INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

January 31, 2022

2022 has begun with a bout of volatility that we haven't seen since the onset of COVID, with the S&P/TSX up slightly for the month (mainly due to the financial and energy sectors) and the S&P 500 down almost 6%. The market is battling with the uncertainty of the pace of central bank moves as economic growth continues and emergency levels of interest rates seem less and less necessary. Another reason we are seeing calls to increase interest rates is inflation, which is currently running at 7% in the U.S. and almost 5% in Canada—levels not seen since the 1980s. We don't foresee inflation staying at these levels for long. However, we may see elevated levels for the next few quarters. The market is worried that inflation will settle at a higher level than the 2% average we experienced for the past few decades. We believe inflation will move substantially lower throughout 2022, with a few variables driving the change. First, as the world continues to reopen following COVID/Omicron lockdowns, this will improve the labour market and provide some relief to the supply chain issues we've endured over the past year. Second, the elevated year-over-year change in many of the components used to calculate inflation should improve. For example, while energy prices remain high, the rate of change is slowing, which is an improvement. Also, a large component of current inflation has been caused by the surge in auto prices, due to availability issues caused by the chip shortage. While improvement in this area has been slow, we have heard several comments from the industry which lead us to believe that substantial improvement is coming later this year. If you're looking to sell your used car for a high price, now is the time!

As these inflation and interest rate concerns linger, we continue to see the effects on stocks. The energy and financial sectors, which are less affected by interest rates, have outperformed over the last few months. Financials in particular, can benefit from higher rates. We continue to hold healthy weighting in these sectors to insulate the portfolio from these risks. On the negative side, we have seen underperformance in technology and other higher multiple stocks since higher interest rates reduce the present value of long-dated future cash flows. Expect the next few months to be choppy as investors gather more data on inflation and the future path of interest rates. The good news is that this type of volatility is great for active managers, and we will look to take advantage of any opportunities that are presented.

iA Financial Group

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iA Investment Management

Since this is early February, we are in the middle of the Q4 reporting season, with the U.S. just over halfway complete and Canada just getting underway. So far, we have seen earnings beats from 75% of companies, which is a good result but lower than the past several quarters. One interesting aspect of Q4 earnings is that above expectation results are rewarded with stocks up only 0.5% on average, while earnings misses have seen stocks drop 5% on the day, which is a telling sign that the overall market is a bit nervous. In addition to managing their business for growth, companies are also contending with inflation, continued supply chain issues, and labour availability through the Omicron wave. It's sure to be a busy and entertaining month, and we look forward to reporting back next time on the results.

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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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