BNN MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Monday's BNN Market Call Newsletters.

Set out below are the respective Market Outlook commentaries from two leading investment analysts, plus Links to their respective 45-minute video interviews.

MARKET OUTLOOK

Keith Richards, portfolio manager at ValueTrend Wealth Management of Worldsource Securities
Focus: Technical Analysis

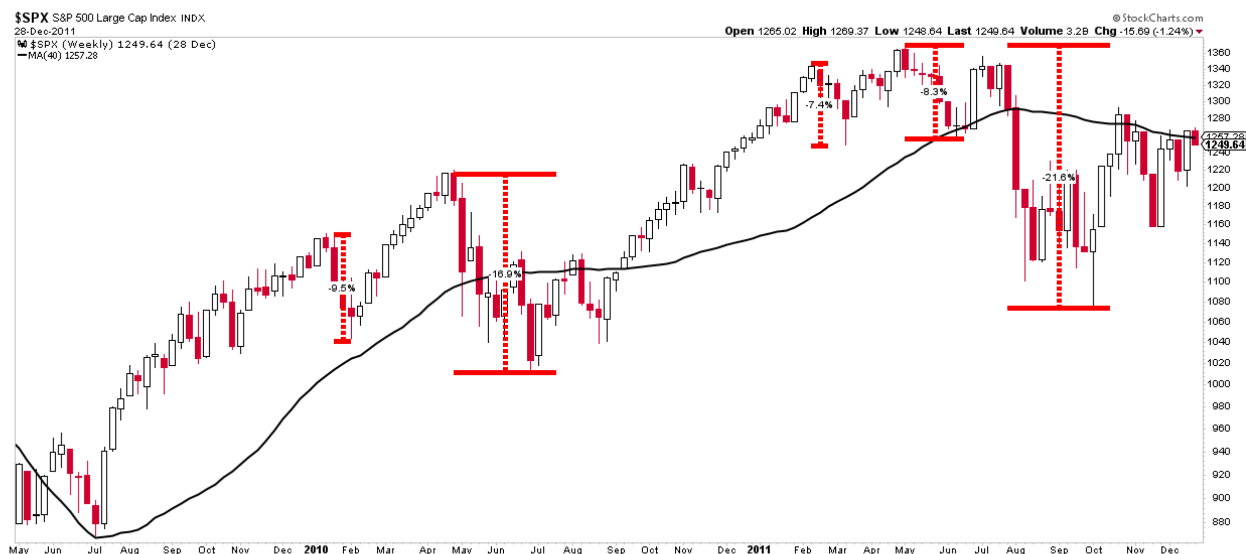
If you study the recent short--term corrections like those in 2010, 2011, and 2016 you will note that they' ae usually driven by Fed-related events (usually fear of a stimulus plan ending). These market corrections have not been led by terrorist acts, political events, or international catastrophes (man-made or natural). Fear of unplugging the stimulus drug drove markets to pull back – not world events. That is what we have right now: a new Fed regime, and a new hawkish stance. The drug is being unplugged.

So, we have the "Fed-fundamental" factor (removal of stimulus, hawkish outlook) that has pushed markets into corrective or bear market conditions a few times since 2009. What about the timing of such a correction? Can chart patterns tell us anything about when a significant (more than 20 per cent) correction will occur? Yes, they can!

You will note that corrections since 2009 have been led by volatility. In other words, you get lots of chop before the real deal happens. It is my opinion that we are now in the "chop" stage that will lead us into a more significant bear market. I have noted here that my view is not for a "biggie" (that is, a 50 per cent meltdown) like the 2001 or 2008 bear. I am in the 20 to 25 per cent bear market camp.

For the record, 2011 was the closest to a "real" bear market correction since the 2009 bottom. 2010 only saw a 17 per cent sell-off and 2016 only experienced a 12 per cent peak-trough sell-off, while we saw a 22 per cent peak-trough sell-off in the summer of 2011. With that in mind, let us look at the price patterns that proceeded 2011.

This chart (below) shows us both the 2010 and 2011 corrections. As noted above, 2010's correction was 17 per cent peak to trough, and it occurred that summer (ending in July). The 2011 correction was a hair under 22 per cent peak to trough, and it occurred over the summer as well, although the damage was carried out into the fall (ending in October).



