MACKENZIE Investments | CONFIDENCE IN A CHANGING WORLD

MARKET REVIEW: Q1 2019

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	31-Dec-18	Index Level		29-Mar-19	
Regional Equity Indices	Total Return*	31-Dec-18	29-Mar-19	YTD Price Return	YTD Total Return*
S&P/TSX	-8.9%	14,322.86	16,102.09	12.4%	13.3%
Dow Jones Industrial	-3.5%	23,327.46	25,928.68	11.2%	11.8%
S&P 500	-4.4%	2,506.85	2,834.40	13.1%	13.6%
Nasdaq	-2.8%	6,635.28	7,729.32	16.5%	16.8%
MSCI All Country World	-9.0%	455.66	508.55	11.6%	12.3%
MSCI Europe	-10.1%	114.20	127.91	12.0%	13.0%
MSCI EAFE	-13.4%	1,719.88	1,875.43	9.0%	10.1%
MSCI Emerging Markets Index	-14.3%	965.78	1,058.13	9.6%	9.9%

Currencies	31-Dec-18	29-Mar-19	% Change
CAD/USD	0.73	0.75	2.2%
CAD/EUR	0.64	0.67	4.4%
EUR/USD	1.15	1.12	-2.2%
GBP/USD	1.28	1.30	2.2%
USD/JPY	109.69	110.86	1.1%

Bond Yields	31-Dec-18	29-Mar-19	bps Change
10 yr Canada Govt.	1.97%	1.62%	-35
10 yr U.S. Treasury	2.68%	2.41%	-28
10 yr Germany Govt.	0.24%	-0.07%	-31
10 yr Japan Govt.	0.00%	-0.08%	-8
30 yr Canada Govt.	2.18%	1.89%	-29
30 yr U.S. Treasury	3.01%	2.81%	-20

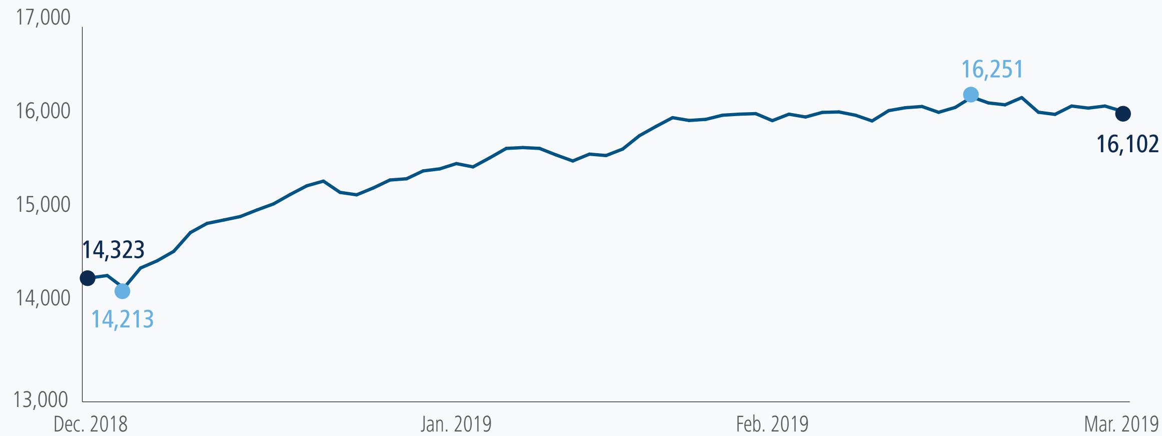
Commodities	31-Dec-18	29-Mar-19	% Change
Gold USD/oz.	1,282.45	1,292.30	0.8%
Oil USD/bbl.	45.41	60.14	32.4%

Source: Bloomberg. Index returns are in local currency.
*Total return is price return plus re-investment of dividends

CANADIAN EQUITIES

The S&P/TSX gained 13.3% in the first quarter of 2019. This followed an 11% decline in the fourth quarter of 2018 and represented the TSX's best quarter since 2000. Interestingly, cannabis stocks represented six of the TSX's ten best performers in the first quarter. Canadian equities appear to have benefited from the perceived shift to a more dovish stance by global central banks, including the Bank of Canada. This boosted the market's forward-looking assessment of prospects for Canadian companies.

