RBC Global Asset Management

One-minute market update

NEW YEAR 2026

We forecast an environment of moderate economic growth with inflation subsiding sufficiently to motivate continued interest-rate cuts by the U.S. Federal Reserve (Fed) and foster strong corporate profit growth. We still expect stocks to outperform bonds, but recognize the potential for outsized gains has diminished following this year's strong performance that pushed some valuations to extreme levels.

Economy

- Slowing growth due to U.S. tariffs and tumbling immigration was partially offset in 2025 by fiscal stimulus and continued interest-rate cuts by central banks.
- We believe economic growth should accelerate moderately in the year ahead and may pleasantly surprise relative to consensus expectations.
- Tariff headwinds should fade, and important tailwinds are set to blow. These beneficial forces include interest-rate cuts, further fiscal stimulus, low oil prices, a positive stock-market wealth effect, further growth in artificial-intelligence (AI) expenditures and the early stages of an AI-driven productivity boost.
- Inflation may not fall by quite as much as consensus expectations for 2026, but is expected to slowly ease after an expected peak in the spring.

Growth tailwinds for 2026

	U.S.	Canada	Rest of developed worl
Monetary policy	+	++	++
Fiscal policy	+	+	+
Stock market wealth effect	++	++	++
Oil prices	++	+	++
U.S. dollar	+	.	–
AI cap ex	+	.	.
AI productivity	+	+	+
Overall	++	++	++

Note: As of 12/01/2025. Source: RBC GAM

Fixed income

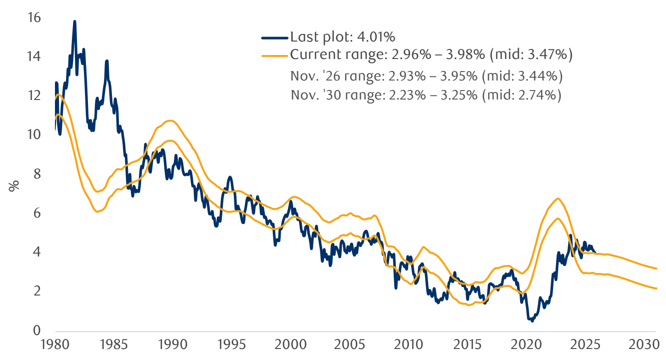
- Risk premiums embedded in real yields could keep the U.S. 10-year yield from falling meaningfully from here.
- Our model argues the 10-year yield should theoretically fall from the current 4.0%, but in practice this depends not just on inflation pressures subsiding, but also on a diminishment in concerns about governments' fiscal health.
- With governments seemingly content to continue running large deficits, we forecast that government fixed-income assets will deliver coupon or cash-like returns.
- In corporate bonds, the added compensation for taking credit risk is historically small. That said, conditions for sustained spread widening are not present as corporate default risk is low.

Equity markets

- Equity markets ultimately found their footing in 2025 and rewarded investors with strong returns in most major markets.
- The strong gains mean that valuations have been creeping higher almost everywhere, and the overvaluation story is no longer just a U.S. large-cap phenomenon.
- Valuations are demanding for U.S. large-cap, Canadian and Japanese equities, whereas European and emerging market stocks remain attractively priced.
- Profit growth will be increasingly critical to sustaining any further advance in the S&P 500. A positive outcome is certainly possible but given that valuations are historically stretched, the market is vulnerable to any disappointment.

U.S. 10-year T-bond yield

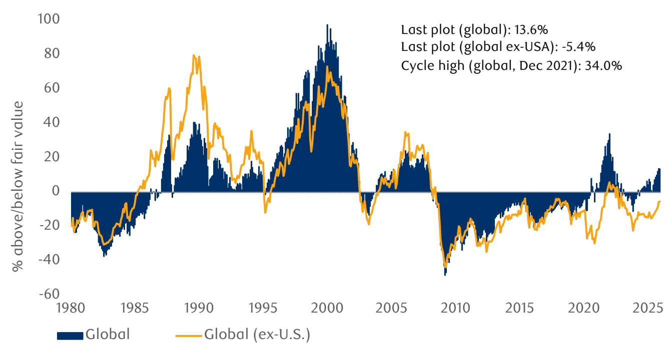
Equilibrium range



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

Global stock-market composite

Equity-market indices relative to equilibrium



Note: As of November 28, 2025. Source: RBC GAM

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