RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee



FALL 2026

The RBC GAM Investment Strategy Committee



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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:



The recommended mix of cash, fixed income instruments, and equities.



The recommended global exposure of fixed income and equity portfolios.



The optimal term structure for fixed income investments.



The suggested sector and geographic make-up within equity portfolios.



The preferred exposure to major currencies.

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

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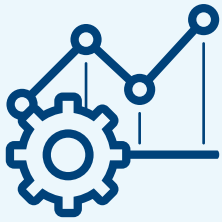


Executive summary



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

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

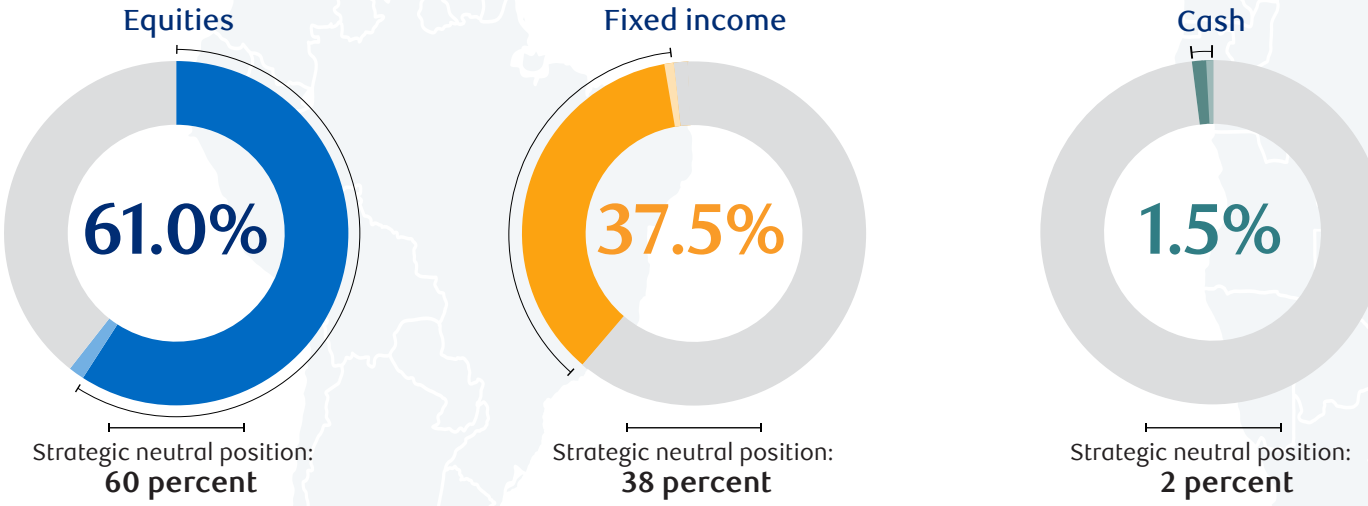
Our composite of global equity markets was situated approximately 14% above fair value as of August 31, 2026. Higher valuations limit return potential and reduce the odds of further outsized gains, especially in an environment of rising interest rates. With valuations unlikely to be a reliable source 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

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026	Fall 2026	Change from Summer 2026
Real GDP														
2025A	1.99%		0.70%		1.07%		0.86%		0.37%		4.58%		4.64%	
2026E	2.20%	N/C	1.50%	0.10	0.90%	(0.20)	1.30%	0.20	1.00%	0.20	4.60%	(0.20)	4.40%	(0.10)
2027E	2.50%	0.10	1.90%	(1.70)	1.40%	(0.20)	1.50%	N/C	1.20%	N/C	4.60%	N/C	4.60%	N/C
CPI														
2025A	2.68%		2.36%		1.97%		3.32%		2.13%		0.70%		1.66%	
2026E	3.40%	N/C	2.80%	0.40	2.80%	(0.30)	3.10%	(0.10)	2.30%	N/C	1.00%	0.10	3.10%	0.20
2027E	2.20%	N/C	2.10%	0.10	2.00%	0.10	2.30%	N/C	0.90%	(0.90)	1.20%	N/C	2.50%	(0.10)

A = Actual E = Estimate *GDP Weighted Average of China, India, Brazil, Mexico and Russia. Note: As of the Spring 2026 edition of the *Global Investment Outlook*, GDP and CPI forecasts are shown on a Q4 over Q4 basis compared to the old methodology of annual average over annual average.

Targets (RBC GAM Investment Strategy Committee)

	August 2026 (%)	Forecast August 2027 (%)	Change from Summer 2026	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.39	1.30	N/C	5.1%
EUR (EUR–USD)	1.16	1.23	(0.03)	4.4%
JPY (USD–JPY)	159.74	140.00	N/C	11.0%
GBP (GBP–USD)	1.35	1.42	0.02	4.8%
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	3.75%	4.25%	0.50%	
U.S. 10-Year Bond	4.75%	4.75%	N/C	4.8%
Canada Overnight Rate	2.25%	2.50%	-0.25%	
Canada 10-Year Bond	3.74%	3.75%	N/C	3.7%
Eurozone Deposit Facility Rate**	2.25%	2.50%	N/C	
Germany 10-Year Bund	3.32%	3.25%	N/C	3.9%
U.K. Base Rate	3.75%	4.00%	-0.25%	
U.K. 10-Year Gilt	5.06%	5.00%	N/C	5.6%
Japan Overnight Call Rate	0.98%	1.50%	N/C	
Japan 10-Year Bond	2.96%	2.75%	0.25%	4.8%
Equity markets (Index levels)				
S&P 500	7686	8375	375	10.1%
S&P/TSX Composite	36270	37950	1900	6.8%
MSCI Europe	218	230	18	8.7%
MSCI United Kingdom	3083	3200	140	7.1%
MSCI Japan	2550	2675	175	6.9%
MSCI Emerging Markets	1719	1800	(40)	7.2%

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. **The European Central Bank raised its policy rate by 25-basis points to 2.50% on September 10, 2026. 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[1] and the volatility[2] 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.

[1]**Average return**: The average total return produced by the asset class over the period 1986 – 2026, based on monthly results.
[2]**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	Fall 2025	New Year 2026	Spring 2026	Summer 2026	**Fall 2026**
Cash	2.0%	0.0% – 15.0%	1.0%	2.0%	2.0%	1.5%	**1.5%**
Bonds	38.0%	23.0% – 53.0%	37.0%	37.0%	37.0%	37.5%	**37.5%**
Stocks	60.0%	45.0% – 75.0%	62.0%	61.0%	61.0%	61.0%	**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 and sub-asset class allocation

Global bonds	**Canada Universe* May 2026**	Allowable range	Fall 2025	New Year 2026	Spring 2026	Summer 2026	**Fall 2026**
Canadian Government	74.9%	20.0% – 100.0%	n/a	65.0%	60.2%	65.4%	**64.9%**
Global Sovereign	0.0%	0.0% – 20.0%	n/a	0.0%	5.0%	0.0%	**0.0%**
Cdn Investment Grade Corp.	25.1%	20.0% – 50.0%	n/a	35.0%	34.8%	34.7%	**35.1%**
U.S. High Yield Corporate	0.0%	0.0% – 10.0%	n/a	0.0%	0.0%	0.0%	**0.0%**

Note: Based on expected $CAD hedged total returns. Global bond allocation changed from a regional allocation between North America, Europe and Asia to its current model in October 2025 to align more closely with the portfolios we manage and the needs of Global Investment Outlook consumers.

Global equities	**MSCI** August 2026**	Allowable range	Fall 2025	New Year 2026	Spring 2026	Summer 2026	**Fall 2026**
North America	72.8%	62.8% – 82.8%	71.6%	72.8%	70.5%	72.8%	**73.1%**
Europe	12.5%	2.5% – 22.5%	13.4%	12.5%	13.9%	12.0%	**11.9%**
Asia	6.4%	0.0% – 16.4%	6.5%	6.3%	7.0%	7.0%	**6.8%**
Emerging markets	8.3%	0.0% – 18.3%	8.5%	8.4%	8.6%	8.2%	**8.2%**

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 August 2026**	RBC GAM ISC Summer 2026	**RBC GAM ISC Fall 2026**	Change from Summer 2026	Weight vs. benchmark
Energy	3.82%	4.40%	4.52%	0.12	118.3%
Materials	3.33%	3.46%	3.33%	(0.13)	100.0%
Industrials	11.48%	12.16%	13.48%	1.32	117.4%
Consumer discretionary	8.92%	7.83%	7.02%	(0.82)	78.7%
Consumer staples	4.97%	3.70%	4.97%	1.27	100.0%
Health care	9.03%	8.55%	9.03%	0.48	100.0%
Financials	16.62%	15.74%	18.62%	2.89	112.0%
Information technology	29.68%	29.69%	29.68%	(0.01)	100.0%
Communication services	8.04%	10.06%	8.04%	(2.02)	100.0%
Utilities	2.44%	3.11%	1.04%	(2.07)	42.7%
Real estate	1.66%	1.30%	0.26%	(1.04)	15.9%

*FTSE Canada Universe 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%	1.5%	1.5%
Fixed Income	73%	68-88%	72.5%	72.5%
Total Cash & Fixed Income	75%	60-90%	74.0%	74.0%
Canadian Equities	10%	0-20%	10.6%	10.6%
U.S. Equities	8%	0-18%	8.4%	8.4%
International Equities	7%	0-17%	7.0%	7.0%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	26.0%	26.0%

	Return	Volatility
40-year average	6.7%	4.7%
Last 12 months	7.8%	5.3%

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%	1.5%	1.5%
Fixed Income	58%	43-83%	57.5%	57.5%
Total Cash & Fixed Income	60%	45-75%	59.0%	59.0%
Canadian Equities	13%	3-23%	13.5%	13.5%
U.S. Equities	15%	5-25%	15.4%	15.4%
International Equities	12%	2-22%	12.1%	12.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	41.0%	41.0%

	Return	Volatility
40-year average	7.3%	6.0%
Last 12 months	11.2%	6.2%

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%	1.5%	1.5%
Fixed Income	38%	23-53%	37.5%	37.5%
Total Cash & Fixed Income	40%	25-55%	39.0%	39.0%
Canadian Equities	15%	5-25%	15.5%	15.5%
U.S. Equities	25%	15-35%	25.5%	25.5%
International Equities	15%	5-25%	15.0%	15.0%
Emerging Markets	5%	0-15%	5.0%	5.0%
Total Equities	60%	45-75%	61.0%	61.0%

	Return	Volatility
40-year average	7.9%	7.6%
Last 12 months	16.4%	8.0%

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%	1.5%	1.5%
Fixed Income	23%	8-38%	22.5%	22.5%
Total Cash & Fixed Income	25%	10-40%	24.0%	24.0%
Canadian Equities	18%	8-28%	18.5%	18.5%
U.S. Equities	30%	20-40%	30.5%	30.5%
International Equities	19%	9-29%	19.0%	19.0%
Emerging Markets	8%	0-18%	8.0%	8.0%
Total Equities	75%	60-90%	76.0%	76.0%

	Return	Volatility
40-year average	8.2%	9.4%
Last 12 months	20.6%	9.4%

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%	1.0%	1.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	1.0%	1.0%
Canadian Equities	29%	19-39%	29.5%	29.5%
U.S. Equities	38%	28-48%	38.5%	38.5%
International Equities	20%	10-30%	20.0%	20.0%
Emerging Markets	11%	1-21%	11.0%	11.0%
Total Equities	98%	83-100%	99.0%	99.0%

	Return	Volatility
40-year average	8.7%	11.9%
Last 12 months	27.0%	11.0%

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



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Key takeaways

- **The U.S. dollar held firm** against most developed-market peers, supported by a strong economy, higher rates and foreign capital inflows.
- **Global bonds declined** as persistent inflation and fiscal deficits pushed yields higher. At the same time, central banks shifted from easing to tightening.
- **Equities hit fresh highs** with the MSCI World Index up 2.4% for the quarter, despite a volatile summer of shifting leadership.
- **Momentum in technology stocks waned** and Financials, Energy and Health Care took the lead. Small-caps and value stocks significantly outperformed.

U.S. dollar in focus

The U.S. dollar was relatively stable against its developed-market peers over the quarter. The greenback edged up 0.5% against the Canadian dollar, 0.4% against the euro and 0.3% against the yen, though it slipped 0.6% against the British pound. Despite concerns related to overvaluation and chronic trade and fiscal deficits, the U.S. dollar held firm, buoyed by the strong American economy, higher interest rates, AI-related enthusiasm and strong foreign capital flows into U.S. equities.

Over one year, the **U.S. dollar** strengthened 8.7% against the yen, but changed little against the pound, euro and Canadian dollar.

Developed-market currencies

- A soft economy, low interest rates and uncertainty in trade pact renegotiations weighed on the **Canadian dollar.**
- The euro weakened slightly as growth remained sluggish despite a gradual recovery in economic indicators.
- The **yen**, the lowest-yielding major currency, depreciated only marginally. Coordinated efforts by the U.S. Treasury and Bank of Japan helped limit the decline.

- Conversely, the **British pound** appreciated slightly, helped by its high yield and better-than-expected economic growth.

Global fixed income markets

Global bonds declined over the quarter as persistent inflation, fiscal sustainability fears and a wave of new corporate bond supply pushed yields higher across major markets.

Sustained inflation, driven by the Iran war, tariffs and the AI build-out, has accelerated the shift from monetary easing to tightening. Central banks in several regions have already begun raising rates, a trend that is likely to continue.

Regional performance differences were modest over the quarter. Highlights include:

- The FTSE US Government Bond Index declined 0.7%.
- The FTSE Japanese Government Bond Index fell 2.1% in U.S.-dollar terms.

Over 12 months, however, the gap was far more pronounced. The U.S. index gained 1.9% while Japanese government bonds dropped 15.7%.

Global equity markets

Equity markets reached fresh highs despite a volatile summer. While major indices held steady, leadership shifted dramatically between semiconductors, hyperscalers and software as investors debated AI opportunities and risks. Recurrent escalation and de-escalation in the Iran conflict added another layer of uncertainty. Highlights include:

- The MSCI World Index delivered a 2.4% return for the quarter ended August 31, 2026.
- The MSCI United Kingdom Index was the top performer with a 5.3% return, It benefitted from its heavy weighting in Energy, Materials and Financials.
- Conversely, the MSCI Emerging Markets Index fell 1.2%, as the same semiconductor exposure that drove its earlier outperformance became a drag when those stocks sold off.

Technology stocks lost momentum over the quarter, allowing more value-oriented sectors to take the lead. There was also a rotation away from large-cap growth. Small-caps outpaced mid-caps and large-caps by 3.4 and 2.9 percentage points respectively. The Russell 3000 Value Index outperformed the Russell 3000 Growth Index by 12.1 percentage points.

This shift was most visible at the sector level:

- Financials, Energy and Health Care posted returns of 10.5% to 11.6%, reflecting a broadening of performance beyond technology.
- Materials followed, though it trailed the top three sectors by more than 7.5 percentage points.
- Communication Services was the notable laggard. It fell 7.8% amid investor concerns over the sustainability of massive AI capital spending by the sector's largest names.

Over the past year, equities delivered exceptional returns, with most broad market indices gaining 20% to 40%. Germany and France were notable laggards.

By sector, Energy led with a 41.9% return, while Consumer Discretionary brought up the rear at 2.6%.



Exchange rates
Periods ending August 31, 2026

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3860	0.53	0.98	0.92	0.85	1.90
USD–EUR	0.8609	0.42	1.18	0.72	(2.27)	0.33
USD–GBP	0.7380	(0.61)	(0.52)	(0.25)	(2.22)	0.29
USD–JPY	159.7500	0.30	1.99	8.71	3.16	7.75

Note: all changes above are expressed in US dollar terms

Canada fixed income markets
Periods ending August 31, 2026

	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	(1.78)	(0.53)	1.09	3.37	(1.61)	(1.26)	2.01	4.25

U.S. fixed income markets
Periods ending August 31, 2026

	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	(0.70)	(0.27)	1.90	4.12	(0.33)	(0.18)	2.83	4.99
BBg U.S. Agg. Bond Index TR[1]	(0.68)	(0.31)	1.89	4.08	(0.29)	(0.68)	1.89	4.08

Global fixed income markets
Periods ending August 31, 2026

	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	(0.88)	(0.51)	0.20	2.81	(2.89)	(0.25)	1.17	3.65
Bloomberg Pan-European Govt TR	(1.97)	(1.78)	(0.33)	4.50	(3.39)	(1.35)	0.64	5.35
FTSE Japanese Government TR	(2.14)	(7.40)	(15.68)	(8.96)	(12.06)	(1.62)	(14.91)	(8.19)

Canada equity markets
Periods ending August 31, 2026

	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	4.32	14.88	28.73	23.71	13.13	4.88	29.91	24.76
S&P/TSX 60	5.30	15.08	27.48	23.05	12.88	5.86	28.65	24.10
S&P/TSX Small Cap	(0.38)	21.85	46.33	29.06	14.35	0.15	47.68	30.15

U.S. equity markets
Periods ending August 31, 2026

	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	1.68	13.14	20.38	21.04	12.79	2.22	21.48	22.07
S&P 400 TR	1.27	14.71	17.13	14.13	8.08	1.81	18.21	15.10
S&P 600 TR	4.62	20.82	24.08	14.64	6.92	5.29	25.28	15.57
Russell 3000 Value TR	8.16	23.17	29.77	19.67	11.64	8.75	30.99	20.70
Russell 3000 Growth TR	(3.98)	4.46	11.04	20.80	11.44	(3.47)	12.06	21.82
NASDAQ Composite Index TR	(2.09)	13.90	23.64	24.23	12.38	(1.58)	24.77	25.28

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

Global equity markets

Periods ending August 31, 2026

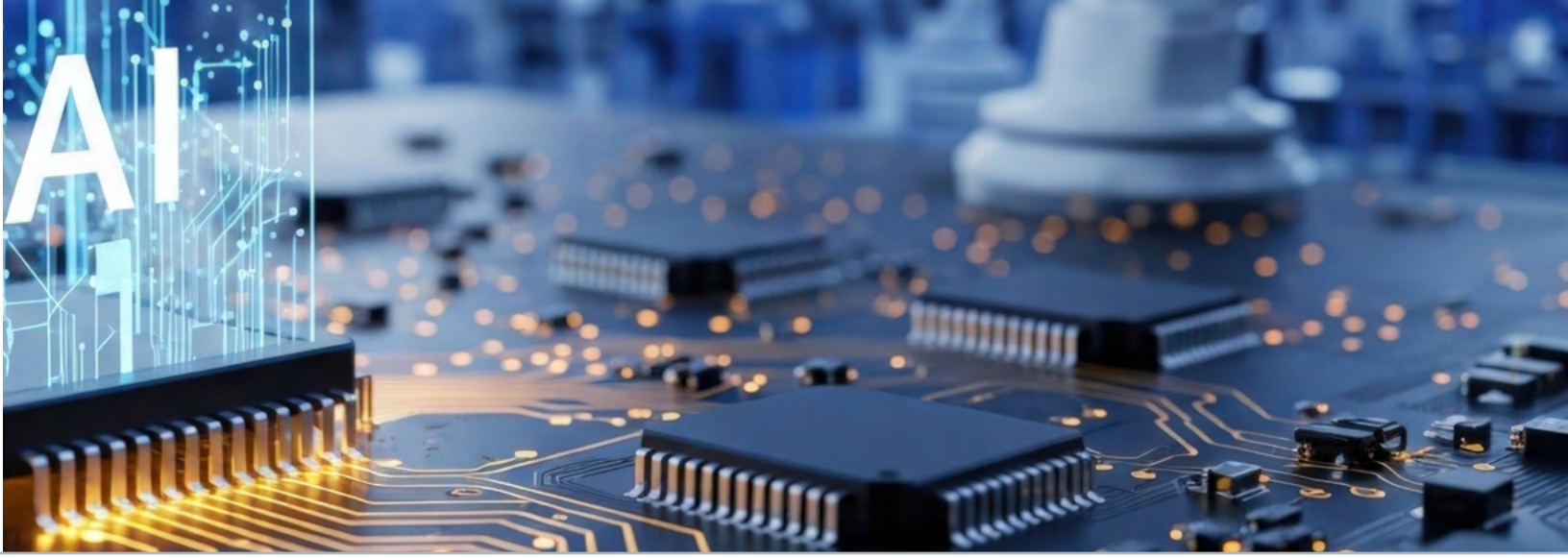
	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	2.36	13.10	20.37	20.11	11.21	3.01	21.54	21.09
MSCI EAFE TR *	4.06	13.81	21.62	18.25	9.35	4.72	22.80	19.22
MSCI Europe TR *	4.02	11.10	20.34	17.76	9.43	4.68	21.51	18.72
MSCI Pacific TR *	0.48	27.50	38.62	24.25	9.83	1.12	39.97	25.26
MSCI UK TR *	5.27	12.68	22.09	20.16	12.96	5.27	22.09	20.16
MSCI France TR *	1.85	3.71	10.33	9.62	6.35	2.50	11.41	10.52
MSCI Germany TR *	3.82	6.09	8.26	19.23	7.69	4.48	9.32	20.20
MSCI Japan TR *	4.07	20.88	27.82	20.00	10.05	4.73	29.07	20.97
MSCI Emerging Markets TR *	(1.22)	24.08	39.25	23.23	8.18	(0.59)	40.60	24.24

Global equity sectors

Periods ending August 31, 2026

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	10.58	39.62	41.93	16.97	22.69	11.28	43.31	17.92
Materials TR *	3.05	19.59	28.85	15.46	8.20	3.70	30.10	16.40
Industrials TR *	0.99	13.11	17.51	19.97	11.51	1.63	18.65	20.95
Consumer discretionary TR *	(2.17)	(1.06)	2.57	11.04	4.41	(1.55)	3.56	11.94
Consumer staples TR *	2.25	7.12	6.43	7.19	4.45	2.90	7.47	8.07
Health care TR *	10.47	7.15	19.65	8.42	4.54	11.17	20.81	9.30
Financials TR *	11.55	12.08	18.50	26.51	14.32	12.26	19.65	27.55
Information technology TR *	(0.24)	23.70	34.73	30.51	18.11	0.39	36.04	31.57
Communication services TR*	(7.83)	(0.05)	9.65	23.82	8.45	(7.25)	10.72	24.82
Utilities TR *	(2.81)	3.80	9.76	15.13	7.66	(2.19)	10.83	16.07
Real estate TR *	0.02	7.43	5.19	8.54	0.09	0.66	6.21	9.42

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



Economic outlook

Resilient growth defies headwinds and risks



Eric Lascelles
Managing Director,
Chief Economist & Head of
Investment Strategy Research
RBC Global Asset Management Inc.

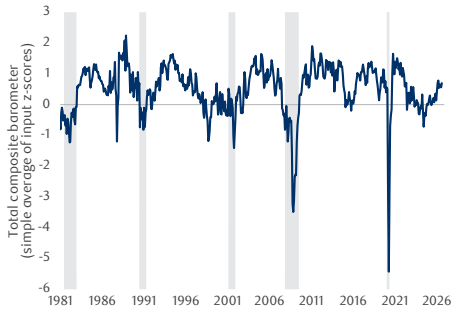
Key takeaways

- The global economy continues to grow solidly despite a barrage of headwinds.
- AI-related investment and productivity gains are an important growth engine.
- The energy shock, rising yields and new tariffs are real but manageable challenges.
- Inflation remains too high but should partially ease in 2027.
- Developed-world central banks are pivoting toward tightening.
- We maintain a slight equity overweight tilted to the U.S., Canada and Asia.

Overview

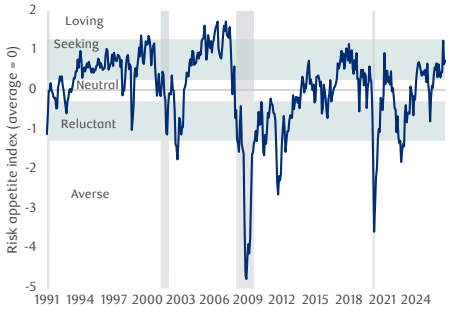
There continues to be a steady barrage of new macroeconomic headwinds and risks, but the global economy (Exhibit 1) and its constituent stock markets (Exhibit 2) continue to largely slough these off, instead muscling their way higher.

Exhibit 1: RBC GAM composite macro barometer for U.S. looks good



Note: As of September 2026. Shaded area represents recession. Source: RBC GAM

Exhibit 2: Investor risk appetite in risk-seeking mode



Note: As of August 2026. Measures risk appetite based on 45 normalized inputs. Grey area represents recession. Source: Bloomberg, BofA ML, Consensus Economics, UBS, Federal Reserve Bank of Philadelphia, NedDavis, Haver Analytics, RBC GAM

The latest concerns include the effect of the still-obstructed Strait of Hormuz on the global availability of energy, creeping bond market pressures, questions about the sustainability of the AI boom, another round of U.S. tariffs, and the ramifications of still-elevated inflation.

Despite this, and thanks in significant part to enormous AI-related capital expenditures, a burgeoning AI-related productivity acceleration and international fiscal support, the global economy continues to move forward at a solid rate, as conveyed by a host of manufacturing purchasing manager indices (Exhibit 3). The AI boom is even more central for corporate revenues and earnings, which are soaring – and some broadening out beyond the sector is also becoming visible.

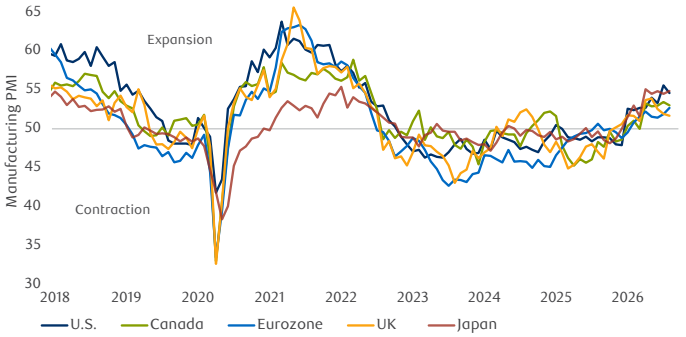
In turn, with a fairly supportive macro backdrop and relatively elevated bond yields, we maintain a slight equity overweight and – after sifting through the many pros and cons that can be affixed to the U.S. market – maintain a regional overweight to U.S. equities, alongside similar overweight positions in Canada and Asia.

Artificial intelligence to power growth

Artificial intelligence-related forces remain powerfully supportive for the U.S. economy. The vast sums U.S. hyperscalers are investing in data centres and the technology more generally continue to mount, and are contributing between 0.5% and 0.75% to the country's GDP 2026 growth rate (Exhibit 4). While the rate of capital expenditure growth is expected to slow in 2027 and beyond, the consensus forecast has been persistently too cautious relative to reality in this regard in recent years, and for that matter the dollar figures have become so large that even a markedly slower percentage growth rate in the years ahead can continue to represent a large absolute support for the economy.

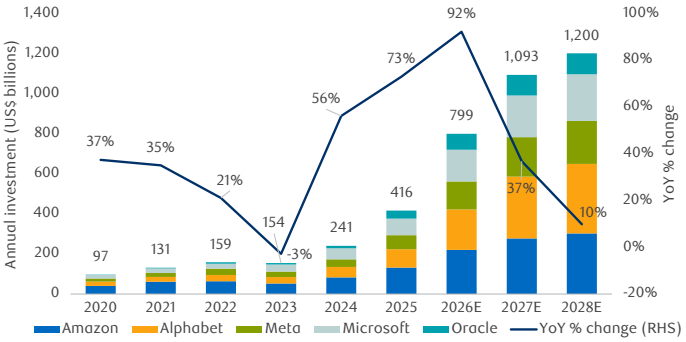
Simultaneously, and ultimately of far greater relevance to the long-term growth outlook, productivity growth appears to be accelerating (Exhibit 5). We believe a significant fraction of this represents the initial benefits from AI-related efficiencies, and that these gains should become an enduring – and increasingly international – tailwind over time. The developed world may be shifting from a low- to high-productivity growth regime. This would be enormously helpful, and quite a useful offset against long-standing structural headwinds including adverse demographics, high public debt loads and climate change.

