

Monthly macro and markets update



MACKENZIE
Investments

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March 1, 2023

All data and charts as of March 1, 2023.

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Macro policy

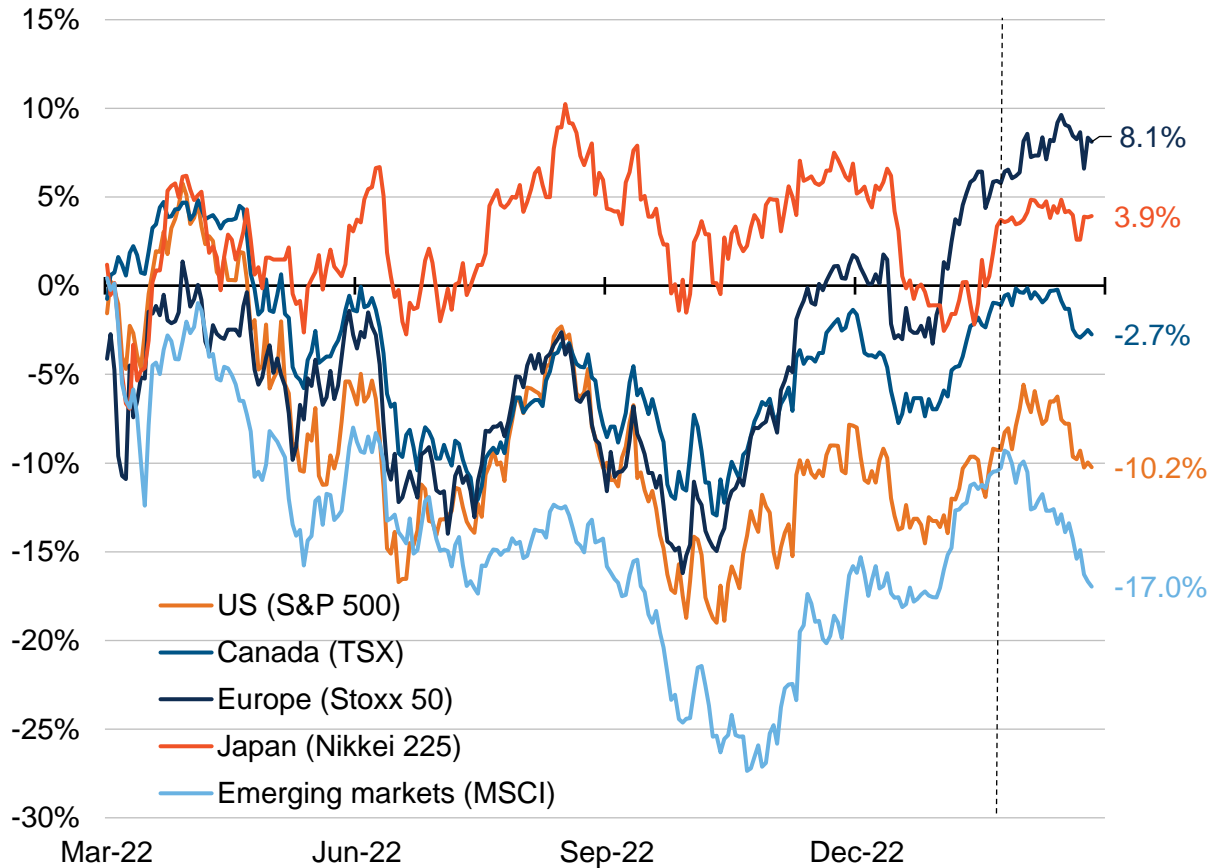
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Asset valuations

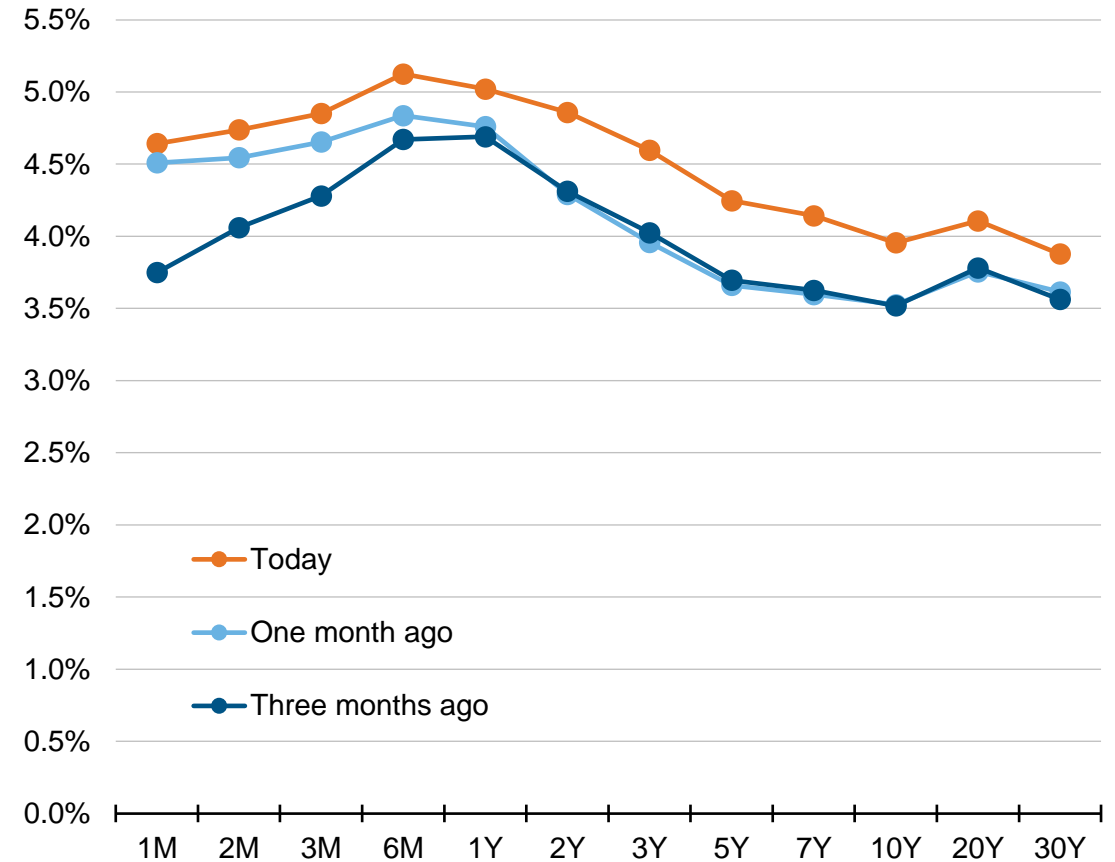
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Market developments in the past year

Stocks lost momentum with hot economic data
Total return equity indices, change vs. one year ago



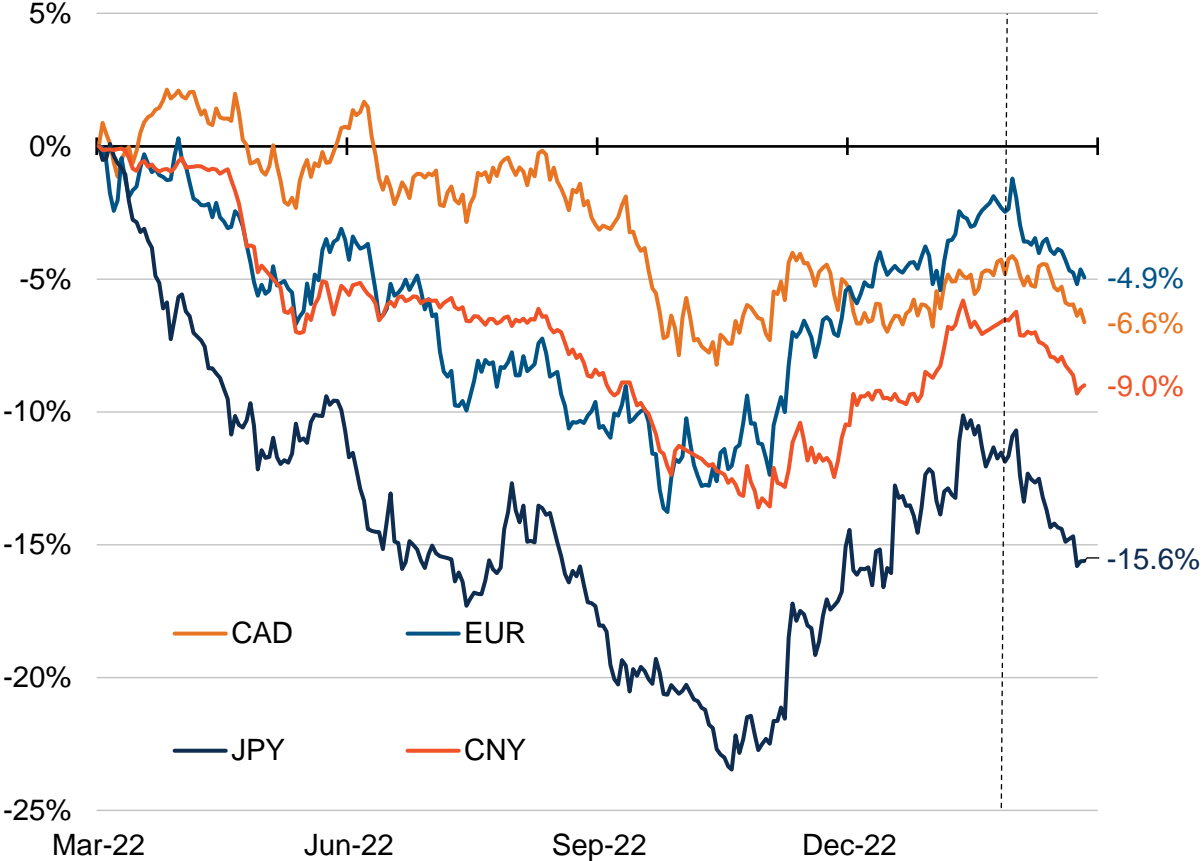
Rates rose across the curve in February
U.S. Treasury yields by maturity



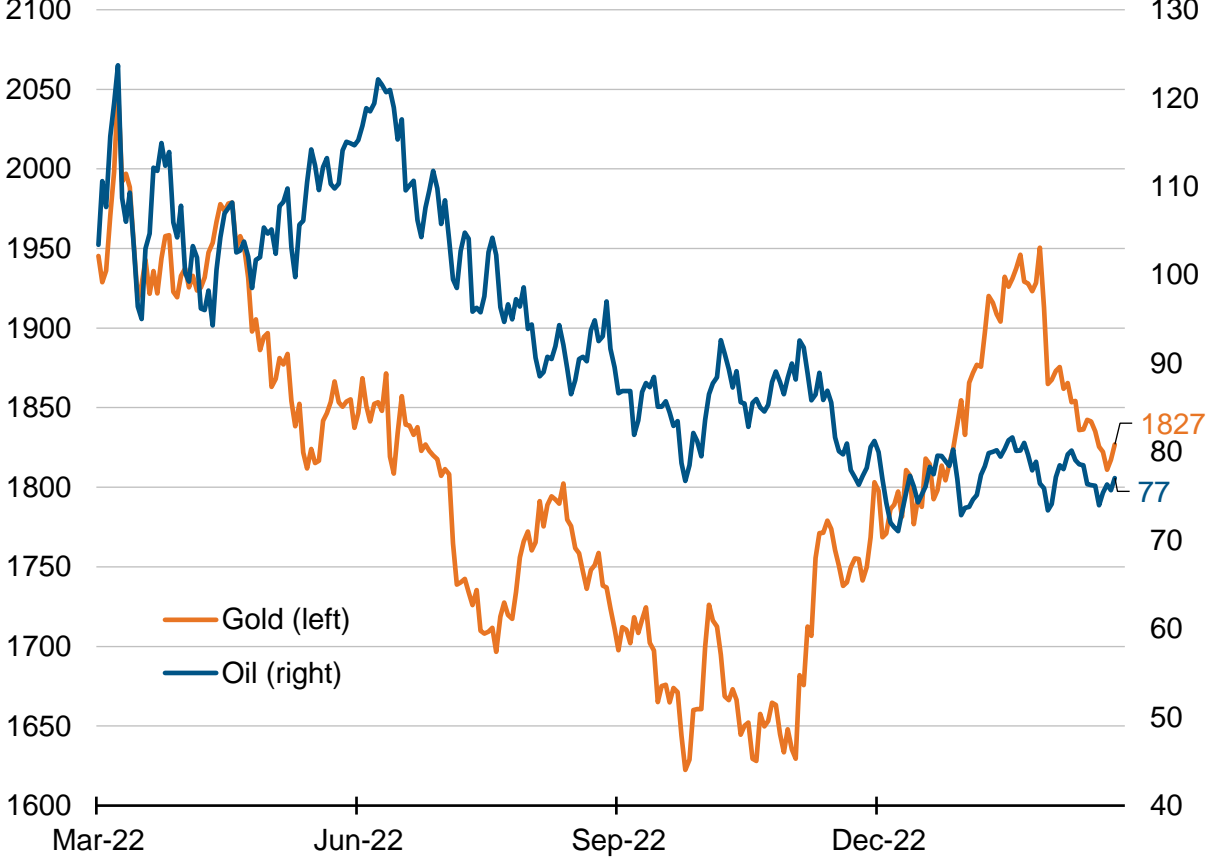
Data via Bloomberg. Total return for equity markets is denominated in the local currency, except MSCI EM, which is denominated in USD. Dotted line shows markets as of the last edition of this deck.

Market developments in the past year (cont'd)

The US dollar rallied in February with rising rates
Currencies relative to USD, change vs. one year ago



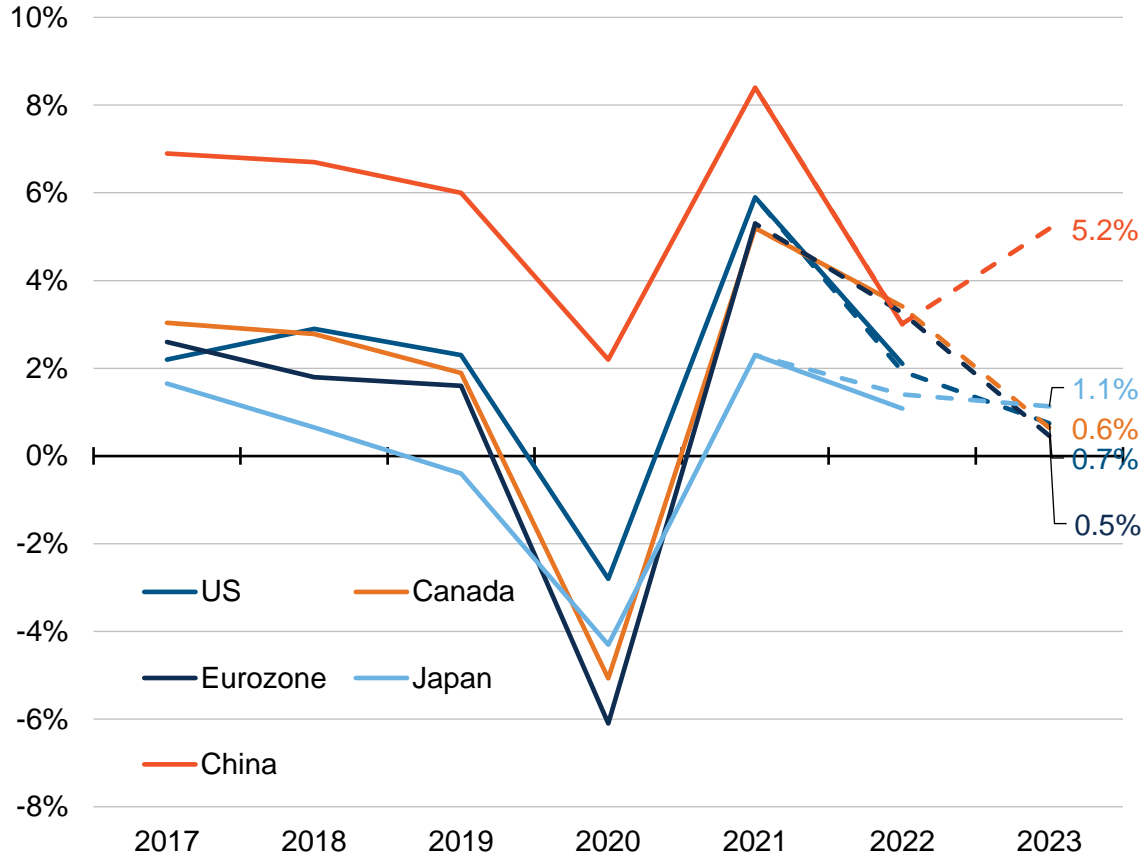
Oil prices are trading in a range, with room to rise
Commodity prices in US\$



