RBC Global Asset Management

Insights

RBC Select Portfolios

Spring 2024

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Getting the right bond exposure

Gardens grow and change as plants cycle in and out of bloom. A well-planned garden includes variety so that blooms or berries are present throughout the year. Your portfolio is no different – diversification can help smooth returns through different market cycles. This quarter's Insights highlights the importance of diversifying within the bond portion of your balanced portfolio.

Bonds behave differently based on the landscape

Not all types of bonds react the same way to market factors such as interest rate changes. Looking at the past five years, no single bond category has consistently outperformed. Holding a mix of different kinds of bonds in your portfolio, and adjusting your exposures to them, helps ensure your portfolio is well positioned in any kind of environment.

2019	2020	2021	2022	2023
Emerging Market Government Bonds 13.9%	Canadian Bonds 8.7%	U.S. High Yield Bonds 3.8%	U.S. High Yield Bonds -4.1%	Emerging Market Government Bonds 10.0%
U.S. High Yield Bonds 9.3%	U.S. Corporate Bonds 7.9%	Emerging Market Corporate Bonds -0.4%	U.S. Government Bonds -6.5%	U.S. High Yield Bonds 9.6%
U.S. Corporate Bonds 8.5%	U.S. Government Bonds 6.3%	U.S. Corporate Bonds -1.8%	Emerging Market Corporate Bonds -6.6%	Canadian Bonds 6.7%
Emerging Market Corporate Bonds 7.8%	Emerging Market Corporate Bonds 5.5%	Emerging Market Government Bonds -2.0%	U.S. Corporate Bonds -9.3%	Emerging Market Corporate Bonds 5.6%
Canadian Bonds 6.9%	U.S. High Yield Bonds 4.6%	Canadian Bonds -2.5%	Canadian Bonds -11.7%	U.S. Corporate Bonds 5.5%
U.S. Government Bonds 1.6%	Emerging Market Government Bonds 3.7%	U.S. Government Bonds -3.2%	Emerging Market Government Bonds -18.4%	U.S. Government Bonds 1.1%

Source: Morningstar Direct. Annual returns for the period of January 1, 2019 to December 31, 2023. Emerging Market Government Bonds: JP Morgan EMBI Global Diversified Index (CAD Hedged), U.S. High Yield Bonds: ICE BofA BB-B US High Yield Index, Canadian Bonds: FTSE Canada Universe Bond Index, Emerging Market Corporate Bonds: JP Morgan CEMBI Diversified Index, U.S. Corporate Bonds: ICE BofA US Corporate Index, U.S. Government Bonds: ICE BofA US Treasury Index.

Variety helps your garden thrive

Bonds can vary in terms of their risk and return. Some bonds offer more stable returns and liquidity – that is, ease of buying and selling. Other bonds offer higher income and return potential in exchange for higher risk.

Here are some key differences across three broad categories of bonds:

Government bonds:
Relatively low-risk, backed by governments. Add stability and liquidity to a portfolio.

Corporate bonds:
Issued by credit-worthy companies to compensate investors for higher risk than government bonds. Provide slightly higher stream of income and modest capital appreciation.

High yield bonds:
Issued by companies with lower credit ratings. Offer higher streams of income in return for higher risk.

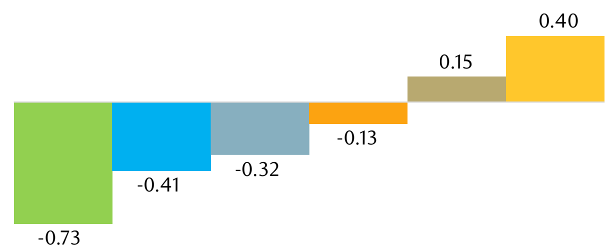
Diversifying across bond types helps strike a balance between stability and growth

Reducing interest rate risk

One of the biggest risks faced by bond investors is the effect of changing interest rates on performance. Bonds have an inverse relationship with rates. When rates rise, bond values fall and vice versa. By holding different types of bonds, you can reduce the impact of changing interest rates on your portfolio.

Average monthly bond returns (%)

...in a rising interest rate environment



...in a falling interest rate environment

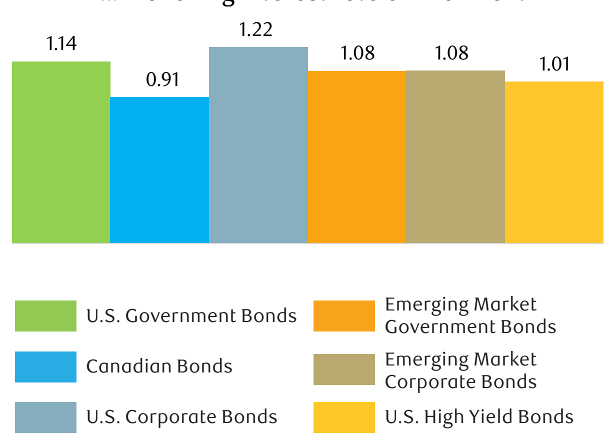
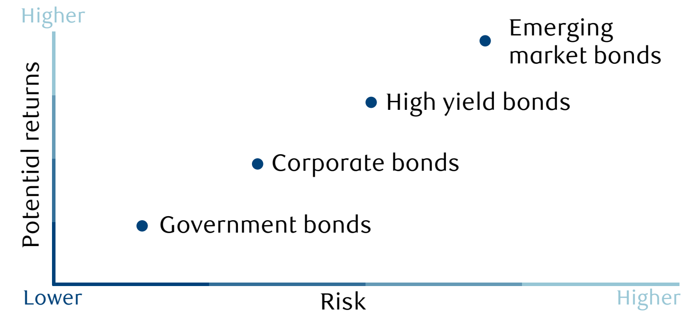


Chart depicts average monthly return of fixed income indices in months in which interest rates (as proxied by the yield of US Treasuries) rose or fell for 15 years ended February 29, 2024. For index details, please see disclaimer on page 1. Source: Morningstar Direct. An investment cannot be made directly into an index. The graph 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.

