

Due Diligence

Portfolios **RE:** Constructed
with **Mackenzie**

Investing in the post-Goldilocks era

5 essential elements of our story

1

Setting: Inflation – it's not the level, it's the trajectory

2

Characters: Central bankers – no “pain” no gain

3

Plot: Economic slowdown – how broad, how deep

4

Conflict: Geopolitical wildcards

5

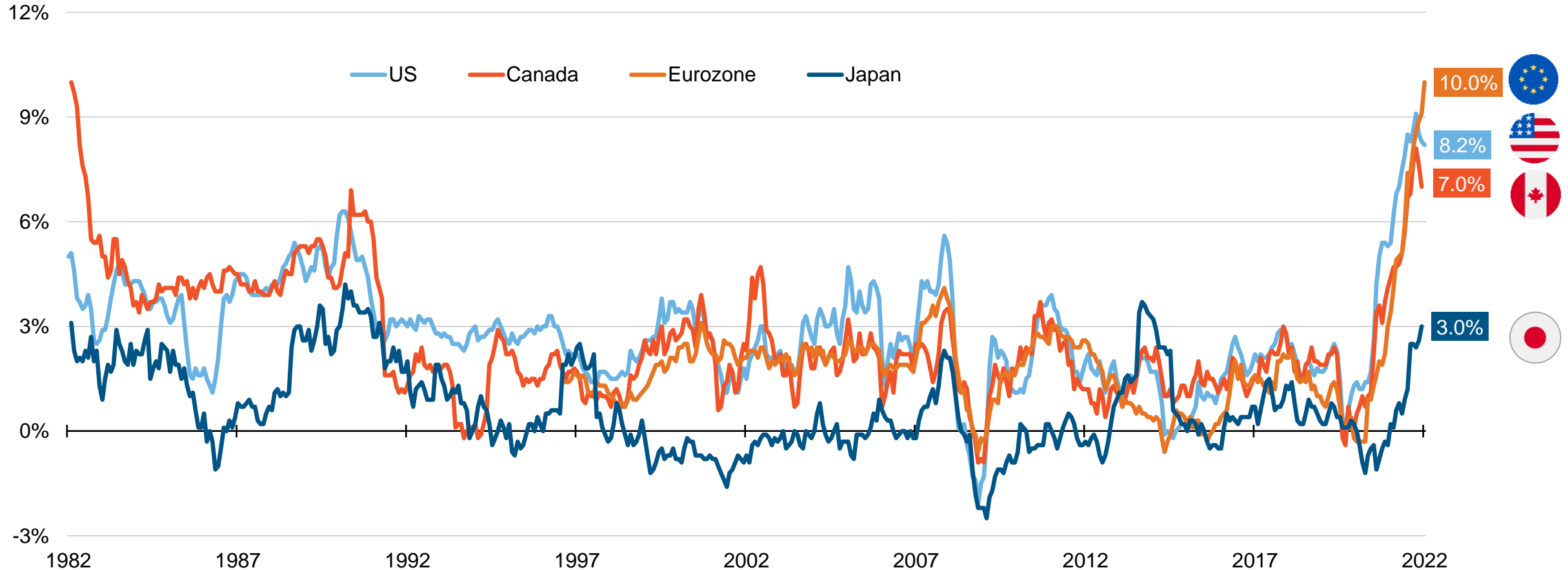
Resolution: Our conclusions

1

Inflation – it's not the level, it's the trajectory

Inflation – sticky inflation dominates the setting

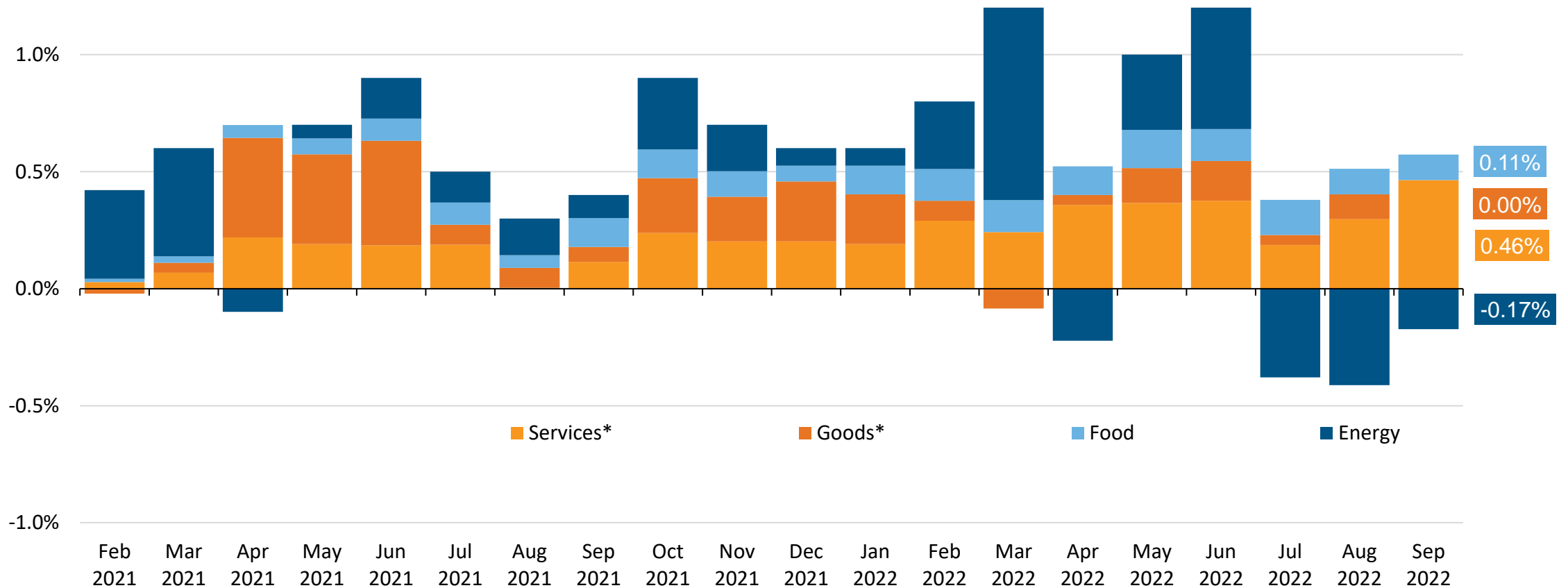
Headline inflation rates (YoY %)



Source: Bloomberg, US & Eurozone September 2022; Canada & Japan August 2022.

