

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

QUARTERLY COMMENTARY

December 31, 2021



As we bid farewell to 2021 and welcome in the new year, we wish for a healthy and successful 2022 for all of our clients and readers. Stock markets had a strong finish to the year in both Canada and the U.S., capping off a tremendous year that saw the S&P/TSX index up over 25% on a total return basis, and the S&P 500 up over 28%. While few pundits are predicting similar returns in 2022, it is reassuring to see that the gains seen in 2021 were the result of strong earnings growth, and not simply an expansion of multiples. A special mention goes to the Canadian market, as the S&P/TSX currently trades at 17x earnings, which is in line with its historical average even after the strong run. Meanwhile, the S&P 500 trades at 23x, which is ahead of its 17x average, but the multiple has actually come down substantially in 2021 due to strong earnings growth.

At the start of 2022, we notice that the landscape unfortunately shares some similarities to the beginning of 2021, as lockdowns and online school have returned. This situation is the result of the recent Omicron variant, which has proven to be far more transmissible than prior variants. Fortunately, Omicron also seems to be less lethal. However, the sheer number of infections will mean that hospitals will see renewed capacity pressure. There will also be further economic and supply chain pressure as the number of workers off with COVID will reach new highs. We are already seeing the effects in the economy as some airlines have recently cancelled over 15% of flights due to flight crew shortages, with many new examples added daily. Worldwide supply chains will also be affected as countries reimpose restrictions. We can expect this type of disruption to last for at least the next month as Omicron spreads. To date, the stock market has looked through Omicron-related worries, as this milder variant could mark the beginning of the end of the pandemic. Recent commentary from the Federal Reserve has echoed this view, indicating that rate hikes may need to happen faster than previously estimated.

Our view of Omicron is more nuanced, as we feel the market may be underestimating the effect it may have on the economy for the next few months, but can ultimately bring us closer to the end of the pandemic as we move through 2022. With this in mind, we have made no major recent changes to our mandates as a result of Omicron. However, we reiterate that the setup for financials in 2022 remains positive. The recovery should push up interest rates, especially in the second half of the year, which will be a tailwind for the financial sector – by far our largest

sector weight in Canada and overweight in the U.S. In addition, we feel it is important to highlight the dividend growth we have experienced in our funds. In 2021, dividend growth in our portfolio was over 7%, which is important both as a source of returns and as a buffer against inflation. As highlighted last month, we feel this level of growth can continue for the next few years. Our funds are filled with dividend growth stocks in every sector and, as always, we will be ready to act if a volatile market presents opportunities within our investment universe.



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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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