RBC Global Asset Management

Executive summary

SUMMER 2026

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Two major forces are presently dominating the macroeconomic landscape: the ongoing global energy shock versus the rapid advancement and great promise of artificial intelligence (AI). To the extent that the former should prove temporary but the latter should endure, we expect stocks to outperform bonds but recognize that considerable optimism is priced into the equity outlook, particularly in regions with higher exposure to AI.

Economic growth remains resilient despite energy headwinds

The economic backdrop remains surprisingly resilient despite the energy shock, with economic data in both the U.S. and the G10 better than it was a year ago. Important tailwinds related to AI spending, fiscal stimulus and increased productivity are all contributing to an improving outlook for corporate profits. We anticipate a headwind to the economy from the energy shock but, in our view, any dip in growth should be fairly mild and partially reversed later. Our GDP forecasts are still primarily above consensus and we deem the risk of recession to be low. Moreover, our business cycle scorecard indicates that the cycle is probably in the "mid" or "late" phase, which usually still permits a number of years of additional economic growth.

Inflation pressures temporarily elevated by energy costs

The near-term inflation outlook has been raised due to the leap in energy prices, as well as some additional lingering pressure from the lagged effect of last year's tariff hikes. U.S. consumer price inflation has accelerated to 4.2% on a year-over-year basis from 2.4% just before the war, and the core measure that excludes energy also inched higher to 2.9% from 2.5%. Although the war itself could soon be resolved, energy futures markets are pricing in some scarring in the form of energy prices that do not fully normalize post-conflict and some spillover via higher transportation costs. Inflation should remain elevated through 2026, and will likely remain so through the spring of 2027 before the mechanics of falling energy prices help pull inflation closer to target over the remainder of that year.

Emerging market currencies positioned to lead during the next leg lower in the U.S. dollar

Despite major geopolitical events, changing global trade patterns and investors rebalancing their portfolios, currency markets have been much less volatile this year than investors might have expected. The dollar didn't get much of a boost when geopolitical risk rose as the U.S. attacked Iran in late February, failing to break above the upper end of its year-long 5% range. We expect the U.S. dollar to soften in the year ahead, with emerging market currencies positioned to outperform during the next leg lower in the greenback. We remain broadly positive on Latin America, preferring the Chilean peso and Brazilian real, while also favouring the Chinese renminbi, which we expect will continue to rally due to China's massive trade surplus and progress toward internationalizing its currency.

Central banks pivot toward tighter policy amid inflation concerns

The era of monetary easing that marked the past several years is seemingly coming to an end. Central banks are now thinking more about rate hikes than cuts due to the combination of still-resilient economic growth paired not just with higher energy prices, but some broadening of inflation pressures. As a result, pricing in the futures market has backed out any prior expectation of interest-rate cuts for this year and now expects modest tightening. The market looks for two more hikes by the European Central Bank, two hikes from the Bank of Canada and one hike from the Fed over the next 12 months. Any interest-rate decisions will ultimately depend on the course of inflation and, should inflation pressures prove substantially temporary as we expect, some central banks may not need to hike as much as current pricing implies.

Bond markets offer improved return potential following yield increases

The return potential for sovereign bonds has improved following the recent rise in yields. For the quarter ended May 31, 2026, sovereign bond yields rose anywhere from 25 to 60 basis points across most major regions. At these higher yields, our model suggests U.S. 10-year bonds offer improved return potential with minimal valuation risk. We forecast low-to-mid single digit returns for government bonds, with the potential to earn higher returns in corporate bonds, though the added compensation for taking credit risk is historically small, with the gap between government-bond yields and corporate-bond yields at its narrowest since the Global Financial Crisis.