Inflation pressure is broader than energy

US CPI contribution breakdown (m/m %)

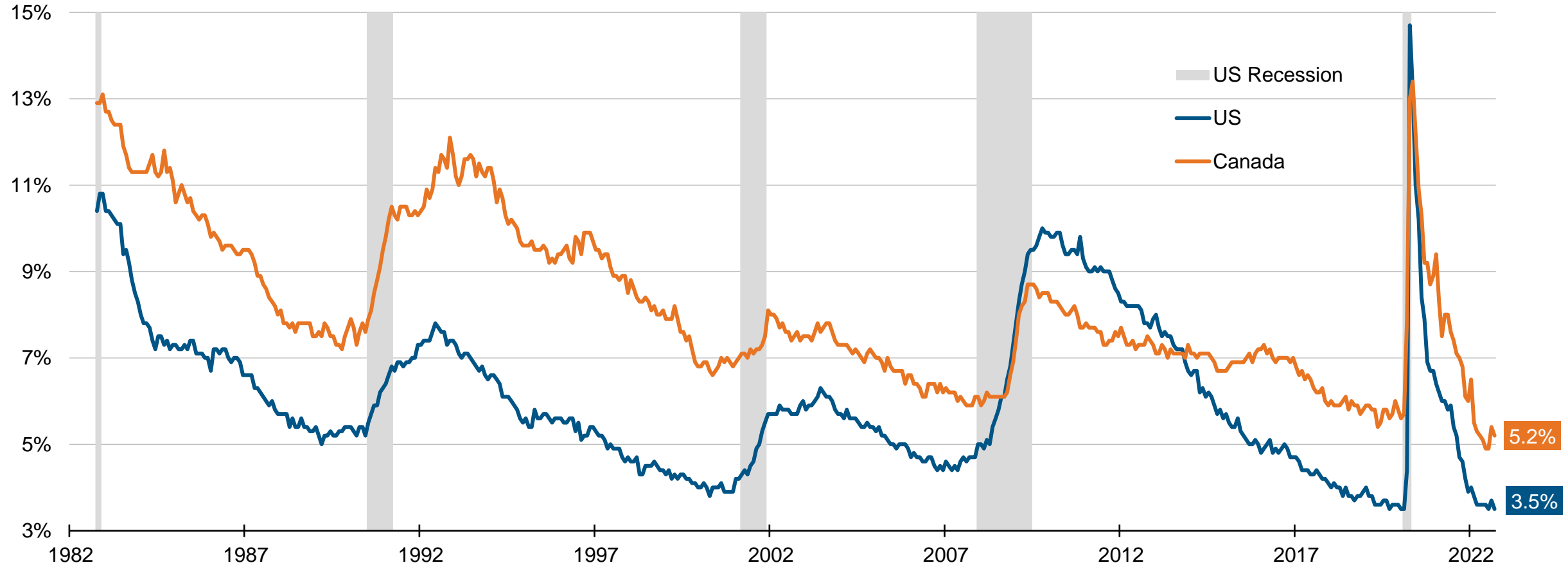


*Excluding food and energy

Source: Bloomberg, September 2022; Category weights as of August 2022.

