RBC Balanced Growth & Income Fund

Commentary as at June 30, 2025

Trade negotiations dominated the direction of financial markets during the first six months of 2025 as early optimism that the Trump administration would focus on deregulating the economy gave way to concern that he would instead implement across-the-board tariffs on U.S. trade partners. The outlook subsequently improved as the U.S. administration reached trade agreements that ensured a worst-case scenario would not unfold. The U.S. Federal Reserve left its benchmark interest rate unchanged in a range between 4.25% and 4.50% as concern that the tariff war would spark inflation outweighed worries that the economy was slowing.

The Fund's overweight position in equities and neutral position in fixed income had a positive impact on performance. Government fixed income delivered overall gains in the first half of 2025, as coupon income from bonds issued in the U.S. and China and rising bond prices in emerging markets offset the negative impact of rising interest rates – and falling bond prices – in Europe and Japan. Canadian bonds delivered minimal returns through the first six months of 2025, as concerns regarding higher-than-expected inflation from U.S. tariffs led investors to demand higher yields on most fixed-income securities. The Bank of Canada cut interest rates twice early in the year, bringing the policy rate down by 2.25 percentage points since June 2024 to 2.75% as of June 30 of this year. Returns in the fixed-income segment were bolstered by exposure to the RBC Global Corporate Bond Fund and the RBC Global High Yield Bond Fund.

U.S. stocks retreated from all-time highs established early in the year after Trump announced his tariffs but then rebounded to finish the period near their highs. In emerging markets, an equity recovery in China, which accounts for about a third of the emerging-market benchmark, bolstered emerging-market equity performance. Performance benefited from holdings in Canadian and emerging-market equities.

Tariffs will exert a substantial drag on economic growth over the second half of 2025, but probably not to the extent of causing a global recession. Considering the short-term risks and the long-term opportunities, the portfolio manager is maintaining an asset allocation that is relatively close to neutral given heightened uncertainty in the macroeconomic backdrop and the portfolio manager's view that the risk premium between stocks and bonds is relatively small. Within the equity regional mix, the portfolio manager has tilted away from expensive U.S. large-cap stocks in favour of non-U.S. stocks, particularly in Europe, where valuations are more appealing.

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