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

Peter Imhof, Vice-President and Portfolio Manager at AGF Investments

Focus: North American Small Caps

I am presently optimistic regarding the Canadian market. It has been strong after an extremely difficult 2018, with the market's year-to-date performance having its best start since 1980. We have retraced all the losses from December. Last year, small-cap stocks in particular were hit the hardest.

Historically, if you have looked at the Canadian market after more than a 10 per cent move down in any given year, it is usually followed by a year of outsized returns. The average return following a 10 per cent decline is a little over 12 per cent. The returns are even greater after a year of severe multiple contractions, which occurred in 2018.

The severe underperformance of Canada over the U.S. market for the past 10 years will eventually reverse as investors move into resources and lower valuation companies. The out-performance has been dramatic when you consider the S&P 500 has returned an 11.3 per cent compound annual growth rate (CAGR) over the past eight years compared to the TSX at 3.8 per cent and the Small Cap Index at minus 1.8 per cent.

I believe much of the pessimism is already built into the Canadian market and that we should start to out-perform over the next several years.

VIDEO: Peter Imhof's 45-Minute Video Interview **<CTRL-CLICK>** HERE

WEBSITE: agf.com

MARKET OUTLOOK

Stan Wong, Director and Portfolio Manager at Scotia Wealth Management

Focus: North American Large Caps and ETFs

Global equities have staged an impressive rebound following the sharp selling in the fourth quarter that culminated in late December. As various macroeconomic and geopolitical concerns appear to ease, investors seem to have withdrawn (at least for the time being) from the notion that the sky is falling.

Last week marked the fourth consecutive week of stock gains, boosted by positive U.S. bank earnings and encouraging developments in the U.S.A.-China trade narrative. Recession concerns have also eased somewhat, alongside worries that the Federal Reserve will push interest rates higher too quickly. Indeed, U.S. labour and manufacturing numbers remain supportive. As well, the Conference Board Leading Economic Index (LEI) – an index that combines 10 forward-looking economic data-points into a highly predictive indicator of future growth (or recession) continues to indicate that the U.S. economy is on firm footing. Nonetheless, given the strong rally over the last several weeks, a near-term pause or consolidation for equities is very possible at this stage.

In Stan Wong Managed Portfolios, we continue to favour U.S. equities as solid corporate earnings growth and healthy economic fundamentals underpin a constructive view. Our mandates remain somewhat underweight Canadian equities and we have no current allocation to the troubled European region. We have limited holdings in Asia and emerging markets – although attractive valuation discounts in these geographies may lead to a greater allocation in the near future. In general, we prefer companies with high-quality attributes (high return on equity, low financial leverage, and stable earnings growth) as the global macroeconomic backdrop matures and becomes less certain moving forward. Financials, health care and communication services represent our largest sector weightings. Going forward, we expect a measured shift to more defensive and lower beta stocks in our portfolio models over the next few quarters.

We anticipate volatility levels to be more pronounced and uneven moving forward. Equity markets are expected to be choppy and frustrating. While we expect equities to be positive this year, it is difficult to make the case that we will see new highs in the broader equity markets without a clear resolution in the USA-China trade disputes. A more balanced approach to risk and reward in portfolios would be prudent.

Investors who are overweight FAANG stocks, high beta and highly cyclical equities and high yield, lower credit bonds should consider a greater allocation to defensive, lower beta and higher-quality equities along with traditional government bonds and treasuries as portfolio diversifiers.

In our portfolios, we continue to be active and emphasize stock selectivity while using stop-loss and other risk management strategies.

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

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