

Weekly Commentary – May 15, 2017

Alfred Lam, MBA, CFA
Senior Vice President & Chief Investment Officer

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

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
May 15	NAHB Housing Market Index	May 17	67.19	68.00
May 16	Building Permits	April 17	1262.5 k	1267.0 k
May 16	Industrial Production	April 17	0.16%	0.50%
Canada				
May 19	Retail Sales	March 17	0.44%	-0.60%
May 19	Inflation Rate Y/Y	April 17	2.1%	1.6%

Key Earnings:
 May 15: Bauer AG, Digital Power Corp., Japan Post Bank Co. Ltd., Mosaic Capital Corp., Vermillion Inc.
 May 16: easyJet PLC, Home Depot Inc., Manchester United PLC, Staples Inc., Vodafone Group PLC
 May 17: Cisco Systems Inc., DelMar Pharmaceuticals Inc., Johnson Electric Holdings Ltd., Target Corp.
 May 18: Investec PLC, Gap Inc., Ralph Lauren Corp., Salesforce.com Inc., Wal-Mart Stores Inc.
 May 19: Campbell Soup Co., Eurobank Ergasias SA, Ortel Communications Ltd., Ryman Healthcare Ltd.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing data remains mixed

Updated figures from Canada Mortgage and Housing Corporation revealed a 15.1% decline in housing starts during April. Of late, the figures have shown considerable volatility as the move down came on the back of an 18.6% advance during March. At the same time, Statistics Canada reported that building permits had fallen 8.4% in March. Here too, significant monthly moves have forced the annual pace of growth in permits to retreat to just 4.3% in March from January's 24.7% growth pace. Statscan's New Housing Price Index (NHPI) showed more consistent results, revealing a 0.2% increase in March. This index has not recorded a decline since July 2010. However, this measure reveals considerable regional bias. Toronto (8.4%) leads the 15 gainers on a year-over-year basis. Meanwhile St. John's (-0.7%) is one of six metropolitan areas that has experienced a decline on the same basis.

U.S. consumer spending bounces back

After pausing in February and March, American consumers appear to have begun to reopen their wallets in April. The U.S. Census Bureau reported that retail and food services sales jumped 0.4% in April, following an upwardly revised 0.1% gain (previously reported as a 0.2% decline) in March. The changes to the data may be sufficient to prompt a mild upward revision to the first quarter's disappointing 0.7% (annualized) growth pace for GDP. Looking forward, continued strength has been seen in the U.S. labour market, with unemployment having dropped to 4.4%. This will be supportive for overall consumption further into the second quarter of this year.

French election signals a boost to EU support

Newly elected centrist French President Emmanuel Macron campaigned on the idea that France could achieve its best interest within the EU rather than from the outside. His ability to capture two-thirds of the votes was widely seen as a rejection of the ideas espoused by his far-right rival Marine Le Pen. Given the recent history of populist support favouring backing away from a

global view of the world economy, Macron stated that France was facing an "immense task" to rebuild European unity. He, nevertheless, underscored that this was his political goal, stating "I will defend Europe; it is our civilization which is at stake...I will work to rebuild ties between Europe and its citizens."

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

May 8

▲ In France's presidential election, centrist Emmanuel Macron was victorious over far-right Marine Le Pen in a roughly two-thirds to one-third voting split. Analysts suggested that his success came, in part, due to his more optimistic tone. Marine Le Pen's message was viewed as generally negative – anti-immigration, anti-European Union and anti-system. European markets have responded positively to this result.

▼ Canada Mortgage and Housing Corporation announced that housing starts totalled 214,098 units (seasonally adjusted annual rate) in April. This is down 15.1% from the downwardly revised 252,305-unit level in March (originally reported as 253,720). Multiple urban starts decreased by 16.7% to 134,314 units in April and single-detached urban starts decreased by 12.1%, to 65,171. While the market was looking for a slow-down, these results are still weaker than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

May 9

▼ Germany's federal statistical office announced that industrial production was down by 0.4% (seasonally adjusted) from the previous month in March 2017. The February advance was revised upward to +1.8% and for the first quarter as a whole, production was up 1.4%. As the market was looking for a larger reversal in March, this report is stronger than expected and suggests that Europe's biggest economy picked up steam in the first quarter.

