

RBC Global Asset Management

# The Global Investment Outlook

RBC GAM Investment Strategy Committee



SUMMER 2025



# The RBC GAM Investment Strategy Committee



The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

## These include:



Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

# Contents

## 2 Executive summary

The Global Investment Outlook

**Eric Savoie, MBA, CFA, CMT** – Senior Investment Strategist,  
RBC Global Asset Management Inc.

**Daniel E. Chornous, CFA** – Global Chief Investment Officer,  
RBC Global Asset Management Inc.

## 5 Economic & capital markets forecasts

RBC GAM Investment Strategy Committee

## 6 Recommended asset mix

RBC GAM Investment Strategy Committee

## 11 Capital markets performance

**Milos Vukovic, MBA, CFA** – Managing Director &  
Head of Investment Policy,  
RBC Global Asset Management Inc.

**Aaron Ma, MBA, CFA** – Senior Analyst,  
Investment Strategy,  
RBC Global Asset Management Inc.

### Global Investment Outlook

### 15 Economic outlook

Public policy remains dominant force

**Eric Lascelles** – Managing Director &  
Chief Economist,  
RBC Global Asset Management Inc.

### 28 Market outlook

Markets find footing after U.S. policy chaos turns to progress

**Eric Savoie, MBA, CFA, CMT** – Senior Investment Strategist,  
RBC Global Asset Management Inc.

**Daniel E. Chornous, CFA** – Global Chief Investment Officer,  
RBC Global Asset Management Inc.

## 42 Global fixed income markets

**Soo Boo Cheah, MBA, CFA** – Managing Director &  
Senior Portfolio Manager,  
RBC Global Asset Management (UK) Limited

**Joanne Lee, MFin, CFA** – Senior Portfolio Manager,  
RBC Global Asset Management Inc.

**Taylor Self, MBA, CFA** – Portfolio Manager,  
RBC Global Asset Management Inc.

## 50 Currency markets

The U.S. dollar's decline: a new chapter in global currency markets

**Dagmara Fijalkowski, MBA, CFA** – Managing Director &  
Head, Global Fixed Income and Currencies,  
RBC Global Asset Management Inc.

**Daniel Mitchell, CFA** – Managing Director &  
Senior Portfolio Manager,  
RBC Global Asset Management Inc.

### Regional equity market outlook

### 51 United States

**Brad Willock, CFA** – Managing Director &  
Senior Portfolio Manager,  
RBC Global Asset Management Inc.

### 64 Canada

**Sarah Neilson, CFA** – Managing Director &  
Senior Portfolio Manager,  
Co-head North American Equities,  
RBC Global Asset Management Inc.

**Irene Fernando, CFA** – Managing Director &  
Senior Portfolio Manager,  
Co-head North American Equities,  
RBC Global Asset Management Inc.

### 67 Europe

**David Lambert** – Managing Director & Senior Portfolio  
Manager, Head of European Equities,  
RBC Global Asset Management (UK) Limited

### 70 Asia

**Chris Lai** – Portfolio Manager,  
RBC Global Asset Management (Asia) Limited

### 73 Emerging markets

**Veronique Erb** – Portfolio Manager,  
RBC Global Asset Management (UK) Limited

## 76 RBC GAM Investment Strategy Committee





## Executive summary



**Eric Savoie, MBA, CFA, CMT**  
Senior Investment Strategist  
RBC Global Asset Management Inc.



**Daniel E. Chornous, CFA**  
Global Chief Investment Officer  
RBC Global Asset Management Inc.

Uncertainty around U.S. tariffs remains, but the worst-case scenario has largely been ruled out as progress toward trade deals is being made. In our base case scenario, economic growth should slow, but not stop, and any rise in inflation should prove temporary. Stocks can perform well against this backdrop if policy, earnings and investor sentiment cooperate, and bonds offer decent return potential with only moderate valuation risk.

### **Tariff slump in economic growth expected this year**

The impact of repeated waves of unorthodox U.S. public policy is washing over the global economy and financial markets and, while some policy guardrails are starting to appear, there remains substantial uncertainty. In our view, tariffs are set to exert a substantial drag on economic growth over the second half of 2025, but probably not to the extent of causing a global recession. Expected U.S. tax cuts are likely to boost economic growth but reducing

immigration and withholding resources from universities and other research institutions may have a negative effect. GDP growth in 2025 is forecast to be modest at sub-2% across the developed world. A mild 2025 slump triggered by tariffs is also expected for most emerging markets. Next year should be somewhat better with the worst of the tariff adjustment complete and U.S. tax cuts acting as a tailwind.

### **Inflation has massively improved, but tariff impact awaits**

Inflation still hasn't quite returned to normal following the post-pandemic inflation shock of 2021-2023, but a new inflation challenge already looms in the form of tariffs. Tariffs are taxes that are levied on importers, who in turn may pass a portion of their higher costs on to consumers in the form of higher prices. As a result of the tariff impact, we have budgeted for a substantial rise in U.S. prices, with

annual inflation rates of 3.0% in both 2025 and 2026 and a projected peak of 3.5% in late autumn. Inflation has been tame since the tariffs were implemented, as inventory stockpiling has delayed the impact, but price pressures should become more visible, especially in the U.S., given that other countries have not levied such high tariffs on U.S. imports.



### Beginning of multi-year U.S.-dollar decline

The U.S. dollar is one of the worst performing currencies since Donald Trump's inauguration in late January. The president's second term may well come to mark the beginning of a multi-year dollar decline and a momentous shift for foreign-exchange markets, impacting the broader investment landscape.

The U.S. dollar's 10% decline this year is especially noteworthy since the greenback tends to appreciate during times of heightened financial-market stress. But this time,

the dollar did not offer protection, perhaps reflecting investor doubts around U.S. exceptionalism and whether the U.S. dollar is truly a safe haven. Moreover, the weakness in the U.S. dollar has exacerbated the underperformance of U.S. assets relative to global assets. Note that the sell-off in the greenback began from a point of extreme overvaluation, and that the declines could still have a long way to go should the magnitude of currency movements from past cycles be repeated.

### Central banks are taking a measured approach

Central banks are proceeding with considerable caution for two sets of reasons. The first is that it is unclear where tariffs will go from here. Central bankers are therefore forced to delay monetary adjustments as they wait to see what kind of White House policies get implemented. The second complication for central banks is that tariffs give contradictory signals. They simultaneously increase prices and decrease economic output, with the former arguing for rate hikes and the latter for rate cuts. In practice, it is the economic damage that usually takes precedence because the damage to the level of output is enduring, whereas

inflation's deviation is short-lived. As such, rate cuts can be expected, but of a more cautious nature.

We anticipate economic conditions will allow U.S. interest-rate relief to resume later this year, and we forecast three 25-basis-point cuts to the fed funds rate over the year ahead. Other central banks have less of a conflict to grapple with, as the primary damage to their economies is through slower growth rather than high inflation. In turn, they are well positioned to continue easing interest rates to levels that are low enough to stimulate the economy.

### Sovereign bonds offer decent return potential with only modest valuation risk

The U.S. 30-year yield climbed to above 5% in May 2025, the highest since late 2023, on fiscal concerns. Shorter-term yields have not risen as much. Consequently, the spread between 2-year and 30-year U.S. T-bonds grew to its widest since early 2022. With inflation relatively stable, the increase in yields was mostly from rising real interest rates. The higher real yield reflects a better economic backdrop but also embeds an increasing risk premium due to growing anxiety about U.S. debt levels. However, further increases

in real rates are likely limited over the long term due to structural factors such as an aging population and reduced growth potential as developing economies bow under the burden of much higher debt. As a result, the U.S. 10-year yield at 4.40% is appealing, situated slightly above the upper boundary of our model's estimate of equilibrium. We forecast that the U.S. 10-year yield will decline marginally to 4.25% over the year ahead, delivering mid-single digit returns with modest valuation risk.

### Global equities pared prior losses and leadership in non-U.S. markets emerged

Stocks suffered steep declines followed by an impressive recovery as the narrative on U.S. trade policy shifted wildly. The tariffs sparked an intense sell-off, pushing many of the technical and sentiment indicators that we track to extremes and a shift in leadership away from U.S. stocks toward international markets took place. As tariff delays

were announced and progress toward deals made, most markets fully recovered their losses and some, particularly international markets, rose to records. At this point, our models suggest that global equities are fairly priced and offer attractive return potential, especially non-U.S. markets. For the S&P 500, uncertainty around U.S. trade

policy has depressed earnings estimates, with analysts now pencilling in 8.5% aggregate profit growth in 2025 and 13.5% in 2026, down from 14% and 15%, respectively, earlier this year. A bull-case scenario for the S&P 500 Index would generate a 9% annualized total return for the index from

May 31, 2025, to December 31, 2026. This result likely requires a lot of things to go right, including further progress on trade, Fed accommodation, consumer optimism and strong earnings growth.

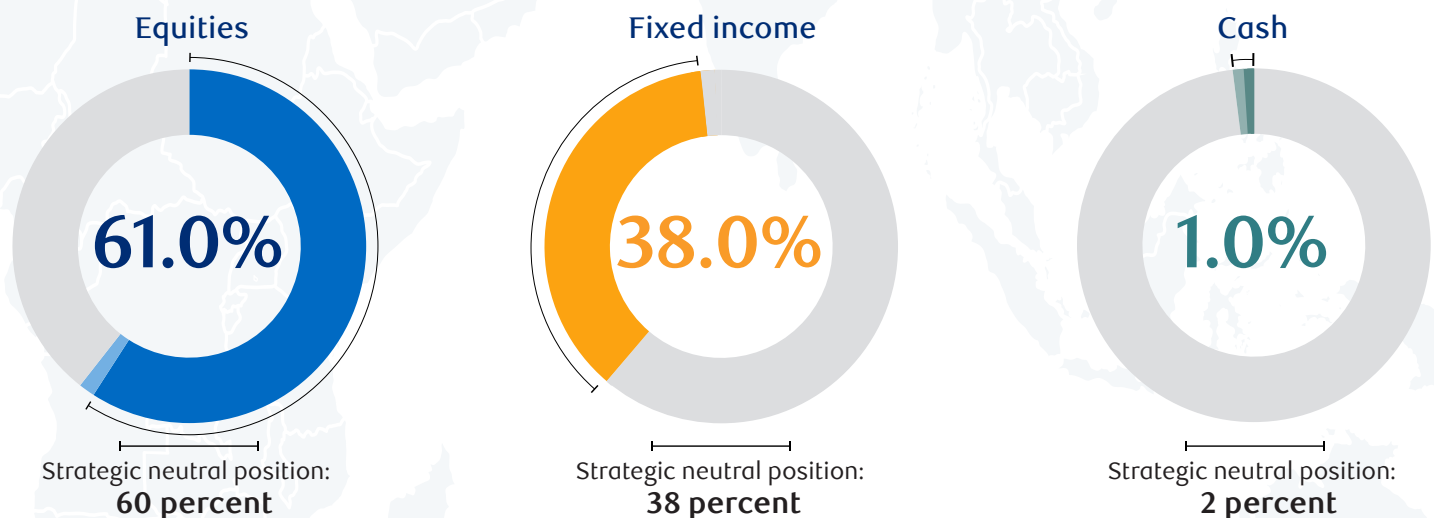
### Asset mix – added to equities following extremely oversold conditions

Considering the short-term risks and the long-term opportunities, we are maintaining an asset allocation that is relatively close to neutral given heightened uncertainty in the macroeconomic backdrop and our view that the risk premium between stocks and bonds is relatively small. That said, we have made some slight changes this quarter. We added one percentage point to our equity allocation, sourced from cash, as stocks reached extremely oversold

conditions typically associated with good long-term buying opportunities. Within our equity regional mix, we have tilted away from expensive U.S. large-cap stocks in favour of equities outside the U.S., particularly in Europe, where valuations are more appealing. For a balanced global investor, our current recommended asset mix is 61.0% equities (strategic: “neutral”: 60.0%), 38.0% bonds (strategic “neutral”: 38.0%) and 1.0% cash.

### Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of June 3, 2025. Source: RBC GAM

# Economic & capital markets forecasts

## Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets <sup>§</sup>	
	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025	Summer 2025	Change from Spring 2025
<b>Real GDP</b>														
2024A	2.80%		1.53%		0.78%		1.10%		0.18%		4.99%		5.00%	
2025E	1.40%	(0.50)	1.10%	0.20	1.10%	0.10	1.30%	0.40	0.80%	(0.70)	5.00%	0.40	4.60%	0.10
2026E	1.60%	(0.60)	0.70%	(1.50)	1.10%	(0.30)	1.30%	(0.20)	0.70%	(0.20)	4.20%	(0.10)	4.10%	(0.20)
<b>CPI</b>														
2024A	2.95%		2.38%		2.36%		2.54%		2.74%		0.25%		2.66%	
2025E	3.00%	(0.30)	2.10%	(0.80)	2.20%	(0.30)	3.40%	0.20	3.00%	(0.40)	0.30%	(0.80)	2.30%	(0.60)
2026E	3.00%	0.90	2.20%	0.60	1.80%	(0.10)	2.50%	0.40	1.60%	0.20	1.70%	0.20	2.80%	0.20

A = Actual E = Estimate <sup>§</sup>GDP Weighted Average of China, India, Brazil, Mexico and Russia. .

## Targets (RBC GAM Investment Strategy Committee)

	May 2025	Forecast May 2026	Change from Spring 2025	1-year total return estimate* (%)
<b>Currency markets against USD</b>				
CAD (USD–CAD)	1.37	1.32	(0.04)	2.6
EUR (EUR–USD)	1.13	1.22	0.13	5.1
JPY (USD–JPY)	144.03	133.00	(9.00)	4.5
GBP (GBP–USD)	1.35	1.38	0.05	2.5
<b>Fixed income markets</b>				
U.S. Fed Funds Rate (upper bound)	4.50	3.75	(0.75)	
U.S. 10-Year Bond	4.40	4.25	(0.25)	5.7
Canada Overnight Rate**	2.75	2.50	(0.25)	
Canada 10-Year Bond	3.20	3.25	N/C	2.8
Eurozone Deposit Facility Rate**	2.25	1.75	(0.25)	
Germany 10-Year Bund	2.50	2.50	N/C	2.5
U.K. Base Rate	4.25	3.50	(0.50)	
U.K. 10-Year Gilt	4.65	4.25	N/C	7.9
Japan Overnight Call Rate	0.48	0.75	N/C	
Japan 10-Year Bond	1.50	1.50	(0.25)	1.5
<b>Equity markets</b>				
S&P 500	5912	5850	(350)	0.3
S&P/TSX Composite	26175	26800	500	5.3
MSCI Europe	183	190	(5)	6.8
FTSE 100	8772	9050	(50)	6.7
Nikkei	37965	39800	(200)	6.9
MSCI Emerging Markets	1157	1225	45	8.7

\*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. \*\*The European Central Bank cut its policy rate by 25-basis points to 2.00% on June 5, 2025. Source: RBC GAM



# Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor’s profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no “one size fits all” strategic asset mix. Based on a 40-year study of historical returns<sup>1</sup> and the volatility<sup>2</sup> of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current

view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

---

<sup>1</sup>Average return: The average total return produced by the asset class over the period 1985 – 2025, based on monthly results.

<sup>2</sup>Volatility: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix							
	Benchmark policy	Allowable range	Summer 2024	Fall 2024	New Year 2025	Spring 2025	Summer 2025
Cash	2.0%	0.0% – 15.0%	1.5%	3.0%	2.0%	2.0%	1.0%
Bonds	38.0%	23.0% – 53.0%	38.5%	37.0%	38.0%	38.0%	38.0%
Stocks	60.0%	45.0% – 75.0%	60.0%	60.0%	60.0%	60.0%	61.0%

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation							
	WGBI* May 2025	Allowable range	Summer 2024	Fall 2024	New Year 2025	Spring 2025	Summer 2025
Global bonds							
North America	44.1%	34.1% – 54.1%	44.5%	47.5%	49.2%	50.1%	46.6%
Europe	33.0%	23.0% – 43.0%	34.0%	33.1%	32.7%	32.1%	28.0%
Asia	22.9%	12.9% – 32.9%	21.4%	19.4%	18.1%	17.8%	25.5%
	MSCI** May 2025	Allowable range	Summer 2024	Fall 2024	New Year 2025	Spring 2025	Summer 2025
Global equities							
North America	71.5%	61.5% – 81.5%	70.6%	71.6%	73.2%	72.7%	70.3%
Europe	13.7%	3.7% – 23.7%	13.7%	13.3%	12.2%	12.4%	14.4%
Asia	6.5%	0.0% – 16.5%	7.5%	6.8%	6.6%	6.3%	6.8%
Emerging markets	8.3%	0.0% – 18.3%	8.3%	8.3%	8.0%	8.6%	8.6%

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation					
	MSCI** May 2025	RBC GAM ISC Spring 2025	RBC GAM ISC Summer 2025	Change from Spring 2025	Weight vs. benchmark
Energy	3.62%	3.71%	1.87%	(1.83)	51.7%
Materials	3.37%	2.26%	1.62%	(0.64)	48.1%
Industrials	11.31%	10.75%	12.61%	1.86	111.5%
Consumer discretionary	10.22%	11.77%	10.22%	(1.54)	100.0%
Consumer staples	6.52%	5.46%	7.02%	1.56	107.7%
Health care	10.57%	10.63%	9.57%	(1.06)	90.5%
Financials	17.20%	18.50%	19.20%	0.69	111.6%
Information technology	24.19%	25.60%	24.89%	(0.72)	102.9%
Communication services	8.12%	9.52%	8.12%	(1.40)	100.0%
Utilities	2.72%	1.25%	3.72%	2.47	136.8%
Real estate	2.16%	0.55%	1.16%	0.61	53.8%

\*FTSE World Government Bond Index. \*\*MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

## Very Conservative

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.0%
Fixed Income	73%	68-88%	73.0%	73.0%
Total Cash & Fixed Income	75%	60-90%	75.0%	74.0%
Canadian Equities	10%	0-20%	9.9%	10.3%
U.S. Equities	8%	0-18%	7.7%	7.9%
International Equities	7%	0-17%	7.4%	7.8%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	26.0%
			Return	Volatility
40-year average			7.2%	4.8%
Last 12 months			9.6%	4.4%

**Very Conservative** investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.



## Conservative

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.0%
Fixed Income	58%	43-83%	58.0%	58.0%
Total Cash & Fixed Income	60%	45-75%	60.0%	59.0%
Canadian Equities	13%	3-23%	12.9%	13.1%
U.S. Equities	15%	5-25%	14.5%	14.8%
International Equities	12%	2-22%	12.6%	13.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	41.0%
			Return	Volatility
40-year average			7.7%	6.1%
Last 12 months			10.9%	5.1%

**Conservative** investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

## Balanced

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.0%
Fixed Income	38%	23-53%	38.0%	38.0%
Total Cash & Fixed Income	40%	25-55%	40.0%	39.0%
Canadian Equities	15%	5-25%	14.7%	14.9%
U.S. Equities	25%	15-35%	24.3%	24.5%
International Equities	15%	5-25%	15.8%	16.3%
Emerging Markets	5%	0-15%	5.2%	5.3%
Total Equities	60%	45-75%	60.0%	61.0%
			Return	Volatility
40-year average			8.2%	7.7%
Last 12 months			12.5%	6.1%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

## Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.0%
Fixed Income	23%	8-38%	23.0%	23.0%
Total Cash & Fixed Income	25%	10-40%	25.0%	24.0%
Canadian Equities	18%	8-28%	17.7%	17.8%
U.S. Equities	30%	20-40%	29.1%	29.2%
International Equities	19%	9-29%	19.9%	20.6%
Emerging Markets	8%	0-18%	8.3%	8.4%
Total Equities	75%	60-90%	75.0%	76.0%
			Return	Volatility
40-year average			8.5%	9.5%
Last 12 months			13.8%	6.9%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

## Aggressive Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	1.0%
Canadian Equities	29%	19-39%	28.6%	28.8%
U.S. Equities	38%	28-48%	36.8%	36.8%
International Equities	20%	10-30%	21.2%	21.9%
Emerging Markets	11%	1-21%	11.4%	11.5%
Total Equities	98%	83-100%	98.0%	99.0%
			Return	Volatility
40-year average			8.9%	11.9%
Last 12 months			16.2%	8.4%

**Aggressive Growth** investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.



## Capital markets performance



**Milos Vukovic, MBA, CFA**

Managing Director &  
Head of Investment Policy  
RBC Global Asset Management Inc.



**Aaron Ma, MBA, CFA**

Senior Analyst, Investment Strategy  
RBC Global Asset Management Inc.

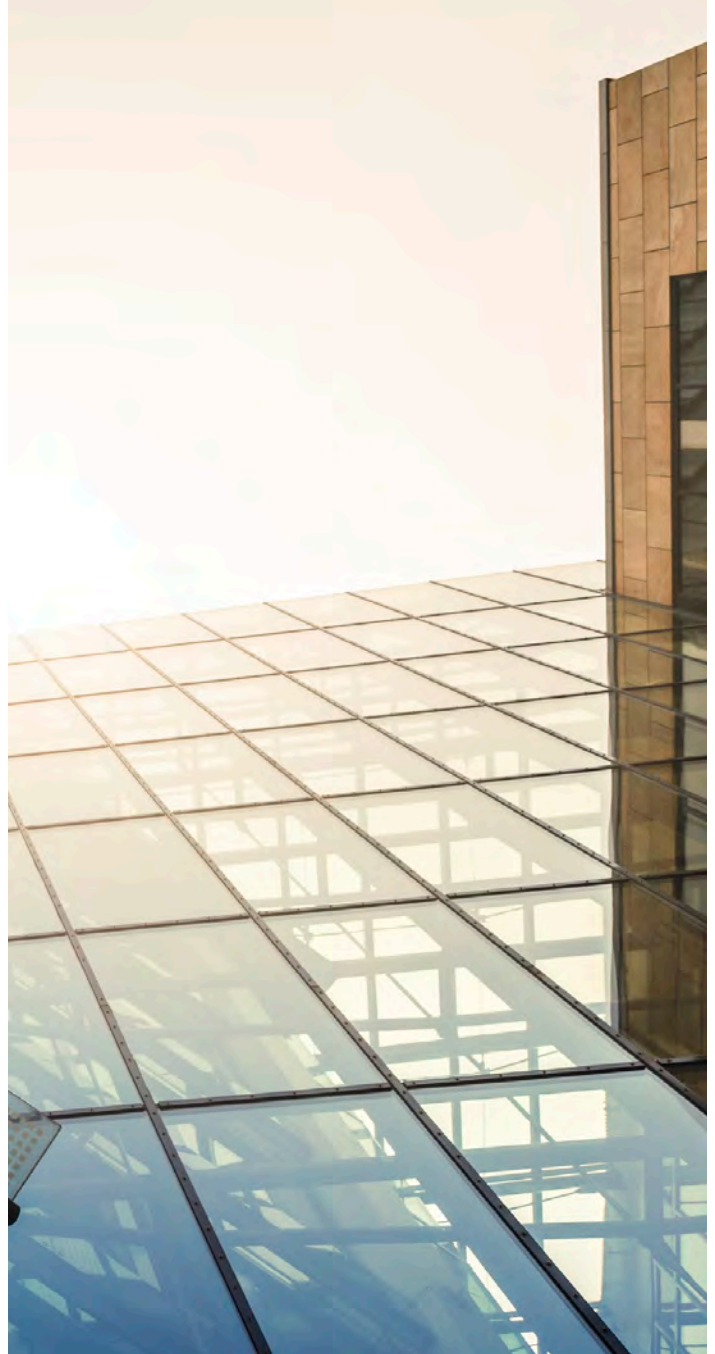
The U.S. dollar depreciated against all other major currencies during the three months ended May 31, 2025. The greenback was down 8.6% against the euro, 6.6% against the British pound, 5.1% versus the Canadian dollar and 4.4% versus the Japanese yen. The U.S. dollar was one of the worst performing currencies since January as elevated financial-market volatility, which historically has supported the greenback, failed to provide a lift. Investors may have begun questioning U.S. exceptionalism at a time when the economy is likely to slow with tariffs, U.S. fiscal health is poor and deteriorating, Fed independence is under threat and globalization is in retreat. All these developments made U.S. assets less attractive, which in turn reduced demand for the dollar. Exacerbating the U.S. dollar's decline is the fact that the greenback was vulnerable from a valuation standpoint as it was and continues to be overvalued relative to peers. The euro was a notable outperformer as economic prospects improved given the European Union's commitment to increase defense spending and Germany's new fiscal plan, which includes massive investments in infrastructure. The loonie underperformed many G10 currencies due in part to the relatively high exposure of Canada's economy to U.S. tariffs. Over the one-year period, the U.S. dollar declined 8.5% against the yen, 5.4% against the pound, 4.4% against the euro but appreciated 0.7% against the Canadian dollar.

Global fixed-income returns were weak in the latest quarter as government-bond yields traveled within a large range based on shifting narratives around growth, inflation and fiscal worries. The yield on the U.S. 10-year Treasury bond dropped to 3.86% after Trump's "Liberation Day" reciprocal-tariff announcement in early April. The yield then rose above 4.60% in May following Moody's downgrade of the U.S. sovereign-credit rating. Moody's warned that persistent, large fiscal deficits will drive the government's debt and interest burden higher and that the U.S. fiscal performance is likely to deteriorate, highlighting a well-known issue that has recently become more salient. In addition, the poor Japanese government bond (JGB) auction on May 21 sent yields higher for JGBs and Treasury bonds, particularly those of longer-dated securities. Consequently, the FTSE U.S. Government Bond Index had the worst performance of major global bond indexes with a 0.3% loss. The Bloomberg Pan-European Government Bond Index's 9.0% gain in U.S. dollars was the highest, mostly owing to the euro's strength versus the greenback. Over the 12-month period, Bloomberg's European government-bond index performed best, up 9.4%, compared with a 4.2% gain for the FTSE Japanese Government Bond Index, all in U.S.-dollar terms.



Global equities were highly volatile in the latest quarter as stocks dropped sharply in early April after Trump's tariffs were announced. The Nasdaq Composite fell as much as 28% and the S&P 500 Index as much as 19%, before a pause on implementation of the tariffs kicked off a powerful rally in which equities recovered most of their losses, and in some cases exceeded their previous highs. The S&P 500 was among the worst performers over the period with a 0.4% loss while the MSCI Germany Index produced a 15.5% return in U.S. dollars. Stocks delivered strong returns over the one-year period, with most index returns in the low double-digit to mid double-digit range in U.S. dollars, bookended by the 5.1% return for the MSCI France and the 34.7% gain for the MSCI Germany.

Equity investors preferred the resilience of large-cap stocks amid tremendous market volatility as the S&P 500's was relatively flat compared to the 2.6% decline for the S&P MidCap 400 Index and 5.4% drop in the S&P SmallCap 600 Index. Russell 3000 Growth Index performance outpaced the Russell 3000 Value Index by 3.9 percentage points as high earnings growth was attractive with an economic slowdown likely ahead. Utilities, up 9.3%, was the top performing sector over the three months as it benefited from growing power demand, a relative lack of exposure to tariffs and investor interest in its defensive characteristics in times of economic uncertainty. Health Care was the worst performing sector, registering a 7.7% loss amid a push for lower drug prices, less research funding and potential changes to Medicare reimbursements. Over the 12-month time frame, Financials was the best performing sector with a 28.2% return, while Materials ranked last with a 7.3% loss.



**Exchange rates**  
Periods ending May 31, 2025

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3724	(5.14)	(4.53)	0.69	2.76	(0.07)
USD–EUR	0.8807	(8.64)	(8.77)	(4.44)	(1.85)	(0.45)
USD–GBP	0.7422	(6.64)	(7.08)	(5.43)	(2.21)	(1.73)
USD–JPY	143.8950	(4.41)	(8.55)	(8.50)	3.78	5.94

Note: all changes above are expressed in US dollar terms

**Canada fixed income markets**  
Periods ending May 31, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	4.46	6.19	6.52	0.75	0.01	(0.91)	7.26	3.53

**U.S. fixed income markets**  
Periods ending May 31, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	(0.32)	2.44	5.46	1.49	(0.93)	(0.32)	5.46	1.49
BBg U.S. Agg. Bond Index TR <sup>1</sup>	(0.29)	2.45	5.46	1.49	(0.90)	(0.29)	5.46	1.49

**Global fixed income markets**  
Periods ending May 31, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	3.37	5.30	6.47	(0.02)	(2.73)	(1.34)	7.39	2.80
Bloomberg Pan-European Govt TR	8.98	10.34	9.41	1.55	(2.31)	4.02	10.36	4.41
FTSE Japanese Government TR	1.17	3.76	4.17	(8.05)	(8.85)	(4.03)	4.89	(5.51)

**Canada equity markets**  
Periods ending May 31, 2025

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	9.50	12.12	20.22	8.56	15.00	3.87	21.05	11.55
S&P/TSX 60	8.78	12.15	20.53	8.37	15.02	3.19	21.36	11.36
S&P/TSX Small Cap	13.79	11.21	12.91	3.70	15.02	7.94	13.69	6.56

**U.S. equity markets**  
Periods ending May 31, 2025

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	(0.37)	1.06	13.52	14.41	15.94	(5.50)	14.31	17.57
S&P 400 TR	(2.61)	(3.26)	2.17	7.81	12.93	(7.62)	2.88	10.79
S&P 600 TR	(5.37)	(8.18)	(1.75)	3.12	11.61	(9.68)	(0.90)	6.03
Russell 3000 Value TR	(2.60)	1.99	8.41	7.84	12.99	(7.31)	4.17	10.91
Russell 3000 Growth TR	1.35	(0.46)	17.04	19.27	17.11	(7.61)	9.16	10.81
NASDAQ Composite Index TR	1.61	(0.74)	15.02	17.45	15.91	(3.62)	15.81	20.68

Note: All rates of return presented for periods longer than 1 year are annualized. <sup>1</sup>Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

**Global equity markets**  
Periods ending May 31, 2025

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	2.10	4.95	13.72	13.18	14.18	(2.55)	14.70	16.38
MSCI EAFE TR *	8.92	16.87	13.33	11.45	11.42	3.96	14.31	14.60
MSCI Europe TR *	8.80	20.57	13.39	12.42	12.82	3.85	14.37	15.59
MSCI Pacific TR *	9.20	10.11	12.46	9.43	8.84	4.22	13.44	12.52
MSCI UK TR *	7.95	17.60	16.22	11.24	14.00	3.04	17.22	14.38
MSCI France TR *	6.58	17.61	5.12	10.48	12.92	1.73	6.03	13.60
MSCI Germany TR *	15.53	31.29	34.65	18.80	13.30	10.26	35.82	22.15
MSCI Japan TR *	9.65	9.86	11.17	11.29	8.39	4.66	12.13	14.43
MSCI Emerging Markets TR *	6.31	8.73	13.04	5.15	7.07	1.46	14.02	8.12

**Global equity sectors**  
Periods ending May 31, 2025

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	(5.34)	(0.38)	(7.34)	1.64	17.73	(9.65)	(6.54)	4.51
Materials TR *	2.34	8.34	(1.34)	2.39	10.39	(2.32)	(0.48)	5.28
Industrials TR *	8.90	13.59	17.52	17.16	16.10	3.94	18.54	20.47
Consumer discretionary TR *	0.30	(2.08)	16.72	12.24	12.26	(4.27)	17.73	15.41
Consumer staples TR *	4.44	11.56	12.27	6.61	8.06	(0.32)	13.25	9.62
Health care TR *	(7.65)	(0.64)	(5.19)	2.11	5.47	(11.86)	(4.37)	4.99
Financials TR *	3.79	12.84	28.18	17.47	19.91	(0.94)	29.29	20.78
Information technology TR *	2.74	(0.68)	14.70	21.53	19.73	(1.94)	15.70	24.96
Communication services TR*	2.88	6.20	21.28	18.67	13.47	(1.80)	22.33	22.02
Utilities TR *	9.27	14.26	17.54	6.99	8.90	4.29	18.56	10.01
Real estate TR *	0.11	5.27	12.33	0.59	5.13	(4.45)	13.30	3.43

\* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI





# Economic outlook

## Public policy remains dominant force



**Eric Lascelles**

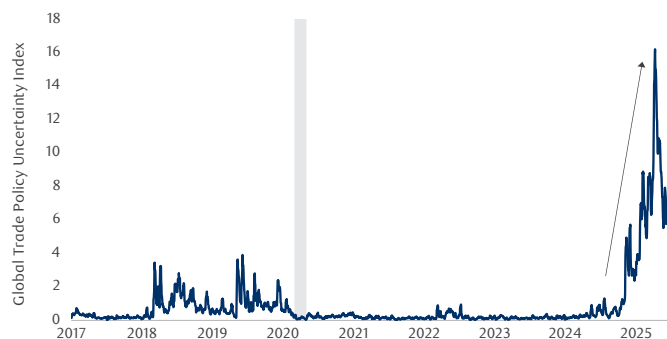
Managing Director & Chief Economist  
RBC Global Asset Management Inc.

