

# 2026 Midyear Outlook

Perspectives from the Global Portfolio Advisory Committee

June 2026



## Climbing the wall of worry

Financial markets need the reopening of the Strait of Hormuz. This would permit inflation to subside, keep bond yields in check, head off a renewed central bank tightening cycle, and improve the prospects for corporate earnings.

## The Unstoppables

Over the next couple of decades there will be powerful, predictable forces unfolding that can be profitably put to work in portfolios.

The Global Portfolio Advisory Committee

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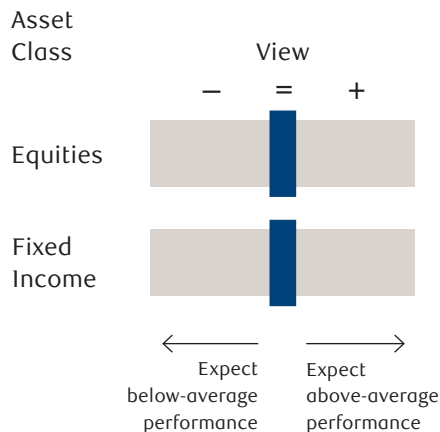
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## RBC'S INVESTMENT Stance

### Global asset class views



(+/-/-) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

**+ Overweight** implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

**= Market Weight** implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

**- Underweight** implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

### Equities

- Markets have recovered from the spring swoon, driven by substantial upward revisions to earnings estimates, especially within the global Information Technology sector.
- The outlook for all economies and equity markets would be improved by a reopening of the Strait of Hormuz—some more than others. The longer it takes to open and clear the Strait, the greater the risk of inflation rising further and working its way into the broader economy from which it might be more difficult to dislodge.
- For the U.S., a continuation of the AI capital spending juggernaut will likely remain the dominant factor for the domestic economy, corporate earnings, and equity prices.
- We still believe portfolios should remain committed to equities up to, but not beyond, an investor's long-term targeted allocation. To manage risk, we would scrutinize holdings as some stocks in the Technology sector (especially semiconductors) have rallied sharply and could face bouts of significant volatility and/or correct meaningfully. Therefore, investors should be vigilant about single-stock and sector exposures in portfolios by bringing them back into balance if they've drifted well out of bounds.

### Fixed income

- The Middle East conflict has flipped global bond markets on their heads. Faced with greater inflationary risks, traders continue to price in modest rate hikes from many global central banks, and sovereign bond yields are continuing to rise as a result. Bonds, continuing a trend that has held in recent years, have not proven to be the "safe haven" asset they have historically been perceived to be during times of volatility. We therefore maintain a cautious view, given the risk that yields could rise even further. However, we remain cognizant that the narrative could flip again just as quickly should fear of inflation give way to fear of a global economic recession—which could drive bond yields lower. For now, we see inflationary risks outweighing downside risks to economic activity.
- We remain Underweight U.S. Treasuries and continue to favor short duration exposure based on the potential for higher long-term bond yields. Credit valuations remain rich globally, in our view, and we maintain reduced credit exposure in light of negative outlooks across regions. In the U.S., we stay Underweight on investment-grade corporate bonds given their dual exposure to rising Treasury yields and wider credit spreads should stock market volatility increase and/or economic growth fears return.

## MIDYEAR Focus

### The Global Portfolio Advisory Committee (GPAC)

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# The Unstoppables

Some investment opportunities are built on structural forces powerful enough to transcend the noise of today's investment environment. Since 2025, we've been highlighting megatrends that we believe can plug investment portfolios into the future. We return to these with fresh eyes and add two more that have emerged as defining forces for the coming decades. These are "The Unstoppables."

## Key points

- In late 2024, we identified four long-term investable themes: the gray wave, AI spending, renewables, and electrification, all set to experience predictable, long-term demand growth.
- To these we add medical advances and defense spending.
- These six unstoppable themes should provide portfolios with investable opportunities capable of delivering long-term compounding of sales, earnings, and share prices for decades.

Eighteen months ago, we offered some thoughts on four investable themes we expected to have legs for at least the next two decades:

- The surging "**gray wave**" of retirees with mostly fixed incomes, who are facing rising costs of care and have an appetite for therapies and products promising to lengthen healthspans (i.e., the number of years a person lives in good health);
- Massive **AI spending** by both tech and non-tech businesses driven by the unacceptably high cost of being left behind; and
- The emergence of **electricity as the dominant source of power** enabled by the rapidly declining costs and scalability of **renewables** (wind and solar) as well as grid-scale power storage.

To these we are adding **medical advances** as another Unstoppables theme. There have been at least two transformative tools developed in the last 15 years—the so-called CRISPR biological gene-editing tool and Google DeepMind's AlphaFold protein-mapping application—that both rapidly accelerate and expand researchers' ability to identify, design, and deliver promising therapies, some of which have now started to arrive.

We are also adding **defense spending** triggered by the geopolitical eruptions of the past few years and months, together with the U.S. insistence that its allies carry more of the shared financial burden as well as the indications that it is rethinking its commitments to the defense of Europe and perhaps Taiwan, or indeed much of East Asia. The same forces are driving many nations to reconsider food and energy security.

## THE UNSTOPPABLES

All of the above are driven by demand imperatives that show very few if any signs of abating. For at least the next two or three decades we believe they are likely to provide a reliable, exploitable tailwind for some businesses, and perhaps challenging headwinds for others.

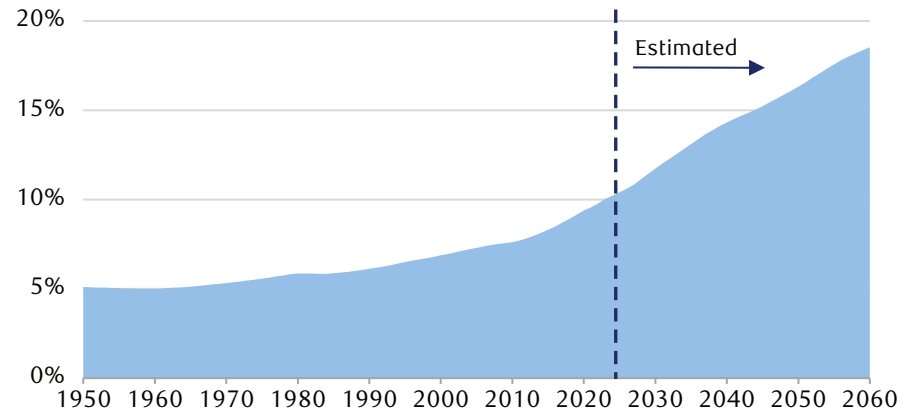
### The gray wave

A growing elderly population around the world will have to be cared for. It has also become a large addressable market for a range of goods and services.

