

Weekly Commentary – October 16, 2017

Alfred Lam, MBA, CFA
Senior Vice-President & Chief Investment Officer

Richard J. Wylie, MA, CFA
Vice-President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
October 17	Export Prices	September 17	0.5%	0.6%
October 17	Industrial Production	September 17	0.3%	-0.9%
October 18	Housing Starts	September 17	-0.5%	-0.8%
October 20	Existing Home Sales	September 17	5.29 M	5.35M
Canada				
October 16	Foreign Securities Purchases	August 17	\$15.20B	\$23.95B
October 20	Retail Sales Y/Y	August 17	6.6%	7.8%
Key Earnings:				
October 16: Community Financial Corp., KMG Chemicals Inc., Netflix Inc., Omnicom Group Inc.				
October 17: Goldman Sachs Group Inc., Johnson & Johnson, Natus Medical Inc., Syntel Inc.				
October 18: Cohen & Steers Inc., eBay Inc., Insteel Industries Inc., United Bancshares Inc.				
October 19: Eastgroup Properties Inc., Moody's Corp., Verizon Communications Inc., Textron Inc.				
October 20: Citizens Financial Group Inc., General Electric Co., Proctor & Gamble Co.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian housing sees cooling of hot markets

Housing activity in Canada's largest markets (Toronto and Vancouver) has heavily influenced the broader national figures for some time. While this influence has not changed in the recent data, the direction has. The Canadian Mortgage and Housing Corporation reported a 3.9% decline in housing starts in September, largely due to an 18.2% drop in Ontario. Even though British Columbia reported a 6.3% gain during the month, it has seen an average decline of 13.1% over the past four months. Meanwhile, Statistics Canada reported that its broader New Housing Price Index rose 0.1% in August; however, prices were unchanged in both Vancouver and Toronto. For Toronto, this was the third consecutive month of flat results. Statistics Canada also announced that residential building permits were up 6.5% (year-over-year) nationwide in August, but that Vancouver permits were up a far more modest 2.1%, and Toronto permits were actually down 21.9% (on the same basis). Some additional cooling can be anticipated as the Bank of Canada continues to raise interest rates.

Hurricanes distort U.S. economic data

The influence of Hurricanes Harvey and Irma, which emerged in the September U.S. jobs report, spread to retail sales and inflation figures. The Bureau of Labor Statistics announced that the overall consumer price index jumped 0.5% in September, boosted by a 1.3% increase in gasoline prices. At the same time, the U.S. Census Bureau reported that retail and food services sales were up 1.6% on the month, resulting in an annualized 3.8% gain for the quarter. Higher prices for gasoline led to a 5.8% increase in the dollar value of sales during September. As well, consumers began replacing vehicles damaged by the storms. Auto and other motor vehicle dealers saw sales rise by 3.6% for the month. Even though this surge in consumer spending is expected to moderate, it is also likely to distort the third quarter GDP figures.

Japanese stock index reaches new high

Renewed optimism in Japan allowed the Nikkei 225 Stock Average (Nikkei), Japan's main stock index, to close above the 21,000 level on October 13th for the first time since November 29, 1996. This increase has been a slow process for the Nikkei. Along

with the other major indexes, the Nikkei dropped 61.4% by the time it bottomed in March 2009 at the height of the financial crisis. The subsequent recovery took until February 19, 2015. More recently, some of Japan's economic fundamentals have become more supportive. Japan has maintained six straight quarters of GDP growth through the second quarter of this year. This is the longest run of economic expansion since 2006. Consumer prices rose 0.7% (year-over-year) in August 2017, the highest inflation rate since March 2015. While this is a far cry from the Bank of Japan's 2% target, the risk that it will drop back into negative territory appears to be diminishing.

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 10

▲ The U.K.'s Office for National Statistics announced that the country's international trade deficit widened to £5.6 billion in August from £4.2 billion in July. It was the largest trade deficit since September of last year, when the goods trade gap hit a record high of £14.2 billion. Thus far, the weakening of the pound has not provided the basis for a material improvement in the trade gap. This result is weaker than expected.

