

Due Diligence

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

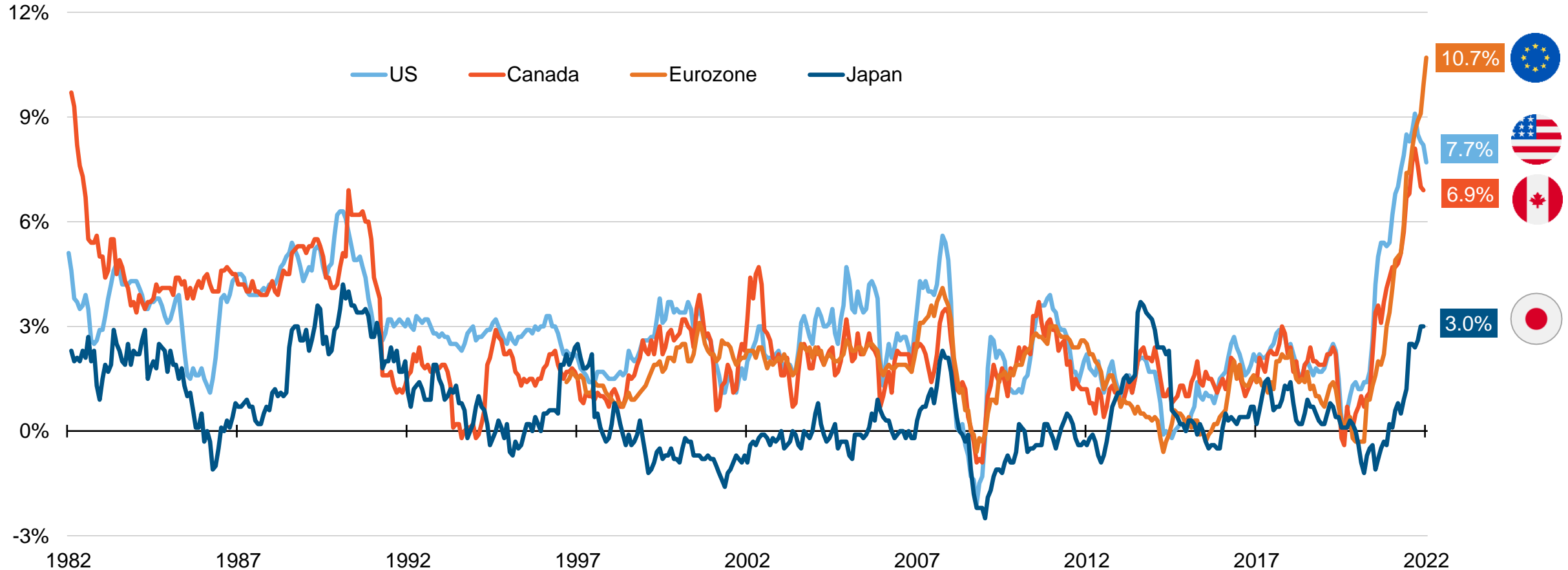
Investing in the post-Goldilocks era

1

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

Inflation – sticky inflation dominates the setting

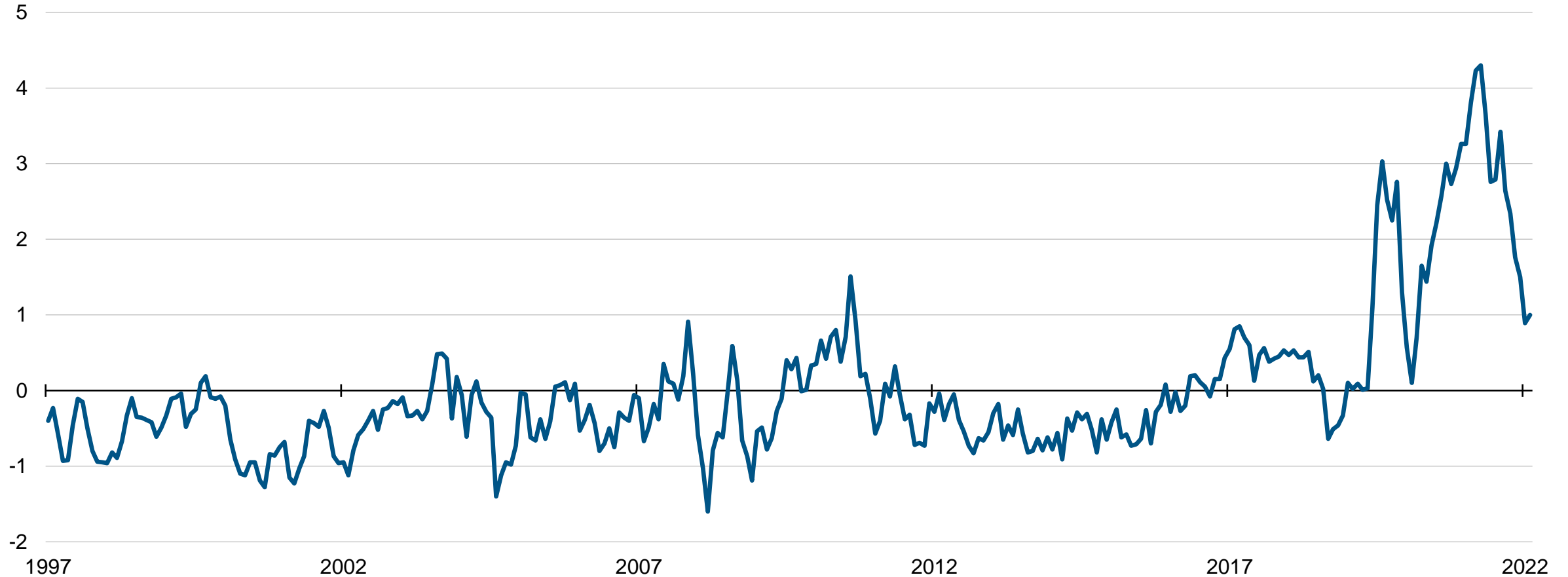
