Global Asset Management

Quarterly commentary

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

In the fourth quarter of 2018 the Fund returned 2.4% performing in line with its benchmark, the Citigroup World Government Bond Index (USD), which returned 2.4%.

Major government-bond markets posted gains in the fourth quarter. December accounted for most of the increases as trade tensions and slowing global economic growth prompted investors to seek assets perceived to offer the most safety.

The U.S. Federal Reserve (the Fed) raised short-term interest rates again in Q4, putting the benchmark Fed funds rate at its highest level since 2008, and continued scaling back the bond holdings. The European Central Bank (ECB) wound up its bond-buying programme at the end of 2018 and began preparing investors for the possibility that it might start gradually raising its benchmark rate later in 2019. Italian government bonds performed best, allaying fears of a possible rating downgrade and the friction with the EU over the country's budget deficit. Japanese yields remained near zero as the Bank of Japan judged that inflation would not be problematic.

The Fund's preference for longer-maturity bonds and an underweight position in intermediate-term securities added to performance. In Europe, overweight positions in Italian and British government bonds contributed to performance. The Fund's exposure to the Japanese yen also contributed to performance given that the yen typically does well when investors are risk averse.

We expect the Fed to slow its pace of rate increases in 2019 while the ECB may begin to raise rates later in the year. Given the rapid re-pricing in December, as global rates fell while riskier assets sold off, much of our rates view is priced in however. In fact, the portfolio manager expects bond yields to rise marginally over the coming quarter. We believe the bulk of the Fed's rate increases are likely to be behind us, while trade tensions and slowing economic growth could keep bond yields within recent ranges. The portfolio manager is likely to take advantage of recent volatility to accumulate corporate as their valuations are more attractive than at any time in the past two years.

* Net of fees and expenses for the O share class

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