S&P/TSX Composite Index – for the YTD March 31, 2019



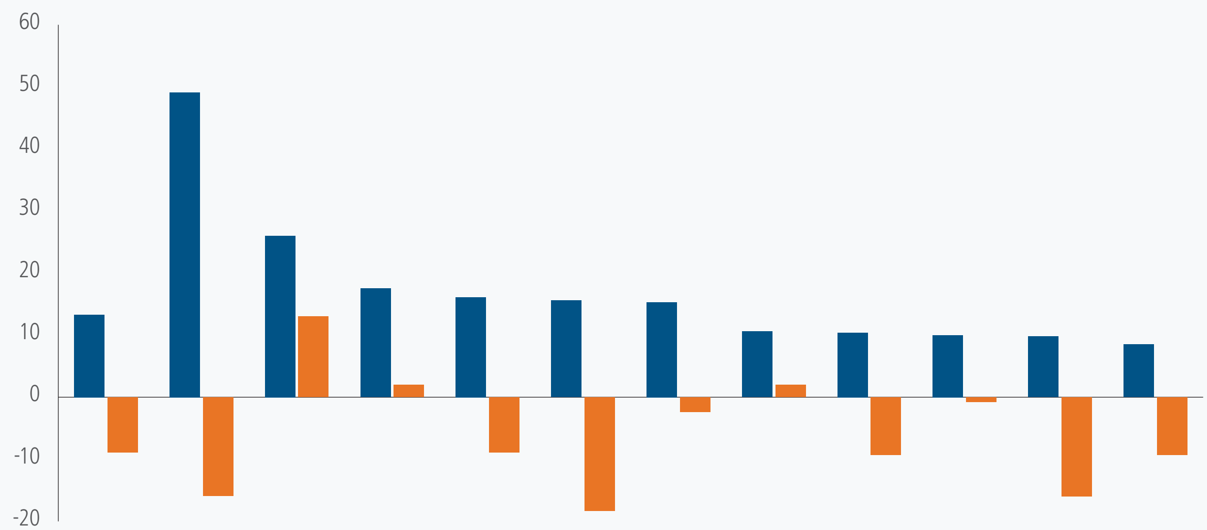
Source: Bloomberg

S&P/TSX Composite Index – for the 10 years ending December 31, 2018

Source: Bloomberg

The Energy sector rose by 15.6%, helped by the significant advance in crude oil prices during the first quarter. Western Canada Select spot oil crude oil prices rose from under $30/barrel to over $50/barrel, helping to close some of the price gap with West Texas Intermediate which had opened up during 2018. This benefited Canadian Energy sector equities. The Industrials sector also did well, with a gain of 15.3% during the quarter. This cyclical sector did well in response to the central bank shift to a more accommodative stance, helping it to recover from a poor 2018.

S&P/TSX Returns by Sector



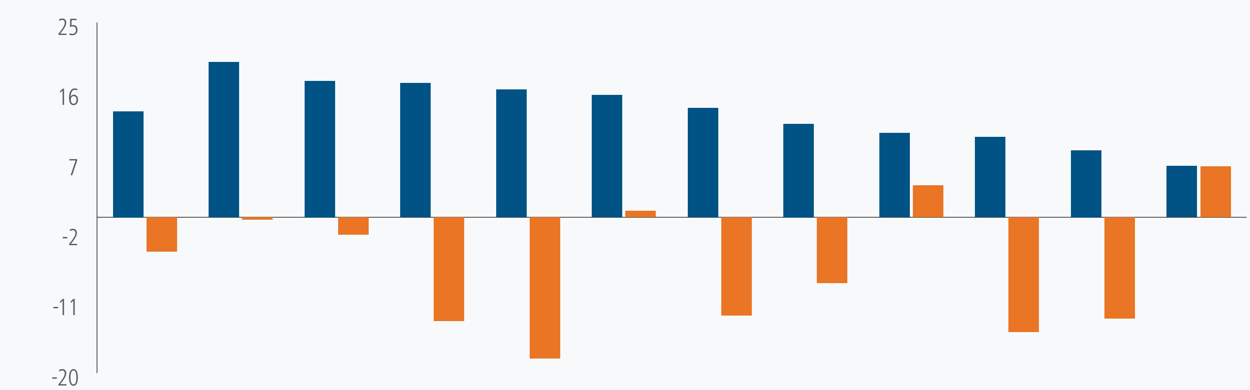
	S&P/TSX Composite Index	Health Care	IT	Real Estate	Utilities	Energy	Industrials	Cons. Staples	Financials	Telecom Services	Cons.Disc.	Materials
YTD 2019	13.3	49.1	26.0	17.5	16.1	15.6	15.3	10.6	10.4	10.0	9.8	8.5
FY 2018	-8.9	-15.9	13.0	2.0	-8.9	-18.3	-2.4	2.0	-9.3	-0.8	-16.0	-9.3

Source: Bloomberg.
FY 2018 - for the 1 year ending December 31, 2018; YTD 2019 - for the year to date ending March 31, 2019

U.S. EQUITIES

The S&P 500 gained 13.7% in the first quarter. There were continued signs of a slowdown in U.S. economic growth throughout the quarter. However, the equity market was comforted by the Federal Reserve's shift to a more accommodative stance. Comments by Federal Reserve Chair Jerome Powell suggesting that the central bank would adopt a "patient" approach reinforced the market's view of the likelihood of a soft landing in the economy and in corporate earnings. Growing expectations of a looming trade deal between the U.S. and China appeared to help U.S. equities' performance in Q1. As a result, cyclical sectors, such as Information Technology (+19.9%) or Industrials (+17.2%), did particularly well during the quarter.