▼ The Canada Mortgage and Housing Corporation announced that housing starts totalled 217,118 units (seasonally adjusted annual rate) in September. This is down from the 225,918-unit level in August (originally reported as 223,232). The dip in housing starts was due to a 10.7% decline in multiple urban starts. As the market was looking for a larger decline, 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 fell 5.5% to \$7.5 billion in August. This was the second consecutive monthly decrease. Despite these declines, the year-to-date value of building permits (January to August) is up 8.7% compared with the same period in 2016. On a year-over-year basis, permits are up a more modest 0.6%. These results are weaker than consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

October 11

▲ The Westpac-Melbourne Institute Consumer Sentiment Index for Australia jumped to a 101.35 reading in October 2017, following the 97.9 level in September. Optimists outnumbered pessimists for the first time since November 2016, and this is the strongest confidence report this year. Expectations for the economic outlook over the next 12 months jumped 7.1% and those for the outlook over the next five years went up by 1.4%. These results are well above consensus expectations.

October 12

▲ Eurostat announced that industrial production in the Eurozone jumped 1.4% in August after rising 0.3% in July. On a year-over-year basis, industrial production accelerated to 3.8% compared to July's 3.6% growth rate. Output gains were led by capital goods (3.1%), durable consumer goods (1.3%) and intermediate goods (1.2%). These results are considerably stronger than expected and add to the recent trend of stronger economic data from the region.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 243,000 (seasonally adjusted) in the week ending October 7th; a decrease of 15,000 from the previous week's revised level. The previous week's level was revised down by 2,000

from 260,000 to 258,000. The four-week moving average was 257,500, a decrease of 9,500 from the previous week's revised average. The previous week's average was revised down by 1,250 from 268,250 to 267,000. The report indicated that Hurricanes Harvey and Irma continued to impact the data. These results are generally in line with consensus estimates.

▼ The U.S. Bureau of Labor Statistics reported that its Producer Price Index – Final Demand (PPI-FD) declined 0.4% (seasonally adjusted) in September. The index increased 2.6% for the 12 months ended September 2017, the largest year-over-year advance since a 2.8% rise in February 2012. These headline figures match consensus expectations. The PPI data are closely watched as they indicate relative inflationary pressures at the industry level.

▲ Statistics Canada announced that its New Housing Price Index (NHPI) rose 0.1% in August, despite flat results for Toronto and Vancouver during the month. On a year-over-year basis, the index is up 3.8%. These results are in line with consensus expectations and suggest some continued improvements in net worth for homeowners.

October 13

▼ China's Customs Department announced that the nation's trade surplus fell to US\$28.47 billion in September 2017, down from US\$40.94 billion a year earlier. It was the smallest trade surplus since March, as exports rose 8.1% (year-over-year), considerably less than imports (18.7% year-over-year). The politically sensitive trade surplus with the U.S. came in at \$28.08 billion in September, which is a new record high. These results were weaker than expected.

▲ The U.S. Census Bureau announced that retail and food services sales were up 1.6% (seasonally adjusted) for the month of September, and were 4.4% above September 2016 levels. Excluding autos, sales were up 1% during the month and up 4.6% on a year-over-year basis. This data was heavily influenced by the hurricanes experienced during the measurement period as elevated gasoline prices and purchases of replacement vehicles skewed the data. These figures are in line with expectations. Since consumer spending accounts for roughly two-thirds of U.S. economic activity, it is critical to overall GDP results.

▲ The U.S. Bureau of Labor Statistics reported that the consumer price index increased 0.5% (seasonally adjusted basis) in September. Over the last 12 months, the index increased 2.2%. The gasoline sub-index increased 13.1% in September and accounted for about three-fourths of the seasonally adjusted all items increase. This data saw the influence of the hurricanes during the month, and the overall results were broadly in line with consensus expectations. These figures are consistent with the U.S. Federal Reserve's expectations of a temporary blip in higher inflationary pressures.

▲ The U.S. Census Bureau announced that business sales rose 0.7% in August and were up 5.5% from August 2016 levels. At the same time, inventories climbed an identical 0.7% and were up 3.6% on a year-over-year basis. As a result, the total business inventories/sales ratio at the end of August was 1.38. The August 2016 ratio was 1.40. These results matched consensus expectations. Strong business sales suggest stable economic growth, while diminishing inventories/sales ratios suggest a business need to replenish dwindling stockpiles.

▲ The Thomson Reuters/University of Michigan's index of consumer sentiment in the U.S. rose to 101.1 in the mid-month reading for October. This is significantly stronger than the 95.1 level recorded for September and is the highest reading since the onset of the global financial crisis. This result is stronger than market expectations. This is another indicator of the likely pattern of consumer spending.

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