April exports were \$191.0 billion, \$0.5 billion less than March exports. April imports were \$238.6 billion, \$1.9 billion more than March imports. The trade deficit was larger than expected. The weaker trade results will continue to be a drag on GDP.

▼ Statistics Canada announced that Canada's merchandise trade balance with the world narrowed to a \$370 million deficit in April, from a revised \$936 million deficit in March. Exports rose 1.8% to \$47.7 billion. Imports were up 0.6% to \$48.1 billion. Since the market was looking for a smaller deficit in April, these results are weaker than expected. The deficit will continue to hamper overall GDP growth.

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