ISSUE 57 | JANUARY 2016

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.

EQUITY AND CREDIT MARKETS START THE YEAR WITH A SELLOFF

Many stock indices around the world posted one of the worst starts to the year historically. The S&P 500 and the S&P/TSX Composite fell by 8% and 7% respectively in the first two weeks of 2016. Meanwhile, credit markets are continuing their 2015 selloff with the iBoxx U.S. High Yield Bond Index and S&P/TSX Preferred Share Index falling by 4% and 14% respectively.

There are two common culprits for the selloff: **China** and **Oil**.

China: China is in the midst of a steady deceleration in its economic growth rate. You may remember from our past commentaries that the Chinese stock market saw a massive rally from mid-2014 to mid-2015 and in the June 2015 to September 2015 period it came back to earth, falling over 40% and giving up about two-thirds of the past year's gains. The turmoil experienced by Western markets in August 2015 was driven by the market weakness in China. This turmoil has returned, as the Chinese stock market is declining rapidly once again. Investors are increasingly worried that the Chinese government's bold and relatively rapid devaluation of the Chinese currency, the yuan, is a signal that the outlook for the Chinese economy is poor and that financial stress may be high.

Oil: For some time now, the supply of oil has been far greater than the demand. Despite low prices, oil production/supply has actually been rising, as most oil companies have been hopeful that prices will rebound quickly, and many large oil projects were financed years before. Meanwhile, the demand for oil is actually decreasing. The countries that buy the majority of the world's oil – the U.S., China, Japan, India, Saudi Arabia – are either experiencing economic hardships or have "green" initiatives in place to reduce oil needs and demand growth. A worsening glut of oil supply equals lower and lower oil prices.

Aren't low oil prices good? They can be, but not if lower oil prices are the result of lower demand in response to lower economic growth. In the short-term, particularly in Canada, low oil prices can mean widespread layoffs in the energy sector which can have a major impact on consumer spending, the engine of economic growth. This in turn has a negative impact on the economic outlook and investor sentiment.

While we are disappointed by the degree our investment portfolio have been affected, these two particular culprits have never had a lasting impact on the broad North American stock or credit markets. We continue to look for areas to upgrade quality and purchase oversold securities.

Current Rates & Data

Govt of Canada

90 day	0.29%
1 year	0.28%
2 year	0.26%
5 year	0.52%
10 year	1.11%
30 year	1.93%

U.S. Treasury

90 day	0.25%
1 year	0.44%
2 year	0.83%
5 year	1.42%
10 year	1.98%
30 year	2.75%

Canada Prime Rate

2.70%

U.S. Prime Rate

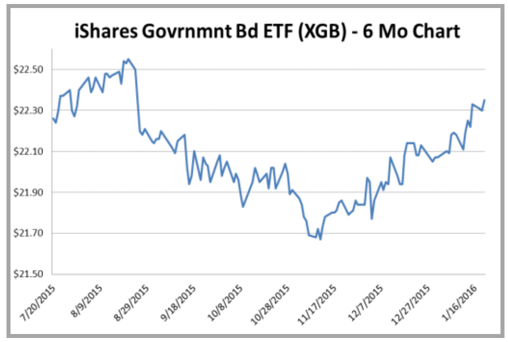
3.50%

Exchange Rates

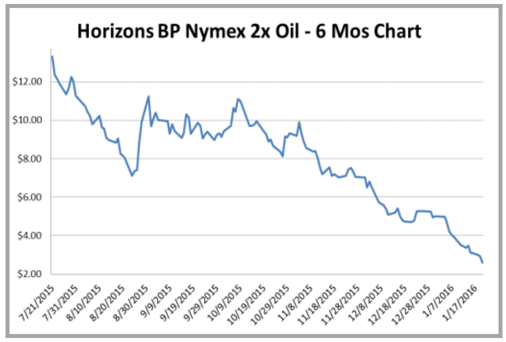
CAD/USD	0.686
USD/EUR	1.092
JPY/USD	116.5

ECONOMIC TIDBITS THE BOC STANDS PAT ON RATES & INFLATION-ADJUSTED OIL NEAR 1998 LOW

• On January 20, the Bank of Canada (BoC) stood pat on its key interest rate and was surprisingly upbeat. The market had priced in a 50% chance of a rate cut due to falling oil prices and deteriorating Canadian economic data. The BoC still expects the inflation rate to reach 2% by early 2017. The BoC noted rebounding non-energy sector activity and stable national employment figures as positives.



• Oil prices have fallen to once unconceivable lows of US$27/bbl (WTI). If adjusted for inflation, oil prices are closer to $14/bbl (WTI), close to the low of $13/bbl achieved in the 1998 oil price crash. Iranian economic sanctions were lifted on January 16, igniting a new round of selling as Iran reiterated its intention to produce another 500,000 barrels per day within 6 months.



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

Some Telecoms Look Oversold Following Shaw's Acquisition of Wind Mobile

- **Telus Corp (T)** and **BCE Inc. (BCE)** are two investment ideas related to this theme.
- **Telus** is the most affected by Shaw's acquisition, as Telus is the most mobile-focused telecom company and Shaw is likely to increase and focus capital investment in Telus's backyard. Telus trades at 15x trailing earnings, roughly a 15% discount to its peers BCE and Rogers. Telus typically trades at a premium to peers due to its higher than average growth rate. While we recognize that Telus' revenue growth and margins are likely to come under pressure as Shaw ramps up investment, we believe it will take many years before Shaw acquires adequate scale and pricing power to have a material impact.
- **BCE** may gain some market and pricing power in the media sector as a result of the Shaw acquisition. Shaw chose to sell Shaw Media to Corus in order to fund its acquisition of Wind Mobile and in doing so reduced the number of well financed players in the Canadian media sector. It also implies that new investment in the media sector will decline and the remaining players (e.g. BCE, Rogers and Corus) will face less competition and have more power in setting policy and prices. BCE trades at 17.5x trailing earnings, a slight discount to its valuation in recent years and to Rogers, which trades at 18x. BCE has the lowest exposure to the mobile sector of the major telecom companies.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH **January is Alzheimer's Awareness Month**

If you or someone you know struggles with Alzheimer's, reach out to your local Alzheimer Society or contact Steele Wealth Management and we will connect you. *Help for Today, Hope for Tomorrow*.

This newsletter has been brought to you by Steele Wealth Management

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