

## RBC North American 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. and Canadian stocks retreated 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. and Canadian equities returned to 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 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 iShares S&P/TSX Global Gold Index ETF, Howmet Aerospace and Toronto-Dominion Bank had the most positive impact on the Fund's returns, while exposure to TransAlta, West Fraser Timber and Salesforce was negative for performance.

The Fund had overweight positions in Power Corp. of Canada, iShares S&P/TSX Global Gold Index ETF and Toronto-Dominion Bank and underweight positions in Nvidia, Shopify and Constellation Software.

At the sector level, the Fund had overweight exposure to Industrials, Energy and Financials and underweight exposure to Information Technology, Health Care and Consumer Discretionary.

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.

The Canadian economy faces a challenging near-term outlook, with tariff risks weighing on economic-growth prospects. While tariffs could strain economic activity, growth-oriented government spending and the likelihood of interest-rate reductions could help offset the negative trade outlook and position the economy for a gradual recovery over time.

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