

Canadian DB pension plans navigated Q2 2023 with steady returns, reveals RBC Investor Services analysis

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RBC Investor Services →
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TORONTO, July 31, 2023 /CNW/ - RBC Investor Services (RBCIS) has unveiled its comprehensive analysis of the performance of Canadian DB pension plans within the All Plan Universe for the second quarter of 2023. According to the study, the plans demonstrated a modestly positive quarterly return of 0.8% overall and were ahead by 4.8% over the first half of 2023.

During the quarter, foreign equities emerged as the top performing asset class in the peer universe, boasting a median return of 2.9%. In comparison, the MSCI World index returned 4.5%, primarily driven by the robust performance of the Information Technology (+12.1%) and Consumer Discretionary (+8.1%) sectors. It is noteworthy that the strength of the

Canadian dollar had a softening effect on the returns of pension plans invested in foreign equities, as the MSCI World index recorded a 7.1% return in local currency terms. Consequently, hedged pension plans outperformed their unhedged counterparts.

Much like in Q1, growth style stocks outpaced their value counterparts by a significant margin – as the MSCI World growth index showcased an impressive 8.0% return. In contrast, the value index lagged with a return of 0.7%. Year-to-date, the growth index is up 24.1% compared to the value index's return of 1.5%.

Further analysis revealed that U.S. equities significantly outperformed their international counterparts over the quarter, as evidenced by the performance comparison between the S&P 500's gain of 6.3% versus the MSCI EAFE's more modest 0.7%.

Within the Canadian equity asset class, a return of 1.3% was observed. By comparison, the TSX Composite delivered a return of 1.1%. Strength in the Information Technology sector (+16.6%) was tempered by weakness in the commodity sectors (Materials -6.9% and Energy 0.0%).

Turning to the Canadian fixed income asset class, the plans in the universe returned 0.3%, ahead of the FTSE Canada Universe Bond Index, which experienced a negative return of -0.7%. Short-term FTSE Canada Universe bonds returned -0.8% due to an increase in short-term yields, while long-term bonds achieved a slightly positive return of 0.6%.

Marijana Jovanovic, head of Product Transformation at RBCIS, commented: "The analysis underscores the intricacies of the Canadian pension landscape during Q2 2023, prompting investors to remain vigilant in navigating the uncertain waters that lie ahead. While inflation has been trending favourably into Q3 following July's rate adjustment, it's uncertain whether future interest rate increases are on the horizon."

Continuing on this note, Jovanovic stated, "Geopolitical tensions, including U.S.-China relations and the ongoing situation in Ukraine, introduce complexity to market dynamics and pose risks for investors. Asset managers are diligently focusing on diversification and hedging strategies while maintaining a watchful eye on their portfolios to mitigate potential losses."

Historic performance

<i>Period</i>	<i>Median return (%)</i>	<i>Period</i>	<i>Median return (%)</i>
Q2 2023	0.8	Q1 2021	-0.2
Q1 2023	4.0	Q4 2020	5.4
Q4 2022	3.8	Q3 2020	3.0
Q3 2022	0.5	Q2 2020	9.6
Q2 2022	-8.6	Q1 2020	-7.1
Q1 2022	-5.5	Q4 2019	2.0
Q4 2021	4.5	Q3 2019	1.7
Q3 2021	0.6	Q2 2019	2.7
Q2 2021	4.4	Q1 2019	7.2

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About the RBC Investor Services All Plan Universe

RBC Investor Services has published one of the industry's largest and most comprehensive universes of Canadian pension plans for more than 40 years. The All Plan Universe, a widely-recognized quarterly benchmark, tracks the performance and asset allocation of a cross-section of assets across Canadian defined benefit pension plans, helping institutional investors monitor investment decisions, optimize performance and mitigate risks.

About RBC Investor Services

RBC Investor Services delivers asset servicing solutions to Canadian asset managers and asset owners, investment counsellors and other financial institutions. Part of Royal Bank of Canada, Canada's largest bank and one of the top 10 banks globally, our focus is on safeguarding the assets of our clients and supporting their growth.

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