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Weekly Commentary – February 12, 2018

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Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 12	Consumer Inflation Expectations	January 18	2.78%	2.82%
February 14	Retail Sales	January 18	0.53%	0.40%
February 15	Industrial Production Y/Y	January 18	3.84%	3.60%
February 15	Foreign Bond Investment	December 17	$0.58B	-$18.80B
Canada				
February 15	ADP Employment Change	January 18	59.9 k	-7.1 k

Key Earnings:
February 12: Genomic Health Inc., Re/Max Holdings Inc., T-Mobile U.S. Inc.
February 13: CNO Financial Group Inc., Occidental Petroleum Corp., PepsiCo Inc.
February 14: GNC Holdings Inc., Hyatt Hotels Corp., SunPower Corp., Time Inc.
February 15: Avon Products Inc., Genesis Energy LP, MFA Financial Inc., Syntel Inc.
February 16: Coca-Cola Co., Kraft Heinz Co., Pioneer Energy Services Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian job growth stalls

The latest figures from Statistics Canada revealed an 88,000 decline in employment during January, the worst single month result since January 2009 at the height of the last recession. At the same time, the unemployment rate rose from 5.8% to 5.9%, but an even larger increase was prevented by a 73,700 decline in the labour force, which lowered the participation rate to 65.5%. Even though full-time employment actually increased 49,000 in January, the 137,000 drop in part-time employment overwhelmed these gains. Ontario saw the majority (59,300) of the part-time job losses during the month and showed a year-over-year decline of 4.3% in this category. Analysts pointed to January's dramatic increase in the province's minimum wage as one of the reasons for the skewed results.

Trade deficits influence North American economic growth

Statistics Canada and the U. S. Census Bureau released updated trade data for December 2017 showing both countries closed out the year with another deficit. Here at home, the merchandise trade deficit widened to $3.2 billion for the month, raising the fourth quarter deficit to $7.3 billion. Still, this was an improvement from the $9 billion deficit recorded in the third quarter and will provide less of a drag on overall GDP. Stateside, the international trade deficit rose to US$53.1 billion in December, the largest single-month trade gap since October

2008. The deficit widening will be reflected in the next round of GDP estimates. In addition, this report also showed that America's politically sensitive merchandise-trade gap with China widened 8.1% in 2017 to a record US$375.2 billion. This news comes in the wake of President Donald Trump's State of the Union Address, where he stated that he would "fix bad trade deals and negotiate new ones."

Volatility returns

On February 5, the Dow Jones Industrial Average (DJIA) posted the biggest single-day point loss ever (1,175 at the close but 1,600 points at session lows) and ended the day with a 4.6% decline. Overseas stock markets extended these losses on February 6. Tokyo's Nikkei 225 Stock Average closed with a 4.7% loss after briefly touching a 7.0% decline. Shanghai's SSE Composite Index ended 3.4% lower and Hong Kong's Hang Seng Index skidded 5.1%. In the early hours of North American trading, it looked like more of the same, with an early decline of another 565 points for the DJIA. However, the market snapped back, recording a 1,167-point intraday trading range en route to a 2.3% advance at the close. For investors who have grown accustomed to steady move ups in U.S. equities, this episode of extremely volatile trading serves as a reminder that markets can quickly move in unpredictable ways.

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

February 6

▲ Statistics Canada announced that Canada's merchandise trade deficit with the world totalled $3.2 billion in December, widening from a $2.7 billion deficit in November. Imports rose 1.5% and exports were up 0.6%, both led by energy products. Since the market was looking for a narrowing of the deficit in December, these results are weaker than expected. They are a negative sign for overall GDP growth.

▲ The U.S. Census Bureau announced that the country's international trade deficit in goods and services widened to US$53.1 billion in December from a revised US$50.4 billion in November. December exports were US$203.4 billion, US$3.5 billion more than November exports. December imports were US$256.5 billion, US$6.2 billion more than November imports. The trade deficit was larger than expected. The weaker trade results may dampen any revisions to GDP growth figures for the quarter.

▲ Germany's federal statistical office reported that factory orders experienced a significant 3.8% rise (month-over-month) in December 2017, after a 0.1% decrease in November (on the same basis). The reading was dramatically stronger than the consensus forecast of 0.7%. This is the largest gain since August and was mainly driven by a 5.9% increase in foreign demand. This result underscores the ongoing improvement in economic health in both Germany and across the Eurozone.

