Mackenzie Strategic Bond Fund

Fund snapshot

Inception date	05/15/2013
AUM (millions in CAD)	350.9
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

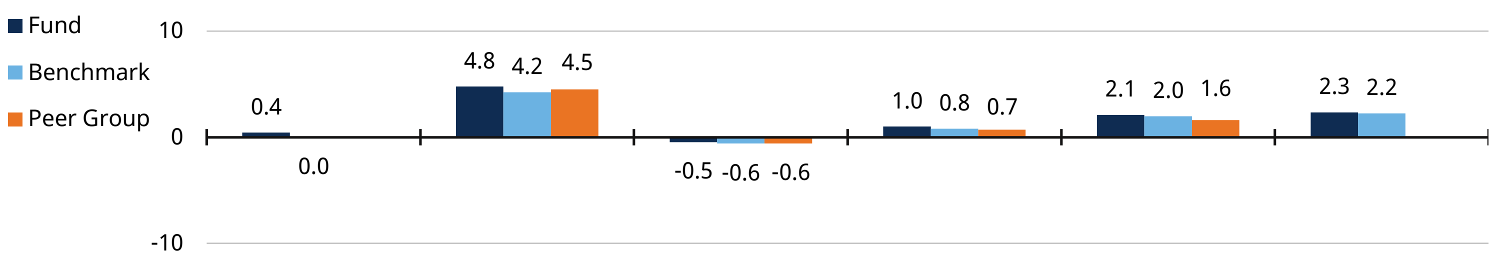
Strategy overview

• 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.

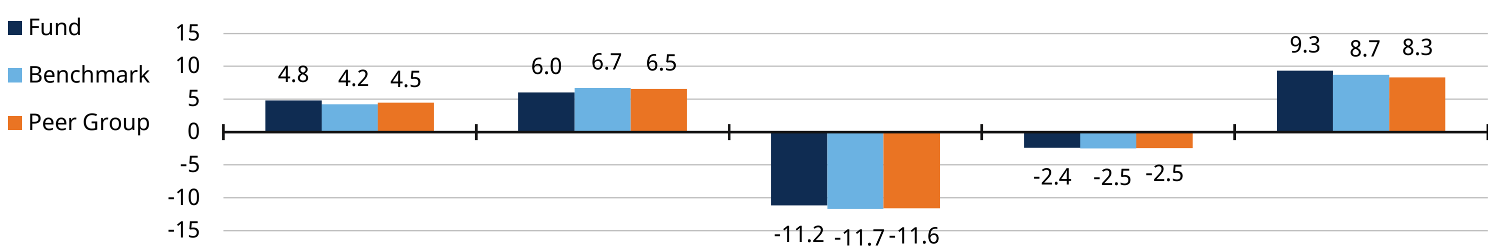
• The objective is to generate a higher total return than the benchmark while maintaining the risk profile of a core fixed income strategy.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.4	0.6	0.1	0.2	0.1	0.1
% of peers beaten	88	72	69	75	89	NA

Calendar returns %



	2024	2023	2022	2021	2020
Excess return	0.6	-0.7	0.5	0.1	0.6
% of peers beaten	72	20	75	67	75

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	4.2	3.6
Fund Mod. Dur	7.1	7.3
Fund Rating	A	AA
Average Price	98.6	97.9
Average Coupon	4.0	3.4
Average Term	11.0	-

Asset allocation

Asset	Portfolio	Benchmark
Corporate	56.0	29.4
Provincial + Municipal	24.0	32.1
Federal	16.5	38.5
Cash & Equival. + WC	3.5	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.9	7.4
Sharpe Ratio	-0.6	-0.6
Tracking Error	1.3	-
Information Ratio	0.1	-
Alpha	-0.2	-
Beta	0.9	-
Upside Capture (%)	95.3	-
Downside Capture (%)	94.5	-

Geographic allocation

Region	Weight
North America	97.5
Europe	0.6
LATAM & Caribbean	0.5
Other	1.4

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	28.3	22.2
3 to 7	23.4	32.3
7 to 12	21.8	19.5
12+	26.5	26.0

