Weekly Commentary – May 6, 2019

Alfred Lam, MBA, CFA  
Senior Vice-President & Chief Investment Officer  
CI Multi-Asset Management

Richard J. Wylie, MA, CFA  
Vice-President, Investment Strategy  
Assante Wealth Management

Economic Calendar

<table>
<thead>
<tr>
<th>Date</th>
<th>Release</th>
<th>Period</th>
<th>Consensus</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 9</td>
<td>Exports</td>
<td>March 19</td>
<td>$207.0B</td>
<td>$209.7B</td>
</tr>
<tr>
<td>May 9</td>
<td>Imports</td>
<td>March 19</td>
<td>$259.0B</td>
<td>$259.1B</td>
</tr>
<tr>
<td>May 9</td>
<td>PPI</td>
<td>April 19</td>
<td>0.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>May 10</td>
<td>Inflation Rate</td>
<td>April 19</td>
<td>0.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 7</td>
<td>Ivey PMI s.a.</td>
<td>April 19</td>
<td>53.5</td>
<td>54.3</td>
</tr>
<tr>
<td>May 9</td>
<td>Imports</td>
<td>March 19</td>
<td>$52.00B</td>
<td>$50.87B</td>
</tr>
</tbody>
</table>

Key Earnings:
May 6: Howard Hughes Corp., Otter Tail Corp., Sprint Corp., Sysco Corp.
May 7: ADT Inc., Avanos Medical Inc., Weibo Corp., Western Union Co.
May 8: Bunge Ltd., EchoStar Corp., Goodrich Petroleum Corp., Middleby Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian economy slips again
As if on cue, following the Bank of Canada’s downgrade to its domestic economic forecast, Statistics Canada announced that GDP by industry contracted by -0.1% in February. This was the fourth monthly decline in the last six months and left year-over-year growth at 1.1%. The February result would have been even weaker had it not been for a +1.5% surge in utilities, which came on the back of record-setting cold weather in Western Canada. Suffering its sixth consecutive monthly drop, mining, quarrying, oil and gas extraction (-1.6%) led the decliners. Total output in this sector has now fallen 9.0% from the cyclical high recorded in May 2018. Given the broad weakness in this report, the bank’s forecast of a rebound in the economy over the balance of 2019 remains in question as there is little to suggest that there is material momentum building in any sector.

Fed remains “patient”
Despite recent calls from the White House for a 1.0% interest rate cut and a ramping up of quantitative easing, the U.S. Federal Reserve held interest rates steady and made no mention of balance sheet items at the conclusion of its latest meeting. The interest rate range for federal funds has now been steady at 2.25% to 2.50% since the last tightening move on December 19, 2018. Since that time, the press release that has accompanied each of the policy announcements has included the phrase “the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate.” The Fed also pointed out that “overall inflation and inflation for items other than food and energy have declined and are running below two percent” (their target). This provides further support for analyst arguments that the Fed may remain on hold for the balance of 2019.

Italy escapes recession
Italy, the euro area’s third-largest economy, exited its third recession in the last decade by reporting a marginally better than expected expansion in the first quarter of the year. The Italian National Institute of Statistics (Istat) revealed that GDP growth
expanded by +0.2% (quarter-over-quarter, seasonally and calendar adjusted) in the three months to March 2019. This modest growth comes after the nation slid into a technical recession (two consecutive quarters of GDP contraction) at the end of 2018. Istat reported that the economy’s expansion was driven by net exports, as well as surprisingly positive industrial production figures recorded in January and February. However, domestic demand remained weak as companies allowed their investments in inventory to decline. Even though it is now out of contractionary territory, Italy remains the laggard among the 19-nation euro area. Recent Istat confidence indicators suggest that second quarter growth will likely remain subdued.

**Longer View**

It will likely take some time for central banks to normalize interest rates and unwind the quantitative easing that has added trillions of dollars to central banks’ balance sheets. Growth rates for loans will slow significantly because of the unwind likely causing economies to grow at below-average rates. Valuations for stocks are fair and expected returns are positive although overall markets are unlikely to deliver double-digit returns over the next decade. Companies that have solid balance sheets will likely outperform. Recent volatility and general noise in the market can represent a material distraction and may discourage investors. Working with a financial advisor will ensure your portfolio is optimized and continues to meet your needs.

**Weekly Summary**

**April 29**

▲ According to the U.S. Bureau of Economic Analysis, personal income increased 0.1% (US$11.4 billion) in March. Personal consumption expenditures (PCE) increased 0.9% (US$123.5 billion). Based on revised figures, personal income and PCE each increased by 0.2% and 0.1%, respectively in February. This was the biggest increase in personal spending since August 2009. Total personal income results fell below market consensus, while expenditure figures for March spiked above consensus. Income and spending patterns of consumers are critical factors in the health of the broader economy.

