RBC Global Asset Management

RBC Canadian T-Bill Fund

Commentary as at June 30, 2023

The Canadian economy continued to show surprising resilience during the first half of 2023 given a strong labor market, resurgent home sales and robust consumer spending. The strength in demand prompted the Bank of Canada (the "BOC") to resume interest-rate hikes in June after a pause, culminating in a benchmark interest rate of 4.75% that was up from 0.50% in early 2022. The BOC was concerned that the stronger-than-expected economy risked a repeat of 2022, when inflation rose to four-decade high of 6.8%. With consumer inflation still exceeding the BOC's 2 percent target, the central bank indicated that further rate hikes were likely should the economy remain stronger than expected.

The portfolio manager raised the Fund's average term when yields appeared attractive while maintaining the flexibility to take advantage of the possibility that short-term yields would get a boost from further BOC rate hikes. The Fund's core holdings were largely comprised of higher-yielding provincial instruments given their higher yields versus federal money-market paper.

Recent data suggests that inflation is decelerating as supply-chain issues ease and a muted reopening of the Chinese economy depresses crude-oil prices. However, recent economic data has been better in North America. At odds with these indicators are data that suggest individuals and companies in Canada are facing tighter credit conditions, which may act as a headwind to the economy. In this environment, the BOC will have to balance the need to raise rates in the fight against inflation with the negative impact that any rate hikes may have on economic growth. The portfolio manager will continue to seek opportunities to purchase higher-yielding assets when available while managing maturities that would take advantage of further BOC rate hikes.