RBC Global Asset Management

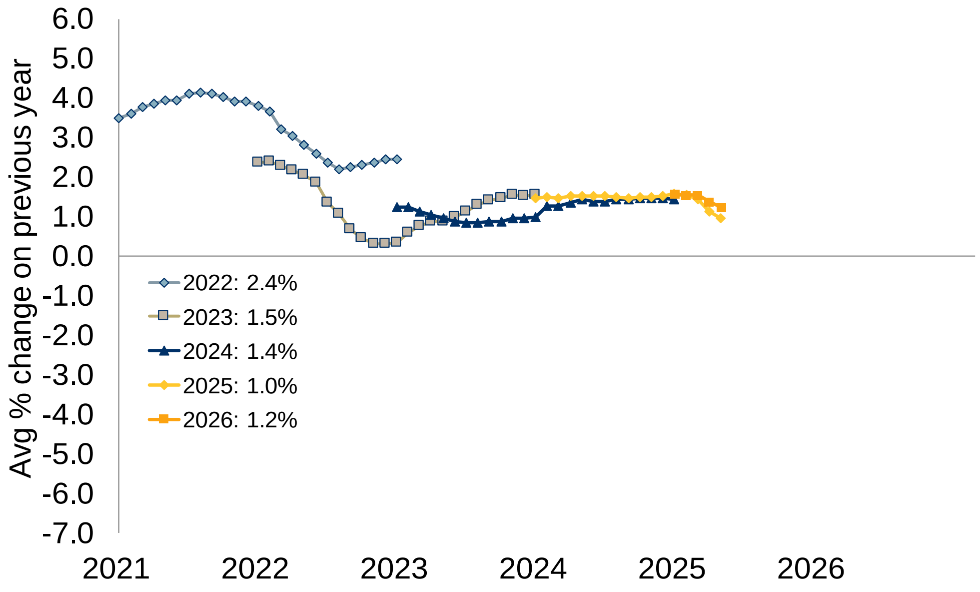
Capital markets update

June 2025

The economy

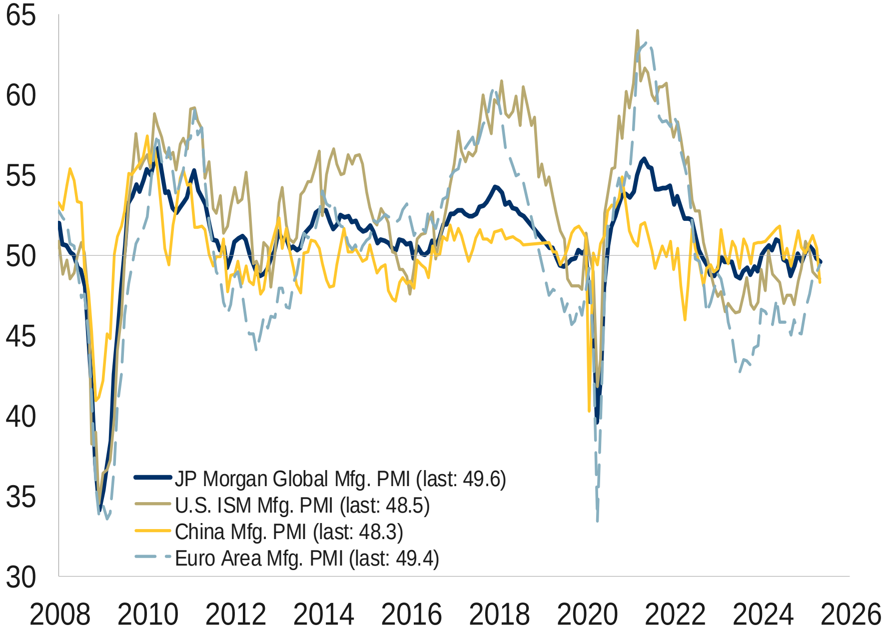
The economic backdrop has been highly volatile as President Trump negotiates trade agreements with economies around the world. Progress is being made on several fronts, though, and peak fear related to tariffs is now likely behind. The U.S. has struck trade deals with the U.K. and China, and reciprocal tariffs have been delayed at least until July/August. That said, some level of tariffs remain in place and the ultimate impact on the economy from increased taxation on global trade remains to be seen. So far, confidence of businesses and consumers has taken a hit, but actual economic data has been resilient and leading indicators continue to point to modest growth. Overall, we look for slow but positive economic growth in 2025 and recognize that the odds of recession, though not trivial, have diminished due to Trump's willingness to dial back extreme tariff threats. Looking further ahead, we expect growth to accelerate a bit into 2026 as tariff uncertainty ultimately diminishes and fiscal stimulus offers support.

