

# 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

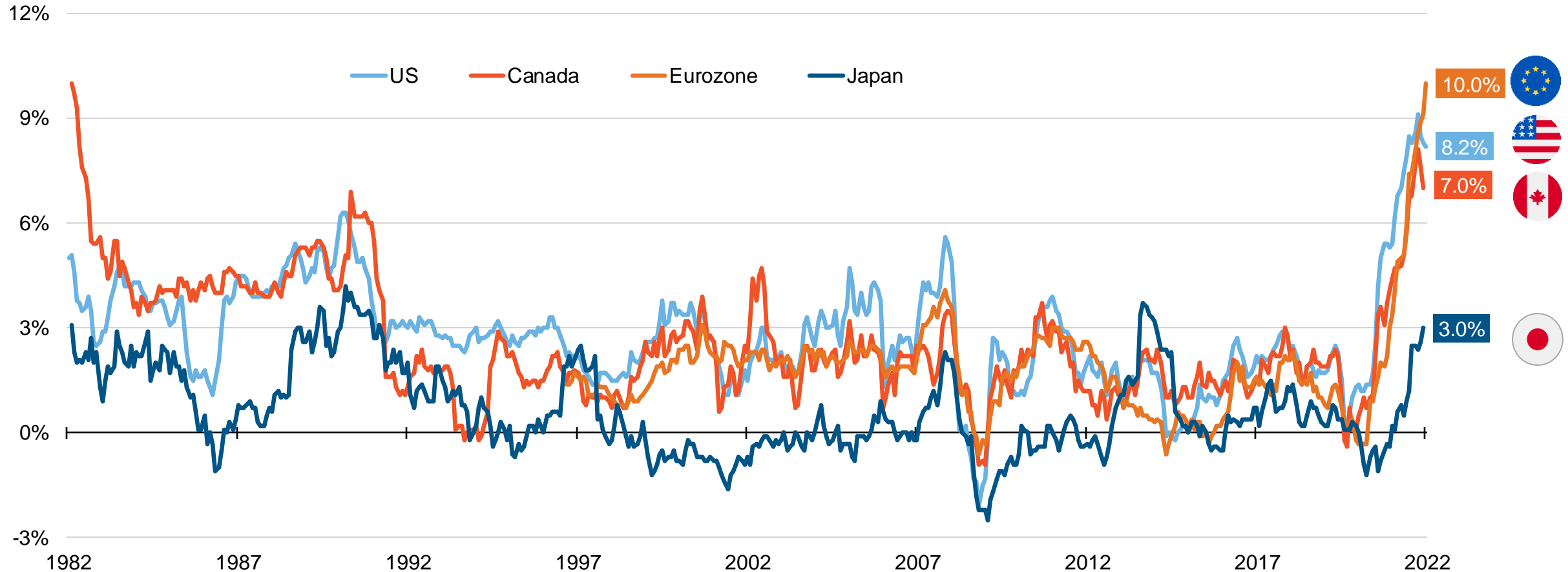
**Resolution:** Our conclusions

1

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

# Inflation – sticky inflation dominates the setting

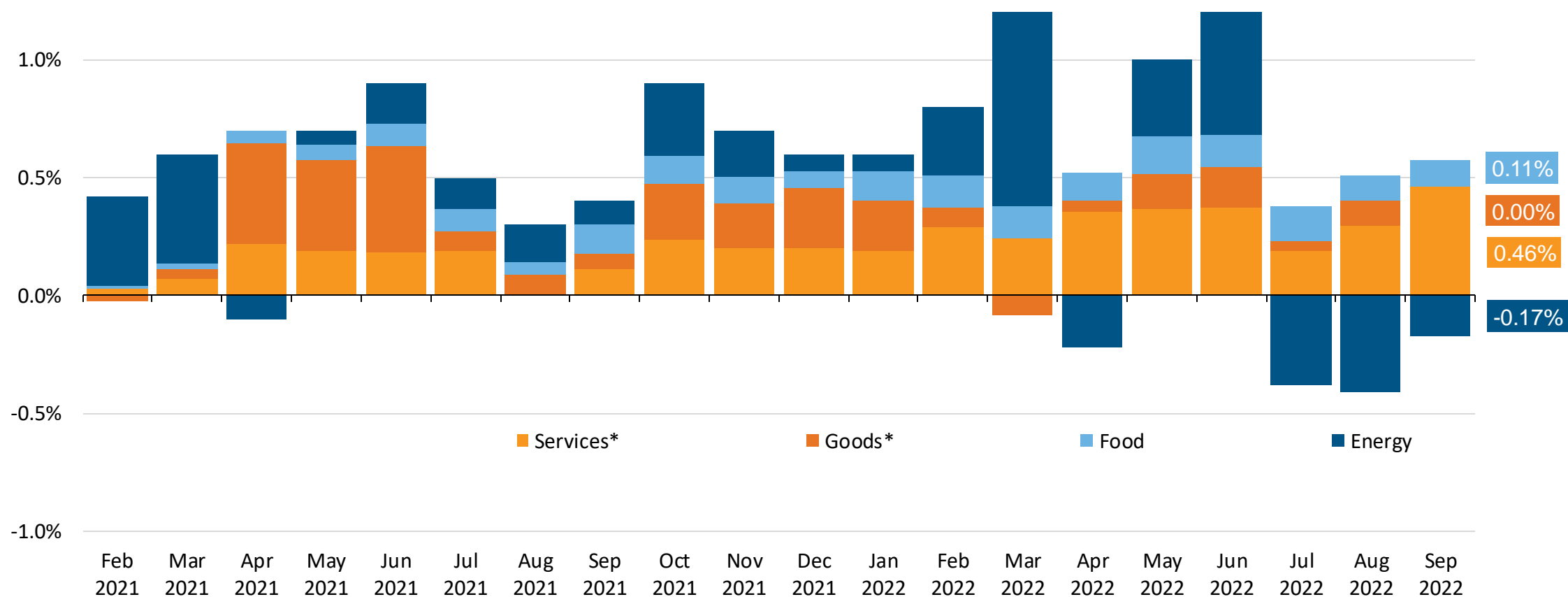
## Headline inflation rates (YoY %)



