

## DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

# QUARTERLY COMMENTARY

December 31, 2020



The fourth quarter of the year 2020 is coming to an end, and once again the world's stock markets have reached new highs. The combination of massive fiscal stimulus, liquidity injections by central banks and announcements of the imminent start of a global vaccination campaign have given wings to risky assets during the quarter.

The Canadian stock market also had a strong year-end after a period of consolidation in the third quarter, ending the year 2020 in the green despite having, as at March 23, posted a decline of nearly 35.0% since the beginning of the year.

The star of the last quarter of 2020 was the Russell 2000, the U.S. small-cap index, which ended the year with the best quarter in its history, with a performance of more than 30.0% in the last three months of the year alone. The main driver for the Canadian market and small caps was undoubtedly the announcement of vaccines, which virtually assured a strong and broad-based recovery in global economic activity, thereby increasing the attractiveness to investors of cyclical sectors.

### Comment on the U.S. Dividend Growth Fund

In terms of relative performance over the fourth quarter, the fund underperformed its index. Both stock selection and sector allocation detracted from added value over the quarter, where being overweight in Real Estate and Utilities, as well as an underweight in Consumer Discretionary were the main detractors.

In terms of stock picking, most of the underperformance came from Consumer Discretionary. Overweight positions in Domino's Pizza and McDonald's Corp detracted as they both delivered negative returns following a rotation in the stock market with the vaccine rollout. An overweight in Best Buy Co. was also damaging as it delivered negative returns in the fourth quarter.

### Comment on the Dividend Growth Fund

Over the fourth quarter, the fund outperformed its index from a relative performance standpoint. Allocation was positive and mostly driven by an overweight position in Health Care coupled with an underweight in Materials. Though stock picking was negative over the quarter, it did not outweigh the added value derived from successful allocation. Not holding Canopy Growth was negative as it returned more than 60% during the quarter following the results of the U.S. election. Exposure to U.S. name Johnson & Johnson was also negative as it underperformed its index. Within Financials, a strong overweight in Sun Life Financial also detracted as it underperformed during this period.

### Comments on risks, opportunities and positioning

We have finally made it to the end of 2020, which has obviously been a tough year for everyone, and has also been a volatile year for equities. I believe many will share my hope that 2021 is slightly less chaotic! Q4 saw two large events, both of which helped the market. First was the U.S. election, which was admittedly messy but ended up delivering a clear result. The second event was unexpected – COVID vaccine results from Pfizer and Moderna both showed efficacy levels of over 90%,

while prior consensus was that anything over 70% would be considered a good result. This led to a continued rally in equities, but also a large rotation within equities from “COVID beneficiary” stocks to names that had struggled due to the pandemic. This rotation is continuing as we move into 2021, as sectors that had underperformed such as financials and energy now are outperforming. While we have had some good vaccine news earlier than expected, I would argue that we are not out of the woods yet. We are seeing a large winter surge in COVID cases that we all knew was coming, and while vaccines are here the initial rollout to date has been generally slow. In addition, the stock market has recovered to the point where valuation has become a concern, similar to our situation at this point a year ago! To date, the market has shrugged off most negative data points but, in our opinion, it will be important to prepare for volatility, even as we move through the second wave this winter into a better situation later in 2021.

In terms of positioning, we continue to increase our weighting to health care and financials, where we are overweight, and to reduce exposure to utilities, which have performed relatively well. Financials saw a strong Q4 as they benefited from the vaccine news, a possible bottoming of interest rates, and prospect of strong earnings growth in 2021. We continue to be underweight in Information Technology and Communication Services, two sectors where there are fewer relative dividend options. Within IT we have trimmed our positions in Apple and Nvidia as both stocks performed very well overall in 2020, which put the weightings for these stocks ahead of our target. As we use a target weight for all our stocks, strong performance will move our weighting ahead of our target, which causes us to sell a small portion of our holding to keep our weighting close to target. We use the proceeds from these types of trades to add to existing and new positions. In this example, we were able to add to our existing positions in Bank of America and JP Morgan in Q4. The act of trimming and adding around core positions has always been a core part of our investment process, as it instills a level of discipline, and reduces risk in the portfolio. We join many in looking forward to a healthier and profitable 2021!

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**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

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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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