

RBC International Equity Currency Neutral Fund



Commentary as at December 31, 2022

Stocks on the developed markets of Europe and Asia recorded significant declines during 2022, as most central banks steadily raised interest rates in response to persistently high inflation caused by post-pandemic demand and supply-chain issues. Already high energy prices were exacerbated by Russia's late February invasion of Ukraine, and Europe and the U.S. responded with partial boycotts of oil and natural gas from Russia, one of the world's largest energy producers. Stocks rallied at the start of October on investor speculation that inflation would slow and that rates set by central banks might not rise as much as had been expected. In all, it was the worst year for European and global stocks since 2008 – the year of the financial crisis.

In response to inflation at the highest levels in 40 years, the Bank of England and European Central Bank, the central bank for the eurozone, were both forced into making large interest-rate hikes, lifting them to levels last seen in the years leading up to the 2008 financial crisis. Japanese equities were among the world's best-performing stock markets in 2022, excluding the impact of a falling currency, given solid domestic consumption and the relaxation of restrictions on tourists entering the country.

Central-bank policy and the Russia-Ukraine war are likely to determine the direction of financial markets in the first quarter of 2023. However, with many economies potentially experiencing some level of economic recession during 2023, corporate earnings might supplant those factors as the main predictor of how different areas of the stock market will perform and lead to a more beneficial stock-picking environment.

Japan's economy enters 2023 against a solid economic backdrop, with forecast GDP growth of 1.7% contrasting with GDP declines predicted for the U.S. and Europe. The BOJ surprised investors in December by widening the target range for the 10-year Japanese government bond yield, leading to a sharp rise in 10-year yields.

Looking ahead, the number of tourists arriving in Japan is expected to increase sharply over the next couple of quarters following the lifting of remaining restrictions on foreign visitors. The central bank's most recent business-confidence survey highlighted that companies expect to boost capital expenditures in the areas of decarbonization, digitization and robotics.

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