ISSUE 126 | DECEMBER 2021

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to ensure you are well informed. We sift through the noise and only bring you important topics of discussion and planning points useful to you.

We believe Knowledge Pays and we want our knowledge to pay for you.

INTEREST RATES SOON TO BALLOON... TROUBLE AHEAD FOR BIG TIME BORROWERS?

On December 8, the Bank of Canada reiterated that it is likely to start raising its key interest rate in Q2 or Q3 of 2022. Many other central banks around the world have provided a comparable timeline and markets have "priced in" a number of interest rates hikes over the next one to two years. With interest rates expected to be moving higher in the coming months, the first question homeowners or homebuyers ask is…

"Should I get a fixed rate mortgage to lock in low interest rates or should I get a variable rate mortgage whose starting interest rate is lower?"

A Bit of History

Multiple studies have shown that variable rate mortgages overwhelmingly "beat" fixed rate mortgages over time. It is important to mention these studies looked back on a period where mortgage/interest rates were in near-perpetual decline, naturally tilting the scales in favour of variable rate mortgages. That said, one expert – Moshe Milevsky – claims that variable mortgages are likely to win 70%+ of time going forward, irrespective of the long-term direction of interest rates, based on his studies.

The key reason for this is that fixed rate mortgage rates anticipate interest rate increases so there is often a large spread between variable rate and fixed rate mortgages when interest rates are expected to rise. Historically, several interest rate hikes are often followed by economic weakness and future interest rate declines so "paying up" for protection against rising interest rates has actually worked best when interest rates are not generally expected to rise. As is the case with many things in life, chasing the same theme as everyone else rarely ends up working in your favour.

Current Mortgage Choices

Whether you are buying a new home or refinancing the mortgage on your current home, comparing current variable and fixed mortgage rates is a good starting point. ***According to True North Mortgage, the best variable high-ratio mortgage rate is 0.99% while the best five-year fixed rate high-ratio mortgage rate is 2.39%.*** This tells us that the prime interest rate will need to average, not just rise, 1.4% higher over the next five years for a fixed rate mortgage to beat a variable rate mortgage. This interest rate spread is at the high end of its historical range. The Canada prime interest rate would need to rise ~2% over the next two years and then hold steady for variable rate borrowers to lose relative to five-year fixed rate borrowers.

While less than 30% of homeowners/homebuyers opt for a variable rate mortgage, the high interest rate cost associated with locking in a fixed rate mortgage may once again prove to be disadvantageous considering bond markets and in turn mortgage rates have already "priced-in" several interest rate hikes over the next one to two years.

Current Rates & Data

Govt of Canada

90 day	0.12%
1 year	0.66%
2 year	0.99%
5 year	1.36%
10 year	1.50%
30 year	1.81%

U.S. Treasury

90 day	0.05%
1 year	0.26%
2 year	0.70%
5 year	1.28%
10 year	1.50%
30 year	1.88%

Canada Prime Rate

2.45%

U.S. Prime Rate

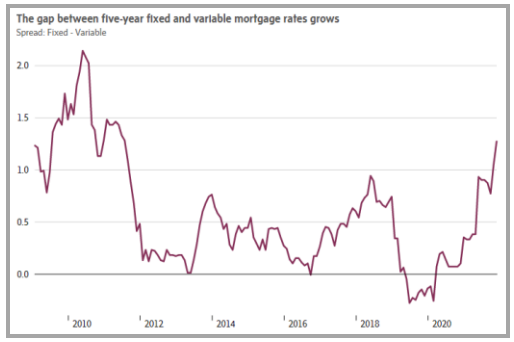
3.25%

Exchange Rates

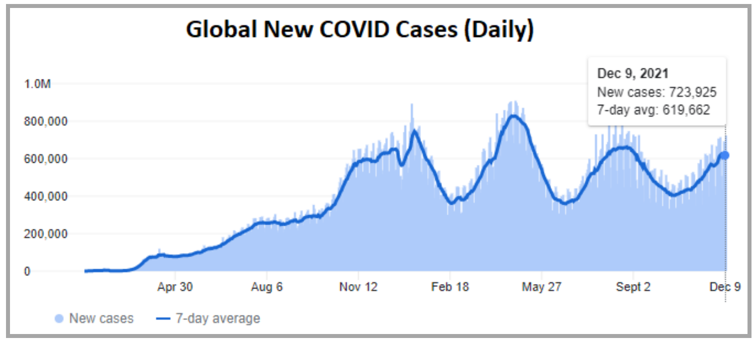
CAD/USD	0.786
USD/EUR	1.132
JPY/USD	113.4

