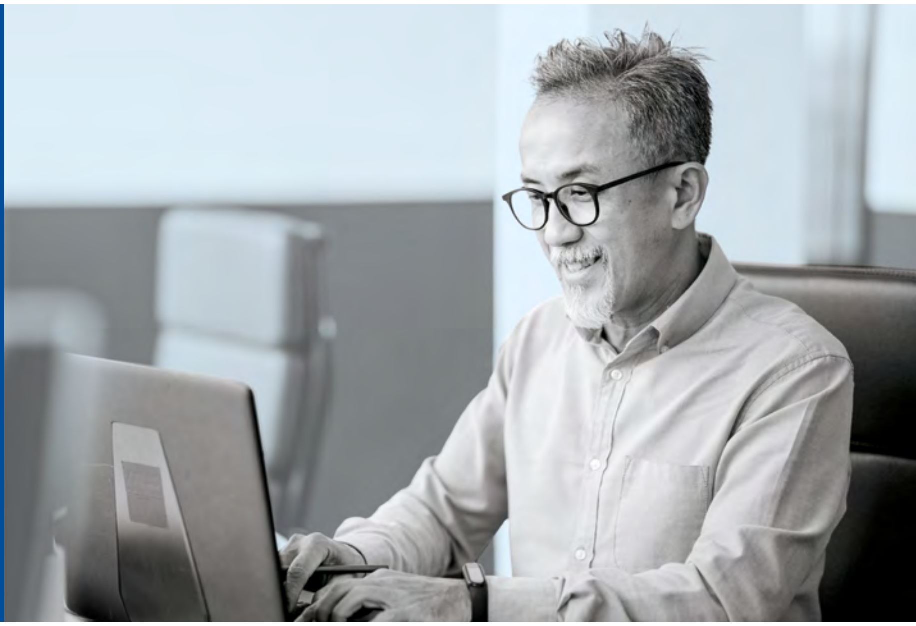
INVESTMENT FUNDS

North American Equity

MONTHLY COMMENTARY

February 2023



Dramatic rate repricing in February

Both Canada and the US had a risk-off month

After equities got off to a strong start in January, investors started to price in higher expectations for the Fed's terminal rate in recent weeks. Some short-term bond yields jumped to a new cycle high to finish the month. Concerns over a wage-price inflation spiral were the main driver of market movements in February.

Defensives over cyclicals

Most of the sectors ended February in negative territory after a strong start to the year. The materials and energy sectors were the clear laggards during the month. In Canada, the best-performing sector was consumer staples, while in the United States technology led the charge with strong results from companies in the sector.

Performance Analysis

During the month of February, our selection of Stantec generated strong alpha, as the company's high exposure to the United States drove strong quarterly results and guidance. The company's deleveraging of its balance sheet, which could lead to a potential acquisition, was also well received. We also generated strong alpha with our overweight position in Meta Platforms. The company's reduction in capex provided a line of sight toward stronger free cash flow generation, which is important in the context of higher interest rates. We remain positive on Meta's potential in the next few quarters.

As for negative contributors, our underweight allocation to the technology sector adversely affected the portfolio's performance, and our lack of exposure to Tesla was a negative during the month. The electric carmaker surged in February, following in the footsteps of its tech peers. We acknowledge and applaud Tesla's first-mover advantage in the space but still think legacy OEMs have the resources to make a push into EVs, reducing Tesla's dominance in the mid term and driving its valuation closer to those of other OEMs, which are currently valued like mature tech stocks.

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 iAIM in 1998
- More than 25 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval

Maxime Houde, CFA

Associate Director and Associate Portfolio Manager,
North American Equities and Thematic Investing

- Joined iAIM in 2015
- Close to 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

Defensive tilt and opportunities in tech

"With US monetary policy already in restrictive territory, the portfolio will maintain a defensive tilt until we see a clear signal that the Fed is pivoting."

Even though the Canadian energy sector had a disappointing start to the year, we continue to think the long-term outlook for commodities is positive, especially oil. Thus far, China's reopening has had a mostly positive impact on our base metal companies.

In the United States, we see renewed opportunity in the mega cap technology companies, which are focusing on streamlining and cost discipline in ways not seen before. The companies have adopted a balanced approach between investment in advanced technologies and current profitability. We think this approach creates a strong foundation for growth.

Key Takeaways

- Investors priced in a higher Fed funds terminal rate.
- Both Canada and the United States experienced a risk-off month.
- We continue to think the long-term outlook for commodities is positive.

About iAIM

A magnet for top investment talent, iAIM 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 iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.