

# 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

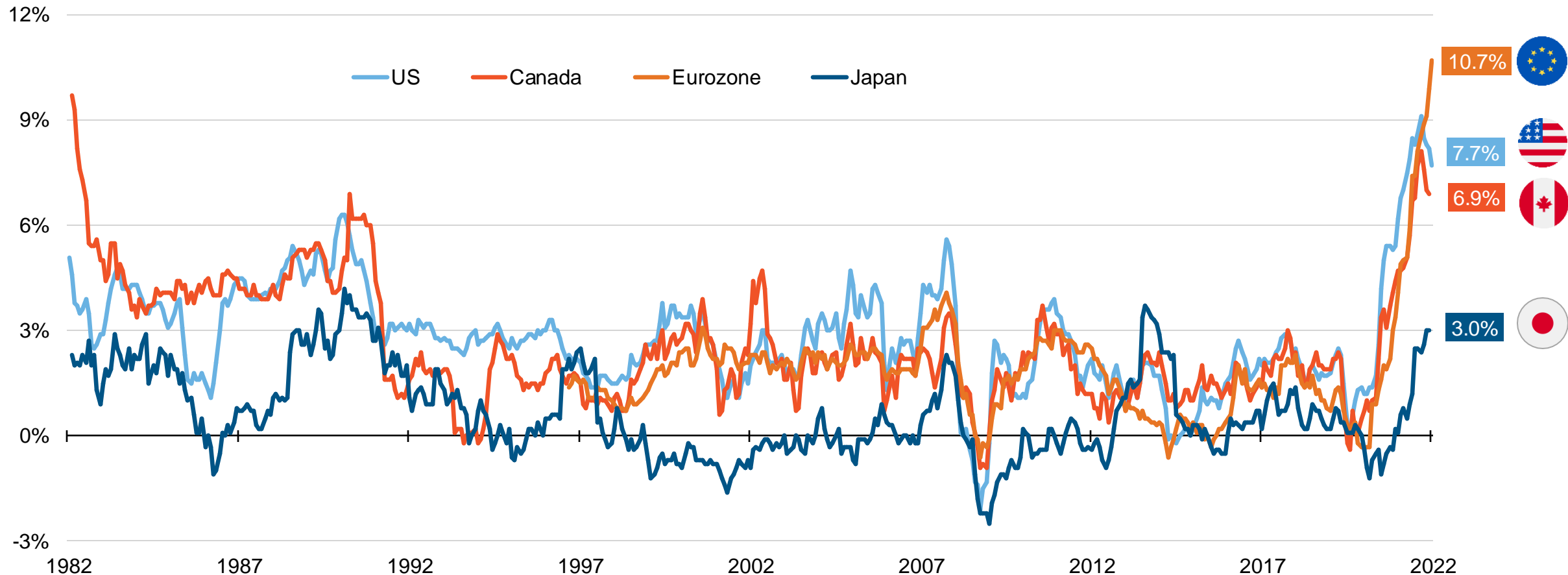
**Resolution:** Our conclusions

1

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

# Inflation – sticky inflation dominates the setting

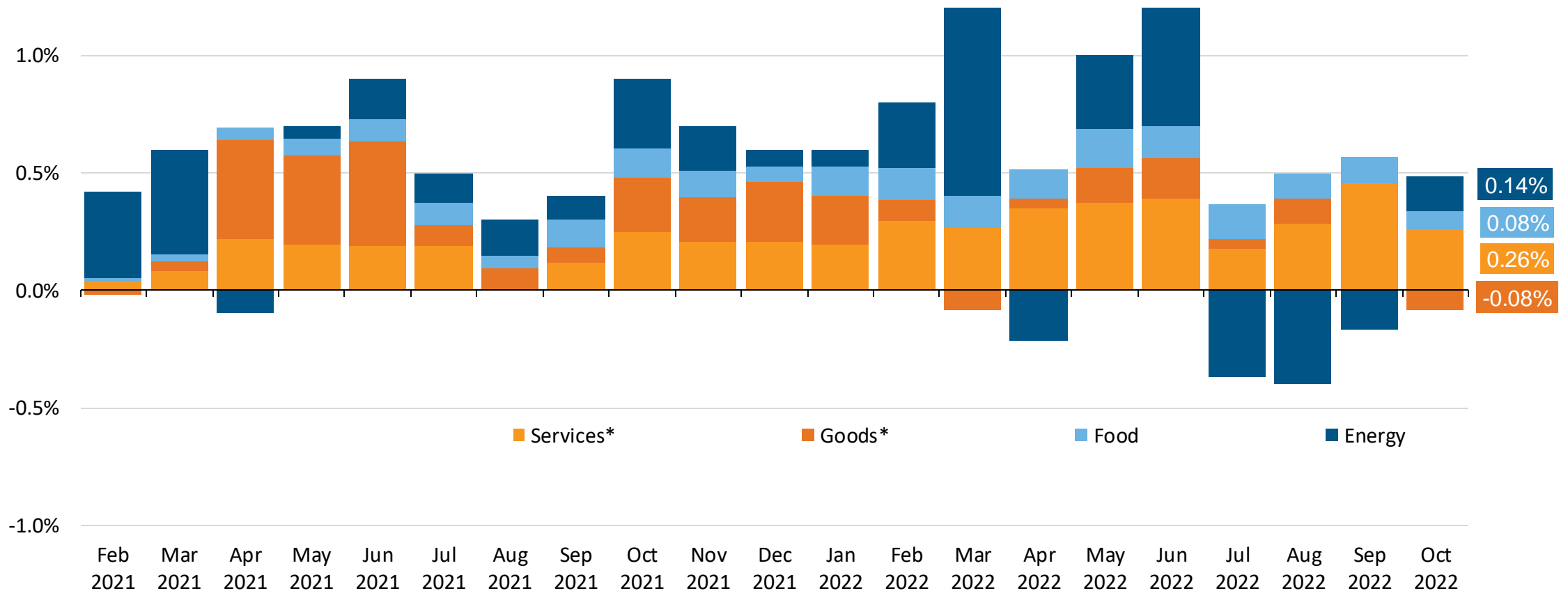
## Headline inflation rates (YoY %)



