INVESTMENT
FUNDS

Thematic Innovation (iA)

MONTHLY COMMENTARY

July 2023

The party continues in the United States

Powell slows the beat

The United States and China, inarguably the two largest economies in the world, are grappling with very different problems. In the United States, where employment remains strong, despite signs of slowing, the Federal Reserve is still trying to control inflation. The economy, and especially the consumer, are doing better than many expected just a few months ago, despite higher rates every quarter.

Consumers are spending more of their wallet share on services, namely restaurants and travel, in a big shift from what we saw in the early days of the pandemic, when consumption of goods was predominant. Normalization should happen in the coming quarters, driven in part by high interest rates that are making consumers rethink their wallet allocation.

Mid-year earnings kick off

July marked the start of the second-quarter earnings season. In the last weeks of July, large worldwide transportation companies released their earnings and commentaries, which are usually a good barometer of the economy's health and trajectory. The read on consumption of goods remains bearish. This earnings season saw expectations rolled back for the year, with companies forecasting a very slow recovery from the low levels experienced since the start of the year. Even so, equities began to rally on hopes that the worst was behind us.

Performance analysis

Our allocation to mega-cap tech stocks and secular growth stories has been a key driver of our return since the start of the year. In July, our strong performance in industrials and communication services was offset by weakness in health care. In industrials, Uber was the main driver of performance. It's been quite a ride (no pun intended) since we initiated the position. Even so, with the recent rally, we are reducing our exposure amid risk-management and valuation concerns.

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

Embracing market fluctuations

We expect further market fluctuations and plan to capitalize on such opportunities to enhance our fund's risk-return profile. In the impending low-to-negative GDP growth climate, we think structural growth stocks will be preferred.

> “A useful guideline is that investments in structural growth and the innovation economy are best made after the low point of a cycle, when growth is scarce.”

Consequently, we expect themes such as AI hardware, secular industrials, the energy transition and automation to remain relatively insulated from market deceleration.

We’ve identified opportunities in a cluster of innovators that aim to benefit from multiple secular tailwinds driven by a new cloud capex cycle, reshoring and the energy transition, and we’re adjusting our positions accordingly.

We’re cautiously optimistic about the second half of the year, as shown by our strategic investments in the next-generation health care theme, which offers a defensible, conservative investment option that is likely to encounter limited impact in an economic downturn.

Key Takeaways

- The Fed is expected to cut rates in the first half of 2024
- The fund has performed strongly in recent months
- Our portfolio is becoming more cyclical

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.