Mackenzie North American Equities Team

Q1-2019 COMMENTARY

- Our investment philosophy and process are 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 cautiously optimistic on the outlook for Canadian equity markets. We had previously viewed the sell-off of late last year as a strong buying opportunity. Markets rebounded strongly in the first quarter of this year which has resulted in a more balanced mix of risk versus reward in the market. We have reduced positions in the defensive sectors which had performed well with many stocks now trading closer to our fair value estimates. Alternatively, we see attractive opportunities in more cyclical areas of the market and have shifted our portfolio weighting accordingly.
- We expect Canadian economic growth to remain sluggish in the near term, however we expect the current expansionary phase of the cycle to remain intact. The slowdown in economic growth has resulted in lowered forward earnings growth expectations although this already appears to be priced into the market as valuations for Canadian benchmarks are far off their highs, below long-term averages and only back to levels seen last fall. An important consideration for our economic and earnings outlook has been the Bank of Canada and Federal Reserve moving to a more cautious path for future interest rate increases.
- We remain constructive on the outlook for the energy sector as valuations have become increasingly attractive and the stocks have materially lagged the recovery in oil prices. Emerging market growth has pushed global oil demand to record highs and we expect this trend to remain in place barring a global economic recession. Stronger demand combined with a lack of capital investment in the sector should support higher global oil prices going forward. In Canada, we have seen government intervention limit production growth however producers have been net beneficiaries from the narrowing of price differentials. Over the medium to longer term we expect increased crude by rail and increased pipeline capacity to provide a 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. Recently, there has been increased market focus on the possibility of a U.S. recession motivated by the inversion of the yield curve. We are not forecasting a U.S. recession to occur in the near term. In our view it is a mistake to only use a single indicator and draw a conclusion on the possibility of a recession in the near term. We prefer to follow several indicators to gauge recession risk, including labour market conditions, tightness of credit availability and potential for inflationary shocks from commodity price increases. None of these other indicators are at levels which would be consistent with a near term recession however we continue to closely monitor these risks as we get to the later stages of the economic cycle. We also continue to closely monitor global trade and U.S. policy on tariffs. Increased tariffs imposed by the U.S. could lead to more aggressive retaliatory action by other jurisdictions likely leading to a slowdown of global trading volumes and strain on the global economy.

PORTFOLIO MANAGEMENT TEAM:

Martin Downie, Lead Portfolio Manager & Senior Vice-President, Investment Management, Mackenzie Investments
Tim Johal, Portfolio Manager & Vice-President, Investment Management
William Aldridge, Portfolio Manager & Vice-President, Investment Management
Adelaide Kim, Associate Portfolio Manager, Investment Management

MACKENZIE Investments

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.

The content of this commentary (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it.

Fund and Benchmark Performance as at: March 31, 2019	1 year	3 years	5 years	10 years
Mackenzie Canadian All Cap Value Fund – Series F	5.4%	8.7%	4.8%	10.3%
S&P/TSX Composite Total Return Index	8.1%	9.3%	5.4%	9.5%
Mackenzie Canadian Large Cap Dividend Fund Series F	8.5%	8.9%	6.6%	10.2%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	8.1%	9.9%	6.6%	10.3%
Mackenzie Canadian Small Cap Value Fund - Investor Series (Performance data shown uses Investor Series, which has a management fee that is 0.35% lower than Series A)	-0.6%	4.5%	1.9%	12.8%
S&P/TSX Small Cap Total Return Index	-1.8%	5.9%	0.2%	8.1%