The impact of repeated waves of unorthodox U.S. public policy is washing over the global economy and financial markets. Some policy guardrails are starting to appear: critically, tariffs seem unlikely to be enormous, nor to go away altogether. But there remains substantial uncertainty, particularly with regard to the precise contours of trade policy (Exhibit 1).

The effective U.S. tariff rate on its trading partners has declined substantially from early-May highs after a temporary détente was reached with China and a trade deal was struck with the UK (Exhibit 2). But tariffs are now creeping back up again.

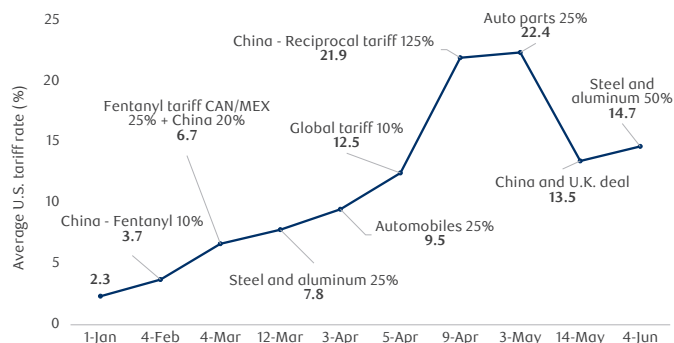
For their part, financial markets are becoming less fussed by the repeated policy shocks, recognizing that the most extreme proposals and actions are likely to later be tempered. The risk of recession has declined, and a contraction is not our base-case forecast. Still, tariffs and

**Exhibit 1: Global trade-policy uncertainty has fallen but remains high**



Note: As of 06/07/2025. Shaded area represents U.S. recession. Index based on searches in economic, research and government related topics in Bloomberg News and First Word feeds. Source: Bloomberg, Macrobond, RBC GAM

**Exhibit 2: Average U.S. tariff rate still material after pauses and deals**



Note: Effective tariff rates estimated based on tariffs implemented by the Trump administration up to June 4, 2025. Excludes de minimis effect. All U.K. steel exports to U.S. are assumed to be covered under the quota system. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM

the other economic-policy decisions emanating from the White House remain central to the U.S. and global economic outlooks and are set to do material damage to growth over the second half of 2025.

Given the stagflationary impulse that emanates from tariffs, U.S. and global growth is set to be weaker than normal in 2025. There is then some scope for recovery in 2026, especially as planned U.S. tax cuts take effect. U.S. inflation should be moderately higher than otherwise, but not on the scale of the inflation shock of a few years ago.

While a handful of countries are substantially exposed to U.S. tariffs, the bulk of the global economy should not be too badly affected given only limited exposure to U.S. demand. Furthermore, with the exception of a small number of countries that are retaliating forcefully against the U.S. with tariffs of their own, any increase in inflation outside of the U.S. should be quite limited.

From a longer-term standpoint, U.S. exceptionalism – economic and otherwise – is diminishing, and along with it the country's previously considerable store of soft power. Concerns about the U.S. fiscal burden have also become palpable. In turn, the U.S. dollar should continue to decline, U.S. longer-dated borrowing costs may be somewhat higher than otherwise, and the American stock market is somewhat less well-positioned to continue outperforming the rest of the world. This presents opportunities that are both economic and financial in scope, especially for the European Union (EU) and China.

When these views are combined with valuation considerations, our recommended geographic equity asset allocation has tilted somewhat away from the U.S. At the same time, the firm's tactical weighting toward equities increased over the past quarter to take advantage of temporarily depressed markets.

### **Tariffs take effect**

There have been a truly remarkable number of tariff twists and turns over the past quarter. Of greatest prominence, large reciprocal tariffs were briefly levied against the majority of the world's nations, and even larger ones were placed on China. New sector tariffs also took effect on steel, aluminum and autos.

After financial markets expressed sharp disapproval, tariff policy mostly lightened from mid-April through May, with reciprocal tariffs downsized to 10% baseline rates, gigantic Chinese tariffs pared, and a trade deal struck between the U.S. and the UK. This sequence showed there are limits to how much tariff pain the White House is willing to endure, and thus that large permanent tariffs are unlikely.

However, and possibly reinvigorated by the recent financial market rebound, the White House is again nudging the tariff frontier outward. It has levelled new threats against Europe and against imported cell phones, doubled the tariffs on steel and aluminum, and still plans a suite of other sector-oriented tariffs set to be implemented on copper, forestry products, pharmaceuticals, computer chips and possibly even critical minerals. The USMCA trade deal also needs to be renegotiated, and for that matter there is still a theoretical queue of well over 100 countries scrambling to negotiate with the U.S. before their 90-day reprieve expires in early July. China's tariff reduction will theoretically expire in August. Given that many countries have reported that they do not know what the U.S. wants of them and don't even have a proper opposite number with whom to negotiate, it stretches the imagination to think that these will all be settled before the deadline.

The British trade deal proves that accords are possible and provides some sense for what other countries might realistically aspire to. While the UK did manage to negotiate down several sector tariffs and avoided too many concessions elsewhere, the main conclusion is that middling tariffs are here to stay, with the bulk of UK exports to the U.S. still subject to the baseline 10% tariff. If this was the deal that a country running a trade deficit versus the U.S. secured, it strongly suggests that others – almost all of whom run trade surpluses versus the U.S. – are unlikely to do better.

The matter of whether the White House's current slate of tariffs is entirely legal remains unresolved, with appeals and counter-appeals ongoing. Our main takeaway is that even if some of the current tariffs are unwound for legal reasons, there are a suite of other tariff-supportive laws on the books that will allow the White House to mostly achieve its objectives.

With the acknowledgement that trade-policy uncertainty remains substantial, we assume that the average effective U.S. tariff rate eventually settles at around 15%. That's approximately in line with the current level and reflects the following assumptions:

- Broad baseline 10% tariffs continue to apply to most countries
- A handful of sector-oriented tariffs are overlaid on top of this, lifting the average rate
- Conversely, a variety of narrow exemptions eventually lower the average rate – achieved through a mix of trade deals and simple American self-interest to avoid its own pain points
- Tariffs on China remain higher than elsewhere, averaging 25% – 50%
- Tariffs on a number of other countries – mostly Asian economies with large trade surpluses against the U.S. – land somewhat higher than elsewhere, at an approximately 20% rate

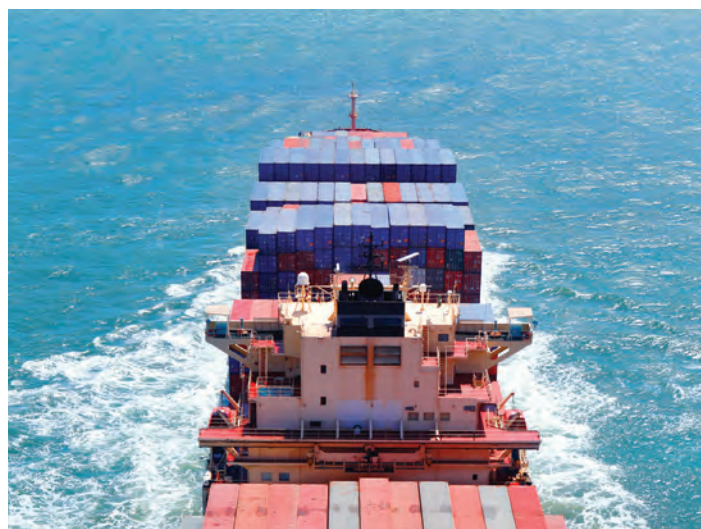
To the extent there are risks to this view, they arguably tilt toward even higher tariffs. President Trump's desire for tariff revenue and goal of onshoring industrial production should not be underestimated. The UK trade deal technically left in place its full reciprocal tariff allotment, as the UK only ever had a 10% rate levied against it. For comparison, the full reciprocal tariff rates assigned to the EU, Japan and Vietnam are 20%, 24% and 46%, respectively. If those higher rates were to stick, the tariff profile would naturally be worse.

Who, beyond the U.S. is set to be hurt by the tariffs? That is largely a function of which countries trade the most with the U.S., and which countries have been hit by the largest tariffs (Exhibit 3). Mexico and Vietnam are on track to suffer triple the economic damage of any other country due to a combination of high trade connectivity to the U.S. and substantial tariffs. There is then a cluster of six countries – Canada plus Thailand, South Korea, Taiwan, China and Malaysia – that are tracking moderate tariff damage. Beyond those nations, the central takeaway is that most countries rely on the U.S. for only 2%–3% of their economic demand, and so they should be relatively resilient even in the face of tariffs.

### Exhibit 3: Which country is most exposed to U.S. tariffs?

Country	Tariff impact on economic output (A) x (B)	Exports to U.S. in 2024 (% of national GDP) (A)	Effective tariff rate (%) (B)
Mexico	3.80	27.30	13.92
Vietnam	3.52	29.72	11.86
Thailand	1.25	12.03	10.37
South Korea	1.08	7.04	15.30
Canada	1.06	18.41	5.78
Taiwan	1.01	14.86	6.79
China	0.95	2.34	40.72
Malaysia	0.89	12.52	7.10
Japan	0.60	3.68	16.22
Germany	0.47	3.44	13.55
Italy	0.40	3.22	12.40
South Africa	0.37	3.66	10.12
Indonesia	0.30	2.01	14.77
Philippines	0.28	3.07	9.00
India	0.25	2.24	11.21
Peru	0.24	3.24	7.42
Brazil	0.23	1.95	11.99
Netherlands	0.22	2.78	7.90
France	0.20	1.90	10.66
Turkey	0.20	1.27	15.87
U.K.	0.17	1.87	9.23
Spain	0.15	1.24	11.99
Australia	0.09	0.93	9.85
Saudi Arabia	0.03	1.17	2.49
Nigeria	0.02	3.04	0.80
Russia	0.01	0.14	3.67

Note: Effective tariff rates estimated based on tariffs implemented by the Trump administration up to June 4, 2025. Excludes de minimis effect. Assumes a quota fully covers all U.K steel imports to the States. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM



Projecting the effect of tariffs onto the economy, inflation and unemployment is not an exact science. Our base-case scenario anticipates a reduction in U.S. economic growth of approximately 1.3%, with an unemployment rate that rises – all else equal – by 0.9%, and an increase in the U.S. consumer price level of 0.9 percentage point. Of course, if tariff rates eventually settle materially above or below our expectations, the story naturally changes (Exhibit 4).

Among other countries, we anticipate a 1.1%-1.8% hit to Canadian GDP growth, a 1.0%-2.0% reduction in Chinese growth, and smaller impacts in the EU, UK and Japan.

The expected global (ex-U.S.) hit to growth should be approximately -0.8%.

### Other U.S. policy

While tariffs have sucked the oxygen out of the room, they are not the only remarkable policy initiative emanating from the White House.

On the growth-negative side of the ledger, immigration policies have been tightened, potentially subtracting up to half a percentage point per year from GDP growth relative to the prior trajectory as the workforce expands less quickly.

## Exhibit 4: Tariff scenarios and economic implications

		Tariff rate increase (ppt)								
		0%	5%	10%	15%	20%	25%	35%	50%	100%
Global	GDP	-0.2	-0.4	-0.5	-0.8	-1.1	-1.4	-2.1	-3.2	-5.1
	CPI	0.0	0.1	0.1	0.2	0.4	0.5	0.7	1.1	1.8
	Unemployment rate	0.0	0.3	0.3	0.5	0.7	1.0	1.4	2.1	3.4
U.S.	GDP	-0.3	-0.6	-0.9	-1.3	-1.8	-2.4	-3.6	-6.0	-10.8
	CPI	0.3	0.5	0.8	1.1	1.5	2.0	3.1	5.1	9.1
	Unemployment rate	0.2	0.4	0.6	0.9	1.2	1.6	2.4	4.0	7.2
Canada	GDP	-0.5	-1.1	-1.8	-2.5	-3.4	-4.5	-6.9	-11.4	-20.5
	CPI	0.2	0.3	0.5	0.8	1.7	2.3	3.5	5.7	10.2
	Unemployment rate	0.3	0.8	1.2	1.7	2.3	3.0	4.6	7.6	13.7
China	GDP	-0.1	-0.3	-0.4	-0.6	-0.8	-1.0	-1.4	-2.0	-3.2
	CPI	0.0	0.1	0.2	0.2	0.3	0.4	0.6	0.8	1.3
	Unemployment rate	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.3	2.1
EU	GDP	-0.2	-0.4	-0.6	-0.9	-1.2	-1.6	-2.4	-3.6	-6.4
	CPI	0.0	0.1	0.1	0.2	0.5	0.6	0.9	1.4	2.6
	Unemployment	0.1	0.3	0.4	0.6	0.8	1.1	1.6	2.4	4.3
UK	GDP	-0.2	-0.4	-0.5	-0.8	-1.0	-1.3	-2.0	-3.0	-5.3
	CPI	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.6	1.1
	Unemployment rate	0.1	0.2	0.3	0.5	0.7	0.9	1.3	2.0	3.6
Japan	GDP	-0.2	-0.4	-0.5	-0.8	-1.0	-1.3	-2.0	-3.0	-5.3
	CPI	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.6	1.1
	Unemployment rate	0.1	0.2	0.3	0.5	0.7	0.9	1.3	2.0	3.6

Note: As at 05/29/2025. +/- indicate positive/negative expected impact of different levels of tariff increases in ppt change to the trajectory of GDP, CPI or unemployment rate. The tariff rate for the U.S. is the trade-weighted average tariff it applies on others. For other countries and global, the rate is the average tariff applied by the U.S. on that country. A 0% tariff still induces economic damage due to high uncertainty and boycotts. The estimates presume a less than 1-for-1 response by the targeted countries. Source: RBC GAM



On the growth-supportive side, a major budget bill is now wending its way through Congress with substantial tax cuts proposed. Although much of this amounts to the extension of tax breaks that would otherwise have expired at year-end, there are new elements as well. Some of this is set to be funded by spending reductions elsewhere, including, controversially, Medicaid cuts. But the package nevertheless represents a substantial net outlay, potentially helping economic growth recover in 2026 and increasing U.S. borrowing over the next decade by between \$2 trillion and \$5 trillion. The anticipated tariff revenue is probably not large enough to fully plug this hole.

Section 899 of the bill has drawn considerable international attention because it threatens to increase the tax rate that foreign businesses and investors pay on their U.S. dividend and interest income. This would happen if other countries don't reduce certain "discriminatory" taxes that they levy on U.S. interests. We think it is likely that these new U.S. taxes are ultimately avoided, either because the final version of the bill removes them, because foreign countries scale back their digital-services taxes and global minimum taxes, or a remedy is found as part of trade negotiations. However, if this U.S. tax hike is activated, it stands to hurt not just foreign investors, but also the American economy as foreign capital flees for other shores.

### U.S. exceptionalism diminished

Another key emergent theme is the diminishment of U.S. exceptionalism. The U.S. has long been the world's dominant economy and geopolitical power, and it accordingly has possessed the world's reserve currency, which brings the privilege of attracting capital from the rest of the world and benefiting from cheaper borrowing costs.

That exceptionalism now appears to be in retreat for several reasons.

The first reason relates to the deteriorating American political environment. The weaponization of the U.S. dollar in recent years against Russia and other foes, the U.S. retreat from the global institutions that constitute the connective tissue of the global economy, and recent erratic and unfriendly policy decisions all render the U.S. a less attractive market. U.S. soft power is in serious retreat.

Second, the famous U.S. growth advantage is slated to diminish in the coming years as American policymakers curtail immigration, undermine growth with tariffs, and discourage foreign academics and students from bringing their talents to the U.S. Conversely, a large chunk of the developed world, including the EU, has been jolted awake from their long slumber by recent U.S. actions and are now undertaking major fiscal, military and infrastructure outlays that promise to augment their own economic growth.





Third, the U.S. tops the list of countries that are in a precarious fiscal position, according to our fiscal health index (Exhibit 5). This renders U.S. sovereign debt less attractive and implies that the U.S. will eventually have to engage in growth-limiting austerity.

### Exhibit 5: Fiscal health scorecard

Country	Fiscal Health Index (1 - 5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current Account (% of GDP)	Foreign-held debt (% share)	Committed spending share (%)	Currency control
U.S.	3.8	121	7.7	2.5	3.9	2.1	-3.9	26	70	Yes
U.K.	3.6	101	5.5	1.5	3.1	1.4	-3.4	25	66	Yes
Belgium	3.4	104	4.7	1.0	2.0	1.3	-0.9	52	58	No
Brazil	3.4	87	7.1	1.1	8.2	2.5	-2.8	11	66	Yes
France	3.4	113	5.4	1.3	1.9	1.2	0.4	46	63	No
Italy	3.3	135	3.5	-0.2	3.7	0.7	1.1	28	62	No
Spain	3.2	102	3.8	0.2	2.4	1.6	3.0	41	63	No
Greece	3.1	151	1.0	-3.4	2.8	1.4	-6.9	n.a.	57	No
Japan	3.0	237	2.5	-3.3	1.2	0.5	4.8	13	67	Yes
South Africa	3.0	76	6.0	0.3	5.0	1.8	-0.6	23	43	Yes
Mexico	2.9	58	5.9	2.5	6.2	2.1	-0.3	23	n.a.	Yes
Canada	2.8	111	1.9	-2.6	3.2	1.5	-0.5	21	63	Yes
India	2.8	81	7.4	-0.8	5.4	6.5	-0.8	5	n.a.	Yes
Norway	2.7	43	8.3	7.0	0.6	1.3	17.1	63	60	Yes
Finland	2.6	83	2.8	-0.5	1.1	1.2	0.3	46	62	No
China	2.5	123	6.9	-1.2	0.9	3.4	2.3	3	44	Yes
Portugal	2.4	95	-0.3	-3.1	2.2	1.7	2.2	46	62	No
Germany	2.2	64	2.2	0.0	0.9	0.7	5.7	42	61	No
Turkey	2.1	26	5.5	0.6	2.6	4.1	-0.8	n.a.	62	Yes
Australia	2.1	50	2.9	0.6	1.6	2.3	-1.9	33	57	Yes
Indonesia	1.8	40	2.2	-0.9	2.1	5.1	-0.6	34	32	Yes
Russia	1.8	20	3.0	1.5	0.8	1.2	2.9	8	46	Yes
South Korea	1.6	52	0.6	-1.7	0.9	1.8	5.3	17	n.a.	Yes
Netherlands	1.6	43	1.4	-0.2	0.7	1.2	9.9	37	57	No
Ireland	1.5	41	-3.9	-5.1	0.7	2.3	17.2	56	60	No
Denmark	1.4	28	-3.8	-4.7	0.7	1.5	13.0	26	64	Yes
Sweden	1.4	33	0.8	-0.3	0.7	1.7	7.4	16	56	Yes
Legend	Extremely poor	Very poor	Poor	Fair	Good					

Note: 2024 data for all indicators except interest payments (2023) and GDP growth (IMF forecast for 2030 used as proxy for “normal”). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

In combination, these adverse developments argue, over time, for capital outflows from the U.S., a weaker U.S. dollar (Exhibit 6), a larger term premium (Exhibit 7), and perhaps even a lower price-to-earnings ratio in the stock market.

### Delayed hit to economic growth

The theory is clear: tariffs should materially hurt economic growth. However, the precise timing of this damage is harder to pin down, and it has been a surprise that activity is only running a few ticks below normal through May despite the arrival of tariffs in March and April. The lagged impact appears to be in large part because many businesses

stockpiled inventories before the full brunt of the tariffs arrived, delaying the price increases that normally set demand destruction into motion.

There is no question that sentiment-based and forward-looking indicators have weakened (Exhibit 8), suggesting a later decline in actual economic activity. Various real-time economic indicators are only now beginning to hint at a mild deceleration, including rising weekly jobless claims (Exhibit 9) and a slight dip in the Dallas Fed's Weekly Economic Indicator (Exhibit 10). The bulk of the damage now expected in the third and fourth quarters of the year.

#### Exhibit 6: U.S. dollar tumbles on Trump tariff turmoil



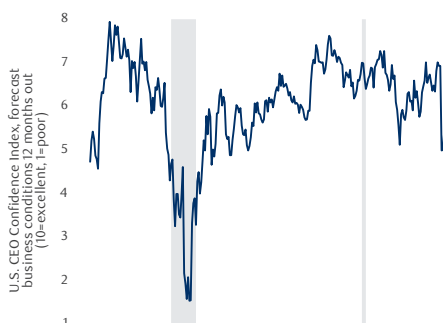
Note: As of 06/09/2025. Shaded area represents U.S. recession. Source: ICE, Bloomberg, Macrobond, RBC GAM

#### Exhibit 7: Term premium has been rising



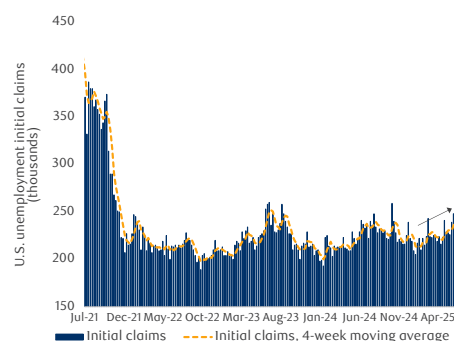
Note: As of 06/05/2025. Source: Federal Reserve Bank of New York, Macrobond, RBC GAM

#### Exhibit 8: U.S. CEO confidence dropped sharply on Trump policies



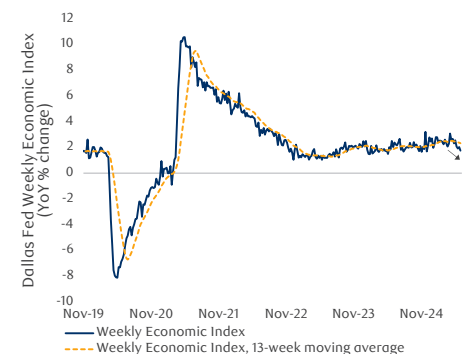
Note: As of May 2025. Shaded area represents recession. Source: Chief Executive Group, Bloomberg, RBC GAM

#### Exhibit 9: U.S. jobless claims rising slowly, though still low



Note: As of the week ending 06/07/2025. Source: DOL, Macrobond, RBC GAM

#### Exhibit 10: Dallas Fed Weekly Economic Index slipping lower



Note: For the week ended 05/31/2025. The WEI is an index of ten indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. Source: Federal Reserve Bank of Dallas, Macrobond, RBC GAM

Providing a partial offset to the tariff blow in 2025, oil prices have fallen considerably – a deflationary and growth-enhancing force. For the U.S., the weaker greenback also provides a modest competitive boost, though it has the reverse effect on other countries. Even as longer-term interest rates prove resistant to decline as the market reprices risk premiums on fiscal concerns and policy uncertainty, policy rates have declined substantially over the past year to create a lagged positive growth impulse.

Tariffs nevertheless dominate the outlook, with the result that 2025 GDP growth is forecast to be quite modest, with sub-2% growth rates across the board for the developed world (Exhibit 11).

The U.S. does not completely shed its international growth advantage, with a 1.4% gain in real GDP expected for the year, versus 1.3% in the UK and 1.1% increases in the eurozone and Canada. But the relative U.S. gain represents a sharp compression of the historical growth advantage, as the U.S. outpaced its peers by a remarkable 1.3 to 2.5 percentage points annually in each of the prior two years. The U.S. forecast also means that growth should be only half as fast in 2025 as it was in 2023 or 2024.

Next year promises to be somewhat better. The worst of the tariff adjustment should be complete by then, and U.S. tax cuts constitute a potential tailwind.

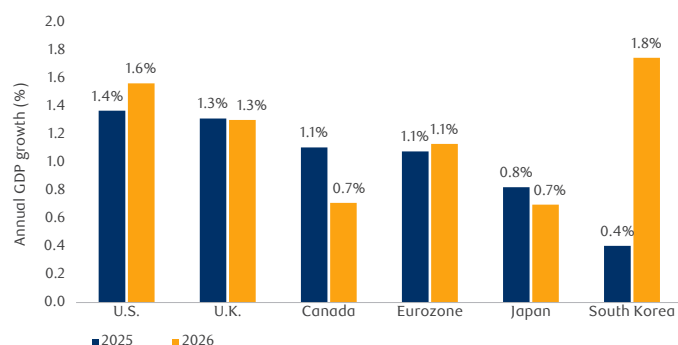
Implicit in all of this is that we do not forecast a recession. The tariff damage should not be large enough. That said, given uncertainties over what exact tariffs will be delivered and how they will interact with the economy, we presently assign a 30% chance of a U.S. recession over the coming year. That is down from earlier estimates, but still elevated.

On the emerging-market side, a 2025 tariff slump is also anticipated, but to a fairly mild extent for major economies (Exhibit 12). China is discussed in more detail in its own section later. Mexico is an obvious exception to this comment, as it is quite deeply connected to the U.S. and faces larger tariffs than most. In turn, we project a mere 0.1% GDP gain for the country in 2025.

### Inflation downgrade outside U.S.

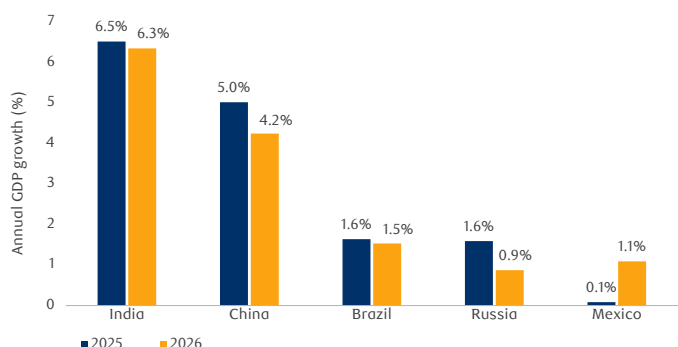
The trauma of the massive post-pandemic inflation shock of 2021-2023 is still fresh, and inflation still hasn't quite returned to normal (Exhibit 13). It is thus doubly unfortunate that a new

**Exhibit 11: RBC GAM GDP forecast for developed markets**



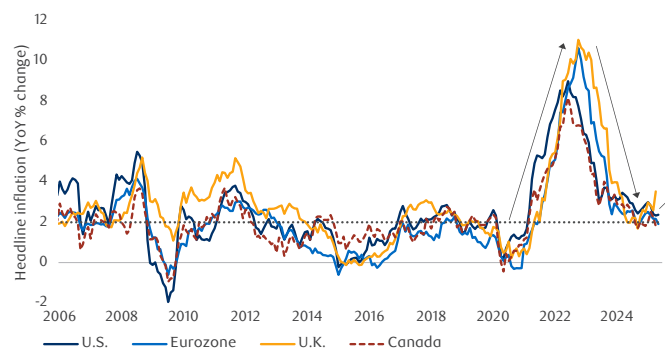
Note: As of 05/29/2025. Source: RBC GAM

**Exhibit 12: RBC GAM GDP forecast for emerging markets**



Note: As of 05/29/2025. Source: RBC GAM

**Exhibit 13: Inflation has massively improved, but tariff impact awaits**



Note: Canada and U.K. as of Apr 2025, Eurozone and U.S. as of May 2025. Source: Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Statistical Office of the European Communities, Macrobond, RBC GAM

inflation irritant already looms in the form of tariffs. Tariffs are taxes that are levied on importers, who in turn pass a portion of their higher costs on to consumers in the form of higher prices.

The good news is that the tariff impact remains difficult to see in the price data so far. Much of this is for the same reason: inventory stockpiling that is delaying the impact. But it is possible that some fraction of the higher costs are also being absorbed by other segments of the supply chain.

We still budget for a substantial rise in U.S. prices, with annual inflation rates of 3.0% in both 2025 and 2026 (Exhibit 14). At a more granular level, U.S. monthly inflation is projected to peak at 3.5% in late autumn.

Businesses are now indicating that they plan to raise their prices, though the extent remains relatively contained (Exhibit 15). Real-time price measures argue that price pressures are indeed now running hotter than over the prior year, but these have also not skyrocketed (Exhibit 16).

On the other hand, lower oil prices should exert negative pressure on global inflation.

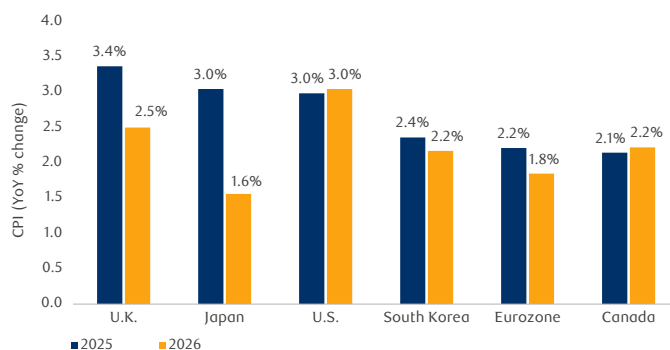
Beyond the U.S., the inflationary effect from tariffs should be much smaller, and less than we had assumed a quarter ago. This is for three reasons.

First, whereas tariffs hurt the economies of both the implementing and targeted countries, it is mainly the tariff-setting country whose prices rise. With only a few exceptions, other countries have reacted with surprising restraint to U.S. tariffs, meaning that they should expect only minimal additional inflation of their own from their direct effect of tariffs.

Second, with access to the U.S. market now more difficult, China and others may choose to dump their surplus production into third-party markets, creating a deflationary force. Already, steel dumping accusations are being levelled.

