INVESTMENT FUNDS

Dividend Growth & US Dividend Growth

MONTHLY COMMENTARY

April 2023

First-quarter earnings are better than expected

A sense of nervousness pervades the markets

The equity markets were marginally positive in the United States and Canada in April. First-quarter earnings began rolling in, with aggregate revenue and earnings both ahead of last year's and ahead of analyst estimates. That being said, we've noticed that companies that beat earnings estimates are seeing smaller positive reactions than normal, while companies that miss are down more than usual, which is a sign of a nervous market. We continue to think profit margins will slowly recede from record levels, creating a headwind for equities.

Energy could drive earnings lower in Canada in the first quarter

As we watch first-quarter earnings for Canadian companies, an important sector to monitor is energy. We think the comparisons to the first quarter of 2022 will be tough, because we saw much lower commodity prices in the first quarter of 2023, which, combined with labour inflation, will lead to substantially lower cash flow for energy producers. In fact, earnings and cash flows could be down by 25-40% on a year-over-year basis. Given the sector's importance in the Canadian market, it will represent a substantial drag on overall earnings for the first quarter.

Performance analysis

Within Canada, the communication services and industrials sectors helped performance, led by solid returns from Rogers, Telus and GFL. In contrast, the materials sector was the largest detractor, led by CCL Industries and Nutrien.

In the United States, consumer discretionary and energy were the largest outperformers, led by Starbucks, Canadian Natural Resources and McDonald's. As for negative performers, the fund's weakness was due to an overweight and stock selection in the health care sector, with Danaher and Thermo Fisher being the largest detractors.

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 iAGAM in 2008
— More than 15 years of investment experience
— Bachelor's degree in commerce, Dalhousie University

Our view of the energy sector

We continue to position the fund defensively, focusing on companies that should perform well in times of economic weakness. The subsectors that fit this description include discount retail, consumer staples, health care, waste, railways, telecom and utilities. It should be no surprise that our dividend mandate has healthy weights in all these areas. The economic downturn has been slow to materialize, but we think it will arrive in the second half of 2023, and it may be appropriate to add risk to the portfolio at that time.

"We're turning a bit more cautious on energy, because the stocks have outperformed the commodity significantly since last fall, and earnings are set to decline significantly from year-ago levels, which could dampen sentiment."

To reduce risk in this volatile sector, we're focused on energy infrastructure, with Enbridge being our largest weighting. As for energy producers, our largest weighting is in Canadian Natural Resources, which in our opinion is the highest-quality producer with the best management team.

Key Takeaways

— First-quarter earnings are better than expected so far.
— We're turning a bit more cautious on energy.
— The portfolio is positioned defensively ahead of an economic slowdown.

About iA Global Asset Management

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.