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

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

We feel the market set-up is more straightforward at present. Of all the conditional factors we look at to gauge sentiment and market risks, virtually none suggest now is the time to be adding exposure.

To name a few of the higher-efficacy macro/conditional factors we watch, the relative strength of asset managers, semis, transports, and small caps are all at or near lows. For background, odds of success increase when positive price action is confirmed by new highs in relative strength. Accordingly, new relative strength lows are a warning sign that now is not the time to be adding exposure.

Credit, for a long time a market indicator we have flagged, continues to demonstrate weakness as peak issuance was met with widening corporate credit spreads. Indeed, late October saw new recent wides in both high yield and investment grade credit, so it is not isolated.

On earnings, the U.S. dollar is getting stronger, which is a headwind for earnings. While it appears S&P 500 earnings per share (EPS) growth will be comfortably in the mid-20 per cent range this year, it appears the implied margin expansion baked into consensus 2019 and 2020 numbers is overly ambitious. Goldman Sachs recently revised their forward numbers down for exactly this reason and we expect others to do so over the coming three months. 5 to 6 per cent EPS growth in 2019 is not terrible, but it is hard to justify a higher market on that basis, particularly when global PMIs are almost all decelerating.

Also telling, our process-driven tactical allocation strategy added 20 per cent in fixed income over the last quarter, all short-dated North American government bond exposure, while equity weight declined by about 35 per cent, leaving cash higher. The equity exposure, heavily tilted toward U.S. health care, holds the least Canadian and international exposure as at any point in the fund's history.

While some markets outside the U.S.A. still look attractive, like Norway, these are few and far between.

Unfortunately, Canada is technically weak and fundamentally challenged by rising rates pressuring an over-leveraged consumer. Canadian banks have quietly been draining liquidity from the system and now the growth in total household credit is below the level experienced during the financial crisis. We suspect this is being done in anticipation of coming credit challenges, mostly related to consumer and mortgage credit strain but, nonetheless, it will ultimately contribute to the problem. In short, be very careful investing in Canadian equities for the foreseeable future.

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

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MARKET OUTLOOK

Hap Sneddon, Chief Portfolio Manager at Castlemoore Inc.
Focus: Technical Analysis and Macro Portfolio Strategy

Seasonally speaking, the end of October ushers in the strongest part of the investment year. This annual investment pattern, which lasts right through to late spring, is set up to be very strong this year (if we get going) due to a higher-than-normal period of negativity that has preceded it.

This year, all non-U.S. markets and, particularly, the economically-sensitive TSX have been under heavy pressure since spring from global trade frictions, politics and rising interest rates. In a mid-term U.S. election year, markets typically go flat or down from June until the election. This year, the U.S. actually rallied throughout the period, acting like a vortex for most global investment inflows. Now, however, even the U.S. stock market has begun to feel the weight of the negative investment mood, with its trading relationship with China the biggest driver.

This said, the recent drop in the U.S. markets puts them now back on the path of its historical trend in a mid-term election year – it just got ahead of itself. Since 1946, returns after a mid-term election have been positive three, six, and twelve months out 100 per cent of the time.

With many indicators at extremes, this bullish case will be borne out by a meaningful decline in the U.S. dollar. The single biggest reason for the extraordinary strength this year in the greenback and the subsequent negative impact on everything non-U.S. and commodities, in general, is the repatriation of a huge amount of offshore American corporate profits due to tax changes. Yes, the dollar becomes a flight-to-safety destination and the Fed is raising rates, but these are temporary or can be discounted. The convergence of all three, however, has distorted the strength of the dollar, setting up a broad-based rally.

VIDEO: Rick Rule's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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