BNN BLOOMBERG MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Thursday's BNN Bloomberg Market Call Newsletter.

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

Ryan Modesto, CEO of 5i Research
Focus: Canadian Small- and Mid-Cap Stocks

Risk appetites seem to be on the rise again as trade tensions begin to ease and companies post yet another strong quarter. In the U.S.A., 79% of companies have posted results beating earnings estimates. Based on revenues, 75% of companies have beaten estimates. This is an impressive feat, especially considering that expectations on these same companies have been so high and this is on top of strong numbers in previous years.

In Canada, while the quarterly numbers have not been quite as strong, companies have still reported good results. Roughly 57% of companies have matched or exceeded earnings estimates, while 59% have been above revenue estimates.

While an investor may be able to see some cracks in the Canadian earnings, we think some tail-winds are forming in Canadian markets. With oil prices and energy companies coming back into favour, the Canadian economy and companies that benefit from the energy sector should see a boost. Meanwhile, the Canadian dollar remains weak even with stronger oil prices, which could lead to a further, or at least sustained, boost in demand for Canadian goods all while the energy sector sees improvement. This is an interesting trend as, in the past, higher oil prices have typically led to a stronger loonie. This is not playing out currently.

VIDEO: Ryan Modesto 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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MARKET OUTLOOK

Stan Wong, Director and Portfolio Manager at Scotia Wealth Management
Focus: North American Large Caps and ETFs

With the summer months approaching, global equity markets continue to seesaw as investors evaluate solid economic and corporate fundamentals against rising interest rates and geopolitical tensions. Strong earnings growth is expected to continue this year, but market participants may be worried that earnings could soon be peaking. While the effects of the U.S. tax reform have been positive and have provided a boost to corporate results, year-over-year comparisons will become more difficult from here.

Alongside "peak-earnings" concerns, investors are also anxious over rising interest rates with 10-year U.S. treasury yields breaking above 3 per cent recently. Of course, market participants seem to be most concerned with the possibility of an escalating trade dispute between the world’s two largest economies. Last week, the International Monetary Fund (IMF) declared that “the stakes are high because the health of the global economy depends on healthy trade flows. The rebound in trade has recently contributed to stronger global economic growth. And, yet, rising protectionism could stop this positive momentum in its tracks.”

Last month, the IMF predicted the world economy’s strongest upswing since 2011 will continue for the next two years. But it also warned that growth will fade as central banks tighten monetary policy and cautioned that the expansion could be derailed if countries resort to punitive trade penalties. These concerns suggest that volatility is likely to remain relatively elevated. For the intermediate term, global equities could remain stuck in the same trading range they have been in since the sharp correction we encountered in early February.

From a fundamental perspective, over 95 per cent of S&P 500 companies have reported this earnings season and the results have been very encouraging. Over 80 per cent of the companies that have reported beat Street consensus earnings forecasts, while over 74 per cent have surpassed analysts’ revenue expectations. Cyclical equities, including technology and consumer discretionary sectors, continue to lead the U.S. stock markets year-to-date, while the energy sector has surged up more recently amid rising oil prices. The more defensive segments of the market, such the consumer staples, telecom, real estate, and utilities continue to languish.

Additionally, the Conference Board Leading Economic Index (LEI), a closely watched index used to forecast global economic trends based on 10 key metrics, reported another strong showing last week and continues to suggest little near-term risk of an economic slowdown.

From a technical viewpoint, global equity indexes continue to indicate rising trend-lines and a bull market that is still intact.

In Stan Wong Managed Portfolios, we are most heavily weighted towards financials, technology, and consumer discretionary stocks while near zero-weight in defensive areas such as consumer staples, real estate, and utilities.

We favour high-quality stocks and expect dividend growers to out-perform dividend payers given the rising interest rate environment. Although growth stocks have largely out-performed value stocks since 2007, we expect value to eventually outpace growth as interest rates drift higher.

When looking at geographic regions, we mainly prefer the U.S.A. along with Asia (both emerging and developed) over other areas. On balance, we see global equity markets out-performing fixed income markets in the intermediate term. We do, however, anticipate more risks and volatility ahead as investors navigate tighter monetary policy, rising bond yields, higher inflation, simmering geopolitical issues, and global trade tensions. We stress the importance of investment selectivity as active portfolio management strategies outperform passive approaches.

VIDEO: Stan Wong 45-Minute Video Interview **<CTRL-CLICK>** HERE

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Market Call Newsletter

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Bob Weir, CFA, Director of Research

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