INVESTMENT FUNDS

North American Equity

MONTHLY COMMENTARY

April 2023

Earnings results come in better than expected

The future remains uncertain

Banks reported reassuring results after the stress caused by the collapse of Silicon Valley Bank and First Republic Bank. Companies exposed to commercial real estate were also scrutinized as many loans for such projects are issued by smaller regional banks. Nevertheless, most of these companies posted excellent results and had not experienced any slowdown as of late April. Homebuilders, which are highly dependent on interest risk levels, also posted better-than-expected results, pointing to a stabilization of orders.

Even though many companies say they haven't seen any material slowdown so far, visibility on the future is limited. It usually takes 6 to 12 months for monetary and fiscal policy to affect the economy, so some of the impacts from the Fed's rapid rate increases are yet to be felt. With the easing of supply-chain issues, manufacturers are again able to produce at regular levels. That being said, uncertainty over the future of the economy, combined with high interest rates, has limited order inflows and led to a shrinking backlog.

Transportation giants throw cold water on the market

In the first weeks of earnings announcements, we heard from some of the transportation giants. Canadian National Railway, Union Pacific, J.B. Hunt Transportation and UPS all released their results for the three months ending March 31, 2023.

Even though the results were uneven across the transportation universe, they all shared one belief: The outlook is murky at best. Canadian National Railway said its volumes were in line with recessionary activity, and UPS reduced its full-year outlook owing to a global slowdown. Finally, it was a common theme across the transportation spectrum that March volumes were especially weak, and the trend did not reverse itself in April.

Performance Analysis

In April, our strong stock selection in consumer discretionary was offset by weaker selection in information technology. In the consumer discretionary sector, we added value by not owning Tesla, which lost 20% on the month. We like Tesla's first-mover advantage and dominance of the EV market but we're still puzzled by its valuation and we think it faces the risk that legacy car makers will enter the market aggressively in the next few years.

Our negative contributors include Palo Alto Networks, which dipped after a competitor reported poor quarterly results. Nonetheless, we remain very positive on the cybersecurity space and have an overweight in the company.

iA Financial Group

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

Marc Gagnon, M. Sc., CFA

Vice-President, Portfolio Manager,
North American Equities

- Joined iAGAM in 1998
- More than 25 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval

Maxime Houde, CFA

Associate Director and Associate Portfolio Manager,
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- Joined iAGAM in 2015
- Close to 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

We seize opportunities while remaining cautious

In Canada, bank earnings came in better than expected as the U.S. regional banking crisis was partially contained when regulators and major banks stepped in. Even so, we have yet to see its impact on the economy. Even though the companies most exposed to regional bank lending did not see any immediate impact, we think the usual lag between policy implementation and real economic effect will create a more difficult borrowing environment by the second half of 2023. This context would overlap with the Fed's tightening effect, with an adverse impact on the consumer. We think the Canadian economy faces greater risk than is currently priced into the markets. We're maintaining a prudent approach but taking the opportunity to buy some cyclicals for the portfolio.

As for the United States, we expect continued volatility in the first half of the year and will take advantage of it to continue improving the fund's risk-return profile.

> "Relatively speaking, we think structural growth stocks will be favoured in the coming low-to-negative GDP growth environment."

Our rule of thumb is that investing in structural growth and the "innovation economy" is better done as we emerge from the trough of a cycle when growth is a rarity. We see opportunities in smid-cap innovators and have started to align our positioning accordingly. U.S. smid-cap stocks are trading in single-digit percentiles, close to their lowest relative valuations ever.

Key Takeaways

- First-quarter earnings are coming in better than expected.
- Some of the impacts of the Federal Reserve's rapid interest rate increases are yet to be felt; we forecast a more difficult second half of the year.
- We are maintaining a cautious positioning while seeking opportunities in U.S. smid-cap innovators.

About iAGAM

A magnet for top investment talent, iA Global Asset Management 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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