Putting the 2018 Market Decline into Perspective

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Key Takeaways:

- Since the end of the global financial crisis in 2009 there have been 12 periods when equity markets experienced a 5% loss or greater, including the most recent one in 2018.
- Professional investment management can demonstrate its greatest value to investors and their advisors during market selloffs, in part by providing downside protection.
- Mackenzie Ivy Foreign Equity Fund declined less than the market in 11 out of the 12 contraction periods since 2009 and also averaged outperformance of about 460 basis points.

So far in 2018 equity markets have experienced a dramatic uptick in volatility coupled with multi-year performance lows across regions. Markets peaked around the end of January and found their most recent bottom some time during the trading day on February 9. During that period, the MSCI World Index declined about 7% in CAD terms (using end-of-day levels). While this amount is not enough to call a technical 'correction' (i.e., a 10% loss), the move is certainly enough to have investors concerned about the state of markets, and even the ability of fund managers to outperform in such volatile periods. The Mackenzie Ivy Team believes that outperformance in these periods is most important, and we have a history of protecting investor capital during the most difficult market times.

Negative 7% returns in about two weeks is definitely a significant move, and we understand how this can be cause for concern. However, market moves of this size are more common than one would imagine. Since the end of the Global Financial Crisis (GFC) in 2009 there have been 12 periods when markets experienced a 5% loss or greater, including the most recent one. In these periods, markets reached a technical correction in CAD terms only four times and moved down by an average 8.7% (Figure1) over all instances.

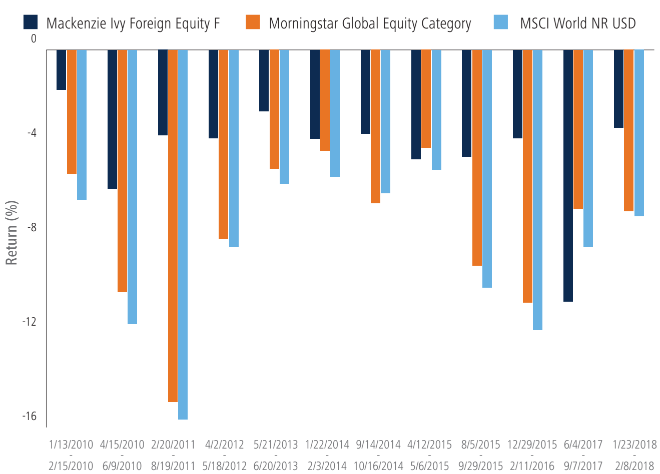
Figure 1

Contraction Period		MSCI World Return (%)
1/13/2010	2/15/2010	-6.34
4/15/2010	6/9/2010	-11.62
2/20/2011	8/19/2011	-15.66
4/2/2012	5/18/2012	-8.36
5/21/2013	6/20/2013	-5.67
1/22/2014	2/3/2014	-5.36
9/14/2014	10/16/2014	-6.06
4/12/2015	5/6/2015	-5.07
8/5/2015	9/29/2015	-10.06
12/29/2015	2/11/2016	-11.87
6/4/2017	9/7/2017	-8.36
1/23/2018	2/8/2018	-7.05
	AVERAGE	**-8.65**

*Source: Morningstar as at February 9, 2018.

While few of these contraction periods are technical 'corrections' for the MSCI World in CAD terms, and none of them are considered technical bear markets (i.e., losses in excess of 20%), these periods should remind investors that equity markets do contract on occasion, sometimes violently. It is in these periods, we believe, that professional investment management can demonstrate its greatest value to investors and their advisors, and that Mackenzie Ivy Foreign Equity Fund stands out as a consistent outperformer among them (Figure 2).

Figure 2 – Post-GFC Worst Performance Periods



*Source: Morningstar as at February 9, 2018

During these post-crisis contractions the Morningstar Global Equity category* generally kept pace with MSCI World Index, going down by more than markets only once out of the 12 periods, averaging about 90 bps in outperformance during contractions. While the Mackenzie Ivy Foreign Equity Fund also went down by more than the market only once out of the 12 contraction periods, it averaged outperformance of about 460 bps (Figure 3). This sharp contrast between the Ivy team and our competitors repeats through market cycles and we believe it is a part of our competitive advantage in the long run.

