eResearch
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BNN MARKET CALL

e**Research Corporation** is pleased to provide two excerpts from Thursday'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

Jason Mann, Chief Investment Officer at Edgehill Partners
Focus: North American Equities

Last year was all about owning "beta," while generating "alpha" was hard. Simply owning mega-cap growth stocks without regard for valuation was the best strategy. Passive investing dominated investor flows.

When we were here in January, we noted that when markets are stable with such good returns, people feel the market is getting less risky when, in fact, the complacency makes the market more risky.

We also noted that markets are born on pessimism and die on euphoria, and we believed that January markets had entered the "euphoria" stage. Everything has changed in the last two months. Volatility has exploded and we are in a full-blown correction in most global equity markets.

We think that the popping of the bubble sectors (cannabis and crypto) is a forewarning of what may happen to high-priced growth stocks broadly. High-priced growth is not confined to the tech sector, and not all tech stocks are expensive but, overall, the valuations are back to the highs reached in 1999 to 2000. As a per cent of the index, the tech sector is back to levels of the dot-com era.

We think that the growth investing style, which dominated last year's returns, is at most risk, and that investors should be looking to rotate to higher-quality, lower-valuation stocks found in materials, industrials, and discretionary. For yield, REITS have the best risk-reward in our view.
Investor fund flows have become problematic as well. The highs in January saw the largest inflows into stocks on record, followed by the largest outflows during the initial sell-off. Since then, investors

have bought each successive top, and sold each successive drop. This creates “trapped” buyers and puts the “FOMO” and “buy-the-dip” mentality at risk.

WILL PASSIVE INVESTING BECOME ACTIVE PANIC?

We cannot know if this correction is the start of the next bear market. Economic data is slowing, but is still at high levels on an absolute basis. Tax cuts will start to show up in the Q1 earnings, and earnings will be the next big “event” to help determine the path of this late-cycle market.

VIDEO: Jason Mann 46-Minute Video Interview <CTRL-CLICK> HERE

WEBSITE: **ehpfunds.com**

MARKET OUTLOOK

Mike Newton, director of wealth management and portfolio manager at Scotia Wealth Management
Focus: North American Large Caps and ETFs

Elevated volatility has gripped global markets in recent weeks, with the latest bout of selling pressure dragging them back to the lows of early February. In this iteration, fears over escalating trade tensions between the U.S.A. and China, and government intervention in the American technology sector are at the centre of market concerns. I see global economic growth easing slightly from the red-hot pace of late last year to a still-impressive above-trend pace, thanks to solid employment, income growth, and supportive policy settings.

Predictability over the past 12 months quickly turned to confusing unpredictability. Everyone is having a difficult time maneuvering in these markets. With risks up, so are my cash levels. Having said that, I suspect that over the next several weeks we will see equity flows returning to positive territory as the market forges a bottom at or near current levels. We will watch with great interest if investors return to growth-oriented names or if much-out-of-favour value stocks (including the Canadian S&P/TSX Index) finally “catch a bid” and put together a sustainable rally.

The only thing that would concern me is if earnings growth estimates come into jeopardy because of the escalating trade war. I believe that most of the Trump rhetoric is bark rather than bite and intend on using my cash levels to nibble as the situation plays out. I am completely conscious of the fact that there could be more downside for equities, especially if the initial belief that these trade tensions can be wrapped up in a civilized way does not come to fruition. This continues to be a strange and frustrating period for the financial markets. Risk must be managed on an individual position basis, but it is important not to make rash investment decisions based on fear at times like these.

VIDEO: Mike Newton 45-Minute Video Interview <CTRL-CLICK> HERE

TWITTER: @NewtonGroupSM
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Bob Weir, CFA, Director of Research