

Zero Interest in Interest Rates

It finally happened in North America! In April, US T-Bills went to negative interest rates. This means that a buyer of T-Bills had less money a month later than when they started. Though we have seen this happen in Europe, it is a shock to have it strike so close to home especially to people like me who were offering clients 13% yielding T-Bills back in the early '90s. However it is a reality caused for many reasons and it is a reality that is going to have meaningful impacts on our investments going forward. If interest rates are going to be low for an extended period of time, we have to adjust. For example, people are stating that housing prices will likely drop significantly because of the COVID-19. This fall in prices will likely not happen. If you believe that interest rates are going to be close to zero, buying hard assets makes sense-- which supports housing prices.

We first heard about interest rates going much lower in 1996, with David Cork's book, *The Pig and the Python* --with the pig being the baby boomers aging their way through the economy. The high interest rates in the 1970's and 1980's were attributed to the boomers borrowing money for houses, appliances, cars, etc. As the boomers grew older and their saving years set in, interest rates would come down to reflect that there was more money to be invested in bonds and stocks and this has borne out. Also contributing to today's close to zero rates is the massive government debt that is being accumulated due to the social assistance provided during the shutting of the economy. This debt is an incentive for governments to keep rates low.

One of Canada's best companies, Brookfield Asset Management, is a value investing company that perfectly aligns with our ideals and that is why it is our biggest position in our value portfolio. Brookfield Asset Management manages and operates real assets for institutional clients. As of March 2020, Brookfield Asset Management has over 500 billion dollars of assets under management. They have their fingers in many pies including infrastructure, private equity, renewables, real estate and even began offering their clients perpetual funds. This is a rarity in the institutional money management business where there is usually a maturity date when the investors get their money back. At their most recent Annual General Meeting for shareholders, the CFO Nicolas Goodman and the CEO Bruce Flatt discussed Brookfield's preparation for lower rates and the expectation of some sort of crisis, though not of course knowing what the exact cause of the crisis would be. They have plenty of liquidity to buy real assets that will become increasingly popular with rates dropping and for infrastructure, as indebted governments turn to the private sector to help them finance promised and critical highways, hospitals, transit etc.

There are many opportunities in the markets right now. Recognizing that interest rates are going to stay low for an extended period helps us filter through these opportunities and provide us the chance to take advantage of this long-term trend. This crisis has affected us all, but it will pass as all crisis' do and we must be prepared for that time.

The information contained herein was obtained from sources we believe to be reliable, but is not guaranteed by us and may be incomplete. The opinions expressed are based on our analysis and interpretation of this information and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The opinions expressed herein are those of the author and do not necessarily reflect those of National Bank Financial. The securities or investment sectors mentioned herein are not suitable for all types of investors. Please consult your investment advisor to verify whether the securities or sectors suit your investor's profile as well as to obtain complete information, including the main risk factors, regarding those securities or sectors. This document is not a research analysis produced by the Research Department of National Bank Financial. National Bank Financial is a subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange (NA: TSX).