RBC Dominion Securities

A Publication for the clients & friends of Shawn Hass & Dustin Leniuk

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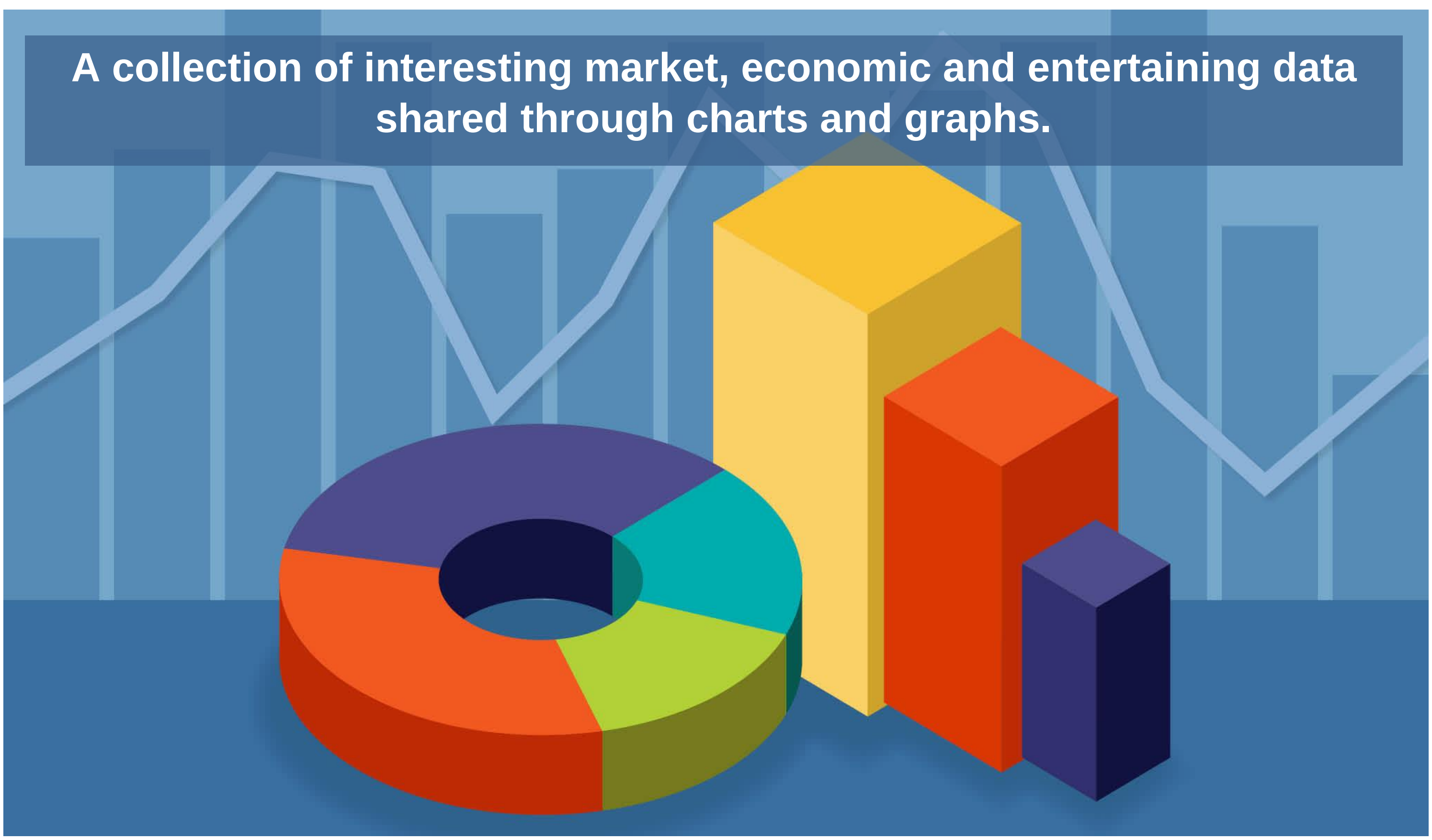
The Chart Mixer

