IA Clarington Global Equity Plus Portfolio

Manager commentary – Q4 2024

The Fund was launched on June 17, 2024. Performance data is not presented for a Fund that has been distributing securities for less than 12 consecutive months.

The fourth quarter of 2024 saw significant developments across the global economy, with the U.S. election on November 5, multiple central bank cuts to interest rates, and diverging regional economic trends.

The U.S. economy continued outperforming its peers, as real GDP appeared on pace for 2.7% in 2024, more than double the consensus expectations recorded at the beginning of the year. Consumer spending remains solid, productivity is rising, and business sentiment is elevated. Donald Trump's victory promises an interesting year ahead on the macroeconomic and policy front, as the coming U.S. administration's first economic objective is to unlock the economic potential of the U.S. through deregulation and tax reforms. To date, Trump has been walking the talk, having already nominated policy "hawks" and regulation skeptics for most key administrative roles. Despite the political shifts, consumer spending remained robust, and inflationary pressures continued to ease, indicating a stable economic environment.

European macroeconomic data continued to show weakness, with subdued growth across the region. Germany struggled with stagnant growth, while southern European economies performed slightly better. The main questions hanging over the continent are whether the fight on inflation is progressing quickly enough, and if the European Central Bank can deliver every rate cut the market is pricing in for 2025, which would provide much-needed economic support.

China's economy is struggling with a balance-sheet recession, with households and companies alike prioritizing debt repayment over spending or investing, leading to economic stagnation amid less consumption and investment. The situation is further complicated by the ongoing housing crisis, with billions of dollars tied up in incomplete projects. This predicament not only leaves homeowners and investors in a state of uncertainty, but also dampens overall activity as households prioritize saving over spending. In such an environment, traditional monetary policy measures are insufficient, and rate cuts by the central bank are equivalent to pushing on a string. Instead, history advocates for direct fiscal stimulus as the most effective solution. The Chinese government tried introducing multiple, timid policies to stimulate growth, but the economic recovery remains tepid.

Canada's economy is still feeling the "hangover" from the Bank of Canada's (BoC) strict monetary policy. Concerns about weak productivity and high household debt persist, and the political landscape remains uncertain, adding to the economic challenges. While the fight on inflation seems to have concluded in a resounding victory, with the BoC implementing two large rate cuts in the quarter (bringing the policy rate down to 3.25%), sights return squarely on the weak performance of real GDP per capita, which has contracted in eight of the last nine quarters. With household debt levels among the highest in the G7, Canada's housing market remains acutely sensitive to interest rate changes. Rising rates in recent years have slowed housing activity, but the five consecutive rate cuts in 2024 could reignite concerns that shelter inflation will make a comeback. The recent changes to Canada's immigration policy could keep housing and inflation under control, through subdued demand for housing.

The Fund was launched in June 2024 and is composed of three equal parts: IA Clarington Global Equity Fund, IA Clarington Global Dividend Fund and IA Clarington Loomis Global Equity Opportunities Fund.

During the period, IA Clarington Global Dividend Fund and IA Clarington Loomis Global Equity Opportunities Fund contributed to performance, while IA Clarington Global Equity Fund detracted from performance.

The fund manager of IA Clarington Global Dividend Fund believes that in light of the prevailing market and economic uncertainties, a selective investment approach is essential, particularly within the information technology sector. As some valuations appear stretched, focusing on high-quality companies integral to the artificial intelligence value chain will be paramount. Additionally, the fund manager of IA Clarington Global Dividend Fund believes that defensive sectors and software companies will play a crucial role in navigating the upcoming quarter. IA Clarington Global Dividend Fund generated positive returns during the quarter owing to strong security selection in the financials, information technology and consumer discretionary sectors. Key contributors to this performance included Apollo Global Management Inc., Visa Inc., Broadcom Inc. and Taiwan Semiconductor Manufacturing Co. Ltd., driven by robust quarterly earnings performance and a positive outlook. However, holdings within the health care sector underperformed, mainly as the result of a significant downturn in Elevance Health Inc. IA Clarington Global Dividend Fund is strategically positioned to safeguard capital during periods of short-term volatility while striving to outperform the market over the long term.

IA Clarington Loomis Global Equity Opportunities Fund produced a positive absolute return during the period. Exposures to the financial and consumer staples sectors contributed to performance, while investments in the information technology, health care and the industrials sectors were the largest detractors. The three largest contributors to performance were Amazon.com Inc., Nvidia Corp. and Alphabet Inc., while the three most significant detractors were Atlas Copco AB, Nomura Research Institute Ltd. and Mettler-Toledo International Inc. Regarding IA Clarington Loomis Global Equity Opportunities Fund, the fund manager's focus remains on investing in quality companies that his team believes have the ability to generate value over the longer term, and that periods of volatility can provide the opportunity to build positions in quality companies at more attractive valuations.

While IA Clarington Global Equity Fund generated positive returns in 2024, performance relative to the MSCI World Index was highly challenged and this trend intensified in the fourth quarter. Being diversified by geography, sector and business model proved to be a losing proposition in a year where the bulk of the benchmark's gains were generated from a small handful of very expensive mega-cap stocks priced in an ascendant U.S. dollar. The fund manager of IA Clarington Global Equity Fund expects its holdings to grow at reasonable rates in the coming years, which, together with dividends, should potentially generate solid return prospects for clients with less commensurate risk than the broader market.

By design, IA Clarington Global Equity Plus Portfolio has a static target allocation among its underlying funds, which we rebalance monthly. The Fund seeks to provide long-term capital appreciation by investing primarily in equity securities of companies located anywhere in the world, either directly or indirectly through investments in other mutual funds.

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

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