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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.

COVID AND HOUSING – SENIORS NOW HAVE ANOTHER REASON TO STAY PUT

In past newsletters, we highlighted that seniors have a tendency to want to stay in their home as long as possible, even as their health begins to deteriorate and their social groups start to shrink. Who can blame them? Home is home and shifting to some version of communal living is intimidating for anyone, not just seniors.

Key turning points for most seniors are **unexpected life events such as divorce, the death of a spouse or a significant worsening in medical condition**. For many, the idea of attaining a new social group after one of these life events is a strong incentive to leave home. This motivation to leave home for communal living has dwindled somewhat due to COVID as many social activities have been eliminated at retirement and nursing homes, albeit temporarily.

At the same time that COVID decreased the motivation to sell one's home and move to a retirement/nursing home, COVID increased the ability to access certain services and products in one's home that were not previously available. **COVID sparked significant investment in telemedicine**, **online hosting services** (e.g. recreational activities, entertainment, education, etc.) **as well as general procurement infrastructure**, which increases access to new products that were not previously accessible. While this digital world will never fully replace "real life", its growth will certainly have incremental effects on consumer behaviour, including a senior's decision about whether to live in their home or move to a retirement/nursing home.

As more seniors are likely to opt to stay in their homes, what impact is this expected to have on housing markets? Naturally, fewer sellers of mostly suburban single-family homes, which older Canadians own a higher percentage of than other demographic groups, will result in lower supply of single-family homes and rising prices. In addition, COVID prompted a **flight to the suburbs** and single-family homes among non-seniors. **According to Realosophy, rents for condos in central Toronto are lower than rents for condos in the GTA for the first time on record.** As a result, the value of single-family homes will likely see their premium to other housing arrangements grow in the coming months and years.

Ahh, the beauty of free markets. Seniors are less inclined to sell their single-family home and the market tempts them with high expected selling prices on those very same homes potentially boosting their willingness to move to a retirement home. At the very least, for those that do not require medical care and who have sufficient social support, the impacts of COVID on Canadian real estate may end up boosting the benefits associated with downsizing to a condo or similar property.

Current Rates & Data

Govt of Canada

90 day	0.05%
1 year	0.12%
2 year	0.15%
5 year	0.43%
10 year	0.82%
30 year	1.45%

U.S. Treasury

90 day	0.08%
1 year	0.09%
2 year	0.14%
5 year	0.46%
10 year	1.10%
30 year	1.84%

Canada Prime Rate

2.45%

U.S. Prime Rate

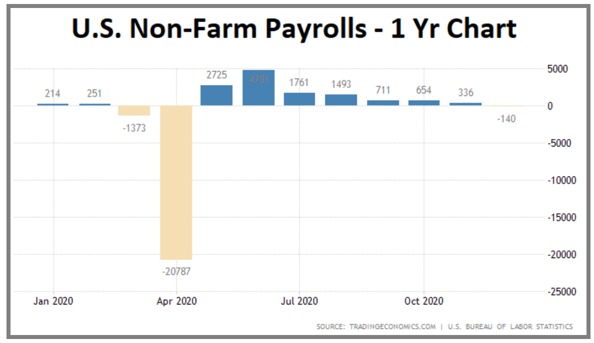
3.25%

Exchange Rates

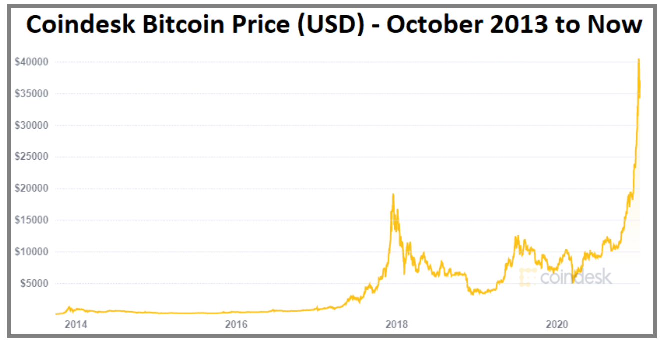
CAD/USD	0.784
USD/EUR	1.209
JPY/USD	103.9

ECONOMIC TIDBITS COVID SECOND WAVE CAUSING UNEMPLOYMENT SECOND WAVE & BITCOIN BOOM 'TIL BUST

- A second wave of COVID has resulted in new restrictions and lockdowns in North America. In December, we saw the first decline in North American employment levels since April. New government support may be required to offset the impact of these job losses lest we experience a double-dip recession. Equity markets have yet to show concern about the possibility of a double-dip.



- Bitcoin, an unregulated asset with nothing tangible to support its value, has experienced an epic rally over the past year. While we do not dare predict where Bitcoin goes from here, it is rare for an asset to survive such mania, let alone one with no governments or assets supporting its value. Bitcoin's price action since March looks similar to 2017, the end of which coincided with an equity market top.



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

Reports of Bonds' Death May be Greatly Exaggerated – Why Some Bonds Still Do Their Job

- If you read through the business section these days it is hard to find an article encouraging the ownership of bonds. This is partly due to the enthusiasm toward equities in a bull market and the low yields currently offered by virtually all bond types – government, agency, corporate, you name it!
- We think there is **still good rationale to own long-term US government bonds for portfolio protection**.
- Central banks, on average, cut interest rates by ~3% during past recessions, which results in long-term bonds appreciating by 20%-30%, consisting of coupon payments and capital appreciation. This bond appreciation historically offset losses experienced by equities and reduced overall portfolio downside.
- With bond yields near historic lows, central banks now have limited room to cut interest rates. As a result, the expected appreciation of long-term bonds in future recessions is historically low. That said, some protection remains. If we simply assume that long-term US Treasuries (iShares TLT) return to the highs hit in March 2020, this implies capital appreciation of ~20%, excluding an annualized yield of ~1.8%. It should be noted that non-US government bonds likely do not provide the same level of protection.
- While short-term US Treasuries no longer offer this type of protection, long-term US Treasuries still offer protection in line with, though notably at the low end, of historical standards. Further, Canadian investors who use long-term US Treasuries to protect their portfolio against downside get the added benefit of owning US dollars, which tend to appreciate during recessionary equity market downturns.

JEANNINE'S TIP O' THE MONTH Inviting You to a Webinar Focusing on Responsible Investing on February 3rd

Click on the link below to sign up to the February 3rd webinar at 12pm hosted by Steele Wealth Management and featuring Deborah Debas of Desjardins Group focusing on responsible/ESG investing.

Money For Good: How Your Investments Can Make the World Better

This newsletter has been brought to you by Steele Wealth Management

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