RBC Global High Yield Bond Fund

Commentary as at December 31, 2023

U.S. high-yield corporate and emerging-market government bonds delivered gains in 2023, supported by a stronger-than-expected economy, increasing confidence that the U.S. Federal Reserve (the “Fed”) might soon start considering interest-rate cuts and a modest supply of new high-yield bonds. The reaction of investors to the possibility of lower rates in 2024 was reflected in falling bond yields and a drop in the premium required to hold the kind of riskier bonds held by the Fund. Returns were particularly solid in the last quarter of 2023, masking the fluctuations that prevailed through much of the year amid predictions of a U.S. recession, disappointing Chinese economic growth and the outbreak of war in the Middle East.

Bonds issued by riskier CCC rated high-yield issuers and emerging-market governments benefited the most as the market began to price in an environment of lower interest rates in the year ahead. The move higher in bond prices reflected investors’ view that the high interest burden for both high-yield and emerging-market issuers may receive a reprieve in coming months as lower market yields begin to translate into lower borrowing costs.

The Fund outperformed its benchmark during the period, aided by emerging-market exposure to countries such as El Salvador, the Dominican Republic, Argentina and Nigeria. Also helping returns were the Fund’s position in cruise lines and cinemas, which benefited from strong consumer demand for travel and spending on experiences. Overweight positions in energy companies also benefited the Fund as energy prices recovered in the third quarter. In contrast, the Fund’s below-benchmark exposure to bonds with high sensitivity to changes in U.S. interest rates such as the ones issued by Poland, Chile and China, hurt relative performance given that yields on U.S. Treasurys fell significantly in late 2023.

Valuations of U.S. high-yield-corporate and emerging-market government bonds now seem stretched after the significant move higher in prices, limiting the potential for gains in the first half of 2024. The portfolio manager remains cautious about the economic outlook, and bonds of companies that have recorded disappointing earnings in recent months have fallen.

The economic climate means that the portfolio manager is also maintaining a guarded view of the potential for emerging-market government bonds. However, the portfolio manager is maintaining an overweight position in emerging-market fixed income relative to high-yield corporate bonds as any economic weakness is likely to translate into falling U.S. interest rates.