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MACEACHERN SMITH GROUP MONTHLY UPDATE

MARCH 2014

MOST MARKETS IN CONSOLIDATION PHASE BUT NEXT MOVE LIKELY TO THE UPSIDE

March Highlights

With the Russian/Ukraine situation on a back burner investors turned up their risk appetites investing in select emerging markets. Commodities paused during the month with only agriculture being positive.

Global Markets

Equity markets were a mixed bag in March following a fairly robust and impressive move upward in February. Investors seemed willing to take on a bit more risk during the month with India, Brazil and Italy being the best performing markets. On the other hand, Germany, UK and Japan were all negative on the month and for the year.

The Russia/Ukraine situation became less of an issue as March progressed. After amassing troops on the Crimean border in what initially looked like preparation for an offensive, Russian President Putin said he would remove them. He hasn't yet so the situation could resurface in the near future.

Commodity markets gave back a bit of gains during the month. Only the broad agricultural basket was able to post positive performance. The dynamic differed from February though. This year's high flyers coffee and sugar had their losses more than offset by gains in grains (corn, wheat).

Table 1 – Market Performance

	March	YTD
India	+11.4%	+9.4%
Brazil	+9.8%	+0.8%
Italy	+6.7%	+13.6%
UK	-3.2%	-1.4%
Germany	-1.1%	-1.3%
Japan	-2.4%	-6.7%
Broad Commodities	+0.0%	+1.2%
Agricultural Basket	+3.5%	+16.8%

Source: Thomson One

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ECONOMIC OUTLOOK

Macro is taking centre stage again as US Federal Reserve statements, Chinese data and European inflation moved markets.

United States

Positive US economic data releases during the latter half of the month seemed to suggest weather was the main culprit for weaker economic releases in February.

An effort to increase transparency backfired on US Federal Reserve chair Janet Yellen. In her first press conference as chair Ms. Yellen suggested the Federal Funds Rate would likely begin increasing about six months after QE ended. That was much quicker than market participants anticipated and equity markets sold off. At the end of the month, Ms. Yellen provided more clarity on rates suggesting economic conditions were such that rate increases were likely still a long way off.

Economic impacts from rate increases off these unprecedented lows will be difficult to foresee and thus manage. We continue to believe the Federal Reserve will remain dovish and will act if interest rates move too high for their liking. Especially since inflation remains under control.

China

Data released in March suggested the Chinese economy was growing slower than expected. Shortly thereafter, the Chinese government said it would take stimulative steps to offset. This is one of the major economic benefits of being a centrally planned economy. We think China will continue do what's necessary to meet its growth targets.

Europe

Investors took reports of low inflation in the Eurozone as a sign that interest rates wouldn't be increasing anytime soon. We agree. Too much austerity pain has been banked to have the central bank raise rates prematurely.

MARKET OUTLOOK

No major changes. We remain bullish on North American markets and view volatility as buying opportunities. Select emerging markets should also provide opportunity

Equities

North American markets still look strong. Large caps, via the S&P 500, continue to make new highs. Our fundamental and technical analysis suggest that the bull market in large caps will continue. We also expect the consolidation that occurred during the last two weeks of March near all-time highs will likely only continue for the short-term and end with a move to the upside. The Nasdaq struggled in March but our initial analysis indicates Biotech and Social Media were the key drivers – two sectors we shy away from given the difficulty to value.

As we hypothesized, the TSX outperformed the S&P 500 in Q1. We think that is likely to change and that both markets will see similar performance in the short-term. That said, the C$ looks like it may have a short-term bounce. If this were to occur we could consider adding to our US exposure.

In Europe, capital is flowing out the major markets like Germany, France and the UK (all down for March) and into riskier countries like Spain and Italy (up significantly). This outperformance will likely continue.

Commodities

We expect WTI to remain steady in the short-term. Barring a super-hot spring and summer we expect natural gas prices to fall. Copper has bounced off lows and we expect more weakness or at least consolidation just under the $3 price level. Precious metal weakness will also continue.

Fixed Income

No change to our view that the risk/reward trade-off in bonds is unappealing. We continue to hold cash in money market funds as an alternative to fixed income.