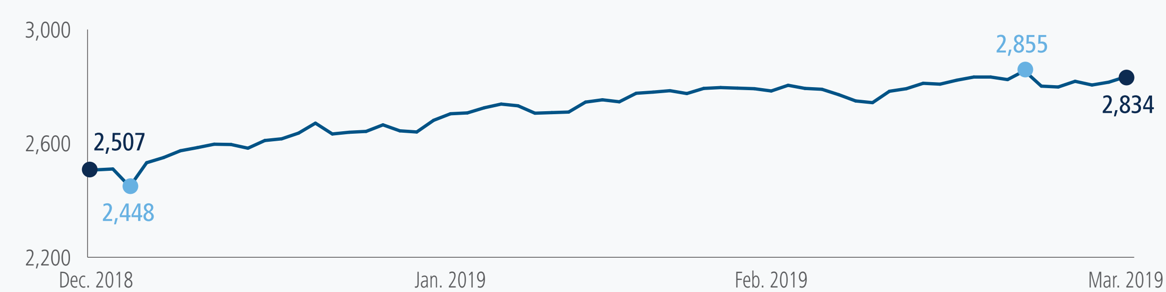
S&P 500 Returns by Sector



	S&P500	IT	Real Estate	Industrials	Energy	Cons. Disc.	Telecom Services	Cons. Staples	Utilities	Materials	Financials	Health Care
YTD 2019	13.6	19.9	17.5	17.2	16.4	15.7	14.0	12.0	10.8	10.3	8.6	6.6
FY 2018	-4.4	-0.3	-2.2	-13.3	-18.1	0.8	-12.6	-8.4	4.1	-14.7	-13.0	6.5

Source: Bloomberg
FY 2018 - for the 1 year ending December 31, 2018; YTD 2019 - for the year to date ending March 31, 2019

S&P 500 Index – for the YTD March 31, 2019



Source: Bloomberg

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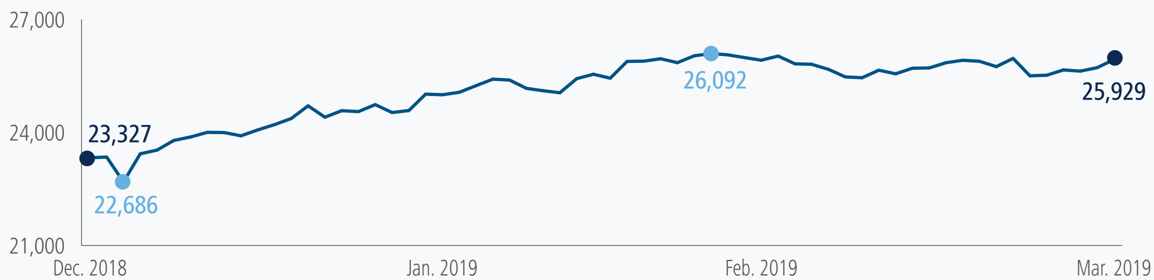
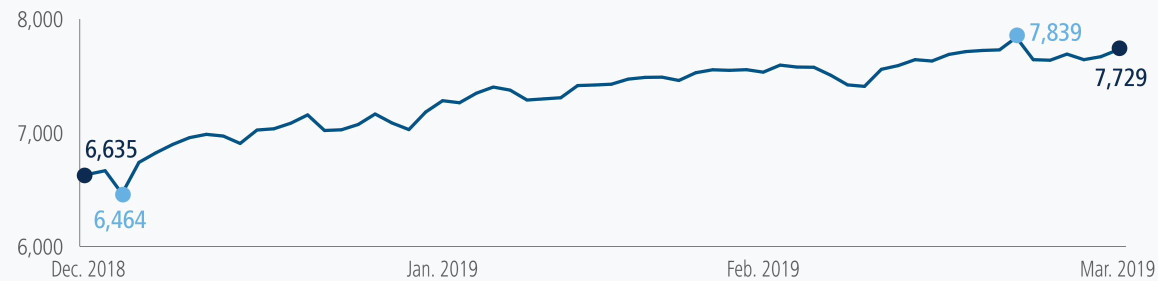
U.S. small-capitalization equities also performed well, with the Russell 2000 gaining 14.1%. The cyclicality of small-cap stocks was a positive factor in Q1, helping the asset class recoup some of the losses incurred during a difficult 2018.

