

RBC Japanese Equity Fund



Commentary as at December 31, 2022

Japanese equities, excluding the impact of a falling currency, were among the world's best performing stock markets in 2022 given solid domestic consumption and the relaxation of restrictions on tourists entering the country. Also aiding Japan's economy was relatively low inflation, which allowed the country's central bank, the Bank of Japan (the "BOJ"), to keep interest rates lower than those in the U.S. and Europe.

Sector allocation had a negative impact on relative returns due to the portfolio's underweight positions in the Health Care and Utilities sectors, offset somewhat by the positive impact of an above-benchmark allocation to the Energy sector. Returns were aided by security selection in the Energy and Real Estate sectors, offset by weaker security selection in Information Technology.

The top individual contributors to the Fund's performance were Mitsubishi Heavy Industries, a company with exposure to defense equipment and nuclear energy, and Inpex, an oil-exploration and production company that benefited from higher oil prices. Among the stocks that had the most negative impact on returns was Misumi Group, a producer of precision-machinery parts, which was hurt by the semiconductor downturn. For similar reasons, Lasertec, which develops and manufactures inspection systems for semiconductor devices, limited performance.

Japan's economy enters 2023 against a solid economic backdrop, with forecast GDP growth of 1.7% contrasting with GDP declines predicted for the U.S. and Europe. The BOJ surprised investors in December by widening the target range for the 10-year Japanese government bond yield, leading to a sharp rise in 10-year yields.

Looking ahead, the number of tourists arriving in Japan is expected to increase sharply over the next couple of quarters following the lifting of remaining restrictions on foreign visitors. The central bank's most recent business-confidence survey highlighted that companies expect to boost capital expenditures in the areas of decarbonization, digitization and robotics.

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