eResearch

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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

Jason Mann, Chief Investment Officer at EdgeHill Partners
Focus: North American Equities

- Global markets remain in a funk after the volatility bomb this past winter. The only trend for most of the world is that there is no trend. Most markets seem trapped in a technical range, unable to break out to new highs, but also not cracking to the downside.

- The U.S.A. is the main source of strength. American markets have shown signs of strength on the back of good earnings, but they are increasingly becoming the last man standing.

- Sector leadership has been inconsistent as well. It seems like every month there is a shift in what sectors are working.

- One thing that has been consistent, until recently, is the performance of growth stocks over value stocks: Growth has trounced value, with the FAANG stocks in the USA and cannabis stocks in Canada being poster children for this phenomenon.

- Playing defence has been tough as well. Ironically, one of the best strategies year-to-date would have been buying a basket of the "most-shorted stocks." Even on days where the market has sold off, we have noticed that lower-quality stocks that hedge funds use as shorts have tended to outperform. It is not unprecedented, but it is unusual and it reminds us of 1999.

- High-priced growth is not confined to the tech sector and not all tech stocks are expensive but, overall, the valuations are back to the highs reached in 1999-2000. As a per cent of the index, the tech sector is back to levels of the dot-com era.

- We think that the growth investing style, which dominated last year's returns as well, is at most risk. Investors should be looking to rotate to higher quality, lower valuation stocks found in materials, industrials, and discretionary sectors. For yield, REITs have the best risk/reward in our view.

- Net-net, earnings are still good and overall growth in North American is fine. International markets are under more pressure on that front and a full-blown trade war will be a problem, but it is possible a good portion of that risk is already priced in the market.

- We believe we remain late-cycle but, perhaps, not end-of-cycle just yet.

VIDEO: Jason Mann 45-Minute Video Interview **<CTRL-CLICK>** HERE

WEBSITE: www.ehpfunds.com

MARKET OUTLOOK

Douglas Kee, Chief Investment Officer at Leon Frazer & Associates
Focus: Canadian Dividend Stocks

While global economic growth is forecast in the 3 to 3.5 per cent range, there are signs of slowing growth in Europe and China. The USA, on the other hand, recorded above 4 per cent growth in Q2 and we would expect strong growth for the remainder of the year. Employment growth in the USA remains robust, which bodes well for consumer spending. A friendlier regulatory landscape and recent tax cuts will continue to boost corporate spending.

In Canada, the economy is slowing, given more modest job growth, slower housing activity, and investment and trade concerns for business.

Inflation in both Canada and the USA is moving up due to employment growth and increasing wage pressure. Also, recently-imposed tariffs are negatively affecting input costs on manufactured goods. Excess capacity, technological change, and demographics should keep inflationary pressures manageable. We expect that the U.S. Federal Reserve and the Bank of Canada will continue to raise administered interest rates into 2019, but in a measured fashion.

Since the beginning of the year, market valuations (price-to-earnings) have actually moderated somewhat, with earnings rising faster than expected. We would expect that earnings growth momentum is peaking and that earnings growth will moderate in 2019 back towards long-term trend-line growth of about 6 per cent. Our valuation range for the S&P/TSX Composite remains 14,600 to 17,500. We have been accumulating cash through dividends received and by trimming positions. We remain committed to companies that provide current income and superior dividend growth prospects.

VIDEO: Douglas Kee 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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