MACKENZIE Investments

Live with Steve Locke

Market volatility and the Mackenzie Fixed Income Team

Fixed income strategies

On May 28, Mackenzie hosted a webinar featuring **Steve Locke** (Senior Vice President, Portfolio Manager, Head of the Mackenzie Fixed Income Team).

Webinar highlights

Macroeconomic perspective

- COVID-19 caused a massive risk-off reaction from the market, which drove yields to record lows. We expect to see yields remain low (especially on the front end of the curve) for some time, given the significant impact of the pandemic and the U.S. Fed's massive quantitative easing measures. For example, the Fed may end up owning roughly 40% of the MBS market. In our view, the Fed may need to purchase more of other assets to add stability and liquidity, and it may also move to cap yields along the curve.
- We believe central bank policy rates will stay low for the next two years, as well as a large amount of debt issuance as part of government fiscal policy. If rates were to rise significantly, it could create a high debt burden for the issuers. However, we do not anticipate negative rates.
- Regarding the loan market, we believe there will be a gradual increase in loan prices (as well as high-yield bond prices), although, in our view, these gains won't be without volatile periods over the near term. Investors need to be highly selective in the loan market as some companies won't be able to service their debt.
- Investors also need to be cautious when re-entering risky assets like high-yield bonds and emerging markets debt, as there is still concern regarding unknowns, such as a potential second wave of COVID-19 and uncertainty around the development of an effective vaccine for the virus (and will there be global cooperation and sharing of this potential vaccine?).
- High-yield default rates are still rising as many businesses continue to struggle in these challenging conditions. By the end of 2020, we anticipate a high-yield default rate in the high single digits, and an overall peak at roughly 15%.
- High-yield net leverage and coverage ratios were strong coming into 2020 before worsening, while investment-grade debt already had weaker fundamentals and rising leverage,. In light of many fallen angels, the Fed has vowed to support them through corporate bond purchases.

Update on select Mackenzie fixed income funds

- **Mackenzie Unconstrained Fixed Income Fund** – and its ETF version (MUB) – is a multi-sector product of core and tactical solutions with downside mitigation strategies and a focus on generating strong risk-adjusted returns. The mandate is benchmark agnostic, has full geographic flexibility and uses a disciplined process to invest in credit risk.
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- Coming into 2020, we increased exposure to interest rate risk and duration, while reducing our energy allocation by roughly 40% early in 2020 as we saw a weakening environment for oil. We opened up our U.S. dollar exposure to about 12%, which is atypical for us but reflected the growing risk off conditions.
- We always have downside mitigation strategies in place (put options) relative to our high-yield bond allocation, being careful to match protection with our high-yield exposure to help reduce volatility. Our commitment to downside mitigation has resulted in outperformance versus the high-yield market on the market's worst days (i.e., during crises).
- As at April 30, our average credit quality was BBB+, duration was 4.9 years and the portfolio yield was a healthy 4.3%.
- **Mackenzie Strategic Bond Fund** – and its ETF version (MKB) – is an investment-grade portfolio with a strategic overweight to corporate bonds. It seeks to maximize returns and has a risk profile of a high-quality bond portfolio. It invests at least 75% in the traditional bond universe ("core" component) and up to 25% in high-yield bonds, floating rate loans and emerging markets debt ("plus" component).

- The Fund has lower volatility than a passive investment and has achieved stronger risk-adjusted returns. As at April 30, our average credit quality was A+, duration was 8.4 years and portfolio yield was above the benchmark, at 2.1%.
- We are very selective in the high-yield space to uncover attractive opportunities, plus the mandate has both active duration management and robust risk management.

Check out the webinar

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

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