

Monthly economic webcast: Broadening inflation versus resilient growth



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Report card

NEGATIVE THEMES



- Strait of Hormuz remains significantly blocked
- Inflation rising and broadening
- Central banks shift from cutting to eventual hikes?
- Lagged damage from blockade
- Concerns about memory chip costs
- Pandemic risk?

POSITIVE THEMES



- Energy shock should be temporary
- Ceasefire holding in Middle East; deal may be imminent
- Global economy proving resilient
- We maintain above-consensus growth forecasts
- Strong risk assets
- Global trade growth defies tariffs
- Chinese housing stabilizing?

INTERESTING



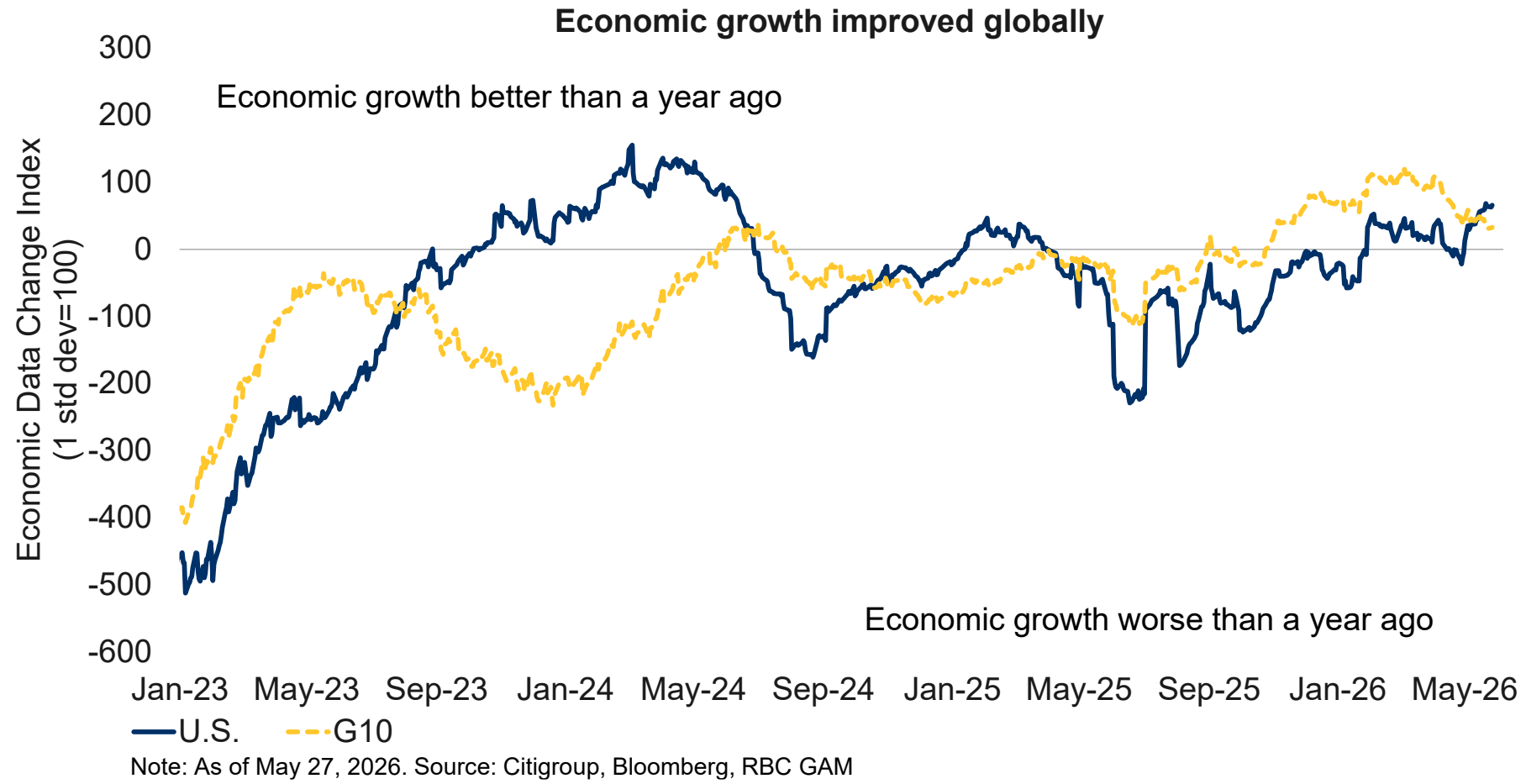
- AI in spotlight
- Developed Asia and Europe less exposed to energy shock than commonly imagined
- Private credit spreads ebbing
- Super El Niño in '26-'27?

Refreshed growth outlook: downgraded on energy shock, but still decent growth and > consensus

Growth outlook scorecard							
Country/ Region	2026 GDP Forecast (Q4/Q4)	1 Forecast change vs. prior quarter	2 Level vs. potential	Momentum vs. prior year	Relative to other nations	3 Vs. consensus	Overall
U.S.	2.2	-	+	+	++	+	+
Canada	1.7	++	+	++	~	~	+
Eurozone	1.1	--	~	~	-	+	~
U.K.	1.1	--	~	~	-	++	~
Japan	0.8	--	~	+	--	-	-
South Korea	2.2	-	+	++	++	++	+

