

RBC Global Asset Management

# The Global Investment Outlook

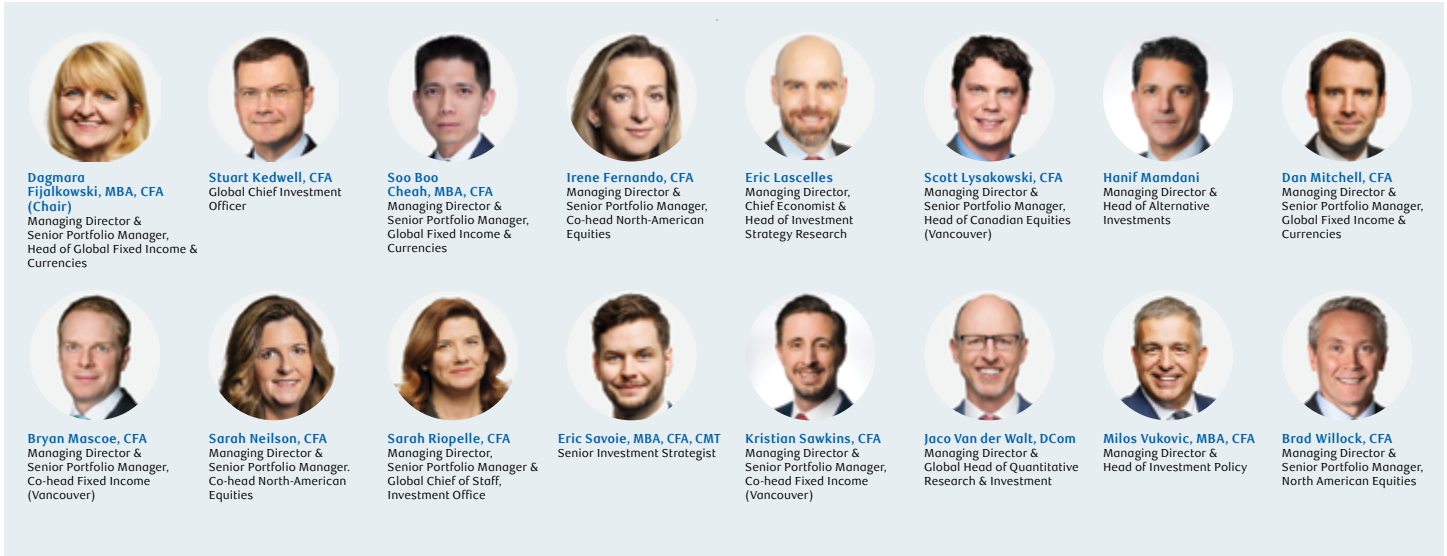
RBC GAM Investment Strategy Committee



SUMMER 2026



# The RBC GAM Investment Strategy Committee



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

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

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

## These include:



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.

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

### **Economic growth remains resilient despite energy headwinds**

The economic backdrop remains surprisingly resilient despite the energy shock, with economic data in both the U.S. and the G10 better than it was a year ago. Important tailwinds related to AI spending, fiscal stimulus and increased productivity are all contributing to an improving outlook for corporate profits. We anticipate a headwind to the economy from the energy shock but, in our view, any

dip in growth should be fairly mild and partially reversed later. Our GDP forecasts are still primarily above consensus and we deem the risk of recession to be low. Moreover, our business cycle scorecard indicates that the cycle is probably in the "mid" or "late" phase, which usually still permits a number of years of additional economic growth.

### **Inflation pressures temporarily elevated by energy costs**

The near-term inflation outlook has been raised due to the leap in energy prices, as well as some additional lingering pressure from the lagged effect of last year's tariff hikes. U.S. consumer price inflation has accelerated to 4.2% on a year-over-year basis from 2.4% just before the war, and the core measure that excludes energy also inched higher to 2.9% from 2.5%. Although the war itself could

soon be resolved, energy futures markets are pricing in some scarring in the form of energy prices that do not fully normalize post-conflict and some spillover via higher transportation costs. Inflation should remain elevated through 2026, and will likely remain so through the spring of 2027 before the mechanics of falling energy prices help pull inflation closer to target over the remainder of that year.

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

Despite major geopolitical events, changing global trade patterns and investors rebalancing their portfolios, currency markets have been much less volatile this year than investors might have expected. The dollar didn't get much of a boost when geopolitical risk rose as the U.S. attacked Iran in late February, failing to break above the upper end of its year-long 5% range. We expect the U.S. dollar to soften in

the year ahead, with emerging market currencies positioned to outperform during the next leg lower in the greenback. We remain broadly positive on Latin America, preferring the Chilean peso and Brazilian real, while also favouring the Chinese renminbi, which we expect will continue to rally due to China's massive trade surplus and progress toward internationalizing its currency.

### Central banks pivot toward tighter policy amid inflation concerns

The era of monetary easing that marked the past several years is seemingly coming to an end. Central banks are now thinking more about rate hikes than cuts due to the combination of still-resilient economic growth paired not just with higher energy prices, but some broadening of inflation pressures. As a result, pricing in the futures market has backed out any prior expectation of interest-rate cuts for this year and now expects modest tightening. The market

looks for two more hikes by the European Central Bank, two hikes from the Bank of Canada and one hike from the Fed over the next 12 months. Any interest-rate decisions will ultimately depend on the course of inflation and, should inflation pressures prove substantially temporary as we expect, some central banks may not need to hike as much as current pricing implies.

### Bond markets offer improved return potential following yield increases

The return potential for sovereign bonds has improved following the recent rise in yields. For the quarter ended May 31, 2026, sovereign bond yields rose anywhere from 25 to 60 basis points across most major regions. At these higher yields, our model suggests U.S. 10-year bonds offer improved return potential with minimal valuation risk. We

forecast low-to-mid single digit returns for government bonds, with the potential to earn higher returns in corporate bonds, though the added compensation for taking credit risk is historically small, with the gap between government-bond yields and corporate-bond yields at its narrowest since the Global Financial Crisis.

### Equity markets rally on AI enthusiasm, valuations swell

A surge in AI-related spending fuelled an earnings boom that propelled stocks to new highs. The consensus S&P 500 earnings estimate for 2026 has been revised higher by a remarkable 20% over the past year, with analysts now looking for strong earnings growth to persist over the next several years. On a global aggregated basis, the powerful rally in stocks so far this year has made them more expensive. Our composite of global equity markets is now 20% above fair value, the highest reading since late 2021. Within technology, some software companies appear to be

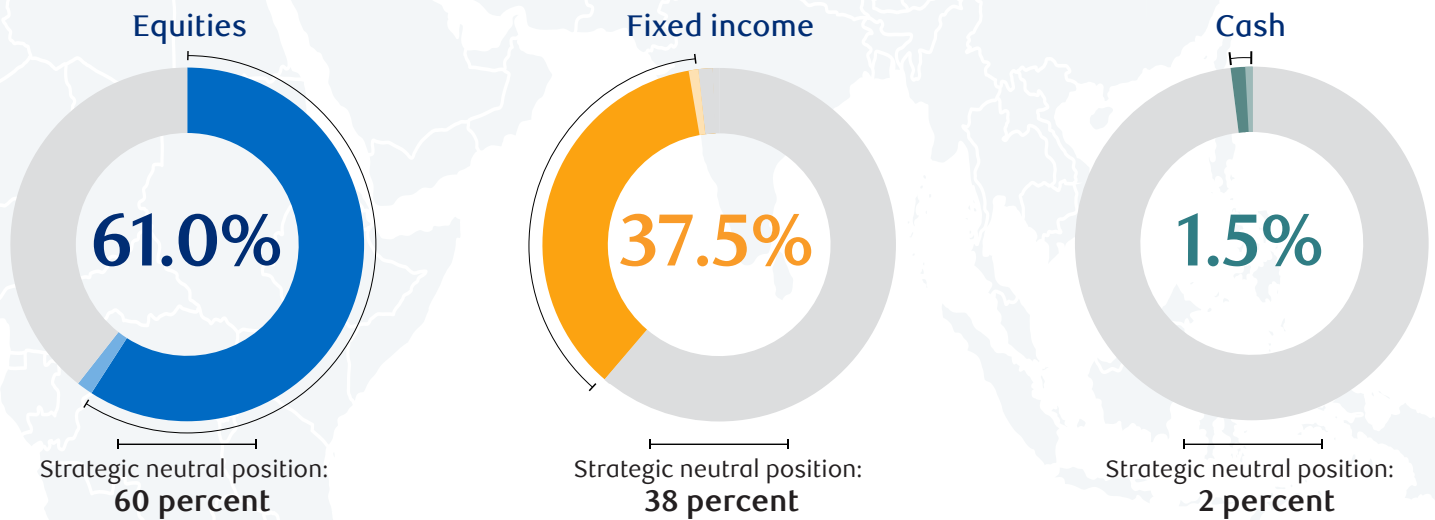
on the losing end as AI threatens to disrupt their businesses, while massive investment in the build-out of compute capacity has benefited hardware suppliers. Following the strong gains of the past quarter, stocks are pricing in an optimistic scenario, assuming that the supportive macro backdrop and rapidly growing profits persist. We expect many of the positive tailwinds to last and are cognizant that earnings expectations continue to surprise to the upside. But if the outlook were to worsen, stocks would be vulnerable from this lofty starting point.

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

Our base-case scenario sees inflation pressures subsiding at some point next year while economies continue to expand and support corporate profit growth. In this environment, we expect low-to-mid single-digit returns in bonds with slightly higher returns for stocks, the latter being limited by currently high valuations. We narrowed our prior underweight in fixed income by 50 basis points, sourced from cash, reflecting the improved return potential following the latest rise in yields. We maintained a slight overweight position in stocks given our view that equities are likely to outperform bonds, but low equity

risk premiums and high valuations have us opting against boosting risk exposures despite a promising AI narrative. We neutralized our prior overweight in emerging market equities, crystalizing profits after a strong run and reducing exposure to the region's high concentration in semiconductor stocks. We lowered Europe from overweight to underweight and placed the proceeds into the U.S., which moved to a slight overweight from underweight last quarter. For a balanced global investor, our current recommended asset mix is 61.0% equities (strategic "neutral": 60.0%), 37.5% bonds (strategic "neutral": 38.0%) and 1.5% cash.

**Recommended asset mix**  
RBC GAM Investment Strategy Committee



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

# Economic & capital markets forecasts

## Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026	Summer 2026	Change from Spring 2026
<b>Real GDP</b>														
2025A	2.11%		1.74%		1.47%		1.39%		1.19%		5.01%		4.93%	
2026E	2.20%	(0.30)	1.40%	N/C	1.10%	(0.70)	1.10%	(0.40)	0.80%	(0.40)	4.80%	0.10	4.50%	(0.10)
2027E	2.40%	0.20	1.70%	N/C	1.60%	(0.10)	1.50%	(0.10)	1.20%	N/C	4.60%	0.10	4.60%	0.10
<b>CPI</b>														
2025A	2.71%		2.07%		2.13%		3.37%		3.19%		(0.08%)		1.83%	
2026E	3.40%	0.80	2.40%	0.20	3.10%	1.30	3.20%	0.90	2.30%	0.40	0.90%	N/C	2.90%	0.20
2027E	2.20%	(0.10)	2.00%	(0.10)	1.90%	N/C	2.30%	(0.10)	1.80%	N/C	1.20%	(0.10)	2.60%	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)

	May 2026 (%)	Forecast May 2027 (%)	Change from Spring 2026	1-year total return estimate* (%)
<b>Currency markets against USD</b>				
CAD (USD–CAD)	1.38	1.30	N/C	4.8%
EUR (EUR–USD)	1.17	1.26	N/C	6.6%
JPY (USD–JPY)	159.26	140.00	N/C	10.5%
GBP (GBP–USD)	1.35	1.40	N/C	4.2%
<b>Fixed income markets</b>				
U.S. Fed Funds Rate (upper bound)	3.75%	3.75%	0.50%	
U.S. 10-Year Bond	4.44%	4.75%	0.25%	2.0%
Canada Overnight Rate	2.25%	2.75%	0.50%	
Canada 10-Year Bond	3.41%	3.75%	0.25%	0.7%
Eurozone Deposit Facility Rate**	2.00%	2.50%	0.50%	
Germany 10-Year Bund	2.94%	3.25%	0.25%	0.3%
U.K. Base Rate	3.75%	4.25%	1.00%	
U.K. 10-Year Gilt	4.81%	5.00%	0.50%	3.4%
Japan Overnight Call Rate	0.73%	1.50%	N/C	
Japan 10-Year Bond	2.67%	2.50%	0.50%	4.2%
<b>Equity markets (Index levels)</b>				
S&P 500	7580	8000	850	6.7%
S&P/TSX Composite	34769	36050	200	6.0%
MSCI Europe	209	212	(14)	4.6%
MSCI United Kingdom	2971	3060	(250)	6.4%
MSCI Japan	2445	2500	(100)	4.3%
MSCI Emerging Markets	1752	1840	90	7.3%

\*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 2.25% on June 11, 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<sup>1</sup> and the volatility<sup>2</sup> of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

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

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

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

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

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

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<sup>1</sup>Average return: The average total return produced by the asset class over the period 1986 – 2026, based on monthly results.

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

Global asset mix							
	Benchmark policy	Allowable range	Summer 2025	Fall 2025	New Year 2026	Spring 2026	Summer 2026
Cash	2.0%	0.0% – 15.0%	1.0%	1.0%	2.0%	2.0%	1.5%
Bonds	38.0%	23.0% – 53.0%	38.0%	37.0%	37.0%	37.0%	37.5%
Stocks	60.0%	45.0% – 75.0%	61.0%	62.0%	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							
	Canada Universe* May 2026	Allowable range	Summer 2025	Fall 2025	New Year 2026	Spring 2026	Summer 2026
Global bonds							
Canadian Government	75.4%	20.0% – 100.0%	N/A	N/A	65.0%	60.2%	65.4%
Global Sovereign	0.0%	0.0% – 20.0%	N/A	N/A	0.0%	5.0%	0.0%
Cdn Investment Grade Corp.	24.7%	20.0% – 50.0%	N/A	N/A	35.0%	34.8%	34.7%
U.S. High Yield Corporate	0.0%	0.0% – 10.0%	N/A	N/A	0.0%	0.0%	0.0%

Note: Based on expected SCAD 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.

	MSCI** May 2026	Allowable range	Summer 2025	Fall 2025	New Year 2026	Spring 2026	Summer 2026
Global equities							
North America	72.5%	62.5% – 82.5%	70.3%	71.6%	72.8%	70.5%	72.8%
Europe	12.7%	2.7% – 22.7%	14.4%	13.4%	12.5%	13.9%	12.0%
Asia	6.6%	0.0% – 16.6%	6.8%	6.5%	6.3%	7.0%	7.0%
Emerging markets	8.3%	0.0% – 18.3%	8.6%	8.5%	8.4%	8.6%	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** May 2026	RBC GAM ISC Spring 2026	RBC GAM ISC Summer 2026	Change from Spring 2026	Weight vs. benchmark	
Energy	3.90%	4.29%	4.40%	0.11	112.8%	
Materials	3.46%	4.01%	3.46%	(0.55)	100.0%	
Industrials	11.66%	12.47%	12.16%	(0.31)	104.3%	
Consumer discretionary	9.33%	9.00%	7.83%	(1.17)	83.9%	
Consumer staples	5.20%	5.72%	3.70%	(2.02)	71.2%	
Health care	8.55%	9.77%	8.55%	(1.22)	100.0%	
Financials	15.74%	16.92%	15.74%	(1.18)	100.0%	
Information technology	28.69%	24.76%	29.69%	4.93	103.5%	
Communication services	9.06%	8.60%	10.06%	1.46	111.0%	
Utilities	2.61%	3.13%	3.11%	(0.02)	119.2%	
Real estate	1.80%	1.35%	1.30%	(0.04)	72.3%	

\*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	Benchmark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	73%	68-88%	72.0%	72.5%
Total Cash & Fixed Income	75%	60-90%	74.0%	74.0%
Canadian Equities	10%	0-20%	10.8%	10.6%
U.S. Equities	8%	0-18%	7.0%	8.4%
International Equities	7%	0-17%	8.2%	7.0%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	26.0%	26.0%
			Return	Volatility
40-year average			6.9%	4.7%
Last 12 months			9.9%	5.0%

**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	Benchmark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	58%	43-83%	57.0%	57.5%
Total Cash & Fixed Income	60%	45-75%	59.0%	59.0%
Canadian Equities	13%	3-23%	13.7%	13.5%
U.S. Equities	15%	5-25%	14.0%	15.4%
International Equities	12%	2-22%	13.3%	12.1%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	41.0%	41.0%
			Return	Volatility
40-year average			7.4%	6.0%
Last 12 months			14.0%	5.9%

**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	Benchmark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	38%	23-53%	37.0%	37.5%
Total Cash & Fixed Income	40%	25-55%	39.0%	39.0%
Canadian Equities	15%	5-25%	15.6%	15.5%
U.S. Equities	25%	15-35%	24.0%	25.5%
International Equities	15%	5-25%	16.0%	15.0%
Emerging Markets	5%	0-15%	5.4%	5.0%
Total Equities	60%	45-75%	61.0%	61.0%
			Return	Volatility
40-year average			8.0%	7.6%
Last 12 months			20.8%	7.7%

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	Benchmark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	23%	8-38%	22.0%	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%	29.0%	30.5%
International Equities	19%	9-29%	20.1%	19.0%
Emerging Markets	8%	0-18%	8.4%	8.0%
Total Equities	75%	60-90%	76.0%	76.0%
			Return	Volatility
40-year average			8.3%	9.5%
Last 12 months			25.9%	9.0%

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	Benchmark	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%	29.6%	29.5%
U.S. Equities	38%	28-48%	37.0%	38.5%
International Equities	20%	10-30%	21.0%	20.0%
Emerging Markets	11%	1-21%	11.4%	11.0%
Total Equities	98%	83-100%	99.0%	99.0%
			Return	Volatility
40-year average			8.9%	11.9%
Last 12 months			34.2%	10.6%

**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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The U.S. dollar appreciated against most major developed-market currencies over the three months ended May 31, 2026. The greenback was up 2.0% against the Japanese yen, 1.3% against the euro, 1.1% against the Canadian dollar and relatively flat versus the British pound. The Iran war, which began February 28th, initially boosted the U.S. dollar. Investors sought safety in U.S. assets, drawn by the nation's energy independence and relative stability. However, the dollar gave back some of those gains as the U.S. interest rate advantage narrowed, fiscal concerns persisted and progress toward a resolution remained slow and uneven.

## Developed-market currencies over the past quarter

- The **yen** underperformed, weighed down by the Bank of Japan's reluctance to raise rates despite inflation consistently above its 2% target, though currency intervention prevented steeper losses.
- The **euro** weakened, pressured by deteriorating growth and rising inflation from the oil supply shock.
- Canada's weak economy and uncertainty around the North American trade pact renegotiation dragged down the **loonie**.

- The **pound** proved more resilient, as the UK economy is less dependent on oil and gas.

Over one year, the U.S. dollar strengthened 10.7% against the yen, was essentially flat against both the Canadian dollar and pound, but declined 2.7% versus the euro.

## Global fixed income markets

Global fixed income returns were negative in the latest quarter as bond yields rose across major markets in response to higher-than-expected inflation from the energy supply shock. Reflecting rapidly rising headline inflation, the futures market is now pricing in one rate hike from the U.S. Federal Reserve over the next year – a sharp reversal from the one to two cuts expected just a quarter ago. Market pricing is for at least one rate hike by other major central banks.

The U.S. 10-year yield rose 73 basis points to a high of 4.67% before dipping back to 4.44% at the end of May. As a result, the FTSE U.S. Government Bond Index, down 1.3%, fared best among major government bond indices. The FTSE Japanese Government Bond Index's 6.0% drop was the worst in U.S.-dollar terms. Over the 12-month period, FTSE U.S. Government Bond Index performed the best, up 5.2% compared with a 16.3% decline for the FTSE Japanese Government Bond Index, all in U.S.-dollar terms.

## Global equity markets

Global equities staged a strong recovery from the Iran war-driven sell-off as investors looked past geopolitical headwinds and refocused on the enduring growth potential of artificial intelligence (AI). The MSCI World Index shed nearly 10% in March before rallying 17% from the trough. It ultimately delivered a 7.3% return for the quarter ended May 31, 2026.

Technology stocks led markets higher, with semiconductor names at the forefront as demand for AI infrastructure continued to build, pushing corporate earnings estimates sharply higher. The U.S. and emerging markets closest to the AI CapEx cycle delivered the strongest returns. The S&P 500 Index and MSCI Emerging Markets Index gained 10.5% and 9.4% respectively in U.S. dollars. By comparison, the MSCI EAFE Index slipped 0.6%.

Over the one-year period, equities provided exceptional returns. Most broad market indices gained 20% to 50%, excluding the weaker markets of Germany and France.

With AI as the prevailing theme, large-cap technology stocks drove the bulk of earnings upgrades and performance this past quarter. U.S. large-cap stocks outperformed, with the S&P 500 outpacing the S&P MidCap 400 Index by 6.0 percentage points (pps) and the S&P SmallCap 600 Index by 3.5 pps.

Meanwhile, the Russell 3000 Growth Index outperformed the Russell 3000 Value Index by 7.9 pps. At the sector level, the gap between sectors was even wider:

- Information Technology surged 30.0%, far outpacing the next best performer, Communication Services, at 8.0%, while over half of all sectors suffered losses.
- Defensive sectors such as Consumer Staples and Health Care lagged as economic resilience amid the ongoing energy supply shock and elevated investor sentiment reduced demand for safety.
- Over the 12-month time frame, Information Technology was the best performing sector with a 54.2% gain and the Consumer Staples sector ranked last with a 2.1% return.



**Exchange rates**  
Periods ending May 29, 2026

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3787	1.07	0.44	0.46	0.52	2.70
USD–EUR	0.8573	1.30	0.75	(2.65)	(2.87)	0.95
USD–GBP	0.7426	0.07	0.09	0.05	(2.61)	1.08
USD–JPY	159.2650	1.99	1.68	10.68	4.56	7.78

Note: all changes above are expressed in US dollar terms

**Canada fixed income markets**  
Periods ending May 29, 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	(1.57)	1.27	2.52	3.72	(1.76)	(0.51)	2.99	4.25

**U.S. fixed income markets**  
Periods ending May 29, 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	(1.34)	0.43	5.22	4.00	0.16	(1.34)	5.22	4.00
BBg U.S. Agg. Bond Index TR <sup>1</sup>	(1.35)	0.38	5.13	3.95	0.17	(1.35)	5.13	3.95

**Global fixed income markets**  
Periods ending May 29, 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	(1.79)	0.38	2.51	2.75	(2.72)	(0.80)	2.71	3.21
Bloomberg Pan-European Govt TR	(2.39)	0.20	3.79	5.84	(3.32)	(1.41)	3.99	6.31
FTSE Japanese Government TR	(6.03)	(5.38)	(16.32)	(10.51)	(11.64)	(2.76)	(13.94)	(9.34)

**Canada equity markets**  
Periods ending May 29, 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	0.75	10.12	35.44	24.00	12.28	1.83	36.06	24.64
S&P/TSX 60	2.08	9.28	31.71	22.84	11.84	3.17	32.31	23.47
S&P/TSX Small Cap	(0.67)	22.31	72.96	31.67	12.98	0.40	73.76	32.35

**U.S. equity markets**  
Periods ending May 29, 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	10.52	11.27	29.78	23.61	14.15	11.70	30.38	24.25
S&P 400 TR	4.56	13.27	25.87	17.45	8.08	5.67	26.45	18.05
S&P 600 TR	7.02	15.48	33.33	16.38	5.94	8.10	33.58	16.90
Russell 3000 Value TR	6.09	13.88	29.21	19.46	10.21	14.96	42.52	20.84
Russell 3000 Growth TR	13.99	8.78	29.11	26.14	15.15	7.23	29.80	20.08
NASDAQ Composite Index TR	19.19	16.33	41.98	28.64	15.27	20.46	42.63	29.31

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

**Global equity markets**  
Periods ending May 29, 2026

Equity markets: Total return	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	7.28	10.49	27.49	21.89	11.96	8.36	27.73	22.43
MSCI EAFE TR *	(0.65)	9.37	22.80	18.15	8.79	0.35	23.03	18.68
MSCI Europe TR *	(0.98)	6.81	19.96	17.65	8.99	0.02	20.18	18.17
MSCI Pacific TR *	8.34	26.89	52.83	25.23	8.85	9.43	53.12	25.79
MSCI UK TR *	(3.18)	7.04	22.97	19.33	11.65	(3.18)	22.97	19.33
MSCI France TR *	(4.28)	1.82	11.20	10.63	6.05	(3.32)	11.41	11.13
MSCI Germany TR *	(2.22)	2.19	6.07	19.02	6.81	(1.23)	6.27	19.55
MSCI Japan TR *	0.35	16.15	31.74	20.21	9.50	1.36	31.99	20.75
MSCI Emerging Markets TR *	9.39	25.61	54.31	25.15	7.54	10.49	54.60	25.71

**Global equity sectors**  
Periods ending May 29, 2026

Sector: Total return	USD					CAD		
	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	2.91	26.26	43.63	18.63	19.12	3.95	43.90	19.16
Materials TR *	(3.59)	16.05	34.75	17.35	7.21	(2.62)	35.01	17.87
Industrials TR *	(2.21)	12.00	23.18	23.00	11.60	(1.23)	23.42	23.54
Consumer discretionary TR *	4.38	1.14	11.91	15.56	5.57	5.43	12.12	16.08
Consumer staples TR *	(8.14)	4.77	2.10	6.97	4.37	(7.22)	2.30	7.45
Health care TR *	(6.75)	(3.01)	12.09	6.16	4.41	(5.82)	12.31	6.64
Financials TR *	1.47	0.47	14.63	25.21	11.83	2.49	14.85	25.76
Information technology TR *	30.04	24.00	54.19	33.59	21.51	31.34	54.48	34.18
Communication services TR*	8.05	8.45	34.83	30.32	12.04	9.13	35.08	30.90
Utilities TR *	(5.73)	6.79	16.60	15.67	8.99	(4.78)	16.82	16.19
Real estate TR *	(2.88)	7.40	8.62	9.70	1.55	(1.90)	8.82	10.18

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



# Economic outlook

## The bottleneck and the breakthrough



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

Two major forces are presently dominating the macroeconomic debate: the perils associated with the ongoing global energy shock (Exhibit 1) versus the rapid advancement and great promise of artificial intelligence (AI).

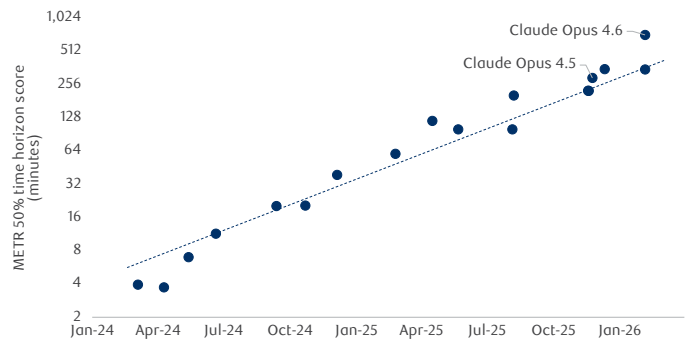
On the back of surging capital expenditures, large language models (LLMs) continue to improve at an exponential pace (Exhibit 2), with tentative evidence of AI-related productivity gains starting to manifest. The stock market has been highly enthused by this progress.

**Exhibit 1: Crude oil prices surge in the wake of the Iran War**



Note: As at June 2, 2024. Source: Bloomberg, Macrobond, RBC GAM

**Exhibit 2: AI models are becoming exponentially more capable**



Note: As at March 20, 2025. Source: METR, RBC GAM

Conversely, the energy shock resulting from the war with Iran has caused the prices of oil, natural gas and its distillates to surge, palpably increasing inflation (Exhibit 3) and theoretically damaging growth. But, in practice, economies have so far proven surprisingly resilient in the face of this shock (even if we do continue to budget for some damage eventually bubbling to the surface). Fortunately, this energy shock should prove temporary and may be resolved relatively shortly.

Alongside these factors, the pace of economic growth has been solid, with manufacturing purchasing managers' indexes (PMIs) broadly accelerating over the past several months (Exhibit 4). The risk of recession is low.

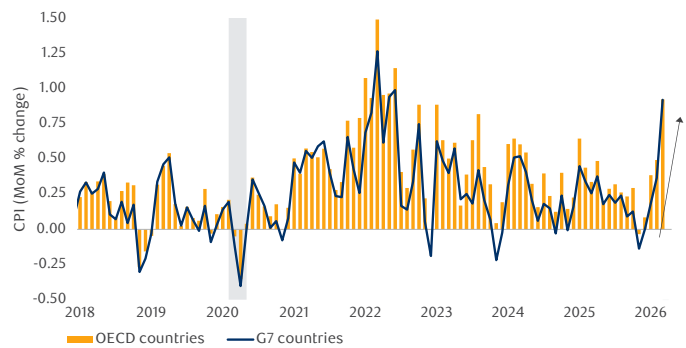
Our recommended asset mix added slightly to fixed income (out of cash) this quarter now that bond yields have risen to more attractive levels. Equities remain a slight overweight relative to fixed income due to the prospect of further economic and earnings growth and anticipated support from AI-related forces. Already-full valuations discourage a bolder stance. Regionally, the allocation to U.S. equities rose versus an incremental reduction from Europe, where the energy shock hurts more, geopolitical risks are higher and AI is less of a support for growth. We also slightly reduced the allocation to emerging markets, where memory chip makers have gone on quite a run and may now be vulnerable.

