Live with David Arpin

Market volatility and the Mackenzie Bluewater Team

Sustainable growth investing

On June 11, Mackenzie hosted a webinar featuring **David Arpin**, Senior Vice President, Portfolio Manager and Co-Lead of the Mackenzie Bluewater Team.

Webinar highlights

Macroeconomic perspective

- The wall of uncertainty that had been afflicting markets in February and most of March is dissipating, although pockets of volatility remain. Future waves of COVID-19 will lead to more rounds of regionalized shutdowns and market volatility, but in our view, likely not as severe as the first wave.
- Overall, markets have been rallying despite a weak economic environment and high valuations amid a broad pandemic-induced earnings shock. In our view, while near-term earnings will be extremely depressed, today's valuations are pegged more to what valuations will be as the economy recovers, especially for companies with strong balance sheets and growth prospects. However, markets may be too optimistic and overshooting the recovery prospects.
- Stocks also seem more attractive as 10-year bond yields sit at less than 1%, with central banks already signalling a "lower for longer" rate environment. Also, trillions of dollars of fiscal stimulus, aimed at filling the hole in the economy created by the lockdown, will benefit stocks.
- Now that the economy is reopening and people are returning to work, we believe we're likely to see a robust recovery in the third quarter and sharp quarter-over-quarter growth in GDP. It remains to be seen how close to pre-pandemic levels the economy and markets will return, but it appears the rebound will fall short of previous levels.
- Even though the employment picture is looking stronger as the economy reopens, the trend toward increased industrial automation may have a negative impact over time. Some industry trends, such as drastically reduced travel, should be more cyclical than structural.
- The move toward de-globalization is reversing the trend of the past three decades and is worth observing, given that countries and companies have a renewed focus on domestic production. There could be conflicts among regions like the U.S., China and Europe – something markets typically don't like. We may also see supply chain interruptions and higher inflation as prices rise.
- Sector leadership has not changed as a result of the pandemic – ecommerce, virtual and digital are still in favour. This compares to the late 1990s when the "Asian crisis" led to a large market downturn followed by a sharp recovery, and money poured into the hot tech sector, causing a bubble. We may witness a similar type of tech bubble.
- The results of the fall U.S. election will also affect the markets. Biden's emergence as the Democratic candidate may be positive compared to either Sanders or Warren, and we believe a Biden victory would probably be the more stable outcome for the U.S. economy and markets.

Mackenzie Bluewater Team investment approach

- As growth investors, our team's overarching objective is to achieve above-average growth with reduced risk. We also strive to stay consistent and avoid tail risks. We seek companies with industry leadership positions, superior growth prospects and less cyclicality. To help minimize the risk of large drawdowns, we aim to avoid companies that are vulnerable to secular changes, as well as those with poor fundamentals.
- We see distinct differences in sector mix among the regions where we invest. For instance, Canada is highly cyclical, the U.S. is a growth market and Europe is a blend, which makes it better diversified. Overall, Europe has cheaper valuations than the U.S., but not by sector or when taking a bottom-up perspective. In light of different sector mixes, these three markets should not perform the same over time, which is a diversification factor to consider.
- As part of our investment process, we take a detailed look at every company in our investment universe (i.e., thousands of companies) and identify those that meet our stringent criteria (dominant businesses, above-average

growth potential, consistent compounders over time, etc.). While most sectors do not appeal to us in relation to our investment criteria, there are often outliers in each sector that we find attractive.

- In Mackenzie Global Growth, sectors that we currently favour and in which we hold significant overweight positions are industrials, health care and information technology. Underweight sector exposures include communication services, consumer discretionary and energy.
- Our team's goal is always to have superior upside and downside capture relative to our peer group. Historically the performance of our mandates (including Mackenzie US Growth, Mackenzie Global Growth and Mackenzie Global Balanced)[1] has delivered on that objective, since Bluewater assumed fund management responsibilities.
- Mackenzie Canadian Growth, managed by Bluewater for over 20 years, has had consistent, attractive performance during troubling times (e.g. 2000-02 technology collapse, 2008-09 global financial crisis, 2014-16 commodity slump), outperforming the benchmark and our peers.

Check out the webinar

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

[1] The Canadian funds have outperformed peers and benchmark over: YTD, 1-year, 3-year, 5-year, 10-year, and 15-year. We took the US and Global funds over August, 2016. They have outperformed peers and benchmark over: YTD, 1-year, and 3-year since manager change. Global Balanced was launched January, 2018. It has outperformed peers and benchmark over: YTD, and 1-year since inception.