RBC Global Asset Management

RBC Global Portfolios
A three-year review

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It has been three years since we launched the RBC Global Portfolios. Looking back, many would agree that it has been an eventful few years, from the COVID-19 pandemic upending global economies in 2020, to the surprisingly strong recovery from the COVID-19 lows, to financial markets experiencing one of the worst starts to the year so far in 2022. While this period has certainly tested the resilience of the portfolios, we continue to believe that taking a globally diversified approach is key to achieving investment success over the long-term.

Canadian investors tend to hold the majority of their wealth within their own domestic market, with the average Canadian holding only 10%[1] of their assets outside of Canada. This home-country bias can work well over shorter-term periods when Canadian markets are outperforming the rest of the world, but in the long run it can increase volatility and limit the return potential of portfolios.

We had this challenge in mind when we were constructing the RBC Global Portfolios. Our goal was to help Canadian investors achieve their long-term financial goals by providing a globally diversified, multi-asset solution that can reduce the home-country bias in their portfolios. The solutions benefit investors by:

1 Offering true global exposure
Bring together our strong global equity and global fixed income capabilities into truly global solutions that have very little exposure to Canadian securities.

2 Leveraging our global expertise
Our investment teams are located in key markets across the globe, bringing a combination of broad global perspective and deep local experience to the portfolios.

3 Tactically managing the asset mix
With over 35 years of experience building and managing multi-asset solutions, we have developed the expertise to tactically adjust the portfolios and add incremental returns as global economic conditions and financial markets change.

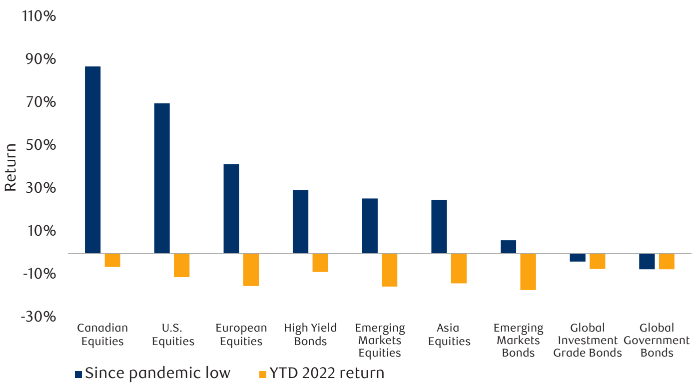
[1] Source: Investor Economics Household Balance Sheet Report 2019, data as of December 2018

Performance review

Global financial markets have endured meaningful volatility in the three years since we launched the portfolios. While economic growth recovered from the pandemic lows of 2020, leading many major financial markets to reach new highs in early 2021, significant economic and geopolitical turmoil and massive changes in interest rates, bond yields, credit spreads and equity valuations have led to broad-based corrections in both fixed income and equities in recent months.

Cumulative asset returns

Since pandemic low vs. year-to-date 2022



Note: Data as of Aug 9, 2022. Starting date used for pandemic low was March 23, 2020. YTD 2022 (Dec 31, 2021 to Aug 9, 2022). Canadian Equities = S&P/TSX Composite Index, U.S. Equities = S&P 500 Index CAD, European Equities = MSCI Europe Index CAD, High Yield Bonds = BoAML US HY Index (CAD Hedged), Emerging Markets Equities = MSCI Emerging Markets Index CAD, Asia Equities = MSCI AC Pacific Index CAD, Emerging Markets Bonds = J.P. Morgan EMBI Global Diversified CADH, Global Investment Grade Bonds = Bloomberg Global Aggregate Index USD Hedged, Global Government Bonds = FTSE WGBI Index CAD$ Hedged. Source: RBC GAM

Although performance has been challenged across global markets so far this year, the recent period hasn't detracted meaningfully from the longer-term performance of the portfolios. The rebound off the COVID lows produced superior returns and saw global equities outperform Canadian equities into the latter part of 2021, which benefitted the portfolios because of their greater international exposure.

More recently, tailwinds that had supported the rebound off the pandemic lows quickly became headwinds as central banks acknowledged the need for tighter monetary conditions to combat problematically high inflation. Central bank policy pivoted and an aggressive tightening cycle began, dramatically steepening the expected path for short-term rates. Valuations in both stocks and bonds experienced a swift and harsh reset, logging their worst six-month return in decades.

As global equity markets fell over the period, driven by inflation fears and rising rates, the resource heavy Canadian stock market declined less due to support from higher commodity and oil prices stemming from the ongoing Russia/Ukraine conflict. However, over the past few months, we have seen this trend reverse as commodity prices have begun to normalize in the face of slowing economic growth.

