MACKENZIE
Investments

2021 Mid-Year Capital Markets Outlook

Brent Joyce, CFA
Investment Strategist
Mackenzie Investments

Justin Truong, CFA
Manager, Investment Strategy
Mackenzie Investments

Investors + Advisors + Mackenzie That's **better** together

Let's begin

The world at large | Equities | Fixed income | Commodities and currencies | Asset mix recommendations

> **Everything that we survived. It's gonna be alright. Just lucky we're alive. Got no vision, I've been blind. Searching everywhere. You're right here in my sight.**
>
> **Hands on a miracle. I got my hands on a miracle. Believe it or not, hands on a miracle. And there ain't no way. I'll let you take it away.**
>
> - Foo Fighters. In Your Honor (2006), lyrics to "Miracle"

The world at large

The healing has begun

The race between containing the COVID-19 virus and its variants versus vaccine rollout and efficacy is being won by the miraculous work of scientists and health care workers. However, equity markets and commodity prices have moved a long way toward pricing in this optimistic scenario.

While "peak everything" may be near, the size of the mountain matters. There is still growth in economic activity and earnings, but the rate of change is moderating. **Markets prefer positive and growing data – but they can live with stabilizing metrics. It's just that stability generally doesn't drive the kinds of double-digit appreciation in stock prices we have seen – it likely leads to more modest gains.**

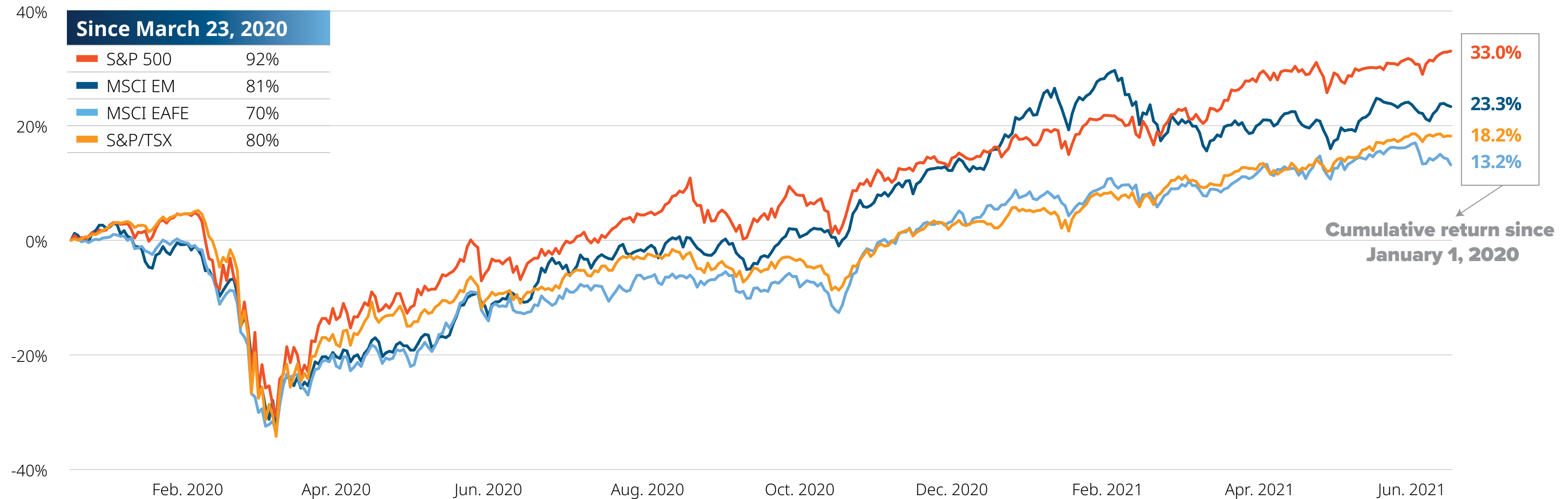
The environment is likely to remain supportive as monetary policy is only beginning to tighten at the margin; it remains very accommodative. Fiscal spending is poised to continue flowing, and pent-up savings should be released as people venture out. There is also the elongated inventory cycle due to the surge in demand for goods while services were significantly restricted during the pandemic lockdowns. Businesses have a long way to go to restock inventories, and this is a positive for sustainable demand. In the face of upward pressure on bond yields and narrow credit spreads, **we see equities outperforming bonds over a six- to 12-month time horizon.**

At the margin, capital markets prices move on surprises, both positive and negative. **Since the COVID-19 pandemic took the world hostage (and capital markets along with it), it is hard to imagine a greater positive surprise than the innovation, production and rollout of highly effective vaccines.**

Out of difficult situations, miracles were performed in no small part by frontline workers, health care professionals and policymakers. From declining infections to rising employment, falling bankruptcies, skyrocketing corporate earnings growth and, yes, rising inflation, this set off a torrent of positive surprises for investors to feast upon. And feast they did.

Plenty of good news is priced-in to equity markets

Pre and post pandemic returns of major equity indices



Source: Bloomberg June 30, 2021

As vaccines rolled out globally, a handful of countries (US and UK most notably) dashed ahead of faltering vaccine campaigns in Canada, Europe and parts of Asia. At the same time, the less-developed world saw a horrific surge of the virus. Buoyed by the early success of vaccines, equity markets rocketed to new all-time highs, with many notching half-year gains in the mid-teens.

Long-term bond yields initially bolted higher, rushing to price in a widening global economic recovery, along with the expectation of higher inflation. The consensus view that inflation will prove transitory caused bond yields to moderate across the longer end of the yield curve.

These positive surprises are good news for stock prices but make the outlook for bonds less clear. The question is, how much room is left for further share price gains if the best of the surprise is priced in? **Our base case scenario is one where earnings growth does deliver, and the disease is kept at bay. However, the path to that outcome may face some setbacks and disappointments along the way. Should a bout of volatility arise, balanced investors will be thankful for some exposure to the safest of fixed income assets.**

Miraculous surprises!

