

RBC U.S. Dividend Currency Neutral Fund



Commentary as at December 31, 2022

Canadian and U.S. stocks tumbled in 2022, fueled by the highest inflation in decades and the concurrent rise in interest rates. Stocks came under pressure after the U.S. Federal Reserve and the Bank of Canada responded to inflation – the fastest in 40 years – with a vow to stamp it out with successive interest-rate hikes. Interest-rate-sensitive stocks were hurt most, resulting in a sell-off in the Information Technology sector in both markets. Meanwhile, a surge in energy prices helped cushion market returns in Canada, which outperformed most other major markets during the year. The drop in the S&P 500 Index was the worst since 2008 – the year of the financial crisis – but only since 2018 for the Canadian benchmark.

The Fund's relative exposure to Tesla, Meta Platforms and ConocoPhillips had the most positive impact on the Fund's returns, while exposure to Berkshire Hathaway, Ford Motor and Walt Disney was negative for performance.

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

The Fund had overweight positions in Elevance Health, CVS Health and AbbVie and underweight positions in Amazon.com, Tesla and Alphabet.

At the sector level, the Fund had overweight exposure to Health Care, Energy and Utilities and underweight exposure to Communication Services, Financials and Information Technology.

Portfolio turnover can be high for the Fund, as the portfolio manager attempts to generate better returns through active security and sector selection.

Uncertainty is elevated and there is a wide range of potential outcomes for the economy and financial markets. The good news for investors is that stocks are now much more reasonably priced than they were at the start of the year. While valuation risk has diminished and long-term return potential has increased, stock prices could still fall in the event that we enter a recession and earnings decline. In the current environment, stock gains could be limited in the near term absent evidence that the economy is cooling adequately to bring down inflation while avoiding a recession.

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