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

# Inflation pressure is broader than energy

US CPI contribution breakdown (m/m %)

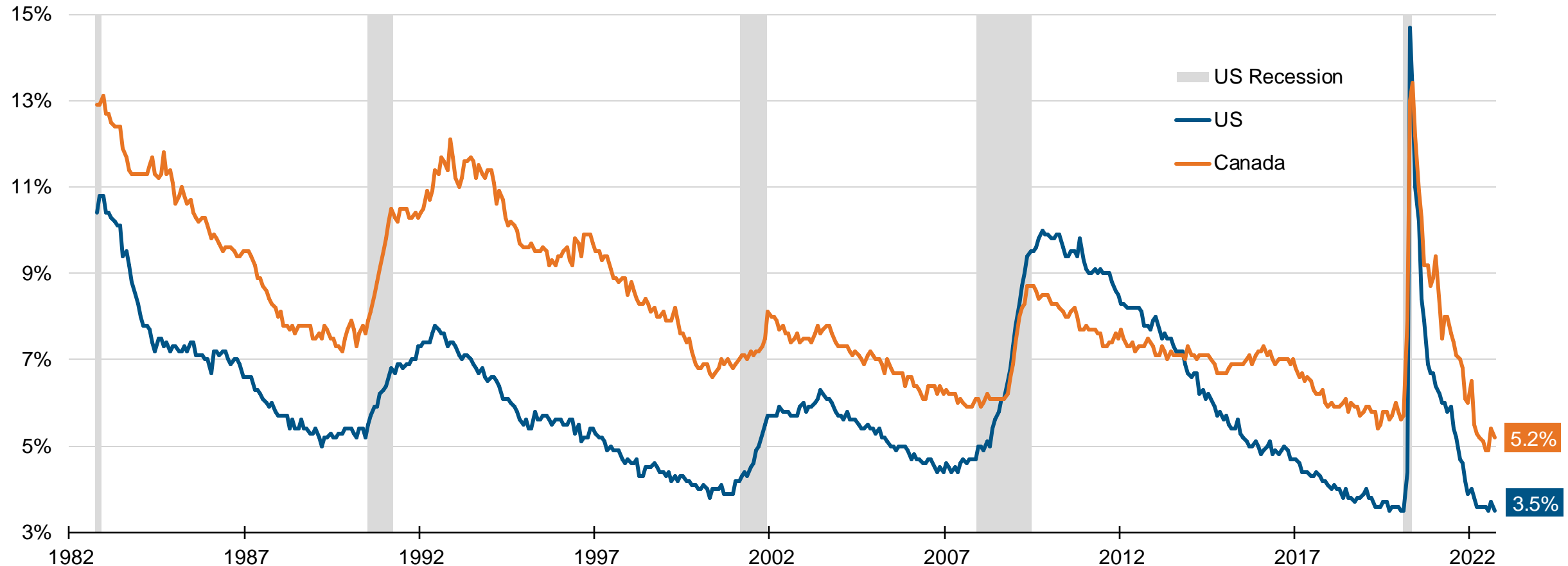


\*Excluding food and energy

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

