

Mackenzie Strategic Bond Fund

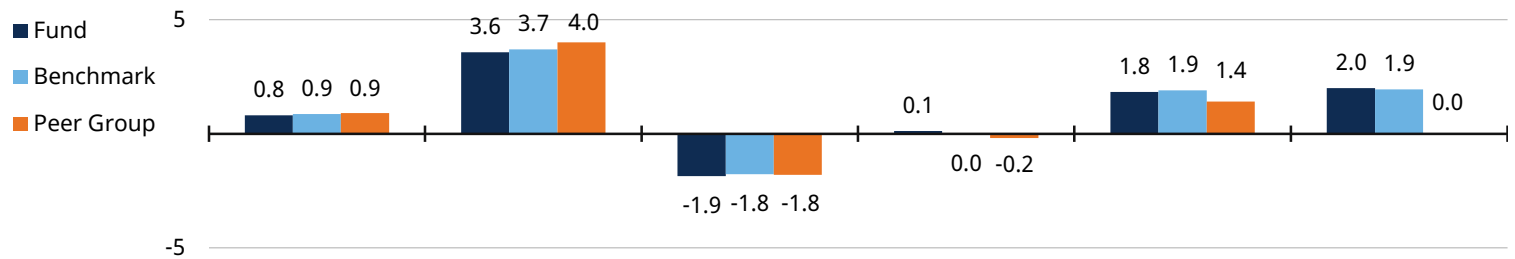
Fund snapshot

Inception date	05/15/2013
AUM (millions in CAD)	329.1
Management fee	0.45%
MER	0.66%
Benchmark	FTSE Canada Universe Bond
CIFSC category	Canadian Fixed Income
Risk rating	Low
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

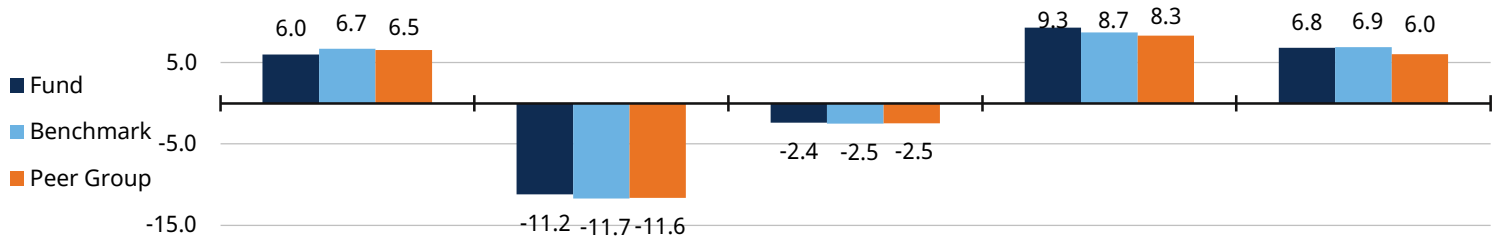
- An actively managed, flexible core plus fixed income strategy.
- Generally, maintains a strategic overweight to corporate credit, and has the flexibility to invest in a broad range of asset classes, including up to 25% in non-investment grade instruments, allowing the managers to take advantage of relative valuation opportunities and to manage risk through the economic cycle.
- The objective is to generate a higher total return than the benchmark while maintaining the risk profile of a core fixed income strategy.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	-0.1	-0.1	-0.1	0.2	-0.1	0.1
% of peers beaten	43	40	50	75	82	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.7	0.5	0.1	0.6	-0.1
% of peers beaten	20	75	67	75	63

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	5.0	4.2
Fund Mod. Dur	7.3	7.2
Fund Rating	A	AA
Average Price	95.6	95.0
Average Coupon	4.2	3.3
Average Term	10.9	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.7	7.2
Sharpe Ratio	-0.8	-0.7
Tracking Error	1.3	-
Information Ratio	-0.1	-
Alpha	-0.5	-
Beta	0.9	-
Upside Capture (%)	91.9	-
Downside Capture (%)	94.2	-

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	27.2	24.1
3 to 7	26.6	30.6
7 to 12	20.9	19.2
12+	25.3	26.1

