# MANAGER INSIGHT:

## OUTLOOK 2015: STRATEGIES FOR TODAY'S MARKET

As 2015 begins, investors have to consider a number of important questions, including whether interest rates will rise and if the rally in US equities will continue. To help shine a light on what may lie ahead we asked three of Mackenzie Investments' experts, Alain Bergeron, Mackenzie Asset Allocation Team Lead, Steve Locke, Mackenzie Fixed Income Team Lead and Tony Elavia, Mackenzie's Chief Investment Officer to give us their views on the markets, interest rates and the economy as the New Year begins.

### GLOBAL ECONOMIC OUTLOOK

**Tony Elavia:** Macroeconomic outlook and risks

- As we enter 2015 the consensus forecast points towards rising GDP growth rates across many regions of the world.
- Employment growth has been strong, and the US economy is expected to grow by half a percentage point to 3%.
- Canadian GDP may grow by 2.5% in 2015 compared to 2% growth in 2014.
- The collapse in oil prices could lead to a slowdown in some parts of the Canadian economy, but a lower dollar could boost the manufacturing export sector.
- European economies will continue to struggle, but a weak recovery may finally take hold with growth in the 1.5% range.
- We expect GDP expansion in emerging markets to be respectable but at a slower pace than in the past.
- Growth in China is expected to drop slightly to 7.4%, as the economy transitions to a more sustainable path.

### ASSET ALLOCATION DECISIONS

**Alain Bergeron:** Recommended portfolio weightings

- We continue to recommend a neutral stance in portfolios.
- However, there may be an opportunity at some point in 2015 to underweight US and add European equities.
- This is because from a long-term valuation perspective only, European equities are attractive relative to US equities.
- But timing is important because the European economy could get worse before it gets better, and we are waiting for data to confirm that the situation has started to stabilize.

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From left to Right: Alain Bergeron, Steve Locke, and Tony Elavia

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## SUGGESTED PORTFOLIO WEIGHTINGS BY ASSET CLASS

| | | Strongly Bearish | Moderately Bearish | Slightly Bearish | Neutral | Slightly Bullish | Moderately Bullish | Strongly Bullish |
|---|---|---|---|---|---|---|---|---|
| Overall Asset Mix | Stocks | | | | • | | | |
| | Bonds | | | | • | | | |
| Relative Equity | U.S. | | | | • | | | |
| | Canada | | | | • | | | |
| | Europe | | | | • | | | |
| | Japan | | | | • | | | |
| | Emerging Markets | | | | • | | | |
| Currencies | USD (vs. CAD) | | | | | • | | |
| | USD (vs. EUR) | | | | | | • | |

Source: Mackenzie Investments

## CURRENCIES

- We continue to be slightly bullish on the US dollar versus the Canadian dollar.
- The sentiment and macro picture surrounding the US dollar is stronger. And the recent drop in oil prices is likely to put downward pressure on the Canadian dollar.
- We remain moderately bullish on the US dollar against the Euro after initiating that view two quarters ago.
- In part, this is because the US economy is projected to continue to grow beyond potential, while Europe is facing structural and cyclical problems.

## FIXED INCOME

**Steve Locke:** Fixed income, oil prices and interest rates

- The impact of falling oil prices on the economy is difficult to predict, but it could put more money in the pockets of consumers, triggering a growth surprise to the upside.
- However, because energy costs are part of the consumer price index, as oil prices come down it could dampen inflation.
- As a result, potentially lower inflation may actually cause the Fed to delay raising interest rates.
- Companies that issue high yield bonds, and have revenues from oil and gas, have come under pressure. Those with oil and gas as an input cost are feeling some relief.
- As a result, investors need to be selective within the high yield space.
- Overall, monetary policy is going to again be a dominant theme.
- If the Fed does raise rates the biggest impact will likely be on currency movements.
- As well, if rates rise and the US dollar continues to strengthen, some emerging-market countries will have difficulty managing their external debt.

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