

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

2016 FEDERAL BUDGET NO BIG SURPRISES

On March 23, the federal Liberal government released its 2016 budget to little fanfare. There was very little deviation from the proposals unveiled prior to the party's election in October 2015. A budget summary and a highlight of new policies are below.

- **Tax Rates:** As clarified in December 2015, the federal government reduced the federal tax rate of 22%, from 45,283 to \$90,563, to 20.5% and increased the federal tax rate of 29% above \$200,000 to 33%.
- **Infrastructure Spending:** The government plans to spend \$120 billion on infrastructure over the next ten years, with \$11.9 billion in spending over the next two years.
- **Child Benefits:** The government is replacing the Universal Child Care Benefit and Canada Child Tax Benefit with the new Canada Child Benefit. The CCB provides a non-taxable annual benefit of up to \$6,400 for each child under six and \$5,400 for children aged 6 to 17. The CCB is means tested and is eliminated entirely for household incomes above \$190,000. To help pay for increased child benefits, the budget eliminates income splitting for families effective in 2016, eliminates the education and textbook tax credits effective in 2017 and reduces the Children's Arts and Fitness tax credits by half in 2016, eliminating them completely in 2017. All of these credits primarily benefitted higher income households.
- **Seniors Benefits:** The budget reverses the Conservative party policy increasing the Old Age Security age of eligibility from age 65 to age 67. The budget also increases annual Guaranteed Income Supplement benefits by \$947 per year.
- **Employment Insurance:** The budget reduces the time before Canadians can begin claiming employment insurance benefits, increases the number of weeks of employment insurance coverage for regions struggling with high unemployment rates.
- **Corporate Class Mutual Funds:** The budget eliminates tax free switching between corporate class mutual funds. Investors can still delay taxation within a single fund.
- **New School Supply Tax Credit:** The budget introduces a new tax credit for teachers and early childhood educators. The non-refundable credit is equal to 15% of up to \$1,000 in eligible supply expenditures.
- **Small Business Income Tax Rate:** The budget does not retain the previous government's schedule to reduce the small business income tax rate to 9% from 10.5% currently. The rate will remain at 10.5% and the gross-up rate on non-eligible dividends will remain at 17% indefinitely.

Current Rates & Data

Govt of Canada

90 day	0.47%
1 year	0.55%
2 year	0.59%
5 year	0.75%
10 year	1.29%
30 year	2.00%

U.S. Treasury

90 day	0.22%
1 year	0.53%
2 year	0.77%
5 year	1.24%
10 year	1.79%
30 year	2.62%

Canada Prime Rate

2.70%

U.S. Prime Rate

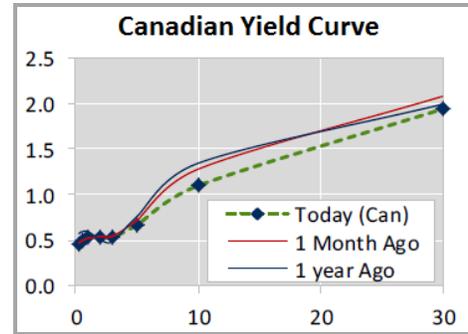
3.50%

Exchange Rates

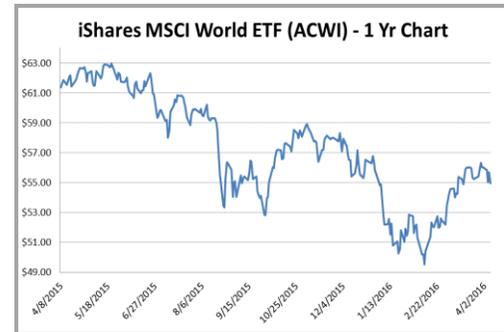
CAD/USD	0.778
USD/EUR	1.126
JPY/USD	109.1

ECONOMIC TIDBITS BREXIT (BRITISH EXIT) IS POSSIBLE & MULTIPLE MARKETS RALLY IN TANDEM

- The U.S. Federal Reserve has been actively tempering interest rate expectations and the market now expects only one or two U.S. interest rate hikes this year. This has caused the U.S. dollar to weaken substantially against the euro, yen and Canadian dollar. Canadian interest rate expectations also fell as the Bank of Canada is unlikely to raise rates until the U.S. Fed hikes rates numerous times.



- The global rally in almost all risk assets has petered off and most assets are flat to slightly lower over the past month as the excitement surrounding various commitments of economic stimulus has begun to fade. Economic data is showing conflicting signals around the world and it is expected that monetary stimulus is at or is nearing its limit in terms of impact on economic growth.



LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Canadian Auto Parts Manufacturers Have Industrial Peers and Look Historically Cheap

- Magna International (MG)** and **Linamar (LNR)** are two investment ideas related to this theme.
- Magna** is a global automotive supplier. Magna shares are 28% off their highs posted in July 2015. Investors appear concerned that North American auto sales will decline significantly after several good years but this is likely unfounded given the average age of vehicles in North America has been steady at 11 years despite a higher than average rate of auto sales. Magna currently trades at a low valuation of 9x trailing earnings and versus its U.S. peers at 11x. We believe Magna should trade at a premium to peers due to its leverage to high growth segments like auto hybridization/electrification, autonomy and safety.
- Linamar** is a manufacturer of automotive parts and owns the Skyjack brand of aerial work platforms. Linamar shares are 34% off their highs set in June 2015. Linamar trades at 9x trailing earnings, a notable discount to its auto parts and heavy machinery peers. Linamar has done well at moving up the supply chain over the years, making itself an integral part of the auto parts market. We expect Linamar to continue moving up the supply chain, allowing it to grow at an above average rate.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH Raymond James Cares Month

Raymond James and its associates share a desire to give back to the communities in which we work and live. We believe that being active in our communities helps us continue to grow a successful business and build strong personal relationships. May is Raymond James Cares Month and Steele Wealth Management and our colleagues across the country are encouraged to get involved in volunteer opportunities within their communities. Last year, as a firm, we volunteered 1,349 hours and donated 659 pounds of food across Canada. This year's firm wide goal is to reach 2,000 volunteer hours and donate 1,000 pounds of food.

This newsletter has been brought to you by Steele Wealth Management

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