

# Insights

## RBC Retirement Portfolios

Winter 2023



116751 (01/2023)



## Reviewing 2022 and looking ahead to 2023

Movies can leave a significant impression on audiences. They can delight, scare, surprise and everything in between. Similarly, the twists and turns in financial markets can send investor emotions into a variety of directions. This quarter we review how markets moved in 2022 and provide an outlook for what may be ahead.

### Scenes from last year

Bond yields moved up dramatically



War in Ukraine drove commodity prices up



Energy crisis takes hold in Europe



Central banks began interest rate hikes



Inflation hit record highs

U.K. political turmoil



China's ongoing battle with COVID



Looking for more investment insights?

Subscribe today to receive the latest market insights from our thought leaders directly in your inbox. To learn more, please visit: [rbcgam.com/insights](https://rbcgam.com/insights)

# Uncovering opportunities as markets evolve

Market pullbacks can be likened to the unpleasant part of a movie. Market recoveries, however, can be the cheerful part of the film. While each stage of the market cycle has a distinct story and duration, every one unlocks unique opportunities.

## 2022: An unusual performance

Market turbulence is not new. However, it is rare for both bond and equity markets to weaken at the same time. The last time both bond and equity markets were negative for a full calendar year was more than 50 years ago in 1969.

Calendar years when bonds and equities were both down in past 50 years		
Year	Bonds <sup>1</sup>	Equities <sup>1</sup>
1969	-5.0%	-8.5%
2022	-16.4%	-18.1%

Outside of 2022, in the past 50 years...

The number of calendar years bonds have fallen more than -16%<sup>1</sup>

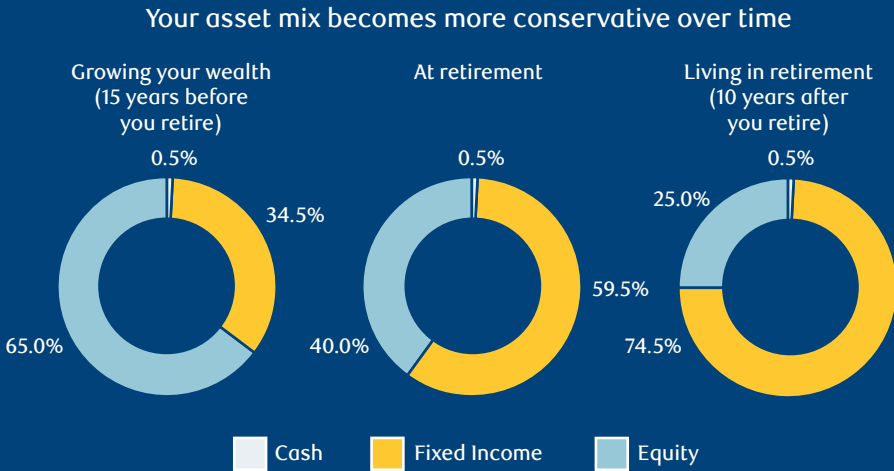
0

The number of calendar years stocks have fallen more than -18%<sup>1</sup>

3

### A clear path to navigate challenging times

Over the course of your saving years, markets can go through many ups and downs. No matter where you might be on your path to retirement, we aim to keep your portfolio optimally positioned each step of the way to help you achieve your goals. The higher allocation to equities in the earlier years provides growth, while the steady transition to a more income-oriented asset mix in the later years preserves your wealth as you approach your target date.



<sup>1</sup> Source: Robert J. Shiller, RBC Global Asset Management (RBC GAM). As of December 2022. Bonds represented by U.S. 10-Year Treasury; Stocks represented by S&P 500 Total Return Index (USD).



## 2023: Under production

Just as movies can keep you guessing as to what's next, financial market fluctuations can leave investors on the edge of their seats. When we determine how to position your portfolio, we analyze the many different factors impacting the economy, and their effect on various asset classes. Here are some possible paths forward for the world's largest equity market based on the outlook for company earnings.

### Wide range of potential outcomes for U.S. markets



Source: RBC GAM. Data from January 1, 2019 to December 15, 2022. Last price: 3,896. Outcomes based on different price to earnings and earnings per share projections.

### It's all about expectations

Markets are forward looking, and expectations of future earnings influence prices. Earnings can be impacted by a number of forces including inflation and interest rates. Assessing the impact market forces may have on earnings can provide clues about economic health, and the growth of your investments.

- The base case assumes earnings meet analyst expectations, staying in line with current projections for inflation and the path of interest rates. In this case, equities move up slightly.
- The optimistic case considers earnings coming in 5% better than expected. This case assumes inflation will subside precipitously and profits will hold up well, sending markets higher.
- The recessionary case looks at earnings coming in 25% below current expectations, as is the average decline during recessions. This case assumes inflation is more persistent than thought, and interest rates have to move higher than current estimates.

