

Thematic Innovation (iA)

MONTHLY COMMENTARY

November 2023



Bad news is good news

Massive turnaround in yields fuels the market

After the U.S. 10-year yield rose significantly in October, a strong reversal fuelled the market in November. Interest-sensitive sectors, such as utilities, as well as economically sensitive sectors, such as industrials and consumer discretionary, outperformed during the month.

The market is interpreting softer economic data positively and looking forward to interest rate cuts in 2024. Moreover, the thesis of a soft landing in 2024 is still intact and now seems to be the market consensus.

Are we going too fast?

The reversal in rates we witnessed in November fuelled the equity market but may have been too fast. Economic activity has just begun to slow and the markets are already pricing in interest rate cuts. But the goal of most central banks is to keep inflation in check.

With financial conditions easing in November and the economy remaining afloat, is the market being too optimistic? The better the economy fares, the later rate cuts should happen. Market expectations have to be kept in check.

Performance analysis

The portfolio had a very strong performance in November, driven by allocation and selection alike. In terms of selection, our overweight in Dexcom paid off, driven by a relief rally after NVO's full SELECT trial data readout, which showed a much more complicated picture than headlines suggest.

Our overweight in Uber was also positive; once again it delivered better-than-expected earnings and profitability, which drove its inclusion in the S&P 500 Index. Another positive holding was Workday, which delivered better-than-feared results after an investor day that fell short of expectations.



Maxime Houde, CFA

Portfolio Manager, Thematic Investing

- Joined iA in 2015
- More than 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

Positioning for a new tomorrow

In our view, the prevailing market regime will increasingly call for active stock selection and thematic investing. As we head into 2024, structural growth stocks are likely to remain in favour, underpinned by stabilized long-term interest rates and consistently below-average GDP growth.

“Technology shifts tend to usher in new market cycles and regimes, and we think artificial intelligence (AI) will become the technological turning point of our generation. As AI progresses from conception to commercialization, it is poised to take centre stage in 2024.”

Using the data-era framework as a guide, we expect to witness a significant benefit shift from the semiconductor industry to infrastructure and software layers, as use cases emerge and are commercialized and monetized.

In line with our barbell investment approach, we will continue to identify potential market leaders of tomorrow amongst innovative firms, while ensuring our capital is also allocated to dominant market players that stand to gain as innovation further permeates the economy. This strategy offers the distinct advantage of mitigating risk, in contrast to pure-play, high-octane, innovative approaches.

Key Takeaways

- Expectations of interest rate cuts are gaining momentum.
 - The market chased risk assets in November.
 - Our strong performance was driven by allocation and selection.
-

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.

INVESTED IN YOU.

iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc.

ia.ca