

RBC Canadian 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 Microsoft, Franco-Nevada, and Advanced Micro Devices had the most positive impact on the Fund's returns, while exposure to Shopify, Constellation Software and Fairfax Financial Holdings were negative for performance.

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

The Fund had overweight positions in Microsoft, UnitedHealth Group Inc, and AltaGas and underweight positions in Shopify, Fairfax Financial Holdings, and Constellation Software.

At the sector level, the Fund had overweight exposure to Real Estate, Energy and Health Care and underweight exposure to Information Technology, Financials and Materials.

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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