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

# Inflation pressure is broader than energy

## US CPI contribution breakdown (m/m %)

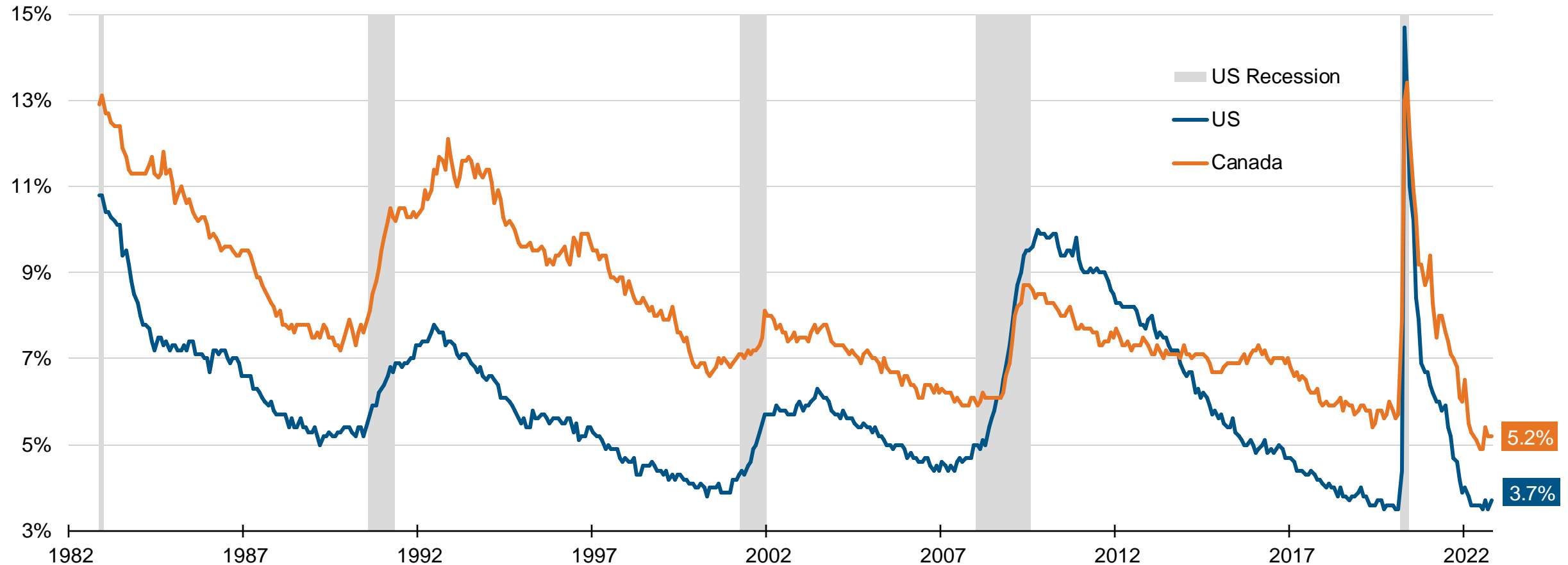


\*Excluding food and energy

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

# Tight labour markets are adding to the inflation narrative

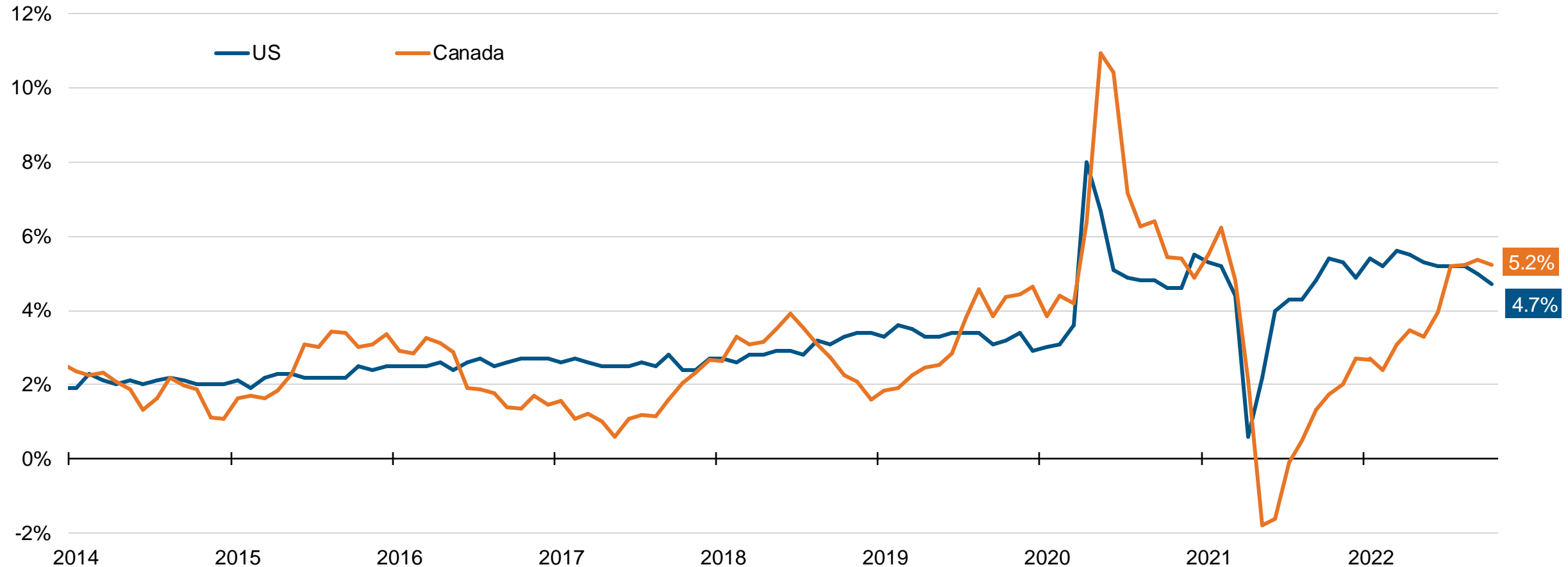
## Canada & US unemployment rates



Source: Bloomberg, October 2022.