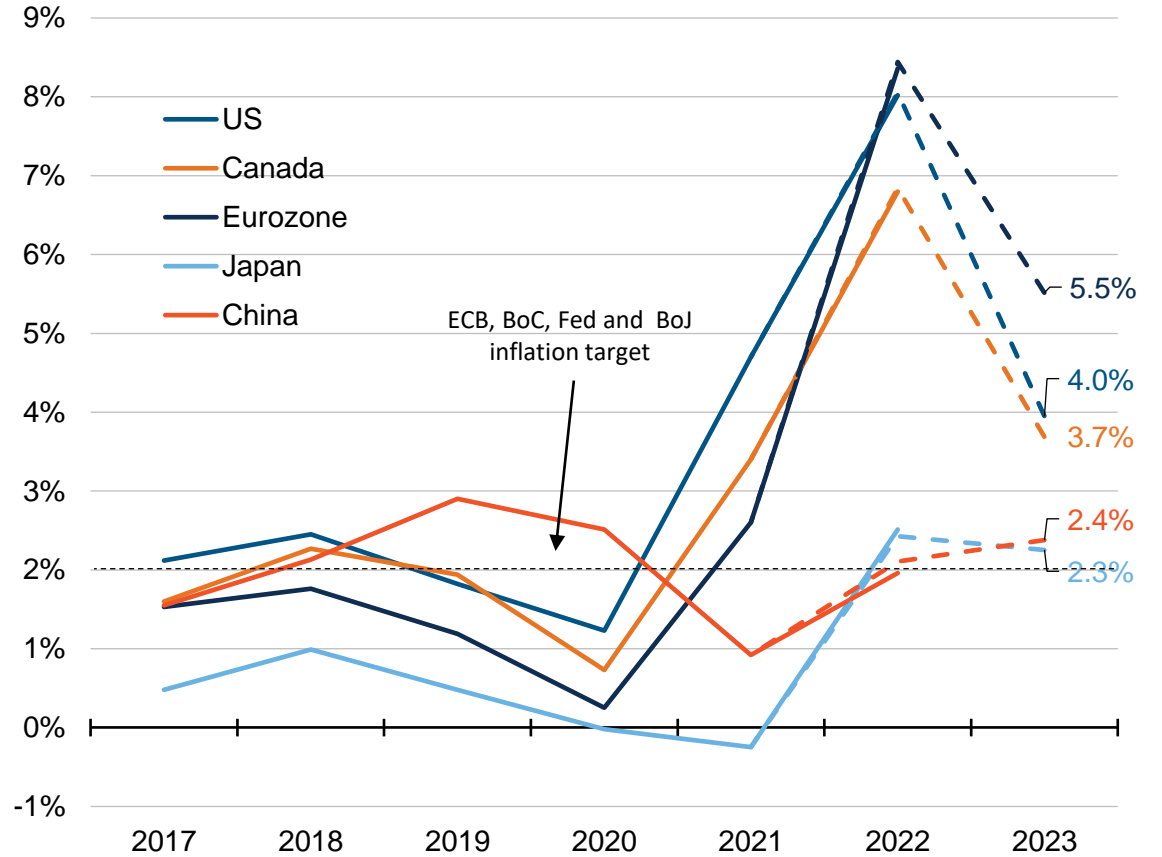
Data via Bloomberg. Dotted line shows markets as of the last edition of this deck.

Consensus macro forecasts

Developed economies expected to stagnate in 2023 Consensus GDP growth forecast



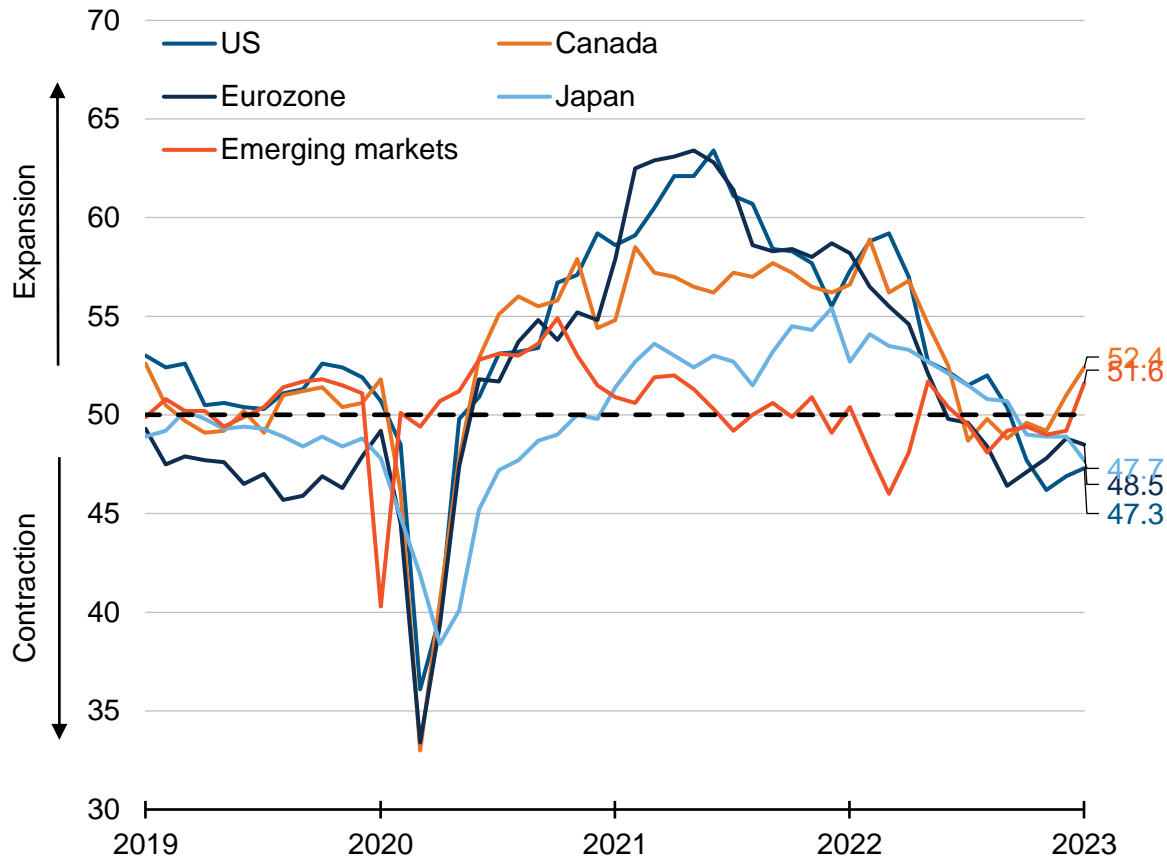
Inflation is expected to moderate, but stay elevated Consensus CPI inflation forecast



Realized growth and inflation via Bloomberg. Average of economists' forecasts (dotted lines) from Consensus Economics.

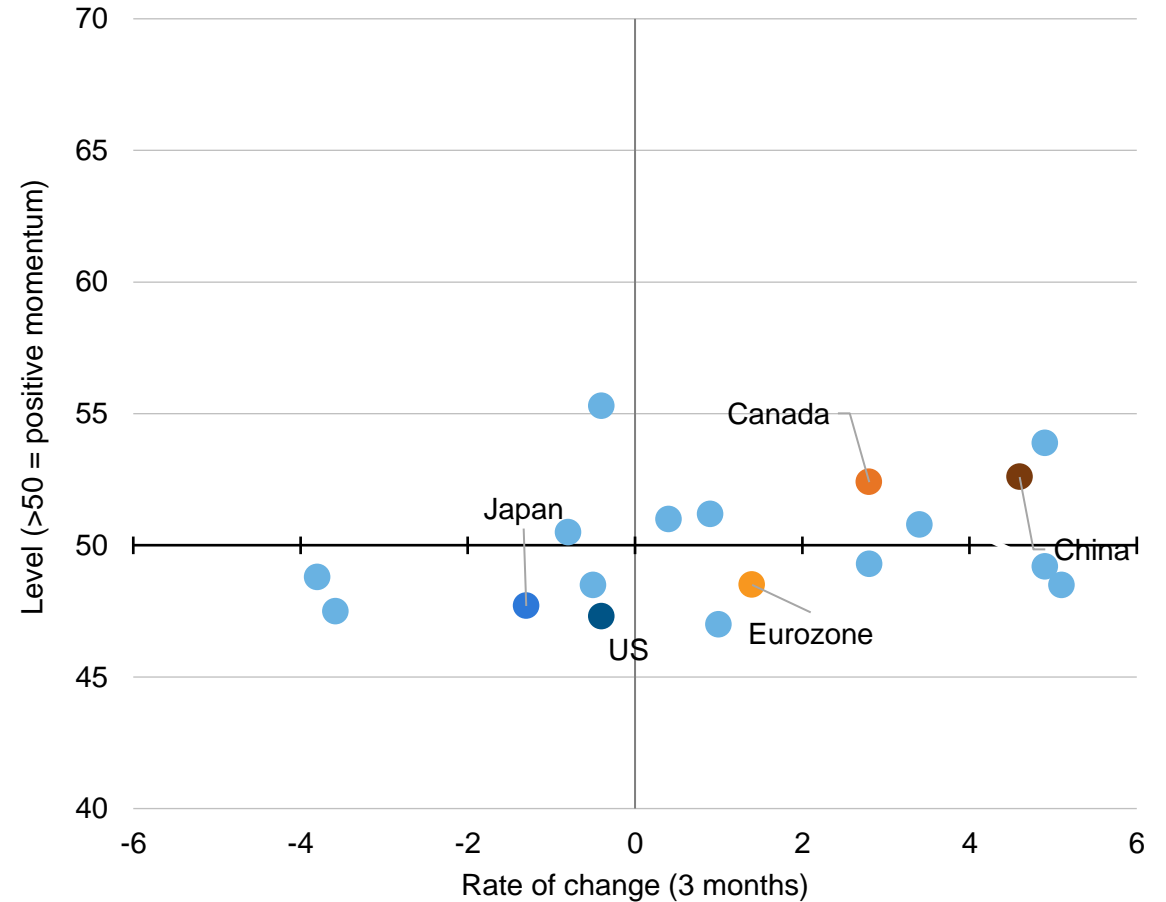
Economic leading indicators

PMIs have rebounded with China's reopening
Purchasing Managers' Index, major economies



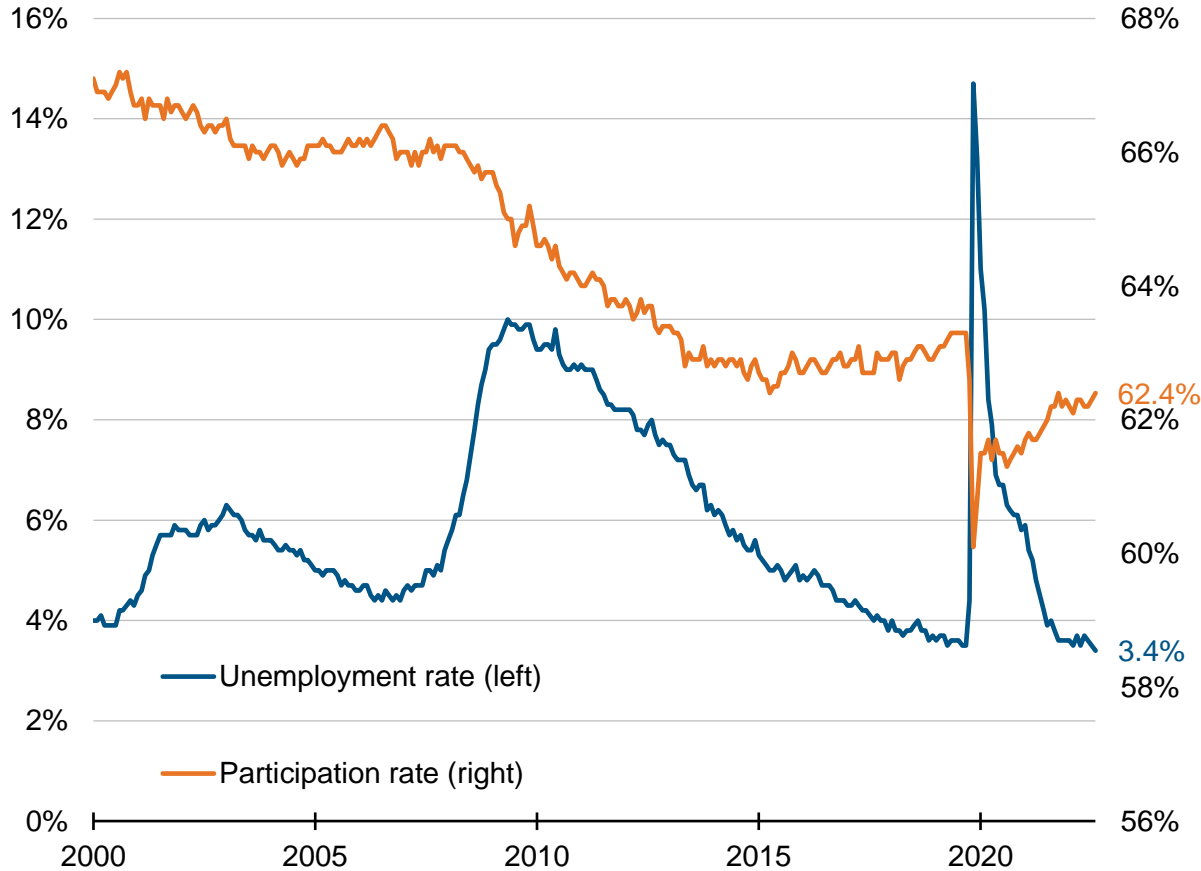
Data via Bloomberg

Advanced countries' momentum picking up
Purchasing Manager's Index, extended sample

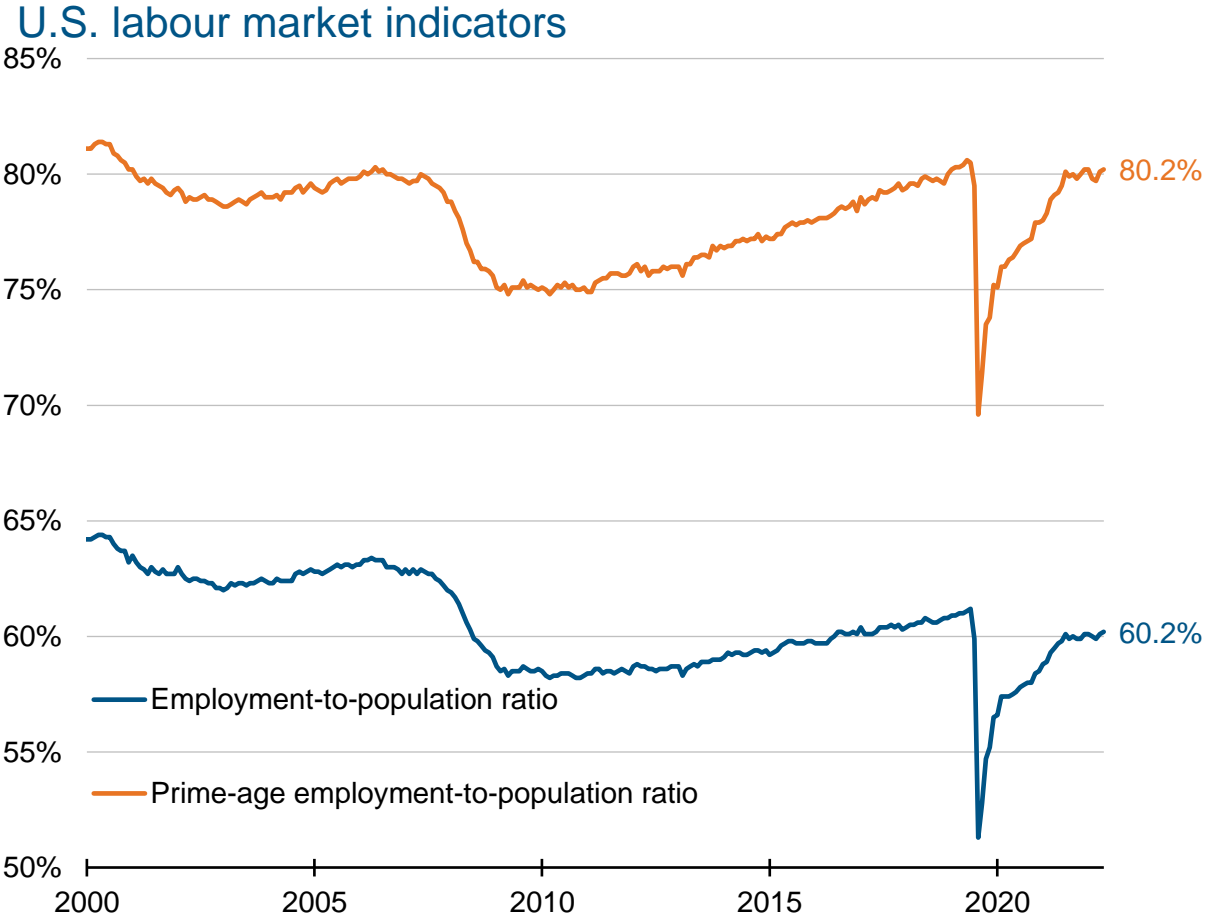


Employment, U.S.