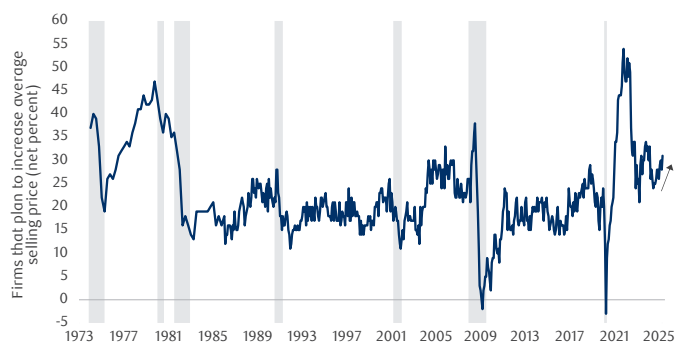
Third, under normal circumstances, countries being hit by tariffs see their exchange rates decline. This makes their imports more expensive and can be inflationary. But these days the opposite is happening: the U.S. dollar has instead fallen.

**Exhibit 14: RBC GAM CPI forecast for developed markets**



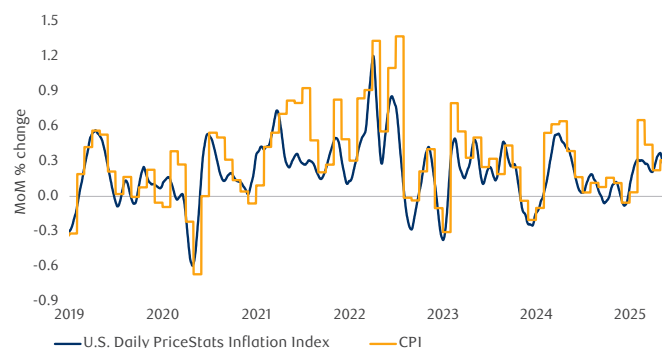
Note: As of 05/29/2025. Source: RBC GAM

**Exhibit 15: Fraction of U.S. businesses planning to raise prices perked up lately**



Note: As of May 2025. Shaded area represents recession. Source: NFIB Small Business Economic Survey, Macrobond, RBC GAM

**Exhibit 16: U.S. daily inflation metric sees tentative price pressures**



Note: PriceStats Inflation Index as of 06/08/2025, CPI as of May 2025. Source: State Street Global Markets Research, RBC GAM

### Central banks proceed with caution

Central banks are proceeding with considerable caution for two sets of reasons. The first is that it is still difficult to say with precision where tariffs will go from here, and accordingly what central banks should be doing. Instead of being proactive, they are forced to wait to see what White House policies are implemented (and even more so, which ones stick), before adjusting policy. That isn't ideal, as it takes several quarters for monetary-policy decisions to substantially impact the economy.

The second complication for central banks is that tariffs give contradictory signals. They simultaneously increase prices and decrease economic output, with the former arguing for rate hikes and the latter for rate cuts. In practice, it is the economic damage that usually takes precedence because the damage to the level of output is enduring, whereas inflation's deviation is short-lived (the price level is enduringly higher, but recall that central banks target inflation). As such, rate cuts can be expected, but of a more cautious nature than one would otherwise expect if this were a run-of-the-mill growth shock, both in terms of magnitude and timing (Exhibit 17). In turn, we anticipate three 25-basis-point rate cuts from the U.S. Federal Reserve over the latter part of the year.

Other central banks have less of a conflict to grapple with, as the primary damage to their economies is through slower growth rather than high inflation. In turn, they are well positioned to continue easing monetary policy to levels that are low enough to stimulate the economy.

### China's opportunity

China has undeniable challenges, from poor demographics to high debt to the U.S. trade war. It is also no longer a poor nation, meaning it can no longer expect to play catch-up via fast economic growth with the developed world to the extent it once did.

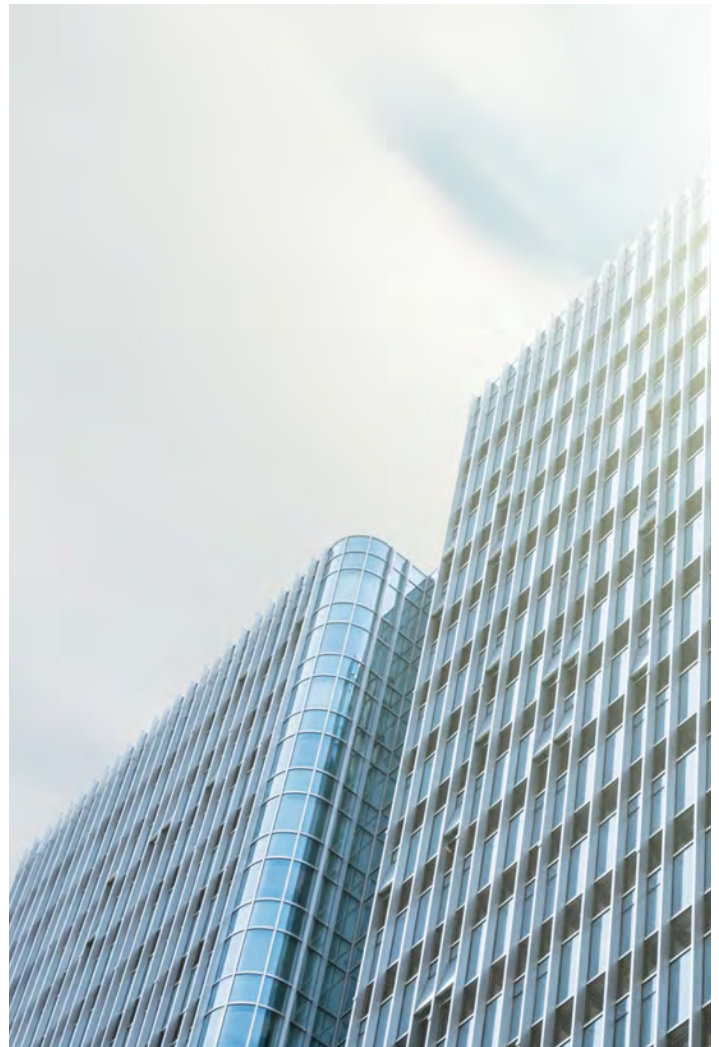
Still, we remain optimistic that China's economy can meet or exceed consensus growth estimates for several reasons.

First, while tariffs are a clear negative, China is less exposed than commonly imagined. Not only has there been a détente between the two adversaries, but only 2%-3% of what China produces is sold to the U.S. China has a huge domestic market, sends more than half of its exports to other Asian nations and trades more with Europe than it does with North

**Exhibit 17: Market expects rate cuts to start in second half of 2025**



Note: As of 06/09/2025. Source: Bloomberg, RBC GAM





America. China is still hurt by tariffs. But it is a manageable blow, and the country has the upper hand versus the U.S. in negotiations given its dominance in critical minerals and the country's dominance in the U.S. consumer goods and electronics markets.

Second, the longstanding question of whether China can pivot from manufacturing mimicry to technological innovation has been resoundingly answered with a “yes.” The country is now evidently at the technological frontier, leading the way in such spaces as electric vehicles, batteries, solar panels and drones, and is also advancing quickly in artificial intelligence. This will be key for China's economic growth in the future, as it can no longer count on demographic tailwinds.

Third, after chilly relations for several years, the Chinese government has made peace with its private sector, putting businesses in a better position to grow and thrive.

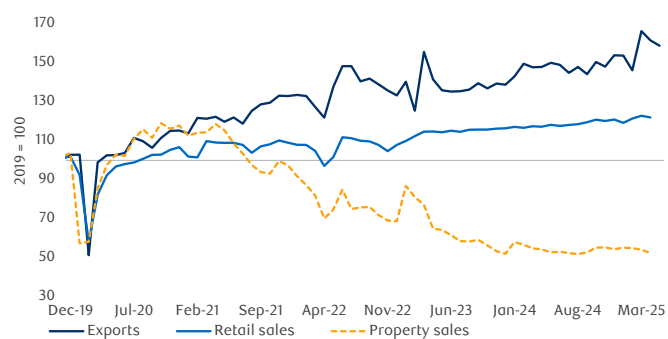
Fourth, China is delivering economic stimulus, and of greatest importance, consumption-oriented stimulus. As the country has reached middle-income status, its consumers should start to contribute more to the economy, but have so far been cautious. As social safety nets are now constructed and other forms of incentive to spend created, the country's famously high household-savings rate can theoretically decline, unleashing a sustained period of faster consumer spending. Retail sales have been ticking higher (Exhibit 18).

Fifth and finally, the country's beleaguered property market is showing some green shoots. Builders no longer appear on the cusp of failure, excess units are being absorbed by the government, and the country's largest cities are again managing tentative home-price increases. These developments don't mean that housing will contribute significantly to growth in the near term, but they are no longer shaping up to be a drag.

From a geopolitical standpoint, China has the opportunity to fill the void now being created by the U.S. retreat from global affairs. China is already an economic superpower and projected to be the biggest driver of global growth in the coming years (Exhibit 19). If it can prove a reliable partner to other nations in a way that the U.S. is not, there is scope for it to gain considerable soft power.

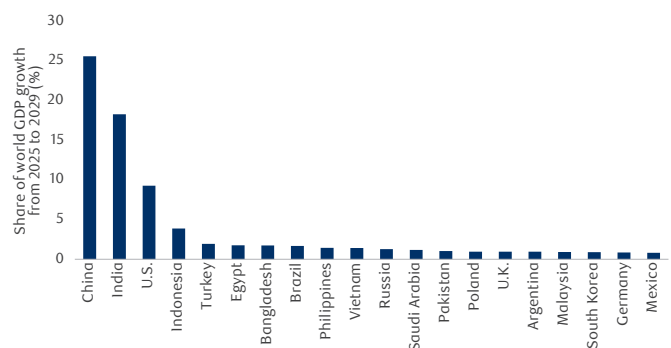
“We remain optimistic that China's economy can meet or exceed consensus growth estimates for several reasons.”

**Exhibit 18: Exports have been Chinese driver – now other sectors may help more**



Note: Exports as of May 2025, as of Apr 2025 for all other measures. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM

**Exhibit 19: China to remain the top driver of world growth**



Note: Based on IMF forecast from 2025 to 2029. Source: IMF World Economic Outlook, Apr 2025, Macrobond, RBC GAM

## Canadian transition

The Canadian economy is naturally quite vulnerable to U.S. tariffs. Canada has so far sidestepped the worst of the tariff impact, with threatened 25% universal tariffs seemingly avoided, and “only” a series of sector-oriented tariffs on steel, aluminum and autos currently in place. Canada (and Mexico) have even managed to avoid the baseline 10% tariff rate charged to most other countries. The deep recession that many investors had feared for Canada is instead tracking toward weak growth.

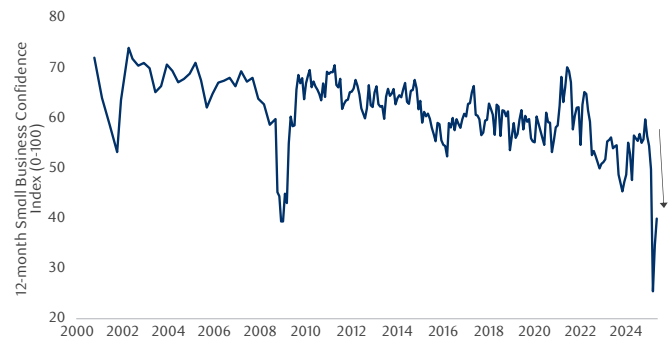
Of course, there are still considerable tariff risks that remain for Canada, including the possibility of U.S. pressure tactics as the USMCA trade deal is renegotiated, and the White House has no shortage of complaints against Canada, including insufficient border security, insufficient military spending, Canada’s trade surplus in goods, the country’s digital-services tax and policies that protect dairy producers and agricultural suppliers.

Curiously, the Canadian economy has so far shown more damage from tariffs than most countries, despite the lighter tariff touch. This would appear to reflect the nearly existential importance of the U.S. market to the Canadian economy: high uncertainty over the trading relationship and even the mere threat of large tariffs has been sufficient to interrupt economic activity. Sentiment indicators such as Canadian small-business confidence suggest continued nervousness, even after unwinding some of their initial panic (Exhibit 20). Hiring has slowed to a crawl (Exhibit 21). Canadians are also reacting to U.S. antagonism in other ways, with travel to the U.S. down sharply (Exhibit 22).

Our base-case forecast anticipates the introduction of additional sector-oriented tariffs that may include levies on copper, pharmaceuticals and forestry products. At the conclusion of the tariff barrage, we believe the average Canadian tariff rate of 6% may rise somewhat further, to as much as 10%. This would significantly diminish Canadian economic growth and potentially even include a few quarters of small economic decline. It is an open question whether any such drop would be sufficiently deep or sustained to qualify as a true recession. We presently lean toward “no.”

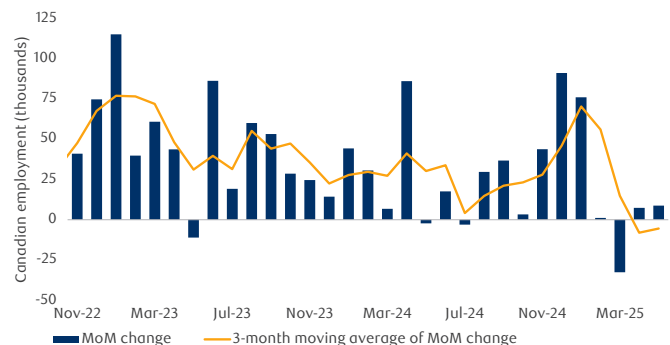
Once the tariff impact has been absorbed, Canada’s focus can shift to other matters. The Bank of Canada’s overnight rate has fallen substantially over the past year, and there

## Exhibit 20: Canadian small-business confidence on future conditions plunged



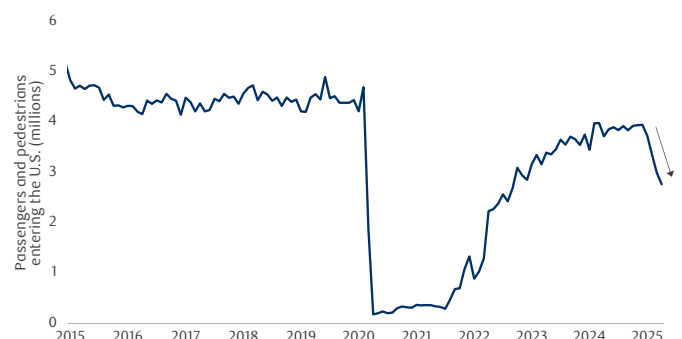
Note: As of May 2025. Source: CFIB Business Barometer, Macrobond, RBC GAM

## Exhibit 21: Canadian employment shows recent damage



Note: As of May 2025. Source: Statistics Canada, Macrobond, RBC GAM

## Exhibit 22: Visitors to the U.S. from Canada dropped after Trump returned to White House



Note: As of Apr 2025. Passengers entering the U.S. from Canada at land border crossing stations include bus, train and personal vehicle passengers. Source: Bureau of Transportation Statistics, RBC GAM

is space for further easing. This is an economic tailwind. Conversely, immigration has slowed sharply – a negative for workforce growth, though one that is tempered by the unwinding of earlier immigration distortions.

But the biggest medium-term growth consideration for Canada is the new direction for fiscal policy under Prime Minister Mark Carney. It is economy-focused and broadly growth-positive, with commitments to increase infrastructure spending, streamline resource-project approvals, modestly cut taxes and increase residential construction. The deficit will rise as a result of these efforts, though Canada's fiscal position is robust enough to withstand modest increases in debt.

### Bottom line

Tariffs are set to exert a substantial drag on economic growth over the second half of 2025, but probably not to the extent of causing a global recession. Inflation has so far been tame, but should become more visible in the U.S., if less so elsewhere.

Other policy decisions matter, too, with U.S. tax cuts set to be growth-positive, but other choices such as reducing immigration and withholding resources from researchers may have a negative effect.

Uncertainty remains considerable but is not quite as high as it was several months ago.

U.S. exceptionalism is in retreat, with adverse implications for the dollar, term premiums and beyond. China and the EU have an opportunity to fill some of the void left by the U.S.

Finally, given a less favourable view on the U.S., our recommended equity asset allocation has shifted somewhat away from the U.S. and toward other markets.







# Market outlook

## Markets find footing after U.S. policy chaos turns to progress



**Eric Savoie, MBA, CFA, CMT**

Senior Investment Strategist  
RBC Global Asset Management Inc.



**Daniel E. Chornous, CFA**

Global Chief Investment Officer  
RBC Global Asset Management Inc.

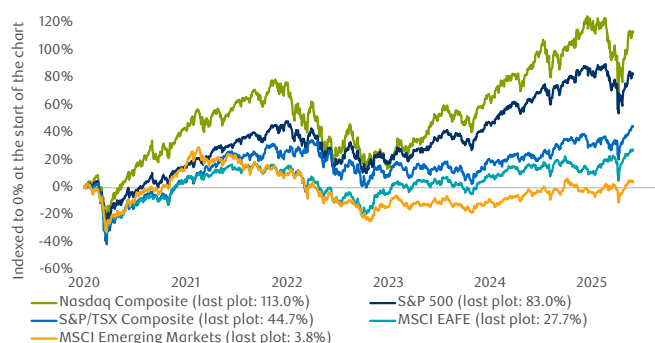
Heightened uncertainty around tariffs presents a major challenge for businesses, consumers and investors alike. But progress on the trade front has been made, and the odds of a worst-case scenario involving large-scale punitive tariffs in place for an extended period have diminished: trade deals have been struck, and further negotiations between the U.S. and other major countries – China in particular – are taking place. We recognize that tariffs at a reduced rate still pose a headwind to the economy and corporate profits and that they continue to present a risk for financial markets until further clarity is established.

Investors who follow their portfolios closely will have noticed that equity markets experienced extreme fluctuations during the past quarter. Stock prices plunged in March and April amid the threat and subsequent April 2 announcement by President Trump of reciprocal tariffs, with some major

indices falling 20% or more from their recent peaks (Exhibit 1). Moreover, the VIX, a popular gauge of investor fear, rose to its highest level since the early 2020 pandemic-related market crash (Exhibit 2). But the most recent panic was short-lived, and an impressive recovery began once Trump pivoted by

### Exhibit 1: Major equity-market indices

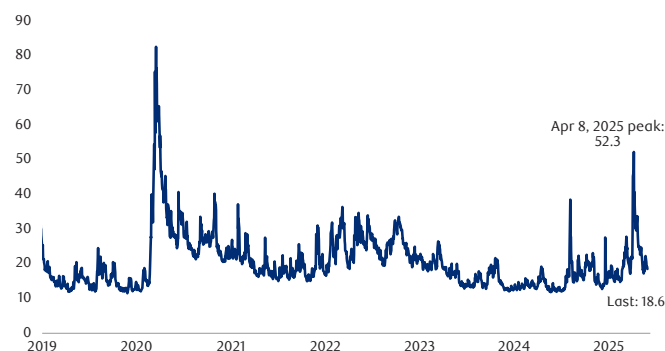
Cumulative price returns indices in USD



Note: As of May 30, 2025. Price returns computed in USD. Source: Bloomberg, RBC GAM

### Exhibit 2: Volatility Index (VIX)

Chicago Board Options Exchange Market Volatility Index



Note: As of May 30, 2025. Source: Bloomberg, RBC GAM

announcing a 90-day pause on reciprocal tariffs on April 9. By the end of May, most indices had erased the bulk of their losses, and some markets had risen to new records. The rebound in financial markets suggests that investor fear related to tariffs has reached its peak, and that investors are encouraged by Trump's willingness to engage in negotiations that appear to be leading to outcomes less damaging than initially threatened.

Fixed-income markets have also experienced significant volatility as investors weigh concerns about economic growth, inflation and highly indebted governments. The U.S. 10-year yield fell about 50 basis points to 3.86% between March 27 and April 4 on concerns that tariffs would cause a recession (Exhibit 3). But they had rebounded to 4.58% a week later on the back of the reciprocal-tariff pause announcement. As was the case for stocks, bond volatility has calmed over the past couple months. Yields, however, have settled closer to the upper end of the trading range as investor fears have focused increasingly on the worsening state of the U.S. government's finances rather than the possibility of an economic slowdown.

Our asset mix considers the near-term risks against the potential for long-term returns. In our view, uncertainty remains elevated and the range of potential outcomes around what we consider the most likely scenario remains wide. Our base case sees the economy continuing to expand, but at a decelerating pace that allows for interest-rate cuts later this year by the U.S. Federal Reserve (Fed). In this environment, bonds could deliver mid-single digit returns and act as an important ballast against equity-market volatility. We continue to expect stocks to outperform bonds over our 1-year forecast horizon, although we recognize that risk premiums are lower than usual, particularly for U.S. large-cap stocks. That said, we took advantage of the steep sell-off in stocks in the spring to add one percentage point to our equity allocation, moving it to a slight overweight position relative to strategic neutral. We have tilted our asset mix away from U.S. large-cap stocks toward regions with relatively attractive valuations. For a balanced global investor, our current recommended asset mix is 61.0% equities (strategic "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 1.0% cash.

**Exhibit 3: U.S. 10-year yield**  
Daily candlestick chart



Note: As of May 30, 2025. Candlesticks represent daily open/high/low/close for the U.S. 10-year yield. Source: Bloomberg, RBC GAM



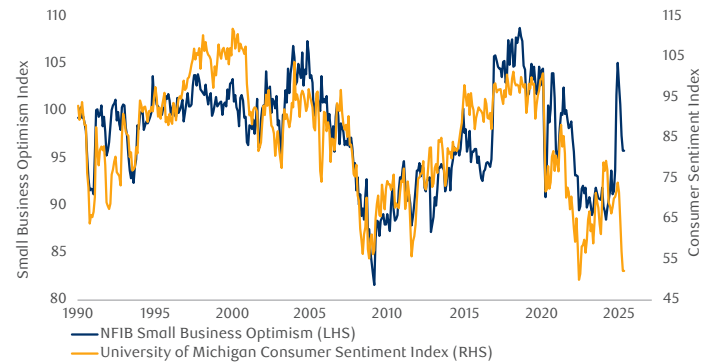


## Confidence has soured, but resilient economic data has kept data-dependent Fed from lowering rates

One tricky aspect of the current environment for central banks is that confidence measures have been slumping at the same time that economic data has been resilient. Exhibit 4 plots the NFIB Small Business Optimism Index alongside the University of Michigan Consumer Sentiment Index. Both measures have rolled over after initially surging following Trump's election victory in November 2024. In fact, consumer sentiment has fallen to its weakest reading since mid-2022. Meanwhile, weakness in actual economic data has so far been limited. The labour market, for example, remains healthy as evidenced by an unemployment rate situated near historic lows of around 4.2% (Exhibit 5). So while consumers and businesses may not feel good about the outlook, the Fed is unlikely to lower interest rates unless employment starts to soften.

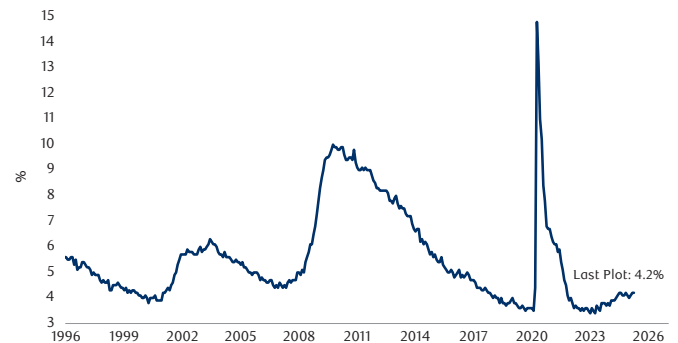
The other reason the Fed has held off on cutting interest rates so far this year is that inflation remains slightly above the Fed's target (Exhibit 6). PCE inflation, the Fed's preferred measure of inflation, has fallen nicely from the extraordinarily high levels of 2022-2023 but appears to have settled just above the 2.0% target. Moreover, businesses that face higher costs from tariffs could raise prices, heightening inflation in the near term. It's unlikely, in our view, that there will be any significant progress on inflation until next year.

### Exhibit 4: U.S. consumer and small-business confidence



Note: As of May 30, 2025. Source: Bloomberg, RBC GAM

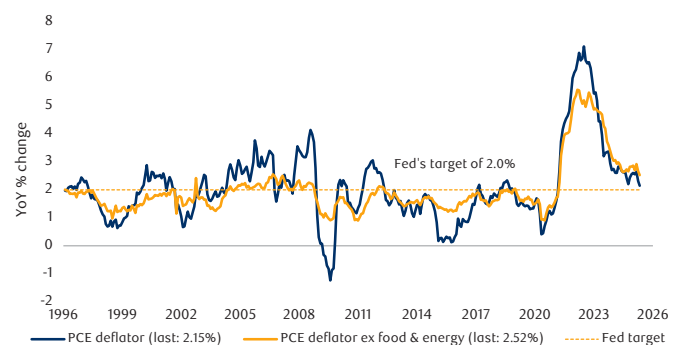
### Exhibit 5: U.S. unemployment rate



Note: As of Apr 2025. Source: Bloomberg, RBC GAM

### Exhibit 6: U.S. inflation

#### Personal Consumption Expenditures Price Index



Note: As of Apr 2025. Source: Bloomberg, RBC GAM



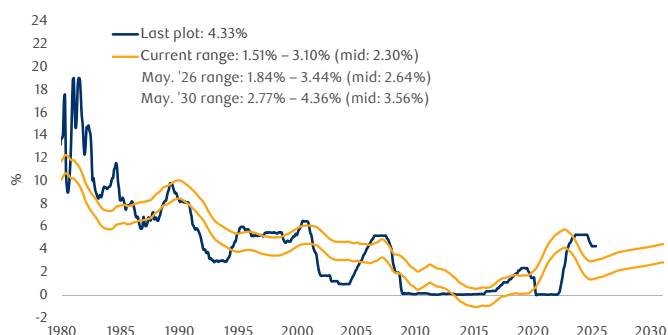
The good news on short-term interest rates is that, if the economy were to slow, the Fed has ample room to deliver monetary accommodation. The fed funds rate has held steady since the start of the year at 4.33%, a level which remains in restrictive territory according to our model (Exhibit 7). But if the economy slows as we expect, we foresee that the Fed will be in a position to cut interest rates later this year and into 2026. We look for three 25-basis-point cuts in the fed funds rate over the next year, which is in line with pricing in the futures market (Exhibit 8). Market pricing has been highly volatile, though, and we recognize the path for short-term rates will ultimately depend on economic data and the evolution of the tariff situation.

“While the concerns regarding poor U.S. fiscal health are valid, higher yields will improve the appeal of bonds for fixed-income investors as long as fiscal challenges don’t worsen meaningfully from here.”

### Long-term bond yields creep higher amid fiscal concerns

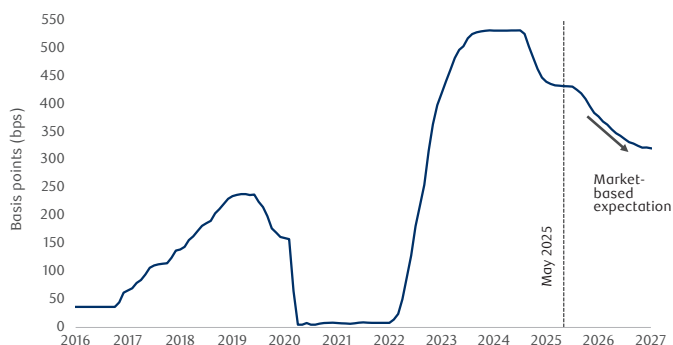
While accommodative monetary policy could suppress the short end of the yield curve, fiscal concerns have contributed to rising long-term bond yields. The U.S. 30-year yield climbed to over 5% in May 2025 for the first time since late 2023, but yields on shorter-term maturities have not risen to the same degree (Exhibit 9). As a result, the spread between 2-year and 30-year U.S. T-bonds grew to its widest since early 2022. Contributing to concerns on the long end of the yield curve were Moody’s downgrade of the U.S. credit rating in May and Trump’s tax-cut bill, which if passed would increase government debt. While the concerns regarding poor U.S. fiscal health are valid, higher yields will improve the appeal of bonds for fixed-income investors as long as fiscal challenges don’t worsen meaningfully from here. According to our models, long-term bonds offer decent return potential in most major regions that we track, with only modest valuation risk (page 40).

