INVESTMENT FUNDS

DIVIDEND GROWTH &
U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

April 2022

April was another poor month for equities, with the S&P/TSX down 5% and the S&P500 down over 8%. From our standpoint, the weakness continues to be attributable to several factors, which are the risk of recession, interest rates, inflation, the Russian invasion of Ukraine, and the China lockdowns. While we have covered most of these issues in detail in previous notes, the increased COVID-related lockdowns in China warrant additional attention. As China continues to embark on its zero-COVID strategy as cases rise to record levels, the lockdowns, and restrictions to date have been significant. This has greatly affected its economy and especially the throughput at its ports, which is causing negative supply chain effects worldwide, in addition to being a negative for inflation as companies endure additional logistics costs. This situation means the supply chain issues we've grown accustomed to for the past two years are re-emerging rather than improving. Unfortunately, the outlook for this issue is unclear, as China has shown little willingness to ease restrictions unless the city in question ceases to have new cases of the virus. This strategy ensures that the lockdowns will continue for some time. These actions will certainly delay an improvement in inflation and economic recovery.

On a brighter note, we have seen the majority of first-quarter reporting and results have been good, with over 75% of companies in the U.S. and over 60% in Canada beating earnings estimates. Although results have been good, we have noticed management teams acting more conservatively due to the economic uncertainty, with fewer willing to raise their financial guidance after posting a strong first quarter. As mentioned in this note for a long time, we continue to see good results from companies that have strong pricing power and those that aren't overly reliant on international supply chains to operate efficiently. As we know, inflation and supply chain issues will linger for far longer than originally thought at the beginning of 2022, it is still an area of focus for our mandate. We continue to have significant exposure to defensive areas such as waste services, rail, and telecom, which are outperforming because they have attributes such as pricing power, contracted revenue and a domestic focus. As an example, let's drill down into waste services and highlight our favourite name in the space, which is Waste Connections. As a provider of waste services to municipalities and businesses, it is a very defensive business that saw only minor effects from COVID owing to the timely and necessary nature of its contractual service. In addition, due to this set up, the company is able to continually price in excess of inflation, while a strong management and corporate culture have meant less employee turnover, which has helped margins and led to a safety record well ahead of its peers. While admittedly not an 'exciting' theme, we believe this is a good time to be tilted defensively and coupled with our active management, we expect this bout of volatility will present opportunities in the coming months and quarters, which we believe is exciting.

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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 Class

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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