

Weekly Commentary – March 27, 2017

Alfred Lam, MBA, CFA
Senior Vice President & Portfolio Manager

Richard J. Wylie, MA, CFA
Vice President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
March 28	Wholesale Inventories Adv.	February 17	0.51%	-0.20%
March 29	Pending Home Sales Y/Y	February 17	0.54%	0.40%
March 30	GDP Growth Rate Q/Q Final	Q4 16	1.9%	3.5%
March 31	Personal Income	February 17	0.31%	0.40%
Canada				
March 30	PPI Y/Y	February 17	2.5%	2.3%

Key Earnings:

March 27: Cancom SE, Glacier Media Inc., Leaf Clean Energy Co., P&F Industries Inc., Steadymed Ltd.
 March 28: American Realty Investors Inc., Hainan Mining Co. Ltd., Medicure Inc., Talon Metals Corp.
 March 29: China Airlines Ltd., Lululemon Athletica Inc., Sunworks Inc., Vermillion Inc.
 March 30: Alibaba Pictures Group Ltd., Lotto25 AG, Perlite Canada Inc., Titan Machinery Inc.
 March 31: Founder Securities Co. Ltd., Starway Bio-Technology Co. Ltd., Top Energy Company Ltd. Shanxi

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy continues to build momentum with retail sales surge

Canadian retail sales rebounded in January with the largest gain in nearly seven years. The value of retail sales climbed 2.2% to a seasonally adjusted \$46.0 billion, with 10 of 11 major subgroups showing higher sales. Similarly, consumer spending was strong across the country, with retail sales up in every province. On a year-on-year basis, retail sales increased 4.5%. In addition, immediately following the report, the Canadian dollar extended gains against the U.S. dollar. The data follows recent stronger-than-expected results for wholesale and manufacturing sales, and trade and job creation, putting economic growth on track for a higher expectation. After a strong end to 2016, based on the recent momentum, it appears the Canadian economy is off to a good start in 2017.

U.S. housing market remains strong

Fresh data from the U.S. Census Bureau revealed that January's new home sales in the U.S. surged by the most since July 2016, with a 6.1% increase to an annualized pace of 592,000 units, topping economists' estimates of a 1.6% rise to 564,000 units. This follows a larger than expected drop in February's sales of previously owned homes (-3.7% to an annualized 5.48 million units), which accounts for a much larger section of the housing market, mainly due to the persistent shortage of houses on the market that pushes up prices. However, looking forward, there are signs supply finally began to pick up to meet strong demand from prospective homebuyers as housing starts stood at a nine-and-a-half-year high of 1,288,000 in February.

Japan's February trade surplus hits multi-year high

Contrasting the moribund domestic economy, Japan's finance ministry announced the nation's largest monthly trade surplus in nearly seven years. The 813.4 billion yen surplus in February represented a dramatic change from the 1.087 trillion yen deficit just a month earlier. Much of the improvement was linked to demand from China with exports soaring 28.2% from the same month last year, creating Japan's first trade surplus with China in five years. Japan also posted its first trade surplus with the U.S. in three months (611.27 billion yen) as exports to the U.S. rose 0.4% and imports dropped 0.7%. The figures come at a sensitive

time for Japan-U.S. trade relations as unclear details about the U.S. president's economic and trade policies have added to uncertainty in Japan's outlook.

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 20

▲ Statistics Canada reported that wholesale sales unexpectedly soared by 3.3% to a record high of \$59.1 billion in January, compared with a 0.3% rise in the previous month. This was the fourth consecutive monthly increase and the largest monthly percentage gain since November 2009. Sales were up in four of the seven subsectors, with the motor vehicle and parts subsector contributing the most (17.1% increase to \$11.9 billion). Meanwhile, inventories decreased 0.3% to \$73.7 billion in January, the first decline in six months. In volume terms, wholesale trade grew by 3.4%, which is likely to bolster overall economic growth in January. This monthly advance is much stronger than expected, indicating an optimistic future consumer trend.

▲ Germany's producer prices jumped 3.1% year-on-year in February, following a 2.4% growth in the previous month, the national statistics office announced. It is the fourth consecutive month of gains in producer prices and the strongest since December 2011. The price increase was mainly driven by faster growth in cost of energy (5.4% from 4.0% in the previous month), intermediate goods (3.3% from 2.4%) and non-durable consumer goods (2.3% from 1.0%). On a monthly basis, producer prices increased 0.2%, compared with a 0.7% rise in January. Both the year-on-year data and monthly data are marginally weaker than expected.

March 21

▲ Statistics Canada reported that retail sales advanced 2.2% to \$46.0 billion in the month of January 2017, following a downwardly revised 0.4% decrease in December. It is the biggest increase since March 2010. The pick-ups were widespread as higher sales were reported in 10 of 11 subsectors, representing 98% of retail trade. On a year-on-year basis, retail sales increased 4.5%. Core retail sales, excluding automobiles, increased by 1.7% in January after a 0.5% decline in the preceding month. The monthly advance is well above market expectation, indicating an optimistic trend over the Canadian economy.

▼ The U.S. Commerce Department announced that the current account deficit shrank to US\$112.4 billion in the fourth quarter of 2016, a drop of 3.1% from the \$116 billion deficit (upwardly revised) in the previous period. It is the smallest gap since the second quarter of 2015 as the surplus widened for the primary income (by \$19.9 billion to \$61.5 billion) and the services account (by \$1.4 billion to \$63.8 billion). Considering the full year, the U.S. current account deficit rose 3.9% to \$481.2 billion in 2016, the highest figure since 2008. The quarterly deficit number is lower than expected. The current account is the most complete measure of trade because it covers not only trade in merchandise and services but also investment flows.

