INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

April 30, 2021

Another month has passed and we continue to see the U.S. and Canadian markets grind higher to record levels, with the S&P/TSX up just over 2% in April while the S&P 500 was up over 5%. We are most of the way through the first-quarter earnings season, and we've seen good results by most companies, with over 85% of companies beating analyst estimates for the quarter, which is the highest level in over five years. For context, the average figure over the past 18 years is close to 65%. In addition, these aren't small beats either. Companies are beating estimates by over 20%, one of the highest levels ever recorded. Given how good these results have been, it is interesting to note that average stock price reaction on the day, for the companies that have exceeded expectations, is only +0.1%! This is telling us that the market had already priced in most of the good news, and that valuations are starting to become full.

A related item to note in these good earnings results is the level of margin improvement seen in many companies we follow. The pandemic has put various levels stress on most companies and have forced CFOs to cut expenses in order to preserve cash through the pandemic. Many have responded by taking a fresh look at their operations and making improvements. This includes staffing levels, office costs and travel-related expenses. As virtual sales meetings become normalized and more employees work from home on a regular basis, it can be argued that some of these savings could be permanent. These improvements are already showing up in earnings results, and we believe that good management teams will be slow to let costs creep back into their operations once the pandemic ends.

Regarding COVID-19, we are seeing continued improvement in vaccination rates and we believe this is helping with market sentiment in North America. While the pace of vaccination has slowed in the U.S., case counts continue to fall materially. Canada is currently trailing the U.S. in vaccination rates. However, vaccine supply has increased materially; thus, we should expect a substantial improvement within the next four to six weeks, which will allow for a gradual reopening of the economy.

Back in our January note, we wrote about the Canadian energy sector and our positive view of the equities setup. Since that time, the sector has performed well. However, we feel the setup remains attractive as valuations remain well below historical levels, while company balance sheets have never been in better shape. Oil prices have continued to move higher, and most producers are continuing to use their excess cash flow to repay debt, pay/raise dividends and repurchase shares. While it may seem odd to pitch a sector that has already risen over 30% this year, we feel the fundamentals are as good as they have been in many years, and we hope to see the stocks rerate higher as their balance sheets continue to improve.

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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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