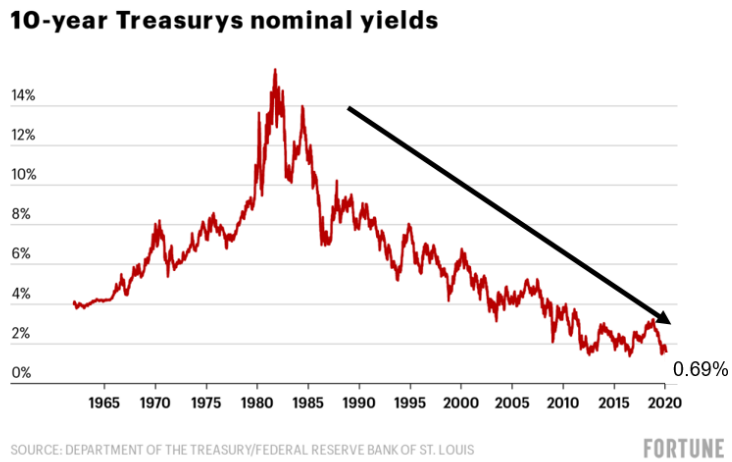
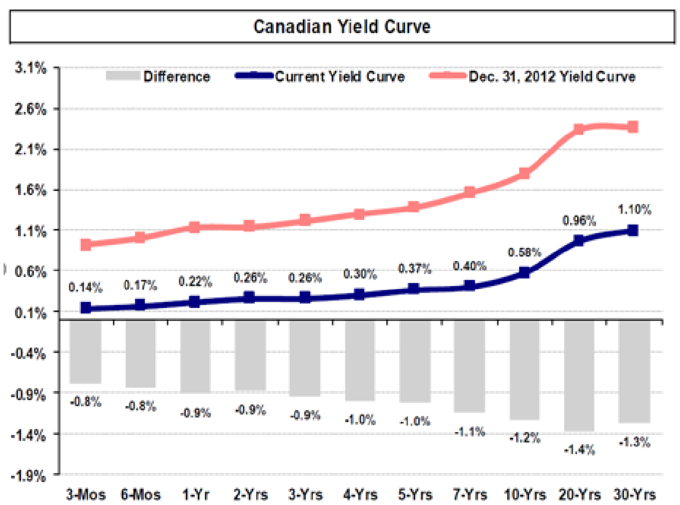
Executive Summary: Webinar

Debt Markets: The fine line between junk and opportunity….

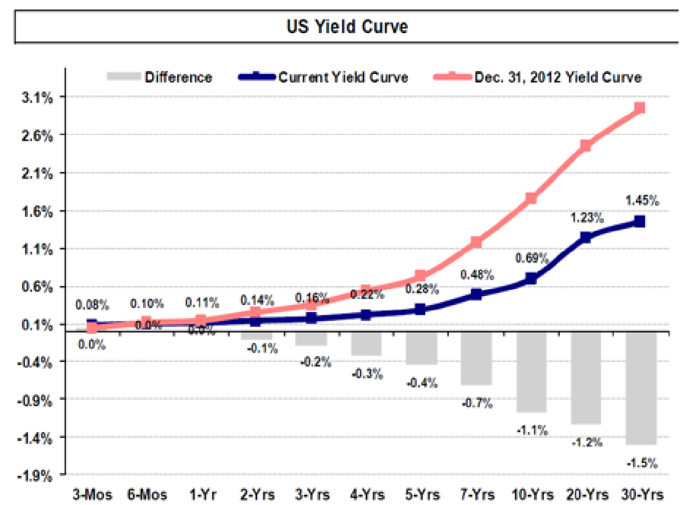
Date: September 24th, 2020

The highlight of American interest rates and there decline since peaking in 1981. "Mankind's low are current interest rates." Current rates are sitting at 0.69%.