Exhibit 3: Manufacturing activity shows surprising strength



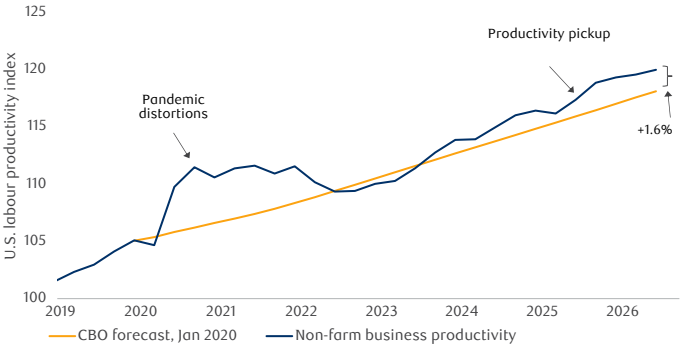
Note: As of August 2026. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM

Exhibit 4: Hyperscalers are expected to continue ramping up CapEx



Note: As at September 01, 2026. Source: Bloomberg, RBC GAM

Exhibit 5: U.S. labour productivity growth has outperformed expectations



Note: Labour productivity index as of Q2 2026. CBO forecast is re-indexed to Q4 2019 actual. Source: Congressional Budget Office (CBO), U.S. Bureau of Labor Statistics, Macrobond, RBC GAM

Of course, few technological revolutions are entirely tidy. The question of whether AI will be substantially job-destroying is not presently clear. It certainly seems that AI will be capable of performing many of the tasks that white-collar workers do today. But that doesn't mean that net job losses must occur. New technologies also lower costs, create new markets and increase aggregate demand.

Another critical question is whether the AI race will continue at its torrid pace. Much is riding on this, not just because earnings forecasts are baking in further optimism, but because many companies in the AI space are increasingly weaving a web of interconnected promises and contractual obligations reliant on it.

There is a clear risk for the prominent frontier model makers, given the strong performance of cheaper fast-following open models (Exhibit 6). We suspect there will be room for both types of inference in a mature AI ecosystem, but a competitive market could limit the margins of the most advanced models, which might in turn slow the pace at which the frontier model makers are able to continue innovating.

Another risk for the sector is simply whether it is logistically possible to bring additional compute online fast enough given memory chip shortages and the time it takes to build new data centres.

But for all of that, we are generally optimistic on the AI technology itself and many hyperscalers seem well positioned to thrive. Even more importantly, the myriad companies that will deploy AI into their businesses are also well positioned to benefit.

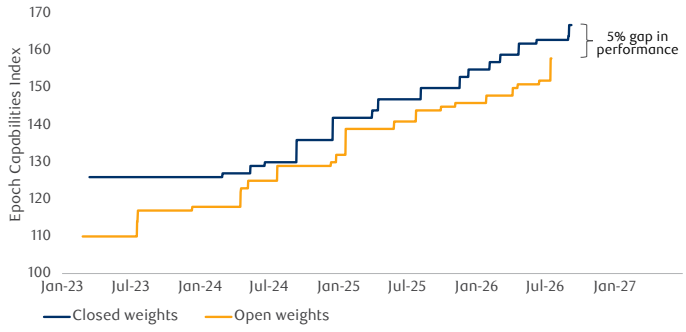
Solid growth outlook

The current year is delivering solid economic growth, supported prominently by fiscal stimulus, the lagged effect of earlier rate cuts, stock market wealth effects, and the duo of AI-related CapEx growth plus an AI-driven incremental addition to productivity growth.

Looking ahead, the economic environment is likely to remain reasonably supportive (Exhibit 7). Rising bond yields and the prospect of central bank tightening argue that the rate environment will no longer be as helpful. But fiscal policy should remain somewhat supportive, the energy shock is presumed to ease somewhat in 2027, and we look for even stronger AI-driven productivity growth as the technology matures.

U.S.-based capital investment is proving an unusually strong economic support. This is mainly an AI story, but may be broadening into other sectors. This isn't to say that the consumer is unimportant – the bulk of economic demand still originates with the consumer, and fortunately spending growth is acquitting itself well despite the challenge of high energy prices and rising borrowing costs.

Exhibit 6: Open models only lag modestly in performance but cost much less



Note: As at September 9, 2026. Source: Epoch AI, RBC GAM

Exhibit 7: Growth impulses: the transition from 2026 to 2027

	U.S.	Canada	Rest ofdeveloped world
Monetary policy / rates	+ → –	+ → •	+ → •
Fiscal policy	++ → +	++ → ++	++ → ++
Energy shock	– → •	• → •	– – → +
Stock market wealth effect	++ → +	++ → +	++ → +
AI CapEx	+ → +	• → •	• → •
AI productivity	+ → ++	+ → +	+ → +
Overall	+ → +	+ → +	+ → +

Note: As of August 3, 2026. Source: RBC GAM

While the U.S. economy has slowed slightly in recent months, this is arguably a good thing. Risk assets had become concerned about the economy overheating (with adverse implications for inflation and thus monetary policy), and to that end have recently celebrated some softer economic figures. The sweet spot is obviously avoiding both weakness and strength; decent growth is the goal, and we think likely to be achieved.

Our business cycle scorecard argues this is a mid-to-late cycle moment (Exhibit 8). That's not as attractive as being at the start of a brand new cycle with all of the stock market upside and economic runway associated with it, but neither is it a bad place to be. Our suite of recession models is also constructive, making the claim that the risk of a contraction over the next year is unusually low.

In turn, our economic growth forecasts mostly land ahead of the consensus for 2027 (Exhibit 9). Aside from fellow AI-supercharged South Korea, the U.S. is again expected to be the fastest growing developed-world economy in the coming year.

We continue to believe that structural reforms underway in the Eurozone, UK, Japan and Canada will gradually unlock additional growth in those jurisdictions, though patience is necessary as such initiatives are still in their early phases.

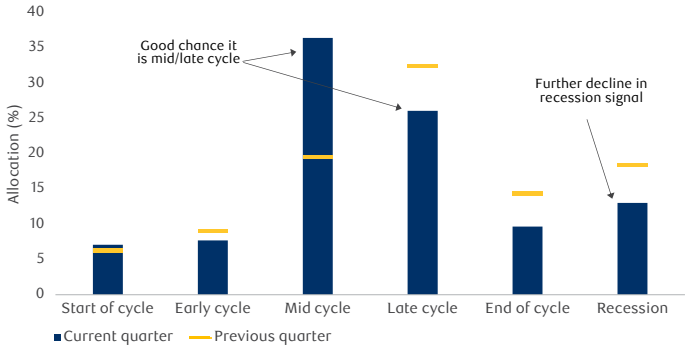
Real challenges, but seemingly manageable

Nipping at the heels of the positive economic growth environment are a number of pesky headwinds and risks, including the ongoing Middle East energy shock, rising bond yields and additional tariffs.

Energy shock lingers, but not as bad as feared

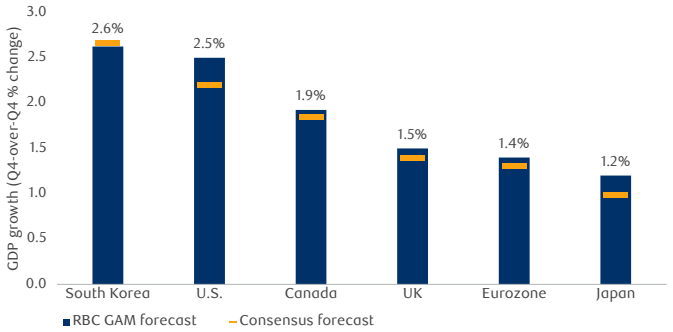
With the U.S.-Iran conflict now six months old, it is nothing short of remarkable that oil prices – while indisputably elevated versus pre-war levels – remain no worse than approximately US$100 per barrel (Exhibit 10).

Exhibit 8: U.S. business cycle score



Note: As at August 7, 2026. Calculated via scorecard technique by RBC GAM.
Source: RBC GAM

Exhibit 9: RBC GAM GDP forecast for 2027: developed markets



Note: RBC GAM forecast as of August 25, 2026, consensus forecast as of September 4, 2026. Source: Bloomberg, RBC GAM

Exhibit 10: Crude oil prices rebound partially as conflict resumes in the Middle East



Note: As of September 4, 2026. Source: Bloomberg, RBC GAM

The initial consensus had been that the energy market would be catastrophically squeezed within just a few months. In practice, that hasn't happened. A series of cobbled-together supply and transportation solutions have eased much of the constraint, minimizing the demand destruction necessary to match oil supply with demand (Exhibit 11). In turn, oil prices haven't had to rise quite so far.

To be sure, the energy shock is still adding to inflation, and while we assume some easing of Hormuz restrictions in the months ahead, there is a clear alternative scenario in which the Strait instead remains mostly closed and certain temporary remedies such as inventory drawdowns become less viable, making the situation incrementally more painful.

A possible "super" El Niño weather pattern spanning the remainder of 2026 into 2027 could also slightly dim global growth and slightly add to global inflation, primarily via food prices.

Rising yields concerns

Global bond yields have been trending upward since 2020, marking an end to the previous low-rate era. There has been another leg higher in recent months, particularly at the longer end of the yield curve (Exhibit 12).

This movement is broadly logical. Many countries continue to run large fiscal deficits, and have accordingly accumulated large public debt loads. The U.S. national debt now exceeds an eye-watering US$40 trillion. Inflation also remains broadly too high. Further, there is now some crowding occurring in the bond market, not just as countries compete with one another for bond buyers, but as tech giants wade into the fray with large bond issuances of their own. Meanwhile, with the era of quantitative easing over and major sovereign reserve managers including China and Japan shifting their appetites, the burden has fallen upon rate-sensitive private investors to absorb much of the rising public debt. They are demanding a premium to do so.

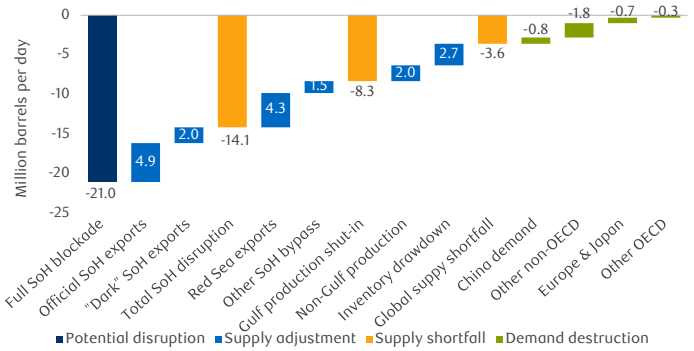
For U.S. bonds specifically, the "declining exceptionalism" theme – with the quality and predictability of public policy decisions being a particular source of concern – is a further theoretical catalyst.

The U.S. Treasury Department is attempting to counter upward pressure on yields with an expanded bond buyback program. But the program is small and with limited ability to upsize, so we expect yields to remain high though not to rise substantially beyond present levels.

More tariffs

After courts knocked down the average U.S. tariff rate earlier in the year, the White House has been gradually reconstructing its desired tariff regime – in line with our expectations.

Exhibit 11: Both supply and demand have adjusted to Strait of Hormuz disruptions



Note: As at August 19, 2026. Source: U.S. Energy Information Administration (EIA), International Energy Agency (IEA), RBC GAM

Exhibit 12: Rising bond yield environment



Note: As of September 03, 2026. Shaded area represents recession. Source: U.S. Department of Treasury, Macrobond, RBC GAM

However, the recent U.S. imposition of a large 50% tariff on 5% of Canadian exports came as a surprise. Canada is now responding in tit-for-tat fashion, with the implication that both countries' economic and inflation trajectories are slightly worsened. But the blow to the U.S. is sufficiently small as to not require a significant forecast revamp, and for Canada it also amounts to just a few tenths subtracted from growth – discussed later in the Canada section of this report.

A key lesson from 2025 remains valid today – tariffs are certainly negative, but the scale of the damage is somewhat less than popularly imagined.

Upside risks should not be neglected

Much as there are downside risks, there are also upside risks that deserve mention. In fact, if anything, a key upside risk from the past few years has repeatedly come true: the AI boom keeps exceeding expectations.

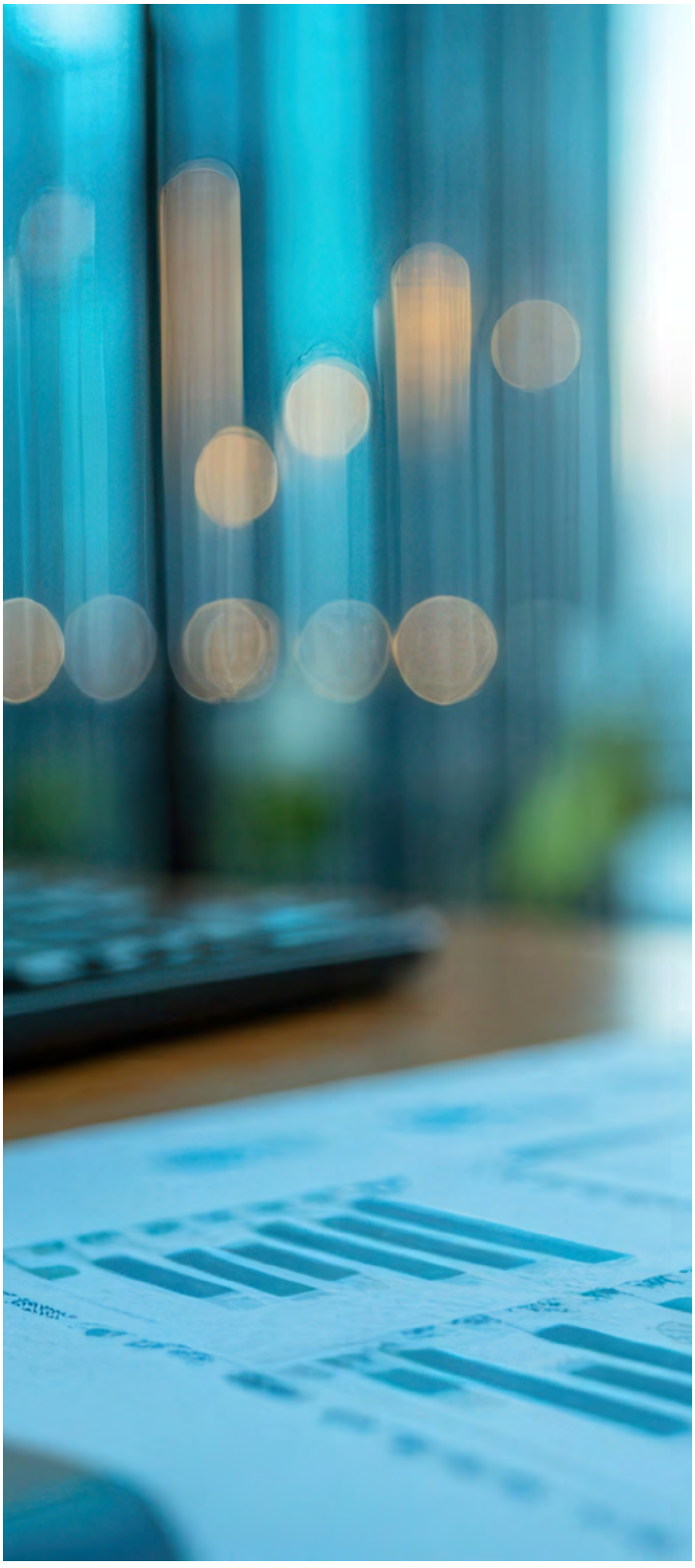
What could go surprisingly well from here?

The AI sector may continue to positively surprise: hyperscalers' CapEx plans could continue to be revised higher, and the tentative productivity gains visible in the data could strengthen. The many companies theoretically set to benefit from AI – in the form of cost savings and/or faster revenue growth – could see that benefit accrue more quickly. Over time, if the cost savings are significant, AI could become substantially deflationary, helping to counter some of the upward pressure on bond yields.

Elsewhere, growth unrelated to AI could accelerate. There is tentative evidence of non-AI CapEx starting to pick up in the U.S., and clear evidence of corporate profits unconnected to AI surging globally.

Just as the war with Iran could stretch on, it might instead resolve quickly, lowering oil prices for the benefit of global growth and global inflation. Although that may feel like an unlikely prospect, continuing the war is painful for both sides.

China's stubbornly high private savings rate could start to fall, perhaps as the country's beleaguered housing market stabilizes, or as another wave of rumoured stimulus is delivered. This would unleash a large source of demand upon the world.



Finally, perhaps the structural reforms underway in long-economically stagnant regions including much of Europe, the UK, Japan and Canada will start to pay their hoped-for dividends.

Inflation pressures to partially ease

Inflation remains too high, repeatedly buffeted by an unfortunate series of inflation shocks over the past six years: pandemic-related effects, then post-pandemic recovery distortions, then tariffs, and most recently the war with Iran. Our research also argues that while AI should eventually prove deflationary, it is for the moment moderately inflationary as computer chip prices and construction costs surge.

Unhelpfully, inflation pressures are fairly broad, meaning it is not just energy prices that are rising too quickly (Exhibit 13). El Niño could have food inflation running hot over the year ahead.

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% – a departure from the pre-pandemic norm, when getting up to 2% was the challenge.

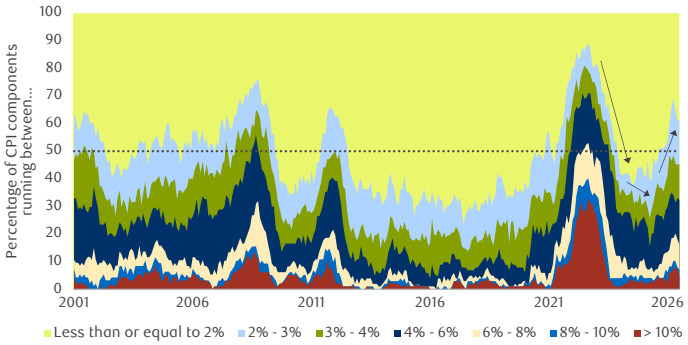
Still, there should be room for some moderate decline in inflation in 2027, if not all the way back to 2% (Exhibit 14). We budget for a diminishment of oil constraints through some combination of the Strait of Hormuz re-opening and additional supply from the rest of the world. Housing is set to remain a disinflationary force in a number of markets, including the U.S. and Canada. Modest rate hiking should also help cap more generalized inflation pressures.

Policymaker support diminishing

The net economic support from policymakers is set to diminish somewhat in the future.

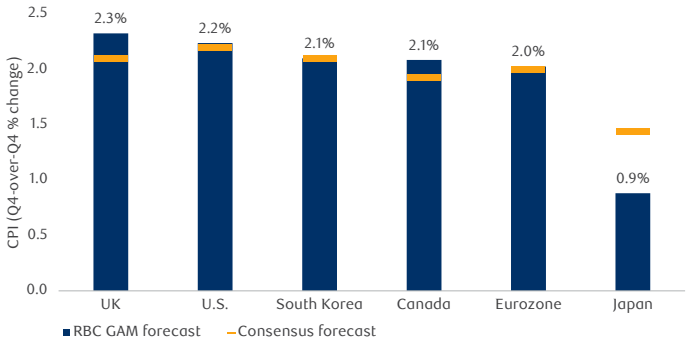
On the monetary policy side of the ledger, the era of monetary easing is transitioning toward tightening (Exhibit 15). The European Central Bank and Bank of Japan have already started raising rates, and markets expect a Fed rate hike this fall.

Exhibit 13: Inflation broadened in U.S.



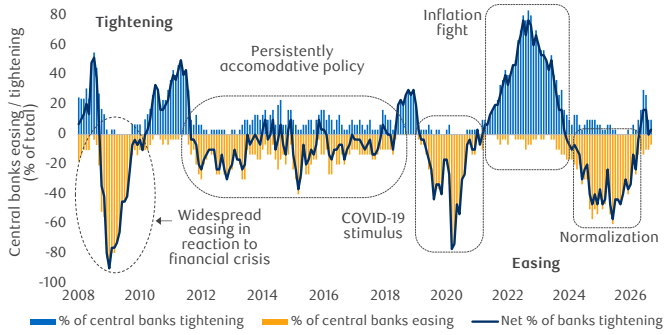
Note: As of July 2026. Share of CPI components with year-over-year % change falling within the ranges specified. Source: Haver Analytics, RBC GAM

Exhibit 14: RBC GAM CPI forecast for 2027: developed markets



Note: RBC GAM forecast as of August 25, 2026, consensus forecast as of September 4, 2026. Source: Bloomberg, RBC GAM

Exhibit 15: Monetary policy shifting from easing to tightening



Note: As of September 04, 2026. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

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 (Exhibit 16). New Fed Chair Warsh has lately conveyed particular dissatisfaction with elevated inflation.

Turning to fiscal policy, large deficits remain likely across a significant fraction of the developed world, providing some measure of economic support. There is evidence that Germany's military and infrastructure push is starting to gain traction, and Japan is similarly in motion.

However, the scale of U.S.-specific fiscal stimulus could fade in the coming years. Part of this is simply because so much has already been delivered, including prominent tax cuts and deregulation. But the upcoming midterm elections are also likely to result in the division of power between Republicans and Democrats, which could limit further fiscal stimulus and translate into fewer business-friendly initiatives. On balance, the election may be marginally negative for both growth and inflation.

Chinese weakness is only temporary

China's economy has slowed over the past year, notably including weaker retail sales and industrial production growth.

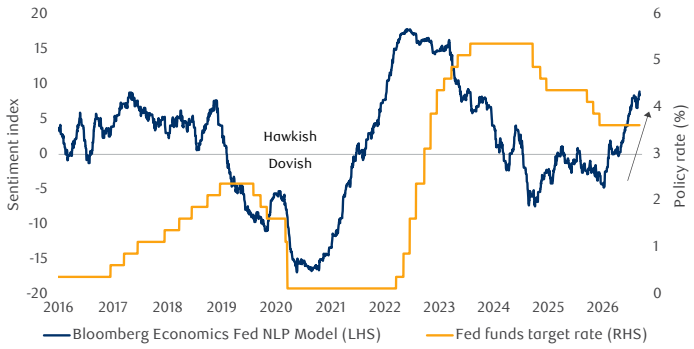
But we nevertheless remain optimistic about China's medium-term outlook.

The country's exports are successfully pivoting to new markets after U.S. tariffs were raised (Exhibit 17).

The housing market might be starting to bottom, as per a tentative increase in Tier 1 home prices (Exhibit 18). Our assumption is that further healing is necessary before a more enduring rebound can occur, but policymakers just extended the country's maximum mortgage term from 30 to 40 years, and so the process is already underway.

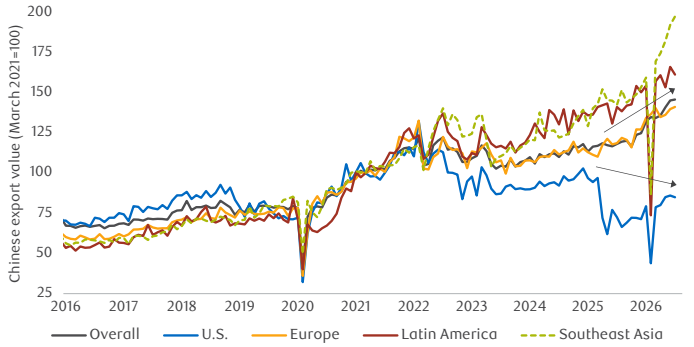
Chinese policymakers are also now discussing the potential for more government stimulus, which strongly argues for an improved economic growth trajectory ahead.

Exhibit 16: Natural language processing suggests Fed commentary has become more hawkish



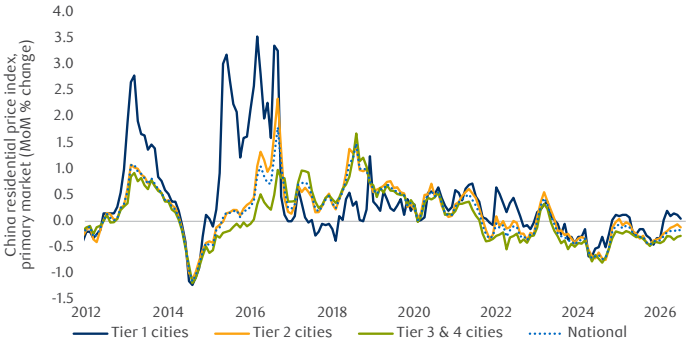
Note: As of September 04, 2026. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 17: Chinese exports diversifying away from U.S.



Note: As of July 2026. Source: China General Administration of Customs, Macrobond, RBC GAM

Exhibit 18: Home prices rise in major cities



Note: As of July 2026. Source: CNBS, Macrobond, RBC GAM

Fundamentally, the greatest cause for optimism relates to China's increasingly impressive track record of innovation. China now leads the world in such technologies as solar panels, batteries and robotics, is rapidly taking over the global auto market, and is moving quickly in AI, computer chips and pharmaceuticals. Promisingly, China now invests more in research and development each year than the U.S. (Exhibit 19).

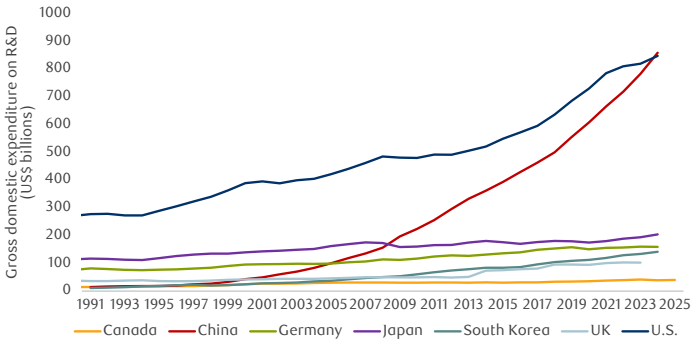
Examining the emerging-market outlook more broadly, our forecasts anticipate above-consensus growth in the two economic behemoths – China and India – versus on-consensus growth in Mexico and slightly below-consensus outcomes for Brazil and Russia (Exhibit 20).

Canada's latest challenge

The Canadian economy was just starting to find its feet, growing at a strong 3.2% annualized pace in the second quarter and quashing concerns that the country might be in a recession (happily, the prior quarter's slight decline was also revised away). Regional unemployment rates across the country have enjoyed a gradual decline in recent quarters (Exhibit 21).

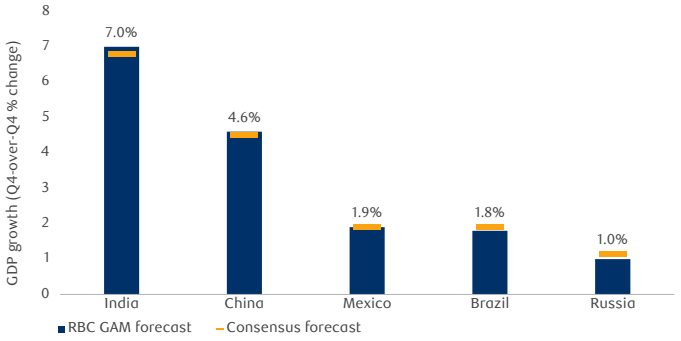
But a new threat emerged in mid-August when the U.S. levied significant additional tariffs that raise the average tariff rate on Canadian products from 5.9% to 8.4% (Exhibit 22).

