RBC Global Asset Management

Executive summary

FALL 2026

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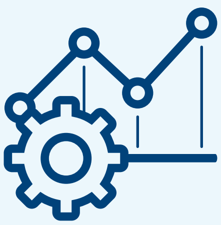
Extraordinary AI-driven earnings growth is powering markets to new heights despite stubborn inflation prompting global central banks to adopt hawkish stances. We maintain only a slight overweight in equities as valuations are elevated and the appeal of bonds has improved.



Economic momentum sustained by AI investment boom

The global economy continues to grow solidly despite a barrage of headwinds. AI-related investment and productivity gains are an important growth engine. The vast sums U.S. hyperscalers are investing in data centres and the related technology continue to mount, and are contributing between 0.5% and 0.75% to the country's 2026 GDP growth rate. Our economic growth forecasts mostly land ahead of the consensus for 2027, and include an AI-driven acceleration in productivity growth. Our business cycle scorecard argues this is a mid-to-late cycle moment, and our suite of recession models is also constructive, suggesting that the risk of a contraction over the next year is unusually low.

Inflation pressures to partially ease next year

Inflation remains too high, having been buffeted by an unfortunate series of shocks over the past six years: pandemic-related effects, then post-pandemic recovery distortions, then tariffs, and most recently the war with Iran. After so many shocks, we assume some scarring has built up beneath the surface. In turn, the current natural state for developed-world inflation likely remains modestly above 2%. Still, with U.S. CPI above 3%, there should be room for some moderate decline in inflation in 2027. We budget for a diminishment of oil constraints, and housing is set to remain a disinflationary force.

Dollar weakness expected amid fiscal concerns

We are bearish on the U.S. dollar, rooted in the country's unsustainable trade and fiscal deficits, growing concerns about independence of the Federal Reserve and the currency's overvaluation. Central bank independence is top of mind after Trump's repeated efforts to fire board members earlier this year. Consequently, investors have started demanding higher yields as compensation to lend to the U.S. government. A falling U.S. dollar should be bullish for most currencies, with a particular opportunity for EM exchange rates. We expect the Canadian dollar to strengthen toward C$1.30 in 12 months as the economy benefits from improvements in the household and business sectors.

Era of monetary easing transitioning toward tightening

On the monetary policy side of the ledger, the era of monetary easing is transitioning toward tightening. The European Central Bank and Bank of Japan have already started raising rates, and markets expect a Fed rate hike this fall. Monetary tightening in the developed world makes sense given still-elevated inflation readings paired with low unemployment rates and decent economic growth prospects. The language being used by the U.S. Federal Reserve has clearly been hawkish, and this type of communication generally precedes rate hikes. New Fed Chair Warsh has lately conveyed particular dissatisfaction with elevated inflation.

Rising yields improve bond appeal despite risks

Over the quarter, the U.S. 10-year Treasury yield rose to 4.75%, up from 4.44% at the end of May, while the 30-year yield climbed to 5.24% – its highest level since 2007. At these levels, we believe the scope for significant further increases in yields is limited, and that sovereign bonds offer improved return potential with diminished valuation risk, particularly as bond coupon plays a greater role in total return forecasts. Yields are decidedly above our modelled estimates of equilibrium in all major regions, suggesting an appealing setup for fixed income investors if inflation moderates into 2027 as we anticipate. We expect government bonds to deliver mid-single-digit returns, and slightly higher returns for corporate bonds with credit spreads near historic lows.

Equity valuations stretched but earnings exceptional

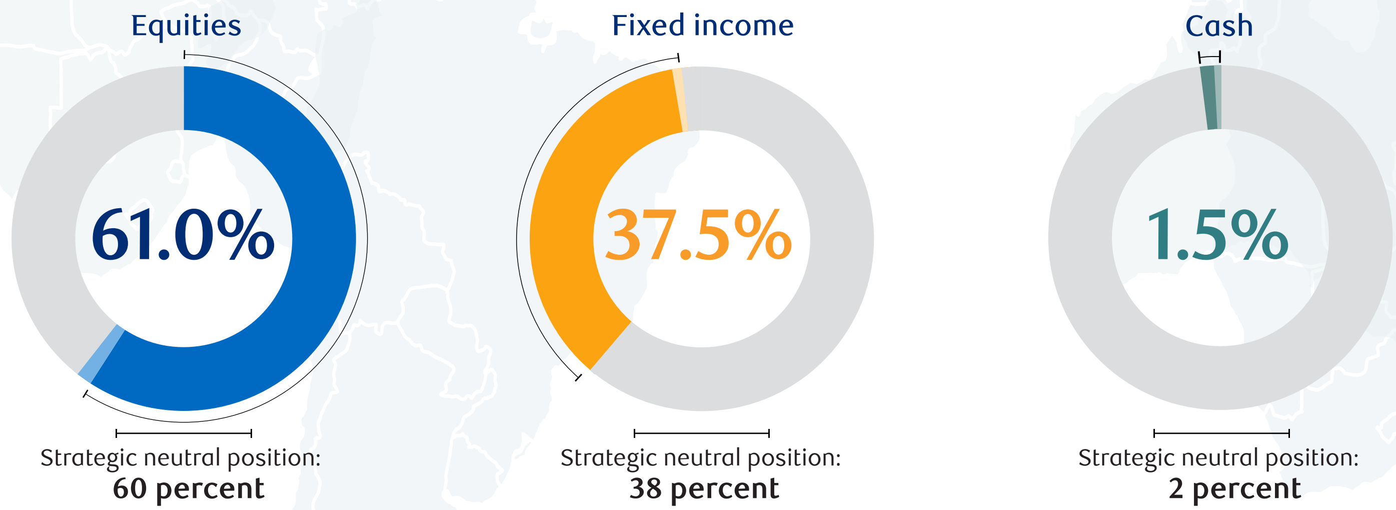
Our composite of global equity markets was situated approximately 14% above fair value as of August 31, 2026. Higher valuations limit return potential and reduce the odds of further outsized gains, especially in an environment of rising interest rates. With valuations unlikely to be a reliable source of gains, earnings growth will be essential to sustain the rally. At the beginning of the year, analysts had pencilled in approximately 15% earnings growth for the S&P 500 in 2026. That figure has since been revised up dramatically to 34%. What makes this strength particularly remarkable is that it is taking place mid-cycle rather than during a post-recession recovery. The margin improvement has been noteworthy and an area for ongoing study with regards to sustainability. We expect equities to deliver mid-to-high single-digit gains as those expected earnings are mostly delivered.

Asset mix – Maintaining a slight overweight in stocks with equal underweights in cash and fixed income

With a fairly supportive macro backdrop and elevated bond yields, we maintain a slight equity overweight and – after sifting through the many pros and cons that can be affixed to the U.S. market – maintain a regional overweight to U.S. equities, alongside similar overweight positions in Canada and Asia. This stance is further supported by a strong earnings outlook, an unusually low recession risk, and an economic expansion that appears to have further room to run, though we remain mindful that the range of outcomes, both upside and downside, is wider than usual. Our current recommended asset mix for a global balanced investor is 61.0% equities (strategic "neutral": 60.0%), 37.5% bonds (strategic "neutral": 38.0%) and 1.5% cash.

Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of September 1, 2026. Source: RBC GAM

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