RBC Global Very Conservative Portfolio

Commentary as at June 30, 2021

A year into the pandemic, there was a sense that better times lay ahead as the first half of 2021 came to a close. By June, COVID-19 vaccines had reached at least half the population in many developed countries and were gaining traction in others, bolstering growth. The optimism was reflected in rising commodity prices and prompted concerns that inflation would accelerate. As a result, the U.S. Federal Reserve and the Bank of Canada began contemplating the potential need to tighten monetary policy.

Government-bond yields rose in most major developed markets, leading to declines in fixed-income indexes. Bond yields climbed as the global economy started to emerge from pandemic lockdowns. Government of Canada bonds delivered their worst first-half return since 1994, underperforming their U.S. counterparts, and the domestic 10-year federal bond was the second-worst performer among major markets.

Global equities continued their gains, with most major indexes reaching records. The moves extended the portfolio manager's model of global equity-market valuations to its highest level since before the 2008/2009 financial crisis. Canadian stocks outperformed U.S. and global equity indexes given that a significant portion of the domestic market is made up of companies that produce commodities.

As economies reopen, pent-up demand is being released. Strong growth, surging profits and investor confidence have boosted equities to records. The portfolio manager's models indicate that the acute valuation risk in the sovereign-bond market immediately after the pandemic's declaration was alleviated by the past year's rise in yields. In the shorter term, the portfolio manager sees low returns for sovereign bonds and believes an equity overweight is appropriate. That said, the portfolio manager recognizes that U.S. equity valuations are full and trimmed the equity overweight by 0.50 percentage point from last quarter, sourced from U.S. equities.