INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

January 31, 2021

I am sure you will all join me in welcoming 2021 and finally put 2020 to rest! The markets were a bit more volatile in January as we balanced a slow vaccine rollout and persistently high COVID case counts with improving corporate earnings and North American indices testing all-time highs. Fourth quarter earnings are coming in daily, and we are seeing a substantial improvement in actual results versus what was estimated just a few quarters ago. For example, in July 2020 estimates for 2020 fourth quarter earnings growth for the S&P 500 were at -13.2%, whereas as recently as January 1st, estimates had improved somewhat to -10.3%. As of the first week of February, well over half of the S&P had reported and the actual result is a positive +2%, and with further reporting this figure is almost certain to continue moving upward. This improvement as we ended 2020 is making the outlook for corporate earnings in 2021 a bit brighter, which partly explains the good market performance we have seen to start 2021.

Besides company earnings, we had some additional good news in January with the long-awaited release of the Johnson & Johnson vaccine. The vaccine has an overall effectiveness of 66% but was 85% effective in preventing more serious symptoms and "demonstrated complete protection again hospitalization and death". To my surprise, these results were initially viewed as underwhelming when compared against headline numbers (90%-95% efficacy) for the Pfizer and Moderna vaccines. We need to remember that this vaccine is one dose, can be safely stored at refrigerator temperature for up to three months, and that Johnson & Johnson plans to manufacture one billion doses for use in 2021. This vaccine will unquestionably speed up the date we reach herd immunity worldwide, which would be a tremendous accomplishment. Instead of celebrating this great achievement, most business news outlets that day were focused on the retail/Robinhood/bitcoin trading frenzy. Sometimes it pays to focus on the big picture!

One area of the market we are watching closely is Canadian energy. Oil prices had been very strong into year-end since we had the Pfizer vaccine announcement in November and are already up another 19% year to date. We're now sitting at a price of $58 U.S./barrel for WTI, which we would argue is a very healthy level for most producers. However, Canadian energy stocks have badly lagged behind their U.S. peers in the recovery. There are a few possible reasons for the underwhelming stock price performance. First, Canada has not done a good job of creating access for oil and gas to make it to market, meaning producers will face extra costs in order to move it to where it's needed. In addition, more investors are questioning the long-term demand trajectory of oil, which could be factoring into investors' calculation of future cash flows. On the bright side, we have seen a material positive change in the capital allocation framework of senior management teams. In past cycles, if commodity prices moved well above breakeven levels, we usually saw sharply increased capital budgets and high levels of mergers and acquisitions in order to show how quickly the company can grow production. This time around, management teams are refusing to increase spending, they continue to cut costs, and instead, are using excess cash flow to pay down debt, pay dividends, and even repurchase their own shares. It will remain to be seen if energy companies will be rewarded by the market for these shareholder-friendly activities!

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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

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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