RBC Global Asset Management

RBC $U.S. Global Balanced Portfolio

Commentary as at June 30, 2021

As containment of COVID-19 improves and economies gradually reopen, considerable pent-up consumer and business demand is being released, and permanent scarring from the pandemic so far appears to be limited. Strong growth, surging corporate profits and investor confidence have helped to extend the bull market and boost global equities to record highs. The S&P 500 Index may currently appear expensive, but it could grow into these elevated valuations fairly quickly as a strengthening economy lifts revenues and earnings. Even so, return potential improves outside North America to regions such as Europe, Japan and emerging markets, all of which offer more attractive valuations.

The portfolio manager's models indicate that the acute valuation risk evident in the sovereign-bond market immediately following the pandemic's declaration was greatly alleviated by the rapid rise in yields over the past year. In the shorter term, the portfolio manager expects the yield on the 10-year U.S. government bond to peak near 1.75% and, as a result, sees low returns for sovereign bonds. In this environment, the portfolio manager believes an overweight in equities is appropriate. That said, the portfolio manager recognizes that U.S. equity valuations are now full and therefore trimmed the equity overweight position by 0.50 percentage point from last quarter, sourced entirely from U.S. equities.