INVESTMENT FUNDS

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

MONTHLY COMMENTARY

August 2023

Equities fall slightly in August

Earnings impress but stock reaction disappoints

Second-quarter earnings are in, with the results being generally better than expected in both Canada and the United States. Investor expectations continued to be high; many companies that beat expectations traded sideways or even fell after releasing their earnings, especially those that didn't raise their guidance.

Energy sector is warming up

Even though economic growth has slowed in most areas outside the United States, oil prices started rising in July and are now at their highest level of the year. This strength is due to a combination of stable demand and lower supply owing to reduced investment and lower production from OPEC. It is rare for oil and energy stocks to outperform in weaker economic environments, so we will be watching this sector closely, especially for the Canadian mandate.

Performance analysis

In Canada, the materials and information technology sectors helped returns, along with strong performances by Canadian Natural Resources and Colliers. Utilities and energy were the largest drag, led by Brookfield Renewable.

In the United States, financials was the best-performing sector, mainly because of stock selection with Apollo and Progressive Corp., the largest outperformers. In contrast, health care was the largest drag on performance; we held an overweight position, but the sector was weak in August.

iA Financial Group

#1 in net sales of segregated funds in Canada since 2016

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

For Canadian banks, expenses were a negative surprise

We have reviewed the third-quarter earnings of the big six Canadian banks, which were released last week, and would characterize them as generally underwhelming. Much of investors' pre-quarter focus was on credit performance; however, results in this area were generally good, as provisions for credit losses are just back to pre-covid levels.

Two areas that fell well below expectations were the banks' U.S. operations and their expenses.

> "In our opinion, the most surprising miss from the banks was on expenses."

Non-interest expense growth averaged 15% over the past year, as the banks over-hired while wages grew significantly to ensure competitiveness. Now that revenue growth has stalled, it is imperative that the banks quickly rein in spending to protect their business as we head into uncertain economic times. We think it's still too early to increase our exposure to the group because of these headwinds.

Key Takeaways

- Equities were negative in August as earnings failed to impress.
- Energy prices hit their highest level since the beginning of the year.
- Canadian banks have problems with their expenses.

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.