Mackenzie Inflation-Focused Fund webcast summary

Key takeaways

- Inflation is likely to persist.
- Traditional 60/40 portfolios are likely to underperform during periods of rising inflation.
- Mackenzie Inflation-Focused Fund is tactically managed, adjusting for changes in the inflation environment.

Why inflation matters

Over the last year, high inflation has been a major issue after more than a decade of very low inflation and interest rates. The prevailing high and rising inflation regime caused central banks to raise rates quickly, pausing or reversing the returns on assets that relied on cheap and plentiful money.

Why inflation is likely to persist

We've studied inflation going back to the 1920s with more emphasis (as data is more complete) from the 1950s onward. We studied how different asset classes and sectors behaved in each of four distinct regimes: high and rising; high and declining; low and declining; and low and rising.

We believe the following *enduring themes* may keep inflation at levels much higher than many have grown accustomed to:

- To deal with climate change, carbon prices and taxes and reducing emissions are likely to increase costs. Retooling to produce goods using cleaner processes will require capital and raise prices.
- De-globalization and onshoring are likely to unwind some of the deflationary forces that we enjoyed from globalization.
- After years of underinvestment, current infrastructure needs to be addressed, ranging from investment in 5G, building new mass transit, roads and improving building efficiency. These could all put upward pressure on prices. In the meanwhile, investment into resource businesses that supply key inputs for updating infrastructure and electrification for the "greening of the planet" have been too low to meet future demand. Prices need to rise to encourage new resource investment.

Why the Mackenzie Inflation-Focused Fund

The Mackenzie Inflation-Focused Fund is designed to perform in all inflation regimes due to its highly tactical nature. As our proprietary model identifies shifts in inflation regimes, the fund is adjusted to position it for the new environment.

With a “low to medium” risk rating, the fund’s neutral asset allocation is 55% equities/commodities and 45% bonds. The fund is collaboratively managed by the Mackenzie Resource Team (equities/commodities) and the Mackenzie Fixed Income Team (bonds). The teams meet each month on the day US CPI is released to consider what the model is saying and to exchange insights. Together they determine what changes (if any) should be made to the portfolio.

What positioning changes have the Mackenzie Resource Team made? How is the Fund’s positioning likely to change in a “high and declining inflationary regime”?

At the beginning of February 2021 our model indicated that we entered a “high and rising” inflation regime. When we launched the Mackenzie Inflation-Focused Fund in September 2022, our asset mix was 10% broad commodities, 50% equity (with a focus on value, and the energy and material sectors) and 40% bonds (floating rate loans and inflation-linked securities, with an overall duration of less than three years).

We believe a shift to a “high and declining” inflation regime is looming. As such, it’s likely that the fund’s equity exposure will be reduced, in favour of fixed income, with duration extended from its current five years. The broad-based commodity exposure will likely shift to include more gold.

Why advisors should care about it

We believe now is the right time to rethink your asset mix and make room for a disciplined approach that adjusts to changes in inflation. This fund can be an addition to, or replacement for, funds with a more traditional 60/40 portfolio exposure. It would be wise to have a discussion with your clients to learn how inflation is affecting them and if they could benefit from a change.

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