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

Christine Poole, CEO and Managing Director at GlobeInvest Capital Management
Focus: North American Large Caps

Economic data, indicators, and surveys confirm solid U.S. economic growth is poised to continue for the balance of the year. Despite escalating trade tensions, overall business activity reportedly remains strong, as both the ISM Manufacturing and Non-Manufacturing indexes advanced higher in August, with the former reaching a 14-year high.

The U.S. labour market also continued to improve in August, along with stronger wage growth. The employment data should reinforce the Federal Reserve's policy view for gradually higher interest rates.

In Canada, the recent jobs report was mixed, with employment unexpectedly down in August. Uncertainty surrounding U.S. trade negotiations and negative sentiment towards foreign investment in the energy sector overhang the Canadian economy.

While the pace of growth in the global economy has moderated from earlier this year, it remains positive for now. The impact of trade wars and the strengthening U.S. dollar on corporate profits will be closely monitored.

VIDEO: Christine Poole 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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MARKET OUTLOOK

Darren Sissons, Vice-President and Partner at Campbell, Lee & Ross
Focus: Global Equities and Technologies

The markets are clearly in flux and somewhat schizophrenic about the pricing of risk. They seem to have wholeheartedly adopted the thesis that the U.S.A. can do whatever it likes and the repercussions will be minimal. Places like Canada, China, and the EuroZone are perceived to have minimal defence against the Trump administration's MAGA noise. Consequently, U.S. stocks are outperforming. But the logic supporting the out-performance is clearly flawed.

China, for example, could begin selling off its enormous stock pile of U.S. debt instruments, which would put significant downward pressure on the U.S. dollar. It could also ring-fence outbound capital repatriation (from the Argentinean playbook) for all U.S. companies. The latter strategy alone would punish major U.S. indexes, given the large Chinese revenue and earnings exposure for leading U.S. companies, such as Procter & Gamble, and through technology giants, such as Apple.

In the EuroZone, leading American companies conduct significant volumes of domestic business while also exporting sizable dollar values to that market. Tariffs or a Fortress Europe revisit will negatively impact the USA. Likewise, here in Canada, the cross-border trade between the two countries tops $1 trillion. Even a small decline in trade volumes will negatively affect the U.S. economy and, especially, the northern states that do substantial business with Canada.

Another obvious risk mispricing is the defensive segments such as staples, telcos, and utilities. These sectors are now significantly out-of-favour and offer high and generally sustainable dividend yields. Despite the real and valid concerns around rising interest rates, current bond yields are still well below the dividend yields offered by most defensive category companies. This yield differential will remain intact for a considerable time so investor aversion to defensive names is unwise and irrational.

Technology markets have started rolling over. The semi-caps, which were driven largely by China's domestic semiconductor industry ambitions, have rolled over. A broader, negative semiconductor contagion is now quite possible. Asian internet tech is stumbling and large cap U.S. tech be it hardware, semiconductor, and semi-caps or software will struggle under a strong U.S. dollar, as non-U.S. demand will weaken moving forward if the MAGA noise continues. Remember: Technology is a high-beta market segment, so corrections can be quite vicious.

It has been a tough year to be an emerging markets investor. Rising interest rate concerns and trade sanction threats have dealt heavy blows to emerging market currencies and valuation multiples. The emerging markets are experiencing a continual outflow of capital. While the pain is not yet over, we are approaching levels that justify exposure to this segment. Yet, a word of caution: not all emerging market nations are created equal. Some nations are still highly investable now, while others will take a number of years to recover.

Given the above, investors should consider adding a defensive tilt to their portfolio if they have not already. A flight to quality where blue chips are favoured over small- and mid-cap stocks is likely warranted at present. Further, given the market corrections to date, investors should consider raising cash levels somewhat to enable opportunistic purchases of discounted high-quality securities.

VIDEO: Darren Sissons 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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