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

Economic data better than a year ago

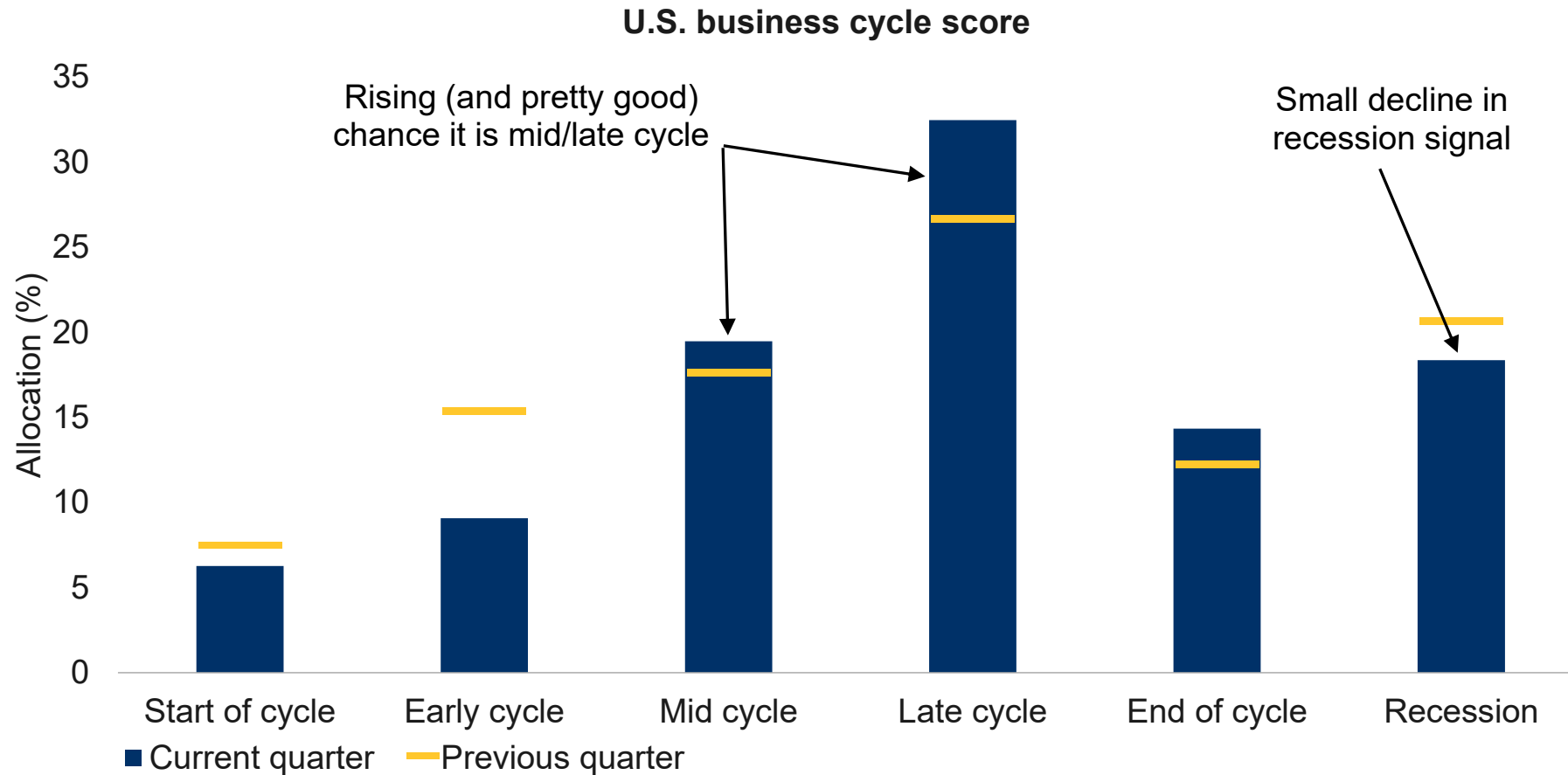


Global trade is successfully diversifying away from U.S.



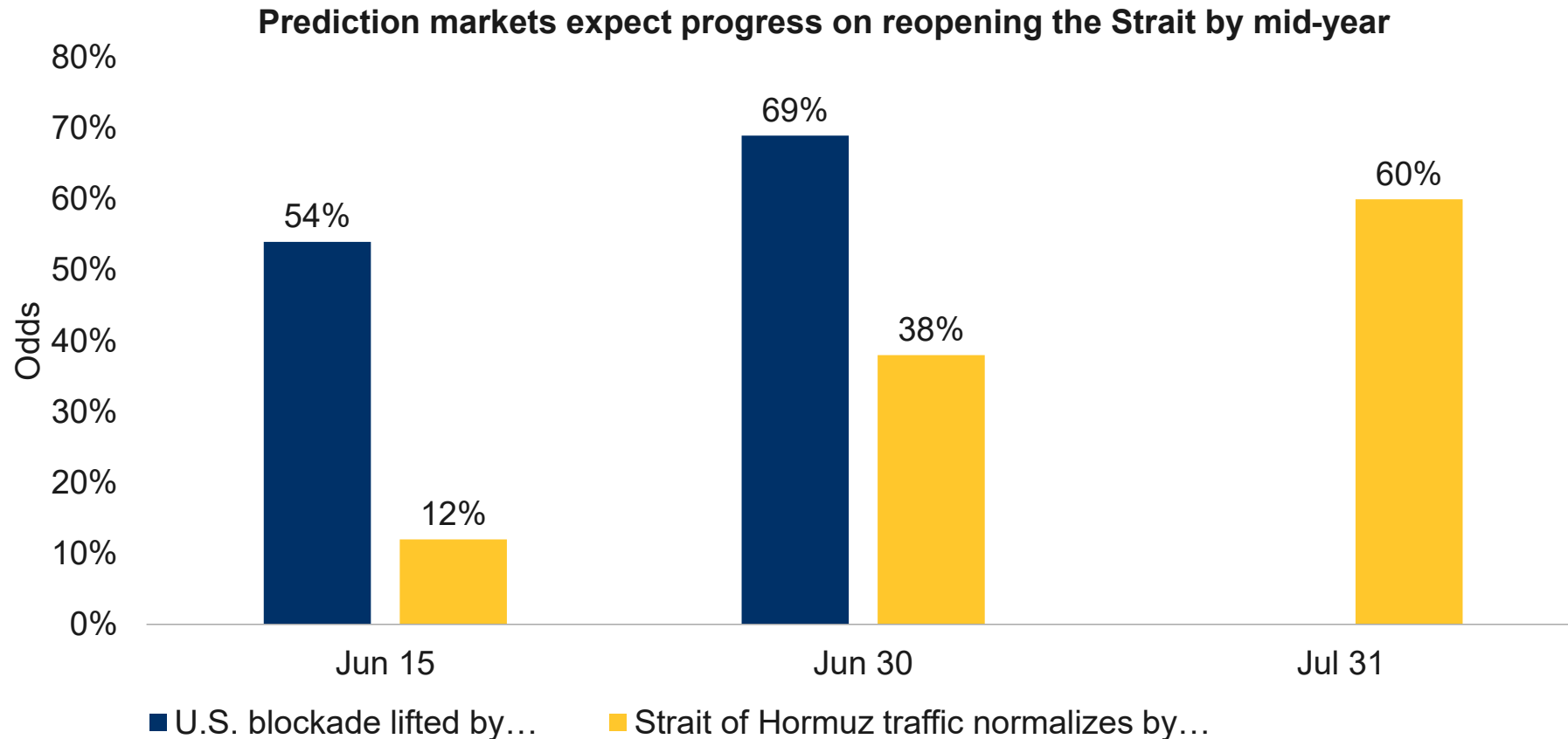
Note: As of Mar 2026. Shaded area represents U.S. recession. Source: CPB Netherlands Bureau for Economic Policy Analysis, Macrobond, RBC GAM

