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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

Joshua Varghese, Portfolio Manager at
Signature Global Asset Management, CI Investments
Focus: REITs

In the last two years, Canadian REITs have returned around 14%, significantly out-performing U.S. REITs which were essentially flat. A confluence of factors affected U.S. REITs: REIT fund outflows, rising supply in select markets, slowing rental growth, and higher capex requirements. This caused many investors to cycle out of U.S. REITs and now, it seems, to be somewhat of an abandoned sector.

In Canada, on the other hand, investors have remained relatively sticky and we have not seen the same volatile swings that we have seen in the USA. Supply and demand is relatively balanced in many markets, and many REITs have been able to post stable or increasing cash flows. Meanwhile, many Canadian REITs have been doing a good job adapting to the changing environment, selling off non-core assets and focusing more on intensification of their properties.

The rising tide of global quantitative easing is behind us, so we cannot rely on that theme to propel all real estate companies. Instead, we find ourselves in a very bottom-up world, where we believe the companies that have positioned themselves to be value creators, rather than rent collectors, will do very well. By sheer size of the U.S. market, we are finding much opportunity there as well as globally. But, we still see attractive opportunities in Canada and have been putting more money to work in real estate than we have in quite some time.

Interest rates are not our main concern. They have more than doubled in Canada in the last two years and REITs here have still seen strong returns. Supply, demand, strength and capital allocation abilities of management teams are what will drive returns.

VIDEO: Joshua Varghese 45-Minute Video Interview **<CTRL-CLICK>** HERE

WEBSITE: www.ci.com

MARKET OUTLOOK

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

Reasonable summer so far for North American equities, fueled by stellar earnings and decent economic numbers, but investors remain nervous as we near what will be the longest expansion on record.

While U.S. trade tensions with the world have cooled off a bit, this has been replaced by concerns over emerging markets, namely Turkey and, now, Chinese tech. It is easy to see why some investors may view the developments over the past week as a precursor to a seasonal pull-back, especially with memories of September-October corrections in the past.

I think the worry over the emerging markets sector is overblown and represents a buying opportunity. The emerging markets index is now down about 20% and approaching lows of July 2017, yet growth still looks favourable. If U.S.-China trade tensions simmer down ahead of the November elections, this will take some of the pressure off this sector. From a portfolio perspective, this sector is relatively cheap, with an overall P/E of 12.5x and a dividend yield of 2.8%. Compare that to a 20.5x P/E for the S&P 500 and dividend yield of 1.85%.

Canada is back to playing back-seat to U.S. equities, with the TSX down 0.8% this quarter versus 3%+ gains for the U.S. majors. After out-performing the Dow into the first week of July from the worst relative position on record back in January, we have seen a reversal. The ratio of the Dow to the TSX is now back to levels in early June. Materials have been a major drag as aluminum, copper, and gold drift lower amidst emerging market concerns and a stronger U.S. dollar, but we have also seen weakness in consumer discretionary and energy. The latter is inevitable as we come out of the peak demand season for gasoline and a sustained break below

$65 per barrel on crude oil sets us up for a return to Q1 levels. This is why we are steering clear of pure oil plays and focusing on pipelines. Financials and telecoms have shown resiliency this summer and we still like these sectors but are prepared to pull the plug in the fall if momentum looks like it is going to grind to a halt as in January and March. This is more of a risk to banks than telecoms.

Our macro view: Q3 U.S. data is looking decent, but with cracks emerging in housing and with auto sales flat-lining, there are initial signs that the U.S. consumer is getting closer to being tapped out.

The U.S. dollar right now is way overvalued and will exert pressure on net exports. Combined with a potential pause in consumer spending growth, this will shift the Fed away from aggressive tightening. Last time the DXY dollar index was at these levels was back in June 2017, but the Fed funds target rate then was only 1.25% versus 2% today. Therefore, overall monetary condition tightening is worse than what we simply see in rates. When the dollar index hit its cyclical peak in late 2016, the rate was close to 0.5%. I believe markets are over-estimating Fed tightening and, therefore, future dollar strength.

VIDEO: Andrew Pyle 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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Bob Weir, CFA, Director of Research

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