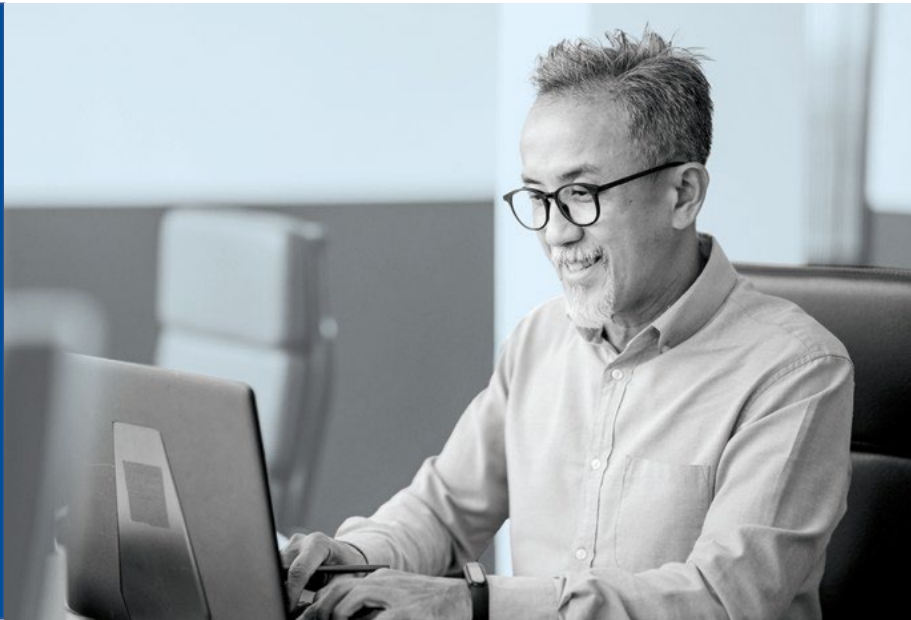


North American Equity (iA)

## QUARTERLY COMMENTARY

December 2023



### All I want for Christmas is... rate cuts

#### Rapid pricing of Fed cuts in 2024

We entered the fourth quarter of 2023 with the U.S. 10-year Treasury yield in an upswing, at about 4.60%. The trend continued at the start of the quarter with the 10-year almost topping 5% at one point before turning materially lower. The change was driven by softer CPI data showing inflation was finally settling closer to the desired levels, as well as Fed Chair Jerome Powell's hint that additional hikes were unlikely, with cuts coming in 2024. Signalling the peak for rates led to a strong rally by cyclical industries and interest-rate-sensitive businesses in the second half of the quarter.

#### Your 2023 winners are... the Magnificent Seven

During the pandemic, many investors focused on a group of companies known as the FAANGs. Driven by the spending of stimulus cheques sent out by governments, the FAANGs were the clear winners in the pandemic era. In 2023, however, a new group generated most of the returns on the S&P 500. Known as the Magnificent Seven – Amazon, Alphabet, Apple, Meta, Nvidia, Microsoft and Tesla – they alone accounted for more than 60% of the S&P 500's 2023 gains, leaving the 490 plus other companies with only 40% of the gains.

### Performance analysis

Even though allocation was a positive contributor, selection drove our strong performance during the quarter. We achieved positive selection in every sector except energy and utilities.

One of our top contributors was Atkore, a manufacturer of conduit, used extensively in non-residential construction. The company started re-rating in the quarter on guidance for 2024 that was better than expected, combined with a very appealing valuation. Also in industrials, H2O Innovation made a significant contribution when it was taken out at a hefty premium. As in previous quarters, Hammond Power Solutions continued to deliver strong returns and was again a top contributor. We have started reducing our position because we think the market is catching up in terms of valuation. In materials, our cautious approach to First Quantum also paid off in light of uncertainty over the future of its Panama assets.



### Marc Gagnon, M. Sc., CFA

Vice-president, Portfolio Manager,  
North American Equities

- Joined iA in 1998
- More than 30 years of investment experience
- MBA in finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval

### Maxime Houde, CFA

Associate Portfolio Manager,  
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- Joined iA in 2015
- More than 10 years of investment experience
- Bachelor's degree in Finance, Université Laval

## Preparing for turbulent times

We have been positioning the portfolio for a potential rebound in cyclical industries and interest-sensitive sectors since the end of the third quarter. Although we did not expect a rebound to happen as early as the fourth quarter, our proactive positioning paid off. Our thesis remains the same at the start of 2024.

“We acknowledge that the market is pricing in aggressive interest rate cuts in 2024 and agree that they could be delayed or revised; even so, we think that relief from rate cuts and the positive economic outlook for 2025 should be enough to lift the market.”

With those considerations in mind, we have maintained our cyclical tilt in the new year but have carefully chosen the way we express it. Our decisions continue to be based on deep fundamental analysis of the companies we invest in, with a detailed valuation model that helps us better define the intrinsic value of investments.

## Key Takeaways

- Rates are falling off a cliff.
- The market staged an impressive cyclical rally during the quarter.
- The fund turned in a strong quarterly performance.
- We continue to position for a cyclical rebound.

## About iAGAM

A magnet for top investment talent, iAGAM is one of Canada's largest asset managers, with over \$100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

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