The Gruchala Wojtal Group Newsletter

BMO Wealth Management
BMO Nesbitt Burns

GWG The Gruchala Wojtal Group

1st Quarter 2016

2016 started off with volatility levels back up at full steam. Investor pessimism was at extreme levels. Global recession fears caused commodities to plunge and equity investors around the world were hitting the sell button out of panic. This has gradually shifted to optimism as the odds of a full blown global recession have diminished. We still view that the underlying reasons for volatility have not subsided, and that it will likely be back at some point in the coming quarter. Given that a large global financial deleveraging cycles take on average 10 years to correct, we are arguably year 6-7 in that 10 year cycle.

It appears that North American and global growth will remain modest at best. A global recession appears less likely unless there is another macro shock from oil prices veering back down into the $20 per barrel level. We continue to keep a very close eye on global oil inventory numbers. We believe that the recent rally is a combination of short covering (investors buying back short positions, retracting their bets on movement downward), and the realization that the short term recession risk has been discounted.

One key area which we have found very interesting in the first 3 months of 2016 is the US Government bond market. The proxy US 10 yr has not budged higher (higher yield), in fact the yield has actually decreased (down approximately .40bps to 1.80%), signalling a very interesting disconnect between the equity and bond market. For people unfamiliar with government bonds, this is a significant move in 3 months. We are firm believers that the bond market leads the equity market. Quite frankly, the bond market has not confirmed a coming positive move in the equity market one bit. This is why we have moved very little of our cash into equity's over the last quarter.

Given all of the macro uncertainty, our total client book is running at healthy levels of cash and highly defensible equivalents. When clients trust us with their wealth, our first priority is to be conservative allocators of capital in times of unpredictable volatility. Amid this uncertainty, we believe it is prudent to be defensive in one's strategy. As mentioned in previous quarterly updates, we are in uncharted waters in terms of the incredible infusion of liquidity into the financial system by the world's central banks.

The first quarter was incredibly noisy and negative for most markets. Volatility will likely persist throughout the coming months for many reasons currently not factored into by the equity markets (additional interest rate rise in the US, potential "Brexit" etc.). Our belief is that our disciplined risk management focused strategy will continue to serve you well for the remainder of this year.

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

Radek Wojtal B.Comm, CIM
Investment Advisor

Kathryn Carver
Associate Investment Advisor