INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

August 31, 2020

At the risk of sounding like a broken record, the stock market continued forward in August in Canada and the US, with the S&P500 hitting new all-time highs as technology stocks propelled the index. With Q2 reporting complete, most companies were able to beat lowered analyst estimates. In the past week we saw Q3 earnings reports from the Canadian banks, and the results overall were much better than anticipated. The aggregate level of provisioning for bad loans has dropped materially, signalling we have seen the worst and that future loan losses will be at manageable levels. In addition, low interest rates and a desire for more space has led to increased activity in the housing market, and a subsequent rise in borrowing activity. Finally, the capital markets divisions of the banks continue to exceed expectations, as trading activity and corporate refinancing remain at high levels. In our opinion, these good results were at least partially attributable to strong levels of government support to individuals, which has kept loan losses lower than would have been the case otherwise. If this support were to tail off in the future, we could see renewed pressure on the banks, and will require monitoring in the next few quarters.

It has been interesting to monitor how consumer spending has changed as a result of the crisis. In most recessions, spending on discretionary items falls significantly, as individuals 'hunker down' in order to conserve cash. What we have witnessed in this downturn is very different. Governments have injected so much stimulus that overall aggregate incomes have not dropped at all. Coupled with an inability to travel and entertain as usual, we have seen a surge of spending around the home, as those dollars have been reallocated. The proof is showing up in the results of the home improvement retailers, paint suppliers, outdoor contractors, and other companies as individuals spend more time at home and wish to improve it (we all know someone remodeling their backyard!). The funds to do this have been largely reallocated from their travel budgets, and it is reasonable to assume that this trend will continue well into 2021.

Turing to our dividend mandates, while we have seen a substantial recovery in most stocks, dividend mandates have generally underperformed the major indices so far in 2020. At a time like this, it is important to emphasize that dividend equity mandates are an important part of a diversified portfolio, and we believe that recent events have only served to enhance their importance.

First, it is important to remember that dividends are an important source of returns in an equity portfolio, as 1/3 of an investor's total return in the stock market over the last 30 years has come from dividend payments! In addition, as interest rates and yields continue to stay at historically low levels, the income (yield) from dividends becomes even more important and now compares favourably with bond alternatives. Finally, one of the most important points to remember is that we focus on companies with growing dividends. Over 90% of the stocks in our mandates have increased dividends in the past year, and the dividend growth in the portfolio (Aug 2019 – Aug 2020) is almost 10% in Canada and over 12% in the US. That growth in income is almost impossible to achieve outside of equities and has occurred amidst one of the largest economic shocks in our lifetime.

In this time of low growth and low interest rates, we believe that focusing on companies that can grow, and provide a growing stream of income, will be increasingly valuable as this decade unfolds.

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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