Richelieu America ESG

“You miss 100% of the shots you don’t take”.

Wayne Gretzky

Eric Lafrenière

Alexandre Hezez

Markets

The U.S. stock market posted modest gains in April as investors nervously pondered whether the banking crisis was over or not and awaited a final Federal Reserve interest rate hike. The Fed has reached a critical point in its battle against inflation, and the next couple of months will determine whether or not it can navigate a so-called soft landing for the U.S. economy without tipping it into a recession. First-quarter earnings season has been lackluster so far, with S&P 500 companies reporting a 3.7% year-over-year drop in earnings but better than anticipated following strong downward revisions. The first quarter is on track to be the second consecutive quarter of negative earnings growth for the S&P 500, after a 3.2% drop in the fourth quarter of 2022.

Three of the four main US equity indices ended the month in positive territory. The Dow Jones Industrial is up +2.6%, the S&P500 +1.6%, the Nasdaq +0.07% but the Russel 2000 ended in negative territory, down -1.8%%. In terms of investment styles, value (+1.7%) outperformed growth (+1.4%) in April. On a year to date basis, the Dow is up +3.5%, the S&P +9.2%, the Nasdaq +17.1% and the Russel +0.9%. Growth (+11.2%) outperforms value (+7%). All performance figures are in dollars and dividend reinvested. The US dollar fell 1.6% against the euro during the month, hurting performance for non-hedged Euro base investors. The US dollar is down 3.3% year to date.

Fund

The fund underperformed both its benchmark Bloomberg US Large & Mid Cap Net Return Index and the S&P 500 dividend reinvested in April. The fund nonetheless continues to largely outperform both on a year to date and since inception basis. The core dividend growth bucket ended the month flat whilst the multi-thematic buckets ended the month in negative territory. The best contributors to performance in April in the core bucket were Medtronic, Canadian Natural Resources, Stanley Black & Decker, McDonald’s and Microsoft. The worst were Albemarle, Texas Instruments, Qualcomm, Emerson Electric and Caterpillar. The best contributors in the satellite bucket were XPO Inc, Lion Electric, Micron Technology, Amazon et Shopify. The worst were Nouveau Monde Graphite, Bombardier, Li-Cycle, Mobileye and On Semiconductor. During the month, we exited our position in Nike and invested the proceeds in XPO Inc in our Re Shoring bucket. Our current allocation continues to reflect a balanced approach between our core dividend growth and multi-thematic buckets. Our main overweight positions are to Industrials, Materials and Consumer Staples. Our main underweights are to Health Care, Financials and Communication Services. In terms of Thematic in our satellite bucket, our highest allocations are to the Transport of tomorrow, Digitalization and Re-Shoring. We nonetheless monitor the situation closely and are ready to adjust our allocation if necessary.

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Looking ahead

The month of May has historically not been one of the better months of the year for the S&P 500, having returned on average 0.43% over the last 20 years. While the economic outlook remains uncertain, there are some historical data that is encouraging for May and the rest of the year. When the S&P 500 has gained at least 7% in the first quarter, it has never finished the calendar year lower and has averaged a full-year gain of 23.1%. This year, the S&P 500 gained 7% in the first quarter. On top of that, the S&P 500 has historically averaged a 12% gain in the 12 months following the final Federal Reserve interest rate hike of a cycle which is like to occur during the beginning of May meeting. The two market catalysts that have been the main market movers over the past few quarters, inflation and Fed rate hikes will remain at the forefront in May. However, we could well see the last hike of this cycle and inflation could finally show signs of a speedy deceleration.

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