# Tight labour markets are adding to the inflation narrative

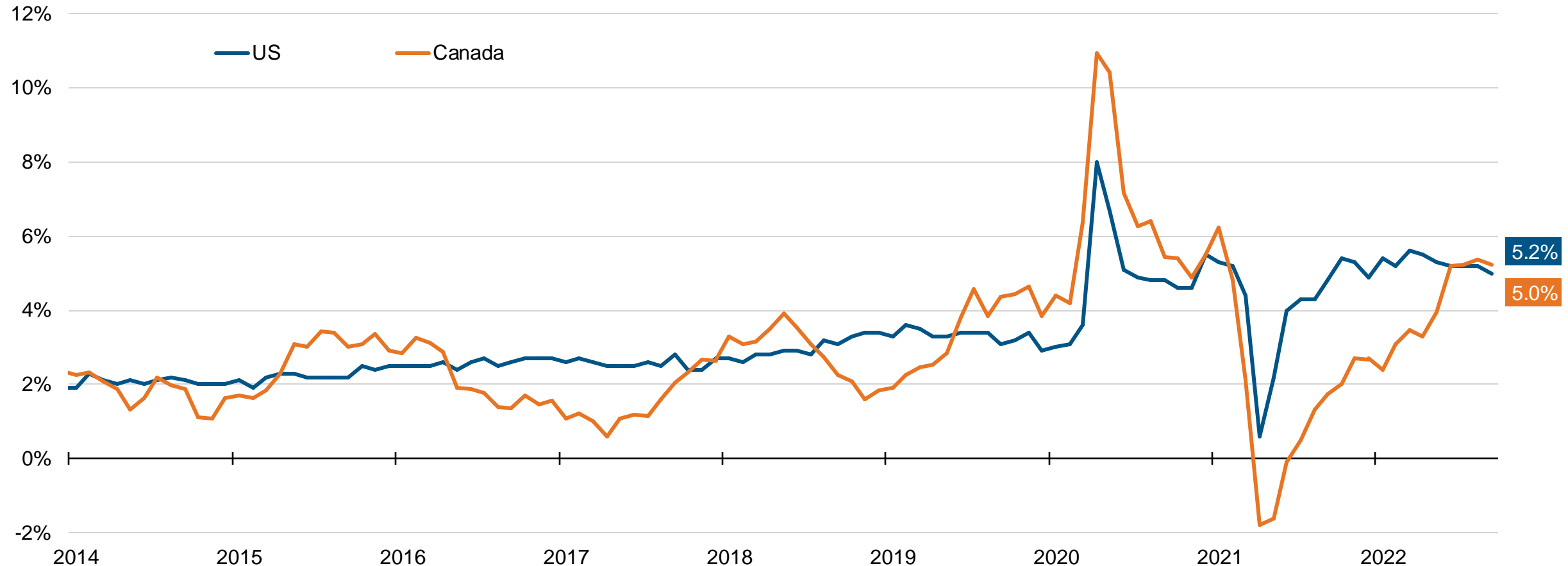
## Canada & US unemployment rates



Source: Bloomberg, September 2022.

# Wage increases also support inflation

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

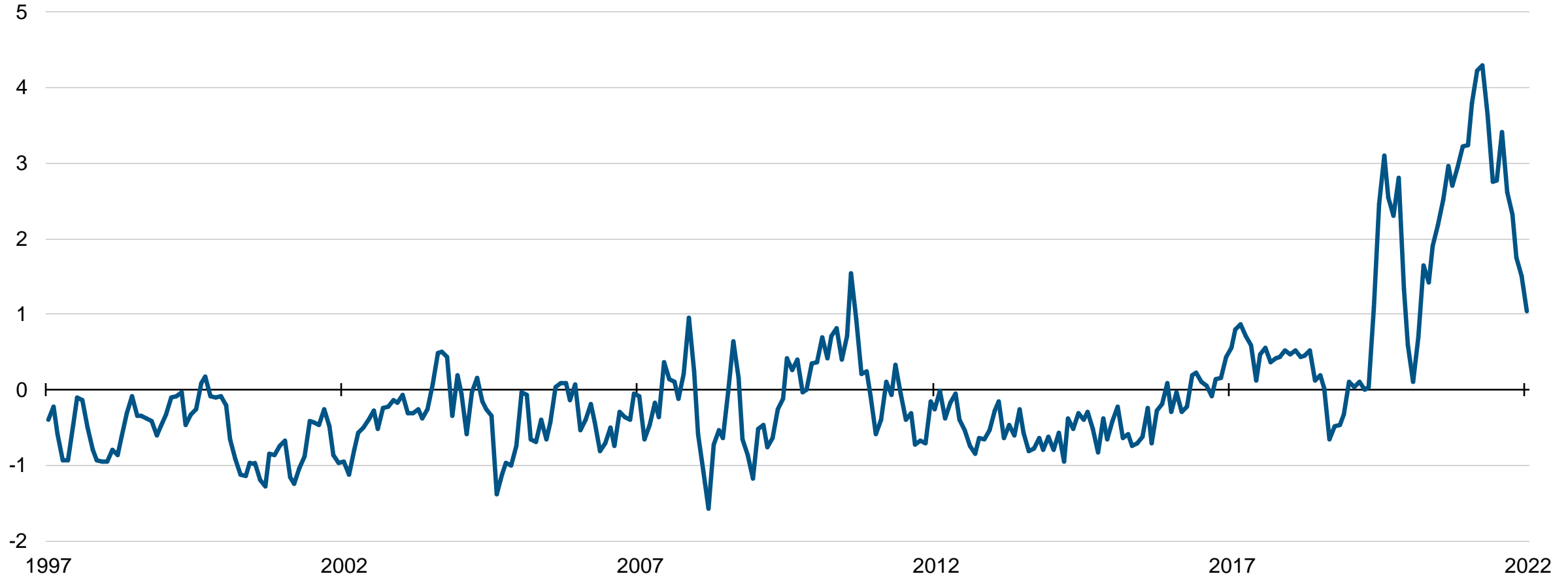


Source: Bloomberg, September 2022.



