Global Asset Management

Quarterly commentary

RBC Funds (Lux) – Global Resources Fund – Fourth Quarter 2018 Commentary

In the fourth quarter of 2018 the Fund returned -17.1%* outperforming its benchmark, 65% MSCI World Energy Sector/35% MSCI World Materials Sector Index (USD), which returned -19.0%.

Energy equities finished 2018 with losses after a fourth-quarter collapse in oil prices, with most oil and gas shares ending the year near their 52-week lows. The plunge in crude-oil prices was precipitated by U.S. President Trump's unexpected decision to grant waivers allowing countries to bypass U.S. sanctions and import crude oil from Iran, the world's sixth-largest oil producer. Quarter-over-quarter, spot West Texas Intermediate (WTI) oil prices dropped 38%, ending the period depressed at USD45 a barrel.

The Fund's performance relative to its benchmark was negatively impacted by its exposure to U.S. exploration and production (E&P) companies. Overweight positions in Hess, EOG Resources, Concho Resources and Continental Resources detracted from relative performance.

Gold and silver prices delivered strong performance in Q4. Mounting U.S./China trade tensions, coupled with indications that the UK's departure from the European Union might not go as smoothly as hoped, also stimulated demand for safe-haven investments such as gold and other precious metals. Iron ore, steel, lumber and copper prices all weakened into the second half of 2018 as trade disputes and rising interest rates in the United States heightened concerns of a recession, and weakening global GDP weighed on commodity pricing.

Despite its negative return over the quarter, the Fund outperformed its benchmark. Overweight positions in Kirkland Lake Gold, and B2Gold bolstered relative performance, however this was more than offset by relatively weak performance by a number of junior exploration companies, including Marathon Gold and GT Gold, which failed to participate in the market rally. Following the agreement in December by OPEC and its partners to cut oil production by 1.2 million barrels per day for 6 months beginning in January 2019, we expect the market to return to balance within the first half of 2019 assuming that demand stays robust.

* Net of fees and expenses for the O share class

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