eResearch

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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

John Zechner, Chairman and Founder of J. Zechner Associates

Focus: North American Large Caps

Global economic and profit growth has peaked for this cycle, in our view. Leading economic indicators from the industrialized (OECD) countries have fallen for 12 straight months with European and Asian growth slowing. GDP growth was actually negative in both Japan and Germany in the third quarter!

While the U.S.A. exhibited relative strength, we have seen recent weakness in housing, industrial production, and many sentiment indicators. While headline inflation numbers are still contained, we are seeing rising input costs and other price pressures which have necessitated the continued removal of the easy money conditions that have characterized the last 10 years.

Record global debt levels and rising interest rates should lead to retrenchment in consumer and business spending, thus limiting further expansion. Profit margins have peaked due to rising input costs (wages and basic materials), while the U.S. tax cuts are now diminishing in impact. Pre-tax earnings growth has dropped to almost zero, and we expect overall profit growth to come in below expectations in 2019, perhaps going negative.

Within our managed portfolios, we maintain a defensive bias due to our continued belief that we are late in this economic cycle and growth is slowing. Stock weights remain below average levels.

The sharp fall in stocks in the fourth quarter has created some better buying opportunities and we have added back to some names in the industrial and technology sectors. However, we still think that earnings estimates for 2019 need to come down, especially in the financial and consumer sectors. We also expect rising interest rates to provide competition to stock returns as well as increasing the risk of a “negative liquidity event” due to the proliferation of new investment products created in the low interest rate environment.

On the positive side, we expect some overall recovery in commodity prices as China moves to stimulate growth again and, more importantly, the U.S. dollar comes under pressure due to massive deficit funding requirements over the next few years and somewhat less aggressive moves than expected by the U.S. Federal Reserve. Gold and uranium stand out as our top commodity picks..

VIDEO: John Zechnerl’s 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

MARKET OUTLOOK

Chris Stuchberry, Portfolio Manager at Wellington-Altus Private Wealth
Focus: North American Large Caps and Global ADRs

Review

There is no easy way to say it, the fourth quarter was brutal. It was the worst in nearly 100 years and markets had the worst December in history. I have never seen a Christmas Eve go down by nearly three per cent. Our strategy remained positive all year until uncertainty grew so much that the market gave out and dropped like a rock in December.

So, what did we learn from this? We learned that rising uncertainty trumps a strong economy and profitable growing companies. We continue to believe there is virtually no proof of a slowdown in the economy. However, the market cannot handle so many factors of uncertainty thrown in its direction and our standard approach to buy weakness failed on us in the face of this uncertainty.

The uncertainty we are referring to is coming from every direction. The new trade Cold War with China, rising interest rates, the insane actions of the Oval Office, and uncertainty with figures in the White House to name a few. When we began 2018, we had the Fed raising interest rates, tax reform powering strong economic and business growth, and powerful innovative companies growing their businesses. As we end 2018, we have: uncertainty over the 2019 interest rate environment, a trade war over multiple fronts, a split house and congress preventing any further fiscal reform, and asset prices falling.

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Outlook

Currently, it is much easier to be bearish than bullish. While we may have been wrong not calling the bear market cycle sooner, we continue to think this will be short lived. That being said, a bear market cycle can last on average for 300 days and, if this downturn in the market is not short lived, as we expect it will be, it could be another 300 days or more in the mud.

Our current economy is one of the most innovative in history: we have another leg of progress in web 3.0, artificial intelligence, blockchain, overall digital disruption in the legacy economy, and researchers are reporting that they may have found a cure for cancer. As we look forward with this positive backdrop, it is nearly impossible to be bearish, yet the market is still acting on the basis of the uncertainties that we listed above. In order for the stock market to grow, we need these doubts to be sorted out. While some of these are easy to solve, some are truly a challenge, and could take an immeasurable amount of time to resolve. The longest to sort out is, without a doubt, the new China-U.S. conflict which truly is a war over control in the 21st century.

For 30 years, we have all witnessed the meteoric rise of China. It seems that the U.S.A. has officially taken the issue of China's growing strength and has basically said "You have to go through us to take control of the future." The recent actions of the USA have categorically shown that they will do everything in their power not to lose this war. While this political environment is an uncomfortable place to be, it could become a new normal for us and we may need to get used to it. Like the Cold War with Russia, this new Cold War with China could last for some time.

Through history, we have seen that the markets react badly to uncertainty. We always like to say that political uncertainties are a buying opportunity. Every Grexit and Brexit was an opportunity to buy good companies on sale. One thing to be thankful for is the fact that the U.S. constitution does not allow for a permanent president and change is inevitable, in this case for the better.

We felt our approach to hold significant cash balances and strong balance sheet companies was the right thing to do, but we still did not get the results we wanted. The positive is that the companies we hold are strong and while the market dragged them along for the ride, we believe they continue to be good investments in the long run. In the future, we intend to keep a significant cash balance as markets show vulnerability and to be ready to take advantage of weaker markets to make investments in companies we believe in.

VIDEO: Chris Stuchberry's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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