

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.

RECESSIONARY SLOOS HATH COOKED THE MARKET'S GOOSE?

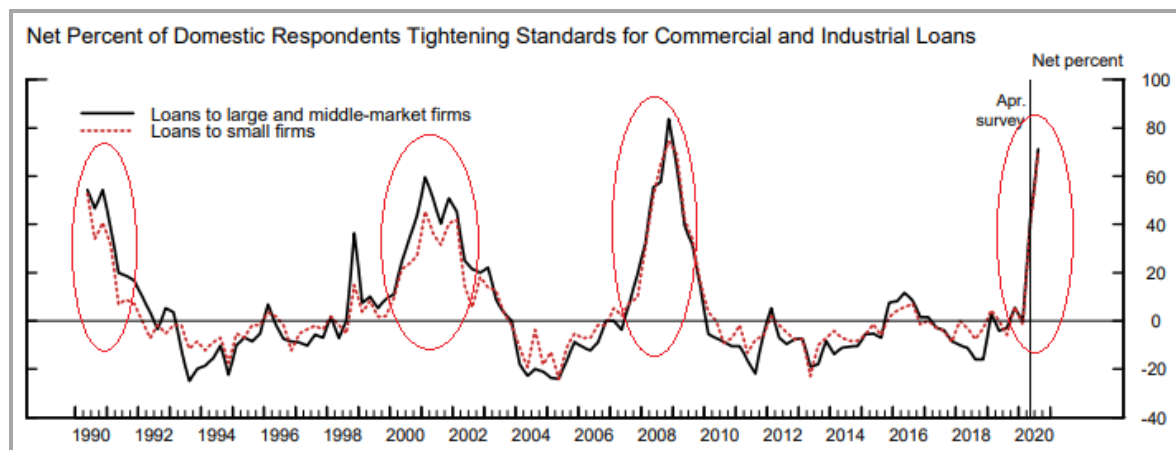
500 bonus points for anyone who understood the title without reading further. It's okay, we don't foresee anyone receiving those bonus points either.

What is the SLOOS?

The US Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS) is our favoured recession indicator due to its reliable and logical prediction of a slowdown in economic activity. The survey captures lending intentions from the senior lending officers at US banks. Historically, when **corporations demand fewer loans** and senior loan officers as a group start to reel back lending for major corporations by **raising the credits standards** required to obtain a loan as well as **the cost of loans**, this indicates that the business cycle is over and a recession begins within a short period of time. Fewer loans in general and to those corporations perceived to be too risky results in a greater number of business failures, which in turn results in less business spending on things (e.g. computers, furniture, equipment) and greater unemployment.

Surprisingly the SLOOS did not indicate a traditional recession in April amidst the COVID-19 outbreak and lockdowns as demand for loans from corporations jumped as many scrambled to secure what lifelines they could. Senior loan officers became pessimistic in April and became more cautious but the spike in demand offset senior loan officer actions.

Fast forward to the July SLOOS and COVID-19 related loan demand has waned and senior loan officers have become more pessimistic and defensive. The chart below highlights why we believe the recession is still in front of us, not behind us. In the past, recessions tend to get worse as loan officers get more defensive, and recessions typically end when senior loan officers reach "peak pessimism" (i.e. when the chart below reverts). As of July, the recession appears to be getting worse, not better.



Current Rates & Data

Govt of Canada

| | |
|---------|-------|
| 90 day | 0.15% |
| 1 year | 0.20% |
| 2 year | 0.29% |
| 5 year | 0.40% |
| 10 year | 0.59% |
| 30 year | 1.11% |

U.S. Treasury

| | |
|---------|-------|
| 90 day | 0.09% |
| 1 year | 0.12% |
| 2 year | 0.14% |
| 5 year | 0.28% |
| 10 year | 0.68% |
| 30 year | 1.41% |

Canada

Prime Rate

2.45%

U.S.

