Quarterly commentary | March 31, 2024
Series F

Mackenzie Global Tactical Bond Fund

Fund snapshot

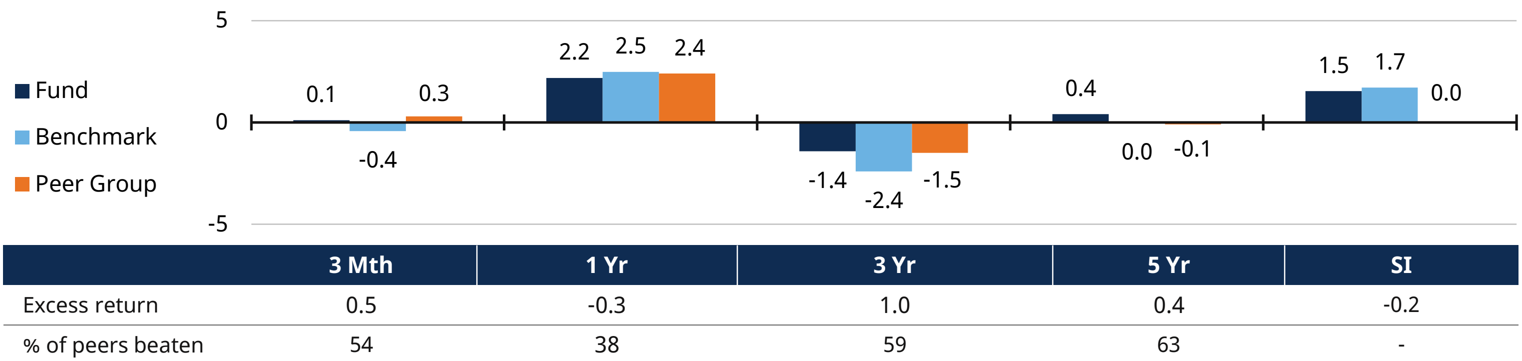
Inception date	04/23/2014
AUM (millions in CAD)	251.3
Management fee	0.55%
MER	0.76%
Benchmark	ICE BofA Gbl Broad Mkt (Hgd to CAD)
CIFSC category	Global Fixed Income
Fund rating	A-
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

• An actively managed, benchmark agnostic global fixed income portfolio. Overall average credit quality can vary, but the portfolio manager expects it to remain almost always at BBB or higher.

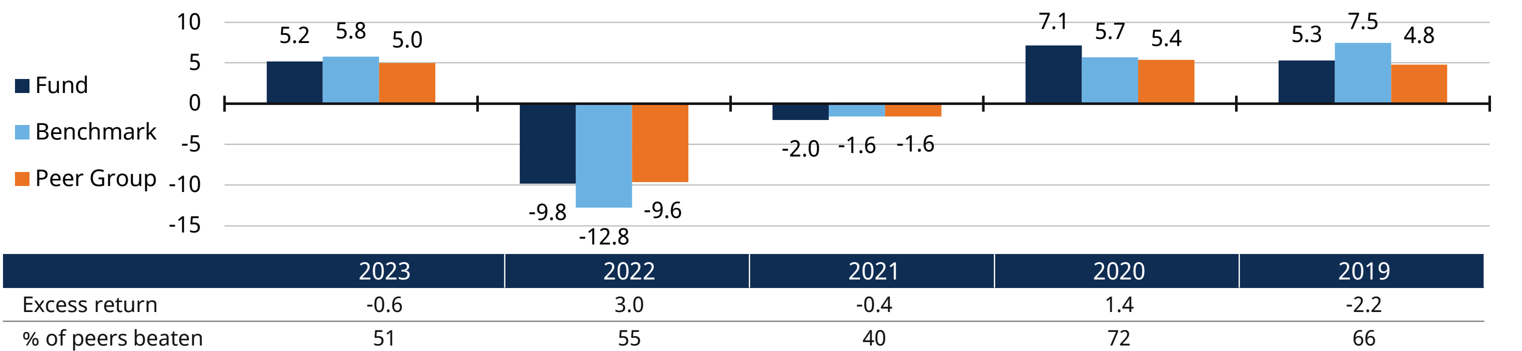
• Given the size and complexity of its investible universe, uses a combination or qualitative insights, quantitative models and bottom-up security selection to access all five sources of alpha – country, duration, currency, sector and credit. The objective is to outperform the benchmark, with low volatility