Exhibit 19: China has surpassed U.S. in R&D spending



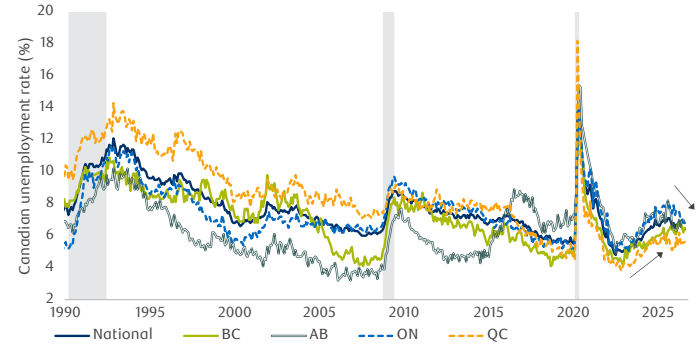
Note: As of 2025 for Canada, 2023 for UK, 2024 for all other countries. R&D expenditure in PPP-based constant prices using 2020 as base year.
Source: OECD, Macrobond, RBC GAM

Exhibit 20: RBC GAM GDP forecast for 2027: emerging markets



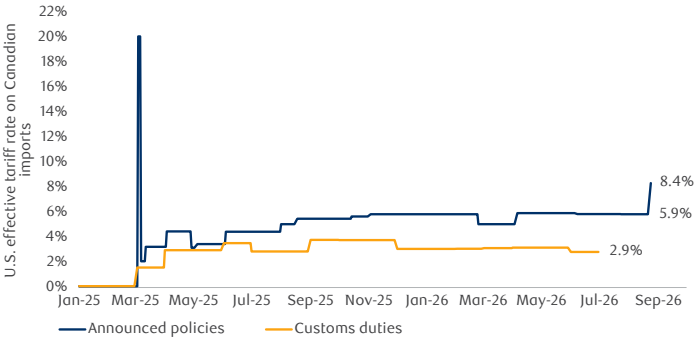
Note: RBC GAM forecast as of August 25, 2026, consensus forecast as of September 4, 2026. Source: Bloomberg, RBC GAM

Exhibit 21: Canadian unemployment rate by regions



Note: As of August 2026. Shaded area represents recession. Source: Statistics Canada, Haver Analytics, Macrobond, RBC GAM

Exhibit 22: New U.S. levies raise tariff rate on Canadian exports



Note: As at August 24, 2026. Source: Bloomberg, RBC GAM

Canada's tariff rate has now risen above Taiwan, the UK and Mexico. While the rate nevertheless remains below the global average, it is undeniably painful given Canada's close trade orientation toward the U.S.

Canada has responded in roughly proportionate fashion with tariffs of its own, and we estimate an approximate 0.2% hit to Canadian GDP after budgeting for government support, and an extra 0.1% to 0.2% added to Canadian inflation. These are unfortunate but manageable blows, and while they constrain the Canadian growth rate and serve as partial motivation for our view that Canada may fail to outpace the consensus expectations, they are not likely to prove recessionary. Of course, there is uncertainty around this assessment: the U.S. might back down as it has on several occasions over the past two years, or it might instead increase the tariffs further on January 1, as it has threatened to do.

The Bank of Canada should not be in a rush to tighten given Canada's unemployment rate remains slightly above target, tariffs present a new challenge, and Canadian inflation isn't as high as in the U.S. But based on the central bank's latest communication, there remains a clear bias toward tightening and market pricing assigns an over-90% likelihood of an initial 25-basis-point rate increase by year-end.

More generally, we remain hopeful that Canada's return to population growth in 2027, combined with the scope for more infrastructure spending and productivity growth, will unleash a period of good economic growth in the years ahead.

Bottom line

In sum, the global economy continues to demonstrate impressive resilience despite a formidable array of headwinds — the lingering Hormuz energy shock, rising bond yields, additional tariffs, and inflation that remains stubbornly above target. The AI-powered investment and productivity boom is proving a powerful counterweight, underpinning GDP growth and lifting corporate earnings, with some evidence of a broadening into other sectors and beyond U.S. shores.

With the earnings outlook strong, the recession risk unusually low, and the economic expansion appearing to have further room to run, we maintain a slight equity overweight with a continued tilt toward the U.S., Canada, and Asia — while remaining mindful that the range of outcomes, both upside and downside, is wider than usual.



Market outlook

Extraordinary earnings power meets hawkish central banks



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

Key takeaways:

- AI investment is the dominant market force, with hyperscaler CapEx fuelling an extraordinary mid-cycle earnings boom for the S&P 500.
- Stubborn inflation is prompting global rate hikes, presenting a key headwind for both equity valuations and fixed income prices.
- Rising yields boost the appeal of government fixed income, particularly if inflation moderates in 2027 as we expect.
- Equity valuations are stretched, with further upside depending heavily on continued earnings strength rather than multiple expansion.
- Our recommended allocation for a global balanced investor remains near-neutral with a slight equity tilt.

Financial markets encountered heightened volatility throughout the summer as investor enthusiasm was tested by a variety of macro headwinds: the lingering war in Iran, an intensification of the trade war in North America, stubborn inflation and a hawkish pivot by central banks globally. Despite the turbulence, major equity market indices climbed to new records during the quarter, as macro concerns were offset by massive and growing capital investment related to artificial intelligence (AI). Risk takers have been rewarded for staying the course, as stocks delivered double-digit gains across most major indices so far this year, while performance in fixed income markets has been more muted amid rising bond yields (Exhibit 1). From here, with valuations becoming more demanding, the sustainability of the powerful equity bull market is increasingly dependent on the durability of corporate profit strength, particularly aided by strong and above-trend profit margin, and investors' continued willingness to pay a premium for that expected growth.

The dominant driver of the strong corporate profit backdrop has been the hefty increase in actual, as well as expected, AI-related investment. Estimated spending by hyperscalers from 2026 through to 2028 now totals US$3 trillion, up from the US$1.7 trillion figure that was anticipated at the beginning of this year (Exhibit 2).

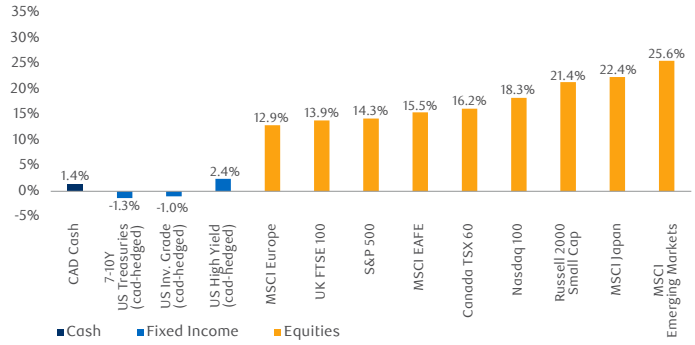
This tidal wave of investment flowing through the AI supply chain is also benefitting the broader economy and is fuelling an extraordinary surge in earnings (Exhibit 3). While the rapid advances in AI undeniably showcase its powerful utility, there remain questions about whether companies are overinvesting in the space and if sufficient revenue lies on the other side of all this investment.

The AI buildout is also among a variety of factors that have pushed bond yields higher. As hyperscalers increasingly tap debt markets for capital, the higher supply of bonds available to investors naturally causes bond prices to fall. Other factors that have nudged yields upwards are growing government deficits and stubborn inflation, the latter which could encourage central bank tightening. 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 (Exhibit 4). At these levels, we believe the scope for significant further increases in yields is limited, and that sovereign bonds in particular offer improved return potential with diminished valuation risk.

In determining an appropriate asset allocation, we seek to balance the near-term challenges against the longer-term opportunities, while positioning portfolios to withstand a variety of scenarios. Our base case is for the economy to continue growing, for inflation pressures to moderate at some point over the year ahead, and for central banks to

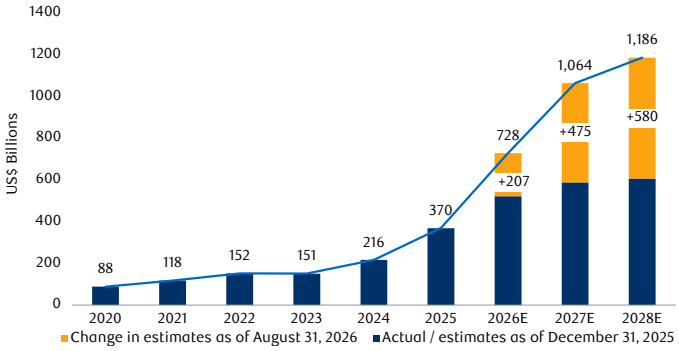
Exhibit 1: 2026 year-to-date performance

Total returns, in CAD



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM. Returns based on various ETFs and official indices. ETFs used are as follows: CAD Cash (CBIL), 7-10Y US Treasuries (IEF), US High Yield (HYG), U.S. Inv. Grade (LQD).

Exhibit 2: Hyperscaler capital expenditure estimates



Note: As of August 31, 2026. Hyperscaler includes Alphabet, Amazon, Meta, Microsoft, and Oracle. Source: Bloomberg, RBC GAM

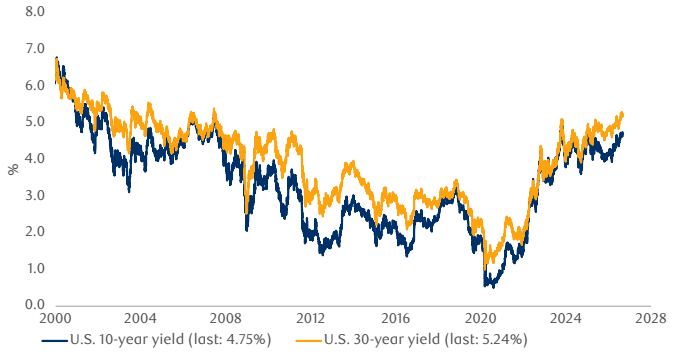
Exhibit 3: S&P 500 Index

12-month trailing earnings per share



Note: As of September 4, 2026. Estimate is based on consensus of industry analysts' bottom-up expectations. Source: Thomson Reuters, RBC GAM

Exhibit 4: U.S. government bond yields



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

engage in only modest tightening. Against this backdrop, we expect government bonds to deliver mid-single digit returns and for riskier assets to deliver mid-to-high single-digit gains. As a result, we are maintaining a bias toward risk taking in our asset mix, but that bias is small given historically tight credit spreads and a narrow risk premium between stocks and bonds. Within equities, we have tilted regional exposures slightly in favour of North America and Asia, with a slight underweight to Europe and a neutral position in emerging markets. These allocations are unchanged from last quarter. 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 (strategic “neutral”: 2.0%).

Stubborn inflation brings on rate hikes

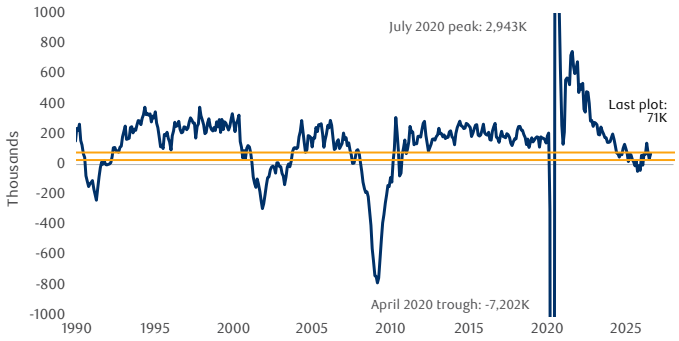
Inflation remains too high and major central banks are increasingly leaning toward the idea of raising rates, with some regions having already begun. The European Central Bank (ECB) and the Bank of Japan (BOJ) have both recently hiked rates and signal that further tightening could lie ahead. In the United States, newly appointed Federal Reserve (Fed) Chair Kevin Warsh emphasized that the labour market is in solid shape and that his focus is squarely on bringing inflation back to the 2.0% target (exhibits 5 and 6). Markets have reflected the hawkish tone, with three 25-basis-point rate hikes from the Fed priced in over the next twelve months, as well as three-to-four hikes each for the Bank of Canada (BOC) and the European Central Bank (Exhibit 7). Our own forecasts are for fewer hikes than market pricing: two for the Fed, one for the BOC and no additional ECB hikes over the next year.

Rise in sovereign bond yields boosts return potential, reduces valuation risk

The rise in yields on longer maturity government bonds has been especially pronounced, and the phenomenon is taking place simultaneously across all major regions. The 10-year yields in Japan, the U.K. and Germany have climbed to their highest levels in decades, while those in North America are near the upper end of their past 20-year trading range (Exhibit 8). At these higher levels, 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 expect (page 36).

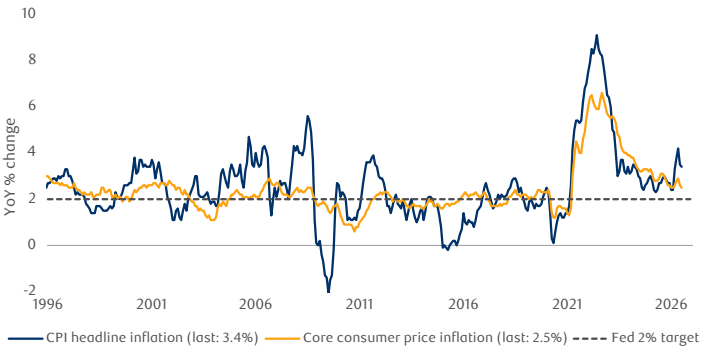
Exhibit 5: United States

Monthly change in non-farm employment (3mma)



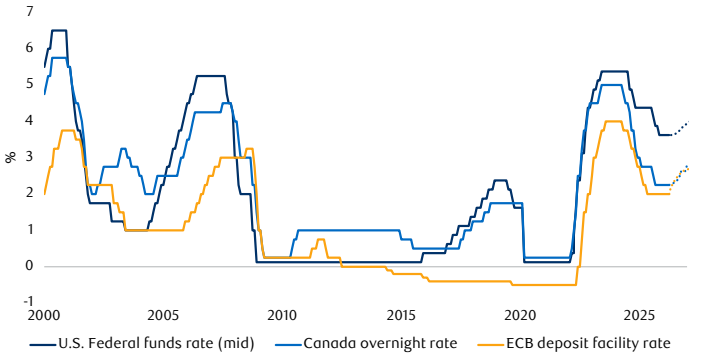
Note: As of August 2026. Yellow bands represent the estimated range of monthly job gains needed for the unemployment rate to improve. Source: Bureau of Labor Statistics

Exhibit 6: U.S. inflation measures



Note: As of July 31, 2026. Source: Bloomberg, RBC GAM

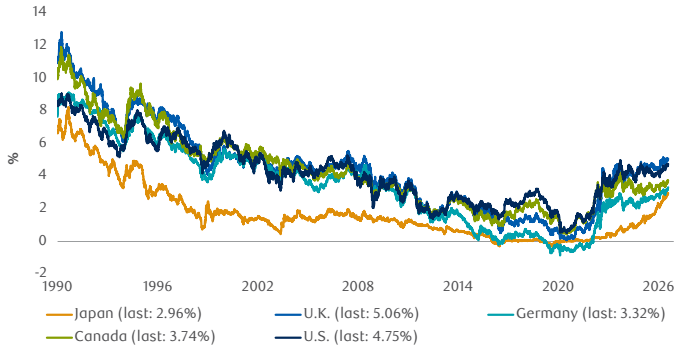
Exhibit 7: Central bank policy rates



Note: Forecasts, shown as dotted line, are based on futures for the U.S. and OIS forwards for other regions. As of August 31, 2026. Source: Bloomberg, RBC GAM

A look at the components of our model for 10-year Treasuries reveals that the appeal for fixed income investors stems from rising real (i.e., after inflation) yields (Exhibit 9). At 1.9%, the real yield has climbed above its long-term average for the first time in nearly two decades, offering bondholders a decent reward for deferring spending. While the real yield has historically been volatile and could rise further in the near term, our model assumes real rates will drift lower over time, driven by structural forces such as aging populations, a preference for saving versus spending, and slowing potential GDP growth as economies mature. The model also assumes inflation will eventually settle toward the Fed's 2% target. Combining these assumptions forms our bond model's equilibrium band, suggesting a reasonable U.S. 10-year Treasury yield of 3.65% today, or 3.44% a year from now.

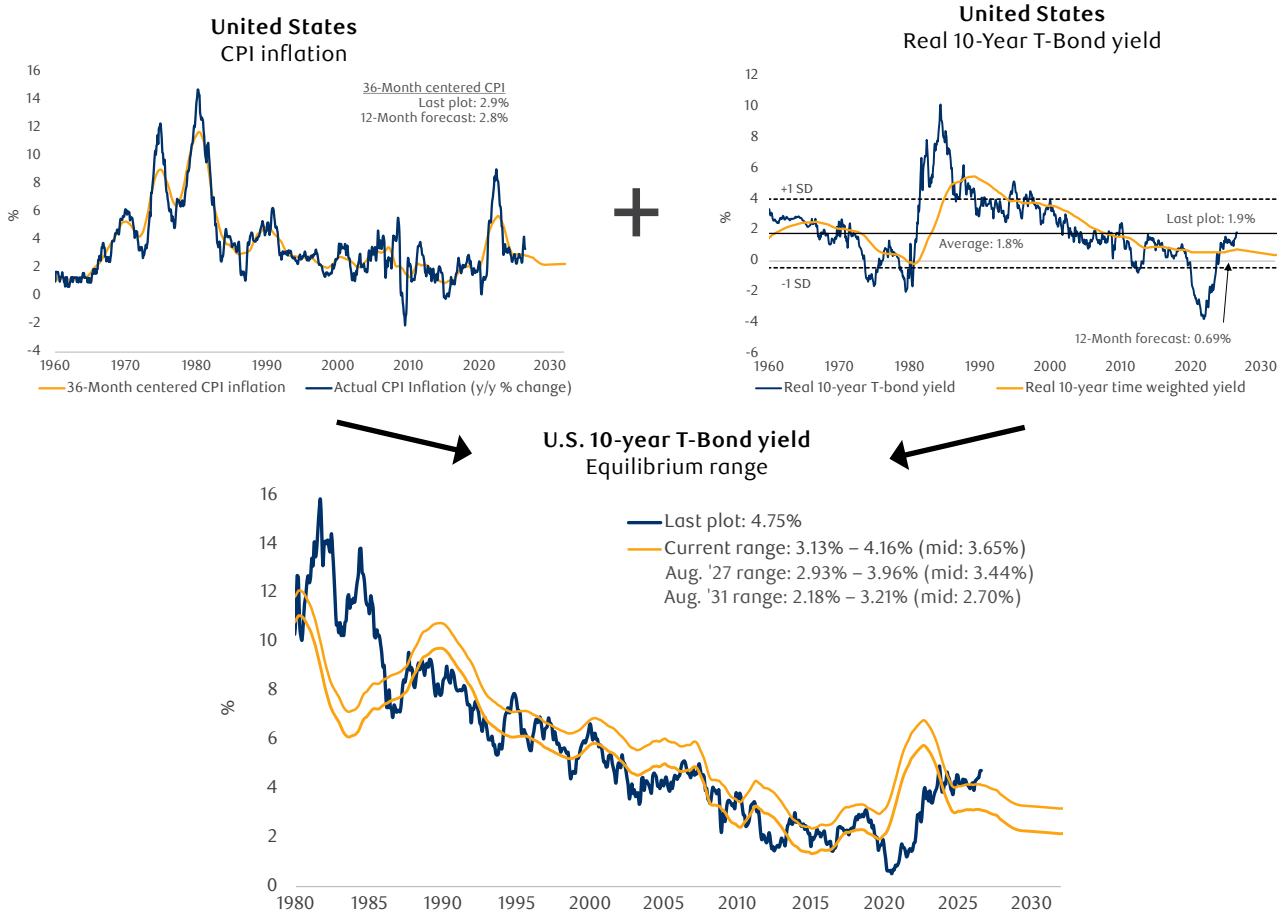
Exhibit 8: 10-year government bond yields



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Exhibit 9: U.S. 10-year bond yield

Fair-value estimate composition



Note: As of August 31, 2026. Source: RBC GAM

These are not our forecasts, but they paint an optimistic picture for fixed income investors should risks related to war, inflation, and/or U.S. deficits subside.

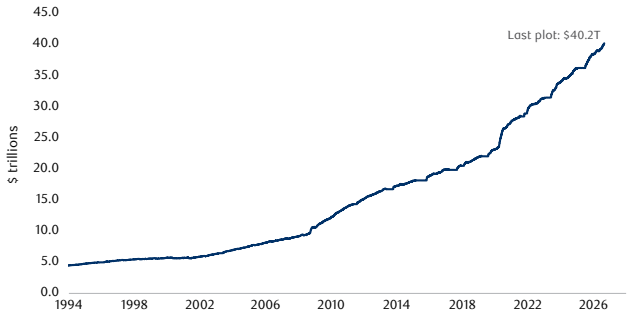
U.S. Treasury takes action to supress bond yields, but impact may be limited

Further support for bond prices could come from the U.S. Treasury's plan to buy back long-term bonds in multiple steps between September and November. But the action has so far had little effect, and the U.S. Treasury is restricted in its ability to meaningfully boost the buyback plan's size given the government's already-massive debt burden and inability to print money. The US$48 billion buyback plan, which is expected to consist of eight operations of US$6 billion each, is small relative to the US$40 trillion in outstanding Treasuries (Exhibit 10). And with about one-third of that debt (i.e., roughly US$13 trillion) maturing in the next 12 months, the government is in constant need of funds to recycle its stock of debt (Exhibit 11). At the margin, the buyback plan is supportive of bond prices, but it is probably too small to make much difference in the near term, and could add to concerns about growing U.S. deficits and angst about what the level of yields would be in an unsupportive market (Exhibit 12).

Credit spreads reflect benign outlook as hyperscaler debt grows

Although fixed income investors are demanding higher yields to invest in sovereign bonds, the premium awarded to corporate bond investors for taking on the risk of default remains relatively small. Exhibit 13 plots the spreads on U.S.

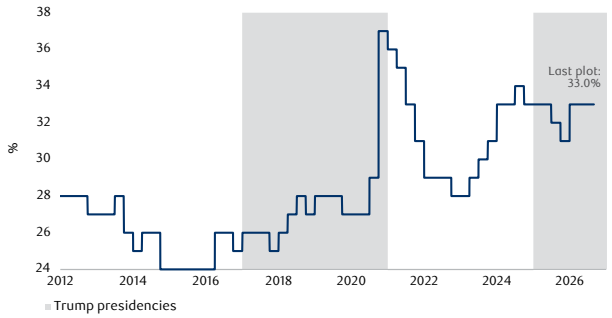
Exhibit 10: U.S. Treasury total public debt outstanding



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Exhibit 11: U.S. debt maturities

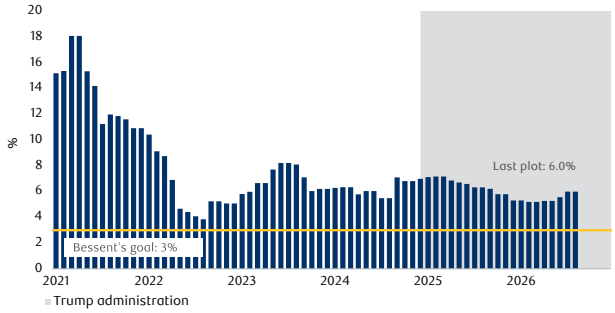
As a % of nominal GDP



Note: As of August 31, 2026. Source: U.S. Treasury Department, Bloomberg, RBC GAM

Exhibit 12: U.S. federal budget deficit

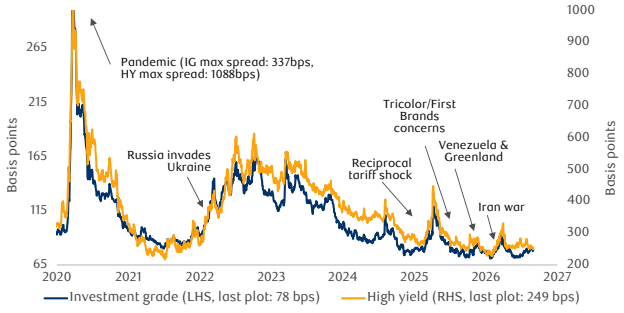
% of U.S. debt maturing in next 12 months



Note: As of August 31, 2026. Source: U.S. Treasury Department, Bloomberg, RBC GAM

Exhibit 13: U.S. corporate bond spreads

Difference with U.S. 10-year Treasury yield



Note: As of August 31, 2026. Source: Barclays Capital, Bloomberg, RBC GAM

investment grade and U.S. high yield bonds, and both are near historic lows. As a result, the excess return potential on corporate bonds versus government bonds is limited and suggests that investors are highly confident that issuers will be able to meet their financial obligations. That said, we are beginning to see some widening in spreads concentrated among hyperscalers, which have been increasingly tapping debt markets to fund their AI buildouts (Exhibit 14). In our view, this localized spread widening among hyperscaler debt reflects a degree of indigestion in the bond market facing an unexpected increase in supply rather than signalling broader credit deterioration.

Stock indices extend rally, shrugging off intense volatility within

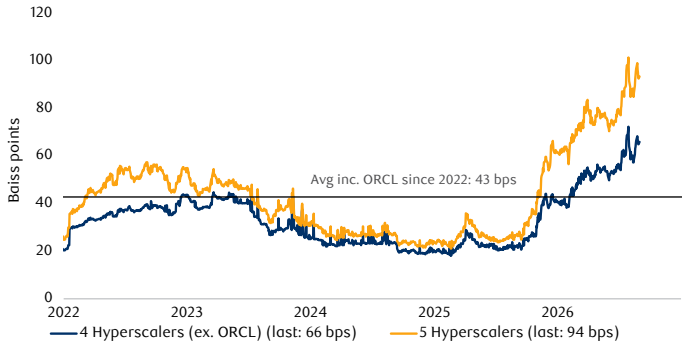
Equity markets extended their gains to record highs after a volatile summer that featured violent rotations beneath the surface. While major indices appeared relatively calm, leadership within them shifted aggressively between semiconductors, hyperscalers and software companies as investors debated the winners and losers of the AI theme (Exhibit 15). Highlighting this nuance is the fact that the VIX has been hovering near historic lows while the S&P 500 Constituent VIX spiked sharply during the summer (Exhibit 16). The size of the divergence between those two indices was unprecedented and suggests an environment in which investors prefer to rotate positions within the equity market rather than exiting stocks altogether.

Stocks are becoming more expensive, limiting their return potential

The impressive gains across most major equity indices over the past year have made stocks more expensive according to our valuation models. As of August 31, 2026, our composite of global equity markets was situated approximately 14% above fair value (Exhibit 17). While this level is not extreme – the cycle high reached 28% above fair value in late-2021, and the late-1990s technology bubble saw the composite close to 100% above fair value – higher valuations limit return potential and reduce the odds of further outsized gains from here.

The valuation picture varies depending on the region. U.S. large caps, and Japanese and Canadian equities remain the most expensive markets, each trading at more than a

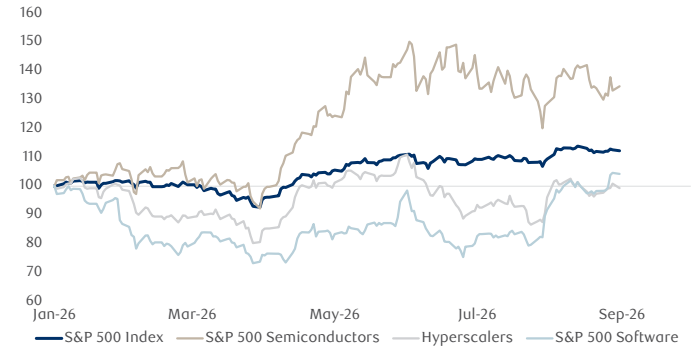
Exhibit 14: AI hyperscaler 5-year CDS spread



Note: As of August 31, 2026. AI hyperscalers include AMZN, GOOGL, META, MSFT and ORCL. GOOGL and META CDS spreads before November 21, 2025 are backfilled using the change in AMZN, MSFT and ORCL spreads.
Source: Bloomberg, RBC GAM

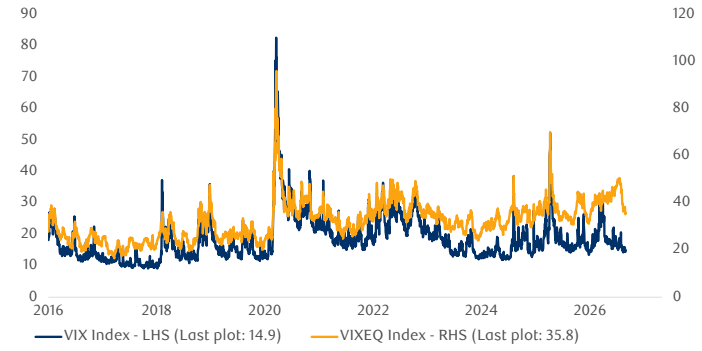
Exhibit 15: S&P 500 Index and thematic performance

Indexed to 100 at start of the year



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Exhibit 16: Cboe Volatility Index & S&P 500 Constituent Volatility Index



Note: As of August 31, 2026. VIX Index is the Cboe Volatility Index for the S&P 500, VIXEQ Index is the CBOE S&P 500 Constituent Volatility Index.
Source: Bloomberg, RBC GAM

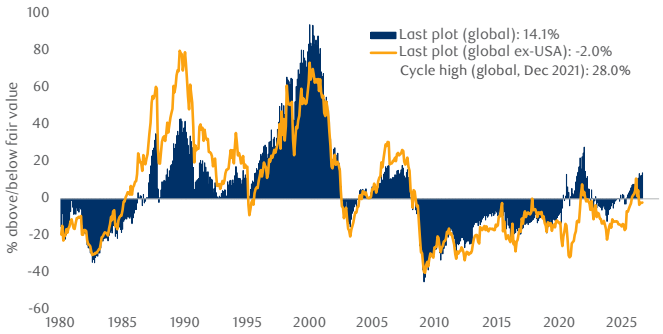
standard deviation above our modelled estimate of fair value (page 37). Emerging market equities are closer to the middle of their fair value band, having come down from elevated levels earlier in the year. And Europe offers notably better value, trading in the lower half of its fair value range. Even in the relatively cheaper regions, however, the steep discounts that existed at earlier points in the bull market have significantly diminished.