Weighted average consensus real GDP
Growth estimates for major developed nations



Note: As of May 2025. Source: Consensus Economics

Global purchasing managers' indices



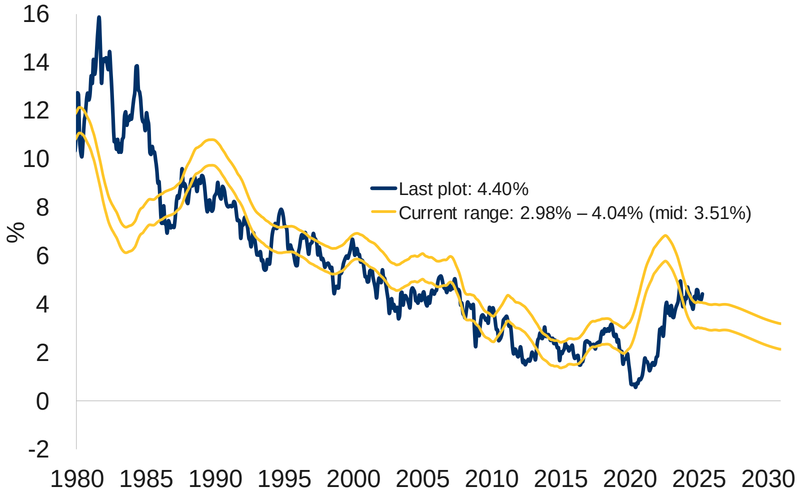
Note: As of May 31, 2025. Source: Macrobond, RBC GAM

Fixed income markets

- Many developed-world central banks have continued lowering interest rates in this environment to support economic activity, but further rate relief may be limited if inflation proves stubborn. In the U.S., the Fed has been on pause so far this year since the labour market is healthy and inflation remains slightly above the 2.0% target. Progress on inflation coming down could be temporarily delayed until 2026 due to tariffs, though it is important for the Fed to not overreact to heightened inflation pressure in the near-term given that any price-boost from tariffs is unlikely to be repeated. We expect that slowing growth will nudge the Fed to deliver three 25-basis-point cuts over the next year, in line with what the market has priced in, and we recognize that, should the economy weaken further, the Fed has ample capacity to lower interest rates from the currently restrictive stance. Ultimately, the path for rates will depend on the actual data and how trade policy evolves.
- Sovereign bond yields have fluctuated in a large range as investors weighed growth, inflation and fiscal concerns. The U.S. 10-year yield fell as low as 3.86% shortly following Trump's announcement of reciprocal tariffs, a major headwind to growth, in early April then briefly climbed over 4.60% in May following Moody's U.S. credit-rating downgrade and concern regarding sustainability of the U.S. fiscal position exacerbated by the One Big Beautiful Bill. Currently at around 4.40%, the U.S. 10-year yield is above our modelled estimate of equilibrium, which suggests that sovereign bonds offer decent return potential with only moderate valuation risk.

