

Weekly Commentary – September 11, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
September 11	Consumer Inflation Expectations	August 17	2.44%	2.54%
September 13	PPI Y/Y	August 17	2.3%	1.9%
September 15	Retail Sales	August 17	0.25%	0.60%
September 15	Industrial Production	August 17	0.27%	0.20%
Canada				
September 11	Housing Starts	August 17	217.0 k	222.3 k
Key Earnings:				
September 11: Investors Real Estate Trust, Manchester United PLC, Ocean Power Technologies Inc.				
September 12: Aviragen Therapeutics Inc., RF Industries Ltd., U.S. Global Investors Inc.				
September 13: Cracker Barrel Old Country Store Inc., NetSol Technologies Inc., S&W Seed Co.				
September 14: iKang Healthcare Group Inc., Oracle Corp.				
September 15: Tsakos Energy Navigation Ltd.				

Source: Trading Economics, Yahoo Finance

Market Focus

Bank of Canada follows-up

The Bank of Canada raised administered interest rates by 25 basis points (a basis point is 1/100th of one per cent) on September 6. The move came at the first scheduled policy announcement window following an identical rate hike on July 12, which was the first such action in almost seven years. In the press release that accompanied the announcement, the bank highlighted the current strength in the domestic economy stating “Recent economic data have been stronger than expected; supporting the Bank’s view that growth in Canada is becoming more broadly-based and self-sustaining.” With first and second quarter gross domestic product (GDP) growth reported as 3.7% and 4.5% (both annualized) respectively, the bank is now looking for “a moderation in the pace of economic growth in the second half of 2017.” However, speculation over the possibility of another rate hike will enter the market ahead of the bank’s next policy announcement on October 25, if signs of this moderation do not emerge.

North American trade deficits stuck in place

Updated figures from the U.S. Census Bureau revealed an international trade deficit of US\$43.7 billion in July, largely unchanged from June’s \$43.5 billion. The figures were largely as expected with the U.S. running trade deficits since the data were first published in their current form in 1992. While the broader picture of the U.S. economy remains healthy, it is unlikely that the pattern of continued trade deficits will be altered. Statistics Canada simultaneously published domestic trade results for July. The merchandise trade deficit for the month was reported as CAD\$3 billion. This was down from June’s \$3.8 billion level. However, a surplus was recorded as recently as January. Not surprisingly, Statistics Canada’s release specifically noted the recent strength of the Canadian dollar. After falling below US\$0.73 in May, the currency recently touched a two-year high at the \$0.82 level. This will serve to dampen export demand going forward.

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 5

▼ The U.S. Census Bureau reported that factory orders tumbled 3.3% in July, following an upwardly revised 3.2% increase in June (originally reported as +3%). Excluding transportation, new orders rose 0.5% in July. Given the upward revisions to the previous data, these results are in line with expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

September 6

▼ Germany's statistical agency reported that factory orders dropped 0.7% in July. This followed a downwardly revised 0.9% increase in June (originally reported as +1%). The overall drop was due primarily to a plunge in demand for consumer goods. However, intermediate and capital goods orders also edged down on the month. These results are weaker than expectations. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

▼ Statistics Canada announced that Canada's merchandise trade deficit totalled \$3 billion in July, narrowing from a \$3.8 billion deficit in June. Imports fell 6% and exports decreased 4.9%, both due mainly to the effect of widespread price decreases, while the Canadian dollar appreciated sharply relative to the American dollar in July. These results match consensus estimates. The recent gains in the Canadian dollar are likely to fuel further deficits.

▲ The U.S. Census Bureau announced that the country's international trade deficit in goods and services was US\$43.7 billion in July, up from the revised \$43.5 billion in June. July exports were \$194.4 billion, \$0.6 billion less than June exports. July imports were \$238.1 billion, \$0.4 billion less than June imports. The trade deficit was narrower than expected. The neutral trade results will likely leave overall GDP growth unaffected.

▲ The Bank of Canada announced that it was raising the target for its key overnight interest rate to 1%. The Bank Rate was correspondingly increased to 1.25% and the deposit rate to 0.75%. Even though there was no strong consensus, the increase in interest rates comes earlier than some analysts had expected. Accordingly, the Canadian dollar jumped higher on the news. 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. Institute for Supply Management announced that its Non-Manufacturing Index recorded a 55.3 reading in August. It was up 1.4 points from the 53.9 level registered in July, and remained above the key 50.0 (generally expanding) level for a 92nd consecutive month. This figure is in line with consensus expectations. This result indicates continued growth, but at a slightly faster rate, in the non-manufacturing sector.

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