Economists, sociologists, and governments have been watching the inevitable approach of a massive gray wave for a couple of decades—now it's here. In all the major economies (and most of the rest) the proportion of the population over the age of 65 is already surging to levels never seen before. Even the over-80s cohort, once an insignificant minority, is rapidly becoming a component to be reckoned with.

The global population of people 65 years and older will approach 1.6 billion by 2050, according to the UN. The cost of caring for a fast-growing segment that is no longer earning employment income is a problem desperately in need of solutions.

#### Percentage of world population over age 65



Source - RBC Wealth Management, United Nations

The Alzheimer's Association estimates that in 2025, total health care costs for all individuals in the U.S. 65 years and older suffering from Alzheimer's disease reached \$409 billion, or considerably more than cancer and cardiology care combined. It also points out that millions of family members and unpaid caregivers provided 19.3 billion hours of care, valued at \$446 billion in 2025. Given these onerous costs borne by both governments and households and that up to 20 percent of life is spent battling chronic diseases in later years, scientists are focused on lengthening healthspans (i.e., the number of years a person lives in good health).

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## THE UNSTOPPABLES

### Investable ideas

- The **financial services industry** (e.g., wealth management and insurance) as individuals will need to consider how not to outlive their savings;
- **Homebuilders** looking to meet increased demand to accommodate both multigenerational households and single-occupancy homes;
- **Travel** (e.g., air and rail operators, cruise lines, and recreational vehicle manufacturers) and **recreation/leisure** (e.g., gardening and DIY tools and supplies) as these areas are top of the to-do list for most planning to retire.

### Medical advances

Roy Amara, an American scientist and futurist, observed what came to be called Amara's Law: we tend to overestimate a technology's impact when it first arrives on the scene, but underestimate what it actually delivers a decade or so later. The Gartner Hype Cycle maps the same phenomenon: inflated expectations peak and disillusionment follows, before a plateau of productivity eventually emerges. The medical sector illustrates the different facets of Amara's Law.

#### Short-term overestimation

- In the early 2020s, Google DeepMind's AlphaFold cracked a key biological puzzle: predicting the shape of over 200 million proteins, including some 20,000 proteins encoded by human genes. Proteins need to fold into the correct three-dimensional shape to function; knowing that shape is essential to understand disease and design appropriate treatments. The work earned AlphaFold scientists the Nobel Prize in Chemistry in 2024 and prompted ambitious predictions well before that AI could eliminate disease within a few years, which sadly remains a distant prospect.
- The CRISPR gene-editing technology was heralded as a potential cure for genetic diseases when it emerged in the early 2000s, also winning its developers a Nobel Prize, before disappointing as costs ran into millions of dollars per patient and progress stalled.
- Personalized cancer vaccines face a similar challenge. Custom-designed for each patient's unique tumor profile, they remain prohibitively expensive. However, by using AI to dramatically accelerate the identification of individual tumors, personalized cancer vaccines are becoming increasingly viable, with potential approval from the U.S. Food and Drug Administration within the next two years, subject to positive results from final-stage clinical trials.

#### Long-term underestimation

- The shingles vaccine was deployed for decades to prevent a painful skin condition. Unexpectedly, in 2025, scientific journal Nature reported that the vaccine can also reduce the risk of developing dementia by 20 percent over a follow-up period of seven years. The long-term impact

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## THE UNSTOPPABLES

of a technology can exceed initial expectations—and in completely unexpected ways.

- After more than a decade, the first approved CRISPR-based therapy for humans arrived in 2023 (for sickle cell disease), though it remains beyond the financial reach for most patients for now. The disease, painful and debilitating, has an estimated eight million sufferers and 100 million carrying the trait, according to *The Lancet*, a medical journal.
- CRISPR-based technologies are also providing new therapeutic avenues for beta thalassemia, a condition that requires a lifetime of frequent blood transfusions.
- There is also early promise from a small trial that has showed a dramatic slowing in the progression of Huntington’s disease, regarded as incurable.
- Also of note, following the injection of CRISPR-modified pancreatic cells into an individual suffering from Type 1 diabetes, the patient’s pancreas produced normal insulin for more than a year without rejection.

Early disappointment has not always been the end of the story. Medical advancements tend to retain their momentum, and with AI accelerating progress across several fields simultaneously, we believe the long-term potential of today’s technologies is likely to surprise on the upside.

### Investable ideas

- **Biotech companies** that prioritize diseases with a meaningful unmet need and demonstrate the ability to execute on well-designed clinical trials.

## AI spending rolls on

AI may prove to be a textbook illustration of Amara’s Law. Near-term expectations seem to have outpaced reality, though the underlying improvements in AI models suggest to us that the long-term impact could still be underestimated.

### Escalating AI infrastructure spending

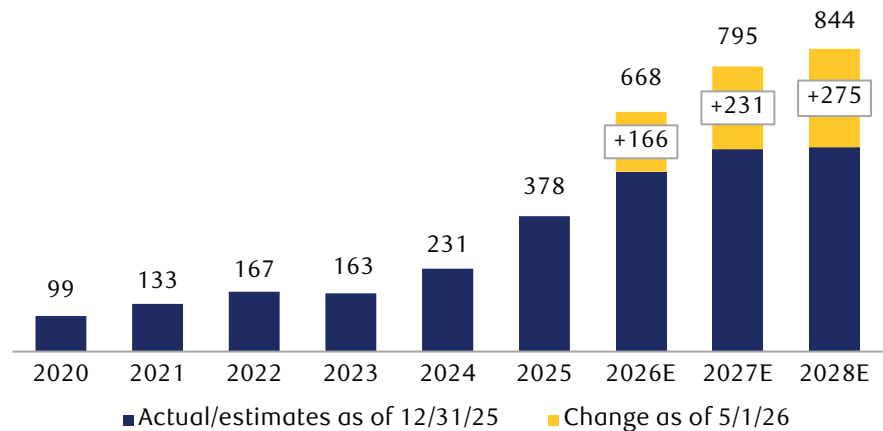
Spending on the development and application of AI will accelerate further from today’s already lofty levels as tech companies—from “mega” to “mini”—struggle to avoid being left irretrievably behind.

