INVESTMENT FUNDS

Dividend Growth (iA) &
US Dividend Growth (iA)

QUARTERLY COMMENTARY

September 2023

Equities fall in September

Higher rates bite into equity valuations

The Canadian and U.S. indexes were both lower in September as continued rising interest rates hit equity valuations. Most of the weakness occurred toward the end of the month as the U.S. 10-year bond yield reached new highs not seen since 2007. This development hit the more leveraged segments of the market particularly hard, including the utilities, pipeline, telecom and real estate sectors.

Higher for longer

As bond yields continue to climb and inflation remains above target, we still think there is a risk that central banks will have to leave interest rates higher than originally expected, and for longer than expected. This context will pressure companies with high levels of leverage, as well as consumers who are in the same situation.

We think the impact on the consumer will be greater in Canada than in the United States, as mortgage holders renew at much higher rates over the next 2 years.

Performance analysis

In Canada, the materials and financials sectors helped returns, along with a strong performance from United Health. Information technology and energy were the largest drag, led by Broadcom and Enbridge.

In the United States, consumer discretionary and information technology were the best-performing sectors, mainly because they were underweight in relation to the benchmark. On the negative side, utilities were the largest drag on performance, mainly because of our position in NextEra Energy, whose renewable exposure caused it to underperform.

Donny Moss, CFA

Senior Director, Portfolio Manager, North American Equities

- Joined iA in 2008
- More than 20 years of investment experience
- Bachelor's degree in commerce, Dalhousie University

Finding value in regulated utilities

As discussed above, it has been a tough time for the interest-rate-sensitive areas of the market, including utilities, pipelines, telecoms and real estate. These companies usually operate with higher leverage and slower growth; thus, their valuations can be more susceptible to changes in interest rates. Nowhere has the effect been as pronounced as in the renewable portion of the utility sector, where projects have had to contend with increased construction costs and now sharply higher interest rates, which have lowered expected returns and even made some potential investments uneconomic.

> "We do have exposure to the utilities sector, but the vast majority of it is in traditional regulated distribution entities, which are highly regulated local monopolies with well-defined, low-risk growth profiles."

Even though these stocks have also been hit by rising rates, their business profile has remined intact, and we think they'll continue to provide good long-term risk-adjusted returns, especially once the outlook on rates becomes clearer.

Key Takeaways

- Equities were negative in September as higher interest rates affected valuations.
- The higher-for-longer narrative is unfolding.
- We are finding value in regulated utilities.

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.

SRM607A-1-1(23-09)