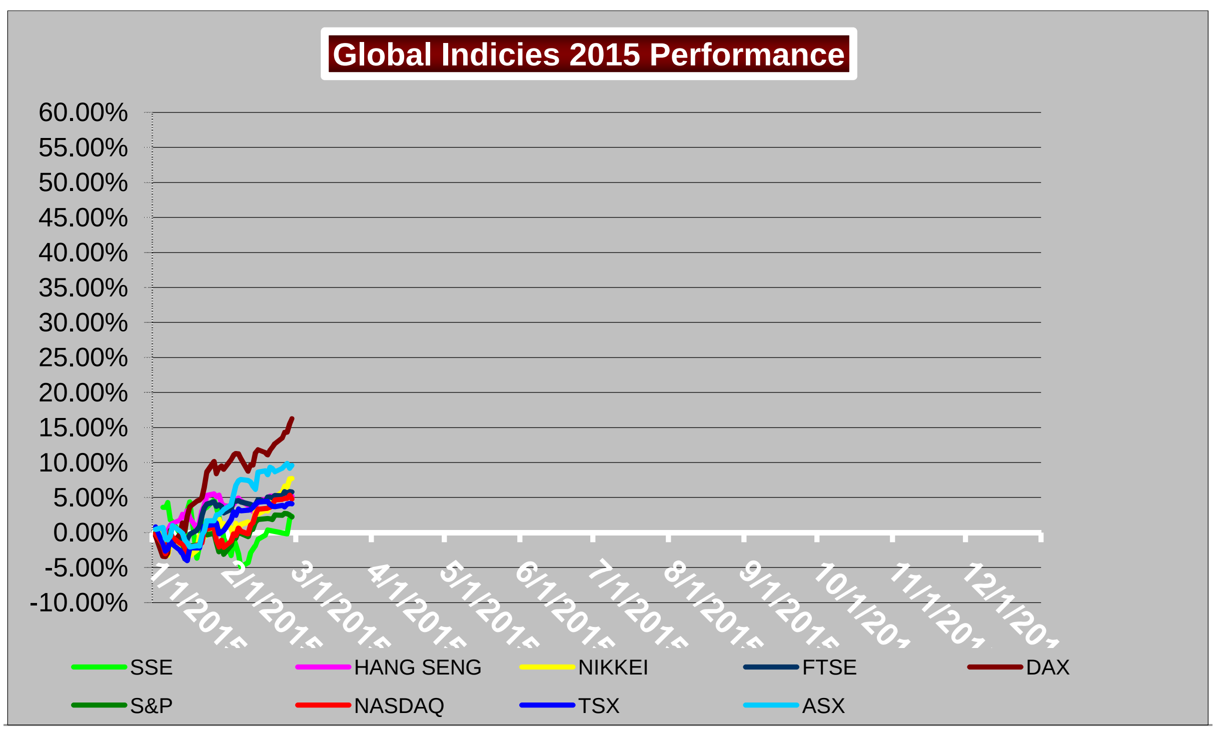
GDB March 2015 Newsletter

Monthly Market Summary:

2015 February Market Activity		
SSE COMPOSITE	*3,310.30*	+99.94 (+3.11%)
HANG SENG	*24,823.29*	+316.24 (+1.29%)
NIKKEI 225	*18,797.94*	+1,123.55 (+6.36%)
FTSE 100	*6,946.70*	+197.30 (+2.92%)
DAX	*11,401.66*	+707.34 (+6.61%)
DOW	*18,132.70*	+967.75 (+5.64%)
S&P 500	*2,104.50*	+109.51 (+5.49%)
NASDAQ COMPOSITE	*4,963.53*	+328.29 (+7.08%)
ASX 200	*5,928.80*	+340.50 (+6.09%)
TSX COMPOSITE	*15,234.30*	+560.80 (+3.82%)



Investment Themes:

In our last month's Newsletter, we had warned against complacency with regards to the Greek debt situation. Given the developments in March, we believe this risk is progressively elevated and the equity markets are not discounting the risk fully as many investors believe the contagion risk will be more limited this time around.

