RBC Global Energy Fund

Commentary as at December 31, 2023

The price of benchmark Brent crude oil declined in 2023 as two years of interest-rate increases spurred concern that slowing economic growth would crimp demand for energy. The price of crude oil started the year at US$85 per barrel and climbed to US$96 in September before retreating. Crude oil ended the year at US$77 per barrel, or 10% below where it started the year.

The strength in crude-oil prices during the first nine months of the year was driven by OPEC and aligned producers ("OPEC+"), which agreed to extend and deepen production cuts to maintain a balance between global supply and demand. At the same time, however, central banks continued to raise interest rates to quell inflation, dampening economic growth. Softening demand for crude oil and record U.S. shale-oil production partially offset the impact of the OPEC+ reductions in output.

The Fund's relative returns were aided by positions in large European energy companies including Shell and TotalEnergies, which benefited from their diversified energy portfolios and a growing global market for liquefied natural gas ("LNG"). The Fund's relative returns were also aided by a position in Cheniere Energy, another producer of LNG.

The Fund's returns were hindered by exposure to lithium exploration and extraction companies including Critical Elements Lithium and Lithium Ionic, which were negatively affected by a decline in lithium prices. The Fund's returns were also limited by exposure to SolarEdge Technologies and Shoals Technologies Group, solar technology companies whose performance was hurt by weak demand for equipment installations.

The willingness of OPEC countries to cut production in response to market conditions continues to help maintain a balance between global supply and demand, but an eventual return to earlier production levels could force crude-oil prices lower. Growing geopolitical conflict reinforces the importance of domestic resources in providing an uninterrupted energy supply, as scarcity of supply could drive commodity prices higher. The portfolio manager continues to favour energy producers that are committed to supporting economic development, reducing their environmental footprint, and building a track record of transparency regarding environmental, social, and governance standards.