U.S. business cycle still most likely “late cycle” or “mid cycle”



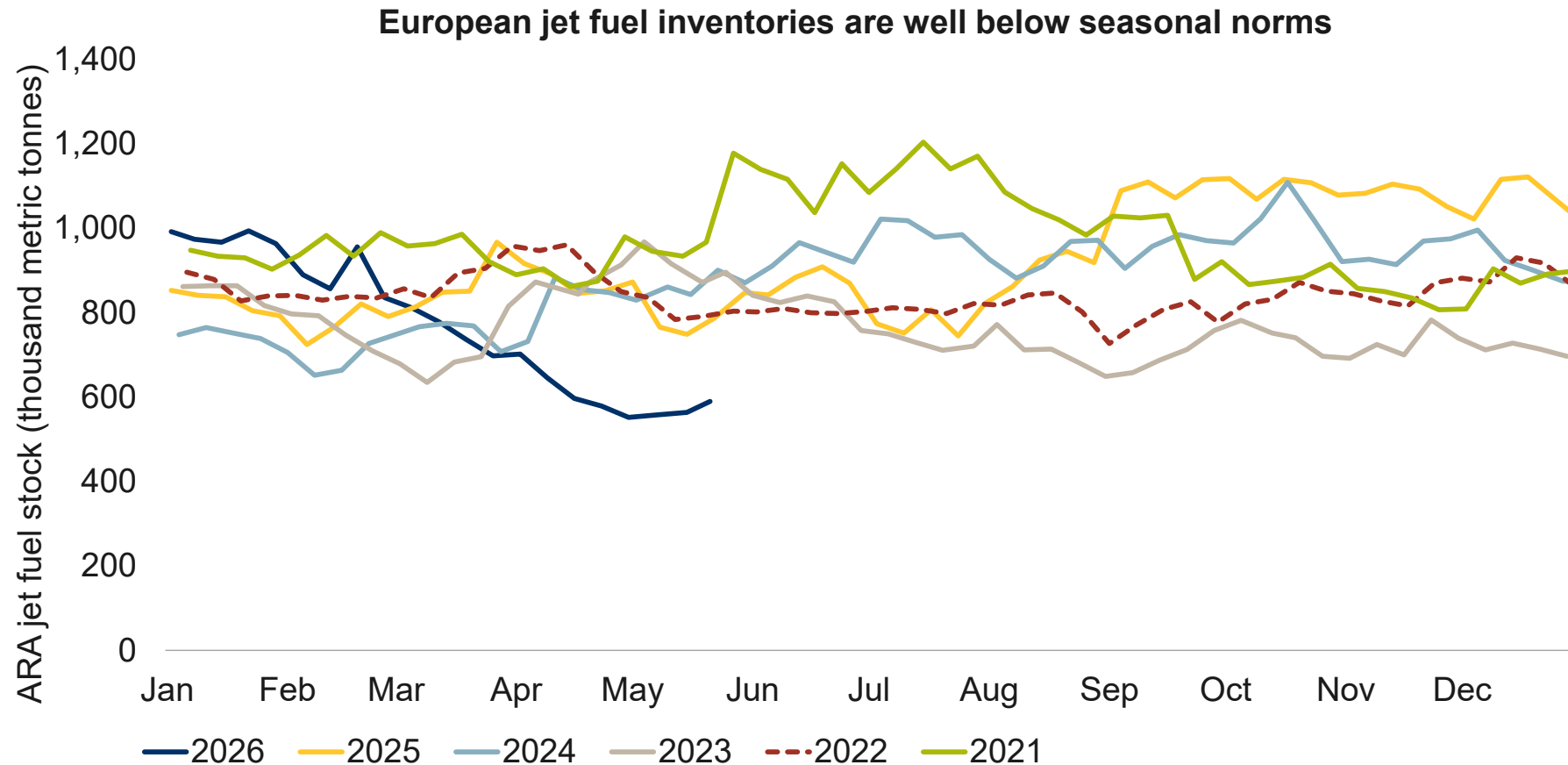
Note: As at May 8, 2026. Calculated via scorecard technique by RBC GAM. Source: RBC GAM

Strait of Hormuz probabilities



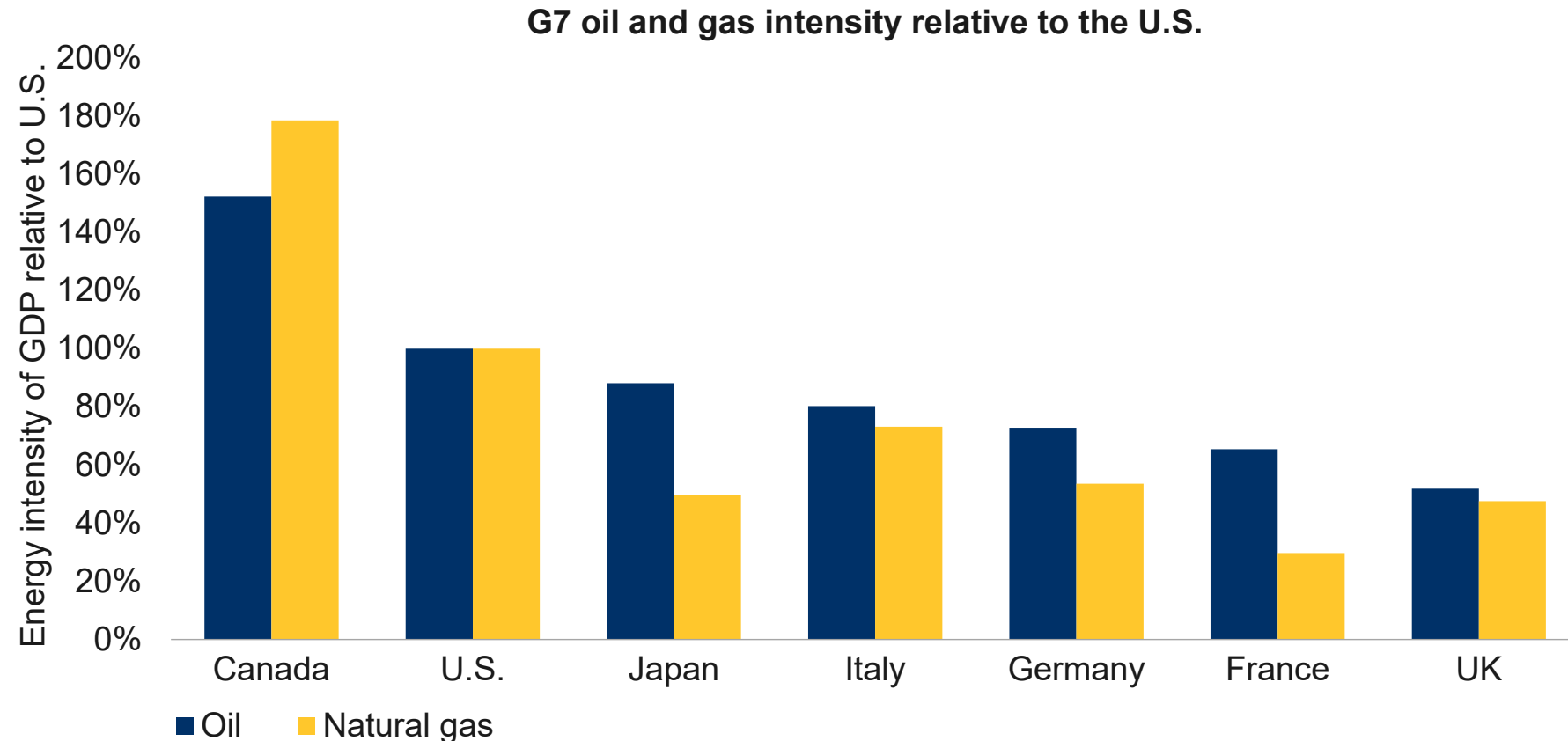
Note: As at May 28, 2026. Strait of Hormuz normalization = 7-day average of SoH transit calls (arrival of ships) is 60 or greater by specified date. Source: Polymarket, RBC GAM

