RBC O'Shaughnessy U.S. Value Fund

Commentary as at December 31, 2023

Stocks performed well in most major markets in 2023, led by U.S. large-capitalization technology stocks benefiting from optimism about recent advances in artificial intelligence. Stocks were bolstered overall by strong U.S. economic growth, while weaker expansions in Europe, Asia, and Canada were generally aligned with equity performances in those markets.

Optimism that two years of interest-rate hikes were coming to an end offset a host of negative news over the course of 2023, including a short-lived U.S. banking crisis in March; mid-year concerns that a recession would unfold; and the outbreak in October of war in the Middle East. Most of the equity gains in 2023 came in November and December, once investors were comfortable that the drop in inflation was sustainable.

The Fund’s overweight position in companies, rated high in terms of value aided performance. However, measures of earnings quality, earnings growth, and financial strength had a mixed impact on relative returns, and exposure to stocks that were less volatile than the benchmark limited performance.

From a sector perspective, an underweight position in Health Care and overweight position in Industrials aided performance, while underweight allocations to Communication Services and Information Technology held back returns. Overall stock selection hurt the Fund’s returns given weak performance in the Consumer Discretionary and Information Technology sectors. Stock selection in the Materials and Consumer Staples sectors aided returns. Individual stocks that aided the Fund’s returns included Westrock, as did below-benchmark exposure to Gap Inc. and Nexterra. An underweight allocation to Meta Platforms (formerly Facebook) was single position that held back relative returns the most, and overweight allocations to Pfizer and Hawaiian Electric also had a negative impact.

It is the policy of the Fund to maintain currency hedges at all times in order to neutralize exchange-rate movements between the U.S. dollar and the Canadian dollar. This policy had a negative effect on returns during the period.

During the period, the Fund decreased allocations to the Energy and Health Care sectors and increased allocations to Consumer Discretionary, Industrials, Information Technology, and Materials.

The portfolio manager has no recent developments to report.

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