MACKENZIE Investments

Mackenzie Global Tactical Bond Fund

Fund snapshot

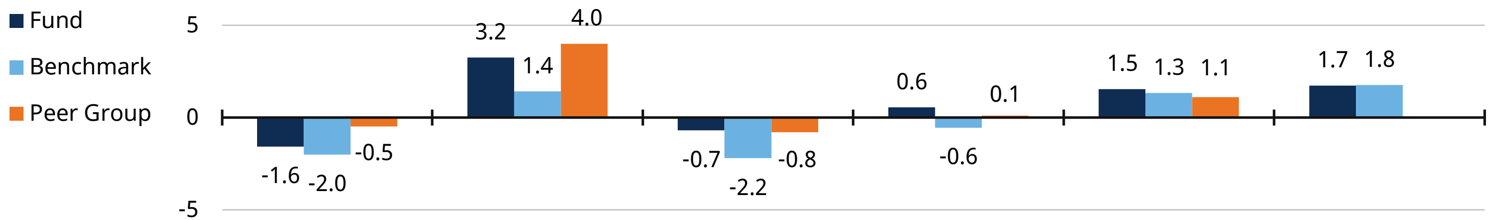
Inception date	04/23/2014
AUM (millions in CAD)	256.6
Management fee	0.55%
MER	0.76%
Benchmark	ICE BofA Gbl Broad Mkt (Hgd to CAD)
CIFSC category	Global Fixed Income
Risk rating	Low
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

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.

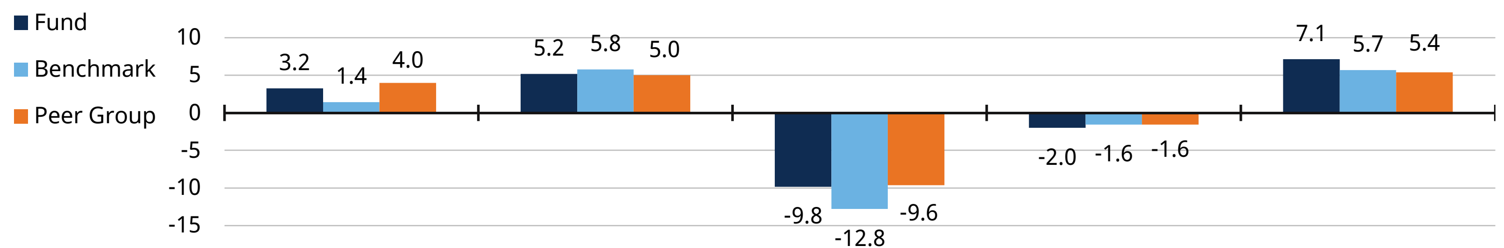
• Given the size and complexity of its investible universe, uses a combination or qualitative insights, quantitative models and bottom-up security selection to access all five sources of alpha – country, duration, currency, sector and credit. The objective is to outperform the benchmark, with low volatility

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	0.4	1.8	1.5	1.2	0.2	-0.1
% of peers beaten	39	50	61	69	76	NA

Calendar returns %



	2024	2023	2022	2021	2020
Excess return	1.8	-0.6	3.0	-0.4	1.4
% of peers beaten	50	51	55	40	72

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	5.5	4.0
Fund Mod. Dur	6.2	6.5
Fund Rating	A-	AA
Average Price	93.0	120.6
Average Coupon	4.6	2.8
Average Term	8.8	-

Asset allocation

	Portfolio	Benchmark
Investment Grade Corporate	16.9	20.1
Loans	4.7	-
Emerging Markets	11.3	2.9
Government	44.9	52.4
High Yield	10.5	-
Cash	4.2	-
Other	7.5	24.6

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.2	6.5
Sharpe Ratio	-0.7	-0.9
Tracking Error	2.4	-
Information Ratio	0.6	-
Alpha	0.8	-
Beta	0.9	-
Upside Capture (%)	99.0	-
Downside Capture (%)	84.8	-

Geographic allocation

Region	Weight
Canada	21.4
US	42.7
Europe	15.6
Other	20.3

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	13.3	-
3 to 7	36.2	-
7 to 12	37.3	-
12+	13.2	-