Important to get energy flowing again before inventory levels fall too low



Note: As of the week ending May 21, 2026. Amsterdam-Rotterdam-Antwerp (ARA) jet inventory levels. Source: Bloomberg, RBC GAM

Energy shock: Why Europe and Japan haven't done too badly



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

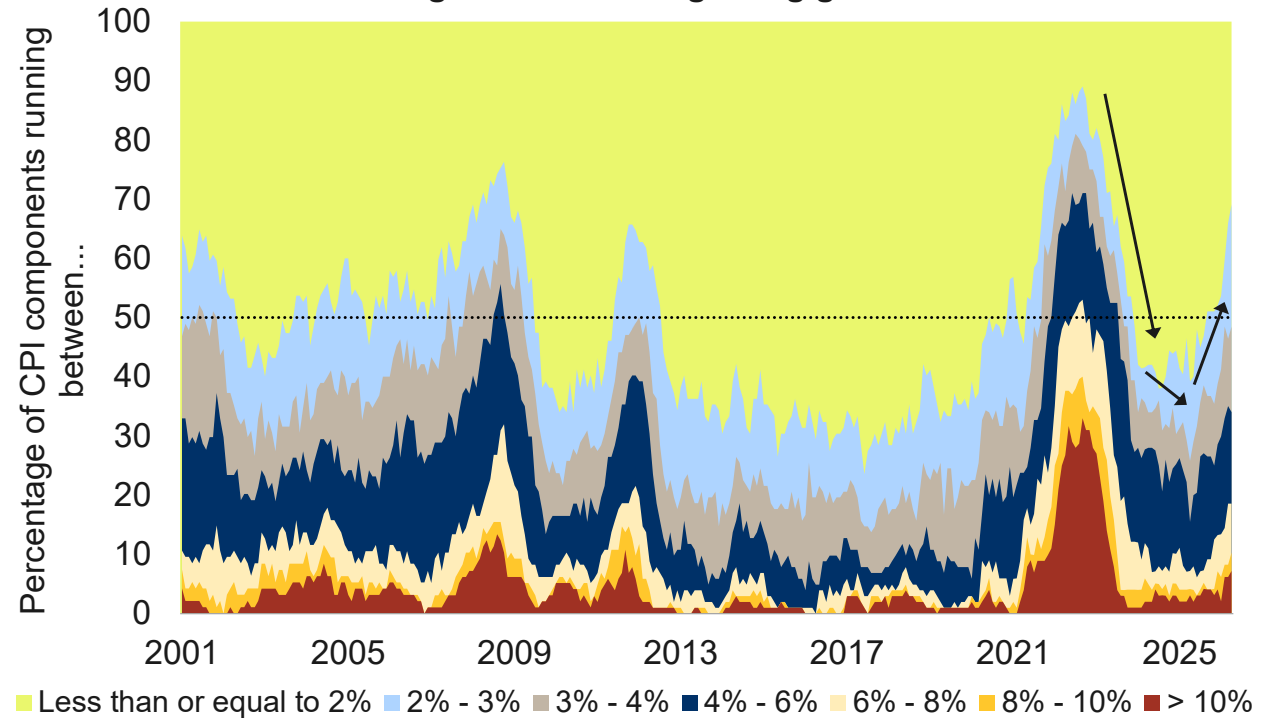
Energy shock has impacted inflation, with broadening influence?

Agricultural commodity prices soar on higher input costs - fertilizer and energy



Note: As of May 27, 2026. Shaded area represents U.S. recession. Source: S&P Global, Macrobond, RBC GAM

Higher inflation is gaining ground 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

