

Quarterly Economic Report



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March 31, 2021

Understanding mutual funds



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The goal of mutual funds

All mutual funds seek to earn positive returns for their investors.
However, we can distinguish between three primary types of mutual funds



Equity funds

- Primarily invests in stocks
- Typically purchased for high returns
- Higher volatility



Fixed Income funds

- Primarily invests in bonds and interest-paying instruments
- Typically purchased for income and consistency
- Lower volatility



Balanced funds

- Invests in a mix of equity and fixed income instruments
- Typically purchased as a centerpiece of a portfolio
- Volatility varies depending on allocation

Mutual fund categories

All Canadian mutual funds are sorted into categories based on the securities in which the fund can invest. There are 60 categories, some more nuanced and specific than others.

CIFSC CATEGORIES – EXAMPLES



Equity categories

- Canadian Equity
- US Equity
- Global Equity



Fixed Income categories

- Canadian Fixed Income
- Global Fixed Income



Balanced categories

- Canadian Neutral Balanced
- Global Neutral Balanced



Distinguishing mutual fund categories

| CIFSC Sample Categories | Primary Exposures/Characteristics |
|----------------------------------|--|
| Canadian Equity | Canadian domiciled stocks |
| US Equity | US domiciled stocks |
| Global Equity | Broad array of stocks worldwide |
| Canadian Fixed Income | Canadian investment-grade securities |
| Global Fixed Income | Broad array of investment-grade securities worldwide |
| Canadian Neutral Balanced | 40-60% Canadian equity exposure |
| Global Neutral Balanced | 40-60% Global equity exposure |

+ How are mutual funds designed to perform?



When markets are thriving

- Equity funds are typically designed to outperform fixed income
- Fixed income funds are designed to deliver consistent, but generally lower returns over the long-run



When markets are struggling

- Equity funds will typically underperform fixed income, given their higher volatility
- Fixed income will typically outperform stocks, given their lower volatility

Balanced falls in between, depending on how much is in equity vs fixed income

Typically, the **higher the volatility**, the **higher the potential for returns** but **the greater the risk**



Mutual fund recent performance

| CIFSC Categories | 1 Month | Year to Date | 1 Year | 3 Year | 5 Year | 10 Year | 20 Year |
|---------------------------|---------|--------------|--------|--------|--------|---------|---------|
| Canadian Fixed Income | -2.27 | -3.18 | 1.48 | 3.94 | 2.99 | 3.32 | 4.07 |
| Global Fixed Income | -1.46 | -1.97 | 0.68 | 3.02 | 2.62 | 3.78 | 3.17 |
| Canadian Neutral Balanced | 1.09 | 0.39 | 8.12 | 5.14 | 6.02 | 4.81 | 4.75 |
| Global Neutral Balanced | 0.58 | 0.06 | 9.38 | 5.38 | 6.39 | 5.85 | 4.51 |
| Canadian Equity | 3.97 | 3.22 | 11.63 | 6.05 | 8.10 | 4.95 | 5.72 |
| US Equity | 2.37 | 1.63 | 21.72 | 10.74 | 12.43 | 12.56 | 4.56 |
| Global Equity | 1.75 | 1.47 | 19.98 | 8.20 | 10.30 | 9.26 | 4.22 |

Source: Morningstar Direct, as of March 31, 2021

Economic overview

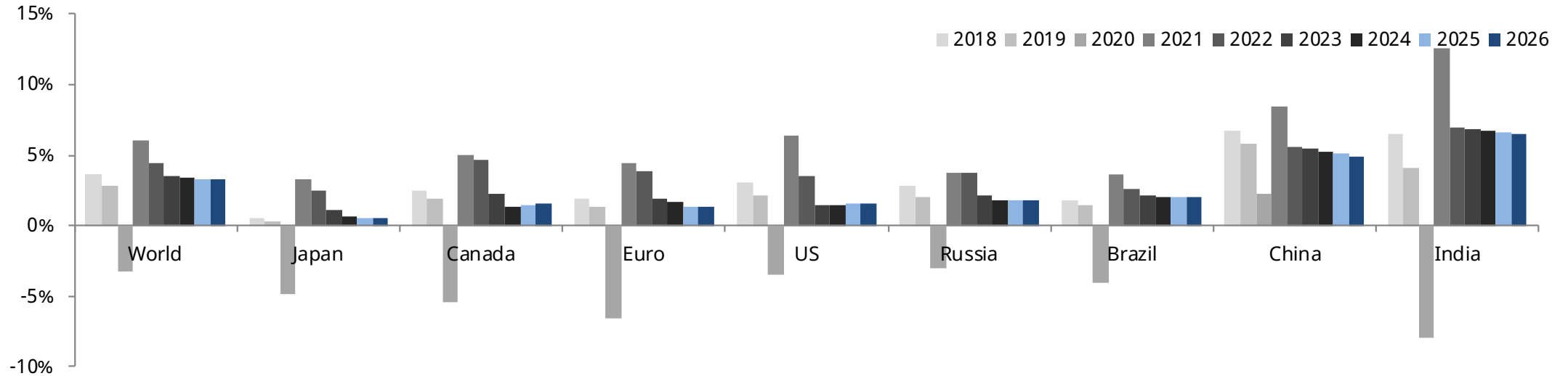


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Global & Regional Growth Forecasts

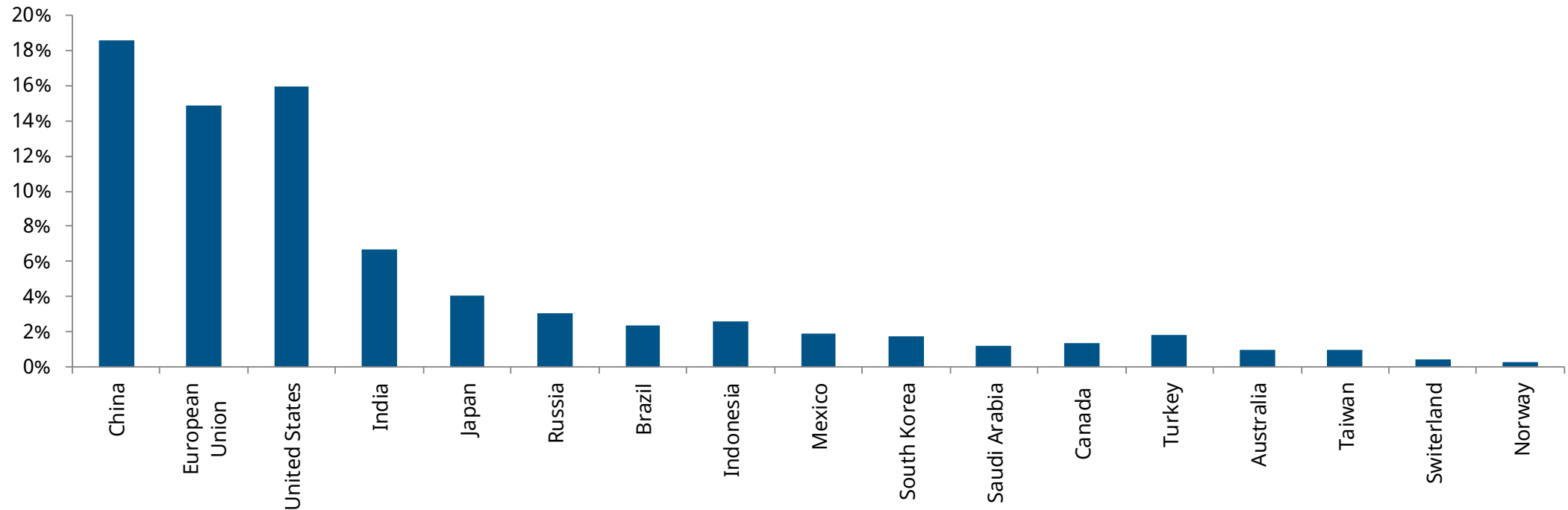
IMF GDP Forecasts (% Change Year Over Year)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------------------------|------|------|--------|------|------|------|------|------|------|
| Advanced Economies | 2.3% | 1.6% | (4.7%) | 5.1% | 3.6% | 1.8% | 1.6% | 1.5% | 1.5% |
| Emerging Markets | 4.5% | 3.6% | (2.2%) | 6.7% | 5.0% | 4.7% | 4.6% | 4.5% | 4.4% |
| World | 3.6% | 2.8% | (3.3%) | 6.0% | 4.4% | 3.5% | 3.4% | 3.3% | 3.3% |



Dominant Contributors of Global GDP

IMF Share of World GDP Based on PPP (Year Ending 2020)

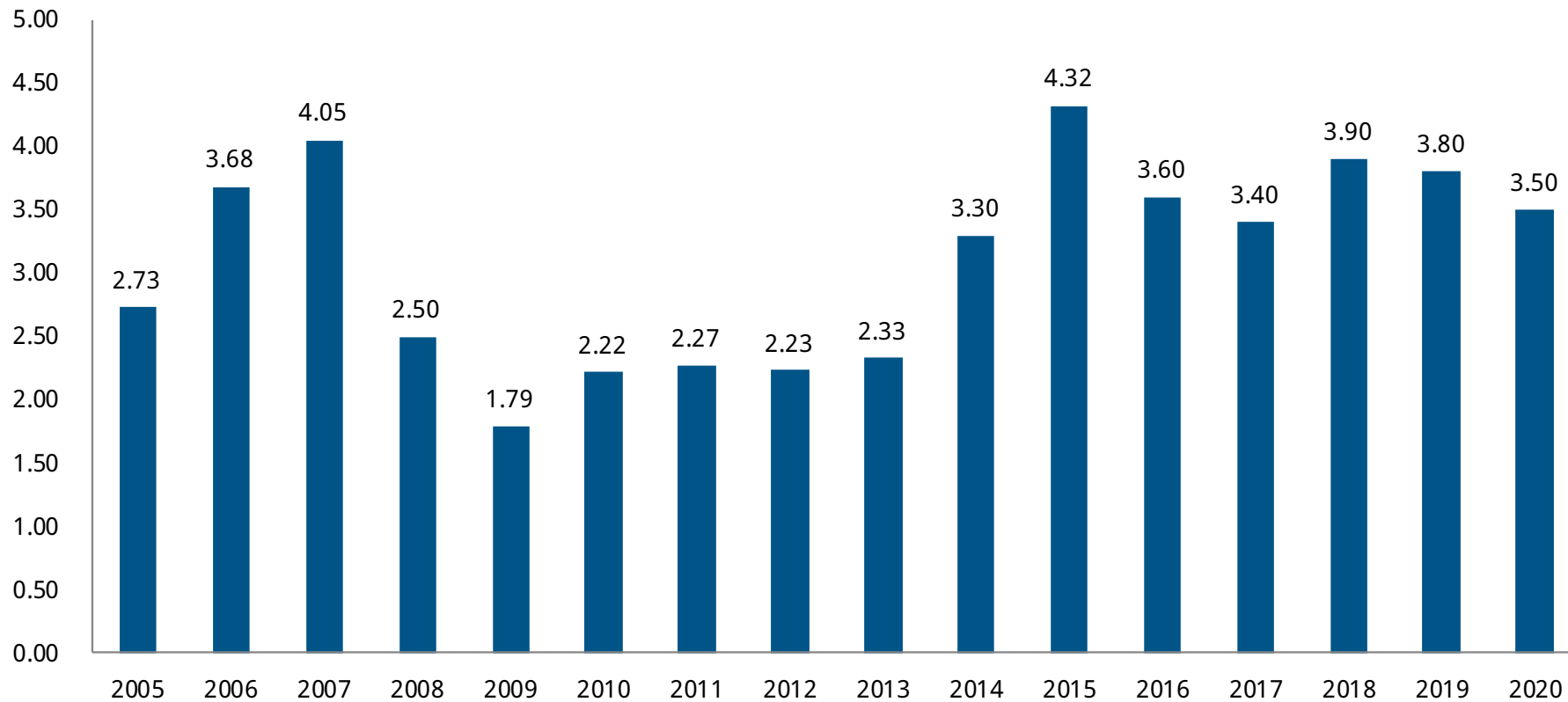


Source: Bloomberg (Dec 2020)



Global Mergers & Acquisitions

M&A Transaction Value Global Index by Quarter (15 Years)

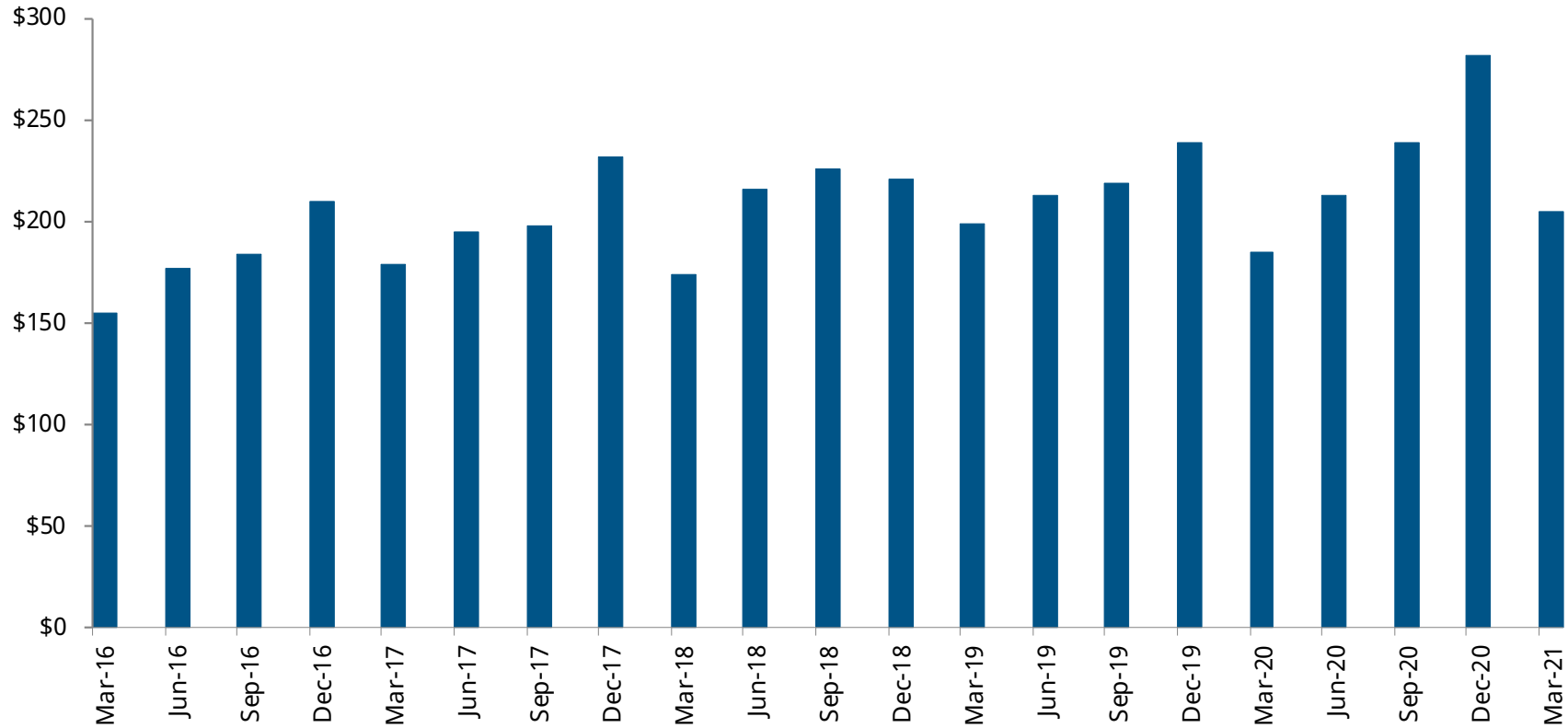


Source: Bloomberg (Dec 2020)



Closer Look at China

China Exports by Quarter (USD Billion)

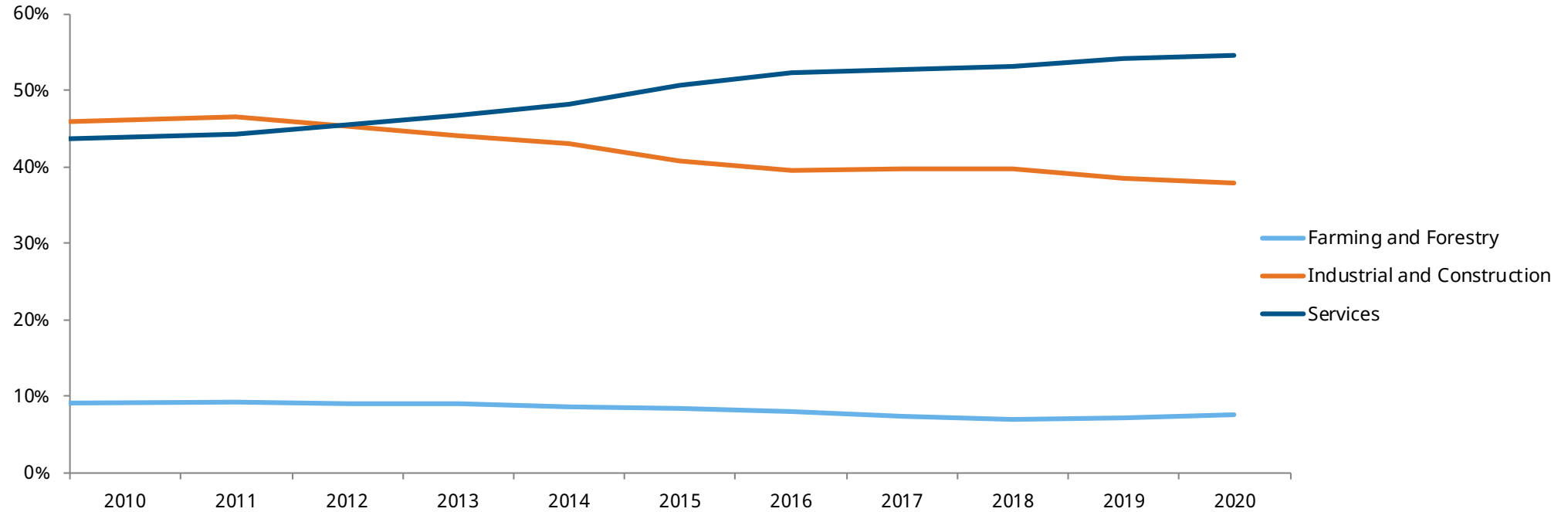


Source: Bloomberg (Mar 2021)



Closer Look at China

% of GDP NSA Cumulative (10 Years in CNY)



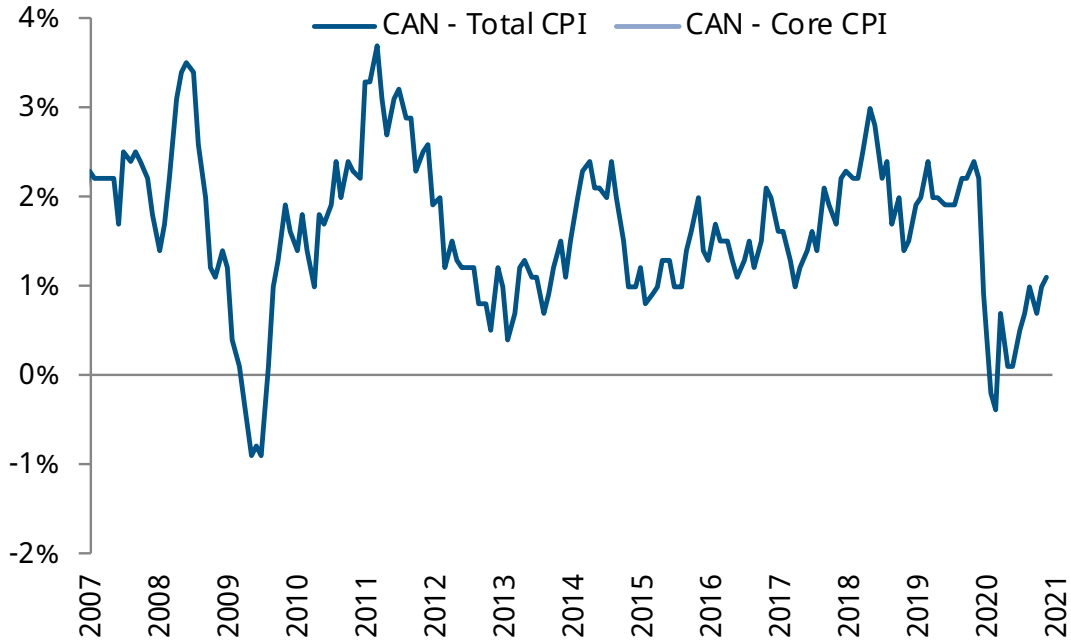
Source: Bloomberg (Dec 2020)