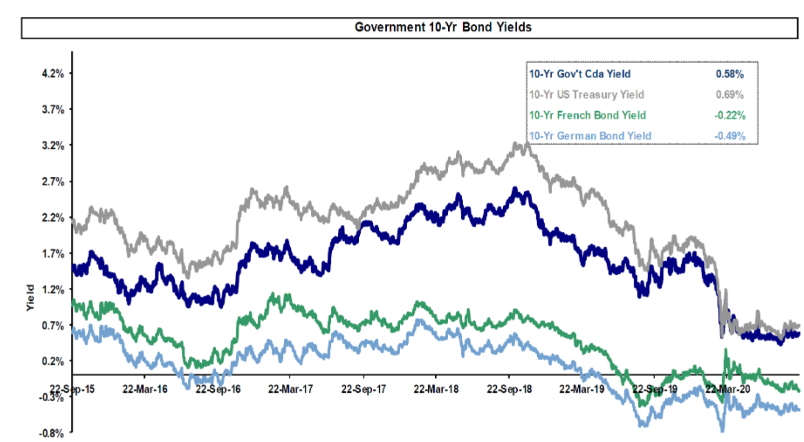


Source: National Bank



Source: National Bank

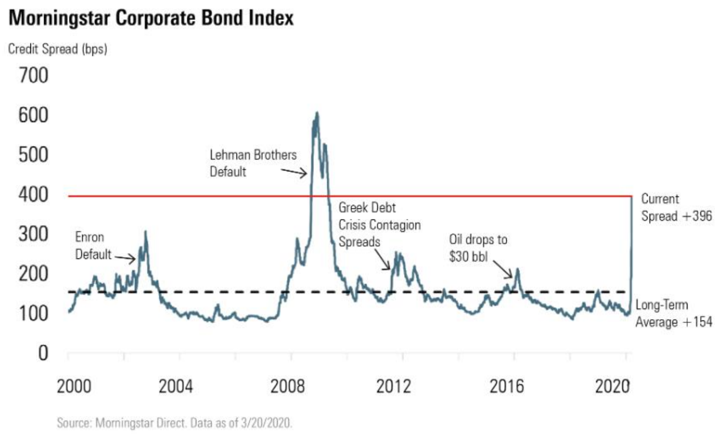
The graphic above is a comparative analysis of the Canadian and American yield curves and where each sit currently in comparison to Dec 31st, 2012. The dramatic dip in interest rates no matter the length of bond shows the spread between 2012 and present rates. There is less spread in American rates in the short-term notes but greater spread on longer term notes from 2012 to 2020. The Canadian spreads were mostly constant for every term length. The US long term rates have more of a gap due to long term future economic uncertainties.



Source: Bloomberg

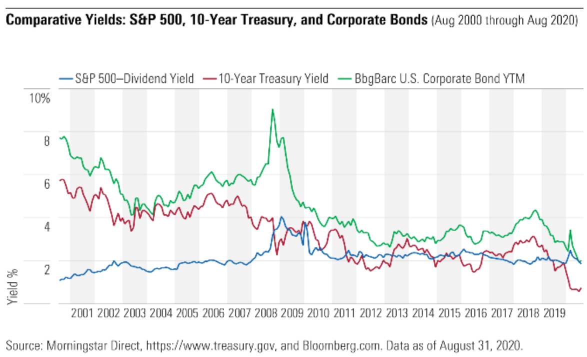
Global interest rates shown on a 10-year note basis, show global rates are at an all time low. Germany and France currently on the 10 year have a negative rate. All 4 trend lines follow the same pattern, North American rates are more volatile, whereas European rates have hovered around the (-0.6-0.7) for entire period. Japan also has been using a negative rate for government issued bonds. The real question is: will this occur in North America? Most recently the UK also implemented negative rates.

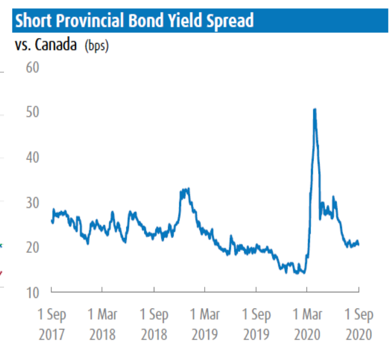
MacNicol & Associates Asset Management Inc.
Safe Harbour Safe Future
Since 2001

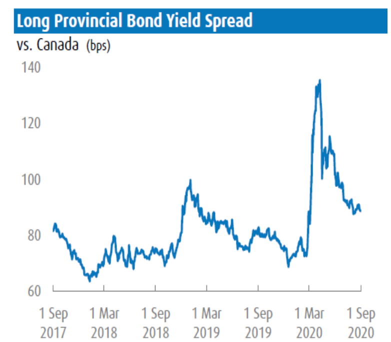


At the peak of the COVID-19 crisis the credit spreads were at the highest point historically since the 08-09 financial crisis and had a much faster spike. The rates got up to almost 4x the normal spread in the US. The pandemic has highlighted it is not a time to hold high interest bonds and junk bonds.

