INVESTMENT FUNDS

Dividend Growth &
US Dividend Growth

MONTHLY COMMENTARY

October 2023

Equities continue to fall in October

Higher rates continue to drag on equities

Equities remained weak in October, with the Canadian and U.S. markets both falling as higher interest rates continued to bite the consumer and the equity market alike.

Bond yields hit new highs, taking a further toll on long-duration bonds and yield-focused equities.

Not surprisingly, we are seeing more companies admit that business is slowing as consumers cut back on their spending and search for value.

Third-quarter earnings have arrived

The third-quarter earnings season is in full swing, and results have been good: more than 80% of the S&P 500 companies have bested estimates so far. That being said, top-line results have been mixed, with only half of the companies beating on sales. Despite the solid quarter, we have seen many negative stock price reactions because companies are reluctant to raise forward guidance in this uncertain environment.

Drilling down into sectors, we see the best earnings results from technology and the weakest results from energy and real estate.

Performance analysis

In Canada, the technology sector helped returns, led by a strong performance from Microsoft. Energy was the largest drag, owing to Enbridge and Cenovus.

As for the United States, consumer discretionary and information technology were again the best-performing sectors, mainly because of our underweight position and the strong performance by Microsoft. In contrast, industrials were the largest drag on the return, mainly because of underperformance by United Rentals and Carrier.

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 update

We still think that a North American recession is a likely outcome and that it will arrive first in Canada and later in the United States. As a result, our dividend mandate has had a conservative tilt for most of the year.

As for sector weightings, we are underweight banks/financials, energy, and consumer discretionary, and overweight technology and utilities.

One area where we recently increased our exposure is Canadian railways. Both CN and CP have underperformed this year on recession fears and consistently weak volume data, which is understandable as the economy transitions from overspending on goods to more balanced spending on goods and services as we move past the spending-mix changes caused by COVID.

"Rail valuations have moved to more reasonable levels owing to their underperformance this year, and we think the sector can continue to increase earnings faster than the market over the mid-to-long term, as both companies leverage their irreplaceable rail networks to position themselves for growth once the economy improves."

Key Takeaways

- Equities continued to fall in October, with the U.S. and Canadian markets both declining.
- We increased our exposure to Canadian railways.

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.

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