Pandemic winners are expected to keep on winning. The measures taken to save businesses and households appear to have worked (with little regard for the size of the tab). Those companies that thrived in the work-, play- and stay-at-home environment are exiting the pandemic strengthened and hopeful that their businesses will see lasting benefits from a permanent shift or acceleration in both consumer and business behaviour. Many of these pandemic winners are information technology mega-caps and new economy stocks. Some of these firms, with substantial weighting in equity indices, face regulatory risks from growing calls for special taxation, regulation or overhauls to their monopolistic business models.

Pandemic losers survived! And have been coming back strong. For many of the hardest hit industries (airlines, hotels, car rental, hospitality), simply managing to survive was an upside surprise! Then came the reopening trade, as share prices rose from the ashes on early signs that once reopening is allowed, a robust recovery in leisure and hospitality would follow (at least for some period) as the public returns in earnest to make up for lost time.

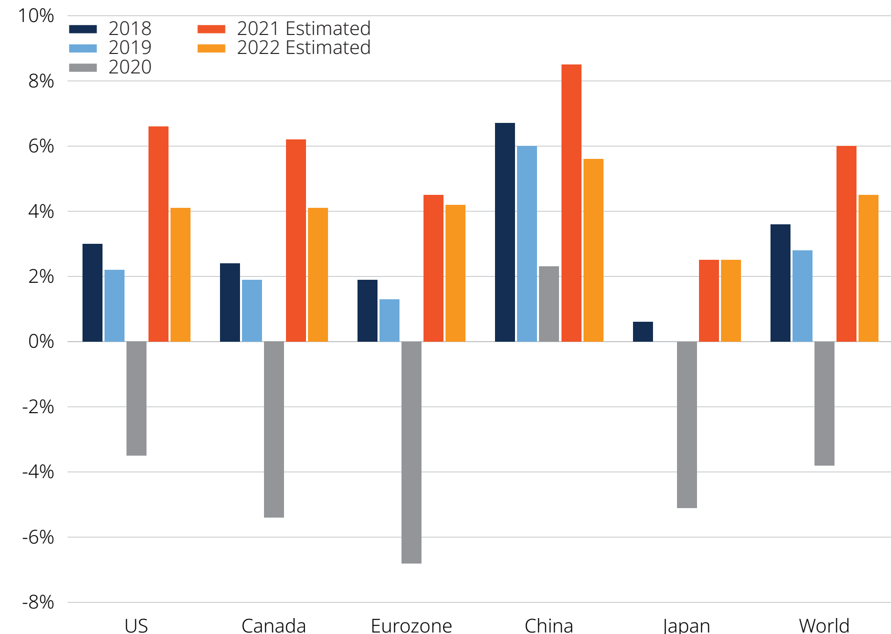
Government spending is going to continue. Despite spending trillions to combat the pandemic, governments are emboldened to spend even more. After more than a year of eye-popping numbers and ballooning figures in just about every corner of society, the public and capital markets have become desensitized to the terms “billions” and “trillions” – they fail to elicit any fearful response. Governments have picked up on this “free-pass” to spend and are embarking on generational, transformational spending on healthcare, infrastructure and social safety nets – all laudable causes, but fiscal prudence, prioritization and cost-benefit analysis should all be considered with policy decisions. Companies will be happy to soak up the government’s largess. Should the bond market vigilantes come out of hibernation and push yields too high, it could be a rude wake-up call. Indeed, what may placate the bond market (higher taxes) is usually not welcomed by stocks.

Peak everything

Now that we are lapping the worst of the economic damage from 2020, it is time to contemplate how capital markets will react if the good news peaks, the rates of positive change peak, and the injection of emergency monetary and fiscal stimulus peak. **Going forward, the magnitude of the upside surprises that equity markets have enjoyed appears challenging to replicate.**

Global GDP growth is forecast to peak in 2021

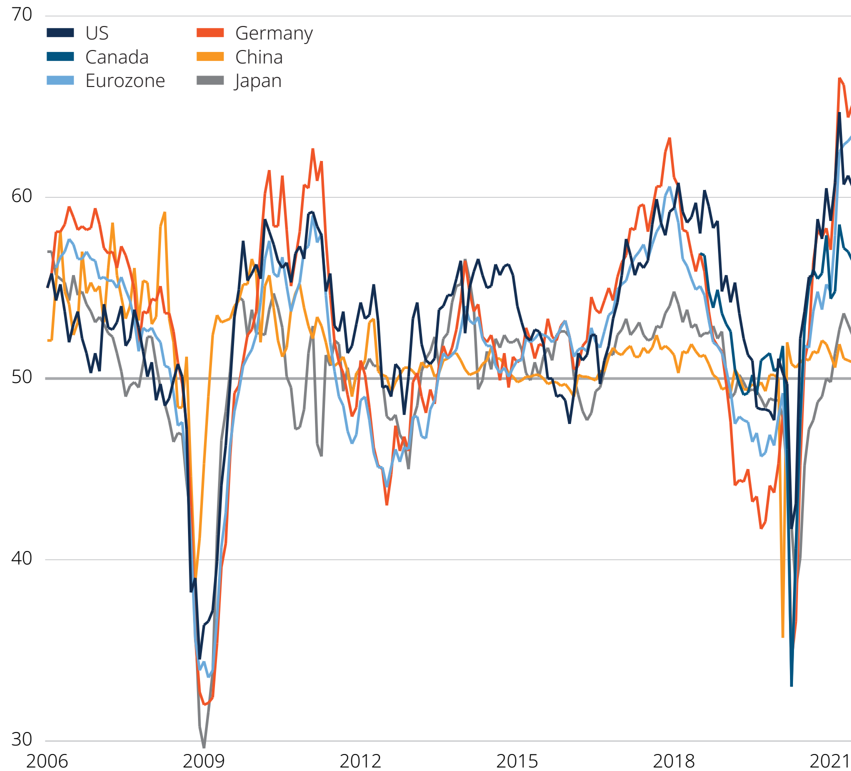
Real GDP growth (y/y % change)