Equity valuations face headwinds from inflation, higher rates...

High valuations can be especially challenging for equities in an environment in which inflation is stubbornly high and interest rates are rising. Legendary investor Warren Buffett famously likened interest rates to gravity for asset prices: low rates allow prices to float higher, while high rates exert a downward pull. This concept is confirmed in our own data. Our modelled relationships between price-to-earnings multiples and each of short-term interest rates, 10-year bond yields, and inflation suggest that higher readings in these variables are consistent with lower valuations (exhibits 18 to 20). These relationships are precisely why oftentimes the stock market reacts positively to poor economic data, which could push interest rates lower and support higher valuations, and negatively to strong economic data, which could make central banks lean in a more hawkish direction.

Exhibit 17: Global stock market composite

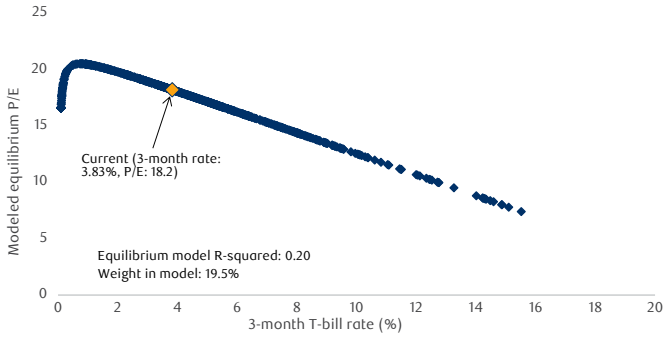
Equity market indexes relative to equilibrium



Note: As of August 31, 2026. Source: RBC GAM

Exhibit 18: S&P 500 equilibrium model

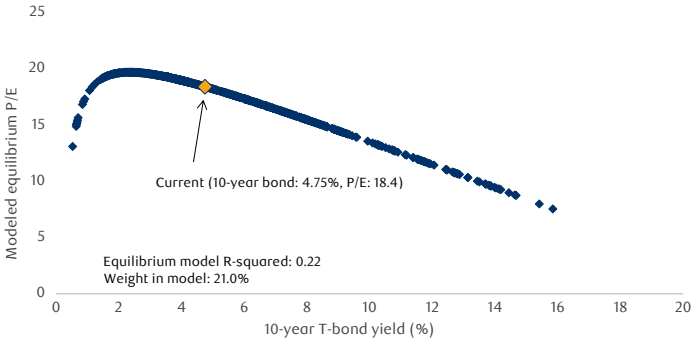
P/E factor as a function of 3-month T-bill rate



Note: As of August 31, 2026. Source: RBC GAM

Exhibit 19: S&P 500 equilibrium model

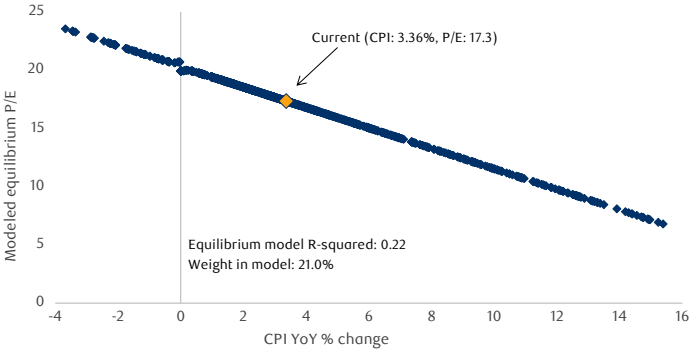
P/E factor as a function of 10-year bond yield



Note: As of August 31, 2026. Source: RBC GAM

Exhibit 20: S&P 500 equilibrium model

P/E factor as a function of CPI



Note: As of August 31, 2026. Source: RBC GAM

...but spectacular earnings growth offers fundamental support

With valuations unlikely to be a reliable source of gains from here, earnings growth will be essential to sustain the rally. Indeed, one of the defining features of the current market environment has been the extraordinary surge in corporate profits. 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% (Exhibit 21), as companies have consistently beaten estimates and raised forward guidance. In the past quarter, 86% of S&P 500 companies have reported results above consensus forecasts (Exhibit 22), and profit margins have climbed to new records (Exhibit 23).

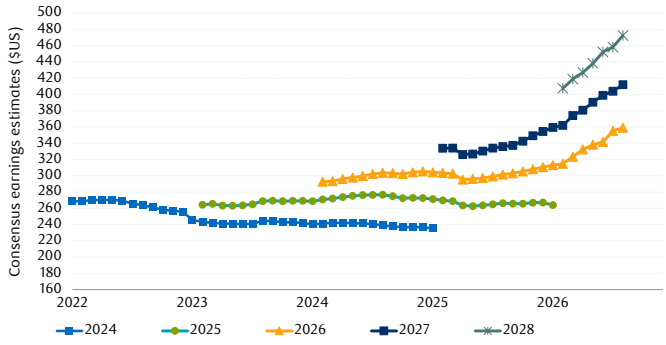
What makes this strength particularly remarkable is that it is taking place mid-cycle rather than during a post-recession recovery. Normally, earnings growth of 30% or more is associated with the early-cycle rebound that follows a sharp downturn (Exhibit 24). To see this kind of profit acceleration in the middle of an expansion is unusual and speaks to the extraordinary nature of the AI investment cycle.

Accounting nuances suggest earnings strength could be low quality

Part of what is fuelling the tremendous profit gains is that AI CapEx is largely treated as an investment rather than an expense. This nuance is important because it means the massive spending by the hyperscalers is not significantly

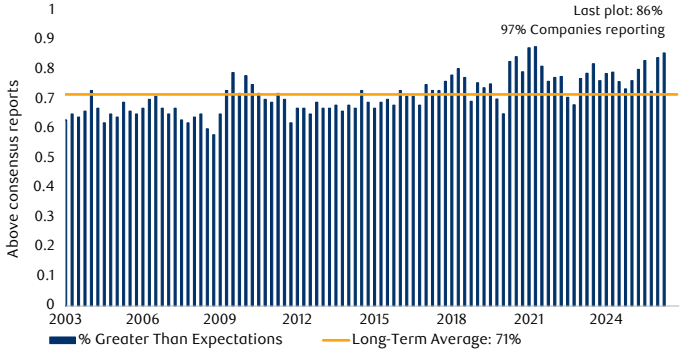
Exhibit 21: S&P 500 Index

Consensus earnings estimates



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

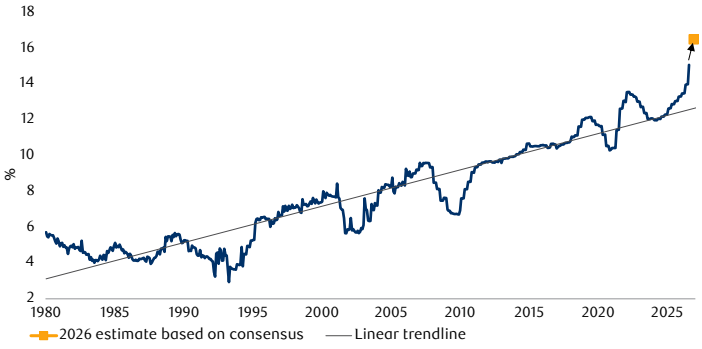
Exhibit 22: S&P 500 companies reporting results above consensus forecasts



Note: As of August 31, 2026. Source: Refinitiv, RBC GAM

Exhibit 23: S&P 500

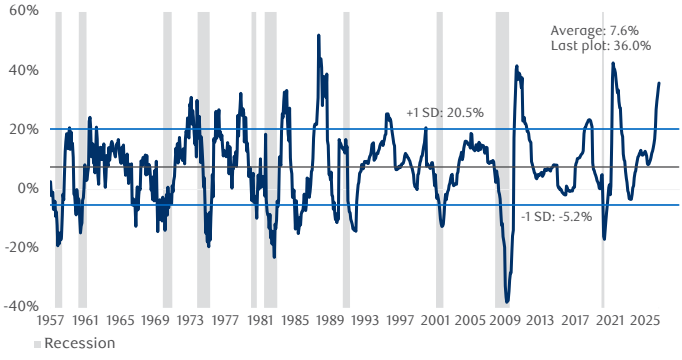
Net margins



Note: As of August 2026. Source: Bloomberg, RBC GAM

Exhibit 24: S&P 500 NTM earnings growth

1-year rolling % change



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

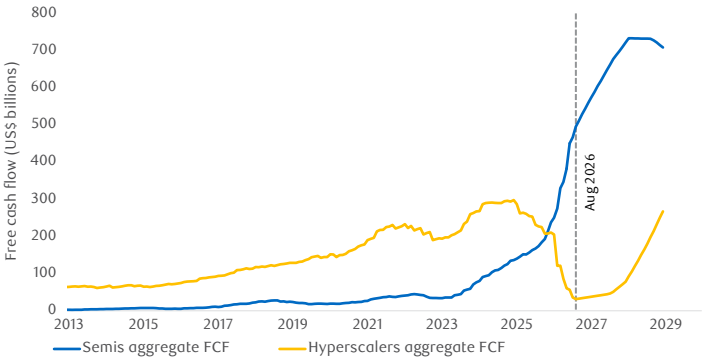
subtracting from their income statements, but it does benefit the income statements of the AI suppliers that are receiving that capital. When looking at cash flow metrics as seen in Exhibit 25, we see an intuitive picture in which the AI spenders (hyperscalers) see their free cash flows declining, coincident with the cash flows of AI suppliers (semiconductors) surging. But the earnings picture for both sets of companies appears favourable due to the accounting treatment (Exhibit 26). As a result, a portion of the stock market's earnings strength is somewhat misleading as we move through this intense AI investment cycle. Hyperscalers only begin to recognize large expenses related to data centres once they become operational, and even then the cost is spread over a period of many years. The critical question remains whether these massive investments will ultimately generate an attractive return on capital, and that will depend on the strength and durability of end-user demand.

Scenario analysis suggests upside requires positive backdrop to persist

One way we gauge the possible outcomes for stocks is by modelling several scenarios based on combinations of earnings and price-to-earnings multiples. Exhibits 27 and 28 plot examples of hypothetical bull, base, and bear cases for the S&P 500 and MSCI Europe, respectively. The bull cases assume stocks trade at an above-normal valuation and that earnings exceed consensus estimates by 5%, whereas the

Exhibit 25: Hyperscalers & semiconductors

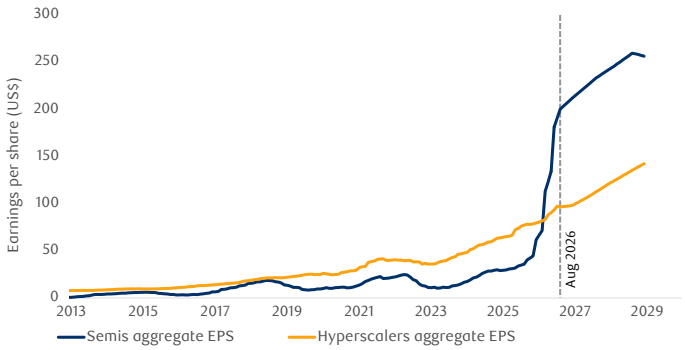
Free cash flows



Note: As of August 31, 2026. 12m forward earnings and free cash flow figures used. Hyperscaler includes Alphabet, Amazon, Meta, Microsoft, and Oracle. Semis include Nvidia, Micron, Broadcom, and Applied Materials.
Source: Bloomberg, RBC GAM

Exhibit 26: Hyperscalers & semiconductors

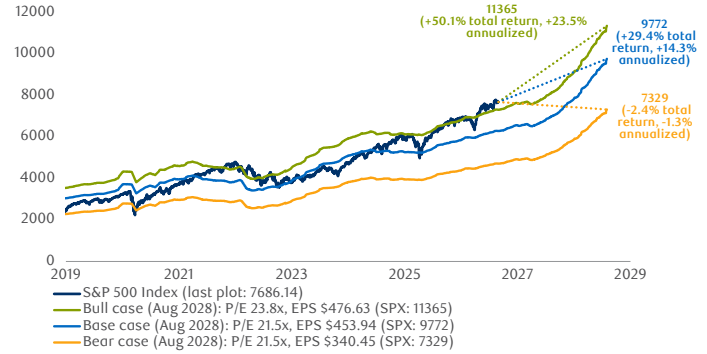
Earnings per share



Note: As of August 31, 2026. 12m forward earnings and free cash flow figures used. Hyperscaler includes Alphabet, Amazon, Meta, Microsoft, and Oracle. Semis include Nvidia, Micron, Broadcom, and Applied Materials.
Source: Bloomberg, RBC GAM

Exhibit 27: S&P 500 Index

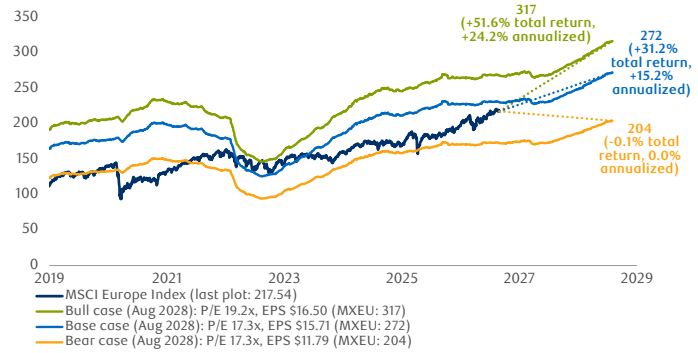
Scenario analysis



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Exhibit 28: MSCI Europe

Scenario analysis



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

bear cases assume earnings miss expectations by 25% and trade at a valuation consistent with market bottoms. The outcomes of these scenarios range from slightly negative returns to greater than 20% annualized gains over the next two years for both the U.S. large-cap market and European stocks. Note, however, that the S&P 500 has historically traded between its base-case and bull-case scenarios, whereas European equities have tended to trade between their base-case and bear-case scenarios. Should that pattern hold, it implies a stronger performance from U.S. equities in an environment in which earnings remain robust, inflation pressures moderate and investors remain highly optimistic toward the promise of AI.

Conversely, if earnings were to disappoint and investors turned pessimistic, stocks would be vulnerable given their current elevated starting point relative their historic trading range within these scenarios. Even in the absence of an economic contraction, any increase in the odds of a recession, say from 5% to 30% chance, could be enough to push U.S. large-cap stocks into a 10%-15% correction if stocks adjust partially toward the bear case scenario in the shorter term.

Style and regional performance: Leadership has wavered

Leadership within the equity market this year has been difficult to identify as investors frequently rotated between potential winners and losers within the AI theme. Overall, though, hyperscalers have struggled relative to the S&P 500 since late 2025, giving way to modest outperformance of value versus growth, small-cap versus large-cap, and equal-weighted versus the cap-weighted S&P 500 (Exhibit 29). Importantly, stock market gains throughout the year have broadened somewhat beyond a narrow set of winners and the rally has become less concentrated than it was for most of the post-pandemic era.

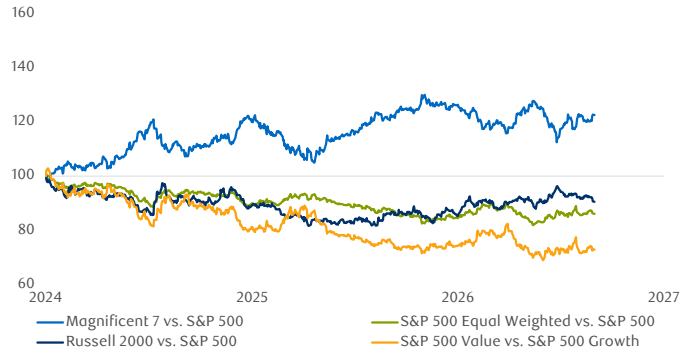
Regional leadership has been similarly nuanced, with big fluctuations over the year. Emerging markets outperformed in a significant way in the first half of the year, driven by their heavy concentration in semiconductor stocks, which had more than doubled from the start of the year to mid-June. But more recently, that leadership encountered a hiccup as semiconductor stocks experienced a sharp sell-off over the summer months (Exhibit 30). The S&P 500 has been broadly trading in line with the MSCI World, whereas Canada's S&P/TSX Composite has been a relatively bright spot, benefitting from higher commodity prices amid the war, and strong financial sector profitability. Europe has been a consistent laggard given its higher exposure geographically to the Strait of Hormuz.

Asset mix: Maintaining near-neutral positioning, with slight tilt to equities

All things considered, we remain constructive on both the economic outlook and the corporate profit outlook. But much of the good news is already reflected in elevated asset prices and, should risks intensify, stocks would be vulnerable.

Exhibit 29: U.S. style relative strength

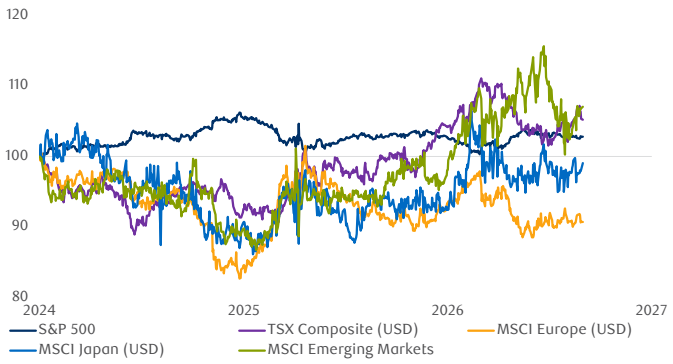
Indexed to 100 at start of 2024



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Exhibit 30: Regional relative strength

Indexed to 100 at start of 2024



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

Moreover, the rise in bonds yields has boosted the appeal of fixed income and reduced the relative attractiveness of stocks versus bonds.

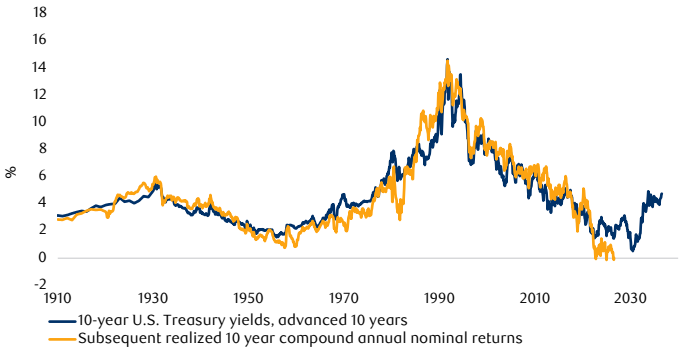
A reliable estimate for long-term returns in government bonds is simply their current yield to maturity. Exhibit 31 shows a close relationship between the yield on 10-year Treasuries and their actual realized return a decade hence. As a result, the 4.75% yield on U.S. 10-year T-bonds at the time of this writing is a solid annualized return forecast for those bonds over the decade ahead.

For stocks, Shiller's cyclically adjusted price-to-earnings (CAPE) ratio has demonstrated a strong inverse relationship with equity market returns over the subsequent decade (Exhibit 32). That is, stocks tend to deliver superior returns from cheap starting points, and weaker returns from expensive starting points. This relationship is noisier than the above-mentioned one for fixed income, but it currently predicts low-single-digit returns for U.S. large-cap stocks over the next decade.

Furthermore, on a look-ahead basis, the forward price-to-earnings multiple remains above it's long-term average and has been contracting since late 2025 (Exhibit 33). The multiple has been weighed down by a higher rate environment and could also be reflecting doubts around above-trend profit margin sustainability. While valuations are only one part of the equation when it comes to stocks, a lack of multiple expansion, or additional contraction, suggests that further strong and durable earnings growth will be critical to maintaining robust equity returns from here.

As a result, our asset mix positioning is designed to benefit from the global economic expansion and the rapid profit growth driven by artificial intelligence, while recognizing that high stock market valuations and narrow premiums in stocks versus bonds do not warrant excessive risk-taking at this time. Unchanged from last quarter, we are maintaining a slight underweight in bonds and overweight in stocks, with equity regional exposures tilted in favour of North America and Asia, away from Europe and with a neutral position in emerging markets. 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.

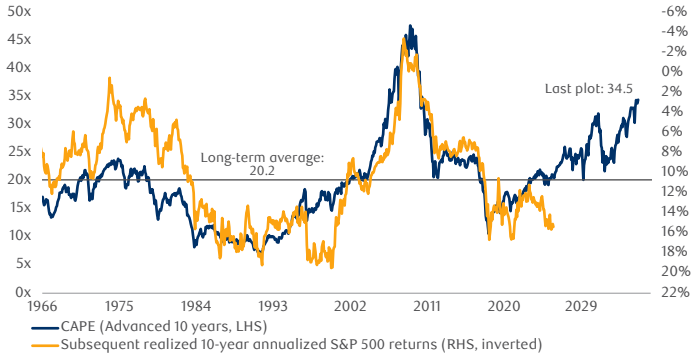
Exhibit 31: U.S. 10-year Treasury note and returns



Note: As of August 31, 2026. Source: Deutsche Bank, Macrobond, RBC GAM

Exhibit 32: Shiller's CAPE

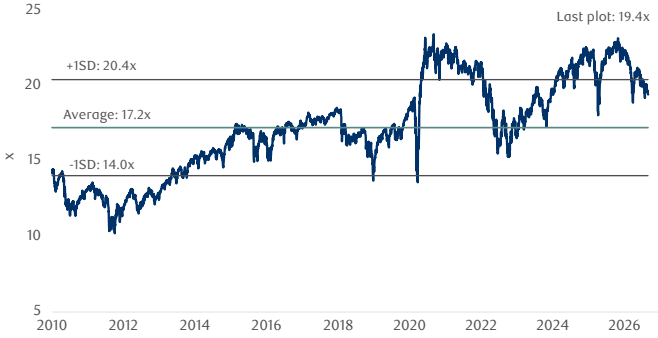
Real S&P 500 Index / 10-year average of real EPS



Note: As of August 31, 2026. Source: Macrobond, Bloomberg, RBC GAM

Exhibit 33: S&P 500 Index

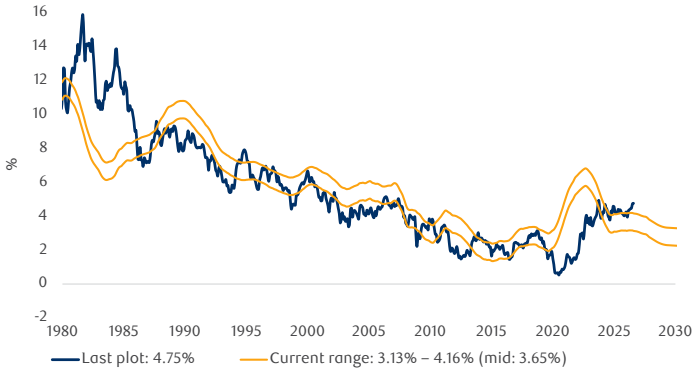
Forward 12-month P/E ratio



Note: As of August 31, 2026. Source: Bloomberg, RBC GAM

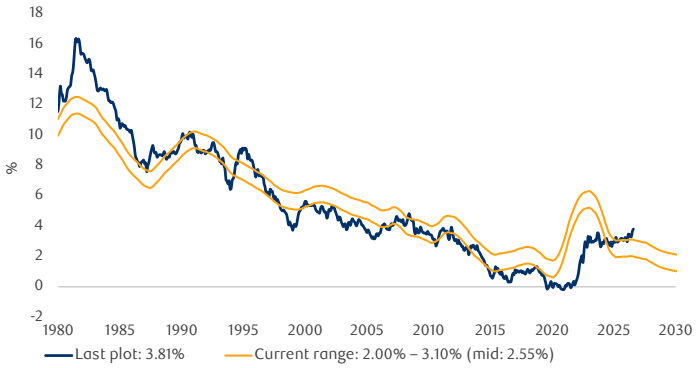
Global fixed income markets

U.S. 10-Year T-Bond Yield
Equilibrium range



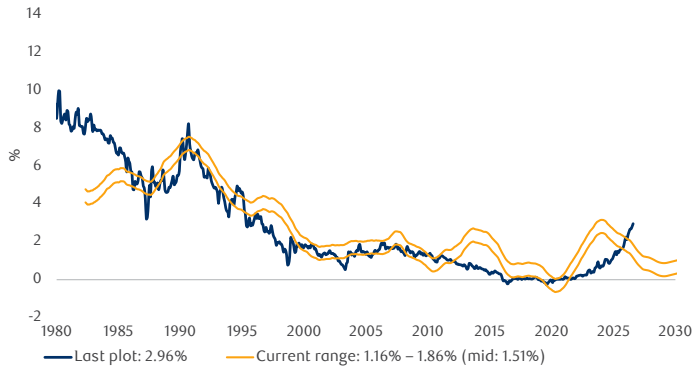
Note: As of August 31, 2026. Source: RBC GAM

Eurozone 10-Year Bond Yield
Equilibrium range



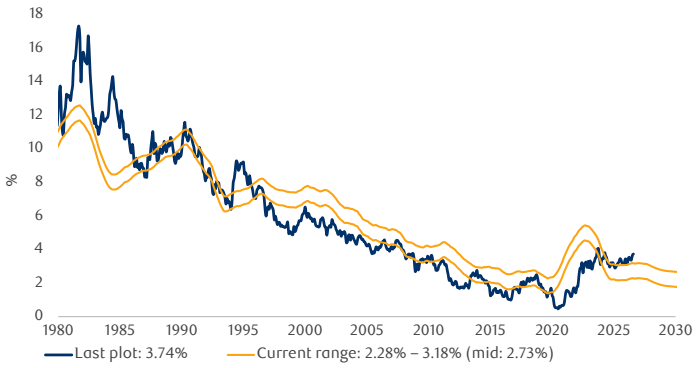
Note: As of August 31, 2026. Source: RBC GAM

Japan 10-Year Bond Yield
Equilibrium range



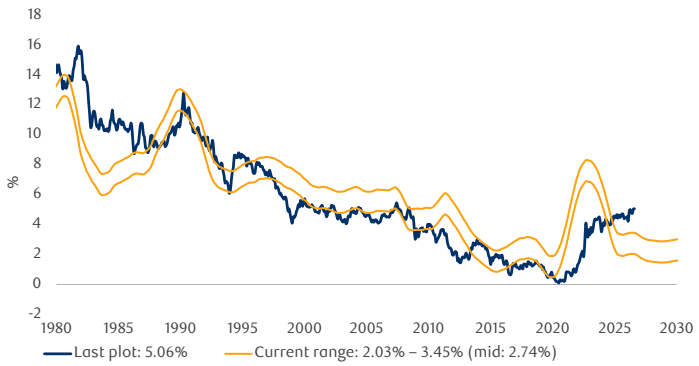
Note: As of August 31, 2026. Source: RBC GAM

Canada 10-Year Bond Yield
Equilibrium range



Note: As of August 31, 2026. Source: RBC GAM

UK 10-Year Gilt
Equilibrium range

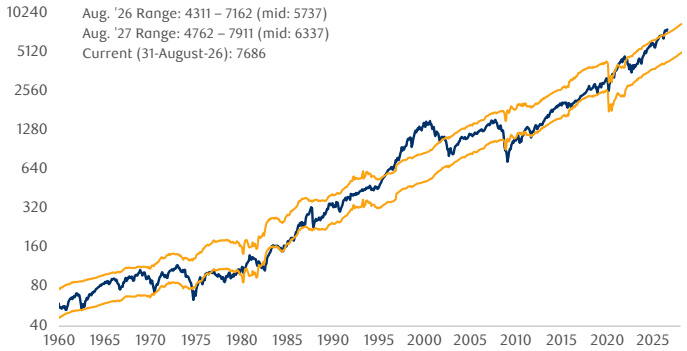


Note: As of August 31, 2026. Source: RBC GAM

> "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 expect."

