

## RBC Target 2040 Education 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 40 years. The ensuing 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. Toward the end of 2022, China ended strict COVID lockdowns and mass testing, risking effects that could dent global growth.

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, and major central banks ended bond purchases that had helped hold down longer-term rates, and started selling bonds. By year-end, economic growth and inflation showed signs of falling, although the BOC and the Fed indicated that interest rates would remain elevated until inflation was clearly weakening back toward the 2% target. Government of Canada bonds outperformed their U.S. counterparts.

Surging inflation and interest rates and rising geopolitical tensions led to the worst year for global stocks since 2008. 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. By the end of 2022, inflation appeared to have eased somewhat, prompting speculation that the Fed, the BOC and other developed-market central banks might be in a position to lessen the negative impact of any slowdown with a pause or even decreases in interest rates sometime in 2023.

Economic headwinds resulting largely from tighter monetary policy and reduced fiscal stimulus are creating uncertainty, and there is a wide range of potential outcomes for the economy and financial markets. The 2022 bear market in both fixed income and equities has meaningfully improved return expectations across all asset classes, in the view of the portfolio manager. However, the portfolio manager believes that a cautious approach to risk taking remains appropriate.

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes, as of the date noted only. Discussion of any securities in this report is not a recommendation to buy or sell any specific security, and is subject to change. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document. All opinions constitute our judgment as of the dates indicated, are subject to change without notice and are provided in good faith without legal responsibility. Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed or covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. Mutual fund unit values change frequently. For money market funds, there can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Past performance may not be repeated. RBC Funds, RBC Private Pools, RBC Alternative Funds and PH&N Funds are offered by RBC Global Asset Management Inc. (RBC GAM) and distributed through authorized dealers in Canada.

This document may contain forward-looking statements about a fund or general economic factors which are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.