INVESTMENT FUNDS

North American Equity

QUARTERLY COMMENTARY

December 2022

The Fed is approaching its target rate

Will it be enough?

The fourth quarter of 2022 got off to a very strong start. At its October and November meetings, the Fed started down a path of smaller rate hikes, and a potential pivot in 2023 was even considered by some market participants. This context led to a strong rally in the first two months of the quarter.

The December CPI print was another positive, coming slightly below expectations. Even so, the Fed's tone at the last meeting of the year was unexpectedly hawkish, driven mostly by a labour market that was still tight despite the interest rate hikes. As a result, we saw a reversal of the positive market returns we had enjoyed since the start of the quarter.

In China, Xi Jinping announced a rollback of the country's zero-COVID policy, which had been strictly enforced in 2022.

A positive environment for commodities

China's reopening is very positive over the medium term but comes at a potential cost in the short term; since the policy was dropped, COVID cases have been increasing rapidly in the country.

We think China's reopening will be very positive for commodities in the first half of 2023. The Fed is about to pause its hiking cycle, and we expect commodities will outperform, especially base metals, even though the macroeconomic environment will be challenging for several quarters.

Performance analysis

During the quarter, the Fund underperformed its benchmark mainly because of our stock selection. In communication services, our overweight in ZoomInfo detracted from performance. A longer deal cycle negatively affected the company's 2023 outlook, dragging the stock materially lower. In contrast, our decision to avoid any exposure to Tesla was a positive contributor; the stock had a challenging quarter and we think it has more downside ahead, as legacy automakers beef up their electric vehicle offering and take aim at Tesla's market share.

On the allocation front, we added value by underweighting utilities and overweighting industrials and health care.

iA Financial Group

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Marc Gagnon, M. Sc., CFA

Vice-President, Portfolio Manager,
North American Equities

- Joined iAIM in 1998
- More than 25 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval

Jean-Pierre Chevalier, CFA

Senior Director, Portfolio Manager,
US Equities and Thematic Investing

- Senior Portfolio Manager, US Equities
- Joined iAIM in 2011
- 15 years of experience in the industry
- Bachelor's degree in Business Administration, Université Laval

Positioning: Better days ahead, but some clouds remain

In 2023, the return profile should be better than in 2022 as the Fed's hiking cycle nears the end.

> "With US monetary policy already in restrictive territory, the portfolio will be positioned defensively until we have a clear signal that the Fed is pivoting."

In the consumer staples sector, we recently added Jamieson Wellness to the portfolio as well as Nexus, a new industrial REIT.

With the tightening cycle coming to an end and China reopening, we continue to take a positive long-term view of commodities, especially energy. Industrial cyclicals should also benefit from China's reopening.

Key Takeaways

- The Fed's rate hikes are continuing.
- The CPI prints are showing some positive signs, but the labour market is still tight.
- As China pivots away from its zero-COVID policy, a surge in cases is fuelling uncertainty.
- We continue to take a positive long-term view of commodities.

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.