

## Weekly Commentary – March 13, 2017

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
March 15	Inflation Rate	February 17	0.3%	0.6%
March 15	Retail Sales	February 17	0.34%	0.40%
March 16	Housing Starts	February 17	1.250 M	1.246 M
March 17	Industrial Production	February 17	0.5%	-0.3%
<b>Canada</b>				
March 15	New Motor Vehicle Sales	January 17	132.0 k	128.3 k
March 16	Foreign Securities Purchases	January 17	\$10.6B	\$10.23B
<b>Key Earnings:</b>				
March 13: Catalyst Pharmaceuticals Inc., Energy Fuels Inc., Ryerson Holding Corp., Sunworks Inc.				
March 14: Delphi Energy Corp., Prudential PLC, Rosetta Stone Inc., Trinity Biotech PLC, Volkswagen AG				
March 15: Audi AG, Marshalls PLC, National Bank of Greece SA, Samsonite International SA				
March 16: Adobe Systems Inc., Capital Drilling Ltd., Deutsche Lufthansa AG, Sears Canada Inc.				
March 17: China Coal Xinji Energy Co. Ltd., Progressive Corp., Tiffany & Co.				

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian jobless rate drops

Updated figures from Statistics Canada revealed another decline in the nation's unemployment rate. The 6.6% figure matches the cyclical low recorded in January 2015. In addition, employment gains totalled 15,300 for the month. This was sufficient to boost the annual growth rate to 1.6%, the fastest pace in four years. The composition of the job gains was also favourable as full-time jobs recorded an increase of 105,100 while part-time jobs dropped 89,800, reversing the trend seen in recent months. Nevertheless, the report was not uniformly strong. The participation rate dipped from 65.9% to 65.8%, average hourly earnings were up only a modest 1.3% from a year ago and hours worked recorded a year-over-year decline of 0.3%. These mixed elements of the report suggest that the Bank of Canada will remain on hold even if the U.S. Federal Reserve decides to raise interest rates at its upcoming policy meeting.

#### Market looks for Fed rate hike

In the wake of another strong U.S. payroll report for February, market participants have raised their expectations of a 25 basis point (a basis point is 1/100<sup>th</sup> of one per cent) rate hike at the March 14-15 Federal Open Market Committee meeting. Non-farm payrolls added another 235,000 jobs in February as the unemployment rate dipped to 4.7% and the participation rate climbed to 63.0%. However, perhaps more important to the Fed, average hourly earnings rose an additional US\$0.06 following the \$0.05 and \$0.07 gains recorded in the previous two months. Wage growth now stands at 2.8% (year-over-year), suggesting that some tightening of labour markets is spilling over into wage inflation. Even though a material shift in consumer inflation has yet to appear, it is likely that the Fed will wish to avoid falling behind the curve.

#### China posts rare trade deficit as imports surge

Official data from China's General Administration of Customs revealed the first monthly trade deficit in three years in February. During the month, exports shrank 1.3% (year-over-year) after rising 7.9% (on the same basis) in January. Conversely, imports soared 38.1% in February on the back of a 16.7% advance in the prior month. The February surge in imports is the largest in five

years. The combination left the country with a rare trade deficit of US\$9.15 billion for the month. The surprise deficit comes against a backdrop of increased U.S. political pressure. Coincidentally, China's February trade surplus with the U.S. narrowed to \$10.42 billion, the smallest since February 2012. Analysts noted that, even though trade figures in January and February can be distorted by the week-long Lunar New Year holiday, the increase in imports suggests that domestic demand remains resilient.

## 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

### March 6

▲ According to IHS Markit, Germany's construction PMI accelerated to 54.1 in February from a five-month low of 52.0 in January. Generally, a reading above 50 indicates expansion in the sector and the 54.1 figure signalled a strong overall rise in German construction activity. Growth was lifted by increased activity in residential, commercial and civil engineering categories. The data also showed the second-sharpest rise in new orders in survey history, but the rate of input price inflation eased slightly. The overall results are stronger than expected.

▲ The U.S. Census Bureau reported that factory orders increased 1.2% in January. This followed a 1.3% increase in December. Excluding transportation, new orders increased 0.3% in January. 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.

### March 7

▲ Statistics Canada announced that Canada's merchandise trade balance with the world recorded its third successive monthly surplus in January for the first time in more than two years. The surplus widened from a downwardly revised \$447 million in the previous month to \$807 million. Exports increased 0.5%, driven by higher sales in the crucial auto sector and canola. Imports decreased 0.3%, mainly due to decreased purchases of unwrought gold. The overall results are stronger than expected – a positive sign for overall economic growth.

▲ According to the U.S. Census Bureau, the nation's international trade deficit in goods and services widened to US\$48.5 billion in January 2017 from a US\$44.3 billion gap in the previous month. This is a 9.6% jump and marked the largest trade deficit since March 2012. Exports were up by US\$1.1 billion to US\$192.1 billion, the highest since December of 2014. Imports edged up by US\$5.3 billion to US\$240.6 billion, also the highest since December 2014. The results are in line with market expectations. The wider trade gap will likely impact economic growth in the first quarter.