Source: Bloomberg June 30, 2021

Forward-looking manufacturing activity surveys have peaked

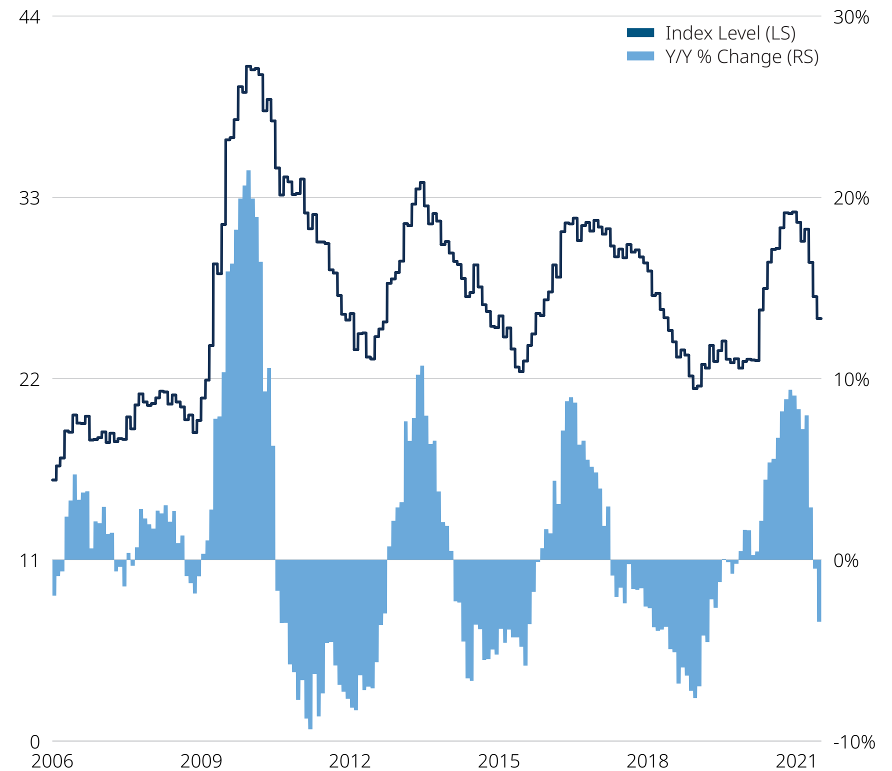
Global manufacturing purchasing manager indices



Source: Bloomberg June 30, 2021 ; US - ISM, Canada, Eurozone, Germany - Markt Economics, Japan - Jibun Bank, China - China Federation of Logistics and Purchasing

Past peak credit stimulus in China

Bloomberg Economics China Credit Impulse Index



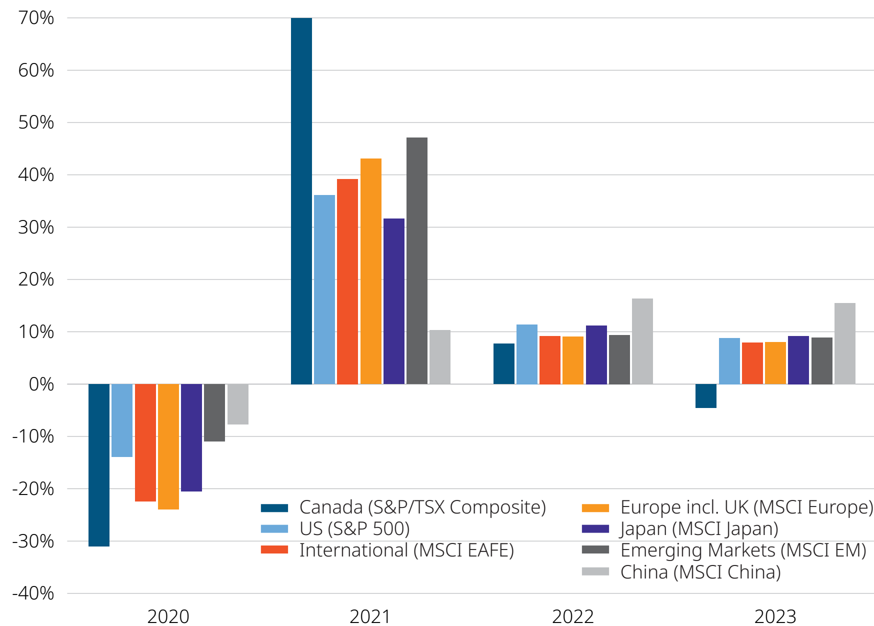
Source: Bloomberg June 30, 2021. Global equity performance indicators are approximate, for illustration only - MSCI World Equity Index

Positive surprises have led equity markets to price in a multi-quarter/multi-year rise in corporate earnings. Exceptionally high rebounds in earnings in 2021 are to be expected compared to the depressed levels of 2020. Double-digit earnings growth projections extended into 2022, and high-single-digit earnings growth projections for 2023 will face a higher bar.

Driving this move from strength to strength is, first, the release of pent-up business demand and consumer spending. Adding to the excitement that growth will continue to be robust are longer-term fiscal spending announcements in many countries pledging to build back better. While this is reasonable, if stocks need further positive surprises, where will they come from? There is also room for disappointment if the "best" of the positive surprises are now expected.

