

## Weekly Commentary – September 25, 2017

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### Economic Calendar

Date	Release	Period	Consensus	Previous
<b>U.S.</b>				
September 26	New Home Sales	August 17	575 k	571 k
September 27	Durable Goods Orders	August 17	2.0%	-6.8%
September 28	Corporate Profits Q/Q Final	Q2 17	0.8%	-2.6%
September 29	Chicago PMI	September 17	55.0	58.9
<b>Canada</b>				
September 29	PPI Y/Y	August 17	4.2%	1.3%
<b>Key Earnings:</b>				
September 25: Carnival Corp., Ennis Inc., MAM Software Group Inc., SYNEX Corp.				
September 26: IHS Markit Ltd., Landec Corp., Micron Technology Inc., Nike Inc.				
September 27: Actuant Corp., Jabil Inc., Pier 1 Imports Inc., Progress Software Corp.				
September 28: Accenture PLC, McCormick & Company Inc., OMNOVA Solutions Inc.				

Source: Trading Economics, Yahoo Finance

### Market Focus

#### Canadian manufacturing steps back

Updated figures from Statistics Canada revealed a second consecutive monthly decline in manufacturing sales in July. The 2.6% drop came on the back of a 1.9% weakening in June and took overall sales down to its lowest level since November 2016. Reflecting the volatile shifts in output in recent years, employment in this sector has shown only sporadic growth since the end of the 2008-09 recession. The actual employment peak for Canadian manufacturing (2.33 million workers or 15.1% of all employment) occurred in September of 2002. In the post-recession period, August 2012 stands as the most recent high (1.77 million workers or 10.1% of all employment). In contrast, manufacturing represented around 19% of total Canadian employment in the late 1970s and early 1980s. However, this measure has remained below 10% since January 2013. It appears that the historic boost from a weaker Canadian dollar has had little lasting effect this time around.

#### U.S. Federal Reserve looks to reduce holdings

As expected, the U.S. Federal Reserve kept interest rates steady at the conclusion of its latest two-day policy meeting. Further, while it introduced the first economic forecasts for 2020, it revealed little meaningful change in its expectations for the intervening period. Projected GDP growth for 2017 was edged higher to 2.4% (from 2.2% in June), while core personal consumption expenditure inflation was revised down to 1.5% (from 1.7%). Perhaps of greater immediate importance for market participants, the Fed stated that “in October, the Committee will initiate the balance sheet normalization program.” For the first time in nine years, the Fed is set to begin reducing the size of its \$4.5 trillion asset portfolio.

#### U.K. consumer spending extends gains

The Office for National Statistics reported that retail sales in the U.K. jumped 1% during the month of August, on the back of an upwardly revised 0.6% gain in July and a 0.2% increase in June. The string of three consecutive gains is the first in two years. The office highlighted that growth was in discretionary spending as “contributions to the overall growth came from non-essential items.” In addition, “store prices increased across all store types on the year, with non-food stores and non-store retailing recording their highest year-on-year price growth since March 1992, at 3.2% and 3.3%, respectively.” The evidence of strong

consumer demand coupled with these signs of inflationary pressures will heighten speculation over any possible policy moves by the Bank of England at its next meeting, scheduled for November 2.

## 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 18

▲ Statistics Canada reported that foreign investment in Canadian securities amounted to \$24 billion in July, led by record acquisitions of Canadian bonds. At the same time, Canadian investors reduced their holdings of foreign securities by \$1.8 billion, following strong acquisitions in June. Foreign investment in Canadian securities was well above expectations. Strong foreign investment reflects the relative attractiveness of Canada as an investment destination and can influence the value of the currency.

### September 19

▼ The U.S. Census Bureau announced that housing starts in August were at a seasonally adjusted annual rate of 1,180,000. This is 0.8% below the revised July estimate of 1,190,000, but is 1.4% above the August 2016 rate of 1,164,000. At the same time, the number of building permits issued in August was at a seasonally adjusted annual rate of 1,130,000. This is 5.7% above the revised July rate of 1,230,000 and is 8.3% above the August 2016 figure of 1,200,000. Coupled with the revisions to prior data, these figures are stronger than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ Statistics Canada reported that manufacturing sales decreased 2.6% to \$52.5 billion in July, following a 1.9% decline in June. The decrease was primarily the result of lower sales of motor vehicles and motor vehicle parts. Excluding motor vehicles and motor vehicle parts, manufacturing sales increased 0.2%. Despite the significant back-to-back monthly declines, sales on a year-over-year basis are up 3.4%. This report is much weaker than market consensus. This data is closely watched as manufacturing can create high-value employment, and it is one of the key sectors that have not seen a return to pre-recession employment levels.

