ISSUE 65 | SEPTEMBER 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.

NEGATIVE INTEREST RATES HAS MONETARY STIMULUS REACHED ITS LIMIT?

In June 2014, the European Central Bank (ECB) set its key interest rate to less than 0%. This marked the first time in history a central bank had done so. The ECB has since cut its key interest rate three more times and it currently sits at -0.4%. In January 2016, the Bank of Japan joined the party and cut its key interest rate to -0.1%. There is currently **more than US$10 trillion in debt worldwide with a negative yield-to-maturity**, which effectively means that owners of that US$10+ trillion in debt are paying the issuers, mostly Japanese and European governments, to park their cash.

In August of this year, a small Bavarian bank announced that it will be charging retail clients 0.4% on deposits of more than €100,000, the first time retail clients have been targeted by negative interest rates. Smaller clients are generally affected by bank fees which have been rising in recent years and effectively are a negative interest rate. Should the practice of passing on negative interest rates become commonplace or if bank fees rise meaningfully, **it is hard to see why savers, particularly in Germany and Japan, would keep their money at the bank**.

News reports indicate that sales of home and business safes and demand for high denomination bills spiked in the first half of this year, indicating that individuals and businesses alike are **increasingly choosing to stash their cash in safes rather than keep it in a negative yielding bank account or bond**. This type of behaviour has profoundly deflationary effects in the economy and promotes the exact opposite of what the central bank is trying to achieve – greater economic activity and inflation. This behaviour is also potentially very dangerous in the long-term as an increasing level of dormant cash and deflation can quickly shift to a groundswell of cash entering the system all at once causing rapid and potentially uncontrollable inflation.

If bank customers gradually, but consistently, pull money out of the banks this could result in a situation similar to the slow-motion bank run that occurred in Europe in 2011-2012 which will have a negative effect on banks' capitalization ratios, force central banks to provide more funding to commercial banks and potentially destabilize the banking system. If central banks continue to push interest rates lower to fight deflation, **offsetting deflation due to cash hoarding will likely result in lower key interest rates globally which would further impair bank profitability and solvency**.

Given the persistence of falling rates as a result of low and falling global economic growth and inflation expectations, we cannot see how the interest rate trend can change without an unlikely 180° shift in central bank strategy. As a result, **we believe globally exposed financial stocks, and European banks in particular, will continue to underperform**.

Current Rates & Data

Govt of Canada

90 day	0.50%
1 year	0.57%
2 year	0.56%
5 year	0.63%
10 year	1.01%
30 year	1.61%

U.S. Treasury

90 day	0.33%
1 year	0.55%
2 year	0.72%
5 year	1.11%
10 year	1.52%
30 year	2.21%

Canada Prime Rate

2.70%

U.S. Prime Rate

3.50%

Exchange Rates

CAD/USD	0.775
USD/EUR	1.123
JPY/USD	101.8

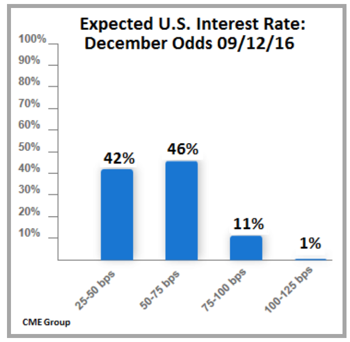
ECONOMIC TIDBITS REITS GET THEIR OWN SECTOR & ODDS OF U.S. RATE HIKE SPIKE, THEN WANE

• Effective August 31, real estate investment trusts (REITs) have been reclassified. REITs have moved from the financials sector to the newly created 11th sector called 'real estate'. The real estate sector will have a market weight of ~6%. Some industry observers believe REITs could see added support as fund managers, many of whom have little or no exposure, increase their allocation to the sector.

