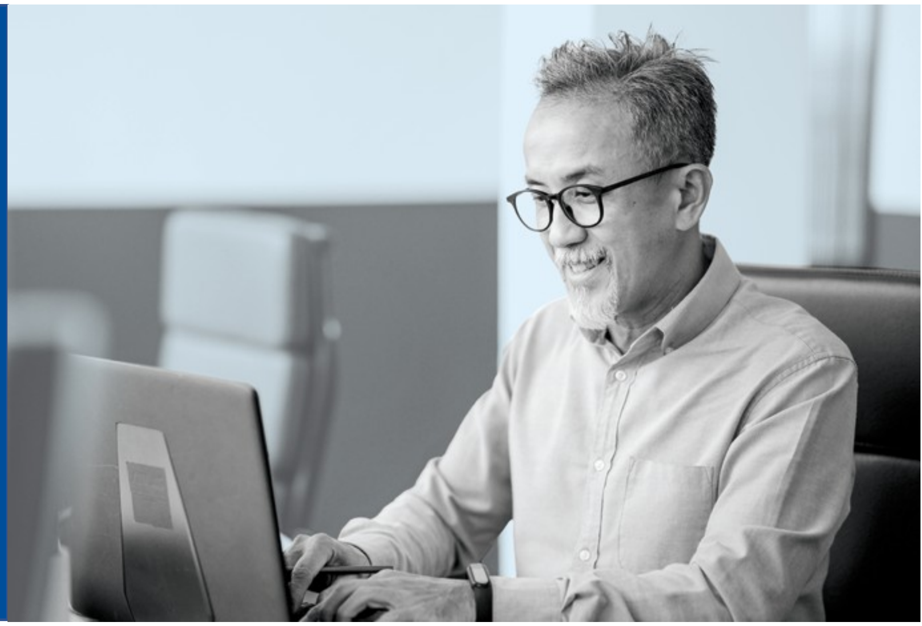
INVESTMENT FUNDS



North American Equity

QUARTERLY COMMENTARY

June 2023

The Fed is still hawkish

The idea of rate cuts is pushed aside

The second quarter of 2023 was another eventful quarter. Despite the historic rise in interest rates over the past 12 months, combined with the highest inflation cycle in 40 years, the consumer remains in good shape, for now.

The excess savings accumulated during the early part of the pandemic are still being unwound in the U.S. economy but less so in Canada. The excess savings are expected to dissipate by year-end in the United States. The labour market has also remained very strong. Inflation, although still running higher than the Fed's target, has shown signs of slowing. All in all, Federal Reserve chair Jerome Powell delivered a hawkish speech at the June meeting. Despite the June pause in hikes, Powell said more hikes should be expected in the second half of 2023.

We believe in the "higher for longer" thesis

Even before the hawkish June meeting, we were of the view that the probability of rate cuts in 2023 was very low. We remain somewhat surprised by the strength of the economy. There is usually a lag between implementation of monetary policy and its effect in the economy. In this case, however, the excess savings of the pandemic may have extended the time lapse by a few quarters, but with the ultimate effect remaining the same: tighter credit conditions and lower discretionary spending.

Performance analysis

Both allocation and selection were slightly negative in the quarter.

In terms of allocation, our small underweight in information technology explains all the underperformance. In fact, information technology was the second-best sector during the quarter.

As for selection, our solid picks in industrials and health care were offset by selections in information technology and consumer discretionary. On example is Uber Technologies, which appreciated in the second quarter and was a significant contributor to our fund. On the negative side of stock selection, staying away from Tesla in the quarter proved difficult, with the stock surging 23%.

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Vice-president, Portfolio Manager,
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- Joined iA in 1998
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- Joined iA in 2015
- More than 10 years of investment experience
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We remain positioned defensively

Our asset allocation turned more defensive late in the first quarter of 2023, and we are maintaining this approach for now. In line with this view, we reduced our exposure to cyclical sectors, such as energy, materials, and industrials. We also increased our exposure to large technology companies, notably Meta and Broadcom.

Even though we have seen some green shoots in recent inflation reports, we are still not ready to move our asset allocation toward more-cyclical sectors. We think the second leg of the bear market will come with the recession, when earnings are revised

> "It is important to note that, despite being conservative regarding our cyclical exposure, we are working to find exposure to secular themes that will continue to perform well in a recession."

We are convinced that electrification is a theme that will continue to expand at a rapid pace, and we remain exposed to this thesis. We are carefully choosing our exposure, selecting companies that have strong, proven assets and reasonable valuations.

Key Takeaways

- The Fed is hawkish, with no rate cuts in sight.
- Technology had a strong quarter.
- We continue to favour secular themes, such as AI and electrification.

About iAGAM

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