AI boom overview

Memory

- Caution around memory chips

Overall AI

- Positive around AI more generally – corporate outlook, economic implications

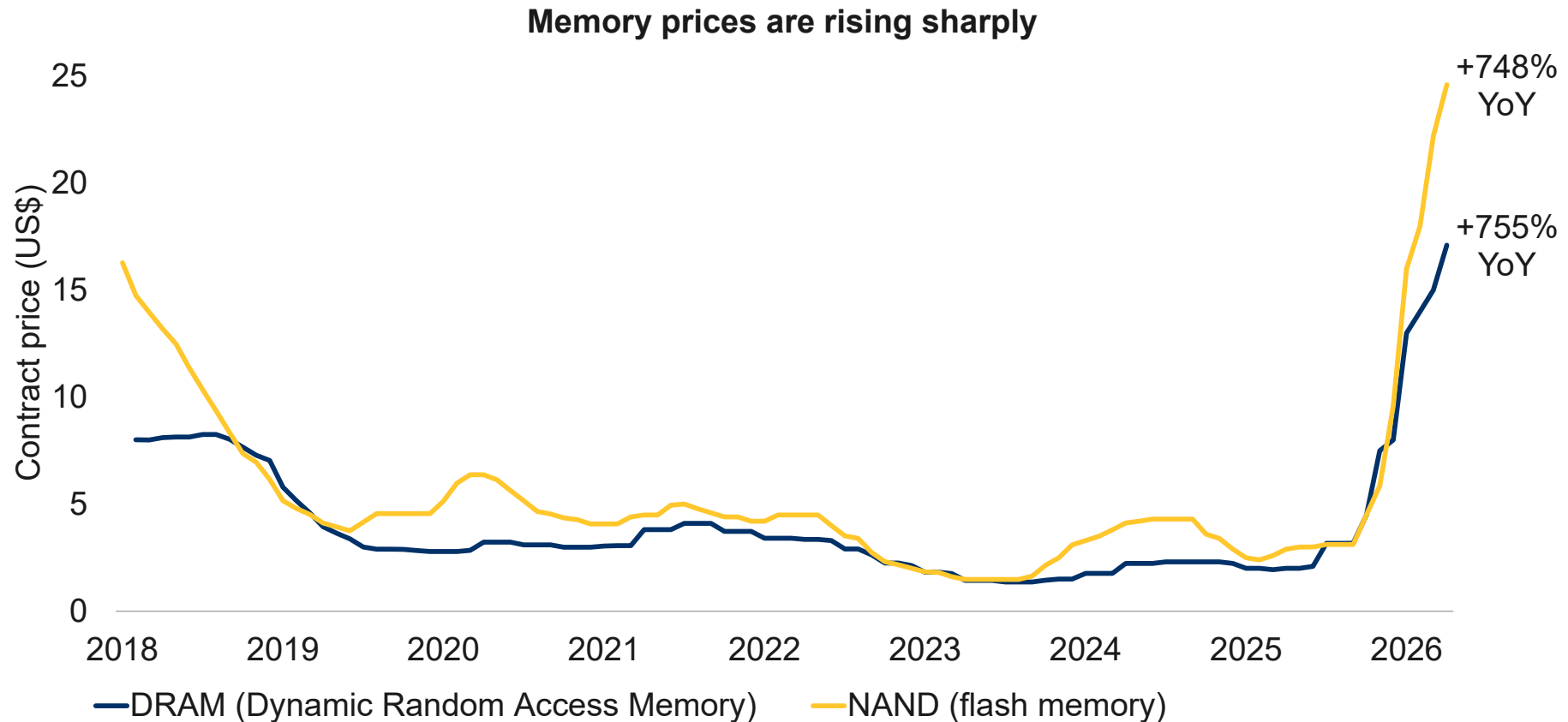
CapEx

- Serial upside surprises in natural language AI CapEx
- Also scope for CapEx boom in defense, energy, resource security, robotics

Productivity

- Already moving more quickly, though not purely AI-driven
- Scope for considerably more

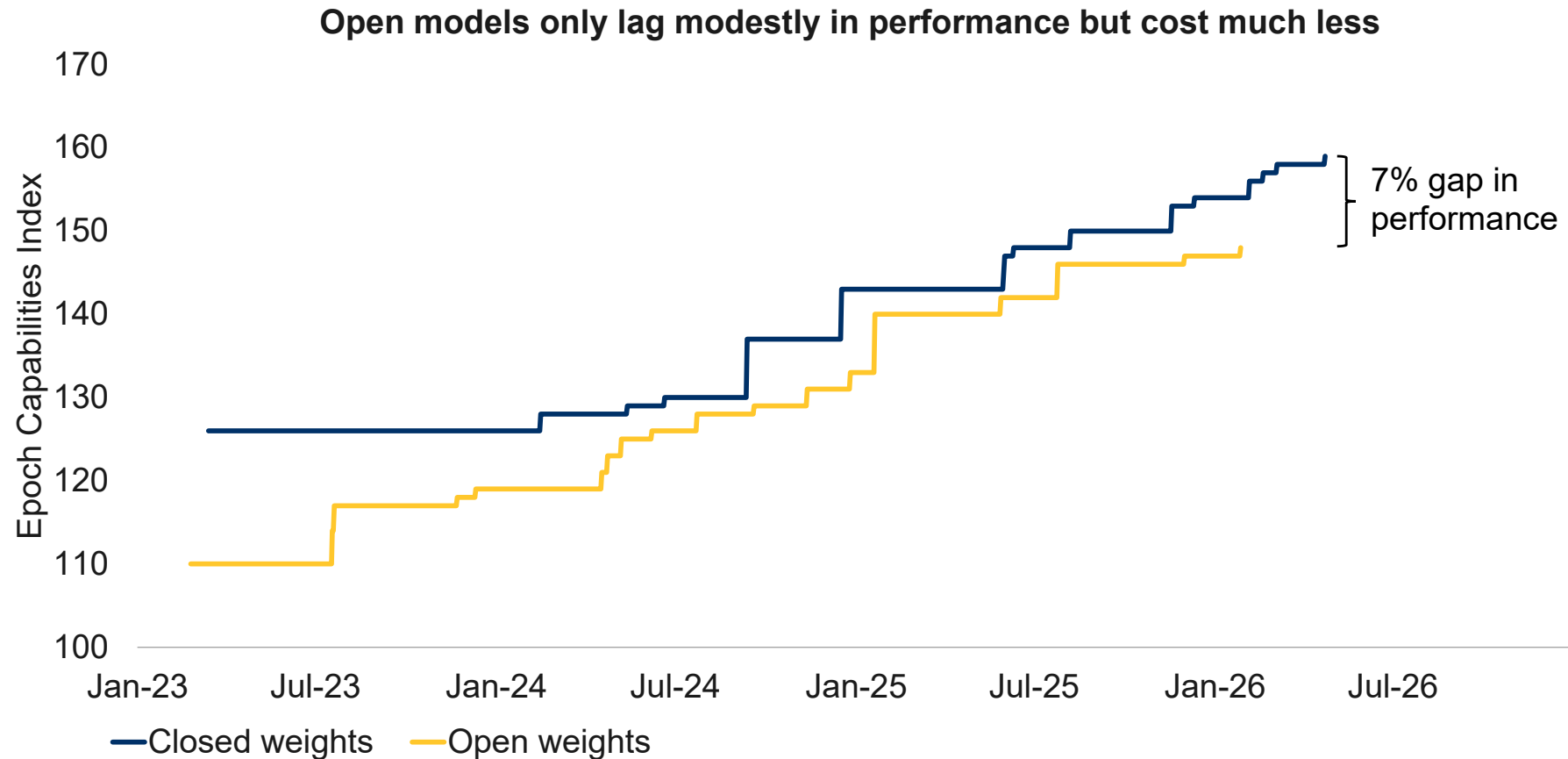
Memory chips are now more than half the cost of an AI semiconductor