Sidelined Americans have begun to rejoin the labor force
U.S. labour market indicators



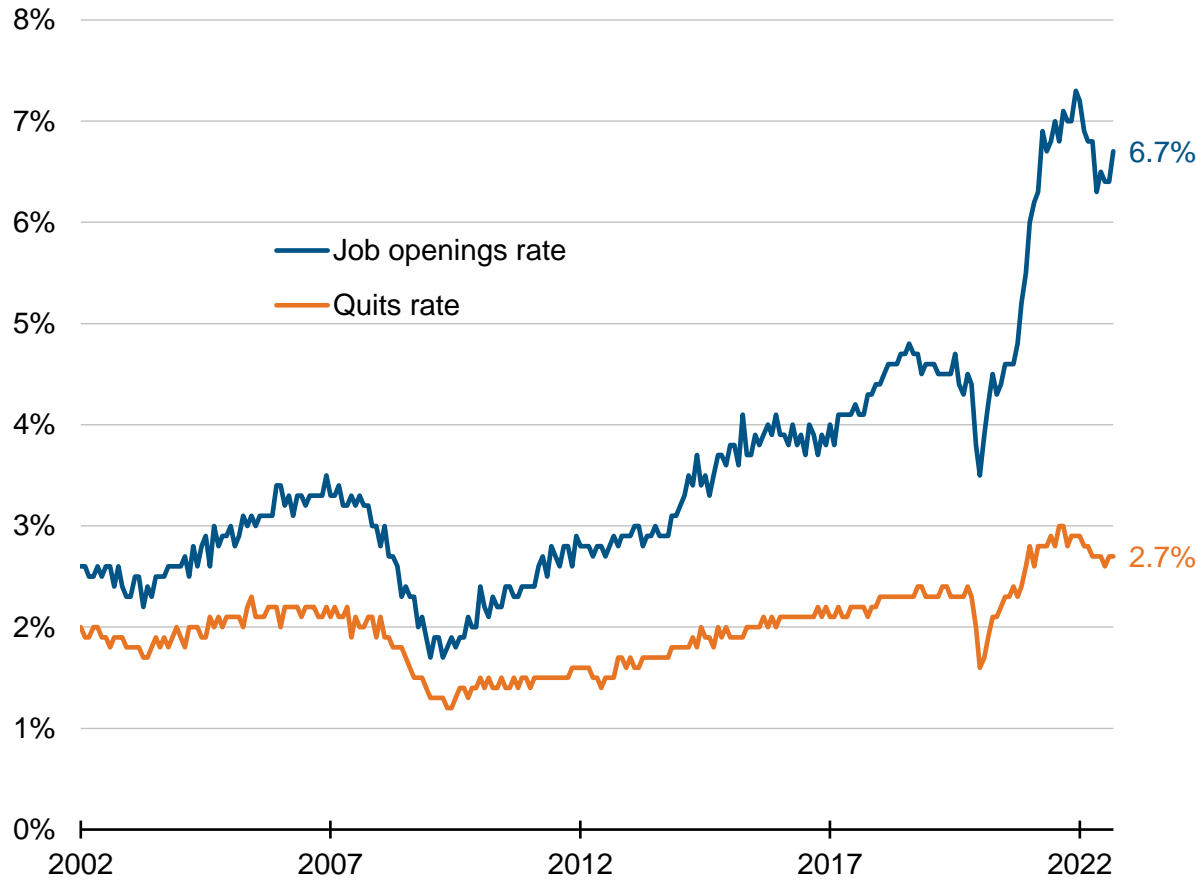
Employment rates are slightly below pre-pandemic levels
U.S. labour market indicators



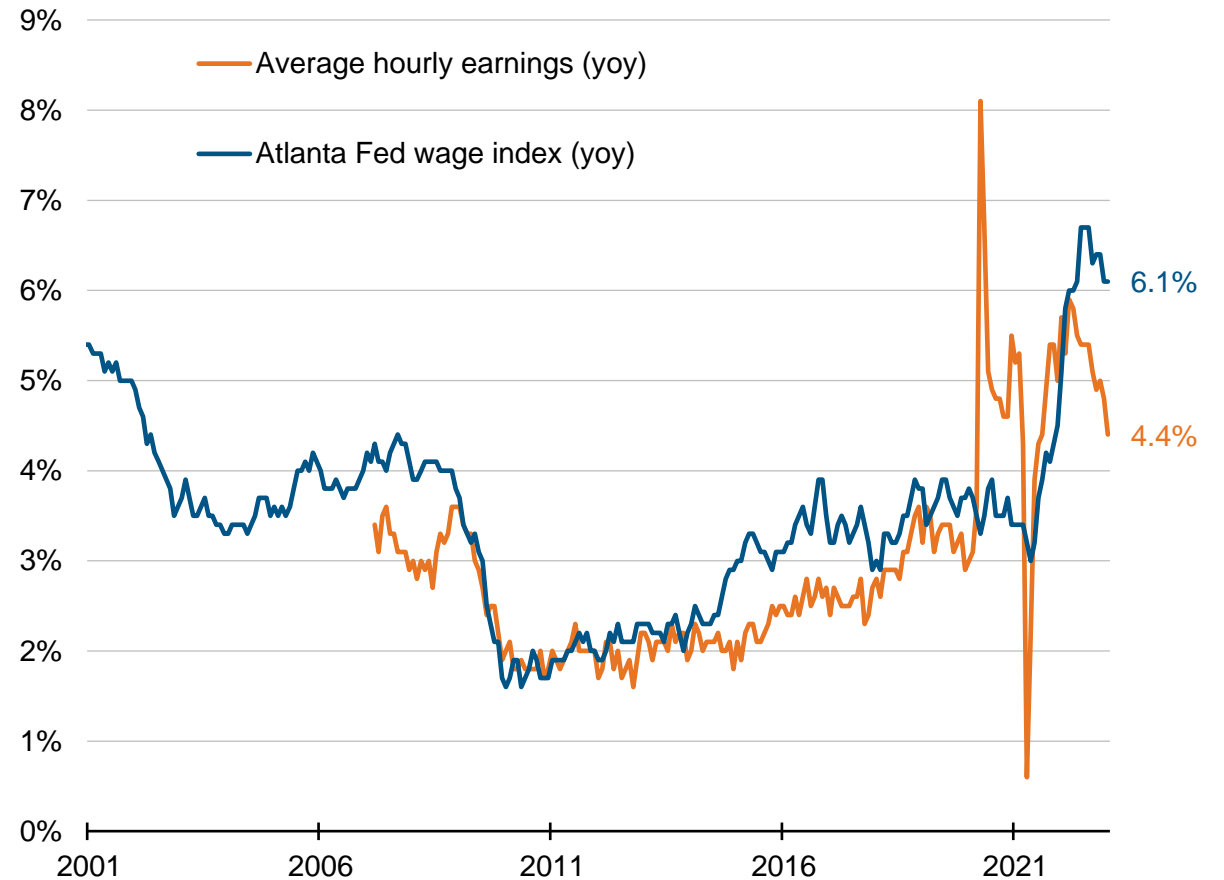
Data via Bloomberg. Participation rate is the ratio of all labour market participants (employed and unemployed) to working-age population; a higher participation rate means that a higher share of the population is either working or looking for a job. The employment-to-population ratio is the ratio of employed workers to the total population, while the “prime-rate” version of the indicator only considers individuals in the 25-54 age group.

Employment, United States (cont'd)

Quits and openings have recently stopped easing
U.S. JOLTS indicators



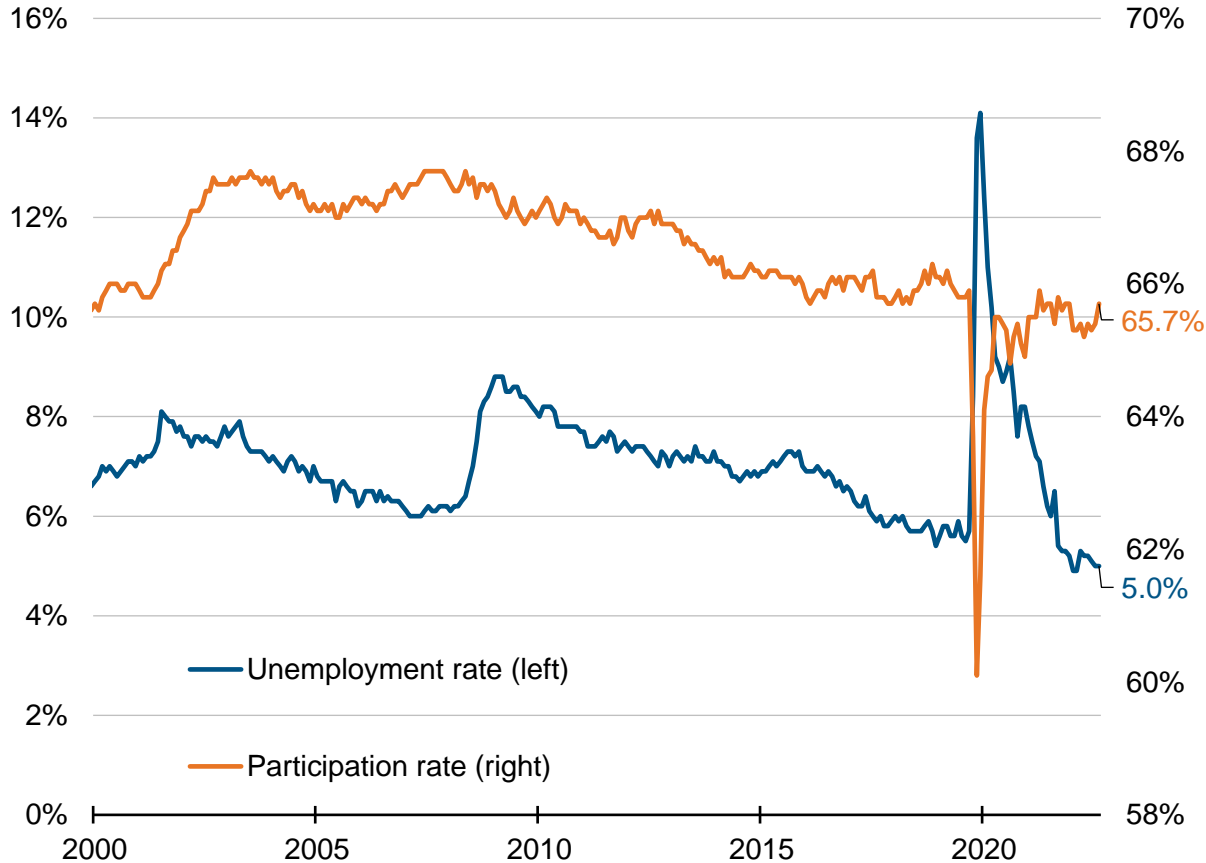
Wage growth has probably peaked, but is still reflecting the market tightness
U.S. wage indicators



Data via Bloomberg

Employment, Canada

After cooling in Q3, the labour market tightened recently
Canada labour market indicators



Employment rate for 25-54s is above pre-pandemic levels
Canada labour market indicators

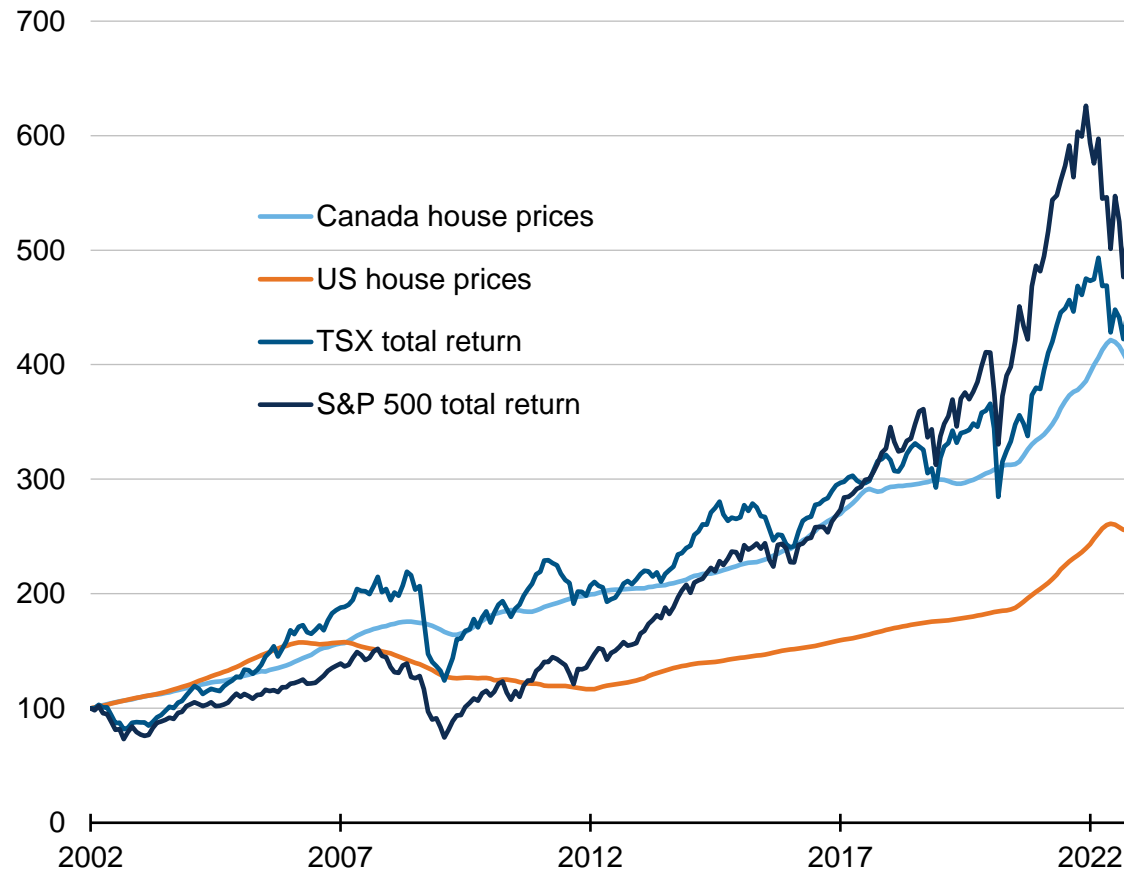


Data via Bloomberg. Participation rate is the ratio of all labour market participants (employed and unemployed) to working-age population; a higher participation rate means that a higher share of the population is either working or looking for a job. The employment-to-population ratio is the ratio of employed workers to the total population, while the “prime-rate” version of the indicator only considers individuals in the 25-54 age group.

