INVESTMENT FUNDS

Thematic Innovation (iA)

MONTHLY COMMENTARY

August 2023

No vacation for rates

Highest level in more than a decade

In August, the U.S. 10-year Treasury bond yield reached a level not seen since 2007, before the great financial crisis. Some signs of a weakening consumer are slowly emerging, in part because of the high interest rate environment. Moreover, cumulative household excess savings, which peaked in August 2021 at $2.1 trillion, are now fully exhausted. That being said, household cash remains above trend but is slowly eroding, with a return to normality expected by March 2024, as consumers use it to offset higher borrowing costs and to maintain consumption. As savings erode, the effect of tighter monetary policy should be reinforced.

The debate: Recession or no recession

The tug of war continues between the recession and no-recession camps, and the game is getting tighter. With rate cuts forecast in 2024 and a consumer who has handled rate hikes much better than initially expected, more and more market participants are reviewing their recession expectations. Still, the current level of short- and long-term rates makes the borrowing environment difficult and should eventually put pressure on the consumer. The devil is in the details, and the debate centres on the excess savings and liquidity buffers accumulated during the pandemic. Will households' excess savings and increased liquidity be enough to support them until central banks start to reverse their tight monetary policy?

Performance analysis

Our strong sector allocation was unfortunately offset by weaker stock picking during the month. Despite strong stock selection in health care and industrials, our selection in communication services is the reason for all our underperformance, particularly our overweight in Magnite. Its second-quarter earnings were disappointing, driven by softness in CTV revenue even amid a strong backdrop from the streaming services company, which led to questions about the company's role in the CTV advertising ecosystem. We decided to exit the position because we saw fundamental risk to the business and its positioning in the ecosystem.

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

Secular growth is the new defensive

We expect further market fluctuations and plan to capitalize on such opportunities to enhance our risk-return profile. In the impending low-to-negative GDP growth climate, we think structural growth stocks should 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 are still cautiously optimistic about the rest of the year, as shown by our preference for large caps and strategic investments in the next-generation health care."

This theme offers a defensible, conservative investment option that is likely to withstand economic downturn fairly well.

Key Takeaways

- U.S. rates are nearing a decade high.
- The market is pricing in a lower chance of a recession.
- The fund is positioned for multiple economic scenarios.

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.