Note: As at May 11, 2026. DRAM = DDR4 1Gx8 contract price. NAND = TLC 512Gb contract price. Source: InSpectrum Tech Inc., Bloomberg, RBC GAM



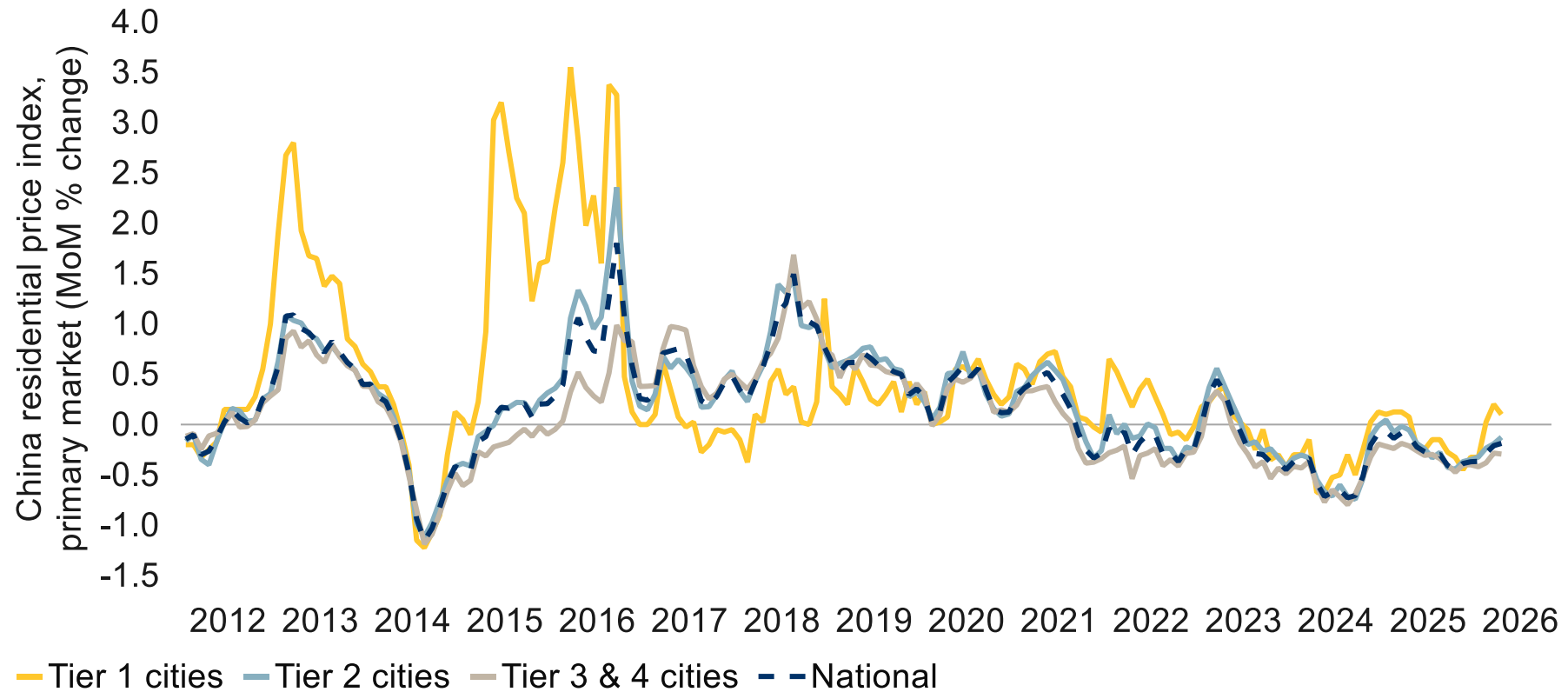
Open models offer 93% of the performance at 1/8 the cost



Note: As at May 1, 2026. Source: Epoch AI, RBC GAM

China's housing market reveals green shoot

Home prices rise in major cities



Note: As of April 2026. Source: China National Bureau of Statistics (NBS), Macrobond, RBC GAM

El Niño ahead – possibly Super El Niño

- **98% probability of El Niño this year**, with ~50% chance of a "super" event (last in 2015-2016, typically <1 per decade)
- **Economic cost:** Last super El Niño cut global output by 0.7ppt annually over 5 years (US\$3.9 trillion loss); hardest hit: India, Australia, Indonesia, Japan
- **Weather impacts:** Milder winter, hotter summer
 - Regional variation: warmer western Canada/northern U.S., wetter southern U.S., drier India/Southeast Asia/Australia
- **Price pressures:** Rice, palm oil, wheat, sugar, cocoa, copper, and aluminum prices likely to rise due to weather disruption in key regions
- **Silver lining:** Historically reduces Atlantic hurricane activity, lowering global insured losses despite increased wildfire/flood risks elsewhere

