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, Chief Investment Officer at Equium Capital Management
Focus: U.S. Equities

MARKET OUTLOOK

- Weak emerging markets as a leading indicator for what we see as a global liquidity problem – check!
- Ultra-easy credit, peak debt issuance, and record low corporate credit spreads – check!
- An amazing new industry that promises incredible investment returns over ultra-short timelines (don't mind the fact that the companies have virtually no revenue) – check!
- Negative global growth revisions – check!

What more do investors need to see to understand that we are in the late-stages of a bull market and it is time to be disciplined with stops and exits? This is absolutely not the time to chase this cycle's get-rich-quick investing trends like cannabis.

Think back to the late 1990s and recall that people were buying anything with a dot-com in the name because it was a "guaranteed" IPO homerun and quick flip. Exactly the same feverish mentality has captured investors' imaginations in 2018 and, sadly, we know how this mad rush for cannabis stocks will end. Perhaps the best example yet is Tilray (TLRY.O), which, as of this writing, had a market cap of US$12 billion and projected 2018 revenue of just US$42 million. That is a cool 287-times multiple on sales. The company has no earnings, no cash flow to speak of and, yet, at one point for less than a day the company was worth about US$28 billion.

Euphoria can always last longer than seems plausible, but we are heading into earnings season when corporate results and, particularly guidance, tend to set the tone. If PPG's guidance on

Tuesday was any indication, investors should expect to hear a lot more about incrementally bearish themes, namely, weak demand from China, tariffs and trade challenges, and energy and related commodity cost inflation.

Looking specifically at Canada, it bears highlighting how disappointing the Canadian market's reaction was to resolving NAFTA risk. The loonie managed a meagre two-day rally and, basically, has not stopped falling since a couple days after the announcement. Equities, having apparently missed the memo about a robust energy backdrop, are actually negative month-to-date and continue to break successive technical support levels, including the 50-day and 200-day moving averages and several prior lows.

Not surprisingly, we continue to be very concentrated in U.S. equities, as it represents one of the few leadership areas globally. Even there, however, we have experienced several technical exits in the last two weeks as our strategy remains unemotional and exit positions that break our technical rules.

One of the themes our research team flagged almost exactly a year ago was the risk that both bonds and stocks could fall at the same time in 2018. While it took longer to play out than expected, it seems we are now faced with exactly that challenge. Accordingly, our fixed income exposure is focused on government bonds with short duration, which is intended to limit losses from higher rates while still providing yield.

In this difficult investing environment, we continue to advocate for private equity garnering a higher share of investors' total portfolios, particularly in the area of real estate development. Energy is well supported fundamentally and technically at present, and has also risen in weighting as a result. However, cash is now close to 20% as a result of the exits and fewer attractive risk/return opportunities in sight. We may not be fully into a corrective phase just yet, but investors should be preparing for a period of lower returns and enhanced conservatism, lest their profits go up in smoke during the second coming of the dot-com bust.

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

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MARKET OUTLOOK

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

Equity markets are recalibrating to the prospect of sustainable higher U.S. interest rates, driven by a buoyant U.S. economy and central bank commentary alluding to a continuation of rate increases. Neither driver is that surprising, so the ensuing market pull-back could partly be attributed to a much-needed pause after the strong run in the last quarter for U.S. stocks.

More recently, the U.S. Treasury yield curve has shifted up and steepened, albeit moderately, with the spread between the 10-year and 2-year now at 32 basis points. The steepening is encouraging, given that with inflation expectations in check, the Fed intends to continue gradually raising interest rates.

Low unemployment and higher wages are supportive of continued U.S. consumer spending, which accounts for two-thirds of U.S. GDP. Both consumer and small business sentiment remain at elevated levels, boding well for future economic activity.

The consensus expectation is for third quarter earnings per share (EPS) for the S&P 500 companies to be up over 20% year-over-year. Excluding the beneficial impact of lower corporate taxes, underlying EPS growth is estimated to be 12%. Tariffs, elevated input costs, a stronger U.S. dollar, and softening economic growth in regions outside of the U.S.A. are potential headwinds. Commentary to the extent these factors may dampen future profit growth will be closely monitored.

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

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Bob Weir, CFA, Director of Research