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Review

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A positive momentum: What comes next?

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All the major global equity indexes, including Canada's, posted new highs last month. Will that momentum continue?

Market breadth remains "in gear" for the S&P 500 – in other words, the majority of stocks are moving higher, not just the high-profile favourites. A similar story of broad-based participation is being told by the un-weighted versions of both the S&P 500 and that of Canada's S&P/TSX 300 Composite Index.

As long as the majority of stocks are participating in the market's advance, we think probabilities favour more new highs ahead for the blue-chip S&P 500, Canada's S&P/TSX, as well as most of the major international broad averages.

Putting market moves into context

However, "new highs" is unlikely to mean a full-blown continuation of the super-charged, upward surge off the deeply depressed so-called liberation day lows set back in April. From that mark, the S&P 500 is up a staggering 36 percent in only five months. But if we leave out the deep dive from January to April that was triggered by the

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tariff panic, and instead measure the market gains from where the year began, the S&P is up a more sedate, but still healthy, 12 percent.

For the S&P/TSX, the comparative market gains have been 32 percent from the April lows and 19 percent from the end of 2024. We expect any extension to both markets' gains from here will be at a much less dynamic pace.

A shallower rate of ascent from here probably means there will be periodic pullbacks that will be more visible, and occasionally worrying than the barely noticeable pauses of the past five months. Whether any such pullbacks remain contained within the larger uptrend or instead turn into a deeper, more significant retrenchment, in our view, depends very much on investors staying confident about the outlook for 2026: Can next year deliver another strong earnings gain? They appear to be very much that way inclined today, buoyed by a 10 percent increase in consensus earnings estimates for the S&P 500 in 2025 versus 2024, and a 13 percent year-over-year increase in 2026.

A framework for assessing risk/reward

Are those earnings estimates reasonable, and what do they mean for S&P 500 performance over the coming months to the end of 2026? RBC Capital Markets, LLC, Head of U.S. Equity Strategy, Lori Calvasina, offers answers to those questions, providing a useful framework for assessing risk/reward from here.

In a recent report, Calvasina lays out scenarios that incorporate four inputs: consensus street estimates for S&P earnings, RBC Capital Markets' forecasts for inflation, as well as expectations for Federal Reserve policy rates and bond yields. She uses these inputs and others to inform her forward-looking targets for the S&P 500. Today, those targets stand at 6350 for year-end 2025 and 7100 to be reached somewhere in the second half of 2026. The first is about four percent below the value of the S&P index at the time of writing, the second about 7 percent above.

One of the factors Calvasina takes into consideration is expected U.S. GDP growth this year and next – both RBC Economics' and the consensus estimates sit close to 1.5 percent growth for each year. She points out that the historical record strongly suggests GDP growth between one and two percent has typically presented a challenging environment for equities.

Looking at all the years from 1947 where GDP growth fell within the 1.1-2.0 percent range, the median return for the S&P 500 was minus 3.4 percent. So weak economic growth, not surprisingly, has mostly been accompanied by sub-par equity performance.

Of course, S&P 500 appreciation could turn out to be better than the seven percent generated from her 7100 target price or worse than the minus 3.4 percent historical average. A bullish upside surprise meaningfully beyond 7100 would likely need stronger-than-forecast economy and earnings.

A meaningfully worse-than-forecast outcome for equity markets would probably be in response to the arrival of something that seriously undermines today's positive market narrative. For instance, some resurgent inflationary pressures that threaten to take any additional Fed easing off the table, a U.S. Congressional budget impasse, or a meaningful hole knocked in the dominant Artificial Intelligence (AI) story that has been cited as the main factor pushing the U.S. market price-to-earnings (P/E) multiple well beyond the valuation levels of other major equity markets.

Like most other non-U.S. markets, Canada's S&P/TSX has much less exposure to AI and to technology generally and, alongside that, a much lower P/E multiple – 18X versus 25X today. However, that "lower" P/E multiple is nonetheless measurably higher than its long-term average of 14.5X.

Final thoughts

For our part, the positive market breadth we noted at the outset, together with the limited market downside, which typically accompanies an economy that manages to continue to grow while avoiding recession, lead us to expect equity markets will post more new highs periodically over the coming quarters, albeit at a more restrained pace.

We think portfolios should have a commitment to equities consistent with long-term financial goals, but not an excessive commitment.

The health and wealth connection

As you enter new life stages, you may have new concerns about how you can stay well, protect your security, remain independent, and help your family. You also may have dreams and hopes about how you'd like to spend your time – from achieving life-long bucket list items, to spending more time with your family. At RBC Dominion Securities, we work to make your dreams a reality by building you a personalized, comprehensive plan to help grow your wealth and health. We can help you address your concerns, so you can focus on living your best and healthiest life as you age.

Protecting yourself when things start to changes

It's expected you'll experience health concerns along the way, and it's important to plan ahead to prepare for the unexpected. Ensure you have appointed an up-to-date Power of Attorney, who can make financial and/or health care decisions that honour your wishes, should you be unable to make those decisions yourself.

Additionally, consider appointing a Trusted Contact Person for your advisor to contact if they are unable to reach you. Unlike a Power of Attorney, they're not aware of your financial information, have no legal authority over your accounts – and cannot make decisions on your behalf. Consider appointing a loved one who is knowledgeable about your personal situation, routines and support network.

Organizing your affairs for your family

In addition to appointing a Power of Attorney and Trusted Contact Person, it's important to keep your Will up to date. Your Will is a legal document that outlines your final wishes, names your beneficiaries and appoints an executor for your estate.

However, before finalizing your Will, choose your executor thoughtfully, as they will be responsible for a wide range of tasks – from probating your Will and filing tax returns to distributing assets to beneficiaries. Ideally, this should be someone you trust, who is likely to outlive you, and who has the time and ability to manage the many duties of being an executor. You may name a close friend or family member, or your advisor can connect you with an experienced professional executor from RBC Royal Trust to act independently or alongside another person to carry out your wishes.

Speak to your advisor if you don't have a Will, or if it needs to be updated.

Living independently and planning for future healthcare needs

According to Statistics Canada, almost 100 percent of Canadians aged 65 and over plan to live independently at home for as long as possible. If you are in that category, you might want to consider renovations to make your home more accessible and reduce the risk of falls. You should also ask yourself what type of support you may need to live independently. This could include help with housework, future caregiving needs, transportation, and managing your finances. Your advisor can help you work potential future care needs into your financial plan and investments, so you can be confident that the funds will be available if and when you should need it.

Along with your advisor, you can book a complimentary elder wellness consultation with our partner, Audrey Miller MSW, RSW, CCLP, the founder and managing director of Elder Caring Inc. Audrey has over 30 years of experience empowering older individuals, their families and

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caregivers. Through this consultation, you will have the opportunity to discuss concerns about living independently, how to prevent caregiver burnout and receive assistance in navigating the healthcare and home care system.

Staying safe online

We're living in world where the digital realm offers convenient solutions to our everyday needs. However, there are also individuals who find the online world an easy place to take advantage of individuals behind the screen. To protect yourself, your family and wealth, make sure you stay current on common scams and how to avoid them. To learn more, visit our website at www.rbc.com/cyber and if you're ever concerned that you may have fallen victim to identity fraud, consult with your advisor to help guide you through the incident.

Your Investment Advisor is dedicated to protecting and growing your wealth so you can live your best life, now and well into the future. Talk to us today to start planning for your health and wealth.

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