▼ The European Commission reported that the Economic Sentiment Indicator (ESI) for the euro area declined 1.6 points to 104.0 in April, following a marginally stronger revised 105.6 reading in March. This was the weakest reading since September 2016 and extended the indicator’s downward trend to 10 consecutive months. These results were below market consensus. “Amongst the largest euro area economies, the ESI decreased in France (-0.1) and Italy (-0.1) and, more significantly so, in Germany (-1.5) and Spain (-2.6).” The ESI provides a broad measure of both business and consumer sentiment for each of the euro area and European Union.

**April 30**

▼ Statistics Canada announced that, on a monthly basis, real GDP by industry contracted by -0.1% in February, partially reversing the 0.3% advance in January. The decline in February was led by mining, quarrying, oil and gas extraction (-1.6%), which recorded its sixth consecutive monthly decline. Utilities (+1.5%) recorded the largest monthly advance due to record-setting cold weather in Western Canada. On a year-over-year basis, GDP growth stands at 1.1%. These results are weaker than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ Statistics Canada reported that both its Industrial Product Price Index (IPPI) (+1.3%) and its Raw Materials Price Index (RMPI) (+2.8%) rose dramatically on the back of energy prices in March. These monthly gains reversed recent weakness and, on a year-over-year basis, the IPPI is now up 1.5% and the RMPI is down -1.5%. These volatile figures are broadly in line with expectations. The IPPI and RMPI data are closely watched as they indicate relative inflationary pressures at the industry and raw materials levels.

▲ According to a preliminary flash estimate, Eurostat, the statistical office of the European Union, announced that real GDP growth in the euro area expanded 0.4% (quarter-over-quarter, seasonally adjusted) in Q1 2019, following a revised 0.2% growth in Q4 2018. These data show that it was the economy’s best performance since the second quarter of 2018 and reversed the sharp slowdown of the second half of last year. Accordingly, annual GDP growth remained unchanged at 1.2% in Q1 2019. Both the quarterly and annual GDP growth figures beat market consensus.
Destatis, Germany’s Federal Statistical Office, announced that consumer prices advanced a provisional 1.0% in April, following a 0.4% reading in March. On a year-over-year basis, consumer price index (CPI) growth accelerated 2.0% in April, from an 11-month low of 1.3% in the previous month. This was the highest annual growth rate since November 2018 (2.1%) and indicated that German inflation met the European Central Bank’s (ECB) 2.0% inflation target. However, the April results may likely indicate that this year’s late Easter had a significant impact on the monthly inflation report, which may also be reflected in the euro area’s Friday inflation announcement. Both the monthly and annual CPI growth rates were well above market consensus.

Destatis announced that the number of unemployed workers in Germany fell by 72,000 to 2.2 million in April and, as a result, the unemployment rate remained unchanged at 4.9%. This is the lowest unemployment rate recorded since Germany’s reunification in 1990. These results were in line with market consensus. The employment data reflect the strength of the broader economy and individual sectors. As well, these figures are indicative of consumer spending trends.

May 1

The IHS Markit/CIPS U.K. Markit Manufacturing PMI dropped 2.0 points to 53.1 (seasonally adjusted) in April, down from March’s 13-month high of 55.1. This was the index’s lowest outturn in two months. Even so, April’s PMI reading remained comfortably above its key 50.0 expansion threshold benchmark. The report showed that there has been accelerated stockpiling in preparation for Brexit. New export business contracted at its second-fastest pace in four-and-half years and output growth slowed from March’s ten-month high. However, business optimism improved to a seven-month high, “with over 50% of companies forecasting that output would increase” in 12 months’ time. Overall, the April PMI results showed resilience given the ongoing Brexit impasse. The Bank of England (BoE) likely will be content with these results and, as a result, the bank may retain a more hawkish view at its upcoming Monetary Policy Committee (MPC) meeting on May 2.

The Institute for Supply Management reported that its Purchasing Managers Index moved lower to a 52.8 reading in April. This is a 2.5-point loss from March’s 55.3 figure but remains above the key 50.0 (generally expanding) level for a 32nd consecutive month. The reading is below expectations and indicates a marginal deceleration in manufacturing activity.

The U.S. Census Bureau announced that construction spending fell -0.9% in March, following a downwardly revised +0.7% advance in February (originally reported as +1.0%). On a year-over-year basis, construction was down 0.8%. The monthly figure is below consensus estimates. This result indicates continued soft activity in the construction sector.