Figure 3

Contraction Periods		Mackenzie Ivy Foreign Equity F Excess Return	Morningstar Global Equity Category Excess Return
1/13/2010	2/15/2010	5.0%	1.2%
4/15/2010	6/9/2010	6.5%	1.5%
2/20/2011	8/19/2011	14.3%	0.9%
4/2/2012	5/18/2012	5.0%	0.4%
5/21/2013	6/20/2013	3.2%	0.7%
1/22/2014	2/3/2014	1.7%	1.1%
9/14/2014	10/16/2014	2.7%	-0.5%
4/12/2015	5/6/2015	0.5%	1.0%
8/5/2015	9/29/2015	6.1%	1.0%
12/29/2015	2/11/2016	9.2%	1.3%
6/4/2017	9/7/2017	-2.5%	1.8%
1/23/2018	2/8/2018	4.0%	0.2%
	AVERAGE	**4.6%**	**0.9%**

*Source: Morningstar as at February 9, 2018

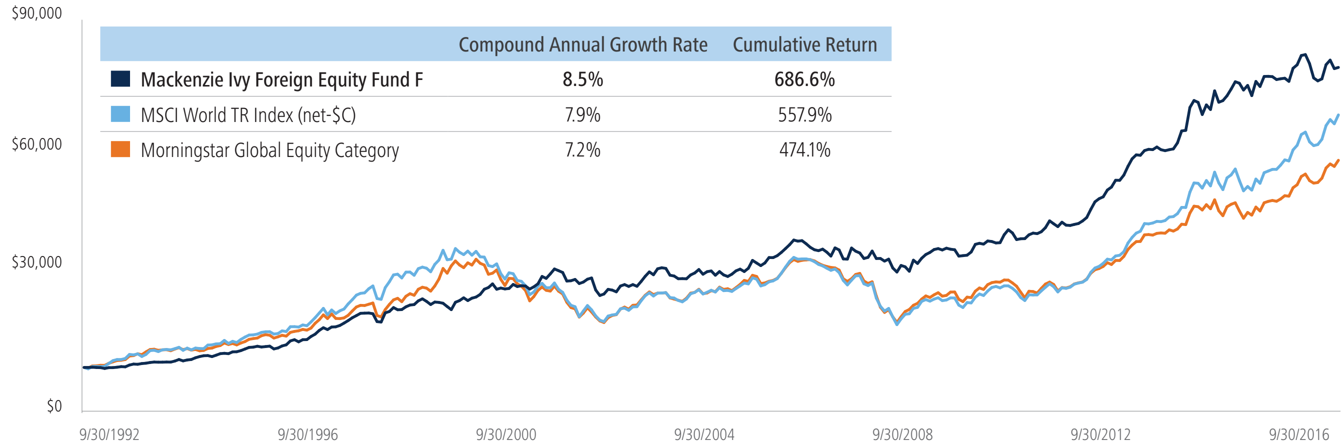
In September 2017, we posted an article on the state of valuations in global equity markets and raised the prospect that global equity markets could go down by as much as 20% if they corrected to their long run average[1]. Since then, markets continued to soar, right up until this most recent contraction. As markets have generally moved upward since the bottom of the global financial crisis, investors have not thought much about downside protection and the effects these losses can have on your portfolio.

Now, with markets moving decisively downward, investors are understandably asking questions about the resilience of their portfolios and wondering how their funds will hold up. We do not know where the fair value of this market is, nor where the global equity universe will ultimately find its bottom. What we do know is that markets still have a long way to fall before reaching historical averages, and investors who have profited from funds focused on upside participation may be well advised to allocate to funds whose performance strengths include downside protection.

* Quartile/Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Morningstar Global Equity category, and reflect the performance of the Mackenzie Ivy Foreign Equity Fund, series F for the [1-, 3-, 5- and 10-year] periods as of January 31, 2018. The quartiles divide the data into four equal regions. Expressed in terms of rank (1, 2, 3 or 4), the quartile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Global Equity category funds for the Mackenzie Ivy Foreign Equity Fund, series F for each period are as follows: one year – 1,564 funds; three years – 1,052 funds; five years – 750 funds; 10 years – 386 funds.

[1] https://www.mackenzieinvestments.com/en/investment-teams/mackenzie-ivy-team/commentary/global-equity-valuations

Figure 4



*Source: Morningstar, October 16, 1992 – January 31, 2018

The focus of the Mackenzie Ivy Team is always on carefully growing your capital for the long term. By purchasing businesses which have good growth prospects at reasonable valuation – in a structured and disciplined way – we are able to steadily outperform our peers and benchmark over time.

Talk to your financial advisor to learn how the Mackenzie Ivy Foreign Equity Fund can provide downside protection for your portfolio.

As of January 31, 2018	1 yr	3 yr	5 yr	10 yr
Mackenzie Ivy Foreign Equity Fund Sr F	**4.2%**	**4.2%**	**11.2%**	**8.5%**
MSCI World Index Total Return (CAD)	18.4%	10.6%	16.4%	8.5%
Morningstar Global Equity Category	16.7%	8.5%	12.9%	6.9%

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