# Wage increases also support inflation

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

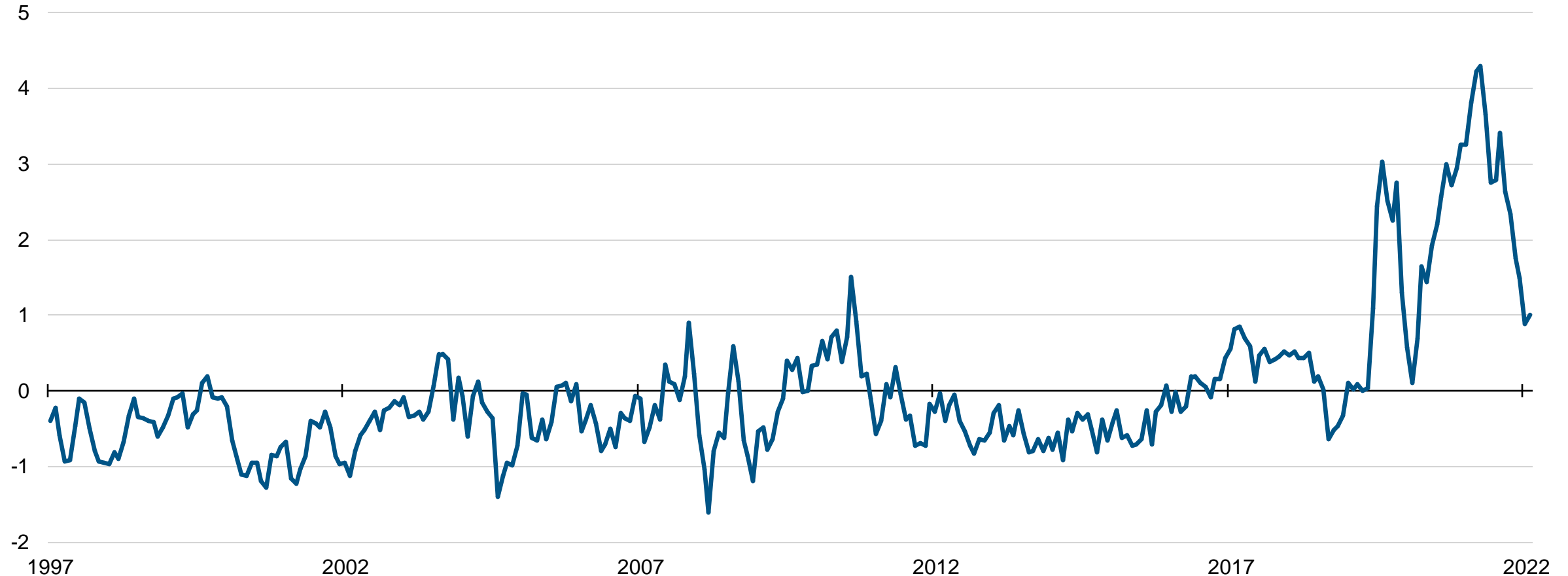


Source: Bloomberg, October 2022.



# Global supply chain has improved

## New York Fed supply chain pressure index



Source: Bloomberg, October 2022.

# U.S. inventory cycle more balanced

ISM manufacturing new orders less customers' inventory



Source: Bloomberg, September 2022.

# Commodity prices are cooling off

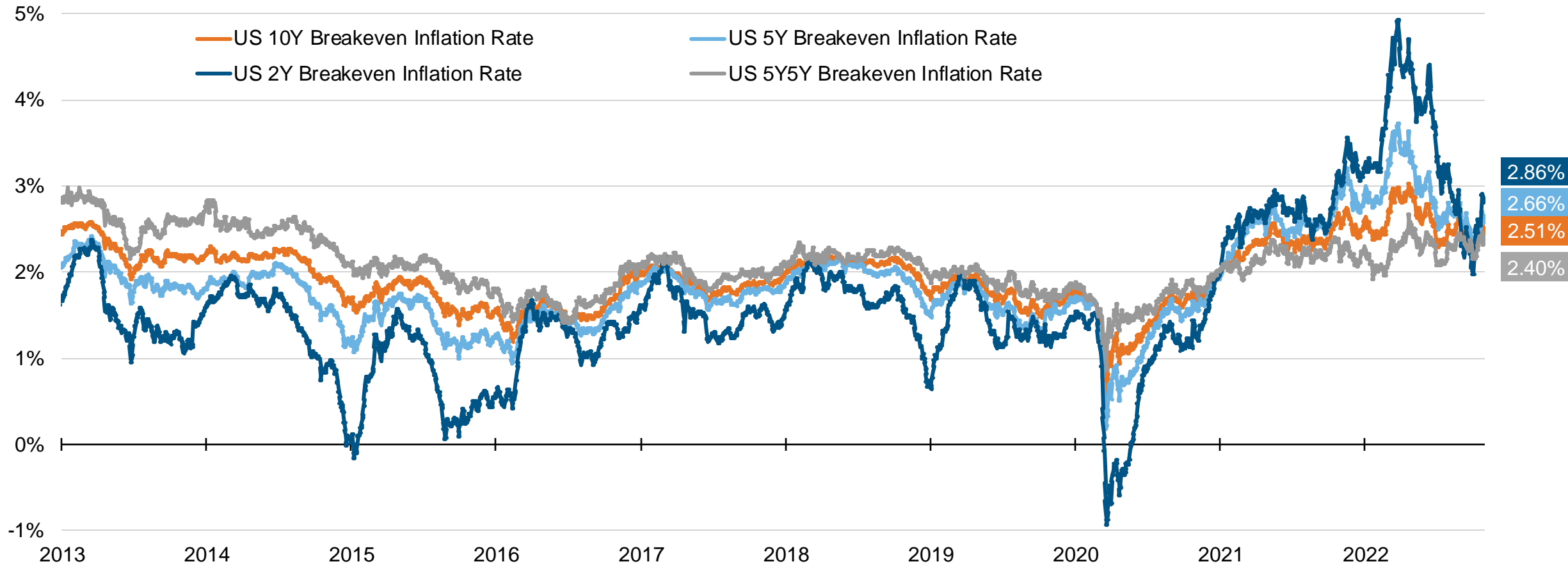
## Bloomberg Commodity Index



Source: Bloomberg, October 31, 2022.