### September 20

▲ The U.K. Office for National Statistics reported that retail sales jumped 1% (month-over-month) in August, following an upwardly revised 0.6% gain in July. Year-over-year sales growth was reported as 2.4%. These results are well above consensus estimates and suggest that stronger consumer spending will boost overall GDP results.

▼ According to the U.S. National Association of Realtors, existing-home sales tumbled 1.7% to a seasonally adjusted annual rate of 5.35 million units in August from 5.44 million in July. Sales are 0.2% above the August 2016 level, but are the lowest since then. The association reiterated that "strained supply levels continue to subdue overall activity." These results are somewhat weaker than consensus expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

■ The U.S. Federal Reserve left interest rates unchanged following its latest two-day policy meeting, with the target range for the federal funds rate remaining at 1% to 1.25%. The Fed last raised interest rates by 0.25% on June 14. The press release that accompanied the announcement highlighted the continued strength in the U.S. labour market and household spending. It also pointed out that inflation had declined recently and that the price effects of the recent hurricanes would likely be temporary. As market participants continue to anticipate at least one additional rate hike over the balance of 2017, speculation will now turn to

the next two-day meeting scheduled for October 31 and November 1. The announcement of unchanged interest rates at today's meeting is in line with expectations. Monetary policy, as decided by the Fed, has significant influence on both the U.S. and global economy. Its lead is often followed by policymakers in other countries.

### September 21

▼ The U.S. Department of Labor announced that initial jobless claims totalled 259,000 (seasonally adjusted) in the week ending September 16; a decrease of 23,000 from the previous week's revised level. The previous week's level was revised down by 2,000 from 284,000 to 282,000. The four-week moving average was 268,750, an increase of 6,000 from the previous week's revised average. This is the highest level for this average since June 4, 2016 when it was 269,500. The previous week's average was revised down by 500 from 263,250 to 262,750. Once again, these results were influenced by Hurricanes Harvey and Irma and the overall results are in line with broad consensus estimates.

▲ The U.S. Federal Reserve Bank of Philadelphia reported that manufacturing activity in the region continued to grow in September but at a more robust pace. The Philly Fed general business conditions index climbed to 23.8 from 18.8 in August. These results are well above market expectations. This data release is followed as an indicator of broader manufacturing sector trends.

▲ Statistics Canada reported that wholesale sales jumped 1.5% to \$62.4 billion in July, following a 0.6% decline in June. At the same time, inventories increased for the fourth consecutive month, up 0.7% to a record \$80.8 billion in July. On a year-over-year basis, overall wholesale sales are up 10%, while inventories are up 10.6%. The monthly sales advance was considerably stronger than expectations. Activity at the wholesale level can be an indicator of future consumer trends.

### September 22

▲ Advanced estimates revealed that the IHS Markit Eurozone Composite PMI increased to 56.7 in September from 55.7 in August. Inflows of new orders were the largest since April 2011, backlogs of work increased, job creation was the second highest ever, and input and output prices rose the most since April. The overall result is above expectations and suggests continued growth in production in the Eurozone.

▲ Statistics Canada reported that retail sales rose in July, climbing 0.4% (seasonally adjusted) following June's downwardly-revised flat results. Sales were up in six of 11 subsectors, representing 75% of total retail trade with food and beverage sales (+0.9%) reporting the largest monthly gain. Electronics and appliance stores (-1.3%) recorded the largest decline. Year-over-year sales growth accelerated to 7.8%, the fastest pace since January 2016. These results are above consensus estimates. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▲ Statistics Canada reported that consumer prices rose 0.2% (seasonally adjusted, monthly basis) in August, matching the gain in July. However, on a year-over-year basis, the Consumer Price Index (CPI) was up 1.4% compared to July's annual pace of 1.2%. Transportation and shelter indexes contributed the most to the year-over-year rise. The three new measures of core inflation, established by the Bank of Canada in 2016, showed underlying inflation below the 2% target, but rising slightly on the month. They ranged from 1.4% to 1.7%. CPI common; which the central bank says is most closely correlated with the output gap, edged higher to 1.5%. The overall figures are generally in line with market expectations.

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