Live with Dina DeGeer and David Arpin

Market volatility and the Mackenzie Bluewater Team

Sustainable growth investing

On May 14, Mackenzie hosted a webinar featuring Dina DeGeer (Senior Vice President, Portfolio Manager and Co-Lead of the Mackenzie Bluewater Team) and David Arpin (Senior Vice President, Portfolio Manager and Co-Lead of the Mackenzie Bluewater Team).

Webinar highlights

Macroeconomic views

- Although the impact of COVID-19 on the global economy is significant, we believe we're approaching a turning point. The widespread economic slowdown was intentional to help contain the pandemic, but now as parts of the economy begin to reopen, we expect a reversal in economic activity, employment trends, market performance, etc.
- We anticipate a second wave of the virus but it likely will not have the same catastrophic impact as the first wave, as governments and the health care industry are now familiar with the virus and will work proactively to limit its impact.
- Changes to certain aspects of the economy and how we work and do business could be sustained (e.g., more reliance on information technology like digitization and e-commerce), but many of the current changes will likely be short term in nature (i.e., more cyclical than structural).
- Typically, a major global financial crisis instigates a change in market leadership, but we're not in a typical recessionary environment and information technology remains the leader, just as it was before COVID-19.
- The real estate market in Canada may not collapse as it tends to do leading into a recession. Despite massive unemployment, the federal government has implemented support programs to help those who have been temporarily laid off. While the number of real estate transactions will decline, the direction of house prices is uncertain.

The Mackenzie Bluewater Team's investment approach

- We are dealing with the worst economic environment in memory. Industries are experiencing massive supply chain disruptions and layoffs, non-essential businesses were forced to stop operating with little warning, many companies had to prepare their technological infrastructure and business operations for an immediate work-from-home transition, and many industries have been subject to instant destruction of demand.
- Despite all of the economic turmoil and market volatility worldwide, the team's investment discipline remains consistent. They have not changed their conservative approach to what characteristics they look for in a company and their valuation methodology.
- In particular, the team aims to reduce risk and avoid large drawdowns, while seeking to outperform the benchmark by looking different from it. The team covets the following company traits: leadership positions in leading industries, strong balance sheets, sustainable above-average growth rates and less cyclicality.

Insights on Mackenzie Canadian Growth Fund

- Relative to Canada, the team remains more bullish on the U.S. and Europe, which have more attractive companies and industries. The team looks for higher free cash flow growth businesses outside of Canada. Accordingly, even though the Fund has about 50% of its assets in Canadian companies, its exposure is diversified more broadly as much of the business (sales) conducted by these Canadian companies is beyond our borders. For the Fund's holdings, revenue generated by geography is roughly 40% in the U.S., 28% in international markets and 32% in Canada.
- From a sector standpoint, the Fund has notable overweight positions in industrials, health care and consumer staples, and large underweight positions in energy, utilities, financials and materials. The Fund actually has no exposure to energy as the team anticipates a weak longer-term environment. Commodities usually rely on strong, globally synchronized growth – or greater demand than supply – to boost prices, but the team doesn't foresee that scenario unfolding.

- Recently, the Fund has increased exposure to non-bank financials (e.g., Intact Financial, TMX Group), as they are not as correlated to the economic cycle and may even benefit in today's environment. These businesses face some COVID-19 headwinds but are enjoying more tailwinds at this time.
- Conversely, exposure to Canadian banks has been decreased amid continued slowing growth of earnings, credit issues that have surfaced and will worsen because of the pandemic, and rising loan loss provisions. An environment of low interest rates is negative for banks, so the team views the struggles of Canadian banks as more cyclical than secular, considering that an economic rebound and gradually higher rates are expected over time.
- Companies to highlight in the consumer staples sector include Jamieson Wellness, as an increased focus on health has led to higher vitamin sales that will boost the company's growth rate. Metro Inc. has a stable business, is efficient with costs and has expanding margins, while Premium Brands sells high-quality food products with strong demand, even as its distribution business (e.g., servicing restaurants and airlines) is struggling temporarily amid COVID-19.

Check out the webinar

This webinar is available on-demand! Access the playback here.

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