

INTERNATIONAL EQUITY MONTHLY COMMENTARY

June 30, 2020



Like other major indices, the MSCI EAFE index rebounded strongly in the second quarter. The best performing markets during the quarter were Germany and Australia, both export driven countries highly exposed to the global economy, particularly to China who is leading the recovery. The United Kingdom and Japan were the worst performers among major markets.

The top-performing sectors were materials, technology, and industrials as they recovered strongly following a difficult first quarter. The energy sector continued to lag and was the only sector down for the quarter. Real estate and consumer staples were also significant underperformers.

The International Equity fund outperformed the MSCI EAFE during the second quarter despite a continued defensive positioning combined with favourable stock selection.

Geographically, our continued underweight to Japan paired with our overweight to Europe allowed us to recover our allocation losses of the first quarter. Our exposure to China also continued to be a positive contributor. Our positive sector allocation was driven by our overweight in technology and underweight in energy while slightly offset by our cash position.

In terms of individual contributors, our relative outperformers were mostly in Asia-Pacific led by Chugai Pharmaceutical, Daikin, Techtronic, Tencent, and Worldline. On the other end, our biggest relative losers were Shell, Glanbia, Grifols, Tokio Marine, and Compass.

On a regional level, we remain overweight Continental European equities with a preference for France, Germany and Spain and underweight Switzerland and the UK. We remain positive on Continental European equities where we expect the ECB to keep an easy monetary policy bias for longer than anticipated to support growth in the region. They also are more geared to a rebound in global economic activity and a recovery in emerging markets, especially China. Valuations for the region remain attractive on a relative, historical and absolute basis. Europe may also benefit from the proposed recovery fund and a move to fiscal union.

Our second largest overweight is in Emerging Markets. We expect a gradual recovery in economic growth and earnings for the region driven by the stimulus measures put in place by China and valuations are attractive relative to developed markets. Within Emerging Markets, we keep a preference for consumer-oriented stocks in Emerging Asia. We remain underweight Japan. Although valuations are not expensive, we do not see any catalyst for outperformance for the remainder of this year.

On a sector level, we favour growth sectors and quality stocks within Healthcare, Technology and Industrials. Our largest underweights are in Consumer Staples because of high valuation, Communication Services and Financials because of structural growth issues. Within commodities we are maintaining our underweight in Energy because of poor fundamentals.

As we start the third quarter of the year, the biggest risks we are monitoring are a potential second wave of infections, permanent high unemployment figures globally, a democratic sweep in the 2020 US elections and rising trade tensions between the US and China, but also with Europe.

We are maintaining a defensive allocation and some liquidity. Valuations are still attractive, but volatility will remain high as we expect a very poor earnings reporting season with many downgrades still to come, and the true earnings picture is still difficult to quantify. We are on the lookout to add quality companies that have been sold off drastically based on their long-term fundamentals.



SEVGI IPEK, CFA

- Vice-President and Chief of International Equities
- Joined iAIM in 2008
- More than 25 years of investment experience
- M.Sc. in Economics, Université Catholique de Louvain in Belgium

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- Vice-President and Principal Portfolio Manager, International Equities
- Joined iAIM in 2008
- More than 25 years of investment experience
- MBA in Finance and Accounting, University of Notre Dame

Main funds managed by the team

✓	International Equity
✓	Global Equity
✓	Global True Conviction
✓	Global Equity Hybrid 75/25
✓	Global True Conviction Hybrid 75/25
✓	IA Clarington International Equity Fund
✓	IA Clarington Global Value 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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