MACKENZIE Investments

Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and Global Market perspectives

On May 5, Mackenzie held a conference call featuring economic and market updates from **Paul Taylor** (Vice President, Portfolio Manager, Mackenzie Multi-Asset Strategies Team) and **Paul Musson** (Senior Vice President, Portfolio Manager, Head of the Mackenzie Ivy Team).

Conference call highlights

Current macro perspective

- The global health crisis continues but we are beginning to see that actions like physical distancing are helping to flatten the curve. Governments worldwide are still trying to find the right balance between containing COVID-19 as quickly as possible and supporting economic activity.
- Some of the major unknowns regarding COVID-19 are how many future waves of the virus we will endure, when effective treatments and/or vaccines will reach the market, how testing and contact tracing methodologies will be implemented, and when the millions of unemployed people will start returning to work.
- We expect a sharp recession through 2020, given that first-quarter GDP in the U.S. declined by 4.8%, even though only one of the months in that first quarter was particularly weak. GDP may be considerably worse in Q2 since the figure will reflect two or even three months of economic weakness.
- Here are three things to watch for that will help shape the post-pandemic economic recovery:
  1. The duration of COVID-19, as the longer this virus remains a significant health issue, the more difficult and protracted an eventual economic rebound will be.
  2. Will we see behavioural changes from individuals and businesses re: their spending patterns, or will they return to normal (or close to normal)?
  3. How much more economic stimulus should we expect from governments and central banks? We will likely need to see a considerable amount to help offset the loss of personal and corporate income during the crisis.

Insights

- Coming into the pandemic period, we witnessed record valuations of publicly traded companies, as well as bloated balance sheets with record debt levels (individual, corporate and sovereign). There could be severe consequences to bailing out companies that have not been financially responsible or acting in the best interests of shareholders (e.g., those that were inadvisably issuing debt to buy back shares at rich prices).
- Through the years, we believe there has been a widespread over-reliance on government bailouts, as various stimulus measures have artificially propped up markets, instead of allowing natural market forces to take hold. COVID-19 exposed many of the financial issues created by frequent government bailouts.
- Central banks have not been focused on creating net-new wealth, but instead have been redistributing wealth by driving interest rates to levels much lower than market forces would otherwise dictate. Two examples of how this redistributes wealth are the following. First is the housing market, where property owners benefit from inflated prices. But there is no net wealth creation for society when this happens, but only a redistribution of wealth from those who buy a home to those who sell one. The second example is how corporations and government saved trillions of dollars in interest expense on their debt over the last ten years, but that was trillions of dollars that pensioners and savers didn't earn in interest income.
- The Ivy approach tries to achieve a narrow dispersion of outcomes through a full cycle, with a target total return of 5% to 8% annually. We believe this narrow range provides some predictability to an investor's long-term returns and financial outcomes. We invest in businesses that tend to be steadier, have sustainable competitive advantages and a strong corporate culture that encourages reinvestment in the business to continuously maintain and strengthen its competitive edge.

- We have a strong valuation discipline as part of our investment process and favour businesses that stand to benefit while also benefiting their clients in a meaningful way (a “win-win” situation). We have always invested with an ESG lens before this approach became common, as we believe ESG-positive companies are more likely to thrive.
- Heading into the recent market downturn, we held roughly 32% in cash in Mackenzie Ivy Foreign Equity Fund as we wanted to protect investors from an overvalued market. Recently we have seen names that we’ve liked for years reach more attractive valuations, so we’ve added to the portfolio and cash currently sits below 15%. While the Fund is still concentrated, the number of names in the portfolio is now greater than 50 (although we anticipate that number will decrease slightly in the near future).
- Part of Ivy’s historical relative strong performance is because we take a long-term view and spend a long time on the due diligence process when trying to understand a business. Over the years we have built-up our resources which has allowed us to better understand that many more companies and has allowed us to hold slightly more names in our portfolios. With more names, the Fund will have smaller portfolio weightings overall, but we still maintain meaningful weights in the holdings that we favour the most.

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: 9319104

Please note that the dial-in number will only be available for 30 days after the event and will expire on June 5, 2020.