Mackenzie Symmetry Portfolios

Performance Commentary (referenced fund returns are on a gross of fees basis)

Global equities marked a strong finish in Q4 2024, led by strong U.S. equity performance. 50 basis points of interest rate cuts by the Federal Reserve over the quarter, resilient U.S. economic growth, continued momentum in the artificial intelligence thematic trade, and expectations of pro-business policy changes from the incoming U.S. government powered U.S. equities higher. Canadian equities also appreciated, as the Bank of Canada cut rates by 100 basis points over the quarter to stimulate a sluggish economy, but threats of U.S. tariffs on Canadian imports by President-elect Donald Trump were a headwind to performance. Global bonds sold off and long-term yields rose as markets dealt with a volatile quarter and priced in fewer interest rate cuts amid rising expectations of stickier inflation and the global economic impacts of a potential trade war.

The portfolio's equity allocation contributed to returns this quarter, led by strong performance in the U.S., while international developed markets (EAFE) lagged. Mack US Equity Pool (+8.7%) was the leading contributor to returns, led by strong equity performance in the information technology, consumer discretionary, and financials sectors. The fund slightly underperformed its benchmark, largely due to security selection in the consumer discretionary sector. On the other hand, security selection in the industrials, information technology and health care sectors were notable contributors. Mack Canadian Equity Pool (+3.9%) was the second largest equity contributor to the portfolio, benefiting from strong returns in the financials, information technology, and energy sectors. The fund outperformed its benchmark, with strong security selection in the financials and communications services sectors. Security selection in the industrials sector was the largest detractor. Mack Comprehensive Equity Pool (+5.3%), providing multi-strategy exposure to global equities, was also a notable contributor. The fund underperformed its benchmark, primarily due to security selection in the consumer discretionary sector. Conversely, security selection in consumer staples and an underweight allocation to the health care sector contributed to performance. Mack EAFE Equity Pool (-2.6%) was the sole equity detractor as political instability and economic weakness in Europe dragged on performance. The fund underperformed its benchmark, largely due to an underweight allocation to Japan, one of the few EAFE markets to finish the quarter on a positive note.

The portfolio's fixed income allocation slightly detracted from returns as global bonds broadly declined. Mackenzie US Investment Grade Corporate Bond Index ETF [CAD-Hedged] (-3.5%) and Mackenzie Sovereign Bond Fund (-1.8%) were the leading fixed income detractors as yields increased.

Currency activities detracted from returns over the period. The portfolio's active overweight positions to the Euro and the Japanese yen versus the Canadian dollar detracted from performance as the Canadian dollar appreciated. Conversely, the team's overweight positioning to the British pound versus the Canadian dollar was a contributor.

Portfolio Management Activities and Outlook

The team believes that although global stock markets are expensive, valuations are not extreme. Continued U.S. government deficit spending and the Federal Reserve's eagerness to cut rates on economic weakness supports the team's view that the largest global economy is unlikely to enter a recession this year. They have favourable views on U.S. small cap stocks and Japanese equities due to their cheaper valuations and exposures to positive economic catalysts.

Duration exposure remains beneficial. While markets expect the Federal Reserve to only cut rates once or twice in 2025, the team believes they will need to cut at least three times to support the job market. Potential U.S. trade tariffs could cause a one-time effect on prices, but future inflation could be lower given that trade wars can depress economic growth. The economic situation in Canada remains more dire, and the team prefers Canadian government bonds over Canadian equities.

The team remains negative on the Canadian dollar against most other major world currencies. Canadian growth has stalled, and the team expects the Bank of Canada to continue cutting rates, which would lead to continued headwinds against the CAD. Looming U.S. tariffs on Canadian exports are an additional risk, with President Trump recently singling out Canada as a tariff target. In November, the team shifted their euro positioning from overweight to neutral. Financial market inflows have been turning into outflows in recent months, a bad omen for the euro. Plus, revised estimates of long-term euro fair value, using recently released macro data, suggests that the euro is less cheap than previously thought. Even with the euro underperforming most developed market currencies in the fourth quarter of 2024, it remains too expensive given the economic weakness and political risks in France and Germany. The team continues to remain overweight the Japanese yen as the discount to its long-term fair value is extremely attractive, and expected normalization of monetary policy should benefit the yen.

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