



RBC Strategic Income Bond Fund

Commentary as at June 30, 2025

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. Investors faced challenges ranging from the inflationary and growth effects of U.S. President Trump's extremely high tariffs to the outbreak of war between Israel and Iran in mid-June. A key trend during the period was a situation where longer-term bond yields rose faster than short-term yields. This is typical in times where central banks are cutting benchmark interest rates but was amplified by investor demands for higher long-term yields in developed markets given their rising debt levels.

Canadian bonds delivered minimal returns during the period, as concerns regarding higher-than-expected inflation from the U.S. tariffs led investors to demand higher yields. 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. The Canadian economy showed some momentum in late 2024 and early 2025. However, declining house prices, a soft labour market, and a sharp fall in immigration limited economic activity. In the U.S., relatively strong economic growth continued in the first half of the year, but the gap in yields between the countries' 10-year government bonds narrowed as their growth outlooks began to converge somewhat.

The Fund's returns were bolstered by holdings in the RBC Global High Yield Bond Fund, the RBC Global Corporate Bond Fund and the RBC Emerging Markets Foreign Exchange Fund.

The portfolio manager expects bond yields to drop modestly over the remainder of the year. High uncertainty regarding the economic outlook due to a trade war precipitated by the U.S. means that a wide range of economic outcomes is possible. At this point, central banks are more concerned with ensuring inflation remains on a slowing trajectory. Meanwhile, most governments are supporting higher spending. On balance, policymakers are unlikely to cut interest rates sharply as long as the risk of faster inflation caused by tariffs remains high. The portfolio manager is defensively positioned and therefore well-positioned to take advantage of a financial-market sell-off.

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