Assante WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – March 5, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
March 5	Markit Composite PMI Final	February 18	55.9	53.8
March 6	IBD/TIPP Economic Optimism	March 18	55.49	56.70
March 7	Exports	January 18	$204.60B	$203.35B
Canada				
March 7	Balance of Trade	January 18	-$2.80B	-$3.19B
March 9	Employment Change	February 18	19.9 k	-88.0 k

Key Earnings:
March 5: Communications Systems Inc., Michaels Companies Inc., Rex Energy Corp.
March 6: Catalyst Biosciences Inc., GWG Holdings Inc., H&R Block Inc., Target Corp.
March 7: Hallmark Financial Services Inc., NCI Building Systems Inc., Vivint Solar Inc.
March 8: Dell Technologies Inc., Genomic Health Inc., One Liberty Properties Inc.
March 9: American Woodmark Corp., Federal Agricultural Mortgage Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy posts solid gain in 2017

Statistics Canada reported that the economy expanded an annualized 1.7% in the final quarter of 2017, stronger than the downwardly-revised 1.5% pace seen in the third quarter. Nevertheless, benchmark revisions to the data for 2017 as a whole left calendar year growth at 3.0%, the best year since 2011 (3.1%). Household consumption was one of the key drivers, rising 3.5% during the year. In addition, business fixed capital formation turned positive in 2017 (+2.6%) after declining steadily in 2015 and 2016 (-6.1%, -4.5%). Still, the data that was specific to the month of December was less robust. GDP growth by industry slipped to 0.1% from the 0.4% pace seen in November. This pushed annual growth down to 3.3%. While this is still a healthy pace, it has been steadily declining since it stood at 4.5% in May 2017. The overall report raises questions with respect to the economy's momentum heading into 2018.

U.S. consumer data raises further questions

The most recent report from the U.S. Census Bureau revealed both a decline in retail sales in January and a number of downward revisions to prior months' data. Following this report, the U.S. Bureau of Economic Analysis announced that while overall consumer spending (personal consumption expenditure) rose 0.2% in January, after adjusting for inflation, it actually fell 0.1%. This is the first decline (on this basis) in a year and adds further evidence that consumers may be easing back on their spending as interest rates rise. The apparent loss of spending momentum comes despite steady job growth and a 17-year low in the unemployment rate (4.1%). Additionally, average hourly earnings (+2.9% year-over-year) remained ahead of growth in the overall consumer price index (+2.1% year-over-year) in January. It remains to be seen if this pullback in spending is a temporary phenomenon.

India passes China as the fastest-growing major economy

India's Central Statistics Office announced that the nation's GDP grew 7.2% (annualized) in the fourth quarter of 2017.This is a significant jump from an upwardly revised 6.5% advance in the previous period and the strongest growth rate since July 2016. China recorded growth of 6.8% in the October-December quarter. The new GDP figure pushes India ahead of China as the world's fastest-growing major economy. In the past 18 months, the Indian economy was hit by twin shocks of demonetization (removal of high-denomination currency from circulation) and the introduction of the Goods and Services Tax (GST), which disrupted economic activity that has only now started to rebound. From an expenditure perspective, consumption and external demand picked up while private capital expenditure remained sluggish. Politically, the apparent economic revival is good news for Prime Minister Narendra Modi ahead of next year's general election.

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

February 27

▼ The U.S. Census Bureau announced that durable goods orders dropped 3.7% in January, following a downwardly-revised 2.6% increase in December (originally reported as 2.9%). Excluding transportation, new orders decreased 0.3% in January. Excluding defence, new orders decreased 2.7%. With the downward revisions to the previous data, these figures are weaker than market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

▲ Germany's Federal Statistical Office (Destatis) reported that the nation's consumer price index (CPI) increased 0.5% (month-over-month) in February, after a 0.7% decrease in the previous month (on the same basis). This monthly reading matched market expectations. However, on a year-over-year basis, the inflation rate came in at 1.4% in February, following a 1.6% rise in January. This reading was the lowest rate since November 2016 and was slightly below the consensus forecast. A sharp slowdown in food inflation and flat energy prices were behind these results.

▲ The U.S. Conference Board announced that its consumer confidence index jumped higher in February from January's downwardly revised level. The index now stands at 130.8, up from 124.3 in January (previously reported as 125.4) and is the highest since November 2000 (132.6). The Present Situation sub-index increased from 154.7 to 162.4. The Expectations sub-index improved from 104.0 to 109.7. Despite the downward revisions, these results are much stronger than market expectations. Consumer confidence is an indicator of spending patterns.

