

## RBC Global Choices Conservative Portfolio



### Commentary as at December 31, 2023

Economic growth in 2023 was faster than many economists had predicted at the beginning of the year, defying risks that included inflation exceeding central-bank targets, the highest borrowing costs in about 16 years and two wars on Europe's doorstep. By the end of the period, growth and inflation had begun to slow, prompting investors to anticipate that central banks were moving closer to rolling back a portion of the rate hikes that had occurred since early 2022.

Bonds recovered to post gains in 2023 as signs of economic slowdown pushed down longer-term yields and triggered the speculation about policy-rate cuts. The lack of a recession made the job of policymakers harder, with fears persisting that lower rates, if they occurred, would rekindle inflation. Canadian government bonds outperformed U.S. fixed income, as the weaker Canadian economy pushed domestic yields down faster than yields on Treasuries. Eurozone government bonds outperformed those in North America and Japan.

A distinguishing characteristic of the U.S. stock-market rally was the small number of issues powering the advance. While the largest seven stocks in the S&P 500 by market value in some cases more than doubled, most stocks lagged significantly. The S&P 500 Index and some benchmarks in Europe reached near-record levels during the period. In emerging markets, China was a significant exception to what was otherwise an upbeat story.

An economic slowdown appears to be underway, with businesses and consumers feeling the drag of higher interest rates and two years of exceptionally high inflation. Global trade is contracting, businesses are scaling back investments and the frenetic hiring of the past two years is waning, albeit gradually. The portfolio manager continues to look for a mild contraction in the U.S., Canada, the UK and the eurozone during the first half of 2024, although pathways to an economic soft landing are evident and the odds of such an outcome are improving as inflation moderates and the cost of borrowing declines.

Against this backdrop, the portfolio manager believes central banks are likely to cut benchmark interest rates over the next year. While the portfolio manager continues to expect stocks to outperform bonds over the longer term, the premium associated with holding equities relative to fixed income is perhaps not properly compensating investors for the risk of an economic downturn. In this environment, the portfolio manager added to the Fund's fixed-income allocation, boosting the bond weight above neutral for the first time in two decades.

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