# Market expectations for inflation have eased

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



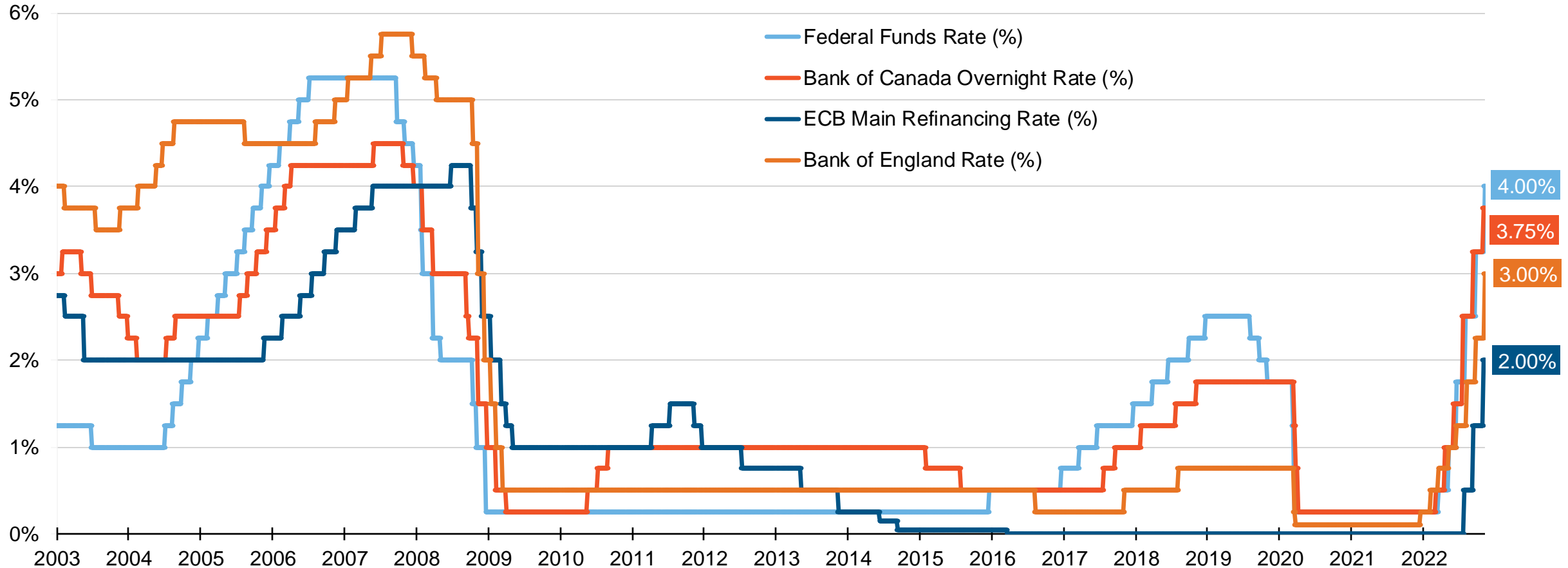
Source: Bloomberg, October 31, 2022.

2

# Central bankers – no “pain” no gain

# Central bankers are the central 'characters'

## Global central bank overnight rates



Source: Bloomberg, November 7, 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

