



## RBC Target 2025 Education Fund

### Commentary as at December 31, 2021

The coronavirus was less disruptive to the global economy in 2021 than in 2020, with vaccinations leading to widespread economic re-openings by June. Canada was bolstered by rising oil prices until its economy reopened later in the summer. By the end of 2021, emerging markets had made progress with inoculations, but the late-year rise of a more transmissible COVID-19 variant had businesses returning to at least partial lockdowns.

Government bonds in most major markets had losses in 2021 after fixed-income yields surged from the record-low levels of 2020. The decline in the Canadian bond benchmark was the first since 2013 and was caused mainly by an overall rise in long-term yields due to expectations that inflation would climb in response to faster economic growth and supply-chain bottlenecks. In the second half of 2021, inflation in many regions surged to the fastest pace in decades, prompting the U.S. Federal Reserve (the “Fed”) and some other central banks to abandon its narrative that inflation would be temporary. Stocks in many developed markets recorded extremely attractive returns. Emerging markets, however, registered losses, mainly because of the underperformance of Chinese stock markets. Even with the arrival of the latest coronavirus variant at year-end, many stock markets traded near record highs on optimism that 2022 would be the year that the coronavirus began to fade.

Economic conditions and growth forecasts remain good by historical standards, but have moderated amid headwinds from the new coronavirus variant, the highest inflation in decades, supply-chain challenges and less monetary and fiscal support. Valuations for non-government bonds are near historical highs, leading the portfolio manager to believe that a more cautious investment approach is warranted. Against the current backdrop of strong economic growth and high inflation, the portfolio manager expects that several major central banks will raise interest rates over the next year. Bond yields should gradually increase over 2022, but returns will be modest and insufficient to offset the impact of inflation. Stocks continue to offer the potential for better returns in today’s environment of low interest rates, especially if earnings growth remains solid and investors remain optimistic.

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