BNN BLOOMBERG MARKET CALL

***e*Research Corporation** is pleased to provide two excerpts from Tuesday'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

Brian Madden, Senior Vice President and Portfolio Manager at Goodreid Investment Counsel
Focus: Canadian Equities

As we look out towards 2019, macroeconomic and geopolitical risks are taking on greater prominence. Various trade spats weigh in on investors' minds as the reality of a divided and likely combative U.S. government comes into focus. Not surprisingly, with this backdrop, and amidst the ongoing tightening of monetary policy via interest rate hikes by the Federal Reserve and the Bank of Canada, volatility has perked back up to more historically normal levels after being unusually suppressed last year. Obstacles to business competitiveness (carbon pricing, the inability to get pipelines built, high corporate tax rates compared to neighboring jurisdictions, minimum wage hikes, high hydro prices in the manufacturing heartland of Ontario) are an ongoing concern across Canada and will likely factor into federal and provincial elections next year.

So, while seasonality is overwhelmingly favourable in December (the S&P TSX Composite is up an average of 1.4 per cent during the month over the last 30 years) and with gains remarkably consistent (83 per cent of the time), we can in all likelihood expect the traditional "Santa Claus" rally, but the subsequent twelve months may be more turbulent. The silver lining to this more challenging macroeconomic backdrop is that we enter it with supportive equity valuations. The S&P TSX Composite index price to trailing earnings ratio of 16.7 times and price to book ratio of 1.7 times are approximately 20 per cent below their long-term averages, and the current dividend yield of 3.2 per cent is a whopping 43 per cent above its long-term average. While earnings growth is moderating, consensus forecasts nevertheless call for corporate earnings to grow nearly 20 per cent over the upcoming twelve months.

These forecasts are virtually certain to be reduced, but even with the typical downward tweaking and fine-tuning of overly rosy analyst forecasts, Canadian stocks should still enjoy decent earnings growth in 2019. Our focus for much of 2018 has been de-risking portfolios in preparation for the late stages of the economic cycle. Accordingly, we are now much more concentrated in sectors like real estate investment trusts, grocers, utilities, and other defensive, stable businesses with good revenue and earnings visibility than we were a year ago. We believe this is the prudent stance to take at this juncture, just the opposite fashion to the stance we took in mid-2016 to increase portfolio beta and cyclicality as economic growth accelerated.

VIDEO: Brian Maddens' 45-Minute Video Interview **<CTRL-CLICK>** [HERE]

WENSITE: **http://www.goodreid.com**

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MARKET OUTLOOK

John Hood, President and Portfolio Manager at J.C. Hood Investment Counsel Inc.
Focus: Options and ETFs

Warren Buffet once remarked that only in the investment business, if you hang out a sign that says "on sale," everyone dashes out the door. My market strategy for years has been persistently overweight the U.S. market, with reduced Canadian exposure and very little exposure in emerging markets or the EU. The reason for this is that the Trump administration is very pro-business, particularly with respect to tax cuts and deregulation. Now that there has been a normal correction, which was overdue, prices are looking more reasonable. That is, "on sale."

There have been two major overhangs in the market: the U.S. mid-term election, which strengthened Trump's position in the Senate despite Republicans not keeping the House; and the trade wars with China, which appeared to have been mollified somewhat, but the major issues are just being kicked 90 days down the road. The trade war is not just about swapping soybeans for reduced tariffs and electronic

trinkets, but it has to do with structural changes when it comes to cybersecurity and theft, and geopolitical issues like the South China Sea.
Regarding Canada, Bill Morneau's rosy optimism on the country's economy lasted about 48 hours until General Motors announced the shutdown of its plant in Oshawa, 2,500 direct job losses and the ripple effect of thousands more. Morneau did give some business concessions such as enhanced depreciation, but capital is leaving Canada and new foreign capital is in retreat.

VIDEO: John Hood's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **http://www.jchood.com**

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Bob Weir, CFA, Director of Research