RBC Global Asset Management

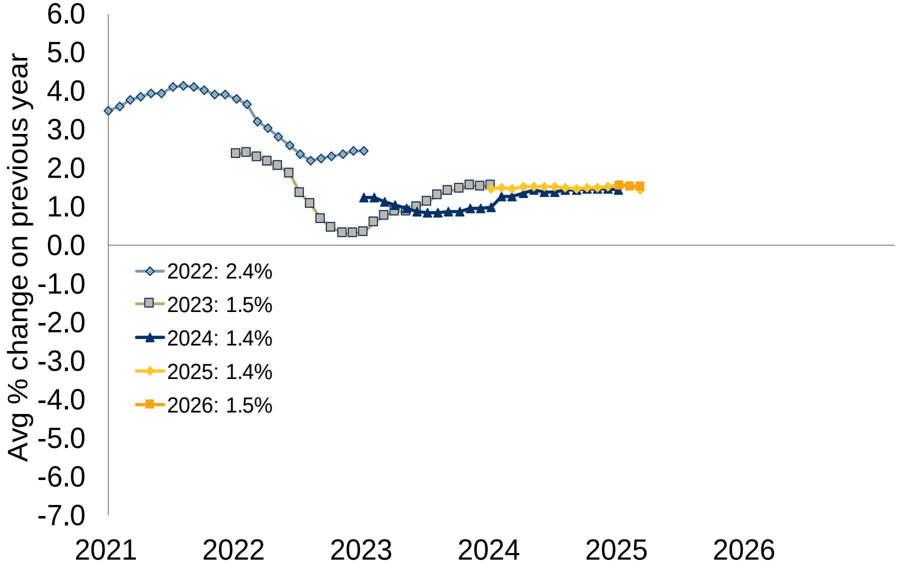
Capital markets update

April 2025

The economy

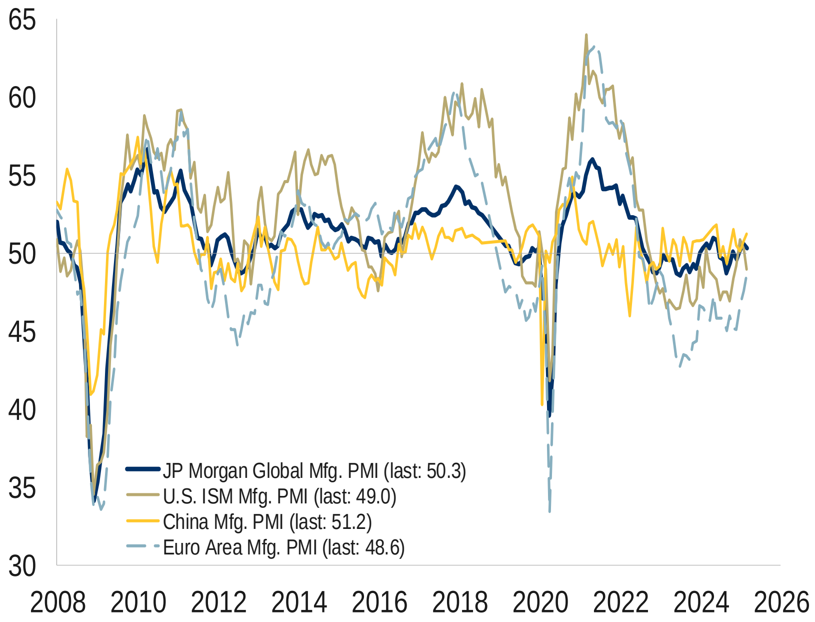
U.S. President Trump's tariff threats widened the range of possible outcomes for the economy and injected volatility into financial markets as investors contemplate a variety of scenarios. The worst-case situation would be large-scale tariffs applied to America's most important trading partners with commensurate retaliation by those countries, which would likely result in higher prices, reduced economic activity and higher unemployment. That said, negotiations are ongoing, and the ultimate impact of tariffs will depend on their scope, size, and how long they are in effect. At this time, we believe the risk of a U.S. recession has increased over the last few months but still is not our base case scenario for the economy.