# 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

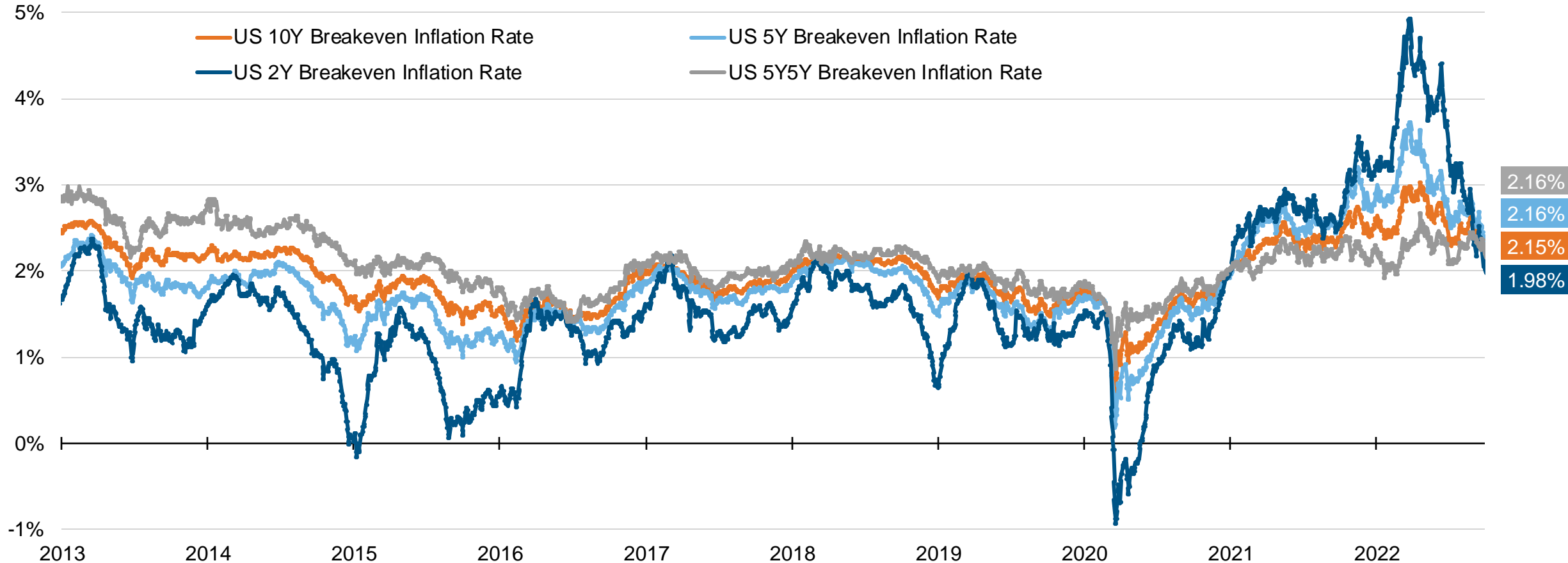
## Bloomberg Commodity Index



Source: Bloomberg, September 30, 2022.

# Market expectations for inflation have eased

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



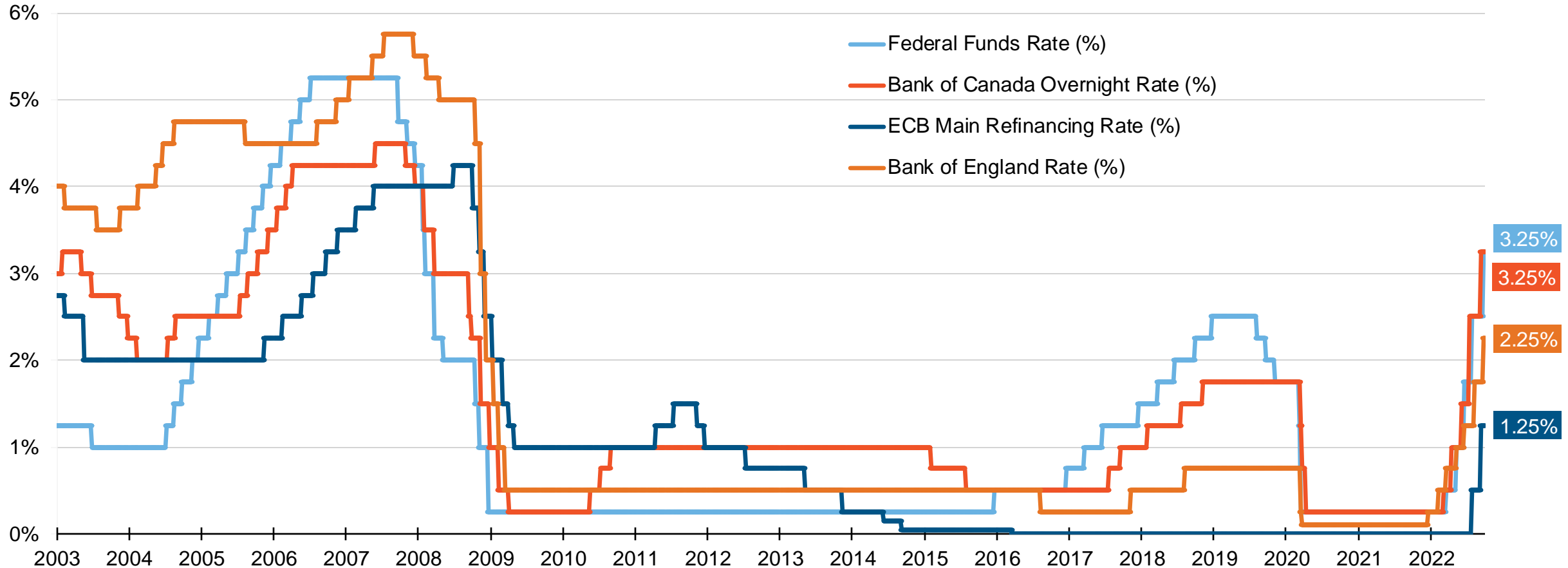
Source: Bloomberg, September 30, 2022.