Tight labour markets are adding to the inflation narrative

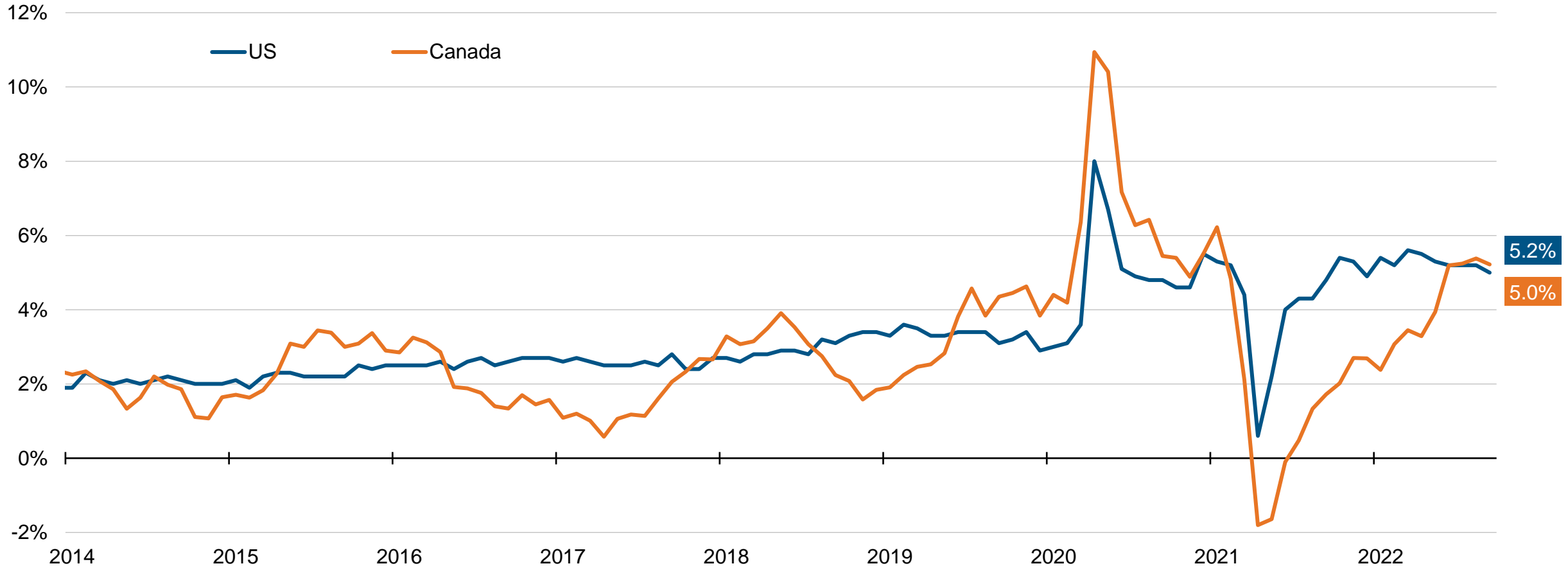
Canada & US unemployment rates



Source: Bloomberg, September 2022.

Wage increases also support inflation

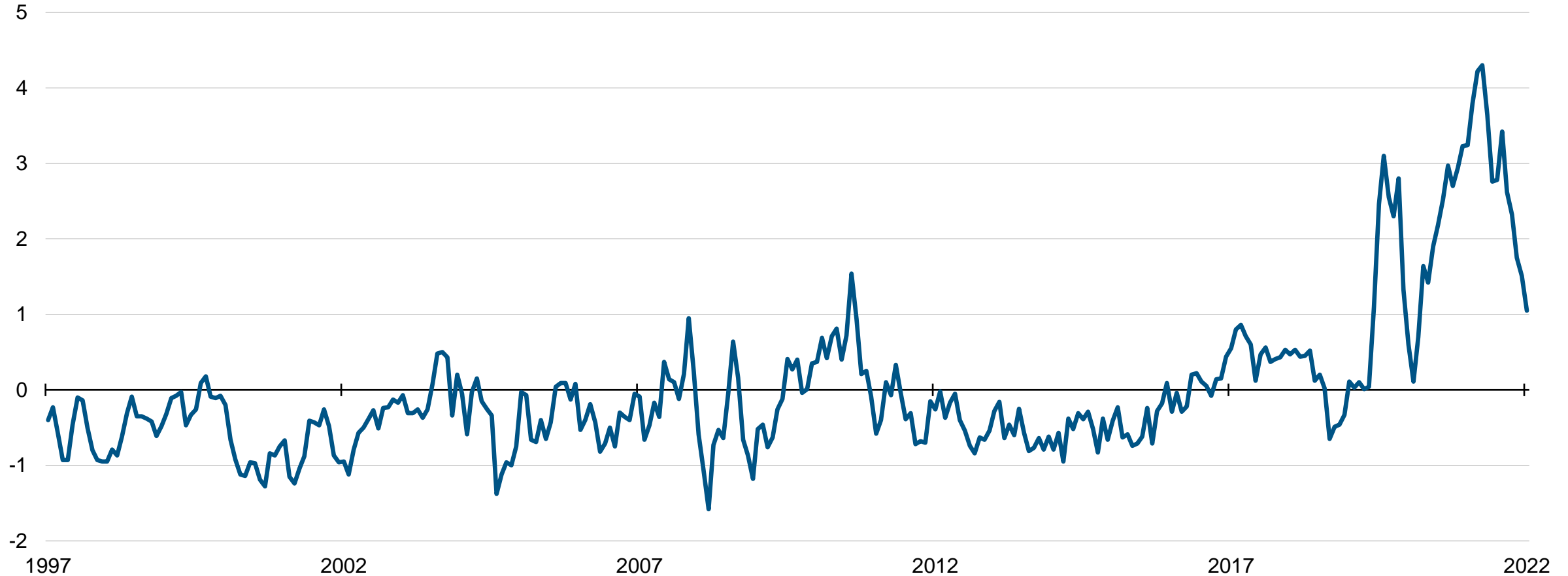
Canadian average hourly wages vs. US average hourly wages (Y/Y % change)



Source: Bloomberg, September 2022.

Global supply chain has improved

New York Fed supply chain pressure index



Source: Bloomberg, September 2022.

U.S. inventory cycle more balanced

ISM manufacturing new orders less customers' inventory



Source: Bloomberg, September 2022.