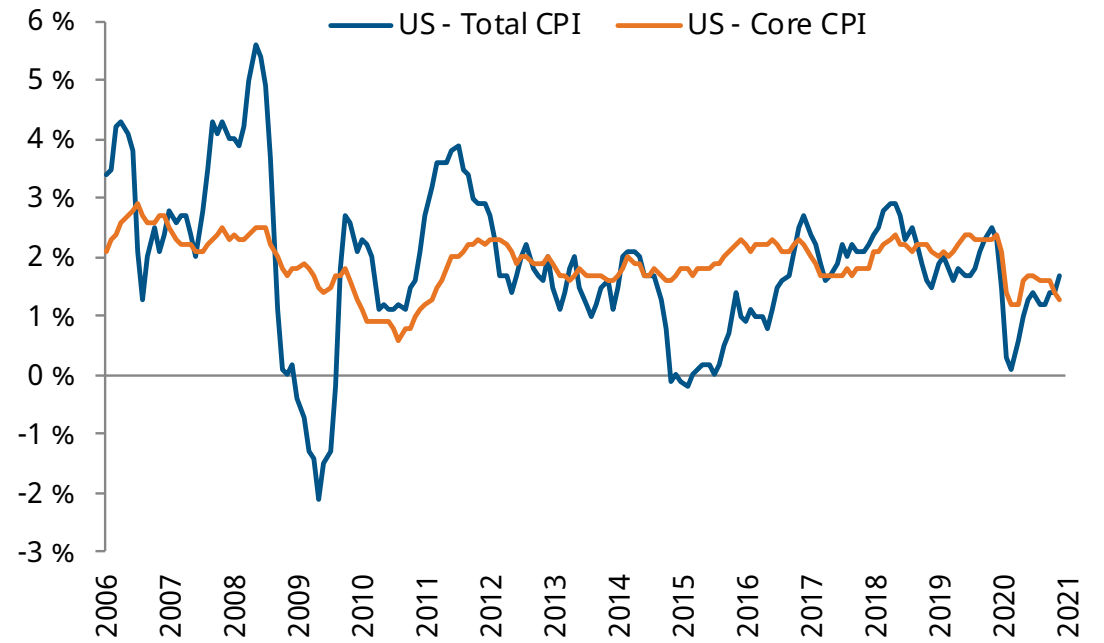
Total and Core CPI

Canada and US Total and Core CPI (% Change Year Over Year)

Canada



United States

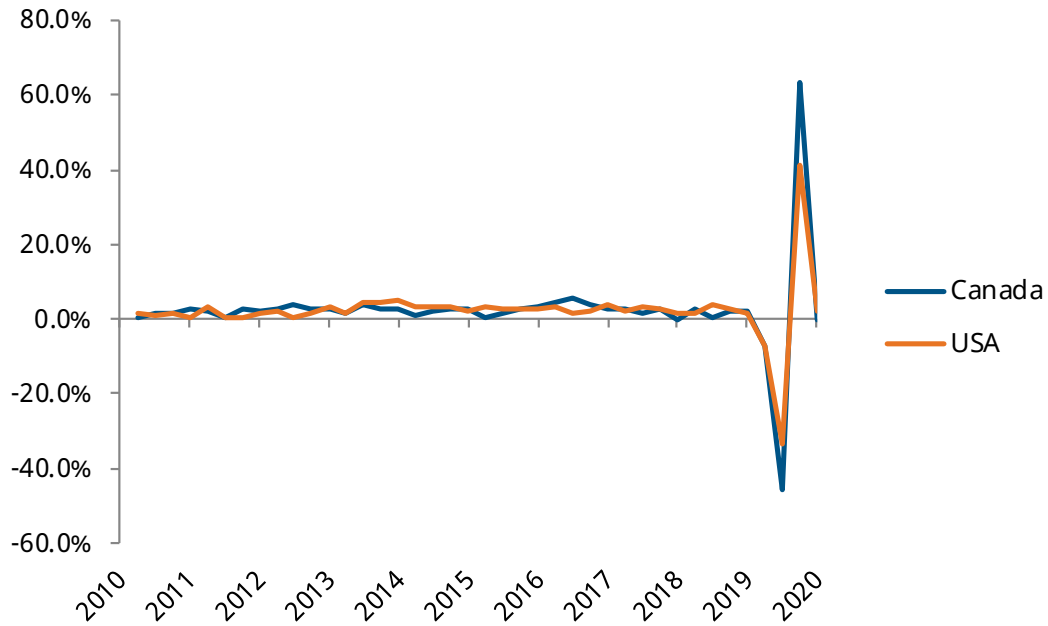


Source: Bloomberg (Feb 2021)

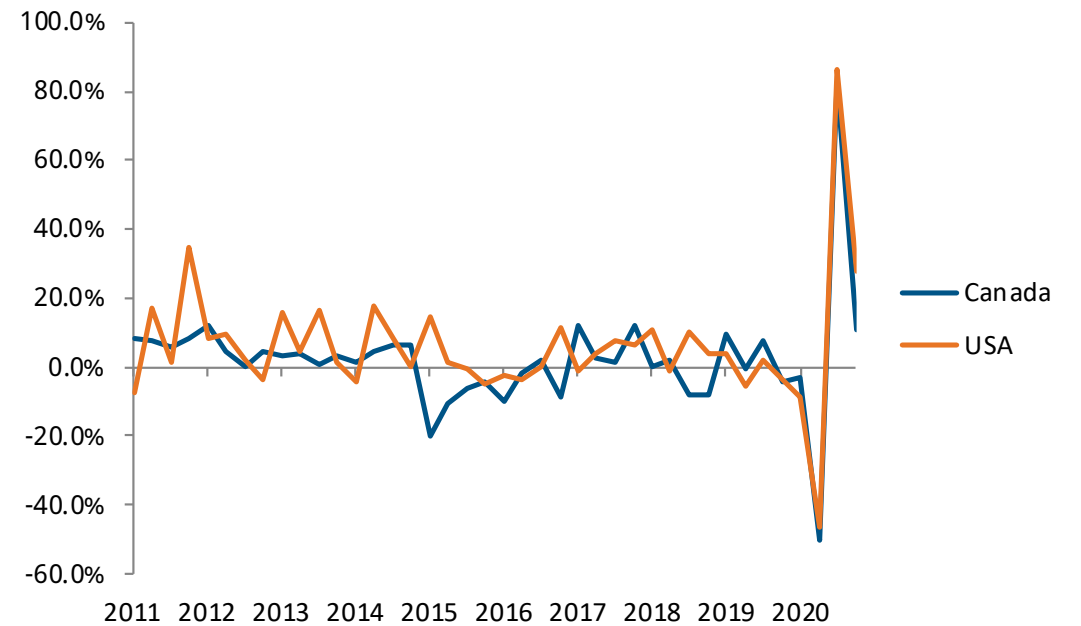


Consumer Spending & Business Investment

Real Consumer Spending (q/q % a.r.)



Real Business Investment (q/q % a.r.)



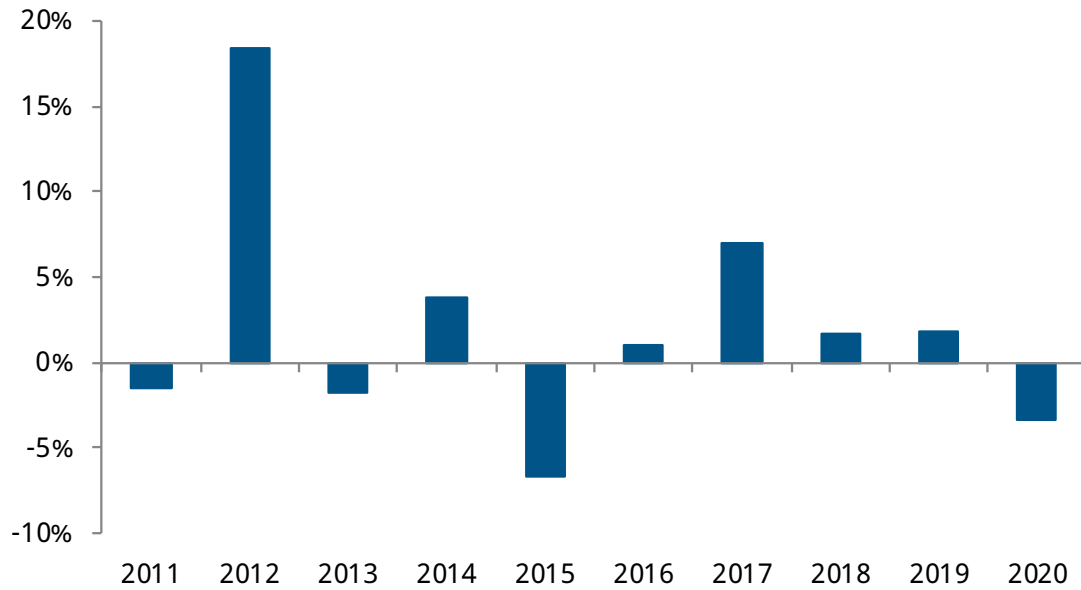
Source: Bloomberg (Dec 2020)



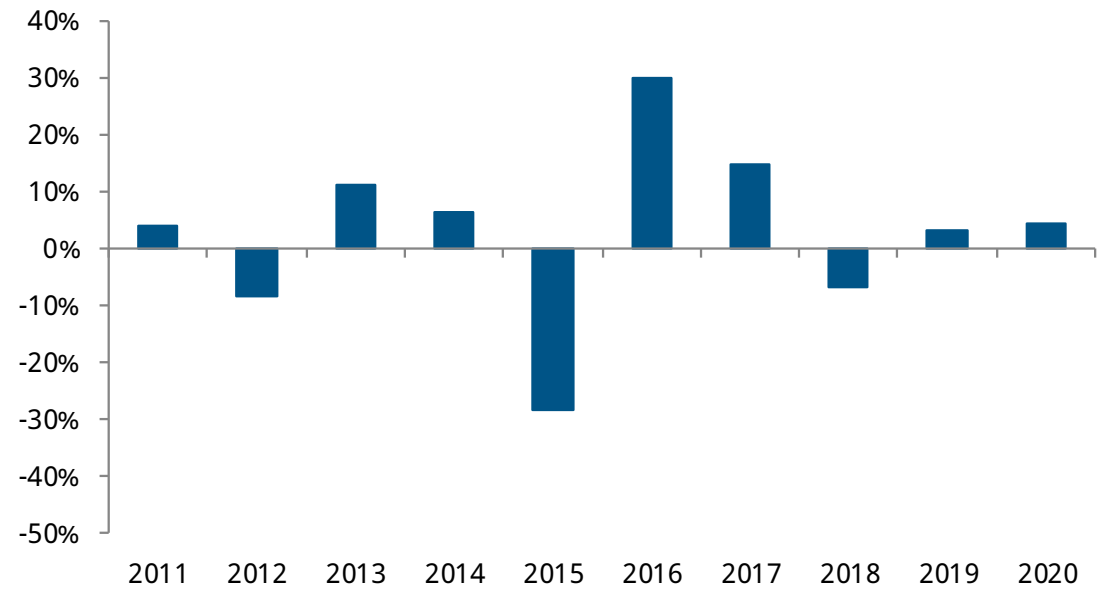
Corporate Profits

Corporate Profits Growth Rate (% Change Year Over Year)

US Corporate Profits



Canada Corporate Profits

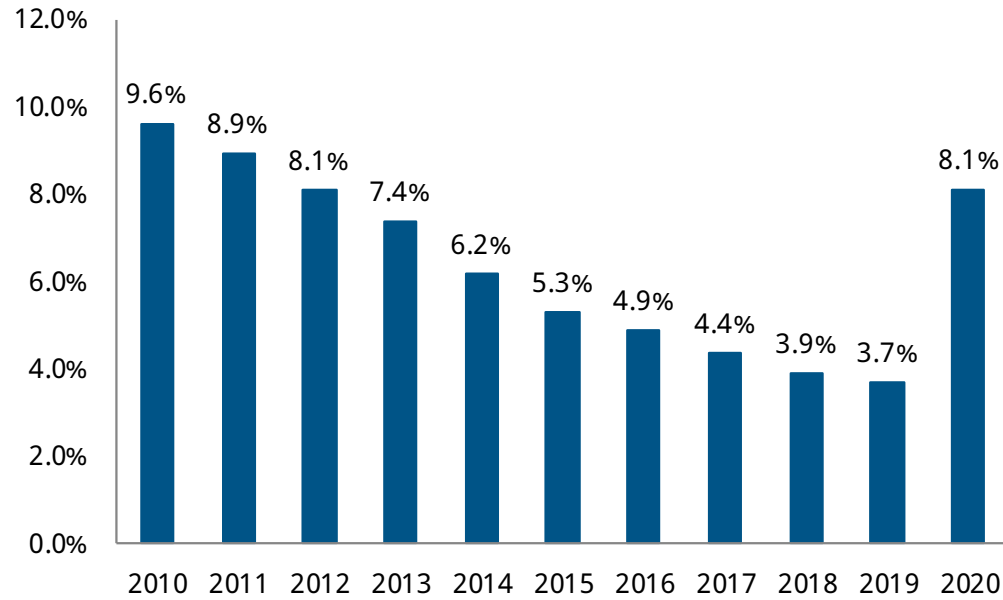


Source: Bloomberg (Dec 2020)

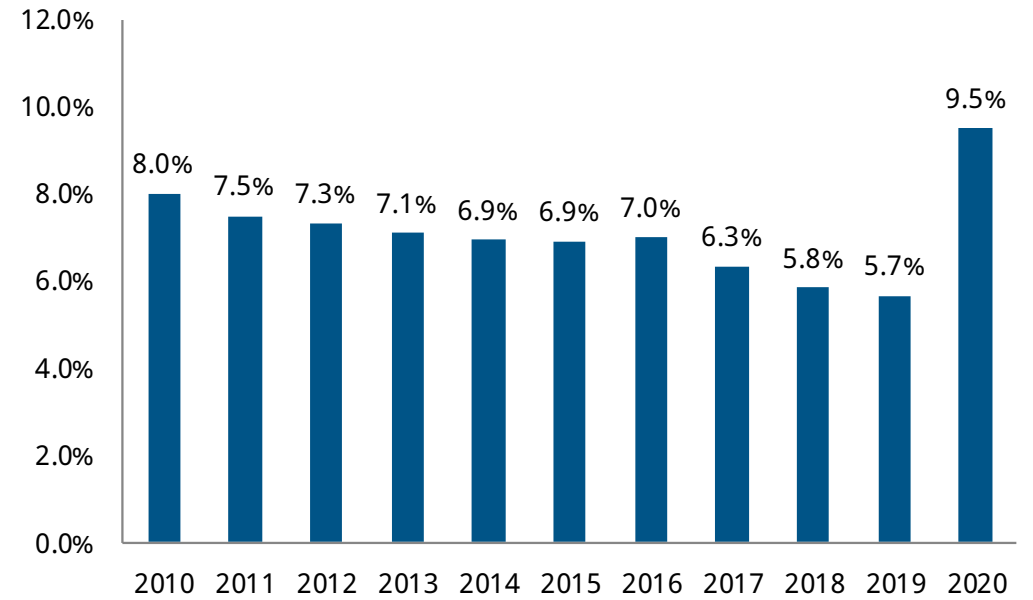


Job Market

US Unemployment Rate



Canadian Unemployment Rate

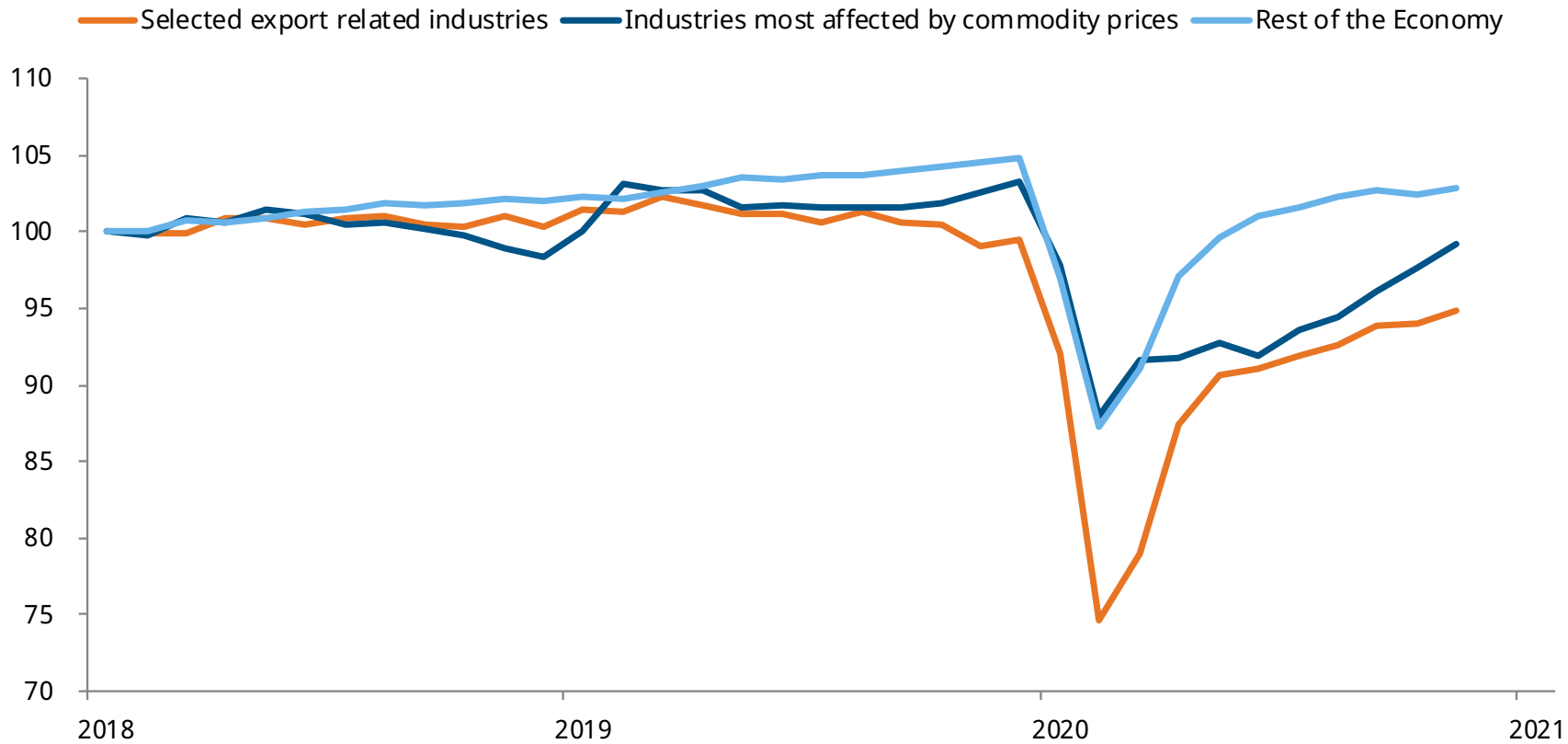


Source: Bloomberg (Dec 2020)



Closer Look at Canada – GDP Breakdown

GDP Breakdown Across Commodity Related Sectors (Indexed)

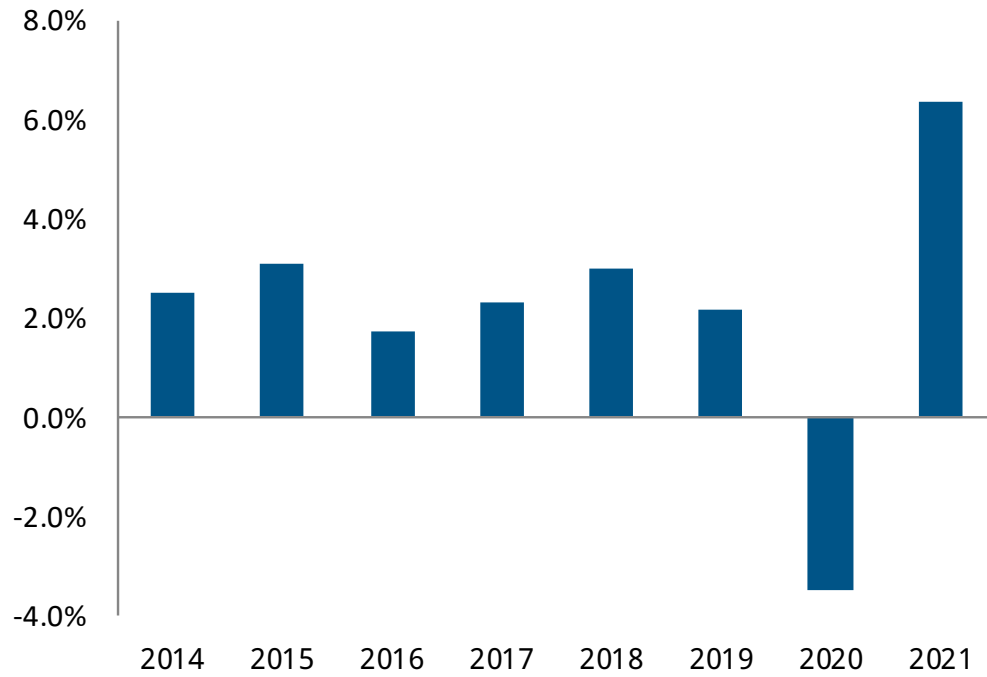


Source: Bloomberg (Mar 2021)