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# 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

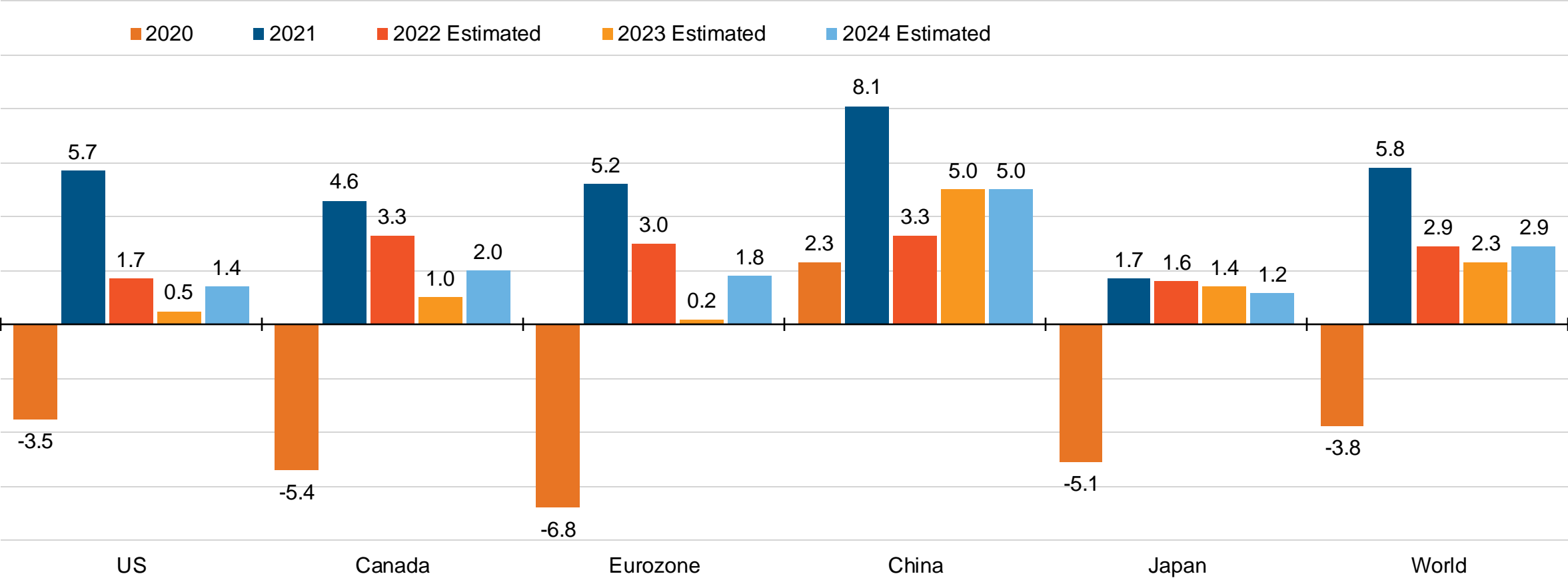
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# Economic slowdown – how broad, how deep



# Slowing economic backdrop shapes the plot of our story

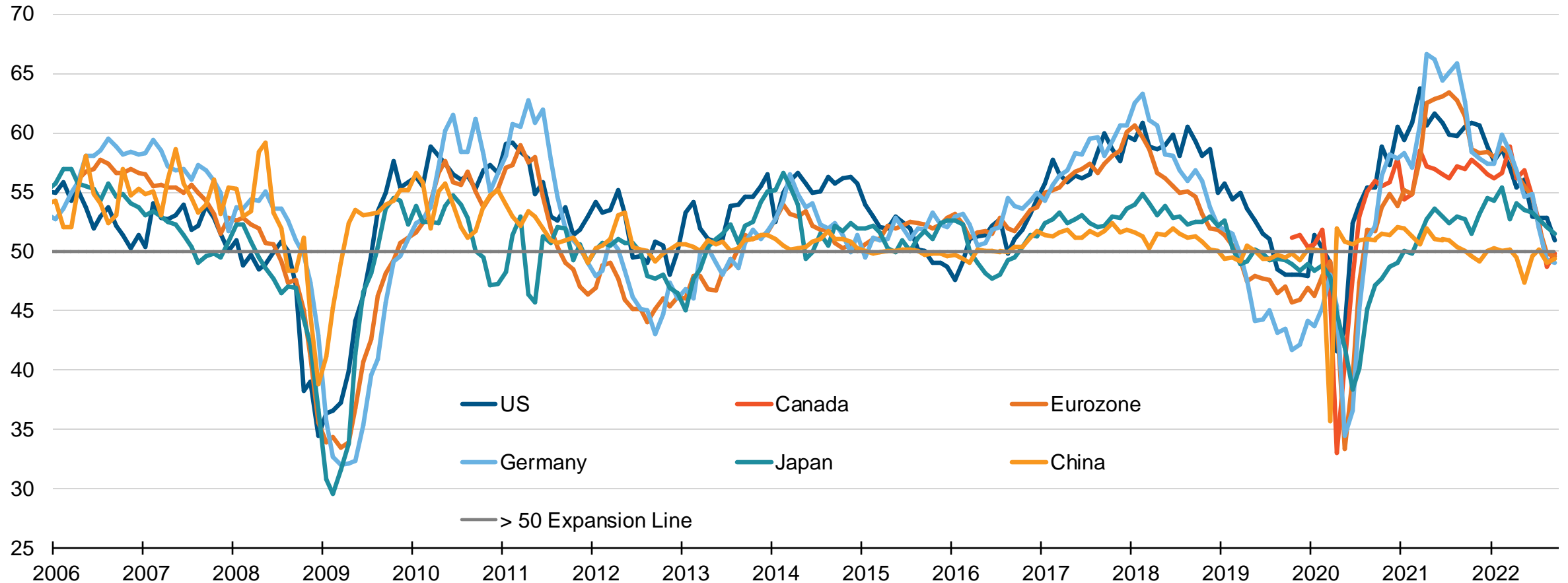
Real GDP growth (y/y % change)



Source: Bloomberg, October 2022.