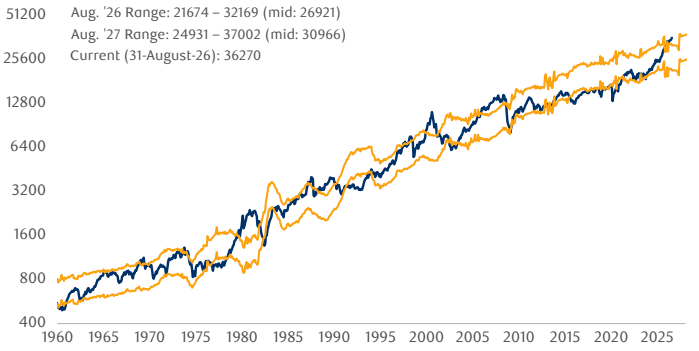
Global equity markets

S&P 500 Equilibrium
Normalized earnings and valuations



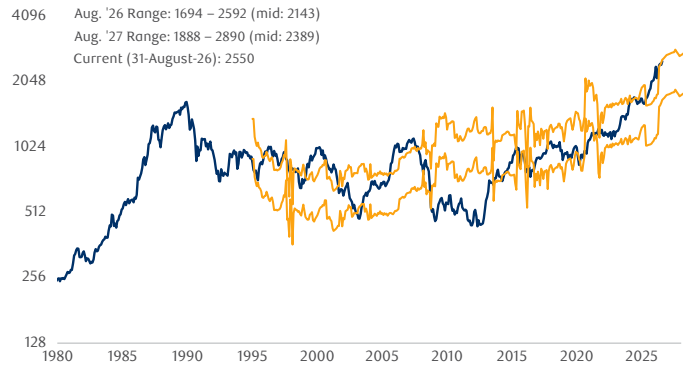
Note: As of August 31, 2026. Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



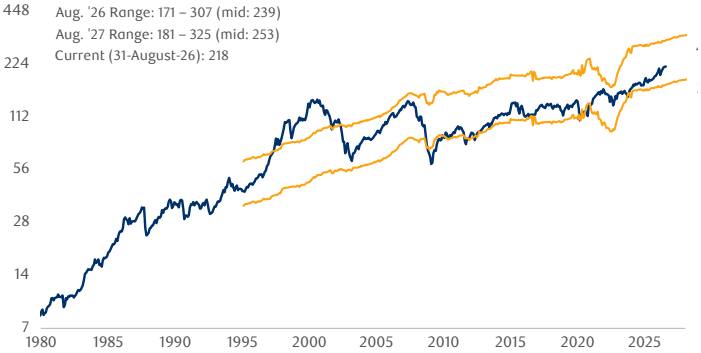
Note: As of August 31, 2026. Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



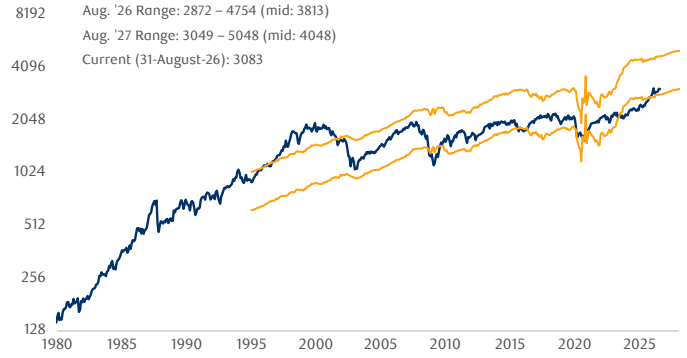
Note: As of August 31, 2026. Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



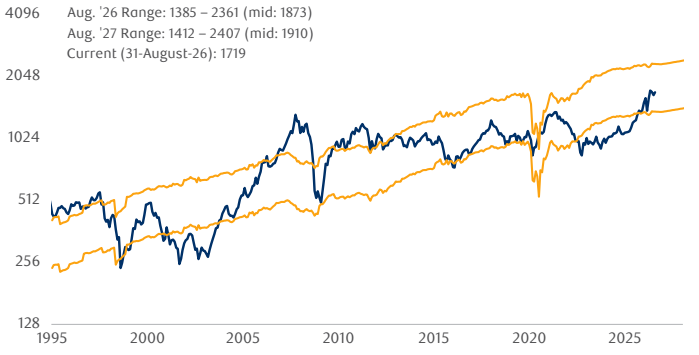
Note: As of August 31, 2026. Source: RBC GAM

MSCI UK Index
Normalized earnings and valuations



Note: As of August 31, 2026. Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Note: As of August 31, 2026. 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



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Key takeaways

- **Private investors are now pricing bonds:** Central bank retrenchment is shifting marginal pricing power to yield-sensitive private investors, likely keeping bond yields elevated.
- **Corporate bonds may offer better returns**: Corporate bonds look more attractive than Treasuries over the next 12 months.
- **Structural headwinds support a higher yield outlook:** Aging demographics, larger fiscal deficits and persistent inflation expectations are buoying bond yields.
- Higher bond yields driven by anti-bond narratives are improving income prospects for investors.

Private investors are shaping the rates outlook

Bond yields are at recent highs. Investors are demanding more compensation for lending to governments due to concerns over inflation and budget deficits. There has also been a remarkable surge in corporate bond issuance to fund investments in artificial intelligence (AI). The flip side of higher yields is that – all else being equal – they have improved the jumping-off point for total returns. Over the next 12 months, we expect bond returns to be slightly better than cash. Within fixed income, we like owning investment grade corporate bonds in lieu of government bonds to bolster portfolio returns.

Yields are also rising against the backdrop of less activist central banks. As a case in point, the U.S. Federal Reserve (Fed) – under new Chair Kevin Warsh – is eschewing forward guidance or sharing a framework for how the central bank might approach future developments in inflation or the labour market. In the absence of such guidance, the market is starting to demand more risk premiums in the form of both higher yields and steeper yield curves.

U.S. Treasury Secretary Scott Bessent is also overseeing a relatively activist Treasury Department, which has intervened in Argentina's debt crisis, coordinated yen stabilization with Japan and expanded bond buyback programs. This shift partly reflects the vacuum left by central bank retrenchment but also likely reflects Bessent's own policy preferences.

At the same time, the current U.S. administration's actions on trade and foreign policy are raising questions about the trustworthiness of the country as an ally and trading partner. By extension, this calls into question the safety and security of what has been the world's pre-eminent safe asset for several decades: U.S. government debt. What is more, the fiscal deficit is enormous for a country not in recession.

To be sure, more debt is not a sure bet for higher yields – indeed, global debt outstanding for governments, households and corporations rose steadily for decades and yet yields fell. Part of this dynamic reflected the defeat of inflation in the 1980s and credible inflation targeting established by global central banks. It also reflected the global savings glut as newly affluent emerging markets sought out perceived safe assets to invest in. In the wake of the 2008 global financial crisis – which brought another wave of debt issuance to prop up economies – governments generally found steady buyers in central banks and the private sector as inflation dropped to very low levels.

Now, though, the world has changed. The surge in inflation during and after the COVID-19 pandemic has ratcheted up the risk of higher and more variable inflation than most investors are used to. Fiscal deficits are also structurally larger. More recently, a subset of corporate debt issuers has piled into debt markets as well – hoping to use bonds to fund massive investments in AI infrastructure. The buyers of government debt have also changed – an aging global population transition into dissaving phase means there is more demand for safe assets. Central banks are also actively working to reduce the size of their balance sheets.

The consequence of all this is that private investors are now the dominant buyers of new debt. This gives them greater marginal pricing power. They are more price sensitive, demanding higher yields in exchange for the higher risks they perceive.



We expect the Fed will need to hike rates twice over the next year to cool down inflation. For bonds, we forecast the 10-year bond yield to be 4.75% in a year's time.

United States

Since the last edition of the *Global Investment Outlook*, Kevin Warsh has taken over as chair of the Fed – starting in June. We previously wrote that Chair Warsh held strong views about the conduct of monetary policy – on that count he did not disappoint, launching no fewer than six task forces to reshape the conduct of monetary policy at the world's most important financial institution.

Despite his strongly held views about the economy, Warsh must contend with both the Fed's Federal Open Market Committee (FOMC)'s membership and an economic trajectory that precedes his tenure. The Fed chair also has only one vote on the committee. While the Fed did vote to keep rates unchanged for Warsh's first two meetings, it is becoming clearer that many FOMC members are uncomfortable with the combination of too-high inflation and an economy that is mostly feeling the effects of stronger growth from investment in AI. That view also looks increasingly at odds with Chair Warsh's preferred long-run view that higher productivity will eventually lead to lower inflation. For our part, we expect the Fed will need to hike rates twice over the next year to cool down inflation. For bonds, we forecast the 10-year bond yield to be 4.75% in a year's time, which is slightly more bullish than forward market pricing.



We expect the BOC to raise rates just once over the next year, to 2.50%, and the Canadian 10-year government bond yield to be around 3.75% over the same period.

Canada

The Bank of Canada (BOC) did not change its policy rate in July, its sixth consecutive hold at 2.25%. Policymakers communicated a more upbeat outlook on the economy, raising forecasts for growth. Governor Tiff Macklem expressed increased confidence in Canada's economic recovery. However, too-high inflation remains a concern against the backdrop of trade uncertainty.

The historic reset of Canada's relationship with its largest trading partner – the U.S. – is a significant source of uncertainty for the growth and inflation outlook. Trade negotiations collapsed on Aug. 21, after which the U.S. and Canada subsequently imposed retaliatory tariffs on each other. This latest escalation reinforces the case for the BOC to keep rates low for an extended period, not least because tariffs and trade uncertainty seem likely to discourage a meaningful pickup in either business investment or consumer confidence. To be sure, significant efforts by the federal and provincial governments to offset the worst impacts of the tariffs may cushion growth, but they may also spur more deficit spending.

We expect the BOC to raise rates just once over the next year, to 2.50%, conditional on the stabilization of trade relations. Over the same period, we expect the Canadian 10-year government bond yield to be around 3.75% (also below forward pricing).

We maintain our forecast that the 10-year gilt yield will hold around 5%.

United Kingdom

In the UK, we expect fewer hikes from the Bank of England (BOE) than market pricing implies. We believe the economy is on a relatively weak footing, with gross domestic product (GDP) contracting in the most recent quarter and unemployment rising to 5.3%. At the same time, inflation is above the BOE's target and the extent to which price increases from the most recent energy shock will feed through into other prices remains uncertain. In July, the BOE's split rate decision, with six governors voting to stay on hold and three voting for a hike, reflects this uncertain policy outlook. Meanwhile, the UK government's persistent budget deficits are keeping a structural risk premium embedded in UK government bonds and progress to curtail the deficit is unlikely this early in Prime Minister Andy Burnham's tenure. Compounding matters, the BOE's continued efforts to shrink its balance sheet by reducing its holdings of gilts will also force the market to absorb a higher share of outstanding bonds.

We forecast one rate hike followed by an extended pause as growth concerns weigh more heavily on the BOE's decision making. We maintain our forecast that the 10-year gilt yield will hold around 5%, as upward supply pressure from BOE balance-sheet shrinkage and inflation uncertainty offset the downward pressure on yields from fewer policy-rate hikes than the market expects.

We expect 10-year government bond yields to drift toward 1.85% to 2.05% over the next year, and the People's Bank of China (PBOC) to keep policy rates on hold over the same period.

China

Chinese government bond yields continue to decouple from their global peers. While global bond yields have risen significantly over the past several years due to inflation and fiscal concerns, the 10-year Chinese government bond (CGB) yield is near all-time lows of 1.70%. Demand for CGBs is supported by a dovish central bank, limited alternatives for household savings and a lacklustre domestic economy.

From a valuation perspective, however, current yields suggest bonds are expensive. The central bank's rhetoric for a "moderately loose" stance has not translated into additional interest-rate cuts. The main policy rate has not changed since May 2025 even as economic growth slowed to just 4.3% in the second quarter of this year, below the government's target of 4.5% to 5.0%. Barring a more substantial slowdown in growth, we believe monetary policymakers are unlikely to provide additional monetary easing. What is more, inflation now appears to be rising again – albeit from a very low level. The government's efforts to support the economy via fiscal stimulus are also pushing up bond supply. Over the next several quarters, we believe accelerating fiscal expenditures and a large debt refinancing calendar could push up yields. We expect 10-year government bond yields to drift toward 1.85% to 2.05% over the next year, and the People's Bank of China (PBOC) to keep policy rates on hold over the same period.

We forecast the BOJ policy rate to reach 1.50% by mid-2027 and the 10-year JGB yield to fall slightly to 2.75%.

Japan

We maintain our view that Japanese government bonds (JGBs) are an attractive opportunity for investors. At 4.05% in late August, the 30-year JGB yield is at multi-decade highs and – on a currency-hedged basis – is the highest yield offered among developed-market peers. Investors have steadily pushed up long-maturity bond yields in Japan over the past several years, showing impatience with the slow pace of monetary tightening by the Bank of Japan (BOJ) in the face of inflation. Concerns regarding the long-run sustainability of the government's finances have also periodically pushed up long-term yields.

To be sure, the case for the BOJ to hike interest rates appears strong: core inflation continued its upward trend in July, accelerating to 1.9% annually from 1.7% in June. At this point, however, we think market expectations for the BOJ to hike rates to between 2.50% and 3.00% over the next several years are too aggressive: Japan's economy can likely only grow at around a 1.0% pace per year in the best case, and policy rates near 3.00% would likely prove very restrictive. On balance, we believe the steepness of Japan's yield curve offers a sufficient return buffer to absorb modest rate hikes without sparking another bout of much higher interest rates.

We forecast the BOJ policy rate to reach 1.50% by mid-2027 and the 10-year JGB yield to fall slightly to 2.75% (versus 3.20% priced in forward market), as investors pare back their expectations for tightening and inflation pressures gradually ease.



Over the next 12 months, alongside the forecast ECB rate hike, we expect German 10-year bund yields to be around 3.25%.

Eurozone

The ECB faces a genuine policy dilemma: while inflation is high at 3.0% in 2026,[1] mostly driven by the increase in energy costs due to the U.S. war with Iran, relatively soft economic growth in most member states argues against a more substantial tightening of monetary policy. We judge that a policy rate of 2.50% would represent an appropriate policy response to inflation that is 50 to 100 basis points above the ECB's 2% target. Unlike the last time the ECB was hiking rates, in 2022–23, the eurozone economy is projected to expand by just 0.8% in 2026[2] – not exactly a fast pace. Contributing to that muted growth picture, real household incomes are stagnant, savings rates are elevated and consumer confidence is subdued.

However, increased government spending – particularly by Germany and via the European Union (EU)'s Recovery and Resilience Facility – is likely to support growth. In Germany specifically, many of the structural reform programs that are scheduled for implementation in January 2027 should bring forward meaningful spending. At the same time, elevated energy prices and intensifying industrial competition from China warrant a cautious stance on German growth prospects.

Over the next 12 months, alongside the forecast ECB rate hike, we expect German 10-year bund yields to be around 3.25% (again, below forward pricing).

[1] https://www.ecb.europa.eu/press/projections/html/ecb.projections202606_eurosystemstaff~a495110f8d.en.html#toc
[2] https://www.ecb.europa.eu/press/projections/html/ecb.projections202606_eurosystemstaff~a495110f8d.en.html#toc6





Canadian corporate bonds are in focus as hyperscalers bring new opportunities and risks

The Canadian corporate bond market is changing. Major U.S. technology companies – including those often referred to as hyperscalers – are issuing Canadian-dollar-denominated debt at a rapid pace.

The catalyst for this change is the surge in capital expenditure related to AI. Technology companies such as Amazon and Alphabet (the parent company of Google) are using global debt markets to fund huge investments. Some of these markets, like Canada's, are being used by these companies for the very first time. The scale of these deals for issuers that have never issued Canadian-dollar debt before is remarkable. Amazon's C$14 billion debt deal earlier this year was the biggest Canadian-dollar corporate bond deal ever, while Google's C$8.5 billion deal was not far behind. In no time at all, it seems, U.S. technology companies have become major constituents of the Canadian bond index. Other well-established U.S. technology companies – such as IBM and AT&T – are also returning to the Canadian bond market for the first time in several years, raising C$2.75 billion and C$2.25 billion respectively.

Historically, the Canadian corporate bond market was smaller and dominated by domestic financial, utility and energy companies. To be sure, these companies still account for over 60% of the market – but issuance by hyperscalers means their share is shrinking.

The increased presence of non-Canadian issuers carries important implications for investors in Canadian-dollar corporate bonds. On the positive side, it offers the opportunity for diversification away from the market's traditional concentration in a narrow set of sectors. Hyperscaler bonds also currently trade at attractive valuations relative to their credit quality, offering the prospect of higher risk-adjusted returns. The ability of issuers to launch large bond deals is also a litmus test for the domestic market's ability to get deals done. In turn, this may attract a broader and more diversified range of global issuers to the Canadian market.

This change also brings new risks, however. Compared to other issuers in the market, hyperscalers issue a lot of long-maturity bonds, which are more sensitive to changes in yields. As a result, including hyperscaler bonds in a portfolio may add more risk than their weight alone would suggest. If interest rates rise, the price of these bonds might decline more than shorter-maturity bonds. A rising share of global issuers means we also expect credit spread volatility in Canada to more closely mirror offshore markets, where spread volatility has historically been higher. Finally, should current trends continue, the increasing issuance from hyperscalers could lead to less diversification rather than more as they could take up a large share of the market. Under some scenarios, hyperscalers could account for more than 20% of the Canadian corporate bond market by the end of this decade.

In short, the integration of U.S. technology hyperscalers into Canada's corporate bond market bears careful monitoring and active management; their entry presents investors with an opportunity for additional diversification and yield, as well as new risks.

Recommendations

We expect Canadian government bonds to perform about the same as their global counterparts on a currency-hedged basis. Regionally, we continue to recommend being overweight Japanese government bonds against their German counterparts. We also recommend being overweight high-quality investment-grade corporate bonds relative to government bonds.

Interest-rate forecast: 12-month horizon

Total-return calculation: September 1, 2026 – August 31, 2027

U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.13%	4.30%	4.50%	4.75%	5.40%	4.57%
Change to prev. quarter	0.50%	0.30%	0.10%	0.00%	0.00%	
High	5.00%	5.30%	5.40%	5.50%	5.80%	1.58%
Low	2.88%	3.20%	3.40%	3.75%	4.50%	9.98%
Expected Total Return C$ hedged: 3.54%						
Germany						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	3.00%	3.10%	3.25%	3.75%	4.48%
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	0.10%	
High	3.25%	3.50%	3.55%	3.75%	4.00%	1.67%
Low	1.75%	2.20%	2.50%	2.75%	3.30%	7.86%
Expected Total Return C$ hedged: 4.21%						
Japan						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.50%	1.90%	2.25%	2.75%	3.85%	6.80%
Change to prev. quarter	0.00%	0.00%	0.15%	0.25%	0.10%	
High	2.25%	2.60%	3.00%	3.25%	4.10%	3.39%
Low	1.00%	1.40%	1.75%	2.25%	3.30%	12.62%
Expected Total Return C$ hedged: 8.46%						
Canada						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	3.20%	3.50%	3.75%	4.20%	3.42%
Change to prev. quarter	(0.25%)	(0.10%)	0.00%	0.00%	0.15%	
High	3.50%	3.80%	4.00%	4.25%	4.50%	1.05%
Low	1.75%	2.50%	2.80%	3.25%	3.60%	6.88%
Expected Total Return C$ hedged: 3.64%						
UK						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.00%	4.40%	4.75%	5.00%	5.50%	8.11%
Change to prev. quarter	(0.25%)	(0.20%)	0.05%	0.00%	0.00%	
High	4.75%	4.90%	5.00%	5.25%	5.60%	5.89%
Low	2.75%	3.25%	3.50%	4.00%	5.00%	13.93%
Expected Total Return C$ hedged: 7.16%						

Source: RBC GAM



Currency markets

Opportunities beyond the greenback: why investors should look to emerging-market currencies



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RBC Global Asset Management Inc.



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

Key takeaways

- **We are bearish the U.S. dollar,** rooted in the country's unsustainable trade and fiscal deficits, adversarial international policies, growing concerns about independence of the Federal Reserve and the currency's overvaluation.
- **Persistent inflation and stronger economic growth support the case for rate hikes** by global central banks. The growth outlook remains mostly positive across emerging markets. Latin America, Africa and the Middle East now offer higher yields.
- **Brighter days are in store for the Canadian dollar**, as the economy benefits from improvement in household and business sectors. We expect the loonie to strengthen toward C$1.30 in 12 months.
- **The yen may outperform other developed-market currencies.** It could rally toward our 12-month forecast of 140 per U.S. dollar as Japanese policymakers support the yen with a range of policies.

Taking stock of currency markets

It might appear as though foreign exchange markets have been quiet lately. But a glance under the surface of the dollar's stability tells a different story. The commonly watched U.S. dollar index has mostly traded within a 5% range for the past year and expectations for currency volatility are near decade lows (Exhibits 1 & 2). Meanwhile, the 10-15% returns from some emerging market (EM) currencies and Japanese currency intervention suggest a livelier year ahead. So, with geopolitics, corporate earnings and economic trends pointing to bigger currency moves, why is the U.S. dollar not more active?

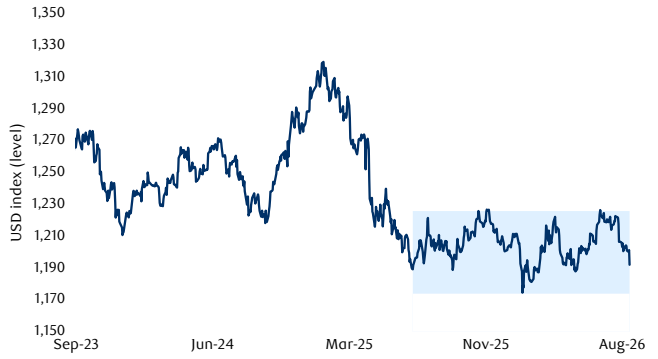
Part of the answer lies in offsetting forces. The U.S. dollar's overvaluation and fiscal largesse would normally see the greenback weaken. But advances in artificial intelligence and massive capital influx by foreign investors into U.S. equity markets have propped up the currency (Exhibit 3). Similar offsetting forces exist in Europe, where investors have fretted over a long list of negatives (Exhibit 4), but where the euro has been helped by a gradual recovery in economic indicators. As a result, both the U.S. dollar and euro have been kept stable by these counterbalanced factors.

We've seen more varied performance from other currencies, in both emerging and developed markets, with cyclical and commodity currencies performing best over the past 12 months (Exhibit 5).

Currency outlook: still positive on emerging markets

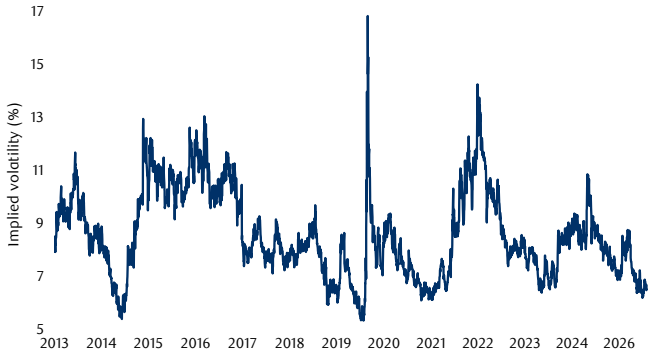
We remain bearish the U.S. dollar, in consideration of the currency's longer-term overvaluation and the country's unsustainable trade and fiscal deficits among other short-

Exhibit 1: Limited dollar volatility over the past year



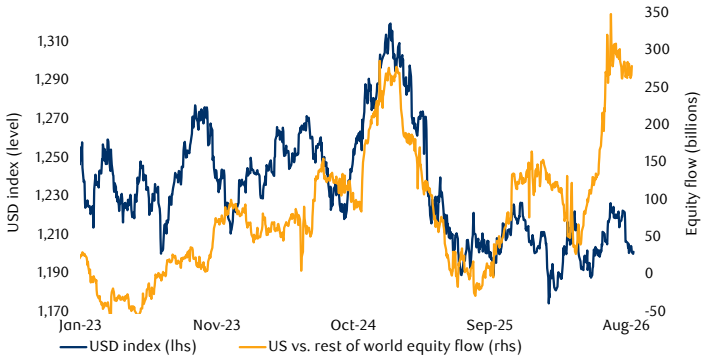
Note: As at August 19, 2026. Source: Bloomberg, RBC GAM

Exhibit 2: Expectations of currency volatility nearing lowest level in a decade



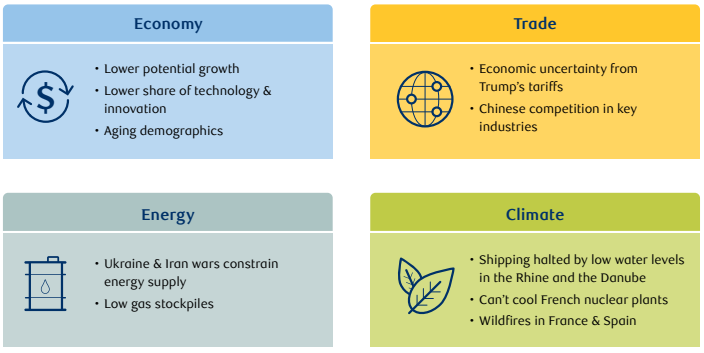
Note: Volatility measured using CVIX index. As at August 19, 2026.
Source: Bloomberg, RBC GAM

Exhibit 3: Strong demand for U.S. equities has supported the dollar



Note: As at June 1, 2026. Equity flow data is a quarterly sum. Source: EPFR, TD Securities, Bloomberg, RBC GAM

Exhibit 4: Europe faces growing headwinds



Note: As at August 20, 2026. Source: RBC GAM

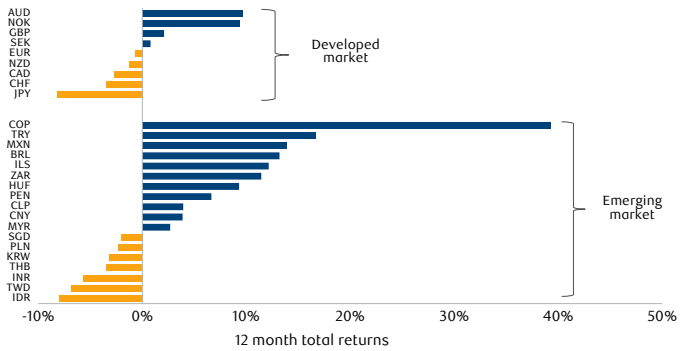
term factors addressed in this section. That negative outlook had been slow to materialize given stronger U.S. economic activity, higher interest rates and equity outperformance. But fresh concerns have now begun to surface.

The recent pickup in economic activity outside of the U.S. suggests that the dollar could face headwinds (Exhibit 6). The Fed has also proven reluctant to hike rates even as inflation climbed. The central bank's new Chairman, Kevin Warsh, promised bold action to tackle inflation but lost credibility in the bond markets after sidestepping tough questions during the bank's July press-conference. We do think the Fed's policy-making committee is dedicated to acting in the best interests of Americans. However, 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. This has led to recent steepening of the yield curve, where interest rates on longer-maturity bonds rise more than those on shorter maturities. At a time of unchecked fiscal spending, this curve steepening is a sign of deteriorating credibility that also hurts the U.S. dollar in a so-called "debasement" trade.