ONE PRE-SELLOFF PULL-BACK IN 2010

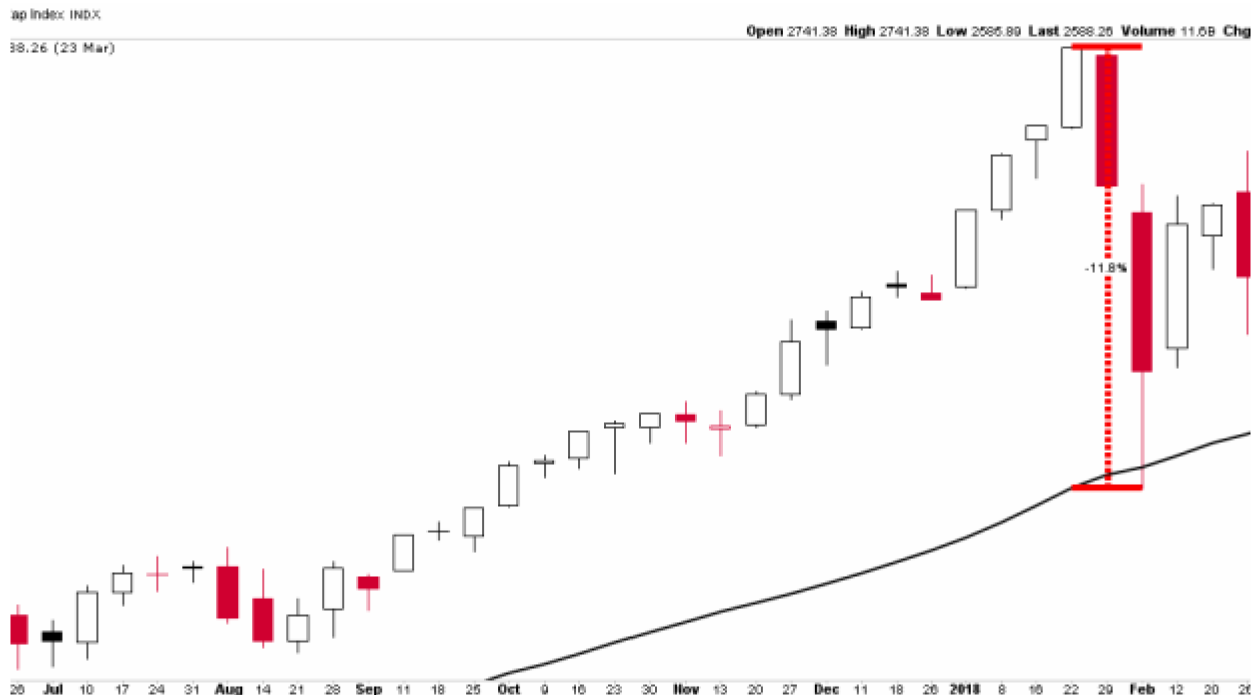
Note that in 2010, there was an early corrective "setup" move of 9.5 per cent in early February, a rally, and finally the greater 17 per cent pullback that summer. This was close to a "bear market correction" of 20 per cent, so its worthy of noting despite its failure to enter into the "20 per cent" club.

TWO PRE-SELLOFF PULL-BACKS IN 2011

Similarly, 2011 saw a 7.5 per cent early corrective "setup" pullback in February, followed by a rally. Only this time, that rally was followed up by another "setup" correction of over 8 per cent in May. The market rallied, and finally pulled back over the summer by 22 per cent – official bear market territory. Subsequent rallies after each of these "setup" corrections fooled market participants into buying high again. The pattern was for the markets to see some interim volatility before the real storm hit.

This year, February once again provided the market with a nice correction (almost 12 per cent). As had happened in those prior years, markets rallied back in early March, although not to prior highs. Then, in mid-March, we saw another correction. It's too early to predict that the market will rally back again, but so far the S&P remains over its February low and 200 day moving average.

SEE THE CHART ON THE NEXT PAGE



CONCLUSION

As market participants, we are all playing a game of odds. The odds are, given my previously noted high Bear-o-meter reading, along with seasonal factors and past volatility patterns, that we will see one more rally before the summer. It is my opinion that we are looking at a potential summer setup for a deep correction – possibly in line with that seen in 2011. Two takeaways from prior market corrections:

1. Don't fight the Fed.
2. History can repeat itself.

Rather than view this potential with dread and fear, you and I can look forward to such a possibility as an opportunity to profit by trading the correction.

