

The Gruchala Wojtal Group

Newsletter



3rd Quarter 2017

As the third quarter has come to an end, the TSX is relatively flat and the majority of the gains in the US market have been wiped out by an offsetting movement in currency. The bond market has also been essentially flat for the year. In September, the Canadian dollar had a very sharp rise after the second interest rate increase this year. CAD briefly hovered near 83 cents.

As we've stated in the past, we find it hard to believe how any prolonged move above 80 cents will not have serious negative ramifications for the Canadian Dollar. Given how the Bank of Canada's tone is suggestive of future rate increases. It stands to reason that that if they do not increase interest rates again before the end of the year you will likely see a sharply lower Canadian dollar.

The August GDP number (+4.5%) was in all likelihood a one-time anomaly. This allowed us to purchase favourable companies in interest rate sensitive sectors (utilities, REITS, pipelines, etc.)

Our view is that interest rates are not in a sustainable uptrend because of (amongst other things) high levels of government indebtedness, modest global growth and at inflation at or below central bank targets. We used the rate increases by the Bank of Canada to add exposure to fixed income within select portfolios, specifically into investment grade Canadian bonds.

Complacency continues to be at historically high levels. This is the third longest rally of the S&P since the early 1900's without a 15% correction. We are not saying that equity markets cannot continue to move higher. It is however something that we need to be mindful of. Especially after this very good run equities have experienced going back to 2009.

Once third quarter earnings have finished, we expect relatively subdued equity markets to the end of the year. One thing that could of course spark volatility to pick up again, would be some geopolitical event. These events are virtually impossible to predict, especially in the current political environment.

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