INVESTMENT FUNDS

North American Equity (iA)

MONTHLY COMMENTARY

August 2023

No vacation for rates

Highest level in more than a decade

In August, the U.S. 10-year Treasury bond yield reached a level not seen since 2007, before the great financial crisis. Some signs of a weakening consumer are slowly emerging, in part because of the high interest rate environment. Moreover, cumulative household excess savings, which peaked in August of 2021 at $2.1 trillion, are now fully exhausted. That being said, household cash remains above trend but is slowly eroding, with a return to normality expected by March 2024, as consumers use it to offset higher borrowing costs and to maintain consumption. As savings erode, the effect of tighter monetary policy should be reinforced.

The debate: Recession or no recession?

The tug of war continues between the recession and no-recession camps, and the game is getting tighter. With rate cuts forecast in 2024 and a consumer who has handled rate hikes much better than initially expected, more and more market participants are reviewing their recession expectations. Still, the current level of short- and long-term rates makes the borrowing environment difficult and should eventually put pressure on the consumer.

The devil is in the details, and the debate centres on the excess savings and liquidity buffers accumulated during the pandemic. Will households' excess savings and increased liquidity be enough to support them until central banks start to reverse their tight monetary policy?

Performance analysis

Even though sector allocation added value during the month, currency effects and some weaker selection subtracted value. Our allocation was positive across nine of the 11 sectors, but our selection in communication services offset the positive contribution. As for selection, a good chunk of the selection underperformance was driven by our overweight in Magnite. Its second-quarter earnings were disappointing, driven by softness in CTV revenue even amid a strong backdrop from the streaming services company, which led to questions about the company's role in the CTV advertising ecosystem. We decided to exit the position because we saw fundamental risk to the business and its positioning in the ecosystem. On the positive side, our overweights in Alphabet and Eli Lilly were strong contributors to performance.

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
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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

All-weather fund

We are heading into the remainder of 2023 with a neutral sector allocation. In our previous comment, we highlighted our more cyclical portfolio allocation and increased investment in sectors such as energy, materials, and industrials. Even so, we have cautiously paused that shift because of the impact that a recession could have on earnings.

> "We think it's necessary to position the portfolio to perform well in multiple economic scenarios, as visibility into the economic path and the stock market performance remains blurry."

Our focus is to add value for investors by maintaining our strong stock picking. We continue to like the secular story behind various government programs, such as the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), as shown by our overweight in engineering firms. We also remain exposed to electrification through investments in multi-industry and electrical-equipment companies.

Key Takeaways

- U.S. rates are nearing a decade high.
- The market is pricing in a lower chance of a recession.
- The Fund is positioned for multiple economic scenarios.

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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