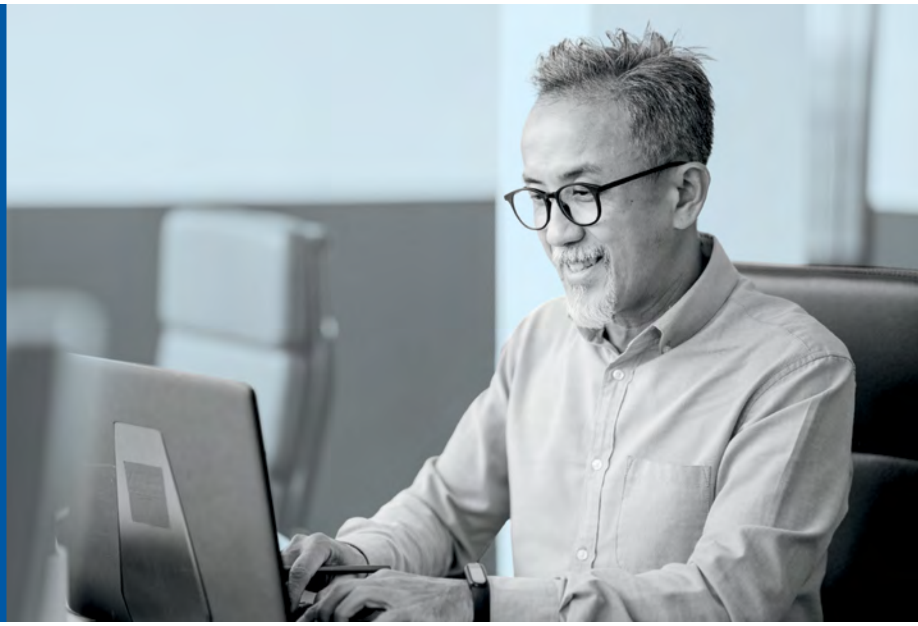
INVESTMENT
FUNDS

North American Equity

MONTHLY COMMENTARY

May 2023



High inflation, a potential recession and the U.S regional bank crisis

Focus on the U.S debt ceiling

As if the risk of continued high inflation, a potential recession in late 2023 and the U.S regional bank crisis were not enough, another risk came to the fore, namely the U.S debt ceiling. In the latter part of May, the focus was on how the Democratics and Republicans could find concessions to arrive at an agreement on the debt ceiling. By the end of May, the parties had managed to reached an agreement to raise the debt ceiling and also to make some budget cuts, setting aside the added risk.

Back in April, the topic of discussion was how the meltdown of U.S regional banks would affect the U.S economy. Investors are still looking the impact on credit conditions and the domino effect on the earnings of exposed companies. That being said, we are on the brink of massive cash disbursements from government programs, such as the Inflation Reduction Act, the Infrastructure Investment and Jobs Act and the CHIPS Act. These two colliding narratives are raising many questions about how long it will take for the programs to flow through to companies' earnings, and whether they can offset the potential downside from credit tightening.

Nvidia and the evolution of AI

We remain cautious on the overall economy. Inflation seems to be stabilizing, but we are still skeptical about the health of the consumer.

The increases in interest rates over the past two years could continue to pressure household budgets, potentially reducing discretionary spending.

The massive increase in chip makers' valuations, with Nvidia up about 200% since October 2022, was driven by a revenue forecast outpacing analyst estimates by more than 50%. The upside surprise was driven mainly by the company's GPU product. With the rise of AI, data centres are going through a transformation as CPU architecture will need to be replaced by GPUs in some instances. The overall adoption of AI, which is stronger and faster than expected, has lifted the whole data centre ecosystem. We think this shift will drive very strong earnings for exposed companies, and we continue to make disciplined investments in this area, prioritizing long-term winners with a moat and a reasonable valuation.

Performance Analysis

In May, allocation and selection both contributed positively to performance.

On the allocation front, our underweight in materials and energy was a clear positive.

In terms of stock selection, our overweight in Morphic Holding was a key positive, with the stock rallying 22% during the month. The company reported positive top-line results from a key proof-of-concept trial of a drug for the large ulcerative colitis market. In the software subsector, we had two strong outperformers: Datadog and Nutanix. Both are strong AI beneficiaries. Datadog had better earnings and revenue guidance, while Nutanix benefitted from the resolution of litigation with a third-party vendor.

iA Financial Group

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

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Vice-President, Portfolio Manager,
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— Joined iAGAM in 1998
— More than 25 years of investment experience
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Associate Director and Associate Portfolio Manager,
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— Joined iAGAM in 2015
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Remaining cautious in Canada while seizing opportunities in the U.S.

In Canada, we are turning more defensive. We fear that a recession will hit the North American economies in the second half of 2023 or early in 2024. Our main concern is that inflation will remain unexpectedly high, which would lead to higher interest rates in the short to mid term, negatively affecting the consumer. In the wake of the U.S regional bank crisis in March and the potential tightness in credit lending, we foresee an environment where consumers and corporations could both limit their spending.

> "Ultimately, we think the economy faces greater risk than is currently priced in. Therefore, we remain careful in our overall portfolio approach but are taking the opportunity to buy cyclicals when we see most of the downside protected."

In the U.S., we expect ongoing market fluctuations and plan to capitalize on these opportunities to enhance the fund's risk-return profile. In the impending low-to-negative GDP growth climate, we think structural growth stocks will be preferred. We expect themes such as AI hardware, secular industrials, energy transition and automation to remain relatively insulated from market deceleration.

We have identified potential in small-to-mid cap innovators and are adjusting our positions accordingly. Currently, U.S. small-to-mid cap stocks are trading at historically low valuations.

Key Takeaways

— Macroeconomic data and inflation remained a focus.
— Increased fear of recession took cyclical sectors lower.
— The evolution of AI is faster and stronger than expected.

About iAGAM

A magnet for top investment talent, iA Global Asset Management 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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