RBC Global Asset Management

RBC $U.S. Short-Term Government Bond Fund

Commentary as at December 31, 2023

U.S. Fixed income generated gains during 2023 after two years of losses, as an overall decline in yields during the year drove bond prices higher. Market interest rates were influenced by the U.S. Federal Reserve's (the "Fed") aggressive monetary approach. Policymakers combatted historically high inflation by continuing to raise the benchmark fed funds rate, which ended the year at the highest levels since 2000. Meanwhile, the U.S. economy largely shrugged off recession fears, as a robust labor market and resilient consumer spending offset higher borrowing costs. Most of the bond gains came toward year-end on investor expectations that the Fed was done raising rates, and the Fed did signal in December that policy rates had likely peaked.

The Fund's overall return was positively affected by overall higher rates in Treasury-bond yields, providing greater income generation. Additionally, the Fund's relative performance benefited from overweight positions in taxable municipal bonds, federal-agency-backed commercial mortgage-backed securities ("Agency CMBS") and federal government-supported mortgage-backed securities ("Agency MBS"). These sectors provide a yield advantage over comparable Treasury and government-related securities. The yield advantage provides higher income in the Fund relative to the Index.

The sub-advisor will continue efforts to maximize the Fund's yield by focusing on investments such as taxable municipal bonds, Agency CMBS and Agency MBS. The Fund will continue to maintain a portfolio that is not overly susceptible to the impact of interest-rate changes relative to the index.