Assante® WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – March 20, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
March 22	Existing Home Sales	February 17	5.70 M	5.69 M
March 22	EIA Crude Oil Stocks Change	March 17	1.200 M	-0.237 M
March 24	Durable Goods Orders	February 17	-0.6%	1.8%
March 24	Markit Services PMI – Flash	March 17	53.4	53.8
Canada				
March 21	Retail Sales Ex. Autos	January 17	0.51%	-0.30%
March 22	Budget Balance	January 17	$-1.9B	$-1.3B
March 24	Inflation Rate	February 17	0.2%	0.9%

Key Earnings:
March 20: Bahamas Petroleum Company PLC, Evotec AG, Mortgage Advice Bureau (Holdings) PLC
March 21: Canadian Solar Inc., FedEx Corp., General Mills Inc., Nike Inc., TPG Telecom Ltd.
March 22: China Oilfield Services Ltd., Medical Transcription Billing Corp., Seabridge Gold Inc.
March 23: Accenture PLC, Northeast Securities Co. Ltd., Oxford Industries Inc., Unico American Corp.
March 24: Aluminum Corp. of China Ltd., Power Corporation of Canada, Smiths Group PLC

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian manufacturing maintains momentum

For a third straight month Statistics Canada reported a gain in manufacturing sales. January's 0.6% increase came on the back of December's 2.3% advance and provided the basis for a second straight "all time high" (now $53.8 billion) in overall sales. Gains were widespread, rising in 14 of 21 major subgroups, representing 75.4% of the total Canadian manufacturing sector. Looking further out, there is room for some optimism. Following two months of declines, both unfilled orders and new orders recorded gains of 0.3% and 4.6%, respectively, in January. It remains to be seen if the improvement in sales will eventually foster material job growth in the sector as employment remained down 2.9% (year-over-year) in January and down 27.9% from its peak in November 2002.

Fed hikes rates, with more expected

Following its latest policy meeting, the U.S. Federal Reserve Board's Open Market Committee (FOMC) reset the target range for the federal funds rate higher by 25 basis points (a basis point is 1/100th of one per cent) to 0.75% to 1.00%. The tone of the accompanying statement was largely upbeat with respect to the anticipated evolution of the economy. Expectations for GDP growth were increased slightly to 2.1% in 2018, while forecasts for unemployment were largely unchanged, with officials expecting the rate to fall to 4.5% by 2019. However, the FOMC raised its short-term outlook for core PCE inflation to 1.9% this year. According to the released documents, two more rate increases of 0.25% are anticipated by Fed officials in 2017. Three 0.25% rate hikes are also forecast for 2018, with the federal funds rate reaching its long-run goal of 3.0% in 2019.

Mixed responses follow the Fed

Only hours after the U.S. Federal Reserve announced its third rate hike of the current cycle, its counterparts from other major nations made their own moves. China followed suit by raising interest rates by 10 basis points on both its medium-term lending facility loans and open market operation reverse repurchases agreements. The decision reinforced Beijing's perceived policy priority to boost its currency's appeal and cool domestic asset inflation. Conversely, Japan and the U.K. kept their benchmark rates unchanged. The Bank of England left the bank rate at a record low of 0.25% and maintained asset purchases at the £435 billion level. Japan also held its key short-term interest rate at -0.1%, with its 10-year government bond yield target remaining at "around" 0%. As the economies of different nations face various challenges including inflation, deflation and political uncertainties, their take on monetary policies focuses attention on the emerging global divergence among the major central banks.

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 13

▼ Italy's national statistics agency reported that the country's industrial production fell 2.3% month-on-month in January 2017, reversing a 1.4% rise in December. It was the first contraction in four months and marked the worst industrial performance since January 2012. Energy production rose 3.1% on a monthly basis, while output declined for capital goods (-5.3%), intermediate goods (-3.4%) and consumer goods (-1.6%). On a year-on-year basis, industrial output dropped by 0.5%, down from an upwardly revised 6.8% increase in December. The results are much weaker than expected, raising concerns about the durability of the country's economic recovery.

March 14

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) climbed 0.3% (seasonally adjusted) in February. The index increased 2.2% for the 12 months ended February 2017, the largest year-over-year advance since a 2.4% increase in the 12 months ended March 2012. These figures are above consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ According to the latest data from Eurostat, Eurozone industrial production grew 0.9% month-on-month in January 2017, recovering from a downwardly revised 1.2% decrease in December. The monthly output gain in January was mostly due to a sharp increase in production of capital goods (up 2.8% from -2.8% in December) and energy (1.9% compared to -1.2%). Meanwhile, output declined for non-durable goods (-0.7%), intermediate goods (-0.4%) and durable goods (-0.4%). On a year-on-year basis, industrial production increased 0.6%, down from an upwardly revised 2.5% rise in the previous period. The results for January are weaker that market expectation, suggesting that the Eurozone economy made a slower start to 2017 than the surveys have implied.