- Based on their most recent announcements, AI-related capital spending by the Magnificent 7 (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) is expected to grow by a whopping 75 percent in 2026 to \$668 billion, representing a substantial two percent of U.S. GDP. Further increases are planned in 2027 and 2028.
- RBC Global Asset Management Inc. Chief Economist Eric Lascelles points out that these figures have been revised significantly higher since the beginning of the year. Compared to projections as of December 31, 2025, combined Magnificent 7 capital spending estimates for 2026, 2027, and

## THE UNSTOPPABLES

### The Magnificent 7 have significantly increased their capex plans this year

Magnificent 7\* capital expenditure estimates (\$ billions)



\*Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Source - RBC Global Asset Management, Bloomberg; data as of 5/1/26

2028 have risen by \$166 billion, \$231 billion, and \$275 billion, respectively. That is, the total expected capital spending over the next three years (2026 inclusive) has risen to \$2.31 trillion, a 41% increase over what had been planned just four months ago.

- Many investors reasonably question whether a bubble may be forming, but Lascelles suggests that such skepticism may not be warranted. Since 2020, the compute required to train models has grown by roughly five times annually. Meanwhile, training costs are rising at three-and-a-half times per year, and power requirements are doubling annually. Yet, according to METR, an AI research institute, the complexity of tasks AI models can handle independently has grown approximately sixfold since 2024, suggesting that the return on AI infrastructure investment may be improving, as model capability continues to outpace cost increases.

In Lascelles' view, on this basis, tech executives' optimism does not seem misplaced. It likely reflects genuine confidence in AI returns, rather than speculative bubble dynamics. Nevertheless, whether rapidly improving models can generate revenues that justify current spending levels remains an open question.

AI infrastructure expenditure played a significant role in offsetting growth headwinds from tariffs in 2025. It contributed approximately 0.5 percent to U.S. GDP growth, largely offsetting the roughly 0.75 percent drag from tariffs. Lascelles expects a similar contribution in 2026.

### Uptake by non-tech businesses just getting started

The U.S. Census Bureau's Business Trends and Outlook Survey data (to May 2026) shows that overall AI usage for the companies surveyed hovered between 17 percent and 20 percent—and that between 20 percent and 23 percent of businesses that have yet to use AI expect to use it in the next six months. These numbers are up significantly from the end of 2024, but not appreciably from the end of last year.

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## THE UNSTOPPABLES

As of May 3, 2026, AI usage rates in the Information (39.7 percent) and Finance and Insurance (33.9 percent) sectors were both higher than the national rate (19.8 percent), according to the Census Bureau, but significant shifts have not been reported in these sectors since December.

In comparison, businesses in the Retail Trade sector reported current and expected usage rates below the national average: around 14 percent of businesses currently use AI, and about a further 17 percent expect to in the next six months. The Manufacturing sector was also below average in adoption, with current and expected use at 17 percent and 19 percent, respectively.

The Census Bureau estimates that only 0.1 percent to 0.2 percent of U.S. firms use AI to automate a large number of human tasks. Over 90 percent of companies using AI report zero employment changes.

Executives outside the Technology sector speak enthusiastically about what they expect AI will do for their businesses. But comparatively few, so far, can point to any sustainable return on investment from these expenditures. In our opinion, that won't stop or slow down the spending anytime soon—most businesses perceive the cost of being left behind as unacceptably high. But, at some point, returns will need to justify the AI expense.

For now, most companies committed to this spending argue that the high experiential gains may prove vital to remaining competitive in the future. Underspending remains the riskier strategy, in our view.

### Investable ideas

- **AI equipment manufacturers** and the computer chip complex have been the clear beneficiaries of the new technology, with their stock valuations having expanded markedly. We think investment portfolios would likely benefit from exposure to the infrastructure beneficiaries of generative AI (GenAI)—e.g., electricity production, transmission, and storage, as well as data center construction and data transmission—where the eventual spending may take a decade or more to arrive.
- **Shares of companies that adopt the new AI solutions may also benefit**, but we believe investors should assess how the technology is being implemented—to increase sales, reduce costs, or improve productivity—and keep an eye on the competition. If competitors are also using GenAI effectively, any competitive advantage may erode quickly.

For more on this theme, please see these articles from our “Innovations” series: [Generative AI: enablers and adopters](#) and [Exploring the impacts of AI and GenAI across industries](#).

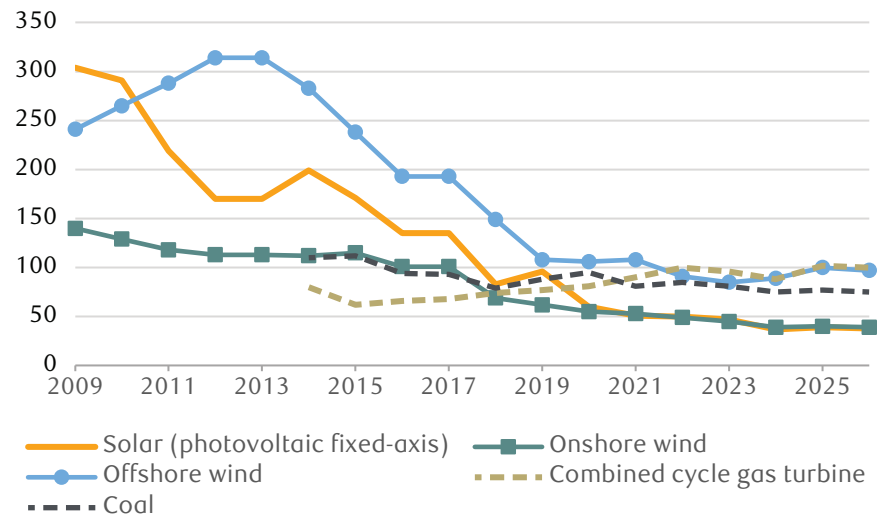
### The relentless march of renewables

Kick-started by government subsidies more than two decades ago, the rapid installation of wind farms, solar collectors, and now energy storage facilities have driven down the cost of renewable power (without subsidies) to levels that have already made renewables the lowest-cost energy sources in many countries.