Weighted average consensus real GDP
Growth estimates for major developed nations



Note: As of March 2025. Source: Consensus Economics

Global purchasing managers' indices



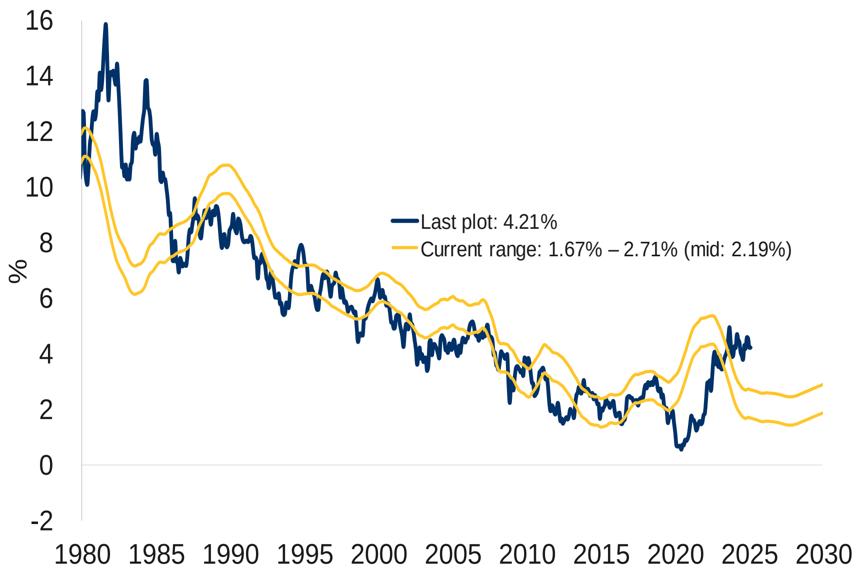
Note: As of March 31, 2025. Source: Macrobond, RBC GAM

Fixed income markets

- Global central banks are likely to continue lowering interest rates against this backdrop, but the pace of rate cuts will depend on the economic and inflationary impact from tariffs. Monetary policy is somewhat conflicted given that weaker growth and higher inflation send opposite signals. On the net, the enduring damage to output is arguably the more relevant development than a one-time price jump, but this still tempers the magnitude of the central bank’s response.
- Government bond yields have been highly volatile over the past few months as investors weighed the impact of the new U.S. administration on economic growth, inflation, and fiscal stability. The U.S. 10-year yield has traded within a range of 3.6% to 4.8% over last year. Our equilibrium model suggests the appropriate yield for U.S. 10-year ranges between 3.4% and 4.5% and we have used these ranges as a guide for tactical asset allocation decisions. At current levels, our model suggests sovereign bonds offer decent return potential, with only modest valuation risk if inflation continues to fall toward central bankers’ 2% targets over the medium term.