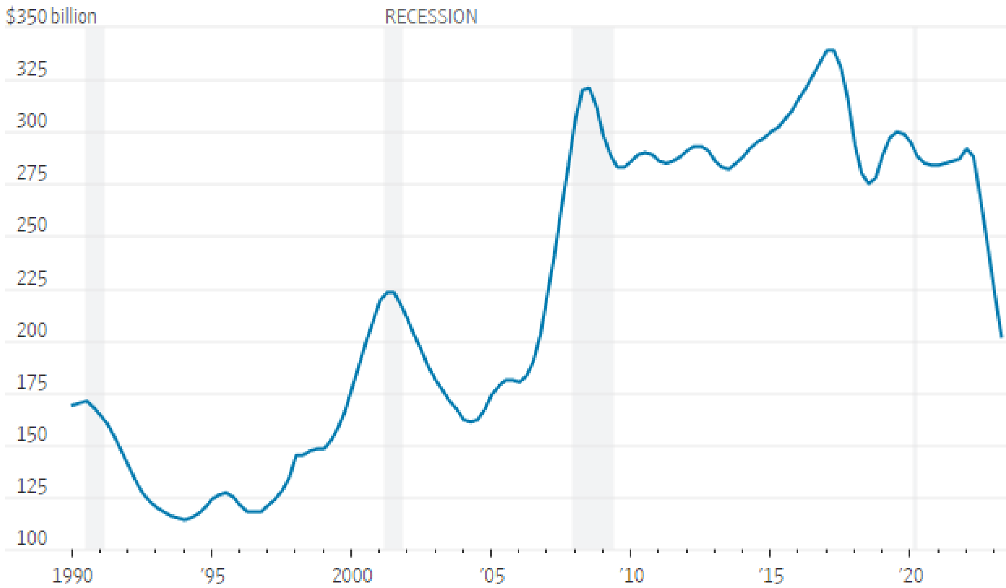


Rising rates make big companies even richer (see chart to the right from the **Wall Street Journal**): **"The winners from higher rates were high-quality borrowers**, who locked in low interest rates around the pandemic with bonds maturing further in the future than any time this century. Higher rates have little immediate impact on their borrowing costs—only affecting bonds when they are refinanced—while they earn more on their cash piles straight away. **Corporate net interest payments—that is, interest paid on debt minus that received on savings—fell as interest rates rose, the opposite of what usually happens."**

Interest Impact

Companies are earning more in interest than they are paying out since Fed rate hikes

Non-financial corporate net interest payments, whole economy



Note: Seasonally adjusted annual rate; includes miscellaneous payments
Source: Federal Reserve Bank of St. Louis

