INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

QUARTERLY COMMENTARY

March 31, 2022

As we bid an end to the first quarter of 2022, March was a volatile but positive month for equities in North America, as we saw a nice rebound after a generally weak start to 2022. The market has remained fairly resilient in the face of several mounting concerns, namely the continuing war in Ukraine, relatively high levels of inflation and the prospect of several meaningful interest rate hikes. As discussed last month, there has been a significant level of sanctions placed on Russia, and we feel that many of these will continue for a period of time — even after the war is over. This will keep the commodity markets much tighter than what would otherwise have been forecast, especially for oil and fertilizer, as Russia is a large producer of both. This means that high inflation, which was expected to subside in the second half of the year, is likely with us for a while longer. While this is good news for the energy and commodity sectors, it will mean more pain for those companies that have had difficulty in managing inflation in their business.

This combination of sharply higher inflation and interest rates has raised concerns of a recession, which almost no one was talking about a few short months ago. You can be forgiven for thinking it may be too early to worry about a recession, given that the labour market remains in good shape as the economy reopens, unemployment remains low and central banks have yet to meaningfully raise interest rates. The worry is that higher inflation and rates impact consumer spending and lead to a sharp slowdown in economic activity. While a recession does not seem like the most likely outcome at this point, we have acted in the portfolio over the past few months to tilt slightly more conservative than usual. We would point to recent impressive performance in health care, telecom and utility stocks as proof that investors are moving to a more defensive stance amidst the current uncertainty.

On a more positive note, the recent volatility has increased investor interest in our dividend mandates, which we have always managed conservatively, always with a focus on managing risk. Although the outlook for the economy remains slightly cloudy, the outlook for dividend growth is particularly interesting. After a challenging year in 2020 where dividend growth in North America was basically flat, we resumed growth in 2021 and analysts are forecasting dividend growth of 7% for the next two years for the Canadian and U.S. indices. What gives us confidence in this forecast is that dividend payout ratios will remain at modest levels, due to a strong rebound in corporate earnings in 2021. If dividends grow at this level for the next two years, this would mean dividends would be almost 15% above 2021 levels, while payout ratios in Canada and the U.S. would remain at 30% and 40%, respectively, both about 10 percentage points below their long-term average. As we focus on companies that grow dividends, we feel that this is a great environment for our mandates. In a time where inflation is at a generational high, a growing income stream via dividends remains one of the best ways to preserve purchasing power, and we will continue to focus the portfolio on owning stocks that will help achieve this goal.

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DONNY MOSS, CFA

— Principal Portfolio Manager, North American Equities
— Joined iAIM in 2008
— More than 15 years of investment experience
— Bachelor's degree in commerce, Dalhousie University

Main funds managed by the team

✓	Dividend Growth
✓	U.S. Dividend Growth
✓	Dividend Growth Hybrid 75/25
✓	IA Clarington Canadian Dividend Fund
✓	IA Clarington Dividend Growth Class
✓	IA Clarington U.S. Dividend Growth Class

iAIM snapshot

— Principal asset manager for iA Financial Group
— Major player in the asset management industry
— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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