THE UNSTOPPABLES

Solar and onshore wind are cheapest electricity sources

Global levelized cost of electricity (LCOE), \$ per megawatt-hour



LCOE is the long-term breakeven price a power project needs to recoup all costs and meet the required rate of return. LCOEs do not include subsidies or tax credits. Figures have been adjusted for inflation and expressed in 2025 U.S. dollars. Photovoltaic fixed are static solar panels mounted at a fixed angle.

Source - RBC Wealth Management, BloombergNEF

Renewable energy sources provided nearly 26 percent of U.S. electrical generation in 2025, as well as over 36 percent of installed generating capacity. The International Energy Agency (IEA) projects solar, wind, and battery energy storage to add over 60 percent more generating capacity in 2026 than in 2025.

Close to one-third of China’s electricity consumption now derives from renewables and an even higher 49 percent in Europe, as of 2025. The adoption of renewables will almost certainly continue, in our view, thanks to striking cost advantages.

For more than a decade, global installation of new solar power generation has routinely exceeded the IEA’s five-year forecasts, sometimes by 100 percent or more. The Global Solar Council estimates that global installed solar capacity has reached almost three terawatts—that is, three trillion watts or the equivalent of some 10 billion solar panels installed—enough to power 1.5 billion homes. That is triple the installed capacity reached only four years ago. The permit approval backlog is substantial and growing, suggesting to us that growth of new renewable power installations is not likely to slow appreciably anytime soon.

Investable ideas

- Renewable energy equipment manufacturers;
- Providers of energy storage, energy efficiency, and/or smart grid solutions.

## THE UNSTOPPABLES

### The electrification of everything

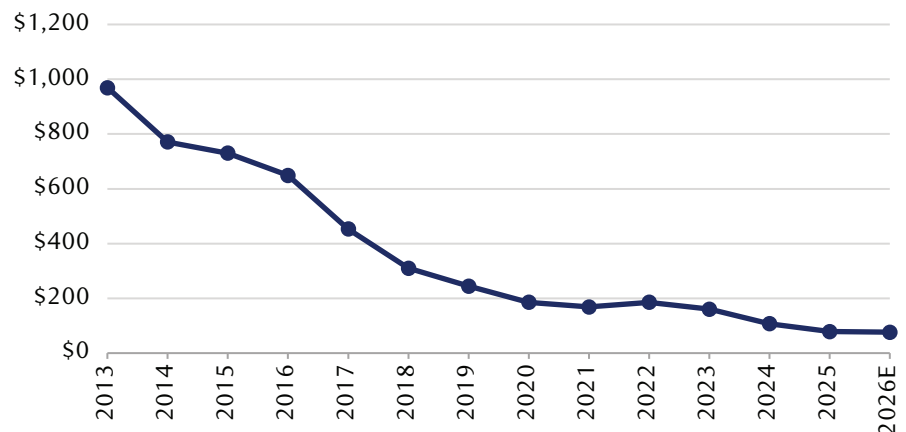
Falling costs for renewable energy, combined with rapidly expanding installed capacity, are laying the groundwork for a significant rise in electricity consumption—particularly as the intermittent nature of wind and solar is addressed. BloombergNEF estimates that solar will become the largest source of electricity globally by 2032 with wind not far behind.

Technical, managerial, and systems engineering improvements have been changing the design and management of traditional power grids to accommodate renewable sources. But the rapid expansion of utility-scale storage facilities, in the form of so-called grid-scale batteries, is making the raw cost advantage of solar and wind that much more compelling by addressing the issue of intermittency.

Today, giant batteries arranged in rows of containers have become a preferred technique to store power, as their cost has fallen dramatically. BloombergNEF estimates there will be more than two terawatts of stationary battery storage installed globally by 2035. Meanwhile, advancements in battery technology and chemistry are driving innovation. Promising alternatives include sodium-ion and nickel-hydrogen batteries, as well as vanadium flow batteries.

#### The cost of utility-scale batteries has fallen more than 90% in 12 years

Four-hour utility-scale battery storage costs, \$ per megawatt-hour



Source - RBC Wealth Management, BloombergNEF; costs in 2025 dollars

Energy is a major input cost for many industries, businesses, and households. Getting plentiful, low-cost renewable energy from where it is produced to where it is needed is a major industrial enterprise on its own. Grid-scale batteries can enhance energy resilience, balancing fluctuations in supply and demand.

#### Investable ideas

- **Raw materials such as copper, nickel, lithium, cobalt, and uranium;**
- **Electrical generation and transmission equipment,** including transformers, switches, high voltage cables, solar panels, and electrolyzers;

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## THE UNSTOPPABLES

- **Software solutions to enhance grid balancing** (i.e., so that electricity consumption matches electricity production of an electrical grid); and
- **Specialized engineering and construction businesses.**

### Defense spending

Higher defense spending should persist for years largely due to the ongoing transitioning from a U.S.-led Western unipolar order to what is often described as a multipolar or polycentric world order. Sole U.S. dominance, which had characterized much of the post-Cold War period, is morphing into a new framework where not only the U.S. and Western-aligned countries shape global affairs, but China, Russia, India, and Iran, among others, also have significant influence.

The tension between the unipolar and multipolar frameworks could play out for many years or even a couple of decades. The transition is already proving to be turbulent and disorderly. The Russia-Ukraine war, with the U.S. and NATO backing the latter; the U.S. special forces raid in Venezuela; the U.S./Israel war in Iran; and the Trump administration's attempt to assert more control over global energy flows and shipping lanes are among the initial links in this chain.

Amid this transition, major, middling, and some smaller military powers seem committed to robust weapons spending and, in many cases, expanding their armed forces. The U.S. is calling upon Europe, Canada, Japan, and South Korea to shoulder more of the defense burden. Even Germany and Japan are pushing against foundational post-World War II agreements that limit re-militarization.

For starters, the U.S. and European NATO countries seek to rebuild stockpiles of existing weapons systems due to significant depletions during the wars in Ukraine and Iran. A study published by the Washington, D.C.-based Center for Strategic and International Studies think tank in May 2026 assesses that it could take years to replenish U.S. stockpiles; Pentagon leadership has acknowledged this. It follows that U.S. resupplies to Europe, Japan, and South Korea could take even longer, in our view.