### Exhibit 7: U.S. fed funds rate Equilibrium range



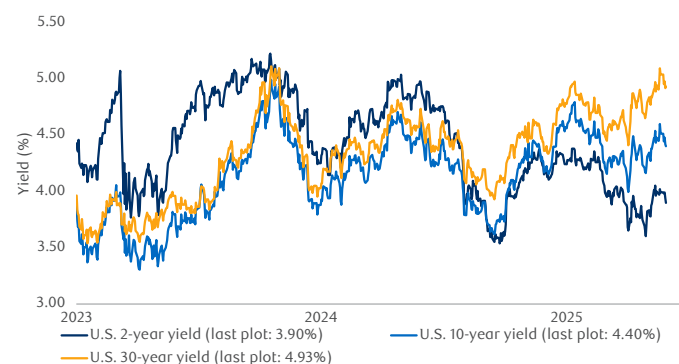
Note: As of May 31, 2025. Source: RBC GAM

### Exhibit 8: Implied fed funds rate 12-month futures contracts as of May 30, 2025



Source: Bloomberg, U.S. Federal Reserve, RBC GAM

### Exhibit 9: U.S. T-bond yields



Note: As of May 30, 2025. Source: Bloomberg, RBC GAM

## U.S. 10-year Treasuries are attractively priced according to our model

Exhibit 10 plots our U.S. 10-year T-bond model, which combines an inflation premium with a real (after-inflation) yield. What we notice from the charts is that the inflation has settled nicely after the extreme spike in 2022, and that the rise in yields has mostly come from an increase in real interest rates. The higher real yield reflects a better economic backdrop since the pandemic but also embeds an increasing risk premium due to growing concerns about U.S. debt levels. That premium is effectively additional compensation awarded to fixed-income investors in exchange for taking on the risk that the U.S. government may not repay them – arguably a very low chance. At this time, the real yield is around 75 basis points above our modelled expectation,

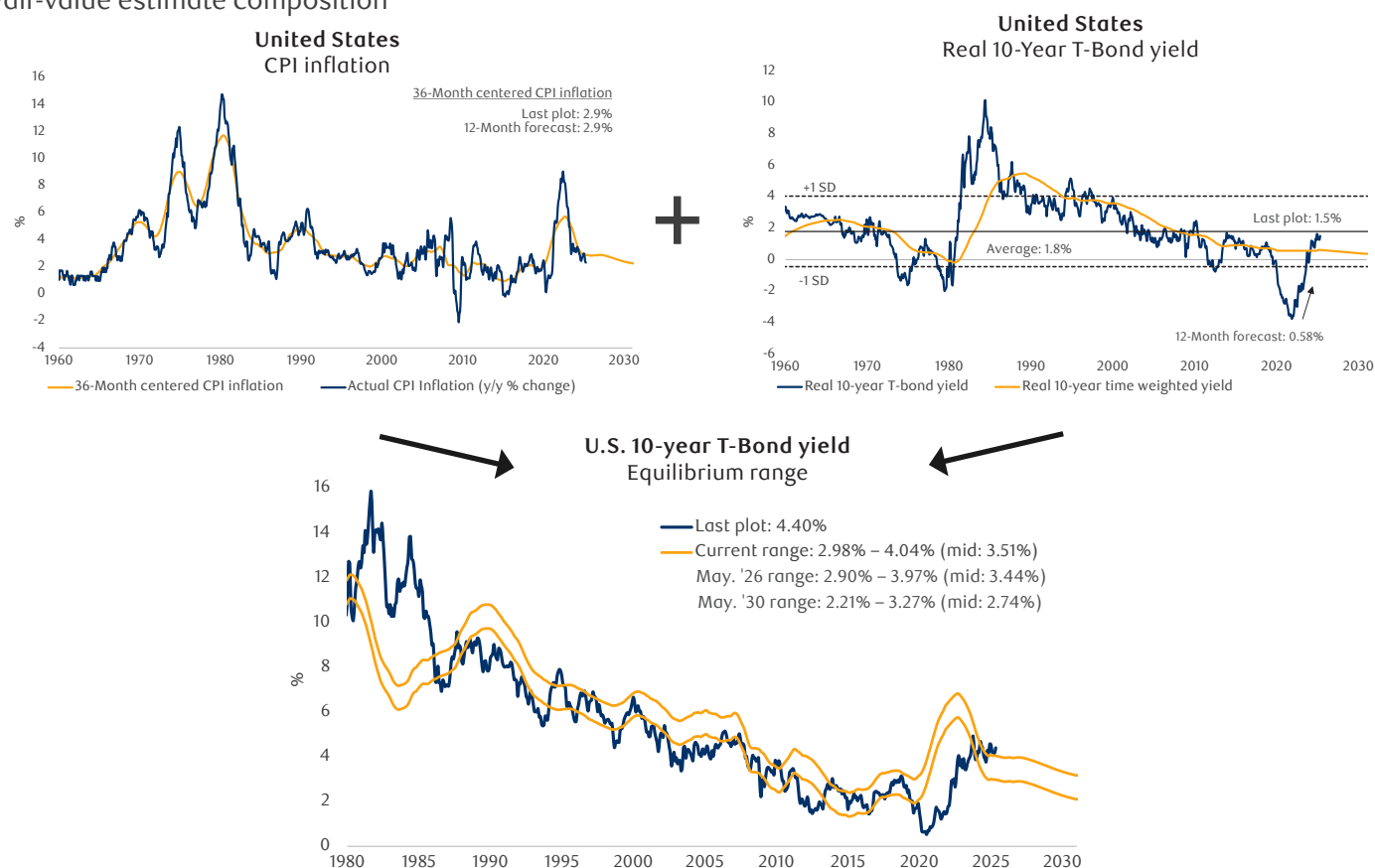
which assumes that real rates will remain suppressed over the long term due to structural factors such as an aging population and a reduced potential for growth as developing economies bow under the burden of much higher debt. As a result, the U.S. 10-year yield at 4.40% is appealing situated slightly above the upper boundary of our model's estimate of equilibrium. We forecast that the U.S. 10-year yield will decline to 4.25% over the year ahead, delivering mid-single digit returns.

## Equity markets recover from intense sell-off

Stocks suffered steep declines followed by an impressive recovery as the narrative on U.S. trade policy shifted wildly. It's worth noting that this volatile episode triggered a shift in leadership away from U.S. stocks toward international

### Exhibit 10: U.S. 10-year bond yield

Fair-value estimate composition



Note: As of May 30, 2025. Source: Bloomberg, RBC GAM

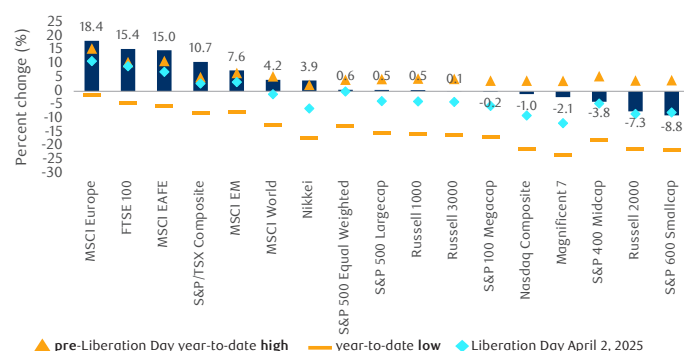
markets. Exhibit 11 plots the year-to-date performance for a variety of major markets, along with markers for key milestones. The horizontal bars on the chart represent the year-to-date low for each market, and all markets are now well above those levels. The triangles represent the year-to-date high before April 2 – Trump’s “Liberation Day” – and the diamonds represent the level on that day. While all markets have recovered to their pre-Liberation Day levels, there’s a notable difference between recoveries in U.S. markets versus non-U.S. markets. U.S. markets have failed to make new highs, with large-cap relatively flat year-to-date, and mid- and small-cap indices are still down between 3% and 8% so far this year. Non-U.S. markets, however, are sitting on gains, and in regions like Europe and Canada those gains are in the

double digits. The MSCI Europe Index is leading in 2025, up 18.4% in U.S. dollars.

### The sell-off featured deeply washed-out conditions

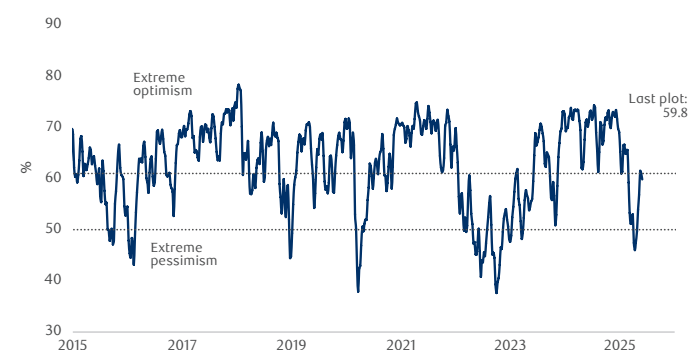
The stock-market slump in March and April put a lid on the frothy conditions that existed at the beginning of the year, when investors were highly optimistic about the economic outlook. The tariffs sparked an intense sell-off, pushing many of the technical and sentiment indicators that we track to extremes. A survey of investor sentiment, the percentage of stocks above their 200-day moving averages and our measure of S&P 500 monthly price momentum all fell to their weakest readings since late 2022 (exhibits 12 to 14). Such a major reset in technical and sentiment indicators has, in

**Exhibit 11: Major indices’ price change in USD year-to-date**



Note: As of May 30, 2025. Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

**Exhibit 12: Ned Davis Research Crowd Sentiment Poll Percent bulls**



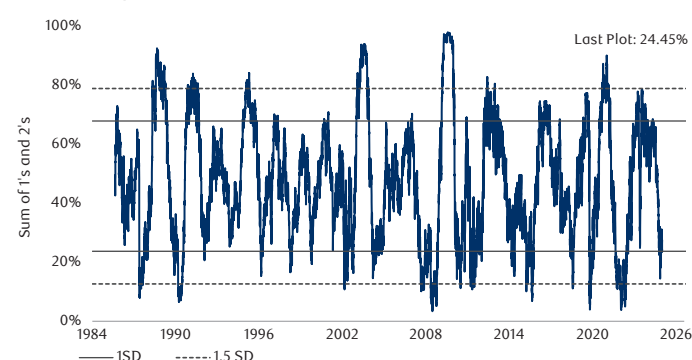
Note: As of May 30, 2025. Source: Ned Davis Research, RBC GAM

**Exhibit 13: New York Stock Exchange Composite Index % of stocks above their 200-day moving average**



Note: As of May 30, 2025. Source: Bloomberg, RBC GAM

**Exhibit 14: S&P 500 Index Monthly price momentum**



Note: As of May 30, 2025. Source: RBC GAM

the past, often marked durable market bottoms and the beginning of sustainable rallies, like in late 2022 and early 2020. In fact, markets have rebounded meaningfully since early April of this year, and all of these indicators are now well off their lows. Sentiment is approaching extreme optimism once again after the latest rally. That said, these technical measures tend to be better at identifying market bottoms than market tops, and should overbought conditions return, history suggests they can remain in place for an extended period.

### U.S. dollar weakens amid volatile episode

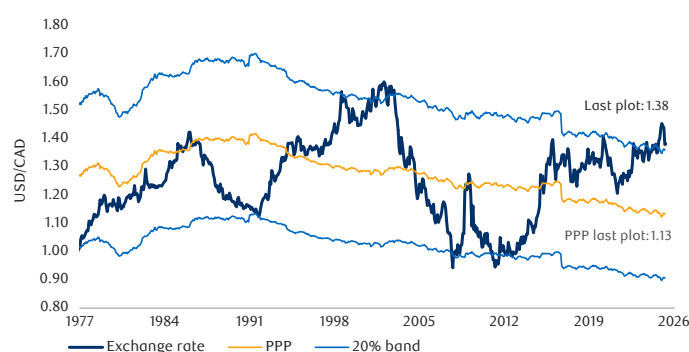
Another theme that has surfaced during the latest bout of market volatility has been meaningful shifts within the currency markets. The U.S. dollar's 10% decline since the start of the year is especially noteworthy given that the greenback tends to appreciate during times of heightened financial-market stress and fear. But during this latest market-panic episode, the dollar did not act as protection, perhaps reflecting investor doubts around U.S. exceptionalism and whether the U.S. dollar is truly a safe haven. Moreover, the weakness in the U.S. dollar has exacerbated the

underperformance of U.S. assets relative to global assets. Note that the sell-off in the greenback began from a point of extreme overvaluation, and the declines could still have a long way to go should the magnitude of currency movements from past cycles be repeated (Exhibit 15).

### Global stocks reasonably valued especially outside U.S. large-caps

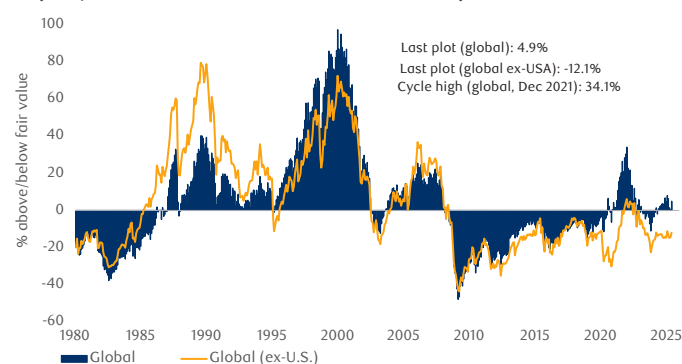
Our models suggest that global equities are fairly priced and offer attractive returns, especially international markets. Exhibit 16 plots a composite of global stock valuations based on each market's distance above or below fair value. This GDP-weighted measure indicates equities are reasonably priced at only 4.9% above equilibrium. However, this reading masks the divergences that exist between markets within the composite. The yellow line on the chart plots the composite excluding the U.S. from its calculation, and shows that non-U.S. stocks are situated 12% below fair value. This is because stocks in Europe, the UK and emerging markets are trading close to one standard deviation below fair value, while the S&P 500 still trades close to one standard deviation above fair value (page 41).

**Exhibit 15: USD/CAD & purchasing power parity**



Note: As of May 31, 2025. Source: DB FX Research, RBC GAM

**Exhibit 16: Global stock-market composite**  
Equity-market indexes relative to equilibrium



Note: As of May 30, 2025. Source: RBC GAM





## S&P 500 exhibits heightened concentration risk

One of the challenges with owning the S&P 500 is that the index is highly concentrated in a few companies with extremely large market capitalizations. Just 10 stocks make up about a third of the index weighting (Exhibit 17), and the weighting of those top 10 names has been increasing over time (Exhibit 18). As a result, we find it useful to look at the equal-weighted version of the index, which assigns a 1/500 weight to each constituent irrespective of market cap. The S&P 500 Equal Weighted Index is much more appealing on a valuation basis and is situated toward the lower end of our modelled fair-value band (Exhibit 19). Using this approach to correct for the U.S. large-cap market's extreme concentration

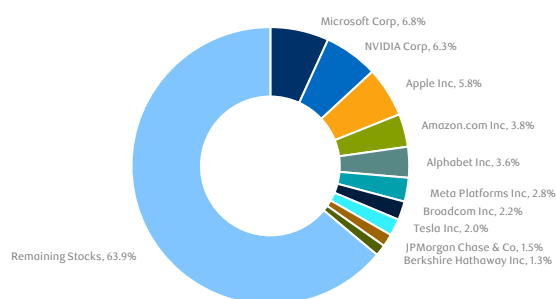
risk, we conclude that while the S&P 500 is richly valued, the average U.S. stock is not necessarily expensive.

## Earnings under threat from tariffs, de-globalization

For the overall stock market, the outlook for earnings is being clouded by uncertainty around tariffs and the potential impact of a U.S. administration that is trying to reverse globalization. As a result, earnings estimates for the S&P 500 have been coming down gradually so far this year (Exhibit 20). Analysts are pencilling in 8.5% aggregate profit growth in 2025, down from 14% estimates earlier this year, and they look for 13.5% profit growth in 2026, down from previous forecasts of 15%. These numbers still represent fairly strong growth, but the trend is down and reflects headwinds ahead.

### Exhibit 17: S&P 500 Index

Member weightings



Note: as of May 30, 2025. Source: Bloomberg, RBC GAM

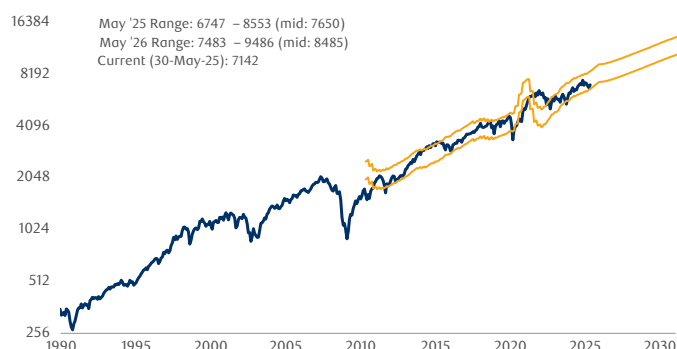
### Exhibit 18: Top 10 stocks as a share of S&P 500 Index



Note: As of May 30, 2025. Source: RBC GAM

### Exhibit 19: S&P 500 Equal Weighted equilibrium

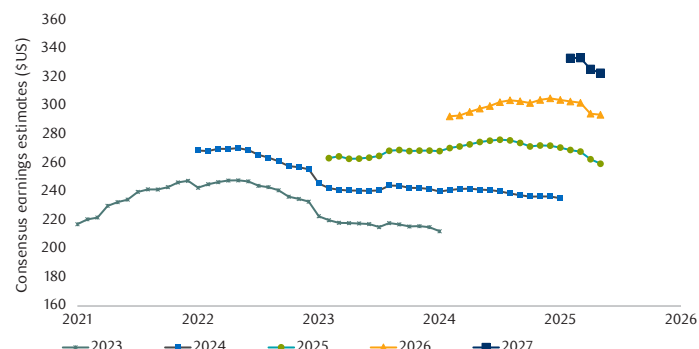
Normalized earnings & valuations



Source: RBC GAM

### Exhibit 20: S&P 500 Index

Consensus earnings estimates



Note: As of May 28, 2025. Source: Bloomberg, RBC GAM

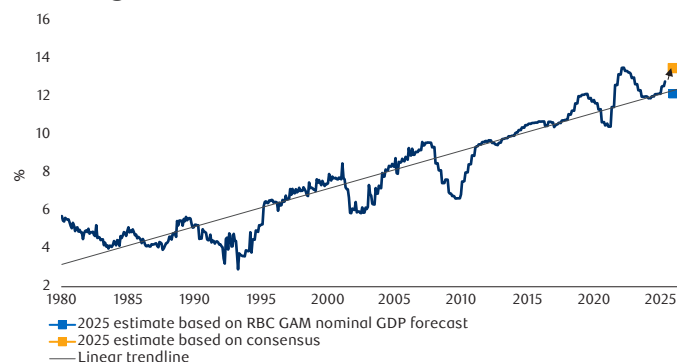
One of the main variables that could weigh on earnings is shrinking profit margins, as companies' costs rise due to tariffs and re-shoring production to the U.S. Profit margins of U.S. companies have more than doubled over the past three decades to 13% from 5% (Exhibit 21). Empirical Research Partners analyzed the sources of increased corporate profit-margin growth since 2000 and found the gains could be attributed to factors such as globalization, lower interest rates, improved operating efficiencies and tax sheltering (Exhibit 22). In particular, the impact of globalization is the largest piece of the pie chart, accounting for 29% of the margin improvement, when combining the savings from lower wages (16% of the pie chart) and reduced capital intensity (13% of the pie chart) accessed via supply chains offshore. A push by the U.S. administration to have companies re-shore production could lead to higher costs in the near term, narrowing profit margins unless companies are able to pass those cost increases along to customers.

### Scenarios suggest valuations for S&P 500 are demanding once again

The rally in the S&P 500 since early April has pushed the index back to levels from which further gains become increasingly dependent on strong earnings growth and elevated investor confidence. That's because the index is already trading at one full standard deviation above our modelled estimate of equilibrium. While it is possible for equities to get even more expensive, valuations more than one standard deviation above equilibrium are rarely seen, let alone sustained. Should the S&P 500 maintain a price-to-earnings ratio of around 22,

### Exhibit 21: S&P 500

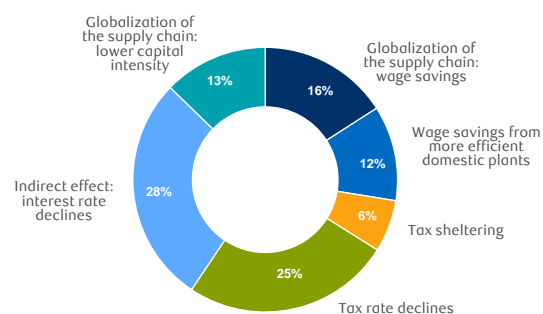
#### Net Margin



Note: As of May 2025. Source: Bloomberg, RBC GAM

### Exhibit 22: S&P 500 Index manufacturers

#### Sources of profit-margin improvement since 2000



Note: As of Dec 2024. Source: Empirical Research Partners

### Exhibit 23: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

		Consensus	Total Return			Consensus	Total Return
		2025	2025			2026	2026
P/E		\$263.6	P/E		\$299.5		
+2 Standard Deviation	27.0	7110.6	21%	26.8	8035.5	23%	
+1 Standard Deviation	22.4	5905.0	1%	22.3	6673.0	9%	
+0.5 Standard Deviation	20.1	5302.1	-10%	20.0	5991.8	2%	
Equilibrium	17.8	4699.3	-20%	17.7	5310.5	-5%	
-0.5 Standard Deviation	15.5	4096.5	-30%	15.5	4629.3	-13%	
-1 Standard Deviation	13.3	3493.7	-40%	13.2	3948.1	-21%	
-2 Standard Deviation	8.7	2288.0	-60%	8.6	2585.6	-39%	

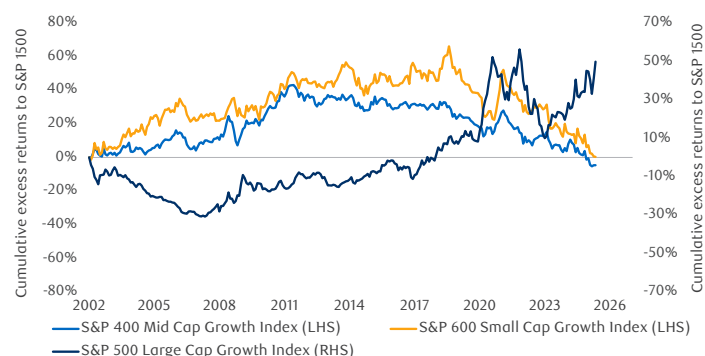
Note: As of May 30, 2025. Total returns for 2026 are annualized. Source: LSEG I/B/E/S, RBC GAM

where it trades today, the index could reach 6673 by the end of next year, assuming the US\$299.50-per-share consensus estimate for earnings materializes (Exhibit 23). Such an outcome would generate a 9% annualized total return for the index from May 31, 2025, to December 31, 2026. This result, while decent, likely requires a lot of things to go right and represents more of a bull-case scenario linked to further progress on trade, Fed accommodation, consumer optimism and strong earnings growth. Should risks flare or the economy encounter a more pronounced slowdown, stocks would be vulnerable given their relatively expensive starting point.

### Styles: large-cap growth regains leadership within the U.S.

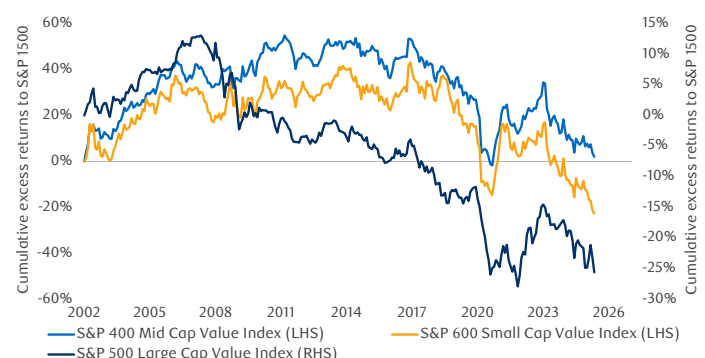
Within the U.S. market, large-cap growth stocks have resumed their outperformance after encountering some volatility in March and April (exhibits 24 and 25). In fact, of all the style segments we track, large-cap growth is the only one exhibiting a consistent trend of outperformance since late 2022. Within growth stocks, small-cap growth and mid-cap growth have been underperforming, while value stocks are underperforming across all cap sizes. The performance of smaller cap and value stocks tends to be more sensitive to changes in the economy and perhaps hints that the macroeconomic environment will make it more challenging for more companies to reliably grow their earnings. As a result, investors are favouring stable large-cap growth companies that have a proven track record of delivering strong earnings growth irrespective of the economic backdrop.

**Exhibit 24: Returns for Growth**  
S&P growth indices



Note: As of May 30, 2025. Source: S&P Dow Jones Indices, Bloomberg, RBC GAM

**Exhibit 25: Returns for Value**  
S&P value indices



Note: As of May 30, 2025. Source: S&P Dow Jones Indices, Bloomberg, RBC GAM

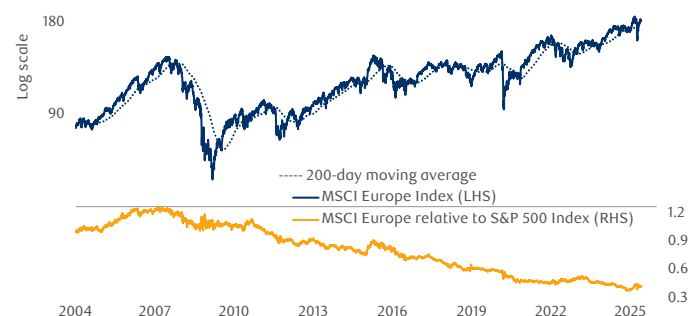


## Geographies: U.S. lags while international stocks outperform

We see signs, at the margin, that investors are losing interest in U.S. assets and are instead favouring international markets. Exhibits 26 and 27 plot the MSCI Europe Index and MSCI Emerging Markets Index, along with their performance relative to the S&P 500 in the bottom panel of the charts. While it may be difficult to detect the recent shift in performance on these long-term charts, the pictures suggest the recent bout of outperformance in international markets could have room to run. Supporting the case that international markets could be set up for sustained outperformance versus the U.S. is the fact that they are starting from extreme valuation discounts relative to the U.S. The U.S.-led trade war could catalyze investors to start shifting investments away from the U.S. Moreover, the U.S. weight in the MSCI World Index has grown to over 70% from around 50% at the end of the 2008-2009 global financial crisis (Exhibit 28). Should the forces of mean-reversion take hold, non-U.S. equities could offer years of outperformance.

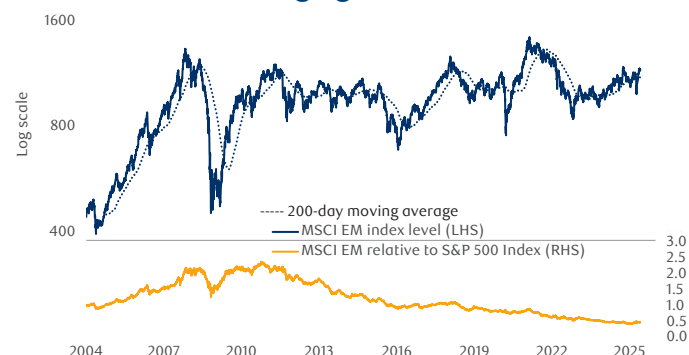


### Exhibit 26: MSCI Europe Index



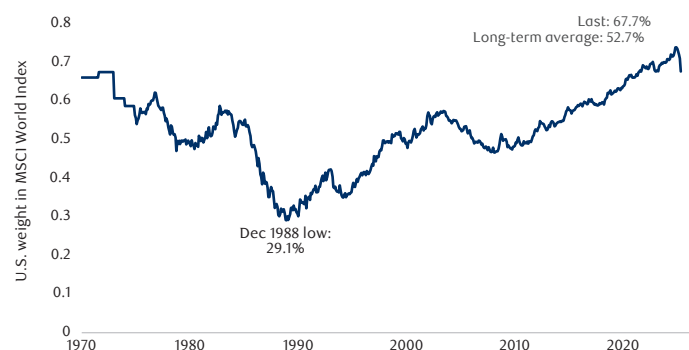
Note: As of May 30, 2025. Source: RBC GAM

### Exhibit 27: MSCI Emerging Markets Index



Note: As of May 30, 2025. Source: RBC GAM

### Exhibit 28: U.S. weight in MSCI World Index



Note: As of May 31, 2025. Source: RIMES



## Asset mix – increasing equity allocation slightly, with tilt toward non-U.S. markets

Given the uncertain macroeconomic environment, we have been keeping our asset mix relatively close to a neutral stance. Our base case is that the economy and corporate profits continue growing, and that the Fed resumes interest-rate cuts later this year. In this scenario, fixed-income assets post modest returns and stocks outperform bonds slightly. We recognize, however, that financial markets could be sideswiped in the near term by U.S. policy uncertainty and geopolitical tensions in the Middle East and Russia/Ukraine.

When considering the return potential for various markets over the longer term, we continue to believe that stocks will outperform bonds, but that the risk premium is not necessarily as large as it has been in the past. For this reason, we are maintaining an asset mix closer to neutral than has been the case.

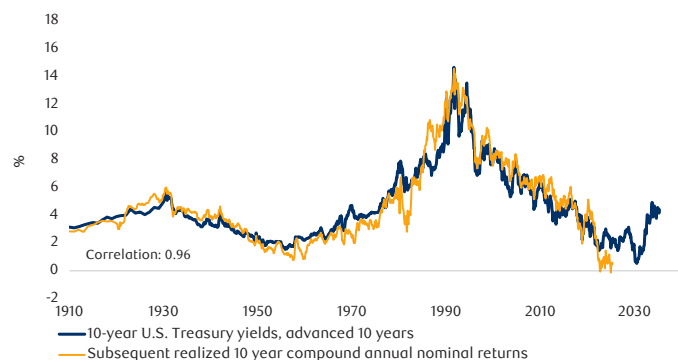
For bonds, a good historical estimate for what investor earn is the current yield to maturity. Exhibit 29 plots 125 years of history of the U.S. 10-year yield and returns realized over the subsequent decade. The chart indicates a strong relationship between the two series and suggests that the current yield of 4.40% on the U.S. 10-year yield is a reasonable estimate of what fixed-income investors can expect to receive on U.S. 10-year T-bonds over the next decade.

For stocks, Shiller's CAPE ratio is a popular and useful tool for forecasting long-term returns based on current valuations. Exhibit 30 plots the CAPE ratio alongside 10-year returns for

the S&P 500 (advanced 10 years and using the inverted scale on the chart). The chart suggests that when stocks are cheap (i.e. low CAPE) they have delivered stronger returns, and that when stocks are expensive (i.e. high CAPE) they have generated low returns. For long-term investors, this notion is especially critical because it means that as stocks sell off like they did in the March/April period, return potential improves. Following the impressive rally, return potential diminished as stocks became more expensive particularly in the U.S. This relationship between CAPE and S&P 500 returns currently indicates long-term return expectations of about 5% for U.S. large-cap stocks, which is not far above the expectation for bonds. Note that large-cap markets outside the U.S. have more attractive valuations, meaning their potential returns are higher.

Considering the short-term risks and the long-term opportunities, we are maintaining an asset allocation relatively close to neutral this quarter, although we have made some slight changes. We added one percentage point to our equity allocation, sourced from cash, as stocks reached extremely oversold conditions typically been associated with good long-term buying opportunities. Within our equity regional mix, we have tilted away from expensive U.S. large-cap stocks in favour of equities outside the U.S., particularly in Europe, where valuations are more appealing. For a balanced global investor, our current recommended asset mix is 61.0% equities (strategic "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 1.0% cash.

