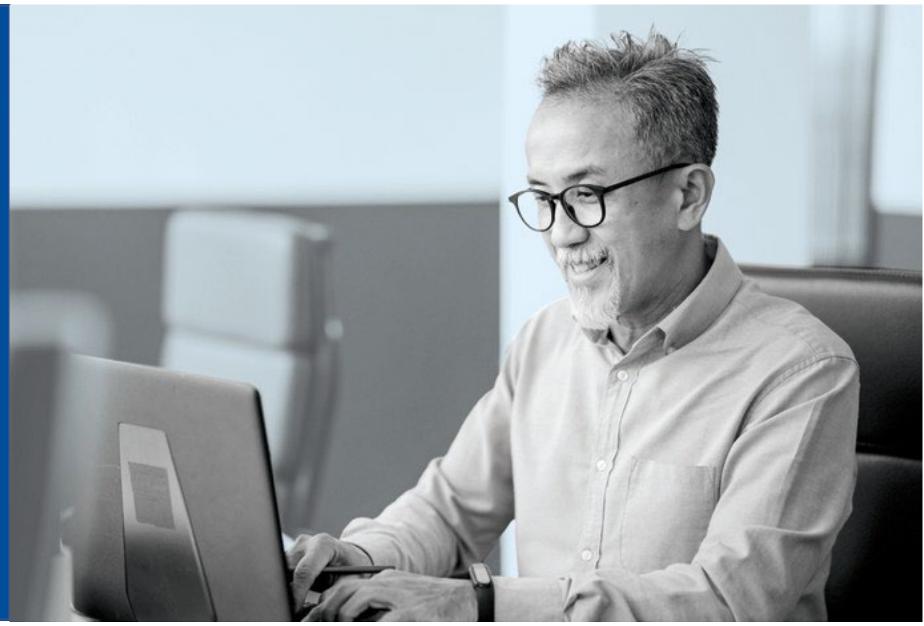
INVESTMENT FUNDS



North American Equity (iA)

QUARTERLY COMMENTARY

September 2023

Higher for longer

Interest rates are running higher

The U.S. 10-year rate continues to make decade highs. Jerome Powell said at the Fed's September meeting that rates would remain higher for longer, and his statement was supported by unexpectedly strong economic data indicating a resilient consumer. Despite the stronger data, the market went into a tailspin at the end of the quarter on hawkish Fed comments and the ensuing move in rates. Market expectations for rate cuts have changed since the start of the year, with the idea of cuts being sidelined as rates are pushed higher. This context has been pressuring rate-sensitive sectors, such as utilities.

Resilient consumer but for how long?

Despite robust macroeconomic data, such as job openings, some early signs are pointing to a weakening consumer. Much of the rise in rates was recently absorbed by excess savings that were accumulated during the pandemic but are now depleted. Looking at consumer discretionary and transportation stocks, we see a blurry picture. Transportation companies are signalling a lack of seasonality in the second half of the year, although volumes usually pick up during the back-to-school season. As for consumer discretionary, traffic and average basket size are pointing lower, with consumers looking to trade down. Are we finally seeing the hiking cycle's effects on the consumer?

Performance analysis

Our strong selection in industrials, energy and consumer staples was not enough to offset weaker picks in communication services and consumer discretionary. As for industrials, our positive view on the electrification of everything was reflected in our portfolios, with overweights in Eaton Corporation and Hammond Power Solutions, which delivered strong results during the quarter. In energy, our overweight in Trican Well delivered strong results, with the stock rising more than 30% during the quarter. The company continues to generate strong free cash flow that should lead to further returns to shareholders. The context of strong demand meeting a limited supply of equipment is pushing rates and profitability higher.

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Vice-president, Portfolio Manager,
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— Joined iA in 1998
— More than 30 years of investment experience
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Preparing for turbulent times

This year has been a real challenge when it comes to asset allocation.

> "The uncertainties over the macroeconomy as we head into 2024, mixed with interest rates at decade highs, have led us to be swift in adapting our portfolios to our changing macroeconomic views."

As we head into the final laps of 2023, we are taking a more conservative approach. The last Fed meeting was very telling for us. Earlier this year, we were debating what would come first: hints of rates cut by the Fed or an earnings slowdown. We thought the earnings recession would come first and, therefore, turned defensive last summer; now, this has become a conviction. With that in mind, our allocation turned more defensive in the third quarter, and we have maintained that exposure into the fourth quarter, with reduced weightings in sectors such as industrials, consumer discretionary and materials.

The rapid rise of 10-year rates in the United States and Canada prevented our defensive, high-yielding strategy from paying off. U.S. long rates could overshoot in the next 3 to 4 months; therefore, we have made some adjustments to our defensive allocations.

Key Takeaways

— Interest rates continue to rise.
— Signs are pointing to a weakening consumer.
— We are positioned cautiously as we head toward the end of the year.

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.

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