INVESTMENT FUNDS

NORTH AMERICAN EQUITY

QUARTERLY COMMENTARY

June 30, 2021

The equities market continued to do well in the second quarter of 2021, with a return of 8.5 % in U.S. dollars for the S&P 500 total return index and 8.4 % for the S&P TSX total return. One fundamental reason behind this good performance is the effective vaccine rollout in the U.S. and other OECD countries. Efficacy data continue to show that the MRNA vaccines have positive effects on cases and hospitalizations even against the worst virus strain, the Delta strain.

An effective reopening in the U.S. provides for strong economic growth and some bottleneck in the economy, which also provokes inflation fears, especially at the beginning of the second quarter. Since then, maybe because the Fed signaled with the most recent version of the dot plots, a possible increase in short-term interest rates in 2023, inflation fears have receded and long-term interest rates have decreased.

The performance of cyclical stocks and commodities slowed down during the quarter in that context. We also saw some commodities, like lumber, copper and gold, peak during this second quarter and retreat since then. Information Technology stock and long-duration equities (companies with profits occurring far in the future) performed better during the last part of the quarter, with interest rates coming down. With inflation fears receding, so did the price of gold and ther shares prices of most gold producers.

Energy was the exception in terms of cyclical overperformance in part with the reopening of the economy combined with OPEC's commitment to limiting oil production. Natural gas also performed extremely well during the quarter. Now, demand is recovering, and oil should continue to perform well in the coming months, unless OPEC can't resolve the latest crisis caused by the UEA asking to raise their production quota. A worst-case scenario would the breakup of OPEC followed by a price war. We don't think it is the most possible outcome by far, but it is still quite disruptive.

Although the Federal Reserve was successful in convincing market participants that inflation will be transitory and not structural, we think the market underestimates the extent and duration of stronger inflation and therefore, we believe long-term interest rates will get back near their peak of last March. Even with that scenario, earnings would still increase, supported by a strong economy. We think equity markets will continue to do well in that environment supported by strong earnings. The pace of appreciation will probably slowdown from here but would continue.

This is leading us back to many themes where we have been seeing a rising number of investment opportunities over the last few weeks. We apply a technology lifecycle model called the hype cycle along with our traditional discounted cash flows valuation model which led us to take lots of profits in some of last years winners. Subsequently, this framework did not disappoint, and we saw corrections in many themes that had seen their stock prices get too high, too fast. Fast forward to today, we are sharpening our pencils and coming back with new positions in themes that have been severely punished year to date.

The best expression of this is that we are coming back to our big theme of smart energy with renewed exposures to renewables and energy storage. While stock prices corrected significantly there, the big picture improved with an increasing alignment of innovation, public and political support. Last year was a record year in terms of investment in energy transition and this is just the start as, according to the International Renewable Energy Agency (IRENA), we will need to spend 2.5 times more per year on average until 2050 to get anywhere close to long-term objectives from the 2016 Paris agreement. These targets could also be heightened with the big catalyst coming of the COP26 conference, which will be held in Glasgow this fall, where we expect further engagements from worldwide governments, so stay tuned! To conclude, we will continue to work on our unique thematic style while incorporating our differentiated view of the markets.

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Main funds managed by the team

Canadian Equity Growth
Real Estate Income
Global True Conviction
Canadian Equity Growth Hybrid 75/25
Global True Conviction Hybrid 75/25
IA Clarington Canadian Leaders Class

iAIM snapshot

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— 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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