Mackenzie North American Equities Team

Q4-2018 COMMENTARY

- Our investment philosophy and process is primarily a bottom up strategy which focuses on investing in high quality companies which trade at a significant discount to fair value. However, we also incorporate economic and business cycle analysis into our process as a secondary consideration which at times allows for changes to sector positioning.
- The portfolio management team remains optimistic on the outlook for Canadian equity markets. Equity markets in North America have declined significantly as market participants fear a higher probability of the economy falling into recession - we see this as a strong buying opportunity. While we expect Canadian economic growth to decelerate in the coming period, we expect the current expansionary phase of the cycle to remain intact. Economic growth in Canada should slow as global and particularly US growth also slow. However, the leading indicators we follow show little risk of US recession over the near term. 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. Canadian equity market valuations are well below historical averages while the valuation gap between the Canadian and US markets has widened out significantly, favoring Canada from a tactical standpoint.
- We expect interest rates to rise at a more moderate rate going forward. Real rates and inflation are expected to move higher as we progress through the economic expansion cycle. Fundamentals at the Canadian banks remain sound. We expect housing to slow as policy changes and higher interest rates take hold. This should result in slower residential mortgage and balance sheet growth at the banks. However, this slowing of growth is expected to be more than offset by the benefits of rising interest rates and resulting increase in margins. A strong job market supports our view that credit losses will remain at historically low levels in the period ahead. Finally, considering these fundamentals we believe bank valuations are attractive. The bank group trades well below historical average levels on several metrics and we expect a re-rating higher over the coming period. 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 valuations have become increasingly attractive while global oil demand is expected to continue driving that commodity's price 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 seen relief to widening price differentials through government intervention. Over the medium to longer term we expect increased crude by rail and increased pipeline capacity to provide more permanent solution to oil shipments from the Western Canadian Basin which should provide for less volatility to energy producer profitability.
- 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. A further escalation of trade tariffs could lead to lower global trading volumes and a general slowdown of economic growth. Politics in the US present a risk to growth in that economy as recently evidenced by the federal government shut-down resulting in hundreds of thousands of Federal workers not being paid. This is likely to have a temporary effect on economic growth although the magnitude would increase if the shut-down was more prolonged. 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.

PORTFOLIO MANAGEMENT TEAM:

Martin Downie, Lead Portfolio Manager & Senior Vice-President, Investment Management, Mackenzie Investments
Tim Johal, Portfolio Manager & Vice-President, Investment Management
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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: December 31, 2018	1 year	3 years	5 years	10 years
Mackenzie Canadian All Cap Value Fund – Series F	-10.2%	6.8%	3.4%	8.3%
S&P/TSX Composite Total Return Index	-8.9%	6.4%	4.1%	7.9%
Mackenzie Canadian Large Cap Dividend Fund Series F	-7.4%	6.3%	5.0%	8.2%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	-7.1%	7.2%	5.9%	9.3%

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