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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.

FIGHTING THE CORONAVIRUS COUNTRIES UNITE AGAINST COMMON FOE

Virus Goes Viral

The coronavirus (COVID-19) outbreak went from a regional Chinese epidemic to a global pandemic within the span of a month. As of March 17, there have been more than 200,000 confirmed COVID-19 cases and 8,000 associated deaths worldwide.

To slow the speed of transmission and in turn lessen the virus' impact on health care systems, governments around the world have restricted international travel, banned large gatherings and initiated mass quarantines in virus hotspots. The **efforts to slow the virus' spread will have a material impact on the global economy** as many service businesses temporarily shutter or experience less traffic. Manufacturing businesses have so far been unaffected by the virus though maintaining a healthy labour force may be difficult and consumer/business demand will likely begin to fall soon.

Many banks are now forecasting GDP declines in Q2 and/or Q3. Expectations are that the Canadian economy falls into recession in Q2 and Q3, experiencing ~3% annualized GDP declines in these quarters. JP Morgan expects the worst for the US economy, predicting an annualized GDP decline of 14% in Q2. The bottom line is nobody can accurately predict the economic impact of COVID-19 nor the offsetting fiscal response.

The World Unites to Fight

Because of the major drop in GDP growth expectations, governments and central banks eagerly devised rescue packages to support the global economy. The US Federal Reserve **cut the US benchmark interest rate by 1.5%**, unleashed trillions in temporary financial support to banks and large corporations and offered a minimum of **$700 billion in bond purchases** (i.e. quantitative easing). The US government is looking to provide over **$1 trillion in financial support** to businesses and households affected by COVID-19 as well as boost strategic oil reserves by up to 78 million barrels. The scale of these actions is immense. If effective, these actions could arrest the equity market decline, soothe financial markets and aid in the eventual economic recovery.

Other central banks and governments have responded in kind, roughly matching the US's actions. The world is anxiously awaiting the Chinese response, as deflation worries would most easily be eliminated with a 2008-style Chinese infrastructure plan.

These are unprecedented times. The COVID-19 outbreak is likely to lead to a North American, if not global recession in 2020. Equity markets have largely priced in this inevitability with the TSX Composite index down as much as **37%** and S&P 500 down as much as **33%** from their respective highs. Since 1926, using the S&P 500 as a measure, bear markets have seen the market fall **39%** and last 22 months on average. While we have already seen most of this 39% average decline, we are only in month two of the bear market.

Current Rates & Data

Govt of Canada

90 day	0.37%
1 year	0.33%
2 year	0.66%
5 year	0.88%
10 year	1.01%
30 year	1.43%

U.S. Treasury

90 day	-0.02%
1 year	0.14%
2 year	0.46%
5 year	0.69%
10 year	1.09%
30 year	1.71%

Canada Prime Rate

2.95%

U.S. Prime Rate

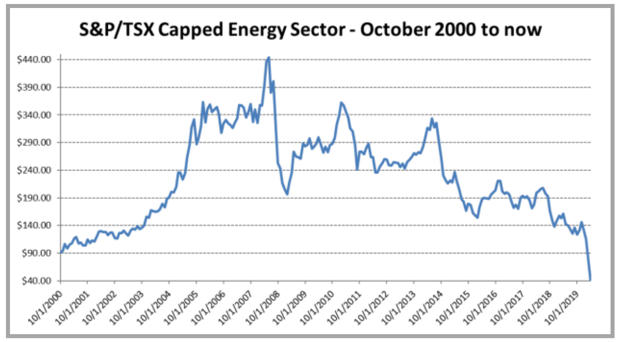
3.25%

Exchange Rates

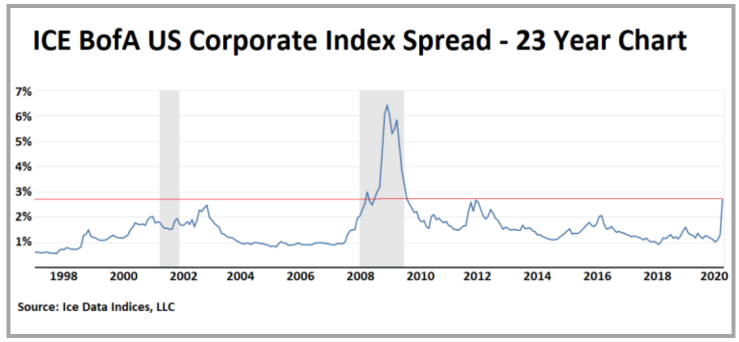
CAD/USD	0.692
USD/EUR	1.075
JPY/USD	109.9

ECONOMIC TIDBITS SAUDIS MAXIMIZE & INVESTMENT GRADE SPREADS BLOW OUT

- On March 8, Saudi Arabia initiated an oil price war with Russia, triggering a historic fall in the price of oil. Saudi Arabia and Russia vowed to maximize oil production at a time when the oil market is facing oversupply due to the COVID-19 related demand shock. The decline in oil prices pushed many North American energy and pipeline stocks to all-time lows and the Canadian dollar to a seventeen year low.



- Corporate bond spreads (i.e. the cost of borrowing for corporations above government bonds) have gone from normal levels to recessionary levels over the past four weeks. The US Federal Reserve has initiated a "Commercial Paper Funding Facility" to ensure that the cost of short-term lending for large investment grade corporations does not rise to unsustainable levels. Highest level since 2008 →



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

After a Rapid Market Decline, Long-Term Investors Have Their Pick of Bargains

- There are three areas of the market that we think provide the most value at the current time.
- **Monopolistic/oligopolistic companies with great long-term growth potential and cash reserves to get them through a recession.** Illumina (ILMN), Lyft (LYFT) and Uber (UBER) are names that have seen their stocks decline yet they dominate their marketplace and have cash reserves to weather a recession. These companies may benefit from the virus and its effects on human behaviour. Illumina's core business should be unaffected by the virus and has been billed to sequence the virus over time to monitor mutations. Uber and Lyft could benefit as commuters may shun mass transit when society normalizes.
- **Consumer staples companies caught in the storm.** Saputo (SAP), a dairy producer, and North West Company (NWC), a retailer in remote communities, will largely be unaffected by the virus yet their stocks are pricing in the worst.
- **Canadian real estate investment trusts (REITs) trading like nobody is living or working anywhere ever.** We get that many Canadians may not be going to work these days or eating at restaurants but they will when they are able and willing. These Canadians also live somewhere. Many Canadian REITs have fallen ~50% over the past month or two to levels not seen since 2008/2009. Buyers will likely be rewarded here.

  Key risk points: All stocks are volatile these days and all stocks have a chance of loss in the near-term and long-term. The ideas above look like they offer above average returns with moderate downside potential.

JEANNINE'S TIP O' THE MONTH The Stability Offered by Raymond James

In these times of market stress and uncertainty, it is good to know that Raymond James offers unparalleled stability. This stability is founded on the firm's conservative roots as well as the values for which it and its advisors stand. Raymond James does not utilize leverage and typically maintains a large net cash position to reinforce its financial position. Steele Wealth Management continues to choose Raymond James as its partner for this reason. Maintaining the trust of our clients requires that not only do we act as guides through difficult times but also that we choose to right partner to safeguard your investments.

This newsletter has been brought to you by Steele Wealth Management

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