

Thematic Innovation Fund

QUARTERLY COMMENTARY

June 2023



The U.S. economy remains strong, led by resilient consumer spending

Big Tech continues to thrive

The first half of 2023 was defined by the U.S. consumer's unexpected resilience in the face of rising interest rates and inflation, sustaining the U.S. economy and avoiding the expected recession.

The excess savings accumulated during the early part of the pandemic are still being unwound in the economy. Labour has also been very strong, with job openings remaining high and unemployment rates low. Inflation is still running higher than the Fed's target but has shown signs of slowing. Despite a lack of market breadth, Big Tech has continued to thrive, contributing to the market's overall resilience.

Challenging times ahead

Investors are facing confusion regarding economic growth, largely because of the contradictory behaviour of various sectors of the U.S. economy. We think challenging times lie ahead for consumers because excess savings are expected to decline just as student loan payments resume.

Even so, we think themes such as AI, automation and the energy transition could serve as secular tailwinds capable of mitigating economic downturns in some areas of the economy.

Performance analysis

The fund's allocation and stock selection both contributed to its performance.

An overweight in information technology and communication services, coupled with an underweight in consumer staples and financials, contributed positively to the portfolio's performance.

As for stock selection, Bellus Health contributed to the return, with the company being acquired at a premium of about 100%. Magnite, a supply-side platform specializing in CTV advertising, also contributed to the return with its excellent first-quarter results. Uber Technologies was also a standout, with earnings that highlighted the free cash flow inflection that has been central to our thesis.



Maxime Houde, CFA

Associate Portfolio Manager, Thematic Investing

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

AI, automation and the energy transition could mitigate the impact of an economic downturn

We continue to think that investing in structural growth and the innovation economy is best done when economic growth becomes scarce.

“The secular tailwinds, such as AI, automation and the energy transition, could mitigate the impact of an economic downturn for certain areas of the economy.”

Conversely, we think consumers will face more challenging times, given the depletion of pandemic-induced excess savings, inflation-driven higher prices and a borrowing environment that is notably tight and costly. That being said, we are still cautiously optimistic about the second half of the year, as seen by our strategic investments in the next-generation health care theme, which offers a defensive, conservative investment option that should be affected to only a limited degree in an economic downturn.

Key Takeaways

- The first half of 2023 was defined by the U.S. consumer's unexpected resilience.
- We think investing in structural growth and the innovation economy is best done when economic growth becomes scarce.
- We are cautiously optimistic as the second half of the year begins.

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