Dow Jones Index – for the YTD March 31, 2019



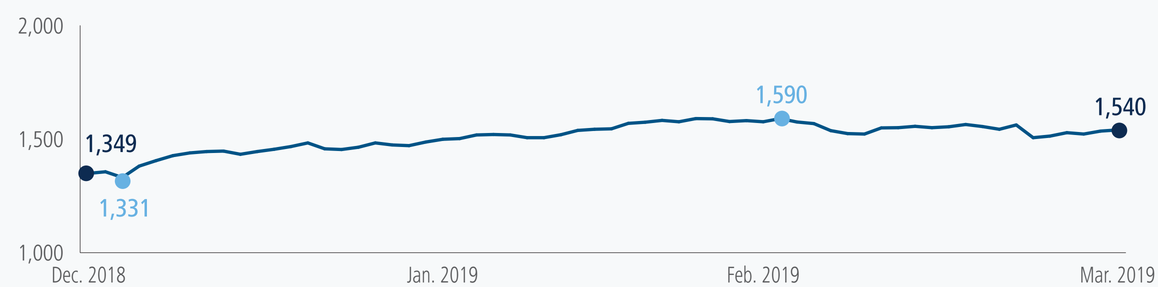
Source: Bloomberg

Nasdaq Index – for the YTD March 31, 2019



Source: Bloomberg

Russell 2000 Index – for the YTD March 31, 2019



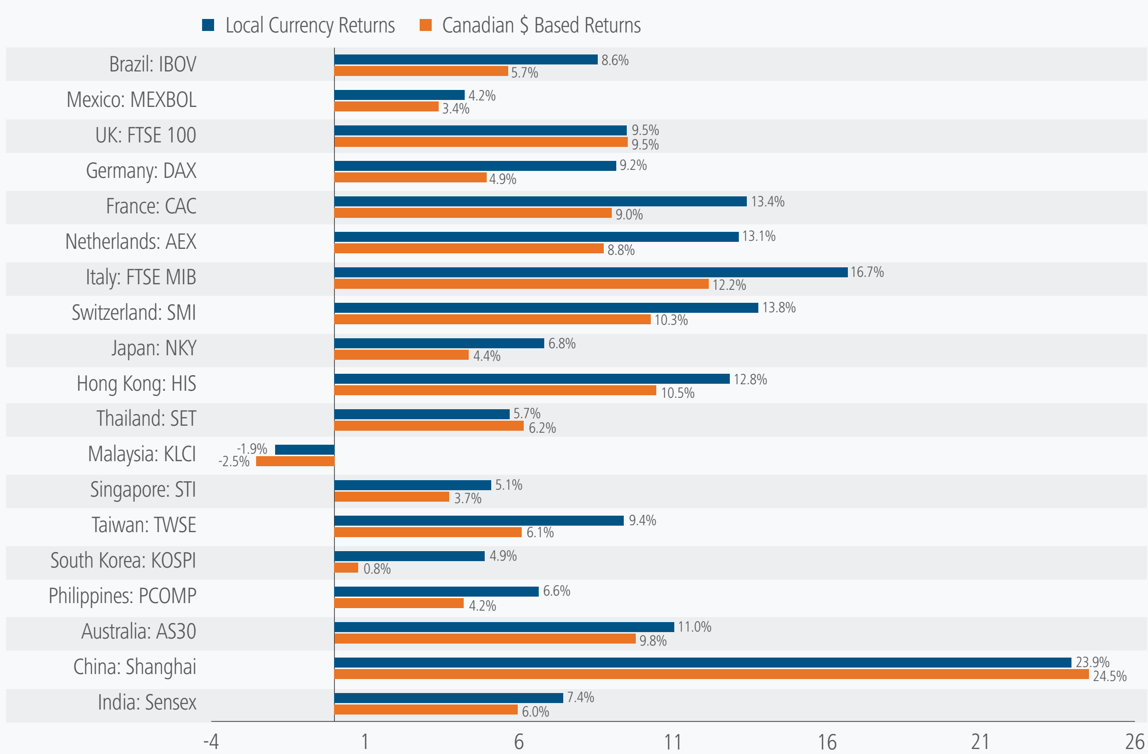
Source: Bloomberg

GLOBAL EQUITIES

Across global equity markets, most Asian and European markets rose in a synchronized manner in Q1. Gains ranged from 6.8% for the Nikkei to 13.4% for France's CAC 40 Index. Gains were even stronger in some of 2018's worst-affected markets, such as Italy's FTSE/MIB Index (+16.7% in Q1). Signs of stabilizing global trade and a slight improvement in China's growth rate helped the recovery in Europe and Asia's heavily trade-exposed equity markets.

Chinese equities were the top-performing asset class. This stands in stark contrast to China's poor performance in 2018. The Shanghai Composite Index was up 23.9% in Q1, while the CSI 300 increased by 30%. These sharp gains occurred on the back of incipient signs of Chinese stimulus leading to a stabilization in growth as well as expectations of a U.S./China trade deal. Chinese economic data did not bounce back significantly in Q1 as China remains stuck in a deleveraging and de-risking campaign which is hindering long-term growth prospects. However, targeted fiscal stimulus appeared to stabilize growth figures for the country.

Global Market Equity Index Performance (Net Total Return) – for the YTD March 31, 2019



Impact of Currency of Global Market Returns – for the YTD March 31, 2019

	Canada	U.S.	Euro Asia	Japan	Emerg. Markets	China	World
	S&P/TSX	S&P 500	MSCI Europe NR	MSCI Japan NR	MSCI EM NR (USD)	MSCI China NR (in HKD)	MSCI World (in USD)
Local Currency Returns	13.29%	13.65%	13.01%	7.63%	9.89%	18.01%	12.63%
Canadian $ Based Returns	13.29%	11.50%	8.64%	5.16%	7.82%	15.52%	10.51%

