RBC Balanced Fund

Commentary as at December 31, 2022

In January 2022, interest rates were near record lows and monetary stimulus was unprecedented, helping to lift U.S. stocks to record levels as much of the Western world tried to move on from the pandemic. But Russia's invasion of Ukraine in February helped propel rapidly rising inflation to its highest level in four decades. The response to inflation – a rapid rise in global interest rates – led to the worst year for a U.S. balanced portfolio since 1937 and marked the first time since at least 1872 that both U.S. stocks and U.S. bonds had double-digit declines.

The Fund's overweight position in equities and underweight position in fixed income had a positive impact on performance. Canadian government bonds posted the worst returns since 1980, as central banks in North America and Europe aggressively raised short-term interest rates to fight unacceptably high inflation. In 2022, the Bank of Canada (the "BOC") and the U.S. Federal Reserve (the "Fed") increased short-term interest rates seven times featuring several jumbo-sized increases, and major central banks ended bond purchases that had helped hold down longer-term rates, and started selling bonds. Government of Canada bonds outperformed their U.S. counterparts driven by investors' views that the BOC would stop rate hikes earlier.

Returns in the fixed-income portion of the Fund were held back by the impact of security selection.

Surging inflation and interest rates and rising geopolitical tensions led to the worst year for the S&P 500 Index and global stocks since 2008, with many major equity indexes falling about 20%. Canada's stock benchmark declined much less given its significant exposure to oil and metal prices, which held up well against a backdrop of limited supply.

The portfolio's performance was hurt by security selection in developed markets, offset somewhat by the positive impact of the Fund's allocation to Canadian equities.

The 2022 bear market in both fixed income and equities has meaningfully improved return expectations across all asset classes. The portfolio manager notes that bonds, at today's higher yields, offer more of a cushion in a balanced portfolio should the economy enter a downturn. The portfolio manager believes that a cautious approach to risk taking remains appropriate in this environment, and the asset mix is positioned with a small overweight in stocks and a slight underweight in fixed income given a view that stocks offer superior return potential over the longer term.

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