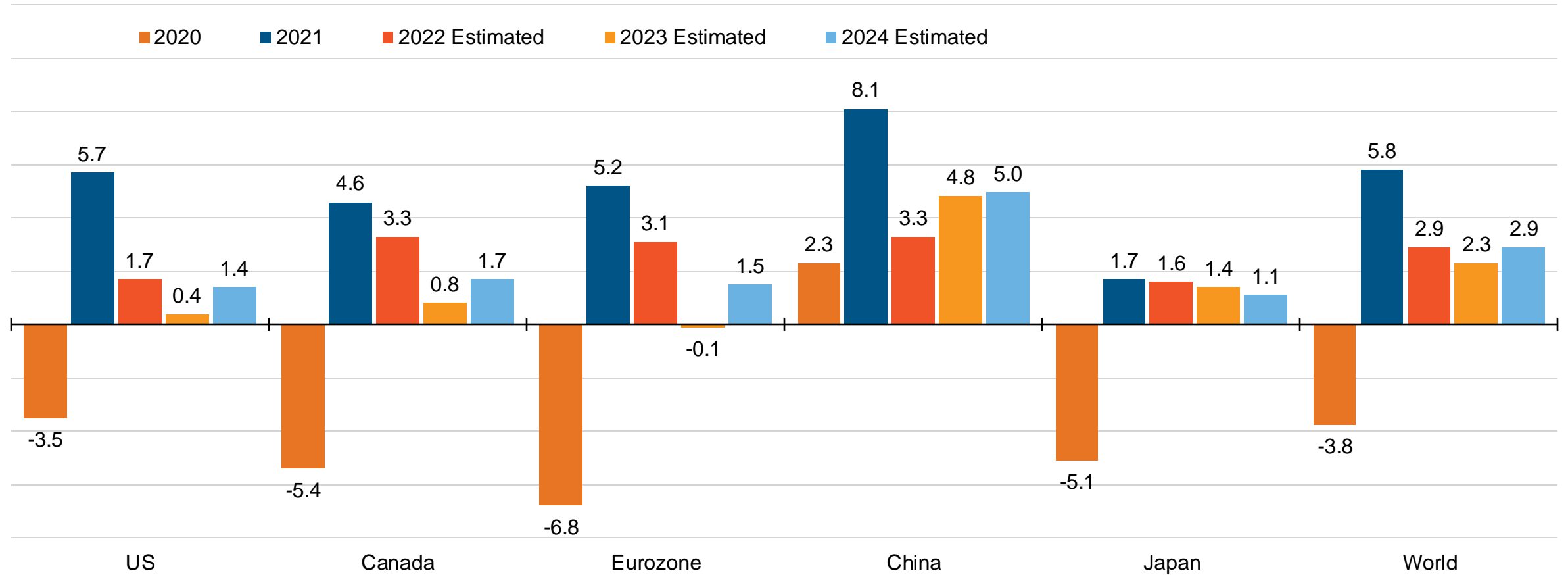
3

# Economic slowdown – how broad, how deep



# Slowing economic backdrop shapes the plot of our story

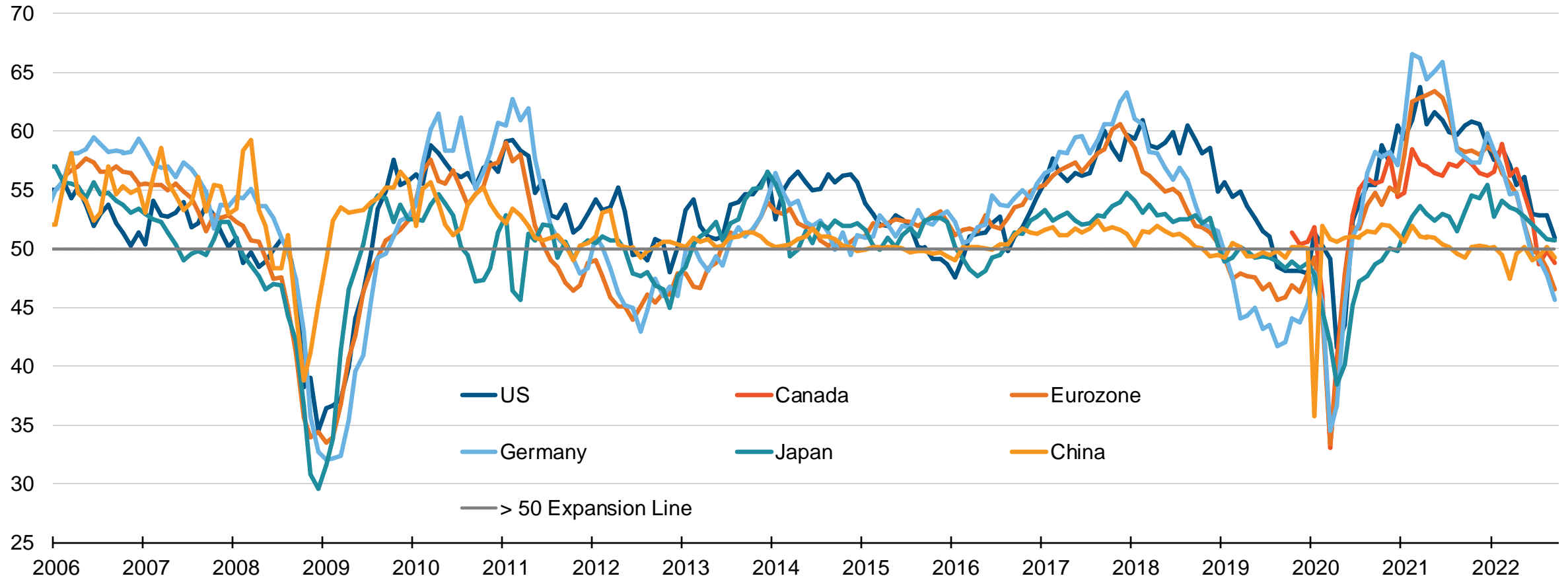
Real GDP growth (y/y % change)



Source: Bloomberg, November 2022.

