Assante WEALTH MANAGEMENT

THE PLAYBOOK

# Weekly Commentary – October 23, 2017


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## Economic Calendar

| Date | Release | Period | Consensus | Previous |
|---|---|---|---|---|
| **U.S.** | | | | |
| October 24 | Markit Composite PMI Flash | October 17 | 54.3 | 54.8 |
| October 25 | Durable Goods Orders | September 17 | 0.3% | 1.7% |
| October 25 | New Home Sales | September 17 | 550 k | 560 k |
| October 27 | GDP Growth Rate Q/Q Adv. | Q3 17 | 2.0% | 3.1% |
| **Canada** | | | | |
| October 27 | Budget Balance | August 2017 | -$2.8B | -$0.2B |

**Key Earnings:**
October 23: First Financial Corp., Helix Energy Solutions Group Inc., T-Mobile U.S. Inc.
October 24: AT&T Inc., Capital One Financial Corp., Medicines Co., Tesla Inc., VSE Corp.
October 25: Coca-Cola Co., GSI Technology Inc., HCA Healthcare Inc., Morningstar Inc.
October 26: Amazon.com Inc., Independence Realty Trust Inc., Microsoft Corp., Twitter Inc.
October 27: Colgate-Palmolive Co., Exxon Mobil Corp., LifePoint Health Inc., Tenneco Inc.

Source: Trading Economics, Yahoo Finance

## Market Focus

### Canadian manufacturing bounces back

Statistics Canada announced that manufacturing sales jumped 1.6% in August, following declines of 2.6% in July and 1.6% in June. The August rebound was led by an 8.2% advance in transportation equipment sales. In particular, motor vehicles saw a sharp increase (12.9%) on volumes generated by restored production after the assembly plants were shutdown longer than usual. However, even with the August gains, overall sales remained well below May's record high of $55 billion. Barring another dramatic advance in the September figures, sales growth for the third quarter as a whole is expected to be the weakest since the first quarter of 2015, when sales slumped an annualized 12%. This aligns with the Bank of Canada's expectations for a moderation in overall GDP growth, following the second quarter's surprising annualized 4.5% pace.

### U.S. production begins recovery

The latest data from the U.S. Federal Reserve showed a modest 0.3% rebound in industrial production during September. While the data was revised as far back as the April figures, the influence of Hurricanes Harvey and Irma was clearly apparent. The updated numbers show that industrial production dropped a cumulative 0.9% from June to August. Despite the September improvement, production still declined during the quarter as a whole, dropping an annualized 1.5%. This is the first contraction since the second quarter of 2016 and is considerably weaker than the robust 5.6% growth pace (on the same basis) recorded the second quarter of this year. As the Fed has previously highlighted, it expects a material slowdown in overall economic growth from the second quarter's 3.1% annualized rate. This slowdown and subsequent recovery are not likely to influence the Fed's direction on monetary policy.

### China sees steady growth

Updated figures from the National Bureau of Statistics of China revealed that real GDP grew at a 1.7% (quarter-over-quarter) pace in the third quarter of 2017. This was down slightly from the upwardly-revised 1.8% (initially reported as 1.7%) figure posted for the second quarter. On a year-over-year basis, the overall economy grew 6.8%, slightly slower than the 6.9% pace in the first two quarters of 2017. Nevertheless, China's official target for annual economic growth this year is 6.5%, which the nation is on track to meet at this juncture. Official data released separately showed that retail sales rose 0.9% in September and 10.3% on a year-over-year basis. This is the 7th consecutive month showing annual growth at double-digit levels. Efforts to shift the focus of economic growth towards consumer spending appear to be on track as well.

## 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 16

▲ Japan's Ministry of Economy, Trade and Industry announced that industrial production expanded 2% in August after declining 0.8% in July. On a year-over-year basis, industrial production was reported to have gained 5.3%. Capacity utilization for total industry rose 3.3% after falling 1.8% in July. These results are marginally weaker than expected. The improvement in production should be reflected as a gain in real economic output in the quarterly GDP figures.

▼ Statistics Canada reported that foreign investors added $9.8 billion of Canadian securities to their holdings in August, down from $24 billion in July. Canadian investors increased their holdings of foreign securities by $12 billion, led by purchases of U.S. corporate instruments. Foreign investment was below consensus expectations. Strong foreign investment reflects the relative attractiveness of Canada as an investment destination and can influence the value of the currency.

### October 17

▲ The U.K. Office for National Statistics announced that its consumer price index rose 3% (year-over-year) in September, up from the 2.9% pace recorded in August. This is the highest inflation rate since April 2012 and was driven by rising prices of food, transport and leisure activities. The core inflation rate stood at 2.7%, unchanged from August's five-year high. These figures are in line with consensus expectations.