Companies in the New S&P/TSX Real Estate Sector

Company Name	Ticker	Company Name	Ticker
Tricon Capital Group	TCN	Brookfield PP LP	BPY.UN
H&R REIT	HR.UN	First Capital Realty	FCR
Canadian REIT	REF.UN	FirstService Corp	FSV
Cominar REIT	CUF.UN	Colliers Intl Group	CIG
Artis REIT	AX.UN	Cdn Appt Prop REIT	CAR.UN
Dream Global REIT	DRG.UN	Boardwalk REIT	BEI.UN
Granite REIT	GRT.UN	Milestone Appt REIT	MST.UN
Pure Ind REIT	AAR.UN	Northview Appt REIT	NVU.UN
Allied Props REIT	AP.UN	RioCan REIT	REI.UN
Dream Office REIT	D.UN	Smart REIT	SRU.UN
Crombie REIT	CRR.UN		

• In late August, comments from FOMC Chairwoman Janet Yellen reignited the potential for a near-term U.S. interest rate hike. Markets had all but given up on a U.S. interest rate hike. The odds of a rate hike have remained material as more FOMC members state their willingness to raise rates despite a slew of weak U.S. economic data. The odds now stand at 21% in September and 58% by December.



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

Low Volatility Cyclicals That Have Trailed Their Peers by a Wide Margin

- **Stantec Inc. (STN)** and **Keyera Corp (KEY)** are two ideas related to this theme.
- **Stantec** is a global engineering and construction company (E&C) with a focus on water infrastructure. Stantec has lagged its Canadian E&C peers significantly since the Canadian federal election which resulted in much higher infrastructure spending expectations. Stantec trades at 9x forward EV/EBITDA (RJ estimate), roughly in line with global peers and its historical valuation and a ~30% premium to Canadian players which are much more cyclical and dependent on a rebound in energy sector activity. Like low volatility stocks in the utilities, consumer staples and telecom sectors, Stantec should trade at a material premium to its historical valuation as well as its peers due to its willingness to growth through acquisition and its revenue/earnings stability despite a weak economic environment.
- **Keyera** is one of the largest midstream companies in Canada and has a near monopolistic position in the southern Alberta natural gas gathering and refining market. Keyera trades at ~12.5x trailing EV/EBITDA versus its more cyclical and less well-positions peers at ~14x trailing EV/EBITDA. In a pipeline market that is experiencing lower than historical growth and an investment market that covets dividend yield and growth, we believe Keyera should trade at a premium to peers as it exhibits below average price and earnings volatility, better cash flow and dividend predictability, a healthier balance sheet (e.g. a debt-to-market cap ratio of 0.3x versus peers at 0.8x) and a more defensible market position than its peers.
- 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 On the Move in September!

We will be up and running at our new location at 595 Parkside Drive (at the NE corner of Weber and Northfield) in Waterloo on October 3. We look forward to serving you in our modern, elegant and conveniently located space!

This newsletter has been brought to you by Steele Wealth Management

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CIM, CPCA
Kelly Edmonds | Matthew Bell, CFA

Phone: (519) 883-6030 Toll-Free: 1 (877) 642-6408

Email: steelewealthmanagement@raymondjames.ca

Address: 1001-20 Erb Street West | Waterloo, Ontario | N2L 1T2

Website: www.steelewealthmanagement.com

To opt out of receiving this newsletter, please reply to this e-mail with the word "Unsubscribe" in the subject line.

If you know someone who would benefit from receiving this newsletter, please forward it to them and let them know they can subscribe by emailing us at: steelewealthmanagement@raymondjames.ca

Any bond, debenture or preferred share ratings listed within this newsletter are those of DBRS (Dominion Bond Rating Service).

All rates mentioned within this newsletter are as of September 12th, 2016, unless otherwise stated. Rates have been sourced from Bloomberg. All stock information has been sourced from Market-Q.

This newsletter has been prepared by Steele Wealth Management and expresses the opinions of the author and not necessarily those of Raymond James Ltd. (RJL). Statistics, factual data and other information are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. This newsletter is furnished on the basis and understanding that RJL is to be under no liability whatsoever in respect thereof. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. RJL and its officers, directors, employees and their families may from time to time invest in the securities discussed in this newsletter. This newsletter is intended for distribution only in those jurisdictions where RJL is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. Securities-related products and services are offered through Raymond James Ltd. Member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a Member-Canadian Investor Protection Fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated. Raymond James Ltd. is a Member Canadian Investor Protection Fund.

As the investment products listed in this newsletter may not be appropriate for everyone, a recommendation would only be made following a personal review of an individual's portfolio and risk tolerance.