

RBC European Mid-Cap Equity Fund



Commentary as at December 31, 2022

European equities declined significantly during 2022 in line with most stock markets around the world, as 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.

U.K. equities outperformed those in the Eurozone given that the U.K. relies less on Russian energy and that the U.K. market began the year with lower valuations. These attributes enabled them to shake off some of the U.K. political disarray that resulted in the resignation of two prime ministers in a period of two months.

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.

Mid-cap equities in the stock markets of Portugal, Spain and Belgium were the strongest performers, and Ireland was Europe's worst-performing. Sweden and Germany also performed poorly. At the sector level, Energy and Utilities were the strongest performers, while Real Estate and Information Technology were the worst-performing. The Fund's overweight position in the Industrials sector held back portfolio returns the most, while an underweight position in Real Estate was the largest contributor to relative returns.

Among individual stocks, Edenred, which offers employee incentives and related services for companies, was the biggest contributor to the Fund's performance, and HomeServe, which offers home-repair services, was second. MIPS, the helmet-manufacturing company, held back returns the most.

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.

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