RBC Global Asset Management

Insights

RBC Select Portfolios

Summer 2020 edition

28217 (07/2020)

Asset allocation in action

The COVID-19 crisis has disrupted investment markets on a global scale. This quarter, we take a closer look at the key features that make your RBC Select Portfolio resilient during these uncertain times. We also highlight several ways we have actively managed your investment throughout the global pandemic.

A different-looking quarter

Financial markets staged a recovery from March lows. Central banks stepped in to ease liquidity concerns and investor sentiment improved from extremely depressed levels.

The S&P 500 (USD) has **recovered 39.3%** from its March lows.

Central banks have deployed trillions of dollars to help stabilize the global economy.

Global bonds* have **returned 5.1%** year-to-date, helping balance the pullback in stocks.

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* FTSE World Government Bond Total Return Index (CAD hedged) as at June 30, 2020.

Three ways active management works for you

No matter what happens in financial markets, one of the key advantages of being an RBC Select Portfolio investor is that your investments are actively managed. What does this mean to you? We'll explore three important advantages through the examples on this page.

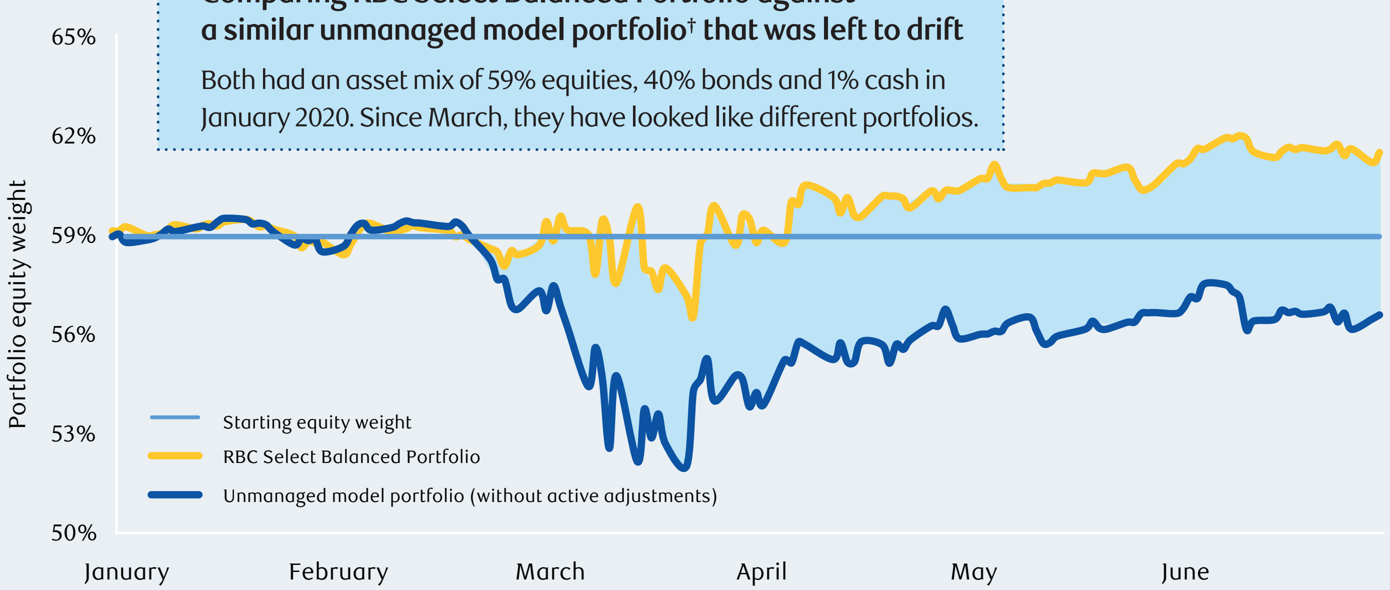
Keeping you on track...

When markets move up and down, "portfolio drift" can occur in unmanaged portfolios. Drift can drive a portfolio's asset mix away from its objective.

If drift results in your portfolio being "too conservative", you may miss out on growth opportunities. It can also lead to unexpectedly large declines if your portfolio becomes "too aggressive".

Comparing RBC Select Balanced Portfolio against a similar unmanaged model portfolio† that was left to drift

Both had an asset mix of 59% equities, 40% bonds and 1% cash in January 2020. Since March, they have looked like different portfolios.



Key take-aways

RBC Select Portfolios were buying lower priced equities throughout the pullback. As a result, the Portfolios were well positioned for the rebound in late March.

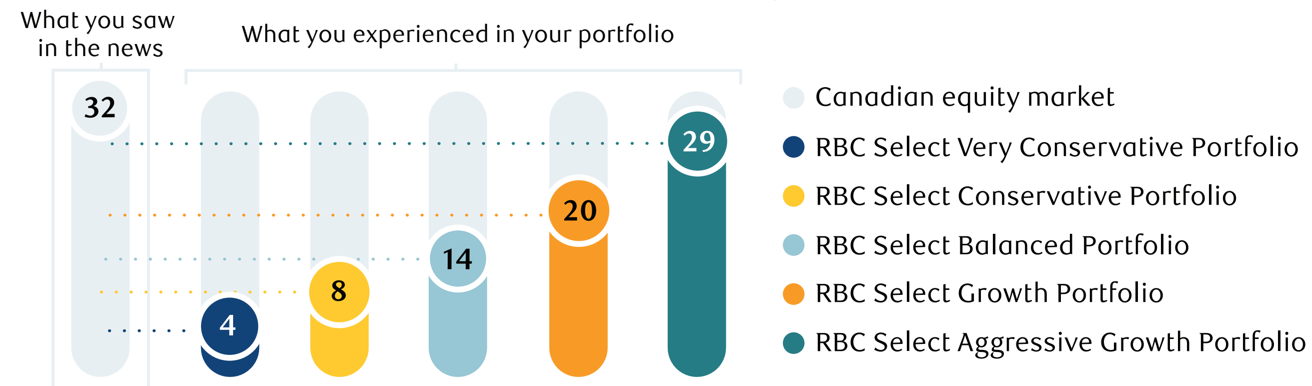
By failing to rebalance, the unmanaged model portfolio became more conservative (underweight equities) as equity prices dropped and would not have benefited as much from the rebound.