Commodity prices are cooling off

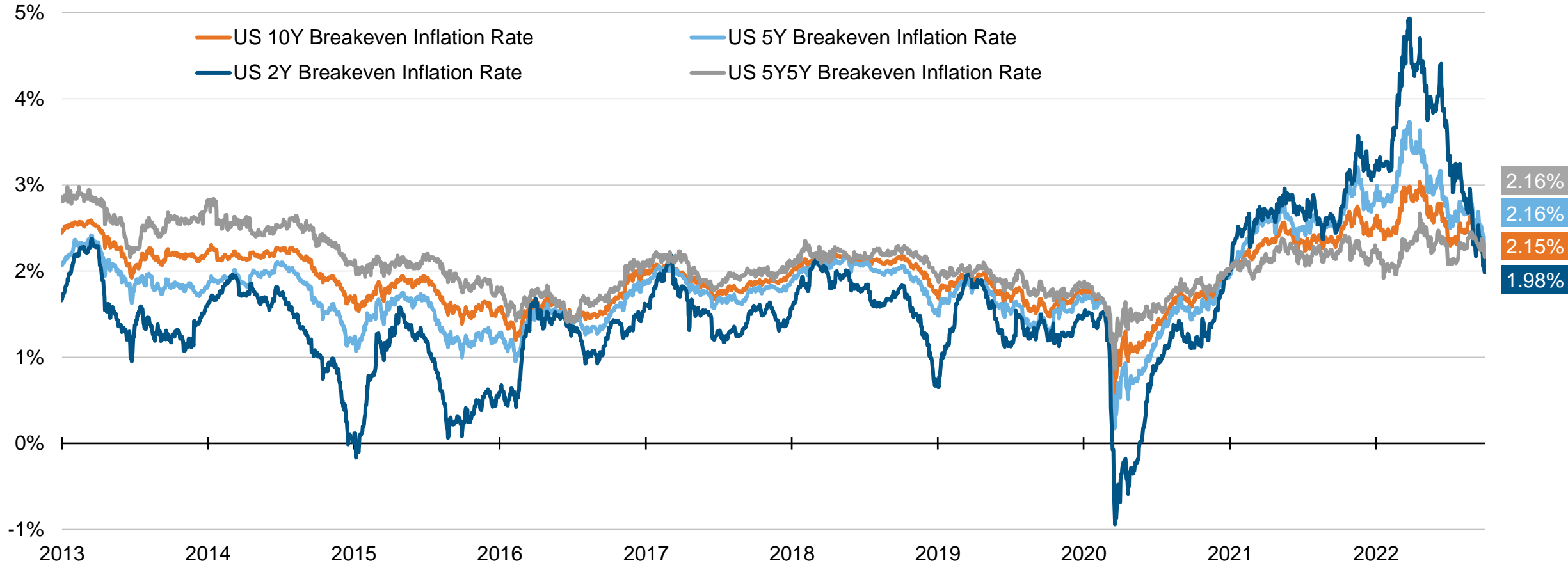
Bloomberg Commodity Index



Source: Bloomberg, September 30, 2022.

Market expectations for inflation have eased

U.S. 2, 5 and 10 year breakeven rates (%)



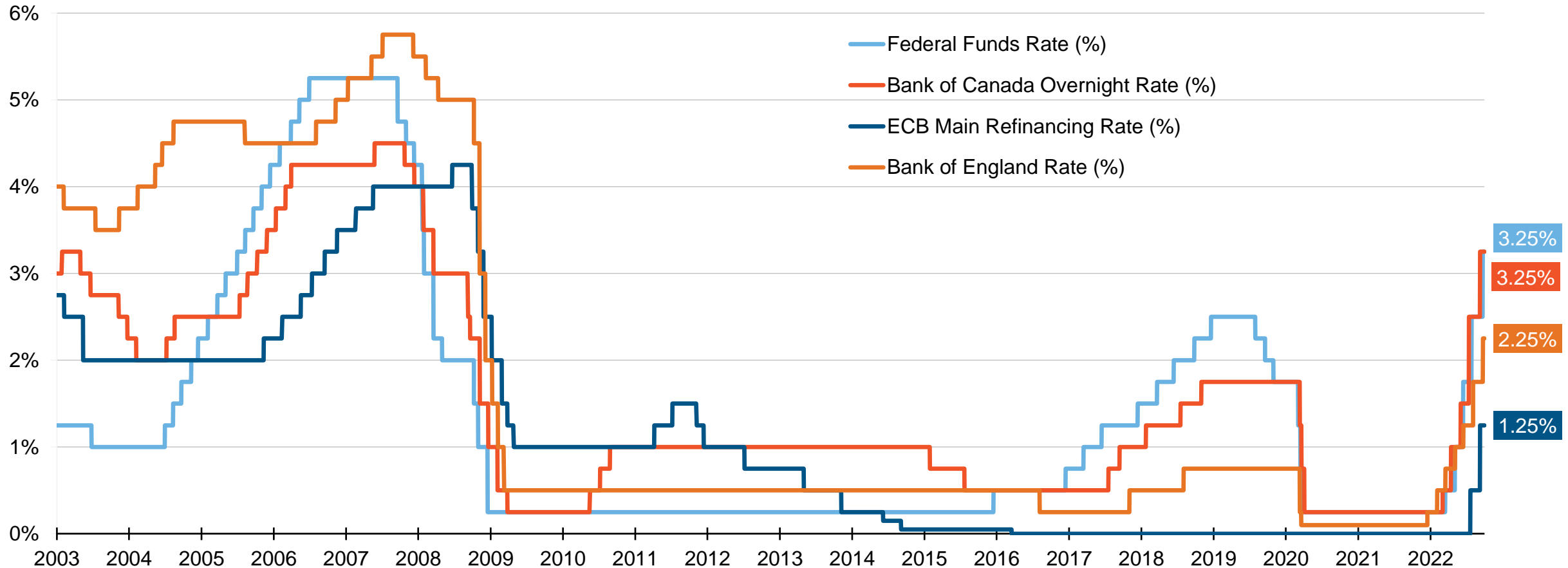
Source: Bloomberg, September 30, 2022.

2

Central bankers – no “pain” no gain

Central bankers are the central 'characters'

Global central bank overnight rates



Source: Bloomberg, September 30, 2022.

Central bankers prioritizing price stability above all else

“Fighting inflation will bring some pain to households and business”

– **Jerome Powell**,
Chairman of the Federal Reserve, August 2022

“The ECB Governing Council expects to raise interest rates further, because inflation remains far too high and is likely to stay above target for an extended period”

– ECB monetary policy decision and statement, September 8, 2022

“We have a careful eye on many different things – we have a lot of work ahead of us, and we will not rest easy until we can get inflation back to target”