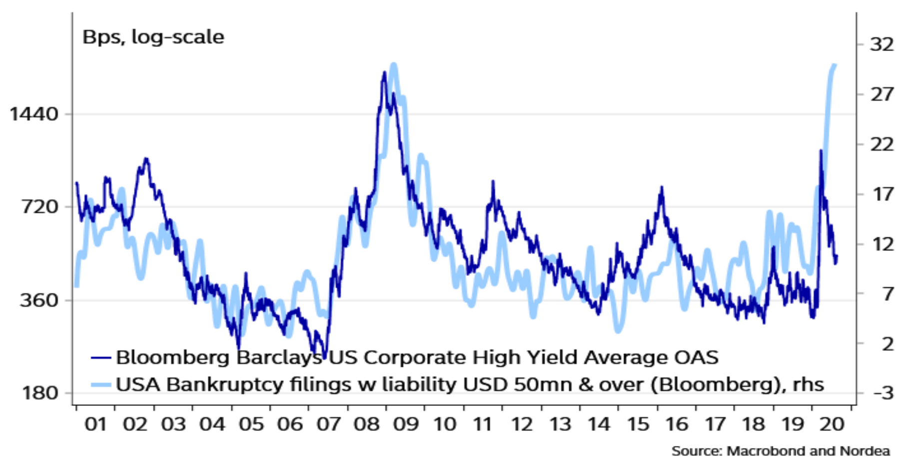
Canadian Provincial bond yield spreads seen below match a similar spike to that of the US throughout the last five years. The recovery over the last eight months is seen in both the short and long term. Obviously, the long-term spread being more volatile. Ballooning out in March-April. Interest rates continue to be low; it is important to realize as inflation creeps in rates could increase in the future.







American Bankruptcy filings spike



The graphic above shows American bankruptcy filings during the 2000s vs. a Bloomberg High Yield Index. Retail bankruptcies have rocketed through the pandemic. It is Important to highlight this major trend throughout the economy as it could have lasting impacts. As spreads have dropped bankruptcies have yet to slow down as lockdowns continue, especially in Canada. To scale the 2008-2009 credit crisis has had almost the same amount of bankruptcies as the COVID-19 epidemic, showing the severe affect on the economy for even small businesses.

MacNicol & Associates Asset Management Inc.
Safe Harbour Safe Future
Since 2001

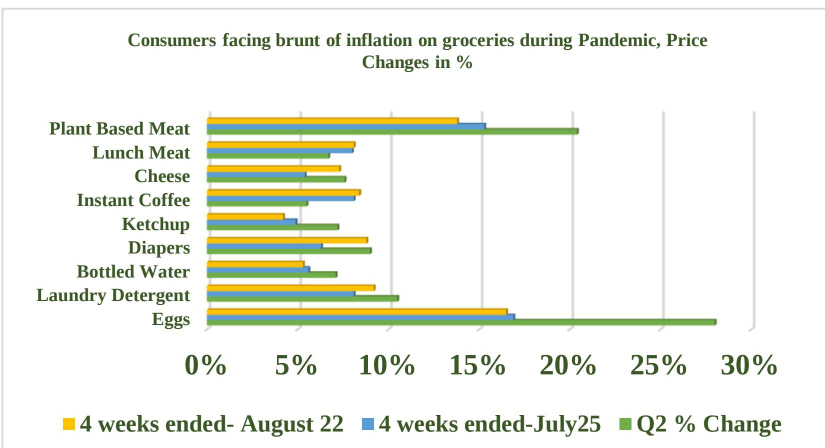
Florida Sublease Availabilities				
Market	Q2 2019 Sublease Space	Sublease Space As A % Of Inventory	Q2 2020 Sublease Space	Sublease Space As A % Of Inventory
Miami	216,248	0.44%	234,200	0.47%
Broward	194,515	0.68%	332,900	1.15%
Palm Beach	114,500	0.50%	178,100	0.78%
Tampa	610,171	1.32%	761,100	1.63%
Orlando	188,957	0.49%	330,300	0.79%
Jacksonville	75,267	0.30%	460,300	1.80%
Totals	**1,399,658**	**0.67%**	**2,296,900**	**1.07%**

Source: Cushman & Wakefield

The bond market is a key indicator for the overall health and outlook in the market, the same can be said for the real estate market. Many businesses are subleasing their leased space to other tenants. Comparing subleases last year to this year in Florida, the number has increased but very minimally. However, with an increase in the short term that becomes excessive could be a major warning sign for market trouble coming.

