

RBC Premium Money Market Fund



Commentary as at June 30, 2025

The Bank of Canada (the “BOC”) continued with interest-rate reductions in early 2025 to stimulate a weakening domestic economy, cutting rates in January and March. However, a trade war initiated by U.S. President Donald Trump after his January inauguration created concern that inflation would become as big a problem as faltering growth, and BOC Governor Tiff Macklem therefore opted to halt rate cuts for the rest of the period. The BOC shift and the rising threat of inflation made it difficult for the portfolio manager to invest in longer-term products due to the rising risk that rates would move even higher and have an especially negative impact on prices of longer-term fixed income. Accordingly, the portfolio manager focused on locking in higher yields where available when yields moved higher.

The Fund’s holdings consisted predominantly of asset-backed commercial paper as it offered higher yields and a wider range of maturity options. Regulatory liquidity was achieved through the active management of maturities as well as core holdings in government securities.

The BOC will spend the rest of 2025 navigating between the need to stimulate the economy while at the same time preventing faster inflation. The hope is that the economy will have a chance to get back its footing as the U.S. reaches more trade deals and interest rates come down slowly. In the meantime, the portfolio manager believes that longer-term interest rates should rise relative to short-term rates, creating an environment where investors are again compensated adequately for locking in longer-term money-market rates.

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