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	SI
Excess return	0.5	-0.3	1.0	0.4	-0.2
% of peers beaten	54	38	59	63	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.6	3.0	-0.4	1.4	-2.2
% of peers beaten	51	55	40	72	66

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	5.9	3.9
Fund Mod. Dur	6.1	6.7
Fund Rating	A-	AA
Average Price	93.6	113.5
Average Coupon	4.3	2.6
Average Term	7.8	-

Asset allocation

	Portfolio	Benchmark
Investment Grade Corporate	22.2	20.2
Government	36.3	52.3
Emerging Markets	19.2	2.9
High Yield	7.1	-
Loans	2.1	-
Cash	2.0	-
Other	11.1	24.6

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	5.9	6.1
Sharpe Ratio	-0.7	-0.8
Tracking Error	2.8	-
Information Ratio	0.4	-
Alpha	0.2	-
Beta	0.9	-
Upside Capture (%)	88.6	-
Downside Capture (%)	81.1	-

Geographic allocation

Region	Weight
Canada	28.0
US	34.9
Europe	7.4
Other	29.7

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	24.5	-
3 to 7	37.8	-
7 to 12	25.3	-
12+	12.5	-

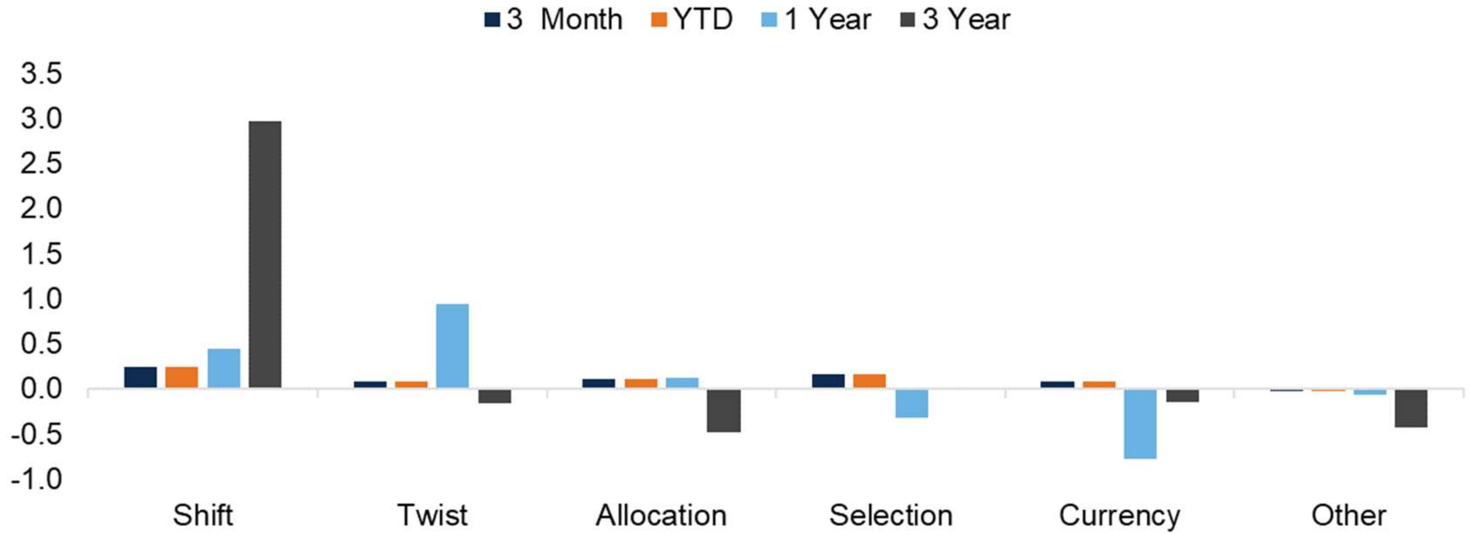
Credit breakdown

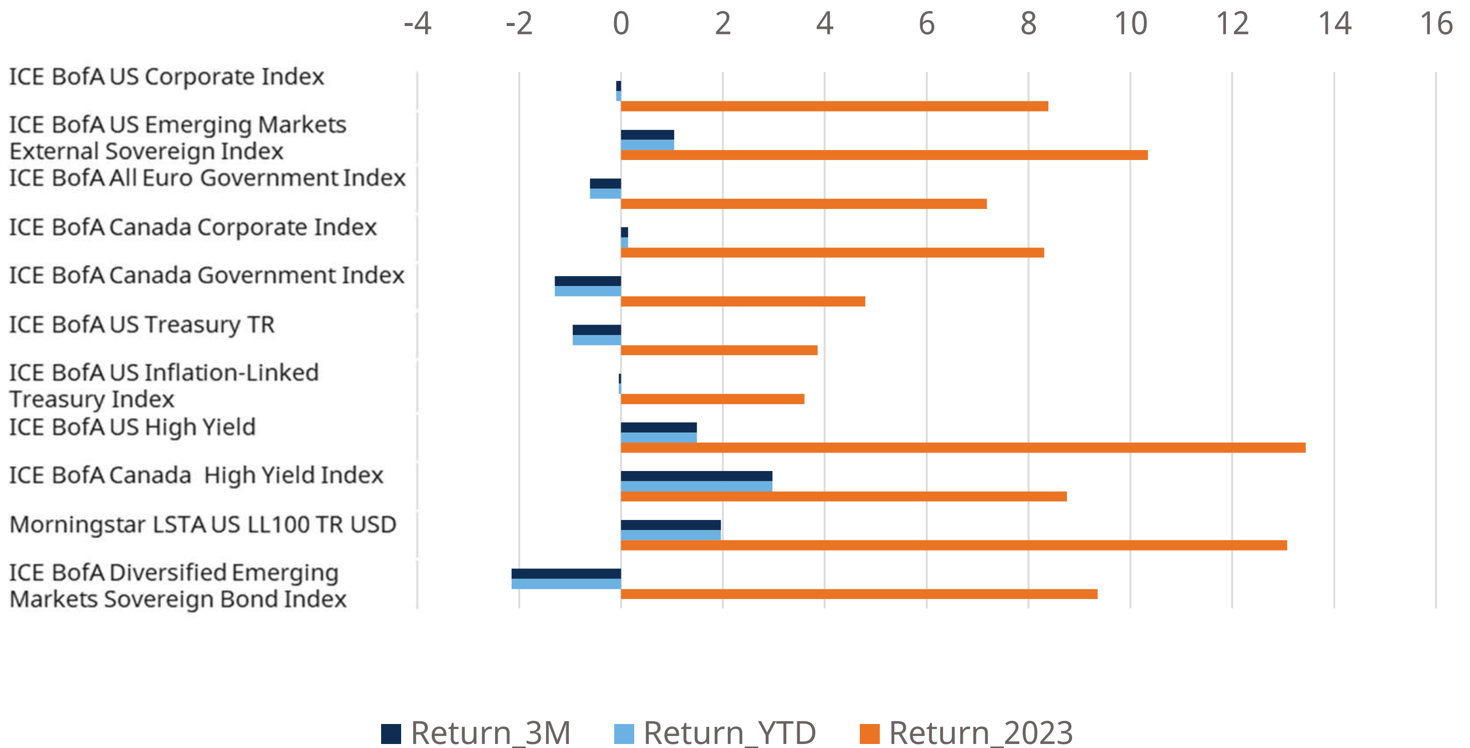
Rating	Portfolio	Benchmark
AAA	16.0	12.7
AA	25.9	49.7
A	7.7	23.6
BBB	28.1	13.9
BB	13.1	-
B	5.9	-
CCC & Below	0.9	-
NR	2.5	-

Currency exposure

Currency	Gross	Net
CAD	30.4	87.2
USD	45.0	5.7
Other	24.6	7.1

Attribution





Commentary

US economic exceptionalism continued in full force throughout Q1, with respect to both activity, as well as prices, stumping many market watchers and investors in the process. There seems to be almost no bounds to the US consumer's resiliency and as we go to print, Q1 real GDP looks to be heading towards a 2.0-2.5% q/q run rate, a level we would define as the "top end" of the soft landing range, maybe better. Prices, too, have been almost unabashedly strong; the January data (printing in February) was up for much discussion around seasonal factors and seasonal adjustment factors (related, but different), with many at the time discounting it as a "one off" month. But the February CPI data printing in March, also came in hot, and although for mostly different reasons, the market started to take notice. And of course the labour market continues to perform well, particularly at the headline level although there are a few cracks beneath the surface. It may sound odd to Canadian investors, but Q1/24 was the quarter where the immigration story became a main point of topic and discussion for the street in the US as it related to the labour market, inflation and the overall economy.

