INVESTMENT FUNDS

Dividend Growth & US Dividend Growth

QUARTERLY COMMENTARY

June 2023

The economy is still exceeding expectations

Technology continues to shine

The equity markets continued to perform in the second quarter. Canada was marginally positive, with the technology and consumer discretionary sectors offsetting mediocre performances from the energy and materials sectors.

In the United States, the S&P 500 continued its strong advance, with the mega cap technology stocks contributing most of the returns. The recent optimism about stocks is a major departure from the beginning of the year, when many were forecasting an imminent recession. Repeated positive economic data, combined with cooling inflation, have lowered recession fears and created renewed interest in equities.

Higher for longer

We see a lot of discussion about future rates hikes of 25 basis points (bps) by the Fed and the Bank of Canada. In our humble opinion, it is less important to consider whether the central banks make one final 25-bp hike, and more important to focus on how long rates will remain in the neighbourhood of 5%.

With inflation cooling, the consensus is that the rate hikes are almost finished; but, with the economy and the labour market continuing to exceed expectations, it's difficult to make a case for rate cuts in 2023. If growth continues on its current path, we see rates staying at these levels for an extended period, an outcome that would eventually be negative for equities and the overall economy.

Performance analysis

In Canada, the technology and real estate sectors helped returns, led by solid performances from Broadcom, Microsoft and CAPREIT. Consumer discretionary was the largest drag, led by Pet Valu.

In the United States, the financials sector was the largest outperformer, mainly because of stock selection, with Apollo and S&P Global leading the way. That being said, the fund underperformed in consumer discretionary owing to advances by Amazon and Tesla, and in health care because of an overweight position in this underperforming sector.

iA Financial Group

#1 In net sales of segregated funds in Canada since 2016

Donny Moss, CFA

Senior Director, Portfolio Manager, North American Equities

- Joined iA in 2008
- More than 20 years of investment experience
- Bachelor's degree in commerce, Dalhousie University

Positioning the portfolio for all scenarios

With the economy continuing to chug along in the second quarter, we must admit that the slowdown will arrive later than we had thought. With employment levels remaining strong and inflation receding, recession risks continue to diminish. Many expected North American consumers to slow their spending in 2023, so who could have predicted that consumer discretionary would be one of the top-performing sectors in the second quarter?

> "Even though we acknowledge the economy's ongoing strength, we continue to tilt defensively, focusing on companies that should perform well in times of economic weakness."

We are maintaining a healthy exposure to durable subsectors, such as regulated utilities, waste management, railways and P&C insurance, which all have pricing power and a history of outperformance in downturns. We have always placed a high degree of importance on being properly diversified by sector and individual security, and we aim to maintain a solid relative performance regardless of what the market throws our way.

Key Takeaways

- U.S. equities continue their strong performance.
- Recession fears have abated with positive economic data and cooling inflation.
- We remain diversified for all potential economic outcomes.

About iAGAM

A magnet for top investment talent, iAGAM is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.