Housing

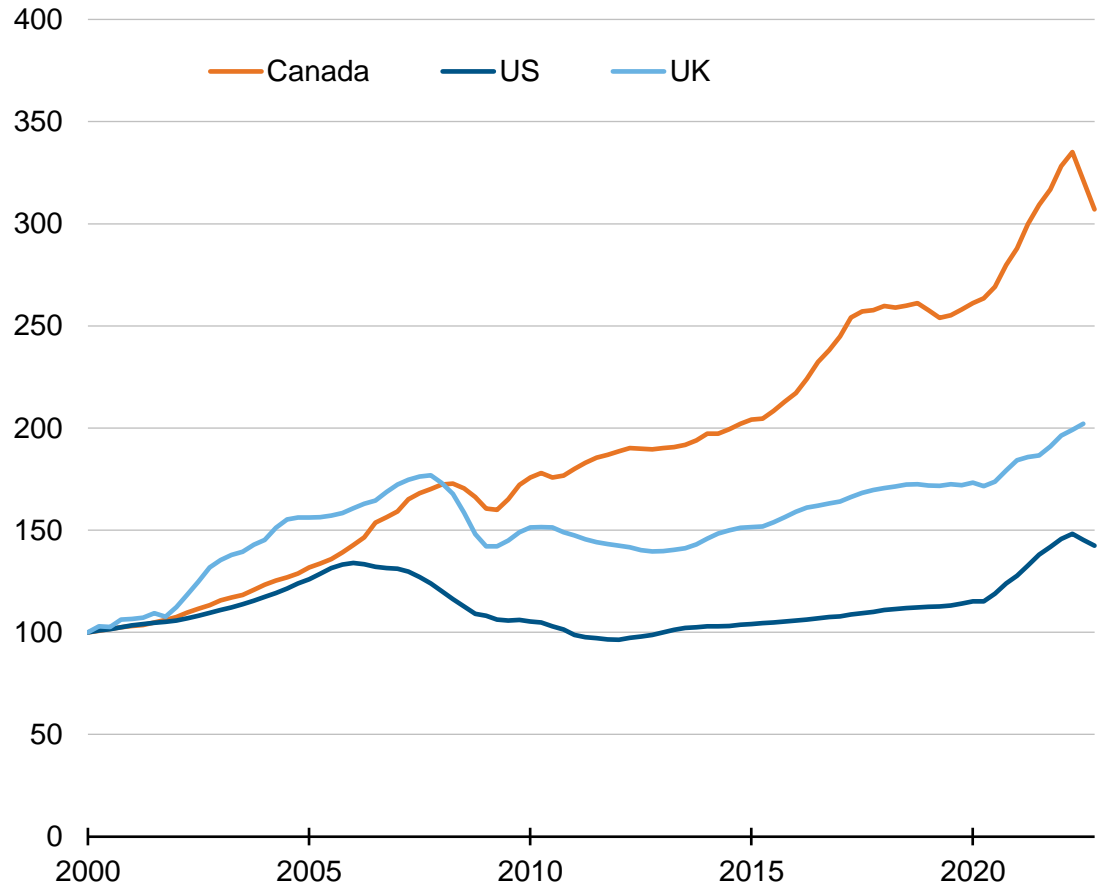
House prices lagging stocks in the US and Canada

House prices and equities, Jan. 2002 = 100



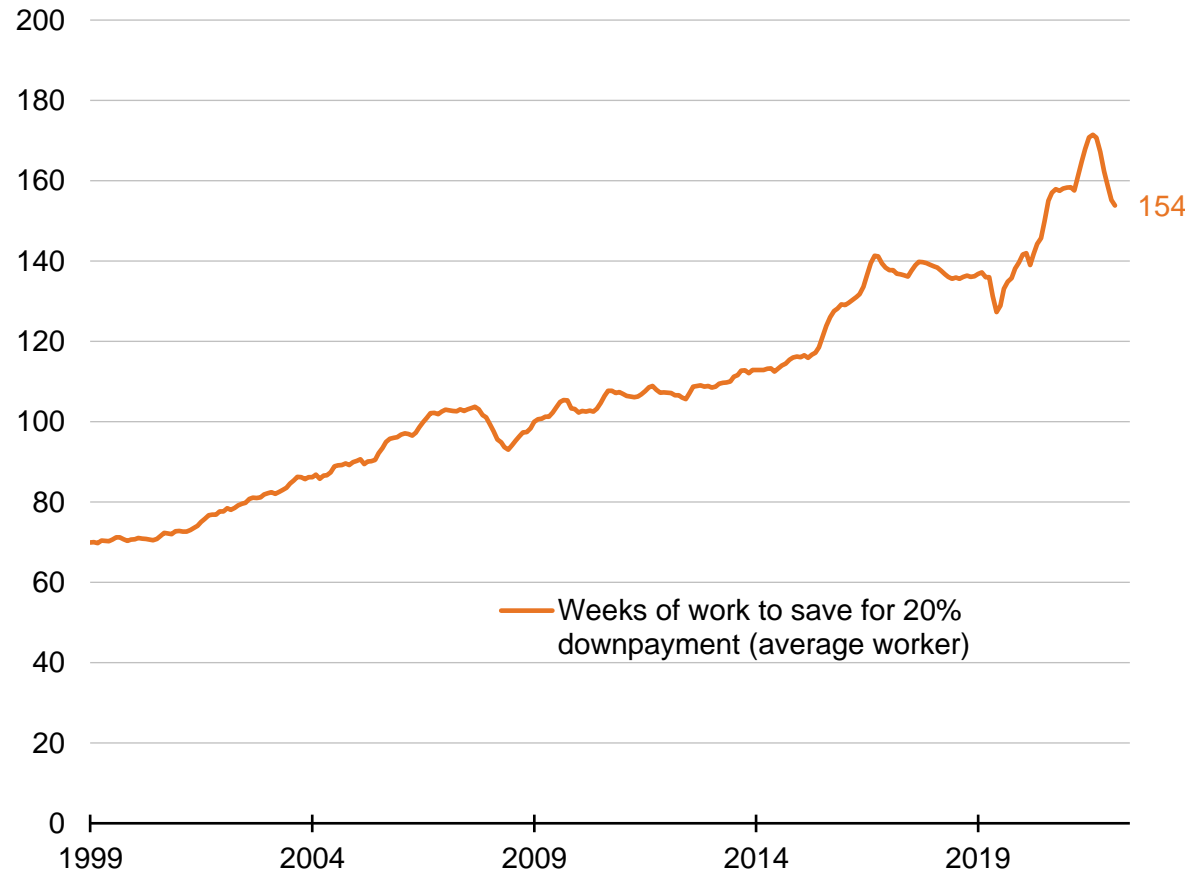
Canadian home valuations have outpaced other countries

House price-to-rent indices, Jan. 2000 = 100

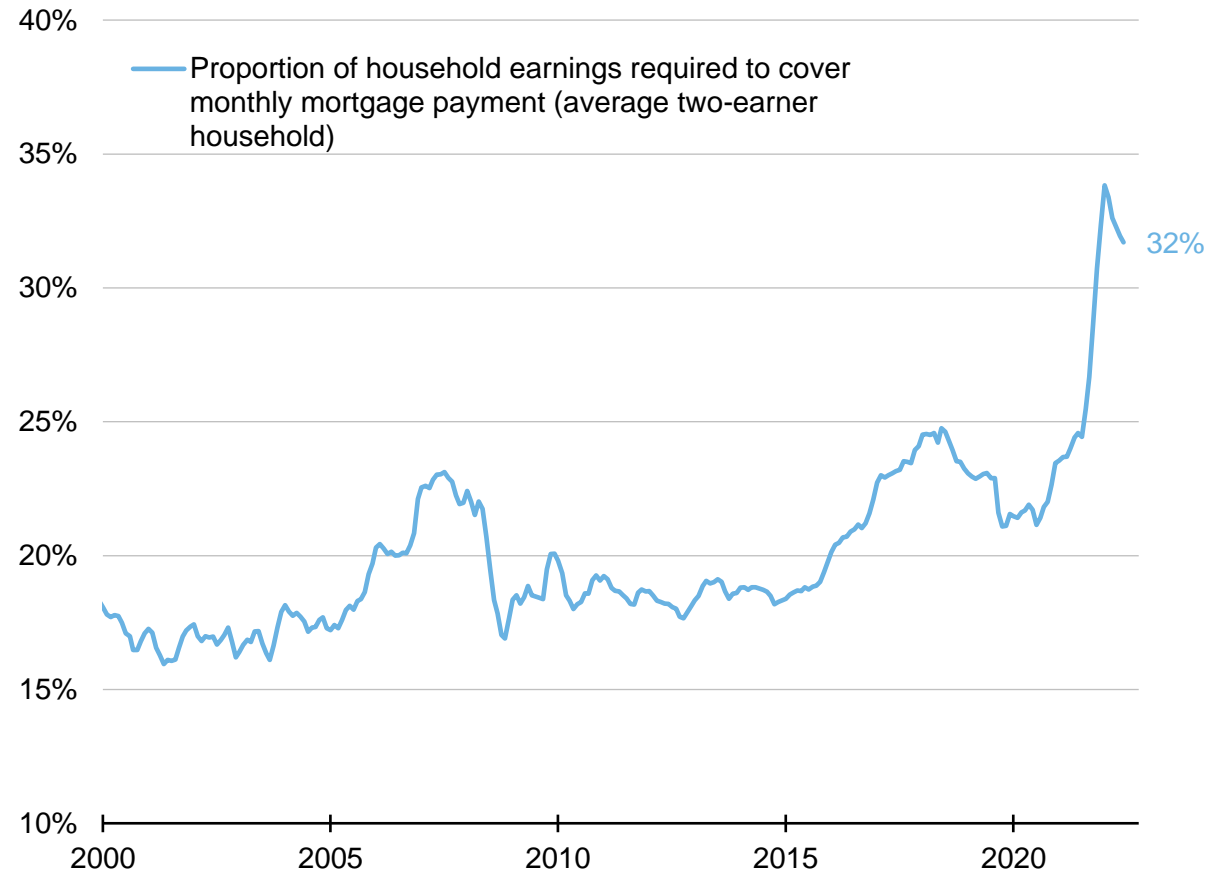


Housing, Canada

The effective cost of homeownership has more than doubled in 20 years – Affordability measure



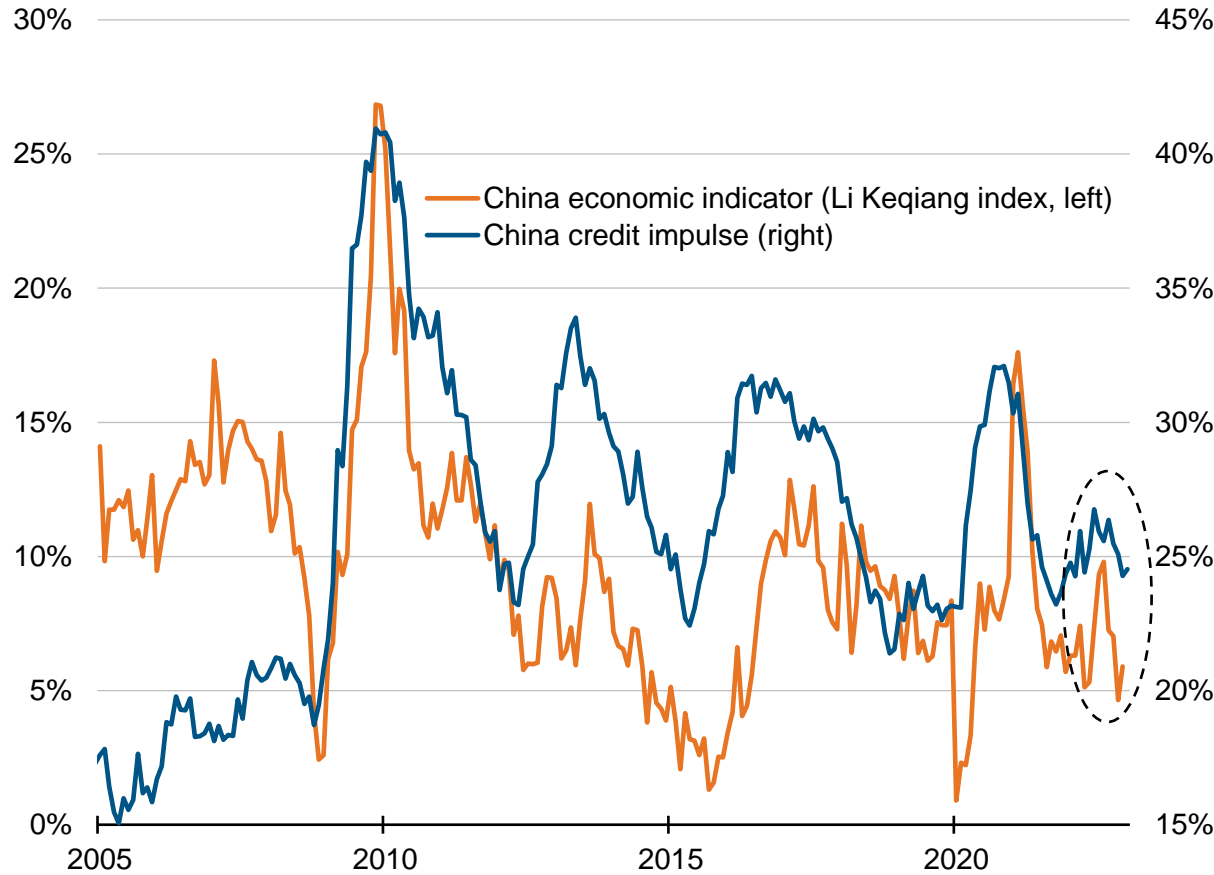
Higher rates explain surging payments for new mortgages Affordability measure



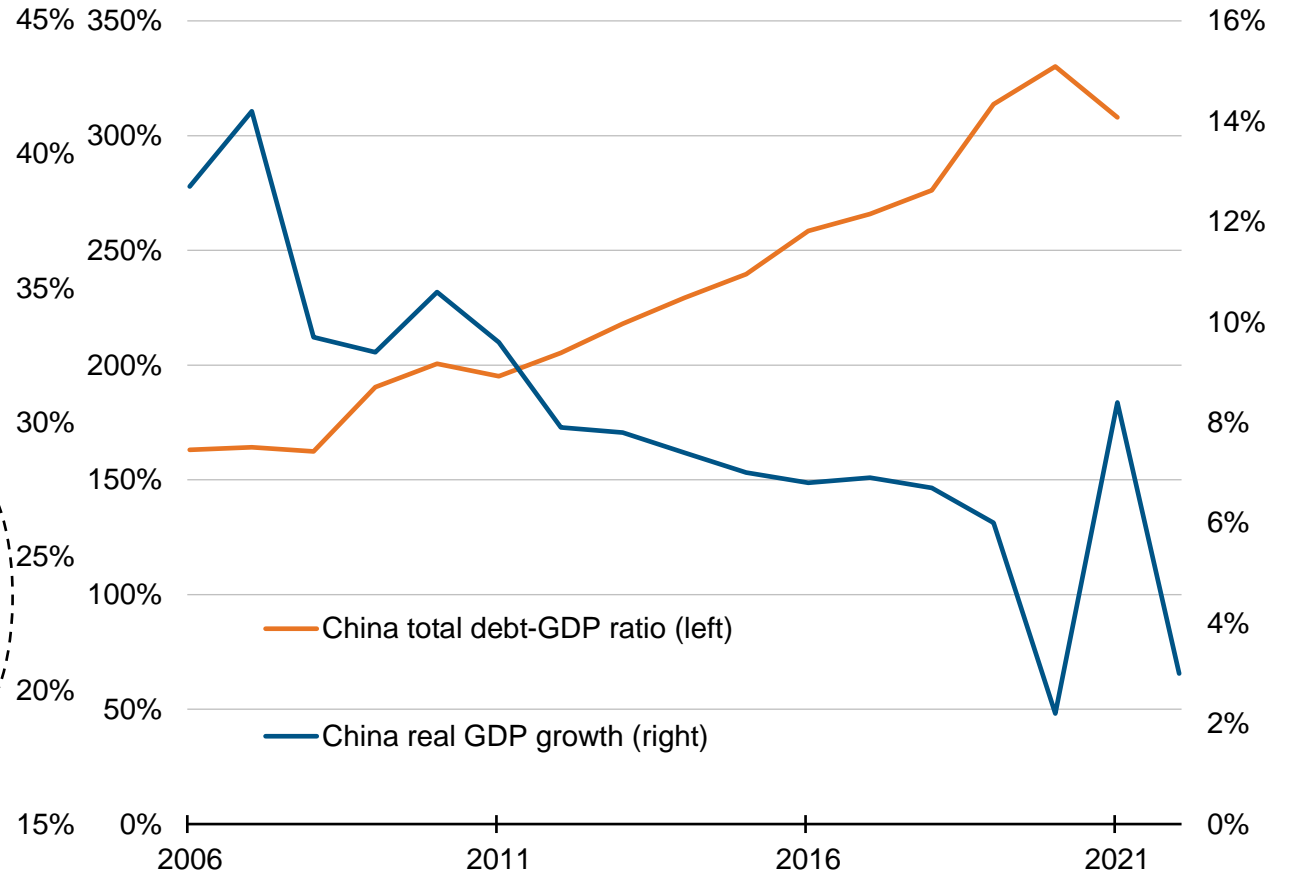
Calculations by the Multi-Asset Strategies Team, data via Bloomberg