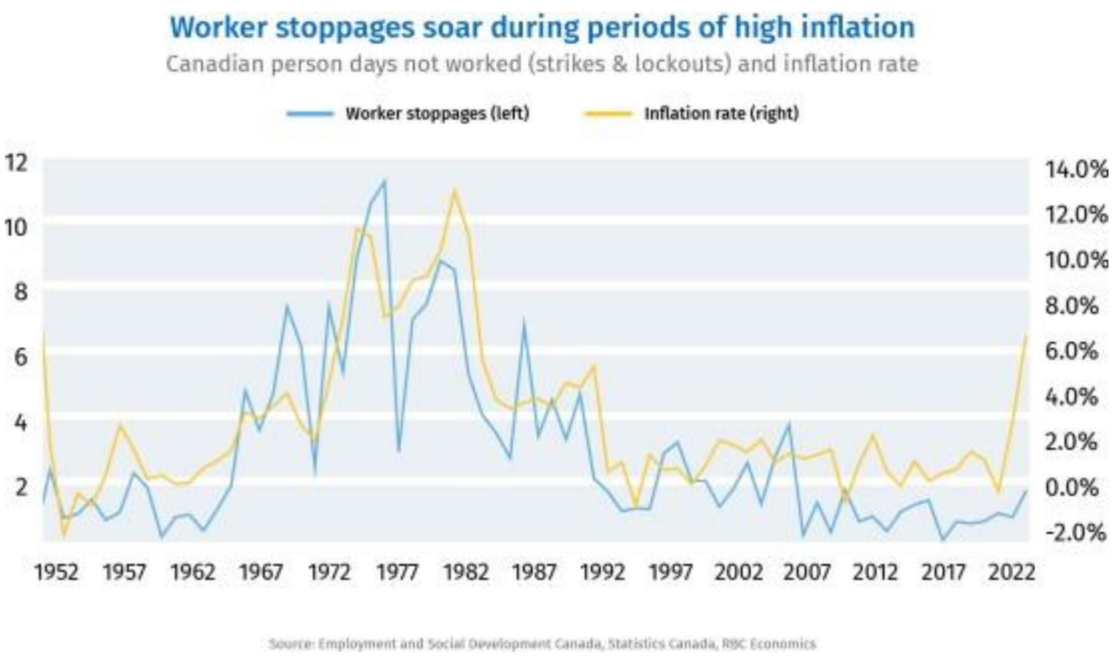
Canadian household debt service (see chart below from **RBC Economics**): "After the inflation scare of the last two years, we think the BoC will be much more cautious about reverting to rate cuts. And near-term interest rate risks are still tilted to the upside. But if job losses start to pile up for heavily indebted households, there are risks that a mild economic downturn will turn into something more painful. **As a base-case, we don't expect rate cuts until the second half of 2024, when the BoC is fully convinced that core inflation is on a steady path back to that 2% target."**

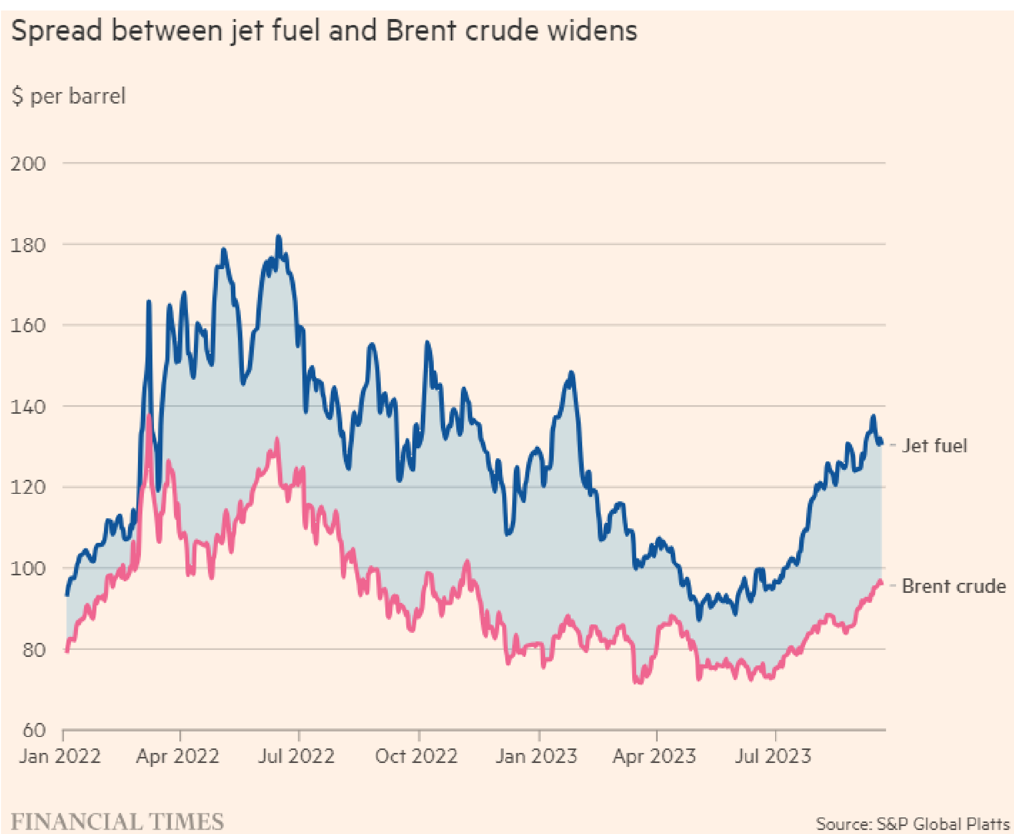
Debt servicing costs in Canada will continue to rise