# PMIs confirming a slowing trend

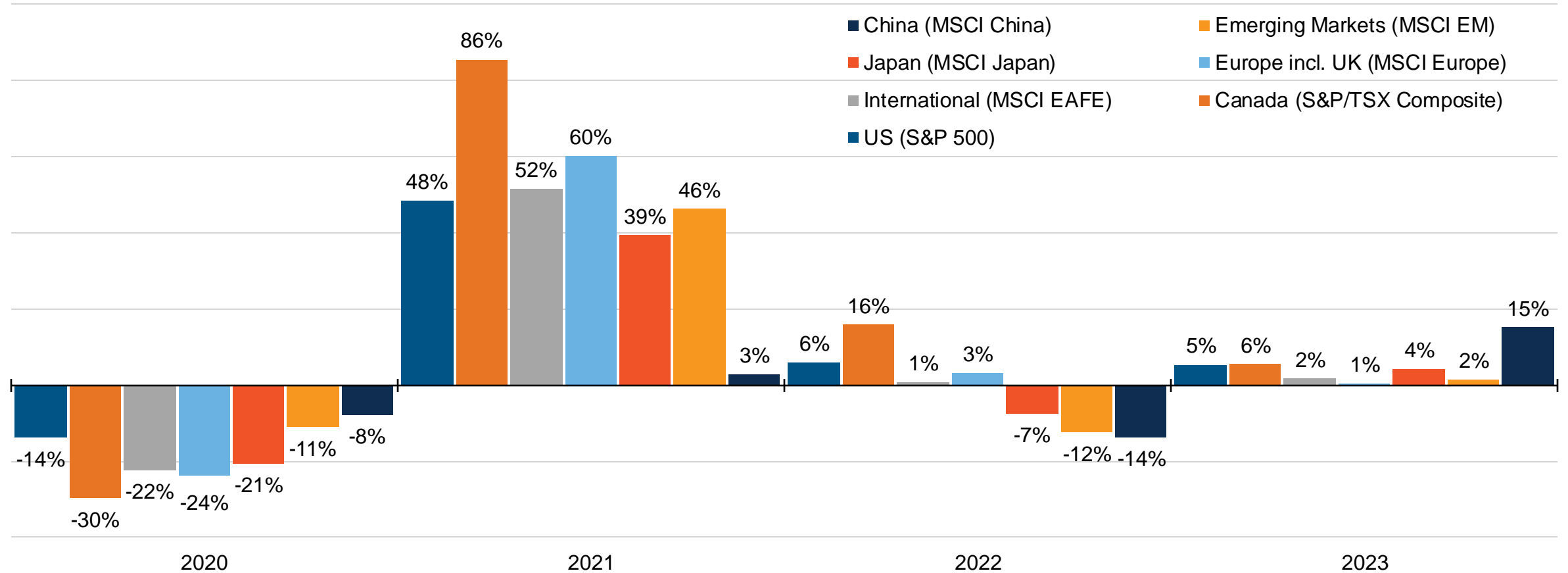
## Global manufacturing purchasing manager indices



Source: Bloomberg October 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 November 8, 2022

