# Mackenzie Call Series

## Calming perspectives in uncertain markets

### Economic updates and trading insights

On May 20, Mackenzie held a conference call featuring an economic update from **Dustin Reid** (Vice President, Chief Fixed Income Strategist, Mackenzie Fixed Income Team) and trading insights from **Carrie Freeborough** (Senior Vice President, Head Trader).

**Conference call highlights**

**Current macroeconomic perspective** (Dustin Reid)

- With a gradual, segmented reopening of the economy now in progress, the worst of the slowdown and risk asset drawdown appears to be moving behind us. Overall, the first wave of the virus is getting under control, although there are still some spikes (e.g., in China and South Korea) as economic and social constraints are loosened.
- While a V-, U- or W-shaped recovery is unlikely, it appears that we will see a "Nike swoosh" recovery pattern. This type of recovery is characterized by a quick, steep decline followed by a gradual, extended recovery where markets may fall short of levels reached before COVID-19.
- A reduction in economic productivity may linger for years as some service businesses (e.g., smaller restaurants, hotels, entertainment-related companies) will not be able to bounce back and keep their staff employed. There is so much risk in this environment that entrepreneurs are generally not looking to start or expand businesses, which will also impact job growth.
- Neither the U.S. Federal Reserve nor the Bank of Canada wants policy rates to turn negative – as Japan and the ECB have done – given that negative rates place significant pressure on the banking system and have not proven to be highly successful over time.
- In the weeks or months to come, we expect robust fixed income buying at the short end of the yield curve as the Fed will aim to keep short-term rates low to help support and stimulate the economy.

**Insights on trading in today's environment** (Carrie Freeborough)

- The trading conditions in March, at the height of pandemic fears, were more volatile than the global financial crisis, 9/11 and the technology bubble. Today's trading market structure is vastly different and more expansive (e.g., trading in the U.S. now takes place on more than 60 markets, which leads to fragmentation and enhanced volatility).
- High-frequency trading is also a significant part of what drives today's markets. These types of traders use expensive, sophisticated technology that allows them to move ahead of conventional traders by making lightning-quick trades in instantaneous reaction to the latest news. Not only is it difficult for other traders to compete and execute their orders, but high-frequency trading worsens volatility as well.
- The proliferation of passive ETFs has also added volatility and can contribute to greater market inefficiencies, which poses more challenges for traders.
- Some practical tips on how to trade:
  - Recognize how certain securities trade differently from others. For instance, ETFs don't trade the same way as most stocks; large caps trade differently than small caps, given the disparity in trading volume and liquidity; large caps may even trade differently than other large caps, depending on the country and trading volumes
  - Consider using limit orders on small caps because of their wider spreads, whereas large caps have tighter spreads and market orders are usually an effective way to fill large trades
  - Consider the time of day: volumes tend to spike at the market open and close. Our team trades high volumes so we try to target the busier times, although the downside is increased volatility and wider spreads (up to 7x greater than in the quieter midday periods). Retail traders are often better off trading in the middle of the day
- We try to go off-market and approach brokers to execute large block trades. This helps us avoid tipping off high-frequency traders, whose use of algorithms may increase spreads and volatility if they detect large trades coming.

- As a result of getting favourable buy and sell prices, being more adept at filling portfolio manager orders and minimizing overall trading costs, good trade execution is additive to fund performance, which benefits investors.
- When markets become more volatile, our team tends to have more frequent interaction with the portfolio managers. We need strong communication and collaboration to execute trades as successfully as possible. Since Mackenzie's portfolio managers are disciplined, active managers focused on the long term, they don't deviate from their investment approach in extremely volatile markets (i.e., no panic selling at the market bottom and no sitting on the sidelines with undue levels of cash as the markets rebound), which helps facilitate the trading process.

**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: 5207012

Please note that the dial-in number will only be available for 30 days after the event and will expire on June 20, 2020.