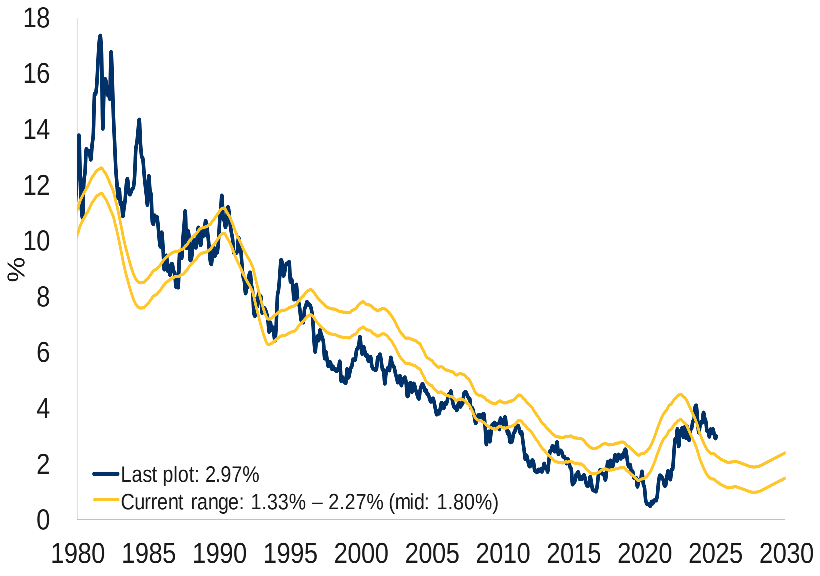
U.S. 10-year T-bond yield

Equilibrium range



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

Canada 10-year bond yield



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

Fixed income forecasts

Policy Rates	Current March 2025	Forecast February 2026*
U.S	4.50	4.50
Canada	2.75	2.75
Europe	2.50	2.00
United Kingdom	4.50	4.00
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 March 2025	Forecast February 2026*
U.S. 10-Year Bond	4.21	4.50
Canada 10-Year Bond	2.97	3.25
Germany 10-Year Bond	2.74	2.50
United Kingdom Gilt	4.68	4.25
Japan 10-Year Bond	1.49	1.75

* 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.

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

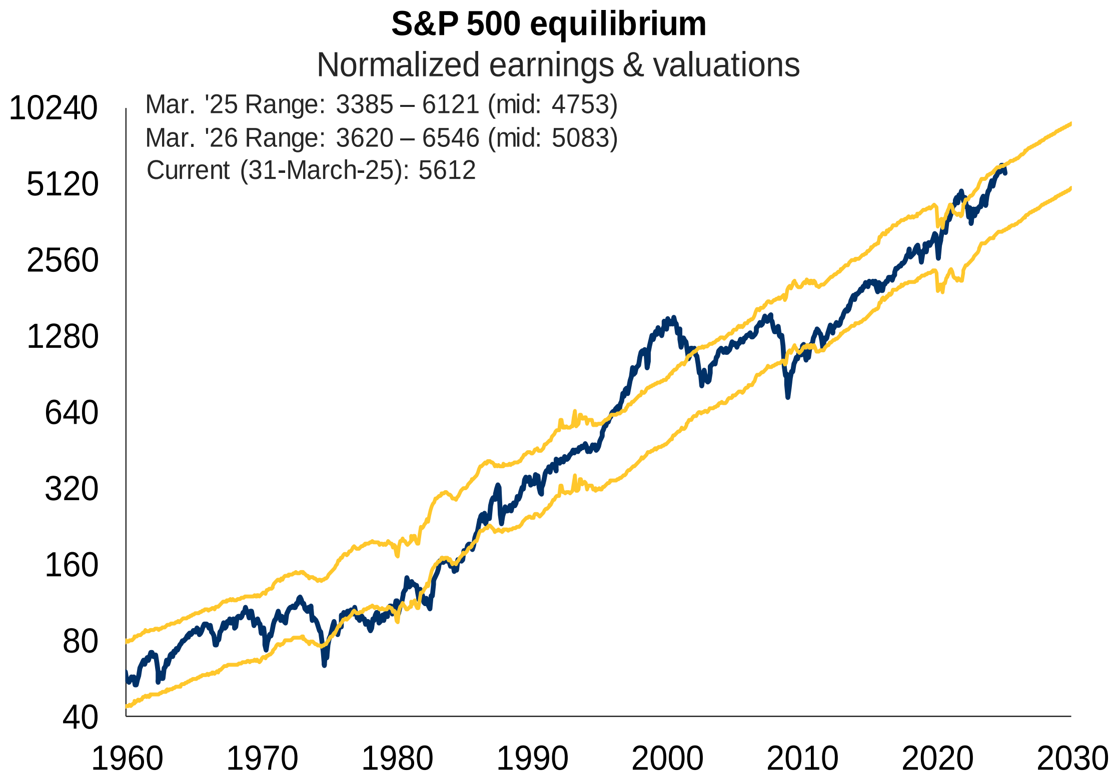
- After a strong run in 2024, stocks have encountered a turbulent start to 2025 amidst elevated uncertainty due to tariff risks. The market volatility has made valuations in some segments of the market more attractive, but strong earnings growth will be an important driver of returns going forward. Estimates for earnings growth appear decent for now but may be subject to downward revisions should tariffs remain in place for an extended period, leaving stocks vulnerable given their elevated starting point. There is a wide range of scenarios for stocks this year, with unusually wide bands.

