Global Asset Management

Quarterly commentary

RBC Funds (Lux) – Global Bond Fund – First Quarter 2018 Commentary

In the first quarter of 2018, the Fund returned 0.4%* performing in line with its benchmark, the Citigroup World Government Bond Index (USD), which returned 0.6%.

Global government bonds posted modest returns in Q1 2018, benefiting from investors seeking safety in government bonds. In the first half of the quarter, global government bond yields surged, driven by the ongoing global economic growth. Yields reversed course, however, starting mid-February amid the intensifying trade dispute between the U.S. and China. Global yield curves continued to flatten into quarter end with short-dated bond yields rising more than their long-maturity peers. As a result, the positive performance of the benchmark was mostly from long-maturity bonds. For this quarter, U.S. Treasuries underperformed other developed markets as the Federal Reserve (the Fed) continued to raise short-term interest rates and scale back reinvesting matured Treasuries and mortgage-backed securities.

The European Central Bank (ECB) kept its policy rate and asset purchasing programme unchanged and pledged to continue its easing bias until its inflation target of 2% is reached; this contributed to European bond markets outperforming peers. The victory of the populist Five Star Movement in the Italian election did not have a negative impact on the Italian government bond return as the party did not win a majority and will require co-operation from other parties to form a government. Italian, Spanish and French government bonds were the top performers in this quarter. An above-benchmark allocation to bonds of Italy and Portugal contributed to outperformance. Part of the gains from country selection was offset by the Fund's exposure to corporate and emerging market debt which performed poorly in a risk-off environment. Yield curve positioning and enhanced carry strategies also detracted from performance.

The portfolio manager expects global bond yields to rise slowly in the coming quarters, with short-term yields continuing to rise faster than those of longer-term bonds. The Fed is expected to continue to tighten monetary policy while the ECB and Bank of Japan should roll back their easing programmes given the upbeat growth outlook. This is likely to push bond yields higher, however uncertainties on trade wars will add volatility to the riskier asset markets, which will hold down yields in the near term.

* Net of fees and expenses for the O share class

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