Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and Loan Market perspectives

On March 31, Mackenzie held a conference call featuring economic and market updates from **Todd Mattina** (Senior Vice President, Chief Economist and Co-Lead of Mackenzie Multi-Asset Strategies Team) and **Movin Mokbel** (Vice President, Portfolio Manager, Mackenzie Fixed Income Team).

Conference call highlights

Current macro perspective

- As governments continue to provide unprecedented fiscal and monetary stimulus in light of COVID-19 and rising unemployment, there have been declining levels of stress in markets this week. Volatility remains, but not as dramatic.
- Central bank liquidity measures worldwide are contributing to more orderly Treasury and bond markets. The U.S. Federal Reserve has been the most aggressive, but the Bank of Canada has stepped up with its own measures, including quantitative easing as it has pledged significant asset purchases (notably mortgage-backed securities).
- Governments must decide how much of a trade-off they will accept between aiming to contain COVID-19 through social distancing and business closures, and prolonging/deepening economic contraction. COVID-19 is a health crisis that requires a medical solution to stabilize the economy and allow it to gradually return to normal.
- The U.S. dollar has risen strongly to overvalued levels but has begun to come off its highs. The Canadian dollar has plummeted amid the health crisis and a collapse in oil prices but appears to be significantly undervalued.
- We believe investors with long horizons should stay focused on the long term and resist both panic selling and trying to time the markets based on the highly uncertain evolution of the epidemic. For investors with a long horizon, remain invested through the volatility and rebalance portfolios periodically to their long-term asset mix and target risk levels, in order to reduce drawdown. Maintain adequate liquidity to take advantage of attractive opportunities that will arise when the health crisis moves behind us.

Update on the loan market

- March has been the worst month on record for loans (as of March 30th), given the significant drop in rates and the trend toward zero or even negative policy rates. At one point in March, the loan market was down about 22% and had lost more than 3% in a day on five different occasions. The market is struggling with considerable uncertainty and volatility, and lowered demand for many industries (airlines, tourism, hospitality, etc.).
- The average loan price is typically close to par (in the range of 95 to 99 cents on the dollar), but has recently plunged as low as 65 to 75 cents, which reflects a market expectation for higher default rates. Credit spreads are roughly 825 bps and the yield-to-maturity (YTM) is about 10%, whereas spreads were roughly 1,600 bps and YTM was about 20% at the peak of the 2008-9 financial crisis. Despite high volatility and overall distressed prices, liquidity has not been an issue in today's market (but it came at a price), unlike in 2008-9.
- Energy is a large component in high yield (second only to telecom), but is a mere 3% of the loan market, so the oil price collapse is not a big driver for loans. Industries like food delivery, telecom and health care have been outperforming in today's loan market – a reflection of COVID-19 and subsequent self-isolation/physical distancing efforts.
- Despite recent troubles, there is cause for optimism in the loan market as this asset class now presents many attractive long-term valuations. Floating rate loans appear poised to bounce back to par following containment of COVID-19, so the market is attractive for long-term investors as loans are still hovering around 80 cents to the dollar.
- The current improvement in loan fundamentals suggests the first week or two in April can see a continuation of the recent rebound. Recovery expectations are tied to how long it will take to overcome COVID-19 and how much damage this global pandemic will cause the loan market.

- Credit selection has been basically irrelevant in these turbulent markets, as we experienced an indiscriminate mass sell-off that was not based on credit quality considerations. Going forward, investors should refocus on credit quality and not just fixate on rates alone.

Check out the conference call

Listen to our archived conference call on our website [here,] or dial-in to the instant replay number below to learn more about what's going on in the economy and markets.

Toll-free: 1-800-408-3053
Passcode: 7931466

Please note that the dial-in number will only be available for 30 days after the event and will expire on May 1, 2020.