

## Uncover yield with flexible fixed income

### Event summary

Our recent webinar on fixed income featured insights from Mackenzie Investments Chief Fixed Income Strategist Dustin Reid and Konstantin Boehmer, Co-Lead of the Fixed Income Team.

#### Key takeaways from the event

- To put 2022 in context, it was one of the worst years for the bond market in almost 150 years. However, the outlook for the asset class in 2023 is much more appealing. Furthermore, subsequent calendar years that follow the worst years have historically provided a positive return experience.<sup>1</sup>
- In the US, the terminal rate, or peak for the cycle, continues to hover around 490 basis points, with the market pricing in approximately 25-50 basis points in hikes from the Federal Reserve (Fed). The Beveridge curve, which looks at job openings vs. unemployment and is an important metric for policymakers, continues to be near highs for the cycle. In our view, the probability of a hard landing seems less likely in the face of a rather robust labour market and soft-landing optimism.
- In Canada, fixed income presents an interesting opportunity. Canada in particular is more interest rate sensitive than many other countries, as higher interest rates are having a disproportionately negative impact. A high household debt load, a substantial proportion of labour tied to the real estate sector and an aggressive central bank early in the cycle, suggest Canadian fixed income is an attractive opportunity.
- As a team we are overweight inflation linked bonds (ILBs). If globalization offered the opportunity to bring the cost of production down, deglobalization runs counter to that, and in some ways may put upward pressure on the cost of production. Given that ILBs are forward looking in nature, the idea that central banks may be willing to withstand slightly higher levels of inflation is supportive for the asset class.
- We continue to favour investment grade corporates over high-yield bonds, and high-yield bonds over leveraged loans.
- While we do anticipate default rates to increase, at this moment given the economic backdrop, we do not expect a replay of past financial crises.
- Lastly, Japan is an interesting opportunity that continues to capture our attention.

#### Why it matters

- The forward outlook for bonds is one of the best we have seen in years. There is a high correlation between yield to maturity and the forward return experience for investors. With yields on Canadian government bonds approaching ~4%, the data suggests a forward compound annual return experience within the same range.
- Higher yields in the fixed income asset class offer a much larger buffer than we have experienced in the past.
- That said, not all fixed income asset classes are built the same and this is one of several reasons the Mackenzie Fixed Income Team continues to look for opportunities to drive positive performance and manage downside protection in our portfolios.



## What you can do

- Investing in a solution that has the flexibility to tap into various fixed income asset classes and tactically manage duration can offer convenient exposure to attractive opportunities in the fixed income markets.
- The [Mackenzie Unconstrained Fixed Income Fund](#) and [Mackenzie Unconstrained Bond ETF \(Ticker: MUB\)](#) are one-ticket solutions that reflect the most attractive investment ideas from the team and the ideas shared in the webinar. Furthermore, over both the five-year and three-year time periods, these solutions have outperformed more than 85% of peers.<sup>2</sup>
- Partnering with an investment firm that exceeds the needs of your clients is our top priority and it is our people, process, and products that make it possible.
  - People: the Mackenzie Investments Fixed Income Team is an integrated team of 28 investment professionals with expertise across a variety of fixed income asset classes including but not limited to high yield, investment grade credit and leveraged loans.
  - Process: navigating the path forward can be challenging, which is why partnering with team of investment professionals with a proven process and track record can better position your portfolio for success.
  - Products: at Mackenzie Investments, we offer a wide variety of solutions, including active, index and asset allocation building blocks for your fixed income allocation needs.
- To learn more, engage and follow us on [Twitter](#) and LinkedIn ([@MacroBoehmer](#)) to get the latest insights from Konstantin Boehmer and the Fixed Income Team.
- Tune in to hear more from Dustin Reid on the Mackenzie Investments **Podcast** Series: Listen on [Apple](#) | [Spotify](#) | [Google](#)

<sup>1</sup>As measured by the US 10-Year Treasury Bond Total Returns. As of January 31, 2023.

<sup>2</sup>Source: Morningstar. As of January 31, 2023. Fund category is Global Fixed Income, Series F.



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