

BNN BLOOMBERG MARKET CALL

eResearch 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

**Matt Kacur, President at FSA Financial Science and Art
Focus: North American Equities**

We think the downside risk still outweighs the upside potential in the next six or eight months. The recent pull-back beginning in October where the S&P 500 and the NASDAQ dropped by 10.2% and 14.4% respectively was long overdue. It is healthy and was even predictable.

Predictable is a strong word when it comes to exact timing, but it was clearly coming. In all our published work for the past year or more, we had been cautioning about nearing a top. We suggested the tax cuts would do more damage than good by ballooning the deficit. In addition, interest rates were telegraphed by the U.S. Federal Reserve to rise, trade wars were heating up, and valuations were stretched. Now, those obvious issues are finally being recognized in the market.

So, the obvious question after the pull-back: is it time to get back in? In our opinion, no; it is simply too early. Markets don't simply drop and bounce back just as quickly. Typically, it takes time for them to adjust to the new reality. Markets are most volatile at the top and at the bottom. With the S&P 500 only down 10.4% and the NASDAQ only down 14.4%, there is more downside risk in our opinion.

VIDEO: Matt Kacur's 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

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MARKET OUTLOOK

**John Zechner, Chairman and Founder of J. Zechner Associates, Inc.
Focus: North American Large Caps and Investment Strategy**

We continue to believe that global economic and profit growth peaked for this cycle in the second quarter. Leading economic indicators from the industrialized (OECD) countries have lost momentum as Asian and European manufacturing data turned down and the Economic Surprise Indices have headed lower.

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.

We are maintaining a defensive bias as we are late in this economic cycle, interest rates are rising, and economic growth is about to slow down. Stock weights therefore remain below average levels. While the sharp fall in stocks in October started to create better buying opportunities, we still think that earnings estimates for 2019 need to come down. We also expect rising interest rates to provide competition to stock returns as well as increasing the risk of a “negative liquidity event” due to the proliferation of new investment products created in the low interest rate environment.

On the positive side, the stock market is clearly oversold in the very short term and would respond positively to any news on a potential lessening of trade issues between the U.S.A. and China at the upcoming G20 meeting, or if the U.S. Fed indicates some more dovish outlook on interest rates that is more “data-dependent.”

We also see little further downside risk in the energy sector in Canada as the mass exodus of capital since 2015 has created attractive valuations despite the recent weakness in crude oil. We also expect some recovery in commodity prices as China moves to stimulate growth again and the U.S. dollar comes under pressure due to massive deficit fund requirements over the next few years.

We continue to have an overweight position in cash, short-term bonds, and preferred shares and an underweight position in both Canadian and U.S. stocks. Sectors we continue to favour in the stock market due to their inherently low valuations and growth potential include the energy stocks and the auto parts sectors in Canada, and communications and technology stocks in the U.S. market.

VIDEO: John Zechner’s 45-Minute Video Interview <CTRL-CLICK> [HERE](#)

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Bob Weir, CFA, Director of Research

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