INVESTMENT
FUNDS

Dividend Growth &
US Dividend Growth

MONTHLY COMMENTARY

January 2023

Equities rebound in January

Inflation data boost stocks

The equity markets started the year on a positive note, as further easing of inflation is convincing investors that interest rates are close to a peak. The Federal Reserve raised its rates by 25 bps, admitting that inflation is slowing, and the pace of its future rate increases will also slow.

It is important to note that many economic indicators remain in healthy territory, which could cause inflation to fall more slowly than expected.

A sector rotation is under way

With investors feeling as if they can see light at the end of the inflation and interest rate tunnel, recent months have seen a rotation from the winners to the underperformers of 2022.

In consumer discretionary, China's reopening and an improved supply chain have helped many stocks, while in real estate, a tempered outlook on rates has helped the sector recover.

Last year's winners, such as waste, energy, and grocers, are now underperforming. We are not sure how long the rally will last, but it could continue if the probability of a soft landing increases.

Performance analysis

In Canada, financials and real estate contributed positively to the Fund's performance, led by solid returns from Brookfield Asset Management, InterRent and CAPREIT. In contrast, stock selection in industrials and an underweight in materials detracted overall value.

In the United States, consumer discretionary and energy were the largest outperformers, led by Costco and Canadian Natural Resources. On the negative side, communication services and consumer discretionary underperformed as a result of the outperformance of large, non-dividend payers, such as Meta, Alphabet, Amazon and Tesla.

iA Financial Group

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

Donny Moss, CFA

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- Joined iAIM in 2008
- More than 15 years of investment experience
- Bachelor's degree in commerce, Dalhousie University

Are the skies clearing?

Even though we will surely encounter some bumps on the road as we move through 2023, we are finally seeing progress on inflation and a possible end to the rate-hiking cycle. Even though it is too early to call a soft landing, we see investors becoming more optimistic that a deep recession will be avoided. Such sentiment may explain why we have seen financials and discretionary outperform in recent months; as a result, we added to these sectors over the last quarter in Canada.

"As earnings growth estimates for 2023 continue to deteriorate, we continue to focus on companies with durable earnings growth, and those with idiosyncratic opportunities to create value."

One company that fits the bill is Canadian Pacific Railway. Its pending acquisition of Kansas City Southern should unlock tremendous value, making it the only North American railway with access to both the Atlantic and Pacific oceans, as well as routes from Canada to Mexico. The combined entity will create opportunities to take market share from its rail competitors and also to compete with trucking and sea cargo on some routes. Taking share from trucking would also be a positive environmental story, because rail is up to four times more fuel efficient than trucking. We look forward to regulatory approval of this transaction and we think the next few years will be very exciting for CP Rail shareholders.

Key Takeaways

- The stock markets are seeing a sector rotation into 2022's underperformers.
- Moving into 2023, we expect continued volatility in equities as economic growth slows and rate hikes have a greater impact.
- We see opportunities in the energy, infrastructure and utilities sectors.

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.

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