Household debt service ratio, percent

Source: Statistics Canada, RBC Economics

Inflation & worker strikes (see chart below from **RBC Economics**): “Inflation is elevating the cost of living—and sending labour relations regarding wages into more contentious territory. Across the country, unions have responded by demanding higher pay for their members, increasingly using labour action to further their cause. This growing unrest between employers and staff doesn’t necessarily come as a surprise. **Historically, more time is lost to work stoppages during periods of high inflation—as weakening purchasing power prompts workers to rally in labour contract negotiations.** In 2022, there were nearly 160,000 person days not worked due to work stoppages—or 160,000 working days unfulfilled due to a worker strike or lockout. That’s a 49% increase over the 10-year average that led up to the pandemic (2010 – 2019).”



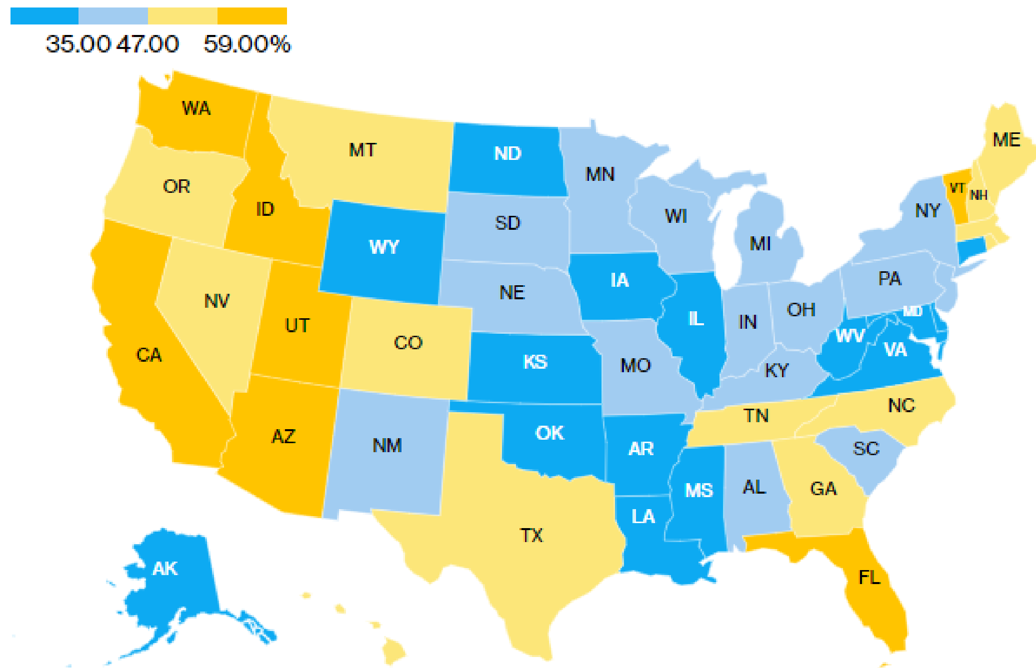


Why air fare costs have become so expensive (see chart to left from the **Financial Times**): “Air fares have already risen sharply this year, as carriers cash in on high demand for travel at a time of constrained supply of aircraft, following retirements during the pandemic and supply chain shortages. **To make matters worse, airlines are paying a significant premium for jet fuel, which has risen to $130 per barrel.** Jet fuel prices have rallied because of strong demand for travel and a structural deficit of jet fuel in Europe amid OPEC cuts, sanctions on Russia and high demand for other refined products, including diesel.”