### Temporary energy bottleneck

The war with Iran is now three months old, and while oil prices are not quite as astronomically high as feared and the stock market is showing a stiff upper lip, the fact remains that – at the time of writing – the war is not yet resolved.

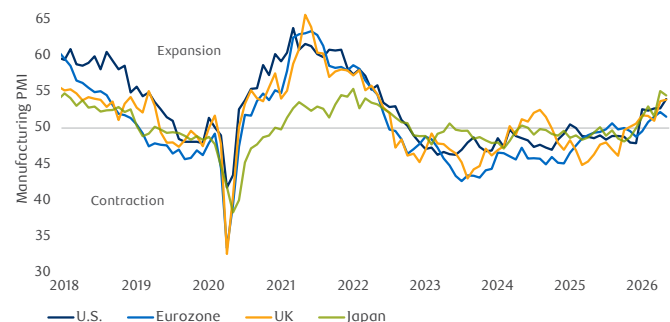
The fighting has substantially subsided, which for most wars would be the end of the story. But in this instance, the fact that the Strait of Hormuz – a narrow shipping channel through which about 20% of the world's oil and liquid natural gas would normally flow – is still closed means that the central economic problem created by the war has not yet been solved (Exhibit 5).

**Exhibit 3: Global inflation has risen sharply since the start of Iran War**



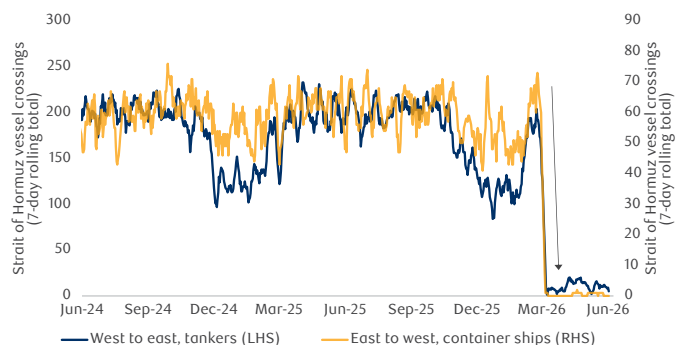
Note: As of March 2026. Shaded area represents U.S. recession. Source: OECD, Macrobond, RBC GAM

**Exhibit 4: Manufacturing activity shows surprising strength**



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

**Exhibit 5: Strait of Hormuz remains largely closed despite ceasefire**



Note: As of June 02, 2026. Source: Bloomberg, RBC GAM

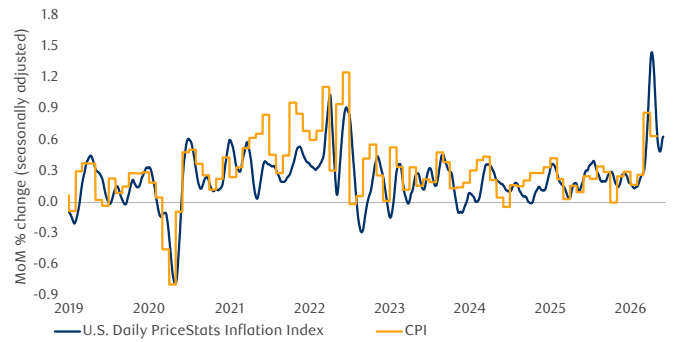
This lingering bottleneck means global oil prices and regional natural gas prices are still elevated, and the supply of refined products has been especially pinched in some markets. Inflation has accordingly accelerated over the past several months (Exhibit 6).

The economic consequences of the war are theoretically greatest for Asia and Europe, which are the primary consumers of the energy that would normally flow from the Middle East (Exhibit 7). Conversely, North America is much less affected for two reasons: it consumes far less energy from the region, and the U.S. and Canada are both net energy exporters, meaning that significant subsets of their economies actually profit from the energy shock.

U.S. economic data in particular has largely shrugged off the effects of the war, with weekly jobless claims still quite low – a doubly impressive accomplishment given parallel concerns about AI-related job destruction (Exhibit 8).

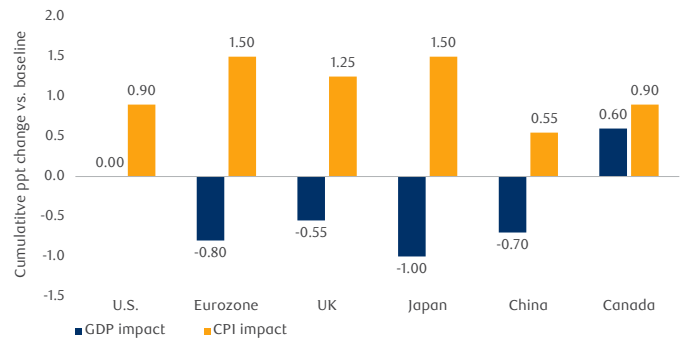


**Exhibit 6: U.S. inflation has accelerated due to oil spike**



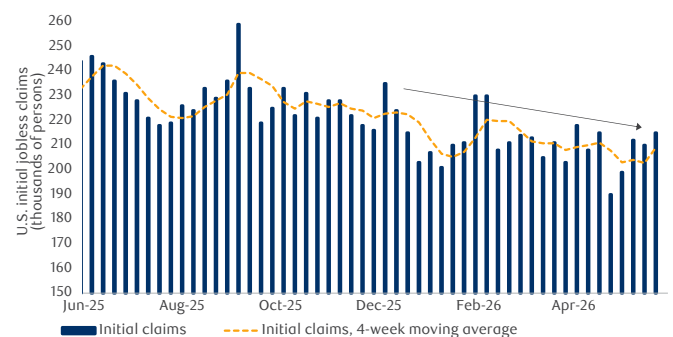
Note: PriceStats Inflation Index as of May 30, 2026, CPI as of April 2026. Source: State Street Global Markets Research, RBC GAM

**Exhibit 7: Economic impacts of an energy shock vary by region**



Note: As at March 9, 2026. Assumes a permanent \$40/bbl increase in oil prices and 50% increase in natural gas prices. Source: Bloomberg Economics, OECD, RBC GAM

**Exhibit 8: U.S. jobless claims are low and steady**



Note: As of the week ending May 23, 2026. Source: DOL, Macrobond, RBC GAM

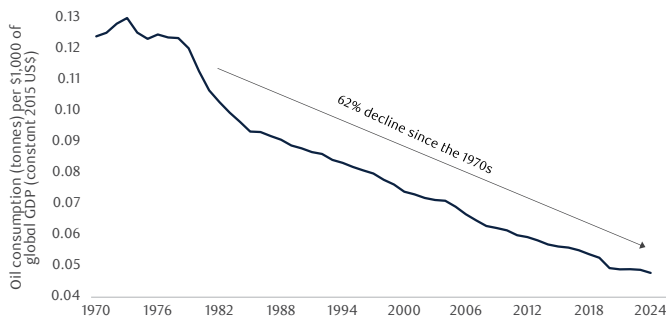
The damage to Asia and Europe has also been less acute than feared. This is in part because the global economy is much less energy-intensive than in decades past – energy consumption per unit of economic output has declined by a remarkable 62% since the energy shocks that plagued the 1970s (Exhibit 9). Developed Asia and Europe are particularly light users of the affected energy products (Exhibit 10). Many national governments have also chosen to subsidize the cost of energy in their markets, partially transferring what would have been an economic and inflation irritant onto the fiscal ledger.

The U.S. has been quite transparent in desiring a resolution to the war, and this makes sense given the domestic political

backlash the White House is suffering over the rising cost of living (Exhibit 11). Iran has taken a harder line, but also surely desires a resolution: it has been struck more than 25,000 times by the U.S. and Israel, its supply of munitions is greatly diminished, the Iranian economy is in shambles, China is exerting pressure on its ally, and Iranian leadership likely fear being targeted.

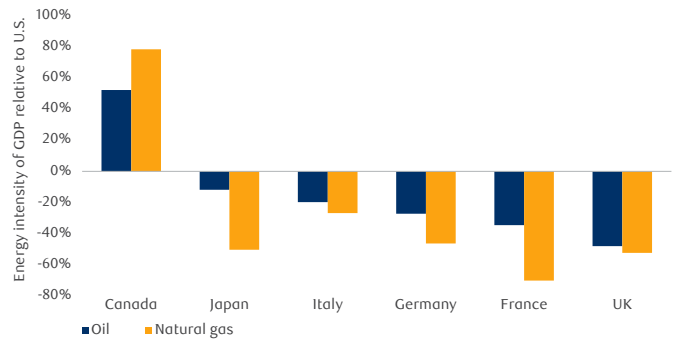
We and financial markets alike anticipate a near-term resolution to the war and reopening of the Strait of Hormuz. Consistent with this, both parties are attempting to hash out a deal. In turn, a widespread recession is unlikely, and recession probability markets have accordingly fully unwound their initial trepidations (Exhibit 12).

**Exhibit 9: The global economy has become much less oil intensive over the past 50 years**



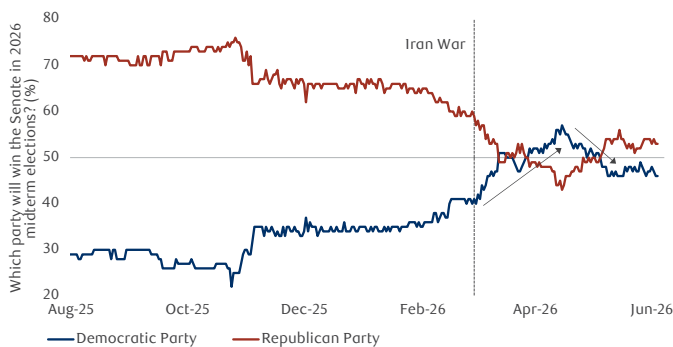
Note: As of March 18, 2026. Source: BP Statistical Review of World Energy, UN Trade and Development, Macrobond, RBC GAM

**Exhibit 10: G7 oil and gas intensity relative to the U.S.**



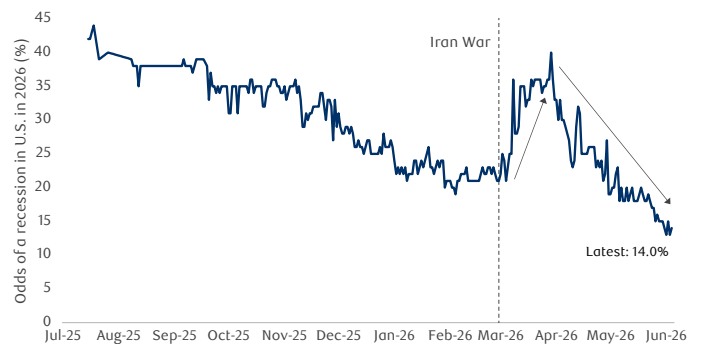
Note: As at May 24, 2026. Data is for 2024. Energy intensity measured as MJ of oil and natural gas consumption per dollar of constant 2015 US\$ GDP. Source: BP Statistical Review of World Energy, UN Trade and Development, RBC GAM

**Exhibit 11: Senate race has tightened since Iran War**



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

**Exhibit 12: Odds of U.S. falling into a recession in 2026 have fully reversed**



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

Should the Strait of Hormuz instead be blocked for significantly longer, damage could begin to accelerate on a number of fronts, from second-round inflation effects that traditionally become stronger once energy shocks have persisted for more than three months, to acute shortages of particular products ranging from jet fuel to sulfur to helium. Supply chain pressures have already begun to mount (Exhibit 13).

This war also highlights several pre-existing themes. The prior rules-based order is in decline, and a power-based order in which the mightiest countries impose their will upon the world is now seemingly ascendant. It is therefore a more dangerous world, with military spending on the rise (Exhibit 14) and slightly larger investment risk premiums arguably justified across a range of assets.

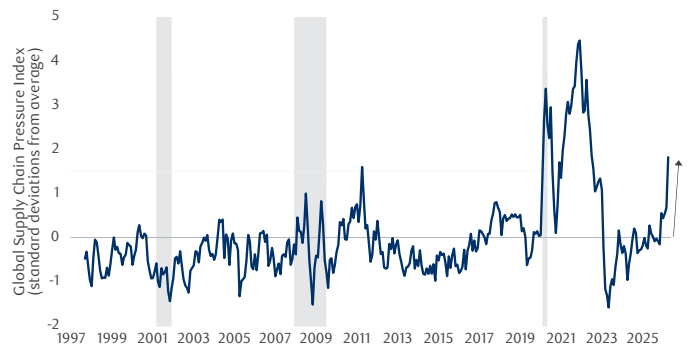
### Artificial intelligence breakthrough

While the war with Iran will hopefully be resolved shortly, the rapid advancement of artificial intelligence is a theme that is unlikely to relinquish its grip anytime soon. The technological breakthrough appears destined to be the dominant economic and investment story of this era given the extent to which it promises to boost productivity, create corporate winners and losers, change how people work, and perhaps even alter society itself.

Concerns about AI have gained new prominence in 2026, with potentially disrupted software companies beaten down and anxiety about job losses taking centre stage. It must be emphasized that, so far, the overall U.S. labour market has held together as per a still-low unemployment rate. While there is some evidence that recent university graduates in AI-impacted fields are doing moderately worse, even this is not certain as other research argues that this trend actually began with the shift toward working from home after the pandemic, which has made it harder to train new hires.

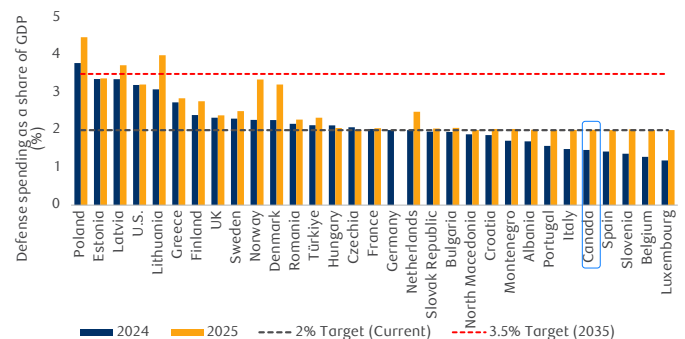
In the meantime, the most visible aspect of the AI revolution has been the incredible surge in capital expenditures undertaken by the corporate behemoths building out and scaling their new models (Exhibit 15). This spending continues to rise at a remarkable pace, contributing materially to U.S. economic growth in 2026 and with the prospect of further support in subsequent years. The many companies that provide the hardware and services necessary to expand data centres are naturally thriving.

**Exhibit 13: Global supply chain pressure rising sharply**



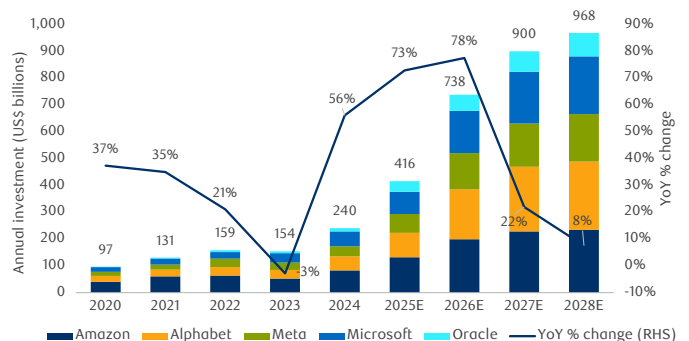
Note: As of April 2026. Shaded area represents U.S. recession. Source: Gianluca Benigno, Julian di Giovanni, Jan J. J. Groen, and Adam I. Noble, "A New Barometer of Global Supply Chain Pressures," Federal Reserve Bank of New York Liberty Street Economics; Macrobond, RBC GAM

**Exhibit 14: Rising defense spending**



Note: As at June 3, 2025. 2024 and 2025 expenditure are estimates. 2025 data not available for Germany. Source: NATO, RBC GAM

**Exhibit 15: Hyperscalers are expected to continue ramping up CapEx**



Note: As at June 03, 2026. Source: Bloomberg, RBC GAM

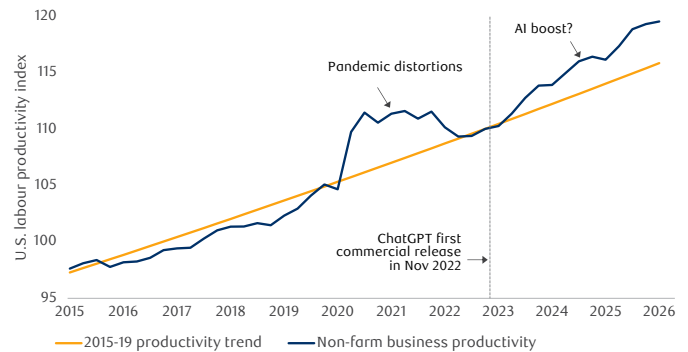
Memory chip makers have shone particularly brightly within this AI-supply ecosystem. While there is no evidence that the demand pressures or supply constraints that have enabled their outsized profit margins are about to reverse, the industry has a long history of boom-bust cycles and so investor risk in this segment is not trivial. This concern is particularly acute as hyperscalers express dissatisfaction with the fact that over half of the cost of an AI chip is now the memory embedded within it.

Of course, buying up computer hardware is just a means to an end. The goal of all this AI spending is to create a general artificial intelligence that greatly increases productivity. Promisingly, the large language models at the centre of this revolution have been improving by a remarkable 6.4-fold per year in recent years. We believe the recent visible acceleration in overall U.S. productivity growth means that the benefits of the new technology are starting to be realized (Exhibit 16).

Given the great uncertainties surrounding AI, we continue to think in terms of multiple scenarios (Exhibit 17).

There is a 25% chance that AI proves important but ultimately falls short of its seemingly infinite promise: it

**Exhibit 16: U.S. labour productivity growth has accelerated since ChatGPT's release**



Note: As of Q1 2026. Source: Macrobond, RBC GAM

adds incrementally to productivity growth and proves useful across a range of tasks, but does not greatly change how businesses operate or lives are lived. If such a ho-hum outcome seems hard to fathom, just consider that video conferencing did not end business travel, nor did the internet and its nearly infinite information render schools redundant, narrow the gap between haves and have-nots, or end in-person shopping.

**Exhibit 17: AI scenario road map**

	General purpose technology		Unprecedented disruptor			
	1. Minor	2. Major	3A. Dystopia	3B. Utopia	3C. Mixed	
<b>Description</b>	<ul style="list-style-type: none"> <li>AI improvement slows/stalls</li> <li>Relatively narrow applications</li> <li>Poor tech ROI</li> </ul>	<ul style="list-style-type: none"> <li>AI continues to improve</li> <li>Broad applications</li> <li>Some labour market disruption, but new jobs created</li> <li>Solid tech ROI</li> </ul>	<ul style="list-style-type: none"> <li>Rapid improvement in AI capabilities</li> <li>Broad and profound applications threaten to displace many workers</li> </ul>	<ul style="list-style-type: none"> <li>Economic disaster</li> <li>Widespread job losses, falling demand outweigh productivity gains</li> </ul>	<ul style="list-style-type: none"> <li>Abundance!</li> <li>Surging government revenues allow for broad income re- placement</li> </ul>	<ul style="list-style-type: none"> <li>AI tax limits displacement</li> <li>Labour partially compensated</li> </ul>
<b>Probability</b>	25%	45%	3%	3%	24%	
<b>AI productivity shock</b>	<0.25%	0.5-2.5%	5%+			

Note: As at June 02, 2026. Productivity shock is initial increase in annual productivity growth. Source: RBC GAM

The most probable scenario, with a 45% chance, is that AI proves to be the next major general-purpose technology, heralding a golden era of faster productivity growth akin to the 1990s through early 2000s. In this scenario, AI does displace significant numbers of workers in certain sectors – as prior such technologies have done – but, as with those other technologies, it doesn’t ultimately impose a higher economy-wide unemployment rate because it creates enough wealth and new opportunities that workers are able to pivot elsewhere.

Also, do not underestimate the scope for rising demand – including for workers – in sectors that experience AI-related cost reductions. As an illustration, recall that computer spreadsheets were initially expected to sharply reduce the number of accountants since much of their job to that point was manually logging entries and calculating sums. And yet there are far more accountants today than before that revolution: the software greatly reduced the cost of providing accounting services, which in turn increased the demand for accounting.

On a similar note, 40 years ago it took a financial analyst several hours to produce a single chart tracking the price of a stock. Each data point had to be located in microfiche newspaper archives and strung together manually. By contrast, today that same chart can be created in a few seconds. This did not reduce the need for financial analysts by a thousand-fold; instead, the effective reduction in the cost of analysis meant that far, far more of the analysis was desired.

### Exhibit 18: Economic growth improved globally



Note: As of June 03, 2026. Source: Citigroup, Bloomberg, RBC GAM

Finally, with a 30% chance, perhaps AI really is completely different than any technology that has come before – in the speed of its arrival, its capacity for self-improvement and its potential to displace high-skill jobs. This scenario could end happily if the unbelievable productivity growth enabled a world of abundance and leisure. Or it could end very badly, with companies laying off their workforces and economic demand subsequently crumbling. Helpfully, if there was evidence of the latter trajectory, policymakers would presumably step in and tax AI in a way that achieves some semblance of balance between the new technology and workers’ needs, avoiding the worst-case version of this scenario.

Clearly, there are quite a number of paths this AI revolution could take. It promises to be a time of elevated uncertainty and creative destruction, with some companies winning and others losing. A common theme is that productivity growth picks up, and investors come out ahead in most (though not all) of the scenarios.

### Resilient economic backdrop

The economic backdrop remains surprisingly resilient despite the energy shock, with economic data in both the U.S. and the G10 better than it was a year ago (Exhibit 18).

The year began with promising tailwinds blowing, and even as geopolitical events distract, it is important not to lose sight of them (Exhibit 19).

### Exhibit 19: Growth tailwinds still exist for 2026

	U.S.	Canada	Rest of developed world
Monetary policy	+	+	+
Fiscal policy	++	++	++
Stock market wealth effect	++	++	++
AI CapEx	+	.	.
AI productivity	+	+	+
<b>Overall</b>	<b>++</b>	<b>+</b>	<b>+</b>

Note: As of June 03, 2026. Source: RBC GAM

While the benefit is fading and could yet reverse in the year ahead, the rate cutting delivered over the past two years still provides a slight boost to economic growth in 2026.

Meanwhile, the fiscal support for economic growth is only increasing. Alongside significant pre-existing stimulus from the U.S., Japan, Germany and Canada, geopolitical risks are prompting a further upgrade to already-bold military spending plans around the world. Widespread energy subsidies are now adding to the outlay. In the U.S., a court order to reimburse certain tariff payments is effectively adding another US\$85 billion of unplanned fiscal support to the American economy.

**Exhibit 20: Global financial conditions tightened amid Iran War, but have reversed**

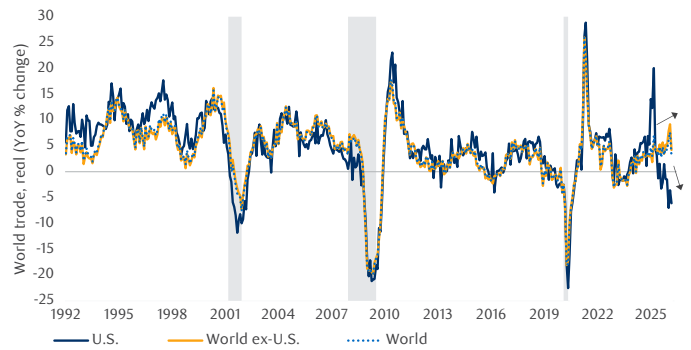


Note: As of June 03, 2026. Source: Goldman Sachs, Bloomberg, RBC GAM

Stock market strength continues to plump household balance sheets, with a fraction of those gains recycled via consumer spending into the economy. Indeed, after a brief Iran-related bump, financial conditions are easing and reasonably friendly toward economic growth (Exhibit 20).

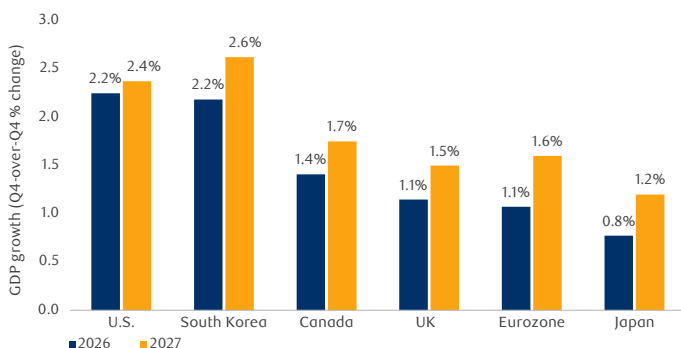
As previously discussed in some detail, artificial intelligence also provides important support for near-term economic growth, both in the way that rising capital expenditures are mechanically adding to demand, and via the promise of additional productivity gains.

**Exhibit 21: Globalization continues outside of the U.S.**



Note: As of March 2026. Shaded area represents U.S. recession. Source: CPB Netherlands Bureau for Economic Policy Analysis, Macrobond, RBC GAM

**Exhibit 22: RBC GAM GDP forecast for developed markets**



Note: As of June 01, 2026. Source: RBC GAM

**Exhibit 23: Growth outlook scorecard**

Growth outlook scorecard							
Country/Region	2026 GDP Forecast (Q4/Q4)	Forecast change vs. prior quarter	Level vs. potential	Momentum vs. prior year	Relative to other nations	Vs. consensus	Overall
U.S.	2.2	-	+	+	++	+	+
Canada	1.4	~	+	++	~	+	+
Eurozone	1.1	--	~	~	-	++	~
UK	1.1	--	-	~	-	+	-
Japan	0.8	--	~	+	--	~	-
South Korea	2.2	-	+	++	++	-	+

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

What about economic headwinds? Certainly, the energy shock is one, as already detailed. We anticipate at least a temporary dip in economic growth, but this should be fairly mild and partially reversed later.

Consumer spending growth is nothing special, albeit understandably so given slow hiring plus higher energy costs and mortgage rates. The hiring constraint is arguably just a fact of life given the sluggish population growth on display in the vast majority of the world’s developed nations. Fortunately, capital expenditures are carrying more than their usual share of economic growth.

Promisingly, the tariff headwind from 2025 has faded significantly this year, partly because much of the damage has already been significantly absorbed, partly because a significant subset of U.S. tariffs have been reversed via court action, and partly because the rest of the world took U.S. protectionism as a cue to engage more deeply with other trade partners, as evidenced by the remarkable acceleration in global trade excluding the U.S. over the past year (Exhibit 21).

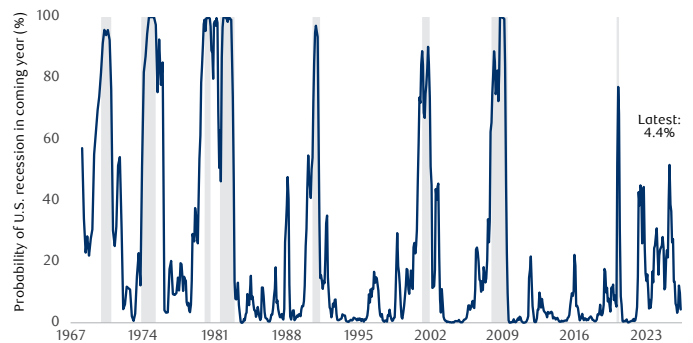
Although several worrying viruses are now circulating, the risk of an economically consequential pandemic is still quite low. From a weather perspective, the year ahead is very likely to experience the El Niño phenomenon, and possibly quite a strong version of it, which creates the potential for a mild hit to global economic growth as agricultural output suffers.

Overall, despite having revised the outlook downward relative to a quarter ago on the presumption of an energy-related dip through the middle part of the year, we do anticipate an economic rebound over the second half of 2026 and a similarly solid outlook for 2027 (Exhibit 22). Our GDP forecasts are still primarily above the consensus (Exhibit 23).

The risk of recession is low according to our preferred year-ahead U.S. model (Exhibit 24). Our business cycle scorecard indicates that the cycle is probably in the “mid” or “late” phase (Exhibit 25). While the latter may sound ominous, it usually still permits a number of years of additional economic growth.

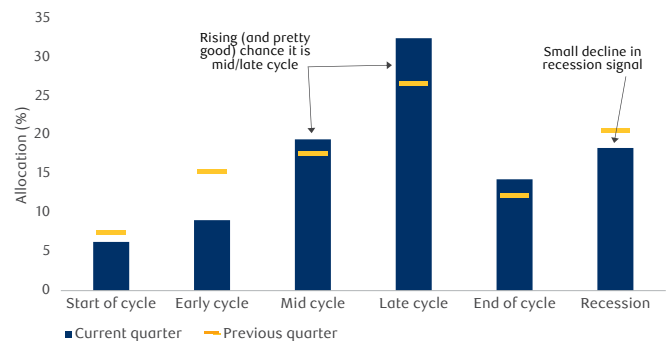
Our emerging market growth outlook similarly skews to above-consensus outcomes, and anticipates particularly speedy growth from India (Exhibit 26). China is discussed in more detail in a later section.