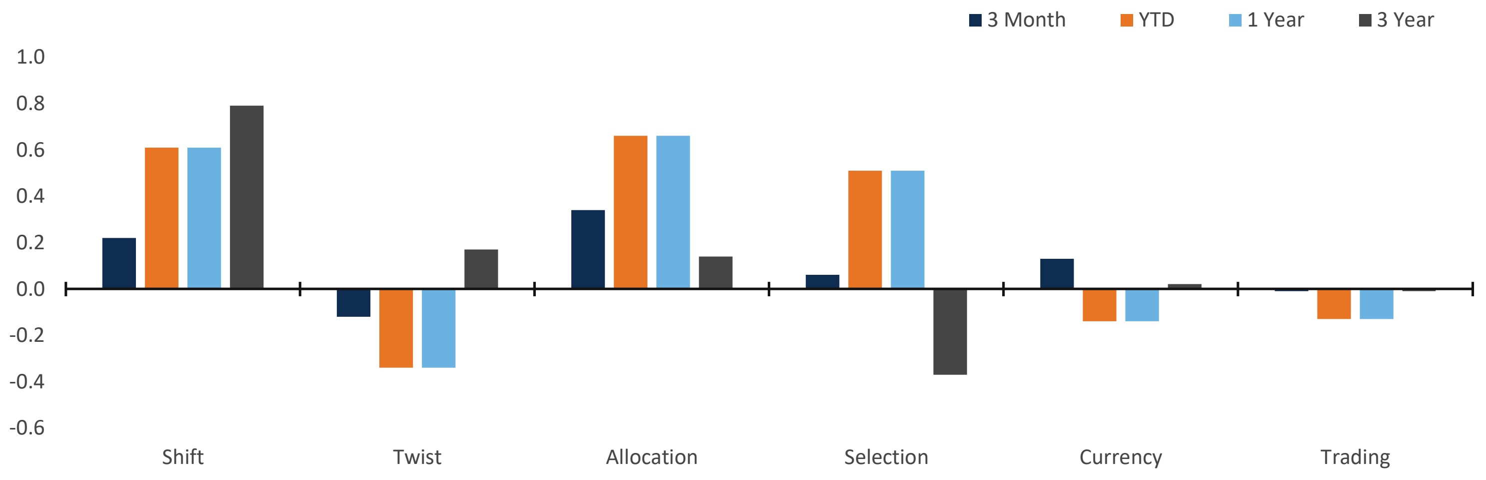
Currency exposure

Currency	Gross	Net
CAD	85.3	98.8
USD	11.1	0.9
Other	3.6	0.3

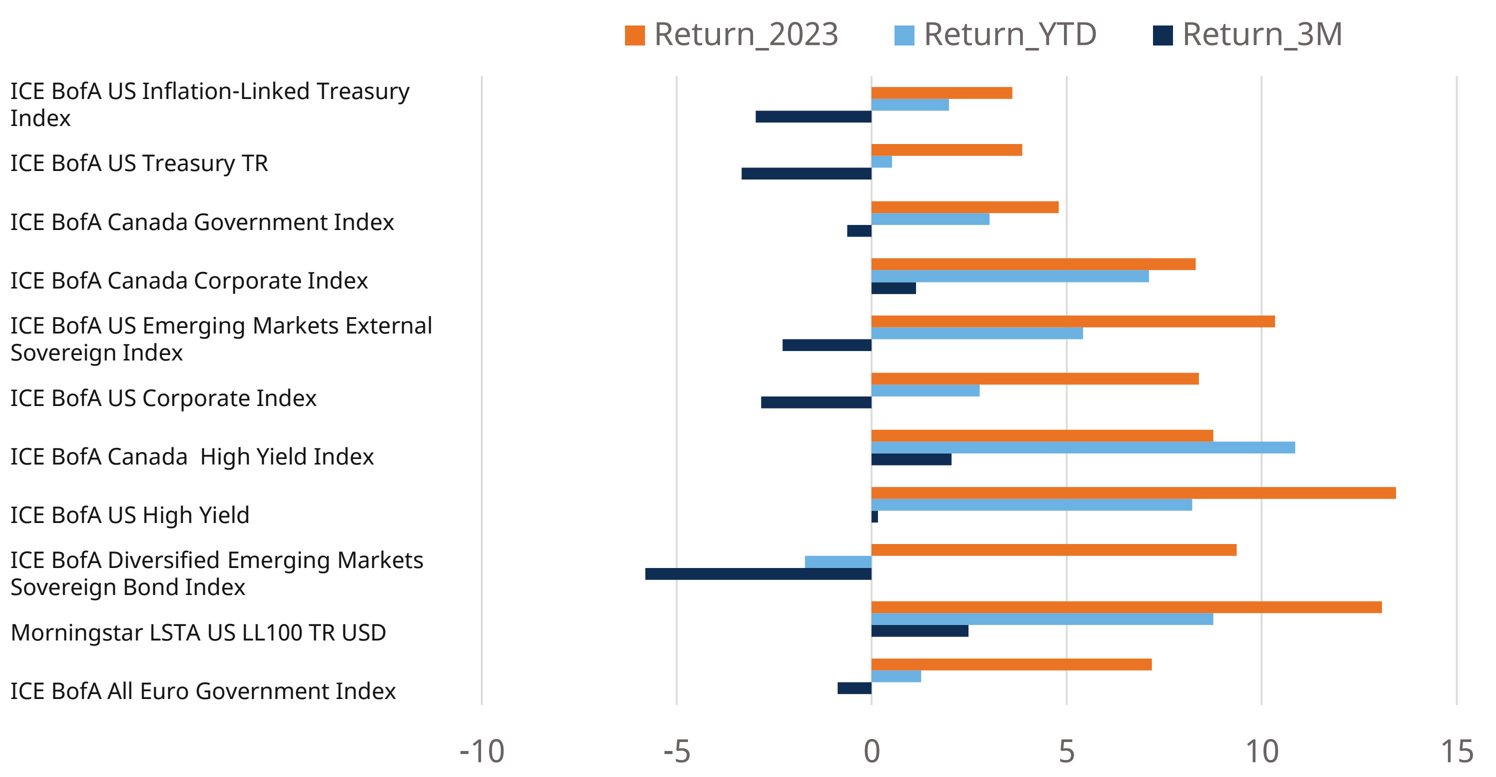
Credit breakdown

Rating	Portfolio	Benchmark
AAA	15.0	42.3
AA	31.9	31.5
A	18.7	15.3
BBB	27.6	10.9
BB	4.7	-
B	1.5	-
CCC & Below	0.1	-
NR	0.5	0.7

Attribution



Market Overview



Commentary

Market Overview

Global yields, led by US Treasuries, were generally one way higher throughout the fourth quarter, thanks to three key drivers: the increase in term premia, expectations of continuing US economic exceptionalism, and of course, Trump's election and the so-called "Trump Trades" that ensued. As a result, US 10yr yields were higher by almost 100bp over the quarter, while the 2s-10s curve steepened by 28bp. Longer duration was not overly loved, with the market seeing the risks of US fiscal spending becoming even more unhinged under a Trump administration and the so-called "red sweep."

Exceptional US economic growth – and continued expectations of exceptional growth – meant markets needed to recalibrate yield levels from where they were late-September. Throughout the quarter we saw the final third-quarter, as well as the fourth-quarter, US GDP Forecast Now estimates continue to print almost stubbornly-high, especially versus other global economies. That in turn, also required markets to recalibrate Fed easing expectations for 2025: at the end of September 2024, markets were pricing an end-2025 Fed funds rate of 2.90%; by the end of the fourth quarter, that had risen to 3.90% - about the same relative increase as the 10yr yield over the quarter – with the market becoming ever-more comfortable with the notion the US nominal neutral interest rate was materially higher than circa 3%.

Of course, we would be remised if we did not speak about the impact of Trump's acceleration in the polls and to an even further extent in the betting markets (like Polymarket) in September and October which clearly drove a number of "Trump Trades" including the reflation trade, the bullish equity trade (on the notion of faster nominal GDP, lower taxes and higher corporate earnings), and the long USD trade (repatriation, higher for longer) – just to name a few.

As we turn the page in the early days of the new year and write pre-inauguration, it appears a lot of those themes are poised to drive markets into the first-quarter of 2025 and possibly beyond. Our view for a while would be tariffs, or the threat of imposing tariffs, would lead the policy mantra and that indeed appears to still be the case, along with immigration, and deregulation in both the financial and energy sectors. But the rise in yields from September is now getting to a point where any further climb higher could prove to be a hinderance on valuations for other asset classes, particularly higher beta assets, and the risk of a cross-asset correction looks more likely now than it did three months ago. We have long expected cross-asset volatility to increase, and we are now at the point in the cycle where not only has that happened, but also further increases are more likely.

