

## Weekly Commentary – May 22, 2017

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
May 24	Markit Manufacturing PMI Flash	May 17	54.4	52.8
May 25	Wholesale Inventories Adv.	April 17	0.25%	0.20%
May 26	Durable Goods Orders	April 17	0.13%	0.70%
May 26	GDP Growth Rate Q/Q 2 <sup>nd</sup> Est.	Q1	1.3%	2.1%
<b>Canada</b>				
May 26	Budget Balance	March 17	-\$1.40B	\$1.29B

#### Key Earnings:

May 22: JP Morgan Japanese Investment Trust PLC, Lombard Medical Inc., North West Company Inc.  
 May 23: Bristow Group Inc., DSW Inc., Gemini Corp., Renoworks Software Inc., Williams-Sonoma Inc.  
 May 24: Bank of Montreal, Enwave Corp., Forbes & Company Ltd., Marks and Spencer Group PLC  
 May 25: Canadian Imperial Bank of Commerce, North Atlantic Drilling Ltd., Royal Bank of Canada  
 May 26: Indian Hotels Company Ltd., Onmobile Global Ltd., Public Power Corporation SA, Sinovac Biotech Ltd.

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian manufacturing reaches new high

Statistics Canada reported that overall manufacturing sales jumped 1.0% in March, sufficient to erase the revised 0.6% decline in February and establish a new record high of \$53.9 billion. The March surge raised the year-over-year growth rate to 8.2%, the strongest since July 2014 (9.6%). In addition, quarterly growth in sales stood at 9.3% (annualized) and will likely provide a much-needed boost to GDP growth when the data are made available at the end of the month. However, despite the positive tone of the headline figures, sales gains have been far from uniform. Of the 21 major manufacturing sub-groups, 14 have yet to recover to their respective sales peaks, set before the 2008/09 recession. Continued softness in the Canadian dollar should continue to provide some support, but the extent of this support is unclear as the currency has already been below the US\$0.85 level since January of 2015.

#### U.S. industrial production: stronger and more consistent

While it may not seem like a significant accomplishment, updated figures from the U.S. Federal Reserve revealed a third consecutive increase in industrial production in April. This is the first string of three straight gains since September to November of 2014. The 1.0% monthly advance in April is also the strongest single-month performance since February 2014. At the same time, capacity utilization rose from 76.1% to 76.7%. Despite this increase, capacity utilization remains well below the post-recession high of 79.2% recorded in November 2014 and the 81.0% high of the previous business cycle, posted in April 2007. This report suggests that the U.S. economy began the second quarter on much firmer footing and with no material constraints in terms of plant capacity.

#### Eurozone shows solid growth, underlying disparity

The latest data from Eurostat revealed the Eurozone posted a 0.5% Q/Q GDP growth rate for the first quarter of 2017. This result was widely anticipated and was stronger than the first quarter figure in the U.S. (0.2% on the same basis). Even though the broader picture is positive, considerable differences in growth are being seen across the 19-member nations. Large economies, such as Spain (+0.8%) and Germany (+0.6) produced similar, strong results. Meanwhile smaller economies like Finland (+1.6%)

and Greece (-0.1%) experienced considerably different quarterly results. In fact, Greece entered a technical recession, experiencing two consecutive quarterly contractions in GDP. Nevertheless, the most recent result is actually a significant improvement over the 1.2% drop recorded in the final quarter of 2016 and suggests that some of the implemented austerity measures are beginning to work.

### 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 16

▲ The Eurozone economy expanded 0.5% Q/Q in the first three months of 2017, the same as in the previous period and in line with the preliminary estimate. The best performing nation in the Eurozone was Finland, which logged 1.6% growth in the first quarter. Among the four largest Eurozone nations, Spain was the strongest with an expansion rate of 0.8%, followed by Germany, which registered 0.6% growth. Only Greece (-0.1%) reported a contraction, which is now the second consecutive decline (a technical recession).

