

The Gruchala Wojtal Group Newsletter

GWG } The Gruchala Wojtal Group

BMO  Nesbitt Burns

Market Outlook 1st Quarter 2014

As we wrote in our 2014 market outlook piece in January, we expected volatility to pick up relative to 2013. So far this year; this has happened and as we write this, it continues to happen with some sectors aggressively selling off. The main factor in the January timeframe was unease regarding emerging markets' debt and the perceived inability to fund these debts as their bonds began to deteriorate in value (increase in yields).

We still believe the biggest risk to the markets this year is the pace of the US Federal Reserve tapering (the decreasing rate of their monthly US bond re-purchasing programs). The recent move in the US 10 year bond has signaled that the velocity of the tapering will be decreased. In fact, we continue to believe the Fed's biggest fear is deflation, not inflation. We believe that a minimal to low growth environment continues to benefit equities. However the deflation scenario would lead to a more precarious economic environment.

The liquidity injections by global central banks (mainly quantitative easing since 2008) are unprecedented. This has driven equities higher on the back of modest overall economic growth. We have been firm believers since 2008 that we are in a 10-year government deleveraging cycle. We suspect that deleveraging will last another 3-5 years. These circumstances make market forecasting much more difficult than normal.

Europe is still struggling from a growth perspective. In February, the ECB lowered their 2014 Eurozone growth projections (again) down to 1.2%. Double digit unemployment, austerity programs designed to bring down budget deficits in combination with a rising Euro are dampening the growth outlook. We do not believe that the European Debt Crisis, including banks and sovereigns, has been solved. This will continue to have an impact on global growth.

This coming earnings season will be very interesting. In our views the market is pricing perfection. Any earnings misses especially from a bottom line revenue basis will be punished. We still believe that we are in the part of the economic cycle where the

superior equity selection process will outperform significantly. Simply buying the “index” is due to underperform.

Our portfolios are currently sitting on healthy cash positions looking to take advantage of market corrections and entry points in specific companies we have earmarked and have excellent visibility on.

To summarize, we continue to believe volatility will remain throughout the second and third quarters of the year. We believe a strategy of buying quality businesses with strong balance sheets, historical dividend increases and predictable free cash flow will continue to provide good upside over the long term with lower volatility. If you have any questions, please do not hesitate to contact us.

Daniel J. Gruchala B.Comm, CIM, DMS, FCSI
Investment Advisor

Radek Wojtal B.Comm, CIM
Investment Advisor

Kathryn Carver
Client Service Assistant

James Goldberg
Business Development

<http://www.bmo.com/nesbittburns/popups/about-us/disclaimers>

BMO Nesbitt Burns Inc (BMO NBI) provides this commentary to clients for informational purposes only. The information contained herein is based on sources that we believe to be reliable, but is not guaranteed by us, may be incomplete or may change without notice. The comments included in this document are general in nature, and professional advice regarding an individual's particular position should be obtained. BMO NBI is a subsidiary of Bank of Montreal and Member-Canadian Investor Protection Fund. "BMO (M-bar Roundel symbol)" is a registered trademark of Bank of Montreal, used under licence. "Nesbitt Burns" is a registered trademark of BMO NBI, used under licence. [click here](#)