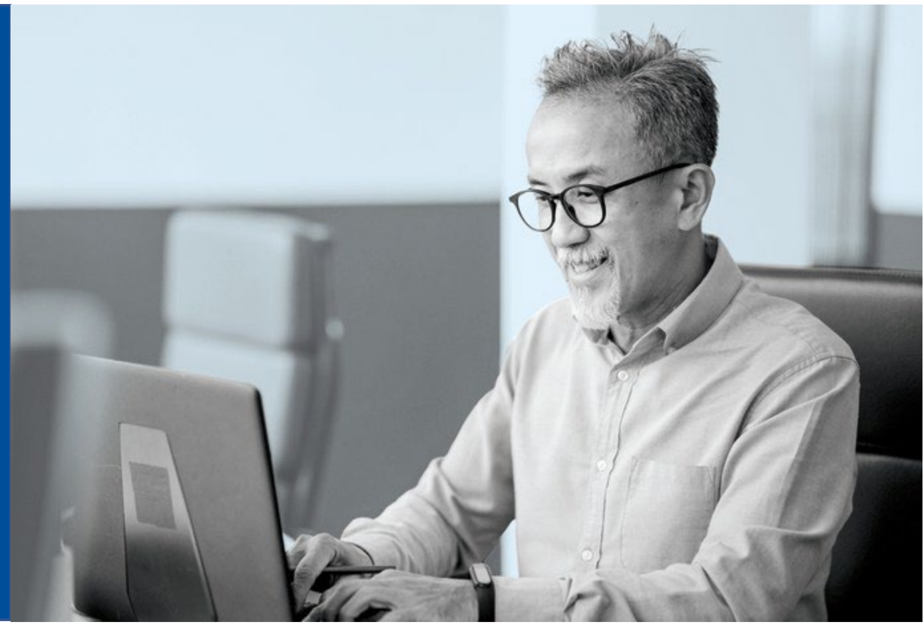
INVESTMENT FUNDS

North American Equity

MONTHLY COMMENTARY

October 2023



It's starting to look a lot like… a recession

Cyclical slowdown fights secular tailwinds

October saw a massive increase in the U.S. 10-year Treasury yield, driving cyclical industries and long-duration assets lower. With rates hitting a decade high (again!) in October, and UAW strikes that kept gaining ground, the market has been skittish.

A government shutdown has been averted once, but the next deadline is November 17. Congress is trying to pass a funding bill to prevent a shutdown, and more news on that front is expected early in November. As for the UAW strikes, the parties came closer to an agreement at the end of the month, but questions remain as to the place these OEMs (Ford, GM, Stellantis) will have in the transition to EVs because they seem to face a significant cost disadvantage in relation to new entrants, such as Tesla and foreign automakers.

Interest rates fight secular tailwinds

It was an especially tough month for companies connected to the energy transition. For example, NextEra Partners commented that it was getting more difficult to obtain funding because of high interest rates. With some companies delivering disappointing results on the back of inventory destocking, the whole sector was on sale. The key question remains: How will these new energy projects fare in a high-interest-rate environment mixed with high inflation? Many projects have cost overruns that have reduced their returns, and now high interest rates are putting the nail in the coffin for some of them.

Even so, governments around the world are putting money to work to increase the share of renewable energy over the longer term. Are we seeing a short-term hiccup or a long-term issue?

Performance analysis

Allocation and selection both contributed to the portfolio's performance during the month, with stock selection being the larger contributor. Our choices in consumer discretionary, information technology and industrials stood out.

In consumer discretionary, avoiding Tesla was a key contributor during the month. The rise in interest rates is starting to hit consumers, with high-price items such as EVs seeing reduced demand.

In industrials, Hammond Power Solutions continued to deliver outstanding results with a growing backlog and continued footprint expansion that should drive sales higher in 2024 and beyond.

Finally, in Information technology, much of the value added came from an underweight in Shopify, a position that we closed at the end of the month.

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Adding to some cyclical opportunities

It's no secret that the greatest opportunities usually present themselves when markets are weak; therefore, in October we initiated or added to positions in companies hit by market weakness. These opportunities arose mainly in depressed sectors that are highly tied to interest rates or to the consumer, namely consumer discretionary, industrials, utilities and energy.

Our portfolio had a defensive tilt as we entered the second half of 2023, and it paid off; but because interest rates seemed to have found a ceiling, we started to add cyclical exposure to the portfolio to take advantage of a potential rebound. In industrials, we started buying some depressed torque names in transportation. In energy, we added to oil producers and service companies that could benefit from an increase in drilling in 2024. We are looking carefully at the renewable sector, where we have done some detailed work on opportunities in solar.

> "We continue to think that we will see a massive increase in renewable energy production and that, despite the near-term financing challenges, the longer-term opportunity remains."

All in all, our portfolio has shown resilience in up and down markets alike, driven by a strong selection of idiosyncratic opportunities. We are slowly ensuring the portfolio can benefit from a market rebound.

Key Takeaways

– The increase in interest rates is putting pressure on the market.
– The portfolio recorded a strong performance in October.
– We are slowly adding cyclicality to the portfolio.

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.