

Weekly Commentary – November 13, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
November 14	PPI Y/Y	October 17	2.4%	2.6%
November 15	Inflation Rate	October 17	0.12%	0.50%
November 15	Retail Sales	October 17	0.31%	1.60%
November 15	Business Inventories	September 17	0.13%	0.70%
November 16	Industrial Production Y/Y	October 17	2.31%	1.60%
Canada				
November 16	Foreign Securities Purchases	September 17	\$13.20B	\$9.85B
November 17	Inflation Rate	October 17	0.11%	0.20%
Key Earnings:				
November 13: CASI Pharmaceuticals Inc., OHA Investment Corp., Prime Energy Corp.				
November 14: American Realty Investors Inc., Hillenbrand Inc., Sunworks Inc.				
November 15: Cisco Systems Inc., Meritor Inc., Progressive Corp., Target Corp.				
November 16: Best Buy Co. Inc., Gap Inc., Helmerich and Payne Inc., Viacom Inc.				
November 17: Abercrombie & Fitch Co., Foot Locker Inc., Luxoft Holding Inc.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian market plays catch up

For the first time, the S&P TSX broke above the 16,000 level on October 30, 2017. Even though the level itself is largely meaningless from a market perspective, the fact that the broader Canadian index reached a new all-time high is significant. The most recent Canadian “bear” market ended on January 20, 2016, but it took until February 10, 2017 for the index to recover and move to a new high. Almost immediately afterward, the domestic market softened again, eventually seeing a pullback of 6.1% by August 21 of this year. As has been the case since the end of the global financial crisis, this period contrasts sharply with the steady market gains seen in the U.S. Since this latest recovery, the Canadian market has moved to new highs on five of the seven trading sessions that followed, something that has not occurred since July 16 to 25, 2014.

Canadian housing figures continue to show stark regional discrepancies

The latest data from Statistics Canada revealed another 0.2% gain in its New Housing Price Index during September, and year-over-year growth came in at 3.8%. Over the past six months, the annual growth rate has been either 3.8% or 3.9%. While this headline figure has been remarkably stable, annual price growth in the Toronto/Oshawa market has dropped from 9.9% in April to 6.4% in September. Counteracting to this move, annual price gains in Vancouver have accelerated from 2.7% in February to 8.3% in the latest report. In addition, the Canadian Housing and Mortgage Corporation reported that housing starts rose 1.6% nationwide in October. However, starts in Ontario tumbled 24.2%, while those in British Columbia jumped 39.7%. The volatility seen in regional markets is expected to continue as the Bank of Canada adjusts monetary policy.

French market hits new highs

Recent economic news from Europe has been showing increased consistency, with industrial output and labour markets displaying greater strength. Not surprisingly, the European Central Bank is revealing initial indications that it will begin to wind up its quantitative easing program. While both Germany’s DAX-30 and the U.K.’s FT-SE 100 stock indexes have been posting

new highs recently, France's CAC-40 is taking the spotlight as well. Of these three main European indexes, only the French index has not been able to regain the ground lost in the 2008-09 global financial crisis. The index closed at 5,518 on November 3, 2017. This was the highest level since January 3, 2008. However, it remains below the index high close of 6,168 on June 1, 2007, and a return to that level would require an additional 11.8% gain at this juncture.

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

November 6

▲ Germany's federal statistical office reported that factory orders increased 1% in September. This followed an upwardly revised 4.1% increase in August (originally reported as 3.6%). The September rise was mainly supported by an increase in overseas demand. In the past two months, German companies have received almost as many orders as they did before the economic and financial crisis. These results are much stronger than expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

November 7

■ The Reserve Bank of Australia left its benchmark cash rate unchanged at a record low of 1.5% following its latest policy meeting. Policymakers stated that the broader Australian economy is expected to expand at an annual rate of around 3% over the next couple of years, supported by an improving outlook for non-mining related investment. Meanwhile, inflation is estimated to pick up gradually as the economy strengthens. The no-change result matches market expectations.

November 8

▲ The National Bureau of Statistics announced that China's trade surplus rose to US\$38.17 billion in October 2017 from \$28.61 billion in September. This was well below the \$48.42 billion figure recorded in October 2016. On a year-over-year basis, imports jumped 17.2%, while exports rose at a more modest 6.9% pace. The politically sensitive trade surplus with the U.S., China's largest export market, narrowed to \$26.6 billion after hitting a record high of \$28.1 billion in September. The overall trade surplus was below consensus estimates. However, the continued growth in both imports and exports suggests that underlying fundamentals remain strong.

▲ The Canada Mortgage and Housing Corporation announced that housing starts totalled 222,771 units (seasonally adjusted annual rate) in October. This is up from the 219,293-unit level in September (originally reported as 217,118) and is the ninth reading above 200,000 so far in 2017. The gain in housing starts was due to an increase in multiple urban starts (up 12.5% on the month). These results are above market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ Statistics Canada reported that building permits issued by Canadian municipalities stood at \$7.9 billion in September, up 3.8% from the previous month. A 1.7% decrease in the residential sector was more than offset by a 13.9% increase in the non-residential sector. A high-value institutional building permit issued in Alberta was behind much of the increase. On a year-over-year basis, permits are up 12.3%. These results are stronger than expectations. Permits are an indicator of the future level of activity in the construction sector.

November 9

▲ China's national statistics bureau reported that its consumer price index increased 0.1% in October, following gains of 0.5% in September and 0.4% in August. Over the last 12 months, the index increased 1.9%. These results were above expectations. This is the highest annual inflation rate since January as the cost of non-food items increased further, while the costs of food fell less than in the previous release. These figures are stronger than market expectations.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 239,000 (seasonally adjusted) in the week ending November 4, an increase of 10,000 from the previous week's unrevised level of 229,000. The four-week moving average was 231,250, a decrease of 1,250 from the previous week's unrevised average of 232,500. This is the lowest level for this average since March 31, 1973 when it was 227,750. These results are in line with consensus estimates.

▲ Statistics Canada announced that its New Housing Price Index rose 0.2% in September, largely reflecting increases in the census metropolitan areas of Kelowna (0.9%) and Vancouver (0.7%). On a year-over-year basis, the index is up 3.8%. These results are broadly in line with consensus expectations and indicate continued improvements in net worth for homeowners in specific locations.

▲ The U.S. Census Bureau announced that wholesale sales rose 1.3% in September from the revised August figure, and were up 8.5% from the September 2016 level. The August preliminary sales estimate was revised downward by 0.1%. At the same time, wholesale inventories rose 0.3% for the month and were up 4.6% on a year-over-year basis. This report is stronger than expected. Activity at the wholesale level can be an indicator of future consumer trends.

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