**Exhibit 24: The probability of U.S. recession within a year is low**



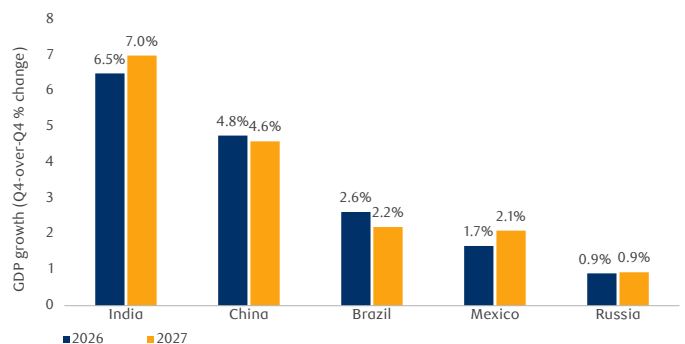
Note: As of May 2026. Based on RBC GAM model which includes financial and macro factors. Shaded area represents recession. Source: Haver Analytics, RBC GAM

**Exhibit 25: U.S. business cycle score**



Note: As at May 8, 2026. Calculated via scorecard technique by RBC GAM AM

**Exhibit 26: RBC GAM GDP forecast for emerging markets**



Note: As of June 01, 2026. Source: RBC GAM

### Temporarily challenging inflation

The near-term inflation outlook has alas been upgraded due to the leap in energy prices, with some additional lingering pressure from the lagged effect of last year’s tariff hikes.

The impact of the energy shock is starting to broaden, with our measure of inflation breadth revealing that consumer prices are now rising faster than normal across quite a range of product categories (Exhibit 27).

Although the war itself should soon be resolved, energy futures markets are pricing in some scarring in the form of energy prices that do not fully normalize post-conflict, and it is not clear that second-round price effects via higher transportation costs will fully reverse. In turn, inflation should be materially too high across 2026, and will likely remain elevated through the spring of 2027 before the mechanics of falling energy prices help pull inflation closer to target over the remainder of that year (Exhibit 28). These views are roughly consistent with the consensus.

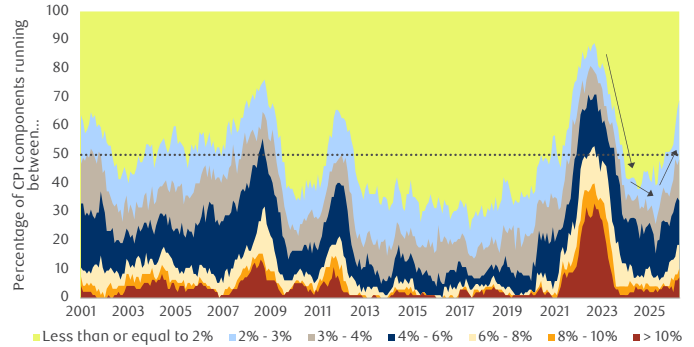
At the margin, El Niño should exert a mildly inflationary influence over the year ahead, while soft housing markets are deflationary. China should also continue to have a slightly deflationary influence on the world.

Over the longer run, our working assumption since the pandemic has been that inflation should average modestly above central banks’ 2.0% targets. The ascent of artificial intelligence introduces a new twist. Its central impact on prices over a multi-decade time horizon should be deflationary: new technologies are not generally embraced unless they save money. But the open question is the extent to which this proves visible over the next few years, and critically whether it can outweigh the inflationary aspects of the AI arms race currently underway, including surging hardware prices.

### Rotating monetary policy

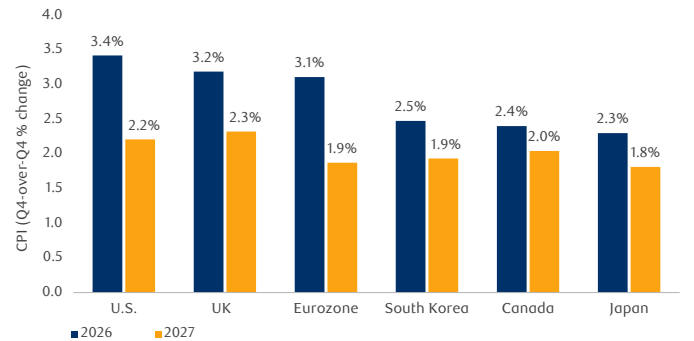
The era of monetary easing that marked the past several years is now seemingly coming to an end (Exhibit 29). That journey saw policy rates go from substantially restrictive levels to neutral or even slightly stimulative positioning for most major developed central banks. The U.S. was an exception, with a fed funds rate that is arguably still slightly

Exhibit 27: Inflation pressures broadening in U.S.



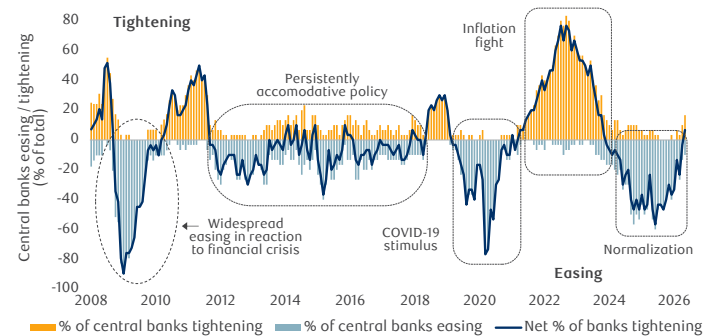
Note: As of April 2026. Share of CPI components with year-over-year % change falling within the ranges specified. Source: Haver Analytics, RBC GAM

Exhibit 28: RBC GAM CPI forecast for developed markets



Note: As of June 01, 2026. Source: RBC GAM

Exhibit 29: Monetary policy shifting from easing to hiking



Note: As of May 29, 2026. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

restrictive, but with enough AI- and fiscal-related horsepower to permit the economy to continue growing adequately.

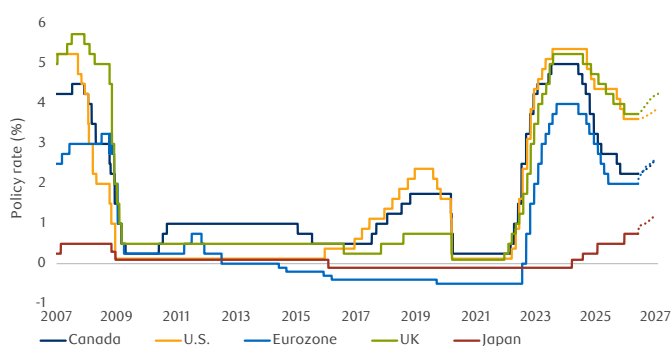
As they look to the future, central banks are now thinking more about rate hikes than cuts (Exhibit 30). This is an important changing of the monetary guard. Their motivation is the combination of still-resilient economic growth paired not just with higher energy prices, but some broadening of inflation pressures.

Certain developed-world central banks have already begun their tightening cycles, including the Reserve Bank of Australia and Norway's Norges Bank, but for most developed-world central banks there isn't any great urgency to act. The outlook is broadly for a few 25bps rate increases later this year or into next year, rather than urgent contractions.

The U.S. has a new Fed Chair with a slightly dovish inclination relative to his predecessor, and this, along with the slightly restrictive starting point for the U.S., points to an unchanged fed funds rate over the next year, in our view. That is nevertheless a pivot from the rate-cut expectations that prevailed a quarter ago.

Risk assets traditionally perform quite strongly during periods of economic growth that are paired with rate cuts, as demonstrated by the stock market strength in recent years. Periods of economic expansion that are combined with rate hikes tend to also be supportive but to a lesser extent.

**Exhibit 30: G7 central bank policy rates are expected to rise**



Note: As of June 03, 2026. Dotted lines indicate futures pricing.  
Source: Bloomberg, RBC GAM

## China's long-run promise

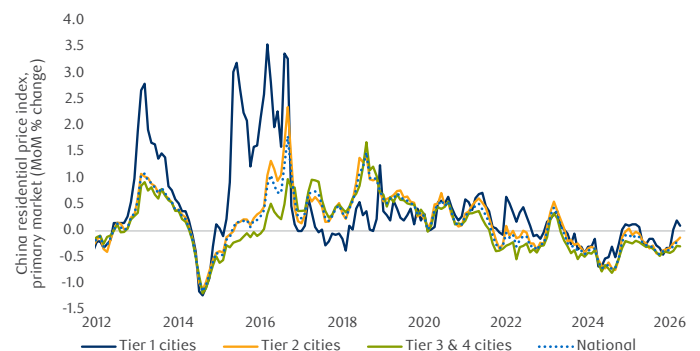
China's economy continues to be challenged by poor demographics, a soft housing market, reluctant consumers and the Middle Eastern energy shock. Still, it is notable that the country's economy still manages to grow at nearly 5% per year even without several traditional economic drivers. We forecast 4.8% Q4 over Q4 GDP growth for 2026, and 4.6% for 2027.

There is no near-term solution to China's demographic challenges (though, fascinatingly, policymakers there are trying harder than most countries to address this, not just via the abandonment of the one-child policy, but by recently ending a tax exemption on contraceptives and strengthening advertising restrictions for such products).

But there is a chance that the country's home prices could be bottoming out as per a recent increase in the value of big city home prices – often a leading indicator for the broader housing market (Exhibit 31). Any stabilization here could encourage more consumer spending.

While China does not relish the energy shock, it is probably experiencing less damage than the raw statistics showing China as the single largest importer of Strait of Hormuz energy suggest. Tempering factors include the fact that China's enormous economy renders those imports less critical than they would be to almost any other country; the country has a large reserve of coal power plants and a rising number of nuclear power plants to fill in the electricity gap;

**Exhibit 31: Home prices rise in major cities**



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

and much of the fossil fuels that China imports are normally then refined and re-exported. To the extent that China has instead opted to keep some of this product, the energy shock has been buffered for China itself, though exacerbated for developing Asian peers. China's oil reserves are also substantial and barely tapped at this point.

Where the Chinese economic story becomes exciting is over the long run. The country appears to have successfully made the leap from imitating developed nations to outright innovating at the technological frontier. China has emerged as the world leader in such technologies as electric cars, batteries, solar panels, robotics and drones, and is advancing rapidly in computer chips, artificial intelligence and pharmaceuticals.

Promisingly for future innovation, China now spends more on research and development than the U.S. (Exhibit 32). The disconnect between China's relatively low level of productivity and the incredible technologies it is building argue for a long runway of robust productivity growth ahead, and suggest that the Chinese economy has plenty of growth left in it.

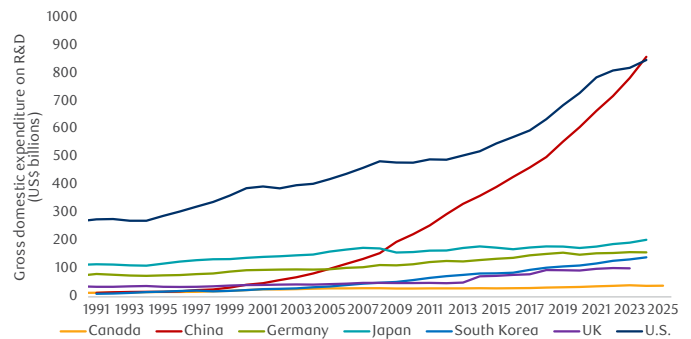
### Risks to the base-case view

Economic forecasting is an imprecise science, making it important to contemplate events and forces that could deviate from our base-case view.

There are several negative risks. In the geopolitical space, there is of course the chance that the energy shock persists for longer, raising inflation further, making it stickier and thus harder to reverse, and doing additional economic damage to Asia and Europe in particular. Other geopolitical risks include the possibility that the U.S.-NATO fracture deepens, Russia expands its military efforts in Eastern Europe, or China militarily pursues Taiwan.

From an American political perspective, this has been a time of bold and unconventional economic policies, with the deployment of tariffs a prime example. Possible downside risks include the U.S. Federal Reserve becoming significantly politicized, or a divided post-midterms Congress becoming gridlocked and struggling to pass budgets or increase the debt ceiling.

### Exhibit 32: China has surpassed U.S. in R&D spending



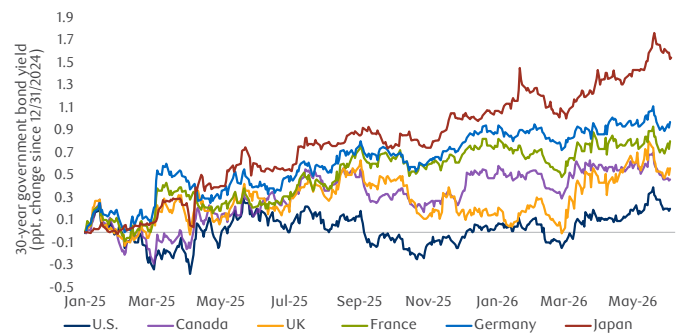
Note: As of 2025 for Canada, 2023 for UK, 2024 for all other countries. R&D expenditure in PPP-based constant prices using 2020 as base year. Source: OECD, Macrobond, RBC GAM



In the artificial intelligence space, downside risks include the manifestation of large-scale job destruction, evidence of further major sector disruption beyond software, any sign that the pace of CapEx is slowing, evidence that the pace of improvement in the quality of the AI itself is slowing, or signals that investors are beginning to question the valuations or monetization strategies of the key AI players.

Lastly, there are some financial market-related risks. The key among these is that bond yields continue to rise (Exhibit 33) due to some combination of fiscal excesses (Exhibit 34), inflation concerns, political dysfunction, and/or an opaque future as AI shakes the snow globe. More granularly, while private credit concerns have abated somewhat, risks in the space still exist and it is not impossible that these spill over into the banking sector. The yen carry trade is also worth watching given its enormous size as the Japanese central bank defends its currency.

### Exhibit 33: Long-term government bond yields have increased



Note: As of June 03, 2026. Source: Macrobond, RBC GAM

### Exhibit 34: Fiscal health scorecard

Country	Fiscal Health Index (1-5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current account (% of GDP)	Foreign-held debt (% share)	Committed spending share (%)	Currency control
U.S.	3.7	124	7.2	2.1	4.0	1.8	-3.6	26	70	Yes
France	3.5	116	5.0	1.6	2.1	1.1	-0.4	43	63	No
Belgium	3.5	106	5.4	2.0	2.3	1.3	-2.1	51	58	No
UK	3.4	102	4.9	1.6	2.8	1.4	-3.1	24	63	Yes
Italy	3.3	137	3.1	-0.6	3.9	0.7	1.2	30	61	No
Brazil	3.3	93	8.6	2.0	8.3	2.5	-3.0	10	66	Yes
Greece	3.1	146	-0.6	-4.8	3.5	1.6	-5.7	n.a.	61	No
South Africa	3.1	79	5.7	1.7	5.3	1.8	-0.5	24	39	Yes
Spain	3.0	100	2.7	-1.0	2.4	1.7	2.9	41	64	No
Japan	2.9	207	1.2	-4.0	1.5	0.6	4.8	12	67	Yes
Canada	2.8	114	1.4	-2.4	3.5	1.8	-0.9	22	63	Yes
Mexico	2.8	62	4.7	1.2	6.5	2.0	-0.4	20	n.a.	Yes
Norway	2.8	45	12.1	11.4	1.1	1.1	14.1	67	61	Yes
India	2.8	84	8.2	-0.2	5.1	6.5	-0.9	5	n.a.	Yes
China	2.7	127	7.5	-0.9	1.0	3.3	3.7	2	44	Yes
Finland	2.6	89	2.7	-0.9	1.6	1.2	1.3	49	64	No
Portugal	2.4	90	0.0	-2.8	2.1	1.6	1.2	45	62	No
Australia	2.4	51	3.7	1.4	1.7	2.3	-2.6	29	57	Yes
Germany	2.4	63	2.1	0.0	1.1	0.6	4.4	40	60	No
Russia	2.2	17	4.9	3.5	1.2	1.0	1.6	4	46	Yes
Turkey	2.0	23	2.8	-2.2	3.0	4.0	-1.9	37	56	Yes
Netherlands	1.9	43	2.1	0.6	0.7	1.2	8.8	36	59	No
Indonesia	1.8	41	2.9	-0.4	2.2	5.2	-0.1	35	32	Yes
South Korea	1.7	52	1.2	-1.3	1.0	1.9	6.6	17	n.a.	Yes
Ireland	1.5	33	-1.0	-2.0	0.6	2.3	8.2	47	62	No
Denmark	1.5	28	-2.3	-3.3	0.8	1.5	12.5	40	64	Yes
Sweden	1.4	35	0.8	-0.7	0.7	1.8	6.1	17	58	Yes

Legend	Extremely poor	Very poor	Poor	Fair	Good

Note: 2025 data for all indicators except interest payments (2024) and GDP growth (IMF forecast for 2031 used as proxy for "normal"). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

What about upside risks?

AI could boom even more remarkably than it has so far, creating additional wealth and delivering giant productivity and profit gains. Any such productivity boost could be substantially deflationary, removing inflation concerns and allowing central banks to cut rates – further boosting economic growth.

A global capital expenditure surge could occur, not just for AI-related reasons, but also as countries boost their military spending and resource security.

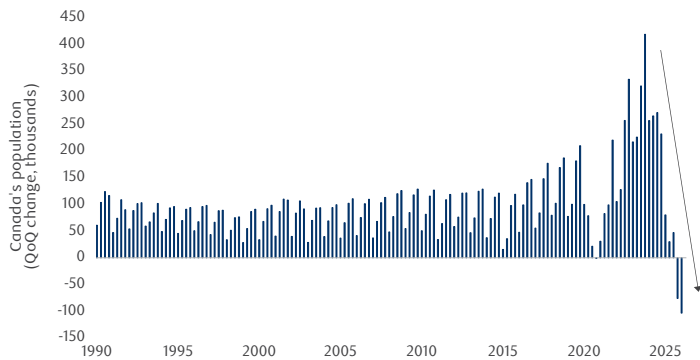
Related to this, nascent structural reforms in long-slumbering economies like the UK, the Eurozone, Japan and Canada could unleash additional investment and a sustained period of faster economic growth in those markets.

China’s economy could accelerate if its housing market actually does stabilize, which would encourage the country’s famously high private savings rate to fall and allow its consumer spending growth to become a globally relevant macro force.

### Canadian wobbles

The Canadian economy recorded a disappointing second consecutive quarter of economic contraction in the first quarter of 2026, though this wasn’t quite as bad as it looked given the truly minuscule decline, the counterpoint that the

**Exhibit 35: Canada’s population shrinks as federal government cuts immigration**



Note: As of January 01, 2026. Source: Statistics Canada, Macrobond, RBC GAM

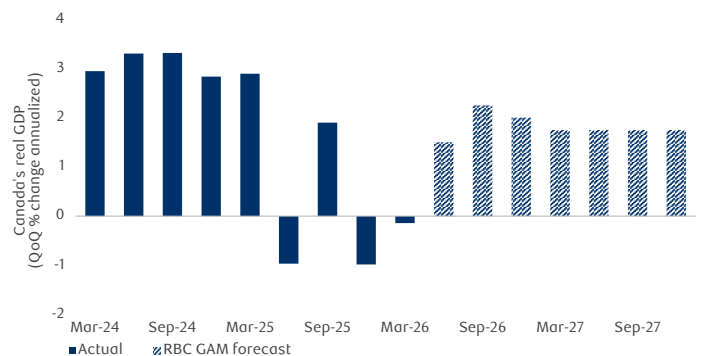
industry-based GDP estimate still rose, and the fact that Canada’s population is temporarily contracting (Exhibit 35). GDP per capita also rose over the quarter, which means that the average Canadian was not retrenching.

Still, it is certainly fair to concede that the Canadian economy has been underwhelming in recent quarters. The housing market has been a notable source of weakness for several years, and despite significant regional variation, is unlikely to become a national-level economic driver in the year ahead.

Trade policy uncertainty continues to weigh on growth, and while it is hard to gauge the outlook for this with much accuracy, we think a revised USMCA trade deal may not come until 2027 – extending the uncertainty. On the other hand, we believe any deal will likely either cement existing tariffs in place or incrementally reduce them. The risk of a significant deterioration is lower, though there will likely be moments during the negotiation when such outcomes seem probable.

We continue to anticipate some improvement to the Canadian economy over the second half of 2026 and beyond (Exhibit 36). Canada is hurt less than almost any other country by the current energy shock, has stimulative monetary policy in place, and has enjoyed a rollicking stock market. Fiscal policy is also supportive due to a mix of tax cuts and pro-growth regulatory reforms, and the recent shift from a minority to majority government increases the prospective stability of this supportive policy environment.

**Exhibit 36: Canadian economy to improve**



Note: Actual as of Q1 2026, RBC GAM forecast as of June 01, 2026. Source: Statistics Canada, Macrobond, RBC GAM

Businesses are not unaware of this support, with capital expenditure plans recently reviving (Exhibit 37). As with a variety of its peers, the Bank of Canada could eventually raise interest rates incrementally over the year ahead.

In a world that is increasingly prioritizing reliable access to resources, Canada has a distinct advantage as a relatively stable resource superpower (Exhibit 38). This could prove a long-term engine of growth for the country after a lengthy period of actively constraining the sector.

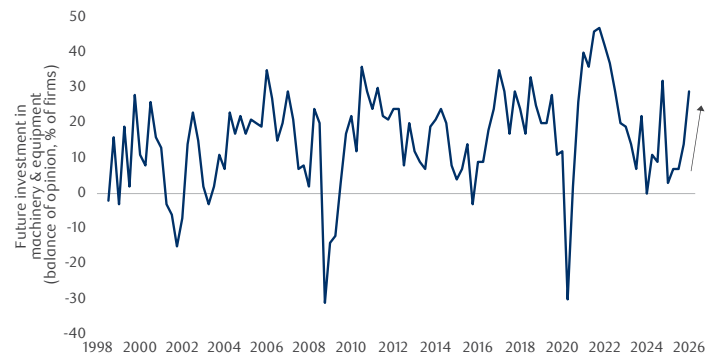
### Bottom line

In summary, the global economic outlook for the quarters ahead is characterized by two competing forces that will shape outcomes: a temporary but significant energy shock stemming from the Iran conflict, and a potentially transformative artificial intelligence revolution that promises lasting productivity gains. While elevated oil and gas prices have stoked near-term inflation pressures and created short-term headwinds for growth – particularly in Asia and Europe – the anticipated reopening of the Strait of Hormuz should provide relief in the months ahead.

Economies have demonstrated remarkable resilience thus far, supported by accommodative financial conditions, robust fiscal stimulus and surging AI-related capital expenditures. Central banks are pivoting from their multi-year easing cycle toward a more neutral or mildly restrictive stance, reflecting the growth backdrop and inflation concerns. Recession risks remain low, and we expect a rebound in economic momentum through the second half of 2026 as energy pressures fade.

From an investment perspective, our cautiously optimistic stance continues to favour equities, with a renewed tilt toward U.S. markets given their technological leadership, energy independence and robust earnings growth. While valuations are not compelling enough to warrant aggressive positioning, the combination of solid economic fundamentals, accelerating productivity, and the long runway for AI-driven gains supports maintaining modest equity overweights. Fixed income has become somewhat more attractive following the recent backup in yields, prompting a tactical shift from cash.

### Exhibit 37: Canadian business investment intentions are improving



Note: As of Q1 2026. Source: Bank of Canada Business Outlook Survey, Macrobond, RBC GAM

### Exhibit 38: Canadian resource wealth is significant and increasingly valued globally

Canada's global resource ranking		
Resource	Production	Reserves
Potash	1	1
Uranium	2	3
Diamonds	3	-
Aluminum	4	-
Crude oil	4	4
Platinum metals	4	5
Gold	4	8
Nickel	4	8
Natural gas	5	10
Wheat	5	-
Lithium	7	6
Cobalt	7	7
Iron ore	8	6
Corn	8	-

Note: As of 2024; crude oil reserves as of 2023. Crude oil production includes crude oil, shale oil, oil sands, condensates and NGLs. Source: Canadian Centre for Energy Information, Natural Resources Canada, Energy Institute Statistical Review of World Energy 2025, FAO, Our World in Data, RBC GAM



# Market outlook

## AI enthusiasm fuels earnings boom



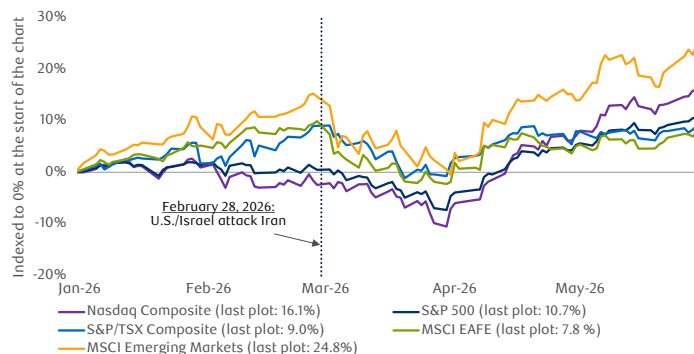
**Eric Savoie, MBA, CFA, CMT**  
 Senior Investment Strategist  
 RBC Global Asset Management Inc.

The past quarter featured swirling investor emotions and volatile financial markets as the war in Iran caused a surge in oil prices that stoked inflation concerns and threatened economic activity. Stocks suffered steep declines in March but quickly reversed course with a powerful rally to new highs as investors became increasingly confident that negotiations between the U.S. and Iran, even if chaotic at times, would eventually lead to a resolution (Exhibit 1).

Independent of Middle East conflict, important tailwinds have been boosting the outlook for corporate profits. Positive contributors include the massive spending related to artificial intelligence (AI), ample fiscal stimulus and productivity improvements due to companies adopting AI tools. Accordingly, S&P 500 earnings estimates have been upgraded

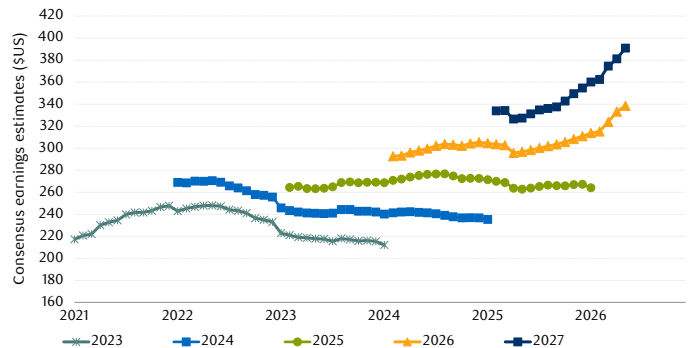
at an extraordinary clip (Exhibit 2). While the outlook remains rosy, it is undeniable that stocks have had an impressive run and that valuations are now demanding. As a result, should the enthusiasm around AI fade, stocks would be vulnerable especially in regions with higher AI-related exposure.

**Exhibit 1: Major equity market indices**  
 Cumulative price returns indices in USD



Note: As of May 29, 2026. Source: Bloomberg, RBC GAM

**Exhibit 2: S&P 500 Index**  
 Consensus earnings estimates



Note: As of May 29, 2026. Source: Bloomberg, RBC GAM

In fixed income markets, yields on government bonds increased amid firming inflation pressures that could cause central banks to raise interest rates. In our view, however, higher inflation readings are unlikely to be sustained and, as a result, the recent climb in yields has made bonds more appealing. At 4.44%, the U.S. 10-year yield is situated above our bond model’s equilibrium band, representing improved return potential and diminished valuation risk (Exhibit 3). While yields could climb slightly higher in the near term, any increase would likely be limited, and we don’t foresee an environment where fixed income investors experience meaningful sustained capital losses over our one-year forecast horizon.

Balancing the near-term challenges against the long-term opportunities, we continue to maintain an asset allocation relatively close to our strategic neutral, although there have been small adjustments over the past quarter. We took advantage of the rise in bonds yields to narrow our underweight position in bonds by 50 basis points, sourced from cash. Our slight overweight in stocks was unchanged, but the regional equity exposures were modified. Taking profits after a strong run, we reduced our exposure in emerging market equities to neutral from a slight overweight last quarter. We also moved our European overweight allocation to a slight underweight and shifted the proceeds from both these reductions to U.S. equities which was boosted to a modestly above-benchmark exposure from an underweight a quarter ago. This positioning, we think, allows us to benefit from the global economic expansion and rapid

corporate-profit growth driven largely by AI while at the same time recognizing that the backdrop of high equity valuations and a low equity-risk premium between stocks and bonds is not one where we want to be taking excessive risk. 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.

