

## Weekly Commentary – May 29, 2017

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
May 30	Personal Income	April 17	0.34%	0.20%
May 31	Pending Home Sales Y/Y	April 17	0.53%	0.80%
June 1	ADP Employment Change	May 17	193.3 k	177.0 k
June 2	Balance of Trade	April 17	-\$44.8B	-\$43.7B
June 2	Unemployment Rate	May 17	4.7%	4.4%
<b>Canada</b>				
May 30	PPI Y/Y	April 17	5.3%	5.1%
May 31	GDP Growth Rate Annualized	Q1	3.0%	2.6%
<b>Key Earnings:</b>				
May 29: Frontline Securities Ltd., Indigo Books and Music Inc., North West Company Inc.				
May 30: Agility Health Inc., Canaccord Genuity Group Inc., Laurentian Bank of Canada, Metro AG				
May 31: Box Inc., Chorus Clean Energy AG, National Bank of Canada, Tri Chemical Laboratories Inc.				
June 1: Express Inc., First Financial Holding Co. Ltd., Sinovac Biotech Ltd., Webco Industries Inc.				
June 2: Crymsom Co. Ltd., General Packer Co. Ltd., Natoco Co. Ltd., Tomoe Engineering Co. Ltd.				

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Bank of Canada keeps it brief

At its latest policy announcement window, the Bank of Canada met market expectations by holding interest rates steady once again. Even the press release that accompanied the announcement was shorter than usual. The bank highlighted the fact that its “three measures of core inflation remain below two per cent and wage growth is still subdued, consistent with ongoing excess capacity in the economy.” Underscoring the continued differences between the U.S. and domestic economies, the press release also stated that “the very strong (domestic) growth in the first quarter will be followed by some moderation in the second quarter.” In addition, “Growth in the United States during the first quarter was weak, reflecting mostly temporary factors. Recent data point to a rebound in the second quarter.” It is anticipated that an improvement in the U.S. economy will boost Canadian exports. Still, given the excess capacity, it remains unlikely that the bank will move to raise interest rates over the balance of 2017.

#### U.S. housing activity moderates

U.S. housing statistics for April revealed a softening in activity across the board. Building permits declined 2.5% and the same report showed that housing starts tumbled 2.6% after falling 6.6% in March. During April, the notoriously volatile new home sales figures plummeted 11.4% and existing home sales dropped 2.3%. However, despite these headline declines, housing supplies continue to be tight with inventories of new houses remaining below six months’ supply since July 2014. For existing homes the supply stands at 4.2 months. It appears that ongoing shifts in supply and demand will continue to produce volatile data in the coming months.

#### Inflation edges higher in Japan

Japan’s statistics bureau announced that consumer prices in Japan rose 0.4% (year-over-year) in April of 2017, following a 0.2% increase in March. It was the fastest inflation rate since January. The move up was mainly driven by faster increases in the cost of

food and transportation. Meanwhile the cost of housing continued to fall. Core consumer prices, which exclude fresh food, went up 0.3% on a 12-month basis, following a 0.2% gain in the prior month. It was the fourth straight month of increase and marked its highest level since April 2015. During its April 26 announcement, the Bank of Japan stated that inflation “was likely to continue on an uptrend and increase toward 2%, mainly on the back of an improvement in the output gap and a rise in the medium to long-term inflation expectations.” The bank’s updated forecast has inflation at 1.4% by March 2018.

### 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 23

▲ Germany’s Ifo Business Climate Index rose to 114.6 in May from 113.0 in April. It is now the strongest reading on record. Both current conditions and future expectations improved in May. Sentiment rose among manufacturers, constructors and wholesalers. This report is stronger than consensus expectations.

▲ Statistics Canada reported that wholesale sales rose 0.9% in March and surpassed the \$60 billion mark for the first time. Gains were recorded in four of seven subsectors, accounting for 60% of total wholesale sales, and were led by the building material and supplies subsector. At the same time, inventories edged down 0.3% to \$77.8 billion in March. On a year-over-year basis, overall wholesale sales are up 10.2%, while inventories are up 6.1%. The monthly sales advance matched expectations. Activity at the wholesale level can be an indicator of future consumer trends.

#### May 24

■ The Bank of Canada announced that it was maintaining the target for its key overnight interest rate at 0.5%. The Bank Rate was correspondingly left unchanged at 0.75% and the deposit rate at 0.25%. The bank highlighted that its inflation measures remain below target, despite some signs of an improving domestic 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.

▼ According to the U.S. National Association of Realtors, existing-home sales fell 2.3% to a seasonally adjusted annual rate of 5.57 million units in April from a downwardly revised 5.7 million in March (originally a 5.71 million-unit pace). The report highlights limited supply as an ongoing issue. Sales are now up 1.6% on a year-over-year basis. These results are weaker than consensus expectations. Activity in the housing market has a significant “ripple” effect on the broader economy.

#### May 26

▲ Japan’s statistics bureau announced that consumer prices in Japan rose 0.4% on a year-over-year basis in April of 2017, following a 0.2% increase in March. It was the highest inflation rate since January. The move up was mainly driven by faster increases in the cost of food and transportation. Meanwhile the cost of housing continued to fall. Core consumer prices, which exclude fresh food, went up 0.3% on a 12-month basis, following a 0.2% gain in the prior month. It was the fourth straight month of increase and marked its highest level since April 2015. These results are broadly in line with expectations.

▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew at an annual rate of 1.2% in the first quarter of 2017. The original growth estimate was 0.7%. In the final quarter of 2016, real GDP increased 2.1% on the

same basis. These results are stronger than expected as the market was looking for a more modest upward revision. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ The U.S. Census Bureau announced that durable goods orders decreased 0.7% in April, following significant upward revisions to the March data. The March gain is now reported as 2.3% (originally announced as 0.7%). Excluding transportation, new orders decreased 0.4% in April. Excluding defence, new orders decreased 0.8%. With the upward revisions to the previous data, these figures are stronger than market expectations. Orders for durable goods indicate how busy manufacturers will be in the coming months, as they work to fill those orders.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment declined to 97.1 in the month-end reading for May. This is weaker than the 97.7 level recorded mid-month but slightly higher than the 97.0 reading for April. This remains at elevated levels but is somewhat weaker than market expectations. This is another indicator of the likely pattern of consumer spending.

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