

RBC U.S. Small-Cap Core Equity Fund



Commentary as at June 30, 2024

U.S. equity markets posted solid gains in the first half of 2024 as the economy remained robust and the odds of a recession receded. However, inflation persisted above the U.S. Federal Reserve's (the "Fed") 2% target, raising doubts when and how quickly the Fed would decrease its policy rate. During the first half of 2024, small-cap stock indexes underperformed large-cap indexes, which were propelled mainly by the largest U.S. companies.

The Fund performed well over the period due to favourable stock selection and sector allocation. Returns from stock selection in the Information Technology, Consumer Discretionary and Health Care sectors more than offset the negative impact of stock selection in Industrials and Materials. The portfolio's overweight allocation to the Industrials sector and underweight in Financials added to relative returns.

Individual stocks that had a positive impact on returns included Super Micro Computer, Deckers Outdoor and Onto Innovation, while Par Pacific and Koppers Holdings had a negative effect.

Surveys indicate that people who run small businesses lack confidence in the direction of the economy due to high borrowing costs, debt-laden consumers and challenges finding qualified workers in a tight labour market. Companies with solid balance sheets and strong cash flows will have a competitive advantage in this environment, as will those that benefit from government spending on infrastructure and inducements aimed at bringing production back to North America amid geopolitical uncertainty.

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