

Weekly Commentary – October 9, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
October 10	IBD/TIPP Economic Optimism	October 17	51.27	53.40
October 12	PPI Y/Y	September 17	2.3%	2.4%
October 13	Retail Sales	September 17	0.28%	-0.20%
Canada				
October 10	Housing Starts	September 17	216.3 k	223.2 k

Key Earnings:
 October 9: Blackhawk Network Holdings Inc., Healthcare Services Group Inc., NQ Mobile Inc.
 October 10: Hingham Institution for Savings, Jacksonville Bancorp Inc., Winmark Corp.
 October 11: Delta Air Lines Inc., KMG Chemicals Inc., OncoSec Medical Inc., Skyline Corp.
 October 12: Citigroup Inc., First Bancshares Inc., JPMorgan Chase & Co., Taylor Devices Inc.
 October 13: Bank of America Corp., First Republic Bank, J.B. Hunt Transport Services Inc.

Source: Trading Economics, Yahoo Finance

Market Focus

Currency moves impact international trade

Statistics Canada announced that the nation's merchandise trade deficit widened to \$3.4 billion in August from a revised \$3 billion in July. The report attributed much of the deficit to the erosion of exports. Exports have fallen 10.6% since the record high posted in May. Between May and August, the Canadian dollar moved from US\$0.735 to US\$0.793. Not surprisingly, over that same period, exports to the U.S. tumbled 10.5%. Still, the U.S. remains Canada's largest export market, accounting for roughly three-quarters of all merchandise exports. Stateside, the international trade deficit narrowed to US\$42.4 billion in August from US\$43.6 billion in July, marking a new 11-month low. After peaking at the end of 2016, the Federal Reserve's trade-weighted U.S. dollar index recorded a 7.9% decline through the month of August.

North American employment reports provide mixed data

As anticipated, the first effects of Hurricanes Harvey and Irma were reflected in the U.S. Bureau of Labor Statistics' September report. Non-farm payrolls dropped 33,000 during the month, the first outright decline since September 2010. In addition, private sector employment dropped (40,000) after recording 90 consecutive monthly gains. At the same time, the unemployment rate dipped to 4.2%, the lowest since February 2001. It is unclear how long the data will be biased by these weather-related effects. Domestically, Statistics Canada announced a modest 10,000 increase in overall employment in September. Despite the relatively flat headline figure, full-time employment increased by 112,000 while part-time jobs dropped 102,000. On a year-over-year basis, overall employment is up 1.8% (+319,700). Meanwhile, the unemployment rate remained steady at 6.2%, matching August's post-recession low.

Reserve Bank of Australia holds rates steady

Market analysts correctly predicted that the Reserve Bank of Australia Governor, Philip Lowe would remain reluctant to follow the lead of some of the other major central banks. Unlike the recent rate hikes seen elsewhere, Australia's benchmark "cash rate" was left at an all-time low of 1.5%, following the Reserve Bank Board's October meeting. The bank's target rate has been unchanged since August 2, 2016. In his prepared statement, Lowe acknowledged recent improvements in the domestic economy and the firming of the Australian dollar in global markets, but also pointed out that "Wage growth remains low. This is likely to

continue for a while yet.” Like the Bank of Canada, Australian policymakers remain concerned about the level of household debt and will face similar challenges trying to rein this in while still supporting the broader economy.

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 2

▼ The IHS Markit/CIPS U.K. Manufacturing Purchasing Managers Index fell to 55.9 in September from 56.7 in August. Output, new orders and employment rose while cost pressures surged amid rising commodity prices, a weaker pound and increased supply-chain pressures. This result was weaker than expected.

▲ The U.S. Institute for Supply Management reported that its Purchasing Managers Index jumped higher to a 60.8 reading in September, despite the influence of Hurricanes Harvey and Irma. The new reading represents a 2.0 point gain from August’s 58.8 figure and it remains above the key 50.0 (generally expanding) level for a 13th consecutive month. As the market was anticipating a decline, this result is well above expectations and indicates acceleration in manufacturing activity.

▲ The U.S. Census Bureau announced that construction spending rose 0.5% in August, following a downwardly-revised 1.2% decline in July (originally reported as -0.6%). On a year-over-year basis, construction was up 1.8%. With the revisions, this report is broadly in line with market expectations. This result indicates a minor rebound in the construction sector.

October 3

■ The Reserve Bank of Australia held its benchmark cash rate steady at a record low of 1.5% at its October 2017 meeting. Policymakers said that a pickup in non-mining business investment over recent months was a welcome development, while the low level of interest rates continues to support the economy. The no-change announcement was well anticipated by the market.

▲ The Consumer Confidence Index in Japan went up to 43.9 in September 2017 from 43.3 in August. It was the highest reading since March as perception improved for all components: overall livelihood (up 0.8 points from the prior month to 42.5), income growth (up 0.5 points to 41.8), employment (up 0.4 points to 47.8) and the willingness to buy (up 0.9 points to 43.5). These results were above consensus expectations.

October 4

▲ The U.S. Institute for Supply Management announced that its Non-Manufacturing Index recorded a 59.8 reading in September, jumping 4.5 points from the 55.3 level registered in August. This is the highest reading since August 2005 (61.3) and remains above the key 50.0 (generally expanding) level for a 93rd consecutive month. This figure is well above consensus expectations. This result indicates continued growth at a faster rate in the non-manufacturing sector.

October 5

▼ The U.S. Department of Labor announced that initial jobless claims totalled 260,000 (seasonally adjusted) in the week ending September 30, a decrease of 12,000 from the previous week’s unrevised level of 272,000. The four-week moving average was 268,250, a decrease of 9,500 from the previous week’s unrevised average of 277,750. Hurricanes Harvey and Irma affected the data once again. These results are in line with consensus estimates.

▼ The U.S. Census Bureau announced that the nation's international trade deficit in goods and services narrowed to US\$42.4 billion in August from a revised US\$43.6 billion in July. August exports were US\$195.3 billion, US\$0.8 billion more than July exports. August imports were US\$237.7 billion, US\$0.4 billion less than July imports. The trade deficit matched expectations. The marginal improvement in the trade results will support overall GDP growth.

▲ Statistics Canada announced that Canada's merchandise trade deficit totalled \$3.4 billion in August, widening from a \$3 billion deficit in July. Exports decreased 1% on lower volumes, while imports were unchanged. Since the market was looking for a narrowing of the deficit in August, these results are considerably weaker than expected. They are a negative sign for overall GDP growth.

October 6

▲ Statistics Canada announced that 10,000 jobs were added in September while the unemployment rate remained steady at 6.2%, matching August's post-recession low. Despite the relatively flat headline figure, full-time employment increased by 112,000 and part-time jobs dropped 102,000. On a year-over-year basis, employment was up 1.8% (+319,700). These results are somewhat weaker 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.

▼ The U.S. Bureau of Labor Statistics reported that the unemployment rate fell by 0.2 percentage points to 4.2% in September, its lowest level since February 2001. However, non-farm payroll employment declined by 33,000 as the initial effects of Hurricanes Harvey and Irma appeared in the data. These figures revealed a sharp employment decline in food services and drinking places, and below-trend growth in some other industries. Even though the employment results are considerably weaker than expectations, the market will weigh the bias applied by the weather-related distortions.

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