RBC Global Portfolios

Performance (%)

	YTD	1 year	2 year	3 year	Since Inception	2021	2020	2019[1]
RBC Global Very Conservative Portfolio	-10.0	-9.9	-1.9	1.5	1.6	2.3	10.4	3.1
RBC Global Conservative Portfolio	-10.6	-9.9	-0.2	3.3	3.0	4.9	12.6	3.5
RBC Global Balanced Portfolio	-11.6	-10.1	2.0	5.6	4.8	8.5	15.2	4.4
RBC Global Growth Portfolio	-12.3	-10.3	3.6	7.3	6.2	11.2	17.4	5.3
RBC Global All-Equity Portfolio	-13.3	-10.5	5.9	9.8	8.4	15.0	20.3	6.8

[1] Performance from launch date of July 15 to December 31, 2019. Performance for Series F as of August 12, 2022. The indicated rates of return are the historical annual compounded total returns for the period stated.
Source: RBC GAM, Morningstar

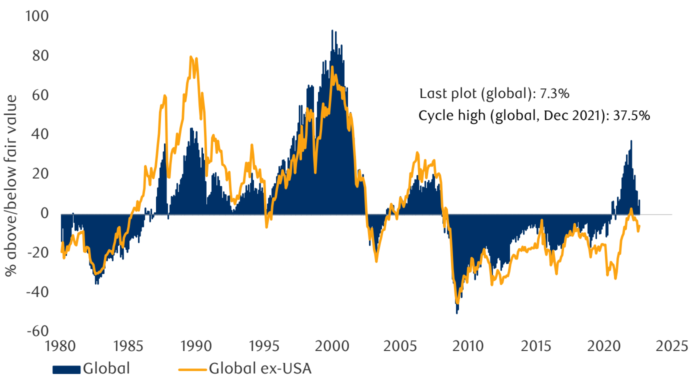
Looking forward

While the near term has certainly been a painful period for investors and we don't want to minimize the impact that it has had, the silver lining is that it has corrected some of the valuation excesses in the market and *improved our long-term return expectations.*

Within fixed income, the bond sell-off has been intense so far this year, but valuation risk has been significantly reduced and yields are now at much more reasonable levels. The starting point of higher yields and wider spreads has improved the forward looking return estimates for bonds. We are now expecting low to mid-single digit returns on sovereign bonds over the next decade.

Much like bonds, the recent sell-off in equities has also boosted their return potential over the longer term. We are now looking for mid-single digit returns for U.S. equities and higher returns for regions outside of the U.S. where valuations are relatively more attractive. That said, it is worth noting that near-term challenges still exist given the rising risk of recession and uncertainty around the outlook for corporate profits. In a recessionary scenario, stocks could experience more weakness over the near term. However, when taken in the context of a longer-term view, sell-offs tend to lower valuations creating the conditions for improved return-potential going forward.

Global stock market composite
Equity market indices relative to equilibrium



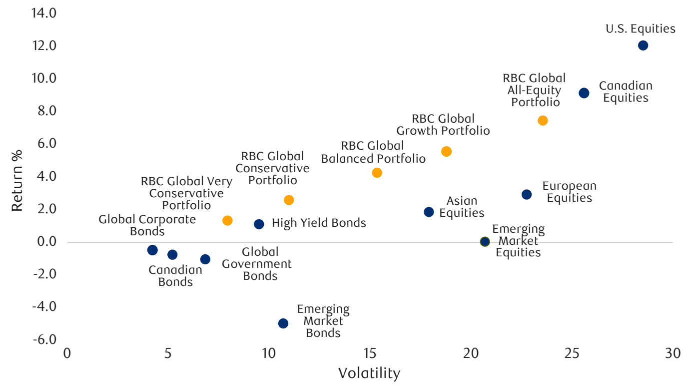
Note: As of July 27, 2022. Source: RBC GAM

A global approach remains key for Canadians

As the past six months have shown, markets are unpredictable and risks can surface quickly and unexpectedly. It is often difficult to foresee these developments in advance, so taking a globally diversified approach will help to mitigate the impact of these events on portfolio returns over the long-run.

While there may be shorter-term periods when a global approach does not perform as well, history has shown that a well-diversified portfolio invested in a variety of geographically diverse asset classes can deliver better risk-adjusted returns over time. That is because risks are spread across multiple markets so that the performance of a single investment cannot have an outsized impact on portfolio returns. While this might mean that you have to give up some performance on the upside, it helps to minimize your downside and keeps you invested through short-term market declines like the one that we just experienced.

Global diversification can increase return potential while lowering volatility



Note: Data as of July 15, 2019 to July 31, 2022. Global Corporate Bonds = Bloomberg Global Aggregate Index (Hedged), Global Government Bonds = FTSE WGBI Index (Hedged), Canadian Bonds = FTSE Canada Universe Bond Index, High Yield Bonds = ICE BofA US HY Constnd TR Index (Hedged), Emerging Market Bonds = JPM EMBI Global Diversified Index (Hedged), Canadian Equities = S&P/TSX Composite Index, U.S. Equities = S&P 500 Index, European Equities = MSCI Europe Index, Asian Equities = MSCI AC Asia Pacific Index, Emerging Markets Equities = MSCI EM Index. An investment cannot be made directly into an index. Past performance is not a guarantee of future results. Series F performance shown for RBC Global Portfolios. All performance in CAD. Source: RBC GAM, Morningstar

Canada only represents 3% of global capital markets, so a globally focused approach taps into the other 97% of the world's available investment opportunities. This improves diversification, which ultimately leads to a smoother investment experience over time.

For investors looking to diversify their holdings globally and reduce the home country bias in their portfolios, we believe the RBC Global Portfolios remain an attractive option.

Disclosure

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