Weekly Commentary – October 30, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
October 30	Personal Income	September 17	0.29%	0.20%
November 1	Markit Manufacturing PMI Final	October 17	54.5	53.1
November 2	Challenger Job Cuts	October 17	30.6 k	32.3 k
November 3	Average Hourly Earnings Y/Y	October 17	0.22%	2.90%
Canada				
October 31	PPI Y/Y	September 17	4.3%	1.9%
November 1	RBC Manufacturing PMI	October 17	53.87	55.00
November 3	Employment Change	October 17	21.8 k	10.0 k

Key Earnings:
October 30: Enbridge Energy Partners LP, Genomic Health Inc., Maxwell Technologies Inc.
October 31: American Financial Group Inc., Kellogg Co., Mastercard Inc., Pfizer Inc., Rogers Corp.
November 1: Allstate Corp., Facebook Inc., NorthWestern Corp., Prudential Financial Inc.
November 2: Goldman Sachs BDC Inc., Motorola Solutions Inc., NRG Energy Inc., Starbucks Corp.
November 4: Brookfield Infrastructure Partners LP, Moody's Corp., Northwest Natural Gas Co.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy expected to slow

As anticipated, the Bank of Canada announced that it was leaving administered interest rates unchanged at its latest policy announcement window. At the same time, it released its updated Monetary Policy Report, which emphasized the bank's expectations for slower economic growth throughout its forecast period. The surprise acceleration in GDP growth to 4.5% in the second quarter of 2017 (annualized) from the first quarter's already rapid 3.7% pace, is not expected to see any material follow through. The overall growth pace for 2017 is pegged at 3.1% (up from the previous forecast of 2.8%). However, this implies an average growth rate of 2% for the balance of the year. Growth in 2018 is forecast at 2.1% (previously forecasted as 2%) and the economy is expected to expand by just 1.6% (previously 1.5%) in 2019. This suggests the bank will continue to be cautious with any future interest rate hikes.

U.S. economy ignores the weather

Despite the massive storms that battered the nation, the U.S. Bureau of Economic Analysis announced that its "advance estimate" for overall GDP growth was 3% (annualized) for the third quarter. The result was only marginally lower than the 3.1% (on the same basis) figure reported for the second quarter. Even with the damage from Hurricanes Harvey and Irma, demand from both consumers and businesses remained strong. While these preliminary figures are subject to revisions, this data shows that even a flat result for the final quarter of the year, which appears unlikely, would see economic growth for 2017 move well above the 1.5% result reported in 2016. Either way, the economy appears to be on firm enough ground for the U.S. Federal Reserve to continue tightening monetary policy.

U.K. GDP data sets the stage for a rate hike

The U.K. Office for National Statistics announced that real GDP grew 0.4% (quarter-over-quarter) in the third quarter of 2017, following a 0.3% gain (on the same basis) in both the first and second quarters. Services increased 0.4%, the same rate as the second quarter, and this sector remains the largest contributor to overall growth. Manufacturing returned to growth after a weak second quarter, increasing 1% in the latest report. While this is not a boom, economic growth has been firm and inflation is running at its fastest pace in more than five years, all despite the Brexit headwinds. Bank of England Governor Mark Carney may raise interest rates as early as November 2. If this occurs, it will be the first rate hike since July 5, 2007.

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 23

▲ Statistics Canada reported that wholesale sales rose 0.5% to $62.8 billion in August, led by the personal and household goods, and motor vehicle and parts subsectors. At the same time, inventories climbed for the fifth consecutive month, up 0.2% to a record $80.8 billion in August. On a year-over-year basis, overall wholesale sales are up 10.1% and inventories are up 9.5%. The monthly sales advance was nominally weaker than expectations. Activity at the wholesale level can be an indicator of future consumer trends.

October 24

▼ According to IHS Markit, the Eurozone Composite PMI fell to 55.9 in October from 56.7 in September. Despite the modest decline, it remained above the 55.0 mark for the ninth straight month, as new orders continued to expand and employment rose at the sharpest pace in over a decade. These results are somewhat weaker than consensus estimates.

October 25

▲ According to the U.K. Office for National Statistics, real GDP grew 0.4% (quarter-over-quarter) in the third quarter of 2017. This is the "preliminary estimate" prepared with advance data and is often subject to revision. This result is stronger than expected, as the market was looking for growth at the same pace as earlier in the year. Real GDP increased 0.3% (on the same basis) in both the first and second quarters of 2017. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The U.S. Census Bureau announced that durable goods orders jumped 2.2% in September, following an upwardly-revised 2% increase in August (originally reported as 1.7%). Excluding transportation, new orders increased 0.7% in September. Excluding defence, new orders increased 2%. With the upward revisions to the previous data, these figures are much stronger than market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

■ The Bank of Canada announced that it was maintaining the target for its key overnight interest rate at 1%. The bank rate was correspondingly left at 1.25% and the deposit rate at 0.75%. The press release that accompanied the announcement highlighted the bank's expectations that economic growth would moderate in the second half of 2017 and that slower growth was anticipated for both 2018 and 2019. The on-hold policy decision matched market expectations. Canadian monetary policy, as decided by the Bank of Canada, has significant influence on both the domestic economy and the value of the currency.

▲ The U.S. Census Bureau announced that new-home sales totalled 667,000 units (seasonally adjusted annual rate) in September 2017. This is 18.9% above the revised August rate of 561,000 units and 17% above the September 2016 level of 570,000 units. These results are significantly stronger than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

October 26

▲ The U.S. Department of Labor announced that initial jobless claims totalled 233,000 (seasonally adjusted) in the week ending October 21, an increase of 10,000 from the previous week's revised level. The previous week's level was revised up by 1,000 from 222,000 to 223,000. The four-week moving average was 239,500, a decrease of 9,000 from the previous week's revised average. The previous week's average was revised up by 250 from 248,250 to 248,500. These results are in line with consensus estimates.

October 27

▲ The U.S. Bureau of Economic Analysis announced that GDP grew at an annual rate of 3% in the third quarter of 2017. This is the “advance estimate” prepared with preliminary data and is often subject to substantial revision. In the second quarter, real GDP increased 3.1% on the same basis. These results are stronger than expected as the market was looking for a greater negative influence from the extreme weather conditions seen during the three-month period. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.