RBC Global Asset Management

PH&N U.S. Multi-Style All-Cap Equity Fund

Commentary as at December 31, 2023

Large-cap U.S. equities 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, accounted for almost 30% of the market capitalization of the S&P 500 at the end of 2023.

The Fund’s Large Cap Core component benefited on a relative basis from sector-allocation bets in the Information Technology and Utilities sectors. From a security-selection standpoint, favourable stock picks in Industrials and Financials aided returns, offset by adverse stock selection in the Energy and Information Technology sectors.

Returns in the Mid Cap Value strategy were held back by unfavourable stock selection in the Consumer Discretionary, Information Technology and Financials sectors, offset by favourable stock picks in Real Estate, Industrials and Utilities. From a sector-allocation standpoint, underweight positions in Financials and Consumer Staples aided relative returns, while an underweight position in Information Technology was negative.

The Small Cap Core component benefited from favourable stock selection in the Consumer Discretionary, Materials and Information Technology sectors, partially offset by the negative impact of stock selection in Financials and Communication Services. From a sector-allocation standpoint, an overweight position in Industrials had a positive impact on performance.

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 frenetic hiring of the past two years is on the wane, albeit gradually. The sub-advisor 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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