Capitalizing on fixed income opportunities

Event summary

Dustin Reid
Chief Fixed Income Strategist, Mackenzie Fixed Income Team

Dan Cooper
Head of Credit, Mackenzie Fixed Income Team

Hadiza Djataou
Portfolio Manager, Mackenzie Fixed Income Team

In the webinar we covered some fantastic insights into the fixed income landscape and explained how our portfolio managers' toolkit allows us to capture opportunities in today's globally divergent market. We looked at the current macroeconomic landscape, explored global central bank policies and their impacts, and shared insights on corporate bond valuations. We also discussed how these factors influence the positioning of our Unconstrained mandate.

The current macro landscape is characterized by divergent central bank policies, as evidenced by the weakening of the CAD versus USD, further accentuated by tariff threats. The Bank of Canada has now implemented 200 basis points of rate cuts since the cycle peak bringing its policy rate to 3%, in the middle of its neutral rate range of 2.75%-3.25%. We expect the Bank's future rate decisions to depend on US policies, particularly regarding tariffs with a skew towards more rate cuts and a stronger CAD this year. South of the border, the US Federal Reserve kept rates unchanged as expected, however a key decision was the removal of forward guidance on interest rates. This change may signal the end of the bank's easing cycle, influenced by the strength of the US economy. Our active macro trade therefore is hedging out the inflation risk by being overweight inflation-linked bonds in our global portfolios.

In terms of the global macro landscape, we are off the peak in terms of inflation as most of central banks have started cutting rates. We believe the risk of incremental divergence in monetary policies is a function of structural country-specific differences. Highly interest rate sensitive countries like Canada and New Zealand may need deeper rate cuts than currently anticipated and therefore have an overweight allocation in our portfolio. Our diverse toolkit allows us to capture emerging market opportunities, with our position in South Africa being a key alpha driver. Identifying discrepancies between market pricing and expectations is a fundamental part of our selection process.

We further explored the income space, focusing on credit bonds and the below-average compensation for credit risk. Despite rate hikes, the absence of an economic slowdown in the US led to returns exceeding 8% for high yield bonds. The economic outlook for 2025 is complex and we continue to assess the attractiveness of the all-in yield, given tight credit spreads. A constructive outlook is supported by the change in US leadership, but active management and a conservative approach are crucial for achieving above-average returns. With downside risk being a key concern, especially in the high yield market, we employ a continuous credit hedging strategy in the Unconstrained mandate to mitigate risks and potentially generate alpha even in adverse market conditions.

MACKENZIE Investments

For more information about the Mackenzie Fixed Income Team, please speak to your Mackenzie sales team.