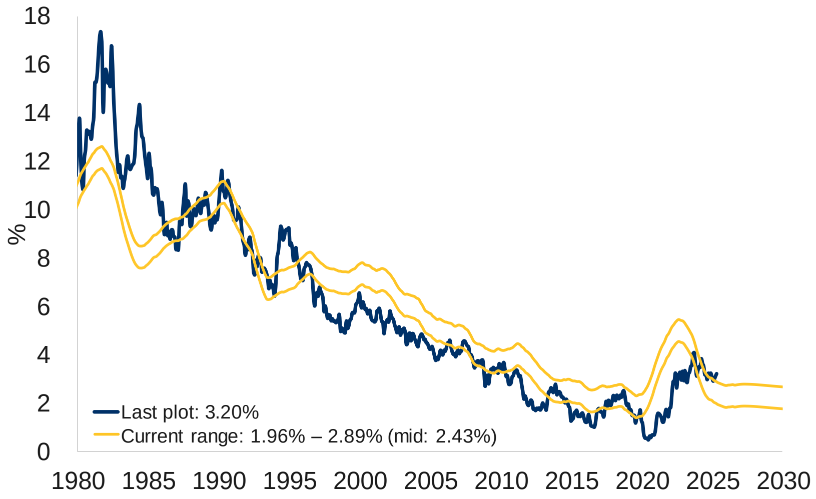
U.S. 10-year T-bond yield

Equilibrium range



Note: As of May 31, 2025. Source: RBC GAM

Canada 10-year bond yield



Note: As of May 31, 2025. Source: RBC GAM

Fixed income forecasts

Policy Rates	Current May 2025	Forecast May 2026*
U.S	4.50	3.75
Canada	2.75	2.50
Europe	2.25	1.75
United Kingdom	4.25	3.50
Japan	0.48	0.75

* Please note that the forecasts are updated quarterly in February, May, August and November and so do not reflect any changes to market conditions that happen intra quarter.

Long-term interest rate	Current May 2025	Forecast May 2026*
U.S. 10-Year Bond	4.40	4.25
Canada 10-Year Bond	3.20	3.25
Germany 10-Year Bond	2.50	2.50
United Kingdom Gilt	4.65	4.25
Japan 10-Year Bond	1.50	1.50

* Please note that the forecasts are updated quarterly in February, May, August and November and so do not reflect any changes to market conditions that happen intra quarter.

Source: RBC GAM, Bloomberg. Rate definitions: U.S.= Fed Funds rate; Canada= Overnight rate; Europe = Eurozone policy rate; United Kingdom= Base rate; Japan= Overnight call rate.

Equity markets

- Global equities experienced extreme volatility during the past quarter with some major indices experiencing bear-market declines of more than 20%. U.S. equities led the downturn as tariff threats escalated, with the tech-heavy NASDAQ falling 24% from its December 2024 peak and the Russell 2000 Small Cap Index falling 28% from its November peak. The S&P 500 fell just shy of a bear market with a 19% peak-to-trough decline, while international equity markets outperformed especially when factoring in recent U.S. dollar weakness. Following Trump's announcement of a 90-day pause to reciprocal tariffs, though, stocks enjoyed a powerful rally, further boosted by the trade deal with China. As a result, most major indices fully erased their prior losses and many non-U.S. markets climbed to new records. The latest rally did push U.S. large-cap stocks back to expensive territory, limiting their return potential. But our models suggest that global stocks, in aggregate, are not expensive and that equity markets outside North America are trading at attractive distances below their fair value.
- With U.S. large-cap stocks trading at premium valuations, maintaining high investor confidence as well as generating solid earnings growth will be critical to sustaining further gains from here. Analysts look for 8.5% profit growth in 2025 followed by 13.5% growth in 2026. Should the S&P 500 trade between 0.5 standard deviations to a full standard deviation above equilibrium, it can deliver low single-digit to high single-digit annualized returns through the end of 2026 if the consensus earnings estimates are achieved. That said, earnings growth could face headwinds, particularly if profit margins weaken due to tariffs and re-shoring production to the U.S., which could increase input costs and reduce operating efficiencies. Should profits fail to meet expectations, U.S. stocks would be vulnerable given the starting point of elevated valuations and heightened investor enthusiasm.