Global earnings growth remains robust, but growth rates peak in 2021

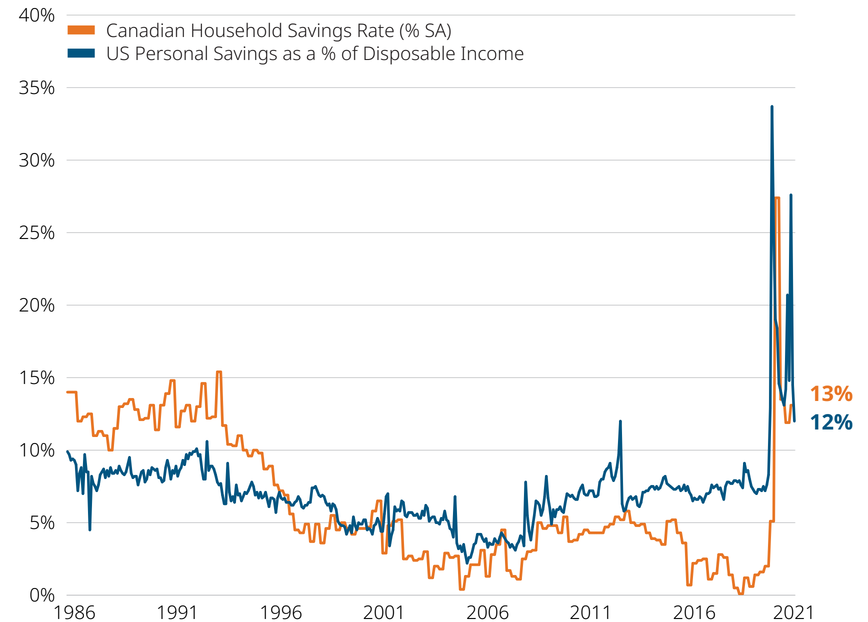
Earnings growth Y/Y % change (consensus forecasts)



Source: FactSet July 5, 2021

Elevated savings rates bode well for consumer spending

Canadian and US household savings rates



Source: Bloomberg - Canada (Q1 2021, quarterly), US (May 31, 2021, monthly)

Risks on the other side of the mountain

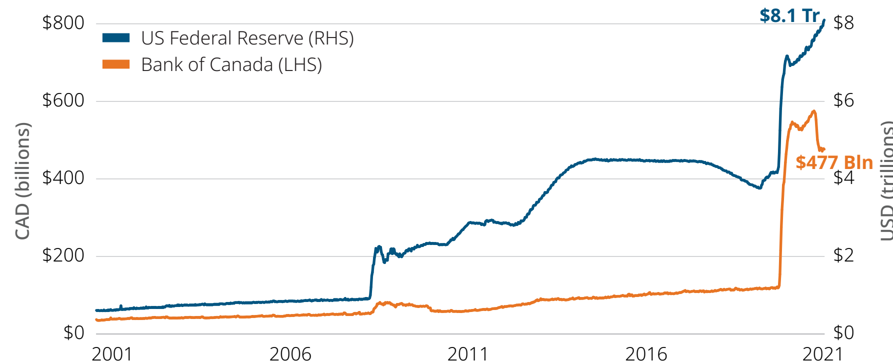
Equities have come to expect the support of central bankers and government intervention. **The removal or moderation of these supports is a potential hurdle for risk assets and creates some uncertainty around the path of the economic cycle.**

There is also the question of whether supply chain issues and labour shortages will persist to the extent that markets would need to price in adverse outcomes. **These negatives include margin pressure due to rising costs** for enterprises **or sharply tightening monetary policy** due to untethered inflation expectations.

The stock market doesn't fear inflation that is demand-driven, provided pricing power can stay ahead of cost increases for businesses. Corporations generally benefit from excess demand, and in time, they can typically address supply constraints. What stocks fear are the central banks having to raise rates abruptly because they have fallen behind on the inflation front.

Monetary policy supports likely to wane

Total assets: Bank of Canada and US Federal Reserve



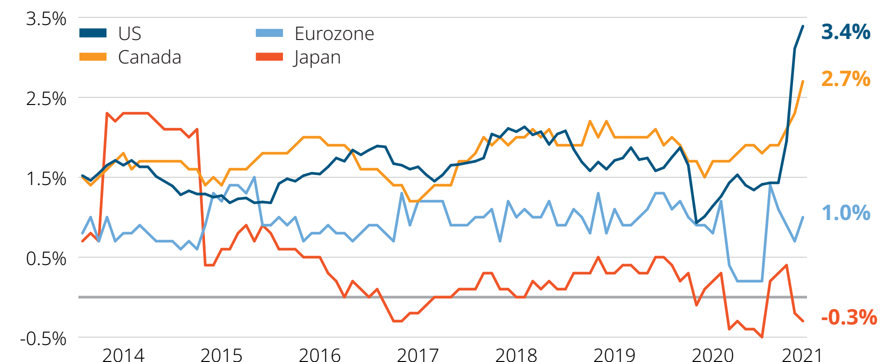
Source: Bloomberg June 23, 2021

On the disease, we are not yet out of the woods. In the near term, **uncertainty exists around COVID variants, especially the delta variant**, and especially in populations with low vaccination rates. The resurgence risk appears greatest in countries with insufficient vaccination and, should an outbreak occur, those with an unwillingness or inability to return to physical distancing and activity restrictions. **There is a risk that a COVID-19 variant breaks through and causes a setback. We see this more as a tail risk**, and it is likely to spur renewed vaccination efforts, along with a repeat of government supports.

Risk assets are trading with an air of invincibility that we feel makes them fragile and susceptible to a negative surprise. We don't see this as an end to the recovery or the bull market, but we believe markets are long overdue for a normal, healthy correction (~10%). Should that scenario unfold, we would be buyers of risk assets.

If inflation doesn't prove to be transitory, central banks, stocks and bonds will need to adapt to that negative surprise

Core inflation rates (YoY %)



Source: Bloomberg May 2021

Asset mix recommendations

We hold a long-term constructive view on risk assets. Equity sentiment and momentum remain positive. Valuations are rich in some markets on an absolute basis. However, through the lens of relative value to bonds, the earnings yield from stocks is attractive. **Economic activity is forecast to be above average through 2022. An improving labour market, rising wages and future drawdown of very high savings rates bode well for robust aggregate demand – a positive environment for risk assets**.

