

RBC Private Fundamental Canadian Equity Pool



Commentary as at December 31, 2020

Canadian stocks reached all-time highs in February, as rising corporate earnings, positive trade news and strong employment data buttressed equity markets. Weeks later, intensifying concerns about COVID-19, declared a pandemic on March 11, and its crippling effects on global growth led to steep equity-market declines. The S&P/TSX Composite Index fell by just over a third between February 20 and March 23, and declines in financial markets worldwide prompted major central banks and governments to implement massive fiscal and monetary measures. Financial markets rebounded and by November, optimism about a viable vaccine for COVID-19 and a new U.S. administration led to another leg up in equity markets, with Canadian stocks ending near their early-year top.

The Fund's underperformance in 2020 was due to overall stock selection and a below-benchmark allocation to the Information Technology sector – specifically a lack of exposure to Shopify, the website-design company that had the biggest positive impact on benchmark returns. Also holding back returns was investors' preference for companies with higher valuations and less lengthy earnings track records – the kind of stock that the Fund tends to avoid.

Canadian Natural Resources, Suncor Energy and Cenovus Energy were among the weakest performers during the period, while Magna International, CAE Inc. and Canadian National Railway were among the top contributors.

The distribution of vaccines for COVID-19 is well underway, and the sub-advisor believes that an effective roll-out will at some point result in business re-openings and faster economic growth. Continued monetary and fiscal stimulus should support a further rebound in equity markets in 2021, especially attractively valued stocks with consistent free cash flow.

The Fund's sector weightings are based on the distribution of individual stock selection, and result in large sector weights versus the benchmarks in the Financials, Consumer Discretionary, Communication Services and Consumer Staples sectors, and underweight positions in Information Technology, Energy and Materials.

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