# PMIs confirming a slowing trend

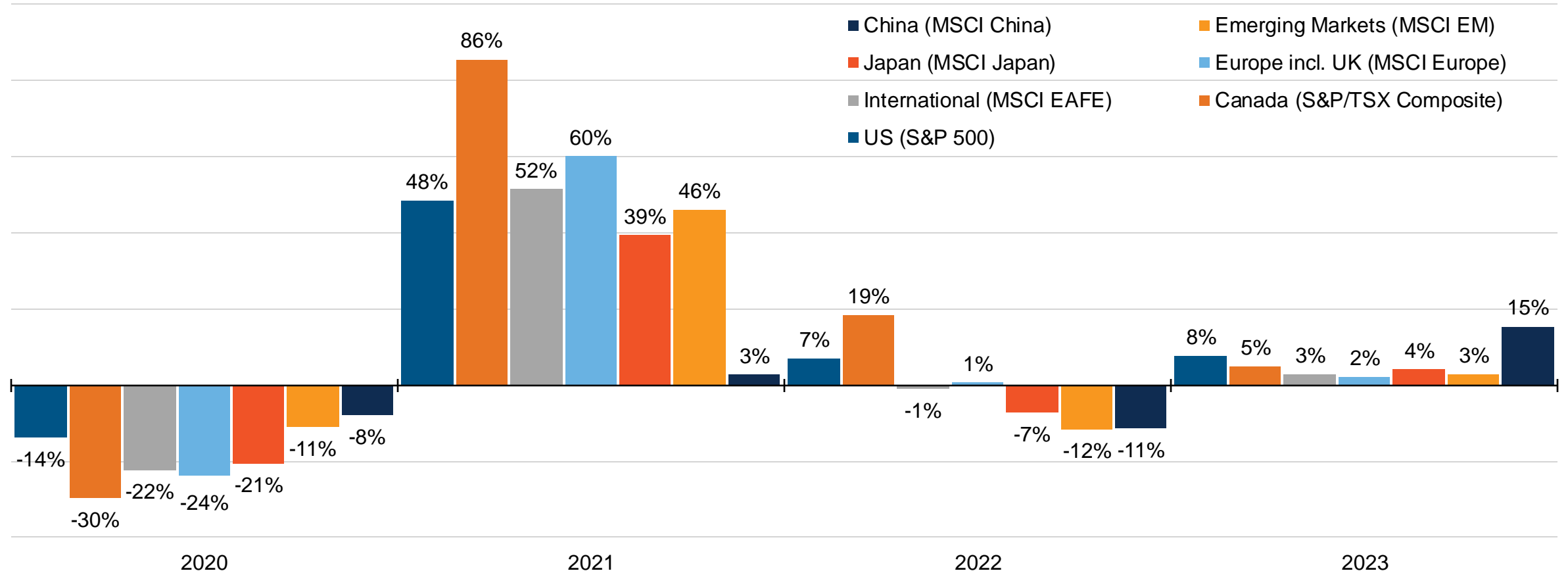
## Global manufacturing purchasing manager indices



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)

