# Mackenzie Cundill Team
Q1-2019 COMMENTARY

## Market Review, Outlook & Strategy

- Equity markets rebounded meaningfully in the first quarter from depressed levels in December. The sell-off in November and December was excessive due to a global growth scare. During this quarter, a more dovish sounding US Fed and some positive indications of progress being made in trade talks improved investor sentiment.
- China remains the number one global economic driver, but its economy has slowed down over the last year due to credit tightening and trade war concerns affecting investment and spending intentions. We believe we are likely to see the Chinese central bank cut rates to support the economy. Housing prices have improved of late, and construction of living floor space is up year-over-year as of February (latest data). High-end consumer spending especially continues to be strong. Retail sales growth is running at about 8% (February data). Credit growth improved as well in March. Overall, we believe there are signs of improvement in China.
- Although there are indications of progress, a comprehensive China-US trade deal does not seem imminent. Both economies are slowing due to trade concerns. Both sides are looking for wins for the domestic audience. Thus, the deal that will emerge will likely allow both sides to claim victory. Difficult issues outstanding include intellectual property protection and technology transfer requirements.
- In the U.K., the Brexit deadline of March 29th has come and gone, without a deal and without an actual exit at the moment. That deadline was extended after the UK Parliament rejected the divorce agreement Theresa May negotiated with the EU. Meanwhile, UK's economy has slowed down, possibly partly due to the uncertainty created by the Brexit debate. UK's service sector PMI fell below 50 for the first time since 2016. At the time of writing, Theresa May is working on a compromise with her domestic political enemies on a post-Brexit customs alliance with the EU. May secured an extension of Brexit to Oct 31st at a European Council meeting in Brussels on April 10th, which she now has to sell it to her Parliament.
- In the most recent meeting, the ECB kept its benchmark refinancing rate at zero and its deposit rate at minus 0.4%. The council said it expected to keep official borrowing costs for the region on hold "at least through the end of 2019". The ECB is concerned with economic weakness but saw the chance of a recession as low. In fact, the most recent data out of the Eurozone is painting a more positive picture of economic stabilization. Industrial production in France and Italy increased unexpectedly in February. Retail sales in the Eurozone also rose faster than expected in February.
- In Japan, the first three months of 2019 saw companies' lower capital spending plans. This is not surprising due to Japan's proximity to China and its role as a provider of components and equipment to the Chinese manufacturing sector. Consumer sentiment in Japan has dropped as well to the lowest level since 2016. The service sector, however, held up in March, with the services purchasing managers' index still showing growth. The Japanese economy should do better as a China-US trade deal gets done and sentiment improves. The Japanese stock market has lagged other developed markets year-to-date and presents interesting value opportunities in our opinion.
- As for Canada, despite NAFTA headwinds, slowing housing sales, and a continued soft commodity environment; the Canadian economy has managed to post modest GDP growth thus far this year. The yield curve temporarily inverted in March, however, and the jobs market recently posted its first decline in seven months. The SNC Lavalin case has created significant discord in the Liberal administration and more uncertainty could arise from the federal election later this fall. We are less optimistic about Canada than other regions of the globe for these reasons.

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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.

This document includes forward-looking information that is based on forecasts of future events as of March 31, 2019

. We will not necessarily update the information to reflect changes after that date. 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.

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| Fund and Benchmark Performance as at: March 31, 2019 | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Mackenzie Cundill Value Fund Series F | -7.2% | 5.9% | 1.7% | 7.9% |
| MSCI World Total Return Index (net CAD) | 7.8% | 11.9% | 10.9% | 13.1% |
| | | | | |
| Mackenzie Cundill Canadian Security Fund Series F | -0.9% | 7.8% | 2.7% | 10.8% |
| 60% S&P/TSX Composite Index, 30% S&P 500 Index and 10% MSCI EAFE (Net) Index | 8.9% | 10.9% | 8.5% | 11.8% |
| | | | | |
| Mackenzie Cundill US Class F | -16.7% | 3.3% | 3.3% | 12.4% |
| S&P 500 Index (CAD) | 13.5% | 14.8% | 15.3% | 16.6% |
| | | | | |
| Mackenzie Cundill Canadian Balanced Fund Series F | 1.4% | 7.2% | 2.6% | 8.9% |
| Blended Index (62.5% S&P/TSX Composite Total Return Index and 37.5% FTSE TMX Canada Universe Bond Index) | 7.2% | 6.9% | 4.9% | 7.7% |

*Blended benchmark: 60% S&P/TSX Composite Index, 30% S&P 500 Index and 10% MSCI EAFE Index.

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