INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

February 28, 2022

The stock market is always full of surprises and February was no exception, as most did not see the Russian invasion of Ukraine as anything but a near-zero probability. With this unlikely and extremely disappointing event, a wrench has been thrown in the stock market and the narrative has shifted yet again. To start, the price of oil has already jumped $35 as Russia is one of the world's largest producers. Given that we are currently dealing with high inflation levels that seemed set to subside later in 2022, an oil price shock has the potential to keep inflation at substantially higher levels than we had only recently estimated due to increasing costs to produce and transport goods. This could mean higher inflation remains less transient and takes much longer to subside to the 2% to 3% long-term average. This sustained inflation will hit consumers in the pocketbook, consumers who may find the pandemic savings they have enjoyed over the past two years get evaporated quicker than expected. If this situation continues for the next few months, consumer confidence will be negatively impacted and worries of a recession will increase.

As the western world decides whether to ban Russian oil imports, many multinational companies were quick to cut ties with the country, including shipping firm Maersk, Apple, Microsoft, Visa and Mastercard. One of the more important issues that may arise as a result of the conflict is agriculture. In addition to Russia's position as a large oil producer, both Russia and Ukraine are both major producers of fertilizer, which helps farmers improve the yield on their acreage. Russia and Ukraine also account for 30% of the global trade in wheat and barley, and 17% of corn. In a world where supply chains are already stretched due to COVID, it appears that in the case of food and energy prices, things will get worse before they get better. Unfortunately, this issue will be most problematic for lower-income households.

Finally, this market shock and the uncertain growth outlook will have an effect on the interest rate forecast, where the central bank had just started to make the first of several forecasted rate hikes. We shouldn't be surprised to see this rate forecast trimmed as the Russia/Ukraine conflict ensues, as there will be less need to cool down an economy where growth is already slowing down.

Within our dividend mandates, our sector diversification is paying off, as we have retained our healthy energy weighting, while also have exposure to agriculture through Nutrien, which is Canada's largest agriculture/fertilizer company. Outside of these areas, we are noticing a flight to safety, which is benefitting the telecom and utility sectors. As for negatives, the optimism around banks could subside as they benefit from higher interest rates, which was to be a tailwind for earnings through 2022. And to state the obvious, the consumer discretionary sector will be challenged as investors reassess the health and confidence of the consumer given the inflation headwinds. There's never a dull moment in the equity markets, but we look to be in an especially volatile period where active management should benefit our clients.

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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 Fund
✓	IA Clarington Canadian Conservative Equity Fund

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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