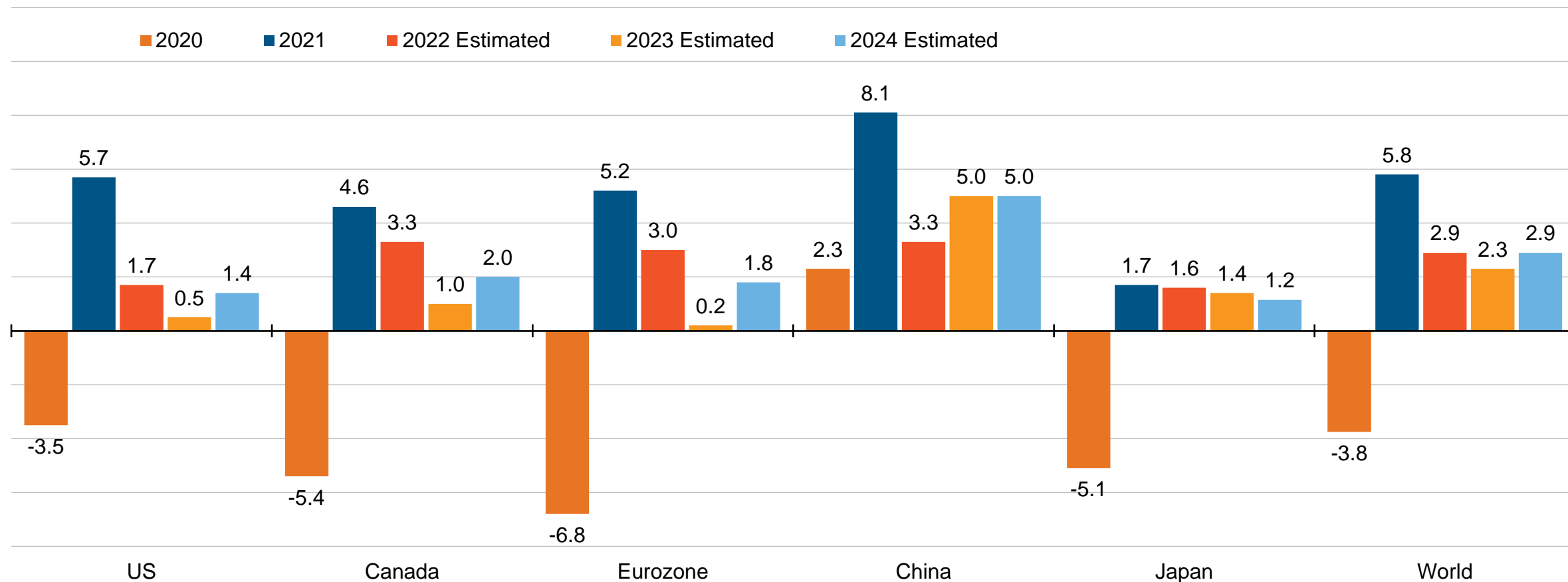
– **Carolyn Rogers**,
Senior Deputy Governor of the Bank of Canada, September 8, 2022

3

Economic slowdown – how broad, how deep

Slowing economic backdrop shapes the plot of our story

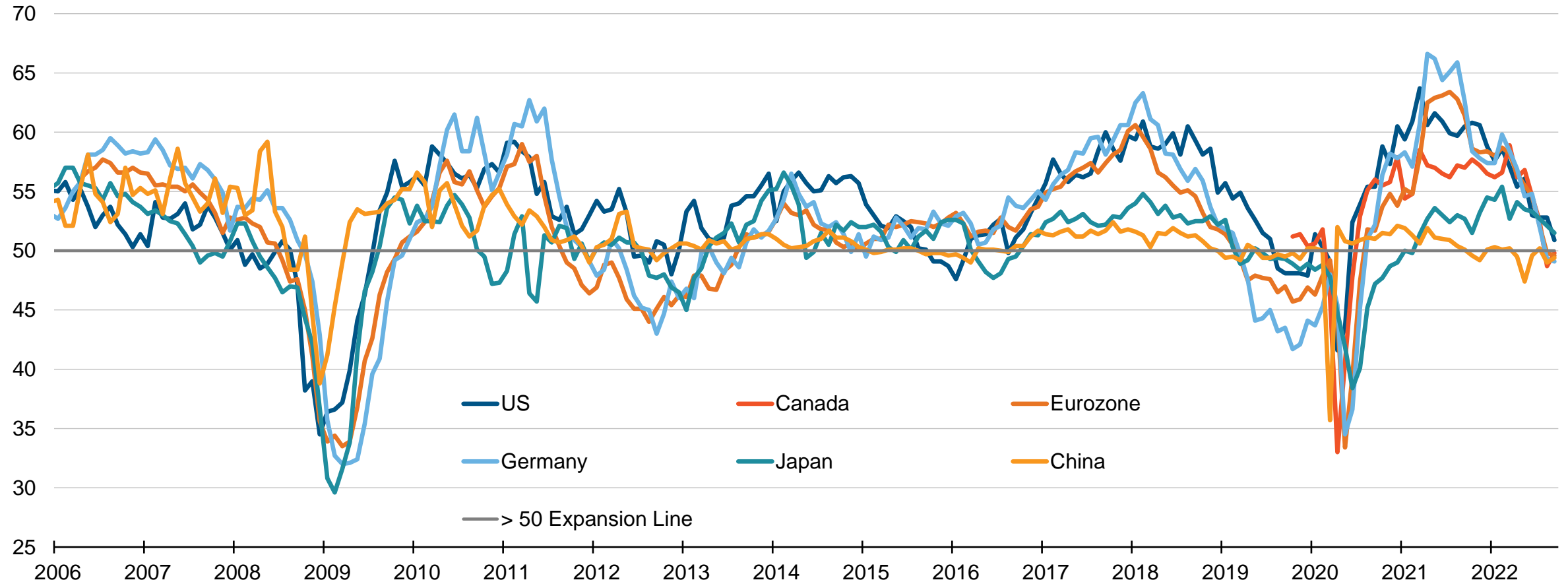
Real GDP growth (y/y % change)



Source: Bloomberg, October 2022.