▼ The U.S. Census Bureau announced that housing starts in April were at a seasonally adjusted annual rate of 1,172,000. This is 2.6% below the revised March estimate of 1,203,000, but is 0.7% above the April 2016 rate of 1,164,000. At the same time, the number of building permits issued in April was at a seasonally adjusted annual rate of 1,229,000. This is 2.5% below the revised March rate of 1,260,000 but is 5.7% above the April 2016 figure of 1,163,000. These figures are weaker than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The U.S. Federal Reserve announced that industrial production expanded 1.0% in April for its third consecutive monthly increase and its largest gain since February 2014. On a year-over-year basis, industrial production was reported to have gained 2.2%. Capacity utilization for total industry rose to 76.7% from 76.1% in March and 75.6% a year earlier. These results are significantly stronger than expected. The improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

#### May 17

▼ The U.K. Office for National Statistics announced that unemployment in Britain fell to 4.6% in the three months to March from 4.7% in the previous three-month period. This is the lowest unemployment rate since the June to August period of 1975. At the same time, the employment rate for the proportion of workers aged 16 to 64 was 74.8%, the highest since current recordkeeping began in 1971. However, average weekly earnings (excluding bonuses) increased by 2.1% in the three months to March, while inflation rose by 2.3%. This is the first time that wage growth has been below the pace of inflation since mid-2014. Overall, this employment report is stronger than anticipated.

▲ Statistics Canada reported that manufacturing sales jumped 1.0% to a record \$53.9 billion in March, reflecting higher sales in the transportation equipment and food industries. In line with the gain, sales on a year-over-year basis are up 8.2%. This report is much stronger than the market consensus. This data is closely watched as manufacturing can create high-value employment and it has been one of the slowest sectors to recover from the 2008/2009 recession.

**May 18**

▲ The U.K. Office for National Statistics announced that British retail sales jumped 2.3% (month-over-month) in April, the biggest gain since January 2016. The advance was more than sufficient to reverse the 1.4% drop in March and moved the annual pace of growth to 4.0%. Evidence from retailers suggests that good weather contributed to growth. This report was stronger than expected.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 232,000 (seasonally adjusted) in the week ending May 13, a decrease of 4,000 from the previous week's unrevised level of 236,000. The four-week moving average was 240,750, a decrease of 2,750 from the previous week's unrevised average of 243,500. These results are somewhat stronger than consensus estimates.

▲ The Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in May but at a much more robust pace. The Philly Fed general business conditions index jumped to 38.8 from 22.0 in April. The index has been in positive territory for 10 consecutive months. These results are above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▲ Statistics Canada announced that its foreign investors acquired \$15.1 billion of Canadian securities in March, largely in Canadian corporate instruments. At the same time, Canadian investors added \$15.4 billion of foreign securities to their holdings, led by acquisitions of U.S. equities. The foreign acquisition of Canadian securities was well above expectations. Foreign investment flows can significantly influence the relative strength of the Canadian dollar.

▲ The U.S. Conference Board announced that its Leading Economic Index increased 0.3% in April, following a 0.3% increase in March, and a 0.5% increase in February. The monthly move was led by the positive outlook of consumers and financial markets. This figure matches consensus expectations. The report suggests that the moderate expansion in the U.S. economy should continue for the next two quarters.

**May 19**

▲ Statistics Canada reported that retail sales rebounded in March, jumping 0.7% (seasonally adjusted) following February's 0.4% monthly decline. Sales were up in six of 11 subsectors, representing 53% of total retail sales with motor vehicle and parts dealers (3.2%) reporting the largest monthly gain. Clothing stores (-2.7%) recorded the largest of the five declines. Overall, year-over-year sales growth stood at 6.9%. These results are well above consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▲ Statistics Canada announced that consumer prices jumped 0.5% (seasonally adjusted, monthly basis) in April. On a year-over-year basis the CPI was up 1.6%, matching the March figure. Not surprisingly, the annual gain was led by gasoline prices, which posted a 15.9% annual increase. All three new measures of core inflation established by the Bank of Canada continue to show underlying inflation below their 2.0% target. CPI common, which the central bank says is most closely correlated with the output gap, was unchanged at 1.3%. The overall figures are in line with market expectations.

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