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WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – May 1, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
May 1	Personal Income	March 17	0.32%	0.40%
May 1	Markit Manufacturing PMI Final	April 17	52.8	53.3
May 3	ADP Employment Change	April 17	258.7 k	263.0 k
May 4	Balance of Trade	March 17	-$44.4B	-$43.6B
May 5	Unemployment Rate	April 17	4.7%	4.5%
Canada				
May 1	RBC Manufacturing PMI	April 17	55.25	55.50
May 4	Balance of Trade	March 17	$1.00B	-$0.97B
May 5	Employment Change	April 17	22.5 k	19.4 k

Key Earnings:
May 1: Eurasia Travel Co. Ltd., Lexicon Pharmaceuticals Inc., North American Energy Partners Inc.
May 2: Apple Inc., Brookfield Real Estate Services Inc., Nortech Systems Inc., WestJet Airlines Ltd.
May 3: Canadian Real Estate Investment Trust, Facebook Inc., HSBC Holdings PLC, New York Times Co.
May 4: Audi AG, Hydro One Ltd., Kellogg Co., Motorola Solutions Inc., Richmont Mines Inc., Viacom Inc.
May 5: Air Canada, Global Capital Markets Ltd., IGM Financial Inc., Revlon Inc., TransCanada Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

North American GDP data softens

The release of “advance” estimates of U.S. GDP by the Bureau of Economic Analysis revealed a 0.7% (annualized) growth pace in the first quarter of 2017. This is well down from the 2.1% rate posted for Q4/16 and is now the slowest growth pace since an outright contraction (-1.2%) in the first quarter of 2014. Personal consumption was held out as the main culprit for the slowdown as consumer spending rose a mere 0.3%, the smallest gain since the final quarter of 2009. On the domestic front, Statistics Canada reported that GDP by industry edged higher, but was virtually unchanged (less than 0.1%) from January’s level. Nevertheless, despite this softening, overall output did rise to a new record level and year-over-year growth stood at 2.5%, its highest rate since December of 2014.

Nasdaq breaks above 6,000

The tech-heavy Nasdaq index crossed above the psychological 6,000 level for the first time on April 25, 2017, establishing a new all-time high. Meanwhile, the broader S&P 500 failed to keep pace, with its most recent high having been set back on March 1. However, these two indexes have displayed disparate performance in the past. The bursting of the tech bubble took the Nasdaq from a record high of 5,048.6 on March 10, 2000 down 77.9% to 1,114.1 on October 9, 2002. Over the same period the S&P 500 fell 49.1%. While the S&P recovered its losses in 2007, the Nasdaq took more than 16 years, finally setting its first new high as recently as September 22, 2016. More recently the divergent trading has been attributed to favourable earnings results for technology companies and lingering uncertainty with respect to details on any changes to the tax rate on repatriation of overseas profits.

U.K. GDP disappoints as inflation bites

The Office for National Statistics released preliminary data on Friday showing that Britain's economy grew less than expected in the first quarter of 2017. U.K. GDP grew by only 0.3% in the quarter, while on an annual basis, the growth figure was 2.1%. Both the quarterly and annual figures missed market expectations. The quarterly figure (0.3%) marked the slowest growth since the first three months of 2016. The slowdown was led by consumers, whose incomes are under pressure from rising inflation. The data came out a day after German Chancellor Angela Merkel's "warning" to British Prime Minister Theresa May not to harbour "illusions" that the EU will do Britain any favors as the U.K. will become a "third-party" country to the EU. This is the most important collection of economic data to be published before the June 8 general election in the U.K. and the disappointing first quarter figure may be the first sign that the Brexit economic slowdown is officially here.

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

April 24

▲ According to the Munich-based Ifo Institute, the Ifo Business Climate Index for Germany climbed to 112.9 in April from an upwardly revised 112.4 in the previous month. It is the highest reading since July 2011. The index of current conditions rose further to 121.1 from 119.5 in March, while the gauge of future expectations fell to 105.2 from 105.7. Sentiment increased among constructors, retailers and wholesalers but fell among manufacturers. The business morale brightened more than expected, suggesting company executives are more upbeat about the current state of Europe's largest economy.