Boosting risk-adjusted returns

Diversifying your bonds across credit grades, maturities, and regions can help improve total returns with a modest increase in risk. Additionally, adding bonds outside of government and corporate bonds can help further boost portfolio income.



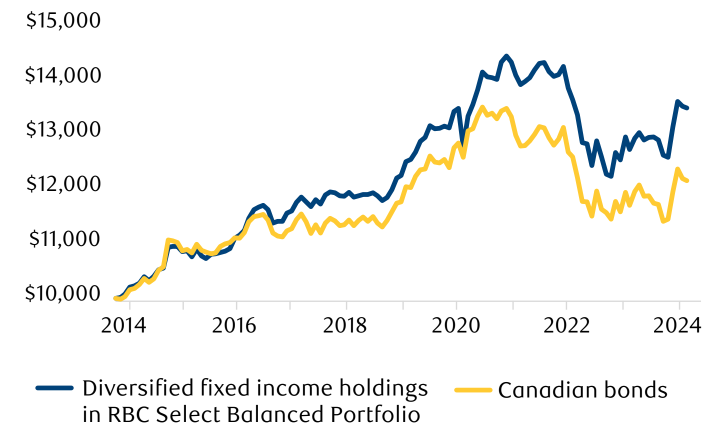
For illustrative purposes only.

Helping you manage the complexity of global fixed income markets

A diversified set of fixed income funds provides you with the benefits of diversification in a convenient solution. For your portfolio, we have carefully chosen the underlying funds to fit your risk profile and we continuously monitor and rebalance them to keep you on track. As markets have evolved, monitoring has become even more complex, with an increasing number of variables to watch. The diversified fixed income holdings in the chart to the right reflect the underlying fixed income funds held in RBC Select Balanced portfolio at their current weights today. Diversifying your bond holdings can contribute to more growth over time.

Diversification can improve returns over time

Growth of $10,000



Source: Morningstar Direct. Chart depicts the growth of $10,000 for the period March 1, 2014 to February 29, 2024. Canadian bonds: FTSE Canada Universe Bond Index. The "diversified fixed income holdings in RBC Select Balanced Portfolio" represents the fixed income portion of the fund. Returns represented by proportionally weighted fixed income funds within RBC Select Balanced Portfolio: RBC Bond Fund (48.0%), RBC Global Corporate Bond Fund (21.90%), RBC Global Bond Fund (10.26%), BlueBay Global Monthly Income Bond Fund (6.15%), BlueBay Global Investment Grade Corporate Bond Fund (4.80%), BlueBay European High Yield Bond Fund (3.42%), BlueBay Global Sovereign Bond Fund (2.73%), RBC Global High Yield Fund (2.73%). Holdings rebalanced monthly. RBC Select Balanced Portfolio - Sr. A annualized returns as of February 29, 2024 – 1yr: 11.9%, 3yr: 3.9%, 5yr: 6.5%, 10yr: 6.5%.

Keeping an eye on the forecast

Managing a garden is not easy. It takes careful consideration and planning to ensure each plant gets the right amount of water, sunlight, and nutrients. Managing a highly diversified fixed income portfolio can also be complex. Global interest rates, currency fluctuations, changing credit environments and evolving economies must all be monitored closely. To catch up on our latest thoughts on fixed income markets and much more, visit rbcgam.com/insights.

Portfolio manager viewpoint

Sarah Riopelle, CFA, Managing Director & Senior Portfolio Manager, Investment Solutions

Our base case expectation is for the U.S. economy to continue to expand at a moderate pace and for inflation to continue falling at a rate that will allow central banks to cut interest rates this year. Falling interest rates should be supportive of fixed-income assets and, importantly, at higher yield levels, bonds provide greater ballast against equity-market volatility within a balanced portfolio. For these reasons, we added to our fixed-income allocation over the past several quarters as yields rose, ultimately closing our prior underweight position. While we remain constructive on stocks over the longer term, we recognize that in the near term, sentiment is extremely optimistic and valuations are demanding such that investors are not being attractively compensated for the risk of an adverse outcome. Balancing the risks and rewards, we are maintaining an asset mix at our neutral allocation.

Markets this quarter*

0.5%

Canadian fixed income

FTSE Canada Universe Bond Index

0.7%

Global fixed income

FTSE World Government Bond Index (CAD hedged)

4.1%

Canadian equities

S&P/TSX Composite Index

3.2%

U.S. equities

S&P 500 Index

3.1%

International equities

MSCI EAFE Index

2.2%

Emerging market equities

MSCI Emerging Markets Index

For our complete Spring 2024 Global Investment Outlook, please visit rbcgam.com/gio

*Source: Bloomberg. As of March 31, 2024. 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 your advisor.

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