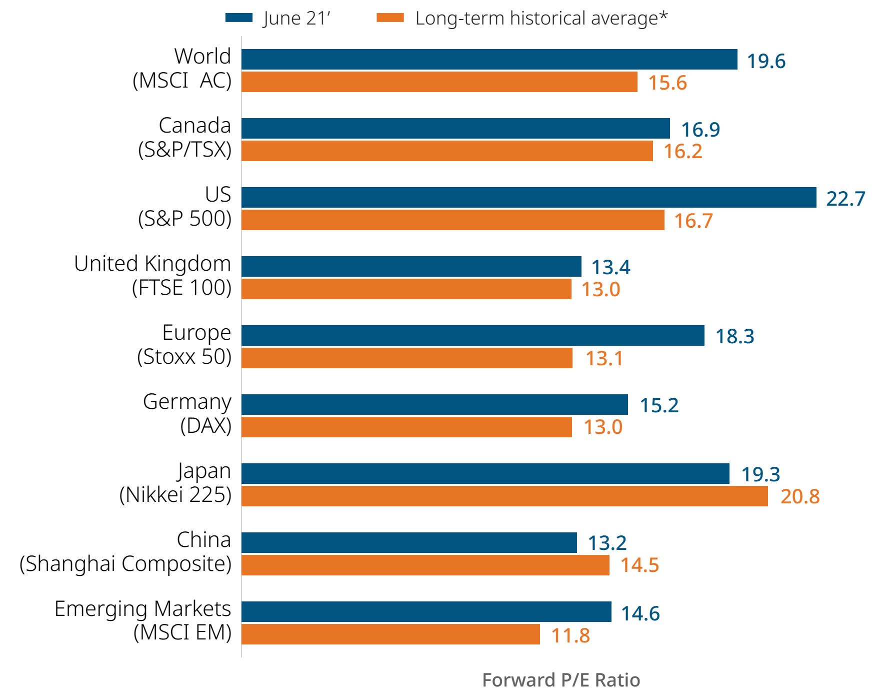
Asset mix: Slight overweight equities vs. fixed income

The Mackenzie Global Investment Committee recommends a slight overweight to equities relative to fixed income, with the **equity overweight concentrated in Canadian equities**. Within fixed income, we recommend **underweighting sovereign credit**, with a bias toward domestic fixed income and short duration. Furthermore, we recommend a further reduction in sovereign bonds **favouring a slight, equal overweight to investment grade credit and high yield credit**.

At this juncture, we see our slight equity overweight as appropriate given our longer-term constructive view. Our current fixed income positioning is tilted toward credit, though some exposure to the safest assets, sovereign bonds, as a hedge against near-term risks is prudent.

Some equity valuations are rich. However, through the lens of relative value to bonds, the earnings yield from stocks is attractive.

Forward price-to-earnings ratios



Source: Bloomberg June 30, 2021 *Historical average: S&P 500,S&P/TSX, Nikkei 225, MSCI AC 20 years; EuroStoxx 50, DAX, FTSE 100 & MSCI EM since 2005

Equities

Canadian equity

Patricia Nesbitt, CFA
SVP, Portfolio Manager, Canadian and US Equity, Mackenzie GLC Team

The outlook for Canadian equities remains uniquely compelling given accelerating global growth, strengthening commodity prices and a significant valuation discount to the US equity market. The S&P/TSX Composite boasts a heavy tilt towards cyclicality via its considerable weighting in the financials, energy, materials and industrials sectors. This can be a headwind during recessionary periods, but amidst the current rapid re-acceleration of the global economy, Canadian stocks should demonstrate significantly better revenue and earnings growth in the months ahead. As a result, valuation metrics are compelling. The S&P/TSX Composite is trading at an almost 6-point forward price-to-earnings multiple discount to the S&P 500 (16.8X vs 22.5X).

We are constructive on commodity pricing due to the post-COVID inventory rebuild by global manufacturers. We see this as an ongoing driver for the Canadian equity market, notwithstanding the potential for some near-term consolidation. Additionally, Canada is behind the US in relaxing COVID restrictions and hence has a larger lift ahead in service-related sectors. We see opportunities in the energy, consumer discretionary, industrial and financial services sectors.

US equity

Patricia Nesbitt, CFA
SVP, Portfolio Manager, Canadian and US Equity, Mackenzie GLC Team

US equity markets sit at or near all-time highs. The US economy is accelerating rapidly, and the US Federal Reserve (Fed) is on the verge of tapering their monetary stimulus. This mid-cycle transition is often challenging to navigate. During the second half of the year, we would expect the tug of war between cyclical/value and growth to continue as investors weigh the positive impact of a more widespread global reopening, rising employment, pent-up service demand, and infrastructure stimulus against the potential headwinds of peaking Purchasing Managers' Indices (PMI), higher taxes and tighter monetary conditions.

We expect S&P 500 earnings to continue to surprise to the upside, reflective of strong GDP growth offsetting downward pressure on margins from rising input costs. US equity valuations remain elevated, and hence we expect overall US equity returns to be positive but moderating, with opportunities more selective than over the last 12 months. Energy, financials and selected health care stocks look most compelling to us.

European equity

Martin Fahey, MBA, CFA
SVP, Portfolio Manager, Head of European Equity Team

The economic recovery in Europe continues as more economies reopen and vaccination programs gain momentum. However, there remains some uncertainty about the continuing pace of the reopening of economies following the increasing incidence rate of the more infectious COVID-19 delta variant. The medical evidence so far is that those who have received two doses of the vaccine are highly protected against this variant. Approximately 58% of the European population have been vaccinated once, with about 35% of the adult population fully vaccinated.

European equity markets, like global markets, have rebounded strongly, driven by the rebound in economic growth spurred by massive government stimulus and central bank support. European Central Bank guidance indicates loose monetary policy for some time yet, while fiscal policy, courtesy of the EU's €750 billion recovery fund, will lend further support.

One of the key investment themes is how consumers spend their excess savings, estimated at €700 billion, as economies across Europe open up. Domestic economies in Europe should continue to experience a robust consumer-led recovery into 2022 as economies continue to reopen. Given the substantial re-rating of equity markets over the past 15 months, risks are more evenly balanced against the backdrop of higher inflation and potentially higher bond yields.

Asian equity

Nick Scott, MBA, CFA
SVP, Portfolio Manager, Head of Asian Equity Team

Asian equities continued to build on their gains through the first quarter of 2021 but have met resistance in the second quarter as China tightened policy at the margin and equity valuations became a little stretched. Many large economies in the Asia Pacific region have been more successful than their Western counterparts in COVID-19 containment. Still, the vaccination rollout in the region has been slow to begin with, thus restricting the ability of some economies to normalize fully. Vaccination rates have picked up materially, especially in China, Japan and Korea.