Equity markets rally on AI enthusiasm, valuations swell

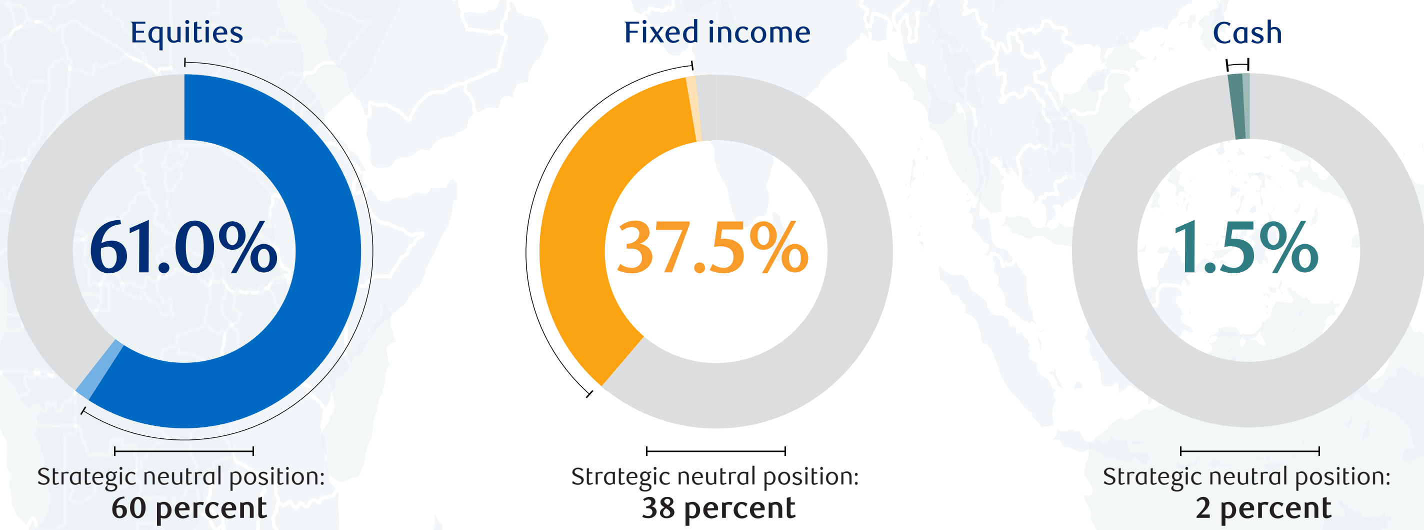
A surge in AI-related spending fuelled an earnings boom that propelled stocks to new highs. The consensus S&P 500 earnings estimate for 2026 has been revised higher by a remarkable 20% over the past year, with analysts now looking for strong earnings growth to persist over the next several years. On a global aggregated basis, the powerful rally in stocks so far this year has made them more expensive. Our composite of global equity markets is now 20% above fair value, the highest reading since late 2021. Within technology, some software companies appear to be on the losing end as AI threatens to disrupt their businesses, while massive investment in the build-out of compute capacity has benefited hardware suppliers. Following the strong gains of the past quarter, stocks are pricing in an optimistic scenario, assuming that the supportive macro backdrop and rapidly growing profits persist. We expect many of the positive tailwinds to last and are cognizant that earnings expectations continue to surprise to the upside. But if the outlook were to worsen, stocks would be vulnerable from this lofty starting point.

Asset mix – narrowed underweight in bonds while maintaining slight overweight in equities with renewed tilt towards the U.S.

Our base-case scenario sees inflation pressures subsiding at some point next year while economies continue to expand and support corporate profit growth. In this environment, we expect low-to-mid single-digit returns in bonds with slightly higher returns for stocks, the latter being limited by currently high valuations. We narrowed our prior underweight in fixed income by 50 basis points, sourced from cash, reflecting the improved return potential following the latest rise in yields. We maintained a slight overweight position in stocks given our view that equities are likely to outperform bonds, but low equity risk premiums and high valuations have us opting against boosting risk exposures despite a promising AI narrative. We neutralized our prior overweight in emerging market equities, crystalizing profits after a strong run and reducing exposure to the region's high concentration in semiconductor stocks. We lowered Europe from overweight to underweight and placed the proceeds into the U.S., which moved to a slight overweight from underweight last quarter. For a balanced global investor, our current recommended asset mix 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 June 1, 2026. Source: RBC GAM

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