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

Ryan Modesto, CEO of 5i Research
Focus: Canadian Small- and Mid-Cap Equities

The current environment for stocks feels a bit like there are the U.S. markets and then everything else. Stocks in the USA continue to remain strong performers, up over 8 per cent over the year-to-date period as measured by the S&P 500, while the TSX continues to struggle to remain above water and Emerging Markets are facing performance issues of their own. This is frustrating for a Canadian investor, especially in the context of an economy that is looking like it is on fine footing. While maybe not firing on all cylinders, it is also difficult to pick on the Canadian economy too much. The TSX remains dominated by financials and energy and to have an overly positive outlook on the performance of the TSX, you need to have a positive outlook on these two areas. Fortunately, if you are not a big believer in the growth potential behind financials and energy, nothing says you have to own 'the TSX'.

Outside of these dominant industries are numerous Canadian companies that have been stellar value creators over the long-term and many are companies you rarely hear about, if ever. These are the areas where we think an investor needs to look if they want to get a bit more growth from the Canadian side of the portfolio. These are also the areas that are vastly under-represented in the TSX. Areas like technology, healthcare, and the consumer sectors combined amount to only 15 per cent of the TSX but these are the spaces where an investor is more likely to find quality growth companies for a portfolio. The companies are out there but, in order to find them, an investor might need to venture off of the TSX benchmark a little.

VIDEO: Ryan Modesto 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

MARKET OUTLOOK

Brian Madden, Senior Vice-President and Portfolio Manager, at Goodreid Investment Counsel
Focus: Canadian Equities

Canadian equity markets are showing signs of moving into a late cycle phase wherein the leadership baton is passed from pro-cyclical segments of the market like energy, materials, consumer discretionary, and technology companies to more defensive businesses in the real estate, utilities, telecom, and consumer staples sectors.

Trade worries and the frustrating lack of progress on the North American Free Trade Agreement (NAFTA) renegotiations are exacerbating the shift in sentiment, but while it is tempting to blame the defensive rotation in the stock market solely on this, there is ample evidence of slowing global growth evident in industrial commodity prices, for instance, as well as in various broader coincident and leading economic indicators.

At the same time, central banks are tightening monetary policy, with interest rate hikes expected to continue both here and south of the border. This often will depress the price-to-earnings multiples investors are willing to pay per dollar of corporate earnings, as bonds become relatively more attractive versus stocks, spawning a substitution effect as investors re-evaluate their overall asset allocations.

Markets also begin to discount a slowdown in earnings over the medium term as tighter money restrains corporate expansion and hiring plans, and discourages big ticket consumer purchases. Indeed, this is exactly what we have seen this year, with the P/E ratio on the S&P TSX Composite Index de-rating from 16.2x down to 14.1x since the start of the year, fully offsetting the impressive 13 per cent growth in S&P TSX earnings that corporate Canada has delivered year-to-date.

P/E multiples are now about 3 per cent below long-run averages, which affords some margin of safety in the event that corporate profits do turn down from somewhat above trend-levels (roughly 5 per cent) where they now stand, as will inevitably occur at some point over the next few years. All of this, of course, highlights the importance of "total return" in managing an equity portfolio, with more than all of the S&P TSX Composite's admittedly modest total return of 1 per cent deriving from dividends year-to-date.

For our part, we have been repositioning our portfolio away from cyclical companies and emphasizing the more defensive sectors, with recent sales of high-beta technology and industrial companies funding new lower-beta investments in real estate and in consumer staples, for instance. A corollary of this

repositioning has been a modest uptick in the expected dividend yield of our portfolio, which has been an important element of investors' overall return year-to-date, and which we expect to continue to play an important role.

Higher-yielding portfolios increase the "certain" income component of total return and lower-beta portfolios de-risk the variability in the "uncertain" capital appreciation component of total return. We believe this is the prudent stance to take at this juncture - in symmetric, but opposite fashion to the stance we took in mid-2016 to increase portfolio beta and decrease yield as economic growth accelerated.

VIDEO: Brian Madden 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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