Source: Bloomberg. Net total return in Local currency and Canadian dollars

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INTEREST RATES

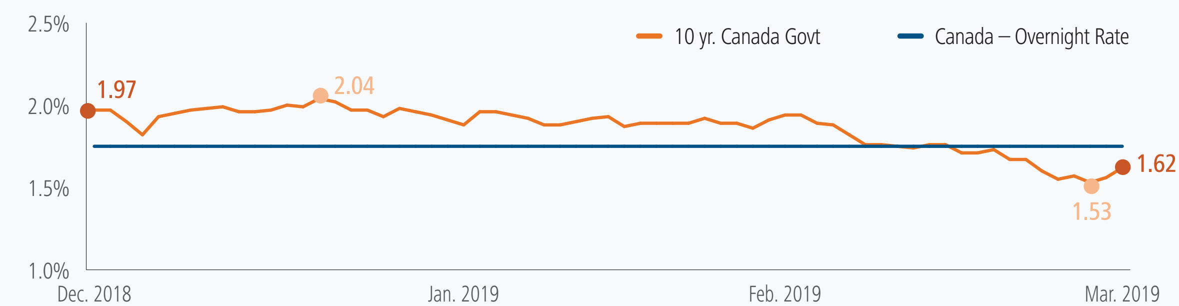
Central banks adopted a more dovish tone in the first quarter. This began with the Federal Reserve, which on January 4 mentioned it would be “prudent”. This stood in stark contrast to previous comments which suggested that the central bank would carry on with its planned interest rate hikes. In the aftermath, bond markets worldwide rallied. The 10-year U.S. Treasury fell from 2.69% to 2.41% as market participants repriced expected U.S. growth lower and re-assessed the Fed’s stance. Due to a slowdown in U.S. economic data, market expectations for future Fed rate hikes turned to expectations of stable rates in the short run and rate cuts later in 2019 and 2020.

The Canadian bond market experienced similar developments. Canada’s 10-year government bond yield fell from 1.97% to 1.62% over the quarter, as bond market participants reacted to the Bank of Canada’s assessment of a “sharper” slowdown in domestic and international growth. Similar to the U.S. situation, expectations of future Bank of Canada rate hikes in our opinion turned to a market consensus which now believes that the central bank has completed its tightening cycle.

Other developed market central banks remained accommodative. The European Central Bank cut its projections for 2019 growth and inflation in response to weak economic data in the single currency area. As a result, the German 10-year government bond yield fell from 0.24% to -0.07% during the quarter, returning to negative territory for the first time since 2016. Only the Norges Bank (Norway’s central bank) bucked the dovish trend by raising interest rates by 25 basis points to 1%.

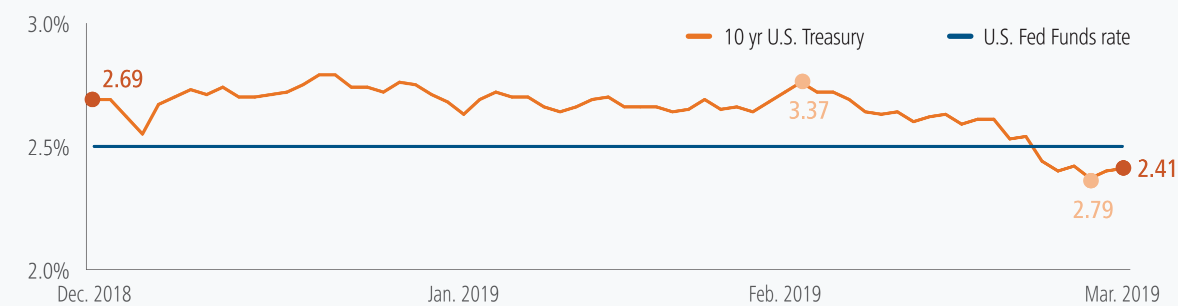
Central Bank Rates and 10-Year Government Bond Yields – for the for the YTD March 31, 2019

Canada



Source: Bloomberg

U.S.



