DIVIDEND GROWTH &
U.S. DIVIDEND GROWTH

QUARTERLY COMMENTARY

June 30, 2021

We've reached the halfway point of 2021, and it continues to be a great time for North American equities. The total return for the S&P/TSX is over 17% year to date, and for the S&P500 it is over 15%. There are a few main themes that have driven this outcome, which we have previously highlighted in these notes. The first one is earnings growth – which has been well ahead of expectations, with most companies beating estimates as recovery takes hold and companies retain some of the cost savings brought about by the pandemic. This has allowed stocks to move substantially higher without valuations moving to extreme levels. In addition, we continue to have unprecedented levels of government support in the economy, which has kept household bank balances in great shape and has driven consumer spending. Finally, we've witnessed a sharp reversal in bond yields, which rose steadily since last summer but have declined materially since the March peak. Rising yields were a potential threat to the equity market in 2021, so this reversal has allowed stocks to continue their rise in the second quarter. We feel that the market has entered a 'goldilocks' area, where earnings growth should continue, helped by the reopening of the economy, low interest rates and continuing levels of government support. We believe that stocks have the potential to continue their run as this situation holds.

In terms of risks, inflation remains our biggest concern for the remainder of the year. If inflation is not transitory and sustains for the medium term, it will have a negative effect on profit margins for many of the companies that we own and would serve as a negative catalyst for stocks. There will be a premium on companies that are either unaffected by inflation or have the pricing power to efficiently pass the additional cost onto their customers.

In the second quarter, we saw a substantial improvement in the performance of 'quality' stocks, as reopening trade approaches a fully priced in level, and interest rates become less worrisome. We are seeing a strong recovery in the quality stocks we follow, along with companies that we would consider 'beneficiaries' of COVID, such as high-quality consumer and the mega-cap technology stocks.

To dig deeper into the consumer sector, it is important to highlight how good the average U.S. household balance sheet is, which has been an unlikely outcome of the pandemic. The household debt service ratio is at its lowest level on record, due to low interest rates and strong income support from the government. In addition, home equity is also at record levels due to strong home price growth that has accelerated through the pandemic, and there is a strong correlation between home price growth and consumer spending (the "wealth effect"). Combining this with record equity markets, we believe the consumer is in great shape.

These factors should continue to support the consumer sector for the remainder of the year, at a minimum. With this setup, we believe that there is ample opportunity for our consumer-focused names, including Target, Apple, Nike, Dollar General and Home Depot, to continue to perform well.

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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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