

Weekly Commentary – March 6, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
March 7	Consumer Credit Change	January 17	\$19.30 B	\$14.16 B
March 8	ADP Employment Change	February 17	150 k	246 k
March 8	Wholesale Inventories	January 17	0.52%	1.00%
March 10	Average Hourly Earnings	February 17	0.16%	0.10%
Canada				
March 8	Housing Starts	February 17	205.4 k	207.4 k
March 10	Employment Change	February 17	29.4 k	48.3 k
Key Earnings:				
March 6: Dixie Group Inc., JG Wentworth Co., U.S. Auto Parts Network Inc., Xenon Pharmaceuticals Inc.				
March 7: Clean Energy Fuels Corp., Garrison Capital Inc., Horizon Oil Ltd., Just Eat PLC, Radio One Inc.				
March 8: Adidas AG, Brookfield Real Estate Services Inc., Evoke Pharma Inc., Northwest Pipe Co.				
March 9: Hugo Boss AG, McEwan Mining Inc., Pioneer Power Solutions Inc., Verifone Systems Inc.				
March 10: Citi Trends Inc., Delta Electronics Inc., Kirkland's Inc., Superior Drilling Products Inc.				

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada remains on the sidelines

The latest policy decision from the Bank of Canada came as no surprise to market players, as the central bank left interest rates unchanged. The press release that accompanied the announcement specifically highlighted that “the bank’s three measures of core inflation, taken together, continue to point to material excess capacity in the economy.” This came despite the admission that “growth in the fourth quarter of 2016 may have been slightly stronger than expected.” This expectation was clearly borne out in the subsequent release of the GDP data showing growth for the quarter at an annualized 2.6%, well above the January forecast of 1.5%. Despite the fourth quarter surge, Statistics Canada reported that overall growth for 2016 as a whole was 1.4%, well above the 0.9% recorded for 2015, but only marginally higher than the bank’s 1.3% forecast.

U.S. consumers step up

Even though the updated data from the U.S. Bureau of Economic Analysis left overall GDP growth unchanged at an annualized 1.9% pace in the final quarter of 2016, the composition of the growth was altered. Both government spending and inventory accumulation were revised down. However, revisions to personal consumption expenditure (PCE) took its annualized growth rate to 3.0% from 2.5% for the quarter. In addition, January saw some follow through with another 0.2% gain in consumption. The combination lifted the year-over-year growth pace to 4.7%, the fastest since November 2014. The continued strength in the U.S. labour market suggests further expansion of consumer spending. However, for the first time in several years inflationary pressures may partially offset these gains.

Economies close 2016 on a strong note

At the end of last year, the world entered an era of greater political uncertainty. While the future impact on global economic growth is not yet known, the final quarter of 2016 proved to be a solid foundation for a number of countries. In the last three months of 2016, Sweden recorded a quarter-over-quarter 1.0% advance in GDP. This was well above the prior quarter’s 0.3% pace and provided some hope of meeting the country’s inflation targets. The Australian economy registered a 1.1% expansion on

the quarter, as it bounced back from the 0.5% *contraction* in the previous three-month period, thus avoiding a technical recession. Meanwhile, in India, GDP expansion in the October to December period slowed to 7.0% from 7.4% in the prior quarter, but it retained the title of the world's fastest-growing "big" economy.

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 increased 1.8% in January, following a downwardly revised 0.8% decline in December (originally reported as -0.4%). Excluding transportation, new orders decreased 0.2% in January. Excluding defence, new orders increased 1.5%. With the downward revisions to the previous data, these figures are broadly in line with market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

▲ The Euro Area Business Climate Indicator improved to a 0.82 reading in February from 0.76 the previous month, according to survey results from the European Commission. The strong improvement was fuelled by increased exports as well as overall orders, while assessments of stocks of finished goods and production expectations declined. The results were stronger than market expectations and marked the indicator's highest level since June 2011. The pickup in the indicator is a positive sign for the Eurozone's overall growth.