A falling U.S. dollar should be bullish for most currencies, though we are more positive on EM exchange rates than most developed market ones. Several key factors underpin this view:

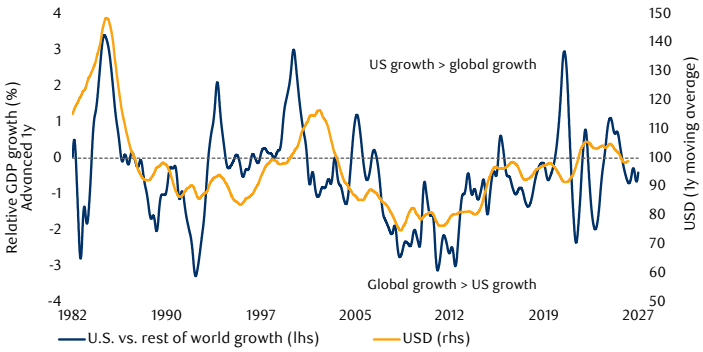
- Emerging markets generally offer higher yields than their developed counterparts. The highest yields can be found in Latin America, Africa and the Middle East.
- On balance, EM currencies are still cheap, even after substantial gains over the past year. Asian currencies are among the world's cheapest. This matters to investors because Asia constitutes the largest share of EM equity indices.
- A greater share of global growth now originates from the emerging world. This trend is expected to continue according to International Monetary Fund (IMF) forecasts (Exhibit 7).
- Trump's trade wars and isolationist policies are pushing EM nations to trade more with each other and in currencies other than the U.S. dollar. This has helped fuel gains in the Chinese renminbi.

Exhibit 5: Cyclical and commodity currencies have outperformed over the past year



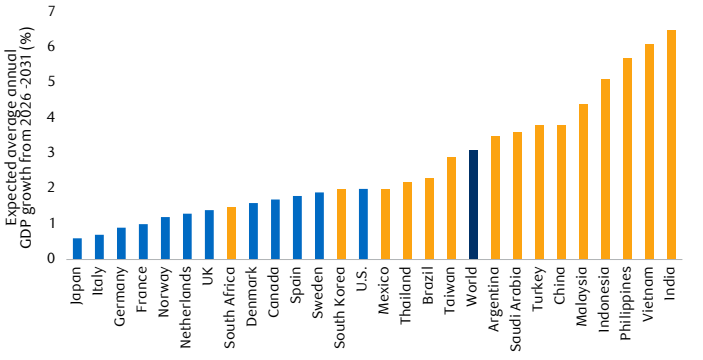
Note: As at August 18, 2026. Source: Bloomberg, RBC GAM

Exhibit 6: The dollar could face headwinds as global growth accelerates



Note: As at August 19, 2026. US vs. rest of world data is trade weighted.
Source: Dallas Fed, ICE, BEA, BLS, RBC GAM

Exhibit 7: Emerging markets drive a growing share of global growth



Note: As at April 30, 2026. IMF forecast from 2026 - 2031. Source: IMF, RBC GAM

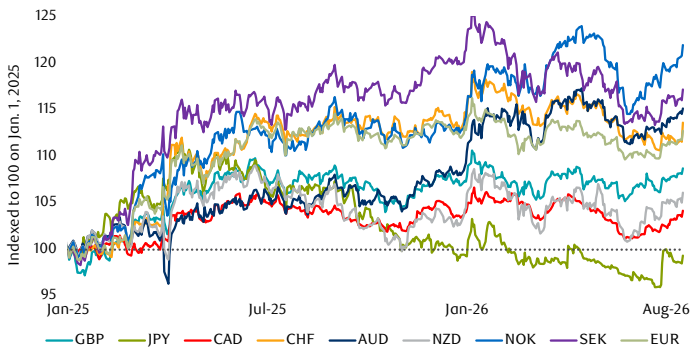
- Politics are also at play, with a number of investor-friendly parties having come to power in EM countries.
- In stark contrast to developed-market economies, EM nations now enjoy greater fiscal and monetary credibility. This stems from their aggressive fight against inflation and more restrained fiscal spending following the COVID pandemic.

Brighter days lie ahead for the loonie

The Canadian dollar has lagged in recent years (Exhibit 8) owing to sluggish economic growth, low yields and concerns about a fraying relationship with the U.S. We think this underperformance is beginning to subside as the Canadian economy gains traction, driven by reduced uncertainty around two important economic drivers:

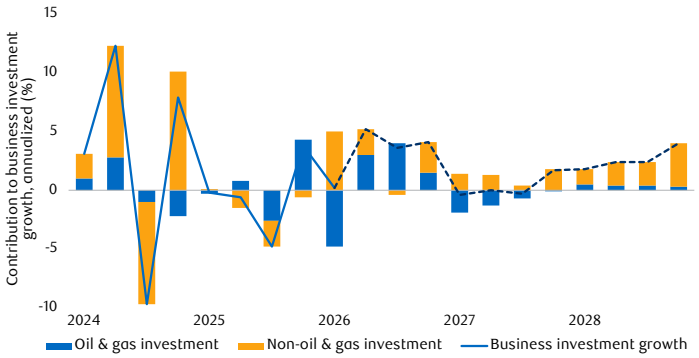
- **The household sector,** which is responsible for nearly two thirds of economic output, has seen many loans reset at lower interest rates than first feared. The large cohort of mortgage renewals that threatened to squeeze consumer wallets has largely passed.
- **The business sector**, which has been paralyzed by the threat of Trump's tariffs, now shows signs of life. The Bank of Canada's *Monetary Policy Report* noted a rise in business investment growth in both energy and non-energy sectors. The Bank expects that these capital expenditures will continue growing over the next three years (Exhibit 9), and any successful negotiation of a trade deal with the U.S. will facilitate greater confidence in investment decisions.

Exhibit 8: Mounting challenges have left the loonie behind other developed market currencies

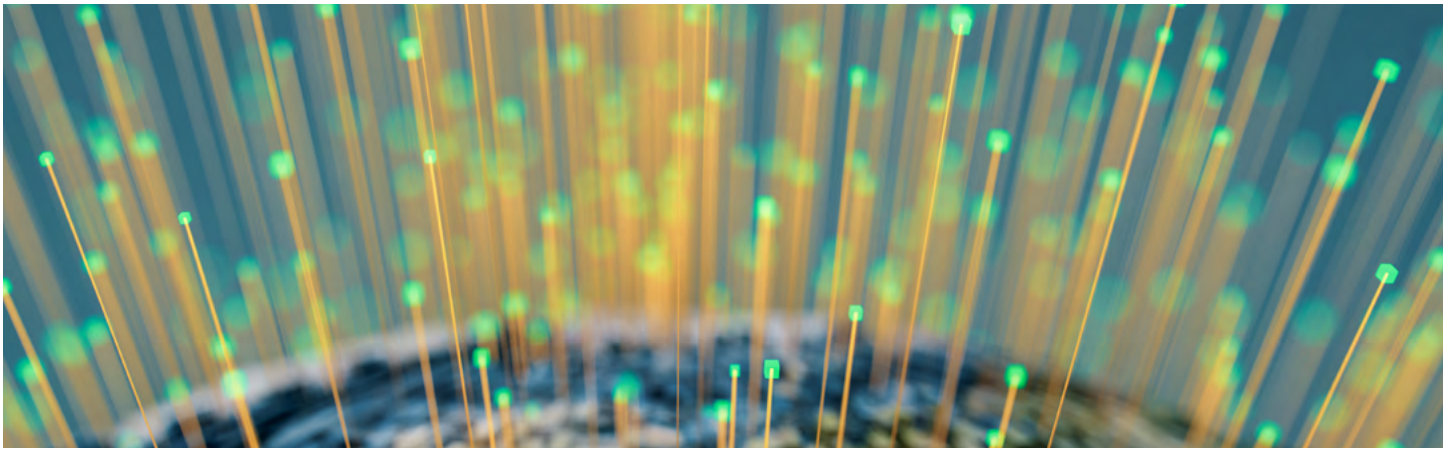


Note: As at August 19, 2026. Source: Bloomberg, RBC GAM

Exhibit 9: Canadian business investment is expected to pick up



Note: As at July 31, 2026. Source: Bank of Canada, RBC GAM



Stronger economic activity, in turn, will allow the Bank of Canada to reverse its accommodative stance, and raise borrowing rates to levels more closely aligned with other developed market nations. If so, investors may opt to buy back the Canadian dollars they previously sold (Exhibit 10). This short-term demand for the Loonie may prompt appreciation toward our 12-month forecast of C$1.30, but the currency would remain cheap on Purchasing Power Parity models even at those levels (Exhibit 11). We believe that bouts of U.S. dollar strength that push the exchange rate above C$1.40 will prove temporary and would offer good opportunities for investors to hedge their U.S. dollar exposure.

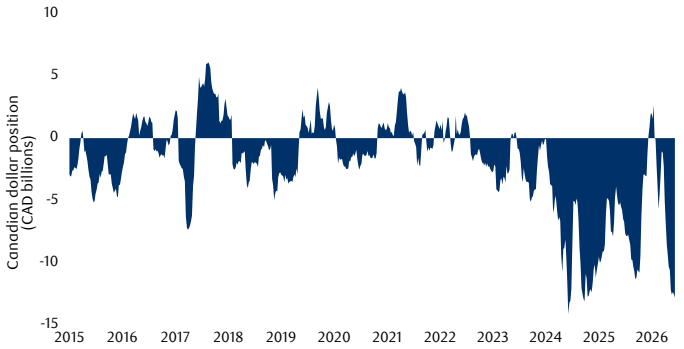
Japanese intervention and the FX carry trade

The 'carry trade' is a well-known strategy among currency traders and has been among this year's most profitable (Exhibit 12). The approach involves selling low-yielding currencies to buy higher yielding ones, where the investor stands to earn the interest rate gap so long as currency fluctuations remain muted. With the rangebound behaviour of the U.S. dollar setting an orderly tone for FX markets this year, and with a still-wide difference between high- and low-yielding currencies, this trading technique has understandably been in vogue.

For decades, Japan has consistently offered the lowest yield among developed market nations, such that the carry trade has become synonymous with shorting the yen. Questions were raised, then, about why carry strategies didn't suffer in late July when Japan's Ministry of Finance intervened in currency markets to strengthen the yen. Their yen purchases were not small. The finance ministry liquidated $87 billion of their U.S. dollar holdings over two days to raise the value of the Japanese currency by 5%. Carry trades were unphased because investors had steered clear of selling the yen, anticipating such intervention was possible.

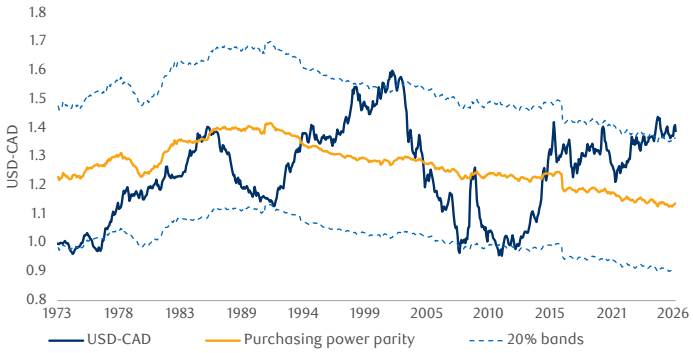
This is not to say that intervention wasn't important for the market outlook. In addition to a new headwind for the greenback, this development also has implications for bond markets. To defend the yen, Japan is forced to free up cash by selling U.S. treasuries. In turn, this selling of bonds could put upward pressure on U.S. yields which are already at elevated levels.

Exhibit 10: Improving fundamentals could cause investors to buy back Canadian dollars



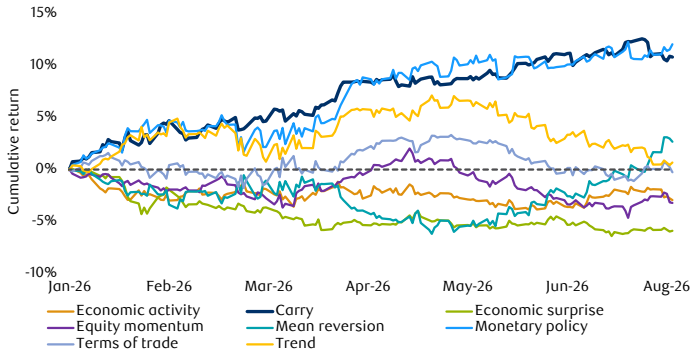
Note: As at July 31, 2026. Source: CFTC, RBC GAM

Exhibit 11: The US dollar is extremely expensive while the loonie is very cheap



Note: As at August 18, 2026. Source: Bloomberg, RBC GAM

Exhibit 12: Low volatility has made the carry trade among the most profitable this year

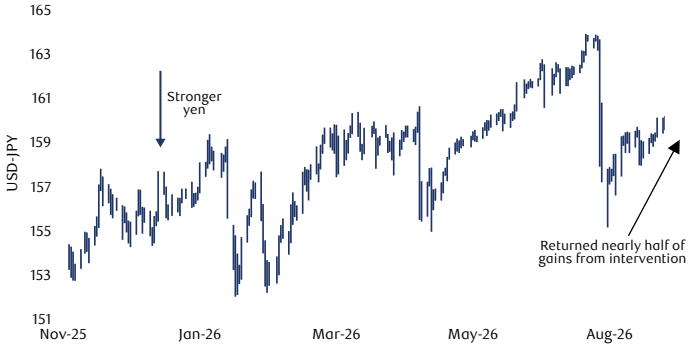


Note: As at August 7, 2026. Source: Bloomberg, RBC GAM

With hopes of stemming the tide, Treasury secretary Scott Bessent increased repo facilities with Japan and joined forces with the Japanese Ministry of Finance to purchase the Japanese currency. While history shows that such coordinated interventions do cause big turning points in currency markets, Bessent's token purchase was unconvincing. As of the end of August, the yen has since reversed half of its post-intervention gains (Exhibit 13).

Pushed towards action, Bank of Japan board members started hinting about imminent rate hikes. The government has also alluded to possible changes in the asset allocation of Japan's massive pension fund, reducing foreign exposures to fund purchases of domestic bonds. The combined actions serve the dual purpose of supporting the yen while reducing Japanese government bond yields. This kind of coordination feels different than past isolated attempts to halt the yen's depreciation and increases the odds of the currency reaching our 12-month forecast of 140 per U.S. dollar.

Exhibit 13: Yen fails to hold strength following intervention



Note: As at August 31, 2026. Source: Bloomberg, RBC GAM



Regional outlook – United States



Shanthu David, CFA
Senior Portfolio Manager
RBC Global Asset Management Inc.

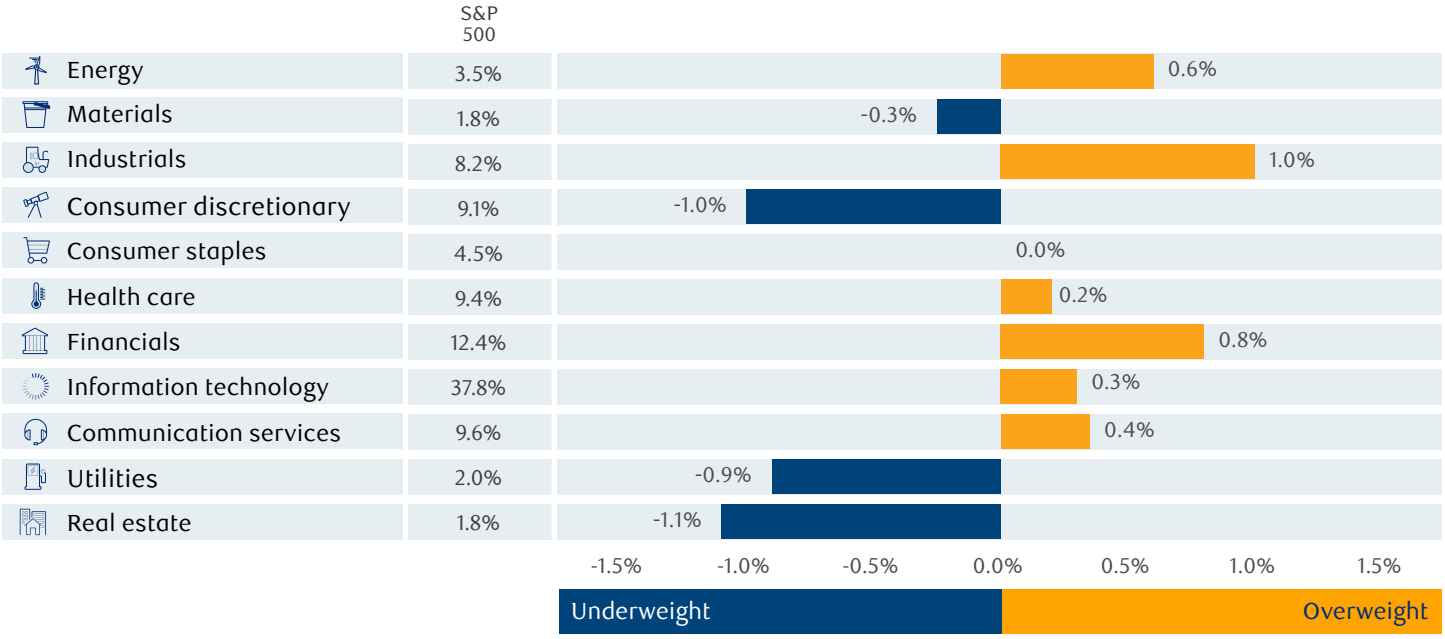
Key takeaways

- **Equity gains mask underlying volatility and rotation:** While year to date S&P 500 gains have continued – albeit somewhat muted in recent months – this has masked a more rotational market backdrop with elevated volatility – particularly in artificial intelligence (AI)-exposed stocks.
- **AI capital expenditure (CapEx) remains the primary driver, but scrutiny grows:** Investor concerns around the outlook for hyperscalers' return on invested capital are being offset by their improving financial metrics, robust backlog growth and ample debt capacity.
- **Signs of economic broadening beyond Technology:** Alongside these CapEx concerns are encouraging signs of a broadening of activity beyond the Technology sector – supported by AI infrastructure CapEx, widening CapEx intentions across industries, manufacturing reshoring and tax incentives.
- **Earnings growth supports the market's advance:** Strong earnings growth driven by AI's significant growth potential, improving confidence in hyperscaler returns and the broadening economic strength provides optimism for U.S. equities.
- **A positive U.S. equity outlook, but watchword is vigilance:** Although there are compelling reasons to believe AI CapEx trends will continue, there are risks that warrant vigilance.

Equity gains mask underlying volatility and rotation

U.S. equities, as measured by the S&P 500 Index, increased by 13.1% over 2026 to date and 1.7% for the three-month period ending August 31, 2026. However, this modest three-month gain masked significant underlying volatility and sector rotation – volatility was most visible in companies closely related to the AI CapEx theme and exemplified by the volatility in the semiconductor space. Coupled with growth in levered single-stock ETFs, this made for a turbulent market backdrop, as sharp moves up in these names were followed by a violent rotation as momentum subsequently shifted. Reflecting the shift in sector leadership over the past three months, Healthcare, Energy and Financials have led the S&P 500 with strong returns.

United States – Recommended sector weights

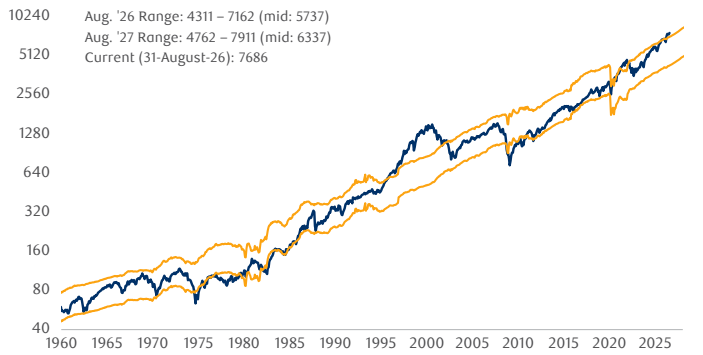


Note: As of August 31, 2026. Source: RBC GAM

"Major U.S. banks are reporting strong corporate loan growth and the S&P 500 delivered 15% revenue growth in Q2 2026."

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

AI CapEx remains the primary driver, but scrutiny grows

The outlook for AI CapEx continues to be the primary driver for earnings and the market. Yet given AI's contribution to equity performance to date, it should come as no surprise that an intensified scrutiny around the AI growth narrative – and key risks to it – has catalyzed the recent volatility we have seen: AI customer price deflation, competitive low-priced models, and circular financing concerns are all raising legitimate questions about return on invested capital and hyperscaler funding capacity, as these firms are collectively expected to spend in excess of operating cash flow over the next several years. Although a meaningful amount of CapEx can be internally funded, the market is keenly aware that these businesses must raise significant financing externally. To that point, a wide range and scale of funding options remains available, including equity capital, the investment grade bond market, private infrastructure and real estate funds and private debt. Illustratively, if the four largest spenders were to increase leverage to 2.0x their 2027 estimated earnings before interest, tax, depreciation and amortization (EBITDA), they could access nearly US$2 trillion of debt capacity – a level not forecast to be required, but nonetheless suggestive that ample financing headroom remains.

> "Recent earnings results from key hyperscalers, Amazon, Microsoft and Google have bolstered confidence in AI CapEx sustainability."

As lower-priced AI models with strong capabilities are offered to users, concerns have grown about the ability to generate attractive financial returns on the significant levels of CapEx we are witnessing. That said, hyperscalers continue to have confidence in future returns despite expectations for price deflation – given a positive outcome of lower pricing is generally higher demand, lower prices in combination with robust capabilities should serve to drive an acceleration in enterprise adoption.

Recent earnings results from key hyperscalers, Amazon, Microsoft and Google have bolstered confidence in AI CapEx sustainability. All three demonstrated strong revenue acceleration, backlog growth and margin expansion, providing incremental detail on return on invested capital frameworks. Combined with the favourable financing backdrop, these results establish improved visibility into expected AI CapEx spending over the next 12 to 24 months. As long as AI CapEx continues to provide attractive financial returns for hyperscalers, the financing of that CapEx is unlikely to become a constraining factor.

Signs of economic broadening beyond Technology

Alongside these CapEx concerns are encouraging signs of an economic broadening that have emerged across the S&P 500 beyond the Technology sector. Such a development is welcome, given it can help to partially offset AI-concentration concerns and suggests underlying market resilience. Multiple data points reinforce this narrative: S&P 500 CapEx intentions show a sharp uptick, with approximately 45% of firms planning greater than 10% CapEx growth, a level historically associated with post-crisis recoveries. Other data points include non-AI-related earnings estimate revisions which have been moving upward; furthermore, major U.S. banks are reporting strong corporate loan growth and the S&P 500 delivered 15% revenue growth in Q2 2026. Rather than reflecting a single cyclical driver, this broadening reflects a confluence of factors including AI infrastructure investment across industries, reshoring initiatives, tax incentives and associated necessary capacity expansion. If sustained, this broad-based strength is expected to support U.S. economic resilience, labour market strength and S&P 500 equity upside.

Earnings growth supports the market's advance

The current earnings per share (EPS) revision cycle continues to defy a more-typical seasonal decline pattern as the year progresses. With the majority of companies having already reported, the S&P 500 has had one of its strongest earnings results in recent memory and one of the strongest results ever, when excluding periods of earnings strength from a recession recovery.

Q2 2026 year-over-year EPS growth was 33% (after excluding some large one-time gains) and revenue growth was 15.5% – both strong numbers by historical standards. This level of growth typically only occurs in a recovery period, such as

after Covid-19 and after the Global Financial Crisis. Consensus 2026 EPS for the S&P 500 has risen to US$360, representing an almost 27% growth versus 2025 and a meaningful US$50 increase in 2026 EPS expectations in comparison to the beginning of 2026.

This earnings momentum has been driven by continued strength in AI CapEx estimates benefiting the group of businesses that sell products and services into the data centre buildout. The Technology sector is driving much of the EPS upward revision strength, especially by the semiconductor segment where Q2 EPS growth was more than 100%. However, EPS strength was somewhat broad-based supported by strong cyclical strength – Energy and Materials were up 143% and 38% respectively and Industrials were also strong at 18%. The more defensive sectors had EPS growth in 8-12% range, including Staples (12.4%), Utilities (9.7%) and real estate investment trusts (REITs) (8%).

Of particular note, there were two mega-sized equity issues during the last three months: Google and the SpaceX IPO. Although both deals were more than US$80 billion in size, the market absorbed this large issuance well. Despite the S&P 500's 13% gain year to date, the 20x forward 12-month price-to-earnings (P/E) multiple reflects an earnings-driven rally rather than multiple expansion – indeed, the current multiple is both lower than the 21x from three months ago and the 2026-to-date peak of 23x.

A positive U.S. equity outlook, but watchword is vigilance

Although there are compelling reasons to believe AI CapEx trends will continue, there are many risks that warrant vigilance. Factors affecting the return on invested capital for the CapEx are critical. In this context, perhaps the most important factor to monitor over the next 12 months is growth in AI enterprise adoption and – crucially – monetization.

On balance, as we look forward, AI's significant growth potential, improving confidence in hyperscaler returns and CapEx sustainability, alongside the broadening economic strength we are seeing reflected across the S&P 500, collectively provide a constructive outlook for U.S. equities.





Regional outlook – Canada



Sean McCurley, CFA

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

Key takeaways

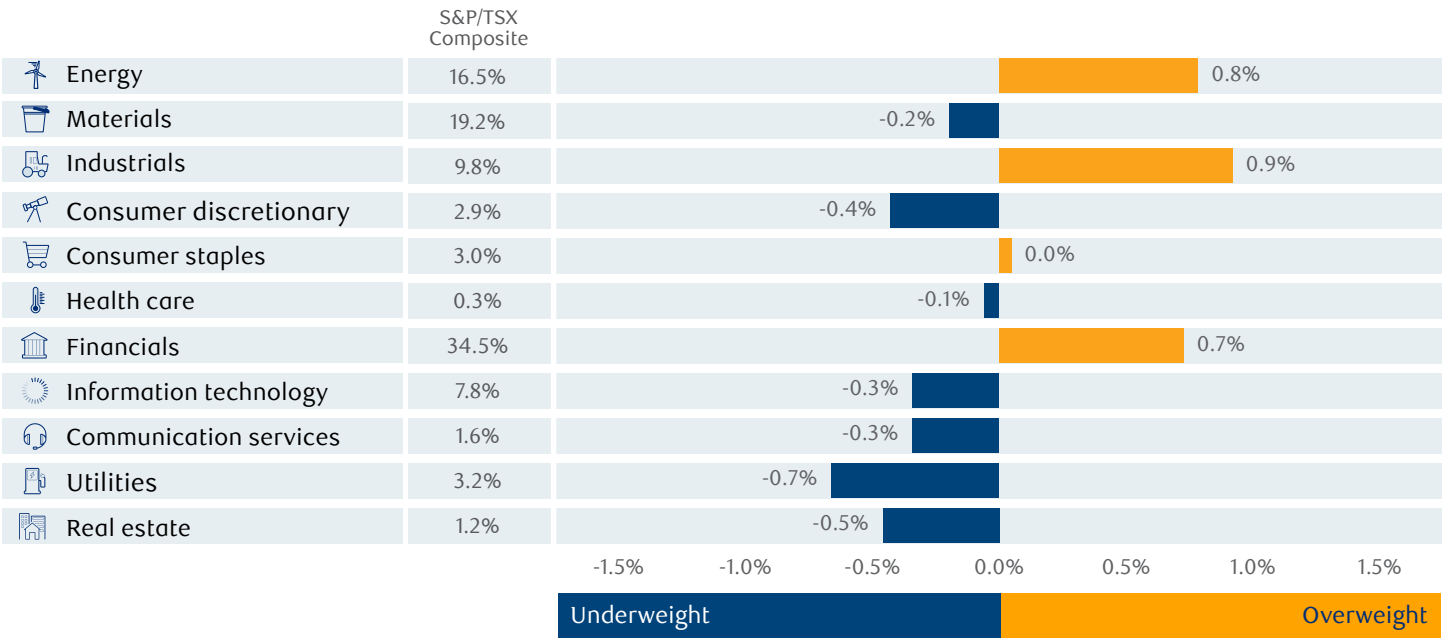
- Strong Canadian equity returns were driven by commodity strength and Financials sector resilience.
- Impact of trade deal collapse on Canadian equity markets is nuanced.
- Canada continues to develop nation-building projects.
- Gold rebounded in August on upsized Treasury bond buying and U.S. debt concerns.
- Canadian bank earnings expectations inched higher and bank valuations moderated from peak levels.
- Oil prices and the Energy sector were volatile as the conflict in Iran continued. Restocking inventories is expected to support demand.