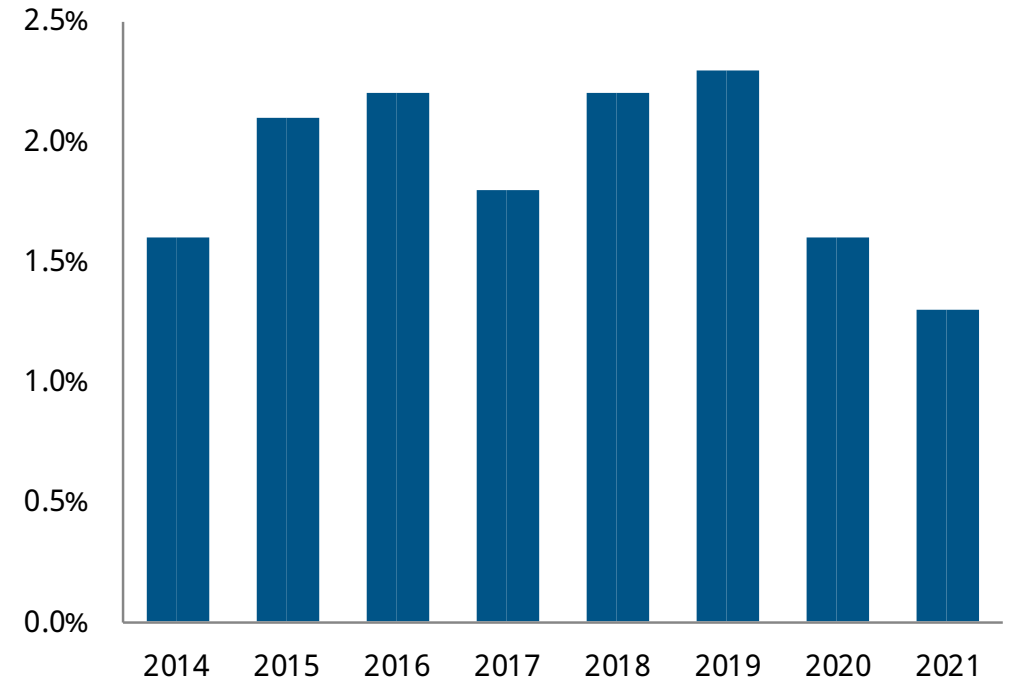


US Economic Indicators

US Real GDP Growth



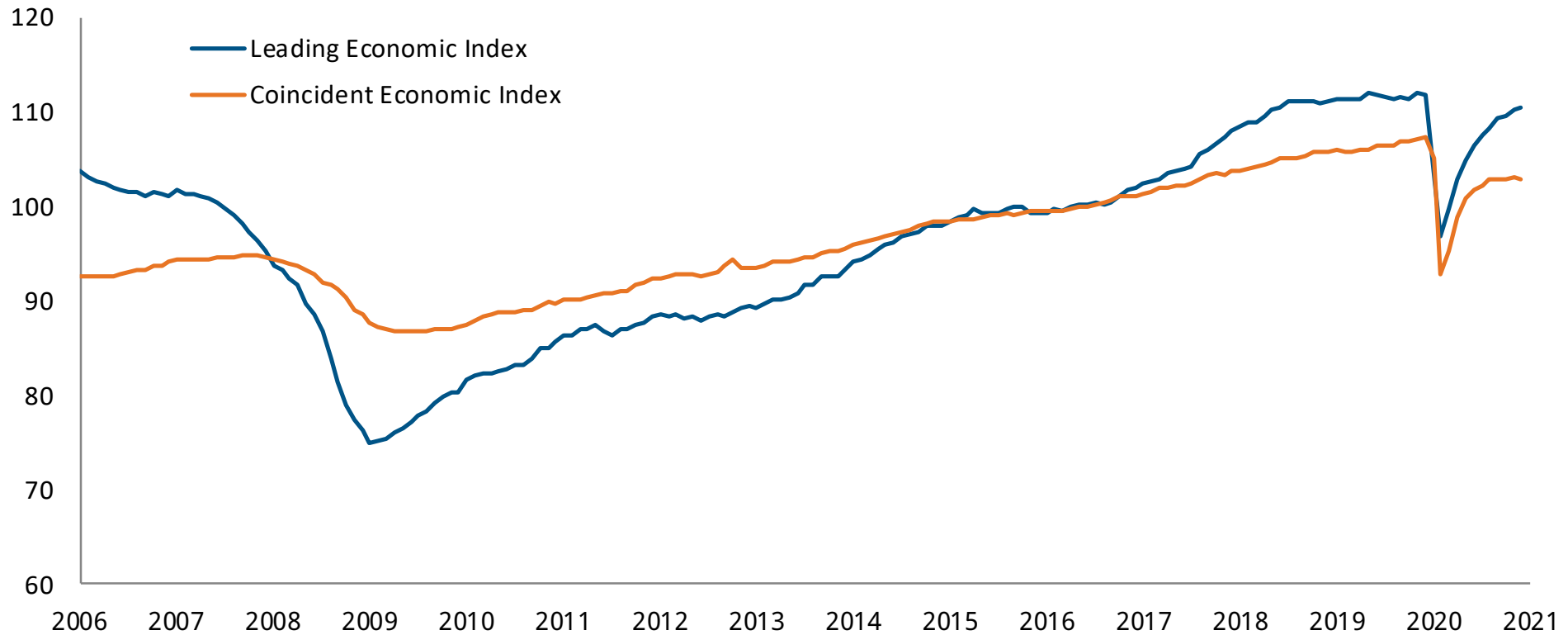
US Core Inflation





US Leading Economic Indicator (LEI)

15 Years ending February 2021



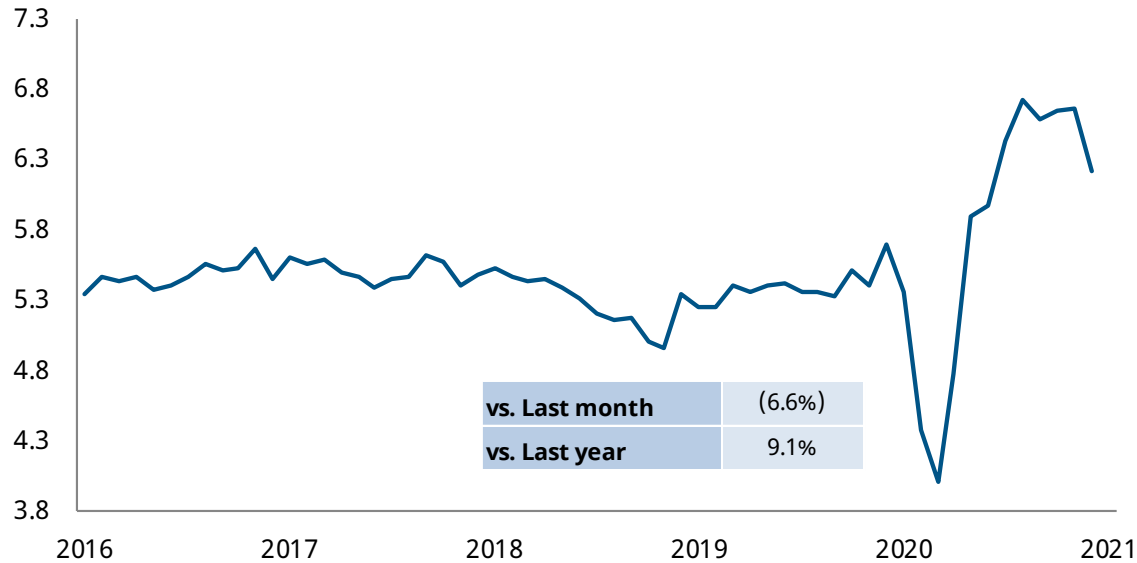
Source: Bloomberg (Feb 2021)



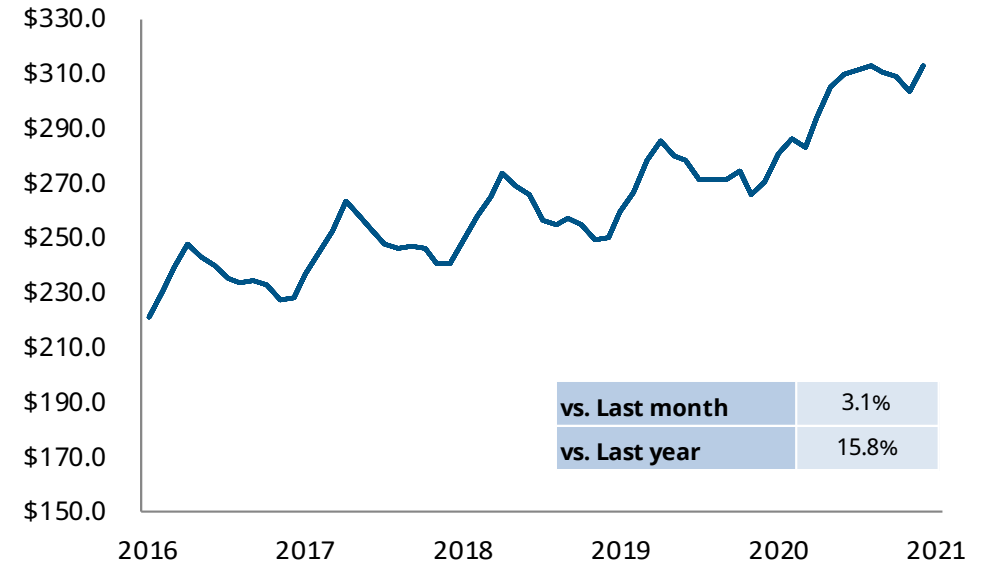
US Home Sales and Prices

15 Years ending February 2021

US Existing Home Sales



US Existing Home Selling Prices



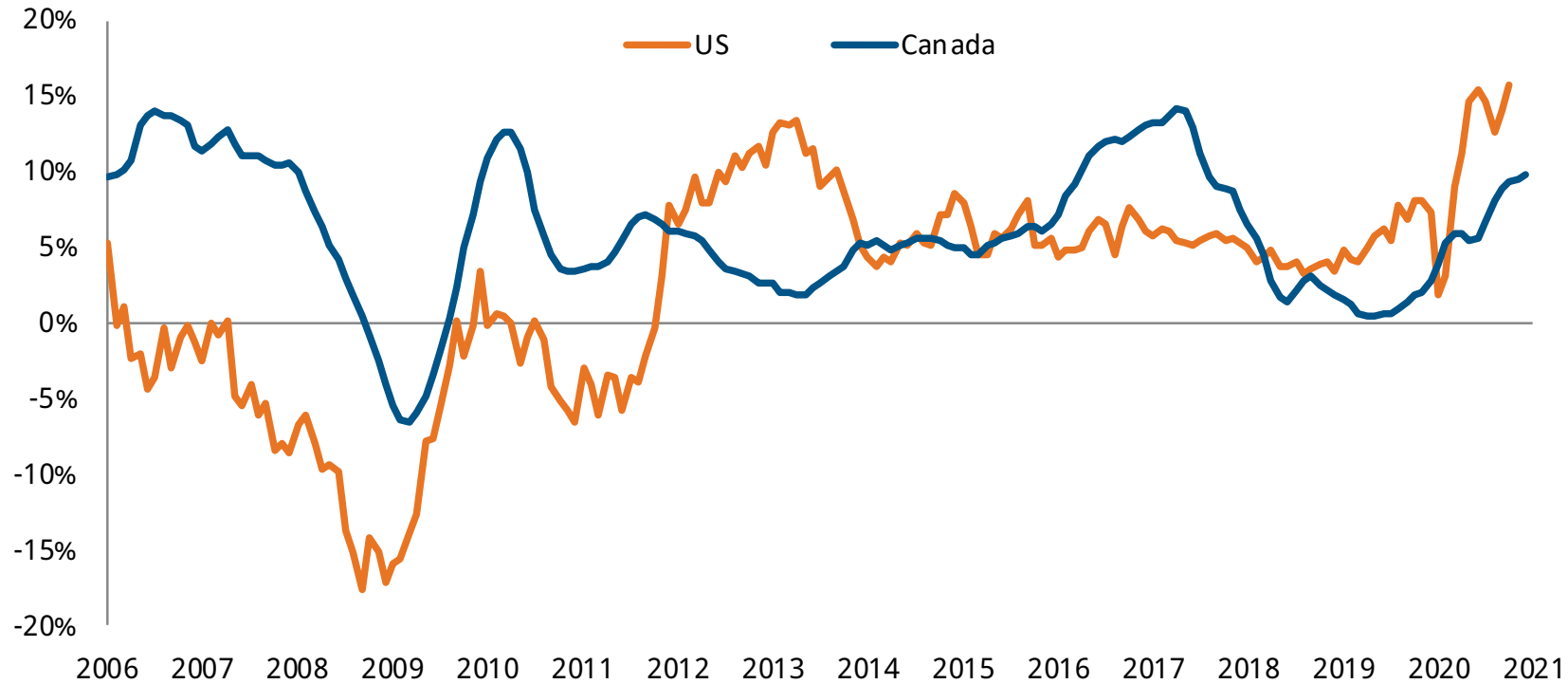
Source: Bloomberg (Feb 2021)



How Does Canada's Housing Market Compare?

Canada Housing Market vs. US Housing Market

Existing Homes Prices



Source: Bloomberg (Feb 2021)

Commodities

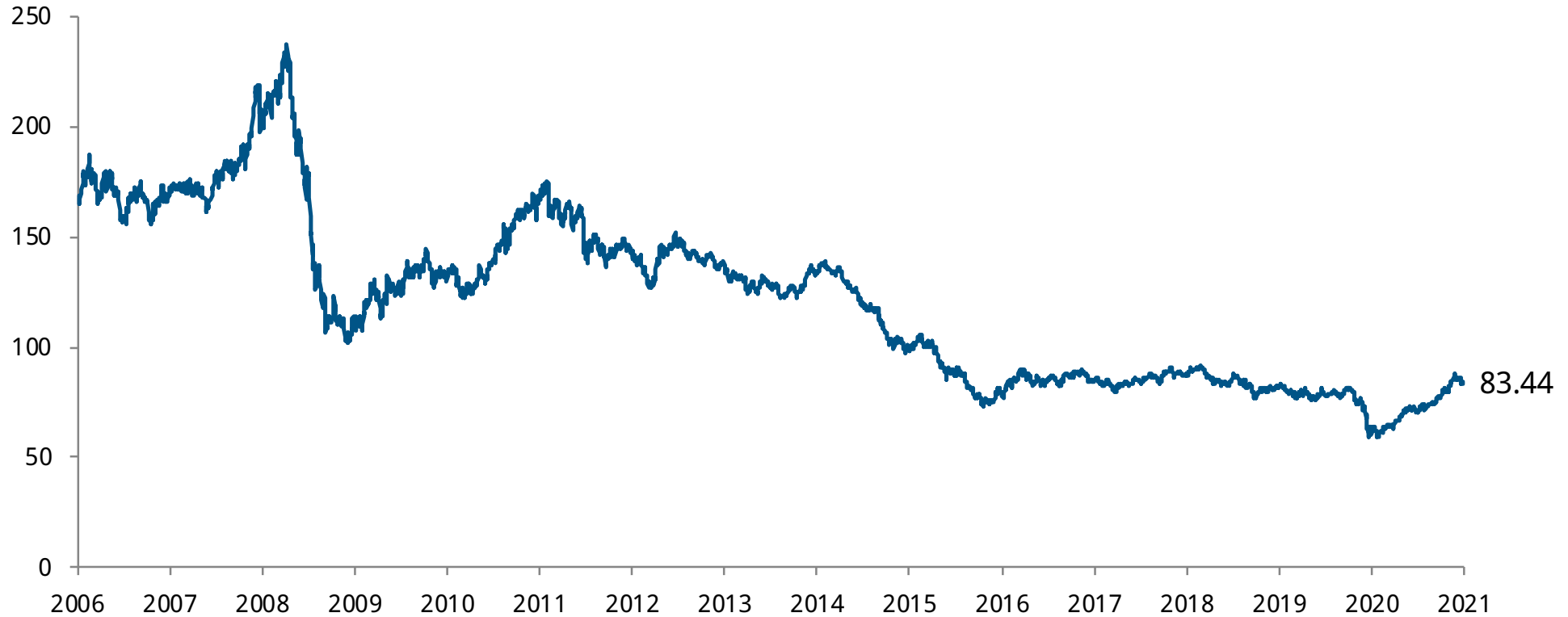


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Commodity Overview

Bloomberg Commodity Index – 15 Year Performance to March 31, 2021

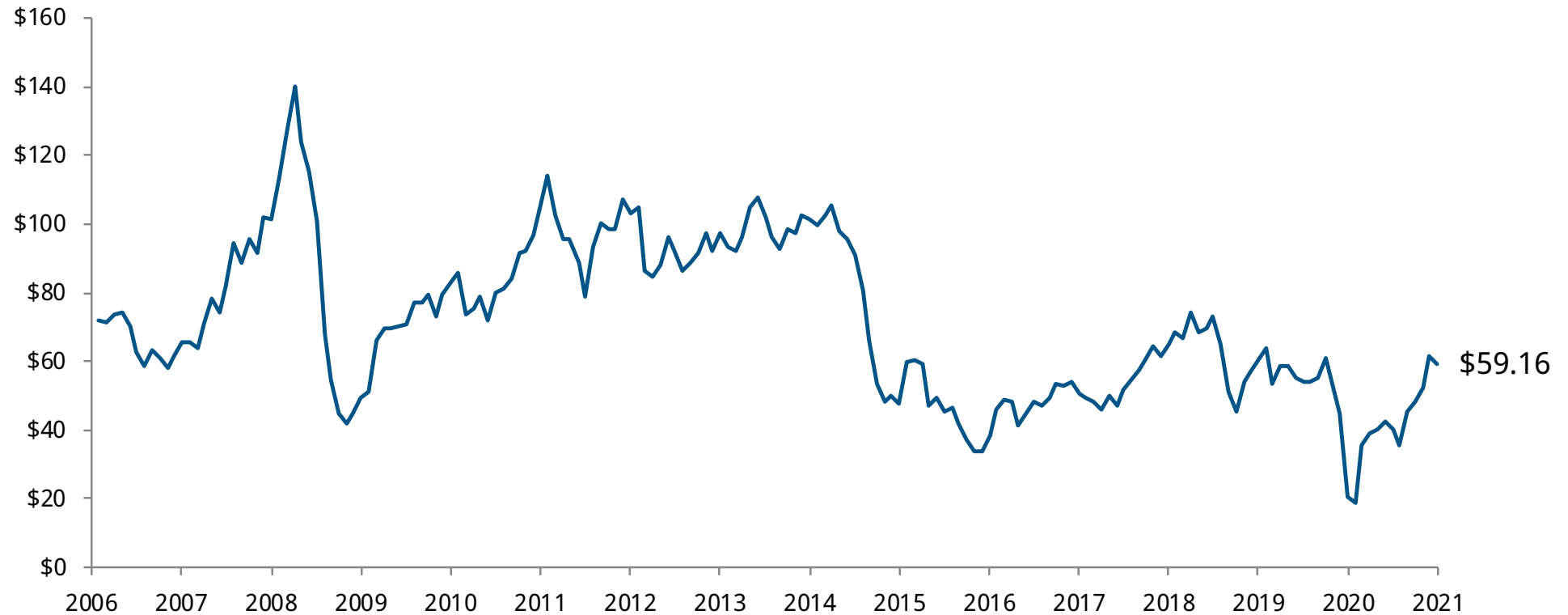


Source: Bloomberg (Mar 2021)



Crude Reality: Price of Oil

West Texas Intermediate (USD per barrel) – 15 Year Price to March 31, 2021



Source: Bloomberg (Mar 2021)



