RBC Global Asset Management

Insights

RBC Select Portfolios

Fall 2020 edition

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An evolving outlook for global markets

The pandemic has reinforced many trends that were already in place before the COVID-19 virus arrived. Our world has been stuck in an extended period of slower economic growth. Central bank policies have become highly accommodative and interest rates are at historic lows.

What does all this mean to your RBC Select Portfolio? In June, we made some small adjustments to better position your portfolio for long-term growth. Small changes can have a big impact on your investment outcomes over time. In this issue of Insights we review what's changed and why.

Achieving diversification and long-term focus

Asset allocation

This is the portion or "weight" of each asset class in your portfolio and is a key driver of long-term investment performance.

A 150-year low

With the 10-year U.S. Treasury bond yield near its lowest mark in 150 years, we've evolved our long-term investment outlook.

Two dozen

Number of new strategies we've added to RBC Select Portfolios over the past 10 years, while removing those with diminishing effectiveness.

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Charting a course for the future

Building and maintaining RBC Select Portfolios is an ongoing process. It involves numerous daily decisions, and some that are less frequent but no less significant. One of the most important decisions we make is how to allocate your investment dollars across different asset classes such as cash, bonds and stocks for the long term. This is called the strategic asset mix. It sets the level of risk in your portfolio and is a key driver of long-term performance.

Adding buoyancy for today's markets

RBC Select Portfolios have repeatedly added new strategies over the last several decades to help tap into a broader set of investment opportunities.

With an eye towards the future, we took another evolutionary step in June. Across most RBC Select Portfolios,[1] we adjusted our strategic asset mix:

We increased our equity holdings by 5% and reduced our exposure to fixed income by the same amount.

Why did we make this change?

- Slow-moving forces, such as aging demographics and lower economic growth, have changed the outlook for global markets over the long term.
- It will be difficult for portfolios to achieve the returns we've seen over the past several decades without adapting to these global market trends.
- We believe stocks offer superior return potential versus bonds, a view supported by today's low-interest-rate environment.

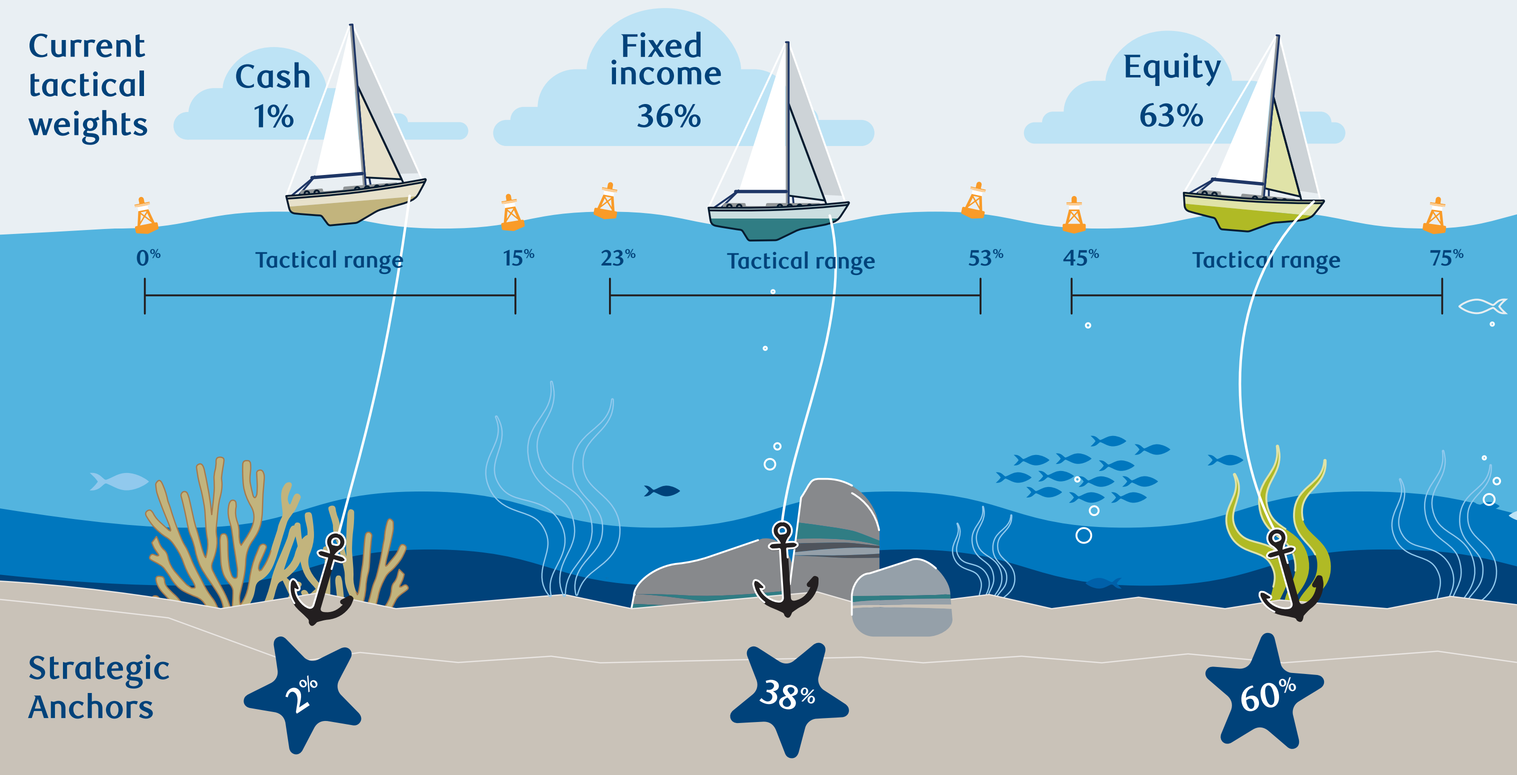
[1] Does not apply to RBC Select Aggressive Growth Portfolio, which already contains a 98% strategic equity weight.

