INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

October 31, 2021

October has come to a close, and as we move into November, we are in the middle of third quarter earnings season in both Canada and the U.S. As the majority of S&P 500 companies have already released their earnings, we can report that over 80% of companies continue to beat analyst estimates, which is inline with prior quarters and well ahead of historical levels. In our opinion, the market is doing a great job of climbing the 'wall of worry' as we begin to look to 2022. Most of these items we have discussed previously, such as the Delta variant, Fed tapering, soaring commodity prices, supply chain bottlenecks, inflation, and labour shortages. Within this list there are a lot of potential excuses for companies to report poor earnings or warn for future time periods. Instead, in most cases, we are seeing positive commentary. With the tailwinds of the economy reopening and healthy consumers, companies continue to become more efficient, and can push up prices for their goods and services to account for these challenges. There are pockets of the economy in which finding labour is especially challenging, such as the retail/restaurant industry and in trucking/logistics; however, in these areas, we feel that higher wages will be part of the solution.

One benefit of the strong rebound in earnings we have seen in 2021 is that it is removing one worry from our list above, which is valuations. Although we continue to make new all-time highs on both sides of the border, earnings growth has also been very good, meaning valuations are not as stretched as one might think. When we look out to 2022 earnings estimates for the S&P500, the forward price-earnings ratio currently sits at 21x, which is above the historical average, but lower than the average for 2020. Accordingly, it's interesting to point out that even after the great run we've seen on equities, stocks are arguably cheaper than they were last year! A similar situation exists in Canada, driven by a strong rebound in earnings in the energy and financial sectors. We would caution that a continuation of decent earnings growth will be necessary for this performance to continue, but judging by the results we've seen, the setup looks constructive.

This growth in earnings and cash flow that we are seeing is also great news for our space, as it means there is more room to grow dividends. After a tough year in 2020, dividend growth has resumed in 2021 as earnings move back to and exceed pre-COVID levels in aggregate. In addition, we have finally received good news from the OSFI on capital returns for the Canadian financial sector, which will allow for the resumption of dividend increases and share buybacks. We have already

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seen announcements for double-digit dividend increases from two of the largest insurers and expect more announcements in December, when the banks report their fiscal fourth quarter. As the big six banks and major insurers make up over 25% of the S&P/TSX, they are a major source of dividends for the Canadian market, so a resumption of growth for this segment is very positive. Although the importance of dividends can tend to get lost in returns in a year when stocks are up 25%, it is important to remember that dividends comprised over 30% of S&P/TSX total returns over the last 30 years. If we happen to enter a period where equity returns moderate or decline, we can assure you that dividends will become a large source of total return and will become a greater focus for investors.

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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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