Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and **income perspectives**

On April 14, Mackenzie held a conference call featuring economic updates and income perspectives from **Paul Taylor**, Vice President, Portfolio Manager, Mackenzie Multi-Asset Strategies Team and **Allan Seychuk**, Vice President, Senior Investment Director, Multi-Asset Strategies Team.

Conference call highlights

Economic updates

- We have just come off the back of a very good week for the markets, but that doesn't mean we have necessarily seen the market bottom. For that, we need to consider three conditions: the containment of the virus, functioning markets and timely and effective stimulus.
- Containment of the virus appears to be on the horizon. Italy peaked almost three weeks ago, and the US and Canada seem to have crested. We are seeing increases in testing and fewer people are being diagnosed, so this is huge. We need to know we have the capacity in hospitals if there is a second or third wave. To reach bottom we will need containment and we are not quite there yet.
- While we are monitoring the markets closely, they are nowhere near as dysfunctional as during the great financial crisis. Stimulus packages have helped the markets to keep functioning quite well.
- The US Fed's $2.1 trillion stimulus represents around 10% of GDP, which should be effective. It is also timely, with people already receiving cheques.
- The US dollar is benefitting from the flight to safety. However, the Canadian dollar is still challenged by the COVID-19 crisis and the oil price war. It's hard to see a case for the Canadian dollar firming against the US right now.

Income perspectives

- Both of our monthly income portfolios—Balanced and Conservative—have been successful in meeting their objectives and have performed well recently.
- In the Balanced portfolio's category, the median fund was down almost 20%, but the Monthly Income Balanced Portfolio saw only half of that decline. Similarly, the Conservative portfolio saw less than half of the decline of the median fund in for its category (Global Fixed Income Balanced).
- Both the Balanced and Conservative Portfolios beat 94% of category peers in March, and are beating 94-96% of peers on a year-to-date basis through early April.
- This strong performance is due to the effectiveness of the Portfolios' three layers of protection during the market sell-off. The first layer of protection comes from the mix of assets, including the presence of government and investment grade bonds and the Portfolios' ability to actively respond to market conditions by reducing exposure to credit in favour of government bonds. The second level of defense comes from our put options on high yield bonds and equities, so we benefitted when the markets slumped. Thirdly, we had a strategic allocation to the US dollar, which tends to react inversely to equities when equities are falling.
- All three layers of protection worked well in March. The put protection alone added almost 800 basis points to the Balanced portfolio and 476 basis points to the Conservative portfolio during the peak-to-trough move in equities. The allocation to the US dollar added another 243 and 176 basis points to Balanced and Conservative respectively. After adding the contribution from holding traditional fixed income, the Portfolios saw between 6-10% in value added in the peak-to-trough period from these downside protection elements.
- Having this kind of protection in a downturn means the portfolios don't have anywhere near as far to recover as does an unprotected balanced portfolio. It also means investors may not need to take it upon themselves to determine if or when to move to the sidelines or cash as they try to figure out market direction. Our Portfolios' downside protection allowed our investors to stay invested, while continuing to receive income and still capture any equity market growth.
- The funds are designed to deliver a 4% fixed distribution, made up of dividend and bond income, capital gains and return of capital. They're designed for people with a lower risk tolerance, for example late-stage

accumulators in their late 50s who want to lower their risk of seeing their lifetime of savings decline, or those in retirement, who require income and also don't want to see their savings deteriorate sharply.

- On average, equity bear markets (decline of 20% or more) occur every six years. Since the average length of retirement is now over 25 years, this means that there could be as many as four severe market crashes during an investor's retirement. Mackenzie's Monthly Income Portfolios aim to cushion those steep drops, giving investors some peace of mind that their assets are somewhat protected throughout retirement.
- Within the Portfolios, Mackenzie's fixed income managers are actively monitoring the markets and responding. While in "lower risk" mode leading up to March 2020 the Portfolios held well over 70% of fixed income assets in investment grade and government bonds, but part of that allocation may be poised to shift into higher risk assets once again, such as high yield bonds, aim to take advantage of the market recovery.
- In the equity portion of our funds we have an actively managed dividend portion, which looks for companies with records of solid dividend payment and growth. If a company sharply reduces its payout or stops paying a dividend, this strategy will naturally replace this holding with companies that continue to pay out dividends.

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: 6474694

Please note that the dial-in number will only be available for 30 days after the event and will expire on May 15, 2020.