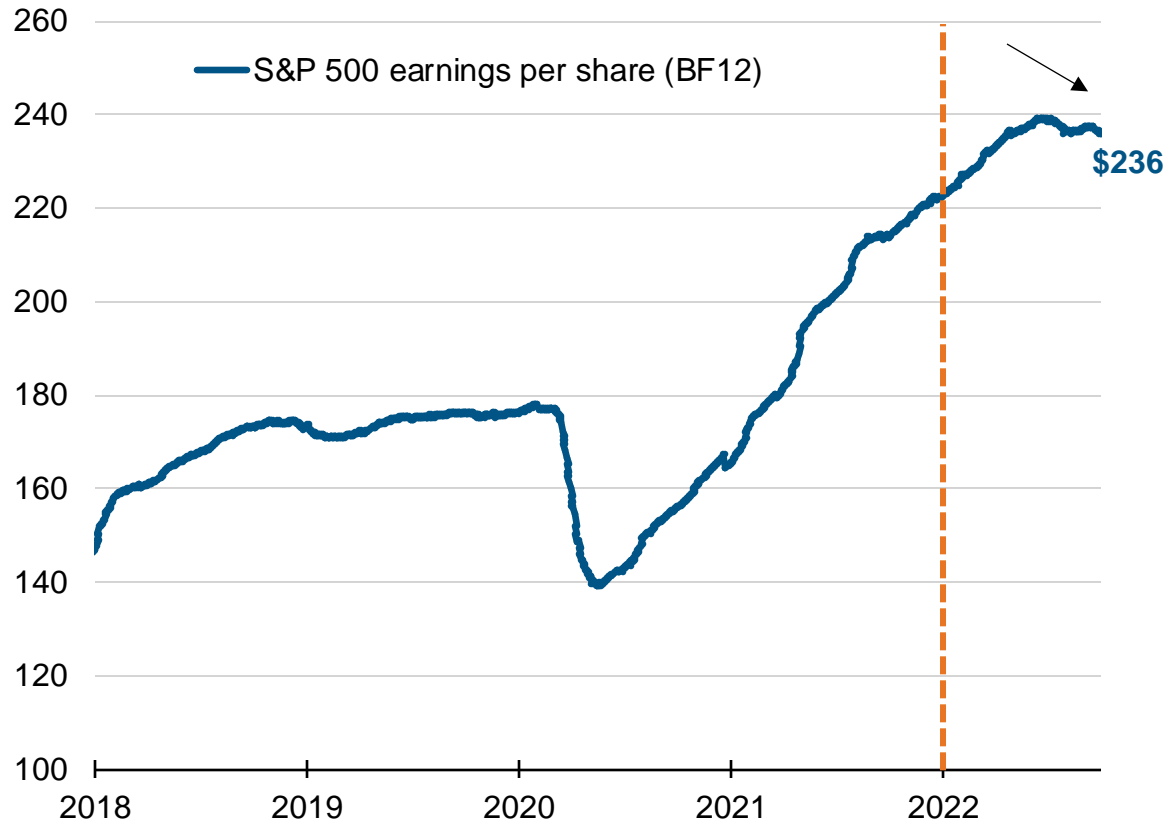


Source: FactSet October 13, 2022

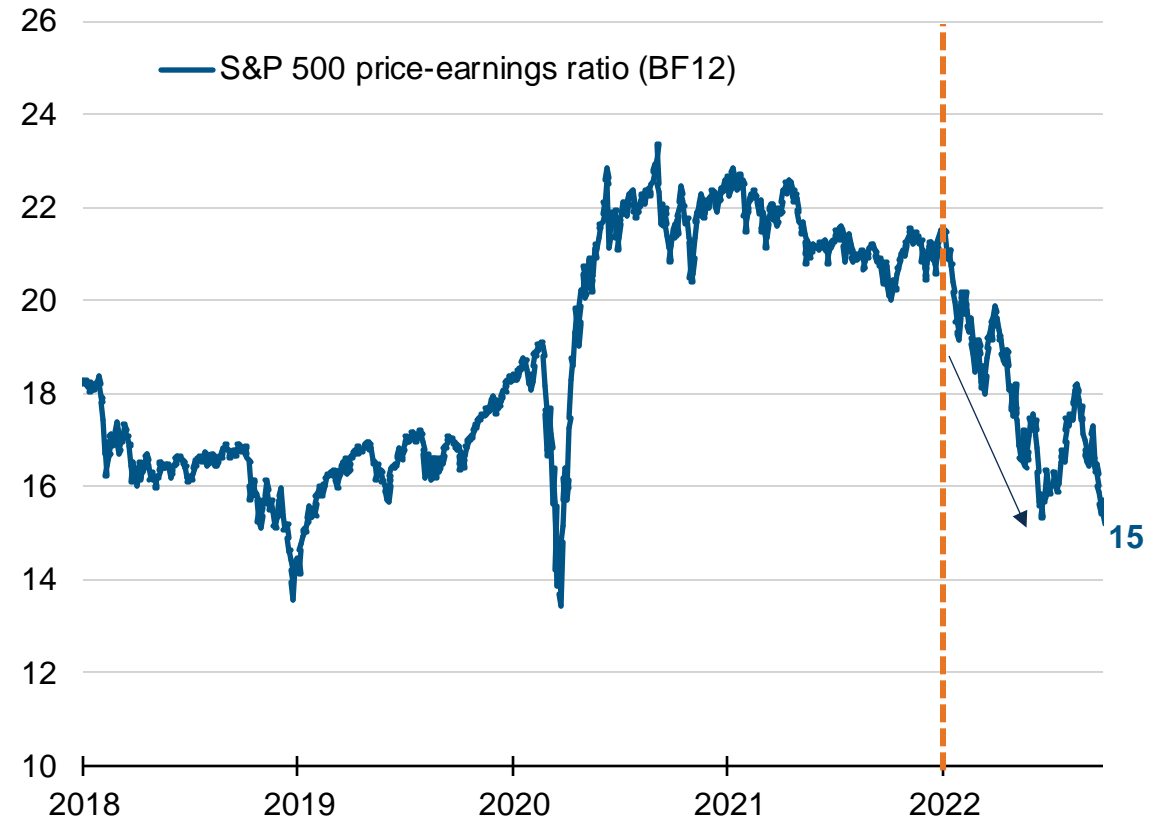
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# Earnings estimates rolling over

Forward earnings have plateaued.  
Will they drop?