U.S. homeowners' equity (see chart to right from **Bloomberg**): "Home ownership has reached a milestone in the U.S. Nearly half of mortgaged properties were considered equity-rich in the second quarter—meaning owners had at least 50% in home equity. This marked the ninth straight quarterly rise, fueled by soaring house valuations in the pandemic era and an increase in down payments by recent buyers."

Equity Rich

Soaring home prices and large down payments on new loans push share of equity rich in Florida to 60.4% last quarter from 33.4% a year earlier

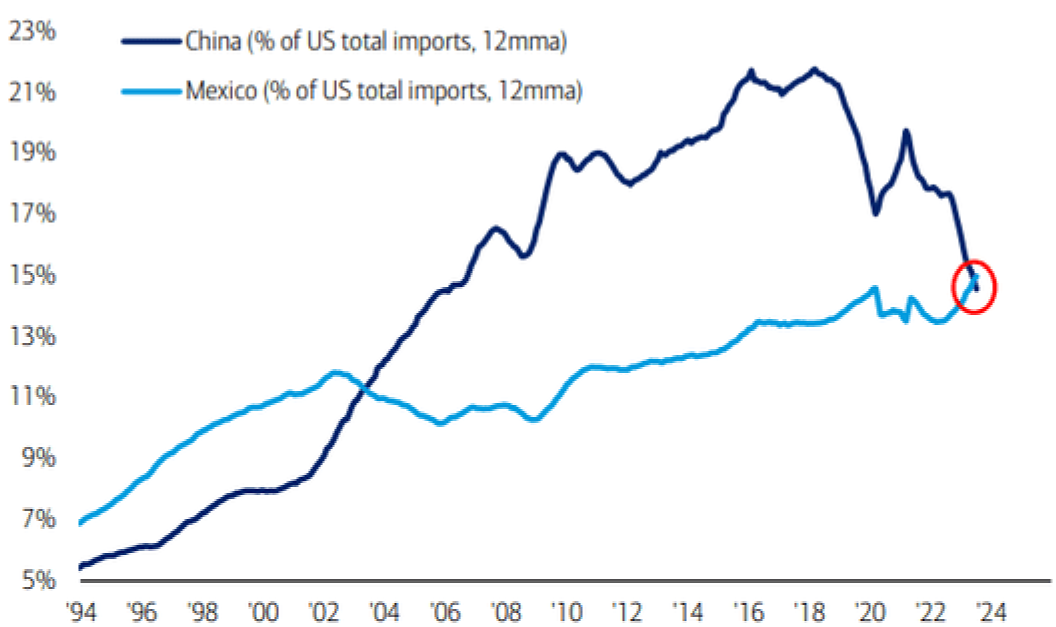


Source: ATTOM Q2 2022 U.S. Home Equity and Underwater Report
Note: Equity-rich homes are those with a loan to value ratio of 50% or lower, meaning the property owner had at least 50 percent equity.

Mexico has benefited from a shift in the U.S. import mix (see chart below).

