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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

Teal Linde, Manager of Linde Equity Fund
Focus: North American Large and Mid-Cap Stocks

With the recent worst down-turn in nearly three years, many investors have felt shell-shocked seeing their portfolios fall as much as 10 per cent in a matter of weeks. Yet, from a historical perspective, the recent down-turn is not out of the ordinary and, in fact, 2018 has been quite a tame year.

Consider the following statistics for the S&P 500 since 1950:

Last month the S&P 500 entered its 31st correction of a 10-per-cent-plus decline in 68 years. Corrections happen almost once every two years and despite experiencing 31 corrections, the S&P 500 is up over 17,000 per cent.

Since 1950, the average peak of the S&P 500 has been 15 per cent each year and the average trough is eight per cent. This results in an average spread of 23 per cent between peak and trough on average each year. In 2018, the range has only been 13 per cent, barely half the 68-year average. Investors can be excused for feeling disturbed because the annual spread of the market for the last five years in a row has been below the 23 per cent average. Consequently, investors have been lulled into a false sense of security thinking that markets are normally calm. But investors need not despair. Even though the average peak to trough spread has been 23 per cent since 1950, the S&P 500 has climbed an average of over eight per cent per year.

Now, to counter some of the negatives. In respect to worrying about recessions, they are becoming less of a concern as the decades go by. From 1870 to 1900, the U.S. economy was in recession about half of the time. From 1900 to 1950, the economy was in recession 34 per cent of the time.

From 1950 until now, the U.S. economy has been in recession only 13 per cent of the time, 87 per cent in expansion and only 13 per cent in contraction. That is an attractive trade-off. The risks of recessions are essentially being outsourced overseas to regions, where shorter cycle manufacturing-based economies have become more recession prone. This leaves service-based economies a lot less exposed.

In respect to rising interest rates, a jump in the U.S. 10-year bond yield triggered the sharp market selloff in October and February earlier this year. Stock markets hate the prospect of rising rates, however, the reality of further rising rates is nowhere near a sure thing. The implied average inflation rate for the next five years has fallen over the last several months. Economic growth is slowing worldwide.

The economy is an increasingly complex system that even economists have a difficult time predicting. Investors would be better off ensuring they own companies offering the most attractive risk-adjusted return potential through an economic cycle. This would be the combination of long-term growth companies to offer capital appreciation upside, and dividend stalwarts to provide stability, which can be turned to cash to acquire more attractive beaten-down stocks during the next bear market.

VIDEO: Teal Linde's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **www.lindeequity.com**

MARKET OUTLOOK

Michael Sprung, President of Sprung Investment Management
Focus: Canadian Large Caps

Investors have been extremely skittish as indicated by the capricious market reactions day to day. These reactions to current stimuli are typical of late-cycle behaviour. After nine years of recovery since the financial crisis, the market is being challenged by some underlying inequities that have been building over this extended period. Evidence is building that global economic growth is slowing. The synchronized global recovery is faltering as trade slows in response to tariffs and capital investment slackens in response to higher interest rates. Some emerging markets are seeing capital outflows as their currencies

depreciate in response to the rising debt burden exacerbated by higher rates. In the developed markets, the central banks have been reducing stimulus.

The U.S. economy continues to benefit from the tailwinds of last year's tax cuts and stock buy-backs. But higher rates will soften the end demand for housing, consumer spending, and business investment. Confidence is being shaken by the announcements of factory closings. Rising trade tensions between the U.S. and China are also a major concern.

Canada has been particularly impacted by low energy prices and government interventions that have not been conducive to promoting investment. Consumer spending has slowed and there has been a pronounced decline in capital spending.

It is possible that a soft landing still may be in the offing, barring an all-out trade war, but the risks of a hard landing are building. This is not a market for short-term investors. Over the past few months, higher multiple growth stocks have exhibited greater vulnerability to negative market sentiment. Valuation is going to become a more important factor in security selection. As such, investors should have sufficient cash on hand to take advantage of opportunities as they arise.

VIDEO: Michael Sprung's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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Bob Weir, CFA, Contributing Editor

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