February 28

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) rose 0.4% in January, mainly due to higher prices for energy and petroleum products. Its Raw Materials Price Index (RMPI) increased 1.7%, led by higher prices for animals and animal products. On a year-over-year basis, the indexes are up 2.3% and 23.0%, respectively. The IPPI figures are in line with expectations while the volatile RMPI figures are above expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew at an annual rate of 1.9% in the final quarter of 2016. This matches the original growth estimate. In the third quarter, real GDP increased 3.5% on the same basis. In the current report, an upward revision to personal consumption expenditure was offset by downward revisions to state and local government spending and to non-residential fixed investment. These results are weaker than expected as the market was looking for a modest upward revision. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ India's economy expanded 7% year-on-year in the final quarter of 2016, according to the country's central statistics office, slowing down from a 7.4% rise (upwardly revised) in the previous period. While this was the slowest pace since 2014, the growth rate is stronger than market expectations.

▲ Statistics Sweden announced that Swedish GDP recorded a 1% advance (quarter/quarter) in the last three months of 2016. The figures are considerably stronger than the revised 0.3% increase posted in the third quarter and marked the highest growth rate in

a year. A pickup in exports (a 1.8% increase) and rising investments boosted the economic expansion. The results are stronger than expected, providing some hope that the central bank may eventually meet its inflation target after more than five years of misses.

▲ The U.S. Institute for Supply Management reported that its Chicago Purchasing Managers Index jumped to a 57.4 reading in February, the highest level since January 2015. This is a dramatic gain from January's 50.3 reading and is now well above the key 50.0 (generally expanding) level. The reading is considerably stronger than consensus expectations and indicates an acceleration in manufacturing activity within the region.

▲ The U.S. Conference Board announced that its consumer confidence index advanced in February from January's downwardly revised level. The index now stands at 114.8, up from 111.6 in January (previously reported as 111.8). The Present Situation Index rose from 130.0 to 133.4 and the Expectations Index increased from 99.3 last month to 102.4. The new overall reading is the strongest since July 2001 and is above expectations. Consumer confidence is an indicator of spending patterns.

March 1

▼ Statistics Canada reported that Canada's overall current account deficit narrowed by \$9.0 billion (on a seasonally adjusted basis) in the fourth quarter to \$10.7 billion, as the goods balance posted its first surplus in more than two years. The sharp decline in the deficit was in line with expectations. Current account deficits must be funded by borrowing from foreign lenders.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased US\$63.0 billion, or 0.4% in January. Personal consumption expenditures (PCE) increased \$22.2 billion, or 0.2%. Based on revised figures, personal income increased 0.3% in December, as did PCE. While income figures for January were above expectations, spending results were weaker. Income and spending patterns of consumers are critical factors in the health of the broader economy.

■ The Bank of Canada announced that it was maintaining the target for its key overnight interest rate at 0.50%. The bank rate was correspondingly left unchanged at 0.75% and the deposit rate at 0.25%. The central bank highlighted that its three inflation measures suggest that significant slack remains in the economy. The "no-change" policy results (with respect to interest rates) are in line with consensus expectations. Canadian monetary policy, as decided by the Bank of Canada, has significant influence on both the domestic economy and the value of the currency.

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved higher to a 57.7 reading in February. This is a 1.7 point gain from January's 56.0 figure and remains above the key 50.0 (generally expanding) level for a 6th consecutive month. The reading is above expectations and indicates a modest acceleration in manufacturing activity.

▼ The U.S. Census Bureau announced that construction spending fell 1.0% in January, following an upwardly revised 0.1% advance in December (originally reported as -0.2%). On a year-over-year basis construction was up 3.1%. The monthly growth figure is weaker than consensus estimates. Some uncertainty within the construction sector will continue, as the U.S. government's spending plans remain unclear.

