RBC Global Asset Management

RBC Canadian Corporate Bond Fund

Commentary as at June 30, 2024

Canadian corporate bonds recorded strong gains during the first half of 2024, with most of the returns coming toward the end of the second quarter. Expectations that the Bank of Canada (the “BOC”) would be among the first major central banks to cut interest rates sparked a rally in Canadian fixed income. The BOC reduced its policy rate in early June after it became comfortable that inflation was trending down, and that the economy was losing strength.

Returns during the year benefited largely from exposure to riskier debt, including BBB rated bonds, which outperformed. The Fund’s performance was also enhanced by allocations to preferred shares and U.S. investment-grade debt, while exposure to Government of Canada bonds with a higher sensitivity to changes in interest rates hurt the portfolio’s overall performance.

The Fund’s overall sensitivity to changes in interest rates was kept to a minimum for most of the period. This position had little impact on overall returns.

The extra premium earned on corporate bonds above the yield on government bonds is at its lowest level in two years, suggesting there’s less protection against the impact of a deep economic downturn on profits or a re-acceleration of inflation that forces the BOC to resume raising interest rates.

That said, bond yields look attractive relative to historical levels given the outlook for earnings and balance sheets, and low default rates indicate that a significant downturn is unlikely in the near term. In the event that any economic downturn is deeper than expected, the portfolio manager will reduce the Fund’s exposure to riskier assets. Interest-rate risk will be kept to a minimum.