

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.

CORONAVIRUS OUTBREAK STATE OF THE SPREAD AND ECONOMIC IMPACT

The Virus Itself

The 2019 coronavirus outbreak, otherwise known as 2019-nCoV, COVID-19 and SARS-CoV-2, has resulted in mass quarantines across mainland China and on cruise ships at ports around the world. Roughly, **150 million Chinese citizens face some travel restrictions** as part of an attempt to contain the spread. The virus was initially thought to be like the original SARS (highly fatal and fairly contagious) but instead has proven to have unparalleled reach but appears to be somewhat less fatal.

As of February 18, the total number of **confirmed infected is over 74,000**, while the total number of **virus related deaths is over 2,000**. While determining a fatality rate is difficult in the early stages of an outbreak, this current ratio of 2.7% hints at a fatality rate of 3%-4% for known cases, if past outbreaks are any indication. There is a high probability that thousands of asymptomatic COVID-19 cases have gone undiagnosed, especially in the early days of the outbreak, so the actual fatality rate could be well below 3%-4%. The fatality rate for young healthy individuals appears to be quite low.

The contagious nature of the virus is a major negative for economic growth for as long as it remains widespread, particularly in China. Alternately, the lower than anticipated fatality rate (relative to SARS at 14%-15%, MERS at ~34% and Ebola at 25%-90%), and a seemingly low fatality rate among the working age population, **limits some of the hysteria about contracting the virus** and should help keep the global economy chugging along even if the virus continues to propagate across the globe.

Economic Impact

The playbook is largely the same as past outbreaks. Demand for **discretionary travel** (e.g. planes, trains, cruises, hotels) will experience a pullback as consumers become concerned about contracting COVID-19 in confined spaces. Consumer spending on **luxury items** should fade early as some consumers will avoid malls and delay or cancel such spending. If the outbreak persists for an extended period, only then would consumers begin to delay **large purchases** like cars, homes and other big-ticket items.

The severity of the outbreak in China and China's role as the "factory for the world" means supply chains for non-Chinese businesses may be disrupted. Case in point, Apple recently warned its Q2 earnings would miss expectations due to the outbreak. Based on the current state of the outbreak, IHS-Markit and the International Monetary Fund estimate that **global 2020 GDP growth will be 0.1%-0.2% lower than expected** due to a ~1% hit to Chinese 2020 GDP. Expectations for GDP growth ex-China is unchanged. It is important to remember that **exogenous shocks like COVID-19 almost never cause major market downturns** akin to those experienced in 2000 and 2008.

Current Rates & Data

Govt of Canada

90 day	1.63%
1 year	1.61%
2 year	1.49%
5 year	1.37%
10 year	1.36%
30 year	1.47%

U.S. Treasury

90 day	1.57%
1 year	1.47%
2 year	1.42%
5 year	1.41%
10 year	1.57%
30 year	2.02%

Canada Prime Rate

3.95%

U.S. Prime Rate

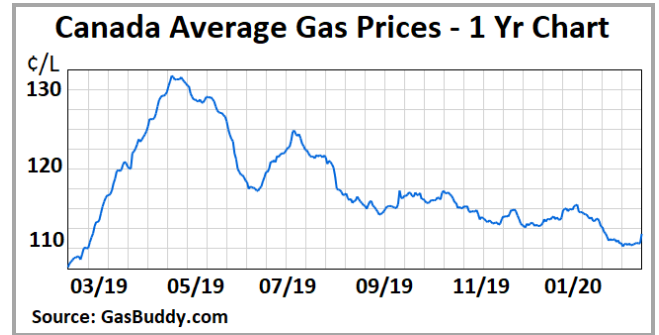
4.75%

Exchange Rates






CAD/USD	0.756
USD/EUR	1.081
JPY/USD	111.3

ECONOMIC TIDBITS CORONA THUMPS CRUDE & DEMS SAY NO TO JOE AND FEEL THE BERN

- As the coronavirus outbreak spread, oil prices slumped with West Texas Intermediate (WTI) falling from US\$63 to as low as US\$50 within a few weeks. Chinese manufacturing is a significant driver of raw material consumption including oil. In the oil market, tiny imbalances in supply and demand can drive big swings in prices. Mass quarantines in China created a big lull in oil demand, driving prices down.



- Bernie Sanders is now the favourite to win the 2020 Democratic nomination (about 1 in 2 odds) and Michael Bloomberg is now the only relevant contender (about 1 in 4 odds). Democrats seem to be betting that Sanders' progressive mandate will boost voter turnout enough to beat Trump. Big spending promises during the 2020 US presidential election campaign could boost stock markets.

Who will win the 2020 Democratic presidential nomination?					
Contract	Latest Yes Price	Best Offer	Buy Yes	Buy No	Best Offer
 Bernie Sanders	52¢ 2c▲	52¢	<input type="button" value="Buy Yes"/>	<input type="button" value="Buy No"/>	50¢
 Michael Bloomberg	27¢ 2c▲	27¢	<input type="button" value="Buy Yes"/>	<input type="button" value="Buy No"/>	74¢
 Joe Biden	10¢ nc	10¢	<input type="button" value="Buy Yes"/>	<input type="button" value="Buy No"/>	91¢
 Pete Buttigieg	9¢ 1c▲	9¢	<input type="button" value="Buy Yes"/>	<input type="button" value="Buy No"/>	92¢
 Hillary Clinton	7¢ 1c▲	7¢	<input type="button" value="Buy Yes"/>	<input type="button" value="Buy No"/>	94¢

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

More Alternative Investments with Low Volatility and Consistent Income

- Capstone Mortgage Pool (CVT111)** and **UBS Global Merger Arbitrage Fund (UGA100)** are two ideas related to this theme. *Please note that these investments are only available to clients who are on our discretionary platform or who are accredited/eligible investors.*
- Capstone MP** invests primarily in first residential mortgages to property developers in the Greater Golden Horseshoe. The mortgages typically have low loan-to-value ratios (58% average) and short durations (average time to maturity of ~7 months) and the pool is diversified by developer. Capstone's portfolio compares well relative to peers on these metrics. Since 2013, the pool has posted calendar year after-fee returns of 5.0%-9.1%.
- UBS GMAF** buy and sells public equities to realize the historically consistent return offered by merger arbitrage. In the simplest terms, merger arbitrage is buying the stock of a company that is the acquisition target and selling, if applicable, the stock of the company that is the acquirer. According to the CFA Institute, merger arbitrage historically provided one of the best risk-adjusted returns and least maximum drawdowns of all alternative investment strategies. Merger arbitrage strategies have returned ~6.8% on average after fees since 1994. UBS is the largest merger arbitrage manager in the world.

Key risk points: Alternative investments are illiquid. Capstone MP invests in private mortgages that are not easily marketable. Capstone MP is also a smaller than average pool and UBS GMAF uses leverage, both of which can result in meaningful and unexpected one-time losses. Merger arbitrage funds tend to experience losses during equity market downturns as acquisition attempts have higher odds of failure.

JEANNINE'S TIP O' THE MONTH Be Sure to “Slow Your Roll” on Tax Filing to Avoid Potential Refiling

Please ensure you have received all tax receipts before submitting your tax return, especially if you are expecting T3s (Statement of Trust Income) or T5013s (Partnership Income). The filing deadline for trusts and partnerships is March 31. To get access to your accounts and tax documents online, simply sign-up for and log into Online Access. Let us know you need any help.

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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.