INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

August 31, 2021

At this point we're probably sounding like a broken record, however we will point out again that North American markets were up in August, with the S&P/TSX up about 1.5% for the month and the S&P 500 up about 3%, which pushed YTD returns for both indices up over 20%. After experiencing this level of performance by equities in 2020 and in 2021, it is only prudent to think about events that may cause this bull market to stall out or reverse course. We have previously highlighted a few of these risks in this note, namely inflation, the Fed, the Delta variant, and valuations. In addition, we are seeing economic growth slow in the past few months, which is obviously a negative development.

Of these risks, the Delta variant may be the most interesting. While Delta is undoubtedly a setback in our quest to return to normal and could be one of the causes of the latest underwhelming GDP figures, it is possible that Delta could slow the reopening enough to keep inflation from rising to dangerous levels. A 'glass half-full' view to be sure, but as we discussed at length last month, rising costs are the number one current issue facing many companies. Any sign of inflation moderating as we move into 2022 would be welcome news for investors and could keep the party going a little bit longer. The other risk to stocks where the Delta variant may be assisting is with monetary policy. As we emerge from the pandemic, the Fed has provided ample support that must first be tapered back before they would begin to hike interest rates. Since rate hikes could be a negative for stocks if done swiftly, it is another area of risk for the market. However, it seems that the rise of the variant has concerned the Fed and has slowed their appetite to remove support and has pushed out estimates on when rates may rise. This is a positive development for equities as investors can be comfortable that the Fed will move slowly and not shock the market.

Moving back to stocks, the Canadian banks released their Q3 results last week and overall, we were fairly pleased with the results. All banks beat estimates on earnings, yet most of the beat continues to come from the release of provisions that were taken last year — that ended up not being needed. We saw a positive result in net interest income, which was up 4% over last quarter, ahead of estimates and much better than the negative result from many US banks. We also saw substantial loan growth in the quarter, which will be a positive driver of future earnings. Even with interest rates at very low levels (not helpful for banks), we still are seeing good overall performance. With capital levels continuing to grow, we are hopeful that restrictions on dividend increases and share buybacks are lifted in Q4. While we expect shareholder-friendly actions from all banks if restrictions are lifted, we would highlight TD, Royal Bank and Bank of Montreal as the three banks with the highest capital levels, and therefore in the best position to materially return cash to shareholders.

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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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