

RBC Canadian Money Market Fund



Commentary as at December 31, 2023

Canadian money markets recorded strong returns in 2023 as short-term yields spent the year at their highest levels since 2007. The higher yields resulted from increases in benchmark interest rates by major central banks and meant that short-term fixed income offered better coupon income and returns than longer-term securities. Resilient consumer demand and high housing costs forced the Bank of Canada (the “BOC”) to raise short-term rates three times in 2023, bringing the total number of hikes to 10 since March 2022 and boosting the benchmark rate to 5.00% as of July, up from 0.50% when the rate hikes began. The economy weakened as the year progressed, but inflation was fanned by decades-high levels of immigration, which boosted demand for housing and jobs. Expectations increased in the second half of the year that the slowdown would enable the BOC to begin rolling back rates in 2024.

The portfolio manager increased the average yield of the Fund to a level exceeding the benchmark, locking in yields deemed attractive on the assumption that BOC had completed the current round of rate hikes. The Fund’s holdings consisted mainly of higher-yielding asset-backed commercial paper, which offers a wider range of maturity options. Holdings of commercial paper and provincial paper were increased to help manage the transition away from bankers’ acceptances, which will no longer be issued as of mid-2024. Regulatory liquidity was achieved through the management of maturities as well as holdings in government securities.

Any BOC reductions in benchmark interest rates in 2024 will depend on whether inflation remains under control and degree to which economic growth slows.

Regulators have taken steps that will end the market for bankers’ acceptances (“BA”), a form of short-term paper that used to make up about 20% of the Fund’s assets. The change, which goes into effect at the end of June 2024, will ultimately increase the safety of bank balance sheets by replacing BAs, which usually carry a term of one month, with longer-term securities. Financial products are being developed to replace BAs.

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