Mackenzie North American Equities Team

Q2-2019 COMMENTARY

- The portfolio management team remains constructive on the outlook for Canadian equities. Equity valuations look fair on an absolute basis but are compelling relative to the current level of interest rates. We continue to deploy our investment philosophy via a consistent investment process pursuing high quality companies and ensuring we are being rewarded for the risks being taken.
- It is our expectation for equity markets to continue moving higher driven more by multiple expansion than earnings growth. Central bank easing has typically resulted in multiple expansion as sentiment and expectations towards economic growth and hence corporate earnings turn positive. The Federal Reserve Chairman recently signaled a change of course on rates and now Fed Funds futures indicate a market expectation for two rate cuts before the end of the year. The recent deceleration in global economic growth has resulted in slower near-term corporate earnings growth and negative revisions to somewhat lofty expectations. We expect this slowdown in growth to be temporary.
- The economic backdrop in Canada remains resilient. Many commentators had been expecting a drastic slowdown in domestic economic activity, but this has not played out. The concern centered predominantly around high levels of household indebtedness, a financially strained Canadian consumer and the resulting slowdown in spending. These concerns have not played out and continue to be mitigated as underlying economic measures surprise to the upside including employment, retail sales, and housing starts and by the fact that household wealth levels are also at record highs.
- We do not foresee a global economic recession in the near to medium term. The Canadian economic cycle has historically been tightly correlated to the U.S. cycle and we expect this to be the case going forward as the U.S remains the largest end market for most of Canadian products and services. We follow several U.S. leading economic indicators and see low risk of recession in the near to medium term (more on this below, where we discuss risks).
- We continue to monitor key risks in the market. The biggest risk to the global economic outlook and equities remains the possibility of an escalation of a trade war particularly between the U.S. and China. The result of higher and more broad tariffs could be a slowdown in global trade volumes, slower global economic growth and higher final prices for consumers and business. We also continue to monitor business cycle risk. There has been an increased market focus on the possibility of a U.S. recession motivated by the inversion of the yield curve. We are not forecasting a U.S. recession to occur in the near term. In our view it is a mistake to only use a single indicator and draw a conclusion on the possibility of a recession. We prefer to follow several indicators to gauge recession risk, including labour market conditions, tightness of credit availability and potential for inflationary shocks from commodity price increases. None of these other indicators are at levels which would be consistent with a near term recession however we continue to closely monitor these risks as we get to the later stages of the economic cycle.

PORTFOLIO MANAGEMENT TEAM:

Martin Downie, Lead Portfolio Manager & Senior Vice-President, Investment Management, Mackenzie Investments
Tim Johal, Portfolio Manager & Vice-President, Investment Management
William Aldridge, Portfolio Manager & Vice-President, Investment Management
Adelaide Kim, Associate Portfolio Manager, Investment Management

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Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

MACKENZIE Investments

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Fund and Benchmark Performance as at: June 30, 2019	1 year	3 years	5 years	10 years
Mackenzie Canadian All Cap Value Fund – Series F	3.7%	7.9%	4.1%	8.2%
S&P/TSX Composite Total Return Index	3.9%	8.4%	4.7%	7.8%
Mackenzie Canadian Large Cap Dividend Fund Series F	6.3%	8.7%	6.0%	8.2%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	4.3%	9.2%	6.0%	8.7%
Mackenzie Canadian Small Cap Value Fund - Investor Series (Performance data shown uses Investor Series, which has a management fee that is 0.35% lower than Series A)	-2.8%	4.0%	1.0%	10.1%
S&P/TSX Small Cap Total Return Index	-8.1%	0.2%	-1.6%	5.9%

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