On a calendar year basis, the S&P/TSX Composite Index delivered total returns (including dividends) of 16.0%, with nearly a third of that delivered in the three months ended August 31, 2026. In U.S.-dollar terms, the S&P/TSX is up 15% compared with a 13% rise for the S&P 500 Index and the MSCI World Index. The strong performance from our market has been driven largely by its exposure to oil and gold prices, which are higher this year, and the Financials sector has also been a tailwind.

In the most recent three-month period, the S&P/TSX was up nearly 5%, with gold stocks a strong driver of performance as gold rallied back up above US$4,600. The Canadian Financials sector showed surprising strength for much of the period but gradually eased into the end of August. Performance from other sectors was mixed.

Canadian political leaders continued to navigate the challenges of a changing relationship with our largest trading partner. In late August, it seemed that progress was being made on the trade negotiation front, but hopes for a deal collapsed at the final hour. Rather than a new agreement, investors are now evaluating new tariff measures from both sides of the border. These frictions may acutely impact certain companies that generate their revenue through exports to the United States

Canada – Recommended sector weights

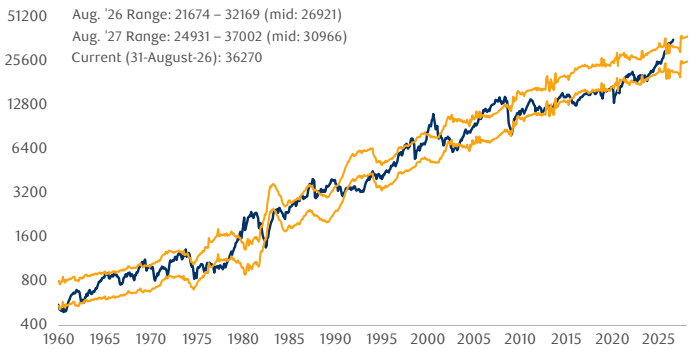


Note: As of August 31, 2026. Source: RBC GAM

> "Overall, we remain constructive on the S&P/TSX Index as it has relatively higher exposure to commodities and cyclicals."

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

and are subject to tariffs. However, many S&P/TSX Index constituents have revenue streams that are not impacted by tariffs and are more influenced by commodity prices and other factors. While the continuing trade war will impact the Canadian economy, the effect on the index will be nuanced.

As an offset to the trade issues, we have seen an acceleration in Canadian infrastructure and economic development announcements under Prime Minister Mark Carney's "Build Canada" agenda. Work is underway to plan, accelerate and build pipelines, high speed rail, ports, nuclear power and power transmission projects. Over time, we will see which projects ultimately move forward, but it seems likely that the net impact of this spending will create opportunities for the Canadian economy, and for many of the companies included in the index, particularly in the Energy and Industrials sectors.

Gold appreciated by over 60% in 2025, and the share prices for gold producers were up even more as they benefitted from operating and financial leverage. This year, gold rallied above US$5,500 and then retreated to around US$4,000 before the price began to recover in early August when the U.S. Treasury upsized its long-term bond buyback program. Once again, the stocks are outperforming the commodity. While gold producers have felt some pressure from inflation and operational issues at mines, the strong selling price has been a meaningful windfall and allowed for debt repayment, share buybacks, and acquisition activity. The drivers of gold price strength include central bank buying and concerns about the enormous U.S. federal debt, which recently broke above US$40 trillion. It is difficult to predict the future price of gold, but our scenario analysis approach means we are open to considering many possible outcomes. Because of the multi-year outperformance of gold stocks, the Materials sector now accounts for about 20% of the S&P/TSX.

The Financials sector was a very strong contributor to index performance earlier in the year, and this strength persisted into the summer. The third quarter financial updates from the banks showed strong results from various divisions and analyst expectations for 2026 earnings inched higher. The price-to-earnings multiples for the banks stretched to historically high levels in July, with shares of The Royal Bank of Canada, for example, briefly trading above 18x forward earnings. The higher multiples are partly justified by strong performance, structurally higher expected returns on capital in the coming years, and possible AI-driven cost synergies. Share prices for the banks cooled somewhat in August, and the multiple is now more reasonable, though still elevated. Optimism for bank earnings could be negatively impacted by the growing trade war with the U.S.

The Energy sector has been the best performer year-to-date in the S&P/TSX, as the conflict in Iran pushed oil prices higher. Sector performance in the last three months has been muted, however, as gains by the oil producers have been offset by lower valuations being applied to the infrastructure companies that provide oil transportation and storage. Given the level of prolonged disruption to the global oil supply chain, many market participants were surprised that the price of oil did not go even higher (WTI topped out at about US$120). China slowed oil imports dramatically during the period, and this reduction in demand helped to maintain some balance in the market. Looking ahead, oil price forecasters must now weigh not only the volatile supply situation, but also a demand environment that is more variable than expected. While it is difficult to predict the future price of oil, we expect that restocking will provide some support to demand as global inventories have been drawn down.

Alongside these meaningful outperformers, some sectors have underperformed the broader index. The Telecom sector in particular has struggled as strong competition has limited the opportunity to raise prices. The sector was down 11% in the last three months as TELUS, one of the incumbent carriers, slashed the company's dividend to help pay down debt. While the valuations for these companies have become more reasonable, they have limited ability to grow earnings in a mature and competitive industry, so our expectations for future performance remain muted.

Overall, we remain constructive on the S&P/TSX Index as it has relatively higher exposure to commodities and cyclicals. We have seen strong commodity prices recently, driven in part by geopolitical issues. Looking ahead, we see further price strength buoyed by rising industrial production levels, which have been subdued for some time now but are showing signs of growth. For the Energy and Materials sectors, growth will likely be supported by the continued strength in commodity prices, alongside share buybacks. In the Financial sector, bank earnings forecasts look healthy and the multiples are no longer as elevated.



Regional outlook – Europe



Elma de Kuiper, CFA
Portfolio Manager,
RBC Global Asset Management (UK) Limited

Key takeaways

- **Maintaining a constructive stance on European equities despite significant headwinds**: RBC remains positive on European equities, although Q2 underperformance – driven by the U.S. war with Iran and the AI-led rally – has raised questions about sustainability. The Euro Stoxx 50 is only narrowly outperforming the S&P 500 year-to-date, leaving momentum vulnerable to further disruption.
- **Strong earnings momentum**: Eurozone earnings-per-share (EPS) revisions have accelerated for 15 consecutive weeks, closing the gap with the U.S. for the first time since January 2025. Q2 EPS growth is running at 22% year-on-year with 56% of companies beating expectations – the highest in 13 quarters.
- **German fiscal stimulus delayed, but visibility improving**: The €500 billion infrastructure plan and increase in defence spending are taking longer than expected to flow through. However, funded commitments are now in place, creating attractive opportunities in German small- and mid-cap (SMID) stocks, where valuations remain near historic lows.
- **Valuations remain supportive**: MSCI Europe trades at a 14.8x forward price-to-earnings (P/E) multiple compared to 21x for the U.S. Valuations have corrected further since the U.S. war with Iran, with the Eurozone down 5% and the UK down over 10%.
- **A significant M&A wave is underway**: Record UK merger-and-acquisition (M&A) activity is on track to reach £347 billion in 2026, supported by foreign buyers, which account for 86% of total value and are capitalizing on low valuations. European banking consolidation is also increasing following regulatory reforms.
- **Key risks**: Looking forward, the region's investment outlook is not without its risks. These include trade tariff uncertainty, political instability in the UK, slowing growth in China and the potential for further European Central Bank (ECB) rate hikes should the U.S. war with Iran persist.

Overview

We turned constructive on European equities at the start of 2025. The region went on to deliver strong relative performance in 2025, despite giving back some of those gains in the second half of the year. Now, more than halfway through 2026, the Euro Stoxx 50 is narrowly underperforming the S&P 500 year-to-date as the second quarter saw marked underperformance: European equities have been weighed down by a major geopolitical crisis in Iran as well as the strength of the AI-led rally, a theme to which European equities are relatively under-indexed compared to some other equity markets globally.

Against this backdrop, we think it is important and timely to take a step back and take stock of our constructive stance for European equities, and ask the question: is it still warranted?



Taking stock:
revisiting five reasons for turning positive on European equities in early 2025



1. **Fiscal stimulus:** Nicknamed the "bazooka" out of Germany, we were not wrong so much as early in our excitement over the €500 billion infrastructure plan and the defence budget ramp towards €180 billion by 2030. The effects of Germany's increased fiscal spending have taken longer to trickle down into earnings – it took longer than expected for the German government to ratify its budget, and a lot of the spending is taking time to find its destination. In the Defence sector – a key expected sector beneficiary – we see this pattern in bellwether Rheinmetall, where very strong order momentum has, so far, not translated into equivalent revenue growth. The market is losing patience as to when this conversion will happen and – barring meaningful revenue and cash flow growth acceleration – nobody appears to be buying on the basis of the order book alone anymore, in stark contrast to 2025. That is, except for Rheinmetall CEO Papperger, who uses the weakness after every quarterly results announcement to buy more shares. Looking forward we think the setup has improved, with visibility much better than it was last year: Germany's spending plans are no longer simply announcements but funded commitments. While the market remains fixated on cash disbursements, when this finally comes through it should help to re-rate the shares of the benefiting companies. With German SMIDs still trading near record-low relative valuations, we consider the backdrop for stock picking attractive.



2. **Monetary policy:** In early 2025, we argued that monetary policy would continue to be supportive – a view which has proven largely correct. We currently see the ECB's low interest rate as benign in spite of the latest September hike of 25 basis points: that hike leaves the ECB deposit rate at 2.50%, a rate that is still lower than both the UK's bank rate at 3.75% and the U.S. Federal Reserve funds target rate range at 3.50% to 3.75%. Still, for central banks around the world, the U.S. war with Iran has thrown a spanner in their monetary policy works as energy inflation has spiked. However, given the effects of this are currently viewed as both transitory and less significant than in prior energy crises, the policy reaction looks to have been to push out easing rather than any meaningful hiking. We would caveat that rate tightening could still be on the table should the U.S. war with Iran not de-escalate in the latter part of the year, and on the balance of probabilities we would expect another ECB rate hike in December.



3. **Deregulation:** Here we were only partially correct: German supply-side reforms are so far having a limited impact on German economic growth, although in part this is due to structural difficulties, particularly for the manufacturing sector which is seeing deep and prolonged competition from China. That said, at the European level we are seeing important regulatory changes – especially when it comes to competition regulation – which are resulting in increased consolidation across Europe. We are still looking for European agreement regarding deeper capital markets integration and the cutting of red tape. Furthermore, the scale of European-level investment – for example, datacentre infrastructure – is still far below that of the U.S., though the direction of travel is positive.



4. **Valuation:** When we turned constructive on European equities as a relative call in early 2025, we saw an aggregate valuation that was, at the time, at a historic low – even by European standards. We have since seen some valuation re-rating but note that valuations have corrected markedly since the start of the U.S. war with Iran, with the Eurozone 12-month forward P/E multiple contracting by 5%, and the UK's equivalent valuation by more than 10%. With the MSCI Europe trading on a 14.8x forward P/E multiple versus the U.S. at 21x, we continue to believe that this valuation discount remains a supportive building block to the investment case for our region.



5. **Earnings momentum:** Earnings momentum has been extremely strong, comfortably double-digit, and EPS revisions have been up for two months in a row. More detail below.



Where are we cautious?

Five potential risk factors to keep in mind

1. **Trade regime:** The tariff outlook remains unresolved, with trade policy uncertainty continuing to resurface in U.S.-Europe discussions. This uncertainty weighs on European equities, and, in particular, export-oriented companies that have historically been an important driver of the region's competitiveness.

2. **Technology and AI:** Market breadth was extremely narrow in the first half of the year, with, at one point, only 25% of stocks outperforming on a three-month basis compared to the long-term average of between 45% and 50%. While the AI theme earlier led the market particularly strongly across a range of related sectors, we have seen a sharp unwind of this leadership in recent months – with European indices relatively underrepresented in the AI theme, we would argue that a broadening of performance is beneficial to the region's equity outlook.

3. **Political instability:** With the UK now on its seventh prime minister in a decade, it is hard to argue that the cheapest equity market in Europe looks especially attractive for corporate investment. Indeed, a lack of visibility on the country's tax regime in particular makes it difficult for company boards to have confidence in their long-term strategic decision-making.

4. **China:** The Chinese market has in the past been a large growth driver for many European companies. However, historical champions – such as luxury goods companies – have been affected by a multi-year slowdown in Chinese growth and a resultant tightening of the purse strings by Chinese consumers. While there are signs of green shoots in the export data, it would be imprudent to extrapolate meaningful trends from these numbers alone, without broader, multi-quarter confirmation from management team commentary across multiple businesses and sectors – something we have yet to see.

5. **Momentum:** Driven by Technology and AI, market leadership in the first half of the year was narrow in Europe, and the momentum factor (for those stocks which have seen good one-year performance) performed exceptionally strongly. While the region's semiconductor and infrastructure stocks fed into the winning AI theme, in marked contrast, companies deemed AI losers by the market posted very poor returns – this even included companies whose earnings momentum was not actually worsening or affected by AI (yet), such as ad agency leader Publicis. Against that backdrop, the risk of a large drawdown was significant, and we saw an unwind of this Technology and AI outperformance in June and July. As we look forward, the recent broadening of market leadership is healthy in our view and should provide a healthier setup into the second half of the year. Nevertheless, risks remain.

The top-down backdrop

Macro

The Eurozone manufacturing purchasing managers' index (PMI) came in at 52.7 in August, marking a seventh consecutive month of expansion (defined as above a 50 mid-point), and up from 51.9 in July. At the country level, Ireland led with 55.4 (its 20th consecutive month of expansion), Greece rose to a multi-month high of 54.4, the Netherlands eased to 53.8 from 54.4 but remained in expansion for a 15th consecutive month. France crossed back above 50 at 51.1, shaking off inflationary pressures and weak confidence from July. Italy and Spain dipped below 50 with readings of 49.6 and 49.5 respectively.

On growth, euro-area gross domestic product (GDP) rose 0.4% quarter-on-quarter in Q2. This marked the strongest growth in over a year, with Germany, France, Italy and Spain all recording positive growth. On inflation, euro-area consumer price index (CPI) edged up to 2.9% year-on-year in July from 2.8% in June. Driven by a 10% surge in energy prices following the collapse of the U.S.-Iran ceasefire, this latest inflation reading has reinforced expectations for a further ECB rate hike.

The ECB raised rates by 25 basis points in September to a deposit rate of 2.50% (its second hike since 2023) with ECB President Lagarde warning that inflation risks are broadening beyond energy. As such, a further 25-basis-point hike to 2.75% in December is now widely expected, supported by the strong economy and sticky inflation. ECB research published this week found that the pullback in euro-area household spending following the U.S. war with Iran was driven more by uncertainty than by inflation itself, with non-budget-constrained households choosing to delay spending rather than being forced to cut back. Still, one could argue that money and credit data suggest the Eurozone does not require higher rates and that the June and September hikes were likely unnecessary given already-impaired demand. Nevertheless, Europe's economy is expected to accelerate, with overall European GDP growth projected to rise from 1.1% in 2026 to 1.5% by 2028.

On balance, while growth momentum is building and labour markets remain relatively tight – the June Eurozone unemployment rate of 6.3% was close to the region's late 2024 6.2% record low – the recovery is vulnerable to renewed U.S.-Iran hostilities. Energy-driven inflation, in particular, risks undermining real incomes and consumption especially in light of the September rate hike.

Earnings

Eurozone EPS revisions have been accelerating for 15 weeks at the time of writing, closing the gap with the U.S., for the first time since January 2025. Unless the U.S. war with Iran keeps re-escalating in the second half of the year, Eurozone earnings are likely to remain on an uptrend.

The current backdrop is increasingly supportive of a European earnings catch-up, underpinned by improving operating leverage as revenues recover, fiscal impulse finally flows through to the Industrials and Defence sectors, and a softer Euro provides an additional tailwind to export-oriented companies.

The breadth of improvement in earnings revisions is notable too. While only the Healthcare and Real Estate sectors are seeing negative EPS revisions, and Financials and Communication Services are flat, every other sector is seeing positive double-digit earnings revisions versus January 2026. European Q2 EPS growth is running at 22% year-on-year and on track for the strongest quarter since Q3 2022, with 65% of companies having reported, representing approximately 75% of index earnings. EPS beats have also rebounded, rising to a 13-quarter high, with 56% of companies having beaten EPS expectations so far, led by Financial Services, the UK, U.S. exposure and Low Growth companies. Companies have also been twice as likely to raise earnings guidance as sales guidance, while political and macroeconomic uncertainty – mainly related to the Middle East – and company-specific issues remain the most common drivers of guidance cuts. Earnings disappointments are strongly punished, with those stocks that miss EPS expectations recording the largest penalty since Q3 2018.

In all, the combination of peaking inflation, strong earnings delivery, lighter positioning post-correction and the broadening in market leadership is, we believe, painting a positive investment picture for European equities.

M&A is more than a "nice to have," but not a core driver

A persistent factor underpinning the attractiveness of European equities has been the valuation gap versus other markets, particularly the United States. In isolation, this would not be enough to drive a recommendation to go overweight the region, but it has provided something of a floor to the (under)performance of our equity market.

In some cases, European equity markets have continued to de-rate in spite of these low valuations. Perhaps the most extreme example is the United Kingdom, which in the decade since the Brexit vote in 2016 has de-rated from a one-year forward P/E multiple of 15.5x to 12.6x today.

One might therefore wonder why we once again point out the extreme low valuations. We believe there is an interesting dynamic happening currently where we are seeing significant M&A activity. This is both in the case of private equity take-outs – particularly in the UK – as well as European consolidation more broadly. The private equity take-outs are likely motivated by the opportunity to acquire European, or in some cases global, champions based in Europe at cheap valuations compared to international peers.

The cross-border M&A we are seeing is significant. The UK M&A market is moving at anywhere between US$2 billion to US$7.5 billion per week in 2026, depending on the source, and on track for a historic £347 billion record; year-to-date, acquisitions are at the highest level since 2007. This massive activity is driven overwhelmingly by foreign buyers, with international bidders (especially from the U.S.) accounting for 86% of total UK M&A value. Technology, AI, Financial Services and Infrastructure are the sectors currently dominating the landscape, with notable recent deals including Schroders (a near-£10 billion sale to U.S.-based Nuveen), Rotork (a £4.1 billion cash takeover by Swiss engineering firm ABB), DCC (a £5.8 billion takeover by KKR and ECP) and Intertek (a US$12.4 billion takeover by EQT).

We have called out on multiple prior occasions the need for more modern antitrust enforcement. The changes to the merger guidelines following the publication of former ECB President Draghi's European competitiveness report[1] were an important signal of this happening. Although implementation of Draghi's recommendations – almost two years on – is far from complete, it could indicate a more favourable environment for consolidation.

We are seeing good signs of this bearing fruit. There is a wave of M&A and consolidation in Italy's banking sector, with the defining deals including Intesa Sanpaolo's €30.6 billion bid for Banca Monte Dei Paschi di Siena (the world's oldest bank) and Banco BPM's proposed merger with MPS. This follows earlier consolidation happening since early 2025 including MPS-Mediobanca, BPER-Banca Popolare di Sondrio, BPM-Anima and Ifis-Illimity. Other notable acquisitions include Aldermore in the UK (a £2 billion merger exploration by Metro Bank), Poste Italiane merging with Telecom Italia in addition to multiple other acquisitions in the Communication Services sector across Europe; and even cross-border large-scale banking consolidation for instance with Commerzbank and Unicredit, where it appears the German regulator is finally ready to prepare terms needed for this merger to go through.

In terms of Italian M&A specifically, the Italian government has expressed support for creating larger champions capable of aiding Italy's economic growth, stressing that consolidation must boost the international reach of Italian companies and enhance innovation. The European Commission has scrutinized the Italian state's right to intervene in bank deals on financial stability grounds, prompting Italy to reform these rules to ensure interventions happen in tandem with EU assessments, and easing the path to future market consolidation.

We tend to say that M&A speculation is not in itself enough to drive an investment thesis. More fundamental evidence of a solid investment case is needed than "this is cheap, so someone will buy it." However, the cumulative effect of both strong private equity interest and increased consolidation is arguably too large to ignore.

[1] "The Future of European Competitiveness" report by former ECB President Mario Draghi, published September 9, 2024.

The caveat to this is that there is likely to be more scrutiny of M&A originating out of China. Chinese foreign direct investment (FDI) into the EU and UK fell to €6.8 billion in 2023, the lowest since 2010. While this then recovered to €10 billion in 2024 and €16.8 billion in 2025, this is more greenfield, battery- and EV-linked and more concentrated in countries willing to offer land, infrastructure, permitting and political cover. For context, M&A only comprises €7.9 billion of this total, where we see Europe acting decisively to protect strategic sectors including semiconductors, AI and sensitive software. Indeed, the revised EU screening framework explicitly names AI, quantum, semiconductors and digital infrastructure as sectors that must be screened. In practice, this makes the AI frontier the place where Europe is most likely to combine openness to greenfield capital with hard limits on control, data access and technology transfer.

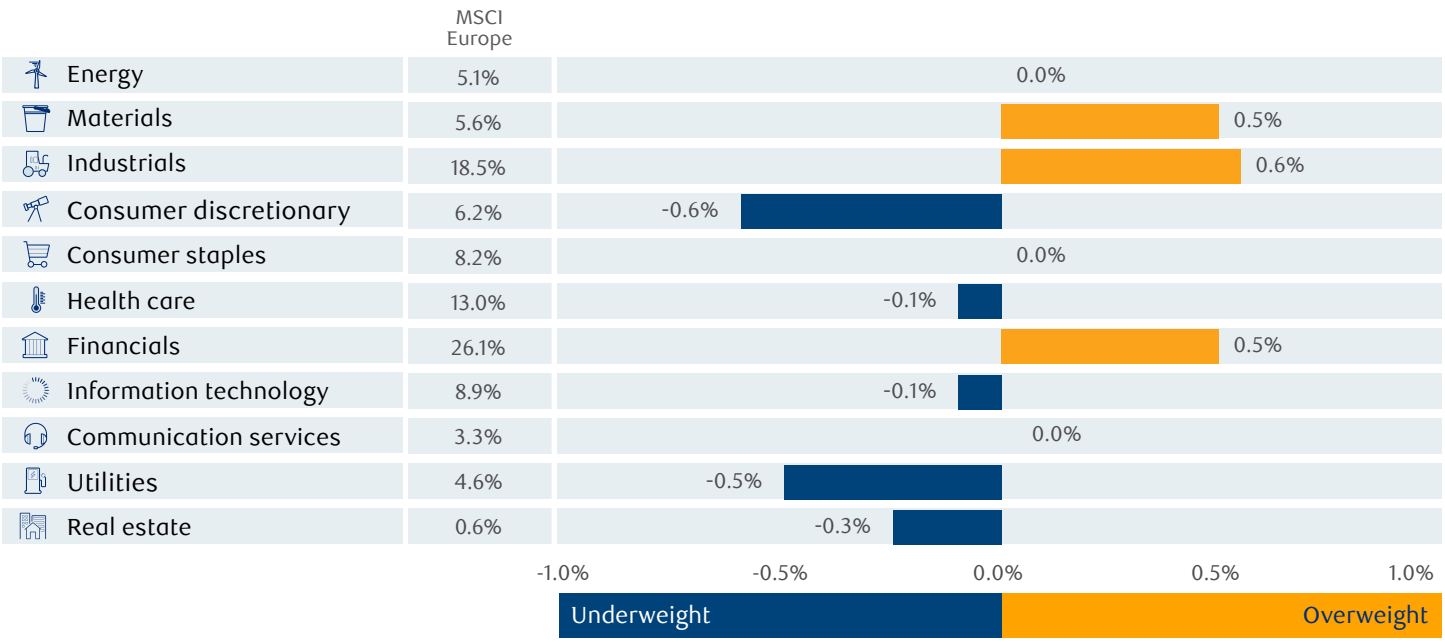
Conclusion: still a positive setup for European equities

For European equities we are seeing strong earnings revisions paired with continued supportive valuations. However, Europe was a relative loser from the U.S. war with Iran, and was hampered by the AI rebound in Q2. As a market, Europe is over-indexed to cyclical energy and commodity stocks and is a less obvious destination for investors looking to play the AI theme.

The war in the Middle East has also had an impact on macroeconomic data. Fears of resurging inflation have hampered the rate-cut trajectory that had been set out prior, while PMIs were understandably weaker during the war. That said, we are seeing encouraging signs of rebounding Eurozone credit growth and car sales and PMIs have improved for two consecutive months. These data points give us comfort that, in the absence of further re-escalation in hostilities between the U.S. and Iran, the setup for European equities is on balance – still – quite positive.

Most sectors continue to see impressive earnings momentum. We are more constructive on the European consumer than we have been in some time, and we see an increasing number of supportive data points relating to consumer spending and confidence. We remain cautious on the Health Care sector and have pared back our Technology weight after a phenomenal run by hardware and semiconductor stocks in particular.

Europe – Recommended sector weights

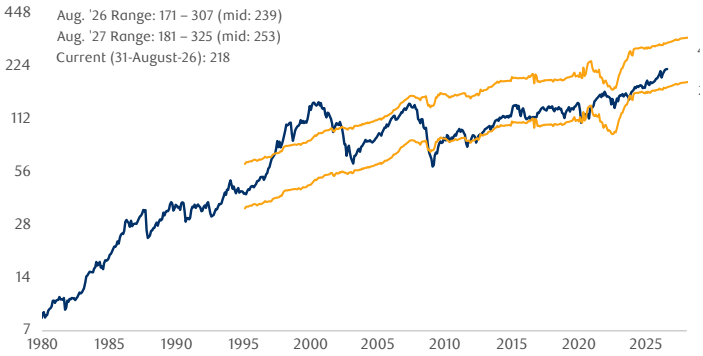


Note: As of August 31, 2026. Source: RBC GAM

> "Valuations remain supportive: MSCI Europe trades at a 14.8x forward price-to-earnings (P/E) multiple compared to 21x for the U.S."

