In the past few weeks Amanda and I had the priviledge of engaging in an update from Dina DeGeer the portfolio manager of our highly recommended Mackenzie Canadian Growth/Balanced Funds. Dina spoke to her current investment market view and upcoming opportunities which are summarized below.

The consensus view in the investment markets right now which Dina agrees with, is that the world economy is just going to be in much better shape by mid to late 2021 as the economy opens up. For Canada, we are going to get a short period of weakness from the second lockdowns but things should get quite a bit better by later this year. Dina thinks the market's just going to look through all this short-term noise because we see light at the end of the tunnel. A lot of people are going to get back to work and that's really going to help economic growth. At the same time, government support programs will get pulled back because we don't need them anymore. That's going to actually help the government deficit get back to more reasonable levels.

The areas of the market that initially really outperform during these turning points are pure commodity businesses, deep cyclical business and highly levered companies and that's pretty much the opposite of what Dina invests in. They are thinking beyond the initial recovery. They are looking for businesses that really have long-term sustainable growth beyond that initial bounce. Dina thinks we're getting to the point where, most of those macro shocks have been rolled through and we're all expecting positive outcomes from the vaccines and government stimulus which Dina believes the market has already priced in.

Dina identified the strength of the Canadian consumer by mid-2020.The factors at work were that this COVID-led recession really hit a narrow group of people which were largely lower income earners. The Canadian government support programs were swift and a tremendous relief was provided where it was needed the most. There's actually some evidence that some people were making more money on government support than going to work. So even though millions of Canadians lost their jobs, they did not feel the financial impact of this. At the same time, consumer spending behavior changed. We cut out spending on services because we couldn't go anywhere. We shifted to spending just on goods. The net effect of this was a material reduction in consumer spending. We also had the backdrop where interest rates were dropped dramatically because of the recession and the net effect of all of this was a rise in disposable income. Lower rates drove up real estate values and initially investment portfolios got hit but quickly recovered. So through this recession, the Canadian consumer got financially stronger and we are now at the point where we're seeing savings rates jump to levels we have not seen for a long time. Once Dina saw this, she started moving towards consumer discretionary businesses.

Dina has also added to the Canadian banks which are leveraged to the consumer. Dinas expectation was that the bad loans to consumers were going to be very manageable. It wasn't going to be as big a problem as everyone was thinking. Bad loan provisioning was going to normalize, and the mortgage cliff that everybody was calling for was just not in the cards. In fact, if you look at what happened to Canadian real estate prices last year, we ended up with double-digit increases. So there's actually more equity backing these loans. Dina has been underweight Canadian banks for some time and this was largely driven by the pressure on margins they've experienced over the last several years. Demand for credit has always been decent. It's been growing at about 5%. But there's been this persistent downward pressure on interest rates that made those loans less profitable. Looking forward, Dina thinks demand for credit is going to continue at decent levels, just like we've had in the last several years but now with the economy recovering, rates are moving up, we expect that to continue. Banks should actually start seeing some margin expansion. It's not going to happen immediately, but Dina thinks by the latter part of this year, we'll start to see that. So the banks can get back into better earnings growth rates. Financially, Canadian banks are in a wonderful position, probably the strongest globally. They're building excess capital. Dina expects that's going to continue and once the economy fully reopens, Dina thinks the banks are going to be allowed to resume their dividend increases and stock buybacks that the regulator put a lid on during COVID. Therefore Dina thinks there's just a lot of nice tail winds for the Canadian banks as we move to the latter part of this year.

Dina also spoke of the great energy transition ahead. The biggest area where it does matter is clearly oil and energy and Dina has ended up with a commitment to zero exposure moving forward. 2023 is the big year for electric vehicles. That's when you're going to see all the big car companies bringing a whole lot of new models to market. Just recently General Motors is talking about no longer producing internal combustion cars or trucks, after 2035. So as technology improves, as costs come down, it's just a really fast switch-over and it just means there's a huge problem building for oil demand. There's a second stock market problem here as well and that has to do with the rise of socially responsible investing so what you're seeing is capital being moved out of businesses tied to fossil fuels, and being deployed to clean energy, so businesses tied to electrification, energy efficiency, renewables. Money flow matters a lot in the stock market. If you have money steadily being forced into an area, you can get a bubble. If you have money consistently pulled out of an area like fossil fuels, it just becomes a really tough investment and that just compounds the issue. So with any transition, there's obviously a risk you have to watch out for but there is also opportunity. There will be winners hence opportunity.

Dina summarized the portfolio holdings as a diversity of businesses. Some of the companies have been big COVID beneficiaries. Some of the businesses were not impacted by COVID and some were hard-hit by COVID. Since November, Dina has been increasing their exposure to this latter group where the businesses are still trading at a discount to fair market value. They have been funding these purchases by reducing or eliminating our exposure to those businesses that did very well from COVID. Dina has also added a bit more cyclicality to the funds but are not investing in deep cyclicals. Dina is investing in phenomenal businesses that are going to get a nice bump up in earnings from the economy reopening but more importantly, these are businesses that have long-term sustainable growth tail winds that Dina thinks are going to continue for many, many years. This gives us a good sense of how Dina has been pivoting the funds.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

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