Global Asset Management

Quarterly commentary

RBC Funds (Lux) - Canadian Equity Value Fund – First Quarter 2018 Commentary

In the first quarter of 2018, the Fund returned -4.4%* performing in line with its benchmark, the S&P/TSX Capped Composite Index (CAD), which returned -4.5%.

Uncertainty returned to financial markets in early2018 following a long period of strong returns and minimal volatility that lasted for most of the 2017.The reversal started with strong U.S. wage growth data, which led to concerns that higher inflation may force the U.S. Federal Reserve to increase interest rates at a faster pace than previously anticipated. With markets beginning to find their feet in the latter stages of February, renewed concerns over U.S. trade protectionism resulted in additional volatility.

The valuation of the S&P/TSX is currently around two multiple points lower than the S&P 500, a gap that seems justified, given the concerns outlined above and the fact that the Financials and Energy sectors account for more than half of the Canadian market's earnings.

Stock selection was mixed this quarter with Materials and Industrials the best-performing sectors and Financials and Information Technology the biggest detractors. Our overweight position in ATS Automation Tooling Systems Inc. was a positive contributor as new management improved profit margins and continues to win new business. Our overweight position in Quebecor Inc. was also positive. Wireless results remain strong and the company's financial resources appear sufficient to purchase the remainder of its interest in Quebecor Media Inc., simplifying its corporate structure. Conversely, our small position in the special purpose acquisition company, Acasta Enterprises Inc., was a detractor this quarter.

The economic backdrop remains positive by post-crisis standards as many macroeconomic indicators monitored by the portfolio managers show reasons to remain positive. While key risks of an aging business cycle, rising interest rates and protectionism persist, upside potential remains from structural reforms in Japan and U.S. fiscal stimulus. On balance, the Fund managers expect the positives to outweigh the negatives, further driving potential in the stock market.

* Net of fees and expenses for the O share class

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