Source: Bloomberg

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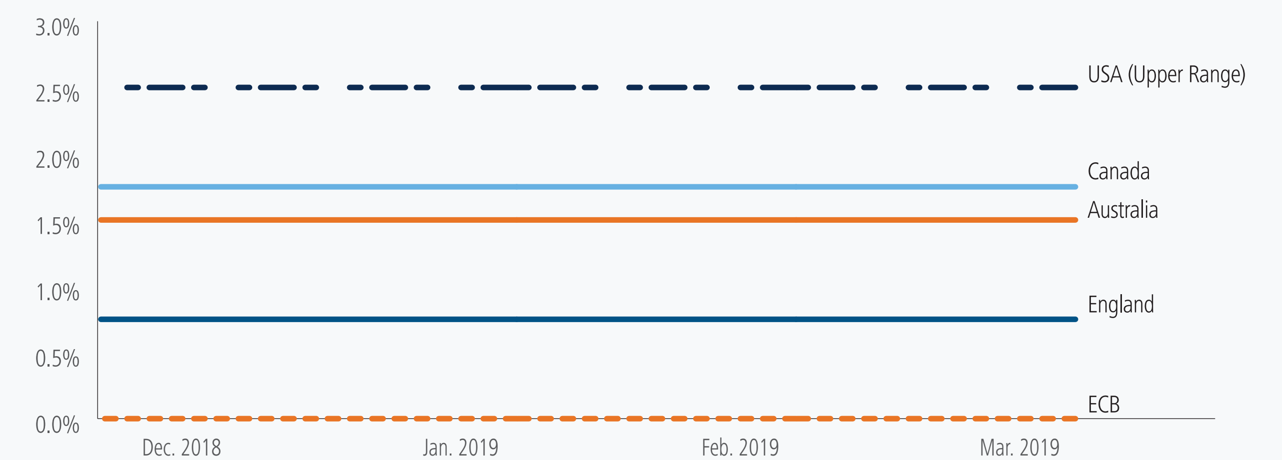
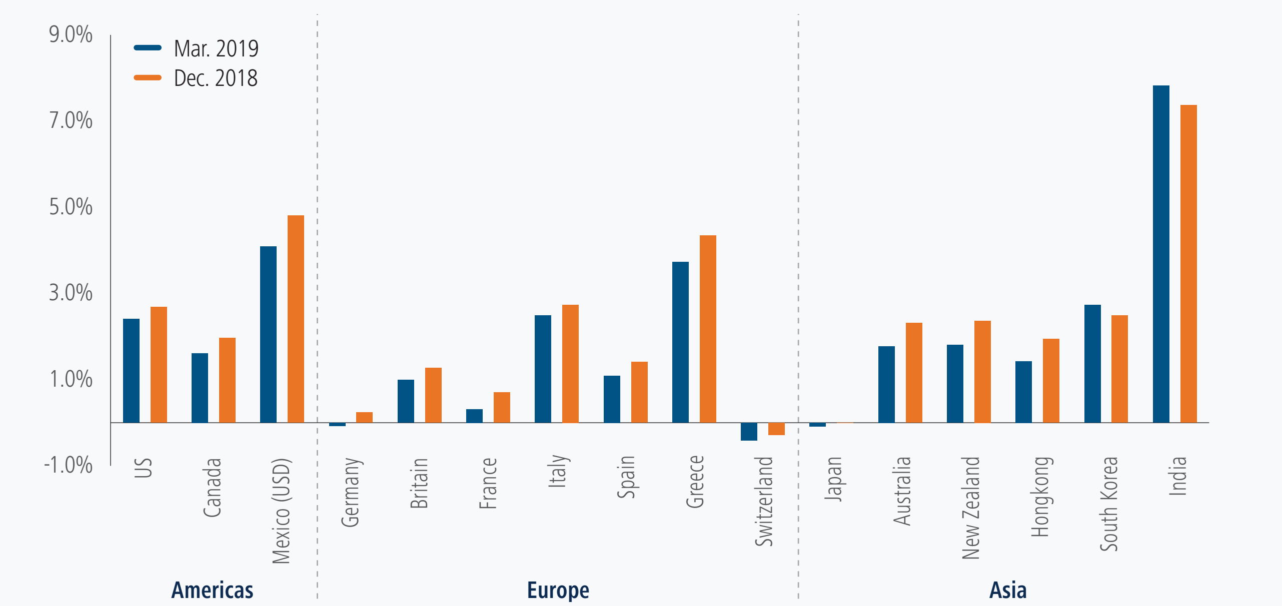
Central Bank Rates



Source: Bloomberg

10-Year Government Bond Yields



Source: Bloomberg

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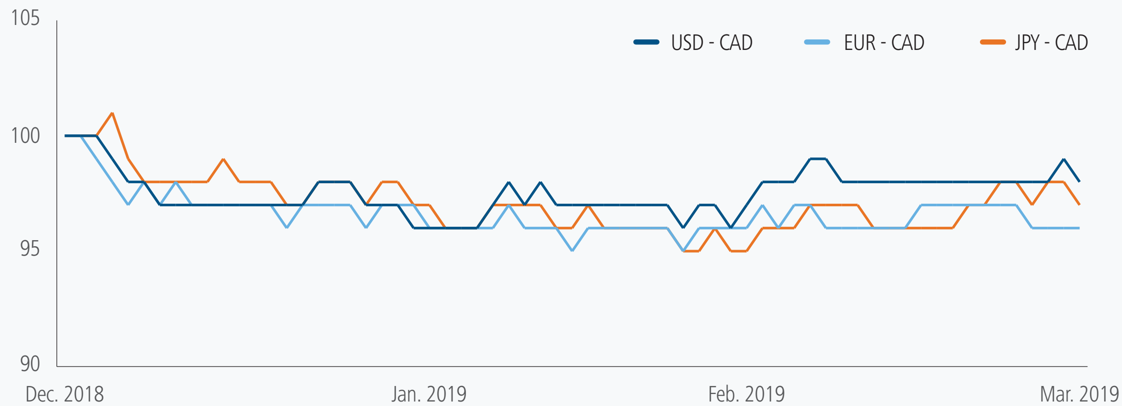
CURRENCIES

The Canadian dollar gained 2.2% against the U.S. dollar during the quarter, increasing from 0.73 USD to 0.75 USD. The recovery in crude oil prices helped the loonie recover some of its Q4 2018 losses against the greenback. Continued strong performance in terms of job creation in January and February also maintained the appeal of the Canadian dollar despite the Bank of Canada's more cautious stance. The Canadian federal budget shied away from providing large-scale fiscal stimulus and was, broadly speaking, s a non-factor for the currency.