Additionally, and importantly, major military powers and some others are prioritizing the development of advanced precision weapons systems, which we think will be in high demand in the future.

### Investable ideas

- **Aerial and sea drones and other autonomous vehicles:** Technological leaps are evolving over just weeks or months amid real-time battlefield feedback.
- **Artillery complexes:** While some have argued artillery is becoming a thing of the past due to drones, we believe this couldn't be further from the truth.
- **Standoff precision air-launched cruise missiles and high-capacity guided bombs:** These are staples in any modern conflict.

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## THE UNSTOPPABLES

- **Offensive ground- and sea-based ballistic, cruise, and strategic missiles, especially those that fly at hypersonic speeds and have maneuvering capabilities:** The U.S. and European countries have a lot of ground to make up in these areas.
- **Missile and drone defense:** Western-aligned countries also lag in the all-important missile defense category.
- **Intelligence, surveillance, and reconnaissance (ISR) systems:** The U.S. leads in ISR due to its robust satellite system.
- **AI, neural networks, advanced algorithms and signals processing, along with netcentric platforms:** These technologies are already being integrated into weapons and battlefield management systems.

### Long-lasting and powerful effects

There's plenty we don't know about how the world's economy is going to play out over the next 30 years. But there are several aspects where we can identify demand imperatives likely to be in play for at least the next few decades driven by: unavoidable demographics, the delayed arrival of the fruits of advances in biology and life sciences, the arrival of powerful new computing applications, the very rapid and ongoing shift in energy economics, and the inevitable global geopolitical frictions arising from the fracturing of the unipolar world into a multipolar one that is very much in flux.

Identifying reliable long-term sources of demand growth should point the way toward investable sectors and industries that provide the prospect of long-term compounding of sales, earnings, and share prices.

## GLOBAL Equity



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# The wall of worry obscures a plausible path to higher ground

## Key points

- Markets have recovered from the February–March swoon driven by substantial upward revisions to earnings estimates.
- The outlook for all economies and equity markets would be improved by a reopening of the Strait of Hormuz—some more than others.
- For the U.S. economy, corporate earnings, and equity prices, a continuation of the AI capital spending juggernaut will remain the dominant factor.

Major global stock markets have regained most of the ground lost in the February-March plunge triggered by the start of the Iran conflict and the closing of the Strait of Hormuz. The S&P 500, Canada's S&P/TSX, Japan's TOPIX, and the Shanghai Composite have all now posted new highs—the last three by a little and the S&P 500 by a lot, besting its past peak by 9%. The MSCI Europe is very close to hitting higher ground while the MSCI UK is a notable laggard.

The Taiwan and South Korea stock market averages have left everyone else in the dust, surging by 40% and 70% respectively in just eight weeks. Chip making, driven by worldwide AI demand, has powered those two big winners and has also accounted for why the S&P has opened up a sizable gap over other developed equity markets, which have comparatively little exposure to chip making or AI hyperscaling.

## Earnings expectations driving markets

The S&P's standout performance—up 9.3% from the beginning of the year—is just about fully accounted for by the rapid upward revisions in index earnings. The Bloomberg consensus for 2026 earnings now sits at \$342, up 9% from \$313 where it started the year. That estimate, if achieved, would be a 23% advance on the \$279 per index share reported for 2025.

That big upward revision in estimated earnings and the outsized jump in the

U.S. index have been mostly sourced from a fairly narrow selection of very large-cap tech and tech-related stocks. However, the broader U.S. economy looks to be gaining speed as well, in our view. Fully 81% of the companies surveyed by the Business Roundtable—a nonprofit lobbyist association based in Washington, D.C., whose members are chief executive officers of major U.S. companies—expect their sales to increase in the coming six months, up from 74% in the prior quarter. The expectation of improved sales has provoked a notable increase in the percentage of surveyed companies looking to increase capital spending and to hire more workers.

## Hormuz matters more to some

This rising U.S. business optimism, coming when productivity is improving, unemployment claims are very low, and the Atlanta Fed's GDPNow gauge is tracking a 3.3% gain in GDP for Q2, suggests to us that the U.S. economy is not holding its breath waiting for the Strait of Hormuz to reopen. To some extent, neither are China or Canada: China because it spent much of last year making large oil reserve additions at low prices, while Canada is a large net exporter of oil and natural gas.

However, the trajectories of all economies, to one degree or another, depend on when the Strait reopens. Restoring the free flow of shipping would act to lower oil and natural gas prices and remove or reduce the

## Equity views

Region	Current
Global	=
United States	=
Canada	=
Continental Europe	=
United Kingdom	=
Asia (ex Japan)	=
Japan	=

+ Overweight; = Market Weight; – Underweight  
Source - RBC Wealth Management

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## GLOBAL EQUITY

threat of outright shortages—not just oil and liquified natural gas but also fertilisers and some important industrial chemicals. This would substantially reduce operating costs for many businesses and sectors, especially agriculture where fuel and fertiliser are the largest inputs with a direct impact on global food costs. Lower prices at the pump and at the grocery store would provide welcome relief to household budgets and a boost to consumer confidence everywhere.

But as of this writing, while talks between the two sides are encouraging, there is as yet no done deal. The longer it takes to open and clear the Strait, the greater the risk of inflation rising further and working its way into the broader economy from which it might be more difficult to dislodge. A standoff that continued into or through the summer would raise the prospect of central banks, including the Fed, abandoning any plans for rate cutting and perhaps even forced to raise rates.

### Correction watch

Bond yields would likely move higher before any policy rate hikes were implemented, in our opinion. At a time when government bond issuance everywhere and corporate issuance in the U.S. are both elevated, higher bond yields could eat into profit margins, squeeze corporate cash flows, and dampen the appetite for capital spending, durables, and new houses—while simultaneously reducing the discounted present value of future earnings in equity valuation calculations.

However, in our view, anything short of igniting a multi-hike Fed tightening cycle would be unlikely to push the U.S. economy into recession or seriously derail the prospects for worthwhile earnings gains this year.

That said, a correction of some degree can't be ruled out for the back half of 2026, perhaps in response to Hormuz complications, or to an upside breakout in bond yields, or to

the sheer weight of the very heavy IPO calendar building tentatively for this fall.

