Resource investing with a future focus

Event summary

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Our recent webinar, **Resource investing with a future focus**, featuring Benoit Gervais and Onno Rutten, explored the intricacies of resource investing and the evolving landscape for commodities. The discussion highlighted the historical significance of the Mackenzie Resource Fund, its unique investment philosophy centered on sustainable free cash flow, and the impact of deglobalization and the energy transition on the market. Key themes also included the outlook for 2025, the role of gold, and the necessity for substantial infrastructure investment.

Investment philosophy

- The strategy focuses on sustainable free cash flow, rather than traditional financial metrics such as earnings or price.
- It is important to understand the capital intensity of the sector and the risks associated with natural resources.

Commodity cycles

- Commodity cycles can by quite long, often exceeding typical business cycles.
- The current cycle is being driven by deglobalization and the energy transition.

Outlook for 2025

- Taking a deeper dive into the deglobalization and energy transition theme, the team discussed their expectation of continued demand for commodities due to policy measures and industrial changes.

Deglobalization

- The impact of deglobalization on resource investing, includes higher costs and the need for more local infrastructure.
- There has been a shift from price-focused investment decisions to considerations of social and environmental standards.

Tariffs and inflation

- The threat of new tariffs heightens the risk of higher inflation and may impact the reindustrialization of Western countries.
- American tariffs are expected to increase significantly in the short term, not just for China but for all countries. Increasing the costs of imports will be very inflationary.

Gold as an asset class

- The price of gold rose considerably in 2024, due to its role as a hedge against deglobalization and currency diversification.
- There has been increased demand for gold from central banks and retail investors, particularly in China. Eastern hemisphere countries have started to significantly increase their purchases of gold to diversify away from the US dollar.

Infrastructure investment:

- The Western world needs significant infrastructure investment, particularly in the US.
- Examples include data centers, AI and traditional infrastructure like bridges and roads.

Energy transition:

- This is a long-term process that requires substantial investment in renewables, grid adaptation and electrification of industry.
- It is important to stabilize the grid with natural gas as a bridge to cleaner energy sources. Renewables and natural gas are expected to grow significantly over the next few decades. Solar is expected to take up much of the energy needs that will result from phasing out coal, one of the dirtiest forms of energy. As energy gets cheaper and more widely available, demand will increase.

Resource intensity of infrastructure:

- Infrastructure projects will be highly resource intensive, requiring vast quantities of materials such as steel, cement, aluminum and copper. Copper demand is expected to double in the next 20 years, as it will be enormously important for the energy transition. However, there are currently not enough new mines being built, resulting in a shortage of supply to satisfy future demand.

Why this matters:

1. The Mackenzie Resource Fund is one of the oldest resource mandates in the country, with the original inception dating back to 1978. Our approach to money management is anchored in science, complemented by economics and finance.

2. We are at the confluence of reshoring manufacturing along with the energy transition, making this an exciting time for resource investments. Deglobalization and the energy transition are disruptive, inflationary and resource intensive. Investors need some sort of exposure to commodities to provide better balance to their portfolios.

3. The possibility to generate alpha in resources is much higher than in other sectors but can also carry risks for uninformed or momentum-seeking investors, making it a prime area for active management and specialist knowledge.

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