China

China's credit impulse should rise as the economy reopens – China economic indicator and credit impulse



**Growth will rebound in 2023
Debt and real GDP, China**

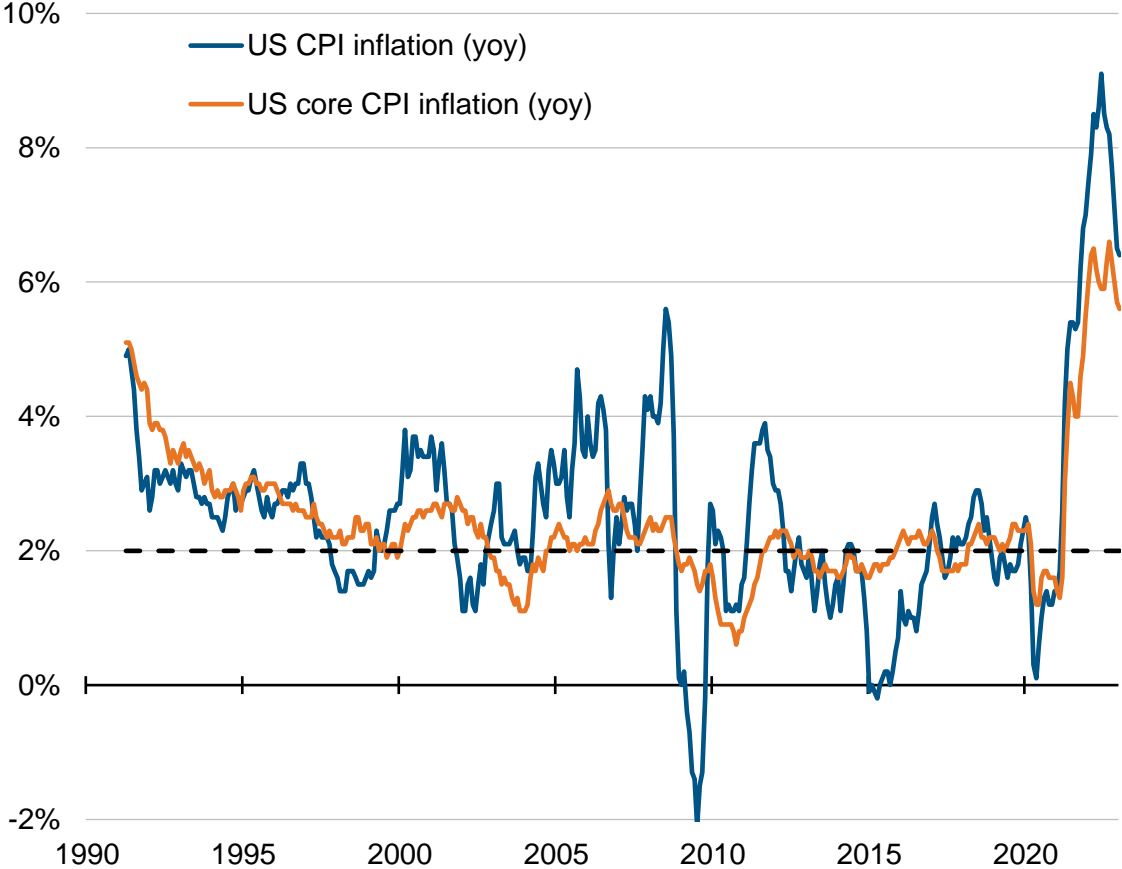


Data via Bloomberg. Li Keqiang indicator is a proxy for economic activity in China. It is a weighted average of electricity production (40%), bank loan growth (40%) and rail freight volumes (20%).

Inflation

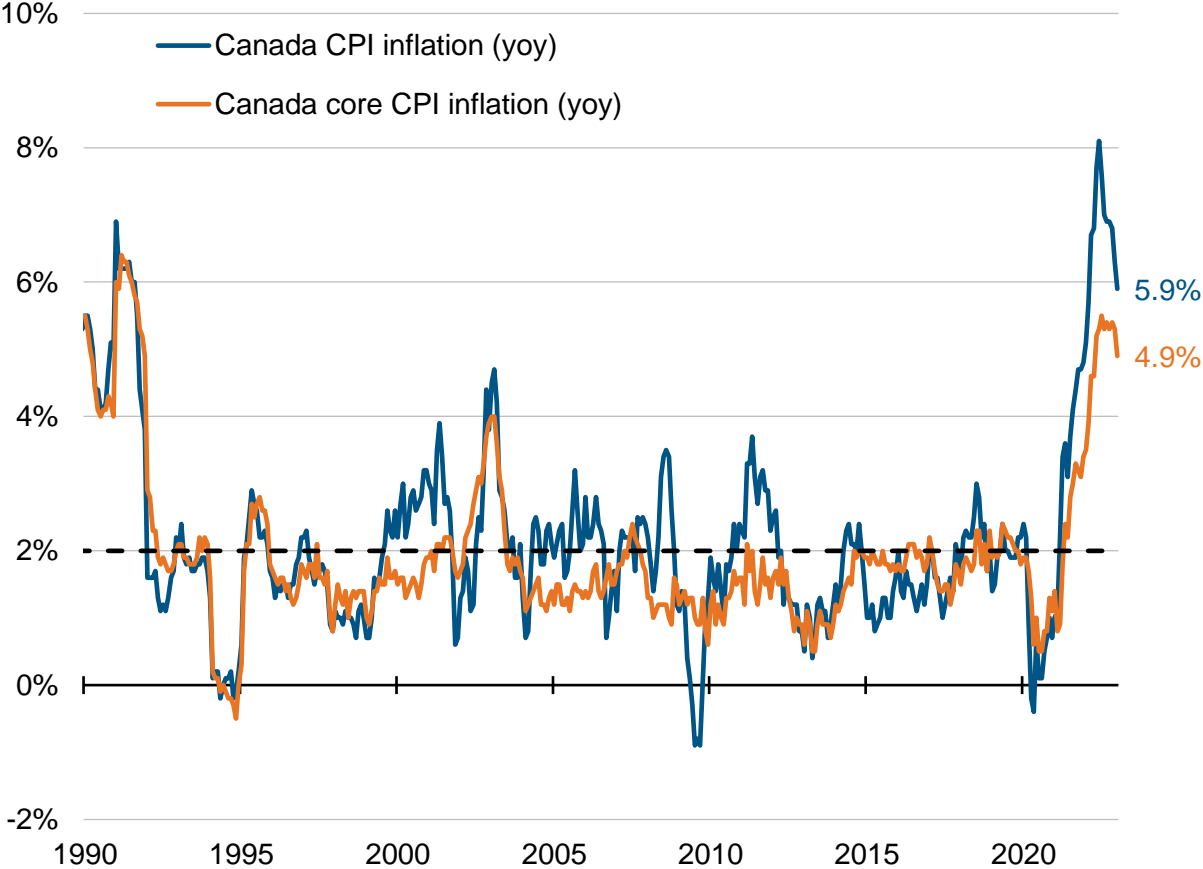
U.S. inflation will stick above 2%

U.S. inflation measures



Canadian inflation has peaked, but 2% is still quarters away

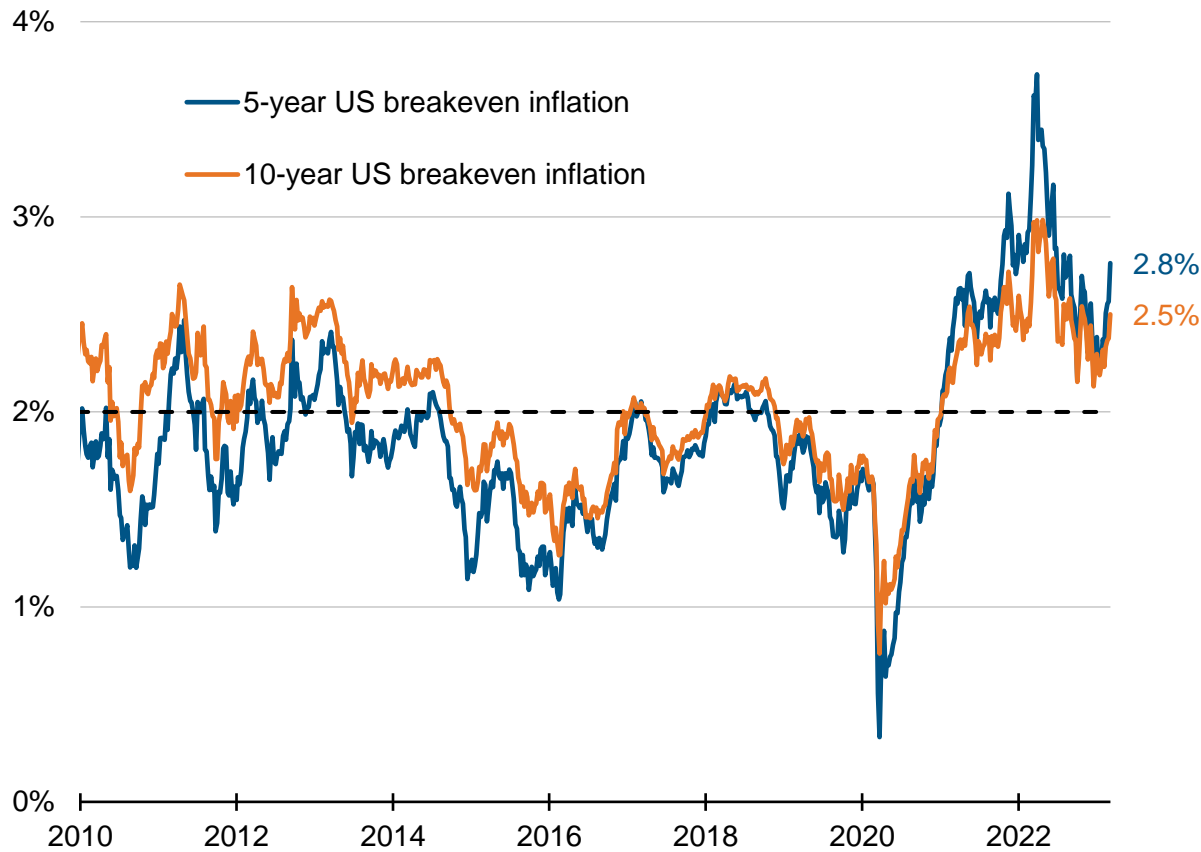
Canada inflation measures



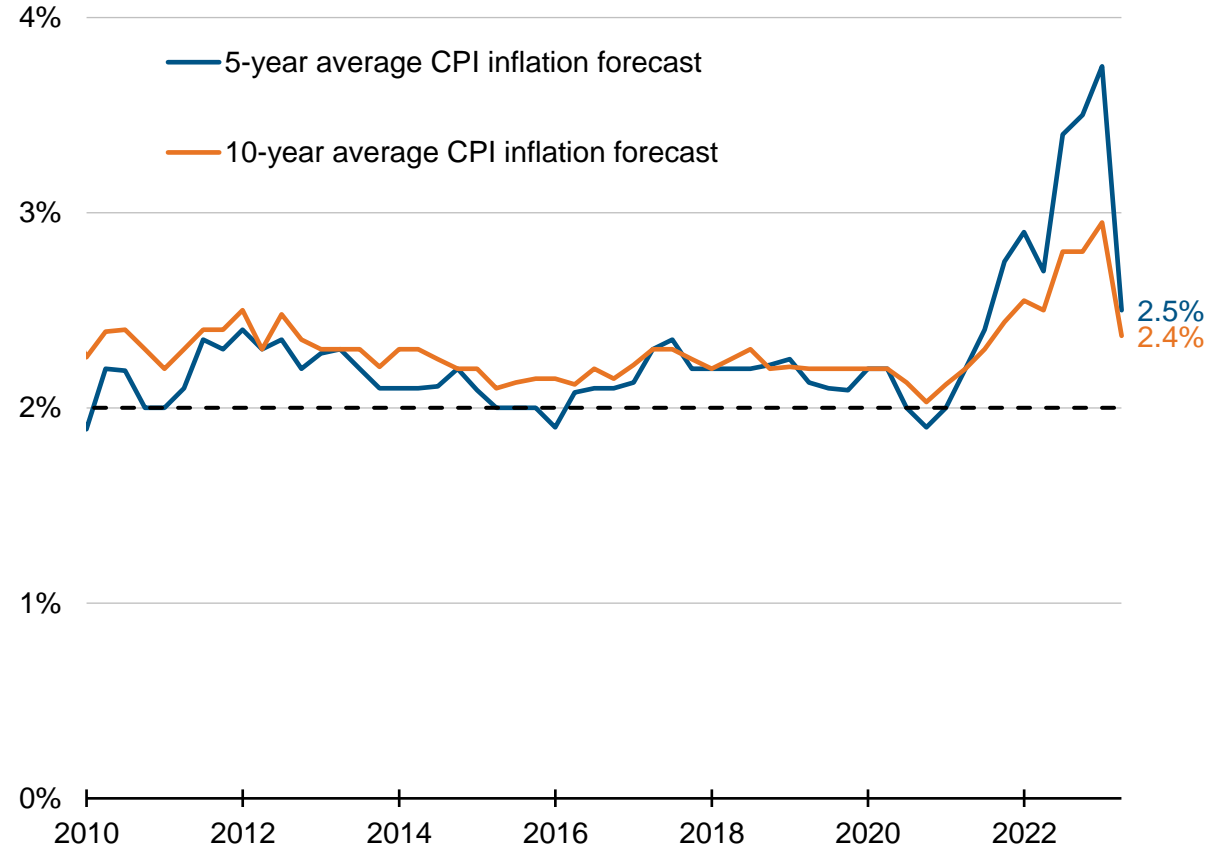
Data via Bloomberg.