†Source: RBC GAM, As of June 30, 2020. Unmanaged model portfolio constructed with the following weights: RBC Canadian Money Market Fund: 1%, RBC Bond Fund: 17%, RBC Global Bond Fund: 5%, RBC Global Corporate Bond Fund: 8%, BlueBay Emerging Markets Corporate Bond Fund: 5%, RBC High Yield Bond Fund: 5%, RBC Canadian Equity Fund: 20%, PH&N U.S. Multi-Style All-Cap Equity Fund: 9%, RBC Global Equity Fund: 26%, RBC Emerging Markets Equity Fund: 4%.
‡RBC Select Aggressive Growth Portfolio maintained the same tactical equity weight in January and February and maintained the same neutral equity weight in June.
§RBC Select Portfolios (Sr. A) annualized performance as of June 30, 2020: RBC Select Very Conservative Portfolio 1yr: 3.9%, 3yr: 3.5%, 5yr: 3.4%, 10yr: 4.3%; RBC Select Conservative Portfolio 1yr: 3.3%, 3yr: 3.6%, 5yr: 3.8%, 10yr: 5.3%; RBC Select Balanced Portfolio 1yr: 2.9%, 3yr: 4.3%, 5yr: 4.5%, 10yr: 6.7%; RBC Select Growth Portfolio 1yr: 2.4%, 3yr: 4.5%, 5yr: 4.8%, 10yr: 7.3%; RBC Select Aggressive Growth Portfolio 1yr: 0.9%, 3yr: 4.6%, 5yr: 5.2%, 10yr: 8.4%.

...with a smoother investment experience...

The underlying mix of funds in your portfolio provides a far different investment experience than you see in the market headlines. See how your RBC Select Portfolio§ compared to the S&P/TSX Composite index – the Canadian equity benchmark.

Number of days with a move greater than +/- 2%



Source: Morningstar Direct. January 1, 2020 to June 30, 2020. All performance in C$. RBC Select Portfolios Series A.
Canadian equity market = S&P/TSX Composite Index (Price Return).

...and long-term growth potential

If you're like many investors, you will invest over a number of years and even decades. Through active management, RBC Global Asset Management works to position your RBC Select Portfolio for the long term:

January
At the start of 2020, equity valuations appeared somewhat stretched. Against this backdrop, we reduced our allocation to stocks, moving the proceeds to cash, to lock in gains from our late 2019 positioning.‡

February
The plunge in equity prices and bond yields as a result of COVID-19 boosted the relative attractiveness of stocks over bonds. While reconciling near-term market volatility, we added to our equity allocation and sold bonds.‡

March
The swift decline in the price of oil had directed attention to the vulnerability of the energy sector. We reduced our exposure to Canada given the oil industry's influence on the Canadian economy. Within our fixed income allocations, we increased holdings of corporate and high yield bonds as their valuations improved.

April and May
Massive support programs and early signs that the crisis could be contained sparked a substantial rally following the March 23rd trough. Our disciplined investment approach proved beneficial as our higher equity weight and positive high yield bond returns enhanced portfolio performance.

June
As the complexity of global markets has evolved, our asset mix has incorporated new opportunities between and within asset classes. In June, we refreshed our strategic asset allocation, increasing our neutral equity weight by 5% across profiles‡ for long-term success.

As the COVID-19 crisis evolves, your investment in RBC Select Portfolios will continue to keep pace with changing economic and market dynamics. What remains constant is the diversified nature of your portfolio and our active approach to managing it. These key elements help you stay invested during periods of uncertainty and on track to meet your long-term investment goals.

Portfolio manager viewpoint

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

The COVID-19 shock pushed global economies abruptly into recession and ravaged financial markets. Government bond yields fell to record lows and stocks plunged into bear markets. Policymakers stepped in quickly and with scale, triggering a rebound in risk assets that was further supported by increasing economic activity as lockdowns eased. Lifting restrictions too early, however, poses a risk that a new wave of virus infections could again force economic closures. Looking beyond the crisis, our longer-term view is that stocks will outperform bonds, and that the current low yields in government bonds will not provide the income or risk-diversifying properties of the past 40 years. As a result, we increased the strategic neutral equity allocation in our multi-asset and balanced portfolios, sourced from bonds. Managing our tactical exposures around these new neutrals in the shorter term, we narrowed the degree of overweight in stocks to reflect our below-consensus growth forecast.

Markets this quarter[1]

+5.9%

Canadian fixed income

FTSE Canada Universal Bond Index

+1.0%

Global fixed income

FTSE World Government Bond Index (CAD hedged)

+17.0%

Canadian equities

S&P/TSX Composite Index

+16.3%

U.S. equities

S&P 500 Index

+10.1%

International equities

MSCI EAFE Index

+13.1%

Emerging market equities

MSCI Emerging Markets Index

For full Summer 2020 Global Investment Outlook, please visit rbcgam.com/gio

[1] All returns are in C$ except where indicated. Canadian, U.S., MSCI EAFE and MSCI 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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