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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

Cameron Hurst, chief Investment Officer at Equium Capital Management

Focus: U.S. Equities

We always harp on process and having a robust, risk-focused approach that is intended to keep you out of trouble. Principally owing to the challenges we all faced in 2018, and our focus on capital preservation, it was hard not to come across as overly negative when callers asked about stocks that were not meeting our criteria, which was most of them.

The reason we are so focused on not losing capital is the asymmetry of investment returns: if you lose 25 per cent you have to earn 33 per cent to get back to flat. It stands, then, that it is better not to lose big in the first place and put yourself in a precarious position of needing to take more risk to stay afloat.

So while it is difficult to sit on your hands at times, there are years when doing nothing is the best option. 2018 was one of those years in public markets and we think 2019 is looking fairly precarious as well.

There is an incredible mean-reversion rally underway. In the last couple days of 2018, we bolted on tactical exposure, which is helping us participate to some extent, namely CAD-hedged S&P 500 exposure.

Positively, credit is confirming the snap-back, with 10-year yields rising and corporate credit spreads tightening coincidentally. For that and other reasons, we believe this rally could last more than a

couple of weeks (although our positioning always remains dependent on process and market developments).

Negatively, the underpinning economic data around the globe is slowing to multi-year lows as central banks continue to normalize monetary policy, creating substantial headwinds for corporate profit growth and broad-based deceleration. Note the recent Apple and Samsung guidance.

We are watching a litany of indicators on this bounce to monitor its strength and durability, but some of the easier to follow include relative performance of small caps, asset managers, semis, and transports. Indexes reflecting financial conditions should also give confirmation of continued risk or clearing storm clouds.

Lastly, investors should watch corporate credit spreads closely for when they stop tightening and the flatness of the yield curves.

On this last point of credit, we encourage investors to watch very closely developments in monetary policy, credit, and liquidity. While numerous pundits and commentators continue talking about valuation, both as a reason to buy stocks here and as justification that they should not have been sold in the first place, they are flatly missing the point. Global markets have been inflated by unprecedented monetary stimulus. It can only stand to reason that, as this monetary support is withdrawn and with it the incremental buyer of everything from Treasury bonds to high-yield debt to developed and emerging market equities, markets will struggle to make new highs.

Compounding the mechanics of this market, yield curves are telling us a recession is on the horizon, although possibly not as soon as this year. It is a pretty standard script and history would tell you we have an average of 18 months from now until a recession might occur, but the wildcard is all the extraordinary policies and how that unwinds.

(BW: See our latest weekly report on when a recession might ensue: Recession Barometer)

Bottom line, we are participating in the rally but remain underweight equities, neutral bonds, and overweight cash (now that we finally earn more than 2 per cent on it). Acknowledging that this could be another tactical year, we are proceeding with caution.

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

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MARKET OUTLOOK

Darren Sissons, Vice-President and Partner of Campbell, Lee & Ross

Focus: Global Equities and Technology

After a difficult fourth quarter, the markets continue trending sideways to down. High-valuation momentum stocks, in particular, have been hit hard, Apple being the most recent. The lessons of maintaining a well-diversified portfolio with a focus on income-producing securities has been reinforced for a number of unfortunate investors. Equally so, the benefits of carrying a cash buffer have also been reinforced by the 2018 sell-off. U.S. politics, while a major source of anxiety in the two prior years, will increasingly become somewhat of a sideshow moving forward as the Democrats' control of the House of Representatives effectively eliminates significant Republican legislative power. The doubling down on key elements of Trump's policy platform cannot be ruled out, however, so volatility will likely remain elevated over the near term.

We have also reached a major policy junction for central bankers. Central bankers and governments alike are well aware of the real estate and security bubbles created by the excesses of quantitative easing (QE). But removing the excess stimulus and simultaneously raising interest rates appears to be too much for the markets to bear, as the fourth quarter 2018 sell-off clearly demonstrated. I suspect interest rates will continue to rise, but at a slower pace than initially guided. Additionally, central bankers, including our own Stephen Poloz, are coming to the unfortunate realization that much of the QE excess liquidity has become permanent financial system capital and cannot be removed now without disastrous consequences for real estate and securities markets.

Given the above, actively managed investment programs with the ability to raise or maintain heightened cash reserves will be well positioned to deploy capital at attractive prices. Equally so, being untethered to specific indexes and having the ability to pursue attractive investment opportunities internationally will be an advantage.

Given the relative strength of the U.S. dollar and the large declines we have seen in many global markets, it makes sense to re-deploy some U.S. dollar reserves to less expensive markets.

Finally, we now have one of the best opportunities to deploy capital since the ravages of the financial crisis a decade ago. While it is likely a little early to be investing significant capital, investors should be mindful of the sizable discounts currently available in many sectors. Beginning a wish list of names to buy is a prudent exercise at this time.

VIDEO: Darren Sisson's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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