

RBC U.S. Equity Value Fund



Commentary as at June 30, 2025

Trade negotiations dominated the direction of financial markets during the first six months of 2025. Early optimism that the Trump administration would focus on deregulating the economy gave way to concerns that he would instead implement across-the-board tariffs on U.S. trade partners. U.S. stocks retreated from all-time highs established early in the year after Trump announced the tariffs. The outlook subsequently improved as the U.S. administration reached trade agreements that ensured a worst-case scenario would not unfold. As a result, U.S. stocks returned to new all-time highs. Geopolitical turmoil in the Middle East sent oil prices surging on fears of a wider conflict and instability in the region, but oil prices came back down after tensions eased.

The Information Technology sector supported U.S. equities, while the Consumer Discretionary sector lagged. The U.S. Federal Reserve left its benchmark interest rate unchanged in a range between 4.25% and 4.50% as concern that the tariff war would spark inflation outweighed worries that the economy was slowing.

The Fund's relative exposure to Dollar Tree, Robinhood Markets and Walt Disney had the most positive impact on the Fund's returns, while exposure to UnitedHealth Group, Apple Inc. and iShares Russell 1000 Value ETF was negative for performance.

The sectors that had the most positive impact on the Fund's returns were Consumer Staples, Financials and Communication Services, while exposure to Information Technology, Health Care and Industrials had a negative impact.

The Fund had overweight positions in the Utilities Select Sector SPDR Fund, Home Depot and iShares Biotechnology ETF and underweight positions in Apple Inc., Microsoft and Nvidia.

At the sector level, the Fund had overweight exposure to Communication Services and Financials and underweight exposure to Utilities, Real Estate and Consumer Staples.

The consensus 2025 forecast for S&P 500 Index earnings growth is roughly 8% but is more likely to be 4% if tariffs persist. Profit-growth estimates for 2026 exceed 10%, which also seems optimistic to the portfolio manager. The portfolio manager believes that continued stock gains will require a relatively benign resolution to the trade war and increased productivity stemming from the application of artificial intelligence.

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