Inflation expectations

Market inflation spike in February amid hot data
Future U.S. inflation as implied by bond markets



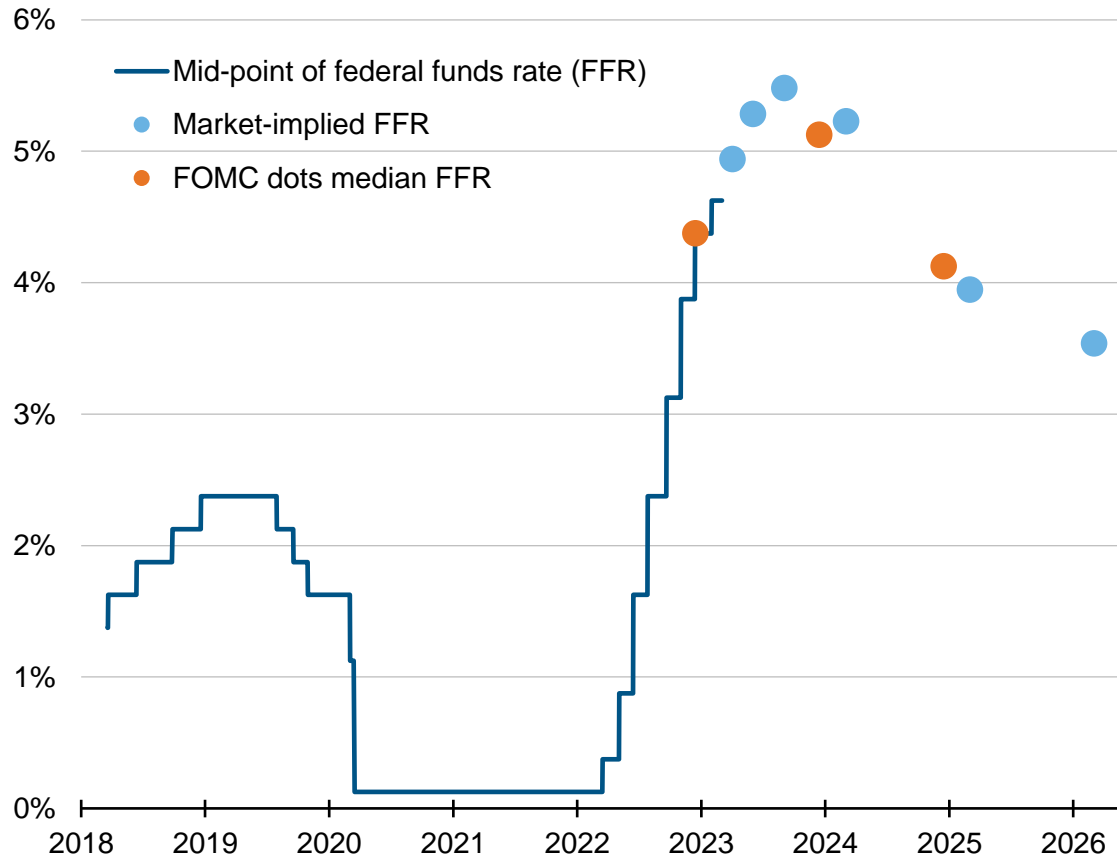
Forecasters expectations dipped at the end of 2022
U.S. inflation forecast, Survey of Professional Forecasters



Data via Bloomberg. The chart on the right shows the average forecast of participants in the Philadelphia Fed's Survey of Professional Forecasters.

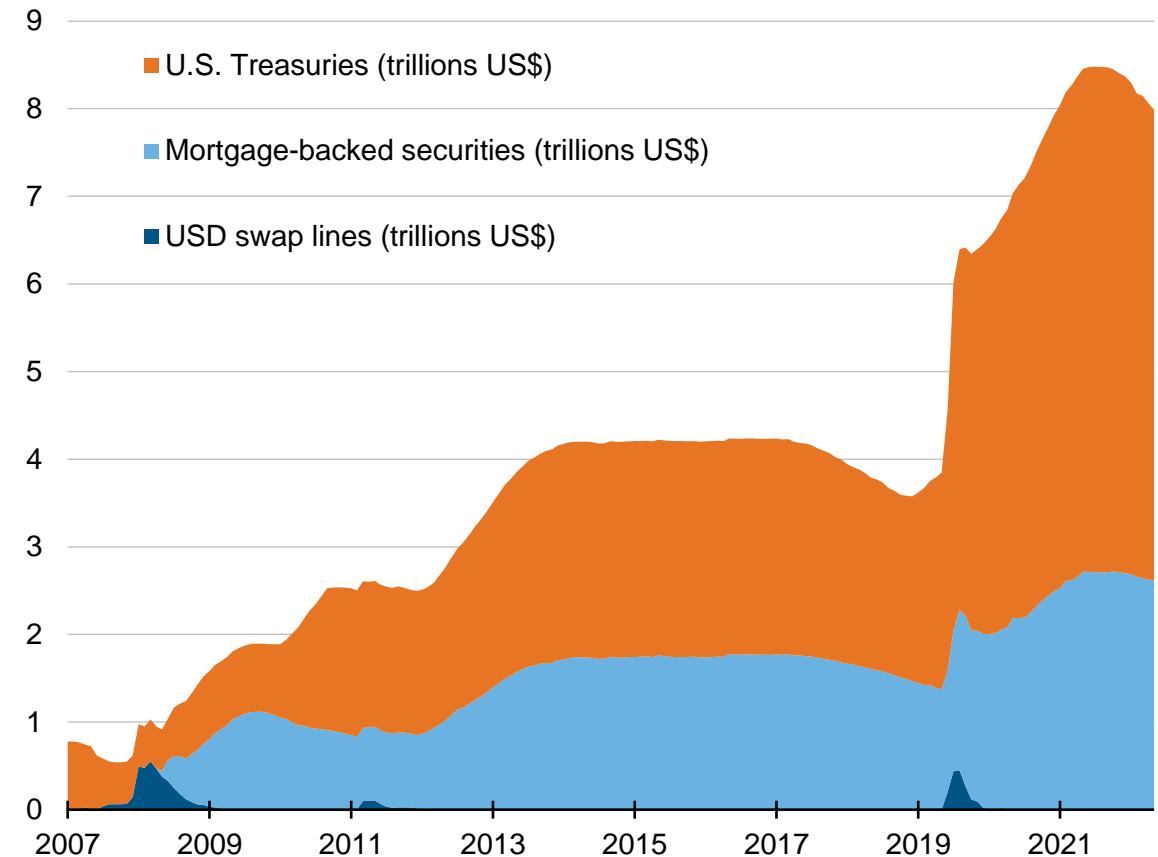
Federal Reserve policy

Markets expect rates to peak above 5.5% in 2023
Policy rate expectations



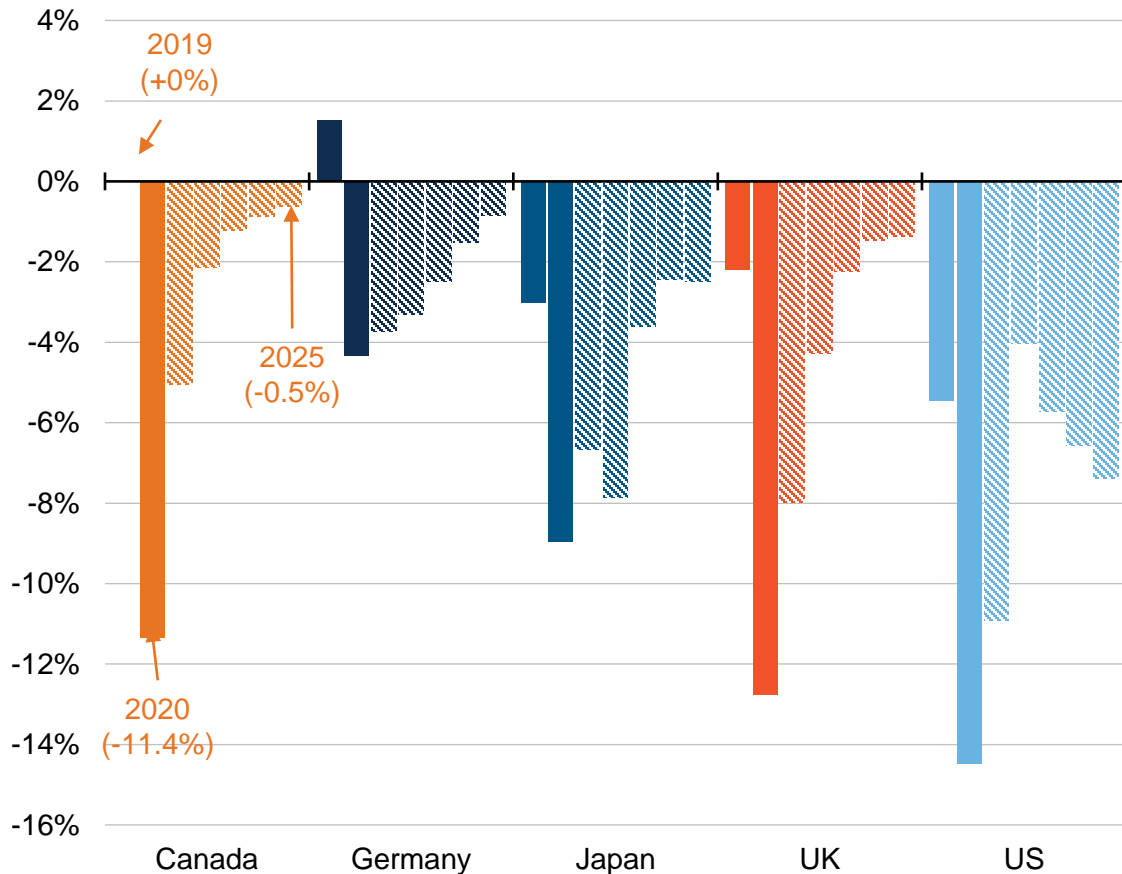
Data via Bloomberg.

The Fed has begun to shrink its balance sheet
Fed balance sheet assets

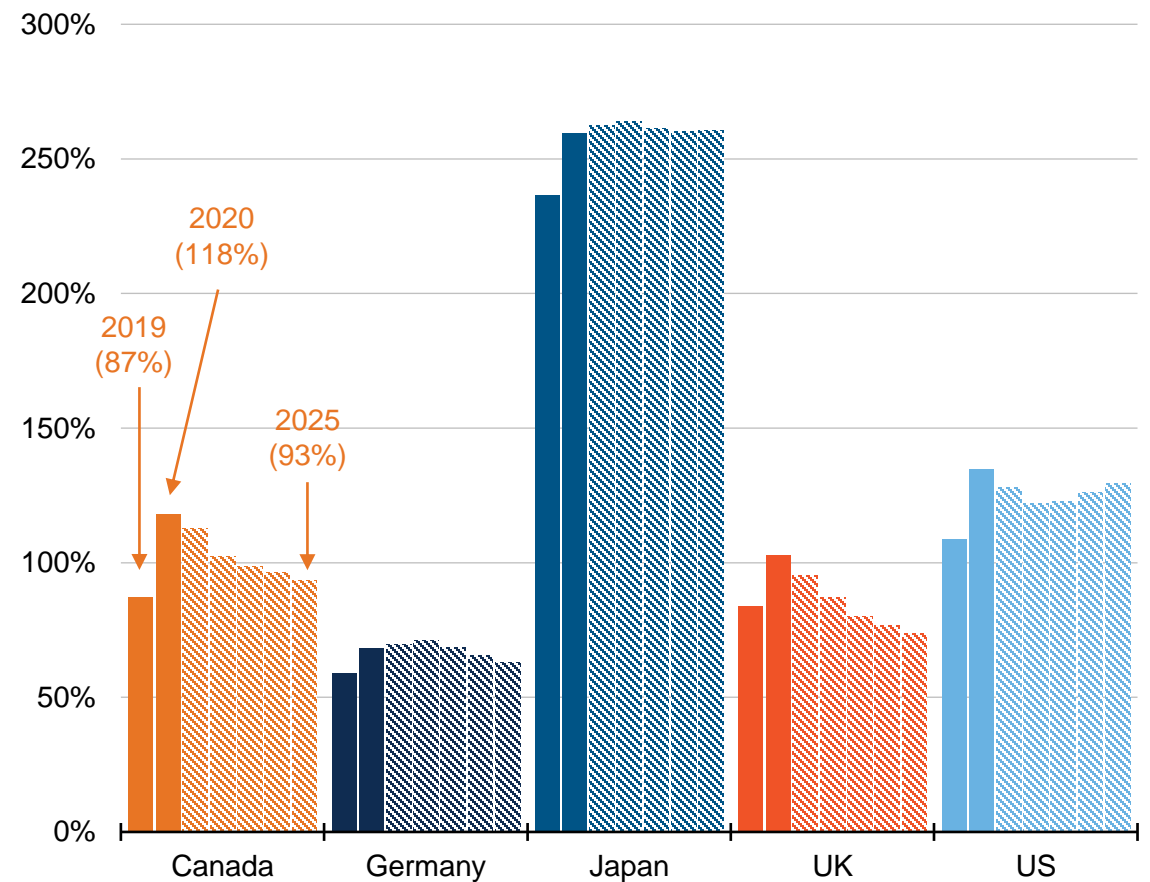


Global fiscal positions

Deficits are expected to shrink in the next few years
General government deficits as a % of GDP, IMF forecasts



U.S. debt load will stabilize at new, higher level
General government debt-to-GDP ratios, IMF forecasts

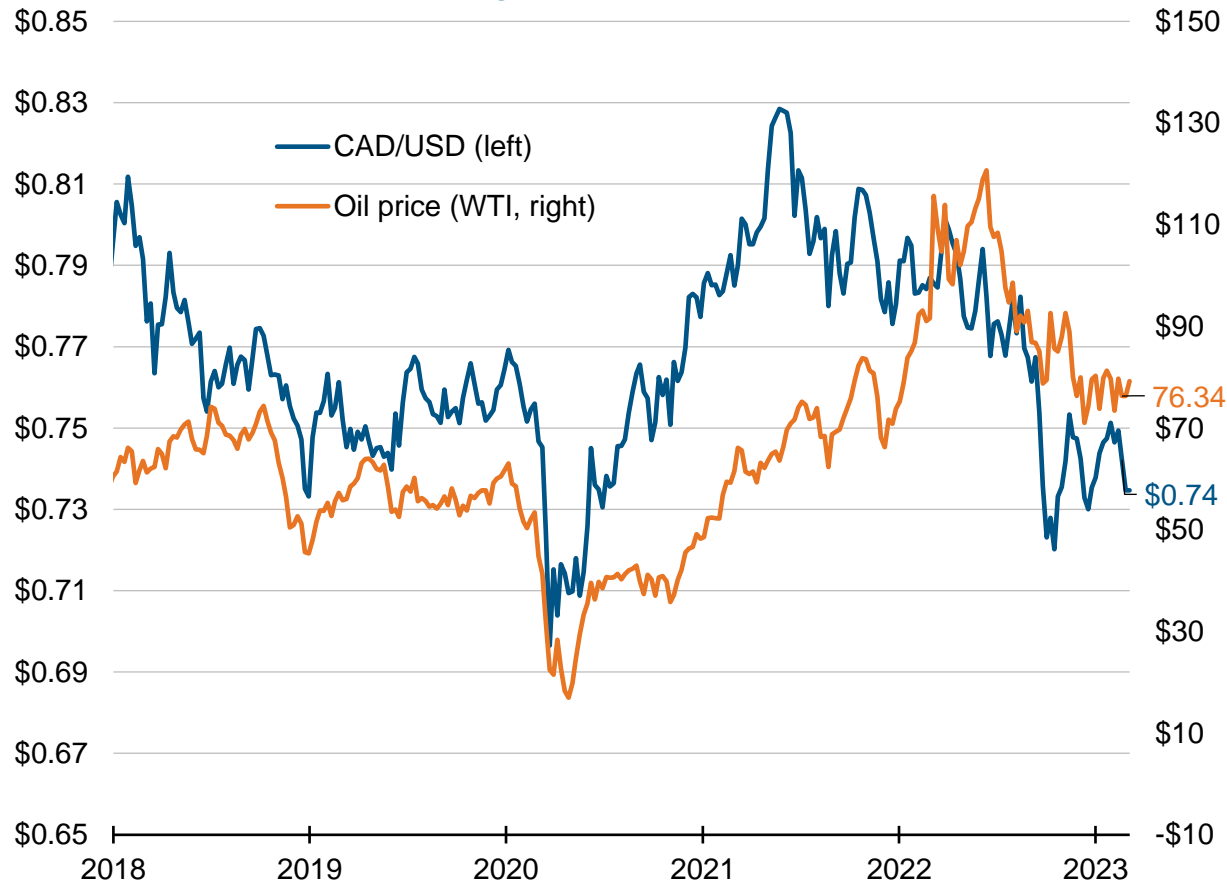


Data from the International Monetary Fund (IMF).