▲ The Australian Bureau of Statistics announced that the Australian economy recorded a 1.1% expansion (quarter/quarter) in the last three month of 2016. The figures are considerably stronger than the 0.5% contraction measured in the third quarter and marked the strongest growth rate since the March 2016 quarter. The rebound in the fourth quarter was aided by a surge in exports, rising in commodity prices and higher consumer and government spending. On an year-over-year basis, Australian GDP advanced 2.4%, compared with 1.9% growth in the previous period. The GDP growth figures were stronger than expected, providing greater confidence that the Australian economy has bounced back.

▼ Germany's number of jobless fell by 14,000 (seasonally adjusted) to 2.592 million in February 2017, the national labour agency reported, leaving the unemployment rate at a record low of 3.8%. It was the fifth consecutive month that the jobless queues have contracted for the nation. The figures were better than expected, indicating that the labour market continued to develop positively.

▲ Inflation in Germany accelerated further in February to 2.2% (year/year) after an increase of 1.9% in January, the country's statistics office announced. This was the fastest pace since August 2012 and surpassed the European Central Bank's target of just under 2%. The results were stronger than market expectations. The increase in German inflation could be seen as a positive sign rather than negative, considering the recent deflation concerns. The sustained rebound in German inflation provides an additional argument for a moderation of the ECB's expansionary monetary policy.

March 2

▼ The U.S. Department of Labor announced that initial jobless claims totalled 223,000 (seasonally adjusted) in the week ending February 25, a decrease of 19,000 from the previous week's revised level. This is the lowest level for initial claims since March 31, 1973 when it was 222,000. The previous week's level was revised down by 2,000 to 242,000. The four-week moving average was 234,250, a decrease of 6,250 from the previous week's revised average. This is the lowest level for this average since April 14, 1973 when it was 232,750. The previous week's average was revised down by 500 to 240,500. These results are stronger than consensus estimates.

▲ Statistics Canada announced that real gross domestic product (GDP) rose 0.6% quarter-over-quarter (or +2.6% on an annualized basis) in the final quarter of 2016, after gaining an upwardly revised 3.9%, annualized in the third quarter (originally reported as +3.5%). For the year as a whole, GDP expanded by 1.4% in 2016, following more modest growth in 2015 (+0.9%). Gains in personal consumption, government spending and growth in exports were the main drivers of GDP during the quarter. On a monthly basis, real GDP by industry increased 0.3% in December, suggesting that the economy carried some positive momentum into the first quarter of 2017. Coupled with the revision, these results are stronger than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The European Union's statistics agency, Eurostat, announced that Eurozone consumer prices rose 2% in February from a year earlier, following a 1.8% increase in January. This was the fastest pace since January 2013 and was in line with the European Central Bank's target of just below 2%. The rising inflation was mainly supported by accelerating energy prices, which increased to 9.2% compared with 8.1% in January. The results are in line with market expectation. Meanwhile, the Eurozone's core inflation remained steady at 0.9% for the third consecutive month in February. The divergence between the two inflation figures highlights the challenges that the ECB faces when choosing the appropriate amount of monetary stimulus.

March 3

▼ Survey data from Japan's federal cabinet office showed that consumer confidence dropped unexpectedly to a 43.1 reading in February, down from a 40-month high of 43.2 in January. This was the weakest reading since December 2016. Among the index components, the perception for both income growth and willingness to buy durable goods worsened during the month. Meanwhile, employment and overall livelihood improved in February. A reading below 50 suggests that pessimistic consumers still dominate Japan's economy. The result missed consensus estimates.

▲ The U.S. Institute for Supply Management announced that its Non-manufacturing Index recorded a 57.6 reading in February. It was up 1.1 points from the 56.5 level registered in January, reaching its highest level since October 2015. The index remained above the key 50.0 (generally expanding) level for a 86th consecutive month. This figure is above consensus expectations. This result indicates continued growth, at a more rapid rate in the non-manufacturing sector.

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