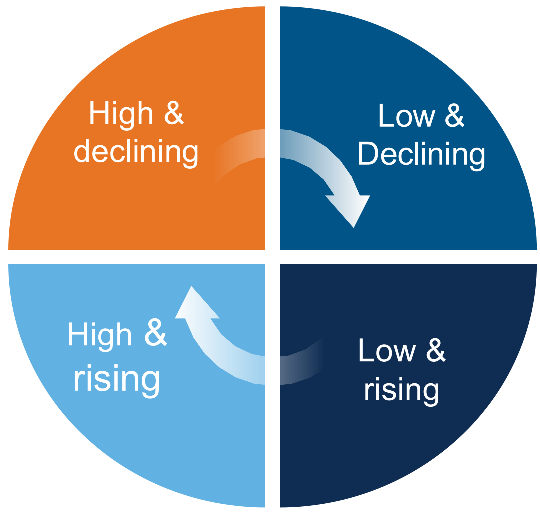
Mackenzie Inflation-Focused Fund

Portfolio manager monthly insights

Inflation regime:

Low & declining



US headline CPI, seasonally adjusted

Dec	Jan	Feb	Mar	Apr
2.9%	3.0%	2.8%	2.4%	2.3%

The Fund's proprietary assessment of trend and cyclical inflation continues to indicate that we remain in a "low & declining" inflation regime for now. The asset allocation is currently at 57.5% equities and commodities versus the Fund's neutral position of 55% equity/45% fixed income. Our fixed income allocation is at 42.5% with the overall duration currently at 4.8 years.

CPI Insights

- US Headline CPI rose 0.2% m/m in April and the y/y figure moderated to 2.3%, both printing below the median consensus estimates. Food prices fell -0.1 m/m driven by lower grocery prices with egg prices falling 12.7% ! Energy rose 0.7% m/m driven by higher electricity and natural gas prices.
- Core CPI, which excludes the food and energy categories, rose 0.2% m/m, a pickup from the 0.06% gain in March, and the y/y figure remained unchanged at 2.8%. Core goods prices rose 0.1% m/m. Notable was a fall in used vehicle prices (-0.5% m/m) and apparel (-0.2% m/m), however there were some gains in items such as household goods.

- Core services prices rose 0.3% m/m, bouncing back from the 0.1% m/m increase we saw in March. Shelter inflation retook its culpable role with a 0.3% m/m gain (accounting for more than half of the all items monthly increase) with OER (owners equivalent rent) rising 0.4% m/m. Vehicle insurance rose 0.6% m/m after falling in the month prior.
- While the market largely looked through this inflation report as too early for any tariff related impacts to metastasize, the April inflation data can be considered weak. While the US-China trade 'rapprochement' is much welcomed, the overall effective tariff rate remains materially higher. Much will depend on the ability and willingness of companies on how much of the tariff related costs to pass through to consumers vs taking a hit to margins. And with the House passing the 'Big, Beautiful Bill', inflation risks appear to remain to the upside.

Key takeaways: Equity

- Asset allocation: Our allocation remains at 57.5% equities which includes physical commodities (10%), versus the Fund's neutral position of 55%.
- The fund's equity exposure continues to have a balanced approach, emphasizing globally diversified large cap equities, and we have slightly increased our exposure in EAFE.
- The fund reduced its exposure to precious metals equities which currently stands at 2% and gold bullion at 6% and increased its exposure to resource equities (11.5%).
- Macro economic conditions remain in flux with the US administration's tariff and fiscal policies if enacted will most likely support inflation at a higher level than historical average. We remain focused on a potential reacceleration of inflation and hence remain ready to make the necessary changes matching new inflation expectations.

Key takeaways: Fixed Income

- Asset allocation: Our fixed income allocation remains at 42.5% versus the fund's neutral position of 45%.
- We have reduced our allocation in longer dated government bonds in favor of an increase at the front end of the curve while maintaining our preference to US duration over Canada.
- We continue to maintain our current position in US inflation linked bonds (TIPS), however have reduced our duration with a higher allocation to 2 year TIPS.
- We currently maintain our exposure to IG and EM market debt.
- The overall duration of the fixed income segment currently stands at approximately 4.8 years.

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