Mackenzie Resource Team

Q1 2019 COMMENTARY

Highlights

- Accelerating fiscal stimulus and a hasty retreat from monetary tightening intentions by Central Banks were the immediate response to a moderation in global economic activity during Q4/2018
- The indicators we follow closely are signaling a pause in economic growth, rather than a stalling or worse, a contraction as there are still no signs of capacity constraints.
- During Q1/2019, the market for oil remained relatively tight as Saudi Arabia and OPEC held firm to their announced cuts and Venezuela and Iran saw a production decline.

Market Review

- Accelerating fiscal stimulus and a hasty retreat from monetary tightening intentions by Central Banks were the immediate response to a moderation in global economic activity during Q4/2018. In China, authorities are focusing on more sustainable fiscal measures to reinvigorate the economy, while continuing to work towards a fragile trade truce with the U.S. In the U.S., the Federal Reserve belatedly realized that its "autopilot" rate hike trajectory was causing stresses in Emerging Markets (from a strong U.S. Dollar) but also domestically, where higher interest and mortgage rates were starting to affect consumer behavior.
- The indicators we follow closely are signaling a pause in economic growth, rather than a stalling or worse, a contraction as there are still no signs of capacity constraints. Of particular interest, wage growth and inflation seem to be very much under control. We therefore maintain our base case outlook of slower growth in 2019, followed by a stimulus phase which would allow global economies to regroup for a better 2020. As we have commented previously, commodities will be starting the last stage of the economic cycle from a strong starting point with low inventories and fairly tight supply/demand balances. With such context, resource should yield many investment opportunities in the 2020-2021 timeframe.
- **Energy -** During Q1/2019, the market for oil remained relatively tight as Saudi Arabia and OPEC held firm to their announced cuts and Venezuela and Iran saw a production decline. Going forward, we expect a disciplined OPEC combined to a measured non-OPEC supply growth to keep a lid on supply. Of greater focus will be global oil demand, where some market participants expected the latest moderation in economic activity would cause some surprises to the downside. In the first quarter the market sided with us, when the first quarter ultimately saw a normal seasonal balance.
- Of equal importance is the common belief that growth from the U.S. Permian basin would suffice to supply the world's incremental demand for years to come and hence, that any oil price increase would be capped by an equivalent increase in production. We disagree. Permian productivity is already coming down as the industry is now turning to development after a 5-year period of exploration. During the first 5 years, companies largely worked on assessing the potential of their land base, and drilled wells far apart. As the industry has now delineated its acreage, companies are now filling gap between wells and quickly realizing that interactions between wells reduces productivity compared to parent wells.
- **Materials -** As U.S. mortgage rates reached cyclical highs in 2018, demand for housing stabilized around what is believed to be the new mid-cycle level. However, household formation continues to improve which suggests pent-up demand for single and multi-family housing may be accumulating, albeit sensitive to mortgage rates and affordability. We view the recent decline in 30-year mortgage rates as good news for the average U.S. citizen. This decline, combined with still-solid U.S. real wage growth, should lead to higher demand for new homes. As a result, we believe the demand for lumber and other building materials will be on solid footing and we therefore expect the price of lumber to move higher in the second half of 2019. Unfortunately, a combination of poor weather and slow spring construction activity, most lumber companies trade at a substantial discount to historical valuations their now pristine balance sheets and improved capital discipline.
- **Gold -** With monetary tightening expected to moderate or even reverse, real interest rates (nominal interest rates – inflation expectations) have recently peaked, and real interest rates have stabilized at substantially lower levels. This provides a tailwind to gold prices as low real interest rates have historically been supportive for gold due to lower the opportunity cost of owning bullion. In addition, tail risks to the economy have increased with slower growth momentum and continued trade wars, and gold therefore is increasingly being looked at as portfolio insurance and an alternative to traditional equity and fixed income investments. This is reflected by Central Bank buying of gold, which has reached the highest levels since the end of the Gold Standard in 1971, but also in a resumption of gold ETF buying by institutional and retail investors.

MACKENZIE Investments

Outlook

- As we have commented in previous quarters, the current economic cycle has to date not followed a traditional trajectory towards a maturing economic expansion, which normally would be associated with capacity constraints, sharply accelerating wages and rising capex 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:

Benoit Gervais, Senior Vice President, Investment Management, Mackenzie Investments
Onno Rutten, Vice President, Investment Management, Mackenzie Investments
Scott Prieur, Associate Portfolio Manager, Investment Management, Mackenzie Investments
Asmaa Marrat, Senior Investment Analyst, Investment Management, Mackenzie Investments

Fund and Benchmark Performance as at: March 31, 2019	1 year	3 years	5 years	10 years
Mackenzie Canadian Resource Fund Series F	-1.1%	7.5%	-2.0%	5.9%
*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)	4.0%	7.2%	0.3%	4.2%
Mackenzie Global Resource Class, Series F	-1.1%	7.5%	-2.0%	5.9%
55% MSCI World Energy (Net) Index and 45% MSCI World Materials (Net) Index	3.6%	10.5%	3.8%	7.3%
Mackenzie Precious Metals Class Series F	4.3%	7.2%	5.9%	-4.4%
S&P/TSX Global Gold Total Return Index	5.8%	3.2%	2.5%	-4.4%

MACKENZIE Investments

Mackenzie Gold Bullion Class, Series F	0.1%	1.3%	2.3%	n/a
Gold Bullion Index	1.1%	2.6%	4.0%	4.1%