Update as at May 31, 2023

Canadian Equity Growth (iA)

Marc Gagnon & Adam Poulin in collaboration with iAGAM Fund Management and Oversight Team

Performance since beginning of Q2

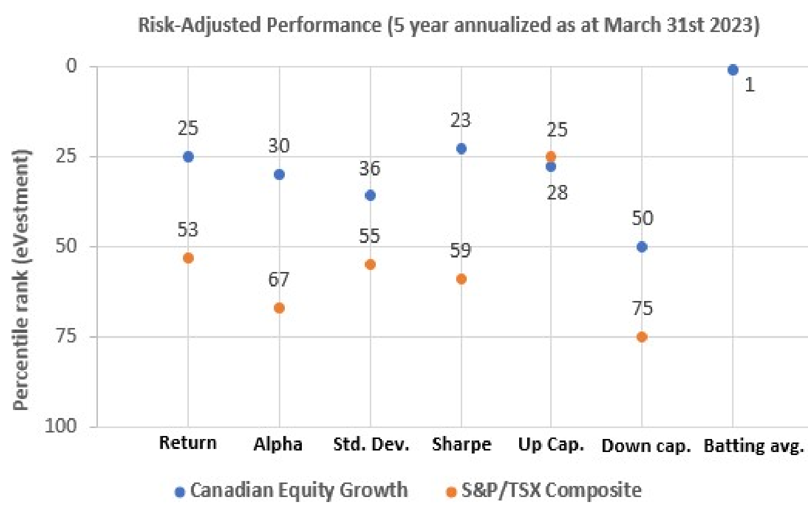
Since the start of Q2, the fund has outperformed its peer group, due to allocation and selection. The team turned more defensive at the end of Q1 by mostly reducing exposure to cyclical sectors, namely energy, basic materials, and industrials. This was a strong factor for outperformance. The Canadian market's recent underperformance can be explained in part by increased fears of a recession, the tightness in lending conditions and the lack of recovery from China, which are disproportionally affecting the Canadian market versus the U.S. With that in mind, and a cautious view heading into Q2, the team has increased the fund's technological exposure through large U.S. corporations. The team added significant positions in Meta and Uber, which were strong contributors to outperformance. Reducing certain positions, such as Bombardier, also delivered outperformance. Bombardier was one of the fund's strongest performers between the summer of 2022 to Q1 2023. However, the team was cautious heading into Q1 reporting, mostly because of the book-to-bill metric, which led it to sell the position. This proved to be the right decision as the stock decreased more than 20% since then. Longer term, the team still believes there is value in the name, and while they remain on the sideline for now, could revisit their stance later.

Strategy

As the year progresses, the team has become more defensive. The manager fears that a recession will hit North American economies in the second half of 2023 or early 2024. While some market participants are calling for a technical recession, Marc sees something more important affecting our economies. Heading in to 2023, the main concern was that inflation would remain higher than expected, which would lead to higher rates in the short to mid-term and negatively impact consumers. With the recent U.S regional banking crisis and the potential tightness in credit lending, Marc foresees an environment where both consumers and corporations could be limited in terms of spending in the later part of 2023. The team broadly forecasts a more difficult second half of 2023.

The manager does not anticipate rate cuts to happen in the short-term, despite seeing some green shoots on inflation. He believes the Fed will remain on the hawkish side to prevent another inflation cycle. Rate cuts could arrive sometime in 2024, when consumer spending patterns return to some sort of normalization following the incredible consumption we have seen out of the pandemic.

Ultimately, the team believes the economy faces greater risk than currently priced. Therefore, they remain careful in their overall portfolio approach but take the opportunity to buy cyclicals where most of the downside is protected. The team acknowledges that the market is forward looking and will rally before economic data shows acceleration. Therefore, they are willing to look through the valley when they see situations with steep valuation discounts and good growth prospects.



Source: eVestment; Gross returns; Peer group percentile ranking using Evestment All Canadian Equity Universe, excluding small cap and index funds. BlackRock Canadian Equity Index Class used as proxy for S&P/TSX Composite.

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