IA Clarington Canadian Leaders Class

Manager commentary – Q4 2024

The U.S. economy continued to outperform its global peers, with real GDP growth for 2024 projected at 2.7%, more than double the consensus estimates from the start of the year. This robust expansion is driven by strong consumer spending, rising productivity and elevated business sentiment. Donald Trump's re-election as U.S. president adds another layer of complexity to the macroeconomic and policy landscape. The incoming administration's primary economic goal is to unlock the full potential of the U.S. economy through deregulation and tax reforms. So far, Trump appears committed to this agenda, appointing policy "hawks" and regulation skeptics to key administrative roles. Despite these political shifts, the broader U.S. economy remains stable, supported by resilient consumer spending and easing inflationary pressures.

In contrast, Canada's economy continues to grapple with the lingering effects of the Bank of Canada's previously strict monetary policy. Persistent concerns about weak productivity, high household debt levels, and an uncertain political landscape present additional challenges. While the battle against inflation appears to have been decisively won—as evidenced by two significant interest rate cuts in the fourth quarter that brought the policy rate down to 3.25%—attention has shifted to the weak performance of real GDP per capita, which has contracted in eight of the last nine quarters.

Canada's housing market remains particularly sensitive to changes in interest rates, given its elevated household debt levels, the highest among the Group of Seven (G7) nations. While rising rates in recent years have curbed housing activity, the five consecutive rate cuts in 2024 could reignite concerns over shelter inflation. However, recent adjustments to Canada's immigration policies may help temper housing demand and inflationary pressures, potentially mitigating the impact of looser monetary policy.

The performance of Canadian equities in the months ahead will largely depend on how the Trump administration handles tariffs. On the downside, increased tariffs could harm companies heavily reliant on exports to the U.S. Conversely, Canadian firms with limited competition in the U.S. may have the opportunity to raise prices, offsetting the negative impact of tariffs. Should tariff levels prove less severe than anticipated, the market's positive momentum could extend into 2025. While the implications of tariffs remain uncertain, they are only one of many factors influencing the market under the new administration.

Other critical considerations include the potential inflationary effects of fiscal measures, such as tax cuts and immigration reform in the U.S., which could keep inflation elevated and restrict the U.S. Federal Reserve's ability to lower its discount rate further. Globally, the influence of the Trump administration on key economic players like China cannot be underestimated. In response to potential U.S. tariffs, the Chinese government may deploy significant fiscal and monetary stimulus to bolster domestic demand, further shaping the global economic landscape.

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North American markets ended 2024 on a positive note, with the S&P 500 Index and the S&P/TSX Composite Index posting gains of 2.4% (U.S.-dollar terms) and 3.8% (Canadian-dollar terms), respectively.

The Fund benefited from favourable sector allocation during the fourth quarter, particularly its underweight position in the materials sector and its overweight allocation to the information technology sector. However, security selection within the information technology sector detracted from performance.

Looking ahead to 2025, several economic scenarios could have varying impacts on the markets. Uncertainty persists regarding the scale and scope of tariffs under the Trump administration, while China's anticipated fiscal and monetary stimulus measures to support its economy represent another key variable. In light of these uncertainties, the Fund has adopted a more cautious approach by reducing exposure to companies vulnerable to tariffs. Additionally, certain positions were exited given the lack of a rebound in U.S. home sales, as the U.S. housing market is expected to remain volatile in 2025, with interest rates staying higher than widely anticipated.

Fund and benchmark performance, as at December 31, 2024	1-year	3-year	5-year	10-year
IA Clarington Canadian Leaders Class – Series A	25.4%	8.6%	11.7%	8.0%
40% S&P 500 Index (CAD), 60% S&P/TSX Composite Index	27.5%	10.7%	13.5%	11.5%

For definitions of technical terms in this piece, please visit iaclarington.com/glossary and speak with your investment advisor.

The performance data comparison presented is intended to illustrate the Fund's historical performance as compared with historical performance of widely quoted market indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The Fund's benchmark is a blend of 40% S&P 500 Index (CAD), and 60% S&P/TSX Composite Index. The blended benchmark presented is intended to provide a more realistic representation of the general asset classes in which the Fund invests. The S&P 500 Index (CAD) includes 500 leading companies in leading industries of the U.S. economy and is widely regarded as the best single gauge of the U.S. equities market. The S&P/TSX Composite Index is the premier indicator of market activity for Canadian equity markets, with 95% coverage of Canadian-based, TSX-listed companies. The index includes common stock and income trust units and is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. The Fund’s market capitalization, geographic, and sector exposure may differ from that of the benchmark. The Fund’s currency risk exposure may be different than that of the benchmark. The Fund may hold cash while the benchmark does not. It is not possible to invest directly in market indices. The performance comparison is for illustrative purposes only and does not imply future performance. Effective February 7, 2014, IA Clarington Canadian Leaders Fund merged into the Fund.

Indicated mutual fund rates of return include changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Returns are historical annual compounded total returns.

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