Mackenzie North American Equities Team

Q3-2018 COMMENTARY

- The portfolio management team remains optimistic on the outlook for Canadian equity markets. The Canadian economy is expected to be the beneficiary of strong global economic growth driven primarily by the United States. This backdrop is expected to result in decent earnings growth for the overall market which should be positive for equity market returns. We believe earnings growth and a re-rating will drive Canadian equity market returns in the coming period as valuations are increasingly attractive with the market trading below historical average valuation levels and a significant discount to U.S. benchmarks.
- There have been some major positive developments in the Canadian market while we believe we are likely to see more positive events in the period ahead. We have seen a renegotiation of the legacy NAFTA agreement with little impact on the Canadian economy and company earnings, which is far better than had been feared by the market. In addition, we saw the announcement of the final investment decision for the development of a $40B LNG facility off the coast of B.C. led by Royal Dutch Shell. The project is expected to significantly increase demand for natural gas within the Western Canadian Basin and create thousands of jobs over the coming years. In the period ahead, we expect to see other major positive developments including: 1) additional crude by rail agreements between the two main railway companies in Canada and major Canadian oil producers, similar to the one inked with Cenovus. This development together with additional pipeline capacity expected to come on in late 2019 should help narrow the wide price differential between Canadian crude and West Texas Intermediate. 2) Additional approval of either or both of the Trans-Mountain expansion and Keystone XL pipelines. 3) Potential reforms in Canada to address the nation's competitiveness relative to the US post the lowering of US corporate taxes, accelerated depreciation allowance and continued removal of regulatory constraints.
- We expect interest rates to continue rising as real rates and inflation move higher as we progress through the economic cycle. Higher interest rates should be positive for earnings in the financial services sector. Fundamentals at the Canadian banks remain sound. While balance sheet asset growth is expected to decelerate as the housing market slows, we expect costs related to bad credit to remain benign while higher interest rates allows the banks to earn increased levels of spread income or net interest margins. The Canadian life insurance stocks have recently lagged the overall market but we see select opportunities as the earnings growth outlook remains intact driven by higher interest rates and strong cost control while valuations have become increasingly attractive relative to historical levels.
- We are constructive on the outlook for the energy sector as declining global oil production together with rising global demand is expected to continue driving global oil prices higher. The lack of capital investment in the energy sector over the past several years has resulted in little spare capacity and declining oil production across much of the world outside of the United States. Meanwhile, strong global economic growth continues to drive higher demand for energy and oil & gas. Canadian oil producers have recently been hurt by widening price differentials due to increased production in the basin and little new takeaway capacity in terms of pipelines and crude by rail deals. In addition, this fall has seen very extreme maintenance outages among US refineries that process Canadian crude. We expect this maintenance to be completed soon which should create demand for Canadian crude and help narrow the price differentials. In addition, as mentioned above, we expect increased crude by rail and pipeline capacity to come on through 2019 thereby further narrowing the differential.
- We continue to monitor key risks in the market. The tariffs put in place by the US government together with the retaliatory actions of other trading nations has created some uncertainty in the market. Additionally, we also continue to monitor the effects of higher interest rates on global economic growth. We are in a period of global central bank tightening which has the potential to slow economic growth going forward. Over the intermediate term the risk of a recession appears to be low.

PORTFOLIO MANAGEMENT TEAM:

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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.

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Fund and Benchmark Performance as at: September 30, 2018	1 year	3 years	5 years	10 years
Mackenzie Canadian All Cap Value Fund – Series F	3.9%	10.3%	7.1%	7.1%
S&P/TSX Composite Total Return Index	5.9%	9.7%	7.8%	6.3%
Mackenzie Canadian Large Cap Dividend Fund Series F	5.0%	10.3%	8.5%	6.6%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	7.7%	10.3%	9.2%	7.3%

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