CAD Comparisons

Indexed to 100 on March 31, 2019

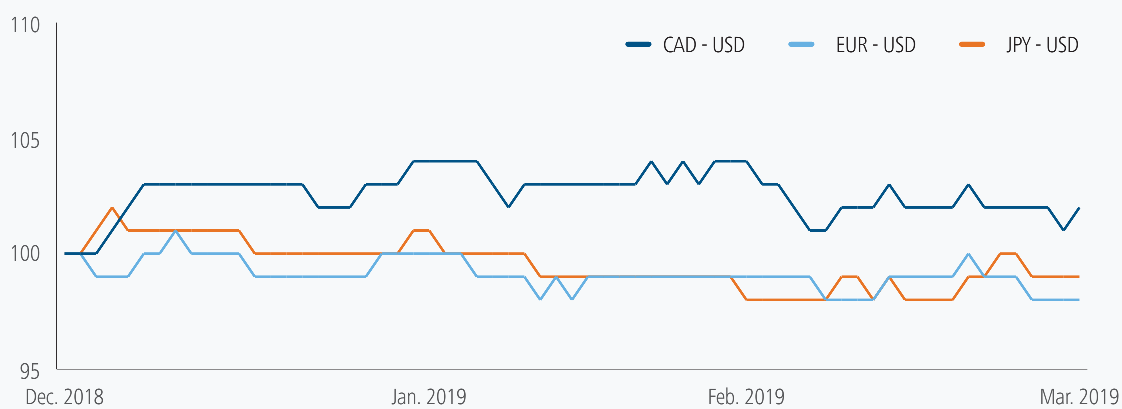


Source: Bloomberg

At the global level, both the euro (-2.2%) and the yen (-1.2%) fell against the U.S. dollar. Sluggish economic data in the Eurozone forced the European Central Bank to revise its economic projections downward, pushing back market expectations for a normalization of monetary policy. As a result, the low interest rates currently in place in the Eurozone and Japan continued to weigh on the euro and the yen. At the other end of the spectrum, the U.K. pound gained 2.2% against the greenback, as we believe this is the result of market participants anticipates that the risk of a 'hard Brexit' was diminishing.

USD Comparisons

Indexed to 100 on March 31, 2019



Source: Bloomberg

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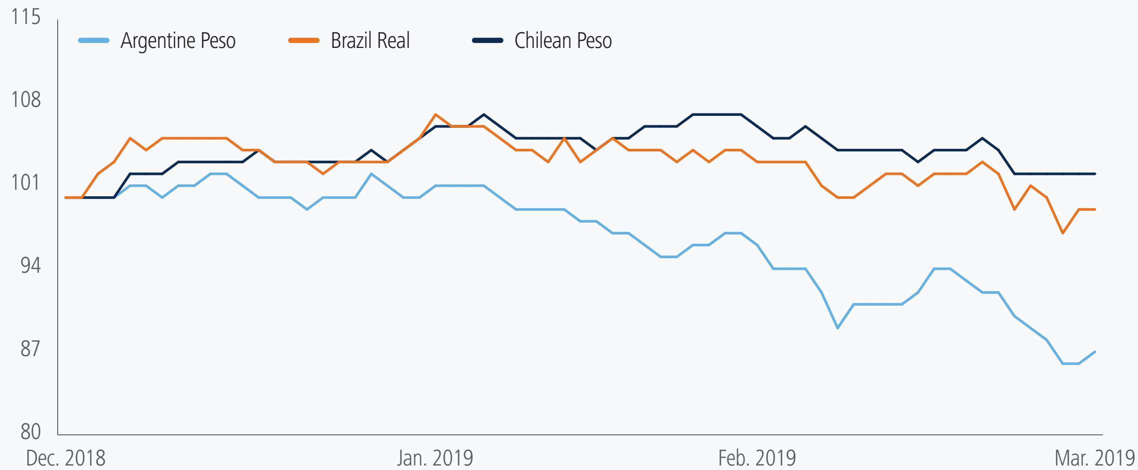
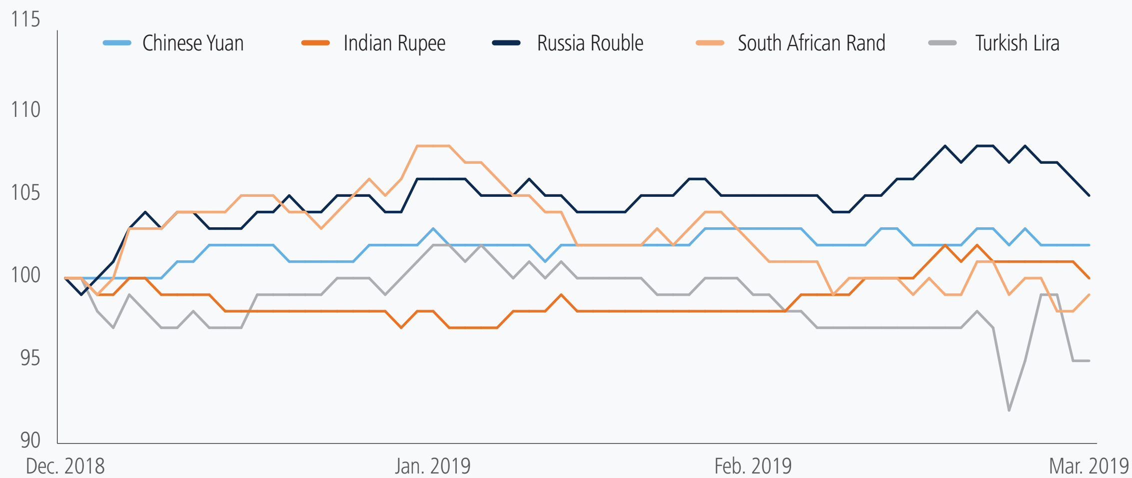
Emerging market currencies were mixed. The Russian ruble gained 5.3% against the U.S. dollar, bolstered by the increase in crude oil prices. The Chinese renminbi gained 2.5% versus the U.S. dollar, helped by moderate improvements in Chinese growth and expectations of a trade deal with the United States. However, at the other end of the spectrum, the Turkish lira lost 5% against the greenback, as investors pondered the risks related to local elections held at the end of March.