▲ The U.S. Federal Reserve announced that industrial production expanded 0.3% in September after declining 0.7% in August. However, production data saw considerable revisions in this release back to the April figures. On a year-over-year basis, industrial production was reported to have gained 1.6%. Meanwhile, capacity utilization for total industry rose to 76% in September from 75.8% in August and 75.6% a year earlier. This data was also revised back to May. Given the extent of the revisions, this release was broadly in line with expectations and may be sufficient to affect the quarterly GDP figures.

### October 18

▲ The U.K.'s national statistics office reported that employment rose 94,000 in the three-month period ending in August (compared to the March to May 2017 period) and was up 317,000 on a year-over-year basis. In addition, the unemployment rate fell 0.2 percentage points to 4.3% from the 4.5% recorded for the March to May period. This is the lowest unemployment rate since 1975. These results are somewhat stronger than market consensus. The employment data reflects the strength of the broader economy and individual sectors, and is indicative of consumer spending trends.

▲ Statistics Canada reported that manufacturing sales rose 1.6% to $53.5 billion in August, following two consecutive monthly declines. The gain was mainly attributable to higher sales in the transportation equipment, and petroleum and coal product industries. On a year-over-year basis, manufacturing sales rose 4.3%. This is much stronger than market consensus. This data is closely watched as it can create high-value employment and remains one of the slowest to recover from the 2008-09 recession.

▼ The U.S. Census Bureau announced that housing starts in September were at a seasonally adjusted annual rate of 1,127,000. This is 4.7% below the revised August estimate of 1,183,000, but is 6.1% above the September 2016 rate of 1,062,000. At the same time, the number of building permits issued in September was at a seasonally adjusted annual rate of 1,215,000. This is 4.5% below the revised August rate of 1,272,000 and is 4.3% below the September 2016 figure of 1,270,000. These figures are somewhat weaker than market expectations.

**October 19**

▲ The National Bureau of Statistics of China announced that real GDP grew at a 1.7% (quarter-over-quarter) pace in the third quarter of 2017. This was down slightly from the upwardly-revised 1.8% (initially reported as 1.7%) figure reported for the second quarter. On a year-over-year basis, the overall economy grew 6.8%, slightly slower than the 6.9% pace it posted in the first two quarters of 2017. Nevertheless, China's official target for annual economic growth this year is 6.5%, which the nation is on track to meet at this juncture. These results are in line with market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▼ The U.S. Department of Labor announced that initial jobless claims totalled 222,000 (seasonally adjusted) in the week ending October 14; a decrease of 22,000 from the previous week's revised level. This is the lowest level for initial claims since March 31, 1973 when it was 222,000. The previous week's level was revised up by 1,000 from 243,000 to 244,000. The four-week moving average was 248,250, a decrease of 9,500 from the previous week's revised average. The previous week's average was revised up by 250 from 257,500 to 257,750. The Department of Labor indicated the weather continued to influence the data. 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 October but at a more robust pace. The Philly Fed general business conditions index climbed to 27.9 from 23.8 in September. This result is well above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▼ The U.S. Conference Board announced that its Leading Economic Index declined 0.2% in September, following a 0.4% increase in August and a 0.3% increase in July. The move was largely due to the temporary impact of the recent hurricanes. This was the first decline in 12 months and the result was weaker than market consensus. The report suggests some softening in the U.S economy, at least temporarily, should be anticipated over the near term.

**October 20**

▲ Statistics Canada reported that the Consumer Price Index (CPI) rose 0.2% (seasonally adjusted, monthly basis) in September, matching the gain in August. On a year-over-year basis the CPI was up 1.6%, the fastest annual gain since April (also 1.6%). Transportation and shelter indexes contributed the most to the year-over-year rise. In addition, all three measures of core inflation, established by the Bank of Canada in 2016, showed underlying inflation below their 2% target, but edging higher. They ranged from 1.5% to 1.8%. CPI common, which the central bank says is most closely correlated with the output gap, was steady at 1.5%. The overall figures are marginally weaker than market expectations.

▼ Statistics Canada reported that retail sales cooled in August, dropping 0.3% (seasonally adjusted) following July’s 0.4% monthly increase. Sales were down in eight of 11 subsectors, representing 57% of total retail sales. Food and beverage sales (-2.5%) reporting the largest monthly decline and gasoline stations (+3.1%) recorded the largest gain. Year-over-year sales growth slowed to 6.9% from 7.8%. These results are below consensus estimates. Since consumer spending typically accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▲ According to the U.S. National Association of Realtors, existing-home sales increased 0.7% to a seasonally adjusted annual rate of 5.39 million units in September from 5.35 million units in August. Sales are 1.5% below the level seen in September 2016. Given the influence of extreme weather, these results are somewhat stronger than consensus expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.