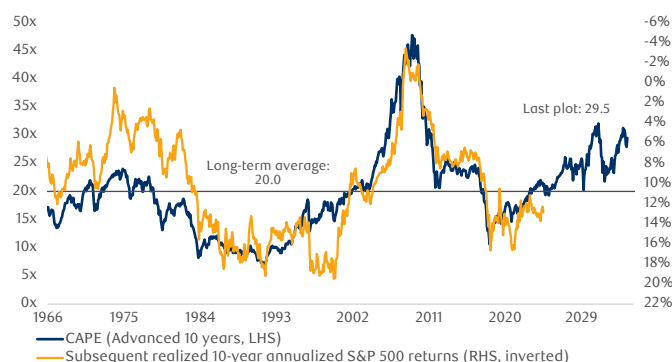
**Exhibit 29: U.S. 10-year Treasury note and returns**



Note: May 31, 2025. Source: Deutsche Bank, Macrobond, RBC GAM

**Exhibit 30: Shiller's CAPE**

Real S&P 500 Index / 10-year average of real EPS

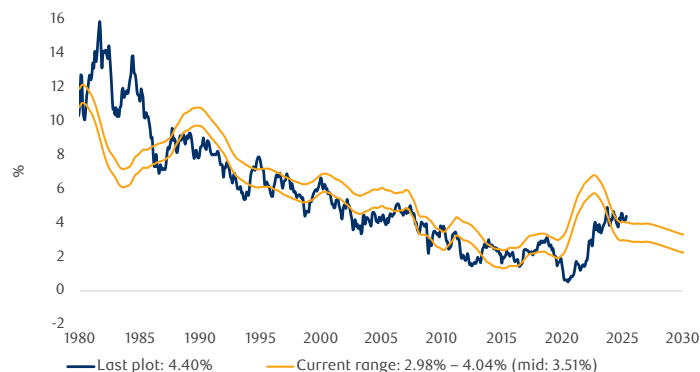


Note: As of May 30, 2025. Source: Macrobond, Bloomberg, RBC GAM

## Global fixed income markets

### U.S. 10-Year T-Bond Yield

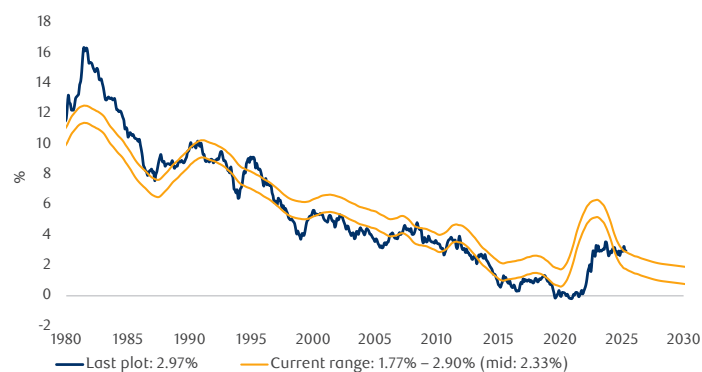
Equilibrium range



Note: As of May 31, 2025. Source: RBC GAM

### Eurozone 10-Year Bond Yield

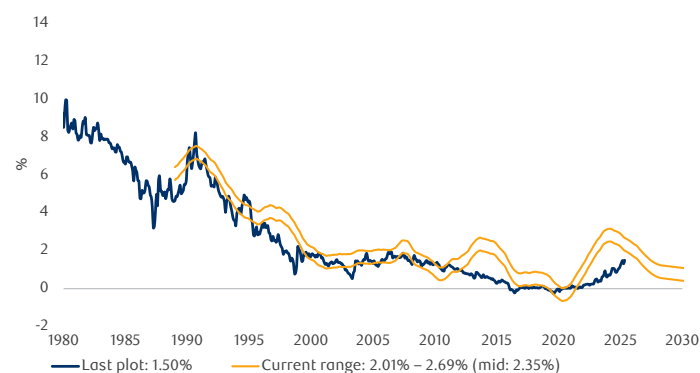
Equilibrium range



Note: As of May 31, 2025. Source: RBC GAM

### Japan 10-Year Bond Yield

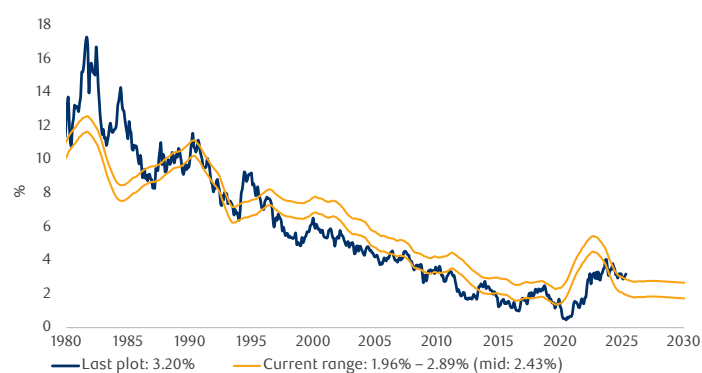
Equilibrium range



Note: As of May 31, 2025. Source: RBC GAM

### Canada 10-Year Bond Yield

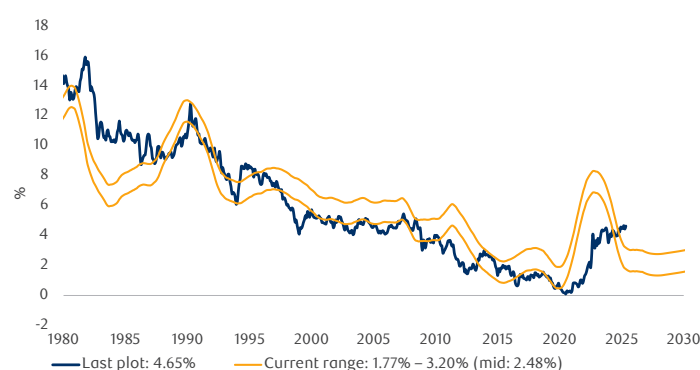
Equilibrium range



Note: As of May 31, 2025. Source: RBC GAM

### U.K. 10-Year Gilt

Equilibrium range



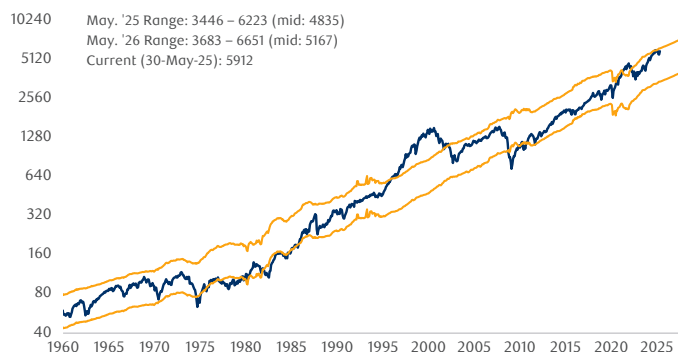
Note: As of May 31, 2025. Source: RBC GAM

“According to our models, long-term bonds offer decent return potential in most major regions that we track, with only modest valuation risk.”

## Global equity markets

### S&P 500 Equilibrium

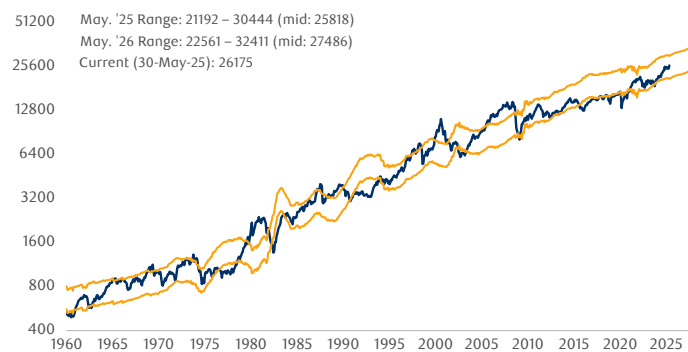
#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

### S&P/TSX Composite Equilibrium

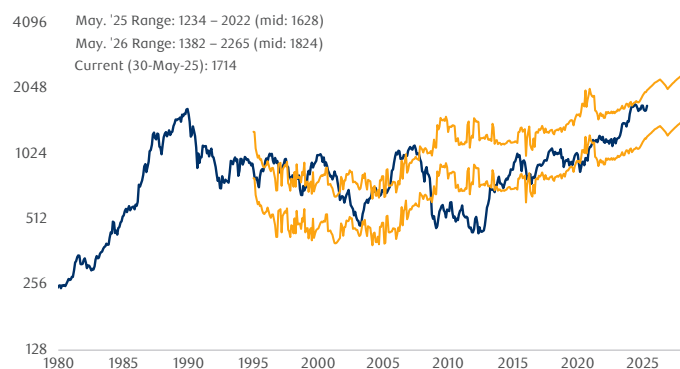
#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

### MSCI Japan Index

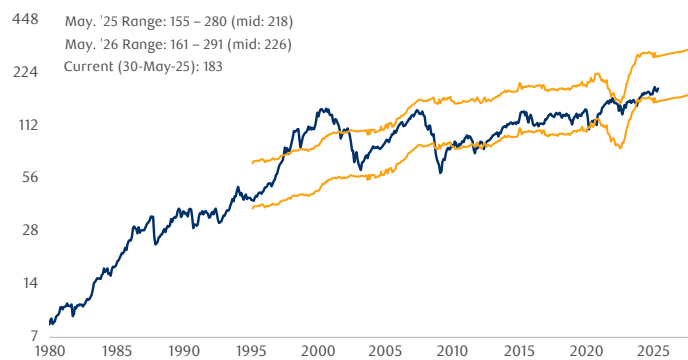
#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

### MSCI Europe Index

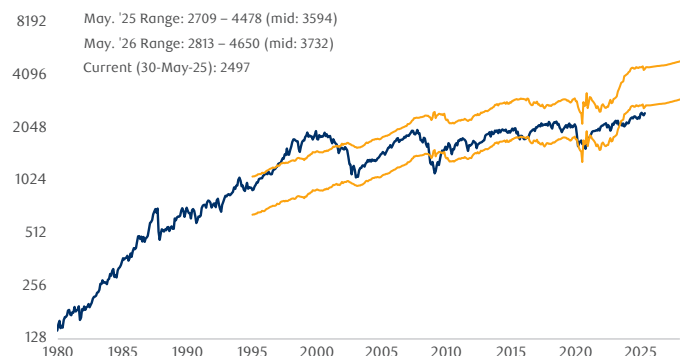
#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

### MSCI UK Index

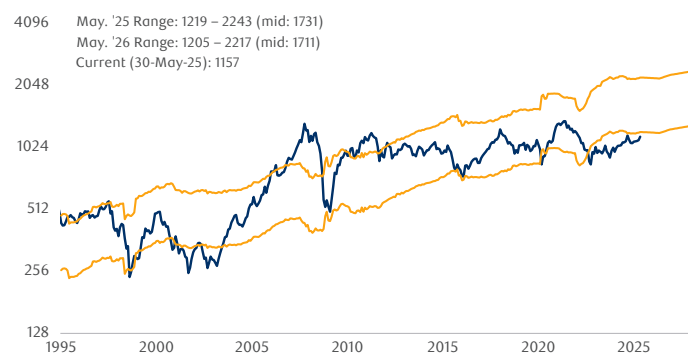
#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

### MSCI Emerging Markets Index

#### Normalized earnings and valuations



Note: As of May 31, 2025. Source: RBC GAM

Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index.



## Global fixed income markets



**Soo Boo Cheah, MBA, CFA**

Managing Director &  
Senior Portfolio Manager  
RBC Global Asset  
Management (UK) Limited



**Joanne Lee, MFin, CFA**

Senior Portfolio Manager  
RBC Global Asset  
Management Inc.



**Taylor Self, MBA, CFA**

Portfolio Manager  
RBC Global Asset  
Management Inc.

Investors are increasingly concerned about the sustainability of government finances and, coincident with the U.S. losing its final AAA credit rating in mid-May, are demanding higher yields in exchange for lending to governments for long periods. The rise in bond yields since the beginning of April reflects a cloudy macroeconomic outlook with growth that is slower but not recessionary, inflation that is lower but not low enough, and central banks that are unlikely to respond with meaningful interest-rate cuts if politicians lean into running still-large fiscal deficits. While acknowledging these concerns, we believe they are behind the rise of bond yields to currently attractive levels.

Investors are already asking for more compensation to lend over long periods to global governments. Term premiums are at decade highs and yield curves are steep, offering investors incentives to lend for longer periods. What is more, the poor fiscal position of developed-market governments is not an overnight development for bond markets. The level of concern has only rarely been seen since the acute European government-debt crisis of the early 2010s. In many ways, investors are living with the scar tissue of the crisis of confidence endured by the UK gilt market during Liz Truss's brief premiership in 2022. France's borrowing costs also soared during a bitter electoral fight in 2023. In the U.S., the uncertainty is not election-related but instead speaks to the lack of serious efforts to tackle the budget deficit amid an already high debt load. Since the middle of 2023, it has been clear that the U.S. would run a budget deficit of 6%-7% of GDP for the foreseeable future. Historically, government-bond investors have taken large increases in bond issuance

in stride because they've coincided with recessions. During recessions central banks are quick to cut overnight interest rates, leading investors to purchase bonds just as governments start to spend and support the economy. In turn, yields fall even as more debt is issued. But with deficits so large even during non-recessionary times, the assumption that demand for bonds can be sustained during deep deficits is more suspect.

To be sure, U.S. bond yields are not particularly high compared to history. However, debt and deficit levels are much higher, and this makes a huge difference. Without spending cuts, the current debt-to-GDP ratio would rise over the longer term from an already high level. Based on the Congressional Budget Office's projections and interest rates, the U.S. government could end up spending nearly 40% of its annual budget just to service debt by late in the next decade – up from just under 10% now.



The lacklustre performance of bonds during risk-off episodes has called into question their effectiveness as a hedge for risky assets. From the mid-1980s to the COVID pandemic, bond prices and riskier assets typically moved in opposite directions, particularly during times when risky assets did very poorly. Since the pandemic, however, bonds have often lost value at the same time as equities. This shift appears to be related to higher inflation, leading us to be somewhat more sympathetic to the view that bonds serve as poor hedges for risky assets in periods of high inflation. If inflation remains firmly above 2%-3%, bonds might struggle to return to their negative correlation to stocks. That's why achieving the U.S. Federal Reserve's (Fed) 2% target is so important.

Another issue for bond investors is that a series of trade wars launched by the Trump administration is leading to questions about foreign demand for Treasuries. Part and parcel of the U.S.'s trade deficit is that foreign countries have invested huge sums in U.S. government debt. The U.S.'s net international investment position (NIIP), which takes a country's assets abroad and subtracts the value of its liabilities due to foreigners, is deeply negative. Part of this deficit reflects how attractive the U.S. is as an investment destination. But it also suggests the U.S. is vulnerable to a shift in capital flows, as the country is reliant on foreign financing to fund the trade deficit. Investors fear that countries could respond to the threat of tariffs and broken trading relationships by selling their holdings of Treasuries or by simply choosing not to invest further in the U.S.

Lower demand from central banks is also something the bond market is having to contemplate seriously for the first time in a decade. Since 2008, there has been at least one major central bank actively purchasing government bonds. Now though, central banks are keen to shrink their balance sheets, either by actively selling securities or letting bond holdings mature. When either of these things happen, the private market must step in to buy the additional supply. Higher bond yields are the compensation demanded for doing so.

For their part, governments and central banks have been trying to mitigate the impact of this additional supply on a market where demand is not as keen as historically has been the case. Governments have begun to focus on issuing shorter-maturity bonds, which raise the same amount of money but are less risky (since they mature sooner) and thus easier for the market to absorb. Central banks have tweaked their balance-sheet shrinking programs to avoid letting too many longer-maturity bonds end up in the market too quickly.

What central banks have not been able to do - and seem unlikely to do in the near term - is cut interest rates meaningfully, which would likely push bond yields lower. While growth has slowed from the post-pandemic pace, it is not recessionary. In the absence of objectively poor economic growth, policymakers must focus on the inconvenient reality that inflation is still above target, even without the effect of tariffs from the first few months of the year. Although the worst-case scenario of very high sustained tariffs seems unlikely, companies are still very likely to raise prices more than they would have in the absence of such tariffs. Inflation in the U.S. is likely to exceed 3% at some point this year. Absent a sharp downturn in economic growth, it is hard to imagine the Fed cutting interest rates.

Given a cloudy macroeconomic outlook and the backdrop of high supply today and for the foreseeable future, investors are right to demand higher compensation for lending to governments for longer periods. Investors are being paid nearly 1 percentage point more to lend for 10 years than to lend for one year. This extra compensation, the term premium, is the highest it's been since the early 2000s and looks to us to be attractive for long-term investors. Policy rates in most bond markets are above levels that will tend to depress economic activity, and central-bank demand during times of economic downturns means that the term premium should remain attractive.



## Direction of rates



We expect the Fed to deliver three interest rate cuts over the next year, most likely starting in late 2025. In turn, we expect 10-year yields to fall to 4.25%.

### United States

With inflation still stubbornly high, the core of the Fed's internal debate now is the outlook for growth. On the one hand, survey data suggests that activity should be slowing markedly as consumer confidence falls and businesses say they are delaying decisions to invest and slashing hiring plans. GDP readings, on the other hand, suggest that economic activity through the first three months of the year was relatively good. Consumer spending too has weathered the uncertainty relatively well. Part of this could simply be that businesses and consumers were front-loading their purchases of goods to lock in lower prices ahead of tariffs. As we mentioned above, fiscal support has also been consistent for the U.S. economy, providing a fillip to growth. For all the fanfare, the Department of Government Efficiency has not made a material dent in total government spending. In fact, the U.S. government's deficit through the first half of the year is worse than at the same point in 2024, and the spending bill making its way through Congress looks likely to worsen the fiscal picture and loosen the purse strings a little bit more.

Strictly speaking, the impact of tariffs on prices should not be persistent. A 25% hike on imported goods should only affect inflation for the next 12 months. With the recent bout of high inflation, however, consumers and businesses are much more likely to extrapolate recent price rises into the future, begetting even more inflation. This is an uncomfortable reality for the Fed and for the bond market.

With higher inflation and okay growth, the Fed will find it difficult to cut its policy rate much before having greater clarity on the trajectory of the economy and tariffs. With the worst case for tariffs being more unlikely now, slower growth is the condition that must be satisfied for the Fed to ease monetary conditions. In the meantime, policymakers are likely to remain on hold and give little indication of the future direction of policy. We expect the Fed to deliver three interest-rate cuts over the next year, most likely starting in late 2025. In turn, we expect 10-year yields to fall to 4.25%.





Our forecast for 10-year German bund yields is 2.50% and 1.75% for the ECB's deposit rate.

### Eurozone

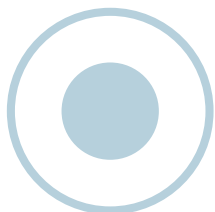
The European Central Bank (ECB) lowered interest rates in February, April and June by 25 basis points, bringing the overnight deposit rate to 2.00%. At this point, we see one more cut from policymakers in Europe, as rates should drop to 1.75% in the year ahead. What is more, we think the risk in Europe is that the ECB does less cutting than expected rather than more.

Why do we believe this? While tariffs are likely to drag on eurozone growth, the euro area should benefit from easing already delivered as well as dramatic increases in fiscal spending by Germany, the region's biggest economy, and to a lesser extent, other eurozone countries. We also believe that inflation is likely to pick back up more strongly than anticipated in the single-currency area, leading to the possibility of fewer cuts than anticipated by investors.

Finally, we think the ECB will be less likely to accommodate increased bond issuance by governments. At the margin, this tendency should cause longer-term yields in Europe to rise more than elsewhere. Our forecast for 10-year German bund yields is 2.50% and 1.75% for the ECB's deposit rate.







Our 10-year yield forecast  
is 1.50%.

### Japan

Long-maturity yields on Japanese government bonds (JGB) have surged to the highest levels since the 1990s, when Japan's period of low inflation and interest rates began. However, while Japan leads the G7 nations in wage growth and inflation, these pressures are expected to ease as economic activity slows, and the Bank of Japan (BOJ) has maintained its policy rate at 0.50% since January. A stronger yen and low energy prices are likely to reduce import costs, further dampening inflation pressures. Japan's economy shrank by 0.7% in the first quarter of 2025 from the year-earlier period, marking the first decline in four quarters. This downturn is largely attributable to weak exports and cautious consumer spending, as households contend with rising living costs. Global economic headwinds and trade uncertainties may continue to weigh on Japanese growth in the coming quarters, and the BOJ will likely maintain its accommodative stance for most of the forecast horizon. However, a modest 25-basis-point rate hike to 0.75% may be in the cards as easing of tariff-related noise allows the BOJ to continue raising policy rates to address high inflation.

Meanwhile, the long-maturity JGB market, which has faced significant volatility, is likely to attract renewed demand as yields become increasingly appealing to domestic and foreign investors. In our opinion, Japan's Ministry of Finance may decrease the issuance of long-maturity bonds, or the BOJ could tilt its bond purchases toward long-maturity JGBs such as those maturing more than 30 years from now. Our 10-year yield forecast is 1.50%.



we expect the 10-year  
government bond yield  
to reach 3.25%, up  
slightly from 3.20% at the  
time of writing.

### Canada

The Bank of Canada (BOC) kept its policy rate unchanged at 2.75% in April and again in June after a cumulative 225 basis points of cuts since June 2024. Deliberations by the BOC suggest policymakers are biased towards further easing, but they are wary of the amount of uncertainty surrounding the outlook. Also clouding policy deliberations is the anticipated fiscal support pledged by provinces and, to a largely unknown extent, the federal government. It is widely expected that fiscal stimulus would be forthcoming in the event of prolonged and high tariffs. Most provinces stand ready to top up spending by an additional 0.2% to 0.3% of GDP if tariffs become highly disruptive. The market expects two further cuts from the BOC before the end of the year, which would bring the policy rate to 2.25%. We are in the camp that believes the BOC is likely to be less accommodative with additional fiscal support and expect policy rates to be just 0.25% lower in a year's time at 2.50%. Over the same period, we expect the 10-year government bond yield to reach 3.25%, up slightly from 3.20% at the time of writing.





We forecast the 10-year gilt yield to decline from its current level of 4.65% to 4.25%.

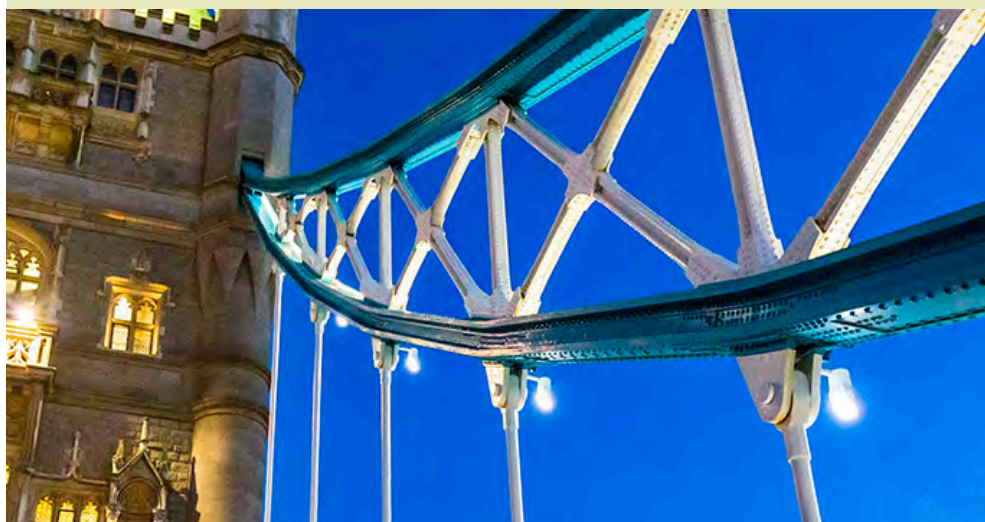
### United Kingdom

The Bank of England (BOE) reduced its policy rate on May 8, lowering the bank rate to 4.25% and continuing the gradual series of rate cuts that began in the summer of 2024. However, forecasting the path of monetary policy remains challenging in the current highly uncertain environment. Global economic distortions, such as the U.S. imposing tariffs on its trading partners, have complicated the interpretation of economic data. For example, the UK economy expanded by 0.7% in the first quarter of 2025 from the previous quarter, driven primarily by investment and net exports, while private and public consumption remained weak. We believe this strong performance may overstate the strength of the economy, and we expect growth to decelerate as the impact of U.S. tariffs unfolds.

On the inflation front, wage growth continues to slow, and loosening labour-market conditions are likely to contribute to further moderation in wage pressures. These factors, combined with declining energy prices and the recent appreciation of sterling on a trade-weighted basis, are expected to ease inflationary pressures in the months ahead.

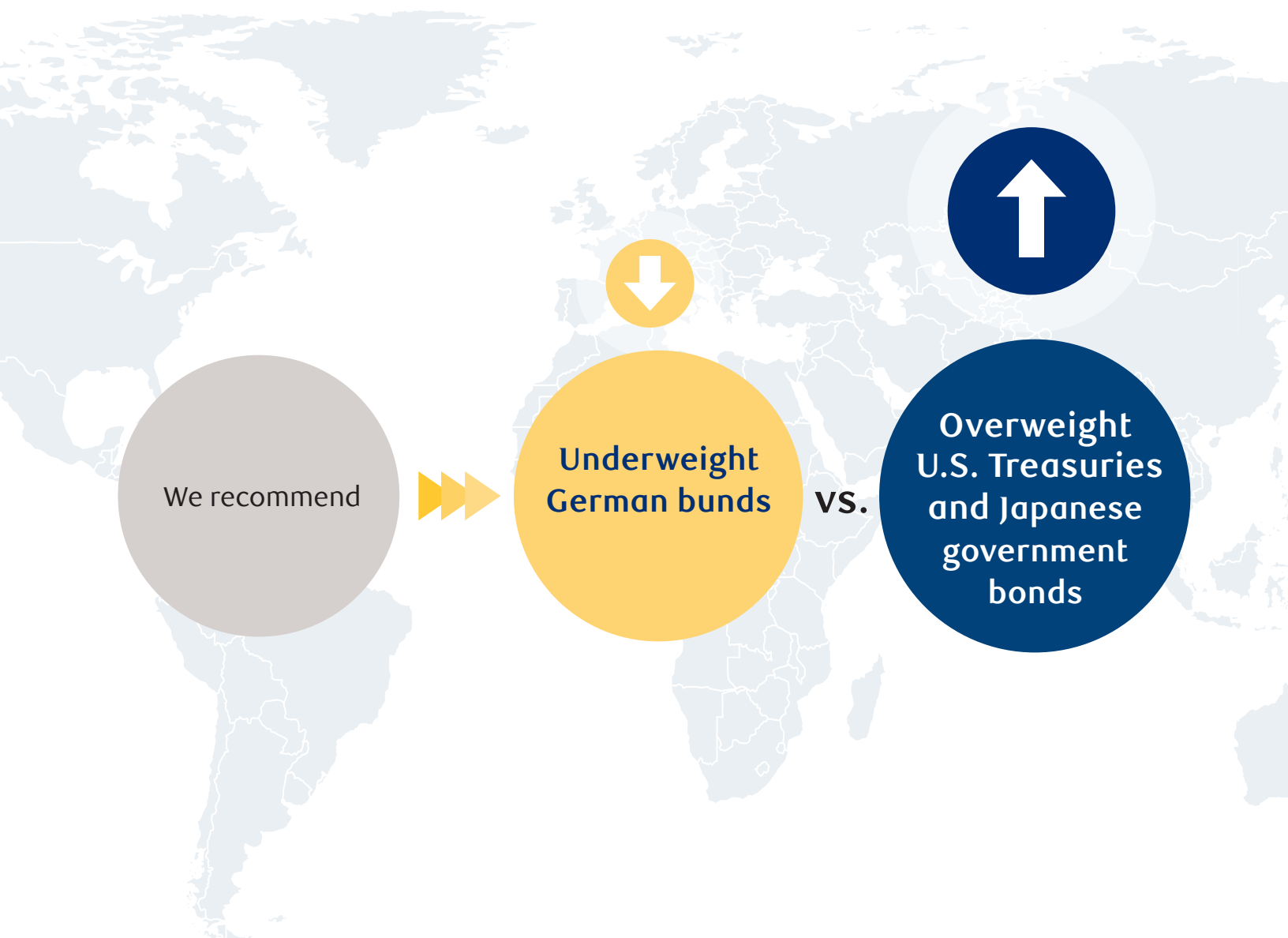
Meanwhile, the bond market has been under pressure, with gilt yields rising as part of a global yield-curve steepening. Investor appetite for long-duration bonds remains weak, reflecting concerns about rising debt levels in nations that are already highly indebted. The lack of demand for long-term bonds may prompt the BOE to review its bond-selling program in upcoming meetings.

Considering the softer economic outlook and moderating inflationary pressures, we expect the BOE to continue to gradually lower interest rates, bringing the policy rate down to 3.50% within a year. Additionally, we forecast the 10-year gilt yield to decline from its current level of 4.65% to 4.25%.



### Regional recommendation

We recommend overweighting U.S. Treasuries and Japanese government bonds and underweighting German bunds.



**Interest-rate forecast: 12-month horizon**

Total-return calculation: May 30, 2025 – May 30, 2026

U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.75%	3.30%	3.70%	4.25%	4.75%	5.77%
Change to prev. quarter	(0.75%)	(1.10%)	(0.70%)	(0.25%)	0.00%	
High	4.38%	4.50%	4.85%	5.25%	5.65%	0.97%
Low	2.13%	2.30%	3.00%	3.75%	4.35%	8.86%

Expected Total Return US\$ hedged: 6.3%

Germany						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.75%	1.60%	2.00%	2.50%	3.00%	2.83%
Change to prev. quarter	(0.25%)	(0.40%)	(0.25%)	0.00%	0.25%	
High	2.75%	2.60%	3.00%	3.25%	3.50%	(2.00%)
Low	1.25%	1.00%	1.50%	2.00%	2.60%	6.38%

Expected Total Return US\$ hedged: 5.1%

Japan						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	1.00%	1.20%	1.50%	3.00%	2.76%
Change to prev. quarter	0.00%	(0.20%)	(0.30%)	(0.25%)	0.40%	
High	1.25%	1.75%	2.00%	2.50%	3.20%	(1.31%)
Low	0.25%	0.50%	0.60%	0.90%	1.90%	16.47%

Expected Total Return US\$ hedged: 8.7%

Canada						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	2.60%	2.90%	3.25%	3.60%	2.93%
Change to prev. quarter	(0.25%)	(0.30%)	(0.10%)	0.00%	0.20%	
High	3.25%	3.50%	3.70%	4.00%	4.25%	(0.97%)
Low	1.75%	2.00%	2.25%	2.75%	3.20%	5.83%

Expected Total Return US\$ hedged: 5.0%

U.K.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.50%	3.40%	3.60%	4.25%	5.15%	8.01%
Change to prev. quarter	(0.50%)	(0.35%)	(0.40%)	0.00%	0.25%	
High	4.50%	4.50%	4.75%	5.25%	5.60%	2.06%
Low	2.75%	2.60%	2.80%	3.50%	4.70%	13.00%

Expected Total Return US\$ hedged: 9.0%

Source: RBC GAM



## Currency markets

### The U.S. dollar's decline: a new chapter in global currency markets



**Dagmara Fijalkowski, MBA, CFA**

Managing Director & Head of  
Global Fixed Income & Currencies  
RBC Global Asset Management Inc.



**Daniel Mitchell, CFA**

Managing Director &  
Senior Portfolio Manager  
RBC Global Asset Management Inc.

“Gradually, and then suddenly” is a quote from Ernest Hemingway’s 1926 novel *The Sun Also Rises*. Hemingway might as well be describing the attitudes of investors: the U.S. dollar has in just a few months flipped from the much-loved developed-market currency to most-hated and has become one of the worst performing currencies since Donald Trump’s inauguration in late January. We had been awaiting the U.S. dollar’s turn for some time but were nonetheless amazed by how quickly things changed. Trump’s second term, we think, will come to be known as marking the beginning of a multi-year dollar decline and a momentous shift for foreign-exchange markets that will impact the broader investment landscape. Our forecasts imply further gains for the euro, pound, yen and Canadian dollar over the year ahead, and we believe that emerging-market currencies will record similar gains.

At the beginning of the year, the U.S. dollar looked invincible because it offered the most attractive interest rates, while also benefiting from superior U.S. equity returns and the U.S. economy’s status as the strongest among developed-market nations. At the time, few investors were willing to bet against the greenback because Trump, as president-elect, appeared set to unveil policies that would propel the greenback even

higher. It was commonly supposed that his tariffs on other nations would be dollar-positive, largely because U.S. trade partners would weaken their currencies to regain competitiveness. What’s more, the U.S. Federal Reserve (Fed) would have to keep interest rates relatively high to combat higher inflation, providing further support for the greenback.

