RICHARDSON GMP

OUR PARTNERS

HKM Private Wealth

HKM PRIVATE WEALTH MONTHLY UPDATE

JUNE 2014

EQUITIES, NORTH AMERICAN BONDS AND MOST COMMODITIES UP AT HALFWAY POINT OF 2014

June Highlights

North American and Japanese equity markets performed the best in June. The TSX hits all-time high. Bonds remain stable. Almost all commodities baskets move higher.

Global Markets

Positive gains continued for North American equity markets in June. The Nasdaq was the best U.S. performing market and now equals the S&P 500 YTD performance. However, both markets are underperforming the TSX (which reached an all-time high in June). European markets did not have a good month. The exception being Russia which is up 15% over the last two months but still down 8% on the year. China, Russia and German equities are the notable major markets down on the year. Canadian longer term government bond yields continue to remain at or near annual lows. U.S. government bonds are seeing more price volatility across all time frames on monetary policy uncertainty. U.S. 10 year yield is up from May but still remains low. Gold had a great month bouncing off oversold levels from May. Copper continues to rebound on positive economic news. At the half-way point commodities are up but are underperforming equities. Precious metals and Agricultural continue to lead the way. Copper down on the year but well off the lows.

Table 1 – Select Markets Performance

	June	YTD
TSX	+3.7%	+11.2%
S&P 500	+2.3%	+6.7%
Nasdaq	+5.1%	+6.7%
China	+x.x%	+x.x%
Russia	+4.8%	-7.9%
Agricultural Basket	-1.4%	+12.6%
Copper	+2.2%	-5.7%
Gold	+6.0%	+10.3%
U.S. 10 Year Treasury Yield	2.63%	2.67% (Jan)

Source: Thomson One

HKM Private Wealth

Darrin Hopkins, MBA
Portfolio Manager
Tel. 403.260.3877

Tony Kinnon
Investment Advisor
Tel. 403.260.3875

Grant MacEachern
Portfolio Manager
Tel. 403.260.8453

Murray Smith, MA (Econ)
Investment Advisor
Tel. 403.260.8452

HKMPW@RichardsonGMP.com

Richardson GMP Limited
440 - 2nd Avenue SW, Suite 2200
Calgary, AB T2P 5E9

Toll Free 1.800.661.1596
Fax 403.269.7870

www.HKMPrivateWealth.com

WANT MORE OF OUR THINKING?

Our goal is to provide you as many tools as we can to keep you informed on your own time. Choose the ones that best suit you:

- Our blog, the Market Monitor
- Strategy Presentations
- Follow us on Twitter @MacEachernSmith
- Call or email us!

ECONOMIC OUTLOOK

Q2 U.S. GDP data even more important given downward revision of Q1. More evidence Chinese economy is performing to expectations.

United States

The 3rd (and final) estimate of U.S. Q1 GDP was released in June and it wasn't pretty: -2.9% (annualized). The number was much worse than the previous two estimates and unusual in that the change from 2nd estimate generally isn't this large (2nd estimate was -1.0%). The downward revision was fueled by revisions in personal spending and net exports. Bad Q1 weather still remains the consensus for the poor economic performance and we concur.

With the release of the final estimate, we are now placing more importance on the Q2 1st estimate (due out at the end of July). We believe the Q2 number will be very good fueled by pent up demand. A bad Q2 1st estimate will cause us to revisit our short and medium-term outlooks for the U.S. economy.

China

The Chinese economy showed more improvement in June, particularly the Purchasing Manager's Index (leading indicator of investment/production) which rode to 6 month highs. Government stimulus in the form of lower bank reserve requirements and public infrastructure projects (railways, housing) have helped keep economic growth on track.

We firmly believe the Chinese economy will grow at the pace set out by the government. Any deviations will be met with swift fiscal and/or monetary stimulus. The transition to a consumption based economy is likely to move slower than expected but will happen nevertheless.

MARKET OUTLOOK

Materials (Canadian sector & commodities) should perform well in July. North American markets to continue upward moves.

Equities

The TSX was able to record a new all-time high on excellent breadth in June: Energy (+6%), Financials (+3%), Materials (+11%) and Industrials (+4%) all performed well. We think Materials has plenty of room to grow on solid fundamentals and the sector's underperformance vis-a-vis its U.S. counterpart (which is riding all-time highs). Financials should be the next best performing Canadian sector. Energy and Industrials will likely consolidate for the next couple of months.

With the S&P 500 showing growth across all major sectors we see the index continuing its bullish move. The Nasdaq and Russell 2000 both rebounded nicely in June. Short-term we remain bullish on these markets; mid-term we're neutral (with a more decisive call coming at the end of July).

Commodities

We have updated our 4-6 month WTI trading range estimate to $98-$112. Continued positive economic data as well as tensions in Iraq should have prices in the upper end of that range in the short-term. Natural gas is in a $0.50 sideways trading range ($4.25-$4.75; Henry Hub spot). We have updated our view on natural gas and now expect a downside move out of the channel.

Wheat and corn have fully reversed earlier gains. We expect these commodities to consolidate over the next couple of months. Sugar and coffee have given back only part of their gains. We see potential upside in sugar, downside in coffee.

We are bullish on gold and copper over the next 4-6 months. With gold returns set to outperform copper.

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.