Most Asian countries still have positive earnings revision ratios, except for China and the ASEAN countries. Inflation is relatively benign across the region, so central banks have less need to tighten monetary policy. China's continued attempt to deleverage the shadow banking system and tighten lending requirements will likely be put on hold if the economy weakens too much. China's fourteenth Five-Year Plan was released in March and includes ambitious environmental targets to reduce greenhouse gas emissions, with important regional implications within the energy and materials sectors, particularly for electric vehicle adoption. China's leading position in the solar and battery industries should offer exciting structural growth opportunities. Although President Biden has continued with a tough stance against China, the market has grown accustomed to the new normal in superpower geopolitics.

Within the region, our preference is for Japan over China, and from a sector perspective, banks and semiconductors are the top picks. Overall, we are still constructive on Asian equities despite the recent more hawkish tone from the US Federal Reserve. However, earnings growth is needed to push valuations down to more attractive entry points.

Emerging market equity

Arup Datta, MBA, CFA
SVP, Portfolio Manager, Head of Global Quantitative Equity Team

We believe that emerging markets equity (EM) is well-positioned for growth over the next decade. Year-to-date, there have been strong flows into emerging markets. The relative value opportunity has primarily driven these flows in EM, helped by the stabilization of China and northern Asian countries as their economies begin to normalize post-pandemic.

While we see ample opportunity in EM, some headwinds exist. Several countries within EM continue to battle COVID-19, and those that have moved forward are considering lifting economic stimulus initiatives. China, the heavyweight in EM, may soon consider lifting the stimulus that helped prop up its economy during the crisis. Another headwind brewing for EM is rising interest rates in the US. Historically, emerging markets have struggled in this type of environment.

Overall, we continue to believe in the long-term benefits of emerging markets equities within a diversified portfolio. We see the value opportunity in EM, as reflected by market valuations at a steep discount relative to developed markets. Strategies with a value component will likely do better as the valuation disparity within EM is still significant, though not as large as at the beginning of the year.

MACKENZIE Investments

Fixed income

Fed fake

Dustin Reid, MBA
VP, Chief Fixed Income Strategist, Fixed Income Team

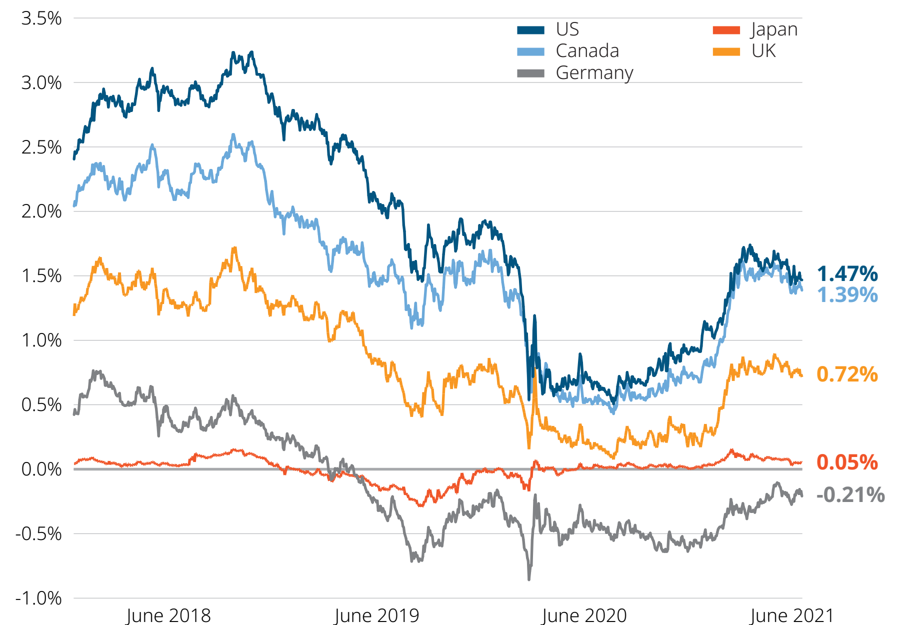
US Federal Reserve (Fed) policy – and by association abundant liquidity within the financial system – continue to be key drivers, if not the key drivers, for markets. That theme is likely to continue as we move into the second half of 2021.

June's Federal Open Market Committee (FOMC) meeting was consequential and perceived as hawkish by the street. The median participant now expects 50 basis points (bps) of Fed Funds rate hikes by the end of 2023, and eight of 18 participants are looking for 75 bps or more. Fed leadership will likely spend the summer either choosing to underscore the Fed's newly-found hawkish tone or pushing back more dovish – at least with respect to rate liftoff. Indications already suggest Chairman Powell wants to paint a less hawkish picture from the one in the immediate aftermath of June's FOMC. We view the Fed as more "bullish" on the economy and the reopening, rather than hawkish per se. We believe an announcement for tapering of bond purchases is likely around September's FOMC meeting, providing the labour market shifts back to a higher gear and no negative macro surprise or virus risks emerge.

We expect inflation to remain elevated versus pre-pandemic levels, but not runaway higher, as the lagged effects of abundant liquidity and low rates, higher commodity prices including oil, supply chain disruptions, and a general scramble for goods and services on the reopening gives firms continued pricing power.

Closer to home, the Bank of Canada (BoC) is likely to continue to remove accommodation from its quantitative easing program with at least one additional taper in the second half of this year, if not two. We also believe the BoC will be in no rush to hike rates and will use the opportunity to push back on market expectations currently looking for liftoff before the end of Q3 2022, as the recovery of the labour force plays a larger role in the BoC's policy discussions.

