



RBC European Mid-Cap Equity Fund

Commentary as at December 31, 2023

European equities rose during 2023, as investors bet increasingly that central banks were done raising short-term interest rates after almost two years of uncomfortably high inflation appeared to be easing.

Economic growth held up surprisingly well for most of the period, and corporate earnings proved resilient as companies were able to pass on higher costs by boosting retail prices. In the fourth quarter of 2023, however, Europe's economy slowed significantly after the European Central Bank raised its policy rate to 4%, the highest level in 22 years, and the Bank of England increased its policy rate to 5.25%, the highest level since early 2008.

Geopolitics continued to affect markets. The war in Ukraine, while at an apparent stalemate, continued to cost Western countries significant sums and supported firmer commodity prices. Further funding for the war was under threat late in the year after a far-right political party won the most seats in Dutch elections and the leader of Hungary vetoed an aid bill. The war between Israel and Hamas alarmed investors because of its potential to spark a broader regional conflict.

The mid-cap stock markets of Denmark and the UK were the strongest performers, and Belgium was Europe's worst-performing stock market, with Finland and Italy also performing poorly. At the sector level, Information Technology and Real Estate were the strongest performers, while Energy and Materials were the worst performing. The Fund's underweight position in the Real Estate sector held back portfolio returns the most, while an overweight position in Industrials was the largest contributor to relative returns. Among individual stocks, BE Semiconductors, a Dutch chip company, was the biggest contributor to the Fund's performance, and VAT Group, a Swiss maker of equipment used to make semiconductors, ranked second.

Capital markets appear to reflect the belief that central-bank policy-rate increases are over, and that reductions are coming in 2024. There remains, however, every chance that inflation re-emerges and that central banks leave rates in place for longer than is expected. In this context, and with the full impact of higher rates yet to be felt, the next 12 months may bode further headwinds for equities.

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