Gold Bullion

Gold (USD/troy ounce) – 15 Year Price to March 31, 2021

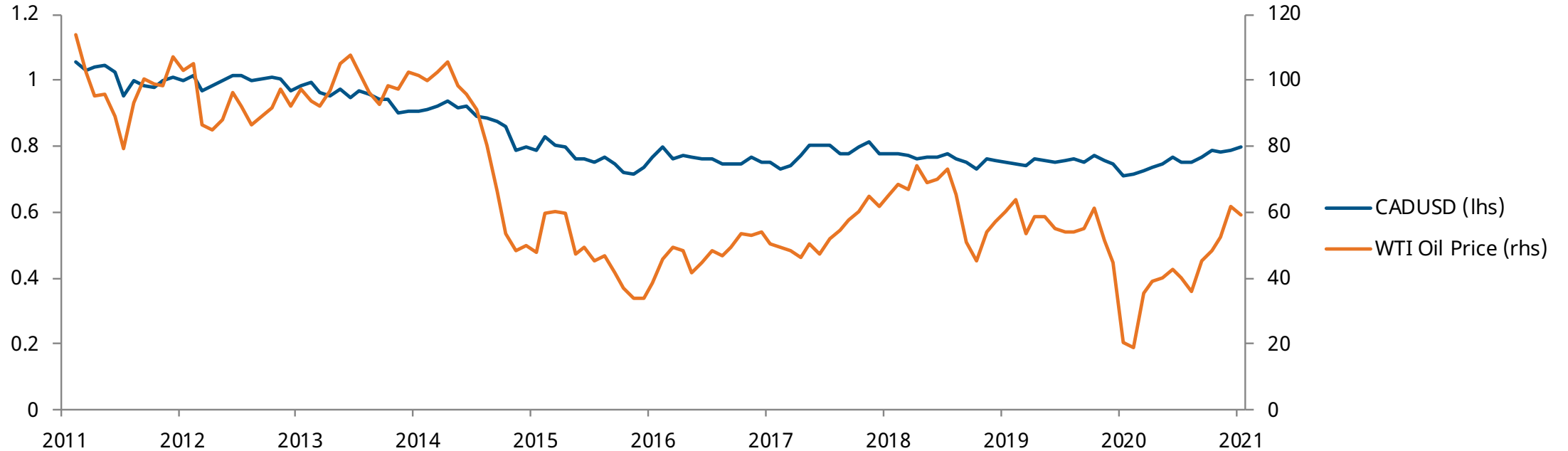


Source: Bloomberg (Mar 2021)



Canada's PetroDollar

CAD vs Price of Crude Oil (10 Years)



Source: Bloomberg (Mar 2021)

Currencies

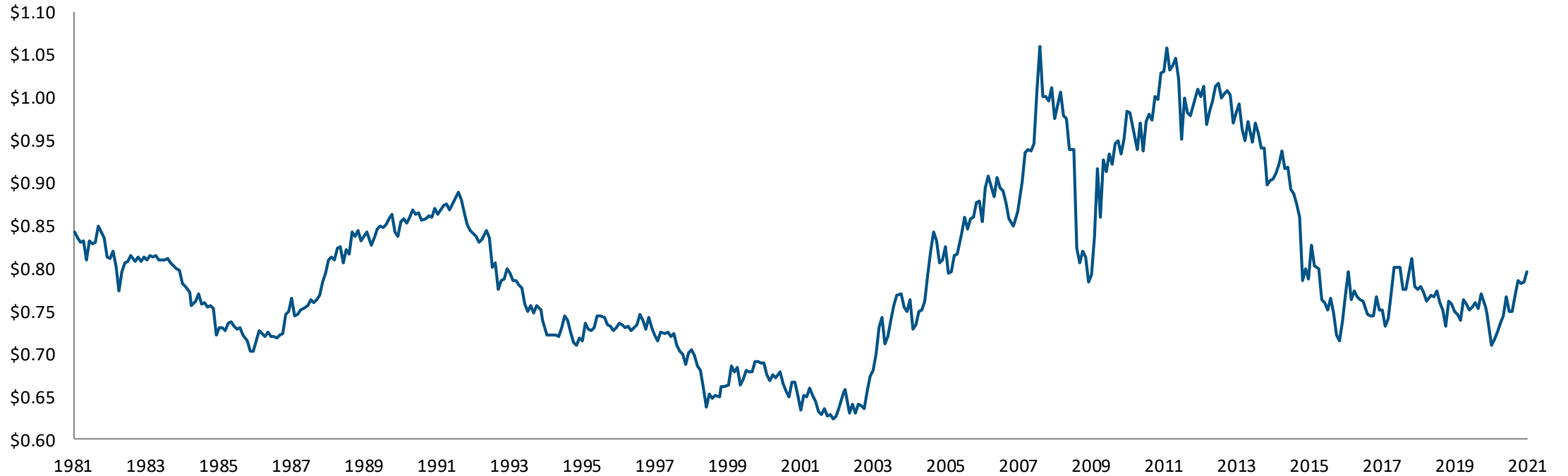


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Canadian Dollar vs US Dollar

40 Years ending March 2021



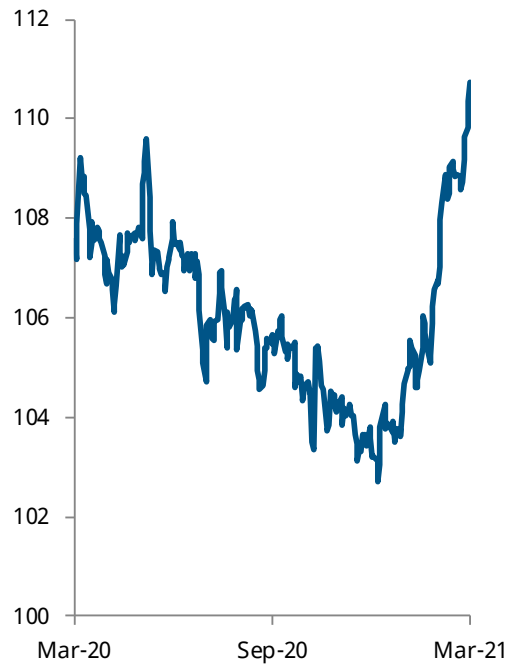
Source: Bloomberg (Mar 2021)



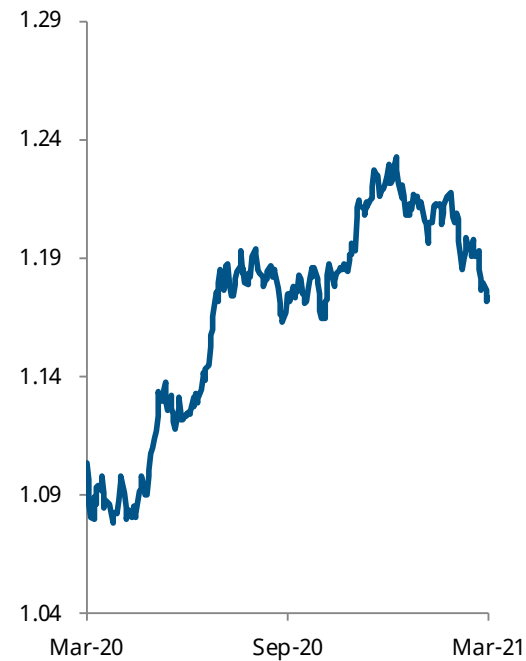
Foreign Exchange Rates

USD Comparisons – 1 Year Rates to March 31, 2021

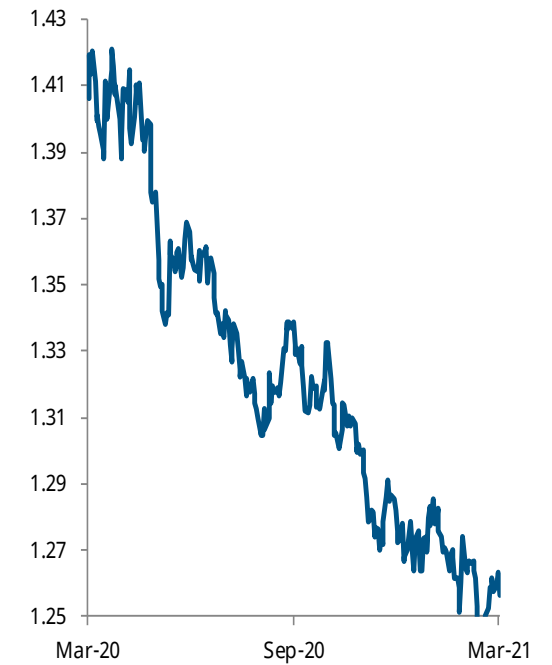
Yen vs. USD



Euro vs. USD



CDN vs. USD



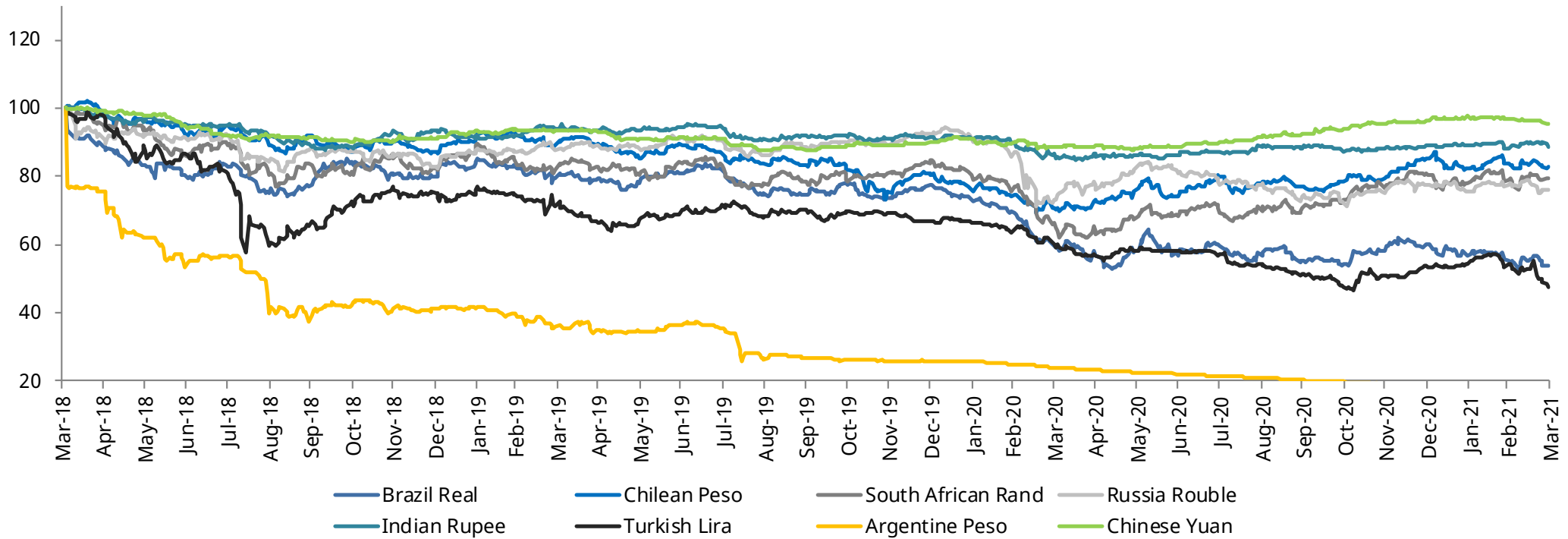
Source: Bloomberg (Mar 2021)



Emerging Market Currencies

Exchange rates against the U.S. Dollar – 3 Year Rates to March 31, 2021

(Indexed to 100 on March 31, 2018)



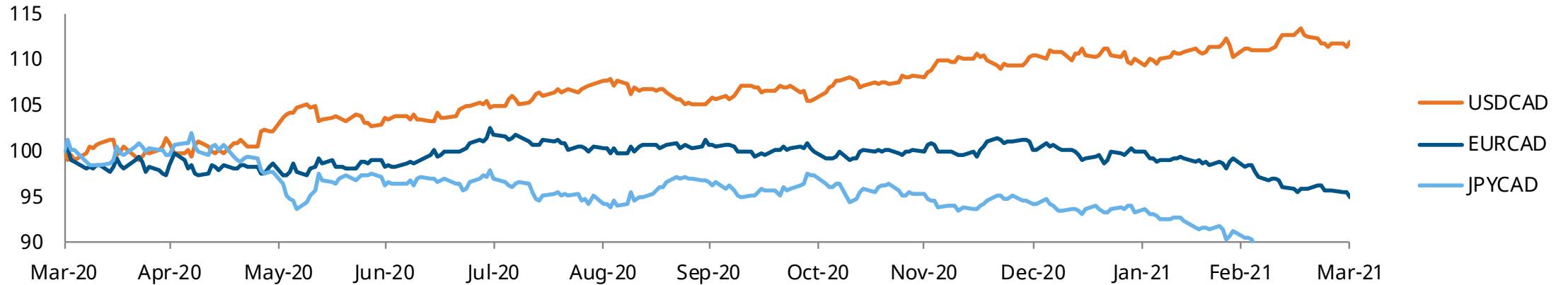
Source: Bloomberg (Mar 2021)



Currency – The Hidden Difference

Foreign currencies vs. Canadian Dollar – 1 Year Rates to March 31, 2021

(Indexed to 100 on March 31, 2020)



| | Canada S&P/TSX | U.S. S&P500 | Euro Area MSCI Europe NR | Japan MSCI Japan NR | Emerg. Markets MSCI EM NR | China MSCI China NR | World MSCI World |
|-------------------------------|-------------------|----------------|-----------------------------|------------------------|------------------------------|------------------------|---------------------|
| Local Currency Returns | 44.2% | 56.4% | 34.5% | 43.0% | 53.0% | 42.6% | 50.7% |
| CDN\$-Based Returns | 44.2% | 38.6% | 28.5% | 23.8% | 40.4% | 27.3% | 36.5% |

Source: Bloomberg (Mar 2021)

Equities

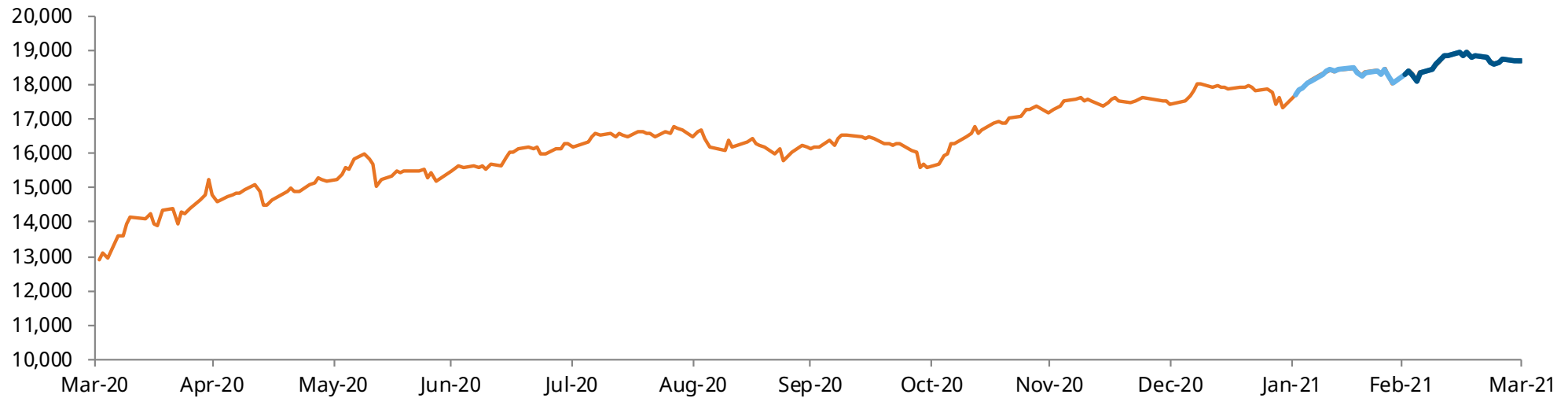


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A View of Global Market Indices

S&P/TSX Composite Index Prices - 12 months ending March 31, 2021



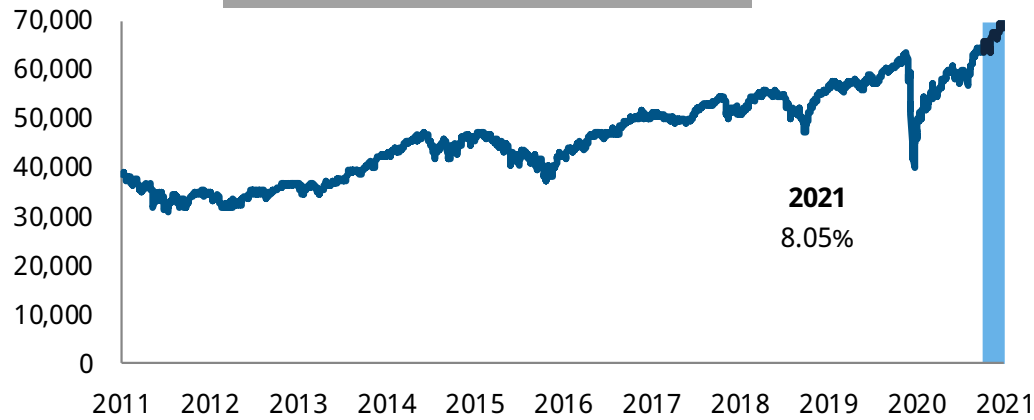
| | S&P/TSX | S&P 500 | Euro Area | Japan | Emerg. Mkts | China | World |
|----------------------------------|---------|---------|-----------|-------|-------------|--------|-------|
| 1-Year returns to Mar 31: | 44.2% | 56.4% | 34.5% | 43.0% | 53.0% | 42.6% | 50.7% |
| Year-to-Date: | 8.1% | 6.2% | 7.6% | 8.7% | 3.9% | (0.2%) | 6.1% |
| Quarter-to-Date: | 8.1% | 6.2% | 7.6% | 8.7% | 3.9% | (0.2%) | 6.1% |
| Month-to-Date: | 2.5% | 2.0% | 4.3% | 2.8% | (2.5%) | (8.9%) | 2.0% |

Source: Bloomberg (Mar 2021)

