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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.

BREXIT BLUES MARKETS IN FOR A LONG PERIOD OF UNCERTAINTY FOLLOWING VOTE

After market close on June 23, UK referendum results showed that **52% of United Kingdom citizens voted in favour of the United Kingdom leaving the European Union (EU)**. Just prior to the referendum, prediction markets had only attributed a 20%-25% chance of a majority "Leave" vote and as a result, equity, bond and currency markets had all given a low probability to a majority "Leave" vote as well. Shortly after the referendum results were released, the British Pound fell more than 10% versus the U.S. Dollar, UK and European equity futures fell 7%+ and North American equity futures fell 4%+.

In order to begin official negotiations with the EU, the UK must trigger Article 50 as per the EU's Lisbon Treaty. At such time, the British government will have two years to negotiate the UK's departure from the EU. While British and EU politicians will likely come to agreeable terms on trade and other matters, it is unlikely that this will be as mutually advantageous as was their previous arrangement, and will likely result in less trade and slower GDP growth overall. **It is expected that capital will flee from the UK and Eurozone throughout the two year negotiation period which will further reduce economic growth in these economies**.

The vote to Brexit (i.e. British Exit) could have a profound effect on the viability of the European Union. A Brexit weakens the already stagnant Eurozone economy and the Eurozone's financial condition, potentially boosting already high anti-EU sentiment in countries like Greece, Italy and France. **Polls taken prior to the Brexit vote show that over 40% of French citizens support leaving the EU** which puts France in a peculiar situation considering the French presidential election is scheduled to be held in April 2017. If a core member like France or Italy leaves the European Union, the EU's fate would likely be sealed and European and global growth would be negatively impacted.

The higher than average volatility in bond, equity and currency markets could impact the solvency of undercapitalized European banks. There is risk of global financial contagion if a major European bank experiences acute funding problems. That said, as European policymakers are aware of European banks' fragile condition, policymakers should be quick to provide funding to these banks if needed and avoid widespread financial contagion. **We believe global financial stocks will continue to experience heightened levels of volatility going forward.**

The Brexit vote is simply another reason to maintain a portfolio that is well diversified by asset class, sector and geography.

Current Rates & Data

Govt of Canada

90 day	0.45%
1 year	0.49%
2 year	0.47%
5 year	0.53%
10 year	0.97%
30 year	1.55%

U.S. Treasury

90 day	0.28%
1 year	0.47%
2 year	0.63%
5 year	0.99%
10 year	1.40%
30 year	2.12%

Canada Prime Rate

2.70%

U.S. Prime Rate

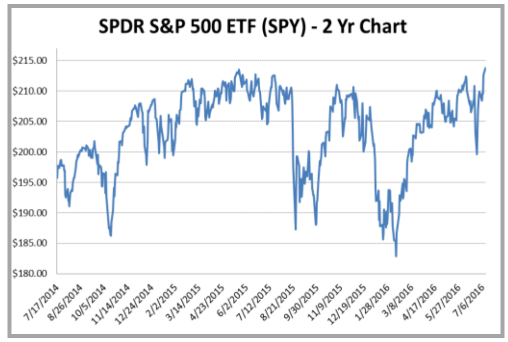
3.50%

Exchange Rates

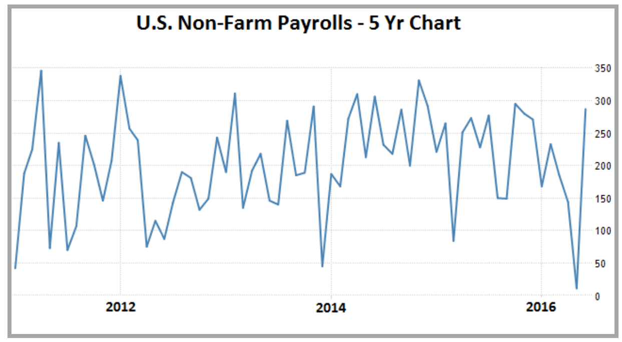
CAD/USD	0.762
USD/EUR	1.106
JPY/USD	102.8

ECONOMIC TIDBITS MARKETS BRUSH OFF BREXIT & THE U.S. JOBS MACHINE BOUNCES BACK

- Equity markets recovered quickly following the Brexit vote as central banks vowed to ensure ample liquidity in financial and currency markets and as UK, European and Japanese governments hinted at fiscal stimulus in the coming months. While the long-term picture remains murky, the boost provided by lower interest rates and additional stimulus in the near-term has pushed stocks to cycle highs in the U.S.



- After a dismal U.S. jobs report in May that showed only 38,000 jobs were added to the U.S. economy, the June report came in well above expectations showing an addition of 287,000 new jobs. Markets reacted very positively to the data as it greatly reduces the odds that the U.S. economy is in or will soon be in a recession. Strong U.S. economic data could help lift interest rates off their all-time lows.



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

Due to Broken Preferred Share Market, Retractables Offer a 5% yield and Low Volatility

- **Fortis Preferred E (FTS.PR.E)** and **Brookfield Preferred J (BPO.PR.J)** are two ideas related to this theme.
- **Fortis Preferred E** is a retractable preferred share that is currently callable at $25 and is retractable starting September 1st at $25, payable in cash or shares priced one day prior to settlement. Retractable means the owner has the right to force the issuer to buy back the shares at par ($25). FTS.PR.E currently trades at $25.21 and has accrued dividends of $0.17. Due to the above normal yields currently offered by the preferred share market, it is unlikely that this preferred share will be called until the preferred share market normalizes and Fortis is able to issue a new preferred share at a yield of 4.6% or lower, relative to the current new issue yields of ~5% for Fortis. This preferred share offers less than 1% volatility, low credit risk, a short duration and a healthy dividend yield of 4.86%.
- **Brookfield Preferred J** is a retractable preferred share that is currently callable and retractable at $25, payable in cash or shares based on the 20-day average price prior to settlement. BPO.PR.J currently trades at $25.16 and has accrued dividends of $0.10. It is unlikely that this preferred share will be called until Brookfield is able to issue a new preferred share at a yield of 5% or lower, relative to the current new issue yields of ~5.5% for Brookfield. This preferred share offers less than 1% volatility, moderate credit risk but a short (i.e. immediate) duration and a healthy dividend yield of 4.97%.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH **Steele Wealth Management is Moving!**

We are excited to announce that after 17 years at our current location – we are making a move! Our new office will be conveniently located off the expressway at 595 Parkside Drive (Northfield and Parkside) in Waterloo. We will be at ground level with parking at our front door. Watch for more details in the coming weeks!

This newsletter has been brought to you by Steele Wealth Management

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