As we now know, after seeing a significant repricing in Fed expectations in Q4/23 for more cuts in 2024, those cuts were unwound in Q1, based mostly on the above stronger than expected data. Not surprisingly, that unwinding caused yields to back up higher, and those in so-called steepeners, generally found themselves on the wrong side of the trade.

It now looks very unlikely a significant rate easing cycle in 2024 will materialize, namely because of the stronger than anticipated US data and the majority of FOMC participants are not looking to embark on a significant easing cycle, at least this year. Indeed, the hawkish voter rotation for 2024 we were concerned about at the end of 2023 seems to be at least part of the discourse here, but in reality it is more broadly based than that amongst the participants. But 2024 won't last forever of course, and at some point, probably in Q2, the market will start to look at 2025 in more totality. Most Fed participants still think rates cuts are appropriate, they would just prefer additional confirmation of a slowing inflation trend.

Contrast that with Canada's macro situation where household spending is relatively anemic, headline inflation is back (just) into the BoC's target 1-3% y/y range, the unemployment rate has moved 110bp higher, and as everyone knows, there is mortgage reset risk on the horizon in H2/24 and in calendar 2025. Not surprisingly the market continues to expect the Bank of Canada to out-dove the Fed, although with the resetting of Fed expectations market pricing for the BoC has not been immune. BoC pricing has adjusted lower to around 65bp at time of writing, a level we think might be a bit of an overreaction to the Fed's repricing. While a cut at the June FOMC meeting seems very much at risk, we continue to believe the BoC will start its easing cycle in June, and accordingly continue to like Canadian nominal duration over US duration on many parts of the curve, and dislike the Canadian dollar.

The first quarter saw a notable shift in interest rate expectations, initially forecasting significant cuts but tapering to more moderate adjustments by March. Higher inflation early in the year, coupled with strong economic indicators, led to bearish sentiment in bonds. Riskier fixed-income assets like high yield and leveraged loans outperformed, while U.S. Treasuries faced negative returns. The quarter ended with credit spreads tightening across sectors, reflecting positive sentiment.

Amidst economic resilience and inflation still above central banks' target of 2%, TIPS outperformed nominal bonds as expected. We maintain our strategic position in long-dated TIPS, anticipating that inflation, while potentially peaking, will remain above historical norms for an extended period.

Global economies faced inflation shocks due to pandemic disruptions, followed by restoration of supply chains and energy price declines that moderated inflation. Variations in recovery pace and potential growth between regions, like the robust U.S. expansion versus Eurozone struggles, influenced central bank policies and market performance. European sovereign bonds outperformed U.S. Treasuries, driven by country-specific dynamics and differing inflation trends.

EM local rate bonds faced challenges amid dollar strength and rising global yields, impacting currencies like ZAR and BRL negatively. MXN stood out positively due to carry trades and favorable local conditions, with Mexico's central bank making its first rate cut since 2021. EM rates outlook remains dependent on economic data and central bank strategies.

Commentary

Our duration strategy includes positive stances in North America, especially Canada, and cautious approaches in regions with expected rate hikes like Japan. EM local rates are favored for carry and potential rate declines in Latin America.

As Q1 ends and Q2 begins, rate volatility is expected to continue, guiding our opportunistic approach while closely monitoring global indicators and geopolitical events to manage risks and seize opportunities.

Our duration positioning remains nuanced. We maintain a positive stance on duration in North America, particularly in Canada, and continue to maintain a significant active underweight duration view in regions where rates are expected to rise further, notably Japan. We continue to hold a long position in EM local rates for the attractive carry and prospect for lower rates in Latam.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y). We prefer the Canadian curve over the US curve in this sector.

As we conclude Q1 2024 and shift focus to the second quarter, we anticipate rate volatility to persist. Our strategy remains opportunistic, with close monitoring of global economic indicators and geopolitical developments. The delicate balance between mitigating risk and seizing opportunities will be pivotal in navigating the months ahead.

Contributors:

-Underweight US duration
-Significant Underweight Euro duration
-Overweight Corporate bond risk
-Outright short JPY duration
-Mexico Local rates

Detractors:
-Significant overweight Canadian duration
-Brazilian & South Africa bonds

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