Longer-term, valuations are looking  
more attractive



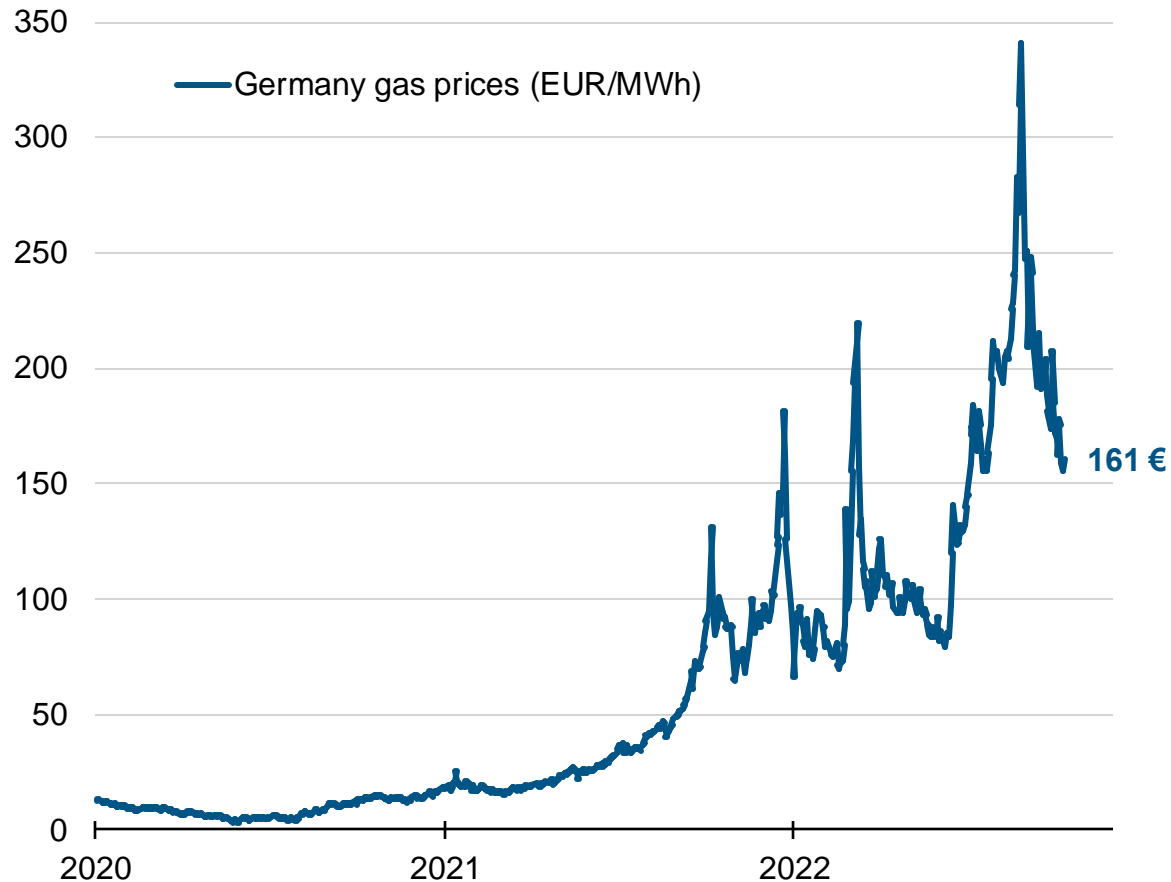
Source: Bloomberg September 30, 2022.

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# Geopolitical wildcards

# Conflict: Winter is coming for Europe

## Electricity costs have surged across Europe



Source: Bloomberg, October 11, 2022.

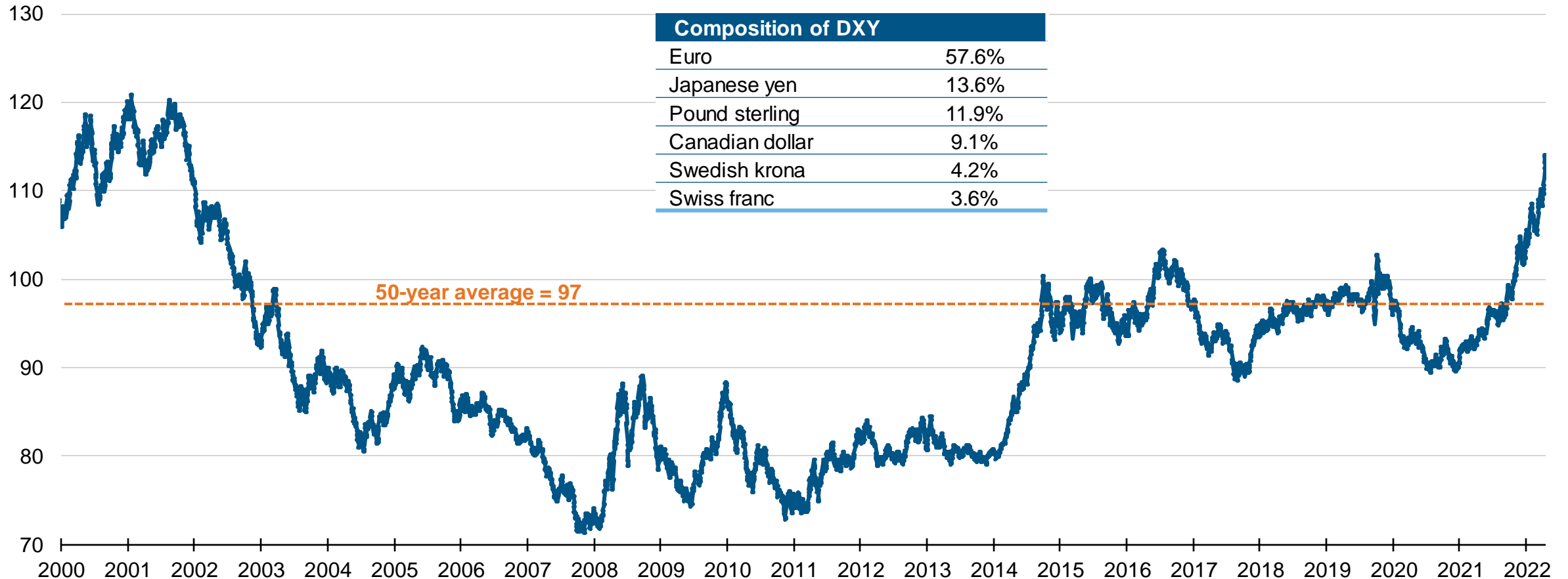
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## Energy crisis in Europe

- 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



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# 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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