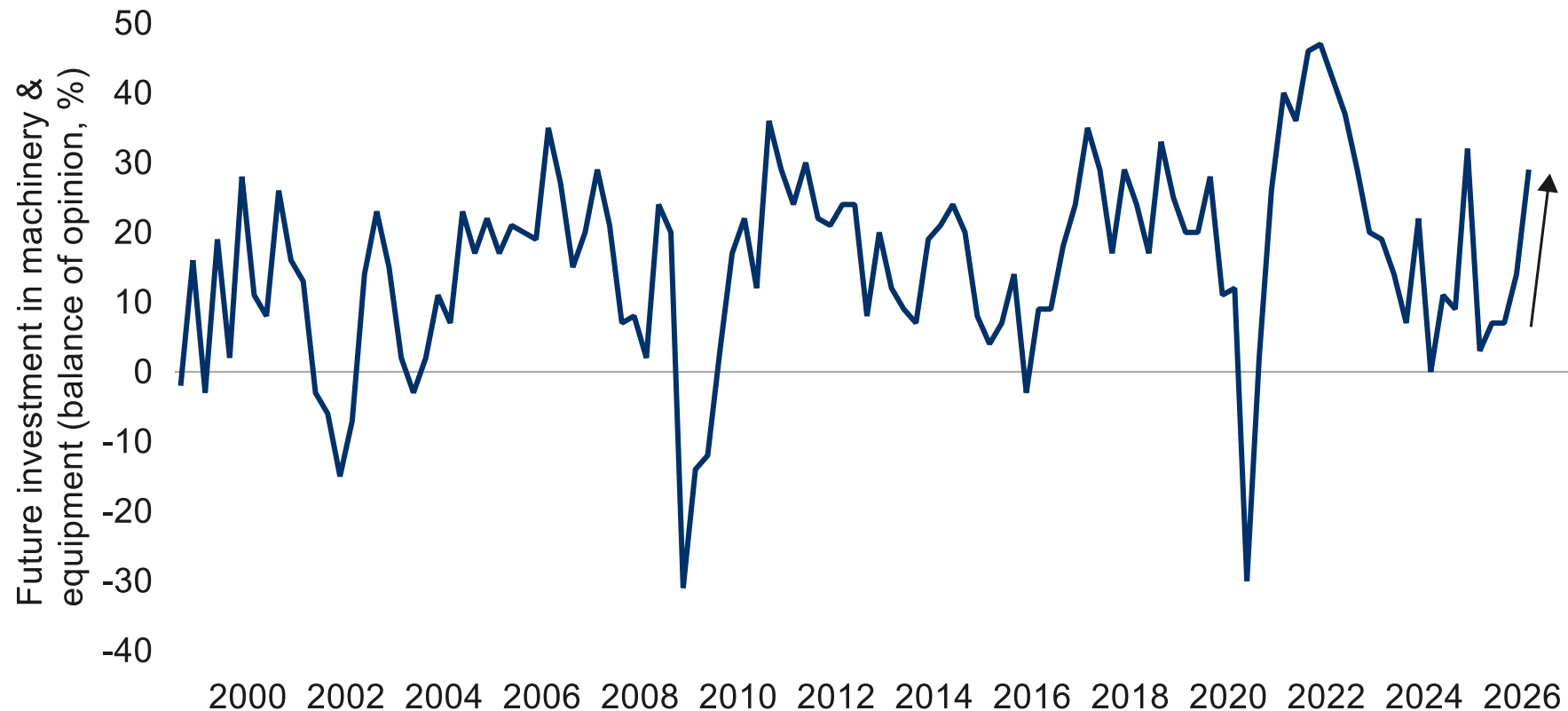
Note: As at May 28, 2026. Source: RBC GAM

Pandemic risk is low

- **Current outbreaks:** Hantavirus (cruise ship, South America) and Ebola (Congo/Uganda) have high fatality rates (20-50% and 25-90% respectively) but low contagion (R_0 of 0-2.5)
- **Why they're contained:** Neither virus is new; no mutation visible, both have been successfully controlled in multiple prior outbreaks. They don't transmit via air, require close contact, and spread slowly due to long incubation periods
- **H5N1 bird flu** poses a greater theoretical risk—50% mortality rate, now constant in birds and spilling into mammals/cows, with potential to mutate for human transmission (though H5 vaccine exists)
- **Market assessment:** Probability markets assign only 6% chance of hantavirus epidemic, 8% for Ebola pandemic, 12% for any pandemic in 2026—vaccine maker stocks have declined back to normal levels
- **Bottom line:**
 - mRNA technology enables rapid vaccine development
 - Pandemic risk remains minimal and not worthy of inclusion in economic forecasts

Canadian business CapEx has been sluggish, but surveys show investment intentions picking up

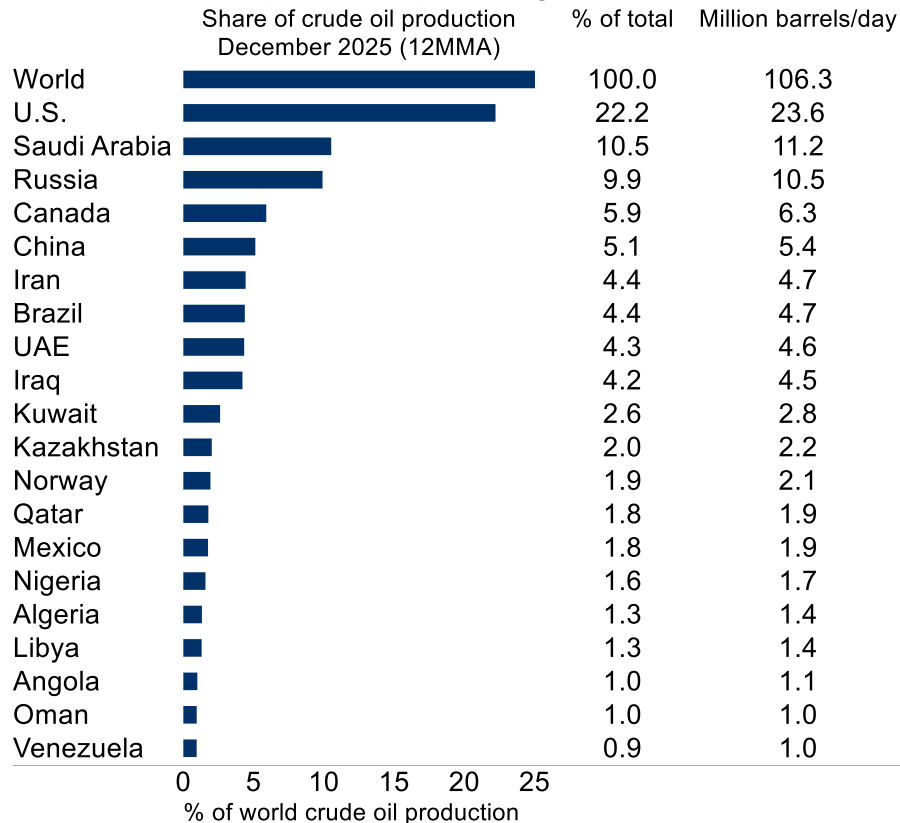
Canadian business investment intentions are improving



