Weekly Update

Solid Data Signal Growth

As of February 17, 2017

INVESTMENT MANAGEMENT INC.

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The Economy

- Inflation appeared resurgent on the back of an energy-price recovery, according to the first reports of 2017. Producer prices rose 0.6% in January on the strength of a 4.7% advance in energy; year-over-year prices increased by 1.6%, which points to moderate improvement despite remaining below the Federal Reserve's 2% inflation target.
- The Consumer Price Index (CPI) grew the most in almost four years, up 0.6% in January, bringing year-over-year growth to 2.5%. Gasoline prices jumped 7.8%, accounting for nearly half the CPI gain in January. Energy prices were up 4%, posting their fifth consecutive monthly rise. Apparel, up 1.4%, and new vehicles, up 0.9%, were also strong.
- Industrial production came below consensus, unexpectedly falling 0.3% in January. Mining gained 2.8% in the month, but could not overcome a sharp decline in utilities — down 5.7% after an unseasonably warm month. Motor-vehicle production also disappointed, shrinking 2.9%.
- Retail sales advanced 0.4% in January, while the December figure was revised higher to show a 1.0% increase. Despite a large drop in motor vehicle sales, which normally decline in the month after Christmas, every other major retail sector improved. Core retail sales — which exclude autos, gas, building materials and food services, and are a good indicator for the consumer spending portion of gross domestic product — were up 0.4%.
- Housing starts dipped by a less-than-expected 2.6% in January. Permits rose by 4.6%, with 52,000 more issued than anticipated. Housing completions declined by 5.6%.
- Initial jobless claims expanded by 5,000 to 239,000 for the week ending February 11, while continuing claims declined by 3,000 to 2.08 million for the week ending February 4. Initial claims have been less than 300,000 for 102 consecutive weeks, the longest streak in over forty years.
- The index of leading economic indicators recorded a better-than-expected 0.6% in January — the fifth straight increase — pointing to improving sentiment in a moderately paced economy.
- Despite possible concerns over the eventual implications of Brexit, U.K. unemployment maintained its 11-year low of 4.8% for the October-to-December period. While year-over-year wage growth slowed to 2.6%, the figure is still growing in real terms — outpacing the U.K. CPI, which gained 1.8% in January.
- The European Union and Canada secured approval for their controversial free-trade deal aimed at removing import duties. Advocates hope the deal will advance growth and jobs on both sides of the Atlantic.
- China's consumer prices unexpectedly expanded by 2.5% for the one-year period. The rise was broadly based, with core inflation gaining 2.2%, but most prominent in food and energy. Similarly, producer prices surprisingly surged year over year, rising 6.9%, with fuel and power up 14.7% and production materials up 9.1%.

U.S. Economic Calendar

- February 21: PMI Manufacturing Flash
- February 22: Existing Home Sales, Mortgage Applications
- February 23: Case-Shiller Home Prices, Consumer Confidence, Jobless Claims
- February 24: New Home Sales, PMI Services Flash

Stocks

- Global equities advanced this week. Emerging-market equities, led by Latin America, continued to outpace developed markets.
- U.S. sectors were higher for the week outside of the energy sector. The financial and healthcare sectors outperformed, and growth stocks modestly outpaced value stocks, as large-company stocks led their small-company counterparts.

Bonds

- Global bonds advanced this week. High-yield bonds outperformed, followed by corporate bonds, while global government bonds lagged.
- U.S. Treasury yields rose marginally this week after Janet Yellen affirmed a hawkish outlook in testimony before Congress.

The Numbers as of February 17, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.3%	5.4%	19.8%	444.5
MSCI EAFE ($)	1.0%	4.5%	12.2%	1759.4
MSCI Emerging Mkts ($)	1.7%	9.7%	26.7%	945.6
US & Canadian Equities				
Dow Jones Industrials ($)	1.7%	4.4%	25.7%	20624.1
S&P 500 ($)	1.4%	4.9%	22.5%	2349.2
NASDAQ ($)	1.8%	8.5%	30.1%	5838.6
S&P/ TSX Composite (C$)	0.7%	3.6%	22.5%	15839.6
UK & European Equities				
FTSE All-Share (£)	0.5%	2.5%	21.2%	3968.8
MSCI Europe ex UK (€)	1.0%	2.1%	13.4%	1236.5
Asian Equities				
Topix (¥)	-0.1%	1.7%	17.8%	1544.5
Hong Kong Hang Seng ($)	1.9%	9.2%	24.1%	24033.7
MSCI Asia Pac. Ex-Japan ($)	1.4%	9.6%	23.3%	467.6
Latin American Equities				
MSCI EMF Latin America ($)	2.4%	13.7%	50.4%	2662.3
Mexican Bolsa (peso)	-1.3%	3.3%	8.4%	47167.6
Brazilian Bovespa (real)	2.5%	12.5%	63.3%	67748.4
Commodities ($)				
West Texas Intermediate Spot	-0.9%	-0.6%	73.5%	53.4
Gold Spot Price	0.5%	7.4%	0.9%	1238.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.1%	0.9%	-0.2%	455.3
JPMorgan Emerging Mkt Bond	-0.2%	2.6%	12.5%	758.5
10-Year Yield Change (basis points*)				
US Treasury	1	-3	68	2.42%
UK Gilt	-4	-2	-23	1.21%
German Bund	-2	10	8	0.30%
Japan Govt Bond	0	5	7	0.09%
Canada Govt Bond	1	-2	59	1.71%
Currency Returns**				
US$ per euro	-0.3%	0.9%	-4.5%	1.061
Yen per US$	-0.3%	-3.5%	-0.3%	112.88
US$ per £	-0.6%	0.6%	-13.4%	1.242
C$ per US$	0.1%	-2.6%	-4.6%	1.310

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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