Headline inflation rates (YoY %)



Source: Bloomberg, Canada and Japan September 2022; US and Eurozone October 2022.

Global supply chain has improved

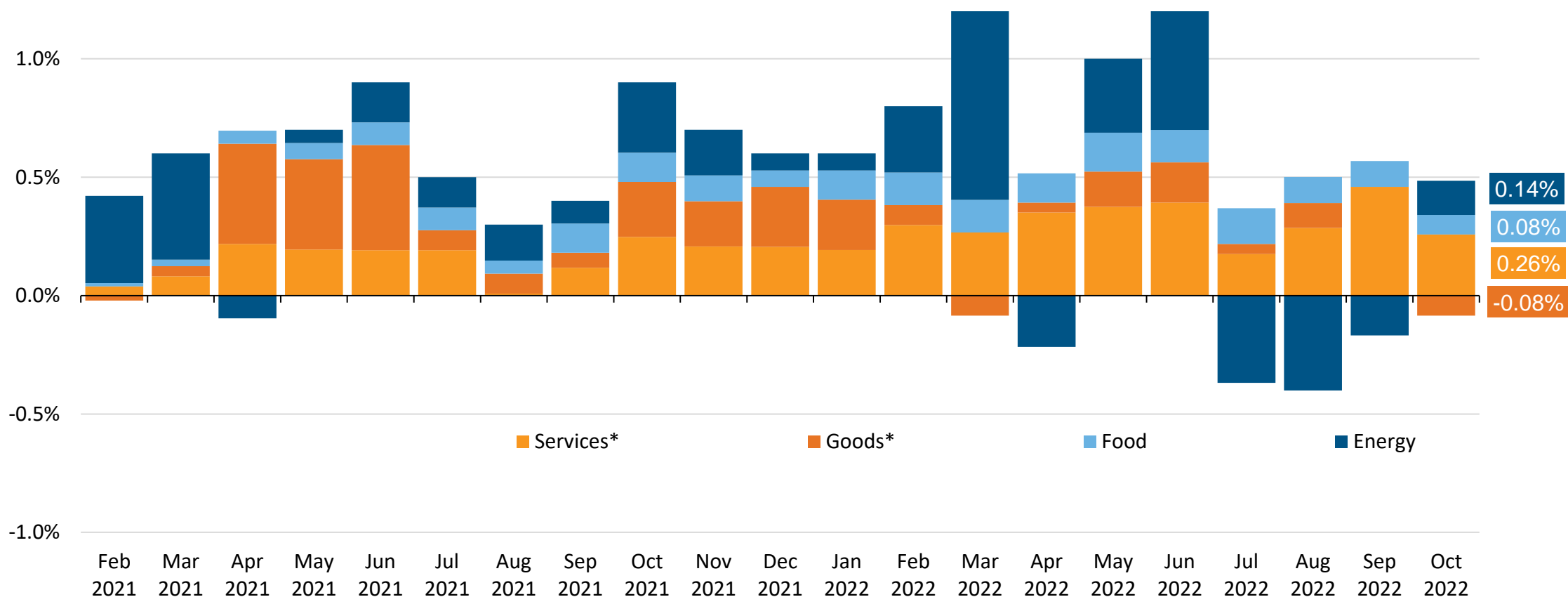
New York Fed supply chain pressure index



Source: Bloomberg, October 2022.