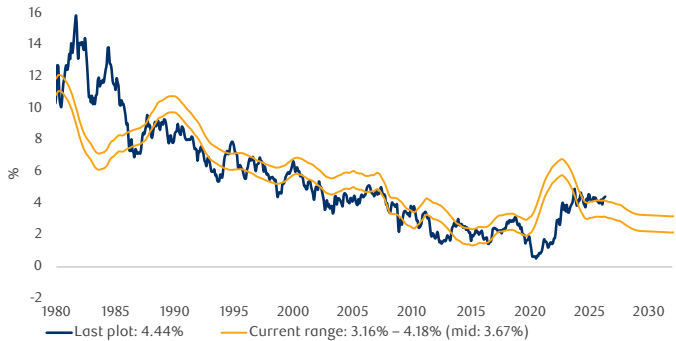
**Energy shock to linger despite progress on war**

Even if the conflict in the Middle East is resolved soon, one of the key challenges for the economy is that high oil prices are unlikely to fully normalize, acting as a headwind to growth and tailwind to inflation. The effects of the energy shock and the closure of the Strait of Hormuz are likely to persist, as economies will seek to re-build depleted supplies and perhaps boost inventories as contingency against future disruption. While a resolution to the war is expected in the relatively near term, the futures market suggests oil prices will decline but not entirely back to pre-war levels (Exhibit 4). Higher energy costs, if they are sustained, would result in cost increases throughout supply chains, ultimately feeding into prices paid by end consumers.

**Markets price in rate hikes ahead**

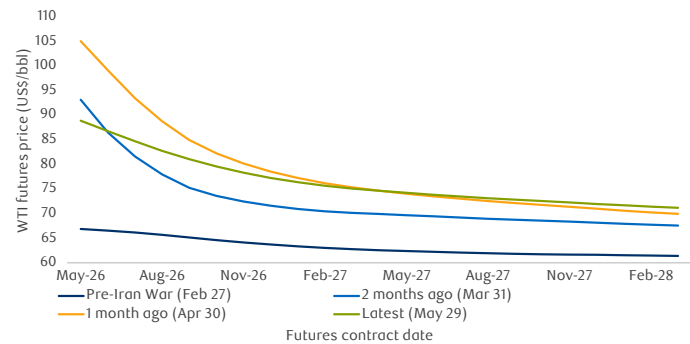
Inflation has already started creeping higher and central banks may need to consider raising interest rates in response. U.S. consumer price inflation has accelerated to 4.2% on a year-over-year basis from 2.4% just before the war, and the core measure, which excludes energy, also inched

**Exhibit 3: U.S. 10-year T-bond yield**  
Equilibrium range



Note: As of May 29, 2026. Source: RBC GAM

**Exhibit 4: Oil futures price curve**



Note: As at May 29, 2026. Source: Bloomberg, RBC GAM

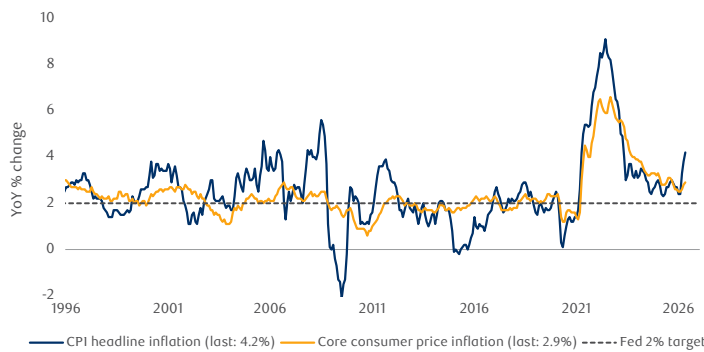
higher to 2.9% from 2.5% (Exhibit 5). As a result, pricing in the futures market has backed out any prior expectation of interest-rate cuts and now expects a slight increase in the fed funds rate over the year ahead (Exhibit 6). Reflecting higher inflation expectations, the market now implies two hikes by the European Central Bank (in addition to the 25-basis-point hike that was delivered on June 11, 2026), two hikes from the Bank of Canada and one hike from the Fed over the next 12 months from the end of May 2026 (Exhibit 7). While markets are pricing in an increasing probability that central banks will raise rates, we caution that any interest-rate decisions will ultimately depend on not just the actual course for inflation but whether central banks believe price pressures are merely

temporary. If the latter, central banks may not need to hike as much as is priced in.

### Higher yields improve return potential for sovereign bonds

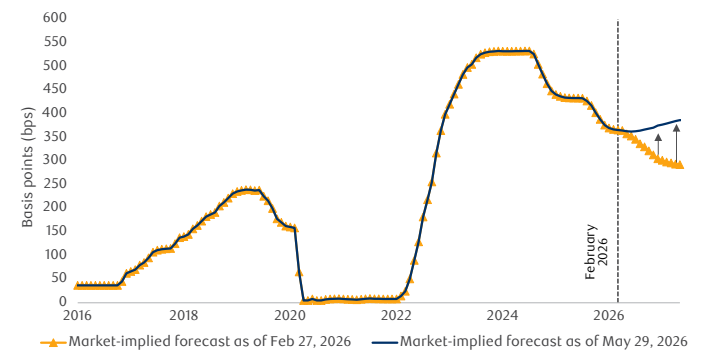
The expectation that inflation will remain higher for longer pushed bond yields up in most major regions. For the quarter ended May 31, 2026, sovereign bond yields rose anywhere from 25 to 60 basis points, depending on the country (Exhibit 8). Yields rose the most in Japan, the UK and the U.S., and rose less in Canada and Germany where inflation data wasn't as hot and economic data was weaker.

**Exhibit 5: U.S. inflation measures**



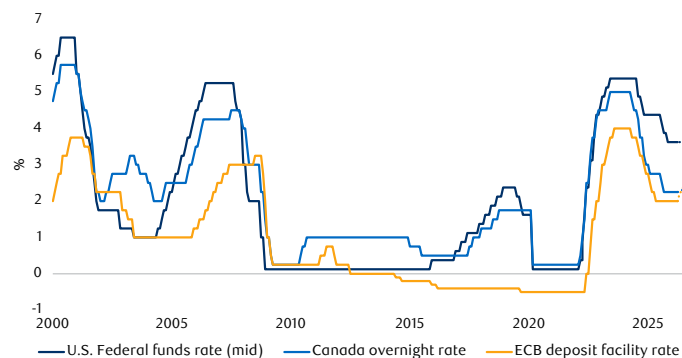
Note: As of May 31, 2026. Source: Bloomberg, RBC GAM

**Exhibit 6: Implied fed funds rate 12-months futures contracts**



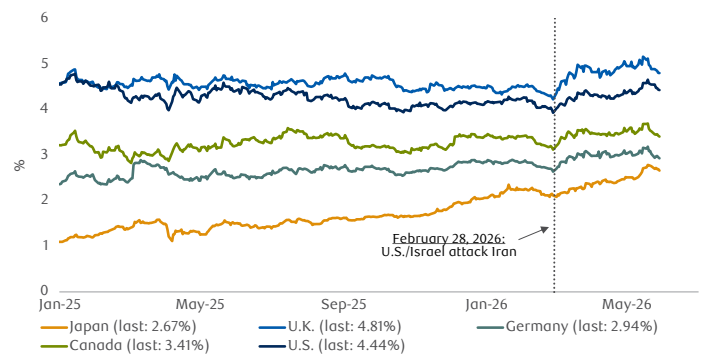
Source: Bloomberg, U.S. Federal Reserve, RBC GAM

**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 May 31, 2026. Source: Bloomberg, RBC GAM

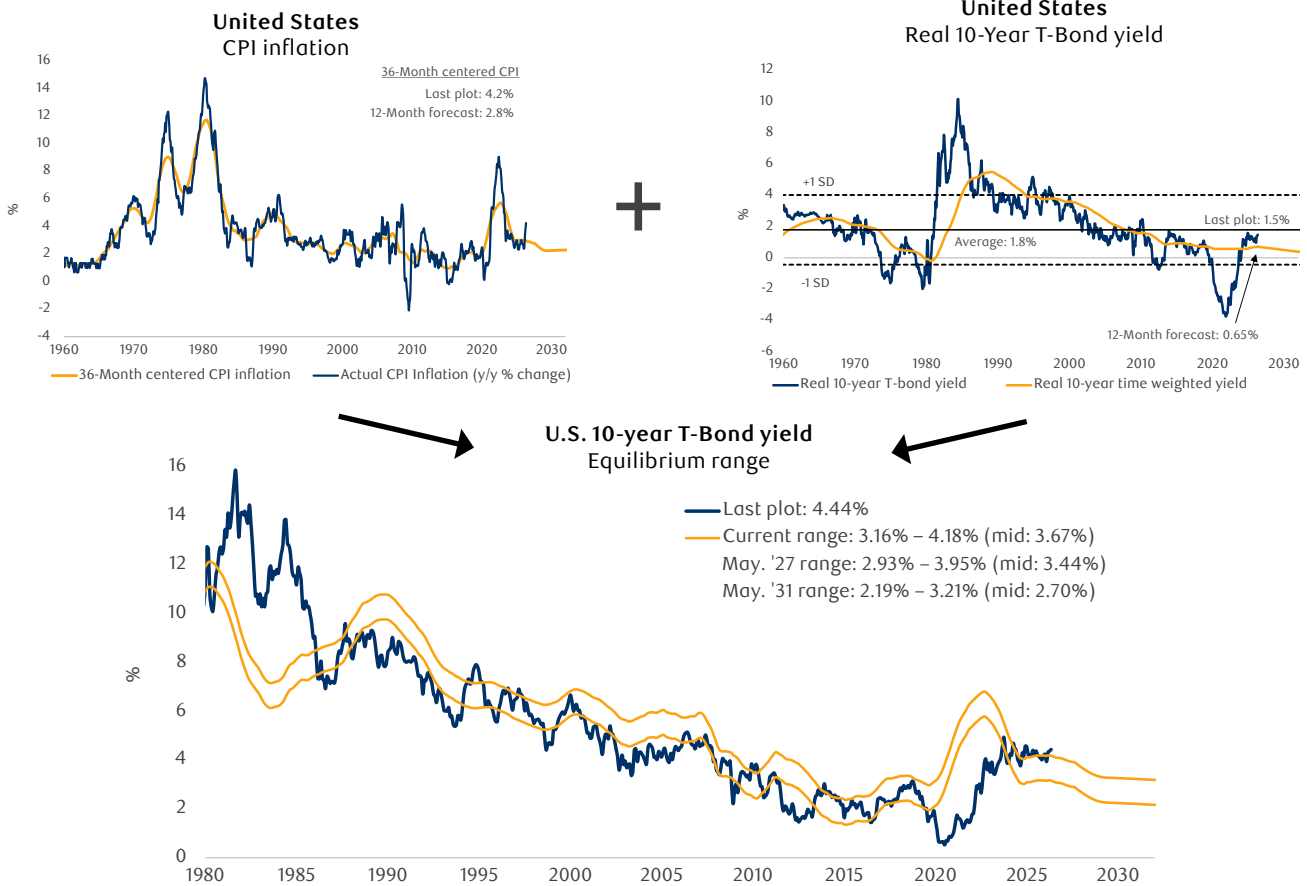
**Exhibit 8: 10-year government bond yields**



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

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

Fair-value estimate composition



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

According to our bond model, the U.S. 10-year yield has now climbed to levels that are more appealing from a risk/reward perspective. Exhibit 9 plots our 10-year Treasury model, which combines an inflation premium with a real (i.e. after-inflation) yield to determine an appropriate level for the nominal bond yields. The war has caused the inflation premium to pick up in the near term, but our model ultimately expects that inflation pressures will subside over the longer term as the recent energy shock passes. And real rates of interest are unlikely to be an additional source of upward pressure on yields, given they continue to be held down by a variety of structural factors such as aging populations, maturing economies and an increased preference for saving versus spending. Taking

the inflation premium and real interest rates together, the U.S. 10-year yield at 4.44% is situated nearly a full percentage point above our modelled estimate of equilibrium. As a result, our model suggests the U.S. 10-year bond offers modest return potential with minimal valuation risk and this is a view that holds across sovereign bonds of other major regions as well (page 42).

### Corporate bonds offer historically small risk premium

Fixed income investors looking for higher returns above that of government bonds could turn to corporate bonds or even private credit. While concerns surrounding private

credit have flared up in headlines in the past year, spreads have been especially resilient and reflect solid fundamental underpinnings. Exhibit 10 plots the spreads of Business Development Companies (BDCs), or companies that invest in private credit, as well as U.S. BBB-rated and investment-grade corporate bonds. Any spread widening from early 2025 amid the trade war or early 2026 around the war in Iran was modest and short-lived. It is worth noting that spreads of BDCs have not fully reversed their prior widening like U.S. corporate bond spreads have. There is still some opacity in private credit and heavy exposure to the uncertain software sector, so this bears monitoring. But the market doesn't appear to assess the situation as too troubling currently, and so it is unlikely that this becomes a problem of broader financial stability.

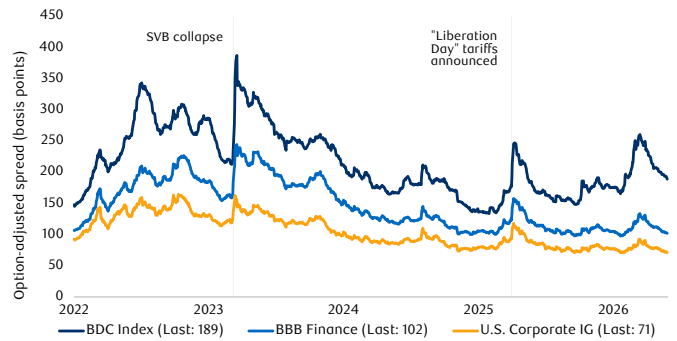
If the macro backdrop remains supportive, narrow spreads could remain in place for some time, but history suggests that also means low excess returns for corporate bonds. Exhibit 11 plots the past relationship between the spread on Canadian corporate bond and their excess return relative to government bonds over any 12-month period. The chart indicates that when the spread was low, excess return was also unimpressive and vice versa. Reflecting the fact that spreads are at historic tight and implying limited opportunity for generating excess returns, we are maintaining relatively low exposure to credit in our asset mix.

### Recovery in stocks featured narrow advance led by technology

Equity markets encountered significant volatility throughout the quarter but have managed to deliver strong gains, especially in technology stocks, since the war began. Exhibit 12 lists the performance of various equity markets since February 27 (just before the war) as well as for the year-to-date period. The biggest price gains were in the indices with heavy exposure to technology, namely the NASDAQ 100, S&P 500 and MSCI Emerging Markets, which have gained 21.5%, 12.7%, and 9.6%, respectively since the war began. For the year-to-date ended May 31, 2026, emerging market equities have taken the lead, up an impressive 25.4%, fueled largely by gains in semiconductor stocks.

A look at the S&P 500 sector performance reveals the narrowness of the recent gains. Information Technology gained 30.9% since the war began, while the next best performing sectors, Communication Services and Consumer Discretionary were up only 8.7% and 8.0%

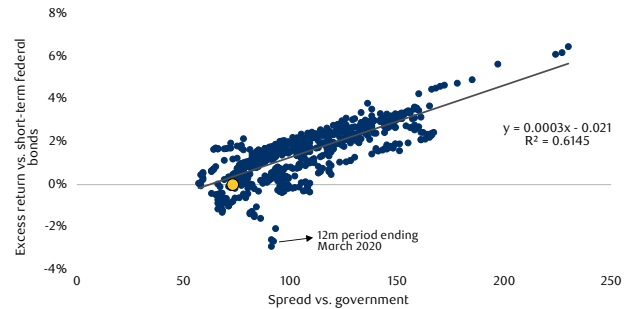
Exhibit 10: Credit spread comparison



Note: As of May 29, 2026. BDC is Business Development Company - a proxy for private credit. Source: Bloomberg, RBC GAM

Exhibit 11: Forward 12-month short-term corporate excess returns vs. spreads

ICE BofA 1-5 Year Canada Corporate Index



Note: As of May 29, 2026. Source: ICE BofA, Bloomberg, RBC GAM

Exhibit 12: Equity indices performance

Sorted best to worst	Since Feb 27	Year to date
NASDAQ 100	21.53	20.13
NASDAQ Composite	18.99	16.05
Magnificent 7	17.53	9.51
S&P 500 Growth	17.40	13.87
Russell 2000 small-cap growth	13.60	17.75
S&P 100	12.73	9.93
Russell 2000 small-cap	10.90	17.62
S&P 500	10.19	10.73
iShares MSCI EM ETF	9.62	25.39
Russell 2000 small-cap value	8.06	17.46
Dow Jones Industrial Average	4.19	6.18
S&P 400 mid-cap	4.19	12.71
S&P 500 Value	2.63	7.47
S&P 500 Equal Weight	1.32	7.73
iShares MSCI Japan ETF	0.64	15.14
S&P/TSX Composite	0.01	9.64
iShares MSCI EAFE ETF	-0.55	9.13
iShares MSCI Europe ETF	-1.07	6.57

Note: As of May 29, 2026. Price returns in U.S. dollars. Sorted best to worst since Feb 27, 2026. Source: Bloomberg, RBC GAM

respectively (Exhibit 13). Most other sectors were flat to down since the end of February and indicate a lack of breadth in the latest advance that is being masked by the strength in the overall index.

### Within technology, software struggles while semiconductors soar

The technology space itself is experiencing significant dislocation as investors digest the winners and losers of the AI theme. Software companies appear to be on the losing end, as AI threatens to disrupt their businesses, while massive investment in the build out of compute capacity has benefitted hardware suppliers. The performance difference has been stark. Since the beginning of 2025, S&P 500 software stocks have underperformed semiconductor stocks by 50 percentage points (Exhibit 14).

Where the surge in semiconductor stocks has been most noticeable is in emerging market equities where just three hardware names make up nearly a quarter of the index weight. Those three stocks – TSMC, Samsung Electronics, and SK Hynix – have more than tripled over the past year and caused a pronounced skew in index returns. Exhibit 15 plots the performance of the MSCI Emerging Markets Index as well as its performance without those 3 names. The difference between those two lines is 27 percentage points since 2023. With just a few names dominating index performance over a relatively short period, the concentration risk is becoming extreme (Exhibit 15).

### Equity market valuations creep higher...

On a global aggregated basis, the powerful rally in stocks so far this year has made them more expensive although not necessarily to an extreme level. Our composite of global equity markets is now 20% above fair value which is the highest reading since late 2021 but far below prior peaks, especially that of the late 1990s technology bubble which saw this composite close to 100% above fair value (Exhibit 16). Digging into our individual country models, there are certain pockets of overvaluation, but other areas are more reasonably priced. Stock markets in the U.S., Japan, and Canada are now all a full standard deviation above fair value, and Emerging Markets has moved from a steep discount to above fair value. Europe and the UK are below fair value, representing appealing upside potential should macro challenges in those regions fade (page 43).

Exhibit 13: Equity sector performance

S&P 500 Sectors	Since Feb 27	Year to date
Information Technology	30.87	23.54
Communication Services	8.73	9.01
Consumer Discretionary	7.99	3.86
Financials	0.34	-6.03
Real Estate	0.26	9.42
Energy	-0.02	24.38
Industrials	-2.27	11.45
Materials	-5.44	11.24
Health Care	-6.68	-3.66
Utilities	-6.87	3.67
Consumer Staples	-8.14	6.54

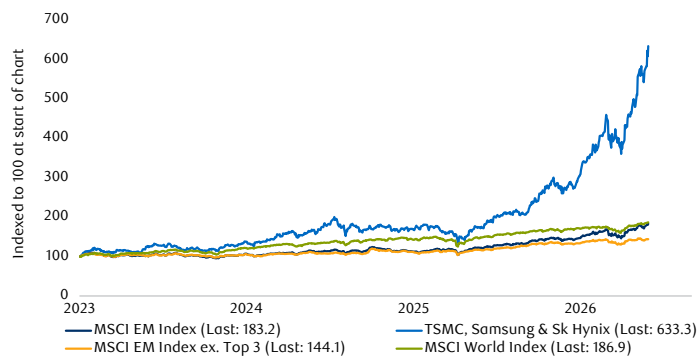
Note: As of May 29, 2026. Price returns in U.S. dollars. Sorted best to worst since Feb 27, 2026. Source: Bloomberg, RBC GAM

Exhibit 14: S&P 500 Software vs. Semiconductors



Note: As of May 29, 2026. Calculated as S&P 500 Semiconductor & Semiconductor Equipment Industry / S&P 500 Software & Services Industry. Source: Bloomberg, RBC GAM

Exhibit 15: MSCI Emerging Markets Index with and without top 3 semiconductor names



Note: As of May 29, 2026. Top 3 names are TSMC, Samsung Electronics and SK Hynix. Source: Bloomberg, RBC GAM

### ...as investors pay up for rosy earnings outlook...

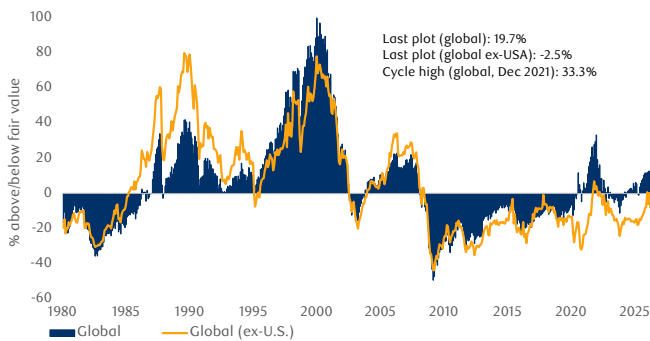
One of the key reasons investors are willing to pay a high price for stocks today is that the earnings outlook has greatly improved and is being upgraded at an unusually rapid pace. The consensus S&P 500 earnings estimate for 2026 have been revised higher by 20% over the past year, which is especially impressive because profit forecasts typically get downgraded over time as analysts' usually start out with too much optimism at the beginning of each year (Exhibit 17).

Analysts are now looking for strong earnings growth to persist over the next several years. Consensus estimates project S&P 500 earnings to grow 25% in 2026, followed by a 16% gain in 2027 and another 13% increase in 2028. As a result,

S&P 500 earnings per share is expected to climb all the way to US\$440 by the end of 2028, a 50% increase from US\$293 today over the span of less than three years (Exhibit 18).

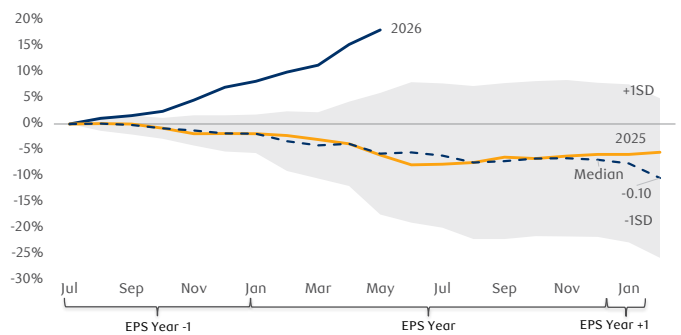
Artificial intelligence is certainly behind some of that profit surge, not just due to AI-related investments but also in the profit margin improvement that the average company will hopefully be able to extract through cost reductions and efficiency gains. Exhibit 19 plots S&P 500 profit margins over time and it has re-asserted its upward trend and climbed to a new record. Based on analysts' earnings estimates, margins are expected to rise another full percentage point by the end of this year, which is important because the economy – while in solid shape – is not moving quickly enough to

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



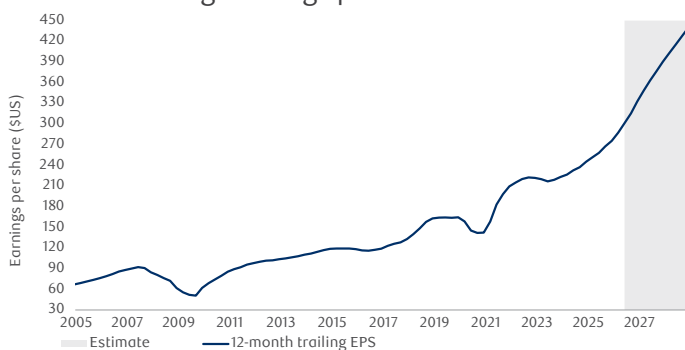
Note: As of May 29, 2026. Source: RBC GAM

**Exhibit 17: Typical path of S&P 500 consensus EPS revisions**



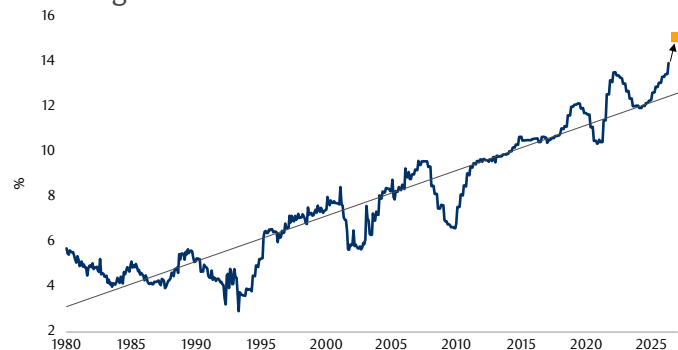
Note: As of May 31, 2026. Based on monthly data since 2006. Source: Bloomberg, RBC GAM

**Exhibit 18: S&P 500 Index**  
12-month trailing earnings per share



Note: As of May 29, 2026. Estimate is based on consensus of industry analysts' bottom-up expectations. Source: Thomson Reuters, RBC GAM

**Exhibit 19: S&P 500 Index**  
Net Margin



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

otherwise justify sustained double-digit earnings gains. Each percentage point of profit margin improvement represents about an additional 7%-8% tailwind to earnings growth. The combination of a relatively healthy economy plus rising profit margins offers solid fundamental support for stocks.

### ...fanned by massive AI-related capital expenditures

The main source of this earnings acceleration lies in the outsized spending being done by the AI hyperscalers. These large U.S. tech companies are planning a whopping US\$2.45 trillion in capital spending over the next three years (Exhibit 20). Most striking is the fact that this number represents an US\$818 billion or 33% increase versus what was expected at the beginning of the year.

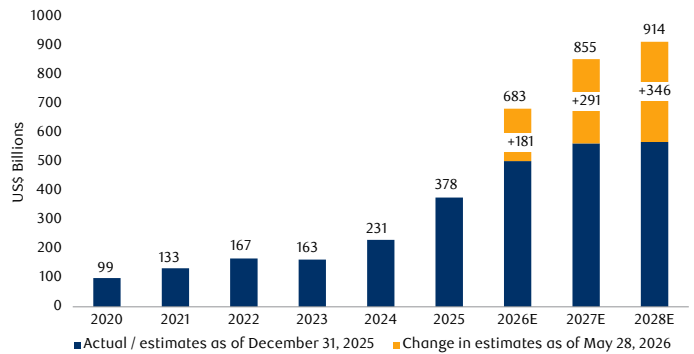
This spending is finding its way mostly to companies that supply the ingredients, in large part computer chips, for building data centres that provide computing capacity for AI. As a result, the earnings estimate for semiconductor companies has risen 46% since the beginning of the year (Exhibit 21). Energy has also seen strong upward revisions but represents a relatively small share of the U.S. equity market. Market gains have been concentrated, and earnings revisions are highly concentrated to tech, specifically hardware tech or semiconductors.

“Should AI capital investment slow down, semiconductor stocks would be susceptible to a significant de-rating.”

### Semiconductors: growing weight, stretched valuations

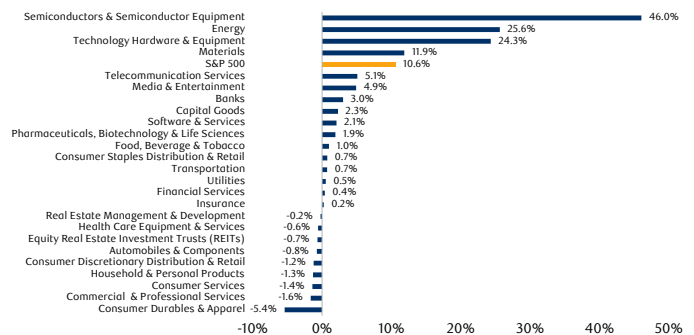
The focus on semiconductor stocks is important because, following their meteoric price gains, they now make up a sizeable portion of the S&P 500 weighting. Information Technology is the largest sector by weight at 37.6%, and the semiconductor industry makes up nearly half of that at 17.6%, up from only 5.0% in 2023 (Exhibit 22). This group is also extremely expensive, trading at a price-to-sales

Exhibit 20: Magnificent 7 capital expenditure estimates



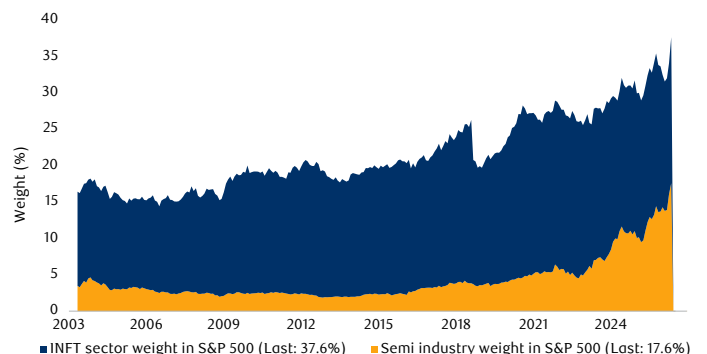
Note: As of May 31, 2026. Magnificent 7 includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Source: Bloomberg, RBC GAM

Exhibit 21: S&P 500 Industry Group EPS revisions YTD change in CY2027 estimates



Note: As of May 29, 2026. Source: Bloomberg, RBC GAM

Exhibit 22: S&P 500 Information Technology (INFT) sector and Semiconductors & Semiconductor Equipment (Semi) Industry weight



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

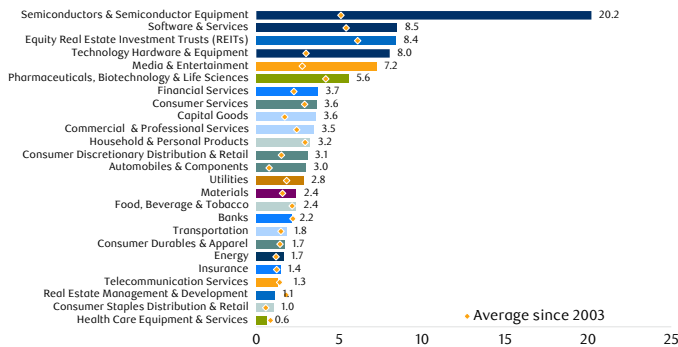
ratio of 20.2, which is an extreme outlier compared to any other industry (Exhibit 23). While the high valuation may be justified if earnings grow extremely rapidly and are sustained, semiconductor earnings have a history of being highly cyclical (Exhibit 24). Should AI capital investment slow down, these stocks would be susceptible to a significant de-rating.

