RBC Global Asset Management

RBC Emerging Markets Equity Focus Fund

Commentary as at June 30, 2025

Financial market returns at the beginning of the year were dominated by U.S. President Donald Trump's threats to impose extremely high tariffs on major U.S. trade partners, leading to concern about a global trade war. U.S. trade policy led to a weaker U.S. dollar, and a falling dollar supported emerging-market equities in part because it reduces the cost of U.S.-dollar-denominated debt. A stock-market recovery in China, which accounts for about a third of the emerging-market stock benchmark, also helped support the performance of emerging-market equities. One of the most notable emerging-market developments in 2025 was the release of an artificial-intelligence ("AI") model introduced by China's DeepSeek. The release of this AI service, which might be competitive with U.S. AI leaders such as ChatGPT, boosted investor impressions of Chinese technology companies and emerging-market technology stocks in general.

Strong stock selection in the Financials and Materials sectors benefited the Fund's relative performance. An overweight allocation to the Consumer Staples sector held back performance, while a complete lack of exposure to Energy had a positive impact.

Individual stocks that aided performance during the period included SK Hynix, B3 SA, Hong Kong Exchanges & Clearing, MercadoLibre and Samsung Fire & Marine Insurance. Stocks that limited returns included Tata Consultancy Services, Raia Drogasil, Yum China, Bank Central Asia and Voltronic Power Technology.

The underperformance of emerging-market equities versus developed markets in recent years might be turning. One reason for the shift is that China's economic performance has improved in the past year after lagging coming out of the pandemic. The portfolio manager believes that Chinese equity gains can continue driven by a supportive regulatory environment, higher levels of factory utilization and a recovery in domestic consumption. Another significant negative for emerging-market equities was a decade of strength of the U.S. dollar, but a weakening greenback is likely to help power emerging markets.