RBC Global Balanced Fund

Commentary as at December 31, 2022

Stocks and bonds recorded their worst combined performance since the 1930s, as the impact of fast-rising bond yields due to high inflation sideswiped financial markets. The rapid rise in global interest rates led to the worst year for a U.S. balanced portfolio since 1937 and marked the first time since at least 1872 that both U.S. stocks and U.S. bonds had double-digit declines. Fixed income had historically provided a buffer against significant stock declines, even during the inflationary period of the 1970s. In 2022, however, record low interest rates heading into an inflationary period virtually guaranteed that fast inflation would have a negative effect on almost all financial markets. Stocks outperformed bonds in some regions, including Canada, given its exposure to higher commodity prices.

Short-term interest rates climbed more than those on longer maturities. On a total-return basis however, longer maturities had bigger declines over the year as their coupons were not high enough to make up for a smaller decline in prices. Investors were betting against the ability of central banks to keep short-term rates high over the intermediate to long term. The Canadian dollar weakened in the second half of the year on worries that Canada would suffer disproportionately in a recession due to the impact of rising interest rates on the country's inflated housing market.

The Fund's performance relative to benchmark was helped by an underweight position in bonds and small holdings in cash and real estate. The real estate holding consisted of a position in the RBC Core Real Estate Fund, whose holdings are diversified among office, industrial and multi-unit residential property. Partially offsetting these positives was the underperformance of stock holdings in the developed markets of Europe and Asia. The Fund ended the year with a slight overweight position in equities and a slight underweight allocation to bonds, and a small amount of cash.

Little has changed from the outlook provided in June, starting with the widespread belief among investors that a recession will arrive sometime in 2023. The coming year could be a decent one for investors, in the view of the portfolio manager, assuming that any recession is shallow and that a reduction in inflation enables central banks to pause or even start cutting rates. It appears that investors have priced in most of any further central-bank tightening, in the portfolio manager's view.