INVESTMENT FUNDS

Dividend Growth & US Dividend Growth

QUARTERLY COMMENTARY

December 2022

Stocks fall to end 2022

A weak end to a weak year

The equity markets gave up their recent gains at year-end, as lingering inflation and a slowing economy finally gave rise to tempered earnings growth estimates for 2023.

As we start 2023, we note two positive data points. First, we continue to see China relaxing its COVID restrictions, which will boost its economy and is a positive for the commodities market. In addition, there has been a significant drop in natural gas prices, partly because of mild weather. This is very positive for Europe, which should make it through the winter without an energy shortage.

Watching inflation for signs of progress

Perhaps unsurprisingly, many investors are focused on monthly inflation figures, as they are a signal of the course of interest rate levels for 2023 and beyond. As discussed in previous notes, even though we are encouraged by recent inflation prints, much work remains before we get back to target. As a result, rates could stop rising soon but stay at these higher levels for longer, creating a headwind for equities.

So far, the consumer has performed very well in these circumstances; however, we expect inflation and interest costs to eat into the monthly household budget. This is especially true in Canada, where consumers are carrying higher debt levels and are more exposed to variable rates.

Performance analysis

In Canada, the communication services and energy sectors contributed to the Fund's return during the quarter, led by solid performances from Rogers and Cenovus. The financial sector was the largest drag, led by Brookfield, in which the Fund has an overweight position.

In the United States, the consumer discretionary sector was the largest outperformer, mainly because of stock selection, with McDonalds, TJX and Nike contributing to the performance. On the negative side, the consumer discretionary sector underperformed, mainly because of Costco's weakness.

iA Financial Group

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

Donny Moss, CFA

Senior Director, Portfolio Manager, North American Equities

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

Still on the lookout for opportunities

We think it is too early to adopt an aggressive positioning but we are spotting areas of opportunity in equities.

"Even though the environment is uncertain, we're always on the lookout for opportunities to add value to the portfolio."

We still think Canadian energy infrastructure is appealing; companies have deleveraged, have moderated their growth ambitions and are paying healthy, rising dividends. Our top idea in this space is Enbridge, from which we expect mid-single-digit growth while collecting a 6.5% dividend yield.

We also think multifamily real estate can perform better in 2023; the sector was hit hard by the sharp increase in interest rates, but its fundamentals are better than ever.

Finally, we increased our weighting in Rogers several months ago, when the valuation became attractive with or without the Shaw deal. We expect the transaction to be approved, which would be positive because integration of the companies would create many synergies for Rogers, giving it a stronger position in Western Canada.

Key Takeaways

- The equity markets gave up their recent gains at year-end on the back of tempered earnings estimates for 2023.
- We can expect continued volatility in equities in 2023, as economic growth slows and rate hikes have a greater impact.
- We remain on the lookout for opportunities to add value to the portfolio.

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.