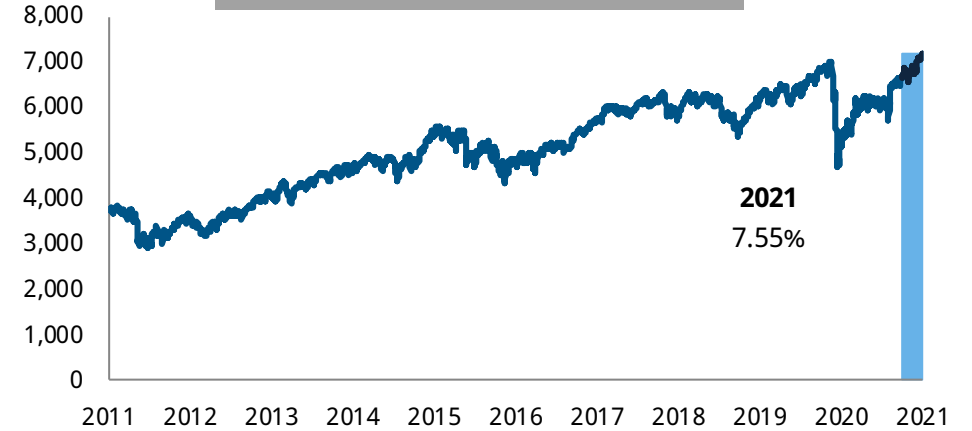


Global Market Results

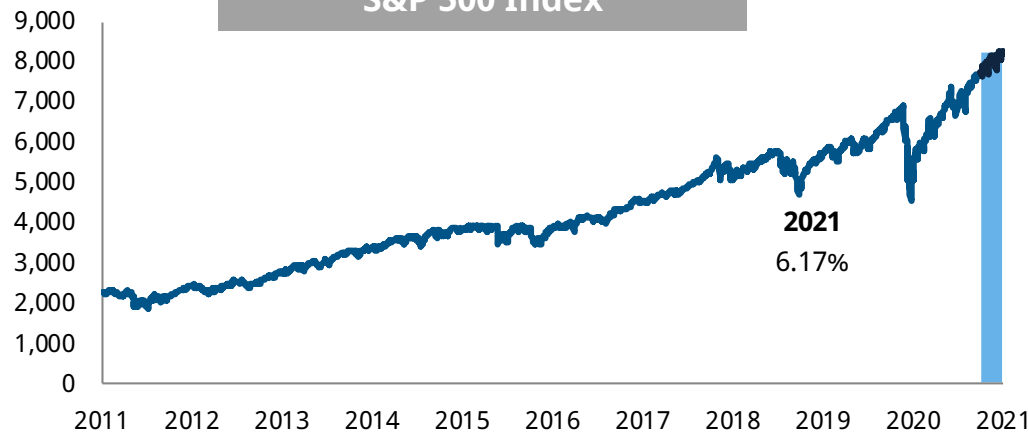
S&P/TSX Composite Index



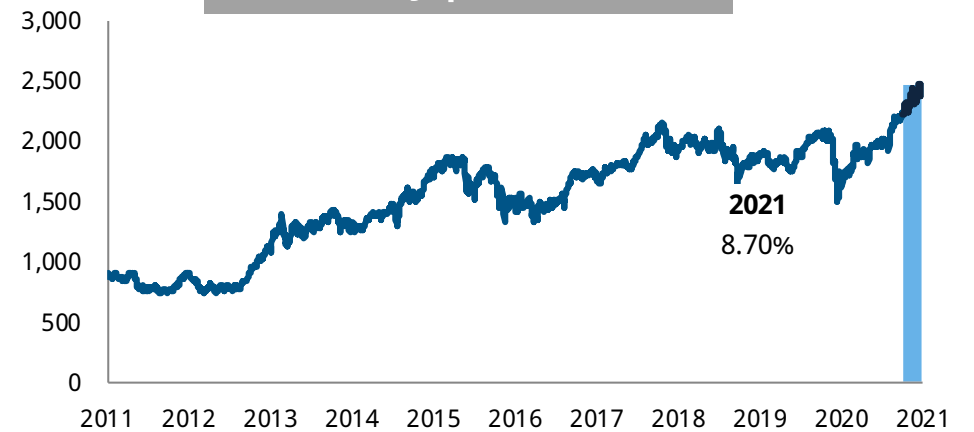
MSCI Europe Index



S&P 500 Index



MSCI Japan Index

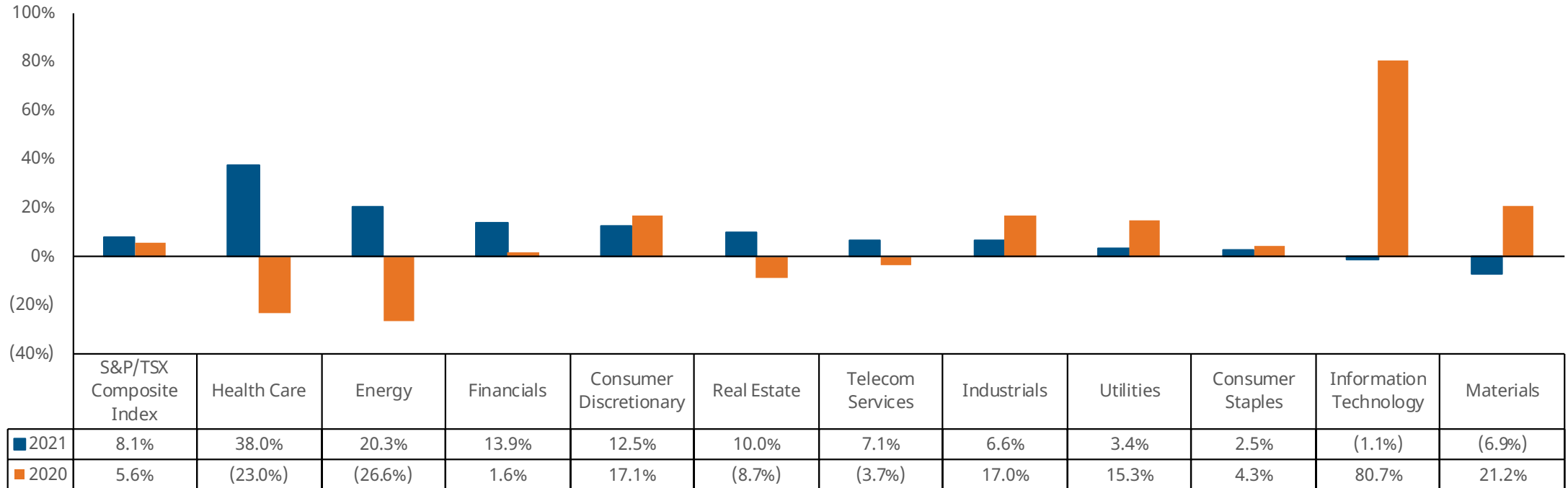


Source: Bloomberg (Mar 2021)



S&P/TSX by Sector

S&P/TSX returns for 2020 and 2021 YTD

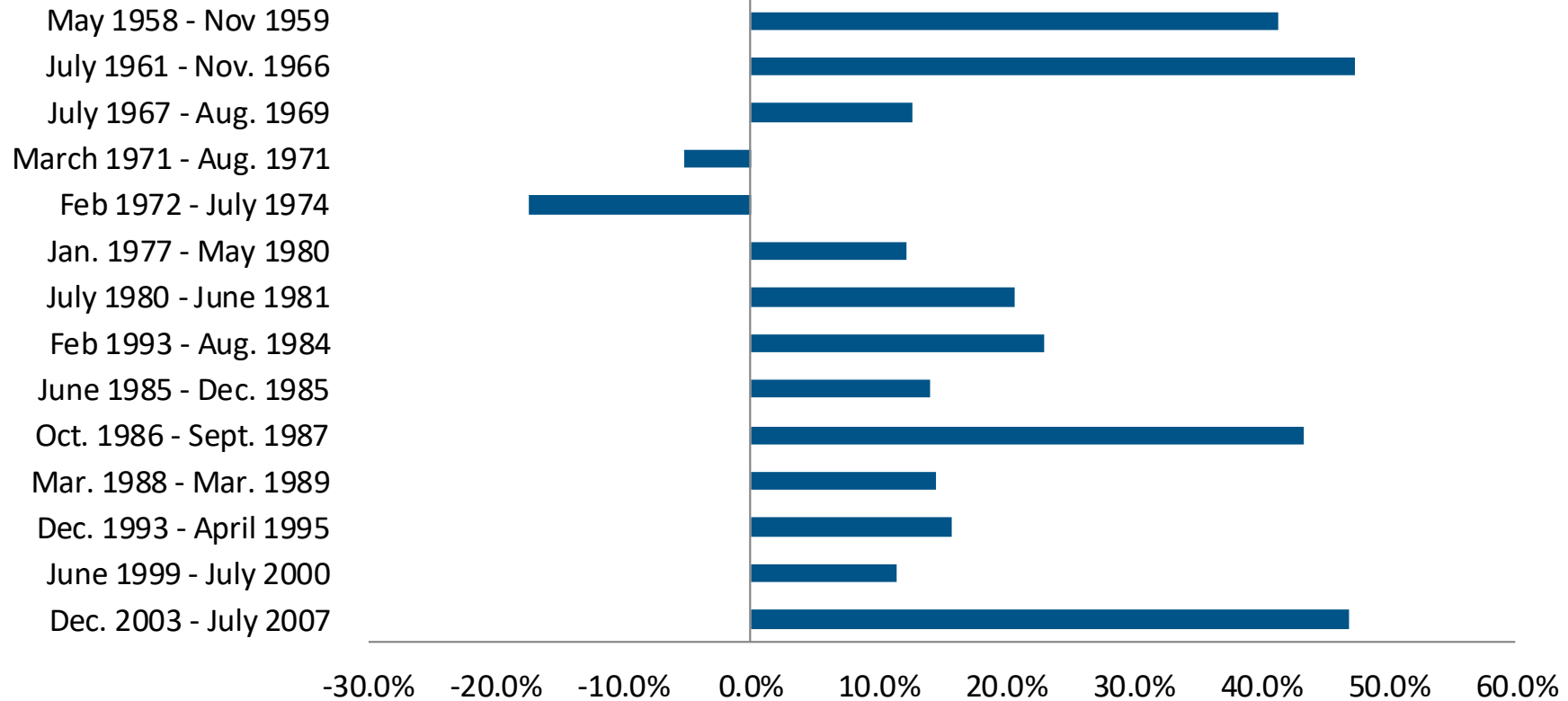


Source: Bloomberg (Mar 2021)



Don't Fear the Fed

S&P 500 Index Following the Federal Reserve Boosting Interest Rates



Fixed income

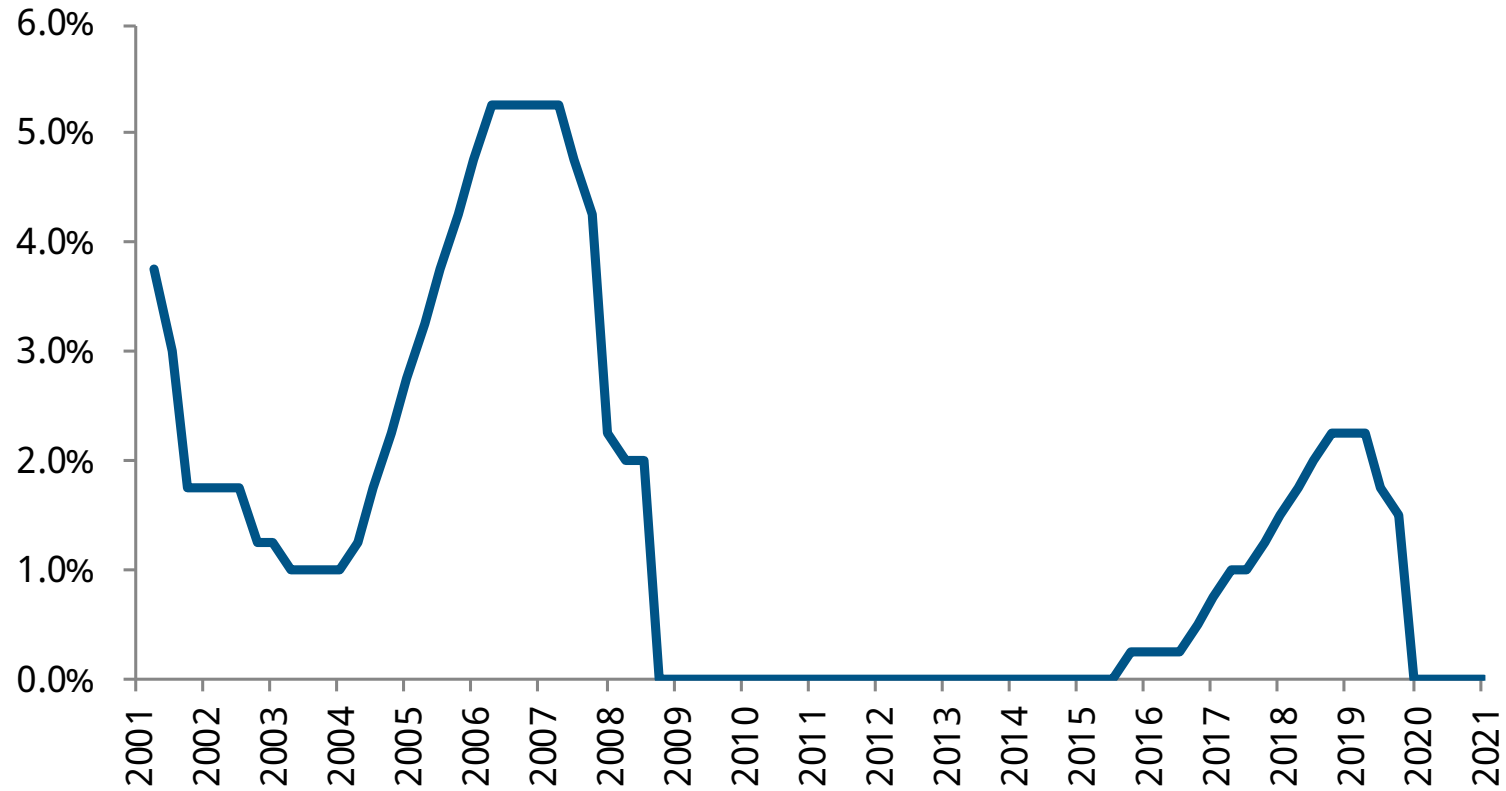


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US Fed Overnight Rate

Fed Funds: Target Rate (%)

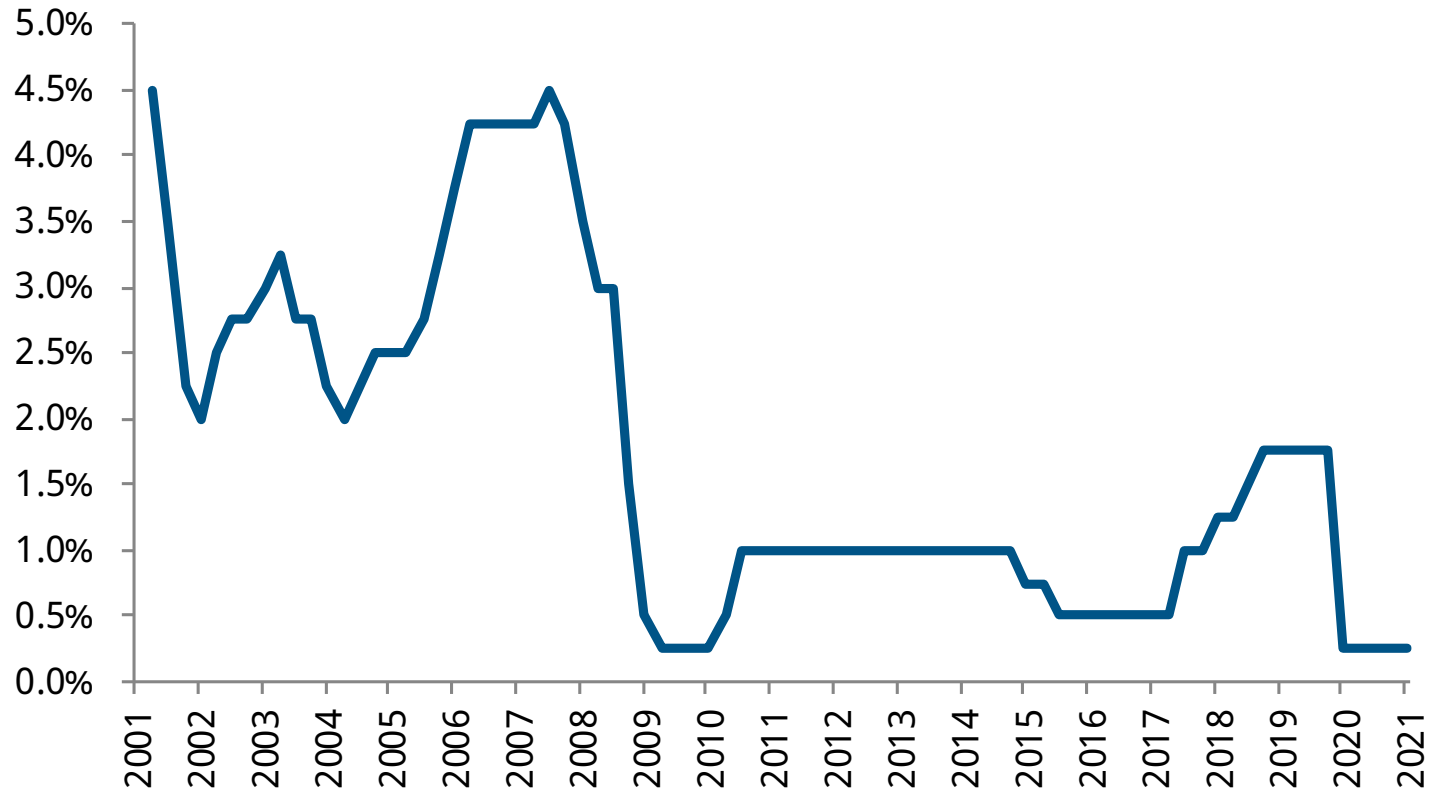


Source: Bloomberg (Mar 2021)



Bank of Canada Overnight Rate

Bank of Canada Overnight Rate (%)



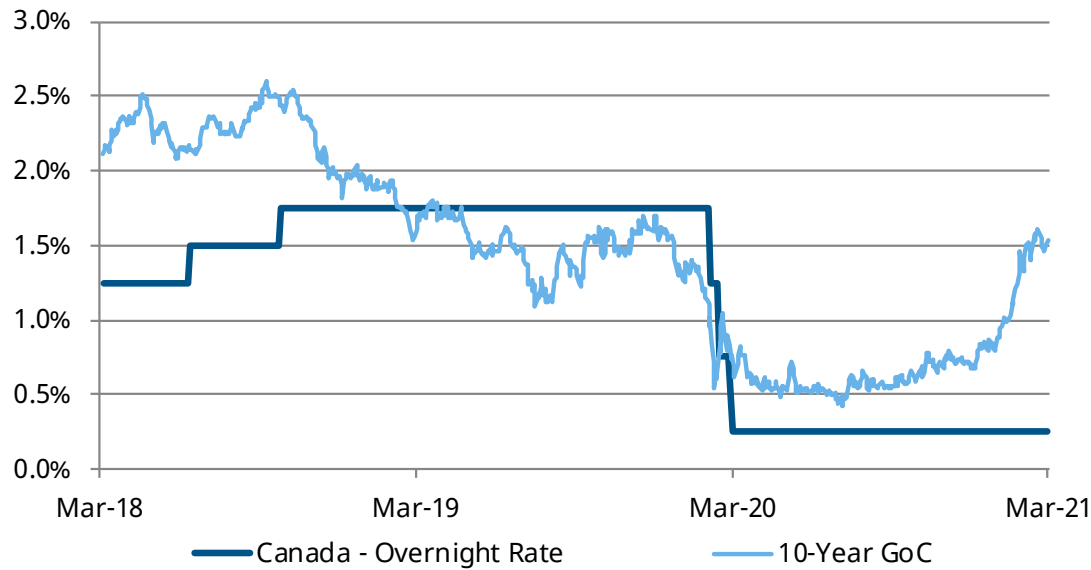
Source: Bloomberg (Mar 2021)



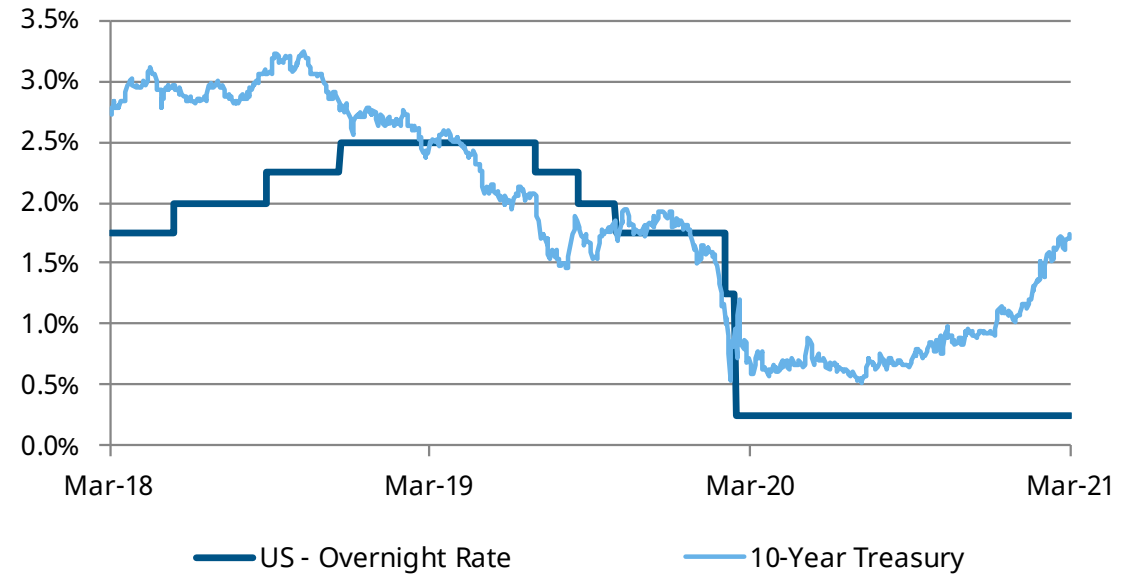
Central Bank Rates

Central Bank Rates and 10-Year Gov't Bond Yields - 3 Years to March 31, 2021

Canada



United States

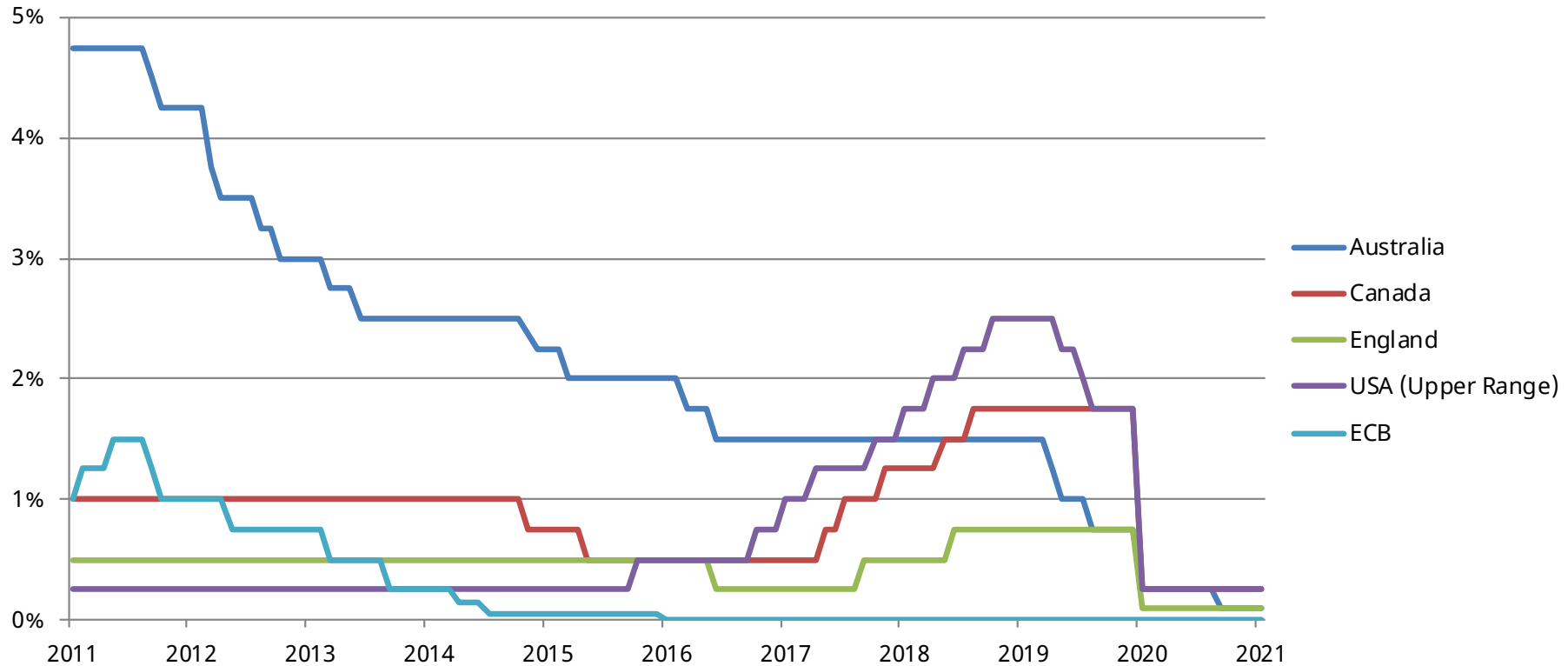


Source: Bloomberg (Mar 2021)



