RBC Global Asset Management

RBC Global Equity Focus Fund

Commentary as at December 31, 2022

Early in 2022, confirmation that coronavirus variants were more transmissible but less harmful boosted prospects for a more robust economic recovery. However, disrupted supply chains interfered with the production of goods sufficient to meet demand, and inflation began to pick up. Russia's invasion of Ukraine amplified inflation concerns by throwing European energy and agricultural markets into disarray. In this environment, global stock markets plunged, and investors, repositioning for higher inflation, began to favour the equities of businesses with high levels of tangible assets and/or commitments to dividends and share buybacks.

The debate over inflation, and the level of higher interest rates needed to tame it, continued for much of the rest of the year. Optimism that inflation would quickly fall as supply chains recovered gave way to anxiety that higher rates would cause a recession. Equity-market valuations struggled in the face of both higher interest rates and uncertainty over corporate profits. In all, it was the worst year for global stocks since 2008 - the year of the financial crisis.

Indications toward the end of the year that U.S. inflation might be peaking led to speculation that the pace of interest-rate increases might slow, and suggested to investors that any economic downturn might be short and shallow. By the end of 2022, equities had partially recovered from their lows.

The Fund's relative returns benefited from positions including UnitedHealth Group, T-Mobile US and Equinor. Stocks that held back relative returns included SVB Financial Group, Alphabet and Nidec.

The outlook for inflation and economic growth continues to influence stock-market valuations, with recent corporate results indicating that rising costs are eating into profit margins. This trend is likely to continue into early 2023 given weakening economic activity across most regions. Should inflation peak, however, the valuation headwind from rising interest rates could become a tailwind and potentially offer a better environment for the stock market.

Whatever the macroeconomic circumstances, the sub-advisor continues to believe that investors' interests will be best served by owning fundamentally strong and sustainable businesses. Such businesses are likely to benefit from a strong competitive advantage, enabling them to maintain profit margins and respond to change in the business environment. The sub-advisor is therefore focused on stock selection.

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