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BNN BLOOMBERG MARKET CALL

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

Dennis da Silva, Managing Director and Senior Portfolio Manager at Middlefield Capital Corporation

Focus: Resource Stocks

The fourth quarter of 2018 was the worst quarter for Canadian energy equities since the financial crisis and drove the sector's 28 per cent annual decline, also the worst since 2008. It marked the second straight year in which energy was the worst performer on the TSX.

WTI started 2019 down over 40 per cent from its October high of $76.40 per barrel. Current oil prices are well below the threshold that allows for internally funded growth (within cash flow) while offsetting existing declines. Key to watch will be how much discipline U.S. shale producers demonstrate, the OPEC cuts that come into effect this quarter, and the macroeconomic outlook.

We have arguably seen maximum pessimism in Canadian egress. A Canadian energy rebound is dependent on new pipeline capacity (starting with Enbridge's Line 3 replacement) along with the ramping up of crude-by-rail. The Alberta government's mandated oil production shut-ins announced in early December has had the desired impact, with differentials tightening significantly since the October 2018 peaks.

We are encouraged by how crude and energy stocks have traded in the last couple of weeks. The XEG is up 10.2 per cent since bottoming on December 24. Since then, the S&P/TSX Composite Index is up 5.3 per cent and the Dow is up 8 per cent.

Another interesting commodity is gold. Gold bullion proved to be a stable commodity in 2018. We expect to see the price of gold to trend potentially above our short-term price range of US$1,100 to US$1,350 per ounce as the U.S. Federal Reserve normalizes monetary policy in the first half of 2019. Under a higher 10-year real rate environment, gold bullion should out-perform broad markets as we saw in the period of 1999 to 2007.

With a strong rising gold price, we see Canadian gold producers as offering an unique entry point with valuations trending near 10-year lows in terms of enterprise value to cash flow multiples and relative to the price of gold.

VIDEO: Dennis da Silva's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **www.middlefield.com**

MARKET OUTLOOK

Brian Madden, Senior Vice-President and Portfolio Manager at Goodreid Investment Counsel

Focus: Canadian Equities

2018 came to a dramatic close, with sharp losses in the Canadian and U.S. stock markets as festering concerns about waning economic growth, rising interest rates, and dysfunctional government finally came home to roost. The S&P/TSX Composite index incurred a loss of 10.1 per cent during the fourth quarter, erasing the year's gains as the ink dried on 2018's total return of -8.9 per cent.

While we were disappointed by the equity market weakness late in the year, we were not entirely surprised by it and had been taking steps to de-risk portfolios over the course of the last five quarters to position for the late stages of the economic cycle. We did this knowing that sentiment is a contrarian indicator, meaning that when the hue and cry is loudest to be "all in," the prospective returns are lowest.

Rather than try to gauge the nebulous investment sentiment, we simply recognize that equity investors supply the risk capital in the economy and thus own the profits. Because the economy and, therefore, profits grow over time, stock prices rise inexorably, albeit in an irregular zig-zag fashion.

Time in the market is the investors' friend, whereas timing the market is a glorified coin toss. Like it or not, we know periodic losses are normal, but they are outnumbered and significantly outweighed by gains particularly as the benefits of compounding accrue over a long span of time. We simply strive to be “less bad” in difficult markets and “better” in strong markets.

The other obvious implication after a quarter like the most recent is that prices, valuation, and sentiment are all markedly lower and, thus, prospective returns are correspondingly higher.

As we think about the major forces at work in the Canadian and U.S. economies in 2019, we see a number of puts and takes. On the positive side, unemployment is at or near record lows while wage inflation remains at healthy, but not unduly inflationary levels. We see some urgency as it relates to competitiveness in Canada and particularly in Alberta, where a plan is taking shape to alleviate crisis-level oil prices.

In the USA, business confidence surveys continue to indicate expansion although the pace of growth in corporate earnings necessarily will moderate after being goosed significantly by tax reform.

Finally, on a “micro” level, we see silver linings for many of the companies we own amidst a more difficult economic environment. This is not merely wishful thinking, but the intended consequence of constructing a “best-of-breed” portfolio, which is subtly but crucially different from a purely defensive portfolio. Great companies are like great athletes: they snatch victory from the jaws of defeat and they find ways to win sometimes even against very long odds.

VIDEO: Brian Madden’s 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **goodreid.com**

LINKEDIN: **Brian Madden**

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Bob Weir, CFA
Contributing Analyst

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