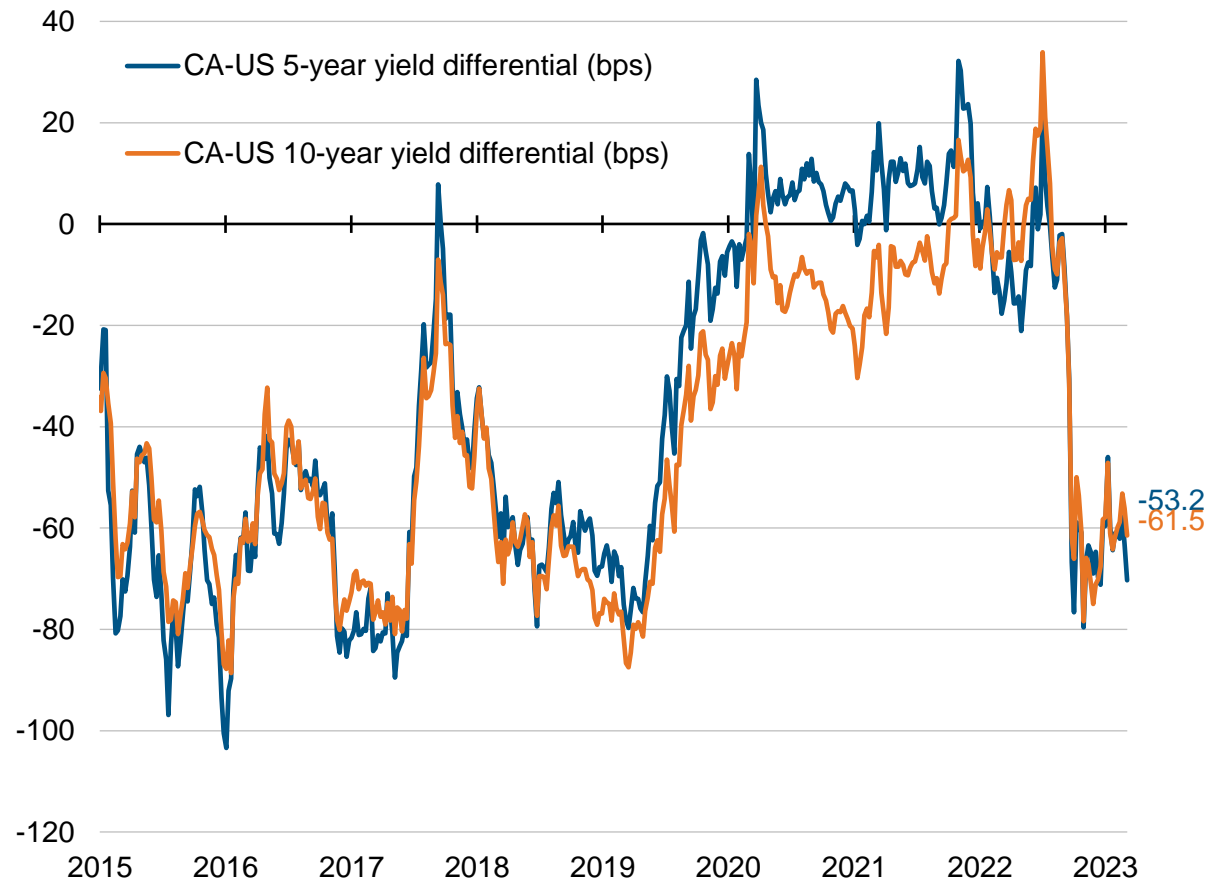
Canadian dollar

The CA\$ lost value in the second half of 2022 with lower oil prices and inflation running below US inflation

Canadian dollar exchange rate to US dollar



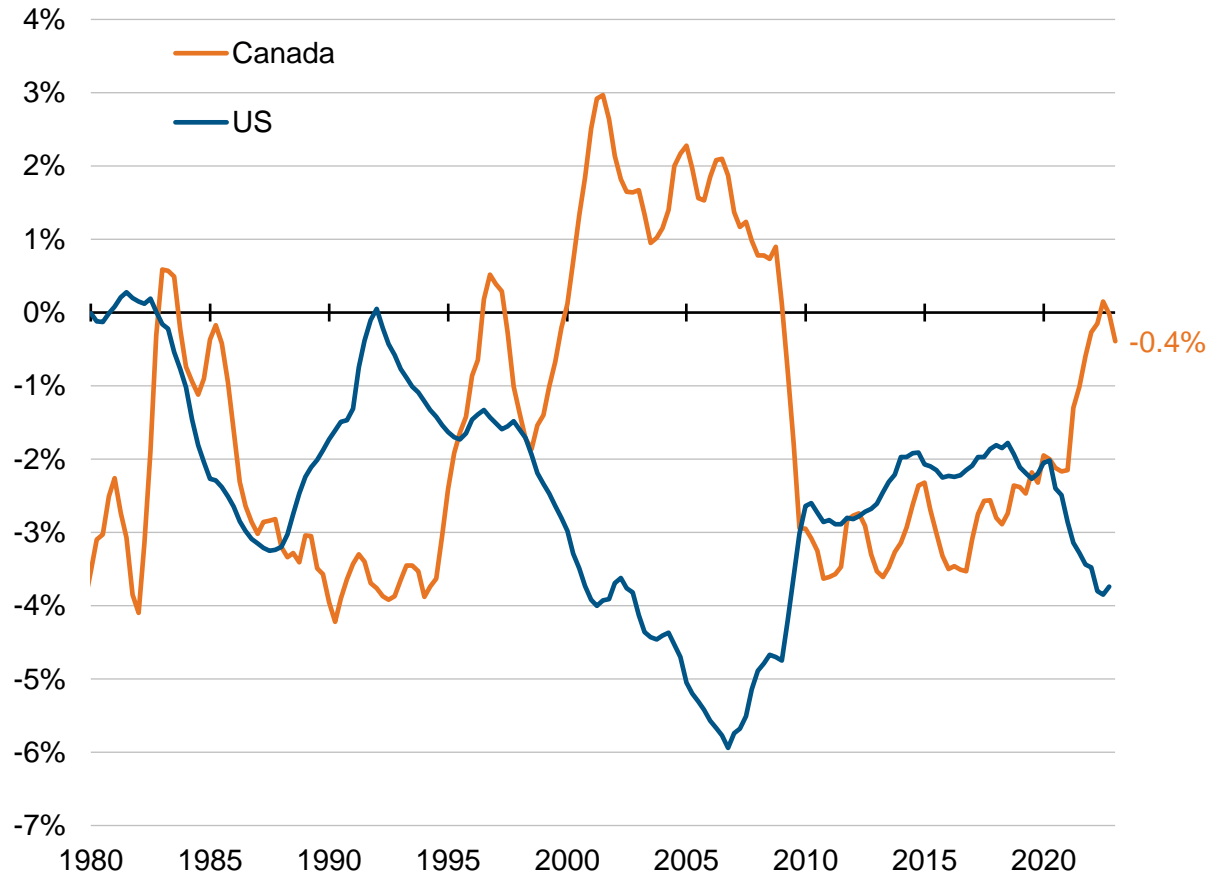
The CA-US “carry” has turned negative for the CAD
CA-US yield differentials, basis points



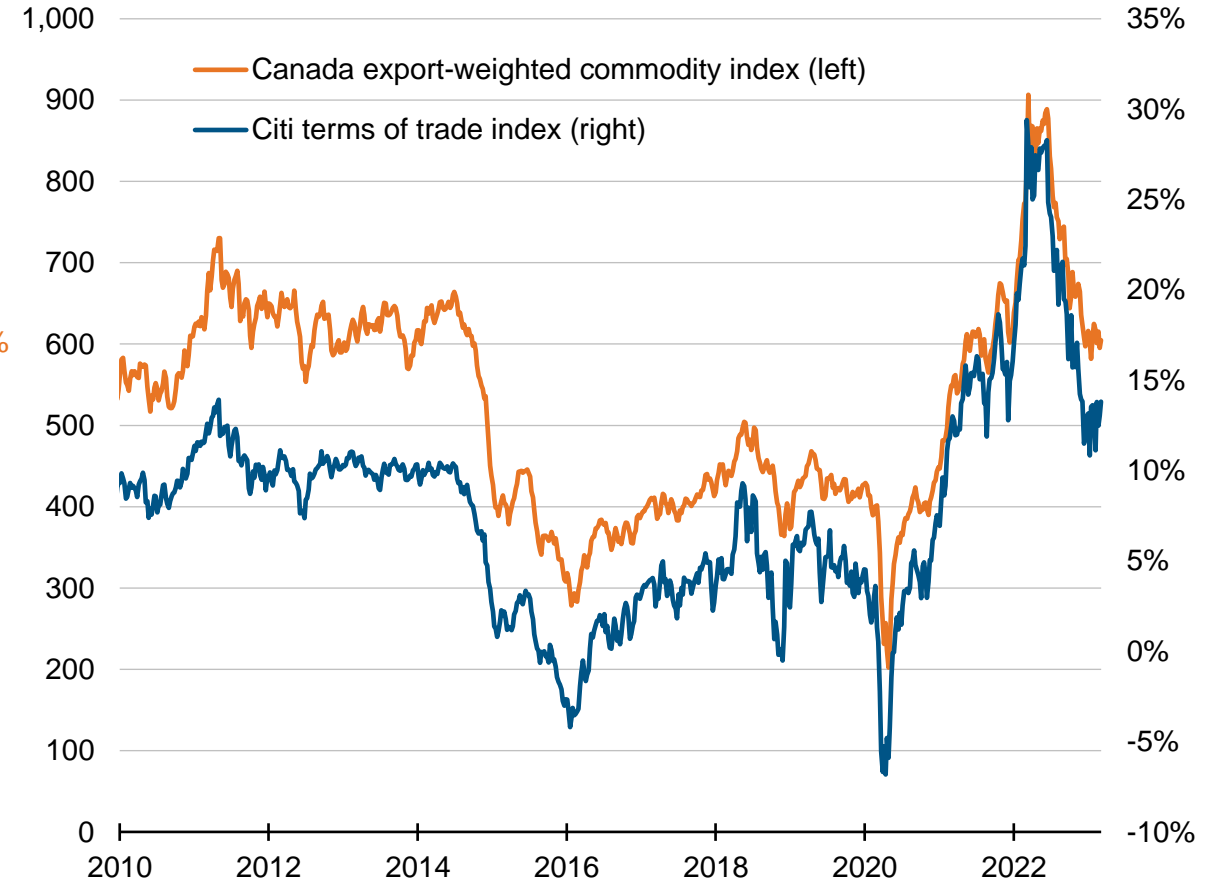
Data via Bloomberg.

Canadian dollar, drivers

With lower commodity prices, the CA deficit has returned Current account balances as a % of GDP



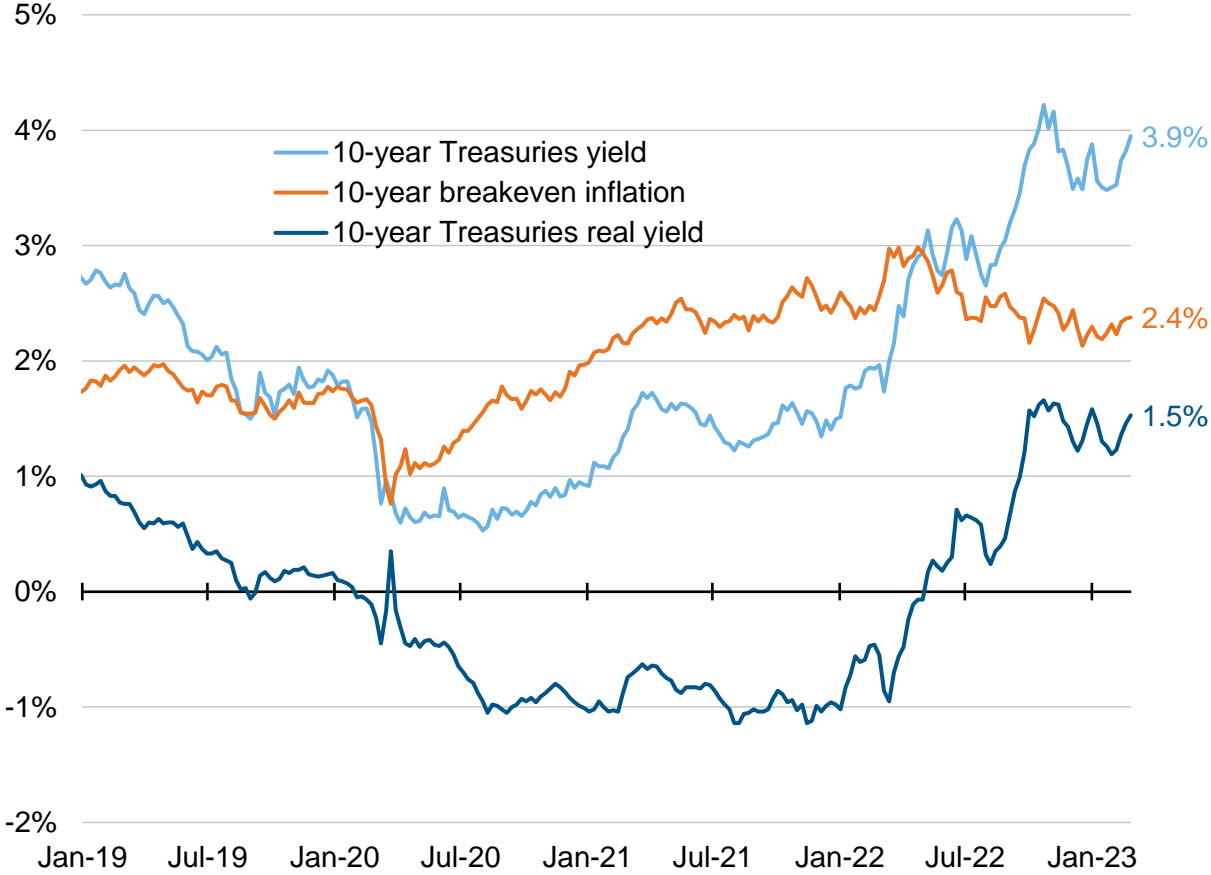
The price of Canada's exports dropped in 2022H2 Measures of export prices, Canada



Data via Bloomberg. The Citi terms of trade index represents the ratio of Canada's commodity export prices to import prices, normalized to 0 in 1996.

