eResearch
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BNN BLOOMBERG MARKET CALL

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

Keith Richards, Portfolio Manager at ValueTrend Wealth Management of Worldsource Securities
Focus: Technical Analysis

Wow. There is lots of activity on the markets of late. First, we got a significant sell-off in January followed by a rally, then a re-test of the precise low of January's sell-off. Since that date, we have had substantial volatility on an intra-day basis, meaning that the direction of a market move seems to reverse mid-day more often than not. All of this is indicative of a state of confusion by market participants. When confusion reigns, news events that would normally be shrugged off will instead create panic/interest in the market. This is not a prediction, but it is possible as we have seen it happen before.

The ValueTrend "Bear-o-meter" recently signaled mildly higher risk conditions for the market as noted in this blog. This indicator compiles numerous trend, breadth, sentiment, and momentum indicators into a relative risk/reward status for the market. Because the stock market has not broken its primary bullish trend (despite recent volatility), the ValueTrend Equity Platform's cash exposure is currently contained to about 20 per cent.

Should our primary trend indicators break (200-day moving average and a move below January's low of 2,580 on the S&P 500), we will move into more cash. Should the trend remain intact and the Bear-o-meter read becomes less risky, we will consider adding back to equity exposure. Meanwhile: We are happy to report that the ValueTrend Equity Platform is making new highs in a market environment that is down in both the U.S.A. and Canada since January. Our forte is in migrating volatile markets. It appears that the platform's strategy is honoring that tradition with our recent performance.

VIDEO: Keith Richards 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

Twitter: @ValueTrend
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MARKET OUTLOOK

Andrew Pyle, Senior Wealth Advisor and Portfolio Manager at Scotia Wealth Management
Focus: North American Equities

North American markets again are starting to look frothy, but excess euphoria as we saw in early January is not present thanks to the shakeout of short volatility plays and a risk-averse retail segment. Provided we see a calming down on global trade issues and North Korea/Iran politics, fundamentals support an extension of the second quarter rebound. Look for the S&P 500 to grind higher by 4 to 5 per cent over the third quarter with some resistance kicking in near 2,800 and then the January highs around 2,850. Similarly, the TSX has scope to move towards 17,000 in the third quarter with initial resistance about 300 points away at 16,350.

The second half is where things get tricky. If tightening by the Fed and the Bank of Canada is subdued (two hikes each after the upcoming FOMC), then we could see a further gradual extension or consolidative trading into year-end. If the expected trajectory for hikes steepens, then another wave of selling in bonds brings forward the timing for a North American economic slowdown/correction.

If we simply matched the longest stretch between cycle troughs in U.S. year-over-year growth, that would place the next trough in the first quarter of 2020. Assuming a technical cyclical downturn of two quarters, that would mean we would potentially be heading into one by the summer of 2019 and that would be more likely with a higher-rate structure. For this reason, I view the next leg of this rally as potentially the last or at least the last decent done.

This theme also links into another theme regarding the interest rate cycle. If the fundamental backdrop for the U.S. economy begins to show cracks in the second half, then this would reinforce the expectation of only two more Fed hikes by year-end, which are largely priced into a 3 per cent 1-year U.S. yield. Depending on the tone of next week's statement, this might be a near-term top, similar to how we drifted back from just above 2.5 per cent in March of last year down towards 2 per cent before the next move higher. The risk is that the tone is more bullish and we see continued strength in Q2 and Q3 GDP, which could send yields up to the 3.6 per cent area (the high in early 2011). Note that 3.25-3.30 per cent would represent a 50 per cent retracement of the rally in the 10-year from the 5.2 per cent high in 2007.

If the negative risk plays out, this again would advance the timetable for an economic pull-back in the U.S.A. and Canada. Stocks are already feeling some competition from current yields, so another half a percent would give investors reason to look for alternatives to risk assets. This is particularly true given that, next year, we will have tied the longest rally in history without a significant pull-back.

My view is that this rate cycle caps out between here and 3.5 per cent, making a rotation into bonds look more attractive as we move through the second half of the year. This should also lend some support to dividend stocks, particularly in utilities.

VIDEO: Andrew Pyle 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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