

# RBC U.S. Small-Cap Core Equity Fund



## Commentary as at December 31, 2022

U.S. equity markets recorded their worst performance since 2008, as concerns about the economic impact of high inflation, rising interest rates, Russia's invasion of Ukraine and continued COVID-related lockdowns in China overshadowed a reasonably strong domestic economic backdrop. Stock prices fell steadily during the first half of the year amid increases in both short- and long-term interest rates, although corporate profits held up well. Growth stocks with high valuations performed especially poorly during the year, as their earnings became less attractive to investors as interest rates climbed. Equity indexes rallied somewhat toward year-end amid speculation that inflation would slow, thereby enabling the U.S. Federal Reserve to decrease the pace of interest-rate increases.

The outperformance over the 12-month period was due to favourable stock selection and sector allocation decisions. Returns from stock selection in Communication Services, Information Technology, and Industrials sectors more than offset the negative impact of stock selection in the Energy and Financials sectors. The portfolio's underweight position in the relatively weak-performing Health Care sector added to relative returns.

Individual stocks that had a positive impact on returns were Lantheus Holdings, Super Micro Computer, and Nexstar Media, while Compass Diversified and Columbus McKinnon had a negative impact.

In today's higher interest-rate environment, stocks of profitable businesses should generally perform better than those of more speculative companies that are not yet profitable. The Fund's holdings offer the opportunity for attractive long-term growth given their stronger current profitability and much more attractive valuations.

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