RBC Global High Yield Bond Fund

Commentary as at December 31, 2022

U.S. high-yield and emerging-market bonds performed poorly in 2022 as much higher U.S.-government interest rates and the highest inflation in decades darkened the economic outlook. The high inflation, fueled mostly by rising commodity prices, low unemployment and disruptions in the supply of goods, led the U.S. Federal Reserve (the "Fed") and other central banks to quickly raise short-term interest rates, pushing longer-term rates higher and bond prices lower. Both high-yield-corporate and emerging-market-government bonds recorded significant losses, with emerging markets underperforming given their higher sensitivity to increases in government interest rates. Russia's invasion of Ukraine, China's unforgiving COVID restrictions for much of the year and fears of a recession in 2023 also limited returns on riskier securities.

The Fund outperformed its benchmark in 2022 aided by a higher-than-normal cash balance and strong emerging-market security selection due to underweight positions in Russia, Belarus, Sri Lanka and Pakistan. Also helping performance were investments in high U.S. high-yield areas such as telecommunications, energy and media. The Fund's allocations to Ukraine and high-yield areas such as banking, retail and packaging hurt results, as did holdings in longer-dated high-yield bonds and limited resource capital notes (Canadian-bank-issued securities that share traits of bonds and preferred shares).

The Fund's higher-than-benchmark allocation to emerging-market bonds relative to U.S. high yield hurt results, given that emerging-market bonds typically have longer maturities, making them more sensitive to rising interest rates.

While inflation remains at historically high levels, the portfolio manager believes that inflation could peak sometime in 2023 and bring the Fed closer to pausing interest-rate hikes. Given the magnitude of rate hikes in 2022, there is concern that the economy could fall into a recession, a scenario that would likely result in lower interest rates.

The portfolio manager will continue to hold an overweight position in emerging-market government bonds relative to U.S. high-yield corporate bonds given the more attractive valuations of emerging-market bonds. The portfolio manager remains cautious on the outlook for U.S. high-yield bonds given a likely slowdown in economic growth and a rising risk of defaults.