### Scenario analysis suggests investors are pricing in an optimistic outcome

To gauge the possible paths forward for stocks from here, it may be helpful to consider a variety of scenarios. Exhibits 25 and 26 each plot three scenarios for the S&P 500 and MSCI Emerging Markets indices, respectively, based on

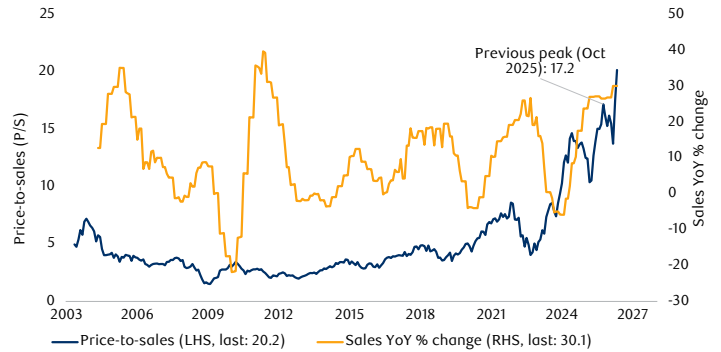
combinations of analysts' earnings estimates and valuations. To be clear, these are rule-based scenarios and not specifically our own forecasts, but they do serve as a useful guide. They argue that investors are pricing in an optimistic outcome. The bull-case scenario imagines earnings exceed analyst estimates by 5% and valuations trade at a historically rich level. Should this scenario play out, the S&P 500 could generate an annualized 9.4% return through the end of 2027, and just 3.2% for emerging market equities. These scenarios are possible against a backdrop of rapidly rising earnings, accommodative central banks, an end to the war in the Middle East, and investor confidence remaining elevated. While we continue to believe that tailwinds around AI are

**Exhibit 23: S&P 500 Industry Group price-to-sales**



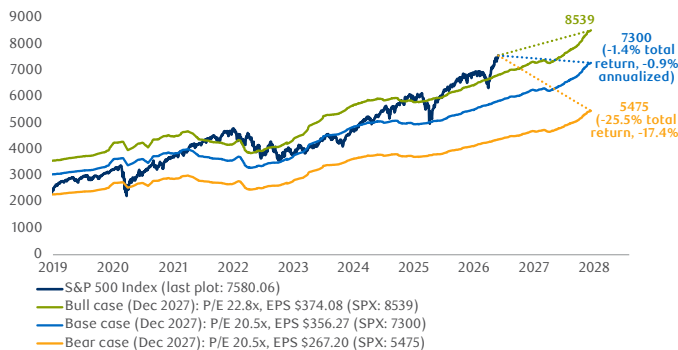
Note: As of May 31, 2026. Source: Bloomberg, RBC GAM

**Exhibit 24: S&P 500 Semiconductors & Semiconductor Equipment Industry Price-to-sales**



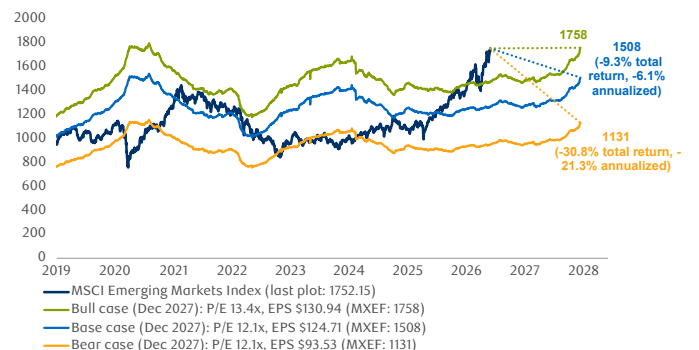
Note: As of May 31, 2026. Source: Bloomberg, RBC GAM

**Exhibit 25: S&P 500 Index Scenario analysis**



Note: As of May 29, 2026. Source: Bloomberg, RBC GAM

**Exhibit 26: MSCI Emerging Markets Scenario analysis**



Note: As of May 29, 2026. Source: Bloomberg, RBC GAM

likely to support further gains ahead, the risk/reward is not as compelling as it has been in the past, especially in emerging markets, given that the positive assumptions are already largely priced in.

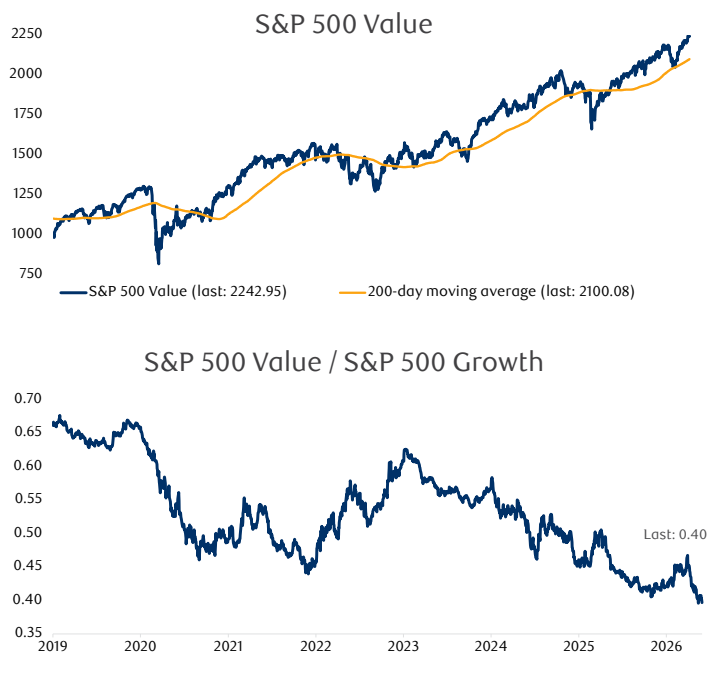
### Styles and regional performance driven by AI exposure

From a style and regional perspective, any space with substantial exposure to AI has been outperforming in a big way. But importantly, the rest of the market has held up reasonably well from an absolute standpoint. Exhibits 27 and 28 plot the S&P 500 Value and S&P 500 Equal Weighted indices, respectively, along with their relative performance to

S&P 500 Growth and the S&P 500 cap-weighted index in the bottom panels of the respective charts. Both indices have fallen to new lows on a relative basis even as they have risen to new highs on an absolute basis. What this shows is that the broad market has been performing well, just not nearly as well as the large-cap growth portion of the market.

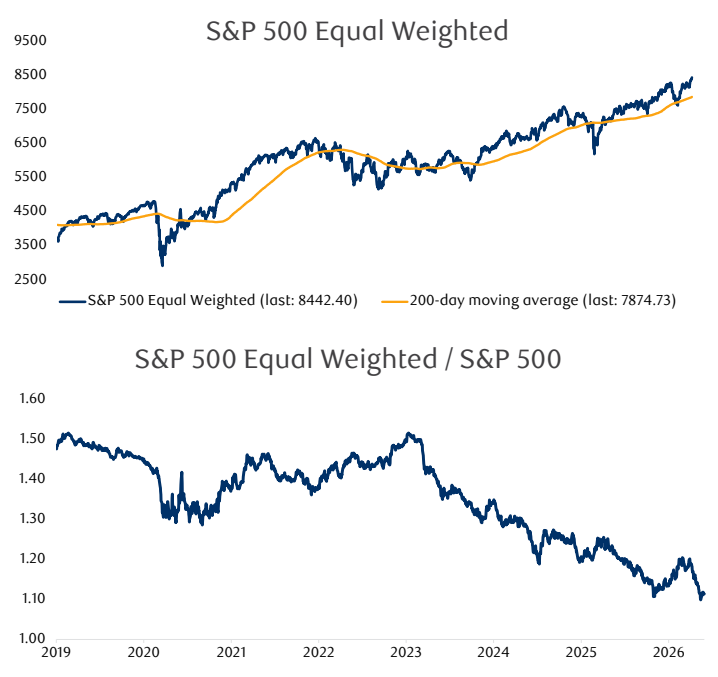
The relative regional performance also highlights the strength in countries that have more exposure to AI. The MSCI Emerging Markets Index, with its high concentration in semiconductor stocks, is the only major equity index on a global basis that has continued to outperform the S&P 500 in the past quarter, whereas indices in Europe, Japan

**Exhibit 27: S&P 500 Value Index**



Note: As of May 28, 2026. Source: Macrobond, Bloomberg, RBC GAM

**Exhibit 28: S&P 500 Equal Weighted Index**



Note: As of May 28, 2026. Source: Macrobond, Bloomberg, RBC GAM



and Canada with less exposure to hardware technology have lagged (Exhibit 29). Given the centrality of AI for the relative performance of these styles and regions, any new doubts about the technology’s promise would likely feature a rotation, at the margin, back to value stocks and/or regions outside of the U.S. and emerging markets.

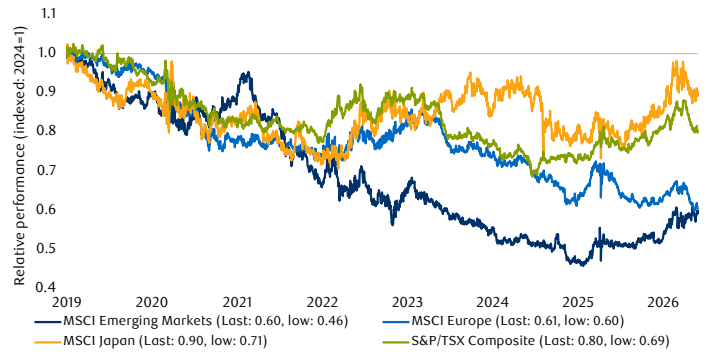
**Asset mix – narrowing underweight in bonds, shifting regional equity tilts**

In determining a recommended asset allocation for a global balanced investor, we consider a variety of scenarios around risks and opportunities in the short term as well as the longer term. The key risks to our outlook in the near term relate to the war in the Middle East and associated energy-price shock, as well as possible inflation pressures persisting longer than assumed. AI presents another risk in that perhaps it could be overhyped, but more likely it generates significant tailwinds from an investment perspective which also lead to meaningful productivity gains. Overall, our base case scenario sees inflation pressures subsiding next year while economies continue to expand and support corporate profit growth. In this environment we expect low-to-mid single-digit returns in bonds with slightly higher returns for stocks, the latter being limited by currently high valuations.

For bonds, a reliable estimate of future returns is the current yield to maturity. The relationship between the U.S. 10-year yield and its performance over the subsequent decade has been statistically strong, evidenced by the fact the two lines on Exhibit 30, one offset by 10 years, are nearly identical. In other words, the yield of 4.44% on U.S. 10-year bonds is a reasonable assumption of what fixed-income investors can expect to earn over the next decade.

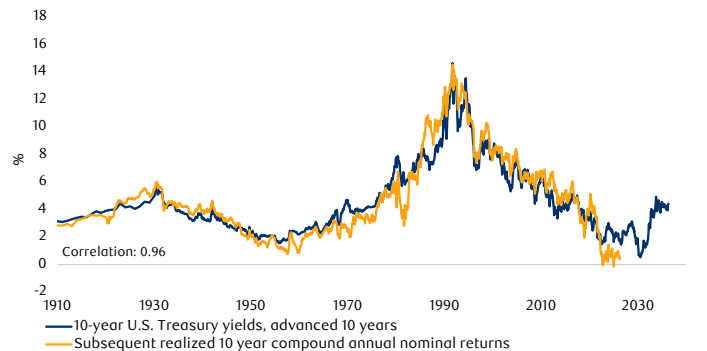
Forecasting stock is more challenging given that corporate profits are not guaranteed. That said, valuations tend to be a good predictor of future returns over long horizons. Exhibit 31 plots Shiller’s cyclically adjusted price-to-earnings ratio (CAPE) alongside S&P 500 returns (reversed on the chart) over the following 10 years. The chart indicates that stocks have historically performed better from starting points of cheap valuations and vice versa. The current expensive starting point for stocks is consistent with low-single-digit returns on stocks, although we recognize that a variety of tailwinds are currently in place that could keep stocks performing relatively well in the near term.

**Exhibit 29: Relative performance**  
Non-U.S. equity markets vs. S&P 500



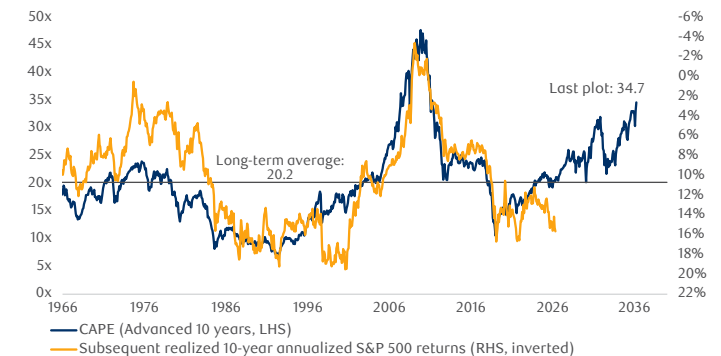
Note: As of May 29, 2026. Source: RBC GAM

**Exhibit 30: U.S. 10-year Treasury note and returns**



Note: As of May 29, 2026. Source: Deutsche Bank, Macrobond, RBC GAM

**Exhibit 31: Shiller’s CAPE**  
Real S&P 500 Index / 10-year average of real EPS



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

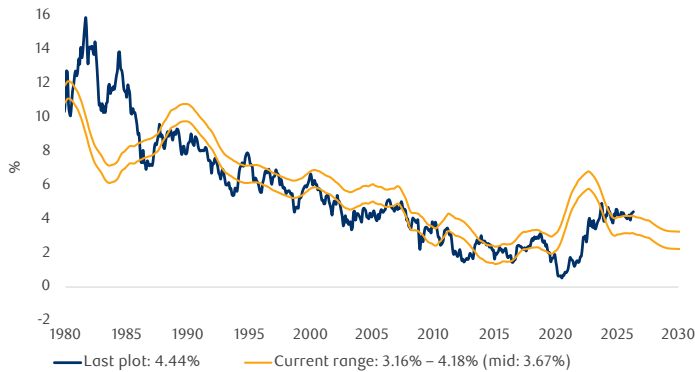
As a result, we forecast below-average returns for most equity regions ranging in the mid to high single digits over our 1-year forecast horizon, acknowledging that stocks would be vulnerable should the outlook worsen.

This quarter we made a few changes to our asset mix. We narrowed our prior underweight in fixed income by 50 basis points, sourced from cash, reflecting the improved return potential and diminished valuation risk following the latest rise in yields during the quarter. In stocks, we maintained a slight overweight position given our view that stocks are likely to outperform bonds but low equity-risk-premiums and high equity-market valuations have us opting against boosting risk exposures at this time. Instead, we made some shifts to our regional equity tilts this quarter. We neutralized our prior overweight in emerging market equities, crystalizing profits after a strong run and reducing exposure to the region's high concentration in a few semiconductor stocks. We lowered Europe from overweight to underweight and we placed the proceeds into the U.S., which moved to a slight overweight from underweight last quarter. In our view, this asset mix is well positioned to take advantage of tailwinds from artificial intelligence without being overly exposed should the outlook worsen contrary to our base case. 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.



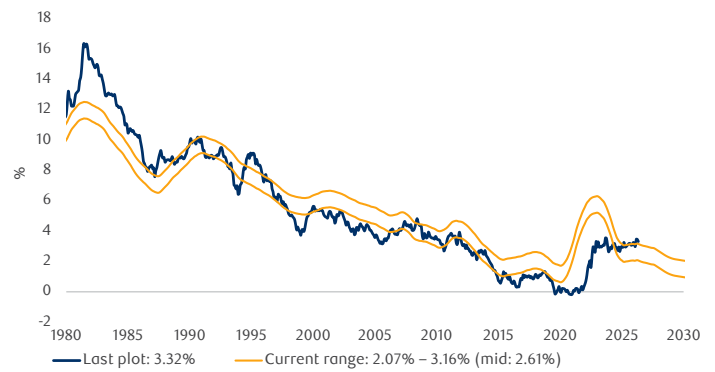
## Global fixed income markets

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



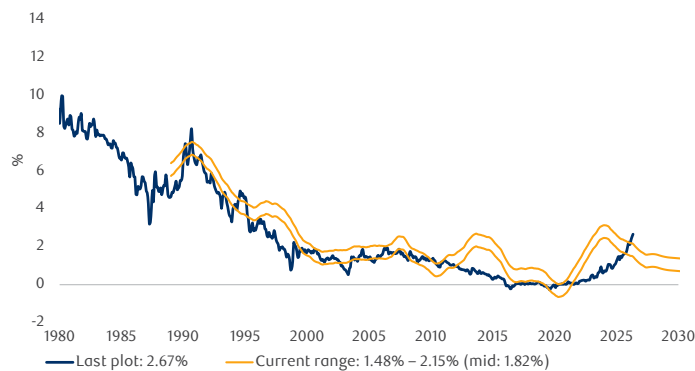
Note: As of May 29, 2026. Source: RBC GAM

### Eurozone 10-Year Bond Yield Equilibrium range



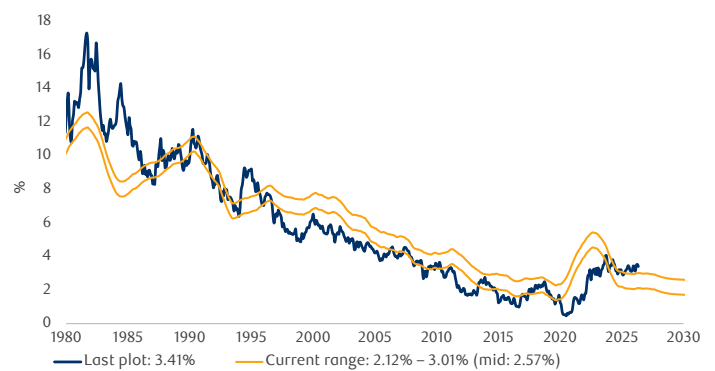
Note: As of May 29, 2026. Source: RBC GAM

### Japan 10-Year Bond Yield Equilibrium range



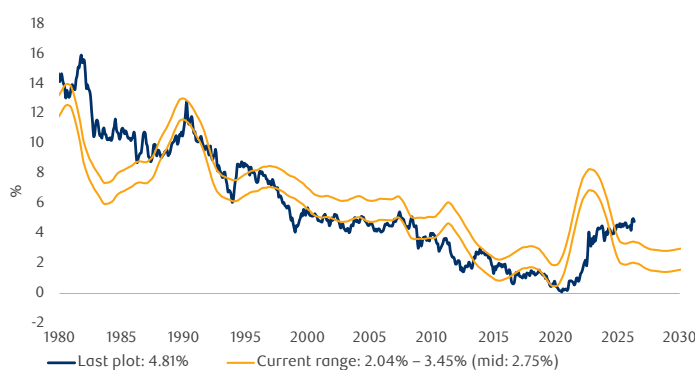
Note: As of May 29, 2026. Source: RBC GAM

### Canada 10-Year Bond Yield Equilibrium range



Note: As of May 29, 2026. Source: RBC GAM

### UK 10-Year Gilt Equilibrium range



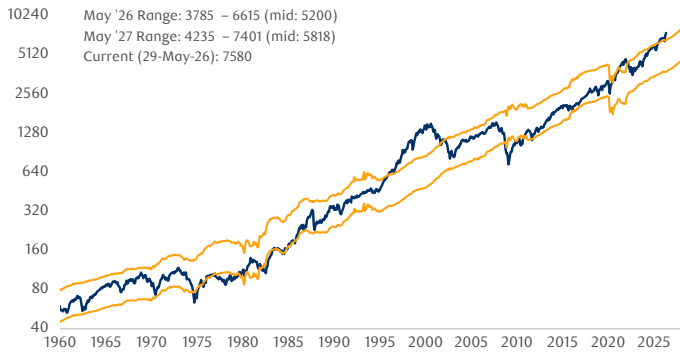
Note: As of May 29, 2026. Source: RBC GAM

“Our model suggests the U.S. 10-year bond offers modest return potential with minimal valuation risk and this is a view that holds across sovereign bonds of other major regions as well.”

## Global equity markets

### S&P 500 Equilibrium

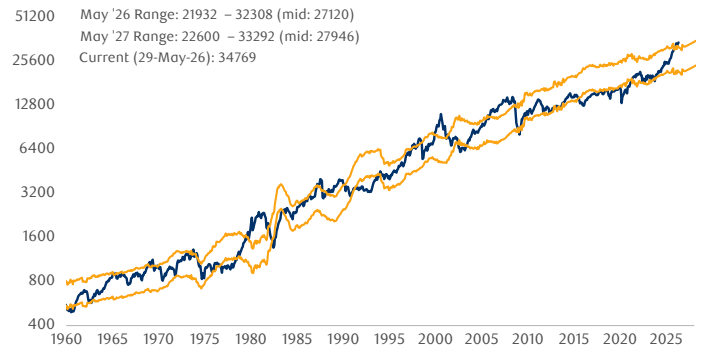
Normalized earnings and valuations



Note: As of May 29, 2026. Source: RBC GAM

### S&P/TSX Composite Equilibrium

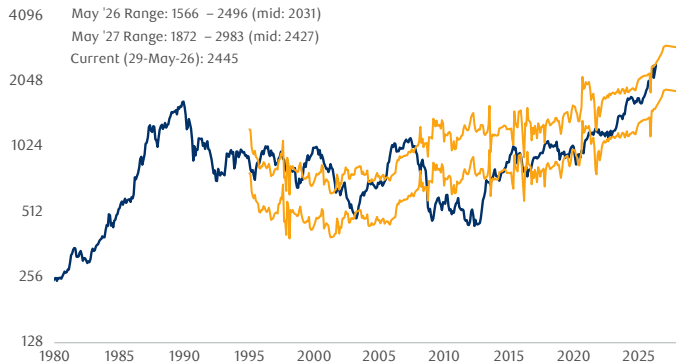
Normalized earnings and valuations



Note: As of May 29, 2026. Source: RBC GAM

### MSCI Japan Index

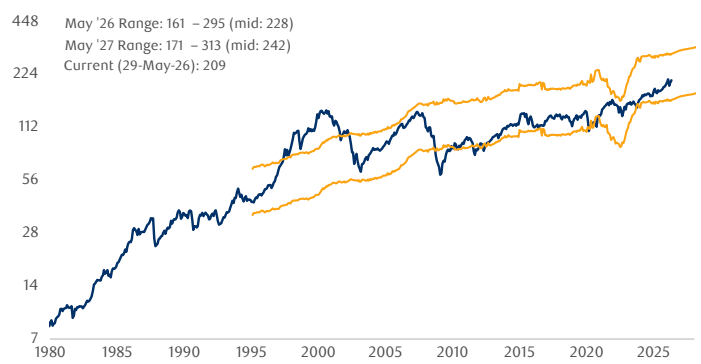
Normalized earnings and valuations



Note: As of May 29, 2026. Source: RBC GAM

### MSCI Europe Index

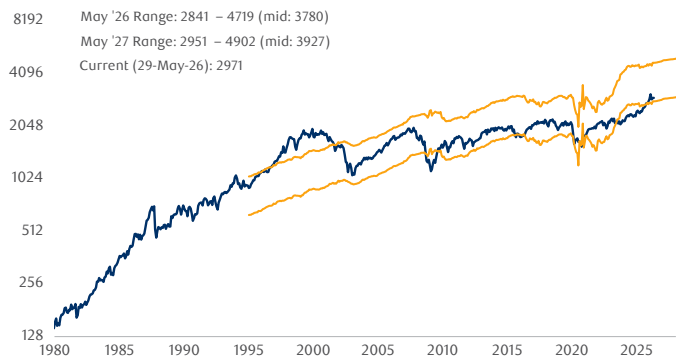
Normalized earnings and valuations



Note: As of May 29, 2026. Source: RBC GAM

### MSCI UK Index

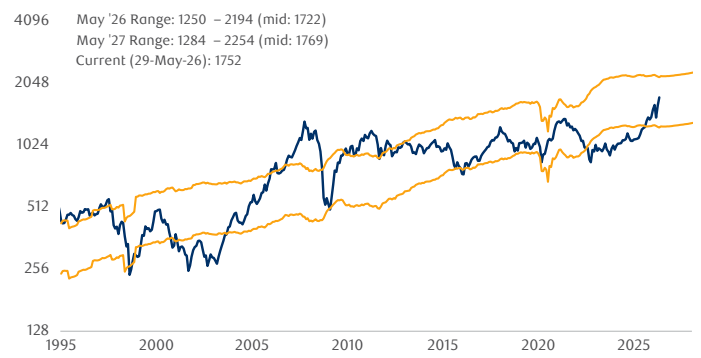
Normalized earnings and valuations



Note: As of May 29, 2026. Source: RBC GAM

### MSCI Emerging Markets Index

Normalized earnings and valuations



Note: As of May 29, 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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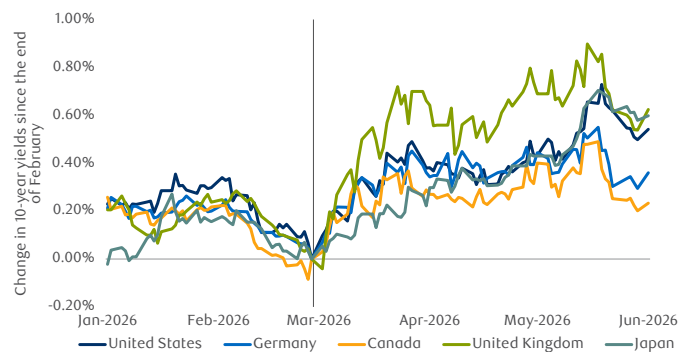


**Taylor Self, MBA, CFA**  
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Since the last edition of the *Global Investment Outlook*, investors have experienced a sea change in the outlook for global monetary policy and, by extension, government bonds. The rise in global energy prices due to the war with Iran has spurred bond investors to expect the bias for central bankers will be toward rate hikes, rather than toward unchanged or lower rates over the next year or so. In many global markets, yields are at or near multi-decade highs, offering significant cushions to bond returns. Over the next 12 months, we see bonds providing returns slightly better than those offered by shorter-term cash investments. Of course, a faster-than-expected end to the war with Iran and lower energy prices as a result would provide a strong jumping-off point for bond returns. Given the broader context of a strong economic backdrop, we also recommend owning corporate bonds in lieu of government bonds.

Indeed, we can mark the launch of the U.S. attack on Iran at the end of February as the turning point for bond yields to head higher (Exhibit 1) across the globe. With the post-COVID rise in inflation still fresh in the minds of policymakers and citizens alike, investors were quick to anticipate that central banks might have to respond with higher interest rates. Policymakers should be keenly aware of the risk that currently elevated energy costs may broaden outwards into price increases across non energy-related sectors of the economy. In line with this, market-implied policy rates for later in 2026 and 2027 have moved upward. The difference for some markets has been quite stark. For example, whereas before the war the U.S. Federal Reserve (Fed) was expecting as many as three cuts by the end of 2026, investors now

**Exhibit 1: Change in 10-year government bond yields since the end of February**



Note: Data as of May 29, 2026. Source: Bloomberg

anticipate rate hikes by the Federal Open Market Committee (FOMC) over the same period. This change alone goes a long way to explaining why the 30-year bonds freshly issued by the U.S. Treasury last November tumbled by nearly 10% between late February and mid-May.

Of course, it is not only the threat of a rise in energy prices that has forced bond yields higher. Economic growth has also been surprisingly good, driven by budgets from governments that are expanding again. The consumer tailwind from the tax cuts in the Big Beautiful Bill passed by the Trump administration in 2025 is expected to peak in the first half of this year, as tax refunds are processed. Governments are also moving to offset the expected impact of higher energy prices on consumers by announcing price freezes or gas tax holidays. This should shield or at least delay the most negative impacts of energy prices on economic activity, in the hope that the war with Iran is resolved quickly. The rush to implement artificial intelligence (AI) also appears to have provided a fillip to economic activity, with the huge amount of investment driving infrastructure spend and demand for materials and labour. While it is hard to determine today exactly what impact AI will have on long-run economic growth prospects, it is immediately obvious that these companies are spending enormous amounts of money, a significant portion of which is being financed with the sale of bonds.