February 28

▲ The U.S. Bureau of Economic Analysis announced that real GDP grew at an annual rate of 2.5% in the fourth quarter of 2017. This figure is the "second estimate," while the original growth estimate was 2.6%. In the third quarter of 2017, real GDP increased 3.2% on the same basis. The downward adjustment reflected a slight downward revision to private inventory investment. These results matched market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) rose 0.3% and its Raw Materials Price Index (RMPI) jumped 3.3% in January. On a year-over-year basis, the indexes are up 2.0% and 7.7%, respectively. Higher prices for energy products was the primary driver for both indexes during the month. The monthly gain in the IPPI was somewhat below consensus estimates, while the advance in the RMPI was above market expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ India’s Central Statistics Office announced that the nation’s GDP grew 7.2% (annualized) in the final quarter of 2017. This is a significant jump from an upwardly revised 6.5% advance in the previous period and the strongest growth rate since July 2016. The new GDP figure pushes India ahead of China as the world's fastest-growing major economy and the result is stronger than market expectations. This report is an additional sign that the Indian economy is starting to recover from the soft growth that coincided with the introduction of the GST and demonetization.

March 1

▼ The U.S. Department of Labor announced that initial jobless claims totalled 210,000 (seasonally adjusted) in the week ending February 24, a decrease of 10,000 from the previous week's revised level. This is the lowest level for initial claims since December 6, 1969 when it was 202,000. The previous week's level was revised down by 2,000 from 222,000 to 220,000. The four-week moving average was 220,500, a decrease of 5,000 from the previous week's revised average. This is the lowest level for this average since December 27, 1969 when it was 219,750. The previous week's average was revised down by 500 from 226,000 to 225,500. These results are stronger than consensus estimates.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.4% in January and personal consumption expenditures (PCE) increased 0.2%. Based on revised figures, both personal income and PCE increased 0.4% in December. While income figures for January were above expectations, spending results were in line with consensus estimates. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▼ Statistics Canada reported that Canada's overall current account deficit narrowed by $2.2 billion (on a seasonally adjusted basis) in the fourth quarter of 2017 to $16.3 billion. This was largely the result of a lower deficit in trade goods. The decline in the deficit was larger than anticipated. Current account deficits must be funded by borrowing from foreign lenders.

▲ The Swiss Federal Statistical Office announced that the nation’s GDP increased by 0.6% (quarter-over-quarter) in the fourth quarter of 2017, following an upwardly revised 0.7% rise in the third quarter (on the same basis). This matched consensus estimates. On a year-over-year basis, GDP experienced a 1.9% increase in the final quarter, following a 1.2% expansion in the previous period. This reading is the highest rate since July 2016 and was stronger than the market forecast. Growth was broadly-based across the various business sectors with manufacturing, construction and most service sectors, particularly financial services, providing momentum.

▲ Brazil’s statistics agency reported that the nation’s GDP grew by 0.1% (quarter-over-quarter) in the final quarter of 2017, following an upwardly revised 0.2% expansion in the previous period (on the same basis). This reading was below market expectations and was the lowest growth rate in 2017. On a year-over-year basis, GDP advanced 2.1% in the fourth quarter, 0.7% higher than the third quarter reading and is somewhat lower than the consensus forecast. However, considering 2017 as whole, the Brazilian economy experienced an expansion after a two-year recession. Investment spending, agriculture and industrial production helped pull the country out of its worst recession on record.

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved higher to a 60.8 reading in February. This is a 1.7 point gain from January's 59.1 figure and remained above the key 50.0 (generally expanding) level for an 18th consecutive month. The reading is above expectations and indicates an acceleration in manufacturing activity.

■ The U.S. Census Bureau announced that construction spending was virtually unchanged in January, following an upwardly revised 0.8% gain in December (originally reported as 0.7%). On a year-over-year basis, construction was up 3.2%. The monthly growth figure is below consensus estimates and indicates little change in the construction sector.

March 2

▲ Statistics Canada announced that real GDP grew 1.7% (annualized) in the final quarter of 2017, up from the downwardly-revised 1.5% pace recorded in the third quarter (originally reported as 1.7%). Importantly, household spending slowed and business inventories continued to accumulate. On a monthly basis, real GDP by industry edged up 0.1% in December, well below the 0.4% pace seen in November. These results raise questions about the economy’s momentum heading into 2018. Coupled with the revisions, these results are somewhat weaker than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ Germany's Federal Statistical Office reported that the nation's retail sales experienced a surprise 0.7% decline (month-over-month) in January, after an upwardly revised 1.1% decrease in December 2017 (originally reported as -1.9%). On a year-over-year basis, sales are up 2.3%, following a revised 0.2% decrease (on the same basis) during the prior month. These results were well below the consensus forecast. The figures are disappointing for those hoping that Germany could reduce its reliance on foreign trade to fuel its booming economy as trade propelled Germany's fourth-quarter expansion of 0.6%.