Chart 4: US importing more from Mexico than China for first time since 2003

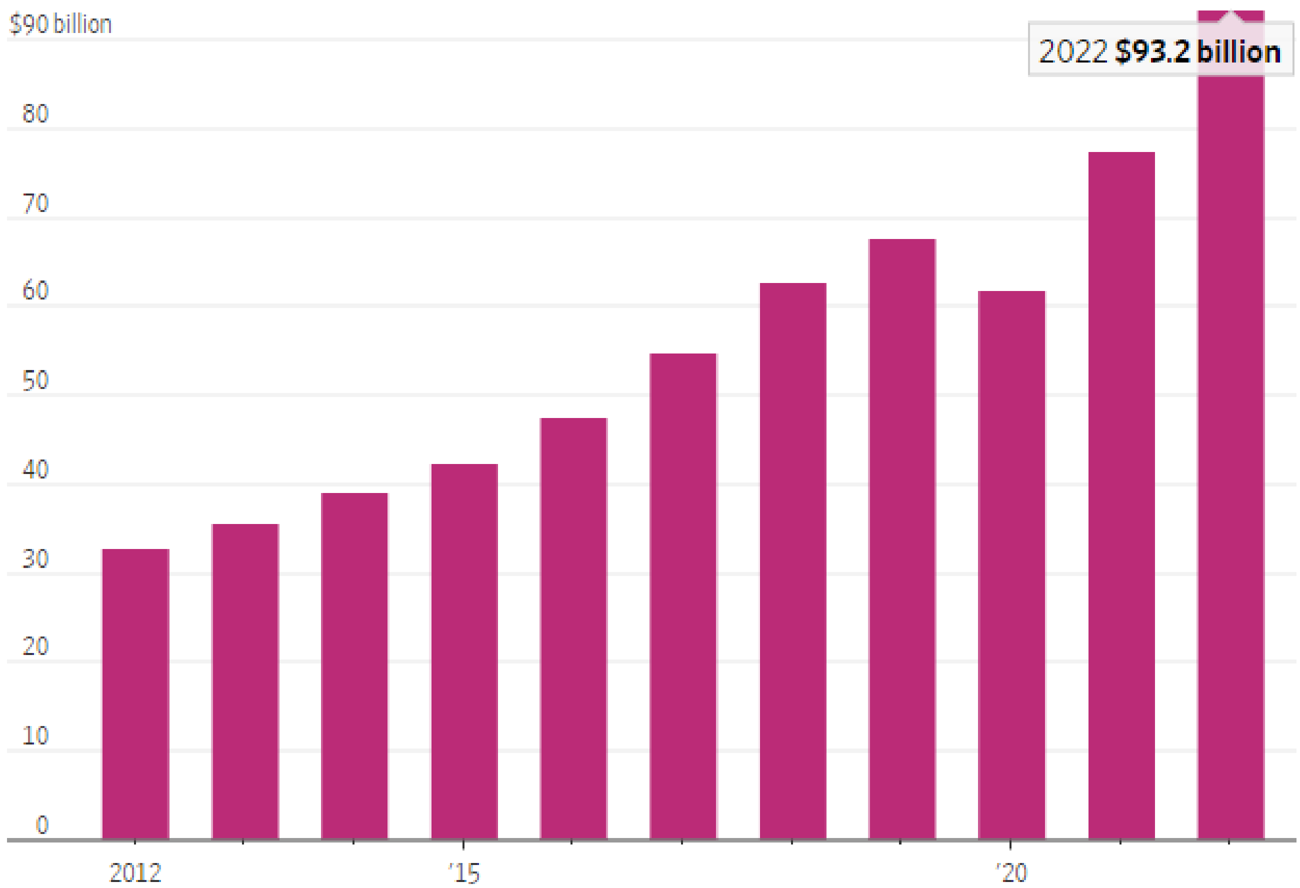
China and Mexico as % of US imports (12-month moving average)



Source: BofA Global Investment Strategy, Bloomberg

Visa-Mastercard fees (see chart below from the **Wall Street Journal**): "Visa and Mastercard are planning to increase fees that many merchants pay when they accept customers' credit cards. The fee increases are scheduled to start in October and April. The changes could result in merchants paying an additional $502 million annually in fees. The economy of interchange fees is largely hidden from shoppers. But the fees are a major source of contention between the card networks and merchants large and small. **U.S. merchants paid an estimated $93 billion in Visa and Mastercard credit-card fees last year. That was up from about $33 billion in 2012."**

Visa and Mastercard credit card fees paid by U.S. merchants



Source: Nilson Report

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