Given the uncertainty in the markets, there is an unusually wide range of ways the future can unfold. Your portfolio is designed to be resilient through a variety of conditions. The gradual change to a more conservative asset mix over time provides protection in the case of downturns, but the slight exposure to equities keeps the door open to benefitting from market recoveries and ensuring the longevity of your assets.



## Stay tuned...

The factors around this pullback are different than previous times. However, it can be comforting to know that historically some of the strongest returns have followed tough periods. Although the timing of the bounce-back is unpredictable, it can be swift and have a lasting impact on your portfolio's performance. We consider a wide range of scenarios so we can keep your portfolio well-positioned at all times, including when markets eventually rebound.

For more on RBC GAM's view on the ever-evolving investing environment, please see our New Year 2023 Global Investment Outlook.

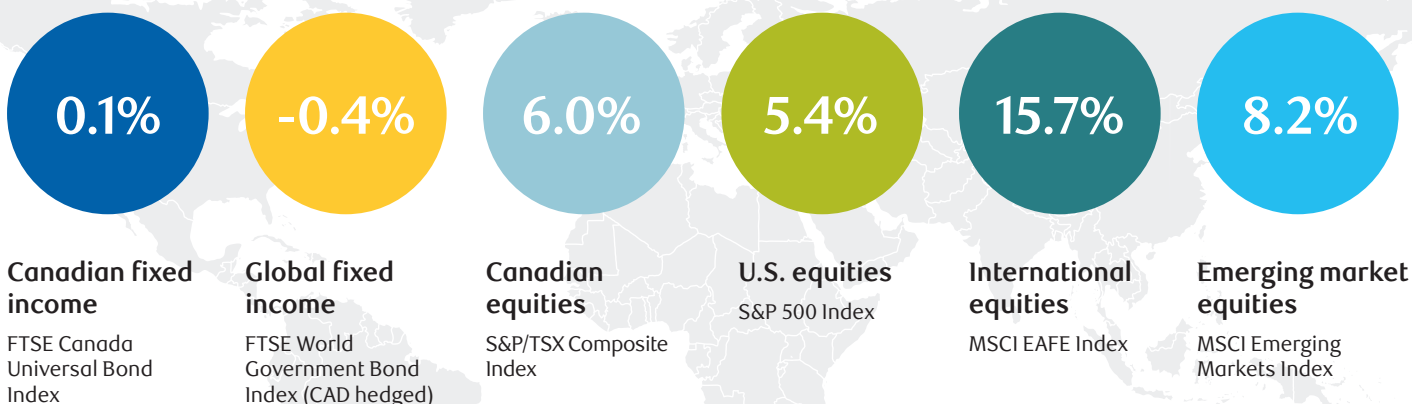


## Portfolio manager viewpoint

**Sarah Riopelle, CFA, Vice President & Senior Portfolio Manager, Investment Solutions**

Economic headwinds have intensified as a result of tighter monetary policy and reduced fiscal stimulus. Uncertainty is elevated and there is a wide range of potential outcomes for the economy and financial markets. That said, the 2022 bear market in both fixed income and equities has meaningfully improved return expectations across all asset classes. We note that bonds, at today's higher yields, offer more ballast in a balanced portfolio should the economy enter a downturn. We believe a cautious approach to risk taking remains appropriate in this environment.

### Markets this quarter<sup>2</sup>



For our complete New Year 2023 Global Investment Outlook, please visit [rbcgam.com/gio](https://rbcgam.com/gio)

<sup>2</sup> Source: Bloomberg. As of December 31, 2022. All returns are in C\$ except where indicated. Canadian, U.S., International and Emerging Markets index returns are total returns. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

We thank you for your ongoing trust in continuing to hold RBC Retirement Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

> Call 1-800-463-3863

> Email [funds.investments@rbc.com](mailto:funds.investments@rbc.com)

> Visit [rbcgam.com](https://rbcgam.com)

[@rbcgamnews](https://twitter.com/rbcgamnews) [RBC Global Asset Management](https://www.linkedin.com/company/rbc-global-asset-management)



All opinions contained in this document constitute our judgment as of December 31, 2022, and are subject to change without notice. RBC Funds, PH&N Funds and BlueBay Funds are offered by RBC Global Asset Management Inc. and distributed through authorized dealers in Canada. Please consult your advisor and read the prospectus or Fund Facts documents before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual fund securities are not guaranteed, their values change frequently and past performance may not be repeated.

This document may contain forward-looking statements about a fund or general economic factors which are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.