For advisor use only

# Earnings estimates rolling over

Forward earnings have plateaued.  
Will they drop?



Longer-term, valuations are looking more attractive



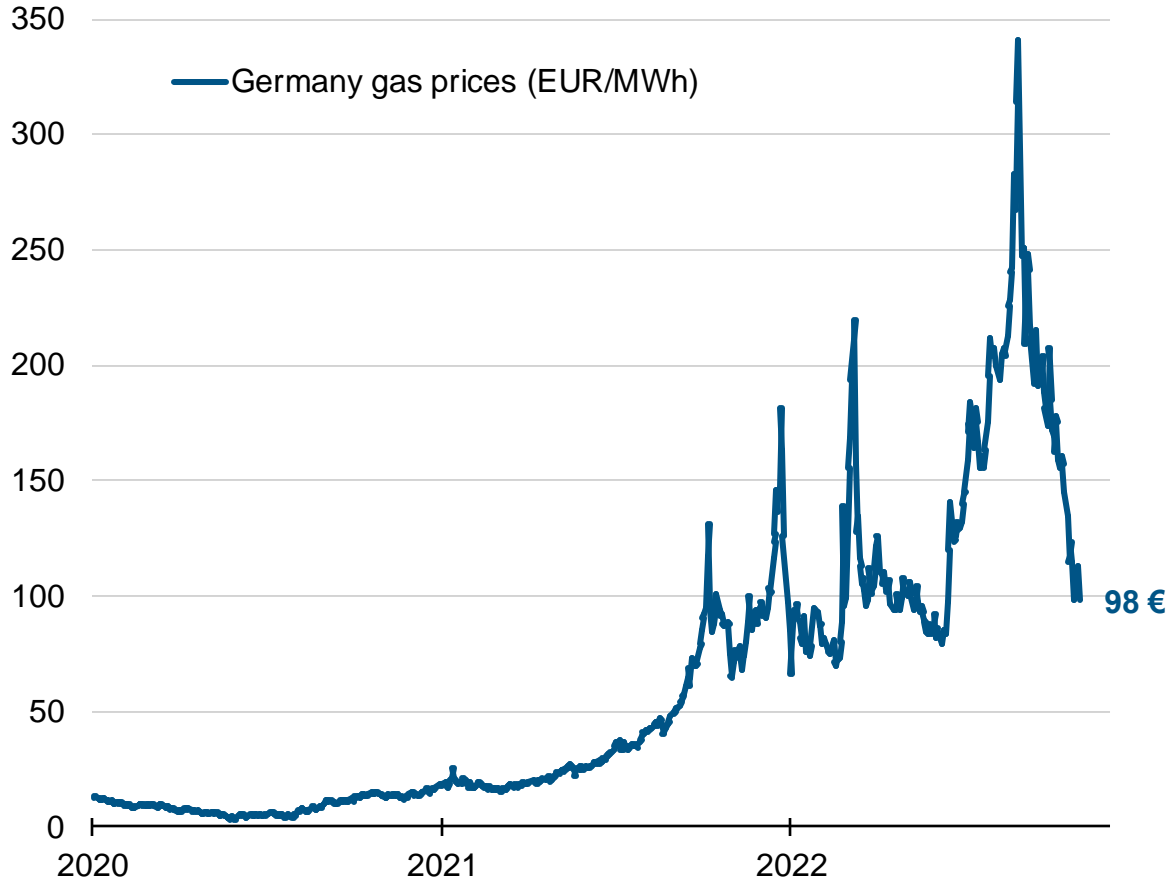
Source: Bloomberg November 7, 2022.