Another source of bond supply comes from central banks, as policymakers continue to shrink their COVID-swollen balance sheets. Mechanically, this involves private sector investors agreeing to allocate a greater share of their capital to government bonds compared to other assets. It logically follows, then, that those investors should demand lower prices (and higher yields) in exchange for accepting this additional supply of government bonds to the market.

Against this backdrop, it is easy to see a relatively poor outlook for bonds – perhaps one that is like the last time inflation surged across the globe and bondholders suffered significant losses. However, several things are different this time. First and foremost, bond yields are substantially higher, providing a solid jumping-off point for returns – if yields do not change, investors in the current 10-year Government of

Canada bond should expect one-year returns of about 3.50%. Even if yields were to rise significantly, there is still a good chance returns would be better than owning cash. Moreover, investors have already built in substantial expectations for future inflation and policy rate rises – those expectations are already in the price of bonds. As such, should the war with Iran be resolved more quickly than anticipated, bond returns could be better than we expect. Moreover, AI has spurred enormous issuance of corporate bonds and propelled technology-heavy stocks to record highs despite the expected impact to consumer spending from higher energy prices. AI has even increased expectations for real economic growth. Skeptics of this narrative should reasonably expect to be rewarded for owning bonds at these higher yields if this narrative starts to falter. While our base case for bond returns envisages returns closer to, but better than, cash, our bullish case for bond returns looks for high-single- to low-double-digit returns for bondholders.

Across regions, we prefer to be overweight bond markets where expectations for economic growth and/or inflation are too rosy, and underweight those markets where perhaps investors are underappreciating the risk of a positive growth surprise. We continue to think Japan and Germany, respectively, fit this bill. We think the sea change in the fiscal outlook for Europe – driven by Germany's expansion of public spending – is an underappreciated upside risk to European growth and inflation. In Japan, while the COVID shock to consumer prices absolutely has jolted wage growth from its long slumber, we believe that Japan is now starting to find it difficult to generate more inflation than what is implied by the rise in oil and food prices and the rapid depreciation in the yen. In simpler terms, domestically generated or self-sustaining inflation – a key prerequisite for hikes by the Bank of Japan (BoJ) – is proving harder to come by. Nevertheless, investors continue to price substantial policy normalization by the BoJ via hikes of the policy rate, but also via very high long-term bond yields. For currency-hedged global government bond investors, Japanese government bonds offer amongst the highest yields. We continue to recommend being overweight Japanese government bonds versus German bunds.

## Direction of rates



We forecast the U.S. 10-year Treasury yield to reach 4.75% at some point over the next 12 months, up from 4.44% currently.

### United States

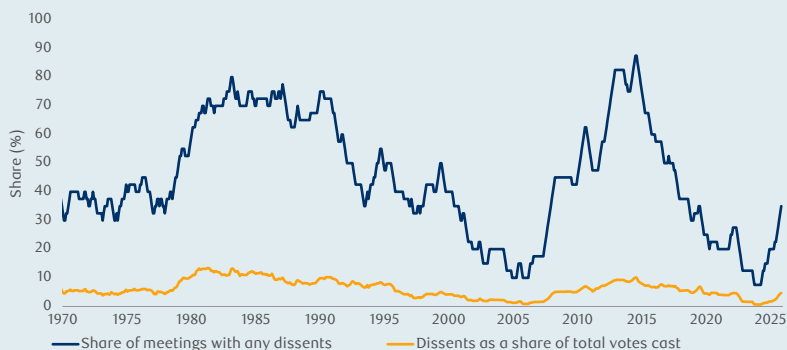
For the first time since 2018, the Fed's rate setting committee will have a new chairman when the group meets again on June 17. Make no mistake: the appointment of Kevin Warsh is an orthodox one, as he previously served as a governor from 2006 to 2011. He is a long-time critic of the Fed's balance sheet policy, through which the central bank has purchased enormous quantities of U.S. government bonds. He has also expressed strong views that a smaller balance sheet would permit policy interest rates to be lower. Finally, he has strong views on the ability of AI to make the economy much more efficient, which would lower inflation. Again, this train of thought leads one to believe that Fed Chair Warsh will be a strong proponent of lower interest rates as he begins his new role.

That said, while Warsh is assuming the Fed's titular position, his vote is just one of 12 that will be cast on whether to change the Fed's policy stance. Despite his beliefs on the balance sheet and AI supporting lower interest rates, he may find it difficult to recruit fellow members of the rate setting committee on this basis alone. In the case of a significantly smaller balance sheet, this will likely be a multi-year project for the Fed. In the case of AI, there is unlikely to be definitive evidence one way or the other on its impact on inflation in the short-to-medium term. In our view, the massive amounts of investment that are currently projected to be required are more likely to be inflationary at first via stimulating demand for raw materials and labour.

To that end, it does not seem obvious that the U.S. needs lower interest rates based on economic activity or inflation. Even setting aside the impact of the war with Iran, it appears that inflation was already starting to pick up toward the end of last year and continued to exceed the Fed's 2% target. While the economy appears to be generating very few new jobs, the Fed's governors and staff economists seem comfortable attributing this to a change in immigration policy enacted by the Trump administration rather than a signal of economic malaise.

The voting record of the FOMC over the past several meetings reflects this uncertainty over the appropriate path for monetary policy – with dissents rising (Exhibit 2). These dissents have come hand-in-hand with acquiescence that higher policy rates will be appropriate at some point, if inflation continues to be above target. Investors, for their part, have been slow to price in future interest rate rises by the Fed. We expect the Fed will ultimately remain on hold for the next year as uncertainty regarding the outlook for inflation and the labour market keeps the FOMC from taking a strong stand on the future path of policy rates. At the same time, we believe investors will continue to push up the premium demanded for lending for longer – and we forecast the U.S. 10-year Treasury yield to reach 4.75% at some point over the next 12 months, up from 4.44% currently.

### Exhibit 2: Dissents are becoming more common for U.S. policymakers



Note: Data as of May 29, 2026. Source Federal Reserve



We forecast that the BoC will increase its policy rate by 50 basis points to 2.75% within the next 12 months, with the Canadian 10-year government bond yield reaching 3.75% over the same period.

### Canada

The Bank of Canada (BoC) has maintained its policy rate at 2.25% since October, adopting a cautious stance despite modest upward revisions to its 2026 growth projections. The central bank has downplayed the positive economic effects of elevated energy prices while emphasizing concerns around trade policy uncertainty and labour market weakness. The outlook for both inflation and economic growth remains highly uncertain, with outcomes largely dependent on how events in the Middle East evolve.

Should global oil prices remain elevated for an extended period, broader cost pressures could emerge across the economy, raising the risk that high inflation will persist. Rising costs for gasoline, diesel, and jet fuel have already prompted businesses to implement fuel surcharges on various goods and services. Additionally, fertilizer price increases and potential supply shortages may drive food costs higher over time, while elevated oil prices reduce household purchasing power by leaving consumers with less disposable income for other expenditures.

BoC Governor Macklem has outlined a clear conditional policy framework in which escalating Canada-U.S. trade tensions would warrant monetary easing, while sustained elevated energy costs could prompt a series of rate increases.

Canada's economy faces additional headwinds from U.S. tariff measures and the inherent unpredictability of evolving trade partnerships. These trade conflicts are also constraining provincial economic growth, leading to widening budget deficits and higher borrowing requirements in the upcoming fiscal year.

We forecast that the BoC will increase its policy rate by 50 basis points to 2.75% within the next 12 months, with the Canadian 10-year government bond yield reaching 3.75% over the same period. Significant federal spending on infrastructure and defence, combined with large provincial deficits, will result in more bond issuance this year. We expect the Canadian yield curve to continue steepening, driven by fiscal stimulus and higher term premiums.



We are aligning with the bearish gilts outlook, raising our 10-year gilt yield forecast to 5.0% over the next year, 50 basis points higher than our previous forecast.

### United Kingdom

The UK gilt market faces conflicting pressures and substantial disagreement on the path forward, with yields surging from April through mid-May before reversing rapidly. We expect this volatile pattern to persist as investors rotate between two extreme narratives. The bullish camp hinges on geopolitical de-escalation reducing energy prices, coupled with sustained disinflation – evidenced by April’s 2.8% Consumer Price Index (CPI) reading as the start of a downtrend – and the Bank of England (BoE) maintaining rates unchanged against 50 basis points of hikes priced in the interest rate market. The bearish camp points to structural headwinds: fiscal concerns and political uncertainty surrounding the leadership of the governing Labour Party, surging capital expenditures by the so-called AI “hyperscalers”, elevated defence spending, and inflation releases persistently above the BoE’s 2% target – all of which necessitate higher risk compensation to hold gilts.

We are revising our BoE policy rate forecast to an increase of 50 basis points over the next year, bringing rates to 4.25% from the current 3.75%, a significant revision from our prior publication, which had anticipated 50 basis points of easing. We foresee material risks of second-round inflation effects and de-anchoring of long-term inflation expectations. Correspondingly, we are aligning with the bearish gilts outlook, raising our 10-year gilt yield forecast to 5.0% over the next year, 50 basis points higher than our previous forecast.





We anticipate a mild upside bias to yields, with 10-year government bond yields likely drifting toward 1.85% to 2.00% over the coming quarters.

## China

Chinese bond yields continue to be remarkably low and sheltered from the global bond sell-off since our last publication – reflecting both a dour outlook for the demographic future of the country and a domestic shortage of safe assets. However, emerging signs suggest this insulation may gradually erode. The People’s Bank of China (PBOC)’s recent shift to targeting overnight money market rates, while not signalling imminent tightening, indicates that the extended period of “super easy liquidity” is moderating. This subtle policy recalibration, combined with rising global inflation pressures stemming from the war with Iran and energy price shocks, creates a cautiously challenging backdrop for further yield compression.

While the PBOC’s accommodative stance and the Ministry of Finance’s yield-suppression bias remain supportive near-term, the deeply suppressed yield environment, with 10-year yields trading near 1.70%, has limited room for further compression and may face modest upward pressure as global valuations reprice. We anticipate a mild upside bias to yields, with 10-year government bond yields likely drifting toward 1.85% to 2.00% over the coming quarters as global inflation dynamics stabilize at elevated levels. The PBOC’s policy rates, however, are likely to stay unchanged over our forecast horizon.



We expect 10-year Japanese government bond yields to fall over our forecast horizon, eventually reaching 2.50% from 2.66% at the time of writing.

## Japan

Our view remains that Japanese government bonds (JGBs) are an attractive investment for long-term investors. The 30-year JGB yield of 3.9% (at the time of writing) is at a three-decade high and is higher than comparable-maturity bonds in Canada and Germany. On a currency-hedged basis, 30-year JGBs are the highest yielding among developed market peers, yielding in excess of 5.50%. Surging JGB yields reflect investors seeking high inflation compensation and fiscal pressures from the Iran war, as the government is expected to issue bonds to fund energy subsidies. We continue to believe that elevated yields in long-maturity bonds offer generous risk compensation, as we believe the BoJ is unlikely to raise policy rates anywhere close to those levels over the long run.

We are expecting the BoJ to raise policy rates by 75 basis points over the course of the next 12 months, to 1.5% from 0.75% currently, with hikes occurring roughly every four months. While the BoJ may delay reacting to surging energy prices, the broadening inflation pressures suggest a measured pace of policy tightening is much needed. As BoJ tightening is underway, this should reduce the risk premium investors demand for holding long-maturity bonds; the JGB curve is expected to flatten, and Japanese bonds will likely outperform those of other regions. We expect 10-year Japanese government bond yields to fall over our forecast horizon, eventually reaching 2.50% from 2.66% at the time of writing.



We forecast German 10-year bund yields to rise to 3.25%, from 2.94% currently.

## Eurozone

As shown in Exhibit 1, the surge in energy prices due to the war with Iran has been most consequential for the European Central Bank (ECB)'s outlook for monetary policy. The ECB delivered a 25-basis-point hike on June 11 and policymakers are expected to follow through with two further hikes by the end of the year. This policy path represents the most aggressive adjustment of policy expectations to the energy supply shock among the major central banks we cover in the *Global Investment Outlook*.

Taken alone, we would not expect a negative supply shock from a one-time increase in energy prices to generate such a strong response from central bankers. On the contrary, such one-time supply-driven surges in commodity prices are exactly the type of inflation shocks that central banks should look through. This appears to be the expected course of action for central bankers at the Fed and the BoC. However, the ECB's single-mandate focus on inflation means that such surges in inflation are very hard to ignore. Moreover, the recent memory of the post-COVID surge in prices – driven by both a negative supply shock and substantial government spending at the same time – suggests policymakers will be more sensitive than usual to any uptick in inflation above target.

We think a more convincing argument for higher interest rates in Europe comes from last year's sea change in the fiscal outlook for the single currency area's most important economy: Germany. Despite a generational commitment to increase public spending, investors were largely skeptical that this increase would boost long-run economic prospects and, in turn, expectations for higher policy rates. We think the re-rating of policy rates in response to the energy shock better aligns ECB pricing with what is appropriate for a realistic updraft in the economic outlook. As it happens, German politicians – by delivering substantial public spending initiatives – have proved their skeptics wrong, with public investment spending up over 15% year on year. Aside from public infrastructure, it also appears likely that more serious commitments to NATO defence spending targets should provide an uplift to the German industrial base.

Over the next 12 months, we expect the ECB to raise its policy deposit rate by at least 0.25%, from 2.25% currently to 2.50%. Over the same timeframe, we forecast German 10-year bund yields to rise to 3.25%, from 2.94% currently.

## Canadian corporate bonds

Since April 2025, the Canadian corporate bond market has experienced several periods of spread widening (risk-off), and each time has bounced back to return to previous levels (Exhibit 3). This resiliency resulted in corporate bonds performing well relative to Government of Canada bonds.

There are two significant sources of support for the credit market: corporate fundamentals, including earnings growth, and demand for corporate debt. Corporate credit markets are well supported by strong balance sheets of issuers. Both leverage (Exhibit 4) and interest coverage at companies in our corporate benchmark are at healthy levels. With positive economic growth and corporate earnings growing, the chances that these ratios will deteriorate over the next few quarters are limited. This is supportive of spreads.

The investing environment is good for credit, but this is somewhat countered by the fact that credit spreads are close to post global financial crisis lows – indeed, spreads have rarely been lower than they are now. As such, the potential for larger excess returns over government bonds is low. If earnings are growing and GDP growth is positive, we think credit spreads will remain near current levels.

Despite tight spreads, all-in yields are attractive for many yield-driven investors who show solid demand for new corporate issues. What is unusual this time, however, is that all-in yields on corporate bonds are attractive because of the level of government yields, while compensation for credit risk is very skinny. That is why our recommended allocation to corporate bonds is entirely in investment grade and set at a lower level of the allowable range. We know spreads will widen a great deal if the economy slows down, but at this point, recession is considered a low-probability outcome. Choosing investment grade over high yield also means we can add incremental yield to the portfolio in the least volatile way.

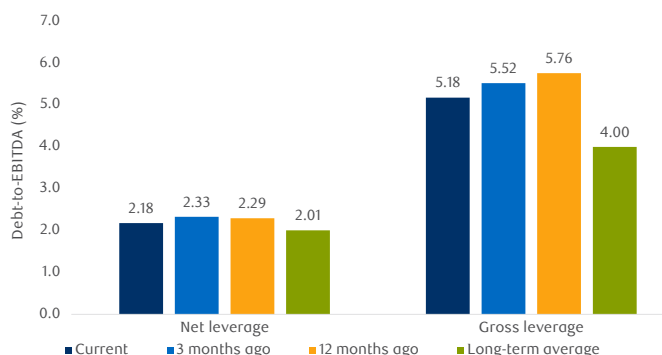
### Exhibit 3: Corporate bond spreads are low

Investment Grade Canada – BofA ML Index



Note: Data as of May 29, 2026. Source: Bank of America Merrill Lynch

### Exhibit 4: Leverage in Canadian corporates



Note: Data as of May 29, 2026. Source: Bloomberg, RBC GAM calculations

## Recommendation

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 of similar maturity, particularly those maturing between 2027 and 2031.

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

Total-return calculation: May 29, 2026 – June 1, 2027

U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.63%	4.00%	4.40%	4.75%	5.40%	2.85%
Change to prev. quarter	0.50%	0.70%	0.70%	0.50%	0.60%	
High	4.13%	4.60%	4.75%	5.00%	5.50%	1.73%
Low	2.63%	2.70%	3.00%	3.50%	4.25%	9.51%

Expected Total Return C\$ hedged: 2.52%

Germany						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.50%	3.00%	3.10%	3.25%	3.65%	1.07%
Change to prev. quarter	0.50%	0.70%	0.50%	0.25%	0.25%	
High	3.00%	3.50%	3.55%	3.60%	3.90%	(0.73%)
Low	1.75%	2.15%	2.25%	2.50%	3.10%	6.28%

Expected Total Return C\$ hedged: 1.39%

Japan						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	1.50%	1.90%	2.10%	2.50%	3.75%	5.06%
Change to prev. quarter	0.50%	0.70%	0.60%	0.70%	0.50%	
High	2.00%	2.40%	2.50%	2.80%	3.65%	4.92%
Low	0.75%	1.25%	1.60%	2.00%	3.10%	12.02%

Expected Total Return C\$ hedged: 7.55%

Canada						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.75%	3.30%	3.50%	3.75%	4.05%	1.56%
Change to prev. quarter	0.50%	0.80%	0.65%	0.50%	0.20%	
High	3.25%	3.80%	3.80%	4.00%	4.30%	(0.05%)
Low	1.75%	2.50%	2.80%	3.15%	3.55%	5.12%

Expected Total Return C\$ hedged: 1.69%

UK						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.25%	4.60%	4.70%	5.00%	5.50%	4.66%
Change to prev. quarter	0.75%	0.90%	0.80%	0.50%	0.35%	
High	4.75%	5.00%	5.10%	5.20%	5.65%	2.25%
Low	3.00%	3.30%	3.45%	4.00%	5.00%	10.42%

Expected Total Return C\$ hedged: 3.61%

Source: RBC GAM



## Currency markets

### Not just a U.S. dollar call: a more discerning FX market



**Dagmara Fijalkowski, MBA, CFA**

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Head of Global Fixed Income & Currencies  
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**Daniel Mitchell, CFA**

Managing Director &  
Senior Portfolio Manager  
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Fifty years of freely floating exchange rates have taught us that times of economic uncertainty and heightened geopolitical stress are precisely when currencies tend to move most. And yet, despite major geopolitical events, changing global trade patterns and investors rebalancing their portfolios, currency markets have been much less volatile this year than investors would have expected. We explore why this might be the case and lay out our expectations for which currencies may perform best for the remainder of 2026.

For currency markets, major economic upheavals have traditionally been a time to buy the U.S. dollar. This has become somewhat of a knee-jerk reaction, since the greenback had proven its mettle as a ‘safe haven’ and was among the best performing currencies during the global financial crisis in 2008, Europe’s sovereign debt crisis in 2012 and the COVID pandemic in 2020. It was perhaps strange, then, that the dollar didn’t get much of a boost when the U.S.

unleashed missile strikes on Iran in late February. It is not as though the economic implications weren’t severe, given that the waterway shuttered by the Iranians in early March serves as a major chokepoint for one fifth of the world’s oil shipments. The resulting spike in crude oil prices should also have been U.S. dollar-supportive given that the U.S. is the world’s largest producer of oil while other regions (Europe, China, Japan) are more dependent on the Middle East for oil.



Why, then, has the dollar failed to break above the upper-end of its year-long 5% range (Exhibit 1)? We put forward four reasons:

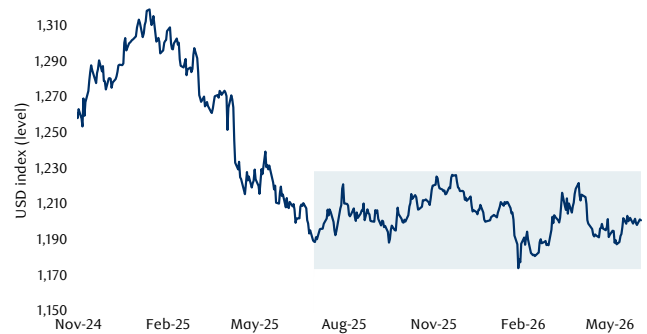
1. One explanation is that investors have been gradually becoming more bearish on the greenback. They were looking for opportunities to reduce their holdings in the currency well before the Middle East conflict began. We've noted in past editions of this publication that the U.S. dollar is extremely expensive (Exhibit 2). U.S. policymakers have undermined the greenback's role in global investment and global trade by freezing the foreign exchange reserves of adversaries, imposing aggressive tariffs on trade partners and by threatening withdrawal from global security alliances. So perhaps the small U.S. dollar rally in the early days of the war was enough to encourage investors to convert U.S. currency exposure into euros, Chinese yuan and other major currencies.

2. Another explanation could be that the U.S. dollar no longer serves as one of the world's safe-haven currencies. While it is true that superior depth and liquidity of U.S. bond markets make Treasuries a preferred investment during times of stress, it's not clear to us that the same preference should apply to the dollar.

A currency's behaviour as a safe haven is dictated by the magnitude and direction of capital flows during periods of risk aversion. The reason the U.S. dollar and Japanese yen had been safe haven currencies during past crises was because both countries ran positive net equity and direct investment balances. Like in Japan, investors and corporations in the U.S. owned more assets abroad than foreigners owned in American assets. The liquidation and repatriation of that capital during times of market stress is what caused the greenback to rally during past crises.

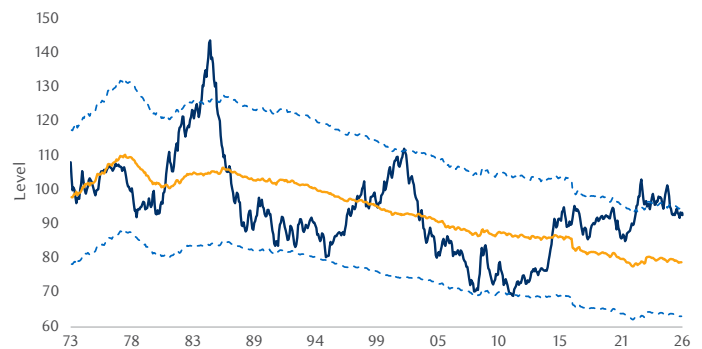
Since 2018, however, the net balance of investment has flipped (Exhibit 3). Foreigners are now the ones that hold larger investments in the U.S. This is likely the result of the superior U.S. equity performance over the past decade, the shale energy boom and clear leadership of U.S. firms in the technology sector. Some estimates suggest that this foreign ownership in U.S. stocks could be as large as US\$30 trillion, for which even a small portion of repatriation back to Europe, Asia and Canada (the largest foreign holders of U.S. equities) would be sufficient to weaken the greenback.

**Exhibit 1: The dollar has been range-bound for the past year**



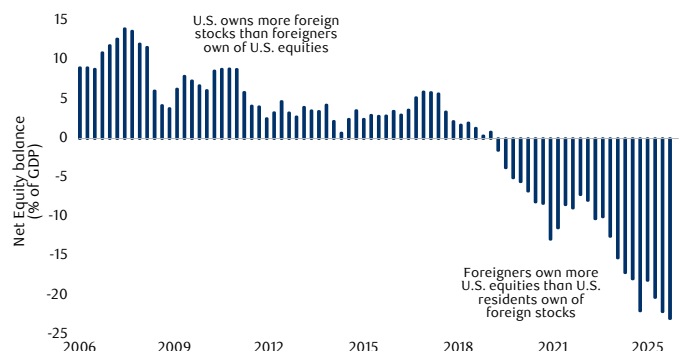
Note: As at June 2, 2026. Source: Bloomberg, RBC GAM

**Exhibit 2: U.S. dollar is expensive versus purchasing power parity**



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

**Exhibit 3: U.S. net equity position turned negative in 2018**



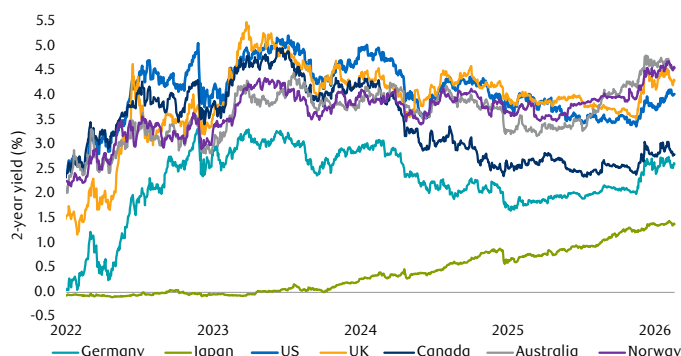
Note: As at December 30, 2025. Source: International Monetary Fund, U.S. Bureau of Economic Analysis, RBC GAM

3. A third reason for the dollar’s reluctance to rally could be that the world’s other central banks had been quicker than the Fed to pivot toward tightening policy. Higher interest rates abroad would certainly lessen the appeal of the greenback, and the dollar has indeed lost some of its yield advantage relative to other G10 economies since last year (Exhibit 4). Even so, these differences in policy between the Fed and other central banks have been relatively small. The fact is that central banks are expected to be pursuing tighter monetary policy in response to the inflationary impact of higher crude oil prices. This synchronized policy shift has had a bigger impact on bond markets than currency markets (Exhibit 5).

4. One final reason the greenback hasn’t rallied is that policymakers in Asia have been stemming the greenback’s gains through currency intervention. Most notably, this includes Japan, where the Ministry of Finance has been escalating its threat of action for several months and finally intervened in late April when the JPY exchange rate breached 160 per dollar. Since then, the Japanese have liquidated more than \$73 billion of their U.S. dollar holdings to prop up the yen.

The Japanese are not alone: India has spent \$47 billion of its own reserves and Indonesia has also been active in defending the rupiah. These countries are among the most affected by the rise in energy prices and policymakers are alert to the fact that the weaker purchasing power of currencies would make the oil that is purchased in U.S. dollars more expensive.

**Exhibit 4: The yield advantage of the U.S. dollar has been shrinking**



Note: As at June 2, 2026. Source: Bloomberg, RBC GAM

**Exhibit 5: Currency markets unfazed by geopolitics**



Note: As at June 1, 2026. Source: Deutsche Bank, Bank of America, Bloomberg, RBC GAM



## Outlook

We expect the U.S. dollar to soften in the year ahead. We recognize, however, that the economic implications from the Iran war will persist well beyond the end of the conflict and will be more painful for Europe and Asia than for the U.S. We take some comfort from the fact that investors are already quite cautious on those regions, having drawn parallels to the Russian invasion of Ukraine in 2022.

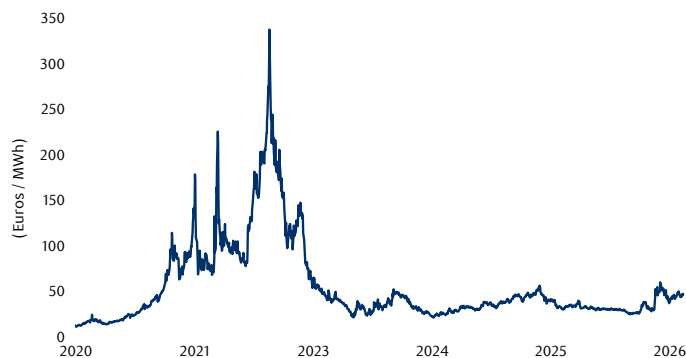
In fact, the current environment is quite different, given that gas prices have not spiked nearly as much as in 2022, that energy efficiency has improved (more electric vehicles, renewable energy, etc.) and that Europe’s energy imports are now more diversified than they used to be (Exhibits 6 & 7). Even still, our optimism on the euro and the yen has been tempered somewhat. For several quarters, we have instead been anticipating that emerging market currencies would lead during the next leg lower in the greenback.

This outlook has begun to take shape (Exhibit 8), with some EM currencies having delivered healthy gains this year. It’s notable, though, that low-yielding Asian currencies are also among the year’s worst performers. Note as well that the vast majority of currencies have still outpaced the U.S. dollar so far this year.

For most of the past year, it was possible to be bullish on emerging market currencies as a whole because the group behaved more or less as one, rising and falling inversely to the dollar. These days, we have been more cautious and discerning about choosing which currencies to buy. While this year’s jump in oil prices has prompted investors to focus on individual country terms of trade (the change in price of imports relative to those of exports), we suspect that other differences may increasingly play a role in driving currencies.