New York subleases are extremely high which is also worrisome. Even though Manhattan is the financial capital of the world, has a global food industry, has a massive retail industry and is home to a large youthful population, office space is not in demand. Since the pandemic started, 25% of office space is attempting to be subleased with the American Business landscape evolving to: work from home. It is important to look at the real estate industry's geographic trends on top of normal indicators like rates.

Pandemic Ripples: Consumer Inflation

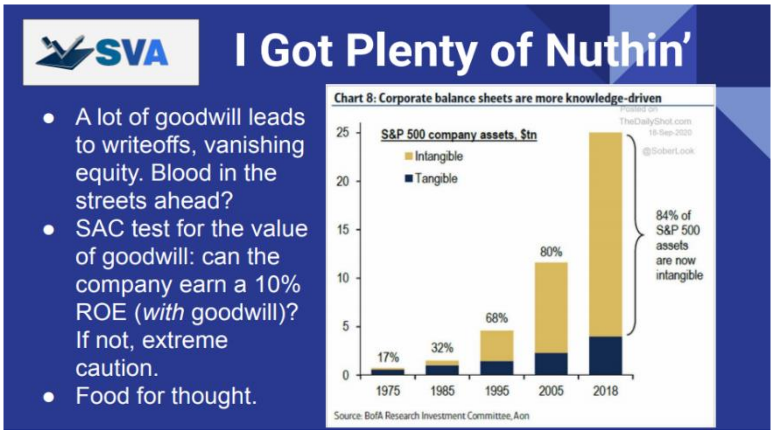


The US FED has yet to acknowledge rising prices. The brunt of these price increases is being paid for by consumers. The graph is showing price changes in % over three periods with quite large price increases in Q2 as well as July and August. Demand for these grocery items has increased over the pandemic due to people being home all day, everyday with limited dining options available. The price changes increased by an average of 8% with eggs having the largest increase. A trend was found in Plant Based Meat as sales volume grew in Q2 by 108.6% even though prices increased by over 15%.

Inflation Coming?

The above graphic shows the price chart of the commodity soybeans and its pricing over the past year. The spike in current prices is extremely important to note. Studied by Stanley Druckenmiller, who is worried about high inflation in coming years, he says its higher than what the Fed admits (2%). The soybean price has increased by over 25% since March having an extreme price spike. Lumber as well as Copper also have seen vigorous price increases over the Pandemic. There is also inflationary pressure from a looming second stimulus package. The purchase power of the USD has overall declined and has decreased its purchase power, the definition of inflation.

Equity Update



A major occurrence during poor credit times and minimal economic growth is capital investment grinding to a halt. This drives interest prices down, driving asset prices up. Recently there has been a disappearance of companies on indexes due to companies acquiring smaller assets, acquiring them at a premium to their book value, creating massive accounts of Goodwill. A lot of intangible assets are good in a bull market however the market is not bullish right now. Principal affects of Goodwill could be worthless majorly affecting the credit of a company.

Share buybacks have had a massive affect on the valuation of a company over recent years. **Boeing** is at its highest price to book ratio on the SVA chart due to earnings not coming through to affirm this high valuation. The quality of the Boeing Balance Sheet has dropped seen in the Balance Sheet Growth Data. Boeing is having solvency issues. If things do not turn around in the airline industry, **Boeing** could become a ward of the state. Looking at the Price to Book chart below the ROE is the dotted line and follows the Price to Book ratio trend line perfectly. Even though the ratio bounced back recently the ROE has yet to recover and does not look optimistic in the short-term future. This is an example of the hollowing out of many companies balance sheets.

