Assante® WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – November 6, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
November 7	Consumer Credit Change	September 17	$16.10B	$13.06B
November 8	NFIB Business Optimism Index	October 17	105.7	103.0
November 9	Wholesale Inventories	September 17	0.3%	0.8%
Canada				
November 6	Ivey PMI s.a.	October 17	58.0	59.6
November 8	Housing Starts	October 17	215.5 k	217.1 k

Key Earnings:
November 6: CVS Health Corp., GoDaddy Inc., Northern Oil and Gas Inc., ScanSource Inc.
November 7: Infinity Pharmaceuticals Inc., New York REIT Inc., Sunoco LP, Tesco Corp.
November 8: Avalon Holdings Corp., InfoSonics Corp., Olympic Steel Inc., Woodward Inc.
November 9: Cumulus Media Inc., Nordstrom Inc., Stratus Properties Inc., Time Inc.
November 10: Nordic American Offshore Ltd., U.S. Global Investors Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian GDP tips into negative territory

Following the release of the Bank of Canada's updated Monetary Policy Report on October 25, market participants began to fully digest the bank's expectations for a material slowdown in economic activity. The report pegged GDP growth for the third quarter of this year at 1.8% (annualized), which is down from the prior forecast of 2% and less than half of the second quarter's 4.5% growth rate. Nevertheless, Statistics Canada's announcement that the economy contracted 0.1% in August set the stage for a GDP growth figure that may be below the new forecast mark. It was the first outright decline since October 2016 (also -0.1%) and only the second in the past 15 months. On a year-over-year basis, broader economic growth has slipped from a 4.7% pace in May to 3.5% in the current report. This provides further rationale for the bank to remain cautious on any potential policy moves for the near term.

U.S. Federal Reserve holds steady, but leaves door open for December

As was widely expected, the U.S. Federal Reserve left interest rates unchanged after its latest meeting. Despite the absence of a policy move, the press release that accompanied the announcement underscored the surprising resilience of the economy in the wake of Hurricanes Harvey, Irma and Maria. It also repeated its assessment that while inflation may "remain somewhat below 2% in the near term," it's expected to stabilize around the central bank's 2% objective "over the medium term." Given the strength of the labour market and continued declines in the unemployment rate, it appears that the central bank has little reason to back away from another 25-basis point (a basis point is 1/100th of one per cent) increase in the federal funds rate before the end of 2017. The Fed's final policy meeting of the year is scheduled for December 12 and 13, and market participants will be looking for the next move at that time.

Bank of England raises rates

For the first time since July 5, 2007, the Bank of England raised interest rates following its latest policy deliberations. The reference bank rate was increased by 25 basis points to 0.5% from the 0.25% level that had prevailed since August 4, 2016, following the Bank's last rate cut. However, a more dovish tone appeared despite the policy action. The current statement omitted language from the previous one that indicated more hikes could be needed than financial markets were anticipating. Meeting minutes revealed that policymakers remained concerned that economic growth was tenuous as the 2019 split with the European Union approached. Nevertheless, current inflationary pressures present a dilemma as they are running a full percentage point above the bank's 2% target. The bank also indicated that any future interest rate increases will be limited and gradual.

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

October 30

▲ The European Commission announced that economic sentiment in the Eurozone rose to 114.0 in October 2017 from an upwardly revised 113.1 in the previous month. It was the highest reading since January 2001 when the dot-com bubble began to unwind. Sentiment improved among manufacturers (7.9 from 6.7 in September), service providers (16.2 from 15.4), retailers (5.5 from 3.0), constructors (0.2 from -1.7) and consumers (-1.0 from -1.2). These results are stronger than expected and support the notion of a solid, ongoing economic recovery in the 19-country currency bloc.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.4% and personal consumption expenditures (PCE) increased 1% in September. Based on revised figures, personal income increased 0.2% and PCE increased 0.1% in August. Both income and expenditure figures for September were broadly in line with expectations. Income and spending patterns of consumers are critical factors in the health of the broader economy.

October 31

▲ According to Eurostat, real GDP in the Eurozone grew 0.6% (quarter-over-quarter) in the third quarter of 2017. This is the "flash" estimate prepared with preliminary data and is often subject to material revision. In the second quarter, real GDP increased an upwardly revised 0.7% on the same basis. Year-over-year, the economy grew 2.5%, the strongest expansion pace since the first quarter of 2011. These results are stronger than expected. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ Statistics Canada announced that real GDP by industry declined 0.1% on a monthly basis in August, after being relatively unchanged in July. Declines in manufacturing and mining, quarrying, and oil and gas extraction more than offset increases in other sectors. On a year-over-year basis, GDP growth stands at 3.5%. While the Bank of Canada was forecasting a slowdown, the market did not anticipate the move into negative territory. These results are weaker than expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ Statistics Canada reported that its Industrial Product Price Index (IPPI) declined 0.3% and its Raw Materials Price Index (RMPI) fell 0.1% in September. On a year-over-year basis, the indexes are up 1.5% and 6.3% respectively. Higher prices for energy products were offset by declines in other sectors during the month. These figures are below expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ The U.S. Institute for Supply Management reported that its Chicago Purchasing Managers Index jumped to a 66.2 reading in October. This is up from 65.2 in September, well above the key 50.0 (generally expanding) level, and is the highest reading since March 2011. With the market looking for a moderation in this index, the reading is well above consensus expectations and indicates a further acceleration in manufacturing activity within the region.

