RBC $U.S. Core Plus Bond Pool

Commentary as at December 31, 2024

Global financial markets managed to shake off increasing macroeconomic instability during 2024 as a relatively strong U.S. economy, falling inflation and interest-rate cuts by major central banks helped maintain steady, if not spectacular, growth in the global economy. China's anemic expansion limited economic activity and forced the country's government to implement substantial measures to support sustained growth. Donald Trump's victory in the U.S. presidential election in November set the stage for policies perceived as more shareholder-friendly and new approaches to geopolitical uncertainty.

Government fixed income rose for a second straight year as coupon income was high enough to offset an overall decline in prices amid surging supply. Treasury yields were supported by robust U.S. economic growth, the federal government's rising debt load and a scaling-back of bond buys by the U.S. Federal Reserve (the "Fed"). Inflation was higher in the U.S. than in Europe, where economic growth lagged, and German bonds outperformed as a result. The UK was the only major bond market to record losses, as the fastest inflation among developed markets limited the ability of the central bank to lower interest rates. Corporate, high-yield and emerging-market debt performed strongly as decent growth led to rising prices for non-government fixed income.

Returns in government bonds were more modest than usual during a period when central banks started to lower interest rates in unison. Japan's central bank broke rank with its peers and started to tighten what had been ultra-loose monetary policy to combat several decades during which consumer prices had fallen, and said it intended to gradually raise rates in 2025. Germany, Canada and China, where inflation was less of a concern than in the U.S. and the UK, were the best-performing major bond markets.

The Fund's returns were aided by allocations to the BlueBay $U.S. Global Investment Grade Corporate Bond Fund (Canada), the RBC $U.S. High Yield Bond Fund and the RBC $U.S. Short Term Corporate Bond Fund.

The portfolio manager expects central banks in Canada, Europe and the UK to continue cutting benchmark interest rates in 2025 given subdued economic growth and moderating inflation. However, President-elect Trump's threat to raise U.S. tariffs has kept investors wary of Treasurys, and investors now expect the Fed to reduce rates at a more gradual pace. Holdings in cash and lower-risk securities have positioned the Fund to accumulate attractively priced assets in the event of a sell-off.

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