Commentary as at March 31, 2020

The severe economic and humanitarian ramifications of the global coronavirus outbreak became clear in the first quarter of 2020. By late January, the disease had spread to Europe and North America from Asia, and by the end of March resulted in hundreds of thousands of infections and tens of thousands of deaths. Stay-at-home orders damaged the global economy, leading governments to announce extraordinary financial support for companies and individuals.

The Fund’s overweight position in equities and underweight position in fixed income had a neutral impact on performance. Government bonds posted their best quarter since the 2008 financial crisis, as soaring demand for investments perceived to offer a degree of safety pulled yields down to all-time lows. Returns in the fixed-income segment of the portfolio were held back by the RBC Global High Yield Bond Fund and the RBC Global Corporate Bond Fund.

The S&P 500 Index had its worst quarterly performance in 12 years and the Dow Jones Industrials Average fell the most in more than three decades on expectations that the coronavirus crisis would severely impact short-term economic growth. Canadian stocks also fell significantly, following the sell-off in oil and other natural resources. Returns were held back by the RBC Canadian Dividend Fund and the RBC Canadian Equity Income Fund.

This period of massive disruption has offered opportunities to selectively acquire risk assets at prices that will improve long-term outcomes for patient, disciplined investors. Prior to the coronavirus outbreak, we had trimmed our equity allocation on concern about stretched valuations and excessive investor optimism. The plunge in bond yields has boosted the attractiveness of stocks versus bonds to its most appealing in many years, and we added back one percentage point to our equity allocation, sourcing the funds from fixed income.
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