Inflation pressure is broader than energy

US CPI contribution breakdown (m/m %)

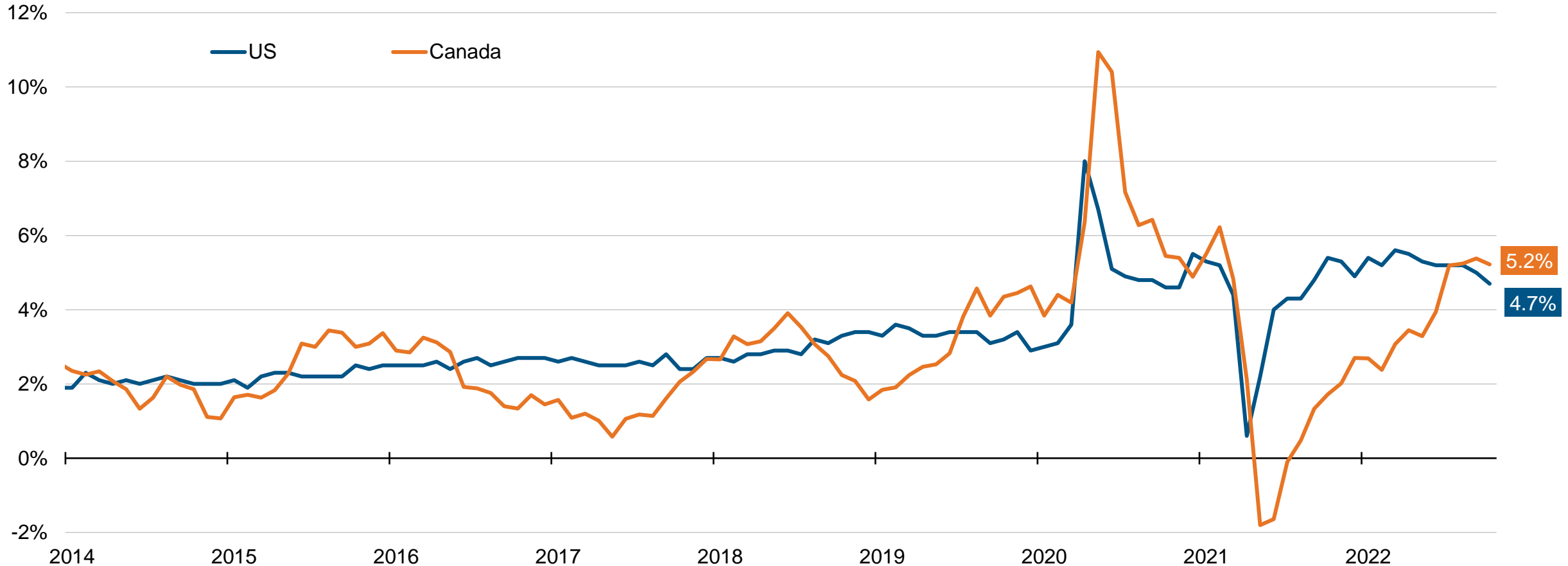


*Excluding food and energy

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

Wage increases also support inflation

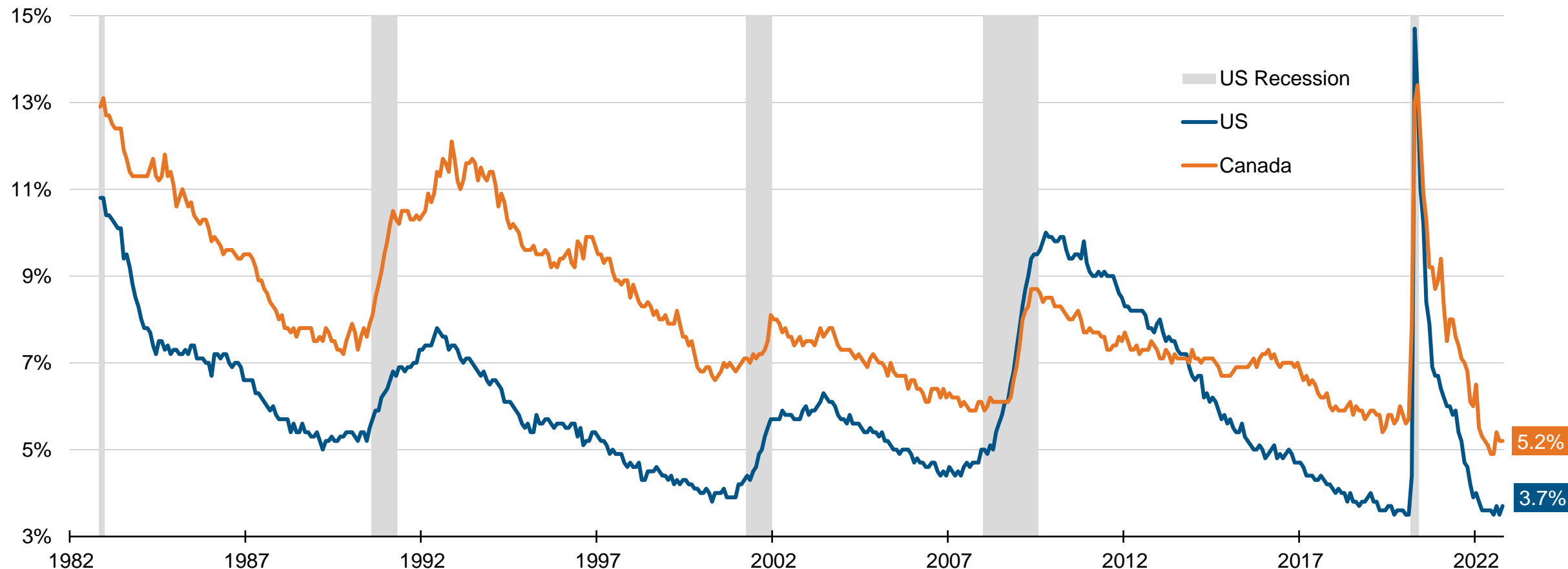