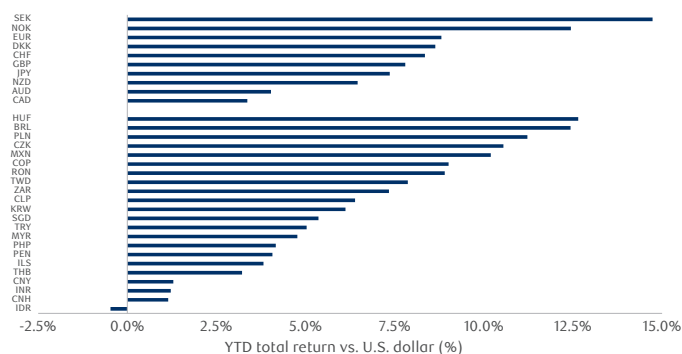




Things have played out quite differently. In fact, the prior assumptions about tariffs and the dollar couldn't have been more wrong. The U.S. dollar has turned out to be one of the worst performing currencies this year and has weakened since January by about 10% against a basket of other currencies (Exhibits 1 and 2). The dollar's sudden turn reflects several things:

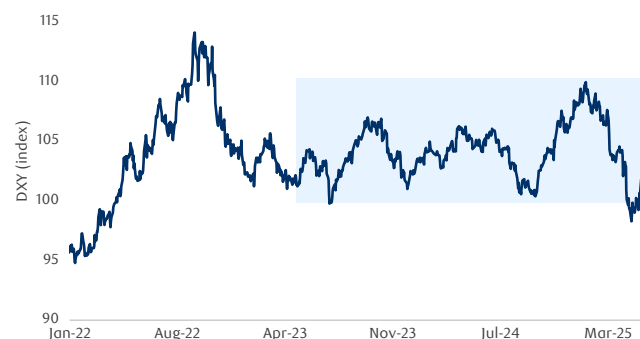
- The realization that the U.S. economy is likely to slow in response to tariffs.** There's even an argument that Trump's trade measures could hit U.S. economic activity harder than that of trade partners, at least initially. This is because other countries only experience disruption in trade with a single trade partner, whereas the entirety of U.S. trade is affected by tariffs. Sectors acutely affected include auto manufacturing, where the imposition of 25% tariffs threatened to impede the movement of parts across the Mexican and Canadian borders. Moreover, there is a risk that shipments of some consumer goods will run dry if Trump decides to reimpose tariffs anywhere near the 145% rate that was originally imposed on Chinese imports but later withdrawn. Businesses and consumers lack the confidence to spend (Exhibit 3) given the unpredictability of current U.S. policy.
- Anxiety about large government debt loads.** It is no longer just the UK and Brazil that are being challenged by investors over fiscal spending and large deficits. Greater attention is also being focused on whether the U.S. and Japan will be able to continue issuing debt without having to pay much higher compensation. The fact that yields on the 30-year U.S. Treasury bond breached 5% in May indicates that investors are demanding greater returns on loans extended to the government. There's no doubt that this nervousness would be even greater if the U.S. dollar didn't serve as the world's reserve currency. Even before the pandemic, the U.S. stood out as one of the largest fiscal offenders, with budget deficits averaging close to 5% of GDP during 2015-2019. In the five years following the pandemic, the budget deficit has ballooned to more than 7%. Each year of this fiscal excess adds to the debt stock, with total debt to GDP rising toward 100% of GDP in 2023 from 31% in 2001 (Exhibit 4). The first budget of President Trump's second term threatens to expand the debt level to 129% of GDP by 2035.

**Exhibit 1: U.S. dollar weaker against most currencies**



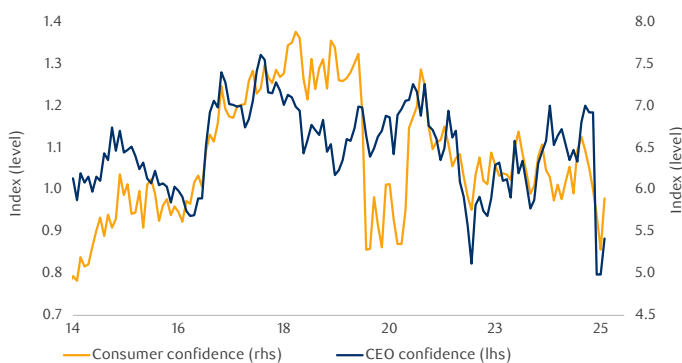
Note: As at May 29, 2025. Source: Bloomberg, RBC GAM

**Exhibit 2: Pronounced U.S.-dollar weakness**



Note: As at May 30, 2025. Source: Bloomberg, RBC GAM

**Exhibit 3: Business and consumer confidence waning**

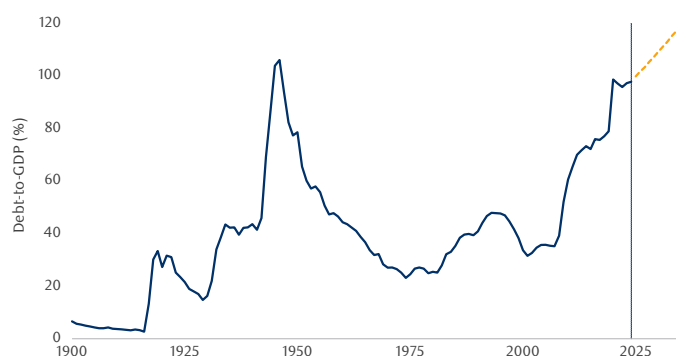


Note: As at May 30, 2025. Source: Conference Board, Chief Executive Group, Macrobond, RBC GAM

- **Erosion of central-bank independence.** Trump's warning that he would consider firing Fed chairman Jerome Powell was not taken lightly by investors, and his persistent social-media criticism of Powell fly in the face of the Fed's mandated independence. Bondholders are especially sensitive to such meddling because it's seen as a way of artificially suppressing borrowing costs and because it could result in excessive inflation that eats into investor returns.
- **Deglobalization.** Trump's apparent plan to reshore production in the U.S. and abandon trade relationships underpins a global trend toward deglobalization. A U.S. economy that buys less goods from the rest of the world translates into fewer U.S. dollars being exchanged in the conduct of global trade. Moreover, the trend of regionalization (increased trade within Asia rather than bilaterally with the U.S.) encourages more trade and investment to occur in the renminbi and in other currencies, meaning less overall demand for the greenback. We have already seen a small increase in energy trade occurring in other currencies, a trend that was boosted when Iran was banned from using U.S.-based payments systems. The seizure of Russian state assets has also prompted reserve managers to diversify their foreign-exchange holdings. Gold's substantial rally over the past few years is evidence of this reallocation.
- **Waning U.S. influence.** America's international withdrawal from world affairs is occurring not just in trade but in the geopolitical sphere as well, with less support for the World Health Organization (WHO), World Trade Organization (WTO), Paris Climate Accord and North Atlantic Treaty Organization (NATO). History suggests that the country that secures global trade and shipping lanes gets to enjoy the "exorbitant" privilege associated with having the primary reserve currency. The U.S. has enjoyed this status since the end of World War II, and it is estimated that the ability to borrow more cheaply lowers funding costs between 0.25% and 1.00% and saves Americans at least \$100 billion in yearly interest expense. An open question, then, is whether the U.S. is slowly ceding this privilege at a time when it is most needed given the rapidly expanding debt load.

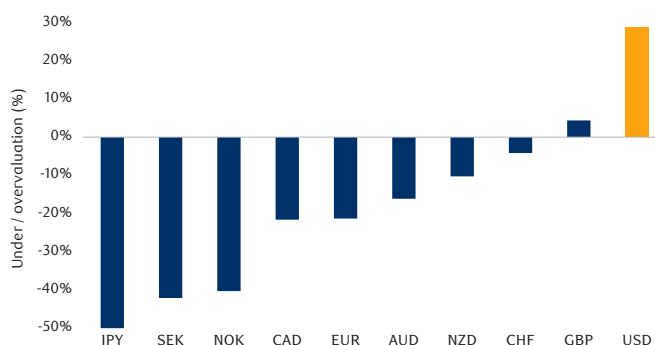
The backdrop for the greenback was not especially positive prior to Trump's return to the White House, since the currency was already substantially overvalued relative to peers (Exhibits 5 and 6). A myriad of other long-term structural

**Exhibit 4: U.S. debt-to-GDP expected to rise above 100%**



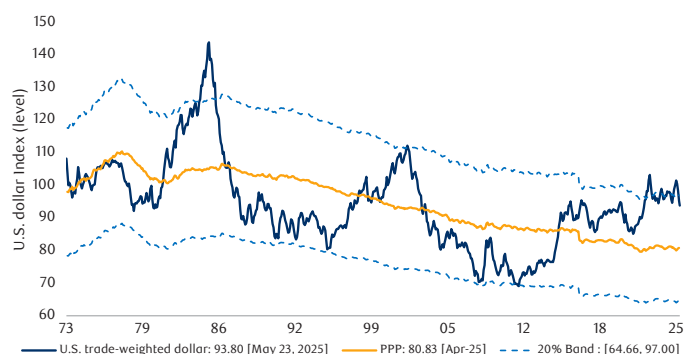
Note: As at December 31, 2024. Source: U.S. CBO, RBC GAM

**Exhibit 5: U.S. dollar remains overvalued**



Note: As at: January 20, 2025. Source: Bloomberg, RBC GAM

**Exhibit 6: U.S. dollar overvalued based on purchasing power parity model**

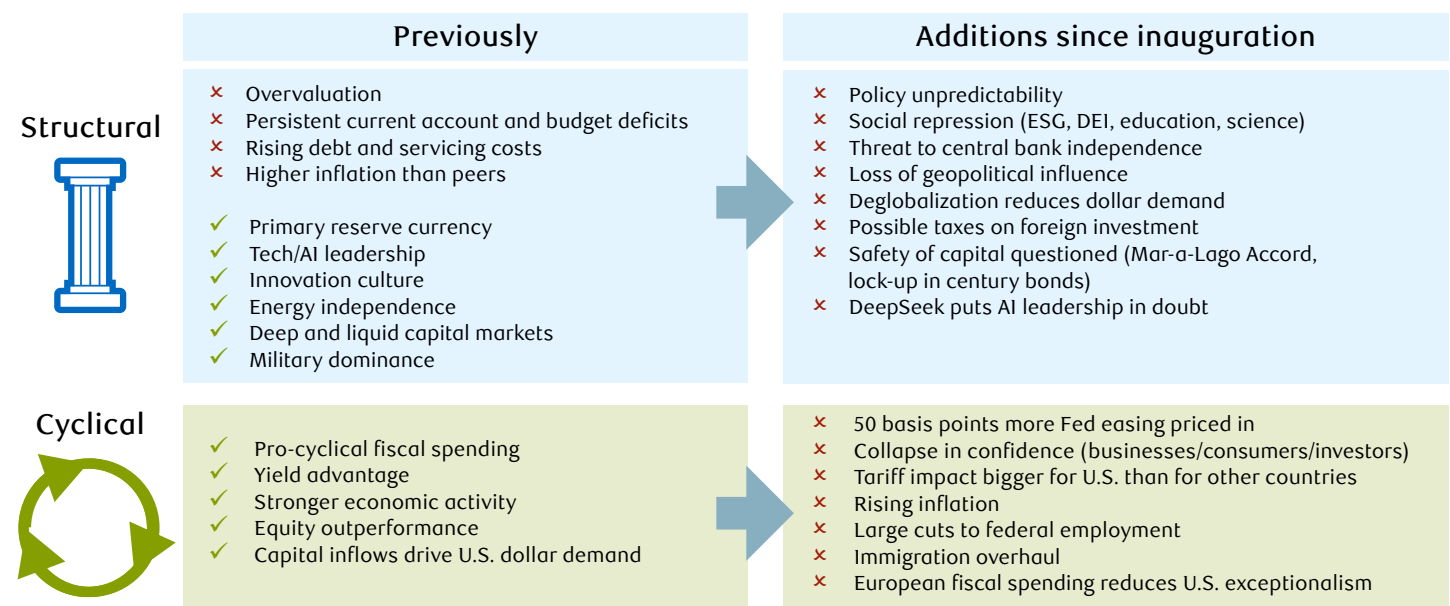


Note: As at May 23, 2025. Source: Bloomberg, U.S. Federal Reserve, RBC GAM

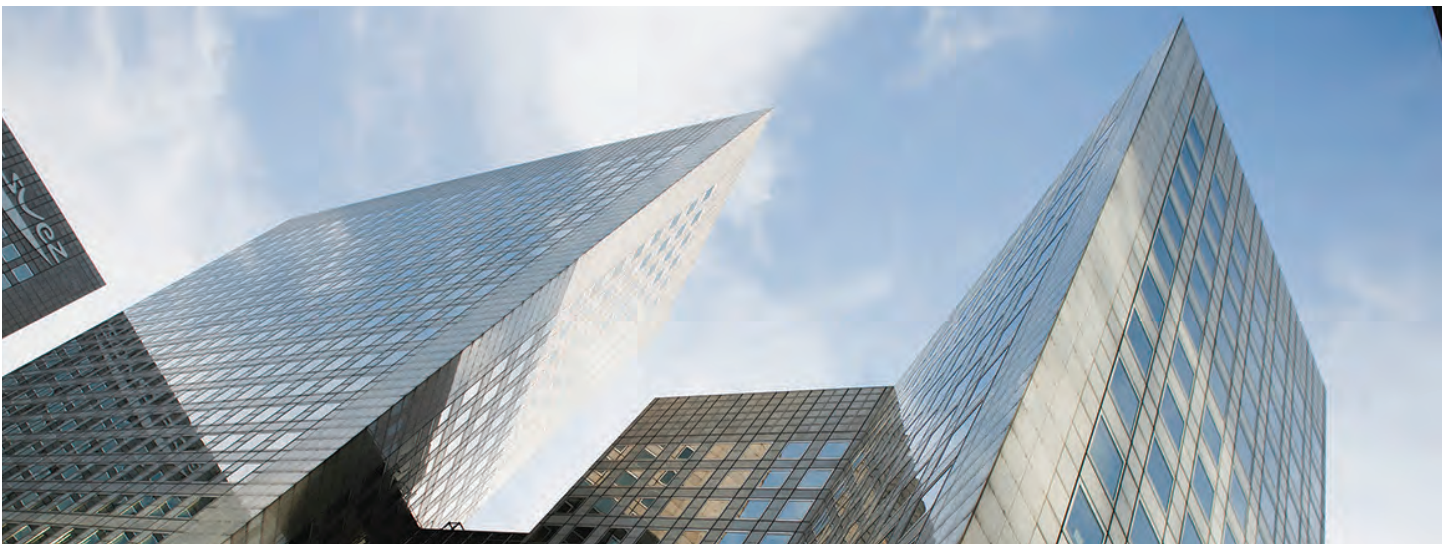
negatives were overlooked until this year by investors who had focused on shorter-term cyclical positives. Indeed, these short-term positives – largely prompted by significant fiscal stimulus that boosted growth – is what supported the greenback in the years following the pandemic. The fact that

new structural negatives are now emerging at the same time as the shorter-term cyclical tailwinds are fading (Exhibit 7) leaves investors to ponder whether their investments should be allocated somewhere other than the U.S.

### Exhibit 7: Structural factors aligning against the U.S. dollar



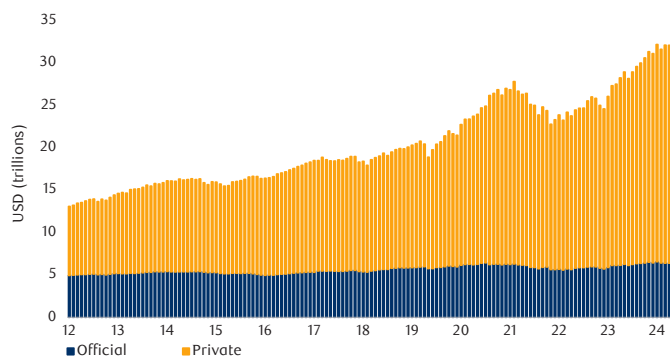
Note: As at May 30, 2025. Sources: RBC GAM



It is worth noting that foreigners have massive holdings of U.S. assets. Since much of the press is focused on reserve managers that are invested in Treasuries, it is perhaps surprising to see that the bigger U.S. exposure held by foreigners is in fact private-sector holdings of U.S. equities (Exhibits 8 and 9). These have grown by a whopping US\$10 trillion over the past half-decade as investors benefited hugely from both U.S.-dollar strength and technology-sector outperformance. Goldman Sachs notes that this has been an easy position to keep on the books, owing to the fact that it had delivered three important qualities: (i) better returns than other equity regions, (ii) low levels of volatility and (iii) the natural hedge of the U.S. dollar's negative correlation to the stock market. So far this year, those three elements have all been put in question in the aftermath of Trump's early-April "Liberation Day" tariffs. Particularly important is the changing relationship between stocks and the U.S. dollar. In past years, the U.S. dollar reliably rallied during market downturns, helping to offset investment drawdowns for foreign investors. This relationship seems to have changed in 2025, where foreigners are experiencing a double hit from falling stocks and a falling dollar (Exhibit 10).

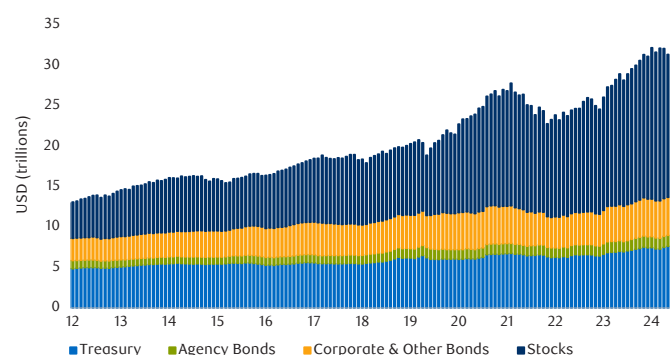
Will foreigners repatriate any part of that US\$10 trillion increase in holdings? Early signs of this shift can be seen in mutual-fund and ETF flows and its continuation would surely have an impact on currency markets even if a small percentage of that capital is repatriated. Importantly, foreigners need not actually liquidate their holdings for a currency impact to be felt. It is also possible that foreigners keep their U.S. asset holdings but simply hedge currency exposure. Custodial data from State Street (Exhibit 11) confirms that there is lots of room for such hedge ratios to rise, and the decision to reduce currency risk is an easier one to make than a broader regional reallocation. We are doubtful that mutual funds, pensions and insurers have begun to place significant hedges on their U.S. holdings, but we believe that such actions are coming and that they will have a significant impact on currency markets. One example of this impact, though perhaps a special case, can be seen in the sudden appreciation of the Taiwanese dollar in early May. Taiwanese life insurers hold sizable U.S. assets and hedge only a small portion of the currency risk. Similarly, the country's exporters typically keep large U.S.-dollar cash balances because that cash earns higher rates of interest in

### Exhibit 8: Foreign holdings of U.S. assets are mostly in private hands



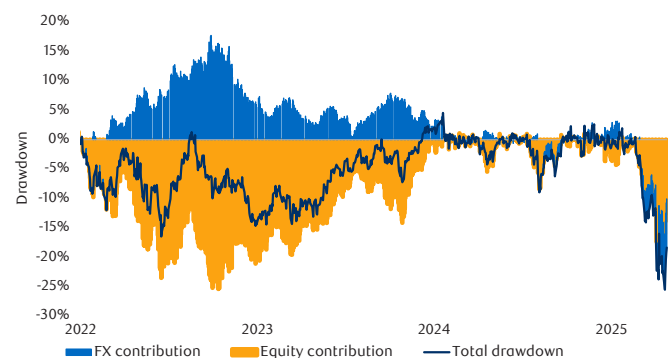
Note: As at March 31, 2025. Source: U.S. Department of Treasury, RBC GAM

### Exhibit 9: Largest share of foreign holdings is U.S. equities



Note: As at March 31, 2025. Source: U.S. Department of Treasury, RBC GAM

### Exhibit 10: S&P 500 return to European investors after currency impact



Note: As at May 30, 2025. Source: Bloomberg, Deutsche Bank, RBC GAM



the U.S. than it would if kept onshore. For a long time, earning higher yields abroad made sense, since the central bank controlled the currency and protected insurers from sudden currency fluctuations. In early May, however, the central bank stepped back from its currency interventions, causing a rush for domestic investors to liquidate their U.S. dollars. The result was a sudden 11% appreciation in the Taiwanese dollar over the course of two days (Exhibit 12).

The changing relationship between fixed income and currency markets is also worth mentioning. For many years, the difference between interest rates among regions has been an important driver of exchange rates because

investors tend to buy currencies of countries and regions where they can earn the highest returns. This link has broken down for the first time in many years, indicating a new set of priorities for traders, or at least the existence of a new source of capital movement that outweighs the influence of yields. For example, the gap between U.S. and German 2-year yields still lies in favour of the greenback and suggests that the euro should have remained where it started the year at US\$1.04. Instead, the single currency has surged to US\$1.14 (Exhibit 13). A similar dynamic exists for the Canadian dollar (Exhibit 14) and for other currencies, where the U.S. dollar is trading weaker than interest rate alone can explain. We also note the increased frequency with which U.S. stocks, bonds and

**Exhibit 11: Hedge ratios have room to rise**



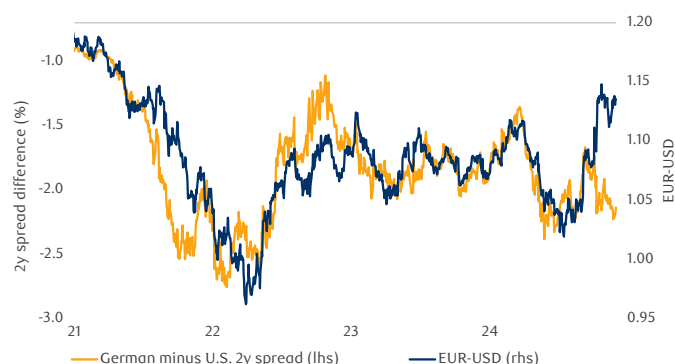
Note: As at May 27, 2025. Source: State Street, RBC GAM

**Exhibit 12: Sudden Taiwan dollar appreciation in May**



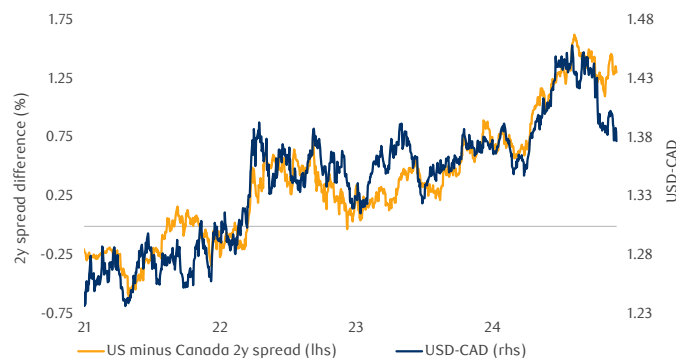
Note: As at June 2, 2025. Source: Bloomberg, RBC GAM

**Exhibit 13: Euro trading stronger than interest rate differentials suggest**



Note: As at May 30, 2025. Source: Bloomberg, Macrobond, RBC GAM

**Exhibit 14: U.S. dollar trading weaker against the loonie than interest rate differentials suggest**



Note: As at May 30, 2025. Source: Bloomberg, Macrobond, RBC GAM

the dollar fall in tandem. This behaviour tends to be common for emerging-market currencies, but is generally rare for the U.S. We think it mirrors the “sell America” trade as investors shy away from investing in the country.

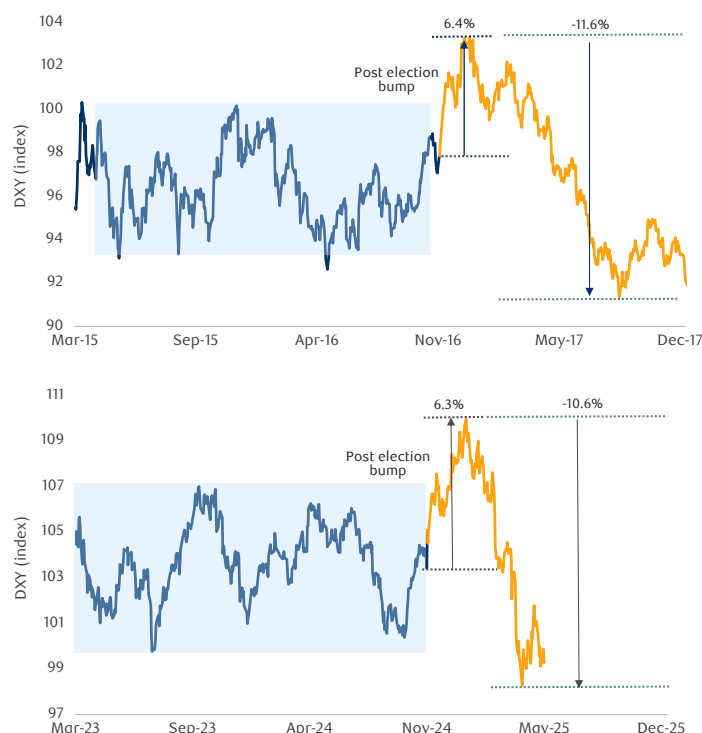
Clearly, much has changed over the past quarter and the outlook for the U.S. dollar has deteriorated substantially. The dollar’s 8.4% trade-weighted decline since Trump’s inauguration partially reflects these new negatives, though to be fair, the currency’s path has not differed much from the last time he was elected (Exhibit 15). We believe much more dollar weakness lies in store, both this year and over the next several years. The currency in our view will continue depreciating for several years until it finally reaches a point where overvaluation is corrected. Both developed and emerging-market currencies should rise against the greenback, and we therefore forecast above-consensus returns for euro, yen, pound and Canadian dollar for the 12 months ahead.

If our outlook materializes, the greenback’s decline will likely have far-reaching impacts. A few changes to the global investment landscape could include:

- A positive impact on U.S. earnings as foreign income is translated into more U.S. dollars. On the other hand, a weaker dollar means lower net income for foreign firms that repatriate profits earned in the U.S.
- A lower debt burden for emerging-market companies and countries that have borrowed in U.S. dollars.
- Emerging-market equities could benefit as they tend to outperform when the U.S. dollar falls.
- Precious metals are likely to rise, as are share prices of the resource companies that mine them.
- A disinflationary impact for countries outside of the U.S. and higher associated odds of monetary easing from central banks aside from the Fed.

There will be, no doubt, many other effects of a significant and sustained depreciation of the U.S. dollar. We suspect that, if not immediately obvious, they will be flushed out relatively quickly as the dollar continues to decline.

## Exhibit 15: U.S. dollar performance mirrors 2016



Note: As at May 5, 2025. Source: Bloomberg, RBC GAM



## Euro

As the second-most traded currency, the euro essentially acts as the “anti-dollar,” and the currency’s appreciation this year partly reflects the extent to which the greenback has fallen. Having said that, there have been a number of positive developments in Europe this quarter that could strengthen the currency in coming months.

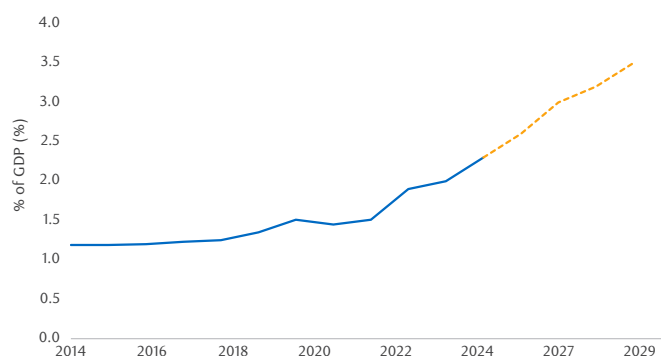
For one, there’s a greater sense of solidarity within Europe these days following Trump’s trade war. This shift is not simply about deepening trade ties within Europe but also strengthening efforts toward a capital-markets union and boosting EU competitiveness in line with recommendations made by Mario Draghi, who served as Italian prime minister and ECB president.

Rebuilding the defense industry has also become a priority (Exhibit 16) following Trump’s cancellation of the implicit NATO security guarantee to Europe, and the region’s commitment to rearmament will underwrite new jobs and investment. Germany’s Rheinmetall, one of the few arms producers in Europe, is reported to be doubling its workforce after the country exempted defense spending above 1% of GDP in the calculation of government borrowing limits. The European Commission has also made commitments to invest in military capabilities, as did member states including Poland and Finland.

A greater amount of fiscal spending in general also aids economic growth. Germany leads this effort with a new fiscal plan, and the stronger political mandate given to its new coalition government helped facilitate the creation of a 500 billion-euro infrastructure fund used to finance investments in energy as well as areas that will help boost innovation such as research, education and science.

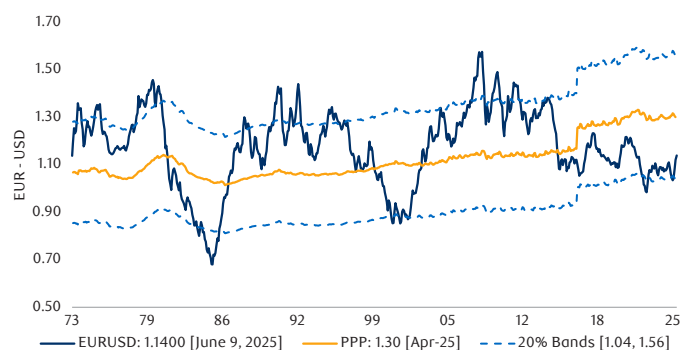
Even after this year’s appreciation, the euro remains cheap based on purchasing power (Exhibit 17) and stands to gain from the repatriation or hedging of U.S. assets, much of which is owned by Europeans (Exhibit 18). We expect the single currency to reach US\$1.22 within a year and to strengthen beyond that level in 2026.

### Exhibit 16: German defense spending set to reach 3.5%



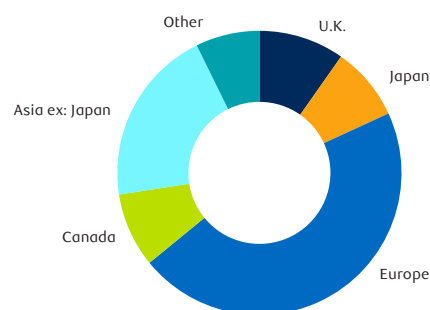
Note: As at December 31, 2024. Source: NATO, RBC GAM

### Exhibit 17: Euro undervalued based on purchasing power parity model



Note: As at June 9, 2025. Source: Bloomberg, RBC GAM

### Exhibit 18: Europeans represent a large share of foreign holdings of U.S. assets



Note: As at March 31, 2025. Source: U.S. Department of Treasury, RBC GAM

## Japanese yen

The yen has been one of our favoured currencies for several quarters owing to its extreme undervaluation, rising Japanese inflation and expectations that the Bank of Japan will raise interest rates faster than other developed-market central banks. The fact that monetary authorities in the G10 are in the midst of cutting rates has helped narrow Japan's yield disadvantage even further (Exhibit 19).