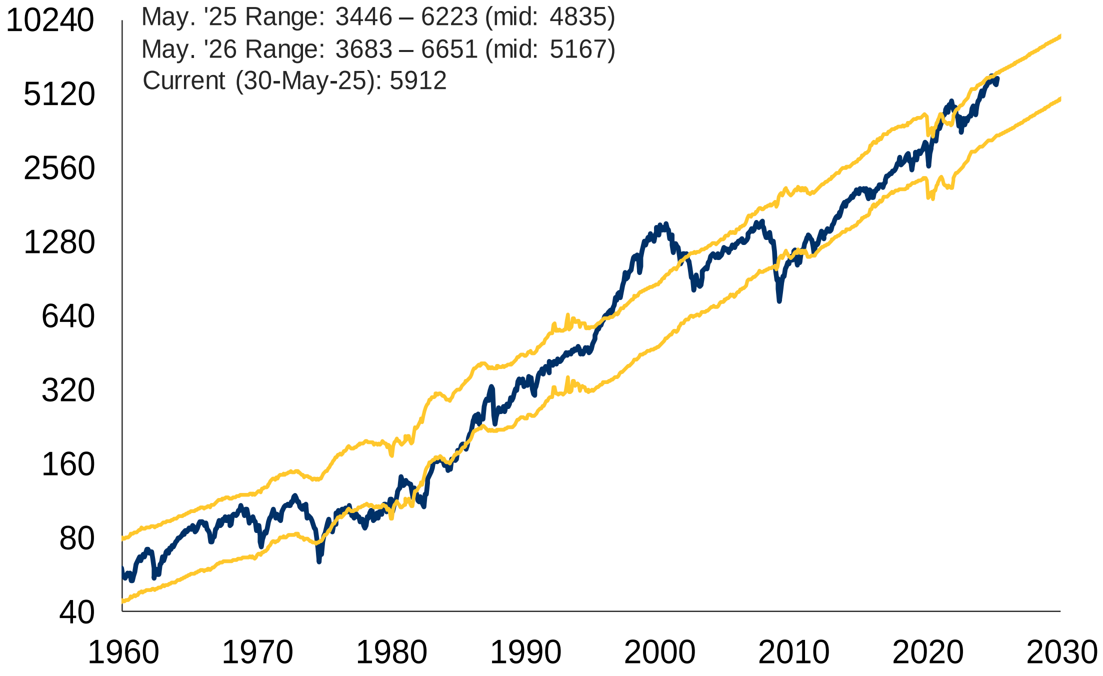
Equity market	**Current May 2025**	**Forecast May 2026***
S&P 500 Index	5912	5850
S&P/TSX Composite Index	26175	26800
MSCI Europe Index	183	190
FTSE 100 Index	8772	9050
Nikkei Index	37965	39800
MSCI Emerging Markets Index	1157	1225

* Please note that the forecasts are updated quarterly in February, May, August and November and so do not reflect any changes to market conditions that happen intra quarter.

Source: RBC GAM.