▲ According to the United Kingdom Office for National Statistics, consumer prices accelerated 2.3% year-on-year in February 2017, up from 1.8% in January. It is the highest inflation level since September 2013. Transport costs, which were pushed up by rising fuel costs, were the biggest drivers of inflation in February. Also, food prices increased in annual terms for the first time since April 2014. The results beat expectations and shoot above the Bank of England's (BoE) 2% target. The BoE expects inflation to peak at 2.8% next year, although some economists think the rate could rise above 3%. However, despite inflation standing above the 2% target, some economists do not expect interest rates to rise any time soon.

March 22

▼ According to the U.S. National Association of Realtors, sales of previously owned houses declined 3.7% month-over-month to a seasonally adjusted annual rate of 5.48 million in February of 2017, down from a 10-year high of 5.69 million in the prior month. It is the lowest value in five months, mainly because of a 9.2% drop in sales of condos and a 3% decline in single family. The fall is steeper than economists' estimates.

▲ Japan posted a trade surplus of 813.4 billion yen (\$7.29 billion) in February, reversing January's 1.087 trillion yen deficit and more than tripling the 235.5 billion yen surplus a year ago. This is the nation's largest monthly trade surplus in nearly seven years. Exports grew 11.3% year-on-year, the biggest gain since January 2015 as shipments to China surged by 28% from a year earlier. Imports edged up 1.2% mainly due to oil. Exports to the U.S. rose 0.4% and imports fell 0.7%, leaving the trade surplus at 611.27 billion yen. The overall trade surplus is marginally lower than expected.

March 23

▲ The U.S. Department of Labor announced that initial jobless claims totalled 258,000 in the week ending March 18, an increase of 17,000 from the previous week's level of 241,000. The four-week moving average was 240,000, an increase of 2,750 from the previous week's average of 237,250. The results are weaker than consensus estimates.

▼ According to the latest research survey from research house Gfk, the Gfk consumer climate indicator for Germany is set to decline to 9.8 in April 2017 from 10 in March. It is the lowest reading since December. A rise in inflation in Germany and the resultant intensified concerns over income buying power have hindered the full recovery of consumer sentiment in March. While economic expectations and the propensity to buy largely compensated for losses from the previous month, income expectations were down for the second time in a row (dropping 4.7 points to 43.4). The reading results are marginally weaker than expected. However, the Gfk struck an optimistic tone anticipating the "slightly weak phase" in consumer confidence will come to an end when inflation falls back.

▲ According to the United Kingdom Office for National Statistics, retail sales jumped 1.4% month-over-month in February 2017, reversing an upwardly revised 0.5% drop in January. It was the first increase following three months of declines. The increase was mainly attributed to rising sales in household goods and clothes. Compared with February 2016, sales rose 3.7%. However, the underlying pattern in the three months to February contracted by 1.4%, a decline not seen since March 2010. Although the month-over-month results are stronger than expected, the underlying trend raises concerns about the negative effect of accelerating inflation on the economy.

▲ The U.S. Census Bureau announced that new-homes jumped 6.1% to 592,000 units (seasonally adjusted annual rate) in February 2017, following an upwardly revised 558,000 units in the previous month. Compared to February 2016, sales were up 12.8%. It is the highest level since July 2016. The results are well beyond consensus estimates, suggesting the housing market recovery continued to gain momentum despite the challenges of high price and tight inventories.

▲ Finance Canada announced that the federal government recorded a budget surplus of \$1.2 billion in January 2017, compared to a \$1.1 billion surplus a year earlier and a \$1.3 billion deficit in December 2016. Revenues increased in most areas, including corporate income taxes, totalling \$1.9 billion, or 7.1%. Meanwhile, program expenses rose 7.7%. For the April 2016 to January 2017 period of the 2016-17 fiscal year, the government posted a budgetary deficit of \$12.8 billion, compared to a surplus of \$4.3 billion reported in the same period the year before.

March 24

▲ According to Statistics Canada, consumer prices in Canada increased 2% year-on-year, easing from a 2.1% rise in the previous month, with consumers paying 2.3% less for food and 2.2% less for telephone services than in February 2016. The higher prices were mainly driven by gasoline and passenger vehicles. The annual core inflation rate was 1.7%, unchanged from January. The results are lower than expected.

▲ The U.S. Census Bureau announced that durable goods orders went up 1.7% month-over-month in February, following an upwardly revised 2.3% jump in January. Orders so far this year are running 1.6% higher than in the first two months of 2016.

Orders for commercial aircraft saw a 47.6% jump in February. Orders also rose for primary metals. Non-defence capital goods orders excluding aircraft fell 0.1% after edging up 0.1% in the previous month. The figures are stronger than market expectations, indicating that manufacturing is on an upswing.

▲ According to IHS Markit, the Eurozone Composite PMI climbed to 56.7 in March 2017 from 56 in February. It is the highest reading since April 2011, boosted by improvement in both service (56.5 from 55.5) and manufacturing (56.2 from 55.4). In addition, the survey showed the best employment growth for almost a decade as both manufacturing and service sector firms responded to surging order books. On the other hand, price pressures increased with input and output prices rising the most in nearly six years. By country, growth accelerated in Germany (58.3 from 56.8), driving job creation to the highest in six years. The overall results are stronger than expected, indicating that the economic momentum in the Eurozone remains very strong.

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