April 25

▲ According to the National Institute of Statistics and Economic Studies, France's Industrial Confidence Index rose to 108 in April from an upwardly revised 105 in March. It is the highest reading since June 2011. The balance of manufacturers' opinions on their past activity rebounded to its highest level since December 2016 (16 from 5 in March) and production expectations increased (14 from 11). In addition, both overall and export order books improved during the month of March (-6 from -9 and -1 from -5, respectively). The composite business confidence stayed steady at 104. The industrial confidence index figure was well above expectations.

▲ The U.S. Census Bureau announced that new-home sales totalled 621,000 units (seasonally adjusted annual rate) in March 2017 – essentially matching the post-recession high (622,000) recorded in July 2016. This result is 5.8% above the revised February rate of 587,000 units and 15.6% above the March 2016 level of 537,000 units. These results are much stronger than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ The U.S. Conference Board announced that its consumer confidence index pulled back in March from February's downwardly revised level. The index now stands at 120.3, down from 124.9 in February (previously reported as 125.6). The Present Situation sub-index decreased to 140.6 from 143.9. The Expectations sub-index declined to 106.7 from 112.3. These results are weaker than expectations. Consumer confidence is an indicator of spending patterns.

April 26

▼ Statistics Canada reported that retail sales cooled in February, dropping 0.6% (seasonally adjusted) following January's dramatic 2.3% monthly increase. Sales were down in 5 of 11 subsectors, representing 67% of total retail sales with gasoline sales

(-3.6%) reporting the largest monthly decline. Clothing stores (+2.2%) recorded the largest gain. Year-over-year sales growth slowed to 4.7% from 6.7%. These results are below consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

April 27

▲ According to the European Commission, the Business Climate Indicator for the Eurozone surged to 1.09 in April 2017 from an upwardly revised 0.83 in March. It is the strongest figure since April 2011. Improvements were seen in most areas: manager's assessments of the past production, overall order books, export order books and the stocks of finished products. Meanwhile, production expectations remained unchanged. The results were much stronger than expected, providing another reason to believe that the recovery of the European economy is picking up speed.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 257,000 (seasonally adjusted) in the week ending April 22, an increase of 14,000 from the previous week's revised level. The previous week's level was revised down by 1,000 to 243,000. The four-week moving average was 242,250, a decrease of 500 from the previous week's revised average. The previous week's average was revised down by 250 to 242,750. These results are weaker than consensus estimates.

▲ The U.S. Census Bureau announced that durable goods orders increased 0.7% in March, following an upwardly revised 2.3% increase in February (originally reported as 1.7%). Excluding transportation, new orders decreased 0.2% in March. Excluding defence, new orders increased 0.1%. With the upward 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.

April 28

▲ According to the Office for National Statistics, the British economy expanded by only 0.3% (Q/Q) in the three months to March 2017, easing from a 0.7% growth pace in the previous period. It was the slowest growth rate since the first quarter of 2016. The first quarter slowdown was led by consumers, whose incomes are under pressure from slowing employment and wage growth, coupled with rising inflation. The figures suggested services output expanded at a slower pace, as consumer-focused industries have been hurt in recent months. On an annual basis, the British economy grew by 2.1%. Both the annual and quarterly GDP figures were weaker than expected.

▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product grew at an annual rate of 0.7% in the first quarter of 2017. This is the "advance estimate" prepared with preliminary data and is often subject to substantial revision. In the fourth quarter of 2016, real GDP increased 2.1% on the same basis. These results are weaker than expected as the market was looking for firmer follow through from 2016. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

■ Statistics Canada announced that, on a monthly basis, real GDP by industry was flat in February, after recording three consecutive months of healthy gains. Gains in service-producing industries were offset by declines in goods-producing industries. On a year-over-year basis, GDP growth stands at 2.5%. While a moderation in growth was anticipated, these results are somewhat weaker than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The Institute for Supply Management reported that its Chicago Purchasing Managers Index climbed higher to a 58.3 reading in April. This is another gain from March's 57.7 reading and remains well above the key 50.0 (generally expanding) level. As the market was looking for a mild decline, this reading is above consensus expectations and indicates a further acceleration in manufacturing activity within the region.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment dipped to 97.0 in the month-end reading for April. This is down from the 98.0 level recorded mid-month but in line with the 96.9 reading for March. This result is weaker than expected, but the current level remains near the post-recession high (98.5) recorded in January. This is another indicator of the likely pattern of consumer spending.

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