



## 4 Reasons to Be Bullish on Equities

### Description

As a long-term contrarian investor, I typically pay scant attention to what the herd says concerning the state of the stock market. But with the **S&P/TSX Composite Index** hitting the lofty heights of 15,372 points in late July, the chorus grows ever louder.

Growing geopolitical tensions and macroeconomic uncertainties, which are fueling global market volatility, are aggravating the issue. Despite all the headline-grabbing doom and gloom enveloping global stock markets, I believe there are a number of reasons to be bullish on stocks.

#### 1. Better than expected economic growth

The U.S. economy expanded 4% for the second quarter 2014 or 0.8% better than the 3.2% expected. Employment data was also stronger than expected and this is what is underpinning further bullishness over U.S. economic growth for the remainder of 2014. This bodes particularly well for Canada's energy patch, with the U.S. being the key export partner for Canadian crude and should see higher demand for Canadian crude and stronger fundamentals across the sector.

Chinese industrial activity is also picking up, with the key measure of industrial activity in China, the purchasing managers index or PMI, hitting its highest point at the end of July since April 2012. In June, the Chinese government also announced it was taking measures to further stimulate economic growth, while taking action to rein in some of the excesses in the real estate and banking sectors to make growth sustainable.

While European economic growth has remained sluggish over the first half of 2014, there are signs it may pick up with the European Central Bank implementing measures aimed at stimulating economic growth. This is despite the growing geopolitical tensions in Ukraine, tough new sanctions against Russia, and fears Portugal's banking system is approaching collapse. Already Moody's has upgraded Greece's debt rating by two notches and German industrial activity has gained pace.

While at home things are also looking up, the Canadian economy grew faster than expected in May, with the key drivers being growth in the service industries and energy patch.

## 2. Outlook for commodities is improving

Growing industrial activity in China along with better than expected economic growth for the U.S. over the remainder of 2014 is set to boost the demand for commodities. This will see heightened demand for energy as well as key industrial materials including base metals and silver, along with agricultural chemicals, because each of these are particularly sensitive to movements in China's economy.

Already this year base metal prices have firmed, silver has rallied and potash prices have stabilized and analysts expect these trends to continue for the remainder of 2014. All of which bodes well for companies operating in those sectors, including **First Quantum Minerals Limited** ([TSX: FM](#)), **Pan American Silver Corp.** (TSX: PAA)([NYSE: PAAS](#)), and **Potash Corp of Saskatchewan Inc** (TSX: POT)(NYSE: POT).

Players in the energy patch are also set to benefit with the integrated majors, which have both light and heavy crude production like **Husky Energy Inc** (TSX: HSE) and **Suncor Energy Inc** ([TSX: SU](#))([NYSE: SU](#)) to receive the greatest benefit.

It unlikely that this will translate into anything material for **Teck Resources Ltd** (TSX: TCK.B)(NYSE: TCK), with analysts predicting a softer global steel market, which will continue to see demand for Teck's key product metallurgical coal diminish.

## 3. Companies continue to report solid earnings

A clear sign that all is well in the market is when companies continue to report solid earnings. Already for the second quarter 2014 **Genovus Energy Inc** ([TSX: CVE](#))([NYSE: CVE](#)) reported record cash flow while net earnings more than doubled compared to a year ago. **Enbridge Inc** ([TSX: ENB](#))([NYSE: ENB](#)) saw its second-quarter earnings spike a massive 3.5 times as stronger fundamentals in the patch coupled with its dominant position in crude pipelines boosted revenue and margins.

## 4. Dividends continue to rise

Regular dividend hikes are another sign of confidence among companies. Suncor hiked its dividend a massive 22%, while **CCL Industries Inc** ([TSX: CCL.B](#)) raised the dividend on its class B shares a healthy 20% on the back of significantly higher earnings. Financial services provider **Home Capital Group Inc** ([TSX: HCG](#)) boosted its dividend 12.5% on the back of its solid second-quarter 2014 financial performance.

For all of these reasons, I believe the naysayers are wrong. We will certainly experience continued market volatility as ongoing geopolitical and economic concerns in Europe and the Middle East play out, but we are not likely headed for a broad-based market correction. If anything, fundamental indicators highlight markets will continue to perform strongly and my favourite sectors remain the energy patch and financial services.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:ENB (Enbridge Inc.)
5. TSX:SGY (Surge Energy Inc.)
6. TSX:SU (Suncor Energy Inc.)

**Category**

1. Investing

**Date**

2025/09/23

**Date Created**

2014/08/05

**Author**

mattdsmith

default watermark

default watermark