RBC Global Asset Management

RBC $U.S. Investment Grade Corporate Bond Fund

Commentary as at December 31, 2023

U.S. fixed income generated gains during 2023 after two years of losses, as an overall decline in yields during the year drove bond prices higher. Market interest rates were influenced by the U.S. Federal Reserve's (the "Fed") aggressive monetary approach. Policymakers combatted historically high inflation by continuing to raise the benchmark fed funds rate, which ended the year at the highest levels since 2000. Meanwhile, the U.S. economy largely shrugged off recession fears, as a robust labor market and resilient consumer spending offset higher borrowing costs. Most of the bond gains came toward year-end on investor expectations that the Fed was done raising rates, and the Fed did signal in December that policy rates had likely peaked. The additional yield that investors require to hold corporate bonds over comparable Treasuries declined during the year which also contributed to the Fund's returns.

The Fund's relative performance benefited from security selection, particularly in the Consumer Staples, Information Technology and Communication Services sectors. The Fund also benefited from an overweight allocation to lower-quality, BBB rated, issuers, which outperformed higher-quality issuers. Conversely, security selection in the Financials sector limited the portfolio's performance.

The sub-advisor does not anticipate any significant changes to the Fund's positioning for 2024. The Fund continues to favour large companies with a domestic focus and that operate in industries that are less sensitive to changes in the rate of economic growth. The Fund remains overweight in areas where regulations are favourable to bondholders, including Utilities, Telecommunications companies, and Banks.

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