INVESTMENT FUNDS

Dividend Growth &
US Dividend Growth

QUARTERLY COMMENTARY

March 2023

Noisy but positive start to the year

Banking sector troubles come to the fore

The equity markets were choppy but had a positive to start the year in the United States and Canada. Two significant news items in the quarter were the collapse of Silicon Valley Bank and the unexpected OPEC production cut. The SVB crisis cast a pall over the financial sector and will probably lead to more cautious behaviour by banks, as well as an increased level of regulation, both of which are negative for equities. The surprise cut by OPEC may signal that oil demand is weakening; even so, the immediate effect of the decision was a higher oil price – which is a clear negative, as central banks continue to fight high levels of inflation.

The end of rate hikes?

Inflation won't be helped by higher energy prices, but we are seeing signs of lessening pressures in the labour market, such as moderating wage growth and fewer job vacancies. If this context persists, it will be a clear sign of a slowing economy and easing inflation, which would lessen the need for further rate hikes.

As discussed in previous notes, even though we are encouraged by recent inflation prints, work remains to get back to target. Given the recent economic data, we may be finished with rate hikes but we could stay at these higher levels for longer, which would be a headwind for equities. The consumer has held up very well so far; however, we expect spending to slow as inflation and interest costs eat into monthly budgets. This is especially true in Canada, where consumers carry higher debt levels and are more exposed to variable rates.

Performance analysis

In Canada, the technology and utilities sectors helped returns, led by solid performances by Open Text, Broadcom and Brookfield Renewable. Health care was the largest drag, led by CVS and United Health.

In the United States, the financial sector was the largest outperformer, mainly because of stock selection, given that the fund had minimal exposure to regional banks, which were very weak during the quarter. On the negative side, weakness was due to an underweight in technology and solid performances by large, non-dividend-paying companies, such as Meta, Amazon, Alphabet and Tesla.

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

Continuing to look for opportunities

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

> "We continue to position the portfolio defensively, focusing on companies that should perform well in times of economic weakness."

Sub-sectors that fit this description include discount retail, staples, health care, waste, rail, telecom and utilities. It should be no surprise that our dividend mandate has healthy weights in all these areas.

The slowing of the economy has taken longer to materialize, but we think it will arrive in the second half of 2023; thus, it may be more appropriate to add risk to the portfolio at that time.

As for Canadian banks, we think the SVB crisis could provide opportunities for those with a longer horizon, because a mild recession is already priced into bank valuations.

Key Takeaways

- A slowing economy could mean we have seen the last rate hike.
- The technology sector in the United States and Canada adds value during the quarter.
- We continue to position the portfolio defensively.

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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