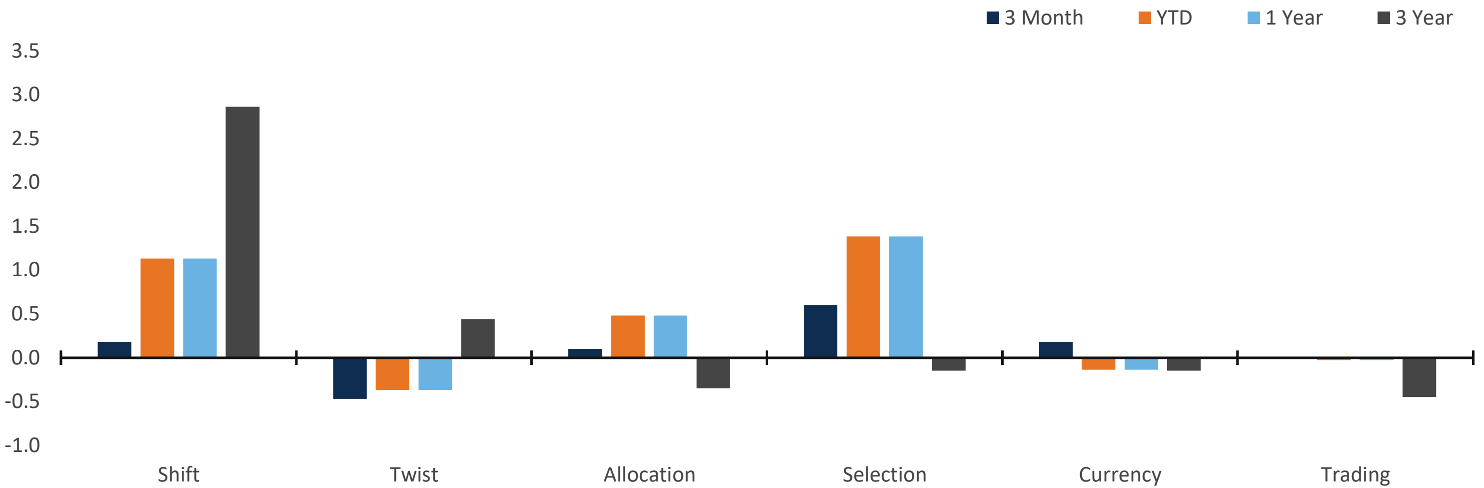
Credit breakdown

Rating	Portfolio	Benchmark
AAA	19.3	12.7
AA	25.8	50.5
A	6.1	23.0
BBB	19.2	13.9
BB	19.5	-
B	6.3	-
CCC & Below	2.3	-
NR	1.5	-