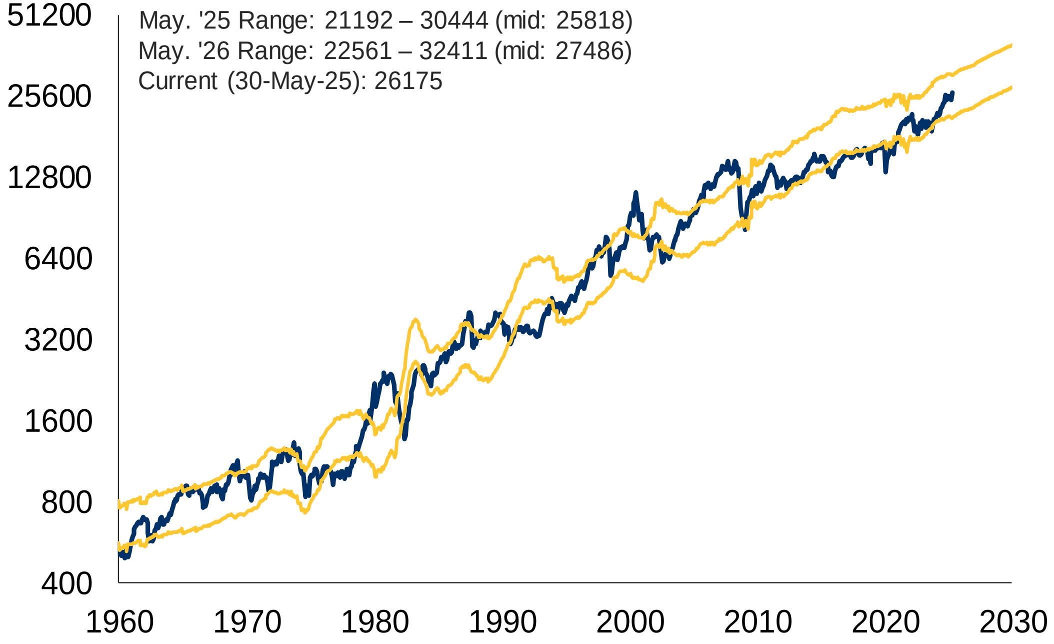
Equity markets

S&P 500 equilibrium
Normalized earnings & valuations



Source: RBC GAM

S&P/TSX Composite equilibrium
Normalized earnings & valuations



Source: RBC GAM

Data as of May 31, 2025. The fair value calculation is the product of the equilibrium price/earnings ratio and the current estimate for normalized earnings. The resulting price level is then standardized by a factor representing the historic relationship of the actual market to its equilibrium level. This generates the "fair value" estimate or mid-point of the band. The bands' boundaries capture one standard deviation of movement above and below this value. Fair value is the minimum price level consistent with mild inflation/low interest rates in a growing economy. Above-average price appreciation remains a possibility in an environment where 'normalcy' is restored. Moreover, opportunity exists as valuations in some big markets still lie below their minimum expected levels. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks, but the outlook for equity market returns is generally superior when stocks lie below fair value at the bands' midpoint. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Asset mix

- Our asset mix balances the risks and opportunities and considers that the current range of outcomes is unusually wide. In our base case scenario, the economy will continue growing at a sluggish pace against a backdrop of modest inflation, allowing for some further central-bank easing. In this environment, we expect sovereign bonds to deliver mid-single-digit returns over the year ahead as long as inflation continues falling toward central bankers' targets, with the possibility of higher returns should the economy encounter a meaningful slowdown. Although stocks have already enjoyed an impressive recovery, we continue to expect stocks to outperform bonds. Furthermore, the equity-market sell off in March/April generated extremely oversold conditions that have historically been consistent with durable market bottoms. As a result, we added 1% to our equity allocation during the quarter, sourced from cash, favouring regions outside the U.S. where valuations are relatively more appealing.
- Our current recommended asset mix for a global balanced investor is 61.0% equities (strategic: "neutral": 60%), 38.0% bonds (strategic "neutral": 38%) and 1.0% in cash

Global Asset Mix	Benchmark	Past Range	Spring 2024	Summer 2024	Fall 2024	New Year 2025	Spring 2025	Summer 2025
Cash	2.0%	1%-16%	1.5%	1.5%	3.0%	2.0%	2.0%	1.0%
Bonds	38.0%	25%-54%	38.5%	38.5%	37.0%	38.0%	38.0%	38.0%
Equities	60.0%	36%-65%	60.0%	60.0%	60.0%	60.0%	60.0%	61.0%

Source: RBC GAM
Actual fund or client portfolio positioning may differ depending on individual investment policies.

Disclosure

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For fixed income, yield stated is yield to maturity unless stated otherwise.

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