

Taking Stock with Steele

Your Monthly Newsletter

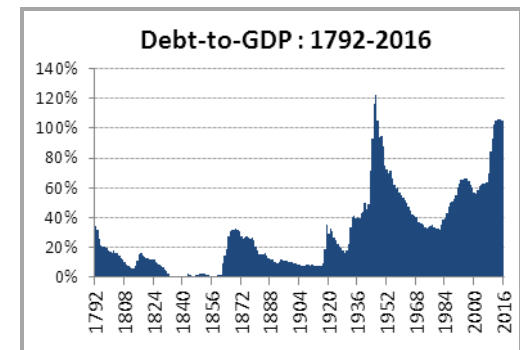
The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

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

ECONOMIC TIDBITS AN INVENTORY OF NOTABLE DATA AND INFO

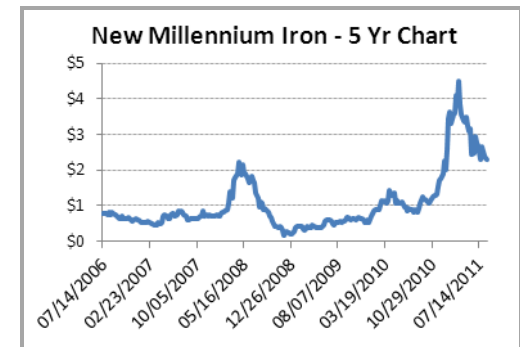
- Worries about Greece escalated in late June as the IMF and EU forced Greece to pass a second set of austerity measures in order to continue receiving funds related to the first bailout and to open the door to negotiations regarding a second €100+ billion bailout. Since passing the austerity measures, worries of immediate default have subsided but the market consensus is that default cannot be avoided and this mood is expected to burden equity markets for some time.
- The deadline to raise the U.S. debt ceiling is fast approaching with a deal needed by August 2nd at the latest. Should the debt ceiling not be raised by that date, it is likely that debt holders will continue to receive their interest payments and technical default can be avoided, yet some services and transfer payments (social security, etc.) will abruptly end until additional financing can be attained. Any delay in the disbursement of funds will have a noticeable effect on GDP and equity market returns. See Fig. 1 U.S. Debt-to-GDP 1792-2016 (est.).

Fig. 1



Data Source: U.S. Census Bureau

Fig. 2



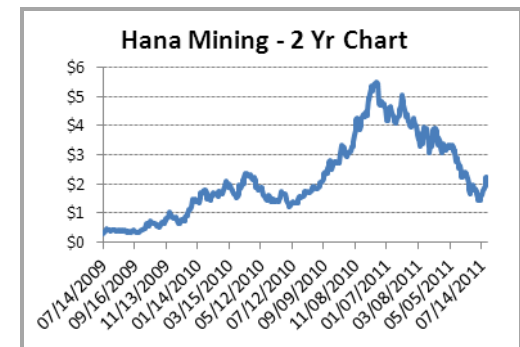
Data Source: Market-Q

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

Small Cap Equities

- As of July 14th, the S&P/TSX Venture Index is down 19.4% from its high posted earlier in the year whereas the S&P/TSX Composite Index is down 7.6% and the S&P 500 is down 4.3% from their highs
- Equities, and small caps in particular, experience seasonal weakness in the May-July period but tend to recover in the August-April period
- A rebound in sentiment could also ignite a rebound in small caps
- **New Millennium Iron (NML)** and **Hana Mining (HMG)** are two investment ideas related to this theme that are worth expanding on:
 - New Millennium has several iron ore projects in the development and exploration phases. We believe iron ore prices will remain high if the bull market remains intact. See Fig. 2 for 5-year chart.
 - Hana Mining is a copper/gold explorer in Botswana. We believe interest in large copper/gold projects will remain elevated due to ongoing supply concerns. See Fig. 3 for 2-year chart.

Fig. 3



Data Source: Market-Q

RIDING THE CURVE *A CATALOG OF OUR MONTHLY FIXED INCOME FAVOURITES*

Great-West Life Co Perpetual Preferred H (GWO.PR.H)

- Great-West is a provider of life/health insurance, annuities and investment products
- At \$23.22, the issue has a yield of 5.22% versus the yield on bank perpetuals of ~4.5%

George Weston Perpetual Preferred D (WN.PR.D)

- George Weston is a food processor and distributor and owns 62% of Loblaw Cos. (L)
- At \$23.40, the issue has a yield of 5.56% versus the yield on bank perpetuals of ~4.5%

Student Transportation Deb “U” (STB.DB.U) Maturing on June 30th, 2018

- Student Transportation operates school buses in Canada and the US
- Principal, interest payments and the conversion price are in U.S. dollars
- This is a 7 year debenture with a conversion price of \$9.50 (current price of \$6.58)
- This debenture yields 6.80% until maturity at a current trading price of \$97

New Rules May Entice Banks to Call Their Perpetual Preferred Shares

- A new set of global banking rules could force banks to redeem their outstanding perpetual preferred shares by 2022 at the latest
- The new rules will disallow banks from using preferred equity to meet the minimum capital requirements, and according to James Hymas of Hymas Investment Management, renders the shares useless in banks’ financing operations
- Should the banks wish to call the outstanding perpetual preferred shares, they would have to do so at par, or \$25
- Should the banks call these shares by 2022, the yield-to-maturity would be higher (lower) than the current yield, should the shares trade below (above) par
- Banks have not stated their intention to call these shares but should the banking rules be put into place as is, it may make sense to switch from perpetuals trading above par to those trading below par as they will experience higher returns
- Assuming a maturity date on bank-issued perpetual preferred shares would increase the already significant advantage of owning preferred shares over bonds/GICs
- The disappearance of bank issued perpetual preferred shares could also benefit non-bank issued perpetual preferred shares as tax-efficient securities would become rare

JEANNINE’S TIP O’ THE MONTH *ENHANCING YOUR SWM EXPERIENCE*

It won’t be long until students are heading back to school but the tuition fees are soon coming due! Get your forms in now to make this term’s RESP withdrawals.

Visit our website at www.steelewealthmanagement.com to find an [RESP Withdrawal Form](#). Complete and return the form to steelewealthmanagment@raymondjames.ca.

Don’t forget to include proof of enrolment!

Current Rates & Data

Govt of Canada

90 day	0.93%
1 year	1.17%
2 year	1.45%
5 year	2.18%
10 year	2.94%
30 year	3.39%

U.S. Treasury

90 day	0.00%
1 year	0.14%
2 year	0.37%
5 year	1.47%
10 year	2.92%
30 year	4.21%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (May)

3.70%

U.S. CPI Y-o-Y (May)

3.60%

Exchange Rates

CAD/USD	1.040
USD/EUR	1.415
JPY/USD	79.05

This newsletter has been brought to you by Steele Wealth Management

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