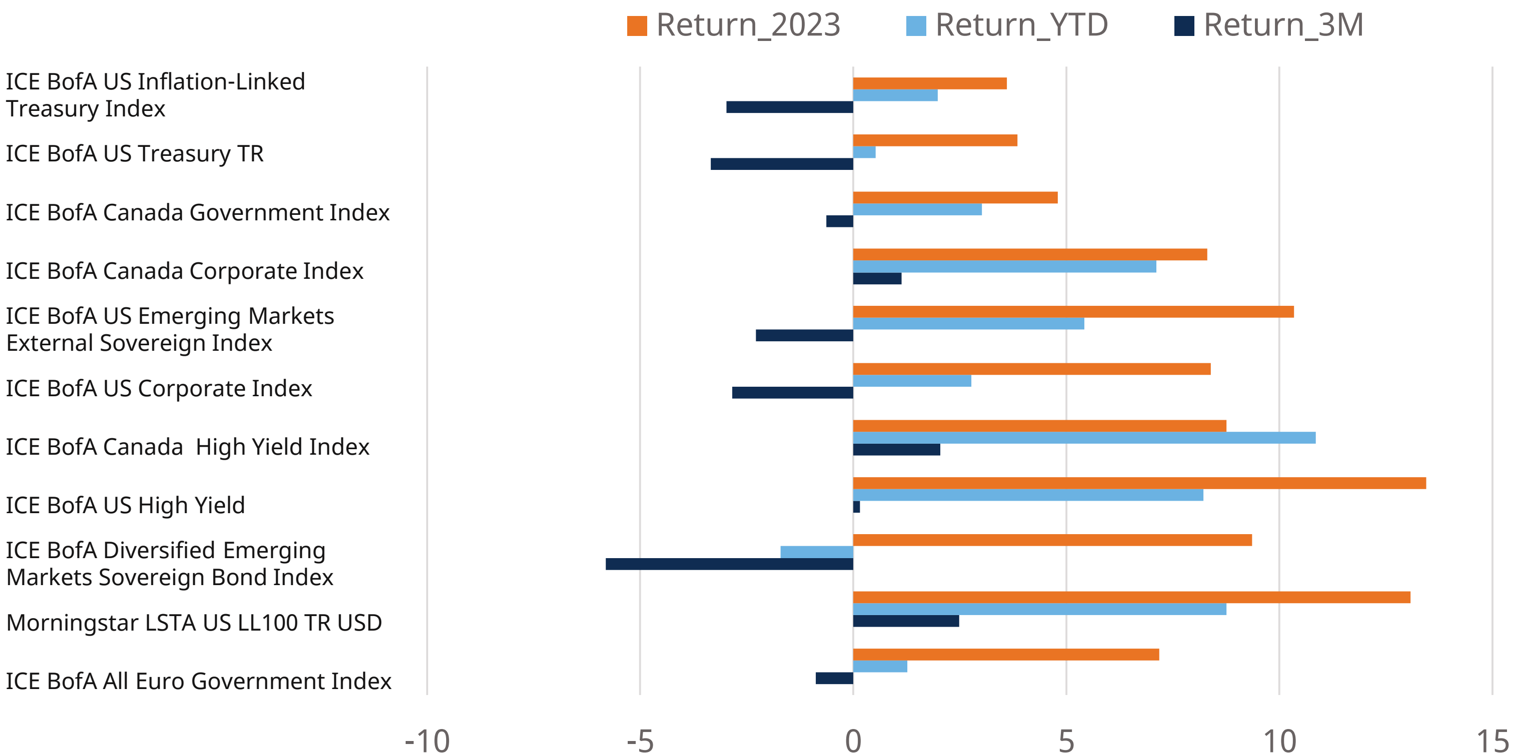
Currency exposure

Currency	Gross	Net
CAD	20.1	90.8
USD	55.1	4.1
Other	24.8	5.1

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.

Global Tactical Bond Fund

The Federal Reserve's evolving stance remains a key anchor for shaping expectations around global rates, particularly in the US. The Fed's policy path is more complex to anticipate in this cycle, with outcomes hinging on data-dependent decisions that are likely to sustain elevated rate volatility. Within global portfolios, US duration was underweight early in the quarter but was tactically increased as rates rose, reaching a neutral stance.

In the G10 space, German Bunds have demonstrated notable resilience, diverging sharply from US Treasuries and avoiding the recent surge in yields. This divergence reflects a significantly different fiscal and economic backdrop, along with more supportive technicals. Fundamentally, the Eurozone outlook remains subdued, with tariff risks compounding existing challenges. The ECB's easing path—with 95 basis points of cuts anticipated for the full year 2025 at the time of writing—is largely priced in. Tactical additions to Eurozone duration were made in global portfolios over the quarter but balanced with an overall underweight stance, given the prevailing upward trend in global yields.

Japan remains a market where upward pressure on yields is expected to persist, driven by the gradual normalization of monetary policy. Japanese government bonds continue to be a strategic underweight, reflecting expectations of incremental but steady policy adjustments.

Commentary

Most overweight duration positions in G10 rates are currently allocated outside the Eurozone and the US. New Zealand is favoured for its compelling real yields, while Canada is attractive due to its rapidly deteriorating economic outlook, which could justify lower policy rates. A steepening bias is maintained globally, supported by expectations of continued central bank easing combined with rising term premiums. The latter is likely to result from ongoing central bank balance sheet reductions, heightened fiscal and issuance uncertainty, and structurally higher inflation dynamics compared to the 2010–2020 period.

Global Tactical

Contributors:
-G10 FX
-Ex-EM Carry
-Overweight North America rates
-Underweight Japan and Eurozone
-Exposure to leveraged loans.

Detractors:
-Overweight Latin American local debt
-Emerging Markets FX (Brazil and South Africa)

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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