▼ Statistics Canada reported that the value of building permits issued by Canadian municipalities fell 5.8% to \$7.0 billion in March, marking a second consecutive monthly decrease. Nationally, the decline was mainly the result of lower construction intentions for multi-family dwellings, particularly in British Columbia and Ontario. On a year-over-year basis permits are up 1.5%. As analysts were forecasting a rebound in permits, these results are significantly weaker than consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

■ The U.S. Census Bureau announced that wholesale sales were virtually unchanged in March from the revised February level but were up 9.1% from the March 2016 level. The February preliminary estimate was revised upward by 0.1%. At the same time, wholesale inventories rose 0.2% for the month and were up 3.0% on a year-over-year basis. This report largely matched consensus expectations. Activity at the wholesale level can be an indicator of future consumer trends.

May 10

▲ Brazil's statistics institute announced that consumer prices in Brazil rose 4.1% year-over-year in April. This follows a 4.6% increase in March. The inflation rate has slowed for the past eight consecutive months and now stands at the lowest rate since July of 2007. This is the first time that it has been below the central bank target of 4.5% since December of 2009. These results are in line with consensus expectations.

May 11

▼ The U.S. Department of Labor announced that initial jobless claims totalled 236,000 (seasonally adjusted) in the week ending May 6, a decrease of 2,000 from the previous week's unrevised level of 238,000. The four-week moving average was 243,500, an increase of 500 from the previous week's unrevised average of 243,000. These results are somewhat stronger than consensus estimates.

▲ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) rose 0.5% (seasonally adjusted) in April. The index increased 2.5% for the 12 months ended April 2017, the largest increase since moving up 2.8% for the 12 months ended February 2012. These figures are above consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.2% in March compared with the previous month. The gain comes on the heels of a 0.4% advance in February as higher new house prices in Vancouver and Toronto led the index once again. On a year-over-year basis, the index is up 3.3%. These results are in line with consensus expectations and suggest a continuation of the regional biases within Canada's housing market.

May 12

▲ The U.S. Census Bureau announced that retail and food services sales were up 0.4% (seasonally adjusted) for the month of April and were 4.5% above April 2016 levels. Excluding autos, sales were up 0.3% during the month and also up 4.5% on a year-over-year basis. Given the upward revisions to previous data, these figures are broadly in line with expectations. 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 announced that the consumer price index increased 0.2% (seasonally adjusted basis) in April. Over the last 12 months, the index increased 2.2%. These results matched consensus expectations. These figures are consistent with the U.S. Federal Reserve's expectations of steady inflationary pressures.

■ The U.S. Census Bureau announced that business sales were virtually unchanged in March but were up 6.5% from March 2016 levels. At the same time, inventories climbed 0.2% during the month and were up 2.6% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of March was 1.35. The March 2016 ratio was 1.40. These results matched consensus expectations. Matched business and inventories suggest that businesses are avoiding unwanted inventory accumulation.

▲ The Thomson Reuters/University of Michigan index of consumer sentiment rose to 97.7 in the mid-month reading for May. This is up from the 97.0 level recorded for April and is within reach of the post-recession high of 98.5 reported for January. This is another indicator of the likely pattern of consumer spending.

Although the above information has been compiled from sources believed to be reliable, as at the date indicated, we cannot guarantee its accuracy or completeness. The information is provided solely for informational and educational purposes and is not to be construed as advice in respect of securities or as to the investing in or buying or selling of securities, whether express or implied. All data provided is subject to change without notice. The authors of this publication are employed by CI Investments Inc. or its affiliates. Assante Wealth Management and/or Assante Wealth Management and design are trademarks of CI Investments Inc. Neither CI Investments Inc. nor any of its affiliates or their respective officers, directors, employees or advisors is responsible in any way for damages or losses of any kind whatsoever in respect of the use of this information. © 2017 CI Investments Inc.