PMIs confirming a slowing trend

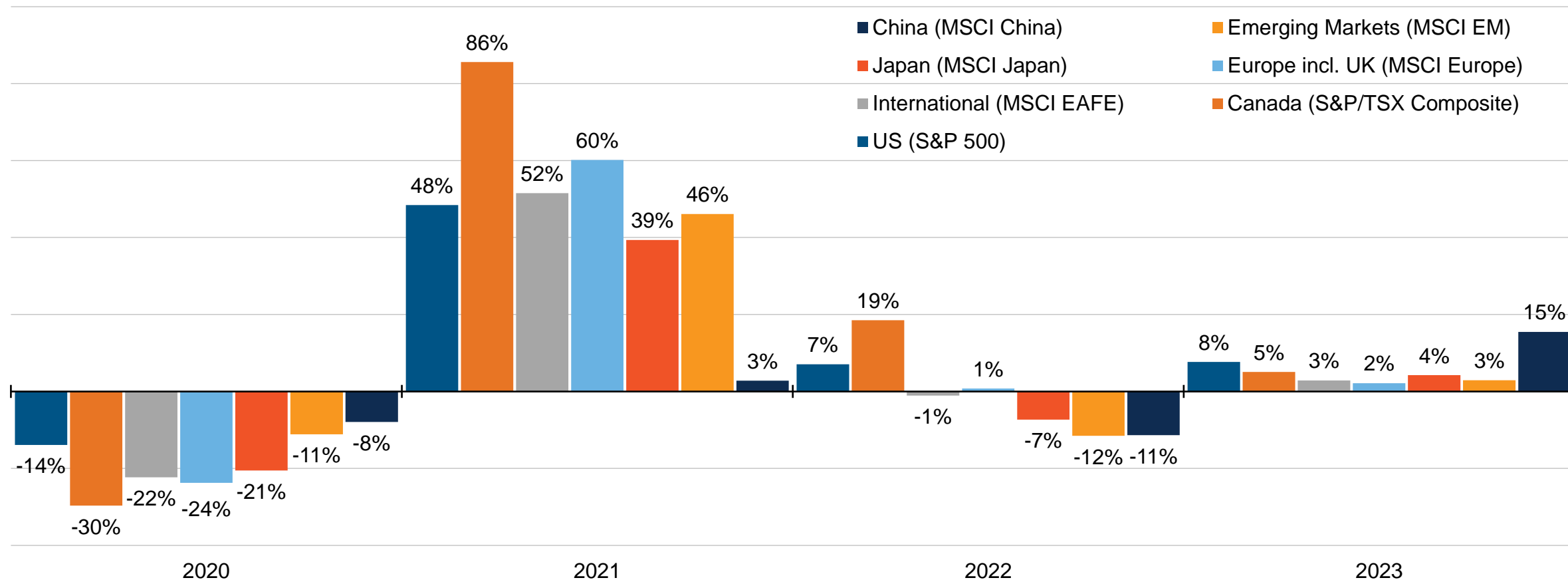
Global manufacturing purchasing manager indices



Source: Bloomberg September 2022 ; US - ISM, Canada, Eurozone, Germany- Markit Economics, Japan- Jibun Bank, China – China Federation of Logistics and Purchasing

Global earnings growth slowing

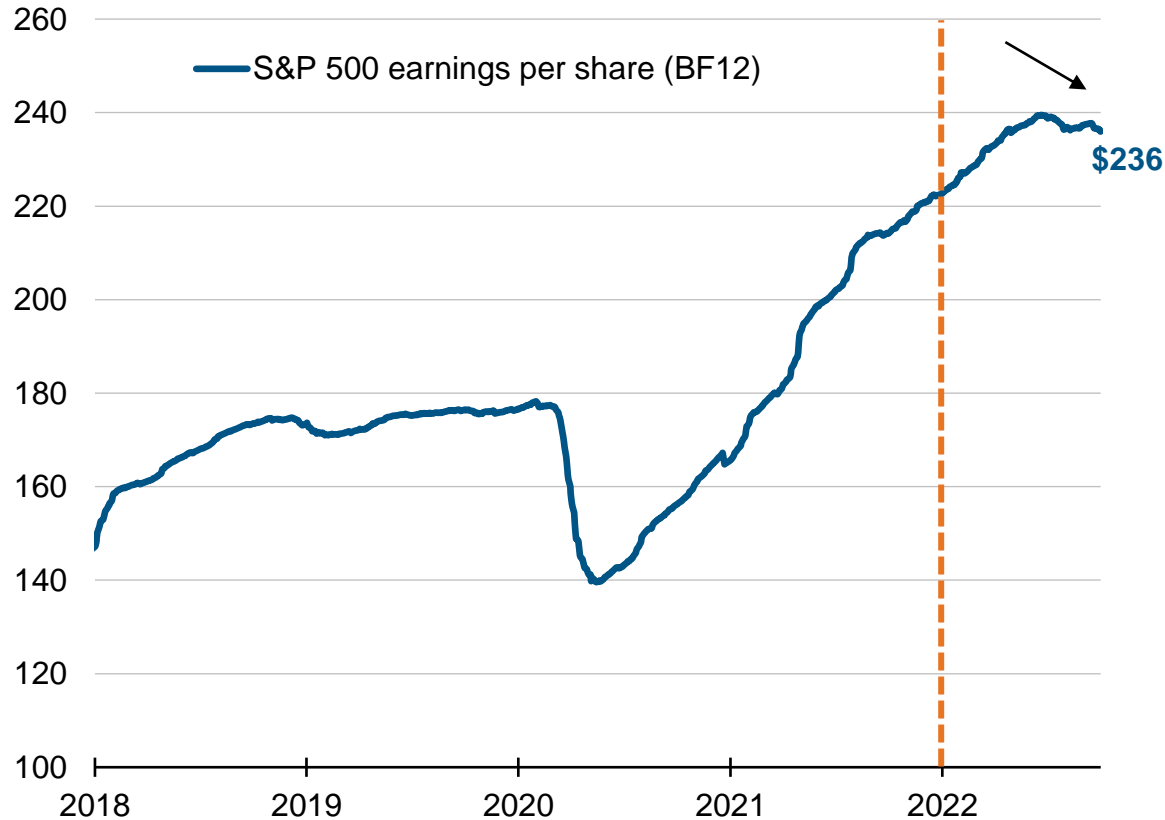
Earnings growth Y/Y % change (consensus forecasts)



