

RBC U.S. Dividend Fund



Commentary as at December 31, 2023

Large-cap U.S. equity indexes performed exceptionally well in 2023, as advances in artificial intelligence led to big gains for a small number of large technology companies with a disproportionate impact on benchmark performance. Excluding these companies, returns were more muted as the U.S. economy battled major headwinds, including inflation running above central-bank targets and borrowing costs at their highest in 16 years.

Index returns were driven by the seven largest members of the S&P 500, the so-called “Magnificent 7.” This group, which is comprised of Microsoft, Apple Inc., and Nvidia in the Information Technology sector; Google and Meta in Communication Services; and Amazon.com and Tesla in Consumer Discretionary, comprised almost 30% of the market capitalization of the S&P 500 at the end of 2023.

The Fund’s relative exposure to Broadcom, Bristol-Myers Squibb, and Berkshire Hathaway had the most positive impact on the Fund’s returns, while exposure to Meta Platforms Inc, Tesla, and RTX Corp. were negative for performance.

The sectors that had the most positive impact on the Fund’s returns were Financials and Real Estate while exposure to Health Care, Consumer Discretionary, and Communication Services had a negative impact.

The Fund had overweight positions in Philip Morris International, Elevance Health, and AbbVie, and underweight positions in Berkshire Hathaway, Tesla, and Meta Platforms.

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

An economic slowdown appears to be underway, with businesses and consumers feeling the drag of higher interest rates and two years of exceptionally high inflation. Global trade is contracting, businesses are scaling back investments and the frantic hiring of the past two years is on the wane, albeit gradually. Portfolio manager continues to look for a mild contraction in the first half of 2024, although pathways to an economic “soft landing” are evident and the odds of such an outcome are improving as inflation moderates.

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