Canadian average hourly wages vs. US average hourly wages (Y/Y % change)



Source: Bloomberg, October 2022.

Tight labour markets are adding to the inflation narrative

Canada & US unemployment rates



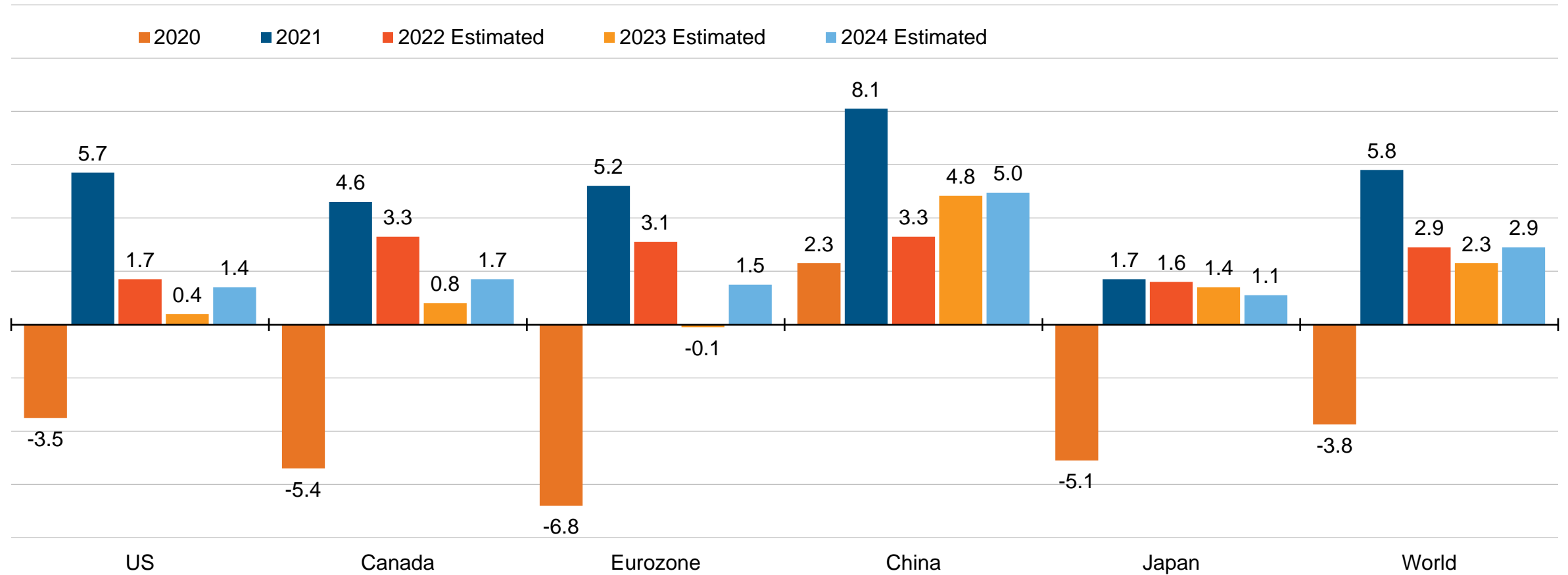
Source: Bloomberg, October 2022.