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



Regional outlook – Asia



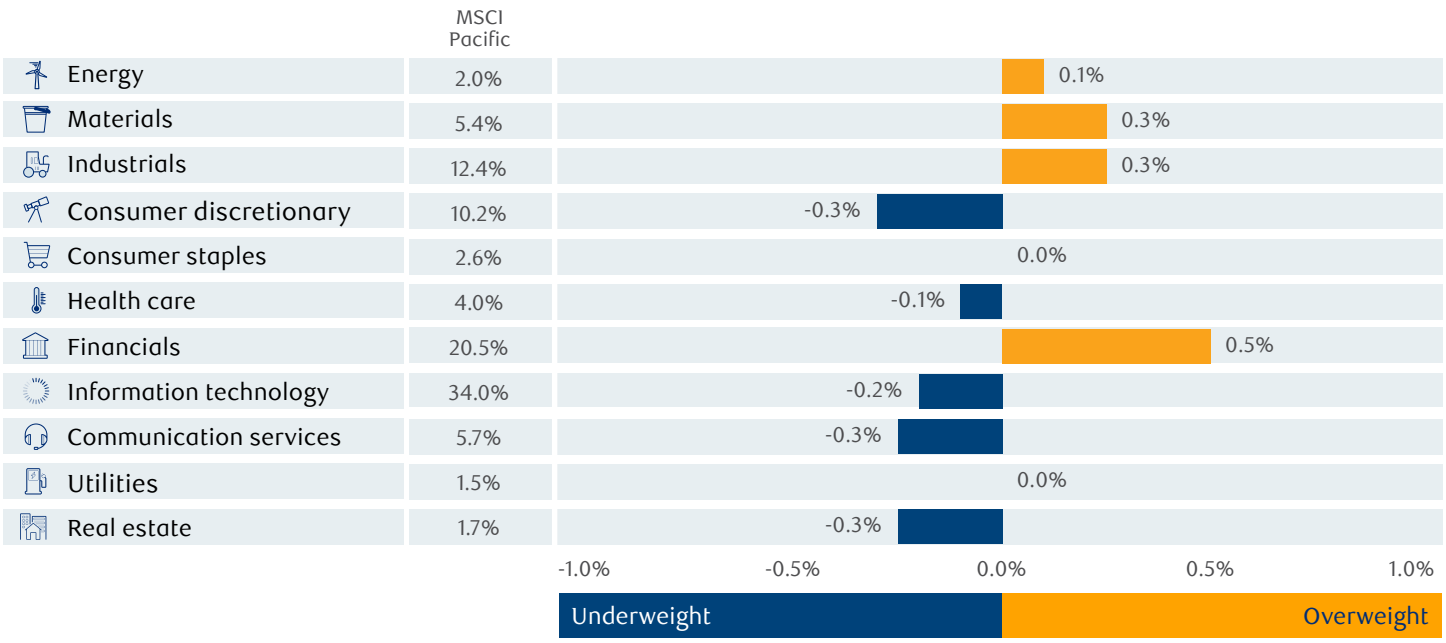
Chris Lai
Portfolio Manager
RBC Global Asset Management (Asia) Limited

Key takeaways

- **A broadly positive but highly dispersed returns picture:** Singapore and Taiwan equity market outperformance in recent months reflects robust economic growth and artificial intelligence (AI) supply chain exposure respectively, while China has lagged and South Korea has proved volatile.
- **China balances macroeconomic pressure versus AI momentum:** China faces economic headwinds with recent data disappointing across industrial output, retail sales and investment. But while the country's fiscal austerity is constraining domestic sectors, China's AI hardware stocks have been gaining momentum.
- **South Korea navigates a volatile equity performance arc:** South Korea's equity market remains under pressure following a sharp sell-off in July. Despite strong consensus earnings growth driven by AI chip demand, investor sentiment has shifted from AI-led euphoria to AI sustainability concerns.
- **Singapore and Taiwan outperformance has different drivers**: Singapore has seen a second upgrade to economic growth this year, while Taiwan's AI-related trade and manufacturing activity continues to accelerate.
- **Japan's structural tailwinds challenged by near-term uncertainty:** Wage growth, AI supply chain integration and the Honebuto's strategic investment plan[1] are expected to benefit Japan; however, the Bank of Japan's (BoJ) interest rate normalization, Japanese yen currency weakness and durability of domestic consumption are creating near-term uncertainty.
- **Looking ahead, key headwinds to navigate:** Key variables for the region's economic and market outlook include the durability of the AI capital expenditure cycle and the U.S. war with Iran's impact on energy costs and rising global bond yields.

[1] Honebuto denotes the Japanese government's annual economic and fiscal policy guidelines.

Asia – Recommended sector weights

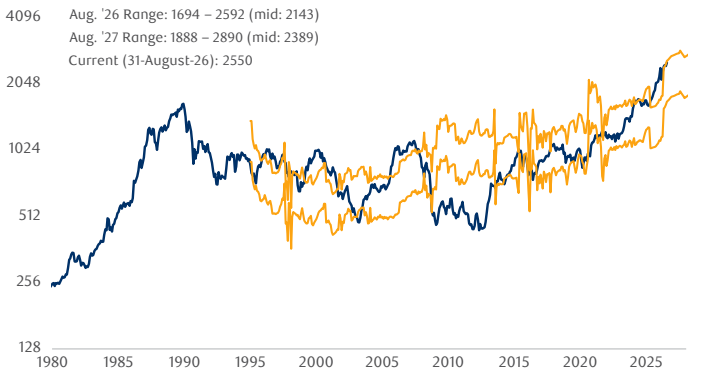


Note: As of August 31, 2026. Source: RBC GAM

> "Rising bond yields may present a significant valuation headwind for technology-heavy Asia-Pacific markets."

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

A broadly positive but highly dispersed returns picture

Asian equities have delivered broadly positive but highly dispersed returns over the past three months, with the AI capital expenditure cycle, global bond yield dynamics and the ongoing U.S. war with Iran collectively shaping the regional outlook.

Reviewing country performance in turn, Singapore and Taiwan have outperformed but for different reasons: Singapore is benefiting from robust economic growth and its status as a defensive haven from geopolitical events; Taiwan, meanwhile, is proving to be a notable beneficiary of AI-driven demand. Elsewhere, South Korea has experienced sharp volatility despite its central role in the memory supply chain, and China has continued to lag.

Looking ahead, the durability of the AI CapEx cycle and the resolution, or otherwise, of the U.S. war with Iran and the related Strait of Hormuz disruption will be the key variables that determine whether the region's outperformers can sustain their gains.



Asia ex-Japan

China balances macroeconomic pressure versus AI momentum

China's macroeconomic environment presents a somewhat cautious picture, with July economic data broadly disappointing. Industrial output, retail sales, fixed-asset investment and the unemployment rate all fell short of forecasts. Reflecting the drag from the property sector and subdued domestic consumption, the International Monetary Fund (IMF) has projected China's real (constant prices) gross domestic product (GDP) growth to slow: from 5.0% in 2025, to 4.6% in 2026 and 4.1% in 2027.

Fiscal policy has tightened rather than eased: broad public expenditure fell 11.9% year-on-year in June, the sharpest decline since October, even as calls for stimulus have grown louder. This austerity stance is a meaningful headwind for domestically oriented sectors and is likely to limit the scope for a broad-based earnings recovery in the near term.

A key structural theme within Chinese equities is the widening divergence between AI hardware and internet platform stocks. Hardware stocks are seeing renewed momentum on the back of recent Chinese technology firms' earnings, while internet platforms continue to struggle to demonstrate a full consumer demand recovery. More broadly, AI is increasingly acting as a structural support for the wider economy. Indeed, electronics and information technology contributed over half of China's economic expansion in Q2 2026 on a quarter-on-quarter basis, while AI-related exports alone accounted for more than one percentage point of nominal GDP growth.[2] Whether market leadership remains with hardware or broadens to internet names is expected to be a defining theme for Chinese equities in the second half of 2026.

[2] China International Capital Corp,, July 6, 2026.

South Korea navigates a volatile equity performance arc

Elsewhere in the region, South Korea's equity market has witnessed a volatile performance arc over the past few months. The period has seen AI-driven euphoria give way to a sharp reversal as concerns over the sustainability of the AI CapEx cycle and intensifying competition from Chinese memory producers triggered a sell-off in July. The country's KOSPI equity index has remained under pressure since, though several structural developments suggest the longer-term investment case remains intact: positives include South Korean chip maker SK Hynix (accounting for over 20% of the KOSPI index) in August committing to a US$38 billion expansion of its domestic chipmaking facilities, covering both DRAM and NAND capacity3.

South Korea's real GDP growth is forecast at 2.8% for 20264, and consensus 2027 earnings estimates for South Korean equities have more than doubled year-to-date, driven by AI-related chip demand. Looking forward, the key structural risk is the anticipated stock market listing of China's leading DRAM and NAND flash producers, which could signal a step-change in competitive pressure on South Korean memory incumbents.

Singapore and Taiwan outperformance has different drivers

Singapore and Taiwan have been the region's strongest performers of late, but each for different reasons.

Singapore's rally has been driven by a combination of its defensive status amid geopolitical stress arising from the U.S. war with Iran and its favourable macroeconomic backdrop; the country has benefited from a second upward revision this year to its 2026 real GDP growth forecast, now in the region of 4.5% to 5.5%5, while a narrowing valuation gap with developed-market peers is further bolstering Singapore's equity market.

Taiwan, on the other hand, has a clear structural anchor in the AI supply chain as AI-related trade and manufacturing activity continues to accelerate. The country's outperformance reflects its position as a market that is particularly sensitive to the global AI CapEx cycle, with real GDP growth forecast to exceed 9% in 2026[6]. Meanwhile, Taiwan's leading chipmaker, TSMC, has continued its dominance in advanced logic manufacturing; combined with sustained hyperscaler investment in AI infrastructure, it underpins a constructive earnings trajectory. Consensus earnings forecasts for Taiwan are rising, and investor flows have followed: Taiwan-focused exchange-traded funds (ETFs) have recorded record weekly inflows of over US$340 million in recent weeks.

[3] SK Hynix, August 7, 2026. DRAM: Dynamic Random-Access Memory. NAND: NOT AND, a type of non-volatile flash memory, named after a digital logic gate.
[4] Korea Institute of Finance
[5] Singapore Ministry of Trade and Industry (MTI). August 11, 2026.

[6] CLSA, Macrosphere: Asian economics in a global context, July 13, 2026.



Japan

Japan's structural tailwinds challenged by near-term uncertainty

Japan's economy has enjoyed a moderate recovery over the past few months, with real GDP growth for 2026 upgraded to between 0.5% and 0.8%. The country's structural backdrop remains constructive: entrenched wage growth, a long-term fiscal investment program, and Japan's deepening role in the global AI supply chain all support the medium-term investment case. The near-term outlook, however, is shaped by the tension between monetary policy normalization, Japanese yen dynamics, and the durability of domestic consumption.

Complicating monetary normalization

The BoJ raised its policy rate by 25 basis points in June to 1.0%, and the direction of travel appears to be towards further normalization – a September hike seems possible, with Japanese yen weakness and persistent inflation possibly even driving a pickup in the pace of hikes. Echoing this risk, one BoJ board member has flagged the possibility of a pace faster than market expectations, citing underlying consumer price index (CPI) year-on-year inflation approaching 2% and rising upside price risks.

The complicating factor is growth. Q2 real GDP expanded at an annualized rate of 1.1%, below the 2.0% consensus forecast, as capital spending slumped amid Middle East geopolitical uncertainty and private consumption flatlined. This has complicated the BoJ's communications, even as the IMF has expressed confidence that Japan's economic revival gives the central bank room to continue normalizing. The tension between the Japanese government's historical wariness of rapid rate increases and the U.S. Treasury's preference for monetary tightening as a tool to address Japanese yen weakness adds a further layer of political complexity to the BoJ's path. That said, consensus forecasts for the policy rate reaching 1.50% by early 2027 have remained broadly intact.

Fiscal policy pushes bond yields higher

On the fiscal side, Prime Minister Sanae Takaichi's government adopted its new Basic Policy 2026 (Honebuto) on July 21, with some fundamental shifts in philosophy. An emphasis on a stable reduction of debt-to-GDP over time and a focus on a



14-year (2026 to 2040) ceiling-free investment plan for strategic sectors were the centrepieces. The plan targets JPY370 trillion in combined public-private investments[7], and distributed across strategic sectors from AI and semiconductors to defence and economic security. Permanent programs are to be funded upfront, while supplementary budgets will now be limited to true emergencies, rather than the previous overreliance on their usage.

The market reacted to the Honebuto with the 10-year JGB yield rising to about 2.9%, the highest in 30 years, up from 2.5% in May. The Japanese yen also weakened amid concerns over fiscal looseness. Under sustained pressure, the Japanese yen to one U.S. dollar exchange rate hovered around the 160 level as of the end of August, despite repeated intervention to prevent further decline. Finance Minister Satsuki Katayama called on Japanese pension funds to invest more at home to help stem the Japanese yen's fall. Echoing such concerns, the BoJ's June household survey remains pessimistic, with a large majority of consumers believing economic conditions have worsened and will continue to do so.

However, against that backdrop, unemployment has further decreased to 2.50%, the jobs-to-applicants ratio has remained broadly steady at 1.17 and the final Shunto (Japan's spring wage offensive) showed average wage growth closely in line with expectations at a robust 5.01%. The Shunto data in particular – marking the third consecutive year of growth above 5% – lends weight to the view that Japan may have cast stagnant nominal wages into the past – indeed, the hope is that sustained wage growth will soon cause a "virtuous cycle," as real wages turn positive and support a recovery in spending.

Three pillars for investors

Japan's structural investment case rests on three pillars: corporate governance reform, the Honebuto's long-term fiscal support for strategic industries and the country's deepening integration into the global AI supply chain. Japanese consumer electronics giant Sony and TSMC are reportedly set to invest approximately JPY750 billion in a new image sensor joint venture in Kumamoto, a semiconductor hub in southwest Japan, with Sony expected to hold a roughly 60% stake.[8]

This is emblematic of a broader trend of high-value semiconductor manufacturing capacity being established in Japan, supported by government incentives and Japan's position as a trusted partner in the global technology supply chain.

Interpreting a market rotation

The rotation from South Korea to Japan during the July chip selloff suggests investors may be favouring Japan's more diversified exposure to AI-related earnings growth, with lower volatility than the South Korean KOSPI's more concentrated memory chip-exposed index. Within Japanese equities, the TOPIX's resilience (a broader, more balanced index than Japan's more concentrated, technology-heavy Nikkei 225) during the semiconductor correction arguably reinforces this view: broad-based earnings growth across financials, industrials and infrastructure stocks helped the TOPIX to offset some of the weakness in technology stocks – providing a buffer that the Nikkei 225's narrower composition could not.

Looking ahead, headwinds to navigate

As we look ahead, key variables to the regional outlook include the durability of the AI CapEx cycle, the impact of the U.S. war with Iran on energy costs and rising global bond yields.

Concerns over the sustainability of hyperscaler AI spending, in particular, appear to be a recurring source of volatility. Any signs of CapEx moderation from major cloud providers could disproportionately affect South Korea and Taiwan, given that together they account for the majority of the region's AI-driven earnings growth.

With regard to the U.S. war with Iran, a prolonged stalemate is likely to keep energy prices elevated, compressing margins for airlines, industrials and energy-importing economies across the region, while benefiting energy exporters.

Finally, rising bond yields may present a significant valuation headwind for technology-heavy Asia-Pacific markets. A sustained move higher in yields would likely compress valuation multiples across the region's AI-exposed names and could trigger further rotation away from growth.

[7] Basic Policy on Economic and Fiscal Management and Reform, July 2026.
[8] Sony Semiconductor Solutions Group, August 11, 2026.



Regional outlook – Emerging markets

Are we expecting further outperformance?



Laurence Bensafi
Managing Director and Portfolio Manager, Deputy Head of Emerging Market Equities, RBC Global Asset Management (UK) Limited

Key takeaways

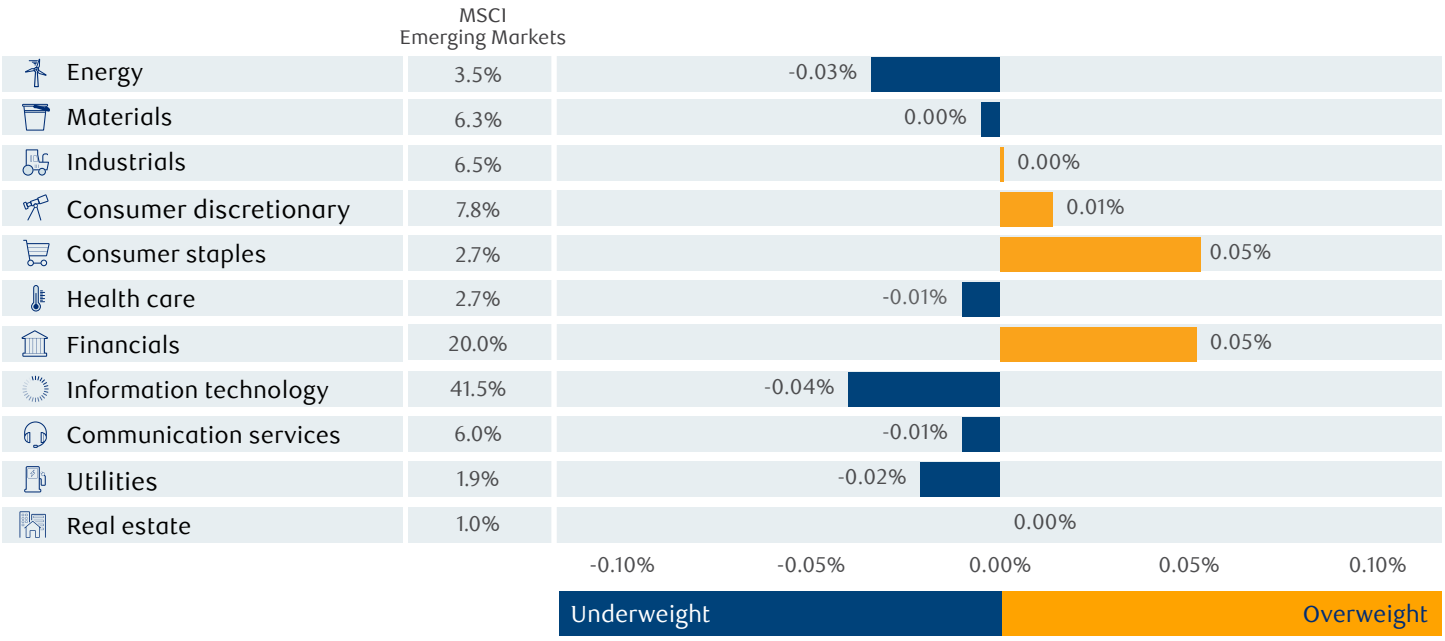
- So far in 2026 emerging market equities have outperformed developed markets, continuing a trend that began at the end of 2024. The MSCI Emerging Markets Index has added 62% (USD) since December 2024 to the end of July 2026 – roughly double the U.S. market.
- Liberation Day in April 2025 was a turning point for the asset class as President Trump involuntarily put the spotlight back on emerging countries. After more than a decade of underperformance, a new positive cycle appears to be underway.
- The drivers behind this shift are both structural and cyclical – accelerating earnings growth, the Artificial Intelligence (AI) investment supercycle, strengthening macroeconomic fundamentals, and the increasing economic independence of the developing world.

The AI value chain: a structural tailwind for emerging markets

Taiwan and South Korea have become critical to the global AI value chain. Companies such as TSMC, Samsung Electronics, and SK Hynix exhibit genuine technological leadership with unparalleled capabilities in foundry and memory semiconductors. Their revenues, margins, and market values have grown dramatically over the past five years as the beneficiaries of hyperscaler AI capital expenditure have proven to be largely domiciled in emerging markets.

However, and this is crucial for sustained long-term performance beyond these top names, an estimated 100-150 companies across emerging markets are exposed to AI through semiconductor design, ASIC development, power infrastructure, cooling technology, testing equipment, networking, and industrial automation. This represents a multi-decade investment theme with significant beneficiaries located in emerging markets, and the opportunity set continues to broaden as AI applications mature and new segments of the value chain develop.

Emerging markets – Recommended sector weights

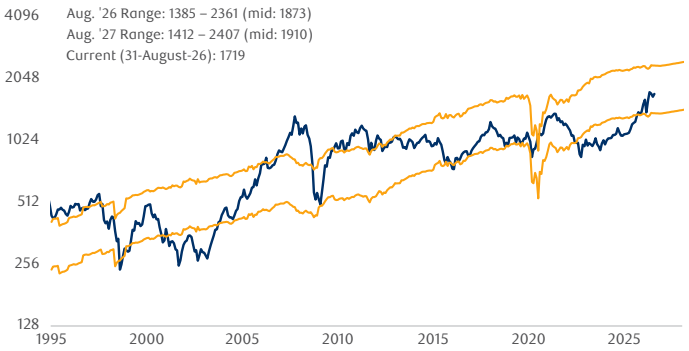


Note: As of August 31, 2026. Source: RBC GAM

> "Index concentration is unprecedented: the top five stocks now represent approximately 35% of the MSCI EM benchmark, and until recently less than 25% of stocks had outperformed the index over the past 12 months."

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

China's parallel AI ecosystem

Despite the Chinese equity market being deeply out of favour, it is currently interesting to note that China is building an entire parallel AI ecosystem from scratch. The domestic AI supply chain is expected to approach US$580 billion by 2030 – a roughly 9x increase from 2020. Escalating U.S. export controls have made self-sufficiency an existential objective, and it is difficult to see these restrictions being relaxed, given each round since 2022 has been progressively tighter. The result is that China and the U.S. are likely to operate as the two leading AI powers globally, each with a separate, complete technology stack.

Opportunities exist across semiconductor equipment makers, AI chip designers, and packaging and testing companies – segments where China is making genuine progress toward global competitiveness. Many of those names have seen their share price and valuation rise strongly, however this hasn't been the case for the Chinese internet platforms. Current lower earnings growth in their core businesses has led to derating; however they are proven, high-return businesses now investing tens of billions into AI infrastructure. We believe this will pay off in the coming years. The focus for investors should be on high-quality companies with strong management teams, genuine competitive moats, and robust corporate governance.

Beyond AI: compelling opportunities across emerging markets

Non-AI sectors such as Consumer and Financials are trading at historically wide valuation discounts to Technology. Consumer Staples, which has always traded at a premium, has seen that premium completely erode. Financials are at the widest-ever discount to Tech. Yet their fundamentals and returns remain strong.

Meanwhile, earnings upgrades are broadening beyond Taiwan and South Korea across emerging markets as governments implement various versions of Value-up programs targeting better shareholder returns and giving confidence that the outperformance story extends well beyond AI alone.

Despite near-term headwinds, India offers several compelling structural themes: the financialisation of savings as households shift from physical assets to financial markets; rising discretionary spend driven by attractive demographics and growing GDP per capita; a manufacturing inflection point underpinned by Production-Linked Incentive schemes and "Make in India" policy frameworks; and energy transition opportunities as India targets majority renewables within a decade. New AI services in IT are projected to grow from 3-5% to 30-50% of total industry revenues within five years, expanding the sector's addressable market from US$1 trillion to US$5-6 trillion. The transition may be painful but the future is bright for the industry.

Latin America is well-positioned for rate normalisation and reflation, with commodity exports providing natural hedges. Furthermore, a move towards business-friendly leadership is underway in the region, which should lead to much needed reforms.

Structural pillars supporting long-term outperformance

The global economic landscape is undergoing a historic transformation. Emerging markets account for over 50% of global GDP and are expected to generate approximately 65% of global growth by 2035. Five critical pillars underpin this shift:

- **Domestic demand replacing export dependency:** Rising middle classes, urbanisation, and fintech-driven financial inclusion are creating indigenous demand drivers independent of developed market cycles.
- **De-dollarisation:** The dollar's share of global reserves has declined from 70% to 58% over two decades, reducing currency vulnerability. The current fiscal situation in the U.S. could accelerate a shift away from the dollar, benefiting EM countries.
- **Stronger macroeconomic fundamentals:** Healthier fiscal positions, lower government debt, and higher real policy rates relative to developed markets.
- **Inter-EM integration:** Intra-EM trade has surged from roughly 25% in 1990 to approaching 50% today, creating self-reinforcing growth ecosystems.
- **Technological independence:** Select markets are establishing global leadership positions in semiconductors, electric vehicles, and software.

Challenges and risks to monitor

Despite the constructive outlook, meaningful risks demand attention. Index concentration is unprecedented: the top five stocks now represent approximately 35% of the MSCI EM benchmark, and until recently less than 25% of stocks had outperformed the index over the past 12 months. Performance has been extremely narrow, with only IT outperforming at the sector level.

Retail speculation and leverage – particularly in South Korea – are creating short-term risks, with regulators expressing concern around leveraged single-stock ETFs. Much of the AI capex is being fuelled by debt, raising questions around monetisation timelines and sustainability.

China faces structural bottlenecks: the absence of EUV lithography constrains leading-edge production, potential further U.S. export controls could set back timelines, and governance risks around capital misallocation persist as government directs billions into strategic sectors. India, meanwhile, lacks domestic AI infrastructure and semiconductor manufacturing capacity, remaining reliant on imported GPUs and foreign hyperscalers.

Additional risks include a potential resumption of U.S. exceptionalism redirecting capital flows, geopolitical instability, and commodity price vulnerability for energy-dependent emerging markets.

Conclusion

The medium-term outlook for emerging markets remains constructive, but near-term volatility is likely to persist given extreme index concentration and speculative excess. However, the AI sell-off in July has reduced volatility somewhat, and the rally has recently broadened to other sectors such as Materials and Health Care. Selectivity and a focus on quality companies with genuine competitive moats will be essential. The trajectory, however, is clear: EM economies are increasingly independent, powered by rising domestic demand, deepening integration, and growing financial autonomy. The next era of global growth increasingly belongs to the emerging world.

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

Dagmara is a Managing Director and Senior Portfolio Manager at RBC GAM Inc., as well as the Head of the RBC Global Fixed Income and Currencies team, which is composed of over 40 investment professionals based in Canada and the U.K. In her role as a senior portfolio manager, Dagmara oversees several bond funds and is responsible for foreign-exchange hedging and active currency overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate risk levels for various fixed income market opportunities. Additionally, Dagmara chairs the RBC GAM Investment Policy Committee, which sets the asset mix for RBC GAM's suite of balanced products and the RBC GAM Investment Strategy Committee, which sets the global strategy for the firm. She began her career as a fixed income analyst with RBC GAM in 1997 and has been a member of the GAM Leadership Committee since 2016.

Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business at 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.



Stuart Kedwell, CFA

Global Chief Investment Officer
RBC Global Asset Management Inc.

Stuart is the Global Chief Investment Officer at RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) $837.3 billion* for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Stuart is responsible for the overall direction of investment policy and asset management. Previously the Global Head of Equities, Stuart now oversees 400+ investment professionals globally, who manage in aggregate more than 270 investment strategies across 20 asset classes.

Stuart has over 25 years at RBC. He began his career in 1996 with RBC Dominion Securities. 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. Stuart has been with the firm since 2002 and is a CFA charterholder.

*AUM in CAD as of August 31, 2026



Soo Boo Cheah, MBA, CFA

Managing Director &
Senior Portfolio Manager
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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.



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Managing Director & Senior Portfolio Manager
Co-Head North American Equities
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Irene is a Managing Director, Senior Portfolio Manager and co-leads the RBC 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.



Eric Lascelles
Managing Director, Chief Economist and
Head of Investment Strategy Research
RBC Global Asset Management Inc.

Eric is Managing Director, Chief Economist and Head of Investment Strategy Research for RBC Global Asset Management Inc. (RBC GAM). He leads a team of economists and strategists generating forecasts and research on key economic and market themes. Eric is also a member of the RBC GAM Investment Strategy Committee, which is responsible for the firm's global asset mix recommendations.

Eric provides key insights for the investment team and clients alike, and his views are regularly sought by global media outlets.Externally, Eric serves on the C.D. Howe Institute's Business Cycle Council, the group that dates recessions and other economic turning points in Canada.

Prior to joining RBC GAM in 2011, Eric spent nearly a decade at another major financial institution, rising from bank economist to the position of chief economist and rates strategist on the firm's trading floor. He began his career at Statistics Canada.

Eric holds a graduate degree in Economics from Queen's University as well as a Bachelor of Economics from Princeton University.



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

Scott is the Head of the PH&N Canadian Equity team and Senior Portfolio Manager on the team's core Canadian equity strategies. He is also a member of the PH&N Asset Mix Committee. 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 is a Managing Director and Head of the RBC Alternative Investments team, with expertise in corporate finance, options valuation, credit analysis, and risk management. In this role, he is accountable for the investment strategy and performance of a high yield bond fund and a multi-strategy hedge fund. Hanif is also a member of the PH&N Asset Mix Committee and the RBC GAM Investment Strategy 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 CFA designation since 2007.



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

Sarah is a Managing Director, Senior Portfolio Manager and co-leads the RBC North American Equity team. 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 designation in 2009.



Sarah Riopelle, CFA
Managing Director, Senior Portfolio Manager
and Global Chief of Staff, Investment Office
RBC Global Asset Management Inc.

Sarah is Managing Director, Senior Portfolio Manager, and Global Chief of Staff, Investment Office at RBC GAM Inc. In this role, she leads several of the important functions supporting investment teams and client success, working closely with the firm's Chief Investment Officer to ensure that all aspects of the investment management business at RBC GAM are running smoothly. Sarah also manages the firm's entire suite of portfolio solutions and is a member of the RBC GAM Investment Strategy Committee (sets global strategy for the firm) and RBC GAM Investment Policy Committee (responsible for the investment strategy and tactical asset allocation for RBC funds' balanced products and portfolio solutions). Prior to joining RBC GAM in 2003 as a senior analyst, she worked at RBC Dominion Securities in both the Quantitative Research and Investment Strategy groups.

Sarah 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 CFA 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 Economics and Investment Strategy Research 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
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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 Asset Mix Committee. Kristian joined PH&N 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
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As Global Head of Quantitative Research & 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, MBA, CFA
Managing Director &
Head of Investment Policy
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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
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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.

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