▼ Germany's federal statistical office, Destatis, announced that German industrial orders dropped 7.4% (month-on-month) in January of 2017. The sharp decline came after a 5.2% increase in December and marked the biggest fall since January 2009. Slowing domestic demand caused the drop in orders to fall by 10.5%, with foreign orders down 4.9% (7.8% decline in demand from the Eurozone) and capital goods plunged 9.9%. The disappointing data suggests that the German industry is facing more problems returning to full speed than the indicators have suggested. The overall results are much weaker than market expectation.

### March 8

▲ Canada Mortgage and Housing Corporation announced that housing starts totalled 210,207 units (seasonally adjusted annual rate) in February. This is up from the 208,934-unit level in January (originally reported as 207,408). The move was led by single-detached urban starts, which increased by 12.1%. These results are stronger than market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada reported that building permits issued by Canadian municipalities rose 5.4% to \$7.6 billion in January, following two consecutive monthly decreases. Six provinces posted increases, led by Alberta and British Columbia. Nationally, construction intentions rose in every component, particularly institutional buildings. On a year-over-year basis permits are now up 17.1%. These results are in line with consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

▲ Statscan also announced that labour productivity of Canadian businesses edged up 0.4% in the fourth quarter of 2016, after increasing 1.2% in the previous quarter. These figures are broadly in line with expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

▼ China unexpectedly reported an international trade deficit of US\$9.15 billion in February 2017, compared to a US\$28.2 billion surplus a year earlier and a US\$51.53 billion surplus in January 2017, according to the country's General Administration of Customs. It was the first monthly trade deficit since February 2014, as imports soared at their fastest pace since early 2012 while exports slowed down. In February, shipments abroad dropped by 1.3% year-on-year, compared against a 7.9% rise in January. Imports surged 38.1% as commodity prices and domestic demand increased. The data casts a spotlight on the export giant's trade position, however most analysts attributed the rare trade gap to distortions caused by the week-long Lunar New Year holiday. The net results are much weaker than expected.

▼ The U.S. Census Bureau announced that wholesale sales edged 0.1% lower in January from the revised December result but were up 8.4% from the January 2016 level. The December preliminary estimate was revised downward from +2.6% to +2.4%. In January, wholesale inventories declined 0.2% for the month but were up 2.2% on a year-over-year basis. This report is in line with expectations. Activity at the wholesale level can be an indicator of future consumer trends.

### March 9

▲ The U.S. Department of Labor announced that initial jobless claims totalled 243,000 (seasonally adjusted) in the week ending March 4, an increase of 20,000 from the previous week's unrevised level of 223,000. The four-week moving average was 236,500, an increase of 2,250 from the previous week's unrevised average of 234,250. These results are slightly weaker than consensus estimates.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.1% in January. The increase was largely attributable to new housing prices in Ontario. On a year-over-year basis, the overall index is up 3.1%. These results matched consensus expectations and suggest continued modest improvements in net worth for homeowners.

▲ Statistics Canada also announced that Canadian industries operated at 82.2% of their production capacity in the fourth quarter of 2016, up from 81.6% in the previous quarter. This was the second consecutive quarterly gain. Mining and quarrying was the main source of the increase, rising 5.0 percentage points to 73.9%. These overall results are somewhat weaker than expected. The current level of utilization does not suggest any material capacity constraints and does not represent a material risk to inflation.

▼ According to China's National Bureau of Statistics, the nation's consumer price inflation advanced 0.8% year-on-year in February 2017, down substantially from the 32-month high of 2.5% posted in January. It is the lowest inflation rate since January 2015. The sharp deceleration was mainly driven by lower food prices. Month-on-month, overall consumer prices fell 0.2%, the first outright decline in four months. These results are much weaker than expected. While consumer price inflation slowed sharply, the producer price inflation surged in February to 7.8% (year-on-year) as mining costs soared (36.1% from a year earlier) and raw material prices jumped (15.5% from a year earlier). Given these results, more volatile movements in consumer prices can be anticipated.

**March 10**

▲ Statistics Canada announced that 15,300 jobs were added in February on the back of January's surprise 48,300 gain. The unemployment rate continued to move lower, easing to 6.6% from 6.8% during the month. In line with the recent gains, employment was up 1.6% (+288,100) from 12 months earlier. These results are stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors. It is also indicative of consumer spending trends.

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate edged down to 4.7% in February from 4.8% in January, while non-farm payroll employment rose by 235,000. The decline in the unemployment rate came despite a 160,000 gain in the labour force. Employment gains occurred in construction, private educational services, manufacturing, health care and mining. The employment report is stronger than anticipated. 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.

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