

Thematic Innovation (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

We had a very strong performance during the quarter. Even though allocation was a positive contributor, most of our outperformance was due to strong stock selection.

In fact, our selection was positive in all but two sectors, with information technology driving most of the outperformance. Nutanix was one of our best ideas. The company delivered better-than-expected earnings as well as market share gains over its biggest competitor. Another strong contributor was ServiceNow, a computing platform that helps companies manage digital workflows. It delivered stellar earnings across the board, illustrating its unique ability to benefit from generative AI adoption.



Maxime Houde, CFA

Associate Portfolio Manager, Thematic Investing

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

Positioning for a new tomorrow

In our view, the prevailing market regime will increasingly favour active stock selection and thematic investing.

"As we head into 2024, structural growth stocks are likely to remain in favour, underpinned by stabilized long-term interest rates and consistently below-average GDP growth."

Technology shifts usually usher in new market cycles and regimes, and we think artificial intelligence will be the technological turning point of our generation. As AI progresses from conception to commercialization, it is poised to take centre stage in 2024. Using the data-era framework as a guide, we expect to see a significant shift from the semiconductor industry to infrastructure and software, as use cases emerge and are commercialized/monetized.

In line with our barbell investment approach, we will continue to identify potential market leaders from amongst innovative firms, while ensuring our capital is also allocated to dominant market players that stand to gain as innovation permeates the economy. This strategy offers the distinct advantage of mitigating risk when compared with innovative, pure-play, high-octane approaches.

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.

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