2

Economic slowdown – how broad, how deep

Slowing economic backdrop shapes the plot of our story

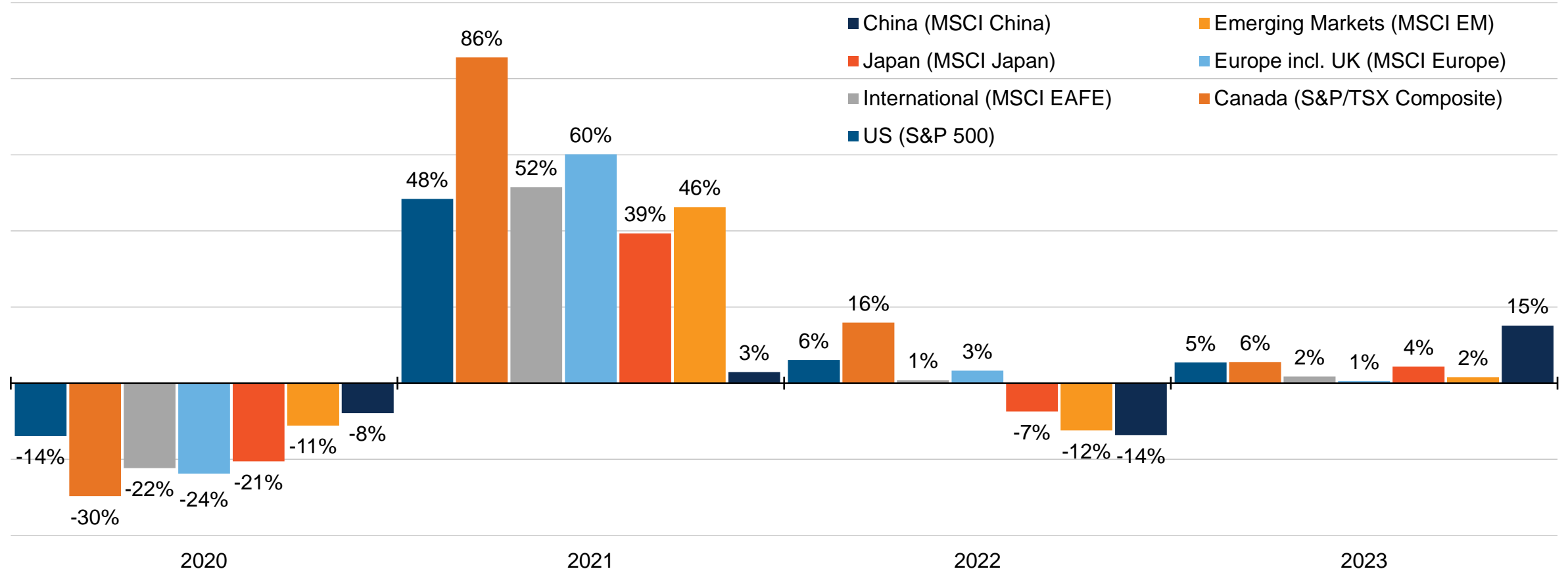
Real GDP growth (y/y % change)



Source: Bloomberg, November 2022.

