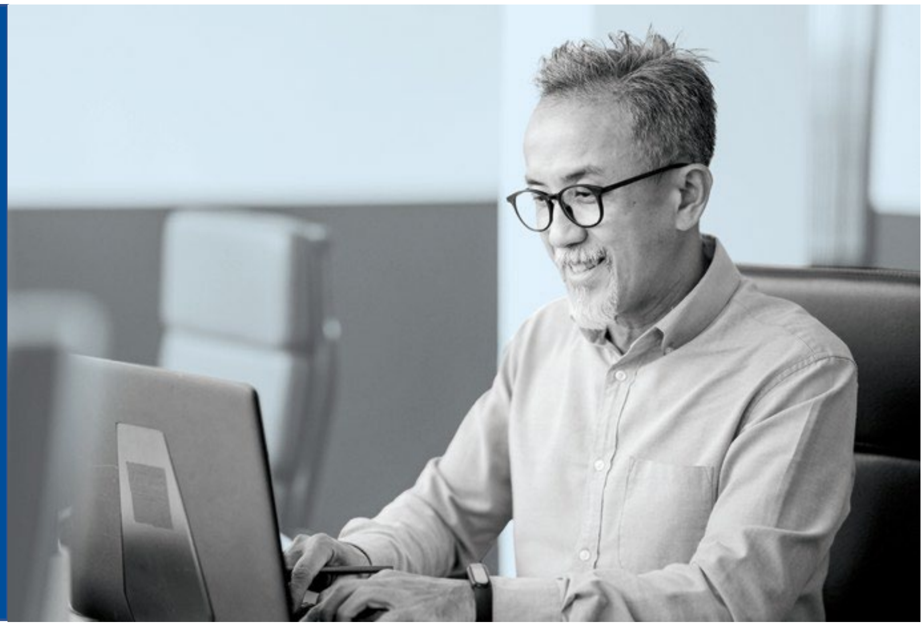
INVESTMENT FUNDS

North American Equity (iA)

MONTHLY COMMENTARY

July 2023



The party continues in the United States

Powell slows the beat

The United States and China, inarguably the two largest economies in the world, are grappling with very different problems. In the United States, where employment remains strong, despite signs of slowing, the Federal Reserve is still trying to control inflation. The economy, and especially the consumer, are doing better than many expected just a few months ago, despite higher rates every quarter.

Consumers are spending more of their wallet share on services, namely restaurants and travel, in a big shift from what we saw in the early days of the pandemic, when consumption of goods was predominant. Normalization should happen in the coming quarters, driven in part by high interest rates that are making consumers rethink their wallet allocation.

Mid-year earnings kick off

July marked the start of the second-quarter earnings season. In the last weeks of July, large worldwide transportation companies released their earnings and commentaries, which are usually a good barometer of the economy's health and trajectory. The read on consumption of goods remains bearish. This earnings season saw expectations rolled back for the year, with companies forecasting a very slow recovery from the low levels experienced since the start of the year. Even so, equities began to rally on hopes that the worst was behind us.

Performance analysis

In recent months, we've been taking a more conservative stance based on our view that the Fed will not cut rates in 2023. Our strategy has been paying off since the start of the second quarter. Our lower exposure to the materials and energy sectors in favour of greater exposure to U.S. mega-cap technology has borne fruit. In July, our selection was strongest in the industrials sector, driven by our overweights in RB Global and Hammond Power Solutions. Our thesis on RB Global remains the same: we think its newly acquired asset, IAA, will perform better under RB Global's umbrella, which could generate significant synergies and deliver attractive shareholder returns. As for Hammond Power Solutions, the electrical secular tailwinds continue to push revenues higher, and the valuation remains reasonable.

iA Financial Group

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

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

Associate Portfolio Manager,
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- Joined iA in 2015
- More than 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

We remain positioned defensively

With the Fed's recent comments, today's absolute level of short-term rates and rate-cut expectations for the first quarter of 2024, we've become more confident that the market consensus now more properly reflects the Fed's future course of action.

> "With that in mind, we're turning to the more cyclical sectors."

In early July, we started increasing our exposure to energy. We're also turning our attention to other cyclical sectors, such as materials and industrials. We're still impressed by the way consumers are handling higher rates. The excess savings accumulated during Covid are possibly softening the effect of higher rates. Even so, the resiliency has been better than expected. With potential rate cuts in 2024, we could soon emerge from these uncertain times, not without some scars, although they may be shallower than we had initially forecast. Accordingly, we are positioning our portfolio more aggressively as we head into the second half of 2023.

Key Takeaways

- The Fed is expected to cut rates in first half of 2024
- China is in need of stimulus
- The fund had a strong performance during the month
- Our portfolio is becoming more cyclical

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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