VIDEO

Keith Richards 46-Minute Video Interview <CTRL-CLICK> HERE

TWITTER: @ValueTrend
WEBSITE: valuetrend.ca

<continued>

MARKET OUTLOOK

John O'Connell, Chairman and CEO of Davis Rea
Focus: North American Large Caps

We continue to expect good global growth and earnings momentum through 2018 into 2019. Global growth is broadly-based, positive for earnings and commodity prices, and it will take a big shock to knock it off track. As a result, recession risk is low for the next twelve months.

The global economy is back into re-leveraging mode, with private sector credit rising faster than GDP. Global government debt continues to increase relative to GDP and that will intensify, given growth in the U.S. budget deficit. The elevated debt-to-GDP level will make all economies, earnings, commodity prices, and asset prices considerably more sensitive to interest rates than in the past. Despite this, global inflation remains relatively low.

Inflation risks have increased as labour markets tighten and economies bump up against capacity in many of the advanced economies, notably the USA. But a shifting relationship between unemployment rates and inflation, and the disruption being caused by technological advances suggests that inflation risks are low for 2018 and into 2019.

The U.S. dollar is likely entering a multi-year declining phase after rising between 2011 and 2016. There is currently unanimous agreement that the greenback is going to fall, which is a cautionary sign. In early 2017, everyone expected the U.S. dollar to rise as America cut taxes and increased interest rates. It fell instead. With the USA having cut taxes and now raising interest rates, everyone expects the dollar to decline. There is a good chance, therefore, that the dollar surprises a bit on the upside in 2018, before turning downward.

The Canadian dollar is subject to the vagaries of U.S. trade policy, specifically the ongoing NAFTA negotiations. Monetary policy considerations and trade tensions argue for a weaker loonie. Commodity prices have been a plus, but they are likely to face headwinds if we are correct and the American dollar strengthens. Net-net, the risks are that the loonie loses ground this year.

U.S. short-term interest rates are expected to rise by another 50 to 75 basis points this year as the Federal Reserve tries to limit inflation risks. International trade uncertainty, mainly the NAFTA negotiations, will limit what the Bank of Canada will do with short-term rates. We expect one 25-basis-point increase in Canada’s overnight interest rate this year.

Rising short-term interest rates and government bond yields are negative for equity and corporate bonds, but earnings strength is a plus. The remainder of 2018 and early 2019 are likely to see a

continued tug-of-war between these factors, creating a more volatile environment for investors than they have been used to for the past few years, but especially 2017.

Equity market weakness so far in 2018 has seen prices fall in relation to earnings, making valuations more attractive, and creating opportunities for investors. We continue to view the current weakness in equity prices as a correction in the midst of ongoing economic expansion and earnings growth. Our long-term themes still favour financials and technology. However, many of the tech companies face some government/regulatory headwinds globally, and we are being cautious as a result despite favourable valuations.

Global re-leveraging is a plus for the banks, especially in the USA where valuations are reasonable, taxes have been cut, and deregulation is in full swing. In spite of lower equity prices, many sectors and industries remain expensive. Alongside U.S. banks and technology, the only other area that shows good value is the energy sector. However, the risk of a stronger U.S. dollar will create some temporary headwinds.

John O'Connell 45-Minute Video Interview <CTRL-CLICK> HERE

TWITTER: @DavisReaLtd
WEBSITE: www.davisrea.com
BLOG: www.davisreablog.wordpress.com
FACEBOOK: DavisReaLtd

BNN.CA

To access the BNN Home Page, <CTRL-CLICK> here: BNN

To go to BNN Market Call Afternoon, <CTRL-CLICK> here: Market-Call-Afternoon

To go to BNN Market Call Tonight, <CTRL-CLICK> here: Market-Call-Tonight

BNN's Morning Newsletter and evening Market Call Newsletter can be delivered to your inbox by going to <CTRL-CLICK> here: **www.bnn.ca/subscribe**.

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA, Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by *e*Research Corporation, are strictly those of the Author and do not necessarily reflect those of *e*Research Corporation.