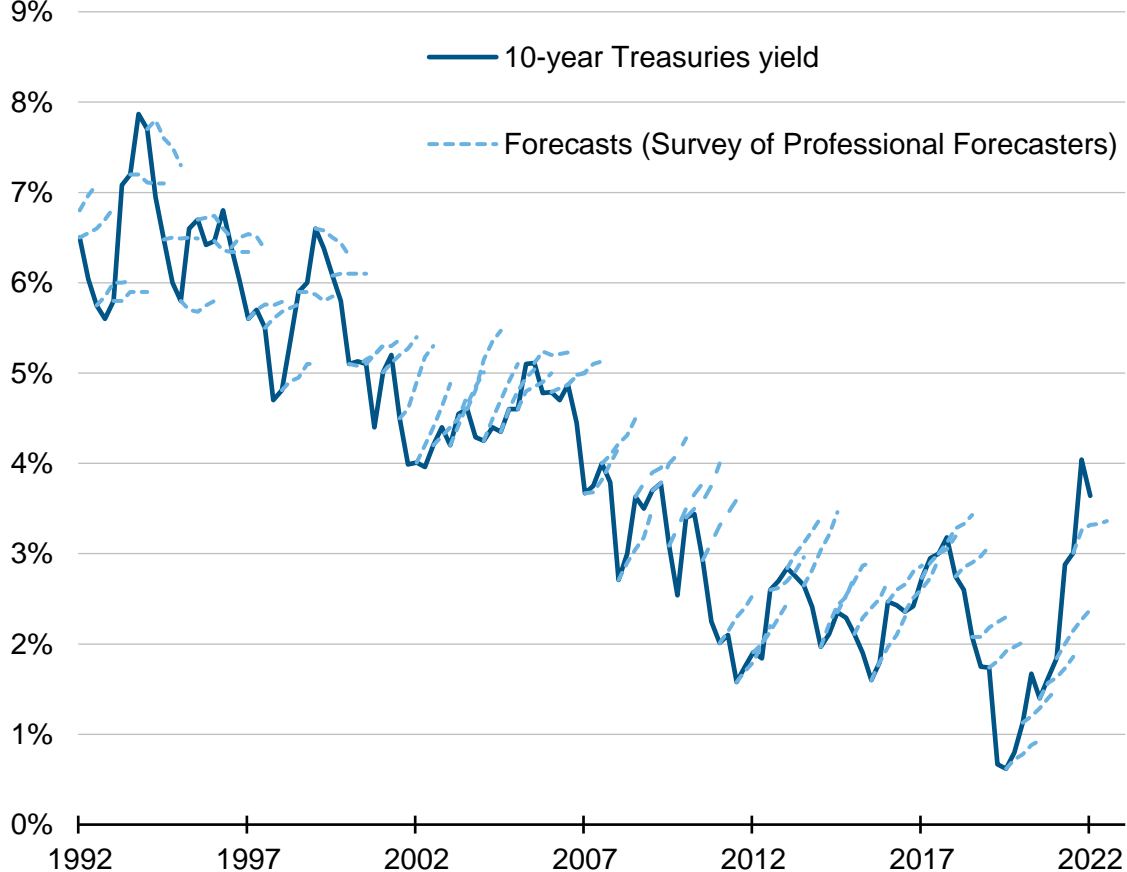
Yields and interest rates

Real yields exceeding 1.5% for the first time since 2010
Decomposition of US yields



There had been an upward bias in yield forecasts before last year

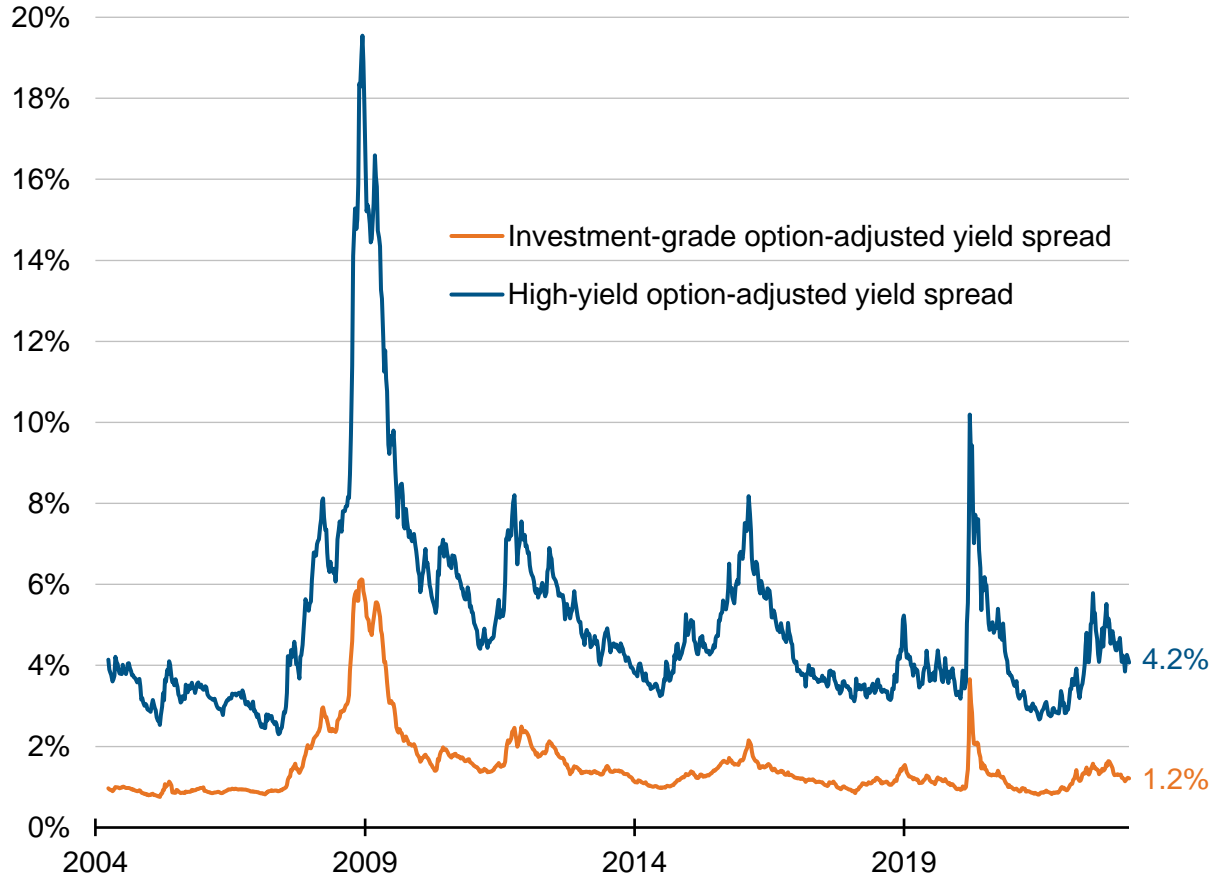
Historical yield forecasts



Data via Bloomberg.

Corporate bonds

Spreads are narrow considering the risks
U.S. corporate spreads, basis points



Corporate debt ballooned during the pandemic
U.S. corporate debt as a % of GDP



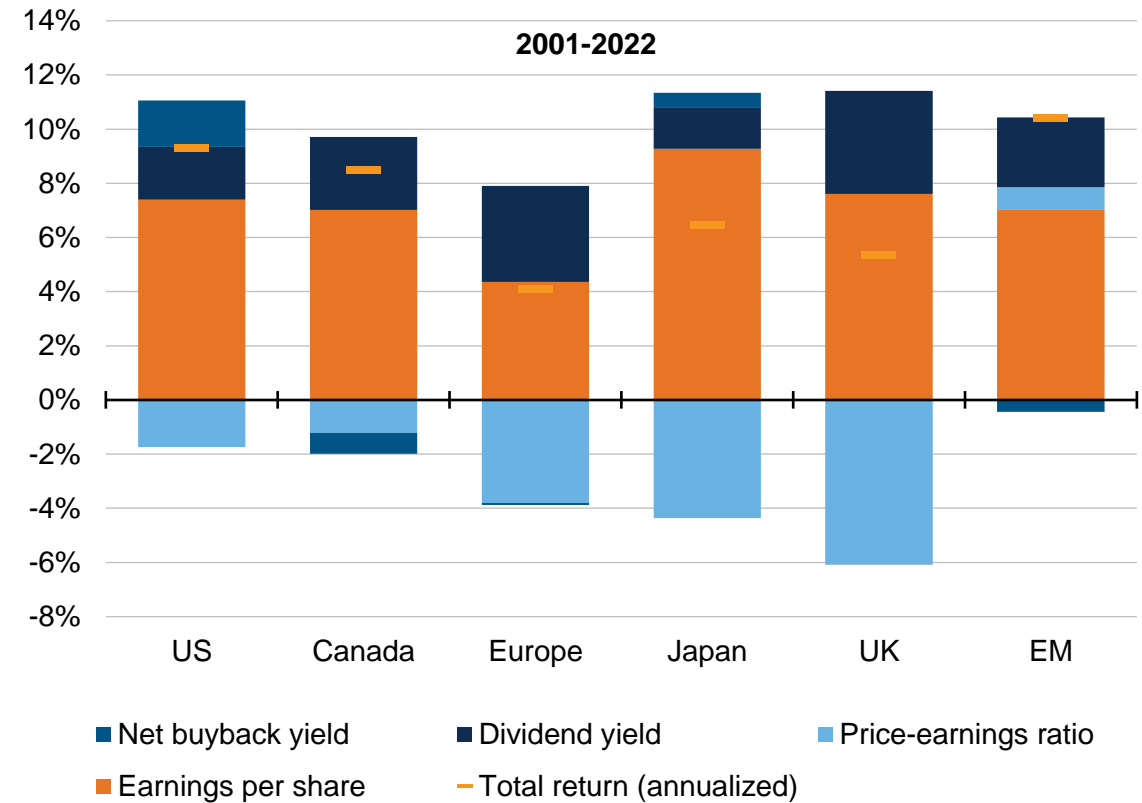
Data via Bloomberg.

Equities, earnings

Analysts generally expect below-average earnings growth – Earnings per share growth consensus forecasts

Year	US	Canada	Europe	Japan	UK	Emerging markets
	S&P500	TSX	STOXX 50	NIKKEI 225	FTSE 100	MSCI
2021	46.2%	87.0%	68.0%	81.7%	89.3%	48.3%
2022	5.0%	-0.2%	-1.3%	10.2%	-0.9%	-4.5%
2023	9.9%	6.4%	5.6%	8.8%	1.6%	17.0%

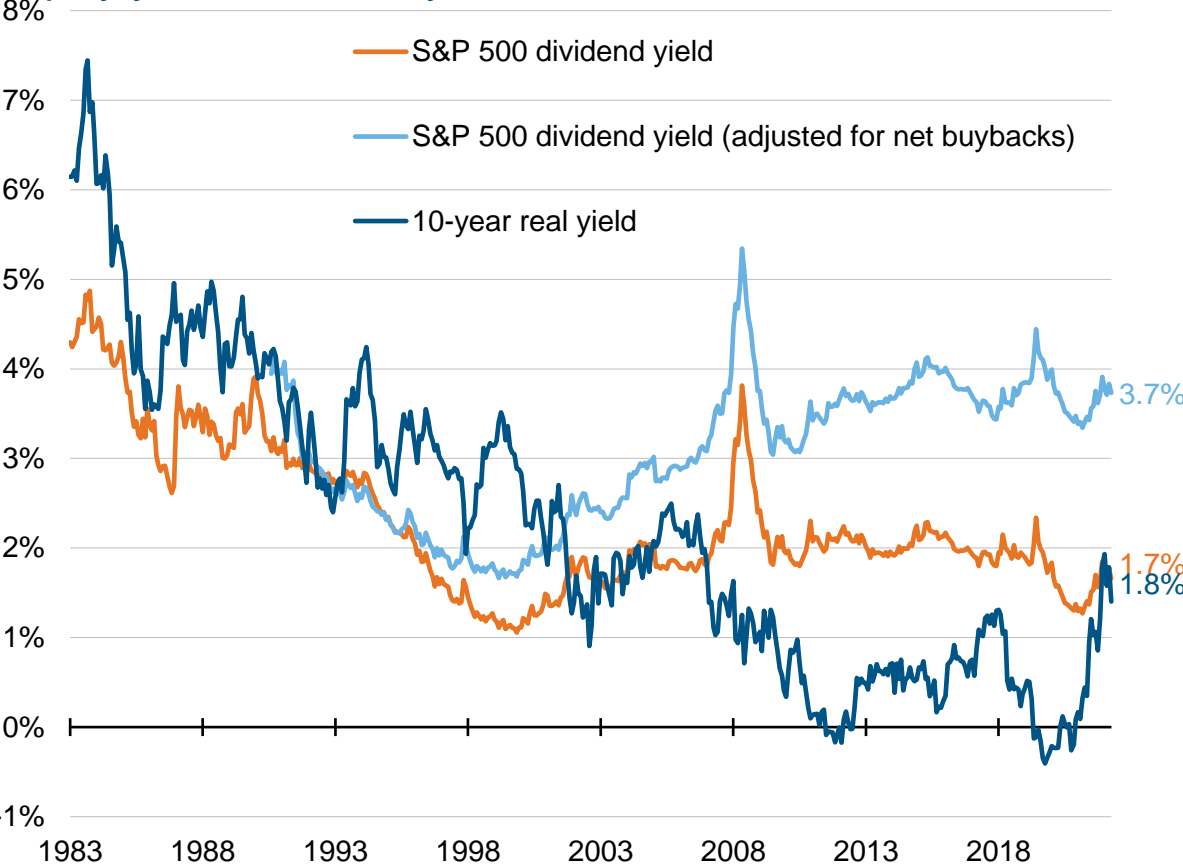
Earnings have driven a large share of equity returns
Contributions to annual index returns



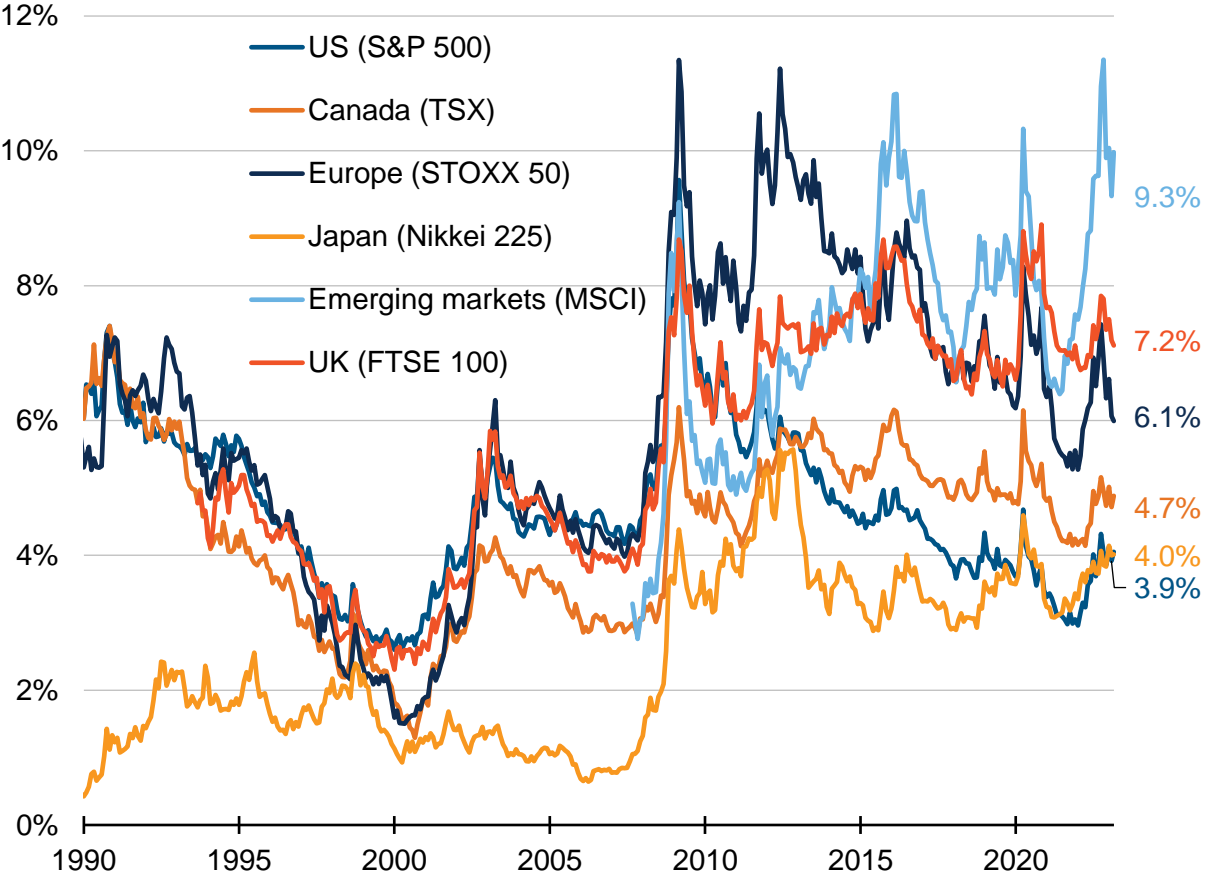
Equities, valuations

Dividend yields are less attractive given the spike in real yields

Equity yields vs. bond yields



U.S. equities appear more expensive than other markets
Cyclically-adjusted earnings yield



Data via Bloomberg. Calculations by the Multi-Asset Strategies team. The ten-year real yield on the left chart is an estimate from the Cleveland Fed. The cyclically-adjusted earnings yields in the right chart are calculated using Shiller's methodology.

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The indicated rates of return are the historical annual compounded total returns as of March 1, 2023 including changes in unit value and reinvestment of all dividends and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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