Central Bank Rates Around the Globe

Central Bank Rates - 10 Years to March 31, 2021

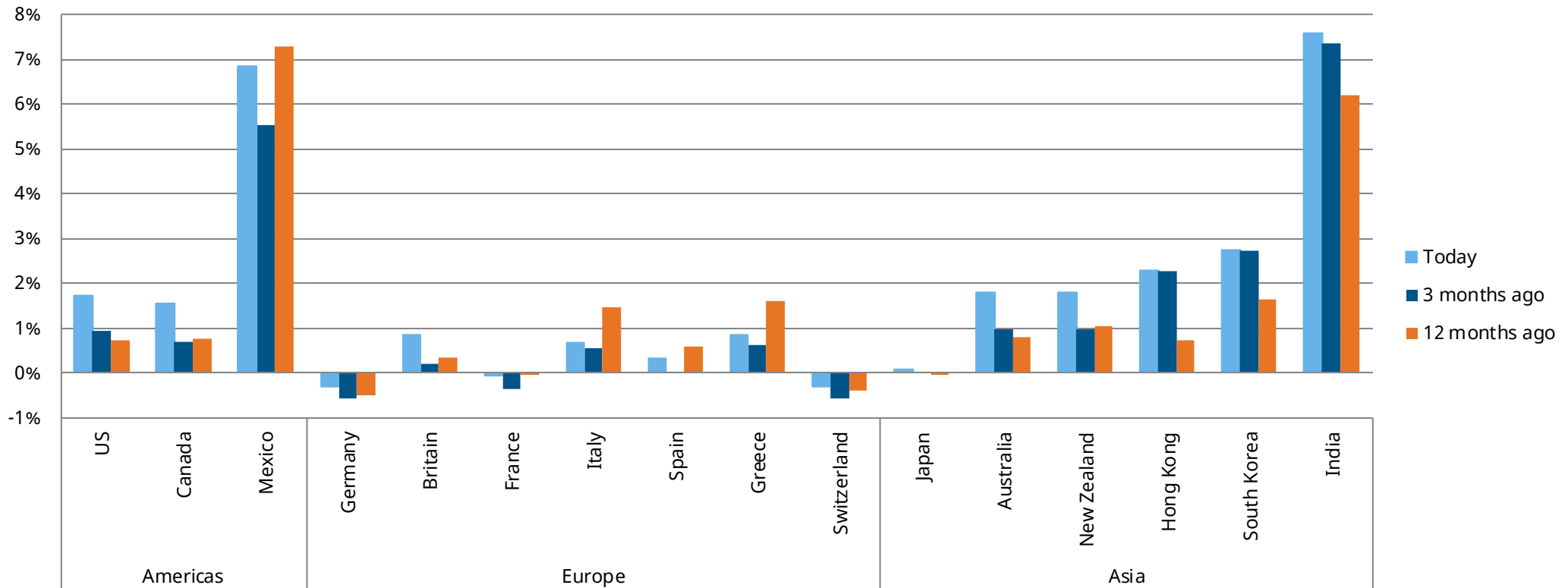


Source: Bloomberg (Mar 2021)



10 Year Government Bond Yields

As of March 31, 2021, 3 months ago and 1 year ago (bps)



Source: Bloomberg (Mar 2021)

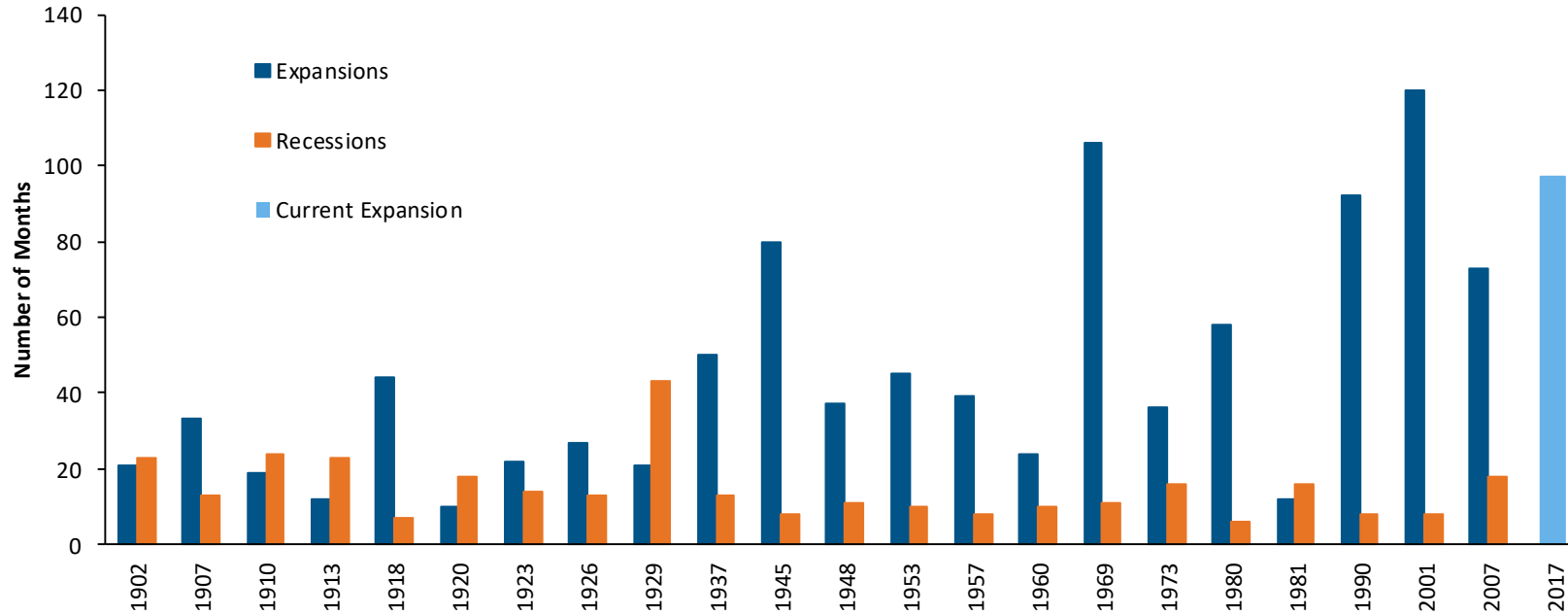
Managing downturns



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Expansion vs. Recession in the US



| Average, all cycles: | Recession | Expansion |
|-----------------------|-----------|-----------|
| 1854-2009 (33 cycles) | 16 | 42 |
| 1854-1919 (16 cycles) | 22 | 27 |
| 1919-1945 (6 cycles) | 18 | 35 |
| 1945-2009 (11 cycles) | 11 | 59 |

Recession is the number of months from peak to trough.
Expansion is the number of months from the previous trough to latest peak.

For example: 120 months – March 1991 to March 2001 expansion



S&P/TSX Declines Greater Than 30%

| Period | | Peak Value | Trough Value | Decline | Months from Peak to Trough | Price Return (from trough) | | |
|---------------------------------|-------------|------------|--------------|---------|----------------------------|----------------------------|--------|----------|
| Peak Date | Trough Date | | | | | 3 months | 1 year | 10 years |
| Sep 2 1929 | Jun 1 1932 | 332.61 | 64.20 | (80.7%) | 33 | 45.8% | 79.2% | 37.9% |
| Jul 3 1956 | Dec 3 1957 | 617.67 | 432.11 | (30.0%) | 17 | 5.8% | 26.8% | 108.1% |
| Oct 1 1973 | Sep 3 1974 | 1,329.28 | 832.98 | (37.3%) | 11 | 1.4% | 17.2% | 186.5% |
| Nov 28 1980 | Jul 8 1982 | 2,402.23 | 1,346.35 | (44.0%) | 19 | 26.2% | 84.1% | 153.7% |
| Aug 13 1987 | Oct 28 1987 | 4,112.86 | 2,837.79 | (31.0%) | 3 | 7.9% | 20.0% | 137.4% |
| Apr 22 1998 | Oct 5 1998 | 7,822.25 | 5,336.15 | (31.8%) | 6 | 24.8% | 31.0% | 102.5% |
| Sep 1 2000 | Oct 9 2002 | 11,388.80 | 5,695.33 | (50.0%) | 25 | 18.9% | 33.5% | 115.5% |
| Jun 18 2008 | Mar 9 2009 | 15,073.13 | 7,566.94 | (49.8%) | 9 | 39.4% | 57.5% | 112.8% |
| Average: | | | | (43.5%) | 16 | 18.7% | 41.7% | 119.3% |
| Ex-Period 1 (Great Depression): | | | | (37.4%) | 13 | 14.2% | 35.4% | 130.9% |

Annualized Price Return (excludes dividends)

Average: 7.91%

Ex-Period 1 (Great Depression): 8.58%



Staying Invested May Improve Returns

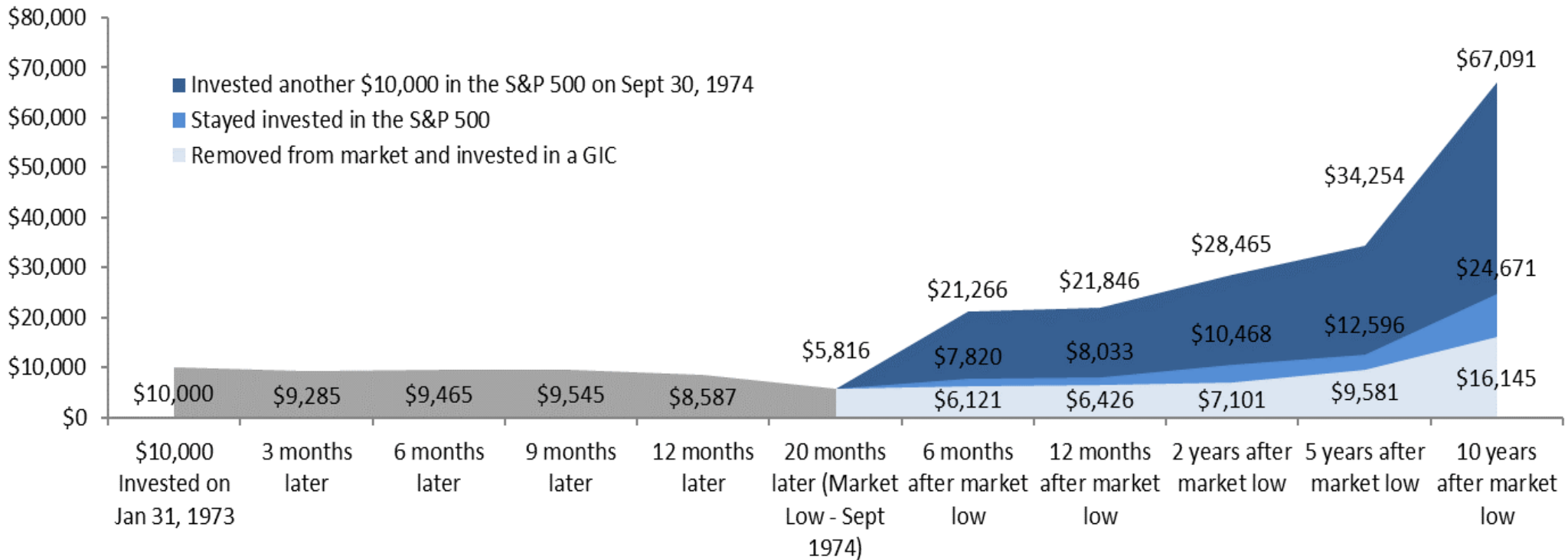
| Crisis | Market Low | 1 Year Later | 2 Years Later |
|--|------------|--------------|---------------|
| The Korean War | 7/13/1950 | 28.8% | 39.3% |
| Cuban Missile Crisis | 10/23/1962 | 33.8% | 57.3% |
| JFK Assassination | 11/23/1963 | 25.0% | 33.0% |
| 1969 to 70 Market Break | 5/26/1970 | 43.6% | 53.9% |
| 1973 to 74 Market Break | 12/6/1974 | 42.2% | 66.5% |
| 1979 to 80 Oil Crisis | 3/27/1980 | 27.9% | 5.9% |
| 1987 Stock Market Crash | 10/19/1987 | 22.9% | 54.3% |
| Desert Storm | 10/11/1990 | 21.1% | 30.2% |
| Soviet coup d'état attempt | 8/19/1991 | 11.1% | 21.2% |
| Asian Financial Crisis | 4/2/1997 | 49.3% | 76.2% |
| Dot-com Bubble Crash / Sept 11 / Enron | 10/9/2002 | 33.7% | 44.8% |
| Invasion of Iraq | 3/11/2003 | 38.2% | 50.6% |
| North Korean Missile Test | 7/17/2006 | 25.5% | 2.1% |
| Subprime Mortgage Crisis | 3/9/2009 | 68.6% | 95.1% |
| Average Appreciation | | 33.7% | 45.0% |

Snapshots in time of significant negative international events from 1950 to March 2009, and the subsequent change in market value from the S&P 500 low in that calendar year to one and two years hence.



Bear Market Decision in September 1974

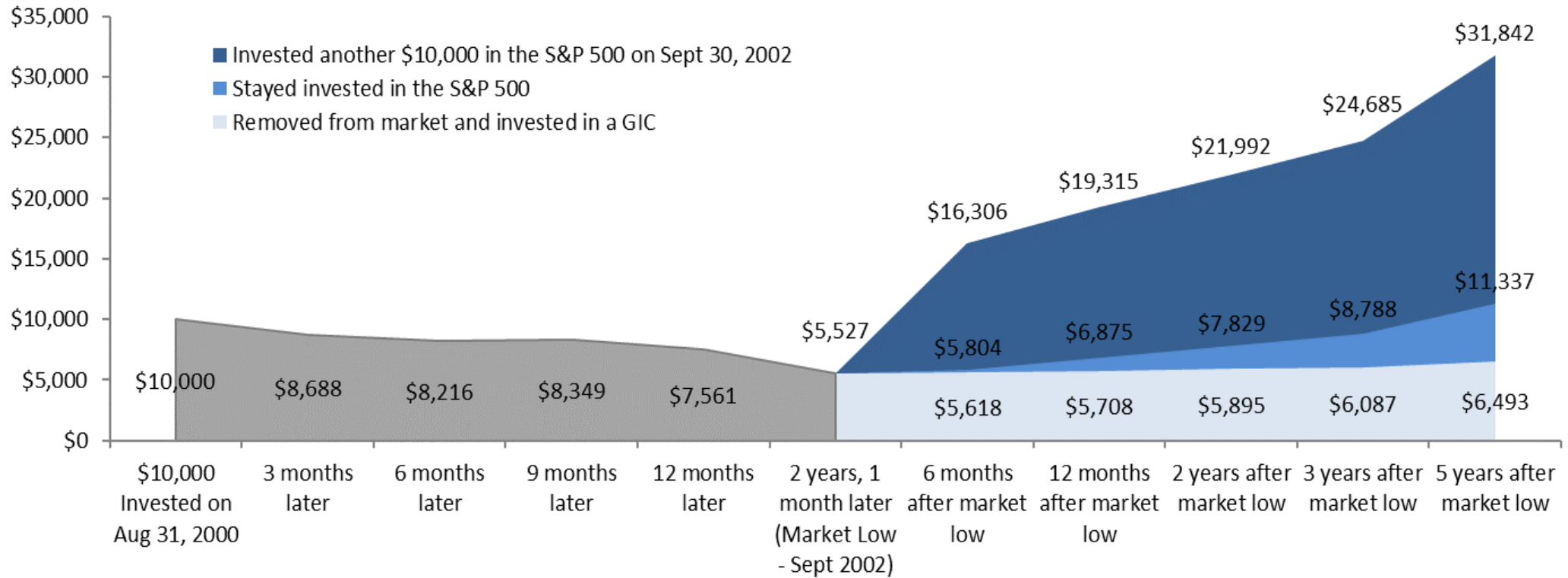
\$10,000 Invested in the S&P 500 on January 31, 1973





Bear Market Decision in September 2002

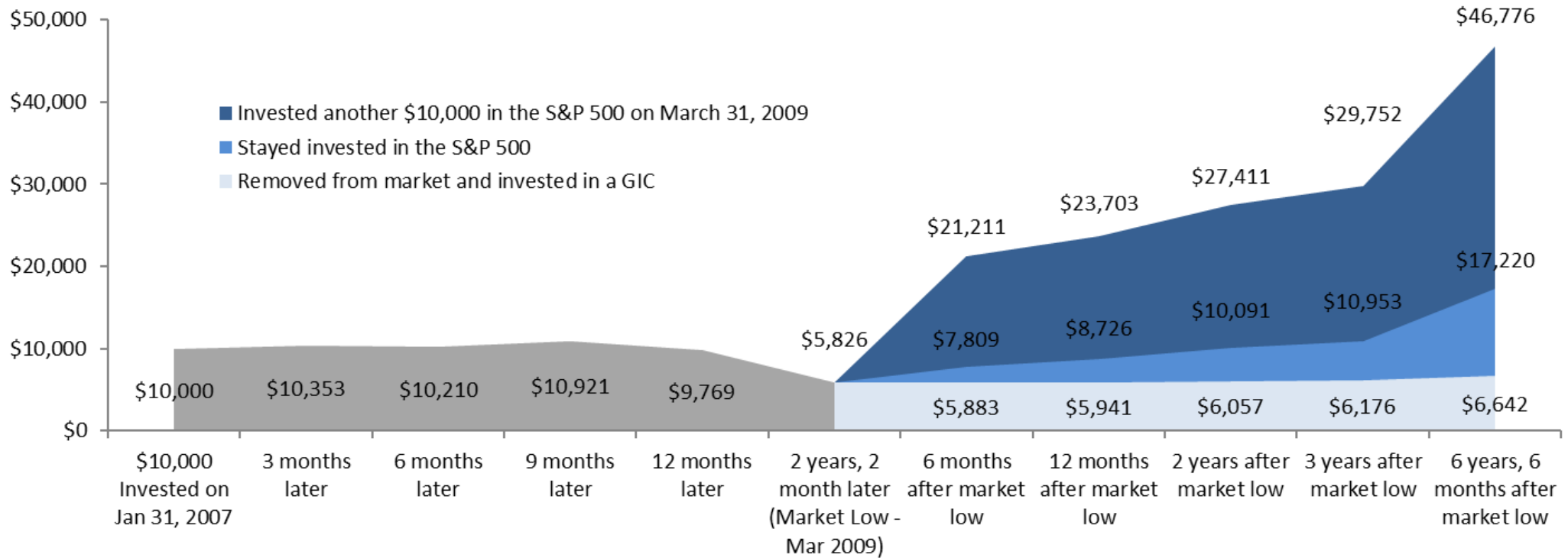
\$10,000 Invested in the S&P 500 on August 31, 2000





