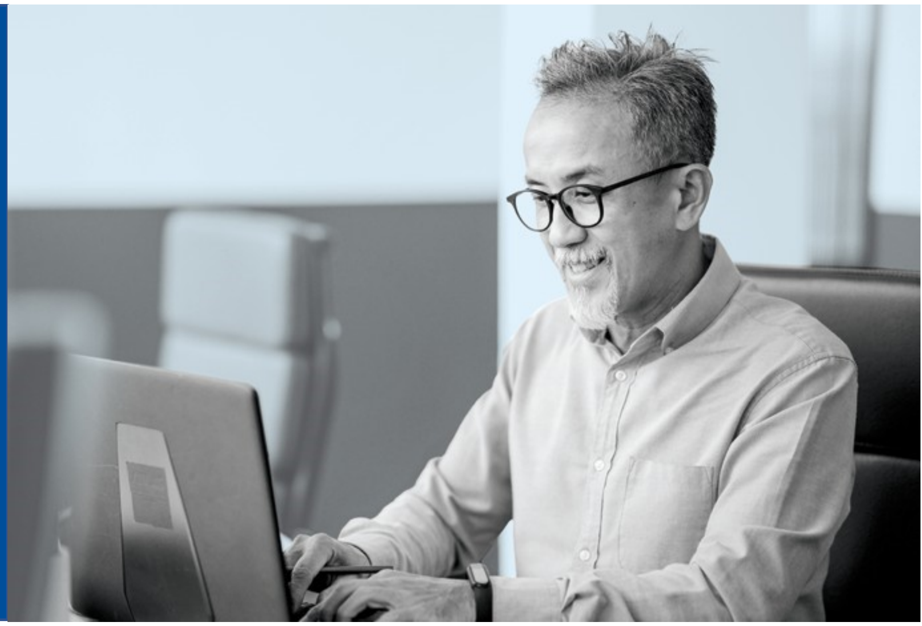
INVESTMENT FUNDS

North American Equity (iA)

MONTHLY COMMENTARY

November 2023



Bad news is good news

Massive turnaround in yields fuels the market

After the U.S. 10-year yield rose significantly in October, a strong reversal fuelled the market in November. Interest-sensitive sectors, such as utilities, as well as economically sensitive sectors, such as industrials and consumer discretionary, outperformed during the month.

The market is interpreting softer economic data positively and looking forward to interest rate cuts in 2024. Moreover, the thesis of a soft landing in 2024 is still intact and now seems to be the market consensus.

Are we going too fast?

The reversal in yields we witnessed in November fuelled the equity market but may have been too fast. Economic activity has just begun to slow and the markets are already pricing in interest rate cuts. But the goal of most central banks is to keep inflation in check.

With financial conditions easing in November and the economy remaining afloat, is the market too optimistic? The better the economy fares, the later rate cuts should happen. Market expectations have to be kept in check.

Performance analysis

The performance was mixed during the month, with positive asset allocation offset by stock selection.

Even though stock selection did not contribute value, we had some interesting selections. Our overweight in Lumine Group was a positive contributor; the company reported a strong quarter, driven by margin outperformance.

Stantec remains a core position; it continues to record above-average growth, driven by its exposure to the United States and to secular themes, such as water. We trimmed our position at the end of the month but remain generally positive on the company because we think it is positioned to accelerate its acquisition spending.

Finally, our overweight in Uber continued to pay off, with the company delivering better-than-expected earnings and profitability once again.

Marc Gagnon, M. Sc., CFA

Vice-president, Portfolio Manager,
North American Equities

— Joined iA in 1998
— More than 30 years of investment experience
— MBA in finance, Université Laval
— Bachelor's degree in Business Administration, Université Laval

Maxime Houde, CFA

Director, Portfolio Manager,
Thematic Investing

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

Riding the cyclical bandwagon

We took advantage of market weakness in October to add to some cyclical companies that we like for the mid and long terms. This move accelerated as the market rapidly re-priced some of the depressed cyclical assets. We are still of the view that this is the way to go as we head into 2024. In fact, we think a small profit recession, also known as a soft landing, is upon us.

> "Despite weaker profits, we think the market's forward-looking behaviour will be enough to drive cyclical opportunities higher, in anticipation of rate cuts and the relief they provide for businesses and consumers."

In industrials, we continued buying some depressed torque names in transportation. In energy, we added to oil producers and service companies that could benefit from an increase in drilling in 2024. We are closely monitoring the renewable sector, where we have done some detailed work on opportunities in the solar industry. We still think that we'll see a massive increase in renewable energy production and that, despite the near-term financing challenges, the longer-term opportunity remains.

Finally, we will continue to increase the portfolio's beta to benefit from a market rebound.

Key Takeaways

– Expectations of interest rate cuts are gaining momentum.
– The market chased risk assets in November.
– The portfolio had a mixed performance.

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.