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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.

CANADA'S DIVERGENT ECONOMY A QUANDARY FOR THE BANK OF CANADA

The much anticipated divergence between Canada's oil producing provinces (Alberta, Saskatchewan and Newfoundland and Labrador) and the rest is finally starting to show up in the economic data and it is making the Bank of Canada's job quite difficult.

On March 9, the Bank of Canada announced that it is holding the benchmark interest rate at 0.5% despite low oil prices and equity market turmoil. The Bank of Canada cited the federal budget announcement on March 22 as well as improving economic data in the U.S. and in the non-oil producing provinces as reasons for its decision. The federal budget is likely to include fiscal stimulus measures which may dwarf any stimulus the Bank of Canada could offer and would likely be much more effective.

	Alberta, Sask, Nfld	Rest of Canada	All of Canada	Y-o-Y as of
Employment	-0.4%	1.1%	0.8%	Dec-15
EI Claimants	31.6%	-4.7%	0.7%	Oct-15
Housing Starts	-32.8%	-3.0%	-10.5%	Dec-15
Avg. Housing Resale Price	-4.0%	13.4%	11.5%	Dec-15
Retail Sales	-4.3%	2.7%	1.2%	Oct-15
Motor Vehicle Sales	-10.2%	10.6%	6.5%	Nov-15
Wholesale Sales	-8.3%	4.4%	2.1%	Oct-15

As the Bank of Canada is unable to focus its monetary stimulus measures on specific geographies, taking action to stimulate the oil producing provinces (i.e. lowering the benchmark interest rate or a similar action) will also stimulate the non-oil producing provinces, potentially further exacerbating the already overheating housing and auto markets in these provinces. Fortunately, the ruling federal Liberals have stated their willingness to run large deficits to aid the ailing Canadian economy and they are set to announce fiscal stimulus measures that will focus public spending on the hard hit provinces of Alberta, Saskatchewan and Newfoundland and Labrador. Further, the fiscal stimulus measures can stimulate spending in specific areas of the economy, avoiding the further stimulative effects that lower interest

Due to the Bank of Canada's deferral to the federal government and its fiscal stimulus measures, we believe the Bank of Canada will not cut the key interest rate in 2016 unless we experience a global economic meltdown, which we believe is unlikely. If the global economy or oil prices see gradual but notable improvement, we believe Canadian interest rate expectations could pivot from interest rate cuts to hikes sometime in 2016.

Current Rates & Data

Govt of Canada

90 day	0.45%
1 year	0.52%
2 year	0.53%
5 year	0.70%
10 year	1.26%
30 year	2.04%

U.S. Treasury

90 day	0.30%
1 year	0.66%
2 year	0.93%
5 year	1.42%
10 year	1.90%
30 year	2.68%

Canada Prime Rate

2.70%

U.S. Prime Rate

3.50%

Exchange Rates

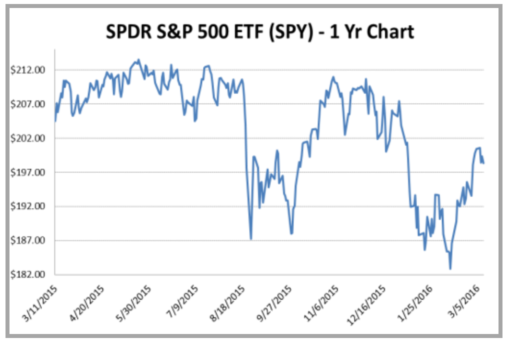
CAD/USD	0.749
USD/EUR	1.121
JPY/USD	112.8

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

• On June 23, the UK is due to hold a referendum on its membership in the European Union. Recent YouGov polls show that the 'Remain/Leave' split is close to 50/50, with nearly 20% of the population undecided or unlikely to vote. Two high profile government officials, Michael Gove and Boris Johnson, have aligned with the 'Leave' camp. A Brexit may have negative effects on global markets.

	Remain	Leave	Don't Know
Feb 21-23	37%	38%	20%
Feb 23-24	37%	38%	20%
Feb 25	41%	38%	16%
Feb 29-Mar 1	39%	37%	19%
Mar 1-2	40%	35%	19%
Mar 2-3	40%	37%	18%

• Global equity markets, corporate bond markets, oil prices and base metals prices have been on fire since February 11 as investors pour back into risk markets. Mildly improving global economic data and growing expectations of more monetary and/or fiscal stimulus from Japan, China and the EU sparked the rally in the several oversold markets. On a technical basis, most markets are now in limbo.



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

Some Steady Eddy Financials Trading at Discounts Due to Global Economic Turmoil

- **Manulife Financial (MFC)** and **Royal Bank of Canada (RY)** are two investment ideas related to this theme.
- **Manulife** shares have recently underperformed its peers' primarily due to its energy exposure and write-downs on energy investments. Further, Manulife's earnings are far more dependent on equity market performance and interest rate expectations than that of its peers. As equity markets have been weak and interest rate expectations have been in decline, Manulife's earnings expectations have been in relative decline also. Manulife currently trades at a meaningful discount at ~9.5x trailing earnings and ~0.9x book value versus peers at ~11.5x and ~1.5x. We believe this discount is excessive, given the equity market rebound since February 11 and our belief that the current market downturn is temporary, as well as the case for flat or higher interest rates that we made on the first page of this newsletter.
- **Royal Bank** is one of the largest financial institutions in Canada. Royal Bank trades at 11x trailing earnings, a discount to its average post 2008 crisis valuation of 12-13x. The concern surrounding Royal Bank is its commodity market exposure, which amounts to only 2.2% of its total loans outstanding as well as potential financial contagion from European commercial banks, some of which are down over 50% over the past 6-12 months. We believe the concern is overblown and that Royal Bank should return to its post 2008 crisis valuation as equity markets recover and European banks recapitalize.
- Feel free to ask a member of our team for more information on these securities.

JEANNINE'S TIP O' THE MONTH **Participate in Earth Hour on Saturday March 19 from 8:30-9:30**

Earth Hour is a worldwide movement organized by the World Wide Fund for Nature (WWF). The event is held worldwide annually encouraging individuals, communities, households and businesses to turn off their non-essential lights for one hour.

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