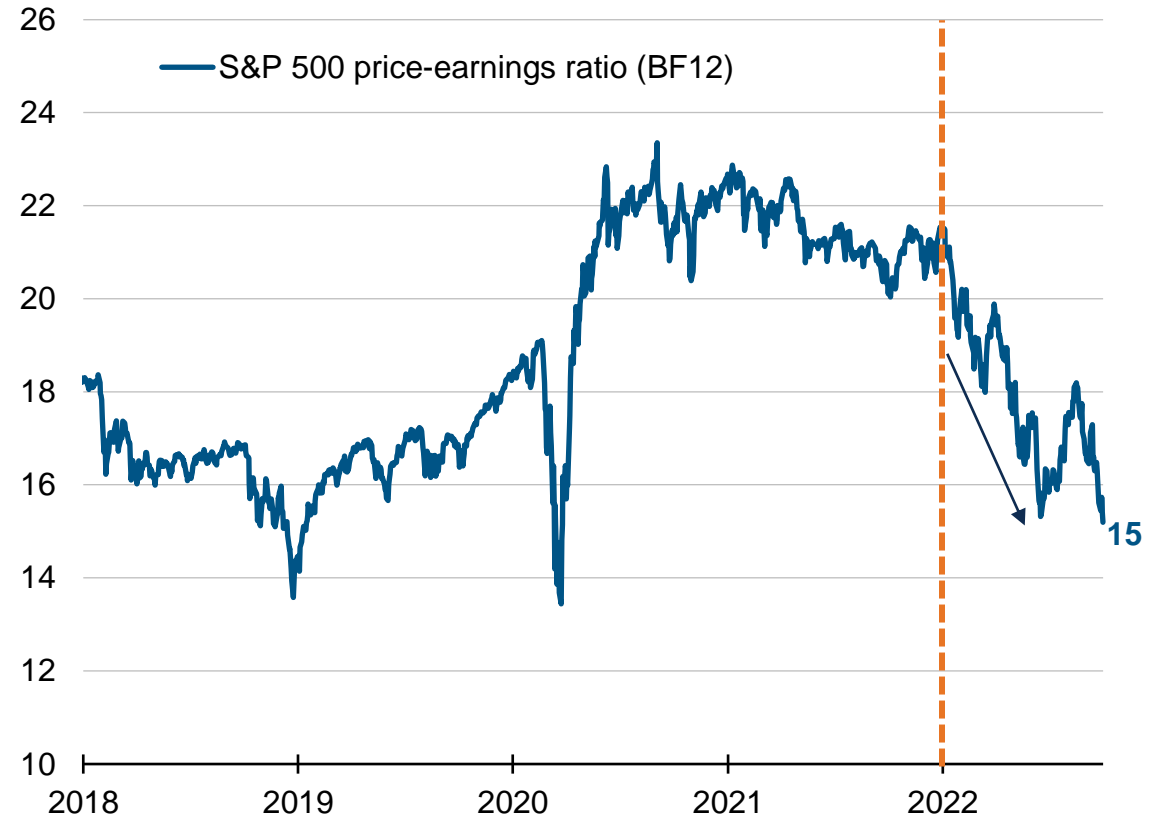
Source: FactSet October 13, 2022

Earnings estimates rolling over

Forward earnings have plateaued.
Will they drop?



Longer-term, valuations are looking
more attractive



Source: Bloomberg September 30, 2022.

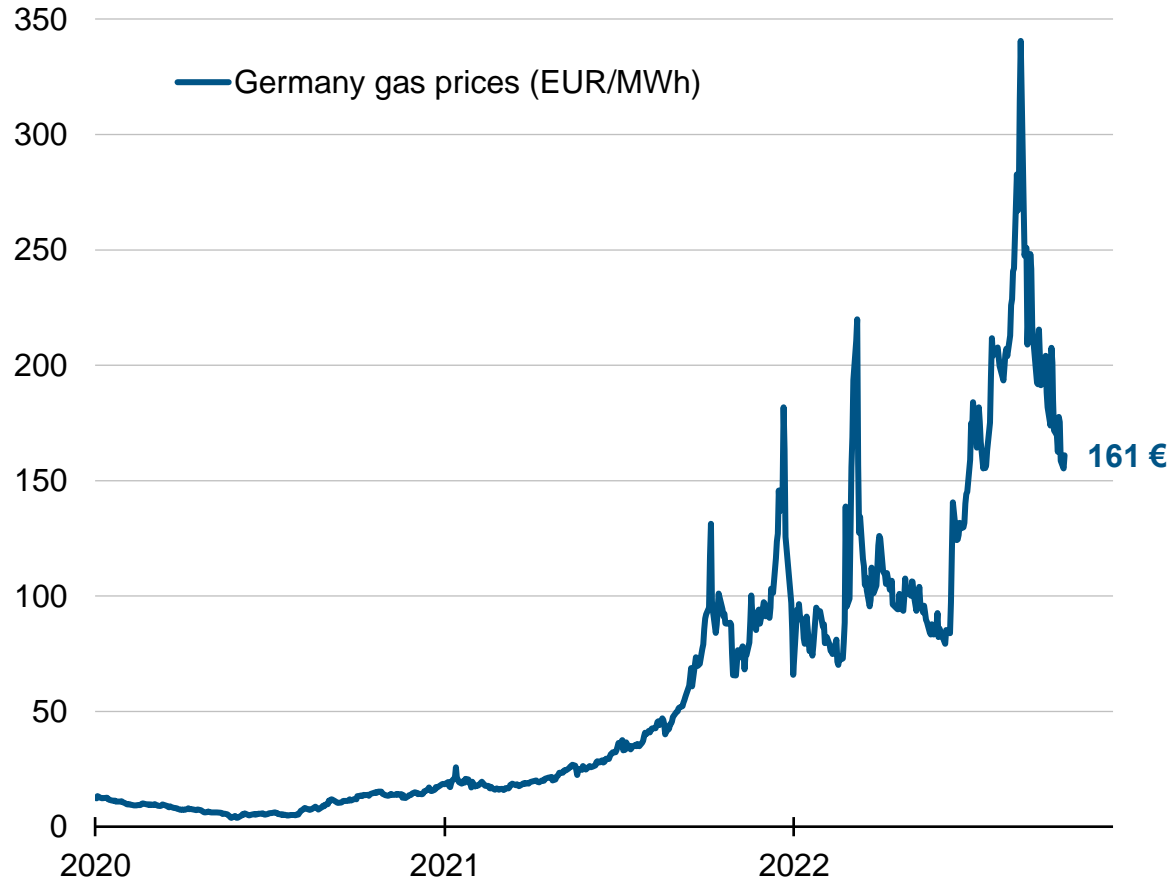
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4

