INVESTMENT FUNDS

Dividend Growth &
US Dividend Growth

MONTHLY COMMENTARY

February 2023

Uncertainty remains

From a positive to a negative surprise

The equity markets dropped in February as inflation was unexpectedly slow to recede, raising fears that the Federal Reserve will need to continue raising rates for the next few months. In addition, earnings estimate for 2023 continue to fall slowly, keeping equity valuations high.

This context is the opposite of what we witnessed in January, when inflation surprised to the downside, to the relief of investors. It's a good reminder that the path back to a 2% inflation target probably will not be a straight line, but one with many twists and turns along the way, to the frustration of many.

Higher rates mean higher uncertainty for equities

We still think the path toward a soft landing is fairly narrow. Moreover, if rates continue to rise to battle inflation, the probability of a recession will increase. As a reminder, we have had the portfolio tilted conservatively for some time, because we still think it will be hard to avoid a substantial slowdown in the economy.

We continue to focus on stocks that have durable competitive advantages and should perform relatively well in times of heightened economic uncertainty, which is where we find ourselves today.

Performance analysis

In Canada, consumer discretionary and real estate helped returns, particularly solid returns from Canadian Tire and Colliers. The returns from financials and energy were disappointing, however, with Brookfield Corp and Canadian Natural Resources being the largest detractors.

In the United States, materials and utilities were the largest outperformers, with additional contributions from Progressive Corp and Applied Materials. On the negative side, energy underperformed, owing to our overweight in relation to the benchmark, while consumer discretionary underperformed because of our stock selection, notably Dollar General and TJX Companies.

Donny Moss, CFA

Senior Director, Portfolio Manager, North American Equities

- Joined iAIM in 2008
- More than 15 years of investment experience
- Bachelor's degree in commerce, Dalhousie University

Focus on companies with pricing power

Fourth-quarter reporting is almost complete in the United States and Canada, and the results have generally been good. That being said, we are seeing fewer beats versus consensus than in prior quarters.

> "Many companies continue to see wage and inflation pressures that are hurting results and causing margins to drop from record high levels."

We are still focusing on companies with pricing power, which will continue to be important if inflation remains higher for longer. One of our favourite examples of strong pricing power in the portfolio is Waste Connections, which has been able to keep its pricing above inflation for many years. In addition, the company has historically performed well in recessions; revenue remains stable while the company sees relief in some costs such as volume and labour, which helps maintain margins. With these defensive attributes, it remains one of our top holdings in the industrials sector.

Key Takeaways

- Inflation remains volatile and may be slow to recede.
- We continue to be tilted conservatively amid market uncertainty.
- Our focus is on companies with pricing power.

About iAIM

A magnet for top investment talent, iAIM 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 iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.