10-year bond yields



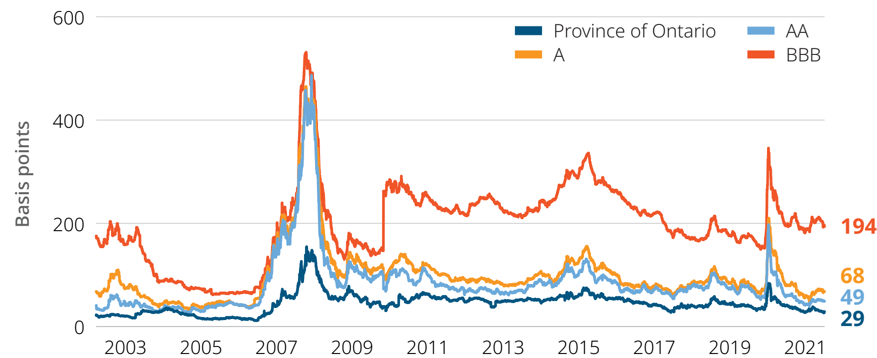
Source: Bloomberg June 30, 2021

Credit

Dan Cooper, CFA
SVP, Head of Credit, Portfolio Manager, Mackenzie Fixed Income Team

We remain constructive on the corporate credit markets for the balance of the year. Yields on corporate bonds look attractive in this low-yield environment, where the Fed has effectively removed the tail-risk with their aggressive policies to support the economy through the global pandemic. As the economy reopens, we see sequential improvement in corporate fundamentals, and the default rate is already below long-term averages. This represents a good environment for credit, although there is limited spread tightening potential given the massive rally since March 2020. We still believe that the total return opportunity is attractive, as spreads can remain low and in this range for an extended period, as witnessed in the most recent mid-cycle environments of 2004-2006 and 2017-2019.

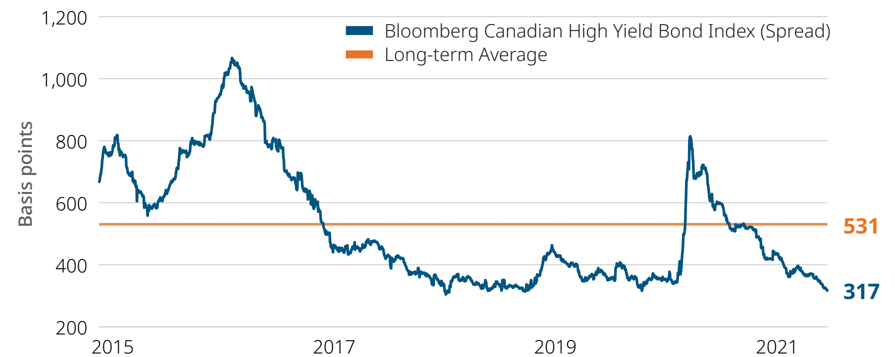
Canadian investment grade credit spreads



Source: BMO Capital Markets January 31, 2002 - July 13, 2011; Bloomberg July 14, 2011 - June 30, 2021

The main risk to our outlook is the threat of rising government bond yields, much like what we saw during the 2013 taper-tantrum and the impact that it would have on duration sensitive areas of the credit market. As a result, we favour tilting portfolios toward lower-quality segments of the credit markets, such as high yield and especially leveraged loans over higher-rated investment grade corporates with limited spread buffer. We also continue to believe it's important to have the flexibility in this environment to move up/down the capital structure and across rating categories to produce strong risk-adjusted returns.

Canadian high yield bond credit spreads



Source: Bloomberg June 30, 2021

Commodities

Benoit Gervais, MSc, CFA
SVP, Portfolio Manager, Head of Resource Team

Commodities have been on a winning streak since the pandemic lows of 2020. Most commodities stand well above their historical mid-cycle prices with no signs of demand abating or supply catching up. Prices are now commonly described as being elevated, if not peaking. Contrary to previous cycles, we expect commodity producers to show restraint as most of them are still recovering from a 10-year bear market that forced them to cut capital spending, reduce headcount and repair their balance sheets.

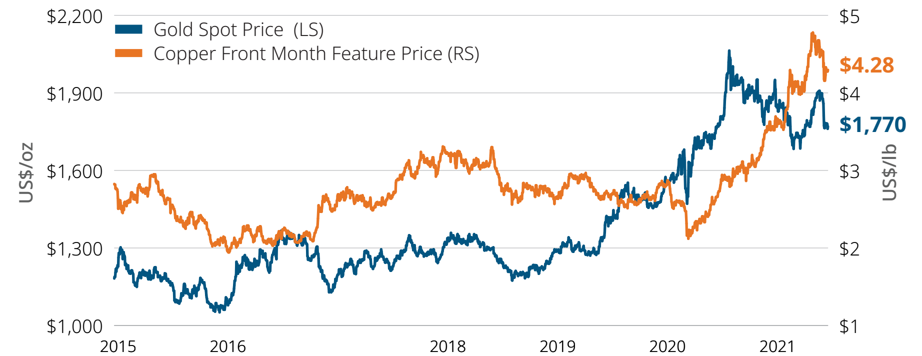
After retreating from peaks, we believe that commodity prices are likely to find a new equilibrium over the next few months and at levels higher than historical averages. The duration at this new plateau will likely surprise and persist for at least 12 months as news of a firmer global economy compounds on the already announced green spending and stimulus programs.

WTI crude oil spot (US$/bbl)

Source: Bloomberg June 30, 2021

Global oil supply remains in overcapacity, with OPEC holding 5%+ of world capacity offline. We suspect the group will release supply as worldwide mobility (ground and air) recovers into 2022, preventing runaway prices. Copper, lumber and other materials have retreated from their peaks and should stabilize during Q3/2021 at surprisingly high levels compared to the last 10 years. We expect oil, gold and copper to remain above US$65/bbl, US$1,750/oz and US$3.75/lb for the rest of this year. Although these commodities currently trade above these levels, we feel the market expects that these elevated prices won't last. We beg to differ.

Gold (US$/oz) and Copper (US$/lb) spot prices



Source: Bloomberg June 30, 2021

Currencies

Todd Mattina, Ph.D.
SVP, Chief Economist, Portfolio Manager, Co-Lead, Multi-Asset Strategies Team

Jules Boudreau, MA
Economist, Multi-Asset Strategies Team

We expect the Canadian dollar (CAD) to remain strong against the US dollar (USD). Unprecedented fiscal and monetary stimulus in the US, together with a large overhang of private savings, has fueled a cyclical economic boom. More robust demand together with supply bottlenecks after the pandemic should support commodity-sensitive currencies like CAD, especially if recent gains in oil prices gather momentum.

