RBC Global Asset Management

RBC Canadian Money Market Fund

Commentary as at December 31, 2020

Canadian money markets were thrown into chaos in the first quarter of 2020 when the pandemic arrived in North America, and market yields fell significantly over the period. In response to the health threat, governments shut down large segments of the economy, leading to an unprecedented collapse in output and a plunge in stocks and non-government bonds. The Bank of Canada (the “BOC”), seeking to maintain order in financial markets, cut its benchmark interest rate to an all-time low and, for the first time, bought bonds to support fixed-income markets. Parliament stepped in with generous cash payments to individuals and businesses. Financial markets and the economy stabilized to the point where, by the end of the year, the BOC had scaled back support, and the BOC advised that it did not expect to raise the interest rates that it sets for the next few years.

The rapid decline in yields prompted the portfolio manager to focus on locking in higher yields wherever available by investing in longer-dated securities. This approach required increasing the Fund’s holdings of longer maturities to offset the extremely low yields available in shorter-dated instruments, which dominate the portfolio by virtue of the Fund’s mandate to have cash available on short notice.

The portfolio manager anticipates that Canadian money-market rates will remain exceptionally low until at least 2022, even if the Canadian economy recovers as expected in 2021. Inflation is low and there is room for increased output and employment without the imminent threat of significant price rises. That said, attempts to stimulate economic growth will in the short term take a backseat to managing the pandemic.

There is little room left to cut rates, and the BOC will need to re-accelerate asset purchases should the need arise. Accordingly, Canadian money markets should be quiet and range-bound for the foreseeable future.