

RBC Canadian Mid-Cap Equity Fund



Commentary as at December 31, 2023

Canadian equities rose in 2023 but underperformed most major markets given Canada's concentrated exposure to stocks in the Financials and Energy sectors and a relatively low number of high-flying technology companies. Most of the index gains came in the latter half of 2023 as investors grew more optimistic that two years of uncomfortably high inflation had been brought under control.

In this environment, speculation arose that the Bank of Canada (the "BOC") would begin to roll back interest rates in a bid to rejuvenate an economy weakened by soaring mortgage rates and high consumer-debt levels. Inflation, however, remained at 3.1% near year-end, above the 2% target, and the BOC's benchmark interest rate stood at 5%. Weaker growth, both domestic and global, led Canada's banks to increase their reserves for loan losses and kept energy prices in check.

The Fund's relative exposure to Northland Power, Algonquin Power & Utilities, and MEG Energy had the most positive impact on the Fund's returns, while exposure to Enerplus, K92 Mining, and Lundin Mining were negative for performance.

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

The Fund had overweight positions in MEG Energy, K92 Mining, and PrairieSky Royalty, and underweight positions in Finning International, Algonquin Power & Utilities, and Canadian Utilities.

At the sector level, the Fund had overweight exposure to Financials, Materials, and Information Technology and underweight exposure to Industrials, Utilities and Health Care.

While a recession was avoided in 2023, the economy may slow over the next year, in the view of the portfolio manager, limiting equity gains in the near term. The portfolio manager believes, however, that economic growth and earnings should rebound at some point in 2024 as long as declines in interest rates and inflation are sustained.

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