RBC Global Balanced Fund

Commentary as at December 31, 2023

Many investors entered 2023 pessimistic about the outlook for the economy and company earnings, and expectations that a recession would arrive were high. The negative scenario did not unfold, however, and stock markets were generally able to deliver decent returns, especially in the U.S. Some of the gains occurred in the first half of the year, but returns were especially strong toward the end of the year amid optimism that interest rates had peaked. After the U.S., stock markets in the developed countries of Europe and Asia delivered the best returns, followed by Canada and emerging markets. The advent of commercialized artificial intelligence ("AI") provided an unexpected boost for stock markets in the U.S., where the leaders in AI development are mostly located.

Interest rates on sovereign bonds peaked in October and began to head lower ahead of central-bank, signaling that rates were headed down. Returns on global bonds were close to the those available on cash, which in North America offered the highest returns since 2000. Non-government bonds fared relatively well, as the strong economy reassured investors that companies would be able to continue servicing their debts.

The Fund's returns relative to its benchmark were hurt by the underperformance of the portfolio's U.S equity holdings. The U.S. equity benchmark performed particularly well during 2023, with a small number of AI-related stocks driving its gain. The relative weakness in the U.S. was largely offset, however, by the outperformance of the Fund's holdings in emerging-market equities and bonds. During the year, money was drawn from stocks and the proceeds were used to purchase bonds. At the end of 2023, the Fund had a small overweight allocation to bonds, a small underweight of cash, and a neutral setting in stocks.

In contrast to the start of 2023, investors are generally optimistic about the outlook for 2024. Investors are perhaps, a bit too optimistic in the view of the portfolio manager, given that almost two years of interest-rate hikes will continue to dampen economic activity. The prospect of a contentious U.S. election and continued geopolitical risks therefore make it difficult at this point for the portfolio manager to advocate for raising exposure to stocks. Alternatives to stocks are at their most attractive setting in years, with government bonds offering alluring nominal rates as inflation subsides and value as a hedge against a possible recession and its corresponding negative impact on stocks.