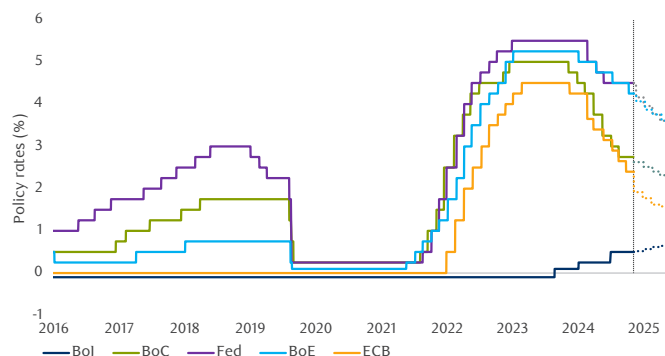
Japan also stands out because it has a government that is actively seeking a stronger currency. While there was initial speculation that yen strength could form part of a U.S.-Japan trade deal, Japan's finance minister publicly stated that authorities would not interfere with the market-determined exchange rate. Even still, the idea of currency intervention can't be ruled out entirely given the unpredictability of Trump's negotiating tactics and the fact that his tariffs now face legal challenges. If the goal is to reduce large U.S. trade deficits, a weaker dollar and stronger yen would help restore U.S. competitiveness.

Capital flows also support a stronger yen thanks to increased Japanese investor demand for Japanese government bonds and foreign demand for Japanese stocks (Exhibit 20). Capital inflows have been supplemented by the fact that the yen is seen as the only reliable safe-haven currency now that the U.S. dollar appears to have lost that status (Exhibit 21).

Our prior forecast of 142 was reached in April, so we extend our forecast again to reflect a continuation of U.S.-dollar weakness and the yen's still-positive fundamental backdrop. We expect the Japanese currency to reach 133 per dollar within the next 12 months.

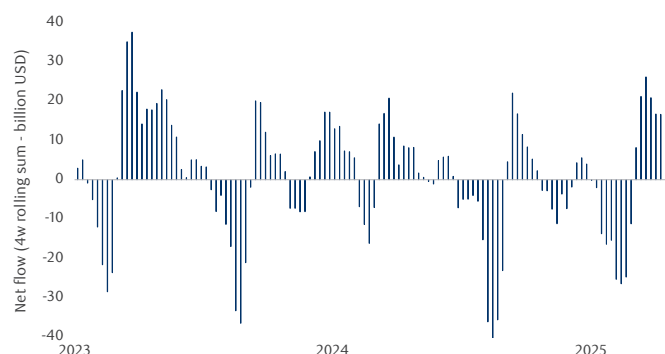


## Exhibit 19: Yen supported by falling rates outside Japan



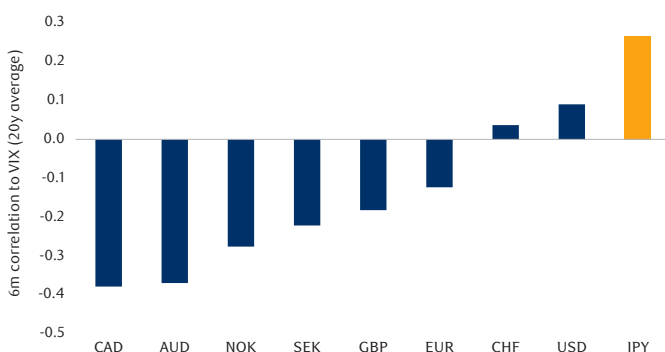
Note: As at June 3, 2025. Source: Bank of Canada, Bank of Japan, Federal Reserve, Bank of England, European Central Bank, RBC GAM

## Exhibit 20: Foreign demand for Japanese equities supports the yen



Note: As at May 30, 2025. Source: Japanese MOF, Gavekal, RBC GAM

## Exhibit 21: The yen is the only true safe-haven currency



Note: As at June 2, 2025. Source: Bloomberg, RBC GAM



## British pound

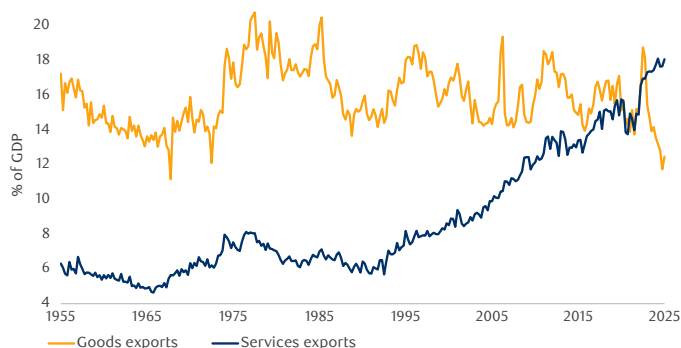
We remain less optimistic on the pound than the euro or yen, conscious of the fact that the UK has weaker economic prospects and a more fragile fiscal situation. To counter Britain's economic challenges, the Bank of England is expected to reduce interest rates and hold down the value of the pound. Also, while it is fairly valued versus the dollar, the pound is actually expensive when compared to the currency of the UK's largest trading partner, the eurozone.

This said, the pound has also achieved our prior forecast and we are inclined to think it can still rally against the greenback. The increase in forecast is partly owing to our expectation for a broader decline in the dollar but is also a nod to the country's trade orientation. For one thing, the UK conducts less trade with the U.S. than do most developed-market peers, and the fact that it runs a trade deficit with the U.S. makes the country less of a target for Trump's trade policy. A trade agreement between the two countries has already been struck in principle, but there are many details that have yet to be solidified, so we won't be surprised if renewed trade tensions return to haunt the pound. A second reason that the UK is more immunized from tariffs is that the UK's exports are more oriented toward services (Exhibit 22), where tariffs haven't been imposed.

A fairly speedy improvement in net portfolio flows is also notable (Exhibit 23). This is especially important given that investors are generally becoming more discerning in how they fund countries with fiscal and current-account deficits. Similar to the U.S., the UK has run twin deficits for many years, but the uptick in investment flows suggest that investors are not shunning the UK as a destination for capital.

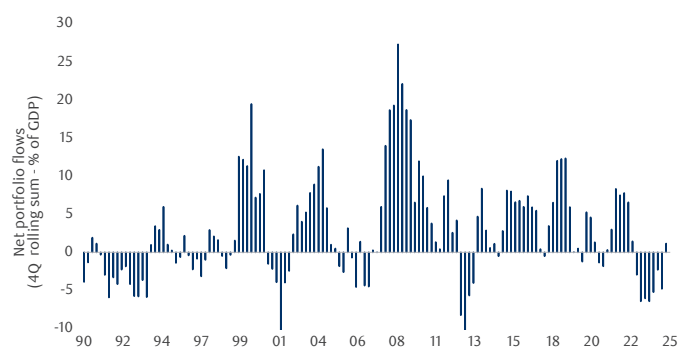
Our new forecast for the pound is US\$1.38, five cents higher than last quarter.

## Exhibit 22: Composition of UK exports



Note: As at March 31, 2025. Source: UK ONS, RBC GAM

## Exhibit 23: Portfolio flows start to support the pound



Note: As at December 30, 2024. Source: UK ONS, RBC GAM

## Canadian dollar

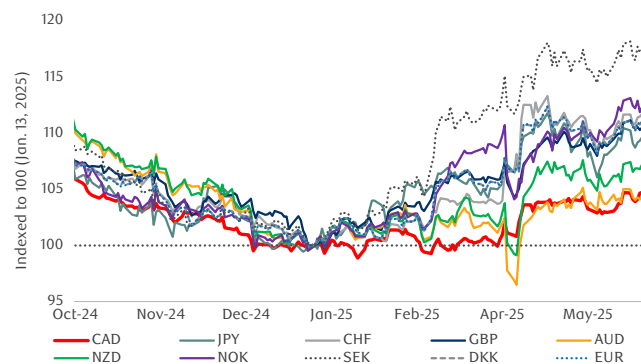
The Canadian dollar has rallied by 5% this year but has generally lagged other G10 currencies that benefited even more from the U.S. dollar's decline (Exhibit 24). The underperformance rests upon a more dovish central bank, some political uncertainty in the lead-up to the late-April federal election and, in particular, a high vulnerability to tariffs. Canada's tight trade and economic ties with the U.S. make it especially sensitive to Trump's whimsical tariff declarations, with risks of much larger economic implications than for Europe, Japan or the UK. While the economy fared better than expected in the first quarter, it only strengthened because companies were bolstering inventories and front-loading exports ahead of the imposition of tariffs.

Clear signs of softness have emerged in the labour market, and the high level of uncertainty is likely to curb large consumer- and business-spending decisions. Economists have already slashed Canadian GDP forecasts in response to the more challenging environment (Exhibit 25), and our own economic outlook implies that Canada will underperform its potential by more than peers amid slowing of economic momentum and uncertainty around trade.

At the same time, the loonie is supported by a number of important positives, including a relatively sound fiscal position (Exhibit 26), strong banking system and cheaper electricity costs. Fiscal stimulus may temporarily buffer the economic impact of tariffs, as the new government appears committed to a continuation of budget deficits. More important for the long-run outlook, however, are the new prime minister's plans to invest in infrastructure and to focus on productivity-enhancing reforms. The elimination of inter-provincial trade barriers and the establishment of west-to-east oil and gas pipelines would be of largest consequence.

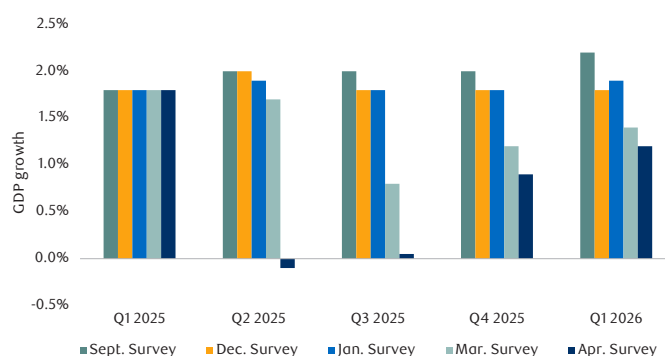
We recognize that the outlook for the Canadian dollar at this stage pivots more on the broader fluctuations of the U.S. dollar than on any Canadian-specific factors. The decline in the greenback is simply too big of an influence for currency investors to ignore and there's little that domestic developments can do to outweigh that overarching theme. As a result, we expect that the loonie will continue to benefit from U.S.-dollar weakness, and its underperformance relative to the euro, yen and pound will soon reach its limits. We forecast that the loonie will appreciate to C\$1.32 per U.S. dollar over the next year, which is slightly less than the gains we expect from the euro and yen.

## Exhibit 24: Canadian dollar lagging other G10 currencies



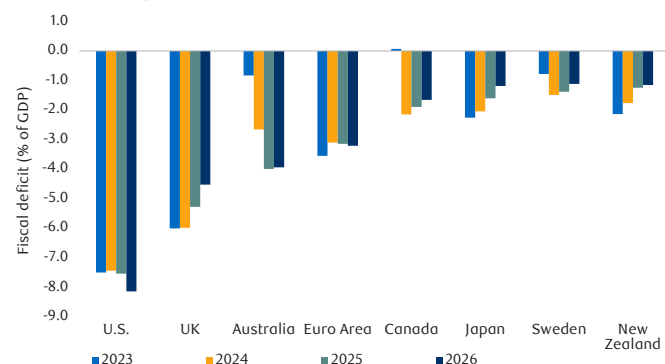
Note: As at June 2, 2025. Source: Bloomberg, RBC GAM

## Exhibit 25: Economists have lowered Canadian GDP forecasts



Note: As at April 23, 2025. Source: Bloomberg, RBC GAM

## Exhibit 26: Canada runs a conservative fiscal deficit relative to peers



Note: As at December 31, 2024. Source: OECD, RBC GAM



## Regional outlook – United States



**Brad Willock, CFA**

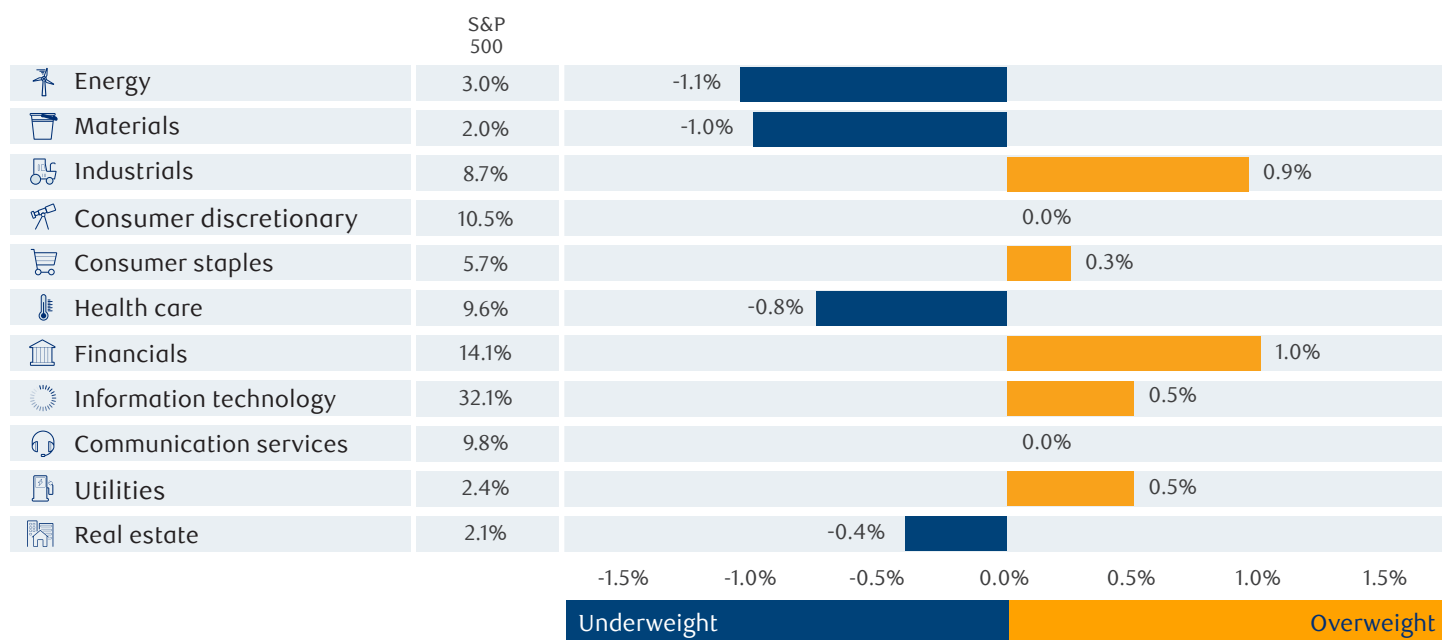
Managing Director &  
Senior Portfolio Manager  
RBC Global Asset Management Inc.

U.S. stocks, measured by the S&P 500 Index, were essentially flat during the three months ended May 31, 2025, though the path during the period was highly volatile. After peaking during the third week of February, the S&P 500 entered the month of March in a downtrend trend as anxiety mounted over President Trump's intention to impose sweeping global tariffs. On April 2, Trump announced his proposal to charge the shockingly high tariffs on goods imported from most countries and dubbed the day of the announcement "Liberation Day." The avowed goal of the tariffs was to shrink the U.S. trade deficit by reducing imports and encourage domestic production and employment, although it's clear that they were also designed as leverage for use in trade negotiations. Investors demonstrated their displeasure by driving stock prices down 15% over the next three trading days. The U.S. dollar and Treasury bonds also declined as investors voted with their feet in a broad sell-off of American assets. The market action was messy and the related commentary unkind to both the Trump administration and its trade policies. It came as no surprise that on April 9, just one week after the tariffs were unveiled, the administration postponed their implementation for 90 days. The rebound in stock prices was ferocious, with the S&P 500 up about 10% on the first day following the pause, and equities returned to their pre-Liberation Day level in just 21 trading days. For all the volatility, the S&P 500 is roughly where it was in mid-November, and down just 4% from an all-time high. It has become harder than normal to discern signal from noise,

making now a good time to determine where things stand with respect to trade policy, recent corporate financial results and the continuing impact of artificial intelligence (AI) on financial markets.

Let's begin by noting that, on May 28, the U.S. Court of International Trade, a relatively low-profile court in Manhattan, ruled that it had been illegal for the administration to impose the duties as it did through the use of emergency economic powers. An appeals court subsequently allowed the duties to stay in effect while the case moves through the appeals process. So where does that leave things? Unfortunately, it leaves things much as they were before the court's decision. Federal officials anticipated this outcome, and in addition to appealing the decision, they will likely seek to reapply the same tariffs by leaning on other laws available to them. The effective U.S. import-tariff rate, which was less than 3% a year ago, is about 12% today, and is likely to settle somewhere between 10% to 20% over the next several months depending on how negotiations with the EU and China turn out. The key for investors is to gauge the impact that the proceedings will have on corporate earnings. Based on U.S. Federal Reserve surveys and explicit guidance provided by companies in first-quarter earnings reports, America's largest companies can expect a hit of about 10% to after-tax profit margins, which could result in a decline in S&P 500 earnings growth this year to about 4% from 8%.

## United States – Recommended sector weights

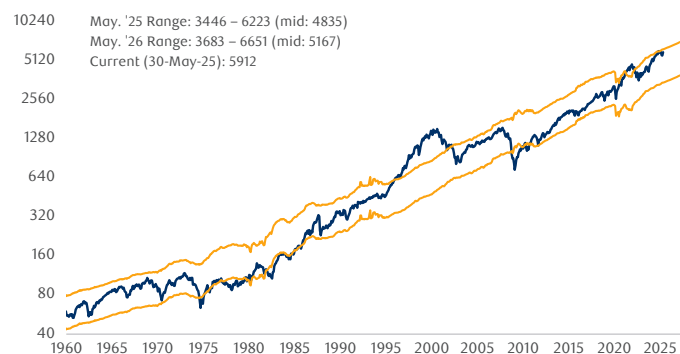


Note: As of May 31, 2025. Source: RBC GAM

“High valuations at the index level reflect investor optimism about the future for AI-related meg-cap stocks...”

## S&P 500 Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM



Now let's look at the most recent financial results and evaluate where the U.S. market's largest corporations stand. In the first quarter, earnings-per-share growth for the S&P 500 came in at roughly 8% year over year (after one-time adjustments) driven by revenue growth of just below 5%, and that figure was over 12% excluding the Energy sector. These results were led by strong earnings from the Information Technology sector, which rose 29%, and Industrials, up 10%, while profits for less cyclical sectors such as Health Care and Utilities were up 10% and 6%, respectively. Weak commodity prices and a slowdown in consumer spending were a drag on cyclical sectors such as Energy and Consumer Discretionary (ex-Amazon), with earnings growth down 17% and 8%, respectively. The Consumer Discretionary sector excluding Amazon generated a net loss on top-line growth of 1%, as net profit margin for the sector fell 12% and could not be offset by stock buybacks. Notably, the areas of the economy that are home to the six AI-related mega-caps posted solid results with an aggregate earnings gain of over 30% for the third straight quarter. These stocks rallied as investor enthusiasm for the AI theme returned. With over 95% of companies having reported first-quarter earnings, consensus S&P 500 earnings estimates for all of 2025 imply profit growth of roughly 8%, which seems about four percentage points too high if tariffs persist. Estimates for 2026 imply profit growth exceeding 10%, which seems optimistic to us. Technology and interactive media stocks generated about 58% of the market's aggregate earnings, similar to last year's 60% share. As the trade war proceeds and slower economic growth takes hold, the AI-related stocks could offer investors a positive offset to all the tariff turmoil.

The rally in stocks since the autumn of 2022 has been supported by above-trend economic growth and solid earnings gains. Before last year's U.S. election, investors had expected the potential benefits of tax relief and deregulation to outweigh the potential drags from deportations and tariffs. However, the administration's trade policy has investors starting to reconsider those expectations. The S&P 500, at about 5900, trades at roughly 21 times the next 12 months' estimated earnings, which is expensive relative to history. High valuations at the index level reflect investor optimism about the future for AI-related meg-cap stocks, and a relatively benign resolution to the trade war where the effective tariff rate comes down, perhaps below 10%, after some deal-making. To keep the bull market going, we need the adoption of AI to continue and the promise of increased productivity to become increasingly tangible. The policy moves of the Trump administration are changing the rules of the game and increasing the level of uncertainty, making it harder for households and corporations to spend and invest. We have used the volatility of the past few months to increase our allocation to leading AI stocks, while maintaining exposure to defensive sectors given the unusually wide range of potential outcomes that exist at the moment.



## Regional outlook – Canada



**Sarah Neilson, CFA**

Managing Director &  
Senior Portfolio Manager,  
Co-head North American Equities  
RBC Global Asset Management Inc.



**Irene Fernando, CFA**

Managing Director &  
Senior Portfolio Manager,  
Co-head North American Equities  
RBC Global Asset Management Inc.

Canada's stock benchmark, the S&P/TSX Composite Index, recorded total returns of 3.9% in the three months ended May 31, 2025. In U.S.-dollar terms, the S&P/TSX gained 9.5%. The S&P/TSX outperformed the S&P 500 Index, which fell 0.4%, while the MSCI World Index gained 2.1%.

Trade tensions with the U.S., a Canadian federal election and sharp moves in currencies and commodities have played significant roles in rolling back domestic business activity and household spending. Canada was initially a focus of U.S. President Trump, who threatened to impose 25% tariffs on most imports from Canada. This approach was later attenuated to target the automotive, steel and aluminum industries, and a rate of 10% has been broadly applied. The U.S. administration has also chosen to abide by terms of the existing North American trade agreement, USMCA, noting that goods compliant with the accord are not subject to tariffs. The current situation is an improvement from the worst-case scenario that had been on the table. That said, consumer and business confidence is unlikely to improve this year unless trade tensions get dialed back.

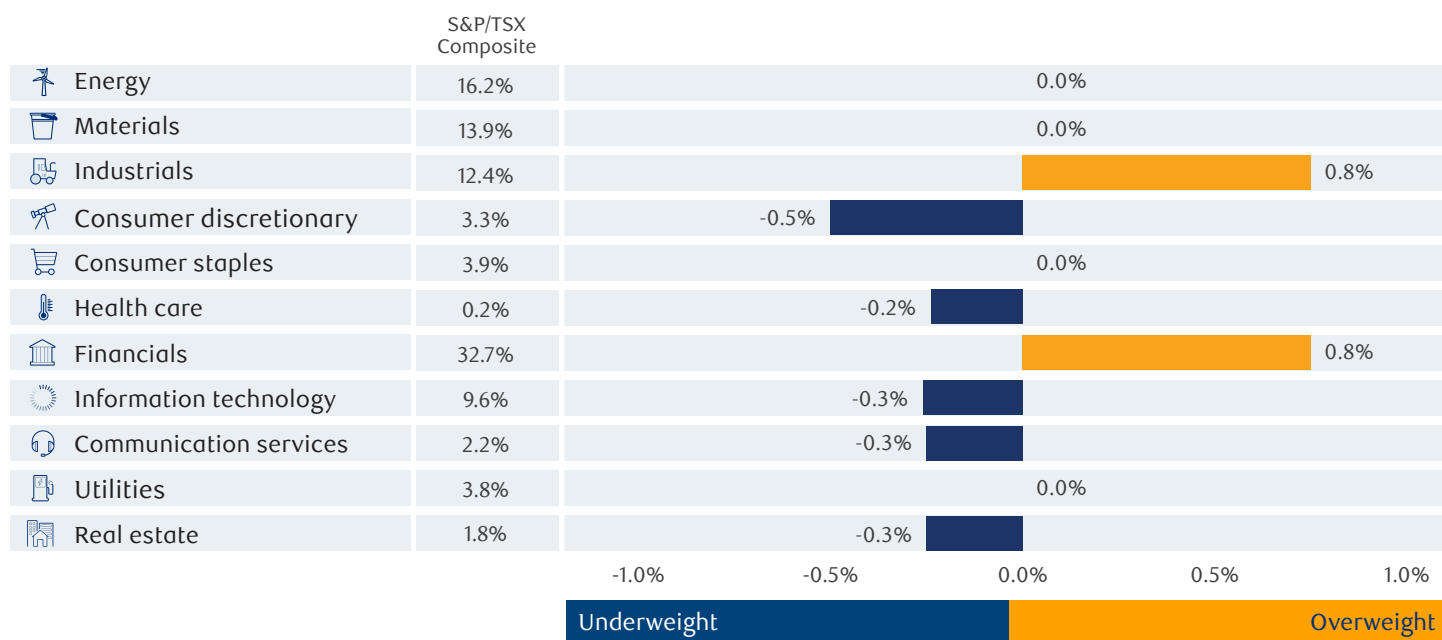
The S&P/TSX reached all-time highs in January before falling back, with a year-to-date decline of 14% by early April, after the U.S. announced global tariffs. Even so, the S&P/TSX has managed to outperform the S&P 500 and the MSCI World in U.S.-dollar terms due to the Canadian dollar's 4.5% appreciation so far in 2025 and strength in gold prices due

to demand for safe-haven assets. Gold companies make up 9% of the S&P/TSX index and have rallied 43% so far in 2025. Against this backdrop, the Canadian index is back near all-time highs.

Canadians elected Mark Carney as the new prime minister in March, replacing Justin Trudeau and keeping the Liberal Party in power. Carney stepped in with a platform focused on trade stability, affordability and a perceived willingness to boost growth in the resource sectors. There has been a renewed emphasis on the need for investment in infrastructure and faster permitting for major projects, which in time should benefit development of resource sectors that account for 20% of Canada's GDP. In the near term, attention remains focused on how President Trump will engage with Carney on trade policy, including the possible renegotiation of the USMCA pact.

Analysts are anticipating that Canada's economy will expand at a below-trend rate of 1.2% in 2025, down from 1.5% in 2024, and that growth will slow even further - to 1.0% - in 2026. Given the trade uncertainty, the Bank of Canada (BOC) recently provided two scenarios for the economic outlook rather than one. In the more optimistic scenario, the assumption is that trade tensions abate and export growth recovers. In this case, GDP growth would briefly fall to zero in the second quarter of 2025, and trend higher to 2.0% by 2027. The more pessimistic scenario reflects the persistence of trade tensions, falling

## Canada – Recommended sector weights

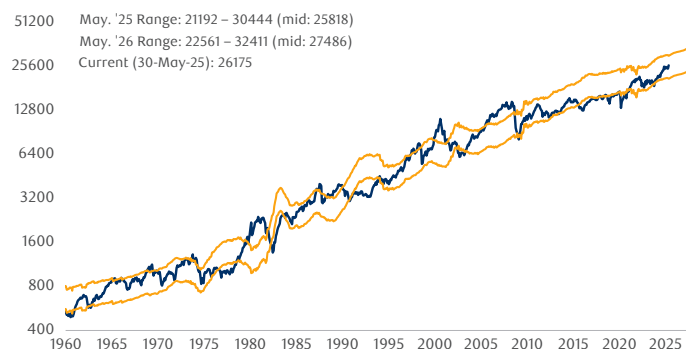


Note: As of May 31, 2025. Source: RBC GAM

“S&P/TSX consensus profit estimates have stayed surprisingly consistent over the past three months, with earnings currently expected to expand 11% in 2025 and by the same amount in 2026.”

### S&P/TSX Composite Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

exports and a permanent reduction in U.S. demand for Canadian goods. In this case, GDP contracts for four quarters, declining by 1.2% over that period, with a gradual recovery beginning in mid-2026.

While inflation recently approached the BOC's 2% target, tariffs are expected to push prices higher. Inflation, however, will be tempered somewhat by lower retail carbon taxes and energy prices. Earlier this month, the BOC opted to hold interest rates steady at 2.75%, as the central bank strives to balance the continuing threat of inflation against the possibility that economic weakness will intensify.

Reflecting pressures on the Canadian economy, the jobs market is showing signs of stress. The number of manufacturing positions dropped more than expected in the April report, and the unemployment rate increased to 6.9% from 6.7% a month earlier.

Important for Canada's economic outlook and the profitability of Canada's banks is the condition of the housing market. Trade tensions and economic uncertainty weighed on buyers, as housing resales dropped to start this year. Prices have continued to fall in some major markets, led by condominiums amid rising inventories in Ontario and British Columbia. Home affordability, ownership costs as a percentage of median household income, has improved to 55.9%, down from the all-time high of 63.8% a year ago, with lower mortgage rates accounting for most of the relief.

S&P/TSX consensus profit estimates have stayed surprisingly consistent over the past three months, with earnings currently expected to expand 11% in 2025 and by the same amount in 2026. Even with the cautious economic backdrop, forecasters and companies are reluctant to make major adjustments to projections given the unpredictability of the U.S. administration's approach to tariffs. The biggest drivers of the strong earnings-growth outlook include the Materials sector, thanks to elevated gold prices, Financials and Information Technology. The S&P/TSX currently trades at 15.8 times next year's earnings, higher than the 14.9 long-term average, due partly to the larger weight of information technology and industrials companies in the index than in prior periods. The S&P/TSX trades at a significant discount to the S&P 500, which is valued at 21.9 times forward earnings.

Canadian bank stocks recorded total returns of 5.4% over the past three months, finishing the period ended May 31 1.5% percentage points ahead of the S&P/TSX. Banks' results for the fiscal quarter, which were released in late May, provided a mixed outlook given lowered growth expectations, questions concerning unemployment and increasing provisions for credit losses. A lack of demand for loans hindered revenue growth but bank executives remained somewhat optimistic that the business outlook will improve in the next 12 months. Trading revenue remained the bright spot for the banks as market volatility lifted capital-markets earnings to historical highs. Analysts' consensus expectations for the Big 6 Canadian banks are for earnings growth of 8% in 2025 and 9% in 2026, which we consider optimistic given the tough economic backdrop. Banks as a group trade at 12 times earnings, above historical averages, and reflect optimism the economy will not fall into recession. Capital levels remain healthy. A few banks recently raised their dividends, while others focused on stock buybacks.

Canadian energy stocks have been flat so far this year. Pipeline companies have gained, but energy producers have fallen given a 13% year-to-date drop in prices. With spare capacity hitting the market from OPEC members at a time when oil demand is softening, crude prices may continue to languish. U.S. shale producers have signaled they will slow production below US\$60 per barrel, which could help put a floor on prices. Canada's producers continue to remain disciplined with capital spending and cost controls and can generate modest free cash flow at US\$60 per barrel, supporting stable production and dividend payments. Trade tensions have fueled a desire to diversify Canada's exports away from the U.S., which buys most of the country's oil. Canada's petroleum industry is hoping that Prime Minister Carney will support faster permitting and lower carbon taxes to unlock the vast oil and natural-gas reserves in the western provinces. The success of LNG Canada, a British Columbia liquified natural-gas terminal that is hosting gas for export to Asia, will offer some support for gas prices and producer profits.





## Regional outlook – Europe



**David Lambert**

Managing Director & Senior Portfolio Manager,  
Head of European Equities  
RBC Global Asset Management (UK) Limited

The negative impact of tariffs on European equity markets in recent months has masked the positive implications of planned increases in fiscal spending by Germany and, perhaps, France.

Germany has announced a historic shift that includes a €500 billion infrastructure investment package over the next 10 years and a significant expansion of defense spending. The defense expenditures are expected to be exempt from a constitutional provision limiting how much debt Germany can take on, allowing the country to run sustained fiscal deficits and marking a departure from the country's long-held commitment to fiscal conservatism. The infrastructure package aims to address decades of underinvestment in areas such as transportation and energy.

French officials have provided less detail on how much they will boost spending and where they will spend it, but there are indications of increased defense outlays and a focus on supporting domestic industry. France's large budget deficit means it's likely that its fiscal boost would require loan guarantees from the eurozone as a whole.