▲ The U.S. Conference Board announced that its consumer confidence index rose in October to 125.9 from September's upwardly revised level of 120.6 (previously reported as 119.8). This is the strongest reading since December 2000 (128.6). The Present Situation Index increased from 146.9 last month to 151.1, while the Expectations Index rose from 103.0 to 109.1. With the upward revisions, these results are well above expectations. Consumer confidence is an indicator of spending patterns.

November 1

▲ IHS Markit/CIPS announced that the U.K. Manufacturing Purchasing Managers Index rose to a 56.3 reading in October from 56.0 in September. The report showed that production and new orders continued to rise and job creation was the highest in 40 months. With the market looking for this index to moderate, these results are stronger than consensus estimates.

▼ The U.S. Institute for Supply Management reported that its Purchasing Managers Index moved lower to a 58.7 reading in October. This is a 2.1-point loss from September's 60.8 figure, but remains above the key 50.0 (generally expanding) level for a 14th consecutive month. The reading is below expectations and indicates a deceleration in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.3% in September, following a downwardly revised 0.1% gain in August (originally reported as 0.5%). On a year-over-year basis, construction was up 2%. Given the revisions, these results are largely in line with market expectations and indicate continued growth in the construction sector.

■ The U.S. Federal Reserve left interest rates unchanged after its latest two-day policy meeting, with the target range for the federal funds rate remaining at 1% to 1.25%. The Fed last raised interest rates by 0.25% on June 14. The press release that accompanied the announcement underscored the surprising resilience of the economy in the wake of Hurricanes Harvey, Irma and Maria. It also pointed out that inflation had continued to run below 2%. However, the Fed left the door open for another rate hike. With only one policy window remaining in 2017, the markets will now focus on the next two-day meeting scheduled for December 12 and 13, the day before President Trump announces the next chair of the Federal Reserve. The announcement of unchanged interest rates is in line with expectations. Monetary policy, as decided by the Fed, has significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

November 2

▲ For the first time since July 5, 2007, the Bank of England raised interest rates following its latest policy deliberations. The reference bank rate was increased by 25 basis points to 0.5% from the 0.25% level that had prevailed since August 4, 2016, following the Bank's last rate cut. The press release that accompanied the announcement stated that there would be no change to the current quantitative easing program at this juncture. The announcement of the interest rate hike is in line with market expectations. Monetary policy, as decided by the Bank of England, has significant influence on both the domestic economy and the value of the currency.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 229,000 (seasonally adjusted) in the week ending October 28, a decrease of 5,000 from the previous week's revised level. The previous week's level was revised up by 1,000 from 233,000 to 234,000. The four-week moving average was 232,500, a decrease of 7,250 from the previous week's revised average. This is the lowest level for this average since April 7, 1973 when it was 232,250. The previous week's average was revised up by 250 from 239,500 to 239,750. These results are somewhat stronger than consensus estimates.

▲ The U.S. Bureau of Labor Statistics announced that non-farm labour productivity increased at a 3% (annualized) rate during the third quarter of 2017, while unit labour costs rose 0.5% on the same basis. These figures are stronger than market expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.

November 3

▲ Statistics Canada announced that 35,300 jobs were added in October, and the unemployment rate rose by 0.1 percentage point to 6.3% as the labour force climbed by 56,800. As seen in previous data, significant gains in full-time jobs (88,700) were more than sufficient to offset declines in part-time jobs (53,400) during the month. In line with the recent overall gains, employment was up 1.7% (+308,100) from 12 months earlier. These results are stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors. As well, it is indicative of consumer spending trends.

■ Statistics Canada reported that the nation's merchandise trade deficit with the world totalled $3.2 billion in September, essentially unchanged from the previous month. Exports were down 0.3% on lower passenger car and light truck exports, while imports decreased 0.3% on lower prices. Since the market was looking for a narrowing of the trade deficit in September, these results are weaker than expected. They remain a negative sign for overall GDP growth.

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate edged down 0.1 percentage point to 4.1% in October, and non-farm payroll employment rose by 261,000. At the same time, the 33,000 September decline in non-farm payrolls was revised upward to a gain of 18,000. Given the influence of the weather on the most recent reports, the results are broadly in line with expectations. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

▲ The U.S. Census Bureau announced that the goods and services deficit was $43.5 billion in September, up $0.7 billion from the revised $42.8 billion in August. September exports were $196.8 billion, $2.1 billion more than August exports. September imports were $240.3 billion, $2.8 billion more than August imports. The trade deficit was in line with market expectations and will hamper overall GDP growth.

▲ The U.S. Census Bureau reported that factory orders increased 1.4% in September, following a 1.2% increase in August. Excluding transportation, new orders gained 0.7% in September. These results are somewhat stronger than market expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

▲ The U.S. Institute for Supply Management announced that its Non-manufacturing Index recorded a 60.1 reading in October. It was up 0.3 points from the 59.8 level registered in September, and remained above the key 50.0 (generally expanding) level for a 94th consecutive month. This figure is above consensus expectations. The result indicates continued growth, but at a slightly faster rate in the non-manufacturing sector.