INVESTMENT FUNDS

Dividend Growth &
US Dividend Growth

MONTHLY COMMENTARY

May 2023

Mixed markets in May

U.S. market driven by the technology sector

The equity markets were mixed in May; the S&P 500 was marginally positive while Canada was down about 5%, driven down by the energy and financial sectors. Oil continues to drift downward, hurting energy stocks, while the Canadian banks' second-quarter earnings were underwhelming on flat revenue and considerably higher expenses, which dragged down the financial sector. The United States was a different story; the technology sector and the mega-cap leaders continue to outpace the rest of the market.

The long-awaited recession may have to wait longer

Although many economic indicators continue to point to a slowdown, the consumer remains resilient and employment levels remain strong; thus, there is little chance of an imminent recession. In addition, after a year of declines, 2023 earnings estimates for the S&P 500 have bottomed and are now rising.

We expect a longer period of higher rates will eventually slow the economy and consumer spending, but at this point the economy has dealt with higher rates better than many had feared.

Performance Analysis

In Canada, the technology and energy sectors helped returns, led by solid performances from Broadcom, Microsoft and Topaz Energy. The communication services sector was the weakest, dragged down by Rogers and Telus.

In the United States, financials and consumer staples were the largest outperformers, led by Apollo and Constellation Brands. On the negative side, weakness was due to an underweight in Amazon as well as underperformance by Stryker and Thermo Fisher in the health care sector.

Donny Moss, CFA

Senior Director, Portfolio Manager, North American Equities

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

Positioning technology as a defensive sector

Even though we acknowledge the economy's continued strength, we are still positioning ourselves defensively, with a focus on companies that should perform well in times of economic weakness.

"The economic downturn is slow to materialize, but we think it could arrive in late 2023, when it may become appropriate to add more risk to the portfolio."

We have turned more cautious on energy, because the stocks have outperformed the commodity significantly since last fall, while earnings are set to decline substantially from year-ago levels, which could dampen sentiment.

We continue to maintain a healthy weight in the technology sector, although we trimmed some exposure after the recent outperformance. Our technology holdings are comprised mainly of U.S. companies, given the limited investment options in Canada. Even though valuations are at the high end of historical levels, we think earnings growth will be durable and priced at a premium as the economy slows going into 2024. Looking through the lens of earnings growth, we think select technology stocks can be viewed as defensive in this market.

Key Takeaways

- The stock market's performance was mixed in May.
- Strong economic indicators suggest there are no immediate signs of a recession.
- We think select technology stocks can be viewed as defensive in this market.

About iA Global Asset Management

A magnet for top investment talent, iAGAM 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.