RBC European 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.

The stock markets of Portugal, Denmark and Norway were the strongest performers. Sweden was Europe's worst-performing stock market, with the Netherlands and Ireland also performing poorly. At the sector level, Energy and Financials were the strongest performers, whilst 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 Health Care was the largest contributor to relative returns. Among individual stocks, Novo Nordisk, the pharmaceuticals company, was the biggest contributor to the Fund's performance, and Total Energies, the multinational petroleum company, was second. Barratt Developments, a homebuilder, 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.

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes, as of the date noted only. Discussion of any securities in this report is not a recommendation to buy or sell any specific security, and is subject to change. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document. All opinions constitute our judgment as of the dates indicated, are subject to change without notice and are provided in good faith without legal responsibility. Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed or covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. Mutual fund unit values change frequently. For money market funds, there can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated. RBC Funds, RBC Private Pools, RBC Alternative Funds and PH&N Funds are offered by RBC Global Asset Management Inc. (RBC GAM) and distributed through authorized dealers in Canada.

This document may contain forward-looking statements about a fund or general economic factors which are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.