BNN BLOOMBERG MARKET CALL

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

Zachary Curry, President and Portfolio Manager at Davis Rea
Focus: North American Large Caps

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

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

Global inflation remains relatively low, but inflation risks have increased as labour markets tighten and economies bump up against capacity in many of the advanced economies, notably the U.S.A. However, 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 Canadian dollar is subject the vagaries of U.S. trade policy, which will likely remain a source of uncertainty well into 2019. Monetary policy considerations and trade tensions argue for a weaker loonie, but rising commodity prices are a plus for the Canadian dollar. Net-net, the risks are that the Canadian dollar will trade between 77 and 80 U.S. cents, but loses ground overall this year.

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. The Fed will raise rates further in 2019 until it is convinced to stop by a softer economy or serious financial strains. The Bank of Canada will boost rates a little in 2019, but by less than the Fed.

Rising short-term interest rates and government bond yields are negative for equities and corporate bonds, but earnings are 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.

Global re-leveraging is a plus for the banks, especially the U.S. banks, where valuations are reasonable, taxes have been cut, and deregulation is in full swing. Valuations, rising oil prices, and tensions in the Middle East are supportive for energy stocks. Technology and consumer discretionary stocks are also attractive, although government tax and regulatory actions are an issue for some tech companies.

Rising U.S. interest rates, uncertain U.S. trade policies, and geopolitical tensions are key risks to the economic and investment outlook.

VIDEO: Zachary Curry 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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MARKET OUTLOOK

William Chin, Portfolio Manager at Caldwell Investment Management
Focus: Technical Analysis and Macro Portfolio Strategy

This is a challenging time for investors. There are many cross-currents in the markets. There is fiscal stimulus in the USA through tax cuts, but America is also generating a tremendous amount of trade tensions that hinder investment decisions. We have not seen the full impact, yet.

The Federal Reserve is restricting liquidity by raising interest rates and shrinking its balance sheet. This strengthens the U.S. dollar but hurts emerging markets which, in turn, could hurt the credit markets. We just had an episode with Italy, but the problem really lies with the EuroZone's "one size fits all" regime. Given all these, The Federal Reserve is still very determined in raising interest rates, and the Bank of Canada has just switched to a more optimistic or, some would say, "hawkish" tone. A housing correction and NAFTA do not seem to bother them too much.

In the meantime, the world is benefiting from all of the innovations made possible by technology. The NASDAQ made an all-time closing high yesterday as a case in point. Therefore, it is important to own the right stocks and not just buying an index or ETF as in passive investing: Buy the best and skip the rest. If you look hard enough, there are stocks out there that have their own growth story and are capable of doing well even with these macro/international challenges. Active management is always important and even more obvious these days, and it is the key feature of our firm.

VIDEO: William Chin 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **http://caldwellinvestment.ca**

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