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

Cameron Hurst, CEO at Equium Capital Management
Focus: U.S. Equities

We have been flagging potential ripples of a reversal in global liquidity for some time now, highlighting the likelihood that emerging markets (EM) would lead an eventual downturn in risk assets. While we are not yet hiding in a bunker stuffed with cash and gold, it is noteworthy that EM credit default swap spreads led related equities lower from all the way back in March. Accordingly, we were not surprised EM equities lost global leadership status starting in the second quarter.

Similarly important, yet on the other end of the quality spectrum, U.S. credit spreads diverged from equity performance this year, with BBB spreads well wider than the lows made back in January 2018. In healthy market environments, it is considered positive to see equity strength confirmed by tighter credit spreads, not wider. In spite of this warning sign and standing as possibly the best example of Trumponomics, the S&P 500 is only marginally off all-time highs set in August, decisively leading global equities.

This parallel credit weakness across multiple geographies reminds us that capital markets are global, not local in nature; what happens in China, Turkey, and Europe affect North American stocks, bonds, and currencies. For this reason, among others, our investment process is global and multi-asset in scope. We believe it only makes sense to account for as many influential variables as possible in the pursuit of better downside protection and superior risk-adjusted investment returns.

In step with the evolving market environment, our process shifted exposures significantly in the Equium Global Tactical Allocation Fund over the last several months. Broader global equity exposure was almost completely exited starting with EM, which went to zero in March/April, while continental Europe was taken down to underweight in April/May. While the allocation to equities remains neutral at close to 60 per cent, its constitution has changed dramatically. For example, health-care and real estate are now our top two sector exposures, while financials and technology, the top two six months ago, are now well underweight. Fixed income has increased very modestly but remains underweight and skewed to shorter durations.

All these changes belie a more balanced view, principally because the research team is still able to find suitable opportunities in U.S. equities even as the emerging market falls apart and Europe struggles. This dynamic environment highlights well the benefit of a process that combines technical discipline with the rigour of deep fundamental research. Fundamentally, we know health-care has incredibly steady earnings growth and, technically, it has become leadership among U.S. equity sectors, causing our process to flag higher exposure levels at a stage of the cycle that intuitively makes sense.

It is important to emphasize we have not turned outright bearish. Neither our technical analysis nor our fundamental research suggests markets are on the cusp of a major break-down. Moreover, it is telling that our process, inherently conservative as it is, maintained at least neutral equity exposure throughout the last few months of growing divergences. This should have investors sticking with winners, but minding their stops and exiting breakdowns expeditiously.

Trade issues with China, Italian politics, and rising stress in emerging markets are all bogeys to watch this month, even as the U.S.A. maintains its Goldilocks status. Global liquidity continues to recede and, with it, investment opportunities.

VIDEO: Cameron Hurst 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

MARKET OUTLOOK

Stan Wong, Director and Portfolio Manager at Scotia Wealth Management
Focus: North American Large Caps and ETFs

As we approach the final quarter of the year, U.S. equities continue to lead both developed and emerging market indexes. Last month, the S&P 500 Index broke out to a new all-time high after grinding its way higher from an early year correction. This despite persistent concerns over global trade tensions and fears of emerging market contagion. A strong corporate earnings momentum along with solid economic data (employment and ISM manufacturing report last week) have provided a positive backdrop. However, recent weakness in some technology shares and some of the popular FAANG stocks have caused investors to wonder if the stumble will become more of a tumble moving forward. Indeed, the technology and FAANG trade has become a crowded one and some caution is warranted, particularly where portfolios are overweight these areas.

In Canada, equities have not gained much ground with the TSX being flattish this year. The overhang of NAFTA negotiations, mixed employment data, and the pipeline impasse have stalled Canadian stocks.

International equities have fared worse, with EuroZone equity indexes down mid-single digits on the year. Relatively subdued earnings growth, weak economic momentum, and heightened political risks have posed to be significant challenges for EuroZone equities this year.

Meanwhile, a sell-off in Asian and emerging market equities have pushed several of these markets into bear market territory (down 20 per cent or more from their highs). Despite attractive valuations, investor sentiment towards Asia-Pacific and emerging market equities have soured amid a rising U.S. dollar, falling emerging market currencies, and intensifying U.S.-China trade clashes. It should be noted that the U.S.A. has more “tariff leverage” in its trade conflict with China. According to 2017 U.S. Census bureau data, China had imported US$130 billion of American goods, whereas over US$505 billion of Chinese goods went the other way to the United States.

In Stan Wong Managed Portfolios, we continue to be constructive on the current market environment. Fundamental and technical data points remain encouraging, giving us the perspective that well-selected equities should out-perform fixed income and cash investments over the intermediate term. While we expect global trade issues to continue to cause head-line risks and occasional bouts of market volatility, we do not expect that it will derail the current bull market or prematurely end the economic expansion. Indeed, it would stand to reason that we should see trade pressures eventually ease since full-scale trade wars are in no country’s best interests.

In client portfolios, we continue to be positioned with a relatively high weighting in U.S. equities (and the U.S. dollar) compared to Canadian equities. We have no exposure to European stocks currently and have limited positions in the Asia-Pacific and emerging market areas. Growth, momentum, and dividend growth strategies continue to outpace value and high dividend approaches. Stan Wong Managed Portfolios are positioned accordingly as we expect this trend to continue for the intermediate future.

Lastly, as the current economic cycle and equity bull market matures, we anticipate more volatility ahead and stress the importance of stock selectivity and the use of stop-loss strategies.

VIDEO: Stan Wong 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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