What does this mean to your portfolio?

The strategic asset mix of a portfolio "anchors" it to its risk profile. It's what makes a "Conservative" portfolio conservative. It sets up a "Balanced" portfolio to balance growth potential with the desire for some capital preservation, and so on. The anchor stays put unless there is a significant shift in the way we think about the future. This is what happened at the beginning of June. Changing the strategic asset mix was the equivalent of moving the anchors.

Of course, boats can still move a little when anchored. The asset mix of each portfolio also moves slightly around its target weights as we invest more or less in specific asset classes. These tactical decisions may shift the asset mix. As market outlooks change, we can adjust our position, like letting out or taking in the anchor line. But the asset mix never strays too far from the anchors.

	Previous strategic weights (until June 2020)			New strategic weights (effective June 2020)			Current tactical weights (effective September 2020)		
	Cash	Fixed Income	Equity	Cash	Fixed Income	Equity	Cash	Fixed Income	Equity
Very Conservative	2%	78%	20%	2%	73%	25%	1%	71%	28%
Conservative	2%	63%	35%	2%	58%	40%	1%	56%	43%
Balanced	2%	43%	55%	2%	38%	60%	1%	36%	63%
Growth	2%	28%	70%	2%	23%	75%	1%	21%	78%
Aggressive Growth	2%	-	98%	2%	-	98%	0.5%	-	99.5%



Weights reflect a balanced investor

For more than 30 years, RBC Select Portfolios have been helping Canadians meet their long-term investing goals. Our investment teams will continue to track the state of the economy and markets, and prudently adjust your RBC Select Portfolio to reflect our current views.

Portfolio manager viewpoint

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

Equity markets have staged a remarkable recovery as central banks provided critical backstops, economies gradually emerged from shutdown and investor confidence was restored. The economy rebounded quickly after mass quarantines, but progress has slowed as the easiest gains have already occurred. The weak economy and highly accommodative central-bank policies kept government bond yields at historically low levels. We expect yields to rise from these levels, though not in the foreseeable future. Elevated equity-market valuations and optimistic investor sentiment leave stocks vulnerable to correction in the near term, and we think style exposures should be managed given the massive valuation gap between growth and value stocks. Over the longer term, however, stocks offer superior return potential versus bonds, a view supported by the still significant equity-risk premium that exists in today's low-interest-rate environment. For these reasons, we shifted two percentage points from our bond allocation to stocks this quarter.

Markets this quarter[1]

+0.4%

Canadian fixed income

FTSE Canada Universal Bond Index

+0.7%

Global fixed income

FTSE World Government Bond Index (CAD hedged)

+4.7%

Canadian equities

S&P/TSX Composite Index

+6.8%

U.S. equities

S&P 500 Index

+2.9%

International equities

MSCI EAFE Index

+7.6%

Emerging market equities

MSCI Emerging Markets Index

For the complete Fall 2020 Global Investment Outlook, please visit rbcgam.com/gio

[1]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 Select Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

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