INVESTMENT FUNDS

U.S. DIVIDEND GROWTH

# MONTHLY COMMENTARY

June 30, 2020

The S&P 500 had a spectacular second quarter with a return of 20.5% (15.4% in Canadian dollars). During the quarter, all eleven sectors of the index posted a positive return, with Energy, Consumer Discretionary and Information Technology being the best performers. Information Technology, which represents more than a quarter of the index, was the second-best performer with above 30% positive return during the quarter. Health Care and Consumer staples, which are more defensive by nature, underperformed the index in this rally.

In terms of relative performance over the second quarter, the Fund underperformed the index. In terms of sector allocation, overweight positions in Real Estate, Utilities and Financials were the main detractors of performance, as well as an underweight in Information Technology.

In terms of stock picking, being underweight in semiconductors was negative to the Fund's performance as this subsector had a great run in the second quarter. In Health Care, an overweight in Stryker coupled with no exposition to biotechnology was a drag as Stryker underperformed the index during the quarter, and biotechnology had a great run fuelled by M&A. Stock selection in Financials was a good contributor with an overweight position in S&P Global that outperformed the index and the financial sector, but this was offset by not holding Amazon because of the nature of the mandate.

Global equity markets rebounded strongly in the second quarter after enduring one of the most violent selloffs in history in the first quarter, as fears over COVID-19 gripped the market. The rebound we have seen in the second quarter from the March lows has been impressive, with the S&P almost back to flat for the year. The rebound has occurred for a few reasons – improvements in COVID-19 infection rates in most countries across the globe (with the U.S. being a recent exception), unprecedented levels of government and central bank stimulus, and a clearer view of what 2020 and 2021 earnings levels could look like. The volatility we have seen thus far in 2020 has driven home the importance of active management, as the performance gap between companies is large and growing. For example, there are many companies whose business has remained strong (or has accelerated due to COVID-19) with their stocks reaching new highs, while others whose business has been severely negatively impacted are trading anywhere from 30% to 60% below prior highs. We will mention again that forecasting earnings will remain difficult, as many companies have decided to stop their practice of providing quarterly guidance, as the environment has made it difficult to do with accuracy. We have used the rebound in the second quarter in order to trim some bank and Consumer Discretionary positions, as we feel that earnings will be slow to recover to 2019 levels. We used these proceeds to continue adding to existing positions within Technology and Health Care, where we believe that earnings will generally hold better.

Given the sharp rebound in stocks, **we wish to remain with our defensive positioning**, as we expect the remainder of the year to be volatile as COVID-19 and the upcoming U.S. election dominate the news cycle.

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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