Global earnings growth slowing

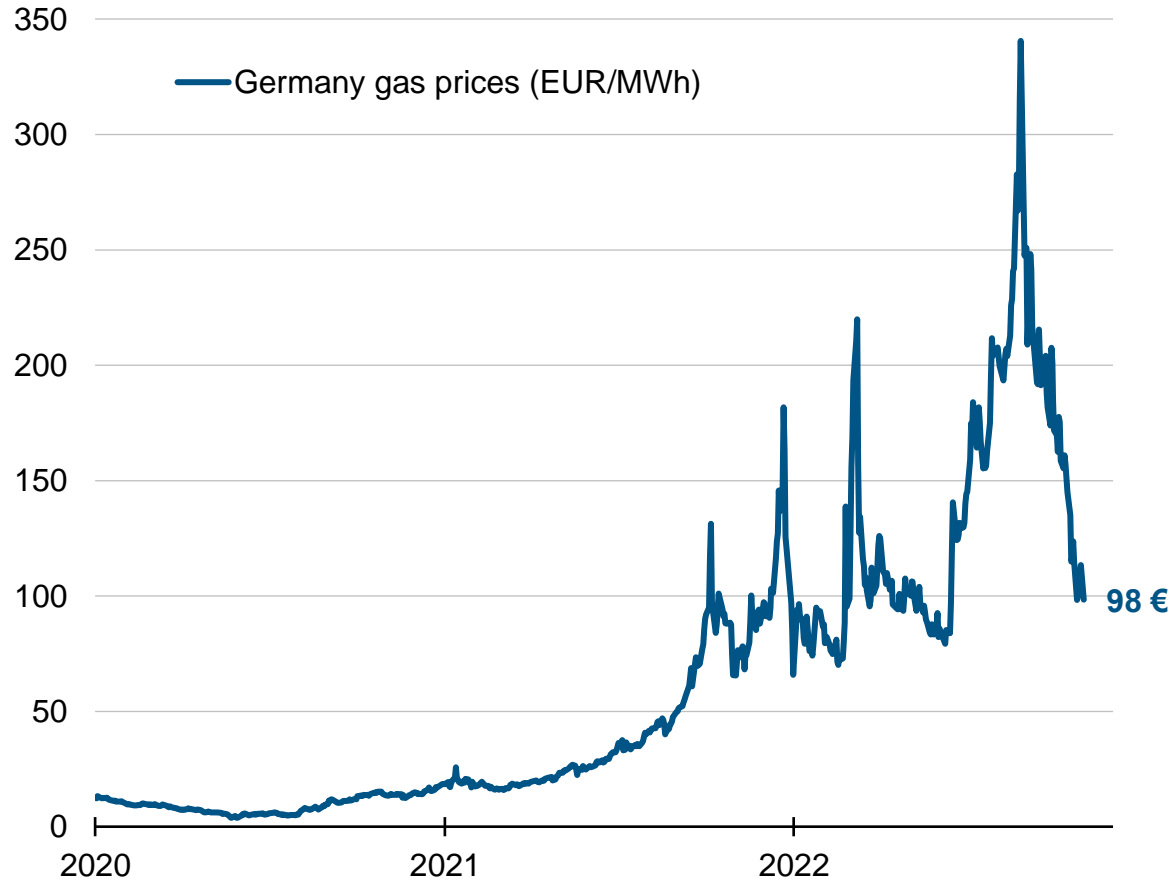
Earnings growth Y/Y % change (consensus forecasts)



Source: FactSet November 8, 2022

Conflict: Winter is coming for Europe

Electricity costs have surged across Europe



Source: Bloomberg, October 31, 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

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

3

Central bankers – no “pain” no gain

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”

