Mackenzie Call Series

Calming perspectives in uncertain markets

Economic updates and perspectives on oil, gas and resources

On June 2, Mackenzie held a conference call featuring economic and market updates from **Todd Mattina** (Senior Vice President, Chief Economist and Co-Lead of 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 macroeconomic perspective (Todd Mattina)

- Recent social protests in the U.S. have added to the complexity of today's environment. However, markets historically looked past social upheavals, focusing instead on fundamental drivers of investment returns such as changes in earnings and interest rates. Examples from the past when US equities gained despite social upheavals include the 1968 assassinations of Martin Luther King Jr. and Robert Kennedy, and the acquittal in 1992 of Los Angeles police officers for the beating of Rodney King.
- Markets remain strongly focused on the reopening of the economy and containment of the virus. Risk assets like stocks and high-yield bonds have performed well lately, possibly reflecting optimism about the economic outlook given aggressive economic policy responses. Surveys suggest that economists expect we will experience a sharp recession in 2020, followed by a strong recovery in 2021.
- However, almost 40 million Americans have already filed for unemployment benefits amid the pandemic. If this high level of unemployment persists, we may see a slower economic recovery that disproportionately affects vulnerable social groups. Recent civil unrest could lead to a further expansion of government budget deficits to help fund income support programs.
- Market volatility may continue, so if you're executing tactical shifts in client portfolios, think about making smaller moves and consider adhering to your chosen long-term asset allocation mix. Currently our team maintains a broadly neutral mix of stocks versus government bonds, owning to conflicting economic signals and many persistent unknowns.

Insights on today's resource market (Benoit Gervais, Onno Rutten)

- Right now, the "stay at home" bond-like industries (e.g., consumer staples, utilities) are faring best, but we expect a gradual shift from safer stocks to riskier stocks with more growth potential.
- Higher gold prices have been the result of the "more money" response of massive government stimulus. Gold bullion and gold stocks help protect against a loss of buying power created by the resulting asset price inflation, as outlined in the recent White Paper entitled "More money is coming your way"[11]. We recommend a weighting of roughly 5% to 10% towards precious metals is for diversified portfolios.
- If a deflationary environment arises, prices for almost all assets could decline, while cash and certain bonds would benefit. However, if this happens, governments would be inclined to supply large amounts of money to help reflate the economy. Such a scenario would be positive for gold, real estate and stocks in general.
- Resources offer meaningful exposure to real assets and to the general economy, which is particularly beneficial if an economic recovery is anticipated.
- We take a thematic approach to managing Mackenzie Global Resource Fund/Class. One of themes is gold. Gold bullion is a truly liquid asset class that exhibits lower relative volatility because of its negative (or zero) correlation to other assets. Gold equities provide levered exposure to gold bullion and to the broader risk markets, while adding value from exploration/development (although with higher volatility than bullion).

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[1] B. Gervais, O.Rutten, S. Prieur, A. Marrat, "More money is coming your way"; Mackenzie Investments; February 2020

- Regarding the theme of supply-demand fundamentals, we see oil prices struggling because of the oil producers' slow response to sharply lower demand amid the pandemic and given that oil prices may be capped while excessive inventories are worked down. We prefer natural gas exposure as supply is contracting while demand is stable. We also prefer the oil refiners who benefit from a rapid resumption of gasoline demand.
- Resources like lumber, copper and iron ore also appear attractive at this time, as a rapid supply response to dwindling demand prevented oversupply. New infrastructure initiatives from governments that try to stimulate job growth, and pent-up demand for housing, aided by low interest rates, should also help support these commodities.
- Stimulus measures (particularly in Europe) are partially directed towards environmental initiatives like clean energy and electric vehicles. Society wants to see a greener future and less reliance on oil, and this theme will benefit natural gas given that the fuel burns much cleaner than oil. Lumber products will also be in favour relative to plastic for packaging materials (e.g., paper bags and cardboard containers) and electrification of society should benefit copper.

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: 1423587

Please note that the dial-in number will only be available for 30 days after the event and will expire on July 2, 2020.