Currency exposure

Currency	Gross	Net
CAD	81.7	99.4
USD	16.1	0.1
Other	2.2	0.5

Asset allocation

Asset	Portfolio	Benchmark
Corporate	59.9	29.3
Provincial + Municipal	21.7	32.5
Federal	16.0	38.2
Cash & Equival. + WC	2.4	-

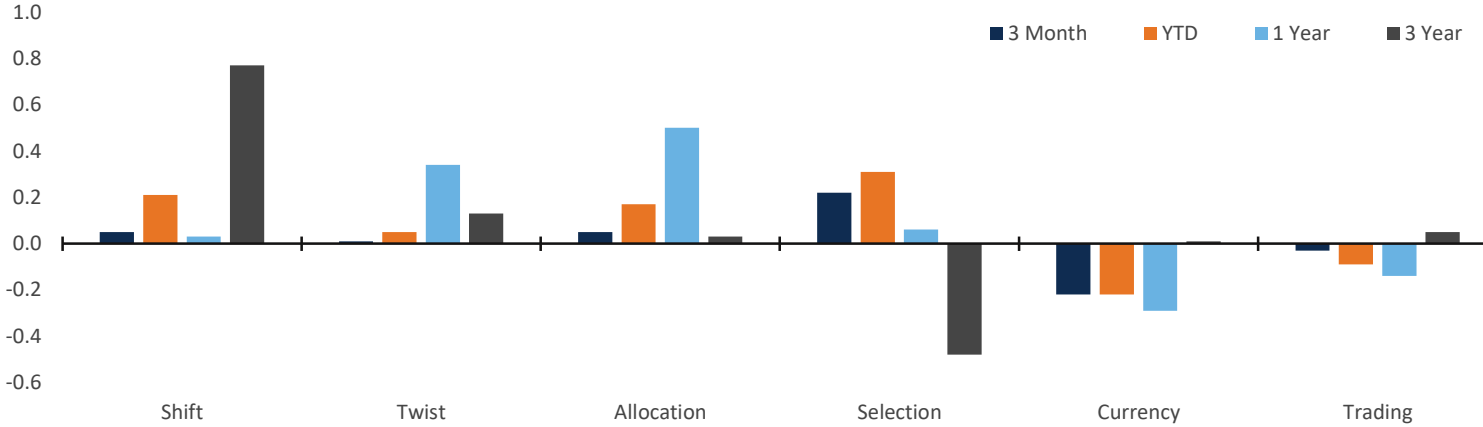
Geographic allocation

Region	Weight
North America	96.6
Europe	0.8
LATAM & Caribbean	0.6
Other	2.0

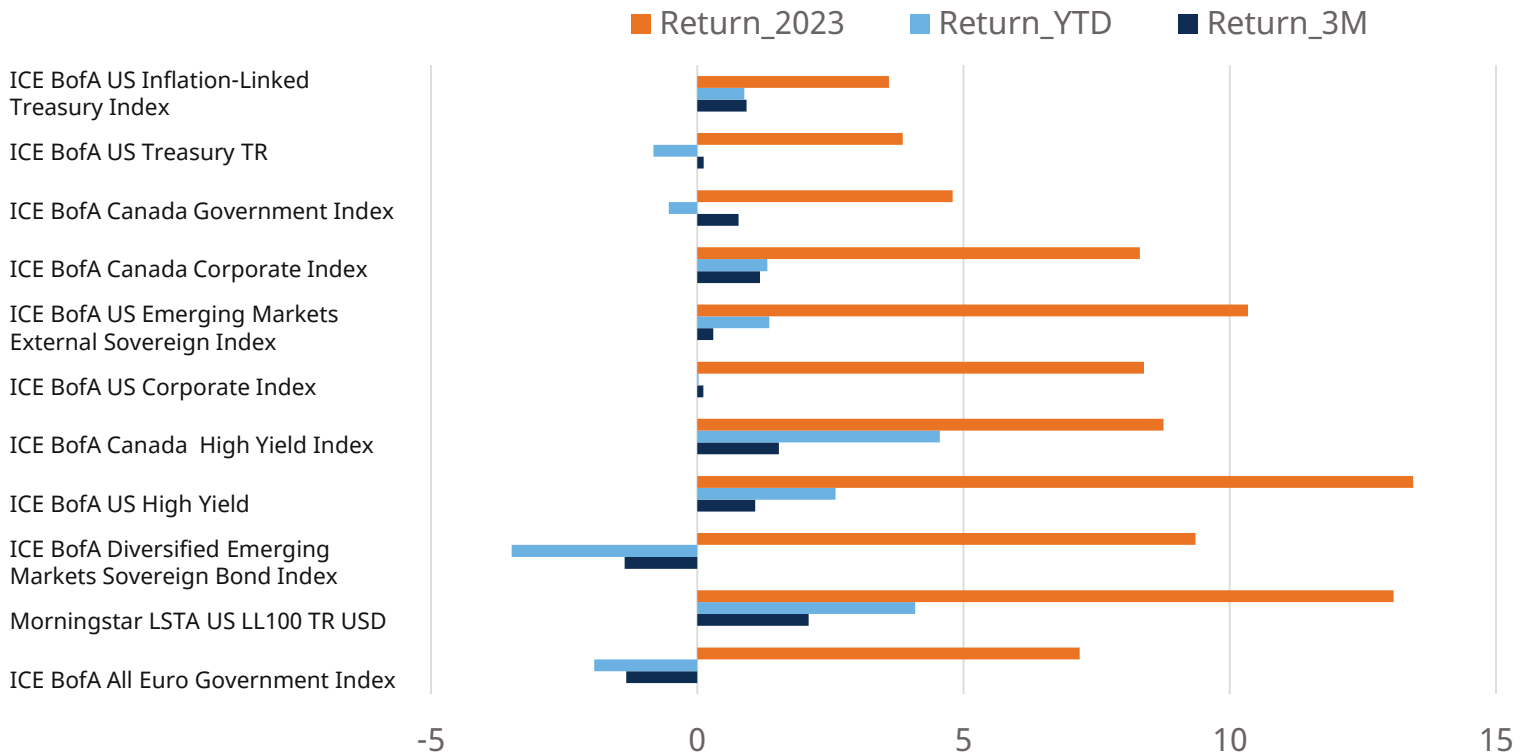
Credit breakdown

Rating	Portfolio	Benchmark
AAA	7.8	41.7
AA	34.0	32.0
A	20.6	15.3
BBB	29.7	11.0
BB	5.0	-
B	2.1	-
CCC & Below	0.3	-
NR	0.5	-

Attribution



Market Overview



Commentary

Markets generally focus on the fundamental outlook, with technicals, flows, positioning, and momentum occasionally taking the lead. However, geopolitics can sometimes spike cross-asset volatility, as seen in 2024, "The Year of the Election." In the second quarter, three electoral surprises in South Africa, India, and Mexico negatively impacted markets, especially emerging markets (EM). Mexico's Morena party's Congressional majority affected Mexican and EM assets. Coupled with the other electoral surprises, this caused increased volatility in EM markets, and while EM volatility has decreased, the risks of higher volatility remain with global VaR models likely having been tweaked.

In France, a snap election followed the EU elections where center and far-right parties performed strongly. French President Macron lost Lower House seats, causing French bonds to widen against German benchmarks from around 45-50bp to over 80bp before retreating into the 60s. The ECB's concern over French fiscal stability highlights significant market recalibration. Despite minor ECB comments, the main policy focus remains on semi-frothy real-time inflation, sticky elevated wages, and the central bank's ability to ease into high inflation rates. We expect the ECB to ease rates in September but doubt a significant easing cycle beyond 50bp, making us cautious on European duration compared to North America.

The Trump-Biden debate at the end of the quarter raised concerns about Republican fiscal policies. Biden's perceived underperformance led to fears of unchecked fiscal spending, debt issuance, and curve steepening, though market reaction was muted. Internal Democratic Party polling showed Trump potentially winning 350 electoral college seats, increasing calls for Biden to step aside. Former House Speaker Pelosi's refusal to endorse Biden added to the speculation. This debate's aftermath saw a concern over a Republican Party "down the ticket" outcome, which could lead to significant fiscal spending and higher yields.