It goes without saying that Canadian assets are clearly at risk under the new Trump administration with talk of a "51st state" and "economic warfare" to achieve it. Canada's current political situation only amplifies the risk, not necessarily Trudeau in or out as PM, but prorogation of parliament means all legislation – including the $1.3bn border security bill that was cobbled together after Trudeau's visit with Trump in Florida late last year – essentially needs to be tabled again when parliament reconvenes. To us, this is a risk for tariffs getting threatened or implemented given the hawks advising Trump, and there is likely nothing to be done on the Canadian border security front until late-March - at the earliest with parliament out.

Even a 10% across-the-board tariffs on all Canadian goods imported into the US would have a significant impact on the Canadian economy, likely at least ~1% of real GDP during the first year. A 20-25% tariff implementation would clearly be recessionary in the best of times – and the Canadian economy is far from currently operating in the best of times. Market pricing for the Bank of Canada at 60bp for 2025 at time of writing continues to look underpriced – as it has for a long while – and we would not be surprised if we saw the Bank's policy rate hit 2.25% or lower, or more than 100bp from current pricing.

Strategic Bond Fund

US political events dominated fixed income markets in Q4 2024. Despite initial excitement for Kamala Harris after President Biden stepped aside, polling and betting markets shifted towards a Trump/Republican win, correctly predicting the November election outcome. Markets focused on the implications of a Trump win, particularly regarding deficit spending and tariffs.

Concerns over unfunded tax cuts drove yields higher, steepening the curve. The 5y, 10y, and 30y UST rose 87.2bps, 83.8bps, and 71bps respectively, while the 2y UST rose 62.8bps. Tariff concerns impacted currency markets, with the USD performing well against currencies like the Mexican Peso and Canadian Dollar.

Equities performed well in anticipation of continued interest rate cuts by the US Federal Reserve until December. The Fed cut rates by 25bps but indicated that further cuts would depend on inflation data, causing a spike in cross-asset volatility and a selloff in risk assets, led by equities.

Canadian markets, usually influenced by US counterparts, showed some divergence. Longer-end yields in Canada rose (5s, 10s, and 30s increased by 22bps, 28bps, and 21bps), while 2y yields remained unchanged. The Bank of Canada continued its rate-cutting cycle with 50bp reductions in October and December, leaving the policy rate at 3.25%. The Bank signaled that large rate cuts might be over, depending on US economic actions.

Commentary

Changing rate and equity volatility did not affect the North American corporate bond market. Corporate spreads narrowed, reaching the tightest levels since the credit crisis. US and Canadian corporate spreads decreased by about 7bps and 16bps last quarter, and by 16bps and 33bps for the year. Positive risk sentiment from central bank rate cuts and fund inflows into fixed income markets drove the rally in spreads despite strong new corporate issuance. However, rising yields led to negative total returns in the investment-grade market.

Canadian IG Core+

Contributors:

-Overweight investment grade corporate bonds
-Overweight high yield corporate bonds
-Short US duration positioning
-Open USD currency positioning

Detractors:
-Underweight Provincial bonds.
-Curve steepening positioning

Closing Commentary

Politics remain front and center with the new US administration taking power in late January and threatening to implement 25% tariffs. Any tariff would of course be problematic for Canada. Retaliatory action would be inflationary and any support by the Bank of Canada via increased rate cuts would weaken the currency and also be inflationary. The path of longer end rates remains especially uncertain. 30y Canadian yields are now 150bps lower than 30y US yields. Any increase in inflation would make the sector relatively unattractive to own, although all yields usually trade lower during a cutting cycle. It is unclear how attractive investing in Canada would be if it is in the midst of a prolonged trade war with its biggest trading partner.

An additional effect of tariffs could be on Canadian credit spreads. Credit remains well bid although marginally off the tights. At current valuation, we consider the corporate bond market expensive, although the current positive fund flows and higher yields may lend support to prolong this richness a little longer. Given this and until there is more clarity on the geopolitical situation between Canada and the US, we see no reason to increase credit holdings and would look to improve credit quality and liquidity.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Fixed Income category and reflect the performance of the for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2024 . The percentile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Canada Fund Canadian Fixed Income category funds for for each period are as follows: one year - 522 ; three years - 488 ; five years - 439 ; ten years - 290 .

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