MACKENZIE Investments

Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and perspectives on gold

On May 12, Mackenzie held a conference call featuring economic and market updates from **Paul Taylor** (Vice President, Portfolio Manager, Mackenzie Multi-Asset Strategies Team), **Benoit Gervais** (Senior Vice President, Portfolio Manager, Head of Mackenzie Resource Team) and **Onno Rutten** (Vice President, Portfolio Manager, Mackenzie Resource Team).

Conference call highlights

Current macro perspective (Paul Taylor)

- Containment of COVID-19 is becoming more effective worldwide, and we expect the ingenuity of the global health care industry to eventually find a viable solution to suppress the pandemic. Once the pandemic is under control, this recessionary environment should gradually subside. If the world develops effective treatments and/or vaccines for COVID-19, the virus would be less deadly and the governmental policy response could be much different than it is now.
- With the U.S. election coming up in November, President Trump will be largely evaluated on how well his administration has handled the crisis and how well (and quickly) the economy rebounds. At this time, overall equity valuations are attractive relative to long-term fundamentals, and economic conditions and investor sentiment, while still very depressed, are improving. Limiting the number of COVID-19 cases and deaths is key to continuing this trend.
- The consensus view appears to be calling for a sharp recession in 2020; the steep economic contraction in Q1 and likely in Q2 supports this view. However, we should be able to avoid a depression if the jobs picture improves. We expect stronger June and July employment numbers in the U.S. as the economy continues reopening and more people are able to return to work.
- However, a longer lockdown or any future waves of the pandemic will lead to more bankruptcies and another round of major economic issues. Policy rates may already be as low as they'll go, so central banks are running out of tools in this regard. To support domestic economies, we may see a reversal of globalization in which companies receive government incentives for bringing jobs back from abroad.

Insights on gold and other resources (Benoit Gervais, Onno Rutten)

- Hard assets like gold, good quality companies, and real estate tend to perform well in a world where money supply accelerates faster than the economy. Governments are unlikely going to slow monetary and fiscal stimulus to soften the blow to the economy from Covid-19. Gold has a proven history of preserving purchasing power against excessive money supply and currency depreciations. For Canadian investors, a 5% to 10% allocation to gold and gold equities is effective as a portfolio diversifier. A greater allocation can be used to wait out the current market certainty and to be ready to re-engage in equity markets once the outlook clears.
- Gold is also an attractive "safe haven" investment when real interest rates turn negative and the opportunity cost of owning gold under these circumstances becomes negligible. In the past 50 years, when real interest rates were negative, gold produced returns of roughly 17% annually.
- While the return on gold equities can be uneven, over the long term, gold has tended to enhance overall portfolio performance while reducing overall portfolio volatility.
- We typically favour an initial 50-50 allocation of bullion and gold equities, but this split can be adjusted depending on a particular investor's overall portfolio and preferences, as well as the prevailing market conditions. Historically, gold bullion has been a good diversifier as it has a low correlation with equity markets, while gold equities historically outperform gold bullion due to value creation and operational leverage, at the expense of relatively higher volatility.
- Although gold has performed well lately, oil has languished. It has been a challenge for OPEC+ to boost the price of oil closer to where they want it to be (about US$70 per barrel). Ongoing disagreements about production – notably between Saudi Arabia and Russia – have sent the price of oil sharply lower amid a glut of supply.

- We expect demand for oil to return as the economy rebounds, but price recovery may be slow in light of current high inventory levels. Oil refiners' margins should benefit from recovering demand and excess supply of crude, so we presently find this industry attractive.
- The supply of natural gas has been dwindling as shale wells are being shut in, whereas this commodity does not store well. Meanwhile, the use of gas as a heating source stays fairly consistent regardless of economic conditions, so gas may be enjoying a favourable supply/demand scenario and is well represented in the Mackenzie Resource Funds.
- Governments will likely focus much of their spending on industries like construction and infrastructure, which support substantial job creation and can help stimulate economic growth. Infrastructure and construction stimulus would be positive for the lumber industry. We do not believe lumber is in an overstock position as the industry scaled back production quickly and significantly once the magnitude of COVID-19 became apparent, leading to manageable inventory levels while demand recovers.

Check out the conference call

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

French
Toll-free: 1-800-408-3053
Passcode: 1753559

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Toll-free: 1-800-408-3053
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