Prime Rate

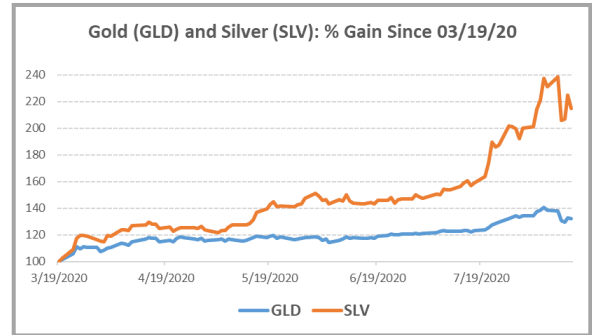
3.25%

Exchange Rates

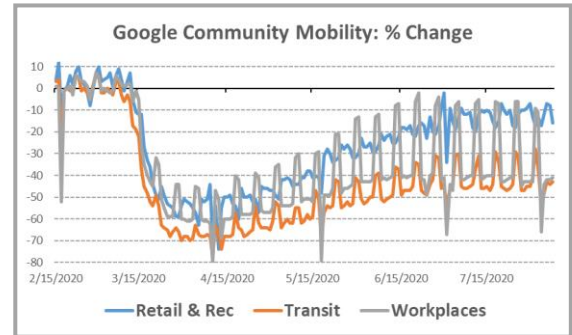
| | |
|---------|-------|
| CAD/USD | 0.759 |
| USD/EUR | 1.194 |
| JPY/USD | 105.4 |

ECONOMIC TIDBITS GOLD-ILOCKS & HI-HO SILVER AWAY! & ECONOMIC MOBILITY HAS IMPROVED BUT IS STALLING

- A depreciating US dollar and unprecedented amounts of economic stimulus resulted in a historic run for gold and silver. Gold and silver rallied as much as 36% and 149%, respectively, since the March lows. While stimulus provides strong support for the move in gold and silver, it appears the market assumes the recession over. A recession could temporarily suppress gold and silver prices.



- Google community mobility data for Canada, as shown in the adjacent chart, indicates that while economic activity has risen from the April lows, it still remains below early February levels and is now stagnating. Retail and recreation activity remains down ~16%, transit activity remains down ~43% and workplace activity remains down ~41%. A 10,000-foot view on how individuals are carrying on.



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

Telecom the Backbone of Technology but Not Participating in a Historic Rally in Technology Stocks

- The telecom sector has lagged the broad market since the March lows, despite the technology sector being the standout driver of the market rally. The tech sector relies on the telecom sector for data.
- In the dotcom era, the telecom sector was one of the best performing sectors. As the internet craze grew, the telecom sector was busy building out broadband and mobile networks. These networks were the necessary backbone to the growth of the dotcoms and these networks grew in value during this era.
- This time around, while investors have gravitated to internet and work-from-home stocks during the COVID-19 era due to the greater need for businesses to ‘get online’, the telecom sector has not seen the same investor support that it did in the late 1990s. The need for a greater number of connections in various different places is a real one and one that should benefit telecom operators.
- Pure-play telecom operators like Telus (T) and Verizon (VZ-US) have held up better than telecom operators with large media businesses like Rogers Communications (RCI.B), BCE Inc. (BCE) and AT&T Inc. (T-US). That said, all appear to be trading below their historical averages on an EV/EBITDA basis.

Key risk points: The telecom sector could remain out of favour. Companies in the telecom sector have high debt loads, which can accentuate earnings declines, especially during recession.

JEANNINE’S TIP O’ THE MONTH 2020 Westmount Oktoberfest Charity Pro-Am Update

While the golf portion of the pro-am is unable to proceed due to COVID-19, the pro-am organizers as well as the lead sponsor Raymond James remain committed to the tournament’s charities for 2020. Over the past three years, the pro-am has raised \$180,000 to support mental health in our community. This is not the year for this particular type of funding to fall short. The revised fundraising goal is \$30,000, which can be attained via the ongoing six-week online auction and donations from Raymond James and the greater community.

Please visit the [Waterloo Region Suicide Prevention Council’s tourney site](#) to learn more and to participate.

This newsletter has been brought to you by Steele Wealth Management

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