Weekly Commentary – December 2, 2019

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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>United States</td>
<td></td>
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<tr>
<td>December 2</td>
<td>ISM Manufacturing PMI</td>
<td>Nov 2019</td>
<td>49.1</td>
<td>48.3</td>
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<tr>
<td>December 4</td>
<td>ISM Non-Manufacturing PMI</td>
<td>Nov 2019</td>
<td>53.2</td>
<td>54.7</td>
</tr>
<tr>
<td>December 5</td>
<td>Balance of Trade</td>
<td>Oct 2019</td>
<td>-$48.1B</td>
<td>-$52.5B</td>
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<tr>
<td>December 5</td>
<td>Initial Jobless Claims</td>
<td>Nov 30, 2019</td>
<td>226k</td>
<td>213k</td>
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<tr>
<td>December 6</td>
<td>Non Farm Payrolls</td>
<td>Nov 2019</td>
<td>171k</td>
<td>128k</td>
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<tr>
<td>Canada</td>
<td></td>
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<tr>
<td>December 4</td>
<td>Bank of Canada Interest Rate Decision</td>
<td>Oct 2019</td>
<td>1.75%</td>
<td>1.75%</td>
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<tr>
<td>December 5</td>
<td>Balance of Trade</td>
<td>Oct 2019</td>
<td>-$0.70B</td>
<td>-$0.98B</td>
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<tr>
<td>December 5</td>
<td>Ivey PMI</td>
<td>Nov 2019</td>
<td>48.6</td>
<td>48.2</td>
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<tr>
<td>December 6</td>
<td>Unemployment Rate</td>
<td>Nov 2019</td>
<td>5.6%</td>
<td>5.5%</td>
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</table>

*Source: Trading Economics

Key Earnings Calendar**

December 5: Canadian Imperial Bank of Commerce, Okta Inc., Tiffany & Co., Toronto Dominion Bank

**Source: Seeking Alpha

Market Focus

Canadian economy cools dramatically in Q3 2019
Running counter to the pattern seen in the U.S., Canadian economic growth slowed considerably during the third quarter of 2019. Statistics Canada reported a 1.3% annualized growth rate for the three-month period, well below the downwardly revised 3.5% pace (originally reported as 3.7%) posted in the second quarter. Not surprisingly, the third quarter slowdown was largely attributed to weakness in international trade. Additionally, with this data release, Statistics Canada provided benchmark revisions going back to 1981. The updates raised growth estimates for both 2018 (to 2.0% from 1.9%) and 2017 (to 3.2% from 3.0%). Figures for gross domestic product (GDP) by industry revealed a 0.1% growth in September 2019, suggesting at least some momentum heading into the final quarter of the year. Nevertheless, barring a dramatic rebound in the fourth quarter, annual growth for 2019 will fall below the pace seen in the previous two years.

U.S. consumers carry momentum into final quarter of 2019
The U.S. Bureau of Economic Analysis (BEA) reported that overall GDP expanded at an annualized 2.1% pace in the third quarter of 2019. The latest figure stands as an upward revision from the initial 1.9% estimate and shows a surprising, albeit minor, acceleration from the 2.0% pace posted in the second quarter. The latest figures reflected a modest upward revision to personal consumption. However, the final data show that consumer spending represented 69.8% of total economic activity during the quarter, the highest percentage reported since consistent data were first collected in 1947. The BEA also reported personal income and expenditure results for October and personal consumption advanced by an additional 0.3% during the month to stand with a
3.7% annual gain. Personal incomes continued to grow more quickly with a year-over-year gain of 4.4%. Heading into the holiday season, consumer spending is expected to continue to drive broader U.S. economic growth.

India posts slowest growth in six years
India’s economic growth continued to slow in the third quarter. The latest figures show a 4.5% year-over-year pace for GDP growth, the weakest since the second quarter of 2013. This is now the sixth consecutive decline in the nation’s pace of economic growth and leaves it below the psychologically important 5.0% level. Domestic consumption, particularly at the consumer level, remains the primary concern as weak wage growth and persistently high unemployment continue to weigh on consumer sentiment. The Reserve Bank of India has cut its benchmark repo rate at each of its last five bi-monthly policy meetings. However, with inflation touching a 16-month high of 4.6% in October, analysts are now questioning the likelihood of any further interest rate reductions.

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

November 25
▲ Statistics Canada reported that wholesale sales rebounded in September, gaining 1.0% and largely reversing the 1.2% August decline. At the same time, inventories fell 0.7% during the month, a second consecutive decline. On a year-over-year basis, overall wholesale sales are now up 4.0% while inventories are up 7.2%. The monthly sales advance was larger than expected. Activity at the wholesale level can be an indicator of future consumer trends.

