

RBC Core Bond Pool



Commentary as at June 30, 2024

Canadian bonds posted modest losses in the first half of 2024 as rising fixed-income yields linked to lingering concern about inflation pushed down bond prices. Worries that inflation would persist resulted in the Bank of Canada (the “BOC”) delaying and ultimately lowering its benchmark interest rate just once during a period marked by slowing economic growth, in contrast to the five reductions that had been expected at the start of the year. The drop in the BOC’s policy rate in June, to 4.75% from 5.00%, was the first rate cut since the pandemic, and reflected some comfort among policymakers that inflation would continue coming down in the second half of 2024.

In contrast to Canada, the U.S. continued to report strong economic growth and inflation data that was higher than expected, and policymakers did not cut rates during the period. The U.S. Federal Reserve (the “Fed”) kept interest rates in a range of 5.25% to 5.50% and hinted that inflation would have to come down more for rates to decline.

The Fund’s returns were boosted by exposure to the Bluebay Emerging Markets Corporate Bond Fund, the Phillips, Hager & North High Yield Bond Fund and the RBC Canadian Short-Term Income Fund.

The portfolio manager believes that the BOC will ease monetary policy as the year progresses to help reduce the burden of higher interest rates on household finances. The portfolio manager expects the Fed to start lowering interest rates as soon as it is satisfied that inflation is coming down in a sustainable fashion, likely before the year-end.

The portfolio manager expects the pace of monetary easing to be gradual amid concerns that cutting rates too quickly would weaken the Canadian currency and reignite inflation. As economic growth slows, the portfolio manager expects the extra yield offered by corporate bonds relative to government bonds to increase, offering opportunities to add to holdings of higher-yielding securities.

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