CORE DATA

Dividend	Yield	Market Cap.	52 Week Range	Avg. Vol.
		85,329M	89.00 - 391.00	23.55M

EARNINGS DATA

EPS/12MT	P/E	EPS/12MP	Fwd P/E	Imp. ROE
($5.01)	-30.17	$0.46	326.32	5.17 %

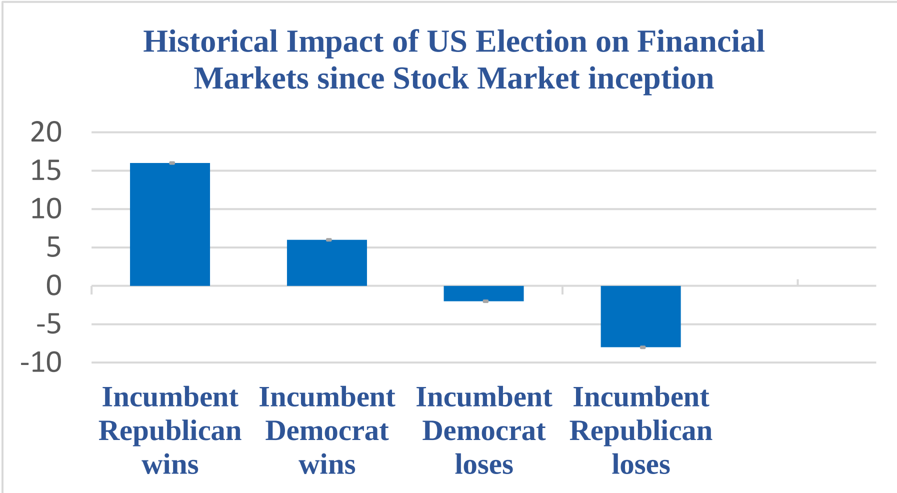
SVA DATA

Normal	MV Ratio	Stability Ratio	FMV Potential	FMV
8.89	16.99	0.44	-92.84 %	$10.82

BALANCE SHEET GROWTH DATA

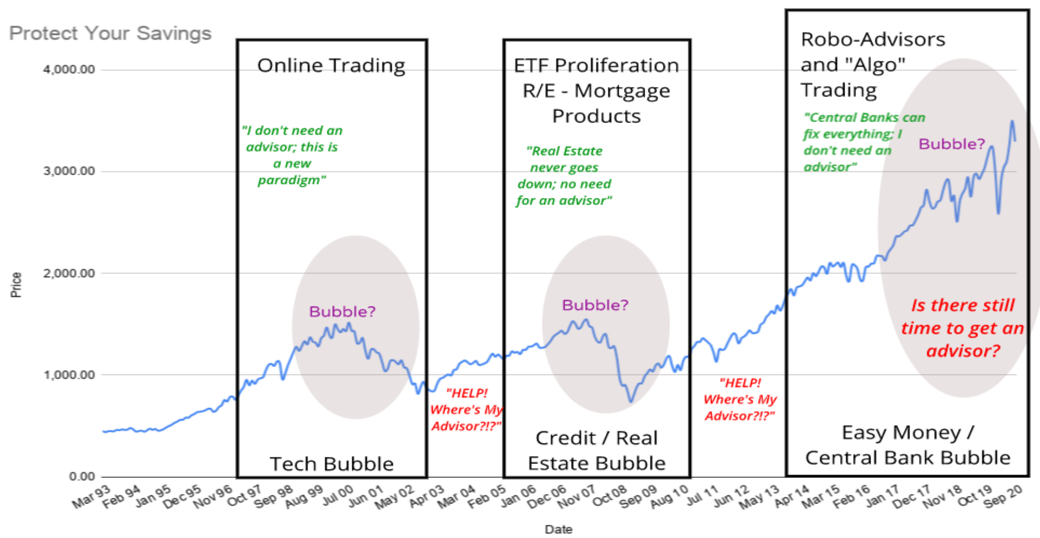
5 Year Compounded	1 Year (Best Fit)	Most Recent Qtr / Qtr	Next Qtr Projected Growth Rate
-8.03 %	23.00 %	14.45 %	2.28 %

The Market vs. The Election



November 3rd, the looming day everyone across the world is anticipating, this includes financial markets, the US Election. The bar chart shows an average performance of the US Stock Market after an election since the inception of financial markets. The chart shows where the market is, a year after the electoral result. The more volatile result is an Incumbent Republican loses which is the current state of affairs in the US.

Another Bubble?



MacNicol & Associates Asset Management Inc.
Safe Harbour Safe Future
Since 2001