4

# Geopolitical wildcards

# Conflict: Winter is coming for Europe

## Electricity costs have surged across Europe



Source: Bloomberg, October 31, 2022.

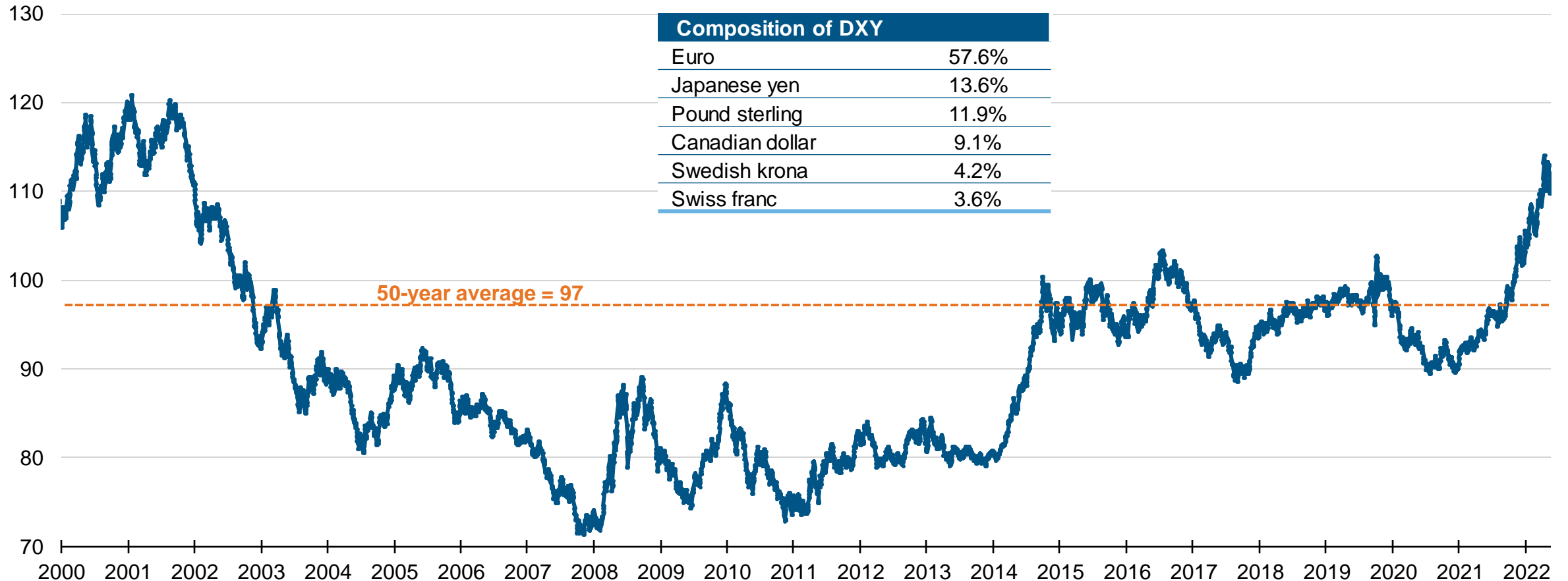
For advisor use only

## 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, October 31, 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

FOR ADVISOR AND INSTITUTIONAL USE ONLY. No portion of this communication may be reproduced or distributed to the public as it does not comply with investor sales communication rules. Mackenzie disclaims any responsibility for any advisor sharing this with investors.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

This document may contain forward-looking information which reflect our or third party current expectations or forecasts of future events. Forward-looking information is inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed herein. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors, interest and foreign exchange rates, the volatility of equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings and catastrophic events. Please consider these and other factors carefully and not place undue reliance on forward-looking information.

The forward-looking information contained herein is current only as of November 8, 2022 There should be no expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.