With the upcoming US election, we are aware of risks in sovereign fixed income, especially in the long end of the US curve if fiscal concerns grow. US inflation is slowing, but core PCE needs to drop below 20 basis points (bp) per month for a significant decrease. The April and May data suggest US inflation is back on a slowing track. The Fed requires at least three months of favorable inflation data before considering rate cuts, possibly by the September meeting if the labor market continues to weaken. Indicators like slowing temporary employment, a lower hiring rate, and a lower quits rate suggest the labor market is coming "better into balance."

The Bank of Canada (BoC) has already begun easing, cutting rates by 25bp in June. We expect further cuts in July or September, with the BoC possibly cutting three times before the Fed starts. The BoC is cautious about easing too much to avoid Canadian dollar depreciation and imported inflation. As a small, open market economy, the BoC must manage these risks carefully. We prefer long North American duration positions but favor short-duration positions in Japan. The Bank of Japan (BoJ) may continue its hiking cycle, possibly surprising markets with a 10bp hike in July, justified by domestic data and wage growth. Another federal election in Japan could overlap with BoJ meetings, pushing the BoJ to act sooner.

Overall, elections have significant market consequences, and we remain vigilant about the macro risks and opportunities in the current economic and political landscape. With the US election approaching, fiscal and electoral risks, combined with slowing economic fundamentals, particularly in the US and Canada, create a complex environment for investors. We continue to monitor these developments closely to navigate the evolving landscape effectively.

The big story in North American rate markets during the second quarter of 2024 was the Bank of Canada cutting the overnight interest rate by 25bps at the beginning of June. 2-year yields had been largely unchanged for the first two months of the quarter but ended up trading in a 50bp range and closer to the lows at 3.99% a drop of 18.5bps during the quarter. 5y, 10y and 30y yields were largely unchanged on the quarter, implying a steeper curve as expected during a central bank cutting cycle. Despite this the Canadian yield curve remained historically inverted with 2s30s at -60bps. The cut from the Bank was largely expected with weak economic data and several consecutive months of lower-than-expected inflation readings.

The US shows continued economic strength and persistent inflation, delaying expected rate cuts by the Federal Reserve. While Canadian 2-year yields fell, US 2-year yields rose by 13bps, widening the spread to 76bps from 44bps. US yields rose 15-20bps across the curve, pushing the CAD-US yield spread to recent highs.

Commentary

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. With the rate cut cycle having now begun and looking like it will continue in some form, there is the potential for significant price appreciation of these securities. We remain negative on the long end of the Canadian market with 30y Canadian bonds yield now yielding more than 100bps less than their US equivalents, making the US more attractive. We are cognizant that the upcoming US election and the uncertainties it might bring – from fiscal concerns to tariffs to the potential for a resurgence of inflation – can quickly alter base-case outlook.

Contributors:

- Long 30y US vs CAN
- Overweight IG Corporate Bonds
- Overweight HY Corporate Bonds
- Short position in JGB
- Overweight Inflation-Linked Bonds

Detractors:

- Long position in EM local debt

Entering Q3, our duration strategy remains close to neutral. We maintain a positive duration outlook in North America, especially in Canada, where we expect the Bank of Canada to continue lowering its policy rate following the initial cut in June. Conversely, we hold a substantial underweight duration view in regions like Japan and the Eurozone. Our strategic position in long-dated TIPS persists, based on our forecast that US inflation, though possibly past its peak, will stay higher than historical averages for a prolonged period. This strategy underscores our confidence in TIPS' protective advantages in an ongoing inflationary setting. Moreover, we continue to favor long positions in emerging market local rates due to their appealing carry and the potential for lower rates in Latin America

We remain cautiously optimistic on credit but prefer low beta, high quality corporate bonds and are cognizant that the upcoming US election and the uncertainties it might bring – from fiscal concerns to tariffs to the potential for a resurgence of inflation – can quickly alter our base-case outlook.

As we navigate Q3 2024, we anticipate continued rate volatility and remain focused on opportunistic strategies. We will closely monitor global economic indicators and geopolitical developments to balance risk mitigation and seizing opportunities.

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