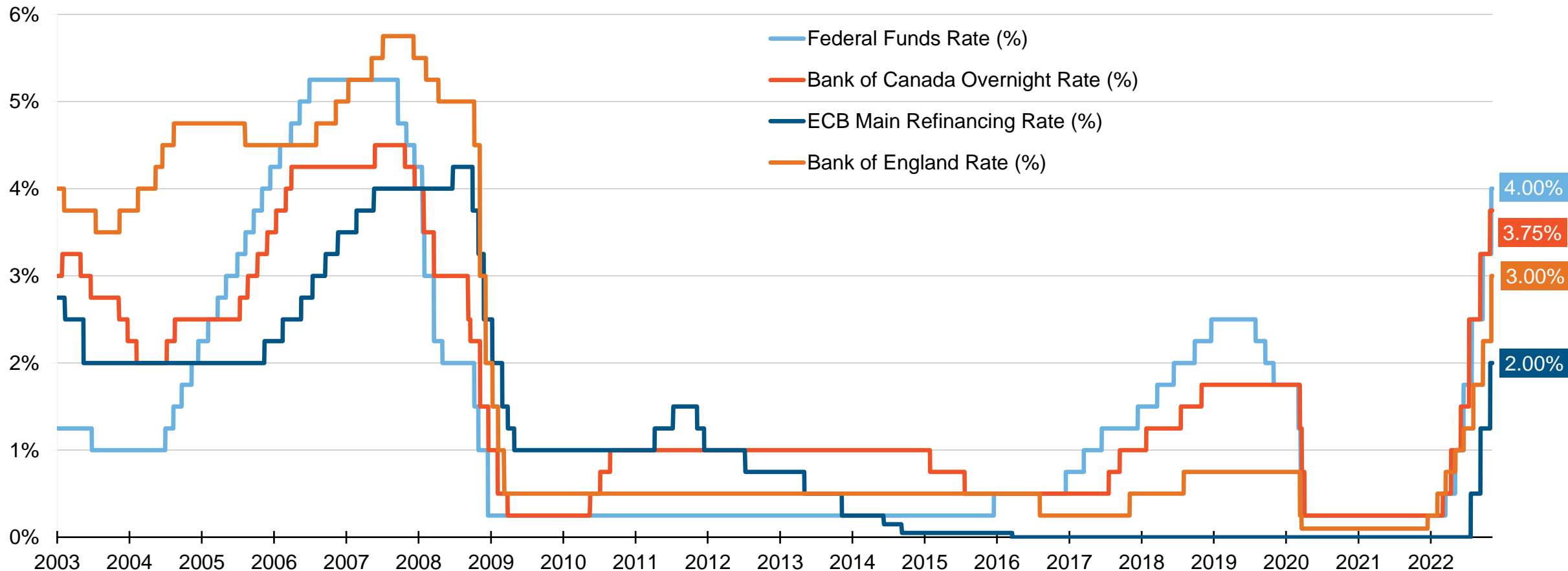
– ECB monetary policy decision and statement, September 8, 2022

“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

Central bankers are the central 'characters'

Global central bank overnight rates



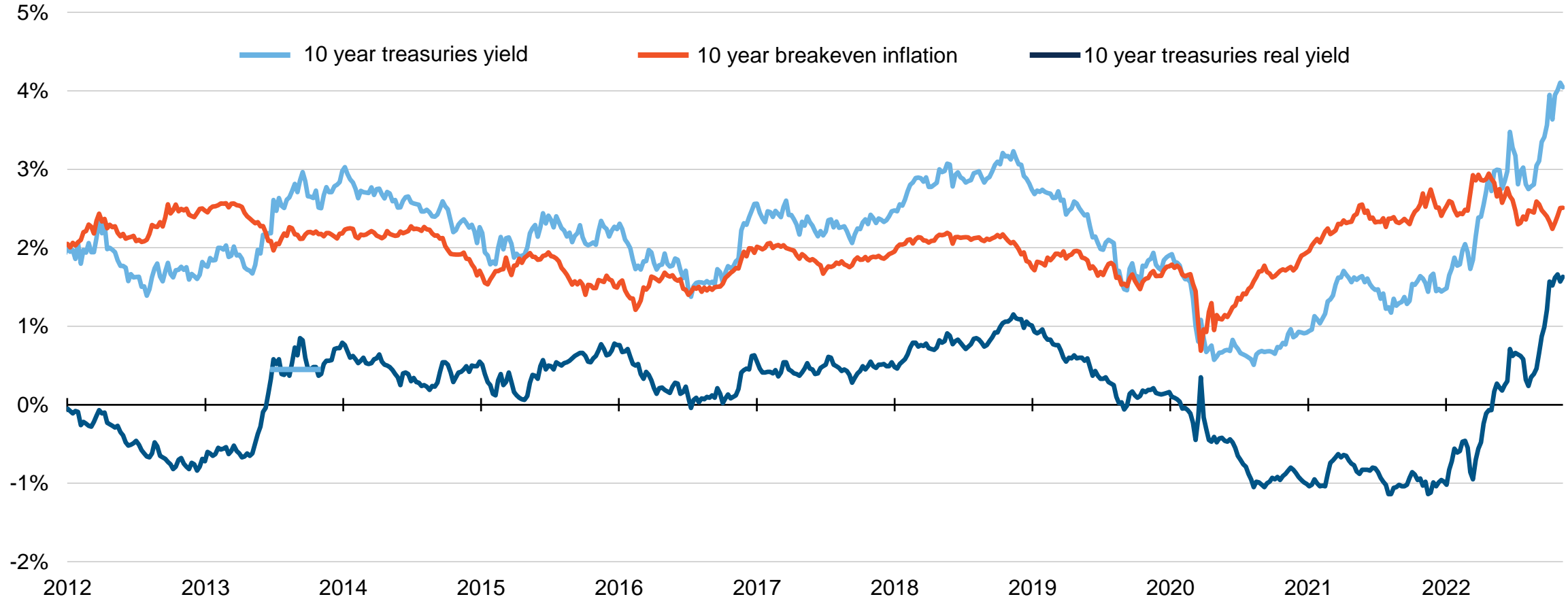
Source: Bloomberg, November 7, 2022.