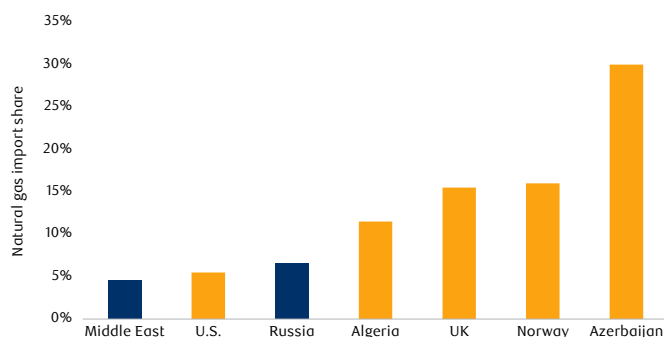
Examples that come to mind include political developments as well as fiscal and monetary policies. In Hungary, the newly elected pro-Europe Fidesz party has unlocked billions in social and infrastructure funding, for example. Brazil’s upcoming election in October could similarly install a more investor-friendly government that could help stabilize the fiscal deficit. Elsewhere, investors are eyeing the impact of oil subsidies on fiscal balances and are conscious of central banks being forced into growth-damaging interest rate hikes to fight rising inflation.

**Exhibit 6: European gas prices are lower than at the outset of the Ukrainian war**



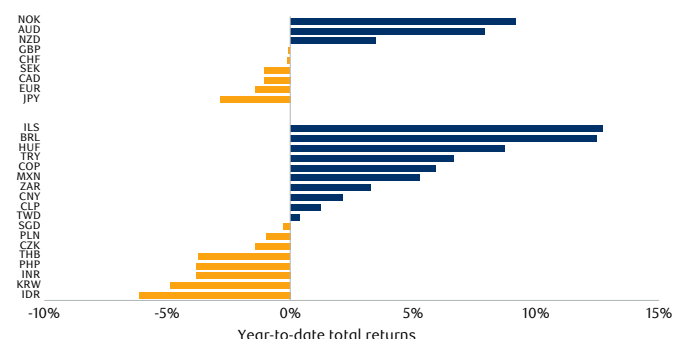
Note: As at June 3, 2026. Source: CME, RBC GAM

**Exhibit 7: Europe’s gas imports not overly reliant on Russia & Middle East**



Note: As at June 3, 2026. Source: Eurostat, RBC GAM

**Exhibit 8: Some emerging market and G10 currencies have outpaced the U.S. dollar this year**



Note: As at May 29, 2026. Source: Bloomberg, RBC GAM

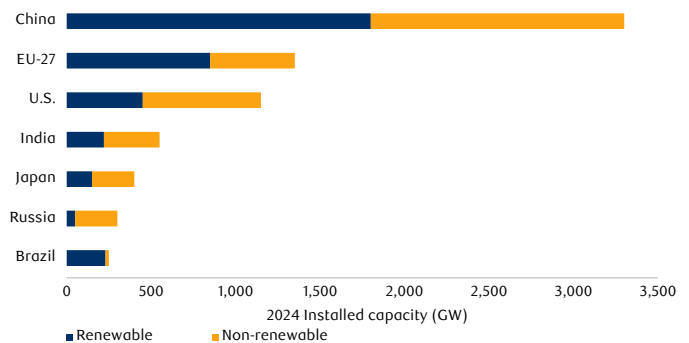
We remain broadly positive on Latin America, preferring the Chilean peso and Brazilian real to the currencies of Mexico and Colombia. We also like the South African rand, as the country’s economic and political trajectory has been improving, while we are more neutral on currencies within Eastern Europe and the Middle East. We have largely avoided Asian currencies this year owing to lower yields and to the energy-supply shock that poses a challenge for those most reliant on Middle Eastern oil and gas.

The exception to this view is the Chinese renminbi, which we expect will continue to rally for several reasons:

- China is less vulnerable to the closure of the Strait of Hormuz given its stockpiles of oil and other commodities and also due to heavy investments over the past decade in solar and wind technology that lessens their need to import energy (Exhibit 9).
- The country generates a massive trade surplus of more than US\$1 trillion per year (Exhibit 10), in part due to a cheap currency which allows Chinese goods to remain competitively priced.
- While Trump’s tariffs have curbed Chinese exports to the U.S., China has developed closer trade relationships with many of its Asian neighbours (Exhibit 11). We would not be surprised if a greater share of this trade started to take place in renminbi, as has already begun with China’s import of oil from Russia, Iran and Saudi Arabia.
- China now seems to be making quicker progress toward its multi-decade plan to internationalize the currency to secure lower interest rates, geopolitical leverage and other advantages associated with reserve currency status. To encourage this pickup in renminbi usage, policy makers in China have been guiding the currency stronger through their daily reference rate for the yuan and +/- 2% band within which the currency is kept (Exhibit 12).

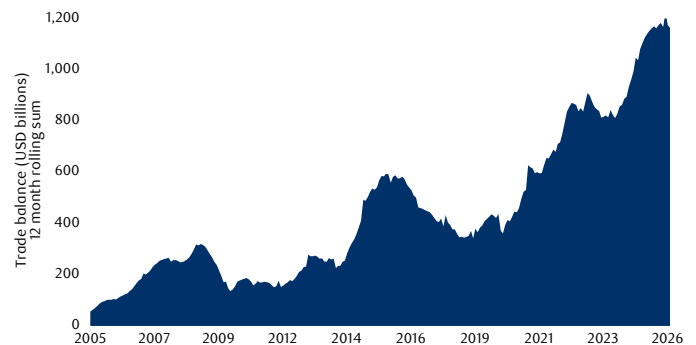
Within the developed world, we have grown more cautious on the biggest and most liquid currencies (euro, yen, pound) and instead prefer those belonging to economies that are more growth-oriented and commodity-linked. These include the Australian dollar, Norwegian Krone and Canadian dollar, all of which are insulated from the energy shock and have stronger fiscal and trade balances than their peers. Perhaps more importantly, the three currencies offer greater protection in

**Exhibit 9: China’s investment in renewables reduces dependence on oil and gas**



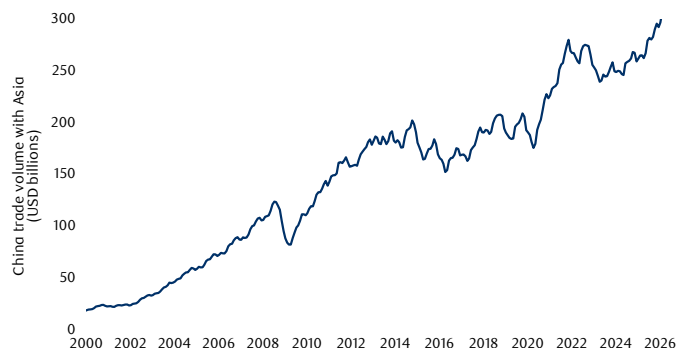
Note: As at 2024. Source: International Renewable Energy Agency, Gavekal, RBC GAM

**Exhibit 10: China is generating a trillion dollar trade surplus**



Note: As at April 30, 2026. Source: China General Administration of Customs, RBC GAM

**Exhibit 11: China is increasing trade with its Asian neighbours**



Note: As at April 30, 2026. Data is a 6-month rolling average. Source: China General Administration of Customs, RBC GAM

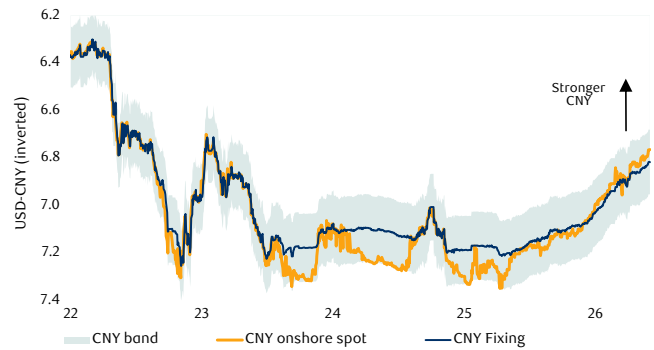
an inflationary world as they export commodities whose prices rise alongside inflation and alongside a softer U.S. dollar.

Our outlook for the Canadian dollar is a bit more tentative than for the other G10 commodity currencies. We remain concerned about the near-term risks associated with the renegotiation of the U.S.-Mexico-Canada (USMCA) trade agreement, which officially comes up for review on July 1, 2026. While we don't expect any country to withdraw from the deal, we won't be surprised if the U.S. lays a hard line in negotiating a minimum U.S. content for autos, access to the Canadian dairy market and commitments from Canada for military purchases.

The timing of the July 1 review is particularly important. President Trump needs to appear tough into mid-term elections, especially given the lack of domestic and international support for his attacks on Iran. We suspect that the absence of an immediate deal will extend a period of uncertainty during which Canadian businesses are reluctant to invest – creating a drag on the economy that has already held back business hiring and investment during the first quarter of 2026. This continues a trend of underinvestment in Canada that has plagued the country for many years (Exhibit 13).

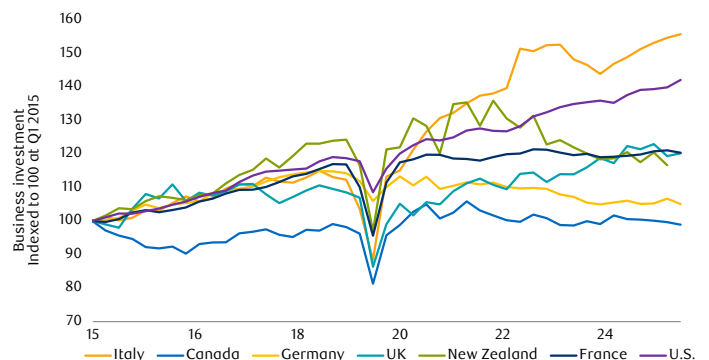
On a more positive note, the Canadian government seems intent on setting the economic trajectory on a more self-sufficient footing, relying less on debt-fueled government spending and instead on investing in future productivity. In April, Prime Minister Carney unveiled his 'Canada Strong Fund,' a sovereign wealth fund established with the goal of developing much-needed infrastructure in targeted sectors. The fund will be initially seeded with C\$25 billion over three years and will grow through partnership with private investors. The establishment of a fund should provide a tailwind for the Canadian dollar as its infrastructure investments boost productivity in the longer term and also encourage greater investment within Canada over the next year or two. The demand for Canadian dollars by pensions could be especially potent, given that this segment of investors has been starved for investment opportunities domestically and has spent a decade investing abroad (Exhibit 14).

**Exhibit 12: The Chinese yuan has steadily appreciated over the past year**



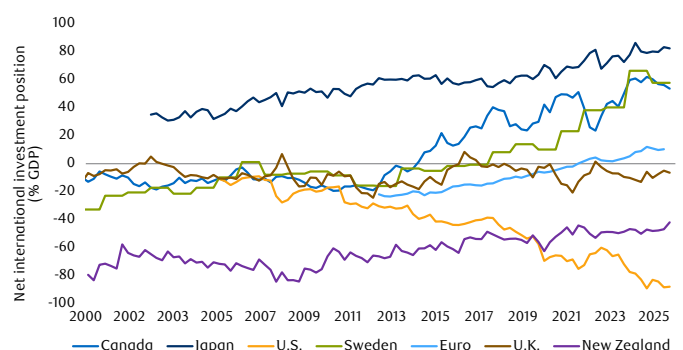
Note: As at June 2, 2026. Source: Bloomberg, RBC GAM

**Exhibit 13: Canada's business investment has lagged peers**



Note: As at March 31, 2026. Source: Macrobond, Deutsche Bank, RBC GAM. Source: Deutsche Bank, IMF, RBC GAM

**Exhibit 14: Canada has built up a large foreign international investment position**



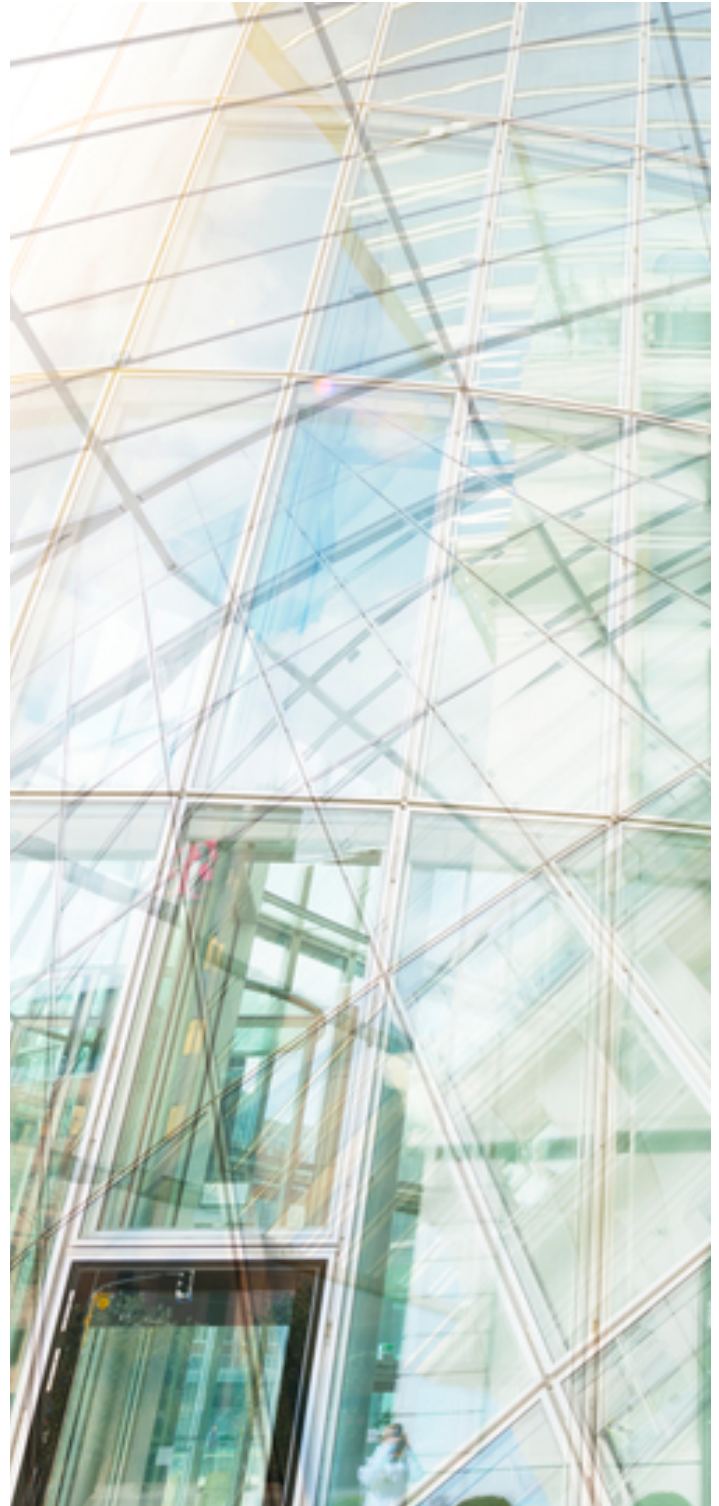
Note: As at March 31, 2026. Source: Macrobond, RBC GAM

For now, the loonie continues to trade within a tight range of C\$1.35 to C\$1.40 per U.S. dollar (Exhibit 15). Its tendency to follow the greenback means that it is less volatile than other currencies but benefits less than peers when the greenback declines. We think this may continue for the next few quarters as the North American trade deal weighs on business sentiment. However, a falling U.S. dollar and eventual clarity around USMCA negotiations will likely see the loonie strengthen late in 2026. We forecast the Canadian dollar to trade at C\$1.30 per U.S. dollar in mid-2027.

**Exhibit 15: The loonie is trading within a tight range**



Note: As at June 3, 2026. Source: Bloomberg, RBC GAM





## Regional outlook – United States



**Shanthu David, CFA**

Senior Portfolio Manager  
RBC Global Asset Management Inc.

U.S. equities, as measured by the S&P 500 Index, rose 10.5% over the three months to the end of May – a strong performance despite elevated geopolitical volatility and rising energy prices from the Iran war. The market has reached new highs, driven primarily by an unusually strong earnings revision cycle and continued artificial intelligence (AI) capital expenditures by major technology companies.

AI hyperscaler capital expenditures remain the dominant market driver, with FY2026 estimates now exceeding USD750 billion, up from the USD550 billion expected at the start of the year, and 80% higher than 2025 levels. A significant portion of this increase, however, reflects higher input prices, particularly in memory, which has emerged as a notable contributor to data centre construction cost inflation.

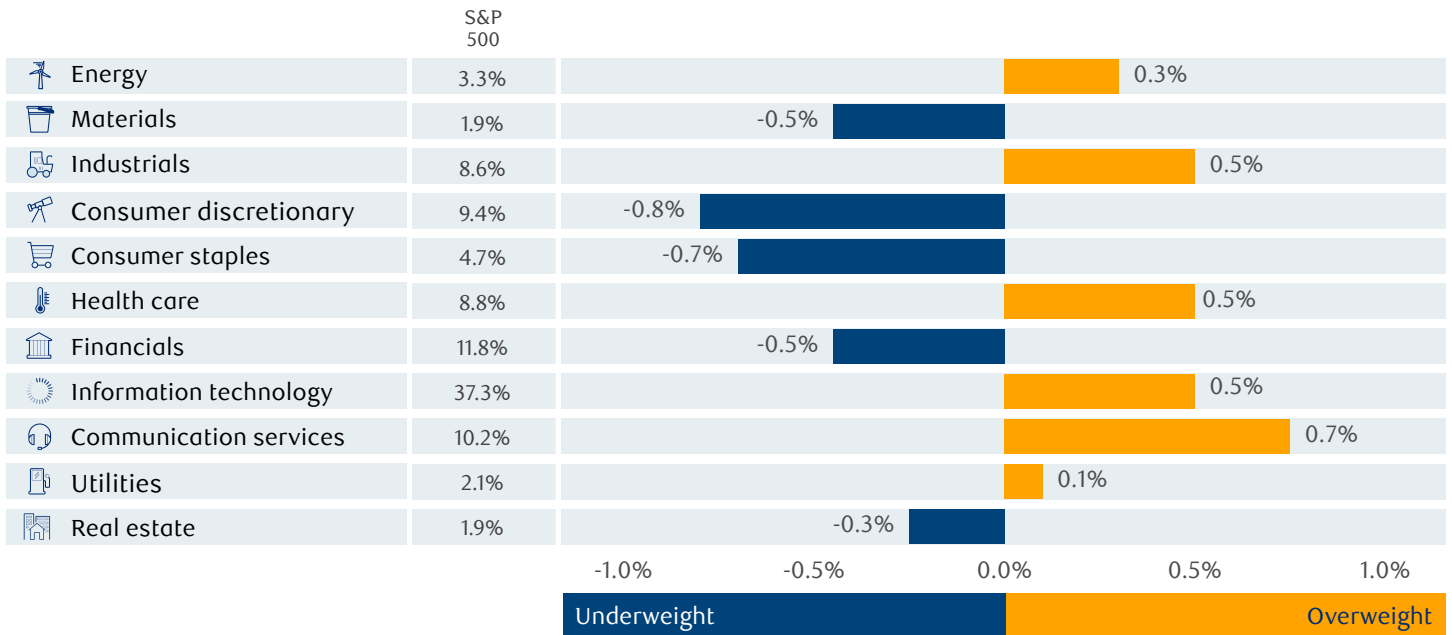
Hyperscalers, in aggregate, are now deploying 100% of their free cash flow toward CapEx in 2026. Despite this significant demand on internal cash generation, these companies appear well-positioned to sustain such spending: cash flows are supported by 30% consensus operating earnings growth forecasts for 2027, and there is capacity to add manageable debt to strong balance sheets. At the same time, earlier concerns around return on invested capital (“ROIC”) assumptions have eased this quarter, with major spenders – such as Amazon and Google – demonstrating revenue acceleration, growing order backlogs, and margin strength in their AI-oriented businesses.

Across the AI ecosystem, companies that are positioned to benefit from this hyperscaler CapEx cycle are experiencing exceptional growth. Semiconductors and memory manufacturers, in particular, are showing triple-digit earnings per share (EPS) expansion, in turn driving earnings revisions at the broader equity index level that are disproportionate relative to their weights in those indices.

Against this AI CapEx-led opportunity, however, there are risks that need to be monitored carefully. Investment quality and outlook vary considerably across companies due to differences in competitive positioning, execution quality, and growth sustainability. Furthermore, following such strong performance, some stocks have compressed years of potential gains into weeks or months, creating meaningful downside risk should investor sentiment shift.

At a sector level, strong U.S. equity performance over the past three months has been driven primarily by strength in Information Technology, led by mega-cap technology companies, with a smaller positive contribution from Energy. Companies exposed to AI-related capital expenditure have performed especially well, with memory product manufacturers for data centres experiencing particularly large EPS growth; as a case in point, the SOXX Semiconductor ETF rose by more than 40% in April alone. At the same time, concerns around AI-driven disruption have persisted –

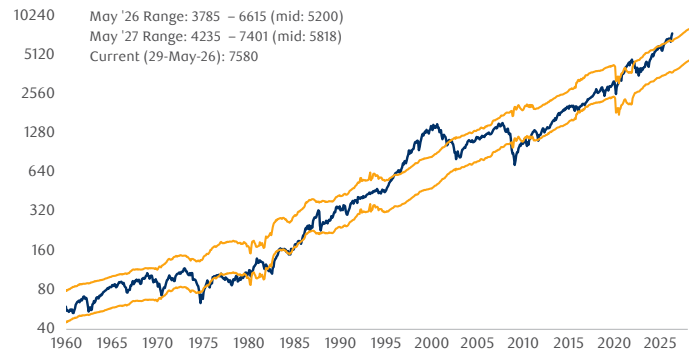
### United States – Recommended sector weights



Note: As of May 28, 2026. Source: RBC GAM

“U.S. equities, as measured by the S&P 500 Index, rose 10.5% over the three months to the end of May – a strong performance despite elevated geopolitical volatility and rising energy prices from the Iran war.”

### 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

though not exclusively – within the tech sector, with some software names remaining under pressure. Reflecting the broad dispersion in performance, many sectors, including Consumer Discretionary, Consumer Staples, Industrials, and Health Care have delivered negative returns over the past three months.

Looking at numbers in more detail, first quarter 2026 S&P 500 results have continued to support investor sentiment. On the back of 11% year-over-year (YoY) revenue growth, EPS rose 29% YoY, demonstrating strong aggregate performance across top-line and bottom-line metrics. Furthermore, outperformance versus analyst expectations was broad-based, with over three-quarters of companies beating consensus estimates.

To put the scale of these positive earnings revisions in context, despite the strong performance of the S&P 500, the Index traded at approximately 21x forward EPS at the end of May – notably below its recent peak of 23x, reflecting the sharp upward EPS revisions that have taken place in recent months.

That said, we are mindful of equity index concentration risk, given unusually strong earnings revisions remain heavily skewed towards AI CapEx beneficiaries and energy

companies. Technology concentration may be further tested, given the market is preparing for the initial public offerings (IPOs) of three mega-cap private companies in the coming months: the first of these is SpaceX, likely followed by OpenAI and Anthropic. Each of these companies may have a market capitalization of over USD1 trillion and, as such, could eventually become a sizeable constituent of the S&P 500 Index.

As we look forward, geopolitics, in particular, will continue to weigh on investors' minds. With the eventual outcome of the Iran war far from certain, energy prices could remain elevated and may not revert to pre-war levels even with a diplomatic resolution. Despite such uncertainty, U.S. consumers have remained resilient, supported by tax stimulus, which has helped offset some of the headwinds from elevated energy costs and higher bond rates in the near term. The consumer outlook will be important to monitor – not least because it will help shape the AI hyperscalers' ability to support and evolve their CapEx ambitions, a key factor on which market sentiment now rests heavily. Although we have reasonably strong visibility into AI CapEx spend for the next 12-18 months, we must remain watchful for conditions that could alter this outlook.



## Regional outlook – Canada



**Sean McCurley, CFA**

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

The S&P/TSX Composite Index recorded total returns of 1.8% in the three months ended May 29, 2026. In U.S.-dollar terms, the S&P/TSX Composite Index was essentially flat, compared with a 10.5% rise for the S&P 500 Index and a 7.3% increase in the MSCI World Index. After outperforming many global peers in the prior period, a pullback in the price of gold and gold equities held back what would have otherwise been another strong showing for the Canadian index.

We continue to monitor the Canadian economy to assess relative strength and durability. Speaking with management teams and following news reports, we see good evidence that Prime Minister Mark Carney and his cabinet are making efforts to grow the Canadian economy and increase economic resilience through supportive policy and infrastructure development. In the energy, aerospace and construction industries, we see gathering momentum for spending on nation-building projects.

A major challenge for Canada's economic outlook is our relationship with the U.S., as the stability of our trade is very important to Canadian businesses and consumers. We will maintain close attention to developments throughout the upcoming Canada-United States-Mexico Agreement (CUSMA) renegotiation process. Trade issues have been a headwind for the past twelve months, and an improvement in this area

would be a strong positive for our economy. We are optimistic that trade will continue to be supported, particularly in instances where it is beneficial to all partners.

In terms of the outlook for equities, commodity prices may drive S&P/TSX Composite Index performance more than the health of the Canadian economy itself, given the index's meaningful exposure to the Energy and Materials sectors.

The defining event in this period was the conflict between Iran and the U.S. military action in Iran and the surrounding region led to the closure of the Strait of Hormuz, which is a key passage for many goods but importantly, for a large volume of the global oil and natural gas supply. The closure impacted global energy supply chains and drove oil prices higher. The price of West Texas Intermediate, which was below US\$60 at the start of the year, spiked to well over US\$100 in March.

Canadian energy producers export nearly five million barrels per day of crude oil and natural gas liquids to the U.S. and international markets, so higher energy prices are a strong tailwind for most stocks in our Energy sector. These elevated selling prices translate directly to improved profitability and free cash flow, thereby supporting accelerated debt reduction and enhanced shareholder returns. In the last three months, the sector has gained 7.2%, but on a calendar year-to-date basis, the sector is up over 28%.



Analyst earnings estimates for Canadian energy producers moved sharply higher for 2026, but expectations beyond that are muted. This is because most market participants expect that the strait will reopen and the oil supply chain will gradually normalize, meaning oil prices in 2027 are expected to decline from current highs.

By late May, it appeared that the U.S. and Iran were nearing a deal for an end to the conflict, and some ships were moving through the strait. While we are hopeful that the worst of the conflict is over, the situation remains difficult to predict and calibrate. Should the war come to an end as anticipated, our cautious optimism would be warranted. However, a prolonged conflict carries the risk of broader economic impacts, including expanded supply chain disruptions and sustained price volatility. Considering these dynamics, we maintain a moderately cautious position on the Energy sector.

The largest outperformer for the three-month period was the Financials sector, which was up 12.0%, led by the banks. Earnings were reported at the end of May and were generally positive, with good contributions from capital markets and wealth management. Bank price-to-earnings multiples have risen to mid-teens, which is high by historical standards. While the businesses are healthy and we expect continued earnings growth ahead, we are working to understand whether the higher earnings multiples are likely to be sustained. The case for higher multiples centres around structurally higher returns on capital over the next 3–5 years, in concert with AI-driven cost efficiencies and improvements in risk management. In the near term, we believe sector multiples could be constrained as the market digests the longer-term bull case against near-term macroeconomic headwinds.

The rising price of gold was a major theme in 2025 and early 2026, when it spiked to well over US\$5,000 an ounce. On the back of this period of strong performance, the sector grew to become a meaningful driver of S&P/TSX Composite Index

earnings and performance. In March, however, the price declined sharply and remained volatile, ending the month of May at US\$4,540 an ounce. The pullback drove a sharp reversal in the share prices of TSX-listed gold producers, and the Materials sector declined 15.9% over the three-month period. Looking forward, while many of the reasons for gold strength continue to persist, several developments warrant caution. Interest rate expectations have moved higher, and central bank buying, which had been a supportive force over the past 12 months, appears to be moderating and may be less of a driver going forward. In the past, gold has rallied again after a period of consolidation, and we are watching closely to see if this pattern repeats. We are unlikely to see the share prices of gold producers meaningfully outperform without support from the underlying gold price.

The potential for artificial intelligence to disrupt traditional software and engineering services business models weighed heavily on valuations for several S&P/TSX Composite Index constituents over the period. Companies perceived to face elevated AI disruption risk experienced significant declines, even as they continued to deliver resilient earnings results and demonstrated long-standing track records of value creation. Valuations for these companies have declined considerably. Although questions remain about AI's eventual impact on their profitability, current prices offer better value than we've seen in some time, and share prices have recently shown initial signs of stabilizing and moving higher.

Overall, we continue to be constructive on the S&P/TSX Composite Index as valuations are generally reasonable and many of our resource companies have benefitted from higher commodity prices. However, as noted above, continued performance of the index will largely depend on the future path of oil and gold prices, and whether bank valuations can be sustained.



## Regional outlook – Europe



**David Lambert**

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

In our view, the macroeconomic landscape in Europe over the next three to twelve months will be heavily shaped by persistent geopolitical tensions, particularly the ongoing war in Ukraine and recent escalations in the Middle East. Military actions involving the U.S., Israel, and Iran have resulted in the de facto closure of the Strait of Hormuz, severely disrupting global oil and natural gas flows. This disruption has driven Brent crude prices sharply higher, increasing energy costs and adding significant inflationary pressures across energy-importing European nations. Global supply chains are also facing extended transit times and elevated logistics costs as maritime traffic is diverted from key routes.

