INVESTMENT FUNDS

North American Equity

MONTHLY COMMENTARY

January 2023

Strong start to the year

Canada and the United States have a risk-on month

As we started the year, most of the equity markets benefited from the broad risk-on tone. For example, unprofitable small caps outperformed during the past month. After Meta's earnings announcement, the rotation out of energy and into tech accelerated at the end of the month.

Cyclicals outperform defensives

Eight of the 11 S&P 500 sectors posted gains in January, with defensives clearly lagging the broad market. In Canada, all 11 sectors ended the period in positive territory. Supporting this strong start, a relatively mild winter has defused the energy crisis in Europe, fears of a global hard landing have abated, and China has stuck with the surprisingly quick end to its zero-COVID policy..

Performance analysis

In terms of allocation, our underweight in utilities and our overweight in communication services were positive. Our Canadian exposure had a defensive tilt and a higher weighting of commodities.

In terms of selection, we had a strong month in materials and industrials, but it was not enough to offset the other sectors' performance. In industrials, our overweights in Uber and ATS Corporation were the main contributors to the return. Automation remains a theme that we like owing to its onshoring optionality and lack of labour force. In materials, our overweight exposure to lithium through Albemarle and Arena Minerals was the main contributor to performance. We remain positive on the lithium names, especially those with high-quality producing assets, because we think the market still has many years of undersupply ahead of it.

On the other hand, our underweight position in Shopify was the main source of underperformance. Although we own some Shopify, we believe the valuation remains elevated and visibility on profitability remains low. Shopify skews toward discretionary e-commerce and its high small-medium businesses exposure keeps us slightly underweight in the event that a recession takes place later this year.

iA Financial Group

#1 in net sales of segregated funds in Canada since 2016

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

Defensive tilt and opportunities in tech

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

Even though the Canadian energy sector had a disappointing start to the year, we continue to think the long-term outlook for commodities, especially crude oil, is positive. China's reopening has had a mostly positive impact on our base-metal companies thus far.

In the United States, we see renewed opportunity in mega cap technology companies, which are focusing on streamlining and cost discipline in ways not seen before. These companies have adopted a balanced approach between investment in advanced technologies and current profitability. We think this approach creates a strong foundation for growth. We took advantage of the recent rally to lower the portfolio's risk by increasing the weight of dominant companies.

Key Takeaways

- The equity markets started 2023 on a strong note.
- Meme stocks soared in January.
- We continue to think the long-term outlook for commodities is positive.

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.