RBC Core Bond Pool

Commentary as at June 30, 2021

A year into the pandemic, there was a sense that better times lay ahead as the first half of 2021 came to a close. By June, COVID-19 vaccines had reached at least half the population in many developed countries, notably the U.S. and the U.K., and were increasingly gaining traction in other nations, bolstering economic growth. As a result, the U.S. Federal Reserve (the “Fed”) and Bank of Canada (the “BOC”) began to contemplate the potential need to tighten monetary policy.

Government-bond yields rose in most major developed markets during the first half of 2021, leading to declines in major fixed-income indexes. Bond yields climbed as the global economy started to emerge from pandemic lockdowns accompanied by concerns about rising inflation. As a result, the BOC began to pare huge asset-purchase programs aimed at supporting market liquidity and providing monetary stimulus.

Government of Canada bonds delivered their worst first-half return since 1994, underperforming their U.S. counterparts. The strong rebound in the Canadian economy prompted the BOC to further reduce its pace of bond buying to $3 billion per week from $4 billion. Meanwhile, the U.S. Federal Reserve signaled in June that a reduction in its own bond purchases would be forthcoming.

The Fund’s performance was negatively affected by exposure to the RBC Bond Fund, the Phillips, Hager & North Total Return Bond Fund and the RBC Global Bond Fund.

The portfolio manager expects that most major central banks will hold interest rates steady for at least the next 12 months, or until the labor market recovery is more firmly and broadly established. Most central bankers view the current rise in inflation as temporary. Bond yields are therefore likely to be range-bound for the rest of the year as the post-pandemic bumps in growth and inflation are expected to cool.