

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.

DID CANADA JUST REACH PEAK PESSIMISM? AND ARE THE TIMES A-CHANGIN'?

In early 2018, it seemed like things couldn't get worse for Canadian business.

Trade. President Trump threatened to scrap NAFTA, forcing Canadian companies to reconsider/delay capital investments related to cross-border trade. Expect restrained business sentiment in Canada until NAFTA negotiations conclude.

Housing. The federal government adopted new mortgage rules in 2018. Homebuyers saw purchasing power drop by ~18%. Further, politicians in Ontario introduced a 15% foreign buyer tax in the Greater Golden Horseshoe, while politicians in BC introduced a 20% foreign buyer tax, a 0.5%-2% annual speculation tax and an empty homes tax in select metro areas. Housing market sales activity dropped significantly year-over-year.

Taxes. For an individual with a \$600,000 income, average tax rates rose between 2.2% and 7.6%, depending on your province of residence, over the past five years. In its most recent budget, the federal government cracked down on small corporations. Corporate tax rates rose in Alberta, BC, New Brunswick and Newfoundland over the past five years, declining only in Yukon. Over the past ten years, Quebec, BC, Alberta, Manitoba and Ontario saw the introduction of carbon taxes and cap-and-trade schemes. Minimum wages have been rising steadily across Canada further hurting profit margins. Clearly, business owners have been squeezed in the name of fairness.

Oil Prices. BC politicians delayed development of Kinder Morgan's Trans Mountain Pipeline expansion, taking it all the way to the Supreme Court of Canada.

The above actions/issues are largely responsible for the Canadian equity market trading at a discount to international equity markets. But are the times a-changin'?

Perhaps. Firstly, **world oil prices recently hit a three and a half year high** and the price differential between Canadian heavy crude and US light oil recently fell to ~\$20 from ~\$30 as **oil-by-rail shipping capacity grows** easing energy transportation issues. The Supreme Court rejected BC's challenge of the Trans Mountain pipeline, restoring some confidence in Canada's energy patch. Secondly, NAFTA negotiations appear to be progressing well and the Trump administration has **pivoted to antagonizing China** rather than its NAFTA partners. Lastly, **support for the pro-business Conservative party is growing**. Recent polls show Andrew Sheer's federal conservatives polling ahead of the incumbent Liberals and that Doug Ford is likely to win the Ontario provincial election in June. Ford has pledged to scrap the cap-and-trade scheme, scrap the foreign homebuyer tax, freeze the minimum wage and lower taxes for corporations and mid-to-high earners. If implemented, the changes would mark the end of a long period of anti-business policy in Ontario and Canada as a whole.

Current Rates & Data

Govt of Canada

90 day	1.25%
1 year	1.70%
2 year	2.02%
5 year	2.26%
10 year	2.44%
30 year	2.46%

U.S. Treasury

90 day	1.93%
1 year	2.32%
2 year	2.55%
5 year	2.85%
10 year	3.01%
30 year	3.16%

Canada Prime Rate

3.45%

U.S. Prime Rate

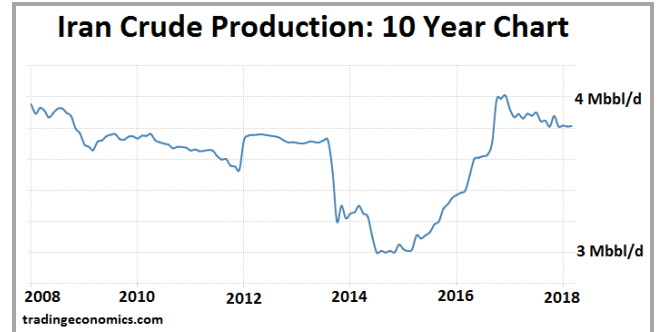
4.75%

Exchange Rates

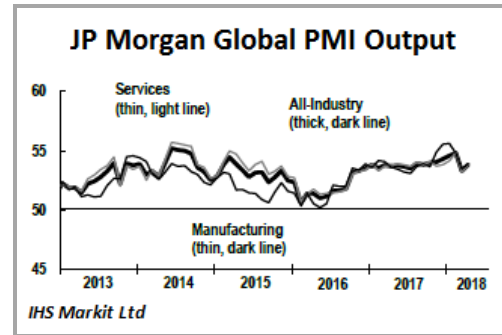
CAD/USD	0.776
USD/EUR	1.170
JPY/USD	110.1

ECONOMIC TIDBITS TRUMP NIXES IRAN NUCLEAR DEAL, OIL JUMPS & GLOBAL ECONOMIC ACTIVITY RECOVERS

- In May, President Trump announced the US would withdraw from the 2015 Iran nuclear deal. Under the pact, Iran agreed to reduce its stockpile of enriched uranium and uranium processing capacity. In return, the West lifted economic sanctions against Iran allowing it to increase oil production by ~1 million barrels/day. Trump's announcement may result in a decline in Iranian oil production.



- After hitting a three and a half year high in February, the rate of global economic growth as measured by the JP Morgan Global Manufacturing & Services PMI slowed abruptly, falling to a 16-month low in March, with output and new order growth impacted by rising tariff and trade uncertainty. Economic activity rebounded in April as Trump shifted focus to the US-China trade relationship.



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

I've Got To Admit It's Getting Better: Is It Finally Time to Get Back into Energy Stocks?

- **Vermilion Energy (VET)** and **Whitecap Resources (WCP)** are two ideas related to this theme.
- **Vermilion** is a well-capitalized, oil focused, mid-cap, lower than average cost energy producer with operations in North America, Europe and Australia. Its low debt load and low operating cost means its shares will be less sensitive to oil and gas prices over time and less volatile than peers' over time. Vermilion shares have barely budged over the past two years despite oil prices hitting a three and a half year high and the Canadian energy transportation bottleneck easing somewhat. Given Vermilion's acquisitiveness, we think Vermilion will acquire its way to a higher valuation if need be. Their recent acquisition of Spartan Energy may be step 1 in achieving a higher stock price.
- **Whitecap**, like Vermilion, is a well-capitalized, oil focused, mid-cap, lower than average cost energy producer but with operations focused in North America. It is more of a pure-play oil company than Vermilion and will therefore provide more leverage to oil prices. That said, its much lower than average debt load will help it weather any oil price weakness, should it arise, and provide it with the opportunity to grow through acquisition if it pleases.

Key risk points: Both securities are tied to oil and natural gas prices and any major changes in the prices of these commodities will have a profound effect on the trading price of the securities above.

JEANNINE'S TIP O' THE MONTH Consumer Scams in Canada

"If it's too good to be true, it probably is"

Mass marketing fraud, telemarketing, advance fee fraud, internet fraud and identification theft are all on the rise and can catch us off guard. Click on the **Canadian Anti-Fraud Centre** link below to obtain more information about the types of fraud, how you can protect yourself and ways in which you can report an incident.

<http://www.antifraudcentre-centreantifraude.ca/index-eng.htm>

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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.