RBC Global Corporate Bond Fund

Commentary as at June 30, 2025

The Fund's performance came as the U.S. economy stayed relatively resilient in the face of U.S. President Donald Trump's plan to impose extremely high tariffs, which tend to be inflationary. The threat of higher inflation prompted the U.S. Federal Reserve (the "Fed") to keep interest rates on hold in the first half of 2025 after several reductions in 2024. Strong demand for investments offering higher income than government bonds further bolstered returns.

The Fund's relative performance was aided by exposure to bonds issued by countries outside the Pacific Rim, as Japan was among the countries that underperformed. The portfolio manager also took advantage of opportunities to increase exposure to high-yield U.S. corporate and high-yield emerging-market bonds during a brief sell-off in April, and these investments contributed to returns.

In Canada, corporate bonds delivered strong results, aided by Bank of Canada rate cuts. The Fund benefited from higher exposure to riskier bonds in the areas of telecommunications, pipelines and real estate, as well as an allocation to preferred shares. In Europe, the macroeconomic backdrop remained stable, and the outlook was supported by government-spending announcements in Germany and rate cuts by the European Central Bank. The Fund benefited from a decision to increase exposure to riskier European issuers during the April sell-off. The Fund's high-yield allocation benefited from investments in airlines and capital goods, offsetting positions in an Energy sector hurt by falling oil prices.

The Fund's emerging-market allocation performed well, benefiting from stabilization in China's economy and expectations of Fed rate cuts. Riskier countries outperformed, but geopolitical risks, particularly in Turkey and the Middle East, added to volatility. The Fund benefited from a preference for high-yielding issuers like Egypt, Ghana, Ecuador and Pemex, Mexico's state-controlled oil company.

The portfolio manager believes the excess yield earned on corporate bonds, which is at historically low levels, offers modest compensation for the current macroeconomic uncertainty. Investors will need to navigate the trade war initiated by the U.S., leading to the possibility of a wide range of economic outcomes. At this point, central banks are focused on ensuring that inflation continues to slow. Meanwhile, most governments are prioritizing spending, making it unlikely that central bankers will sharply cut interest rates as long as the risk of faster inflation remains high. The portfolio manager is defensively positioned and therefore well-positioned to take advantage of a financial-market sell-off.

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