ECONOMIC TIDBITS CAN CANADA HANDLE HIGHER INTEREST RATES? & OMICRON VARIANT BRINGS OPTIMISM

• The spread between Canadian five-year fixed and variable rate mortgages is currently 1.4%, a ten year high. Bond markets have priced in interest rate hikes of 1% in each 2022 and 2023. Canada's economy has not handled interest rate hikes of this magnitude well since the 2008 global financial crisis. Household debt is now 10% higher than the post-2008 average, so some doubt the economy can handle it this time.



• Equity markets initially reacted negatively to the discovery of the Omicron variant but some now see it as the beginning of the end of the pandemic. Early indications show that Omicron's transmissibility is very high but its symptoms are evidently less severe than other variants so greater spread with limited illness and death could be a positive. A global fourth wave is now well underway but with some positivity.



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

Potential Opportunities as the Year of Deflating Valuations for Smaller Tech Companies Nears an End

- At the end of 2020 and in early 2021, news flow was crowded with stories of considerable gains for high growth technology and health care stocks, as well as "meme stocks". At that time, an unusual number of individual investors poured into equity markets simply due to more idle time at home because of COVID and ease of buying and selling stocks thanks to new trading platforms like Robinhood and Wealthsimple.
- Since the speculative peak in February 2021, many high growth technology stocks have declined as investors collectively tempered their inconceivably high expectations to meet a still impressive, but not impressive enough, reality. While many of these high growth technology stocks are still outright expensive relative to megacap technology or non-technology stocks, their valuations have improved.
- Stocks like ***DocuSign (DOCU)***, ***Zillow (Z)*** and ***Activision Blizzard (ATVI)*** have declined 35%, 54% and 37% year-to-date, respectively, as of December 10. All three remain leaders in their respective industries and their core businesses are expected to experience steady growth going forward. These brands are likely to be with us for a long time. It is worth noting that these stocks could continue to decline, due to a continuation in negative sentiment toward these stocks or as part of a broad equity market decline.

JEANNINE'S TIP O' THE MONTH Thanks for Supporting the 56th Annual Westmount Oktoberfest Charity Pro-Am!

The ***56th Annual Westmount Oktoberfest Charity Pro-Am*** presented by Raymond James and in support of Lutherwood and the Waterloo Region Suicide Prevention Council was a tremendous success! This event is one of the oldest golf tournaments in Canada and over time has raised **$1,532,000 for various charities in Waterloo Region, including $287,000 in five years in support of mental health organizations**. Although the traditional tournament looked a bit different this year, the Westmount Golf & Country Club hosted a smaller match and online auction in October. Thanks to the generous support of Raymond James, the golfers and all of the sponsors and donors, a whopping $61,000 was raised for children's mental health and suicide prevention in our community. Special thanks to Westmount Golf & Country Club and the numerous individuals who helped make the event a great success!

This newsletter has been brought to you by Steele Wealth Management

Brian Steele, CA, CPA, CFA | Jeannine Campbell | Laura Prust, CIM, CPCA
Kelly Edmonds | Nudrat Ahsan | Elizabeth Kernohan | Sam Ryder, CFA | Matthew Bell, CFA

Phone: (519) 883-6030 Toll-Free: 1 (877) 642-6408

Email: steelewealthmanagement@raymondjames.ca

Address: Unit 1, 595 Parkside Drive | Waterloo, Ontario | N2L 0C7

Website: www.steelewealthmanagement.com

To opt out of receiving this newsletter, please reply to this e-mail with the word "Unsubscribe" in the subject line.

If you know someone who would benefit from receiving this newsletter, please forward it to them and let them know they can subscribe by emailing us at:

steelewealthmanagement@raymondjames.ca