### AI remains the dominant factor

But, while the outlook for most of the developed economies' stock markets hinges on when the Strait reopens, the outlook for the U.S. market will continue to be dominated by the Artificial Intelligence juggernaut. The unprecedented spending on the part of the mega-cap hyperscalers is undeniable, with new capex commitments leaping to higher-than-forecast levels seemingly every few months. Recently, domestic chip makers have enjoyed a dramatic catch-up, while software companies have regained their composure after being declared “dead and buried” by equity markets in an unsettling November-to-March waterfall decline for the group.

Meanwhile, more and more non-tech businesses are reporting that they are engaging with AI. Their managements are speaking enthusiastically about what they expect this will do for their businesses, but comparatively few, so far, can point to any sustainable return on investment from these expenditures. That won't stop or slow down the spending anytime soon because of what most businesses perceive as the unacceptably high cost of being left behind; for more on this, please see our midyear focus article, [The Unstoppables](#). But, at some point, returns will be needed to justify the AI expense.

In our view, periodic worries about how soon these returns will arrive and just how sufficient they will be could roil equity markets from time to time. 21x estimated forward earnings one year out for the S&P 500 doesn't sound like an extravagant multiple to pay for index earnings that are forecast to grow by 22% this year and a further 15% next. But anything that knocks a serious hole in those expectations or raises worries about the future beyond next year—such as any of the factors mentioned in the discussion above—could make

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## GLOBAL EQUITY

RBC Capital Markets' target of 7,900 12 months out more difficult or take longer to achieve.

Our positioning advice remains the same: portfolios should remain committed to equities up to but not beyond an investor's long-term targeted exposure. Having a plan for how to become more defensive if conditions dictate should always be an element of prudent portfolio planning.

## Regional equity perspectives

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### United States

The U.S. stock market has faced multiple challenges so far this year, yet it has climbed the wall of worry. The S&P 500 Index has rallied 8% and the Information Technology sector has surged 17% year to date through June 11.

At first glance, the market may seem disconnected from reality, especially considering Americans' negative assessments of the economy in multiple opinion polls. However, corporate earnings have been the great stabilizer. The market's profit outlook for 2026 and 2027 has brightened notably compared to the beginning of the year.

Any reservations we had about earnings prospects have been put to rest due to the Information Technology sector's very robust Q1 year-over-year profit growth of 49% and evidence that AI capital spending could continue to rise over the near term, if not longer. Consensus earnings growth forecasts for Technology and other sectors have been revised upward, including for Energy due to elevated oil prices caused by the Middle East conflict.

The more buoyant S&P 500 profit outlook checks the box of one catalyst we thought was necessary

for the bull market to persist for a fourth consecutive year in 2026.

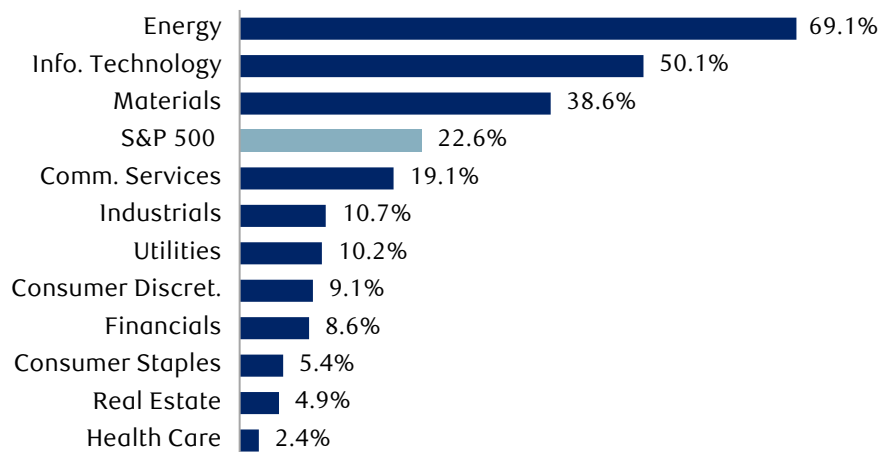
With the midterm elections approaching on November 3, we're mindful that the market faces another obstacle—and a historical one at that. The S&P 500 has experienced an average 21% correction surrounding midterm election years since 1934, as we discussed in a [recent report](#).

Given the market has already endured a brief 9% pullback last spring, this begs the question: Has the usual midterm election year performance hiccup been satisfied? Maybe, but we can't exclude the possibility that another pullback could occur, especially if the Strait of Hormuz remains largely closed, Treasury yields continue to rise due to inflation risks, and/or midterm election angst materializes.

We suggest maintaining a Market Weight position in U.S. equities. In order to manage risk, we would scrutinize equity holdings as some stocks in the Technology sector (especially semiconductors) have rallied sharply and could face bouts of significant volatility and/or correct meaningfully. Therefore, investors should be vigilant about single-stock and sector exposures in portfolios by bringing them back into balance if they've drifted well out of bounds.

### S&P 500 and six sectors forecast to deliver double-digit earnings growth this year

2026 earnings-per-share consensus growth estimates (year over year)



Source - RBC Wealth Management, Bloomberg; data as of 6/10/26

## REGIONAL EQUITY PERSPECTIVES

### Canada

Volatility gripped the S&P/TSX Composite during H1 2026, with the index experiencing a temporary pullback following the onset of the conflict in Iran. Market resilience shone through, as it took fewer than 30 days to recover the 9% drawdown, and then the S&P/TSX Composite continued moving higher to all-time highs in early June. Looking ahead, the Canadian market continues to face lingering volatility risks stemming from perceived AI-driven disruption, Middle East tensions, and the ongoing tariff uncertainty as USMCA re-negotiations approach in July.

The Energy sector performed exceptionally well in Q2 2026. As the conflict in Iran continues, we assess a two-fold impact: (1) if oil prices remain elevated, this should drastically increase Canadian oil producers' cash flows, creating attractive earnings and shareholder return profiles, and (2) the same supply disruptions that are causing \$90s to triple-digit West Texas Intermediate crude prices are negatively impacting consumers' financial well-being. The former has helped drive performance amongst oil & gas equities while the latter remains a key headwind that we continue to monitor. Consumer purchasing power and the overall

impact of higher energy prices on the economy have the potential to drive higher-for-longer inflation, heighten the risk of Bank of Canada interest rate increases, and dampen overall domestic economic growth.

