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

Bruce Campbell, President and Portfolio Manager at StoneCastle Investment Management
Focus: Canadian Equities

We follow top-down economic and market indicators to help us to determine if our portfolios are on offence or defence at any given time.

During all of 2018, these indicators have been strong and have not shown many signs of economic weakness. We continue to see signs of expansion in the ISM Manufacturing and ISM Services indexes. Both have been hitting highs last seen over a decade ago.

To track the intermediate-trend direction, we monitor the Citi Economic Surprise Index (CESI), which we find tends to lead the ISM indexes over the shorter term. The CESI was weak for most of 2018 but, during the last month, has started to show areas of improvement. From the cycle analysis that we have done, historically, when this happens the economic numbers improve in the months ahead.

The top down-market technical indicators that we follow have been mixed over the last few months. The long-term indicators and many of the intermediate-term indicators have stayed positioned all year long. The short and some of the intermediate-term indicators have been weaker but, once again, showing some signs of improvement lately.

The cannabis sector has shown strong seasonality in September, October, and November of the last four years. This year appears to be looking the same, with the Constellation/Canopy news getting the sector performing a little ahead of the historical performance trend.

We review economic and market technicals in a monthly webinar as well as have a weekly cannabis review. To sign up for these updates send an email to info@stonecastlefunds.ca.

VIDEO: Bruce Campbell 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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MARKET OUTLOOK

John Zechner, Chairman and Founder at J. Zechner Associates
Focus: North American Large Caps

We believe that global economic and profit growth peaked for this cycle in the second quarter. Emerging market economies have been under severe pressure due to high U.S. dollar debts, trade worries, and falling currencies. Leading economic indicators from the industrialized (OECD) countries have also lost momentum as Asian and European manufacturing data turned down and Economic Surprise Indices have headed lower.

The U.S. remained pretty much the sole source of global strength as second quarter growth exceeded 4 per cent and consumer confidence indicators remained strong. We are, however, starting to see more inflationary pressures emerge, which will necessitate the continued removal of the extremely easy money conditions that have characterized the last 10 years.

Record global debt levels and rising interest rates will lead to retrenchment in consumer and business spending, thus limiting further expansion. Profit margins are expected to peak this year due to rising input costs (wages, basic materials). While the U.S. tax cuts have led to double-digit profit gains this year, those cuts are one-time in nature and will diminish in impact by the fourth quarter.

Stock markets outside of the U.S.A. and Japan have all moved lower this year, with China down 25 per cent from its January highs. Rising U.S. interest rates will reduce stock valuations, which have been responsible for over 75 per cent of global stock market gains in the last five years.

The U.S. Fed suggests it could raise short-term interest rates above “normal,” since it cannot accurately gauge what that level is right now. Expect them to reach the 3 per cent range in the next year and that the yield curve will invert, which typically occurs before the onset of any recession.

Within our managed portfolios, we maintain a defensive bias due to our continued belief that we are late in this economic cycle, interest rates are rising, stocks valuations are excessive, and there is more downside than upside potential in stocks over the next two years. Stock weights, therefore, remain below average levels.

One area where we still feel bullish is energy. The TSX Energy Sector is still almost 40 per cent below the peak seen in 2014, when oil prices were above US$100 per barrel. While we do not expect to see prices recover to those levels, the inventory glut that lead to the 2014 price swoon has now been removed and the market is in balance. We expect prices to stabilize in the current US$65-75 range. We also expect the spread between Canadian and international oil prices to narrow which, along with a lower Canadian dollar, should boost earnings. We see good upside potential and little downside risk in the energy sector in Canada as the mass exodus of capital since 2015 created attractive valuations.

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

WEBSITE: **www.jzechner.com**

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Bob Weir, CFA,   Director of Research