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

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

Imagine yourself in 2019, reflecting back on the year that was 2018, and the thoroughly disenchanting experience we all had in the markets. Then recall it was a year characterized by rising interest rates (expected), declining Fed asset purchases (expected), recognition of an imminent hangover post-U.S. tax reductions (expected), a trade war between China and the U.S.A. (unexpected, but nothing should be with this White House), and the three-ring circus named Brexit (how else was that going to turn out?).

Notwithstanding the economic elixir of peak corporate margins and trough credit spreads, which combined can make anything look possible, you could not possibly be surprised at the market performance of the past year. It was always going to be tricky if not downright treacherous. Hat tip to our research team for calling 2018 a year to be tactical all the way back in October 2017.

The trouble now is that objects in motion tend to stay in motion. Indeed, Newton unintentionally stumbled upon momentum investing back in the 17th century. With the benefit of hindsight and Newton's first law of inertia, investors should be approaching 2019 with apprehension. Think of it this way; strong corporate profitability, positive global growth, low interest rates appear too great at first blush--but that is not what is in motion. Rates and credit spreads are rising while global growth is slowing and corporate profit growth appears to peak. So what is actually in motion is not pointed in the direction that augers for a robust positive market experience in 2019.

It is paramount for investors to watch liquidity indicators because the global trend of liquidity removal is the primary cause of this correction. We firmly believe this correction to be cyclical in nature.

When liquidity stops contracting, credit normalizes, and financial conditions indicators stabilize, only then will it be time to load up for the next bull run in equities. Into 2019, prudence continues to favour caution.

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

TWITTER: @equiumcapital
WEBSITE: equiumcapital.com

MARKET OUTLOOK

Stan Wong, Director and Portfolio Manager at Scotia Wealth Management
Focus: North American Large Caps and ETFs

Volatility remains elevated in equity markets as investors contend with anxieties about China-U.S. trade frictions, the pace of interest rate hikes by the U.S. Federal Reserve Bank and the prospects of a U.S. economic slowdown. Since the beginning of October, the CBOE Volatility Index (VIX) has averaged near a 20 per cent level, significantly higher than its five-year average of just under 15 per cent.

This week, an inversion at the short end (two- and five-year and three- and five-year) of the U.S. Treasury yield curves heightened recession fears and weighed heavily on stocks. An inverted yield curve, where short-term rates are higher than long-term rates, has historically been a precursor to an economic recession. We note however that these short-end measures of yield curve steepness have not been reliable precursors to recessions. As a recession indicator, the more reliable yield curve spreads have tended to be those with larger maturity gaps such as the two- and 10-year, which still currently indicates a normal yield curve. Even so history tells us that the onset of an inverted yield curve is not necessarily a harbinger of falling equity prices. Such inversions have occurred seven times since the early 1950s and all but one preceded price advances for the S&P 500 Index. The S&P 500 Index rose a median 19 months before peaking after an inversion, with returns reaching 21 per cent.

Below are some of our general market observations and viewpoints:

1. **Strong corporate earnings**. Over 82 per cent of S&P 500 companies reported positive earnings surprises for the Q3 earnings season. The 28 per cent year-over-year earnings growth for the index is one of the strongest in a long time.
2. **Discounted valuations**. With the recent selloff combined with stronger earnings, the S&P 500 Index currently trades at 15 times forecast earnings and the index's multiple has contracted 18 per cent from a year ago.

3. **Solid economic data**. U.S. economic data largely remains healthy. The Conference Board's Leading Economic Index (LEI) continues to trend higher with no real signal of an economic slowdown in the near-term.
4. **Technical view**. When reviewing the S&P 500 Index charts, we see a possible triple bottom forming, a potential bullish reversal pattern.
5. **U.S. Presidential cycle**. Since 1928, the third year of the U.S. presidential cycle has historically been the strongest for the S&P 500 Index, averaging almost a 13 per cent return.
6. **The December effect**. Since 1950, no other month has a higher average return for the S&P 500 Index or has been higher more often than the month of December.
7. **Fearful market.** The CNN Fear & Greed Index is currently indicating a prevailing investor sentiment of "extreme fear" in the market. We last saw these levels of extreme fear during the February-March lows earlier this year. As Warren Buffett once advised: "be fearful when others are greedy and greedy when others are fearful."

Overall we remain constructive on the equity markets. We believe that in order for the current turbulence to evolve into a protracted bear market, we would need to see signs of a profit recession, significant tightening of liquidity and/or more conclusive data points signaling an economic slowdown. We don't see any of these indicators today. Indeed, corporate earnings are expected to grow nine to 10 per cent in 2019. The Federal Reserve seems to be dialing back its hawkish tone and China-U.S. trade tensions appear to be easing.

In Stan Wong Managed Portfolios, we continue to be positioned with a relatively high weighting in U.S. equities (and the U.S. dollar) compared to Canadian equities. We have no exposure to European stocks and limited holdings in the Asia-Pacific and emerging market areas (although we note some attractive valuation discounts in emerging markets). Financials, consumer discretionary, communication services and healthcare represent our largest sector weightings but we anticipate a larger shift to defensive sectors (consumer staples, healthcare and utilities) as the economic and market cycle matures. We expect high quality attributes (high return on equity, low financial leverage, stable earnings growth) to become more important as the global macroeconomic backdrop becomes less certain. We anticipate volatility levels ahead to be more pronounced and uneven moving forward. Investor sentiment will continue to ebb and flow with equities ultimately grinding higher. As always we will emphasize active stock selectivity and the use of stop-loss and other risk-management strategies.

VIDEO: Stan Wong's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

TWITTER: **@StanWongWealth**
WEBSITE: **www.stanwong.com**

#####

<continued>

BNN.CA

To access the BNN Home Page, <CTRL-CLICK> here: BNN

To go to BNN Market Call Afternoon, <CTRL-CLICK> here: Market-Call-Afternoon

To go to BNN Market Call Tonight, <CTRL-CLICK> here: Market-Call-Tonight

BNN's Morning Newsletter and evening Market Call Newsletter can be delivered to your inbox by going to <CTRL-CLICK> here: **www.bnn.ca/subscribe**.

*e*Research Corporation

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Contributing Analyst