Mackenzie Resource Team

Q2- 2019 COMMENTARY

Highlights

- Global leading indicators of economic activity have, on balance, stabilized at lower levels. Encouragingly, global central banks are starting to implement monetary easing and rate cuts are expected over the next several months. This should support the global economy, helping it to further stabilize, if not improve late 2019.
- Global economic weakness has unsurprisingly been centered around manufacturing activity and industrial production, as global capital expenditures have taken a pause while companies wait any form of resolution on global trade uncertainties.
- The first half of the year saw weaker than expected demand for oil. This can be partially explained by one-time events but slowing global economic growth and weather were key drivers.

Market Review

- Global leading indicators of economic activity have, on balance, stabilized at lower levels. Looking through to regional activity – China has picked up modestly as the results of ongoing fiscal stimulus and normal seasonal effects take hold. Other emerging markets have shown similar signs of stabilizing. European economic indicators are showing some positive signs; however, concerns remain over the weakness of exports and international trade as the world sorts through ongoing trade disputes. Inventory buildup in the US that supported GDP growth in Q4-2018 and Q1-2019 has stalled. Encouragingly, global central banks are starting to implement monetary easing and rate cuts are expected over the next several months. This should support the global economy, helping it to further stabilize, if not improve late 2019.
- Global economic weakness has unsurprisingly been centered around manufacturing activity and industrial production, as global capital expenditures have taken a pause while companies wait any form of resolution on global trade uncertainties. Provided that consumer sentiment remains strong, and inventories continue to draw, we should see a pickup in global manufacturing in late 2019 or early 2020. We therefore maintain our base case outlook for slower growth in 2019 followed by a better 2020.
- The first half of the year saw weaker than expected demand for oil. This can be partially explained by one-time events but slowing global economic growth and weather were key drivers. In the second half of the year we expect to see stronger demand for oil which should drive draws on global stock. Despite supply being curtailed or managed by OPEC-plus's discipline and sanctions on Iran and Venezuela, current inventory levels are high, putting a ceiling on prices. Further inventory draws in Q3 should support prices at or above current prices.
- Some micro indicators of supply are starting to point to North American oil and gas production growth slowing meaningfully as capital restraints is pressuring all players. With free cash flow generation and returns to shareholders as the new mantra, exploration and production companies are forced to slow. To date we are encouraged by these signs of restraint which should benefit the supply demand outlook going forward.
- Global base metal prices have generally stabilized at price levels which do not incentivize new investment. There too, we expect better supply-demand fundamentals for 2020 provided current global demand doesn't deteriorate further. Bulk materials such as iron ore and metallurgical coal continue to enjoy very high prices due to a combination of strong demand in China for ongoing infrastructure projects and new housing, and tight supply; particularly of iron ore, due to ongoing challenges issues in Brazil. Lumber prices have shown tentative signs of bottoming with some seasonal recovery in US housing activity after an unusually slow Q1 which was driven by significant flooding in large parts of the US. Lumber supply continues to be adjusted downward as British Columbia lumber companies belatedly start shutting down uneconomic capacity in the BC interior. We believe this supply discipline will put a positive structural underpinning behind this market, should US housing constructive activity accelerate.
- In response to stalling global growth momentum, many central banks have made a hasty retreat from tightening to easing. US real interest rates (i.e. nominal interest – inflation) have collapsed to 2bps, down from a cyclical high in November 2018 of more than 1%. The surprise has been inflation, where expectations are relatively unchanged resulting in lower real interest rates (i.e., nominal interest rates minus inflation expectations). Lower real interest rates lower the opportunity cost of owning gold relative to most asset classes; with negative real interest rates just a few basis points away, gold could enter a very prosperous environment.
- As we have commented in previous quarters, the current economic cycle has to date not followed a traditional trajectory towards a maturing economic expansion. We continue to believe that the current economic environment is not on the cusp of a recession as global consumer expenditures remain very strong, assisted by still solid wage growth, very low unemployment in major economies, and moderating inflation; all helping consumer sentiment and consumer expenditures.

MACKENZIE Investments

- Our proprietary risk indicators have us remaining cautiously optimistic. As such, we will continue to prudently manage our risk exposures until indicator turn more decisive. For now, we believe that H1/2019 will see the global economy regroup before it returns to trend growth later in 2019 and into 2020.

PORTFOLIO MANAGEMENT TEAM:

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Fund and Benchmark Performance as at: June 30, 2019	1 year	3 years	5 years	10 years
Mackenzie Canadian Resource Fund Series F	-21.5%	-3.9%	-8.5%	1.4%
*Blended Index (comprised of 38.5% S&P/TSX Energy + 31.5% S&P/TSX Materials + 16.5% MSCI World Energy + 13.5% MSCI World Materials)	-6.5%	2.3%	-1.6%	2.3%
Mackenzie Global Resource Class, Series F	-12.5%	1.6%	-3.8%	3.2%
55% MSCI World Energy (Net) Index and 45% MSCI World Materials (Net) Index	-6.4%	7.6%	2.6%	6.1%
Mackenzie Precious Metals Class Series F	17.0%	-0.5%	6.3%	3.4%
S&P/TSX Global Gold Total Return Index	16.4%	-3.6%	3.3%	-2.5%
Mackenzie Gold Bullion Class, Series F	10.6%	1.2%	4.0%	n/a

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Gold Bullion Index	12.0%	2.6%	5.4%	5.5%

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