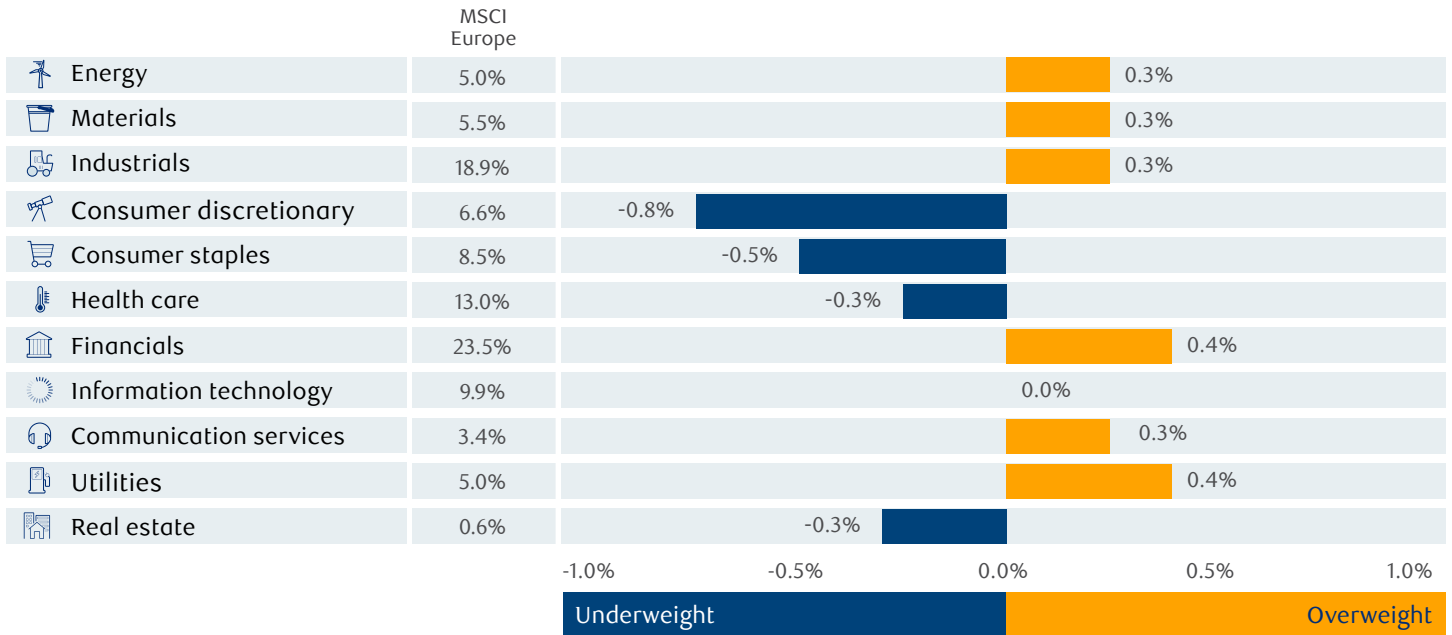
These energy supply shocks have revived stagflationary risks across the Eurozone, combining rapidly rising headline inflation with deteriorating economic growth. Eurozone headline inflation was projected to accelerate to 3.0% year-over-year by April 2026 due to soaring energy costs, even as core inflation eased slightly to 2.2%. Consequently, the growth outlook has weakened, with Germany's 2026 GDP growth forecast recently downgraded to just 0.5% amid plunging consumer confidence and industrial stagnation. Rising input prices and tightening financial conditions are further squeezing corporate margins and constraining business investment across the continent.

Faced with the dual challenges of sticky inflation and downside growth risks, the European Central Bank is expected to maintain a cautious and data-dependent stance. It kept its deposit rate on hold at 2% during the April 2026 meeting, while it assesses the persistence of the energy price shock and potential second-round wage effects. Looking further ahead, the central bank is projected to deliver 50 basis points of rate hikes by the end of 2026 to curb inflation expectations. However, if the economic slowdown deepens into a severe recession, policymakers may be forced to unwind these hikes and cut rates in 2027.

However, despite the macroeconomic uncertainties, the near-term earnings environment for European equities remains surprisingly robust. We anticipate a tactical pause to the index-level rebound as the market awaits the reopening of the Strait of Hormuz, but the underlying environment favours active stock-picking. Consensus earnings growth for the MSCI Europe Index is actively moving upwards, which is unusual as typically earnings get downgraded as a typical year progresses.

The consensus expectations for the broader market highlight a resilient corporate landscape despite the energy shock. First quarter earnings per share (EPS) growth is tracking at approximately 4% year-over-year, representing the strongest

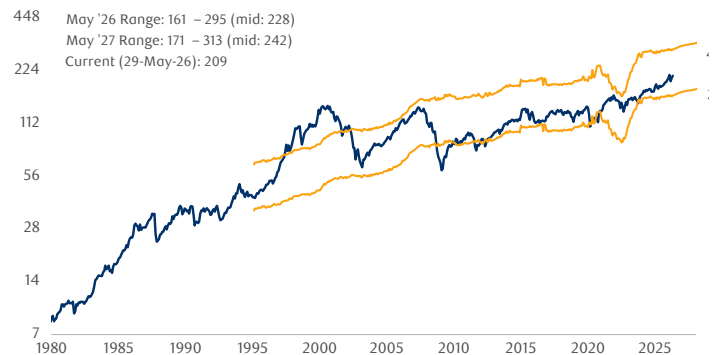
### Europe – Recommended sector weights



Note: As of May 28, 2026. Source: RBC GAM

“We expect company profits to grow substantially in 2026, driven by the strengthening economy and government support.”

### 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

performance since 2023. Looking further ahead, full-year 2026 consensus EPS growth remains high at roughly 17%. Energy remains the largest absolute driver of this growth, followed closely by cyclicals such as Technology, Basic Materials, and Industrials, whereas defensive sectors like Healthcare and Consumer Staples are expected to lag the broader market.

Utilities remain an interesting part of the market as the risk of punitive regulatory intervention in the space appears lower than in previous crises. Current energy prices, while elevated, are significantly lower than the extreme peaks witnessed in 2022, allowing power utilities to benefit from higher pricing without facing a serious threat of new windfall taxes that could damage valuations. The renewed focus on energy security is also expected to accelerate the political push for wind, solar, and battery infrastructure, structurally benefiting renewable developers.

In the Financials sector, European banks are entering a sustained period of profitability. The sector is undergoing a "Year of Growth," having significantly enhanced profitability to maintain strong returns on tangible equity of 14% or higher. The investment thesis for European banks is supported by a return to net interest income growth, structural tailwinds in investment banking fees, and robust capital return programs that are driving a broader sector re-rating.

Finally, while small and mid-cap (SMID) equities typically face severe headwinds during periods of geopolitical stress and tightening liquidity, certain mitigating factors exist in the current European landscape. The acceleration of the European "sovereignty" theme – encompassing defence spending, energy independence, and industrial reshoring – provides targeted policy-driven investment cycles that directly benefit domestic SMID names. Coupled with historically depressed valuation multiples across the segment, this dynamic offers a degree of downside protection for select small cap investments, despite the broader macroeconomic challenges.

A critical driver for European equities over the next year is the potential for significant regulatory relaxation aimed at enhancing the region's global competitiveness. The European Commission is currently reviewing its Horizontal Merger Guidelines, with a draft expected in the second quarter of 2026 that may shift focus away from short-term consumer price effects toward long-term "pro-competitive" factors such as innovation, investment, and resilience.

This "new approach" is designed to facilitate the creation of "European Champions" in fragmented strategic sectors like Telecommunications, Banking, and Energy.

Parallel efforts, such as the "Omnibus" packages to streamline sustainability reporting (CSRD/CSDDD) and proposals to revitalize the EU securitization market, further signal a transition toward a "lighter, more investment-friendly" regulatory framework.

Equity valuations have retraced downwards in Europe since the start of the Iran war (despite earnings moving upwards) and sit in line with the 20-year median levels, but are still at a significant discount to valuations seen in the U.S. equity market. Over the past decade, European earnings have lagged U.S. earnings significantly, but we see this gap narrowing over the coming years. One could be optimistic for an improved domestic earnings outlook in the medium term, as fiscal spend and a focus on improved competitiveness potentially have a positive impact on earnings.

The primary downside risk remains the potential for an escalation of conflict in the Middle East, which could temporarily drive oil prices even higher and eliminate regional earnings growth. The other aspect we are mindful of is the extreme strength we have seen in the artificial intelligence (AI) trade and companies exposed directly or indirectly to AI build out. Valuations and expectations in this area of the market are elevated and are vulnerable to any signs of growth beginning to dissipate.



## Regional outlook – Asia



**Chris Lai**

Portfolio Manager  
RBC Global Asset Management (Asia) Limited

Asian equities delivered attractive returns over the three-month period, broadly in line with global equity markets. Within the region, South Korea and Taiwan outperformed, while Hong Kong and India underperformed.

Taiwan's equity market has benefited disproportionately from the surge in demand for advanced semiconductors and artificial intelligence (AI)-related infrastructure. Technology exports have risen sharply as major U.S. cloud service providers aggressively expand their AI infrastructure, driving substantial orders. Reflecting this demand, Taiwan's manufacturing Purchasing Managers' Index in April rose to its highest level since December 2021.

In South Korea, semiconductor manufacturers SK Hynix and Samsung Electronics are benefiting from a structural shift toward high-value memory products such as high bandwidth memory. South Korea also continues to benefit from its corporate "value-up" program, a major government and market initiative designed to address the historical undervaluation of the country's equities relative to global peers, while improving shareholder returns and capital efficiency.

Sentiment toward Indonesia, meanwhile, has turned decidedly cautious. Specific overhangs include MSCI Index-review risks, while both Moody's and Fitch have lowered their sovereign credit outlook for the country to "negative" in 2026,

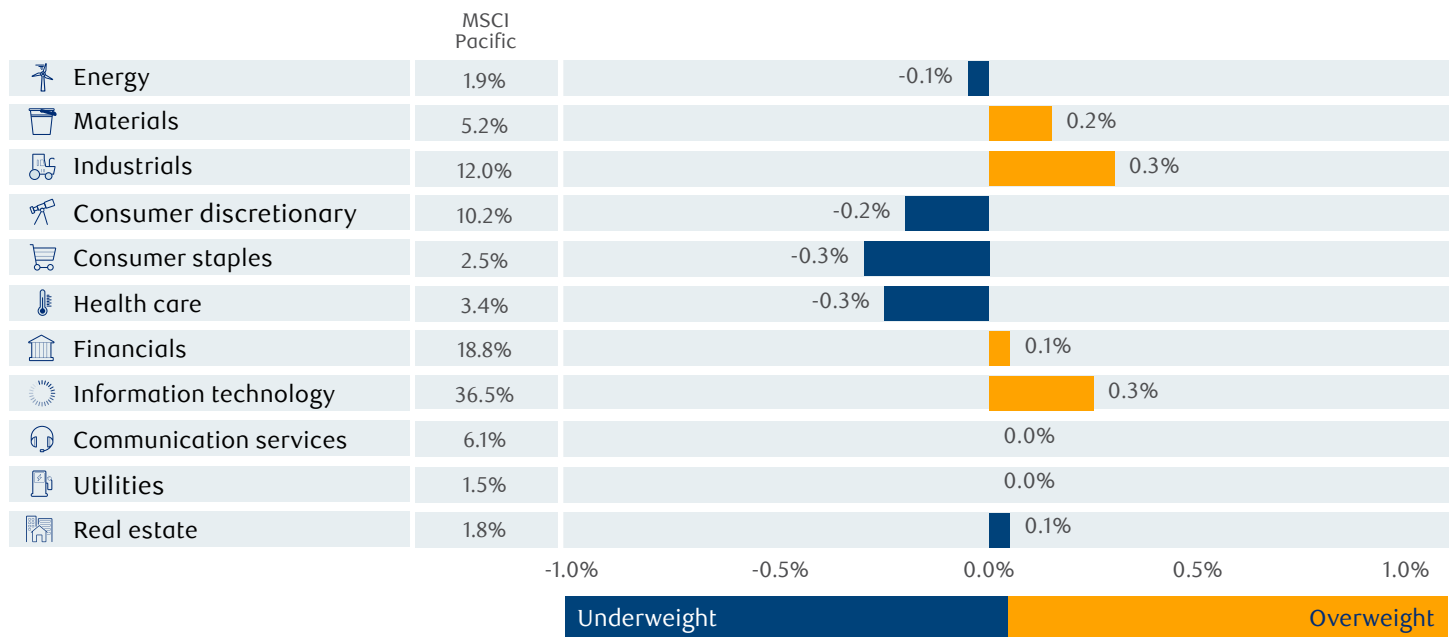
citing policy uncertainty and fiscal credibility risks under Indonesia's new administration.

The Hong Kong market has underperformed, as sentiment remains fragile, weighed down by elevated U.S. 10-year Treasury Bond yields exceeding 4.60% and persistent geopolitical instability in the Middle East. Regulatory concerns intensified following Beijing's coordinated crackdown on illegal cross-border stock trading, aimed at curbing capital outflows and eliminating regulatory arbitrage.

Asia's macroeconomic outlook for the next 12 months reflects a transition toward moderate growth amid persistent energy shocks. Regional GDP growth is expected to be anchored by a sustained global tech upcycle and AI-related demand, particularly benefiting Taiwan and South Korea.

Inflation remains elevated due to the Middle East conflict and a prolonged blockade of the Strait of Hormuz, driving higher fuel and logistics costs. Consequently, monetary policy has turned more hawkish; the central banks of Indonesia and the Philippines have initiated rate hikes to help stabilize their currencies, while Japan is continuing to pursue policy normalization, with June and December rate hikes expected. Major risks include a higher-for-longer energy price environment, renewed U.S.-China trade tensions, and El Niño-related food price volatility, all of which may dampen private consumption across the region.

## Asia – Recommended sector weights



Note: As of May 28, 2026. Source: RBC GAM

## Japan

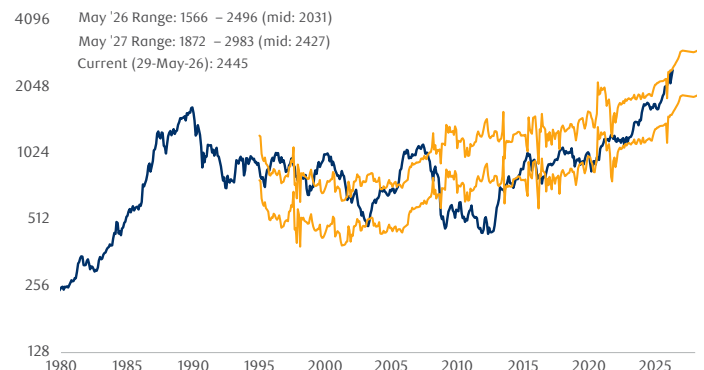
Japan's economy is seeing a moderate recovery, with real (after inflation) GDP growth for FY2026 now projected between 0.50% and 0.90%, accounting for the impact of persistent energy shocks and global uncertainty. The Japanese yen has faced extreme pressure, breaking past the 160.00 level against the USD in late April 2026. This prompted suspected intervention by the Ministry of Finance to stabilize the currency, with estimates suggesting that roughly JPY10 trillion (approximately USD65 billion) was deployed to curb excess volatility.

The labour market remains exceptionally tight, with the unemployment rate steady at 2.50% as of April 2026. The active job-to-applicant ratio stood at 1.18 in April 2026, though some leading indicators for new jobs suggest ratios as high as 2.15.

The 2026 Shunto spring wage negotiations, held each year between unions and employers, delivered robust results for the third consecutive year, with average wage hikes reaching 5.26%.

## 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

Despite these gains, consumer spending has faced headwinds; while the Consumption Activity Index showed a slight recovery trend in early 2026, consumer confidence deteriorated sharply in April as households faced rising inflation expectations.

Core Consumer Price Index inflation is forecast at 2.5% for FY2026, driven by lagging energy costs and a temporary energy price shock. Against this backdrop, the Bank of Japan has adopted a more hawkish stance, with analysts anticipating further normalization and a policy rate projected to reach 1.50% by early 2027, double its current level of 0.75%.

### Asia Pacific excluding Japan

China's macroeconomy is undergoing a structural transition, supported by robust high-tech exports, but held back by persistently weak domestic consumption and a cooling real estate sector. While first quarter 2026 real GDP grew by 5.00%, April indicators revealed a sharp slowdown, with retail sales growth stagnating at 0.20% and fixed asset investment contracting 1.60% year-to-date due to fading stimulus and property headwinds.

The 2026 forecast points toward a gradual deceleration, with GDP growth expected to settle between 4.50% and 4.70%. Inflation is projected to edge up to approximately 1.00%, as producer price pressures from recent global energy shocks are expected to pass through to consumers.

On policy direction, China's 15th Five-Year Plan (2026–2030), approved in March 2026, formalizes a “security-first” industrial agenda focused on “New Quality Productive Forces” and targeting innovation-led growth. Key targets include 7.00% annual R&D growth and increasing the digital economy's share of GDP to 12.50% by 2030. The plan is expected to deliver a decisive shift toward technological self-reliance in semiconductors, AI, and green energy, helping to insulate the economy from external geopolitical volatility while accepting a naturally moderating growth rate.

Australia's macroeconomy is facing stagflationary risks, characterized by weakening growth and persistent price pressures intensified by the conflict in the Middle East. As a result, the country's economic growth rate is expected to continue to slow through 2026, with GDP growth stabilizing around 2.00%, compared with 2.6% in 2025. Inflation is forecast at 4.5% for 2026, above the Reserve Bank of Australia (RBA)'s target range of 2–3%.

The labour market has begun to soften, with the unemployment rate jumping to 4.5% in April, its highest level since November 2021. Consequently, analysts expect the RBA to maintain the cash rate at 4.35% through the remainder of 2026 to balance inflation against rising downside risks to growth. The 2026–27 Federal Budget, handed down in May, focuses on structural repairs and housing reform. Key measures include abolishing the 50% capital gains tax discount and reforming negative gearing for established properties to improve intergenerational equity. The budget also targets nearly AUD37 billion in savings from the national disability insurance scheme through 2029–30 while introducing a AUD250 “Working Australians Tax Offset” for the 2027–28 year.

India's economy entered 2026 with strong momentum, though it now faces significant headwinds from the Iran war and potential El Niño weather patterns. Real GDP growth for FY2026 is estimated at a robust 7.60%, supported by resilient domestic consumption. However, growth is forecast to moderate to between 5.70% and 6.90% for FY2027 as higher energy costs look likely to dampen private spending and industrial activity.

To counter the impact of the Iran war, the Indian government launched the Emergency Credit Line Guarantee Scheme 5.0, providing INR2.50 trillion in credit guarantees for vulnerable sectors such as aviation and micro, small, and medium-sized enterprises more broadly. On the monetary front, the Reserve Bank of India (RBI) maintained the repo rate at 5.25% through early 2026 after delivering 125 basis points of cuts in 2025.

Analysts now anticipate a hawkish RBI pivot, with forecasts suggesting 50–100 basis points in rate hikes starting in late 2026 to defend a weakening rupee, which hit record lows against the US dollar, near 95.33 INR/USD, in April.

Macro indicators show rising pressure, with wholesale price index inflation surging to 8.30% in April 2026 due to fuel and metal price spikes. While forex reserves remain near USD700 billion, the current account deficit is projected to widen toward 2.50% of GDP if the crude oil price remains near USD100 per barrel. Fiscal slippage risks have also increased, with the FY2027 deficit potentially reaching 4.80% of GDP due to rising subsidy burdens from the Iran war.



## Regional outlook – Emerging markets

### The new powerhouse re-shaping global economics



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

With emerging markets equities outperforming their developed market counterparts for the second year in a row, many investors are pondering the question: is this a new dawn for EM equities, at the beginning of a long-term supercycle? We are currently in the third year of witnessing higher earnings growth in emerging markets compared to the MSCI World Index, driven by an industrial supercycle; it is not just the artificial intelligence (AI) CapEx and broader AI-related infrastructure cycle, but also the energy transition, defence and industrial CapEx more broadly that are driving this. Asia remains the global manufacturing powerhouse, but emerging markets more broadly stand to benefit too, as areas such as mining, commodities, and power grids are witnessing strong demand. The confluence of these supercycles, which are policy driven and should last several years, gives us confidence that emerging market outperformance will continue.

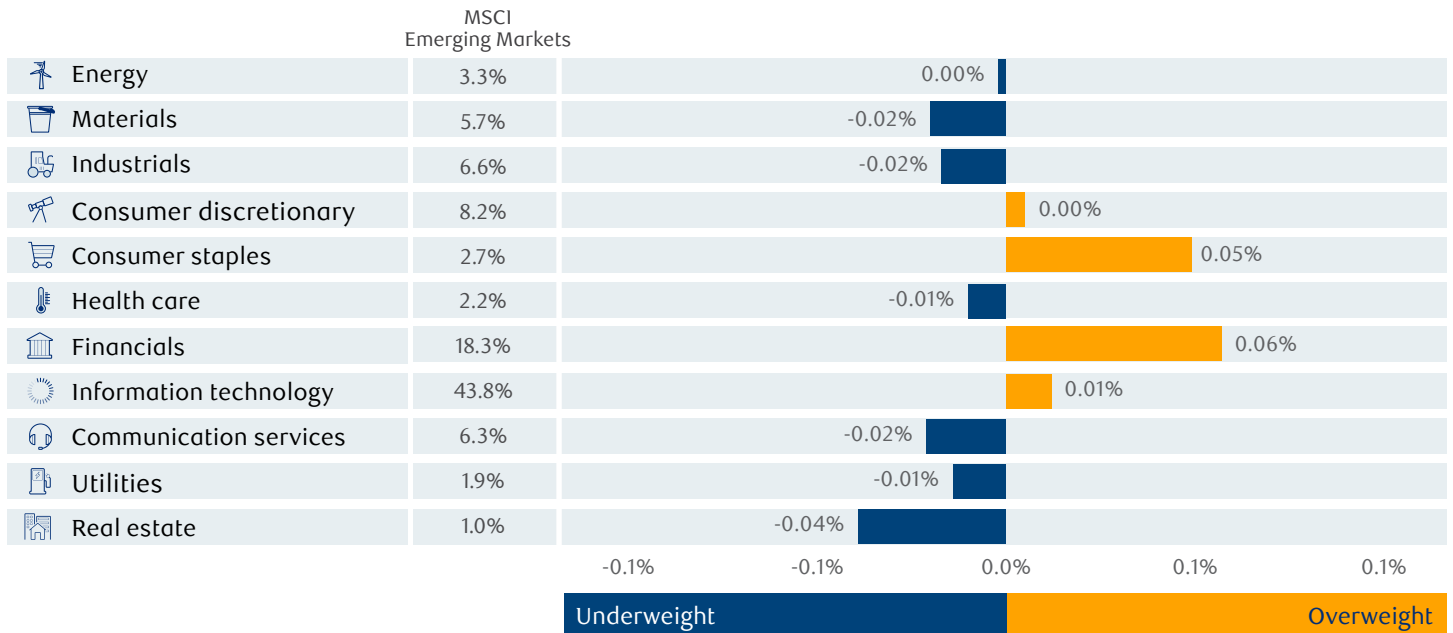
Taking a longer-term view, the global economic landscape is undergoing a historic transformation. Emerging markets, long positioned as demand-followers orbiting developed economies, are establishing themselves as the primary engine of global growth and innovation. This shift reflects fundamental structural changes rather than temporary cyclical trends, positioning emerging economies for a new era of self-sustaining expansion.

Today, more than 80% of the global population resides in the developing world, a demographic weight increasingly translating into economic influence. Emerging markets already account for over 50% of global GDP and are expected to generate approximately 65% of global economic growth by

2035. The foundation for this transition rests on five critical pillars that are collectively reshaping the emerging markets growth model.

First, domestic demand is replacing export dependency. Rising middle classes, rapid urbanization, and financial inclusion through fintech are creating indigenous demand drivers independent of developed market cycles. Countries like India, with urbanization rates around 35% and expected to reach 50% by 2050, exemplify this transformation. Digital payment adoption has surged across emerging economies, connecting hundreds of millions of consumers to formal financial systems.

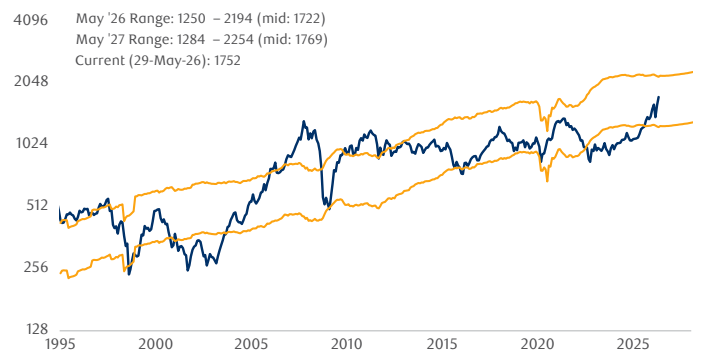
## Emerging markets – Recommended sector weights



Note: As of May 28, 2026. Source: RBC GAM

“We are currently in the third year of witnessing higher earnings growth in emerging markets compared to the MSCI World Index, driven by an industrial supercycle.”

### MSCI Emerging Markets Index Equilibrium Normalized earnings and valuations



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Second, de-dollarization is reducing currency vulnerability. The dollar's share of global foreign currency reserves has declined from 70% two decades ago to 58% currently. Foreign holdings of U.S. Treasury securities have plummeted from 38% in 2010 to just 13% in 2025, while central banks increasingly diversify into gold and regional currencies. This financial autonomy insulates emerging markets from U.S. interest rate shocks and capital flow disruptions.

Third, stronger macroeconomic fundamentals provide resilience. Emerging markets maintain healthier fiscal positions than developed counterparts, with general government debt substantially below the 120% of GDP seen in advanced economies. Real policy rates are at decade highs relative to developed markets, attracting capital and supporting investment while boosting export competitiveness.

Fourth, inter-EM integration creates self-reinforcing growth ecosystems. Intra-EM trade has surged from roughly 25% of total emerging market trade in 1990 to approaching 50% today. China has emerged as the largest trading partner for approximately 70% of the world, fundamentally re-orienting global commerce away from developed markets. Brazil now exports more soybeans to China than the U.S., while African economies increasingly trade with India and Turkey.

Fifth, technological independence positions select emerging markets as global leaders. China produces over 60% of global electric vehicles and 75% of battery capacity, positioning itself at the center of the global decarbonization transition. Taiwan dominates semiconductor production, while India remains a significant AI participant through software talent and IT services expertise. India has the world's largest pool of English-speaking software engineers and continues advancing AI implementation for enterprises.

Despite these compelling structural tailwinds, emerging markets equities remain underrepresented in global benchmarks at just 10-12%, trading at historically wide valuation discounts to developed markets. This disconnect suggests either fundamental mispricing or insufficient recognition of structural emerging market advantages.

The investment case extends beyond individual economies to regional opportunities. China 2.0 reflects a decisive pivot from manufacturing toward technology leadership, underpinned by USD 8.8 trillion in excess household savings awaiting reallocation. India, despite recent underperformance, maintains intact fundamentals with supportive domestic liquidity, strong demographic tailwinds, and meaningful participation in the AI economy. Brazil emerges well-positioned for rate normalization and reflation, with commodity exports providing natural hedges against global disappointments.

However, risks remain. Resumed U.S. exceptionalism driven by AI leadership could redirect capital flows toward U.S. tech giants. Energy-dependent emerging markets face vulnerability to commodity price shocks, particularly affecting China, India, Taiwan, and South Korea. China's ability to escape the middle-income trap through consumption-led reforms remains critical for broader emerging markets performance, while geopolitical instability threatens market stability.

Yet the trajectory is clear: after decades of playing supporting roles, emerging economies are learning to fly independently, powered by rising domestic demand, deepening economic 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 portfolio manager, Dagmara oversees several bond funds, including the RBC Bond Fund, 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 and the RBC GAM Investment Strategy Committee, which set the asset mix for RBC GAM's suite of balanced products. 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) \$832.3 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. Stu has been with the firm since 2002 and is a CFA charterholder.

\*AUM in CAD as of May 28, 2026



**Soo Boo Cheah, MBA, CFA**

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

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



**Irene Fernando, MBA, CFA**

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

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



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



### Hanif Mamdani

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

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



### Bryan Mascoe, CFA

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

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


**Daniel Mitchell, CFA**

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

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

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


**Sarah Neilson, CFA**

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


**Sarah Riopelle, CFA**

Managing Director, Senior Portfolio Manager  
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 Policy Committee (responsible for the investment strategy and tactical asset allocation for RBC funds' balanced products and portfolio solutions) and RBC GAM Investment Strategy Committee (sets global strategy for the firm. 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 Chartered Financial Analyst designation in 2001.


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

Senior Investment Strategist  
RBC Global Asset Management Inc.

Eric is a senior investment strategist on RBC GAM's Macro Economic and 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  
Co-Head Fixed Income (Vancouver)  
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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 IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.


**Jaco Van der Walt, DCom**

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

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


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

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


**Brad Willock, CFA**

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

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

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