

Weekly Commentary – September 4, 2017

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
September 5	IBD/TIPP Economic Optimism	September 17	51.6	52.2
September 5	Factory Orders	July 17	-2%	3%
September 6	Markit Composite PMI Final	August 17	56.0	54.6
September 8	Wholesale Inventories	July 17	0.4%	0.7%
Canada				
September 8	Employment Change	August 17	26.7 k	10.9 k
September 8	Housing Starts	August 17	217.0 k	222.3 k
Key Earnings:				
September 5: Duluth Holdings Inc., Hewlett Packard Enterprise Co., Verint Systems Inc.				
September 6: Aviat Networks Inc., NCI Building Systems Inc., Volt Information Sciences Inc.				
September 7: Barnes & Noble Inc., Dell Technologies Inc., FuelCell Energy Inc., Zumiez Inc.				
September 8: Kroger Co., Layne Christensen Co.				

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy accelerates

The latest data from Statistics Canada showed a substantial gain for the domestic economy. Overall, real gross domestic product (GDP) grew by 4.5% (annualized) in the second quarter, following a 3.7% advance (on the same basis) in the first. The second quarter result is the strongest quarterly gain since Q3 2011 (5.7%) and is well above the Bank of Canada's July forecast for a slowdown to a 3% pace. The combined first and second quarter result is the best start to a calendar year since 2002 (+6.1% and +2.3%, respectively). The latest monthly figures also suggest that the economy carried at least some momentum into the third quarter. In addition, GDP by industry rose 0.3% in June, the eighth consecutive monthly gain. The advance left year-over-year growth at 4.3%. The strength of this report is likely to reinforce market expectations of an additional 0.25% rate hike by the bank of Canada before the end of 2017.

U.S. GDP sees upward revision

The U.S. economy expanded at a 3% (annualized) pace during the second quarter of 2017. The Bureau of Economic Analysis reported that the upward revision (GDP growth during Q2 2017 was originally reported as +2.6%) was due primarily to gains in both consumer spending and non-residential fixed investments that were larger than previously recorded. This is the 13th consecutive quarterly gain and the strongest since Q1 2015. However, analysts suggest that the economic fallout from Hurricane Harvey will dampen overall GDP growth, at least temporarily, when that data becomes available at the end of October.

German unemployment rate drops to new low

Germany's federal statistical office reported that the number of unemployed workers in Germany stood at 1.59 million in July 2017. This represents a decline of approximately 27,000 from June's level. As a result, the seasonally adjusted unemployment rate was 3.7% during the month. This is the lowest jobless rate since October 1980. During July, employment increased by a seasonally adjusted 42,000, or 0.1%. The strength of the labour market appears to be underpinning a robust upswing in Europe's largest economy at a politically opportune time. With less than four weeks before the general election, most of the recent economic data has been positive.

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

August 29

▼ Statistics Canada reported that its Industrial Product Price Index (IPPI) declined 1.5%, and its Raw Materials Price Index (RMPI) fell by 0.6% in July. On a year-over-year basis, the indexes are up 1.3% and 4.5%, respectively. Lower prices for motor vehicles and metal ores were also seen during the month. These figures are weaker than consensus expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ The U.S. Conference Board announced that its consumer confidence index moved higher in August from July's downwardly revised level. The index now stands at 122.9, up from 120.0 in July (previously reported as 121.1). The Present Situation Index increased from 145.4 to 151.2, while the Expectations Index rose marginally from 103.0 last month to 104.0. With the market looking for a pullback from these elevated levels, these results are stronger than expectations. Consumer confidence is an indicator of spending patterns.

August 31

▲ The U.S. Department of Labor announced that initial jobless claims totalled 236,000 (seasonally adjusted) in the week ending August 26; an increase of 1,000 from the previous week's revised level. The previous week's level was revised up from 234,000 to 235,000. The four-week moving average was 236,750, a decrease of 1,250 from the previous week's revised average. The previous week's average was revised up by 250 from 237,750 to 238,000. These results are in line with consensus estimates.

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.4% in July, while personal consumption expenditures (PCE) increased 0.3%. Based on revised figures, personal income was largely unchanged and PCE increased 0.2% in June. Although income figures for July matched expectations, spending results were marginally weaker. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▲ Statistics Canada announced that GDP rose 4.5% (on an annualized basis) in the second quarter of 2017, after gaining 3.7% in the first quarter. The cumulative growth in the first two quarters of the year was the strongest since 2002. On a monthly basis, real GDP by industry increased 0.3% in June, suggesting that the economy carried some positive momentum into the third quarter. These results are significantly stronger than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

September 1

▲ The U.S. Bureau of Labor Statistics reported that the unemployment rate edged higher by 0.1 percentage points to 4.4% in August, and non-farm payroll employment rose by 156,000. Job gains occurred in manufacturing, construction, professional and technical services, health care and mining. July's gain in non-farm payrolls was revised downward to 189,000 from 209,000. In this report, the bureau stated that "Hurricane Harvey had no discernable effect on the employment and unemployment data for August." However, it is expected to influence September data. This report was somewhat weaker than anticipated. This is the most closely followed set of U.S. statistics as it indicates the relative health of the various sectors of the economy and is suggestive of consumer spending.

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