North American growth

Event summary

Key messages:
1. We are in a late cycle economy with the risk of a standard recession.
2. New investment themes are creating mid- to long-term opportunities.
3. Team is seeing discounts across downturn-resilient names.

New fund launches:

- Mackenzie North American Equity Fund: Optimal blend of 75% US and 25% Canadian equities
- Mackenzie North American Balanced Fund: 50/50 Equity to Fixed Income Mix.

Economic outlook:

- The Mackenzie Bluewater Team believes we are in a **late cycle economy with the risk of a standard recession**. This assessment is based on the following signals:
  - Full employment and very strong job market.
  - Record high housing prices.
  - Back to 2019, pre-COVID-19, GDP levels.
  - Strong consumer; durable goods demand pulled forward several years.

- **Consumers are helping drive inflation** by purchasing stay-at-home related durable goods at a much higher rate than capacity (due to a historic jump in demand). This part of inflation seems to be resolving itself.
- **Inflationary disruptions stemming from higher energy costs** given the unexpected Russia/Ukraine war has an uncertain outcome.
- **Odds of a global economic slowdown or recession have increased** due to Russia/Ukraine war, recent Chinese COVID lockdowns and US Federal Reserve rate hike shocks.
- **North America is positioned better relative to Europe and Asia** given it contains the world's largest breadth of industries and companies that can generate free cash flow through a cycle.
- **Investment themes of the 2020s:** deglobalization, electrification, decarbonization, biology/genomics and the fourth industrial revolution.

Canadian markets and Canadian fund positioning:

- Canada has an economically sensitive market with commodities making up 31% and financials 30%.
- Cyclical businesses do not behave well in a global synchronized slowdown.
- Mackenzie Bluewater has been scaling back cyclical exposures and seeking companies that are able to grow in a slower economic environment, such as the examples given with Thomson Reuters, Telus and Intact Financial.

- The team has exposure to "new energy" – not your traditional "old energy" fossil fuel companies – with investments in established businesses that can generate disproportionate profits and have a competitive moat in these new areas.
- Mackenzie Bluewater does not invest in oil as team expects the demand curve will flatten and fall over the decade. They feel higher conviction now as the energy shift timeline advanced with the Russia/Ukraine war.
- Underweight financials because holding 30% of the portfolio in one sector is a risk and the team is cautious on Canadian banks, given an impending slowdown.

Cash position:

- Cash positions are typically under 5% but have risen to ~7% currently. Cash is being deployed, not raised at this time as the team sees double-digit discounts across several names.
- This is not the Great Financial Crisis, there are lots of opportunities in areas they want to be invested in for the next three to five years.