RBC Funds (Lux) – Global Bond Fund – Second Quarter 2017 Commentary

In the second quarter of 2017, the Fund returned 0.8%* performing in line with its benchmark, the Citigroup World Government Bond Index (USD), which returned 0.8%.

Global government bond yields continued to settle down after investors grew sceptical about the Trump administration's ability to get Congress to enact his pro-growth policies. U.S. 10-year Treasury yields finished the quarter almost at the levels they started. Bond investors stayed calm after the U.S. Federal Reserve (the "Fed") delivered the much-anticipated hike in policy rates in June, raising the lower bound rate to 1.0%.

In Europe, the election of Emmanuel Macron as French president boosted the bonds of countries other than Germany, as Macron's win eased concern that Europe would support leaders promoting anti-trade and anti-immigration policies. At the same time, European economic momentum strengthened, prompting speculation that the European Central Bank (the "ECB") would step away from the bond buying programme earlier than had been expected. In response, yields on longer-maturity bonds edged higher, underperforming shorter-maturity securities.

The Fund's underweight position in longer-term bonds, and higher exposures to Mexican and Polish bonds, contributed to performance, as did exposure to government agencies debt. The Fund also benefited from the higher income provided by higher-risk corporate and emerging-market debt, and from capital appreciation. Our currencies trading also contributed to performance.

We expect global bond yields to rise slowly in the coming quarters. Global economic expansion and the fading threat of disinflation have led major central banks to consider tighter monetary policies, a move epitomized by the Fed's decision to begin gradually reducing the amount of bonds on its balance sheet. Relatively pro-growth policies remain in place at the ECB and the Bank of Japan, and this has also helped keep bond yields from moving too high. Any surge in bond yields would provide opportunities to accumulate bonds at more attractive rates. Continued strength in non-government bonds may lead to further reductions in this area and a further overall reduction in portfolio risk over the second half of the year.

* Net of fees and expenses for the O share class

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