

RBC Global Bond Fund



Commentary as at June 30, 2025

Government fixed income delivered overall gains in the first half of 2025, as coupon income from bonds issued in the U.S. and China and rising bond prices in emerging markets offset the negative impact of rising interest rates – and falling bond prices – in Europe and Japan. Investors faced challenges ranging from the inflationary and growth effects of U.S. President Trump's extremely high tariffs to the outbreak of war between Israel and Iran in mid-June.

Fixed-income markets remained relatively calm, and the usual flight to safety in government bonds was limited. Instead, investors focused on the monetary and fiscal policies of individual countries. Bond markets including Mexico, Poland and Singapore benefited from central-bank rate cuts, while investors were drawn to the attractive income available in the U.S., UK and Chinese markets. Bond prices in Europe and Japan declined in general as relatively strong economic growth and expectations that inflation would increase pushed up yields.

A key trend during the period was a situation where longer-term bond yields rose faster than short-term yields. This is typical in times where central banks are cutting benchmark interest rates but was amplified by investor demands for higher long-term yields in developed markets given their rising debt levels.

The Fund's performance was supported by an allocation to non-government debt, which provided additional income, and by a willingness to invest as bonds that were falling in April. The Fund's bets on the direction of bond yields had a neutral impact on returns with gains in Canada, Mexico, Europe, Brazil, and Singapore offsetting losses in China and Japan. Currency holdings aided returns, as the Canadian dollar underperformed against most currencies. The largest currency contributions came from exposure to the euro, British pound, Swedish krona, Norwegian krone, Brazilian real and South African rand.

The portfolio manager expects bond yields to drop modestly over the remainder of the year. High uncertainty regarding the economic outlook due to a trade war precipitated by the U.S. means that a wide range of economic outcomes is possible. At this point, central banks are more concerned with ensuring inflation remains on a slowing trajectory. Meanwhile, most governments are supporting higher spending. On balance, policymakers are unlikely to cut interest rates sharply so long as the risk to faster inflation caused by tariffs remains high. The portfolio manager is defensively positioned and therefore well-positioned to take advantage of a financial-market sell-off.

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