



## RBC Funds (Lux) - Canadian Equity Value Fund – Second Quarter 2017 Commentary

In the second quarter of 2017, the Fund returned -1.1%\* outperforming its benchmark, the S&P/TSX Capped Composite Index (CAD), which returned -1.6%.

The S&P/TSX Composite Index pared gains after hitting an all-time high in February. Underperformance stemmed from weakness in the Materials, Financials and Energy sectors, representing approximately two-thirds of Canada's benchmark stock index.

Stock selection and asset allocation were drivers of performance in the second quarter, particularly in Energy and Financials. In Energy, not holding Encana added to relative performance in the midst of uncertainty surrounding funding its capital spending plans in a weaker commodity price environment. In Financials, Brookfield Asset Management was a strong contributor after reporting Q2 results that exceeded expectations.

While the broad-based commodity shock has subsided, oil prices continue to be under pressure. They remain difficult to forecast in the short run, but remain below our estimate of marginal cost. We continue to believe that large companies with long life reserves and strong balance sheets are set to deliver attractive levels of free cash as crude prices return to the marginal cost of production.

The large Canadian banks delivered strong earnings growth this quarter, driven by healthy loan growth, stable net-interest margins and declining provisions for credit losses. Although bank stocks pulled back amid concerns around the housing market and news coverage around mortgage lender Home Capital Group, they continue to offer investors attractive yield and growth characteristics.

Despite a slower Q2, the Canadian economy had a strong start to 2017. We expect global economic growth to trend modestly higher this year and our forecast has increased to 2.0% for Canada.

\* Net of fees and expenses for the O share class

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