RBC European Dividend Fund

Commentary as at December 31, 2021

European equity markets climbed in 2021 as the global economy continued its recovery from the effects of the COVID-19 pandemic. Stocks rose steadily during the first six months of the year given an easing of pandemic-related social restrictions the pursuit by central banks of policies aimed at supporting economic growth. However, equities fell toward the end of 2021after the emergence of a new coronavirus variant and amid concern about rising interest rates in response to inflationary pressures.

Inflation in the eurozone hit 4.9% in November, the highest level since the euro currency was created two decades ago. The increase, driven partly by rising energy prices, put pressure on the European Central Bank to rein in monetary stimulus. The Bank of England, meanwhile, raised interest rates in December, the first time in three years that the U.K. central bank had carried out a rate hike.

The stock markets of Austria, the Netherlands and Norway were Europe's best-performing stocks markets in 2021, and Portugal was the worst, with Spain and Belgium also performing poorly. At the sector level, Information Technology and Energy were the strongest performers, whilst Real Estate and Utilities were the worst-performing. The Fund's underweight position in the Energy sector held back portfolio returns, while performance benefited from Financials-sector exposure that was in line with the benchmark. Among individual stocks, ASM International, a Dutch producer of gear used to manufacture semiconductors, was the biggest contributor to the Fund's performance, and ING Groep a Dutch bank, ranked second. Ubisoft Entertainment, a French gaming-software company, held back returns the most.

The emergence of the Omicron coronavirus variant serves as a reminder to investors that the pandemic remains a powerful influence on both the economy and financial markets. The degree to which governments will feel forced to reintroduce social restrictions is likely to dictate which stocks perform well in the months ahead and which underperform. Another looming issue is how central banks will attempt to control inflation, especially as much of the current inflation seems driven as much by a lack of supply as by excessive demand, the latter of which is the kind of inflation that rate hikes tend to address. Central banks will have to be careful about the pace at which they make adjustments to the winding-up of asset purchases and undertake interest-rate hikes – their two main policy tools for slowing inflation.