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

Benj Gallander, President of Contra The Heard Investment Letter

Focus: Contrarian Investing

MARKET OUTLOOK

Markets are likely to remain quite volatile. Between the geopolitical climate and a tempestuous U.S. president, there are lots of wild cards.

While markets could continue their recent uptrend, the major question is what governments can do to fight the upcoming recession with the limited ammunition they have left in their tool boxes.

VIDEO: Benj Gallander's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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MARKET OUTLOOK

Richard Croft, President and Chief Investment Officer at R.N. Croft Financial Group
Focus: Options and ETFs

Most analysts think the U.S.-China trade war is the most influential dynamic affecting investor sentiment. A positive outcome should provide some mild lift to equity markets. An unexpected negative outcome would likely cause a major sell-off. The main reasons behind the dispute are intellectual property rights, trade imbalances, and seeking a level playing field where government intervention is limited.

We increased odds in favour of some sort of agreement from 60-40 to 80-20. In our base case, China opts to make a short-term deal that placates the bully, giving Trump a political win in the knowledge that it could renegotiate it in two or six years. Such is the advantage of a "leader-for-life" (something President Trump has mused about when speaking to his base) when negotiating with a partner focused on four-year election cycles. And, let's face it, with a trade agreement in place, how would one stop China from simply abiding by the components that are palatable while back-dooring intellectual property rights?

On the other hand, China could also refuse to go along with any deal. While this would go against China's typical negotiation stance, there is a school of thought that China is too far along on its 100-year strategy to be bullied by an imperialist superpower.

Central Bank Influence

The U.S. Federal Reserve raised interest rates in December. We think that may be the end of the rate hike cycle for the foreseeable future. Interestingly, it was not the rate hike that rattled markets, but Jerome Powell's insistence that the deleveraging of the Fed's balance sheet (that is, allowing bonds to mature without replacing them with new purchases) was on autopilot.

Unwinding the bond purchases that were part of the three quantitative easing programs following the financial crisis is a form of tightening. Many analysts believe that the autopilot description, where the Fed was unwinding US$50 billion per month, is equivalent to two quarter-point rate hikes. The Fed raising rates at a time this deleveraging is taking place leads to concerns that the Fed will overstate its objective and prematurely cause a recession.

In early January, Powell acknowledged that concern, at least in a way that markets seemed to understand. The markets reacted positively and rallied more than 750 points. Clearly, the markets remain focused on that issue and it will play into longer-term performance.

VIDEO: Richard Croft's 45-Minute Video Interview **<CTRL-CLICK>** **HERE**

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