

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 HOUSING MARKET OUTLOOK 2018 REGULATIONS SHIFT BUYING BEHAVIOUR

As housing related industries account for over one fifth of the Canadian economy, the health of the Canadian housing market is generally indicative of the health of the broader Canadian economy. Throughout 2017, regulators at the federal and provincial levels introduced new rules and taxes in an effort to cool the housing market. Those new rules appear to have been effective, at least temporarily, causing housing market activity to slow and overall housing market prices to fall from their peak levels.

New Rules and Taxes to Improve Affordability

- The federal government updated the B20 mortgage rules
 - All new mortgage borrowers – those originating a new mortgage AND those refinancing their mortgage with another lender – must show that they can handle mortgage payments using **the greater of their actual mortgage rate plus 2% or the 5-year benchmark rate, currently sitting at 5.14%.**
 - For example, even if you obtain a mortgage at 3%, you must use a rate of 5.14% when testing against the total and gross debt service ratio requirements.
 - This is expected to reduce new homebuyer buying power by roughly 18%.
- In Ontario, effective April 2017, non-Canadian buyers of residential real estate in the Greater Golden Horseshoe Region are subject to a 15% tax.
- In BC, effective 2018, the outstanding foreign buyer's tax will increase to 20% from 15% and owners of unrented second (or more) residential properties in various areas will be subject to a speculation tax. BC, other Canadian and foreign residents are ultimately subject to a 0.5%, 1% and 2% property tax, respectively.

And Their Effects...

The changes had an instant effect on the targeted housing markets. As of March, year-over-year sales activity fell 40% in the Greater Toronto Area, 30% in Greater Vancouver and almost 20% nationwide, while year-over-year price declines were in the low-to-mid single digits. Sales activity and price declines were focused in the single-family and luxury home segments. Meanwhile in the lower priced condo segment, demand was robust as first time buyers and downsizers alike fight for these lower priced properties. For example, **in Toronto, overall numbers are misleading as detached homes saw prices fall 17% year-over-year in March while condos saw prices rise 6%.** Further, more reasonably priced communities near large metropolitan areas (e.g. Kitchener-Waterloo, London, Fraser Valley, Chilliwack) were at or near all-time highs in March as homebuyers search for lower priced locales. Affordability for new homebuyers has worsened as entry-level property prices continue to climb.

Current Rates & Data

Govt of Canada

90 day	1.13%
1 year	1.63%
2 year	1.86%
5 year	2.08%
10 year	2.21%
30 year	2.33%

U.S. Treasury

90 day	1.73%
1 year	2.07%
2 year	2.32%
5 year	2.63%
10 year	2.80%
30 year	3.01%

Canada Prime Rate

3.45%

U.S. Prime Rate

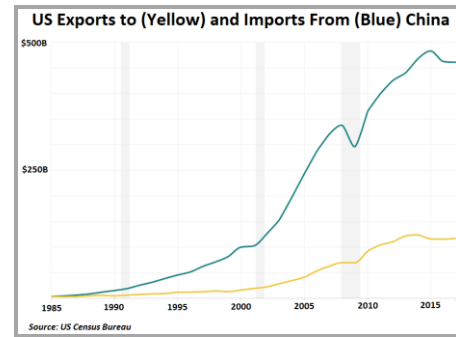
4.75%

Exchange Rates

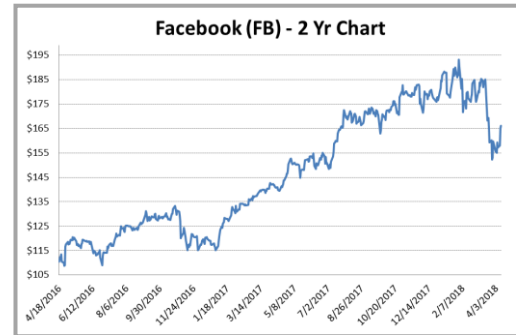
CAD/USD	0.794
USD/EUR	1.232
JPY/USD	107.3

ECONOMIC TIDBITS TRUMP GOES TO (TRADE) WAR WITH CHINA & FACEBOOK SCOLDED FOR WEAK DATA POLICY

- Trump's trade tirade has shifted from all trade partners to exclusively China. Trump proposed tariffs on \$50 billion in Chinese imports and China responded with proposed tariffs on \$50 billion in US imports. Trump subsequently upped his tariff target to \$150 billion in imports and China confirmed it will respond in kind. China will need to become creative as it only imported \$170 billion in US goods in 2016.



- Facebook shares have been under pressure since it was revealed that Cambridge Analytica, a political consulting firm, dishonestly harvested data from over 87 million Facebook users and used the data during the 2016 US presidential election and 2016 UK Brexit referendum. While Facebook is not the key perpetrator, its culpability has boosted the odds of new regulation against tech firms.



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

Heavily Indebted, High Dividend Utilities Take a Beating as Interest Rate Expectations Get Frothy

- **Emera (EMA)** and **Fortis (FTS)** are two ideas related to this theme.
- **Emera** is an electric utility with operations in the Maritimes, Florida and the Caribbean. Emera trades at ~10.5x trailing EV/EBITDA, a slight discount to its similarly depressed peers and a 10%-20% discount to its historical valuation. Because of its transformative acquisition of TECO Energy in 2016, Emera has a better than average backlog of capital investments. Emera is targeting 8% rate base growth through 2021 which should more than offset the effect of rising interest rates and enable steady earnings growth over this time period. Emera's dividend yield is now 5.5%.
- **Fortis** is an electric utility with operations in Canada, the US and the Caribbean. Fortis trades at ~11.5x trailing EV/EBITDA, roughly in line with its peers. We believe Fortis should trade at a premium to peers due to its proven track record of accretive acquisitions. Additionally, if interest rates remain below historical norms, Fortis should likely trade above its historical valuation.

Key risk points: Both stocks could continue to be pressured by rising interest rates as this may cause minor earnings impacts as well as a shift in investor sentiment from income stocks to growth stocks.

JEANNINE'S TIP O' THE MONTH Showcasing Laura Prust of Steele Wealth Management

Laura Prust, Associate Portfolio Manager. I have been with Steele Wealth Management since 2000, guiding clients through all manner of financial decisions in an approachable way. More specifically, I help clients determine their risk tolerance, understand what cash flow they will need in retirement, plan for and fund their life goals including retirement income, track their progress against their financial projections and understand investment performance over time. As a Certified Professional Counselor on Aging, I empathize with the stresses and concerns facing retirees today and have a deep knowledge of successful solutions to the problems of retirees. I am also licensed in the U.S. with FINRA to advise clients on cross-border issues.

This newsletter has been brought to you by Steele Wealth Management

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