Emerging Market Currencies against the U.S. Dollar

Indexed to 100 on March 31, 2019



Source: Bloomberg



Source: Bloomberg

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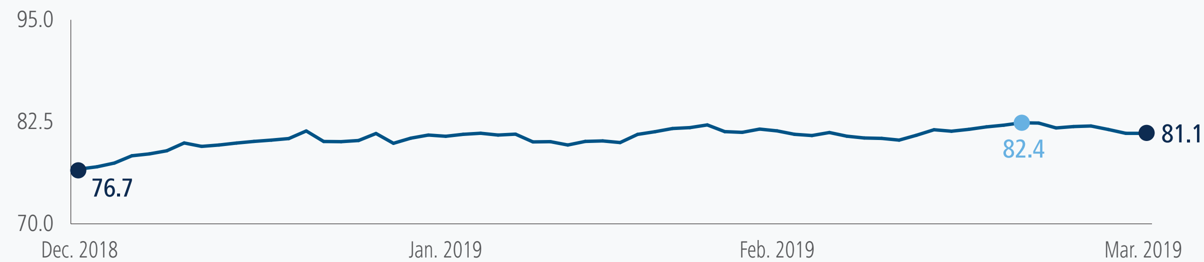
COMMODITIES

The Bloomberg Commodity Index gained 5.7% during the first quarter. This increase reflects a perceived improvement in China's growth rate, as commodities remain heavily tied to Chinese demand. Meanwhile, the central bank shift to a more dovish stance helped alleviate certain fears about the global economy, helping commodity prices recover.

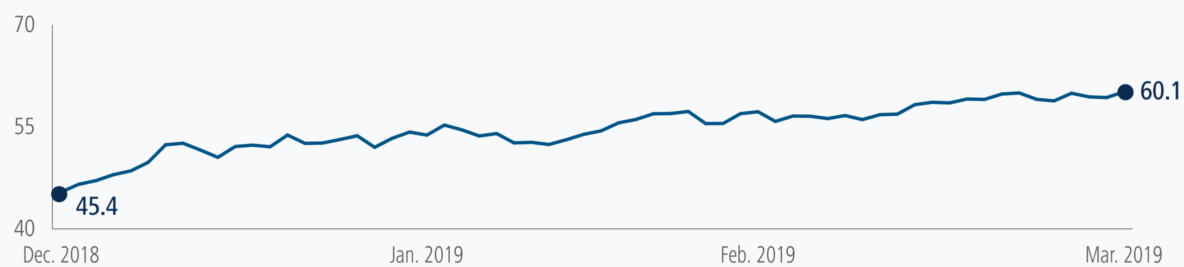
Bloomberg Commodity Index – for the for the YTD March 31, 2019



Source: Bloomberg

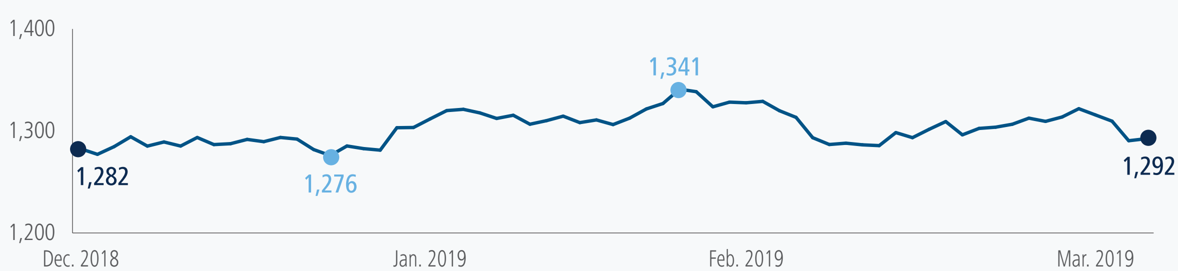
Crude oil gained 32.4% during the quarter. This happened following steep price declines in the fourth quarter of 2018. A reduction in oil inventories across certain countries as well as discipline by OPEC member producing countries helped contain supply. On the demand side, we believe market participants were encouraged by what was perceived as a stabilization in China.

Crude Oil – for the for the YTD March 31, 2019



Source: Bloomberg

Gold Bullion – for the for the YTD March 31, 2019



Source: Bloomberg

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