Weekly Commentary – October 2, 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 2	Markit Manufacturing PMI Final	September 17	53.0	52.8
October 3	ISM New York Index	September 17	57.16	56.60
October 6	Unemployment Rate	September 17	4.5%	4.4%
October 6	Wholesale Inventories	August 17	0.33%	0.60%
Canada				
October 2	RBC Manufacturing PMI	September 17	54.9	54.6
October 6	Employment Change	September 17	22.9 k	22.2 k

Key Earnings:
October 2: Mitek Systems Inc., NQ Mobile Inc., TerraForm Power Inc.
October 3: Art's Way Manufacturing Co. Inc., IDT Corp., Lennar Corp.
October 4: PepsiCo Inc., RPM International Inc., Resources Connection Inc.
October 5: Costco Wholesale Corp., Straight Path Communications Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy starts slowly in Q3

Statistics Canada announced that, on a monthly basis, real gross domestic product (GDP) by industry grew in July, but by less than 0.1%. The moderation in economic growth came on the heels of eight consecutive monthly gains that averaged 0.4% and the annual growth rate slipped to 3.8% from 4.4% in June. The slowdown in the July report was due entirely to a significant softening (-0.5%) in output from the smaller goods-producing sector. Running counter, services output remained steady (+0.2%), marking a 16th consecutive month of gains. Much of the decline in goods was attributed to what may prove to be temporary factors. A longer than normal retooling shutdown was seen in automobile production. As well, a 1.8% decline in the oil and gas extraction subsector was reported. The gains in world oil prices, seen since July, are expected to provide at least a modest boost for this sector in future releases. In addition, Statistics Canada muddied the waters somewhat as this release contained benchmark data revisions back to January 2016.

U.S. GDP figures revised higher

The second set of revisions from the U.S. Bureau of Economic Analysis revealed another upward bump in the overall GDP growth rate for the second quarter of 2017. The "final" figure, which is not written in stone (as it will be subject to future benchmark revisions), came in at 3.1% (annualized). This is up from the initial estimate of 2.6% and the first revision of 3% (on the same basis). It is also the strongest quarterly figure since Q1 2015. Strength in the labour market and gains in financial markets supported healthy consumer spending growth (3.3%) during the quarter. However, it is widely expected that this data will be more volatile over the balance of 2017. The influences of Hurricanes Harvey and Irma are only now beginning to appear in the latest economic releases and will likely produce dampened growth in Q3 and a matching rebound in Q4.

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

September 26

▼ The U.S. Census Bureau announced that new-home sales totalled 560,000 units (seasonally adjusted annual rate) in August 2017. This is 3.4% below the revised July rate of 580,000 units and 1.2% below the August 2016 level of 567,000 units. These results are weaker than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ The U.S. Conference Board announced that its consumer confidence index pulled back in September from August's downwardly revised level. The index stands at 119.8, down from 120.4 in August (previously reported as 122.9). The Present Situation Index decreased from 148.4 to 146.1, while the Expectations Index rose marginally from 101.7 last month to 102.2. With the revisions, these results are below expectations. Consumer confidence is an indicator of spending patterns.

September 27

▲ The U.S. Census Bureau announced that durable goods orders bounced 1.7% higher in August, following a 6.8% decline in July and a 6.4% advance in June. Excluding transportation, new orders rose 0.2% in August. Excluding defence, new orders increased 2.2%. Given the significant swings in this data in the previous months, these figures are broadly in line with market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

September 28

▲ Economic sentiment in the Eurozone rose to 113.0 in September 2017 from 111.9 in the previous month. It was the highest reading since June 2007, as sentiment improved among manufacturers (6.6 from 5.0 in August), service providers (15.3 from 15.1), retailers (3.0 from 1.6), constructors (-1.7 from -3.3) and consumers (-1.2 from -1.5). This result was stronger than consensus expectations.

▲ The U.S. Department of Labor announced that initial jobless claims totalled 272,000 (seasonally adjusted) in the week ending September 23rd; an increase of 12,000 from the previous week's revised level. The previous week's level was revised up by 1,000 from 259,000 to 260,000. The four-week moving average was 277,750, an increase of 9,000 from the previous week's unrevised average of 268,750. This is the highest level for this average since February 6, 2016 when it was 277,750. Hurricanes Harvey and Irma continued to influence the data. These results are broadly in line with consensus estimates.

▲ The U.S. Bureau of Economic Analysis announced that real GDP grew at an annual rate of 3.1% in the second quarter of 2017. This is the third (final) estimate for growth and is marginally higher than the 3% reported in the second estimate report. In the first quarter of 2017, real GDP increased 1.2% on the same basis. These results matched consensus expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

September 29

▲ Statistics Canada reported that its Industrial Product Price Index (IPPI) gained 0.3% and its Raw Materials Price Index (RMPI) rose 1% in August. On a year-over-year basis, the indexes are up 1.9% and 6.1%, respectively. Higher prices for energy products were also seen during the month. These figures are slightly below expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ Statistics Canada announced that, on a monthly basis, real GDP by industry grew in July, but by less than 0.1%, after rising steadily for eight consecutive months. Goods-producing industries contracted 0.5%, the first decrease in five months, largely as a result of declines in mining, quarrying, oil and gas extraction, and manufacturing. Services-producing industries increased 0.2%. On a year-over-year basis, GDP growth stands at 3.8%. These results are marginally weaker than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.2% in August and personal consumption expenditures (PCE) increased 0.1%. Based on revised figures, personal income and PCE increased 0.3% each in July. Both income and expenditure figures for August matched expectations. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▲ The U.S. Institute for Supply Management reported that its Chicago Purchasing Managers Index rose to 65.2 in September, up from 58.9 in August, hitting the highest level in three months and the second highest level in more than three years. This is far above the key 50.0 (generally expanding) level. The reading is well above consensus expectations and indicates acceleration in manufacturing activity within the region.

▼ The Thomson Reuters/University of Michigan index of consumer sentiment dipped to 95.1 in the month-end reading for September. This is slightly weaker than the 95.3 level recorded mid-month, but down from the 96.8 reading for June. Much of the move down was attributed to Hurricanes Harvey and Irma. The result was marginally weaker than market expectations. This is another indicator of the likely pattern of consumer spending.