BNN BLOOMBERG MARKET CALL

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

The global, U.S., and Canadian economies remain on a solid footing as we head toward 2019. Rising U.S. short-term interest rates, trade frictions and weaknesses in some emerging market economies suggest a slower pace of expansion ahead, but recession is unlikely in the next twelve months.

Higher U.S. rates are the main risk to growth, but that is more of an issue for late 2019. This growth backdrop is a plus for corporate earnings and commodity prices. Underlying inflation remains low, both globally and in North America, although low unemployment rates have tilted the risks upward. U.S. and Canadian short-term interest rates have been rising in response and will likely edge higher in the months ahead. NAFTA risks will keep the Bank of Canada on a more cautious path than the Federal Reserve, and weigh on the Canadian dollar in spite of expected gains in commodity prices.

Equity prices have been caught in a tug-of-war between rising U.S. short-term interest rates and escalating trade tensions, which are negative, and growing earnings, which are positive. Yet valuations have declined considerably this year as markets have digested the risks associated with higher rates and trade tensions, implying a more favourable risk/reward profile in equity markets over the next six to nine months.

Valuations have improved across all sectors in 2018 and several areas of the market are attractive. The two areas that really stand out are Canadian energy and U.S. banks. Energy companies will continue to benefit from higher oil prices, especially if there is a major supply disruption in the Middle

East. The backdrop is positive for U.S. banks as the global economy and U.S. consumer re-leverage themselves and U.S. regulations are scaled back.

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

WEBSITE: **www.davisrea.com**

MARKET OUTLOOK

John Zechner, Chairman and founder of J. Zechner Associates
Focus: North American Large Caps

Stock market strength has been driven by record-low interest rates, strong global growth, and rising profits enhanced by U.S. tax cuts. But these are all well-known facts. A stock market outlook is based on future developments, where we see storm clouds gathering.

Synchronous global recovery is losing steam as a higher U.S. dollar, international trade frictions, record global financial leverage, and rising interest rates all put current expansion at risk of a slow-down. We are already seeing a break-down in many emerging markets reminiscent of the late 1990s and slower growth in Asia. Copper prices falling and U.S. bond yields stalling are indicative of slowing growth and put in question the bullish stock market outlook.

Bulls claim this has been a "hated bull market" that still has lots of upside, but data show U.S. stocks as a percentage of total financial assets are near record highs (exceeded only once in the last days of the technology bull market). The zero interest rate policy that fueled the shift to financial assets is being removed, which will increase attractiveness of stock alternatives and dry up the giant liquidity bubble that has driven stocks to record valuations.

The U.S.A. remains sole geography of global growth, but this was due to an "adrenaline shot" given to the economy through massive tax cuts and deficit spending. The impact of those tax cuts on earnings will start to fade by the fourth quarter, just as companies are warning that rising input costs and trade tensions are putting profit growth at risk. Economic stimulus this late in the cycle will only raise inflationary risk, meaning that the U.S. Fed will need to continue tightening monetary conditions. Debt has also risen to a record US$22 trillion and will rise further, with deficits expected to exceed US$1 trillion annually over the next few years. Massive U.S. borrowing needs will eventually lead to a weakening American dollar and should give lift to commodity prices, and maybe even gold.

Commodity stock valuations represent one of few valuation opportunities in the stock market. ETF money flows have funded the global bull market and we have seen those flows shift from bonds and global stocks to U.S. technology stocks in the past year.

When this bubble ends and the buying turns to selling, valuations will over-react on the downside to the same degree that they have exceeded normal values on the upside in recent years. We are staying conservative, with slight overweight positions in cash, short-term bonds, and commodity stocks. We also have reduced positions in U.S. technology stocks (which remain the best long-term growth stories) and maintain market weight positions in U.S. financial stocks.

VIDEO: John Zechner 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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