The U.S. Federal Reserve left interest rates unchanged following its latest two-day policy meeting. The target range for the federal funds was left at 2.25% to 2.50%. The Fed last raised interest rates by 0.25% on December 19. The press release that accompanied the announcement highlighted the continued strength in both the labour market and the broader economy. However, the Fed also referred directly to the first quarter slowdown in household spending and business fixed investment. The announcement of no change to 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 economies. Its lead is often followed by policymakers in other countries.

May 2

The U.S. Department of Labor announced that initial jobless claims totalled 230,000 (seasonally adjusted) in the week ending April 27, unchanged from the previous week's unrevised level of 230,000. The four-week moving average was 212,500, an increase of 6,500 from the previous week's unrevised average of 206,000. These results are somewhat weaker than consensus estimates.

The U.S. Bureau of Labor Statistics announced that non-farm labour productivity increased at a 3.6% (annualized) rate during the first quarter of 2019, while unit labour costs actually declined -0.9% on the same basis. These figures are considerably stronger than market expectations. Productivity growth is important for longer-term economic stability as it allows for higher wages and faster economic growth without inflationary pressures.
The BoE’s MPC met market estimates and left its key bank rate unchanged at 0.75% following its latest meeting, setting its monetary policy to meet its 2.0% inflation target. Text added to the accompanying release stated that the updated projections for activity and inflation “are conditioned on a path for bank rate rises to around 1.0%” by the end of the forecast period, around 15 basis points lower than in the February 2019 report. The release also cites that expected quarterly GDP growth will increase to 0.5% in Q1 2019, from 0.2% in Q4 2018, stronger than projected in the previous report. However, the MPC suggested that the boost in stock building is expected to be temporary and “quarterly growth is expected to slow to 0.2% in Q2 2019. This was the first set of economic forecasts to be published since the U.K.’s planned departure from the EU on March 29 was delayed; however, it seems like the BoE is in no rush to raise rates despite stronger economic growth and a tight labour market, with unemployment forecast to fall even further.

The U.S. Census Bureau reported that factory orders increased 1.9% in March. This followed an upwardly revised -0.3% decline in February (originally reported as -0.5%). Excluding transportation, new orders rose 0.8% in March. Given the upward revisions to the previous data, these results are stronger than expected. The orders data indicate how busy factories will be in coming months as manufacturers work to fill those orders.

May 3

The U.S. Bureau of Labor Statistics reported that the unemployment rate fell by 0.2 percentage points to 3.6% in March, the lowest since December 1969. Part of this surprise drop was due to a 490,000 decline in the labour force. At the same time, however, non-farm payroll employment rose by 263,000. Notable job gains occurred in professional and business services, construction, health care, and social assistance. Average hourly earnings continued to grow at an annual 3.2% pace for a fourth consecutive month. The overall report is stronger than expectations. 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.

In its flash estimate, Eurostat, the statistical office of the European Union, reported that CPI growth in the euro area advanced 1.7% in April (year-over-year), following a 1.4% increase in March. This was the highest inflation rate in five months. The annual core inflation, which excludes volatile prices of energy food and alcohol & tobacco, and at which the ECB focuses on in its policy decisions, accelerated 1.2%, after a 0.8% reading in the previous month. Both readings beat market expectations; however, each of the readings still came in well short of the ECB’s near-2.0% medium-term inflation target.

The Institute for Supply Management announced that its non-manufacturing PMI recorded a 55.5 reading in April. It was down 0.6 points from the 56.1 level registered in March but remained above the key 50.0 (generally expanding) level for a 111th consecutive month. This figure is below consensus expectations. This result indicates continued growth, but at a slightly slower rate in the non-manufacturing sector.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

Although the above information has been compiled from sources believed to be reliable, as at the date indicated, we cannot guarantee its accuracy or completeness. The information is provided solely for informational and educational purposes and is not to be construed as advice in respect of securities or as to the investing in or buying or selling of securities, whether express or implied. All data provided are subject to change without notice. The authors of this publication are employed by CI Investments Inc. or its affiliates. CI Multi-Asset Management is a division of CI Investments Inc. ©The Assante symbol and Assante Wealth Management are registered trademarks of CI Investments Inc. Assante Wealth Management and/or Assante Wealth Management and design are trademarks of CI Investments Inc. Neither CI Investments Inc. nor any of its affiliates or their respective officers, directors, employees or advisors is responsible in any way for damages or losses of any kind whatsoever in respect of the use of this information. © 2019 CI Investments Inc.