Live with Benoit Gervais and Onno Rutten

Market volatility and the Mackenzie Resource Team

Gold in a world where *"More money is coming your way"*

On April 28, Mackenzie hosted a webinar featuring Benoit Gervais (Senior Vice President, Portfolio Manager and Head of the Mackenzie Resource Team) and Onno Rutten (Vice President, Portfolio Manager, Mackenzie Resource Team).

Webinar highlights

Current perspective on gold

- Central banks worldwide are keeping rates extremely low to help boost the global economy, but the consequences of unlimited government spending and accelerating money supply is an erosion of purchasing power. While GDP is declining, money supply is increasing, which could cause devaluation of currencies.
- Gold bullion functions as a different type of "currency." It is a long-term hedge against asset price inflation, highly liquid and a portfolio diversifier in times of crisis, and allows the investor to remain in a safe haven asset while broad markets find their footing. Adding 5-10% of gold bullion to a traditional balanced portfolio has historically reduced the volatility of the overall portfolio, while enhancing returns over longer time horizons.
- During the recent extreme market selloff, gold bullion was flat in USD but up 11% in CAD, while gold equities temporary declined with the broad equity markets, which is not atypical. Looking back at the 2008 crisis, gold bullion and gold equities sharply outperformed other asset classes in the 6 months following the crisis, as investors sought a safe haven, and as real interest rates were pushed down by aggressive monetary easing.
- Real interest rates (US 10-year treasuries minus inflation) are currently negative and are anticipated to remain negative, as Governments try to stimulate the economy. This lowers the opportunity cost of holding gold.
- Gold bullion is a standalone asset class that generally has less volatility and faces less downward pressure in a market selloff relative to gold equities, which have a higher correlation to the overall equity market. Conversely, gold equities may have the potential to generate higher returns than bullion, but the trade-off is higher volatility.
- Market gold prices and the premiums for physical bullion have risen as many gold refineries have had to close amid the COVID-19 pandemic and transport has been interrupted. This provides and insight in the relative tightness of physical bullion markets, despite the well-documented fact that most of the world's gold is in above-ground vaults.

Mackenzie Gold Bullion Class

- One of the primary advantages of Mackenzie Gold Bullion Class relative to a gold ETF is that our investors enjoy the comfort of having the physical backing of gold bullion. For the majority of the portfolio, we own actual gold bars that are officially numbered and held in custody in Canada. ETFs can be a mix of bullion and gold certificates, which means less certainty regarding their physical backing.
- The Fund has the flexibility to invest up to 10% (currently 3-5%) in other precious metals like silver, platinum and palladium (also physical bars that are stored in a safe). These metals are more akin to industrial metals because they are widely used in industry, so holding them can be beneficial during times of economic expansion, which adds some return diversification to the Fund under various economic conditions.
- The Fund is highly liquid as the chain of command is simple and straightforward and physical gold markets are very liquid. In distressed markets, maintaining adequate liquidity is important.
- For Canadian investors, a 5% to 10% allocation to gold and gold equities can be effective as a portfolio diversifier to reduce risk and enhance returns. Consider an initial allocation split evenly between bullion and precious metals equities, and then adjust according to market conditions and risk/return tolerances. While gold as an individual asset class is rated as High Risk by traditional metrics, the addition of gold exposure to a balanced portfolio may actually reduce the risk of the overall portfolio as gold has a low, or negative, correlation to broad markets.

Outlook for resources

- We expect interest rates to remain low (or negative) for the foreseeable future, given the severity of the COVID-19 pandemic and the desire of governments to stimulate economic growth. This type of monetary stimulus environment has historically been favourable for gold.
- Recent negative oil prices reflect decreased demand, excess supply and a lack of storage capacity. The lack of supply discipline by Saudi Arabia and Russia adds to the current surplus, which will only be resolved if/when the world economy is allowed to reopen. As demand improves, refineries stand to benefit from ample oil in storage and the lack of supply discipline from the oil producers which should support their margins.
- Natural gas supply/demand balance is more favourable, as gas as a by-product form oil production is constrained, and demand is inelastic. Mackenzie's Resource Funds currently have substantial positions in refiners and gas producers
- Governments will likely increase infrastructure spending as a way to stimulate economic activity, so construction may increase and lumber producers (as well as industrial metals) could benefit as the economy restarts.

Check out the webinar

This webinar is available on-demand! Access the playback through our website.