RICHARDSON GMP

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HKM Private Wealth

HKM PRIVATE WEALTH MONTHLY UPDATE

APRIL 2014

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

April Highlights

Markets continued higher in April with the TSX being one of the best performers globally YTD. The Russian Crimea situation has moved to the forefront again which will likely cause short-term volatility.

Global Markets

The TSX continues to be a leader in the North American equity markets and is outperforming the S&P by a sizable margin – both in April and year-to-date. All major European markets were positive in April but Germany has still not been able to turn positive on the year.

Brazilian equity markets lead BRIC nations in April, the only positive market among the four. Russian equities continued to fall as economic sanctions take hold. Emerging Asian markets continue to outperform larger markets of China and Japan.

Agricultural-based commodities continued to be the top performing commodity subset in April. Expectation is for wheat and corn supply to be lower this year given inclement weather. A disease spreading among pigs in the U.S. is driving up the price of hogs.

Table 1 – Select Markets Performance

	April	YTD
TSX	+2.2%	+7.6%
S&P 500	+0.7%	+2.0%
Europe	+2.6%	+2.9%
Germany	+1.1%	-0.3%
Brazil	+4.5%	+5.3%
Asia (Ex Japan)	+2.7%	+5.7%
Japan	-2.2%	+8.7%
Agricultural Basket	+3.3%	+20.7%

Source: Thomson One

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ECONOMIC OUTLOOK

Global economic news remains encouraging. Recent divergent U.S. data points are expected to resolve postively in Q2.

United States

On the surface, the economic picture in the U.S. appears to be even more opaque than usual. U.S. first quarter GDP came in below expectations - even though those expectations were quite low to begin with given poor weather in Q1. On the other hand, the employment picture improved beyond expectations. Unemployment dropped to 6.3% in April after the economy gained the most jobs in well over 2 years. We expect the poor Q1 GDP number was the anomaly and we expect the U.S. economy to perform well in 2014, starting with a bounce back in Q2 data releases.

U.S. monetary policy remained unchanged in April and we expect it to be that way for the foreseeable future. The Federal Funds rate will likely remain at 0.25% until mid-2015. The asset purchase program will likely continue to be reduced by $10 billion a month. The next big catalyst of monetary policy should be what the U.S. Federal Reserve will do about its inflated balance sheet (speculation should start late summer or the fall).

MARKET OUTLOOK

We remain bullish on most North American markets and view volatility as buying opportunities (execpt for small cap and technology). Base metals should be the top performing commodity group.

Equities

The TSX continues to surprise us. We expected it to outperform U.S. markets but we didn't expect this big of a run without some sort of short-term pull back. Energy has been the key sector in the advance this year, a sector we are over-weighted in. Our view going forward hasn't changed and we expect the TSX to perform well over the mid-term though we likely won't be adding to many positions until we see a meaningful pullback.

The Nasdaq and small caps (via Russell 2000) continued to underperform in April and we expect this will continue for the first half, if not all of May. We are watching these markets closely as they could be the first of the major North American markets to turn bearish. A decoupling from large cap stocks could be a potential indication of a move forward in both market and economic cycles.

The Crimean situation is heating up again at time of writing. We expect this to be a continuing source of market volatility until uncertainty is removed. The outcome is of less concern to markets as a resolution itself (barring escalation into a major global conflict).

Commodities

Generally speaking, we expect commodities to continue to be bullish over the short-term. We expect WTI to make its way down to around the $97 level, the bottom of a 6 month trading range ($105 is the top) before turning upwards again. Natural gas appears to have put the outrageous volatility from the Jan-Mar behind it and we remain bullish. We increase our Henry Hub price range to $4.50-$5.50 over the mid-term. We favour base metals over precious metals over the next few months. The copper chart is looking better and has likely broken out of its 2014 downtrend. Gold and silver should trade within a sideways channel for a while but the next major move would likely be to the downside. We see recent agricultural commodity strength waning and expect a bit of a pullback over the next couple of months.

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.