RBC Global Asset Management

BlueBay Global Investment Grade Corporate Bond Fund (Canada)

Commentary as at June 30, 2025

The Fund recorded gains over the period as falling U.S. yields pushed up bond prices while in Europe, corporate bonds outperformed government fixed-income securities. The attractive carry, or interest income, boosted portfolio returns. Fluctuations in Treasuries and German bunds were fuelled by global growth uncertainty and the U.S. administration's new tariffs, which heightened inflation fears and increased the odds that interest-rate cuts would be delayed. European governments, led by Germany, introduced large-scale fiscal packages to address security threats and boost defence spending, further influencing bond markets.

The Fund's underweight allocation to U.S. Treasuries had a negative impact on relative performance as yields declined slightly, while a lack of exposure to short-dated German bunds also cost relative performance, particularly in April. U.S. corporate bonds modestly underperformed their European counterparts, as investors judged European securities to be less risky amid concern about U.S. trade policy and strengthening economic growth in Europe. The Fund's overweight position in European corporate bonds contributed to returns, with strong performance in banks, particularly bonds from Citigroup, Barclays and Deutsche Bank. Additionally, a position in Charter Communications benefited from the company's merger discussions with Cox Media. Offsetting some of the gains were protective contracts designed to shield unitholders during market downturns, and a short position in the U.S. dollar, which held back performance.

The U.S. administration's fiscal policies are expected to lower economic growth to around 1.5% over the next 18 months, while rising long-dated yields remain a concern as higher borrowing costs put greater strain on U.S. finances. In Europe, increased fiscal spending on defence and infrastructure is projected to boost the economy, with inflation likely staying below 2% and creating room for the European Central Bank to cut rates to a forecast 1.75% by year-end. The Bank of Japan (the "BOJ") is likely to limit interest-rate increases as slowing global growth offsets the impact of inflation and wages that are exceeding the BOJ's 2% target. However, with the yen weakening against the U.S. dollar, there is a growing case for a rate hike at the BOJ's July meeting.

The portfolio manager maintains a defensive approach to corporate bonds, favouring higher-quality securities and avoiding areas exposed to political risk or macroeconomic uncertainty. Liquidity, a measure of how easy it is to trade a security, remains a priority. The goal is to provide stable returns during a period of heightened macroeconomic uncertainty.