RBC Global Choices Growth Portfolio

Commentary as at June 30, 2024

The global economy continued to demonstrate resilience in the face of higher-than-expected interest rates and geopolitical concerns. While inflation cooled sufficiently to prompt central-bank rate cuts in Canada and the eurozone, the U.S. Federal Reserve (the “Fed”) delayed rate reductions given that U.S. inflation remained higher than in most other developed countries. The wars in Ukraine and Gaza persisted, with little sign of ending.

Major government-bond markets posted losses in the first half of 2024, paring some of last year’s strong performance as economic growth and inflation stayed generally stronger than anticipated. Investors began 2024 expecting the Fed to cut interest rates at least three times in the first half of the year but were disappointed. The U.S. continued to report relatively strong economic growth and inflation. The Fed kept interest rates in a range of 5.25% to 5.50% and hinted that inflation would have to come down more for rates to decline. In contrast to the U.S., inflation and growth moderated more in the eurozone and Canada, leading to June rate cuts by their central banks. The drop in the Bank of Canada’s policy rate, to 4.75% from 5.00%, was the first rate reduction since the pandemic.

Equity markets climbed to new highs in the second quarter of 2024, although the gains were concentrated in a small group of the biggest technology stocks that have benefited from advances in artificial intelligence. Valuations in equity markets outside of U.S. large-caps were less demanding, meaning global equity markets could offer attractive returns should economic and corporate-profit growth remain positive. Emerging-market stocks continued to underperform their developed-market counterparts.

The portfolio manager’s base case has the economy experiencing a soft landing, inflation falling gradually toward central bankers’ 2% targets and central banks delivering modest monetary easing. Against this backdrop, prospective returns for fixed income appear solid, in the mid-single digits with further upside potential should the economy falter. Stocks still offer superior return potential versus bonds but the upside has been reduced by the latest rally and the equity-risk premium is narrow. Recognizing the improved outlook for bonds and demanding valuations in stocks, as well as the wide range of potential outcomes for the economy and markets, the portfolio manager believes that it is appropriate to maintain a neutral asset allocation. The portfolio manager would consider increasing exposure to stocks should the equity-risk premium widen or if there was a broadening in the equity-market rally beyond mega-cap technology and themes other than AI.

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