▲ Germany’s ifo Business Climate Index rose to 95.0 (seasonally adjusted) in November, after an upwardly revised 94.7 (originally 94.6) reading in October. At the same time, its current conditions gauge edged up 0.1 points to stand at 97.9 in November, following a 97.8 in the previous month. Likewise, its business expectations gauge jumped 0.5 points to 92.1, posting its second increase since March. Following its most recent report, the ifo Institute expects GDP to increase by 0.2% in Q4 2019. Despite the upward shifts, the overall ifo survey figures are slightly below market consensus expectations. The headline ifo Business Climate Index is used as a forward-looking indicator of morale in German industry.

November 26
▲ Germany’s Gfk Consumer Climate Index edged up to 9.7 heading into December, 0.1 points above its reading of 9.6 in November and above market consensus. The survey’s sub-index measuring economic expectations jumped 15.5 points to 1.7, its strongest advance since June 2010. At the same time, the sub-index measuring income expectations gained 6.5 points to 45.5. Gfk SE (Growth from Knowledge) is Germany’s largest market research institute, and its consumer climate survey measures German consumers’ assessments of current economic conditions.

November 27
▲ The U.S. Bureau of Economic Analysis announced that real gross domestic product grew at an annual rate of 2.1% in the third quarter of 2019. This figure is the “second estimate” while the original growth estimate was 1.9%. In the second quarter of 2019, real GDP increased 2.0% on the same basis. In this report, upward revisions to private inventory investment, nonresidential fixed investment, and personal consumption expenditures were partially offset by a downward revision to state and local government spending. These results were stronger than expected, as the market was looking for no net change to the headline figure. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.
The U.S. Census Bureau announced that durable goods orders rose 0.6% in October. This increase, up four of the last five months, followed a 1.4% September decrease (originally reported as 1.1%). Excluding transportation, new orders increased by the same 0.6% in October. Excluding defence, new orders rose 0.1%. With the market braced for another decline, these figures are stronger than market expectations. Orders for durable goods indicate how busy manufacturers will be in the months to come, as they work to fill those orders.

The U.S. Department of Labor announced that initial jobless claims totalled 213,000 (seasonally adjusted) in the week ending November 23, a decrease of 15,000 from the previous week's revised level. The previous week's level was revised up by 1,000 to 228,000. The four-week moving average was 219,750, a decrease of 1,500 from the previous week's revised average. The previous week's average was revised up by 250 to 221,250. These results are somewhat stronger than consensus estimates.

According to the U.S. Bureau of Economic Analysis, personal income increased less than 0.1% in October while personal consumption expenditures (PCE) increased 0.3%. Based on revised figures, personal income increased 0.3% and PCE increased 0.2% in September. While income figures for October were below expectations, spending results were stronger. Income and spending patterns of consumers are critical factors in the health of the broader economy.

Statistics Canada reported that Canada's overall current account deficit widened by $3.1 billion (on a seasonally adjusted basis) in the third quarter to $9.9 billion, largely the result of the $2.4 billion increase in the deficit on trade in goods and services. The increase in the current account deficit was larger than anticipated. Current account deficits must be funded by borrowing from foreign lenders.

Statistics Canada also announced that average weekly earnings increased 0.9% to $1,042 in September. On a year-over-year basis, average weekly earnings rose 4.0%. These results are above expectations. As this indicator measures growth in income, it can reveal trends in consumer spending.

Japan’s Ministry of Economy, Trade and Industry reported that retail sales plunged 14.4% (M/M, seasonally adjusted) in October, following a 7.1% advance in September. This is the largest decline in sales growth since monthly records began in 1960. On a year-over-year basis, retail sales plummeted 7.2% in October, following a 9.2% surge in September. The weakness reflected in the sales data likely stem from Japan’s sales tax hike which was implemented in early October. The overall figures are significantly weaker than market consensus.

Destatis, the federal statistics office of Germany, revealed in a preliminary estimate that consumer prices decelerated 0.8% (M/M) in November, after a 0.1% advance in October. Annual consumer price index inflation rose 1.1% (Y/Y) in November, unchanged from the previous month. The overall results are weaker than market consensus.

The European Commission (EC) reported that its Business Climate Indicator (BCI) for the euro area edged down by 0.03 points to -0.23 (seasonally adjusted) in November, following a -0.20 reading in October and missing market consensus of 0.14. At the same time, the EC revealed that its Economic Sentiment Indicator (ESI) edged up 0.5 points to 101.3 (on the same basis) in November compared to its October reading of 100.8. The latest ESI reading is stronger than market consensus.

Statistics Canada announced that real GDP growth slowed to 1.3% (on an annualized basis) in the third quarter of 2019, after expanding a downwardly revised 3.5% in the second quarter (originally reported as 3.7%). Along with this report, Statistics Canada released benchmark revisions back to 1981. International trade appeared to be the largest drag on economic growth during the third quarter. On a monthly basis, real GDP by industry increased 0.1% in September, suggesting that the economy may have carried some modest positive momentum into the final quarter of the year. Coupled with the revision, these results are generally in line with market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.
Statistics Canada also reported that its Industrial Product Price Index (IPPI) edged 0.1% higher while its Raw Materials Price Index (RMPI) dropped 1.9% in October. On a year-over-year basis, the indexes are down 1.3% and 5.0%, respectively. These figures are 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.