Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and Global Fixed Income Market perspectives

On April 28, Mackenzie held a conference call featuring economic and market updates from **Dustin Reid** (Vice President, Mackenzie's Chief Fixed Income Strategist) and **Steve Locke** (Senior Vice President, Portfolio Manager, Head of the Mackenzie Fixed Income Team).

Conference call highlights

Current macro perspective

- In general, fear and concern in the markets are turning to optimism as investors take a longer-term view and are pleased that some of the U.S. states have been gradually reopening their economies, with more to follow.
- We remain cautious about market risks as significant data gaps remain – we need to look at March data set and assess how bad economic conditions have become. A market recovery is more likely to be gradual than sharp.
- Canada is primarily a service-based economy and many businesses may fold as a result of the COVID-19 impact. This could have a massive effect on the workforce as employees lose jobs (some projections suggest about two to three million unemployed in Canada and 25 to 30 million in the U.S.). It will take some time for businesses to invest again in employees, research & development and infrastructure.
- The Canadian consumer is already over-levered, and as we emerge from COVID-19 it remains to be seen if savings and consumption patterns will change or revert to previous levels.

Unconstrained approach to fixed income

- We expect low government policy rates for a while, which will deepen the search for yield. Mackenzie Unconstrained Fixed Income Fund and Mackenzie Unconstrained Bond ETF (MUB) are designed to generate attractive levels of yield. We can move through the economic cycle and across geography, quality curve and capital structure in our search for yield. We aim to manage downside risks and remain flexible in our risk exposures while striving for reduced portfolio volatility.
- The portfolio's asset mix is quite different than it has been in recent years:
    - We have a greater focus on higher credit quality, and about 1/3 of the mandate is in AAA-rated bonds, U.S. Treasuries and Government of Canada bonds, which provides downside risk protection
    - About half of the assets correlate to the high-yield market, which is lower than before (when it was about 50% in high yield and 15% in loans) to reflect heightened risks now in the market. High yield generally provides the best risk-adjusted returns of any asset class, but we're finding fewer good, attractively priced high-yield securities as the cycle has matured and the high-yield space has faced a stiff correction
    - We have added to our exposure to investment-grade and provincial bonds, and to select high yield. We have also added to duration in March as interest rates declined sharply, and to our U.S. dollar exposure to protect against downside risk as the flight to quality is favourable for the U.S. dollar.
- To help protect against downside risks in the high-yield market, we buy insurance in the form of put options. With implied volatility low heading into 2020, we were able to buy put options relatively cheap, and our strategy paid off as the market selloff ensued.
- We expect high-yield and loan defaults to rise through 2020 which is typical at this stage of the cycle. We maintain cautious optimism re: the high-yield market, but it's crucial to determine which companies are at high risk of default and which ones are poised to survive and thrive in these shifting economic conditions. We look to capitalize on market volatility.
- We believe the Fund/ETF can be used as a core component of most fixed income portfolios. We are disciplined, opportunistic, risk-focused investors searching for attractive, consistent yield while managing downside risk.

Check out the conference call

To access the playback of this call, visit our website or dial-in to our instant replay below.

Toll-free: 1-800-408-3053
Passcode: 5403044

Please note that the dial-in number will only be available for 30 days after the event and will expire on May 29, 2020.