4

Attractive valuations

Bonds offer an attractive real rate

Breakdown of 10-year Treasury bond yields



Source : Bloomberg, November 8, 2022.

Earnings estimates rolling over

Forward earnings have plateaued.
Will they drop?



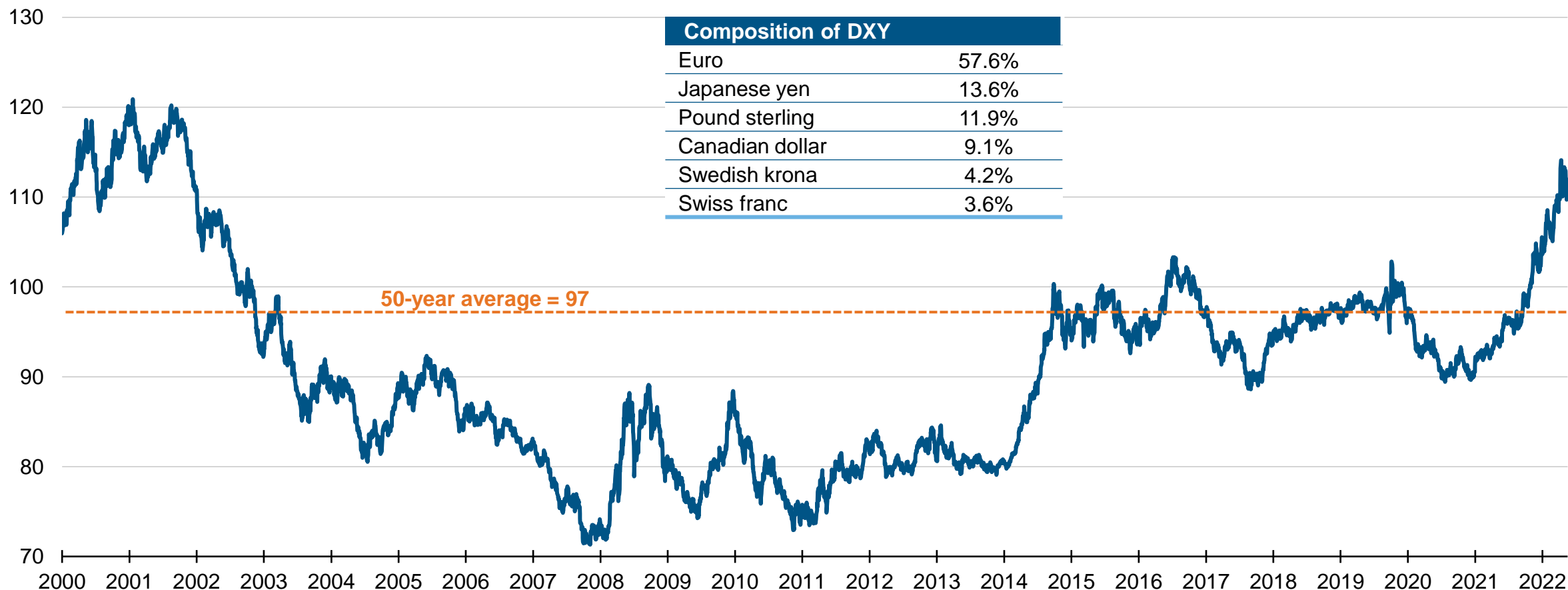
Longer-term, valuations are looking
more attractive



Source: Bloomberg November 7, 2022.

Strong US dollar a headwind for emerging markets

US Dollar Index (DXY)



Source: Bloomberg, October 31, 2022.

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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