Geopolitical wildcards

Conflict: Winter is coming for Europe

Electricity costs have surged across Europe



Source: Bloomberg, October 11, 2022.

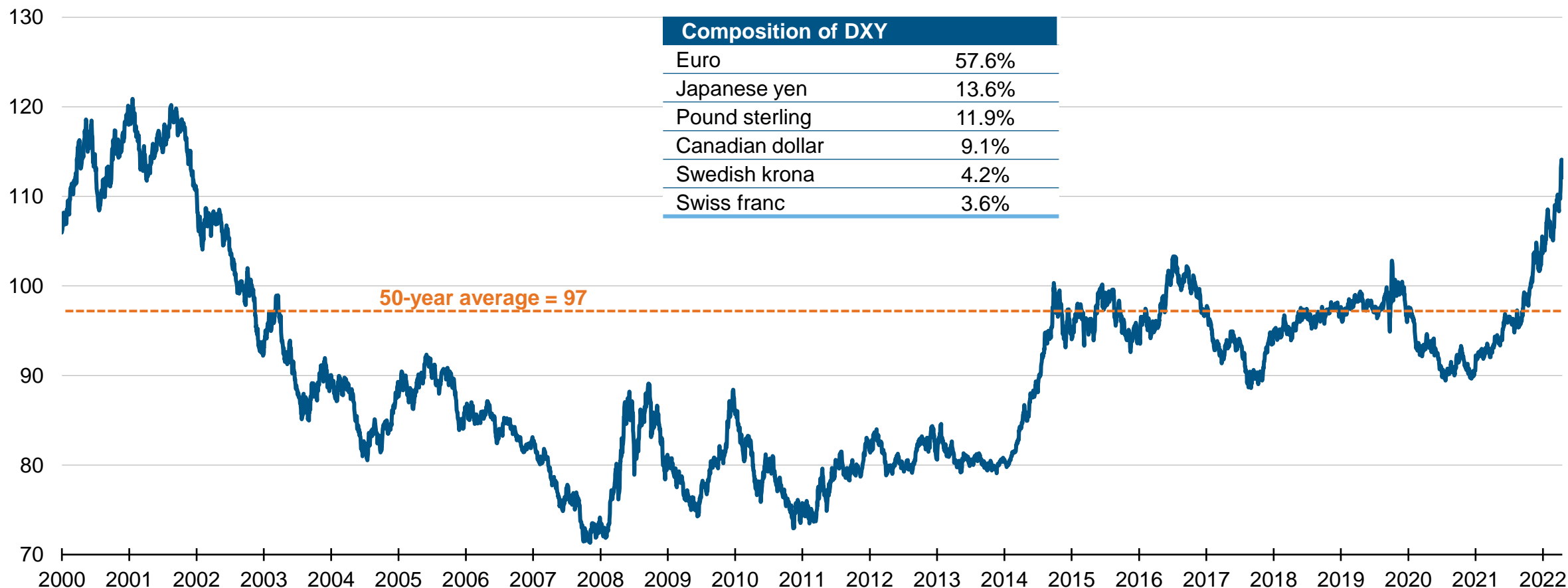
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Energy crisis in Europe

- Russia weaponizing energy exports
- Risk of fragmentation among Eurozone members
- Surging European energy costs can spread to North America
- Food insecurity worsens leading to political unrest
- Recession likely in Europe

Strong US dollar a headwind for emerging markets

US Dollar Index (DXY)



Source: Bloomberg, September 30, 2022.

China policies in conflict with global economic growth



US/China tensions escalate

- Potential for sanctions on China over Taiwan



Zero-Covid policy

- Rolling lockdowns continue to disrupt supply chains
- Demand for oil dropped for the first time in 30 years



Chinese property crisis

- Home prices continue to fall
- Mortgage payment strikes

5

Our conclusions



Resolution – our conclusions

Goldilocks era of investing is over



Inflation was muted

- Globalization, technology and productivity kept a lid on costs



Low inflation supported easy monetary policy

- Inflation remained at or below target rate



Geopolitical risks proved temporary

- No major events shifted fundamentals materially



ESG focus

- Climate change



Where the story is heading



Inflation will be stickier than expectations

- Portfolios should reflect inflation protection



Liquidity conditions will continue to tighten

- Risk off will be the dominant market trend
- Align portfolios with risk tolerance



Geopolitical risks remain

- Favours lower volatility, dividend paying investments



Energy transition

- Energy security and social issues

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