The Gruchala Wojtal Group Newsletter

BMO Wealth Management
BMO Nesbitt Burns

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4th Quarter 2015

As 2015 comes to an end, December finished on a negative note with most developed equity markets in the world negative for the month. The most awaited interest rate rise finally took place in December as the US Federal Reserve raised rates for the first time in 9 years.

Our view was that the economy had prepared for a rate rise earlier in the year, as the December rate rise could come at a difficult time for global markets. Over the last year the US Federal Reserve has stopped Quantitative Easing (printing money to buy Government Bonds) and is in the process of withdrawing excess bank reserves. This is healthy and signals a US economy returning to normal.

Volatility has come back after being on the back burner for most of 2015. We expect continued volatility for the better part of 2016 with potential 15%-20% peak to trough moves on various indexes.

The world has very noticeably been focusing on China since the summer. As we have mentioned in the past, we were becoming more concerned with the potential stated economic growth and artificial demand that was coming out of China. Another concern that has come from China in the last year is their currency and their relation to the US Dollar.

The Renminbi is currently pegged to the US Dollar and as a result has been reaping the economic benefits of the US Dollar appreciation. As the US Dollar has continued to increase as a result their currency, the Renminbi (rmb), is significantly stronger than their competitors (South Korea etc.). This is putting continued downward pressure on there economy. If there is any hint of a sharp unexpected devaluation of the rmb (they have been trying to do it slowly) to the USD, you may have a significant outflow from China into USD or other developed economies. This would also potentially cause deflation in other parts of the world excluding the US. Under this scenario, this would leave the USD to continue its upward momentum. There is cause for concern if this scenario were to occur.

Our portfolios are still positioned conservatively as we finished 2015, far from being fully invested on our equity mandates. We continue to hold US Dollar positions. If there is any global uncertainty the US Dollar will likely continue to strengthen. As stated in previous quarters, our portfolios are still significantly underweight energy, and as a whole underweight Canadian equities. We feel there is some reason for concern with overall Canadian economic growth. As a result, there is some potential for another interest rate cut from the Bank of Canada.

As with the ending of one year and the beginning of the next, the potential uncertainty is always a given. This year is no exception. We continue to believe the investment environment in 2016 will play out with marked uncertainties.

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