Bear Market Decision in March 2009

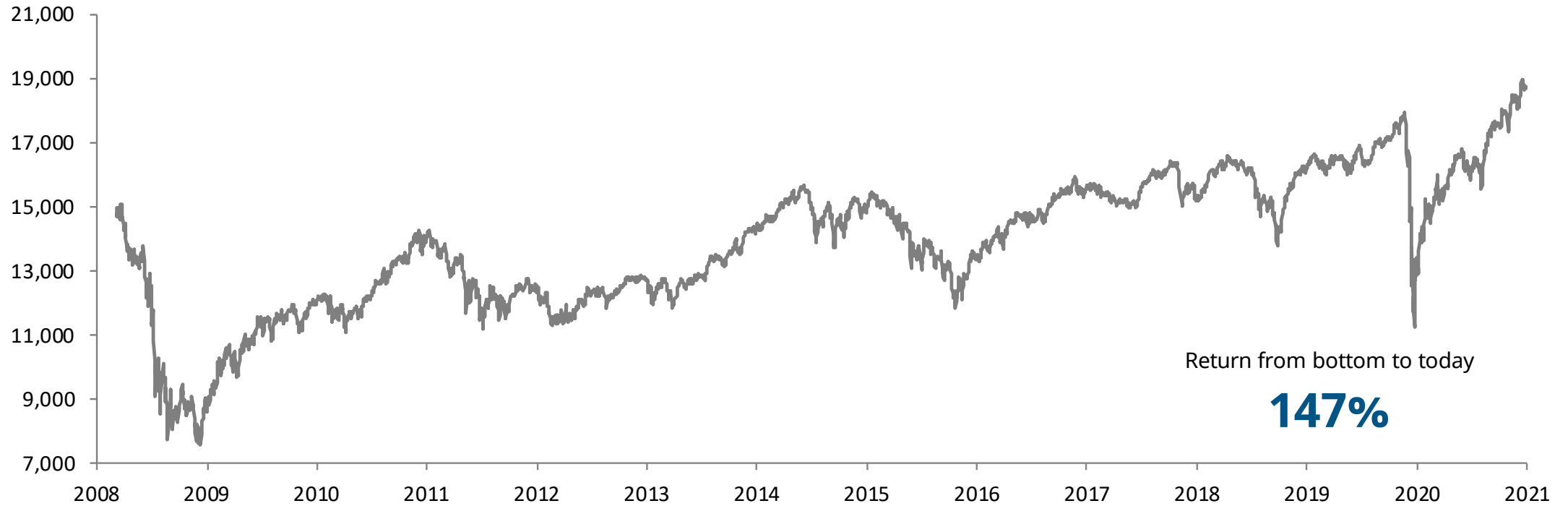
\$10,000 Invested in the S&P 500 on January 31, 2007





Recovery from the Previous Recession

S&P/TSX Composite Index



Source: Bloomberg (Mar 2021)

Confidence and volatility

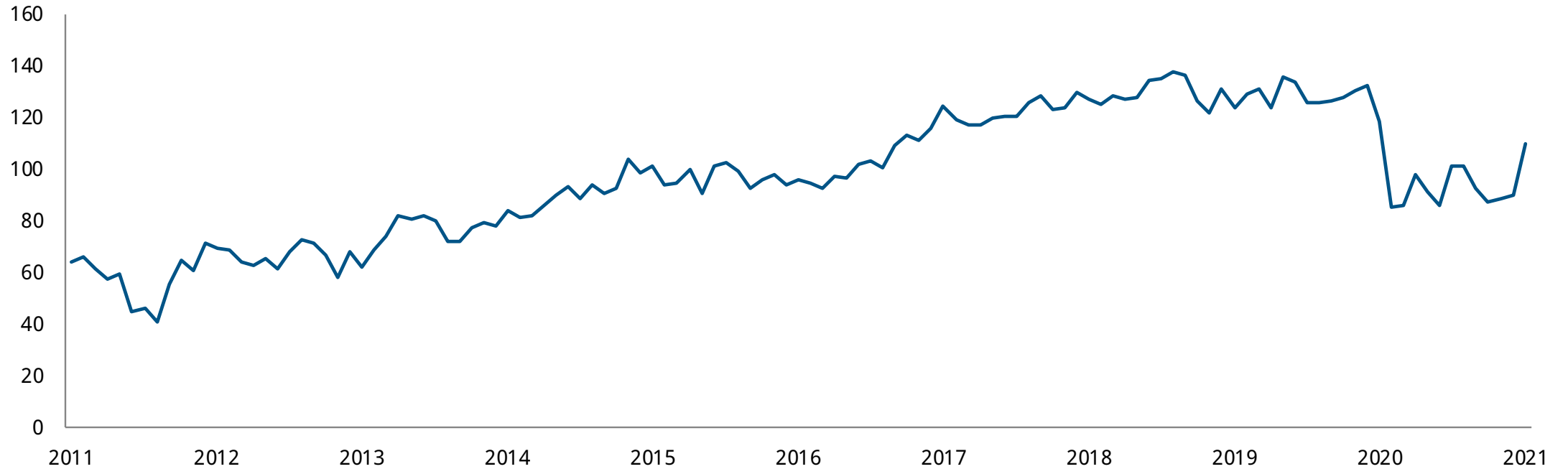


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US Consumer Confidence

Conference Board's US Consumer Confidence Index

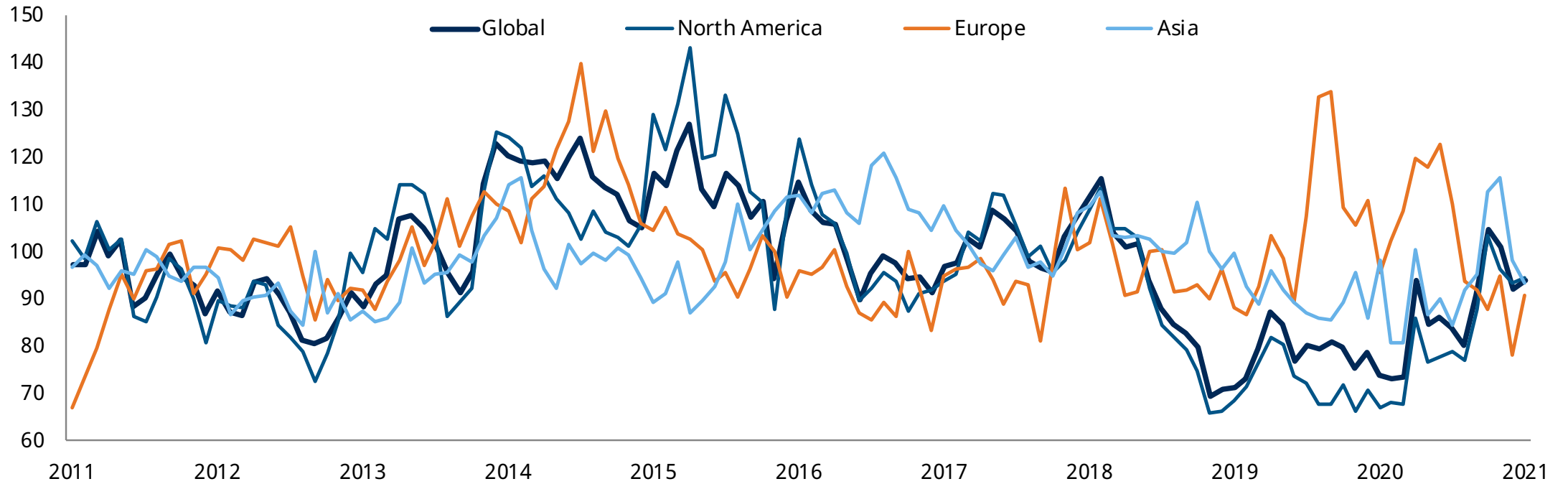


Source: Bloomberg (Mar 2021)



Investor Confidence

State Street Investor Confidence Index (Reflects Institutional Investors)

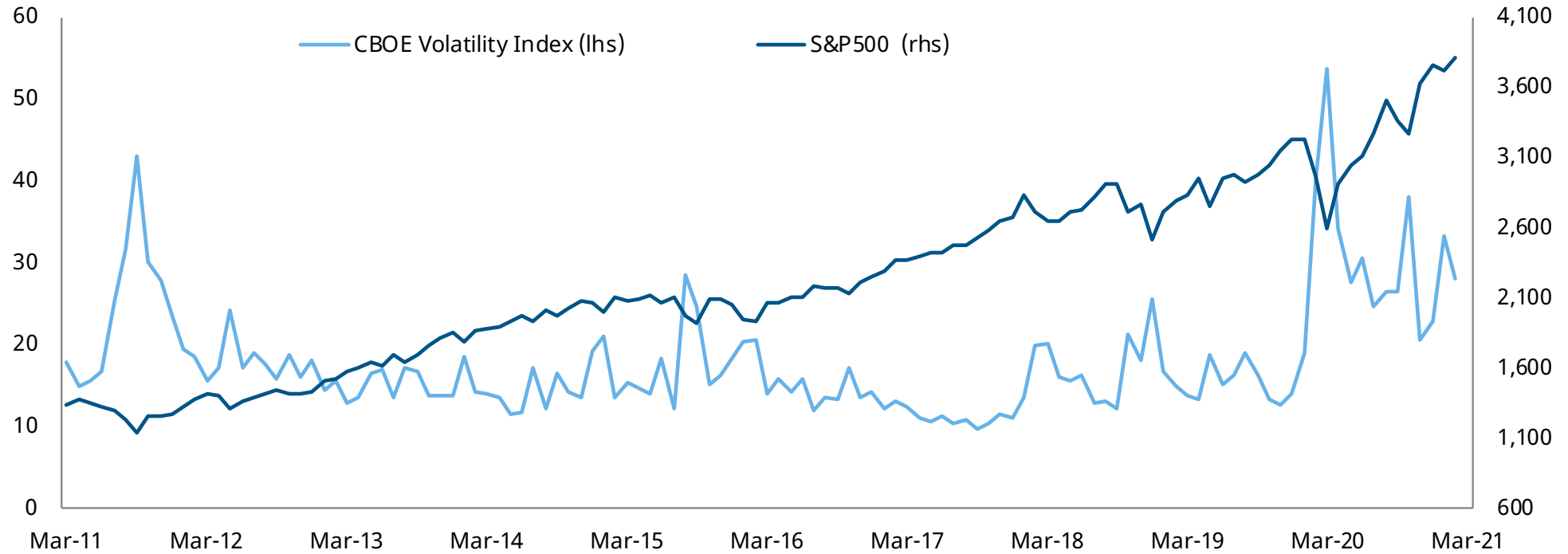


Source: Bloomberg (Mar 2021)



Market Volatility

CBOE Volatility Index vs. S&P 500 Index



Source: Bloomberg (Mar 2021)

Diversification

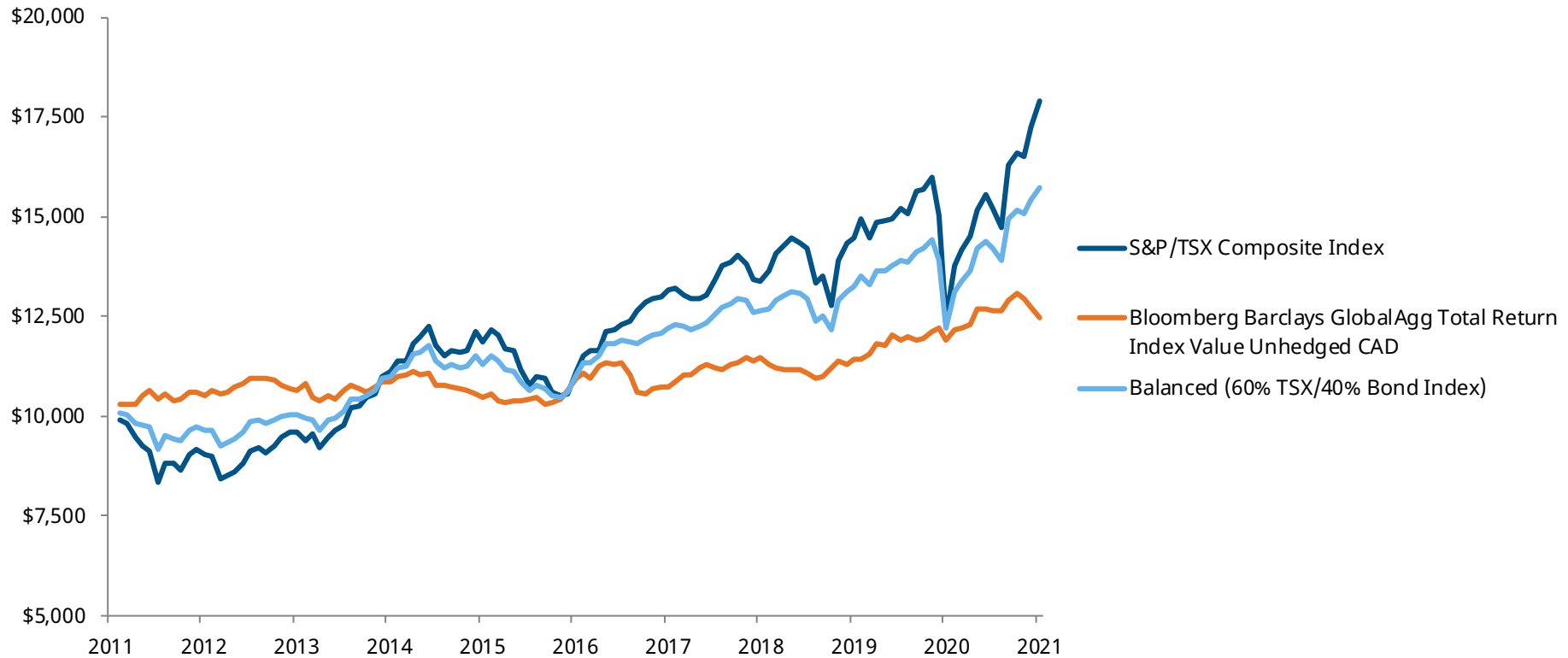


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A “Balanced” Approach

Growth of \$10,000 over the past 10 years as at March 31, 2021



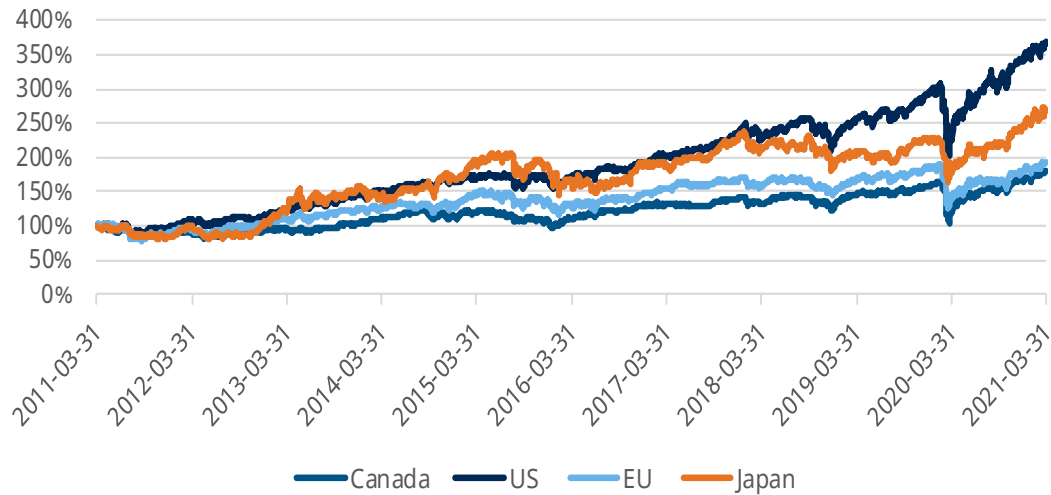
Source: Bloomberg (Mar 2021)



Global Market Results

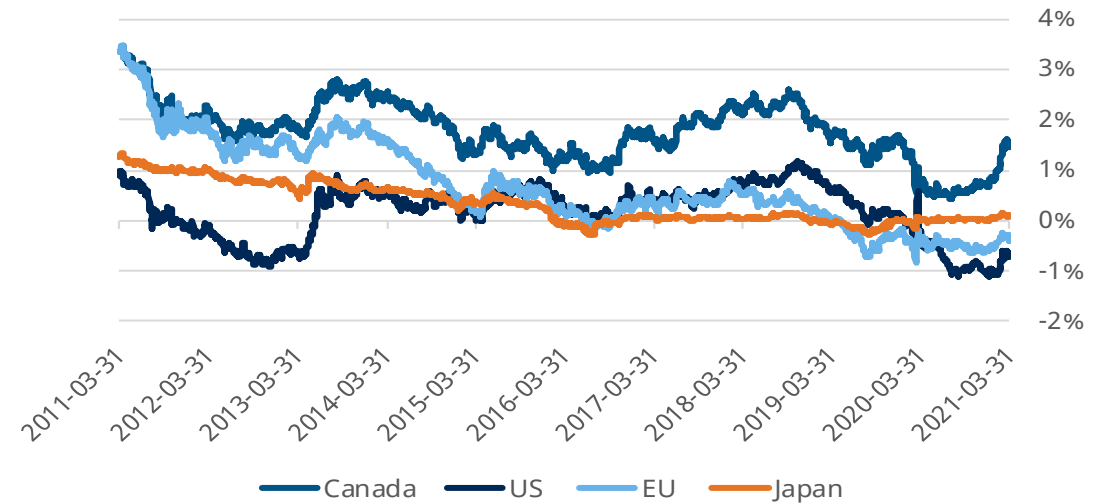
Equity Market Returns

up to March 31, 2021; total returns indexed to 100, local currency



Bond Market Returns

up to March 31, 2021; local currency



Source: Bloomberg (Mar 2021)

Long term investing

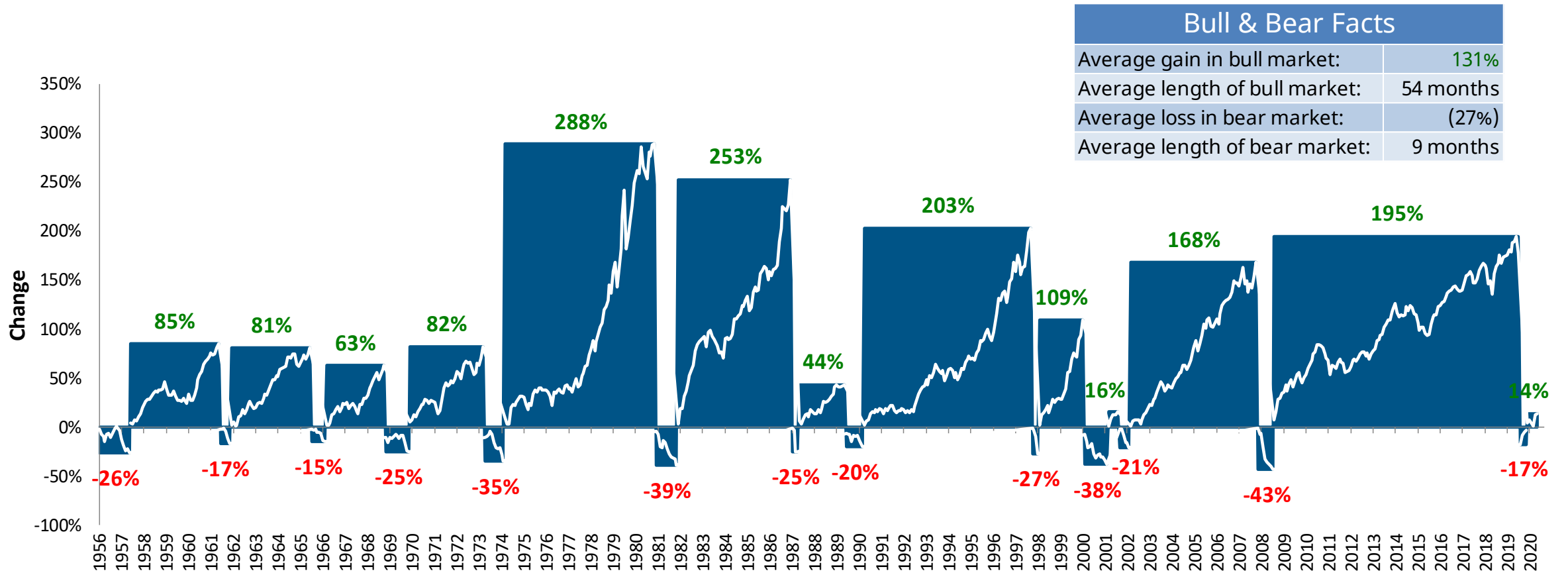


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Bull & Bear Markets

S&P/TSX Composite Index to March 31, 2021



| Bull & Bear Facts | |
|--------------------------------|-----------|
| Average gain in bull market: | 131% |
| Average length of bull market: | 54 months |
| Average loss in bear market: | (27%) |
| Average length of bear market: | 9 months |

Source: Bloomberg (Mar 2021)

Bull & Bear Markets: S&P/TSX Composite

The risks and rewards of investing



- This chart represents the bull and bear markets in the S&P/TSX Composite Total Return since 1956.
- All bars above the line are bull markets; all bars below are bear markets.
- For the purposes of this illustration, a bull (bear) market is defined as a positive (negative) move greater than 15% that lasts at least 3 months.