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

Canadian resource wealth is significant and increasingly valued globally

Top crude oil producing countries



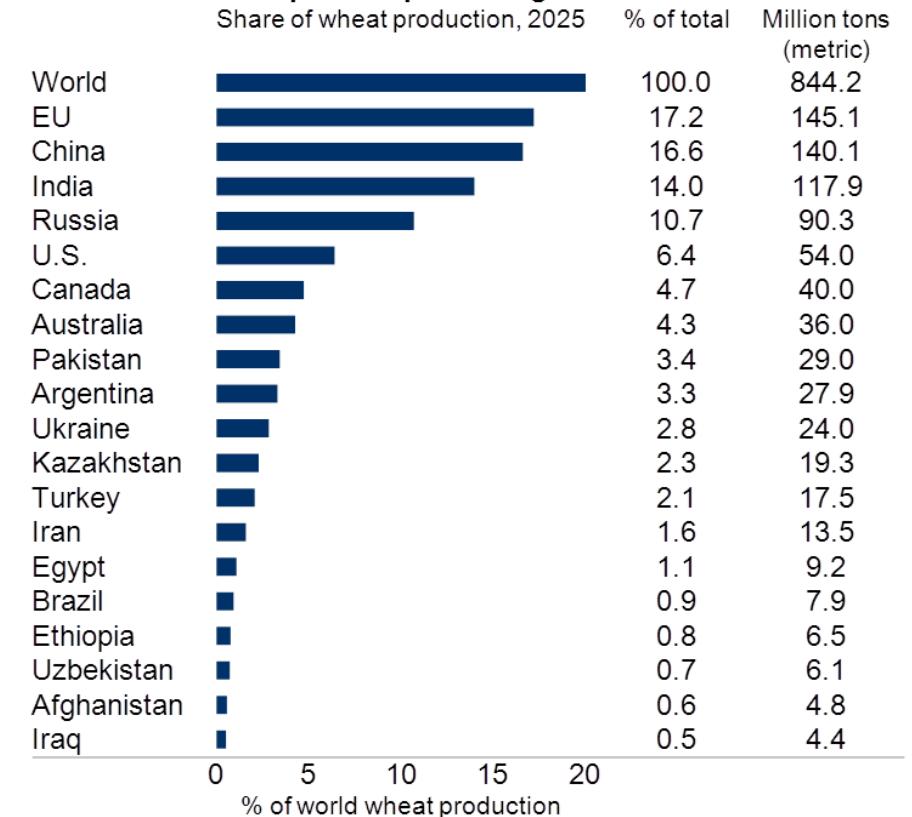
Note: As of December 2025. Production of crude oil including lease condensate. Source: Energy Information Administration (EIA), Macrobond, RBC GAM

Canada's global ranking

Metals & minerals	Production	Reserves
Potash	1	1
Uranium	2	3
Diamonds	3	-
Aluminum	4	-
Platinum metals	4	5
Gold	4	8
Nickel	4	8
Lithium	7	6
Cobalt	7	7
Iron ore	8	6

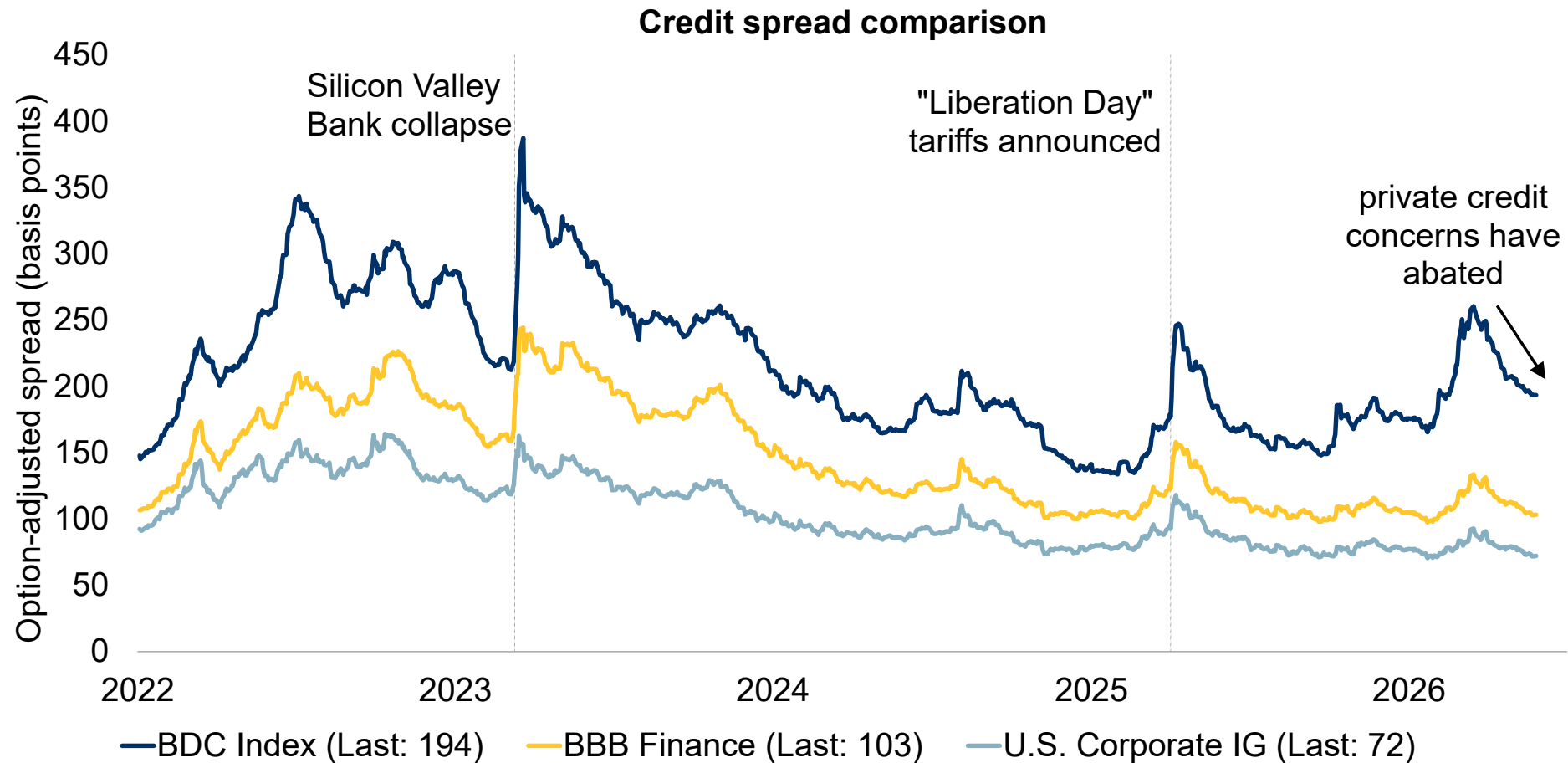
Note: As of 2024. Source: Natural Resources Canada, RBC GAM

Top wheat producing countries



Source: U.S. Department of Agriculture, Macrobond, RBC GAM

Private credit concerns in the context of AI – seemingly declining



Note: As of May 27, 2026. BDC is Business Development Company - a proxy for private credit. Source: Bloomberg, RBC GAM

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