The USMCA free trade agreement is up for renewal discussion on July 1. The unknowns concerning the potential outcomes and the possible bargaining chips the U.S. administration may seek to use have cast uncertainty across the tariff landscape. While RBC Economics believes the agreement is likely to remain broadly unchanged, volatility surrounding the discussions will be a key focal point, in our view.

Amidst a steady stream of cautionary headlines, the S&P/TSX Composite has powered forward so far this year, buoyed by increasing optimism about the economy and robust corporate earnings. As a result, we remain cautiously optimistic about the broader Canadian equities investment landscape for the remainder of 2026.

### United Kingdom

Gauging how the UK could perform relative to other markets requires understanding of its unique sector composition rather than just assessing the specifics of its macro environment.

### UK banks outperform despite the domestic gloom

Relative total return of LSEG's UK-DS Banks vs. World DS-Banks



Source - RBC Wealth Management, LSEG; data through 6/5/26

## REGIONAL EQUITY PERSPECTIVES

The UK is facing some specific headwinds such as the broadly held perception that there will be a change in prime minister. We think the most likely replacement is Andy Burnham who has served as the mayor of Manchester. Burnham is perceived as being a less market-friendly candidate as he has expressed support for nationalising utilities and introducing asset-based taxes. His policies seem likely to result in more government borrowing, in our opinion, the case for which needs to be compelling given an already-high debt-to-GDP ratio and rising interest expense.

The debate over who will be the next prime minister chosen from the ruling Labour Party masks even greater uncertainty over who will win the next election (not due until 2029) as the two traditional Labour and Conservative parties which split 57% of the vote in 2024, only amass 37% in total in recent polls.

Despite the international nature of the UK equity market, fund flows into the asset class tend to be correlated to the domestic economy, using the UK composite Purchasing Managers' Index as a proxy. Accordingly, the political overhang and weak domestic growth picture, are likely to hold back flows into UK equities near term, in our view.

Also, for many years, UK investors have been gradually unwinding their home bias (preferring stocks based in one's own country versus those domiciled in other countries), leading to persistent selling pressure in the UK market. This partly reflects the distinctive sector composition of the UK equity market. Relative to the global market, it has virtually no Information Technology exposure. Because of this, it has suffered very little from the slide in software stocks but benefitted even less from the rise in hardware and AI stocks. It does, however, have meaningful exposure to important sectors and industries such as Energy, Health Care (pharmaceuticals), and Consumer Staples. These UK sectors have

performed very similarly to global peers.

We think the most obvious industry that closely reflects the UK economy is banks, which makes up about 16% of the equity market. UK banks are distinct from peers in other markets because their valuations look significantly cheaper and yet they achieve similar profitability.

It's difficult to see the UK fully emerging from the gloom of political uncertainty over the coming months. However, when global equity market conditions seem stretched in the areas Britain is not exposed to such as Information Technology and AI stocks specifically, we believe there is potential for outperformance as has been the case during such periods in previous years.

### Europe

Since the U.S./Israel-Iran conflict began, European equities, as measured by the STOXX 600 Europe ex UK index, have underperformed. Investors have focused on the region's energy import dependency and fear of a repeat of the inflationary wave that followed the curtailment of Russia's gas supplies in 2022. The index's limited exposure to AI, a powerful driver of U.S. equity returns, has also held performance back.

There is no doubt that the Middle East conflict is a headwind for the region. Weakened consumer confidence may limit companies' ability to pass on higher costs, potentially putting pressure on margins. Eurozone inflation rose to 3.2% y/y in May, which may entice the European Central Bank to lift interest rates a couple of times this year from the current 2% level.

Nevertheless, we believe the economic damage from the crisis may prove relatively limited. An RBC Global Asset Management analysis suggests that Europe uses significantly less oil and natural gas per unit of economic output than the

## REGIONAL EQUITY PERSPECTIVES

U.S., reflecting its growing reliance on renewable energy and nuclear power.

Moreover, most national governments have also started to subsidize heightened energy costs, reducing economic pressures. This will create a future fiscal burden, but prior to the conflict, over half of eurozone member states were on track to meet the 3% of GDP budget deficit threshold in 2026, according to European Commission forecasts. Notably, this includes Italy and Greece, countries that had previously struggled with finances. Overall, consensus full-year 2026 GDP growth expectations have only been pared back to 0.8% from 1.2% earlier this year.

So long as the Middle East conflict continues, and the Strait of Hormuz remains disrupted, we think European equities are likely to trade sideways. Should the Strait reopen, or should meaningful progress emerge on a Russia/Ukraine settlement, European stocks would likely be a significant beneficiary.

We continue to see the European Industrials sector as offering attractive long-term investment opportunities supported by various structural tailwinds, while banks' earnings momentum remains

positive and valuations continue to be inexpensive in the context of the returns they are generating.

### Asia-Pacific

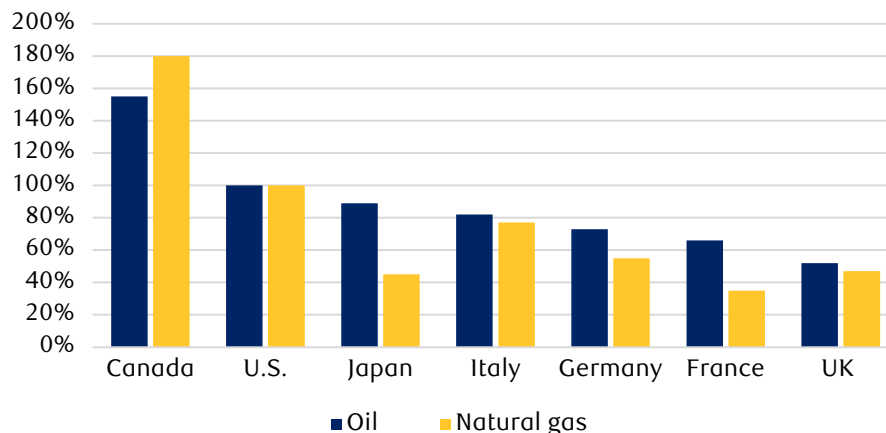
China's economy continues to show bifurcated growth, with high-tech and AI-related manufacturing driving strong export growth while domestic demand remains soft. Despite potential near-term economic headwinds from the Middle East conflict, we don't see urgency for the government to launch new domestic support policies, as the economy is handling the crisis relatively well.