▼ On February 5, the Dow Jones Industrial Average posted the biggest point loss ever (1,175 for the day but 1,600 points at session lows) and the largest per cent drop (4.6%) since August 2011. Global stock markets then extended the losses on the following day. Among the biggest decliners, Tokyo's Nikkei 225 Stock Average ended with a 4.7% loss after briefly touching a 7.0% decline. Shanghai's SSE Composite Index closed 3.4% lower and Hong Kong's Hang Seng Index skidded 5.1%. Somewhat less dramatically, Australia's S&P ASX 200 Index dropped 3.2% and South Korea's KOSPI indexes declined 1.5%. Analysts suggest that these large declines are due more to a need for a "correction" after a period of over-extended gains, rather than a return to the market instability of 2008-09.

February 7

▲ Statistics Canada reported that building permits issued by Canadian municipalities rose 4.8% to $8.1 billion in December, following a 7.3% decline in November. The December increase stemmed from higher construction intentions in the residential sector. Across Canada, all components climbed in 2017, up 10.4% from the previous year, led by the multi-family dwelling component. On a year-over-year basis, permits are up 11.5%. These results

are stronger than consensus estimates. Permits are an indicator of the future level of activity in the construction sector.

▲ Japan's Statistics Bureau announced that its coincident index for the economy increased to a 120.7 reading in December 2017 from the 117.9 level reported in November. This reading is the highest since 1985 and was stronger than the consensus forecast. The coincident index identifies the current state of the economy and an increasing index suggests that the Japanese economy is in an expansion phase. In response to this data, and coupled with the recovery in U.S. equity markets, Japan's Nikkei 225 briefly gained 3.3% before settling back to a far more modest 0.2% advance.

February 8

▼ The U.S. Department of Labor announced that initial jobless claims totalled 221,000 (seasonally adjusted) in the week ending February 3, a decrease of 9,000 from the previous week's unrevised level of 230,000. The four-week moving average was 224,500, a decrease of 10,000 from the previous week's unrevised average of 234,500. This is the lowest level for this average since March 10, 1973 when it was 222,000. These results are stronger than consensus estimates.

■ The Canada Mortgage and Housing Corporation announced that housing starts totalled 216,200 units (seasonally adjusted annual rate) in January. This is virtually unchanged from the revised 216,275-unit level in December (originally reported as 216,980) and is the eighth consecutive month above the 200,000 level. This result is somewhat stronger than market consensus. Activity in the housing market has a significant "ripple" effect on the broader economy.

■ Statistics Canada announced that its New Housing Price Index (NHPI) was unchanged for the first time since April 2015. Buyers in 15 of the 27 census metropolitan areas (CMAs) surveyed saw no price change. Increases in eight surveyed CMAs across the country were offset by declines in the remaining four. On a year-over-year basis, the index is up 3.3%. These results are somewhat weaker than consensus expectations and underscore regional differences in home pricing.

February 9

▲ By the close of trading on February 8, the U.S. S&P 500 Index officially moved into correction territory (down 10% from its recent peak). While a correction in and of itself is not particularly surprising, this does mark the third correction (October 3, 2011 and February 11, 2016) since the market lows (March 9, 2009) of the global financial crisis almost nine years ago. The most recent move down has come amid considerable volatility and arrived only nine trading sessions after the index posted an all-time high close of 2,872 on January 26. As of the week ending February 9, Toronto's TSX has not yet reached the correction point (-8.2% from the high close on January 4). While certainly disconcerting to investors, corrections are part of the normal progression of equity markets.

▼ Statistics Canada announced that 88,000 jobs were lost in January and the unemployment rate rose by 0.1 percentage point to 5.9%. A 73,700 decline in the labour force prevented an even larger increase in the unemployment rate. Part-time employment declined (-137,000), while full-time employment was up (+49,000). In line with the overall decline, annual job growth tumbled from 2.3% in December to 1.6% in the January report. These results are dramatically 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.K.'s Office for National Statistics reported that industrial production experienced a 1.3% decrease (month-over-month) in December 2017, following a downwardly revised 0.3% rise in November (on the same basis). This reading is somewhat weaker than the consensus expectation and was the biggest drop since September 2012. On a year-over-year basis, the index remains the same after a 2.6% increase in November. A major oil pipeline shutdown during December was the main contributor to the 14.3% slump in mining and quarrying during the month. Still, for 2017, industrial production increased 2.1% and was the strongest growth rate since 2010.