Canadian dollar

Source: Bloomberg June 30, 2021

In terms of monetary policy, the Bank of Canada has already begun removing emergency liquidity by dialling back the pace of its weekly asset purchases. It appears more likely to raise interest rates ahead of the US Federal Reserve, possibly as soon as mid-2022.

The pro-cyclical CAD should also be well-supported by the accelerating pace of vaccinations in Canada, which would allow Canada to catch up with the US lead in reopening the local economy. In terms of long-term valuation, the USD also remains expensive in our view relative to other major currencies, including CAD.

We also expect further gains in the euro as the eurozone accelerates both its vaccinations and disbursements from the €750-billion recovery fund. We remain broadly neutral on the British pound and Japanese yen.

US Dollar Index (DXY)

Composition of DXY

Euro	Japanese yen	Pound sterling	Canadian dollar	Swedish krona	Swiss franc
57.60%	13.60%	11.90%	9.10%	4.20%	3.60%

Source: Bloomberg June 30, 2021

Asset mix recommendations

Equity

	Under			Neutral			Over		
Equity	○	○	○	○	○	●	○	○	○

We feel equities reflect a fair degree of optimism; future positive surprises will be harder to come by, leaving equity markets fragile. Most markets are overdue for a normal correction (~10%). Should that scenario unfold, we would be buyers of risk assets. While earnings growth is expected to be robust, we see the peak for upward revisions closing in and expect valuations to compress. We do see a robust economic environment capable of delivering expected earnings into 2022.

	Under			Neutral			Over		
Canada	○	○	○	○	○	●	○	○	○

Canadian equities provide higher exposure to global growth. The value and cyclically oriented sector composition is favourable in an economic recovery, rising yield, rising commodity price environment. The TSX trades at a P/E multiple discount relative to the S&P 500 and offers an attractive 2.6% estimated dividend yield.

	Under			Neutral			Over		
US	○	○	○	○	●	○	○	○	○

We expect solid S&P 500 earnings reflective of strong GDP growth. This will be necessary to offset likely downward pressure on margins from rising input costs. U.S. equity valuations remain elevated, and hence we expect overall US equity returns to be positive but moderating with opportunities more selective than over the last twelve months. The 1.4% estimated dividend yield is modest relative to other markets.

	Under			Neutral			Over		
International	○	○	○	○	●	○	○	○	○

International developed market equities are expected to perform well in a pro-cyclical economic recovery scenario due to their more value, cyclical, industrial and global trade-oriented exposure. Tailwinds include easy monetary policy for longer in Europe, the EU's €750bn recovery fund lends further support, and European consumers armed with excess savings should fuel a robust consumer-led recovery into 2022. China policy tightening is a headwind. The MSCI EAFE Index 2.8% estimated dividend yield is attractive.

	Under			Neutral			Over		
Emerging Markets	○	○	○	○	●	○	○	○	○

EM equities are levered to a global expansion scenario and contain many exciting new economy and technology companies. President Biden has continued with a tough stance against China; however, markets have grown accustomed to the new normal in superpower geopolitics. US dollar strength, a more hawkish tone from the US Federal Reserve and Chinese policy tightening are headwinds. EM valuations are attractive relative to developed markets. EM equities have been consolidating following the March-May 10.8% correction. They are beginning to trade more constructively, ending the second quarter near their post-correction highs.

● As at June 30, 2021

Fixed income

	Under			Neutral			Over		
Fixed Income	○	○	●	○	○	○	○	○	○

The rise in bond yields has been significant and sharp. We believe higher yields lie ahead and that the consolidation period of the retrenchment in yields is closer to the end than the beginning. The pace of the increase going forward should not match the speed we have witnessed in Q1 2021.

	Under			Neutral			Over		
Sovereign bonds	○	●	○	○	○	○	○	○	○

With continuing economic recovery and easy monetary policy, and historically generous fiscal policy in the US, real and nominal yields may rise as investors seek returns and increase their risk appetite. Forecasts for tighter monetary policy in 2022 may increase over the next few quarters. On a 2-3 quarter forward view, yields can continue to rise, perhaps less forcefully when compared with the moves in Q1 2021. We believe some exposure in the event of a short-term bout of risk-off sentiment is prudent.

	Under			Neutral			Over		
Investment grade corporate bonds	○	○	○	○	○	●	○	○	○

Yields on corporate bonds look attractive in this low yield environment. As the economy continues to reopen, we expect sequential improvement in corporate fundamentals. The default rate is already below long-term averages. While we see a supportive environment for credit, there is limited spread tightening potential given the massive rally since March 2020. We believe that the total return opportunity is attractive, as spreads can remain low and in this range for an extended period.

	Under			Neutral			Over		
High-yield corporate bonds	○	○	○	○	○	●	○	○	○

High yield spreads have narrowed significantly. Yield pick-up contributes to total return and helps to mitigate the potential rising rate environment. We believe it's important to have the flexibility to move up/down the capital structure and across rating categories to produce strong risk-adjusted returns. Credit selection is essential to position correctly for best relative value in both high yield bonds (against embedded duration risk) and loans (against re-pricing).

● As at June 30, 2021

The content of this commentary (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it. This commentary is general in nature and cannot take into account the financial circumstances or objectives of any investor. As such, investors should consider their financial circumstances and objectives before making any financial decisions.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund or ETF investments. Please read the prospectus before investing. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

This document includes forward-looking information that is based on forecasts of future events as of June 30, 2021. Mackenzie Financial Corporation will not necessarily update the information to reflect changes after that date. Forward-looking statements are not guarantees of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Some of these risks are changes to or volatility in the economy, politics, securities markets, interest rates, currency exchange rates, business competition, capital markets, technology, laws, or when catastrophic events occur. Do not place undue reliance on forward-looking information. In addition, any statement about companies is not an endorsement or recommendation to buy or sell any security.

Investors + Advisors + Mackenzie That's **better** together