Investor behaviour

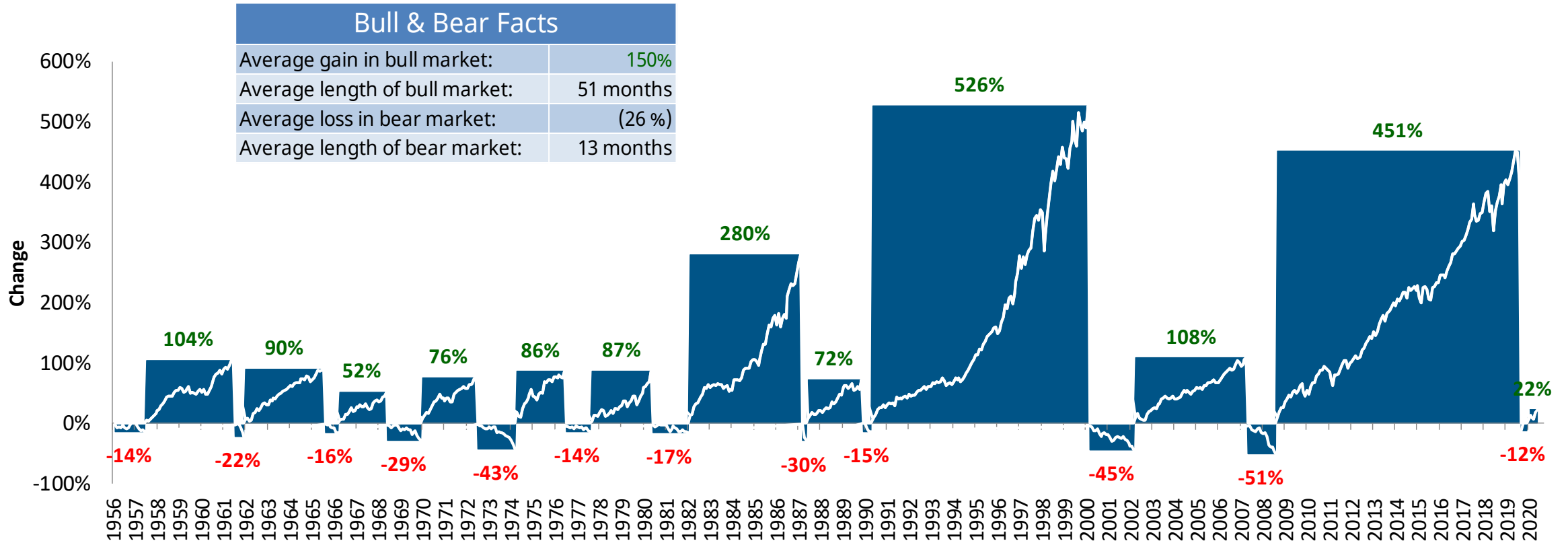


- According to the chart, markets spend more time in positive territory (bull) than negative (bear)
- Bull markets are, on average, longer and more intense, providing a more significant percentage change.
- On average bear markets are more brief, and yet engender fear. It is during these periods that there are significant investment 'bargains' to be found.
- Investor discipline during bear markets is critical.



Bull & Bear Markets

S&P 500 Index to March 31, 2021



Source: Bloomberg (Mar 2021)

Bull & Bear Markets: S&P 500

The risks and rewards of investing



- This chart represents the bull and bear markets in the S&P 500 Total Return since 1956.
- All bars above the line are bull markets; all bars below are bear markets.
- For the purposes of this illustration, a bull (bear) market is defined as a positive (negative) move greater than 15% that lasts at least 3 months.

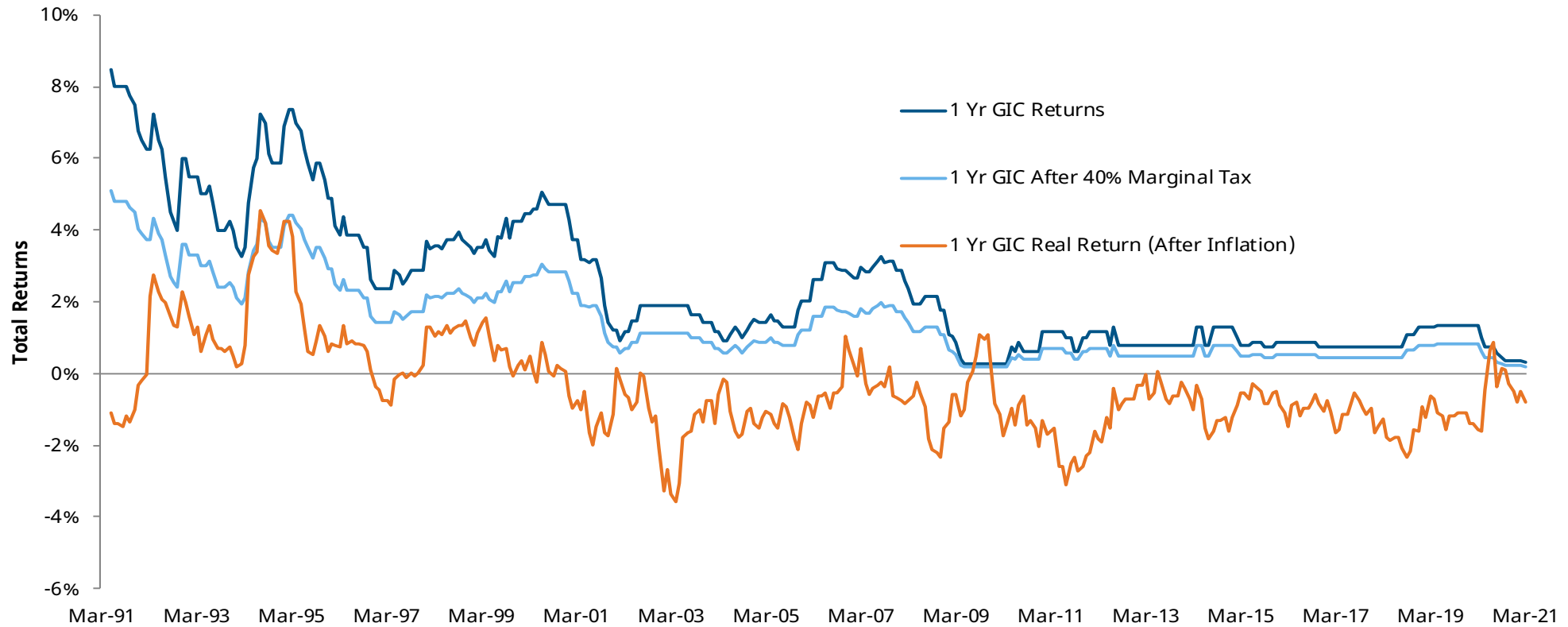
Investor behaviour



- According to the chart, markets spend more time in positive territory (bull) than negative (bear).
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- Investor discipline during bear markets is critical.



Real Return of a GIC



Source: Bloomberg (Mar 2021)

Staying the course

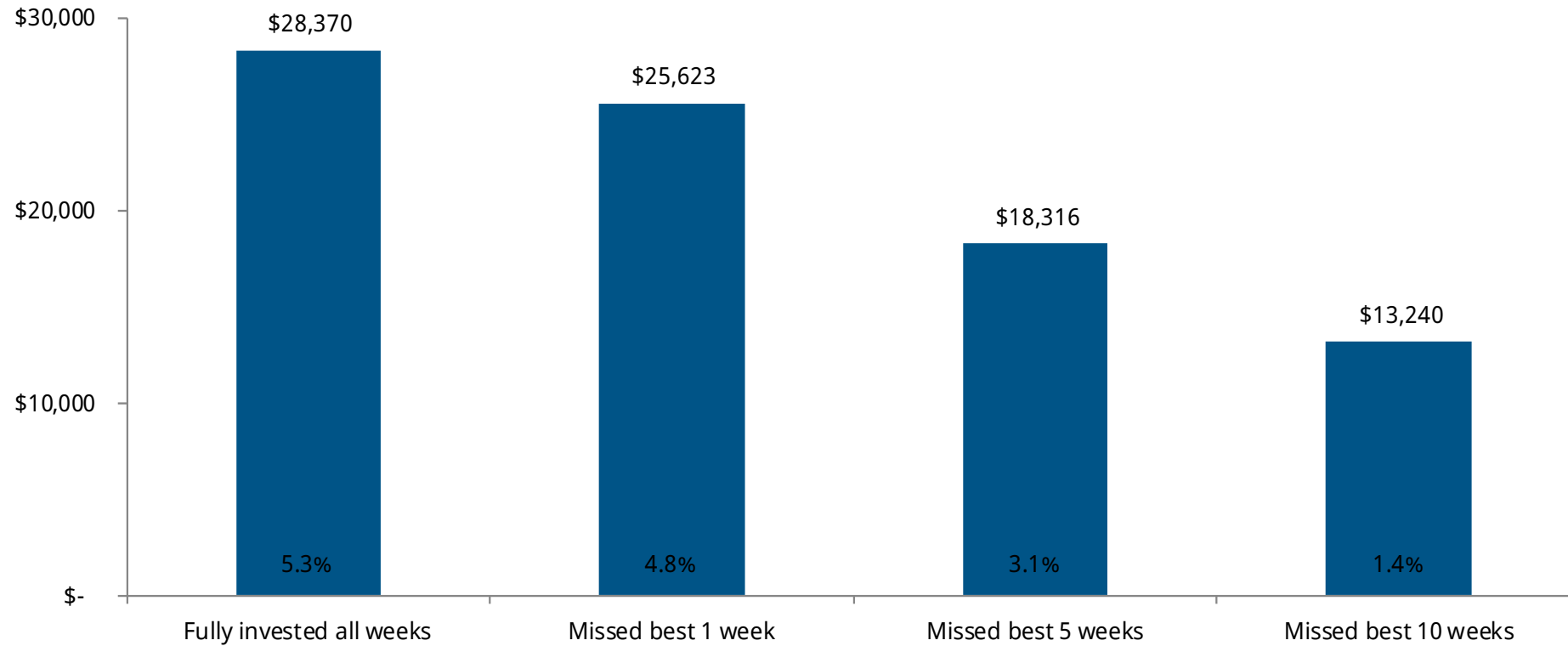


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20 Years of the S&P 500

Value of \$10,000 invested from March 31, 2001 to March 31, 2021 in CAD

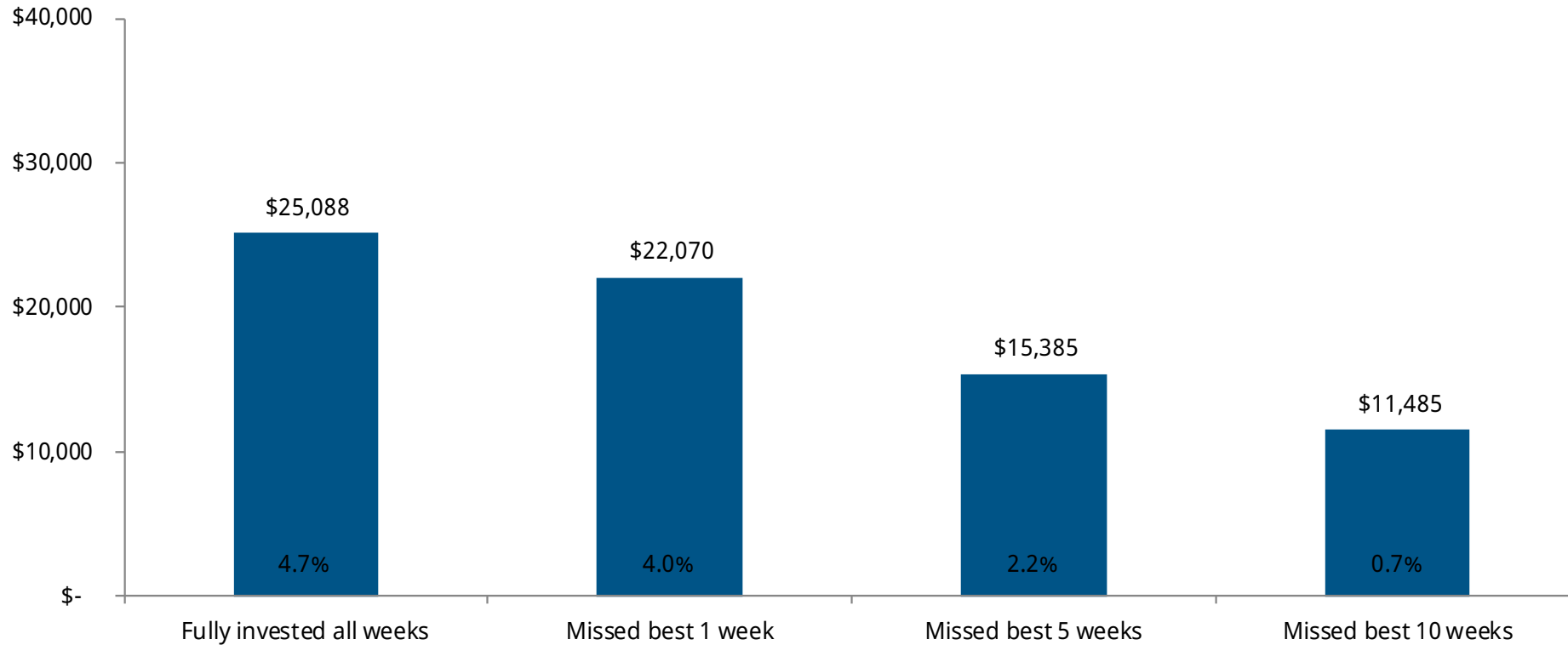


Source: Bloomberg (Mar 2021)



20 Years of the S&P/TSX Composite

Value of \$10,000 invested from March 31, 2001 to March 31, 2021 in CAD

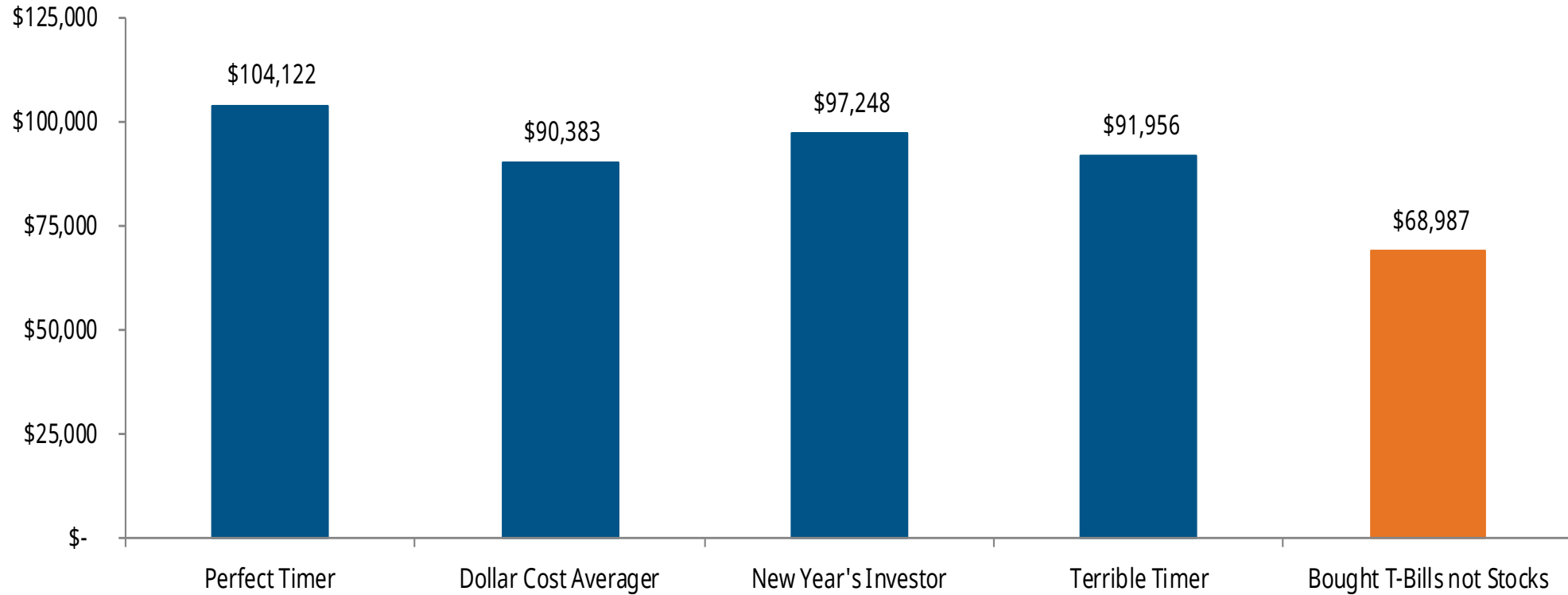


Source: Bloomberg (Mar 2021)



20 Years of the S&P/TSX Composite

Investing \$2,000/year in S&P/TSX Over 20 Years

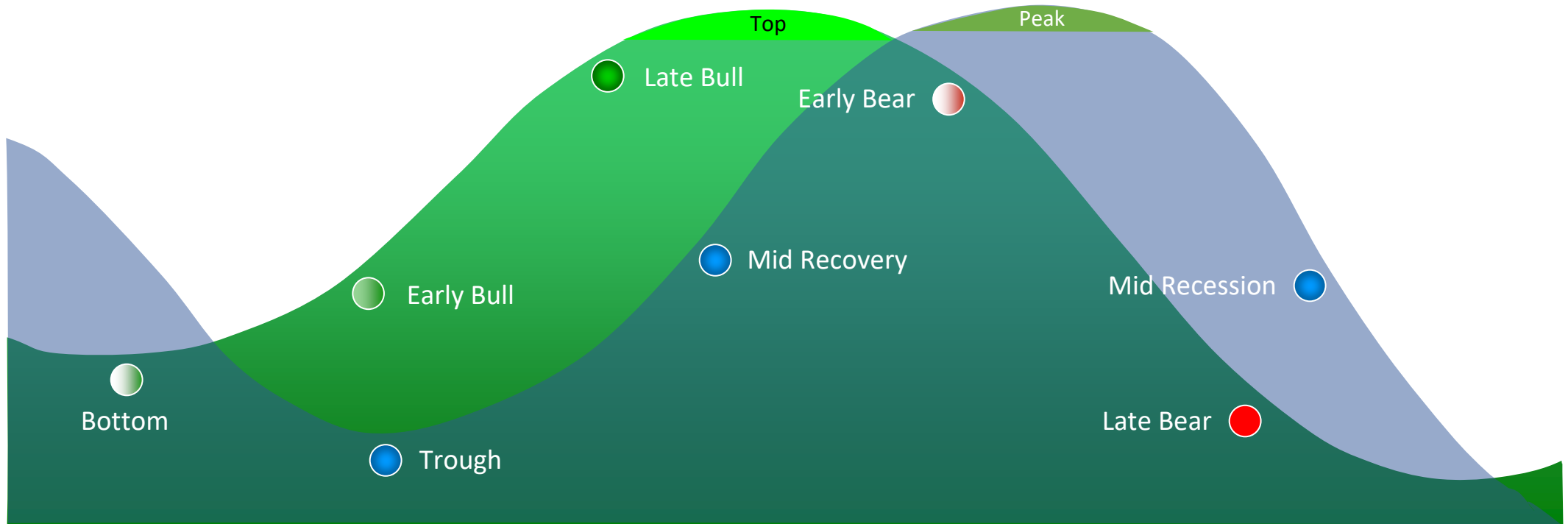


Source: Bloomberg (Mar 2021)



Always Remember... It's Only a Cycle

Market Cycle Relative to Economic Cycle, but Each has Differences



For illustrative purposes only



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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.

The rate of returns shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of returns on investment.