

RBC Select Choices Growth Portfolio



Commentary as at December 31, 2024

Global financial markets managed to shake off increasing macroeconomic instability during 2024 as a relatively strong U.S. economy, falling inflation and interest-rate cuts by major central banks helped maintain steady, if not spectacular, growth in the global economy. China's anemic expansion limited economic activity and forced the country's government to implement substantial measures to support sustained growth. Donald Trump's victory in the U.S. presidential election in November set the stage for policies perceived as more shareholder-friendly and new approaches to geopolitical uncertainty.

Government fixed income rose for a second straight year as coupon income was high enough to offset an overall decline in prices amid surging supply. Treasury yields rose on robust U.S. economic growth, the federal government's rising debt load and a scaling-back of bond buys by the U.S. Federal Reserve. Inflation in the U.S. was higher than in Europe, where economic growth lagged, and German bonds outperformed as a result. Corporate, high-yield and emerging-market debt performed strongly, with decent growth leading to rising prices for non-government bonds. Canadian bonds outperformed U.S. fixed income as the Bank of Canada (the "BOC") cut interest rates in response to significant domestic economic weakness.

Global equities delivered impressive gains in the past year, with the strongest returns generated by U.S. mega-cap technology stocks, but gains began to broaden in the summer as other areas posted strong returns. International markets underperformed, particularly after the U.S. election, given that Trump's policy proposals favour domestic growth at the expense of international and emerging-market economies. Emerging-market equities posted attractive returns in 2024, with stock indexes in Taiwan and South Korea benefiting from exposure to advances in artificial intelligence, and Chinese markets rallied to their best performance since 2020 after the government announced aggressive stimulus plans to bolster lacklustre economic growth.

The economy has stabilized as concern about inflation moderates and headwinds created by higher borrowing costs fade amid interest-rate cuts, and the portfolio manager expects the U.S. economy to continue expanding modestly. The portfolio manager added one percentage point to the fixed-income position in the fourth quarter of 2024 as bond yields jumped above 4%, bringing the bond holding to neutral. As a result, the Fund has a neutral setting across asset classes, allowing the portfolio manager to take advantage of any market volatility that arises.

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