March 15

▲ The U.S. Census Bureau announced that retail and food services sales were up 0.1% (seasonally adjusted) for the month of February and were 5.7% above February 2016 levels. Excluding autos, sales gained 0.2% during the month and were up an identical 5.7% on a year-over-year basis. January gains were revised higher on a monthly basis (to +0.6% from +0.4%). With the revisions, these results are stronger 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 increased 0.1% (seasonally adjusted basis) in February, the smallest one-month rise in the seasonally adjusted all items index since July. Over the last 12 months, the index increased 2.7%. These results matched market expectations. These figures are consistent with the market view of gradually expanding inflationary pressures.

▲ The U.S. Census Bureau announced that business sales rose 0.2% in January and were up 6.4% from January 2016 levels. At the same time, inventories climbed 0.3% and were up 2.3% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of January was 1.35. The January 2016 ratio was 1.41. These results matched consensus expectations. Rising business sales suggest stable economic growth while diminishing inventories/sales ratios suggest a business may need to replenish dwindling stockpiles.

▲ The U.S. Federal Reserve raised interest rates following its latest two-day policy meeting, with the target range for the federal funds rate now set at 0.75% to 1.00%. The statement signalled a cautious, yet generally positive view of economic developments that would coincide with “gradual increases in the federal funds rate.” The policy shift was widely anticipated and is in line with expectations. Monetary policy, as decided by the Fed, has significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

March 16

▼ The U.S. Department of Labor announced that initial jobless claims totalled 241,000 (seasonally adjusted) in the week ending March 11, a decrease of 2,000 from the previous week's unrevised level of 243,000. The four-week moving average was 237,250, an increase of 750 from the previous week's unrevised average of 236,500. These results are in line with consensus estimates.

▲ The U.S. Census Bureau announced that housing starts in February were at a seasonally adjusted annual rate of 1,288,000. This is 3.0% above the upwardly revised January estimate of 1,251,000, and is 6.2% above the February 2016 rate of 1,213,000. At the same time, the number of building permits issued in February was at a seasonally adjusted annual rate of 1,213,000. This is 6.2% below the upwardly revised January rate of 1,293,000 but is 4.4% above the February 2016 figure of 1,162,000. With the revisions, these figures are stronger than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in March but at a less robust pace. The Philly Fed general business conditions index eased to 32.8 from the post-recession high of 43.3 in February. The index has been positive for eight consecutive months and remains at a relatively high reading. These results are above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▼ Statistics Canada announced that foreign investors acquired $6.2 billion of Canadian securities in January, down from $10.2 billion in December. At the same time, Canadian investors increased their holdings of foreign securities by $8.6 billion, led by purchases of U.S. instruments. The foreign acquisition of Canadian securities was below expectations. Foreign investment flows can significantly influence the relative strength of the Canadian dollar.

▲ The People’s Bank of China raised short-term funding costs with rates on open market operation reverse repos for seven-day, 14-day and 28-day bumped to 2.45%, 2.6% and 2.75%, respectively. Meanwhile, the central bank also increased the cost of funds lent via its Medium-term Lending Facility by 10 basis points, with six-month and one-year rates now set at 3.05% and 3.2%. According to the official statement, the decisions were meant to stave off capital outflows and to keep the yuan stable, after the U.S. Federal Reserve raised rates.

■ The Bank of England Monetary Policy Committee voted to keep interest rates on hold, leaving its key rate steady at a record low of 0.25%. The stock of purchased assets was left at £435 billion, continuing to reflect the central bank’s policy on quantitative easing. According to the policymakers, the decision was based on the trade-off between faster and above-target inflation, and the signs of a weakening economy.

■ The Bank of Japan kept its key short-term interest rate at -0.1% at its March meeting. During the meeting, policymakers also decided to leave the 10-year government bond yield target at around 0% and maintained their optimistic economic view. Japan’s decision casts the spotlight on the central bank’s ongoing struggle with deflation, and suggests that it could be difficult to see a change of course during 2017. The decision came only hours after the U.S. Federal Reserve hiked the rates, highlighting the global divergence among central banks and monetary policies.

March 17

▲ Statistics Canada reported that manufacturing sales rose 0.6% in January, the third consecutive monthly advance. The gain stemmed from a 2.3% increase in non-durable goods sales, led by the petroleum and coal, and chemical industries. In line with the gain, sales on a year-over-year basis are now up 2.7%. With the market anticipating a reversal, following the strong December gain, this report is much stronger than expected. This data is closely watched as manufacturing can create high-value employment and it has been one of the slowest sectors to recover from the recession.

▼ According to data released by Eurostat, the 19-country currency area recorded a €0.6 billion trade deficit in January 2017, compared with a €4.8 billion surplus in the same month of the previous year. It was the first trade gap since January 2014. Exports grew by 13% on the year to €163.9 billion, but the rise was counterbalanced by a 17% jump in imports (€164.5 billion). This result is weaker than expected. Generally a trade deficit is not unusual in January, as winter demand for energy tends to peak and exports of other goods slow. However, the deficit raises concerns over economic growth in the Eurozone.