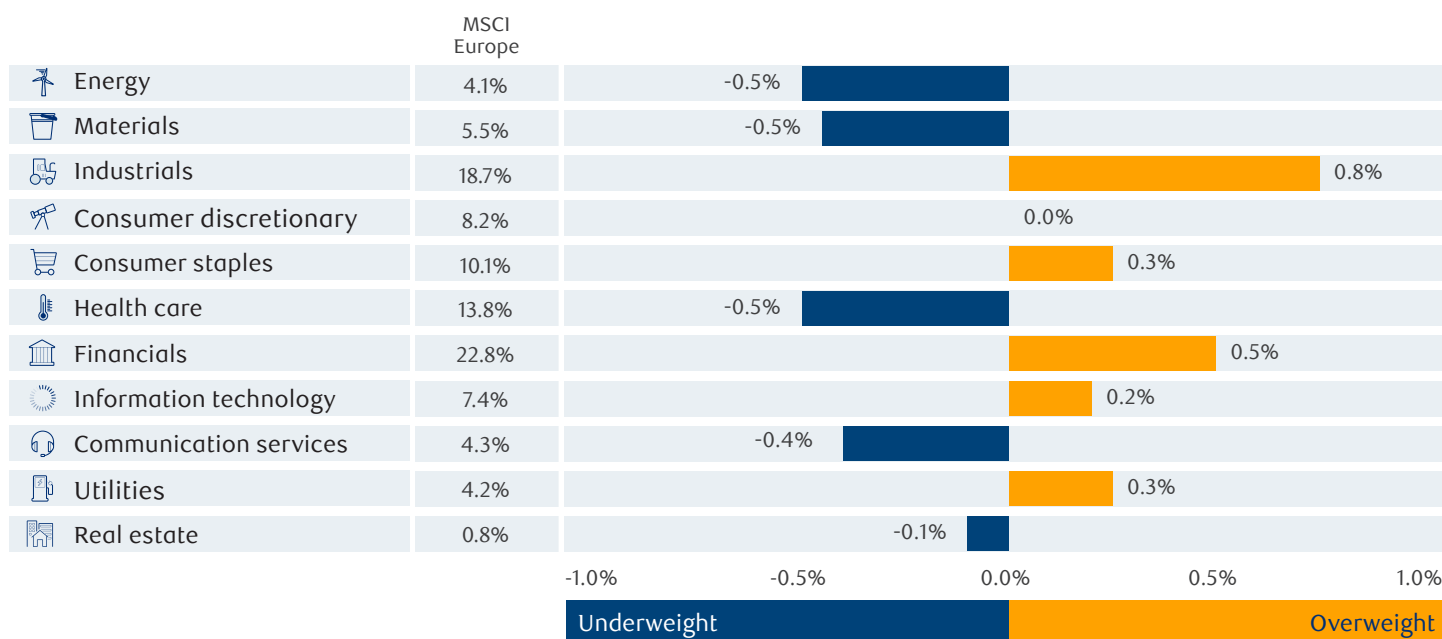
These spending plans will provide a much-needed boost to economic growth in the eurozone. The infrastructure

investments are projected to generate an additional €50 billion in annual investment, representing about 10% of Germany's 2024 annual budget and roughly 1% of GDP. Defense spending will increase 67% to €150 billion annually as part of plans to harden Europe against Russian aggression. The government money will in our view attract private capital, reinforcing the broader eurozone recovery.

Germany's GDP growth is expected to rise to 1.9% in 2026 from the 0.3% forecast for this year, driven by the ambitious fiscal agenda, while overall eurozone growth is predicted to pick up to 1.3% in 2026. Higher government spending will stimulate consumption and investment across the EU, particularly in central and eastern Europe, which have significant exports to the EU.

Germany and France are part of a broader shift in Europe's approach to fiscal policy aimed at enhancing economic growth, strategic autonomy and security. The commitment of Europe's two largest economies to higher government spending makes us more optimistic about European equity markets over the medium term, as we will finally see some much-needed momentum for domestic European demand.

## Europe – Recommended sector weights

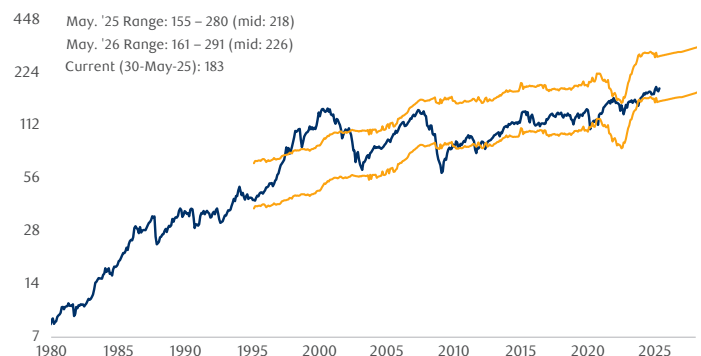


Note: As of May 31, 2025. Source: RBC GAM

“We continue to maintain balanced exposures across the portfolio on an industry and style perspective to avoid getting whipsawed by extreme market fluctuations.”

### MSCI Europe Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

For many years, European companies have relied mostly on global exports to achieve earnings growth.

The shorter-term outlook is clearly muddled by the U.S. tariff situation, and we think this means higher equity-risk premiums in the near term. Earnings growth is forecast to slow given that executives are cautious. The lack of clarity stunts business investment and reduces people's willingness to consume. Provided we have seen the peak in tariff uncertainty, however, we hope that expectations will improve and usher in a period of renewed growth. In the event, the low growth rates baked into European valuations would start to fall away and P/E multiples could expand accompanied by improvements in returns on capital as profit margins widen.

Europe valuations have looked cheap since the 2008-2009 financial crisis due to a lack of domestic energy sources, relatively undeveloped capital markets and less business-friendly policies and regulation. We are beginning to see signs of change in all three areas, especially in the shift to locally produced "clean energy" rather than imported petroleum. Moreover, a dependably stronger economy could ease barriers to capital raising and encourage officials to partly dismantle the regulatory hurdles that stifle European growth. Our confidence in this view is bolstered by the fact that Europe's overall budget deficit rests below 2%, versus 4% in the U.S., leaving space for other European governments to raise spending.

We continue to maintain balanced exposures across the portfolio on an industry and style perspective to avoid getting whipsawed by extreme market fluctuations. We have been increasing our exposure to companies that benefit from economic growth within Europe over the first part of the year via investments in defense, construction materials, Utilities and telecommunications. These areas have been longstanding underweights in Europe, but the developments we have covered above have led us to move some exposure away from globally exposed companies.

Consensus expectations are for earnings growth of 5% to 6% growth for this year, but we now expect that figure to be closer to zero amid uncertainty over the coming months. This lacklustre performance, we note, could be setting the stage for a profit rebound as we go through the year.

European stocks are trading at 12.8 times estimates of 2026 earnings and a dividend yield of 3.5% – an undemanding valuation level given the potential improvement we see over the coming years.

The principal risks ahead are mounting geopolitical instability and attendant energy-supply risks, as well as tariffs and the potential for associated supply-chain bottlenecks. The other thing we continue to monitor is companies' ability to operate profitably in an environment of increased currency volatility. It is always important to look at this consideration on a company-by-company basis, particularly at a time when the U.S. dollar has weakened significantly versus the euro over a short period of several months.







## Regional outlook – Asia



**Chris Lai**

Portfolio Manager  
RBC Global Asset Management (Asia) Limited

Asian equities posted moderate gains in the three months ended May 31, 2025, slightly outperforming global equity markets. Within Asia, India and Hong Kong outperformed, while Taiwan and Thailand underperformed.

India's rally was driven by the fact that the country's markets are relatively insulated from U.S. tariffs and by support from falling interest rates. A rally in Hong Kong stocks was prompted by easing trade tensions and attractive valuations. There was a rebound in initial public offerings (IPOs) in Hong Kong and the amount of trading on the Hong Kong Stock Exchange has picked up.

Taiwanese stocks underperformed on concern that a stronger currency would dent exports and as investors worried about the impact of trade tensions on Taiwan's globally important computer-chip manufacturing industry. The Taiwanese dollar was among the biggest gainers against the U.S. dollar amid speculation that there had been an understanding that Taiwan would allow the normally stable currency to appreciate. The underperformance of Thai equities came as economists lowered 2025 GDP growth forecasts to 2.1% from 2.8% due to the impact of U.S. tariffs.

Tariffs and weak global demand could slow Asia's exports and capital expenditures in the second half of 2025. Trade-dependent economies such as Thailand, Singapore, Taiwan and South Korea are most vulnerable, while India, Australia

and the Philippines, which rely less on exports, are more insulated. Disinflation should continue due to lower oil prices, weak demand and a flood of Chinese exports resulting from the impact of U.S. tariffs. The soft backdrop for growth and inflation suggests that central banks will now be faster to cut interest rates and that the reductions will be deeper than had been forecast. Greater fiscal support in the region is also likely.

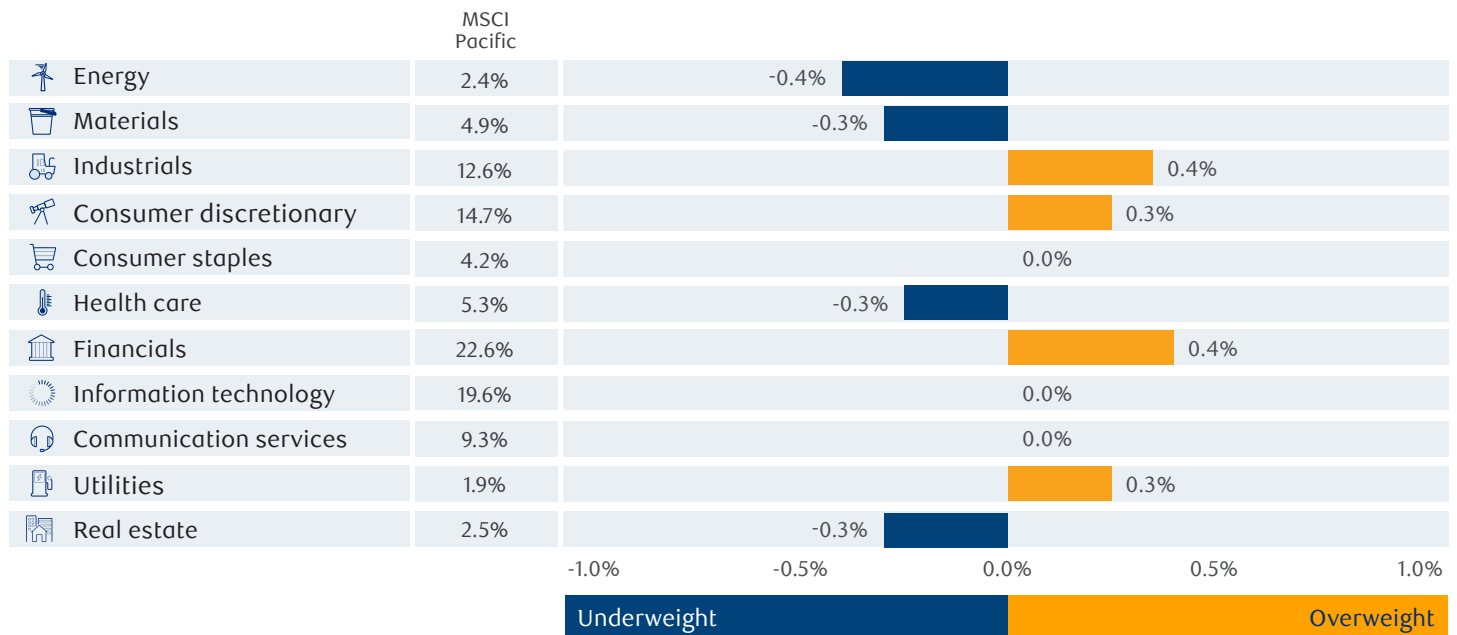
### Japan

We believe the Japanese economy will be under pressure in the second half of this year given declines in exports and corporate earnings caused by U.S. tariffs. President Trump has been under pressure to scale back his trade policy, but a minimum 10% reciprocal (retaliatory) tariff and a 25% tariff imposed on the automotive industry remain and will have a negative impact on Japan's exports.

We expect two policy responses to the weakening economy: fiscal stimulus and a slower rate of interest-rate hikes. Japan will likely bolster government spending as early as September of this year, and we expect the Bank of Japan (BOJ) to delay rate hikes until at least early 2026. However, Japanese GDP could get a boost in the event that the U.S. economy remains resilient and Japan and the U.S. are able to negotiate a tariff agreement, providing room for the BOJ to perhaps cut interest rates sometime this year.



## Asia – Recommended sector weights

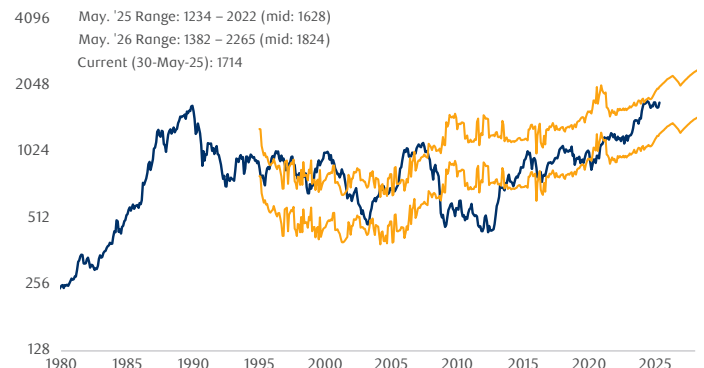


Note: As of May 31, 2025. Source: RBC GAM

“We believe the Japanese economy will be under pressure in the second half of this year given declines in exports and corporate earnings caused by U.S. tariffs.”

## MSCI Japan Index Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

Consumer inflation excluding food and energy is forecast to fall to 1.8% in 2026 from 2.8% this year, reflecting a slowdown in GDP growth that is likely to ease wage growth. A weaker U.S. dollar, declining prices for oil and a slowdown in food-price increases should also reduce inflation in the second half of 2025 and into 2026.

### Rest of Asia

We raised our growth forecast for China to 5.0% from 4.2% after the U.S. and China reached agreement on a plan to reduce tariff rates from the highly punitive levels originally announced. In addition, we have trimmed our expectations for fiscal stimulus. The two sides appear to have pulled back from a full-blown trade war, which is good news for China, the U.S. and the global economy.

Even with this agreement, China's economy continues to face headwinds that could lead it to fall short of its 5% growth target. U.S. tariffs on Chinese goods are still high at 30% to 45%, levels that are sufficient to choke off at least a third of Chinese exports to the U.S. The U.S. trade agreement should help support private-sector confidence and spending, but it's not clear that the current deal will be sufficient to turn the tide.

We expect India to benefit as companies shift manufacturing away from China due to rising labour costs and trade

tensions. In the near term, Indian economic indicators suggest weakness due to less robust corporate capital expenditures, falling income growth and concerns about the ability of households to service debt. Industrial production growth dropped to 2.7% in April from 3.0% in March, and consumption in rural areas slowed recently given the decline in wage growth. As a result of these trends, we have cut our 2026 GDP growth forecast to 6.3% from 6.6%. With inflation staying below the Reserve Bank of India's 4% target for two consecutive months, economists forecast that India's central bank could lower interest rates by 25 basis points by the end of 2025 to 5.25%. Our view is that a combination of fiscal spending, monetary easing and continued economic reforms should maintain the economic expansion into 2026.

In Australia, recent consumer spending and trade data suggest sub-trend GDP growth. However, we continue to anticipate a return toward trend growth amid conflicting forces that include moderately restrictive monetary policy against expansionary fiscal policy, and moderating population growth against positive wealth effects. Elevated geopolitical and tariff uncertainty adds downside risk. We still anticipate a modest rise in unemployment, given clues from recent labour force and survey data. The Labor Party won the May 3 election by a surprisingly large margin, and fiscal policy is set to remain modestly expansionary as the government moves to deliver on its election commitments.



## Regional outlook – Emerging markets



**Veronique Erb**

Portfolio Manager,  
RBC Global Asset Management (UK) Limited

The reciprocal tariffs introduced by U.S. President Donald Trump on April 2, 2025 – which he titled “Liberation Day” – drove global stocks significantly lower, and the emerging-market equity benchmark had its biggest one-day decline in at least five years, falling 10%. The scale, breadth and methodology of the tariffs has confused investors and forced companies to delay investment decisions. Significant declines in the U.S. dollar, U.S. equities and Treasuries prompted Trump to largely reverse himself on many of the extreme tariffs, at least temporarily, and emerging-market stocks have more than recovered the losses sustained in early April.

The direction of the U.S. dollar tends to be very important for emerging markets, and the greenback has been overvalued for some time. Investors are now shifting assets from the U.S. amid perceptions that the U.S. is losing some of its attractiveness as a safe haven and a belated recognition that Trump’s approach is likely to weaken the U.S. dollar.

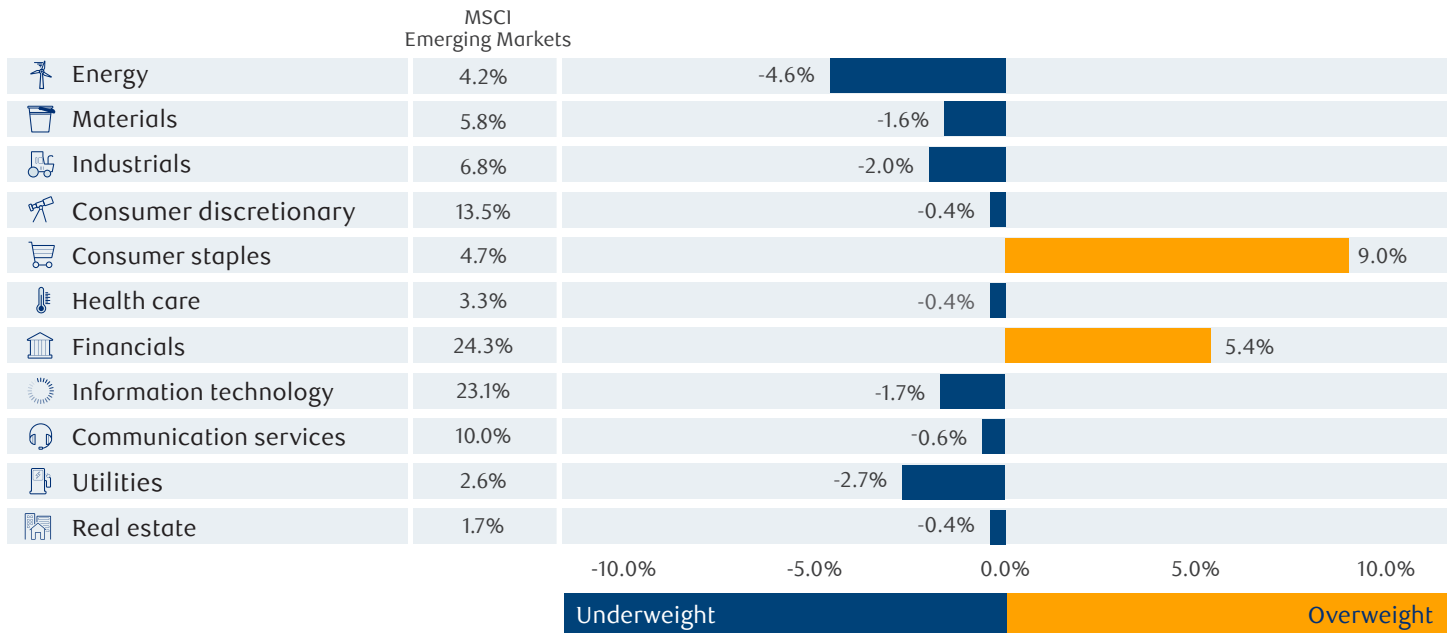
Emerging markets have outperformed the U.S. so far this year and it is conceivable in our view that this trend continues. The U.S. as a percentage of global market capitalization remains near its December 2024 peak of 70% in December 2024 (up from 40% 12 years ago), suggesting that valuations are high as economic growth slows.

After 13 years of U.S. stock-market outperformance, and with economic growth now slowing in the U.S., emerging-market equities look attractive. A weaker U.S. dollar is clearly positive for emerging-market equities, and with emerging-market valuations still half those in the U.S., there is strong potential for continued outperformance.

Most emerging-market countries, with Mexico an important exception, have relatively low exposure to U.S. tariffs. For China, exports to the U.S. represent a mere 2.5% of GDP. However, it would appear that Mexico has come out well in terms of the tariffs and has benefited from the stricter controls on Asia.

More recently, it appears that Trump has begun to refocus the trade war away from one characterized by the indiscriminate imposition of tariffs everywhere to one focused on isolating China. While it seems unlikely that other nations will help form an anti-China coalition, America could well be successful in limiting China’s indirect exports to the U.S. A trade deal between China and the U.S. is not at all certain, but would in our view be beneficial to both countries. Currently most economists seem to view the short-term pain of the trade war between the U.S. and China as being higher for the U.S. as finding new suppliers for some of what China exports is difficult. China has navigated the trade war well since it

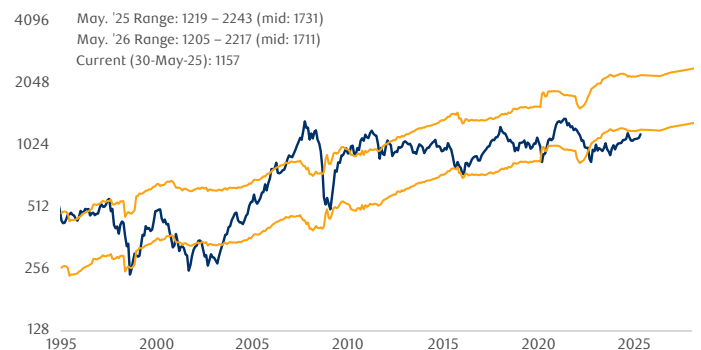
## Emerging markets – Recommended sector weights



Note: As of May 31, 2025. Source: RBC GAM

“Emerging markets have outperformed the U.S. so far this year and it is conceivable in our view that this trend continues.”

## MSCI Emerging Markets Index Equilibrium Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM



started. The country's trade surplus has more than doubled in the past five years, as China diversified exports among emerging markets and increased exports of high-value products. Furthermore, China is also likely to focus much more on domestic demand.

Deepseek, the Chinese artificial-intelligence (AI) company, has showcased the country's technological prowess after the U.S. took steps a half decade ago to arrest China's technology development. China, exploiting its enormous number of engineering and math graduates, has emerged as a leader in a wide range of technologically advanced products encompassing electric vehicles, batteries, drones, high-speed railway and 5G communications.

Another major emerging-market power, India, has benefited from economic reforms and robust capital expenditures, which are ramping up as government expenditures on infrastructure slow. Moreover, valuations have come down from elevated levels. Given that the Indian economy tends to be domestically focused, the market is starting to look attractive again. India's stock market had significantly underperformed China's as of the end of March of this year, but valuations were still higher.

The outlook for Latin America is improving, as the region emerges from a cycle of left-wing governments that in many cases are being replaced by centrist and right-wing governments. Additionally, Latin America is well placed on trade given that U.S. tariff policy looks to favour the Americas. Latin American markets remain highly competitive in manufacturing, benefit significantly from a weaker U.S. dollar and are attractively valued.

Among sectors, Information Technology has benefited from significant capital expenditures driven by AI. Questions remain as to whether AI-related companies will get a return on their capital. It may make sense to move away from companies that supply the AI industry to more direct beneficiaries in the areas of services, software and the internet.

We have always preferred emerging-market sectors that benefit from domestic consumption and the expanding use of financial services in emerging markets. Domestic sectors will be insulated from tariffs and are likely to receive policy support. The Financials sector has tended to outperform Information Technology when the U.S. dollar weakens, and emerging markets as a whole generally outperform when borrowing is on the upswing. A weaker U.S. dollar makes it easier for emerging-market interest rates to come down as there is less need for emerging-market central banks to support their currencies. Finally, the Financials and Consumer Staples sector in emerging markets look cheap relative to their median valuations, supporting our overall domestic preference.

A U.S. bear market, should one occur, will likely result in emerging-market weakness. But timing markets is difficult at best. What we can say is that emerging-market valuations are attractive, and that emerging markets would likely benefit from U.S.-dollar weakness. Emerging-market stocks have historically provided returns of 7% to 13% when valuations are at current levels.

# RBC GAM Investment Strategy Committee

## Members



**Dagmara Fijalkowski, MBA, CFA**

Managing Director & Senior Portfolio Manager,  
Head of Global Fixed Income & Currencies  
RBC Global Asset Management Inc.

Chair, RBC GAM Investment Strategy Committee

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals with almost \$200 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and chairs the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Leadership Committee. Dagmara holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.



**Daniel E. Chornous, CFA**

Global Chief Investment Officer  
RBC Global Asset Management Inc.

Dan Chornous is Global Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) \$712.4 billion\* for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chaired the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

\*AUM in CAD as of May 31, 2025



**Soo Boo Cheah, MBA, CFA**

Managing Director &  
Senior Portfolio Manager  
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.



**Irene Fernando, MBA, CFA**

Managing Director & Senior Portfolio Manager  
Co-head North American Equities  
RBC Global Asset Management Inc.

Irene is a senior portfolio manager and co-leads the North American Equity team. Irene started at the firm in 2007 as a member of the Wealth Management Generalist program. Prior to joining RBC, Irene was employed as an analyst at a multi-national investment bank. After the Generalist program she joined the RBC North American Equity Team as a research analyst covering Canadian equities, with a focus on the Financials and Real Estate sectors. She was named Associate Portfolio Manager in 2014, Portfolio Manager in 2016, and Senior Portfolio Manager in 2022. She was named co-head of the North American Equity Team in 2025. Irene earned a Bachelor of Commerce from the University of Toronto and is a CFA Charterholder.

**Stuart Kedwell, CFA**

Managing Director & Senior Portfolio Manager  
Head of Equities  
RBC Global Asset Management Inc.

Stu leads the Equities team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

**Eric Lascelles**

Managing Director &  
Chief Economist  
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.

**Scott Lysakowski, CFA**

Managing Director & Senior  
Portfolio Manager, Head of  
Canadian Equities (Vancouver)  
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.

**Hanif Mamdani**

Managing Director &  
Head of Alternative  
Investments  
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

**Bryan Mascoe, CFA**

Managing Director & Senior  
Portfolio Manager, Co-head Fixed  
Income (Vancouver)  
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.

**Daniel Mitchell, CFA**

Managing Director & Senior Portfolio Manager,  
Global Fixed Income & Currencies  
RBC Global Asset Management Inc.

Dan is a Managing Director and Senior Portfolio Manager on RBC GAM's Global Fixed Income and Currencies team. He joined the firm in 2004 as a fixed income analyst helping to identify investment opportunities in Canadian bond markets. Dan transitioned to currency markets in 2006 in order to build out the infrastructure required to manage foreign exchange on a large scale and later became a member of the active currency management team as a portfolio manager. He oversees the currency hedging program and is responsible for tactical currency overlay strategies employed in fixed income, equity and balanced portfolios.

Dan graduated from Dalhousie University with a bachelor's degree in commerce and has held the Chartered Financial Analyst designation since 2007.

**Sarah Neilson, CFA**

Managing Director & Senior Portfolio Manager  
Co-head North American Equities  
RBC Global Asset Management Inc.

Sarah is a senior portfolio manager and co-leads the North American Equity team at RBC Global Asset Management (RBC GAM). Sarah joined the firm in 2004 as a member of the Wealth Management Generalist program, where she spent a year with the RBC Dominion Securities portfolio advisory group covering income trusts and then completed a rotation as an analyst with the U.S. portfolio management team. Upon completing the Generalist program, Sarah joined the RBC Dominion Securities portfolio advisory group where she worked for two years in Canadian equities. In 2008, Sarah joined RBC GAM as a research analyst covering Canadian equities with a focus on the Energy sector. She was named Associate Portfolio Manager in 2014, Portfolio Manager in 2016, and Senior Portfolio Manager in 2022. She was named co-head of the North American Equity Team in 2025. Sarah earned a Bachelor of Science in Mechanical Engineering at Queens University, and an MBA from McGill University. She was awarded the CFA Charter in 2009.

**Sarah Riopelle, CFA**

Managing Director & Senior Portfolio Manager  
Head of Investment Solutions and Platform Talent  
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals \$180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

**Eric Savoie, MBA, CFA, CMT**

Senior Investment Strategist  
RBC Global Asset Management Inc.

Eric is a senior investment strategist on RBC GAM's Macro Economic and Strategy team. In this role, he constructs and maintains 'top-down' forecasting and valuation models for global fixed income, equity and currency markets. He also analyzes capital markets and macroeconomic data used to drive market forecasts, asset mix, country/regional allocations and sector recommendations for balanced portfolios.

His career in the investment industry began when he joined RBC GAM in 2012. Eric has been working alongside the Chief Investment Officer as well as the Senior Portfolio Manager of RBC Portfolio Solutions since 2013.

Eric earned an MBA in 2011 from the Sprott School of Business and a Bachelor of Engineering in 2010 from Carleton University. He has been a CFA charterholder since 2015 and a CMT charterholder since 2023.



**Kristian Sawkins, CFA**

Managing Director & Senior Portfolio Manager  
Co-head Fixed Income (Vancouver)  
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.

**Jaco Van der Walt, DCom**

Managing Director & Global Head of  
Quantitative Research & Investments  
RBC Global Asset Management Inc.

As Global Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.

**Milos Vukovic, CFA**

Managing Director &  
Head of Investment Policy  
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.

**Brad Willock, CFA**

Managing Director &  
Senior Portfolio Manager  
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

## Global equity advisory committee

### > **Philippe Langham**

Managing Director &  
Senior Portfolio Manager,  
Head of Emerging Market Equities  
RBC Global Asset Management (UK)  
Limited

### > **David Lambert**

Managing Director & Senior Portfolio  
Manager, Head of European Equities  
RBC Global Asset Management (UK)  
Limited

### > **Mayur Nallamala**

Managing Director &  
Head of Asian Equities  
RBC Global Asset Management (Asia)  
Limited

### > **Eric Savoie, MBA, CFA, CMT**

Senior Investment Strategist  
RBC Global Asset Management Inc.

### > **Brad Willock, CFA**

Managing Director &  
Senior Portfolio Manager,  
North American Equities  
RBC Global Asset Management Inc.

## Global Fixed Income & Currencies advisory committee

### > **Dagmara Fijalkowski, MBA, CFA**

Managing Director & Head of  
Global Fixed Income & Currencies  
RBC Global Asset Management Inc.

### > **Soo Boo Cheah, MBA, CFA**

Managing Director &  
Senior Portfolio Manager,  
Global Fixed Income & Currencies  
RBC Global Asset Management (UK)  
Limited

### > **Joanne Lee, MFin, CFA**

Senior Portfolio Manager,  
Global Fixed Income & Currencies  
RBC Global Asset Management Inc.

### > **Eric Lascelles**

Managing Director &  
Chief Economist  
RBC Global Asset Management Inc.

# Disclosure

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), and RBC Global Asset Management (Asia) Limited (RBC GAM-Asia) which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC GAM Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC GAM-US, a federally registered investment adviser. In Europe this document is provided by RBC GAM-UK, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC GAM-Asia, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at [www.rbcgam.com](http://www.rbcgam.com).

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions in such information.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