Equity market	**Current March 2025**	**Forecast February 2026***
S&P 500 Index	5612	6200
S&P/TSX Composite Index	24918	26300
MSCI Europe Index	179	195
FTSE 100 Index	8583	9100
Nikkei Index	35618	40000
MSCI Emerging Markets Index	1101	1180

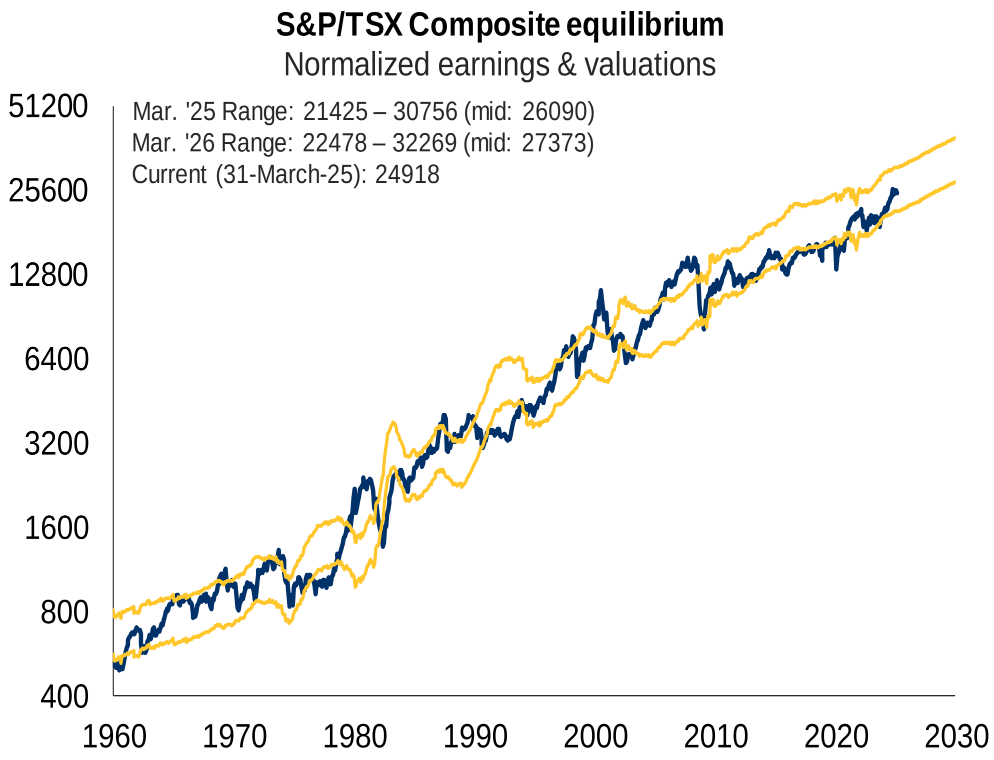
* Please note that the forecasts are updated quarterly in February, May, August and November and so do not reflect any changes to market conditions that happen intra quarter.

Source: RBC GAM.

Equity markets



Source: RBC GAM



Source: RBC GAM

Data as of March 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

- Balancing the near-term risks with the longer-term opportunities, we are maintaining a relatively cautious positioning in our asset mix. Our base case is for the economy to continue growing at a moderate pace, though we recognize that the uncertainty around tariffs means the outlook is cloudy and subject to large deviations from our central scenario. We expect central banks to continue lowering interest rates and, in this environment, bonds offer decent return potential with only modest valuation risk. That said, we have been active in tactically managing our fixed income exposures given the large swings in yields more recently.
- Earlier in the quarter, we added 50 basis points to our fixed income allocation, sourced from cash, moving to a slight overweight as U.S. 10-year yields surged beyond 4.60%. But as yields fell sharply back below 4.30% a month later, we reversed that trade moving our position back to neutral. In equities, we are maintaining a neutral allocation given our concerns about elevated valuations in U.S. large-cap growth stocks. But we have adjusted the regional tilts within our stock allocation this past quarter, reducing exposure to North American equities in favour of international and emerging market equities where valuations are relatively more appealing.
- Our current recommended asset mix for a global balanced investor is 60.0% equities (strategic: “neutral”: 60%), 38.0% bonds (strategic “neutral”: 38%) and 2.0% in cash .

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

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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