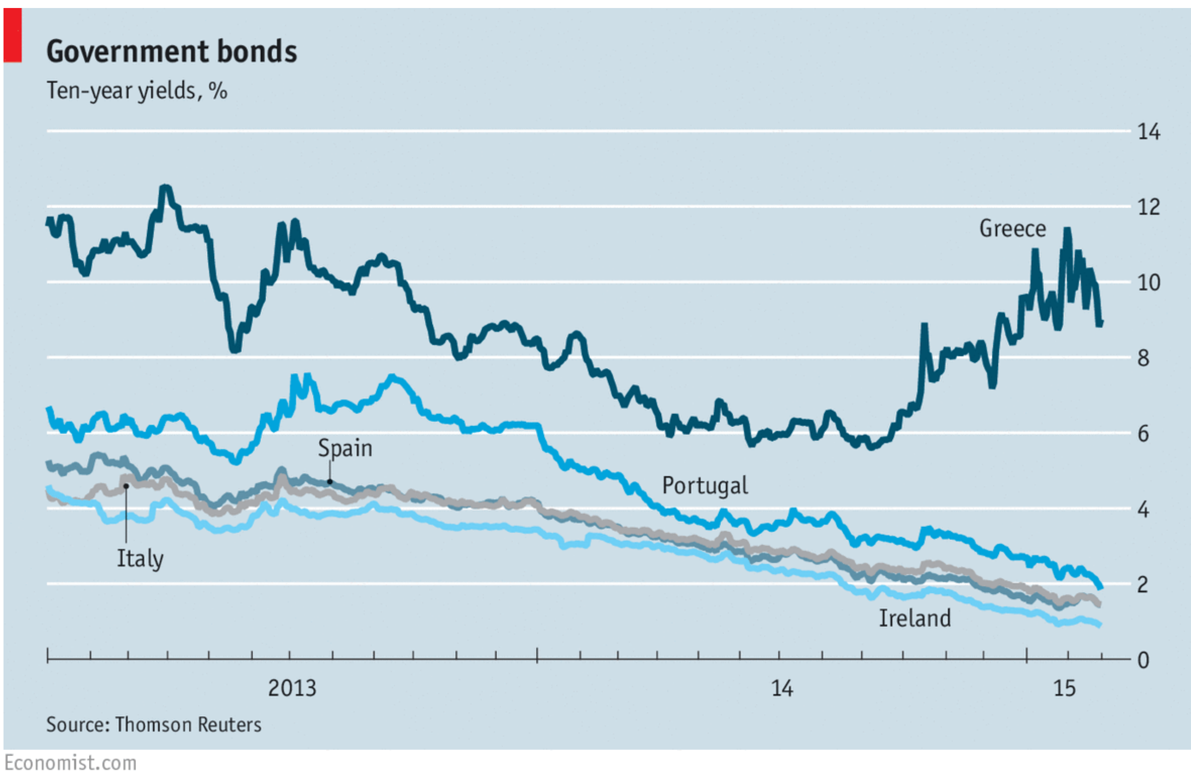
Greece must pay creditors EUR 2.5 billion by the end of March which includes 1.4 billion in loan repayments and EUR 800 million in interests to the IMF, and another EUR 300 million to other creditors. Being shut out from the debt markets and faced with a shortfall in tax revenues, Greece is expected to run out of cash by the middle or the end of April. Alexis Tsipras, the newly elected anti-austerity Greek prime minister, in a letter to the German Chancellor Angela Merkel on March 15, warned it would be "impossible" for Athens to service its debt obligations due in the coming weeks if the EU failed to disperse any short-term financial assistance or the ECB continued to constrain Greek banks' ability to finance the government's short-term debt. In the letter, Mr. Tsipras also stated that if presented with a choice of defaulting on the countries debt obligations and not continuing to pay for Greek's public servants and social services, he would be forced to choose the first.

On the other side of the bargaining table, Greece's European creditors, under the stewardship of Germany and the ECB, have been insisting on seeing a set of reforms approved and implemented by the Greek government as per their agreement reached at the end of February before extending further financial assistance.

The relationship between Greece and Germany has deteriorated in March as the Greek government demanded WWII reparation payments from Germany. In addition to raising such a politically sensitive topic, a video of the Greek Finance Minister giving Germany the middle finger when asked about how he felt about defaulting on the debt owed to Germany in 2013 has also surfaced in the media. These political manures whether intentional or inadvertent, demonstrate the increased ill-will between the two sides. They also send out a whiff of desperation from the Greek government as it runs out of options. These are not encouraging signs that a near-term solution is in sight.

Not much of the negative developments in the Greek bailout negotiations have made their way into the equity markets so far in March. Volatility is again sanguine at historical lows. But with the attention of the Fed meeting behind, and no major market moving events in the near-term ahead, investors' attention may again be redirected to Greece.

S&P has recently given their assessment on the risk of Greece leaving the Eurozone. It highlights that the contagion risk would be much more limited since the last scare. Greece's links with financial markets have been sufficiently reduced to make direct contagion less likely. It points to the yields on European sovereign bonds as support for this claim. The periphery member states' bond yields are at historical lows instead of rising in tandem with Greek government bonds.



Although investors may be more confident in Europe's ability to contain a Greek default given the more robust rescue infrastructure that is in place since the last scare in 2012, the various other geopolitical risks that are present now also differs from 2012. To name a few, the Russian and Ukraine conflict, the low oil price environment casting pressuring on nations such as Russia, Iran and Venezuela, the slowdown in China, and the eventual rate lift off by the US Federal Reserve. A Greek default in itself may not cause a large enough systematic shock to the global financial systems, but what if it triggers a chain of events that lead to the manifestation of other global risks? For instance, a Grexit would expel Greece outside of the Eurozone but not the EU. Would the EU be able to count on continued Greek support for its sanctions against Russia? In another farfetched scenario, in competition for IMF resources, what if other countries that are currently experiencing financial difficulties, ones with far greater economic impact than Greece, choose to default as well? The risk of a Greek default in isolation may be limited, but combined with other risk factors occurring concurrently, may have a far greater impact to the health of the global financial system.

With the impressive gains we have seen in the equity markets of late, appropriate hedging to address potential volatility would be prudent. We will end this Newsletter with a timeline of the hurdles Greece will face in the coming months below:

March –EUR 1.4 billion in loans and EUR 800 million in interest to the IMF and EUR 300 million to other creditors.

April – EUR 600 million due to IMF.

May – EUR 1.1 billion due to creditors.

June – EUR 1.4 billion due to IMF and another EUR 1.2 billion interest to other creditors.

July – EUR 5 billion due in debt payments including EUR 3.5 billion bond held by the "Eurosystem" (i.e. ECB and national central banks in the Eurozone).

August – EUR 3.7 billion due to creditors, including EUR 3.2 billion to the Eurosystem.

September – EUR 1.4 billion to the IMF.

December – EUR 1.4 billion to the IMF.