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

Michael Simpson, Senior Vice-President and Portfolio Manager at Sentry Investments

Focus: North American Dividend Stocks

Volatility returned with a vengeance in 2018. Its most widely followed measure, the VIX, averaged 16.6 for 2018, but closed on December 31 at 25.4. December was the cruelest month for investors, with the S&P/TSX index down 5.41 per cent, the S&P 500 down 9.03 per cent, and the Nasdaq down 9.38 per cent.

From this upheaval sprung many bargains and we were putting money to work in December. For context, 2018 was a difficult year for many asset classes: gold was down 1.9 per cent, copper down 19.6 per cent, and international equities down 11 per cent (as measured by the MSCI EAFE index).

Two big events will weigh on the market in the first quarter of 2019: the U.S. government shutdown, which will lead to a reduction in U.S. GDP in Q1/19, and if the U.S. reaches a trade deal with China by late February. Chinese exports fell 4.4 per cent in December, indicating that the Chinese economy is slowing and that they are interested in a deal.

It is our belief that the Bank of Canada is on hold for at least six months to determine what direction the economy is headed. They have to tread carefully, given that Canadian households are at record levels of debt.

Our outlook favours companies that can grow their dividends and participate in the late stages of the economic cycle. Because Canadian stocks underperformed U.S. stocks in 2018, we feel there is a better chance the Canadian market will out-perform the U.S. market in 2019.

Oil will be dominated by supply. The U.S.A. and Russia are the world's largest producers. Saudi Arabia produces just over 10 per cent of world demand. With overall demand growing at 1 to 1.5 per cent yearly and with much of that growth being in the emerging markets, oil will trade in a range of US$50 to US$60 if too much supply comes out of the U.S.A. or Russia.

Lower oil prices benefit consumers, but hurt the major oil-producing regions. Western Canada has diversified since the last downturn and major projects, such as LNG Canada, will help buffer it if low oil prices persist.

Investors should be prepared for more volatility. Recall that volatility was kept artificially low by the Federal Reserve's buying of U.S. government debt. Use volatility as your friend and buy when pricing gets irrational.

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

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MARKET OUTLOOK

David Driscoll, President and CEO of Liberty International Investment Management Inc.

Focus: Global Equities

In the fourth quarter of 2018, the market gave a wakeup call to investors. Stocks were overvalued and at an earnings peak, leaving investors to lick their wounds when their stocks got pounded. The lesson is that it did not need to happen if they took the appropriate steps to diversify their portfolios and hold some cash. Our all-equity clients, who were with us for the entire year, made 4 to 8 per cent depending on their circumstances.

Meantime, because we saw this as a correction and not investor capitulation, we believe that nothing has changed. For the market to continue higher, earnings growth is going to have to be as strong in 2019 as last year. Unfortunately, we don't see that happening. When second-quarter earnings are announced by July, the benefit of U.S. tax cuts will disappear and company growth will be dependent on global GDP growth, which is already in decline. As a result, an earnings slowdown could keep the markets under wrap for 2019. More is explained in our upcoming newsletter, available on our website.

We continue to hold 20 per cent cash times the equity weight in portfolios and have no desire to sell our securities, as the average dividend growth rate is around 14 per cent.

VIDEO: David Driscoll's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

WEBSITE: **libertyiim.com**

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