# RBC Canadian Money Market Fund

## Commentary as at December 31, 2022

Money-market yields increased in 2022 to their highest levels in 15 years after the Bank of Canada (the "BOC") raised interest rates rapidly in a bid to fight the highest inflation in almost four decades. To tame inflation the BOC embarked on a series of increasingly large interest-rate hikes and reduced bond holdings in actions that tended to restrict economic growth. While some economic indicators began to show weakness as the year progressed, the Canadian economy stayed relatively resilient, and money-market rates moved higher in conjunction with expectations that the BOC would keep raising rates. While inflation indicators in late 2022 suggested that inflation might have peaked, the 6.8% reading in November was still more than triple the BOC's inflation target.

The portfolio manager began 2022 ensuring that the Fund's average maturity remained shorter than the benchmark on expectations that interest rates would escalate through the first half of the year. This approach allowed the Fund to boost income by continually reinvesting at higher yields. Toward the end of the period, the portfolio manager lengthened the term as it became clear that the BOC was nearer to the end of the hiking cycle than the beginning.

Asset-backed commercial paper accounted for at least half of the Fund's assets over the period, as they offered higher yields and more flexibility on maturity dates. Moreover, the supply of newly issued corporate paper remained thin and inconsistent. Regulatory liquidity was satisfied through the holding of a core position in provincial and federal paper.

The approach that central banks take in setting short-term interest rates will continue to determine returns in money markets over the coming year, as investors try to assess how high rates could go and how quickly. The BOC will need to strike a delicate balance between aggressively fighting to bring down inflation at the same time that the risk of a recession rises. The portfolio manager expects interest rates to continue to fluctuate based on the flow of economic data, and will continue to manage the Fund in a way that seeks to lock in higher yields.

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