IA Clarington Global Equity Plus Portfolio

Manager commentary – Q3 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.

During the six-month period ending September 30, 2024, the global economy continued its path towards normalization with notable developments across key regions.

The U.S. economy continued to normalize. The pace of job creation has slowed since April, and historical revisions have shown that fewer jobs than initially reported have been created since the spring of 2023. While hiring has slowed down, the participation rate (estimate of an economy's active workforce) has continued to rise, leading to a higher unemployment rate. At the end of the third quarter, the U.S. economy was displaying more signs of stability than weakness, especially in terms of consumer spending, which remained robust. Inflationary pressures eased, indicating a shift towards a more sustainable growth path.

The Canadian economy appears to be in a precarious situation on a per-capita basis, as its weak productivity remains a challenge despite strong population growth. The housing market remains at risk as the Bank of Canada is rushing towards a neutral policy interest rate of about 3%, which is expected to be reached by mid-2025. The timing and pace of interest-rate cuts support a reacceleration of real Canadian economic growth in 2025, as well as an exit from the prolonged per-capita recession (when GDP per capita falls in two consecutive quarters). Real economic growth or real GDP is GDP adjusted for inflation or deflation (when prices fall).

Globally, disinflation (slowdown in the growth of prices) continued as supply-chain pressures eased and commodity prices stabilized. For instance, the eurozone reported that inflation had dropped to 1.8% in September, and inflation in emerging markets has generally trended downwards. This has opened the door to synchronized interest-rate cuts from global central banks, adding liquidity to the global economy.

Europe remains stuck in subdued growth, with Germany showing no real growth since early 2022. Challenges include weak demographics, lack of productivity growth (the growth of output not accounted for by the growth of an input or inputs), the absence of synchronized intra-eurozone fiscal policy and a weak Chinese economy. That said, the recent bottoming of the credit cycle points to an early sign of changing fortunes.

In China, a balance-sheet recession poses significant challenges. A balance sheet recession is a type of economic recession that occurs when important levels of private sector debt cause individuals or companies to collectively focus on saving by paying down debt rather than spending or investing, causing economic growth to slow or decline. Despite the government's fiscal stimulus and loose monetary policy, concerns about high debt levels and a struggling property market have hampered a robust recovery. China's current economic backdrop resembles Japan's 1990s experience, where a forced deleveraging (reducing debt) effort neutralized consumer spending and business investments, essentially leading to fire sales on assets as the private sector focused on reducing aggregate debt. In such an environment, loose monetary policy becomes ineffective as demand for loans crumble, while direct cash transfers to households, which was proposed in China in September, become a viable solution.

North American equities delivered highly favourable results during the six-month period ending September 30, 2024. The S&P/TSX Composite Index, representing the Canadian equity market, returned 10.0%, led by the materials, utilities and real estate sectors. Its U.S. counterpart, the S&P 500 Index, returned 10.2% (in Canadian-dollar terms), led by the utilities, information technology and real estate sectors. On the global front, the MSCI World Index and MSCI EAFE Index, returned 9.0% and 6.6% respectively, over the last six months (in Canadian-dollar terms).

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.

Given that the Funds' target allocation is divided equally among three global equity funds, and that global equities produced favourable results over the period, the Fund's overall asset allocation contributed to performance. The Fund's top contributor was IA Clarington Global Equity Fund, due to security selection within the industrials and consumer discretionary sectors.

Since the Fund's inception date, no underlying fund detracted from performance.

By design, the Fund has a static target allocation among its underlying funds, which is rebalanced monthly by the fund manager. 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.

U.S. equities remain priced for a soft economic landing (a slowdown in economic growth that ends without a period of outright recession) and a reacceleration of corporate profits despite signs of economic pressure, while many European companies remain priced for low growth. Against this backdrop, the fund manager believes the best risk-adjusted return opportunities for investors appear to be in high-quality businesses with strong certainty of earnings stability and growth, while trading at relatively more reasonable valuations than market averages. The fund manager also favours businesses where low expectations embedded in current valuations could lead to attractive outcomes when conditions eventually normalize.

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IA Clarington Global Equity Fund continues to trade near its widest historical discount to the global stock market despite higher returns on invested capital or profit generated per dollar of invested capital, a superior dividend yield and comparable growth prospects over the coming year.

The fund manager of the IA Clarington Global Dividend Fund believes that U.S. consumer spending remains stable, but with the risk of inflation potentially returning amid wage growth and commodity prices, this underlying fund continues to hold companies that should benefit from increased nominal spending (the current dollar value of total spending in an economy).

Despite an uptick in unemployment, the U.S. economy is still performing quite well relative to developed market peers, which supports a healthy consumer.

The fund manager of IA Clarington Loomis Global Equity Opportunities Fund believes the sources of earnings growth are starting to broaden, and that there could be more upside in the market, provided a recession is avoided.

In this still-somewhat uncertain backdrop, the focus of IA Clarington Loomis Global Equity Opportunities Fund remains on investing in quality companies that the underlying fund manager believes should be able to manage in the current environment and generate value over the longer term. Periods of volatility can provide opportunities to build positions in quality companies at more attractive valuations.

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

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