The property market shows tentative signs of improvement, with prices rising in some larger Tier 1 cities. However, we think it is too early to declare this a stabilization of the overall property market, as housing inventory levels in many lower-tier cities remain elevated. Excess supply relative to demand will likely keep overall housing prices under pressure, deterring potential buyers from entering the market.

The AI narrative will likely be a key theme driving China's equity market performance in the second half of the year. China's tech champions possess competitive advantages in cost, scale, and supply chain integration, and

### Europe is relatively less reliant on fossil fuels than the U.S.

Oil and gas intensity of G7 countries' GDP relative to the U.S. (2024)



Energy intensity is measured as megajoules of energy derived from oil and natural gas consumption per U.S. dollar of GDP (constant 2015 dollars).

Source - RBC Global Asset Management, BP Statistical Review of World Energy, UN Conference on Trade and Development; data as of 5/24/26

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## REGIONAL EQUITY PERSPECTIVES

their valuation appears undemanding relative to global peers.

We prefer companies in AI, humanoid robotics, and lithium batteries supply chains. We think these companies are capitalizing on surging global demand for AI-enabling goods.

Japan's equity markets have rallied strongly in 2026, with the Nikkei 225 surging 11.9% in May to break above 66,000, driven by AI enthusiasm. Importantly, valuations still look attractive despite all-time high index levels, as robust earnings growth from semiconductors and electronics manufacturers supports the rally. The TOPIX's more modest gains recently reflect the broader market's diversification—above-average year-to-date returns thus far, but not as strong as the more AI-concentrated Nikkei 225.

Japan has emerged as Asia's preferred equity destination, attracting \$73.6 billion in year-to-date inflows through May, as investors seek a diversified alternative to crowded AI trades from the likes of South Korea and Taiwan. This capital rotation is supported by genuine structural reforms in Japan—enhanced corporate governance, rising shareholder returns, and the government's fiscal credibility. The nascent “Sanaenomics” framework, encompassing AI advancement and defense sector liberalization and

expansion, signals a policy shift toward long-term growth.

While near-term volatility risks—yen fluctuations, conservative earnings guidance, and external geopolitical concerns—exist, we think these represent tactical headwinds rather than structural challenges. Our local research correspondent upgraded their 2026 price targets (Nikkei 70,000) to reflect confidence in the uptrend. The confluence of sustainable inflation, corporate reform momentum, and domestic demand support provides a solid foundation for continued Japanese equity appreciation, with pullbacks presenting buying opportunities for long-term investors, in our opinion.

GLOBAL  
Fixed income



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# Bond markets seeing the forest for the trees

## Key points

- Geopolitical events drove global bond yields higher in the first half of the year, but this latest leg higher only continues a much broader trend that has been in place for years.
- Markets have repriced modest central bank rate hikes ahead, but the reaction in longer-dated bond yields has been more significant, suggesting bigger factors are at play. We see higher government bond yields ahead.
- Despite higher yields on offer, bond markets have struggled to perform this year, which we expect to continue into year-end. We believe investors should focus on coupon income as bond price appreciation due to lower yields should remain elusive.

At the halfway point of 2026, global bond markets are lagging the already low expectations we held at the start of the year. Not only have many major global bonds failed to earn their coupons, rising bond yields—which move inversely to bond prices—have pressured prices lower to such a degree that declines have more than offset coupons earned, putting total return performance modestly in the red year-to-date.

A simple explanation would be that the unexpected war in the Middle East and the subsequent jump in oil prices, along with another round of supply chain disruptions, have

caused a temporary spike in inflation, central bank rate hike expectations, and bond yields. There’s a sense then that these moves could be unwound just as quickly as they appeared if/when there’s a resolution to the conflict. But we think that could be too simple, and perhaps too myopic.

While the Middle East conflict is no small issue, we do see it as just another tree in a forest of reasons that has pressured global yields higher not just this year, but for many years running at this point.

The chart below stylizes just that. The gray lines represent the 30-year government bond yields of the U.S.,

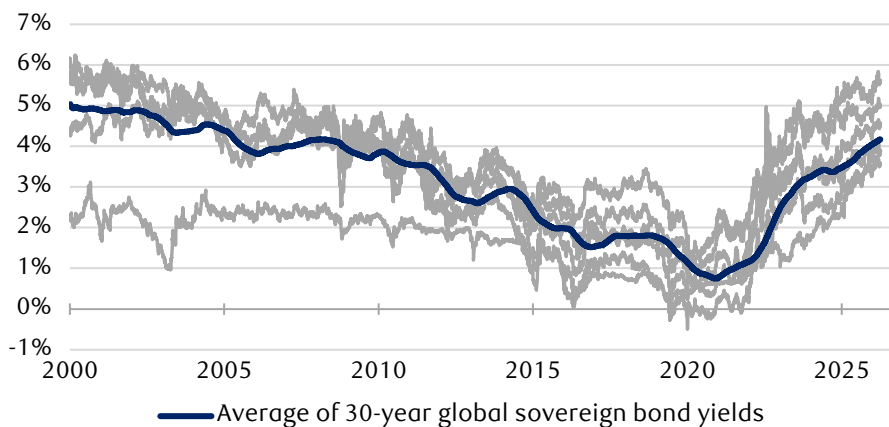
### Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	–	–	1–3
Canada	+	–	3–7
Continental Europe	–	–	3–7
United Kingdom	–	–	3–7

+ Overweight; = Market Weight; – Underweight  
Source - RBC Wealth Management

## The forest of global 30-year sovereign bond yields shows a rising trend with no signs of slowing

30Y bond yields of Canada, U.S., UK, Germany, Japan, and France



Source - RBC Wealth Management, Bloomberg

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Canada, Germany, Japan, France, and the UK. Which is which doesn't matter, and that's the point—nearly all are at or near 20-year highs, while the simple average yield of the group has breached 4.0 percent for the first time since early 2009.

Oil prices and central bank rate hike fears are dominating the narrative at the moment, but we think markets are pricing a bigger confluence of factors as driving these trends, and these factors largely continue to point in the same direction—higher yields still.

### Everything costs more, including money

So, as we take stock of the first half of 2026, and what we might expect for the rest of the year, we can't help but feel the desire to take an even bigger step back.

The technology hyperscalers are issuing massive amounts of debt and equity to raise funds for the ongoing AI buildout. Governments, not to state the obvious, continue to issue massive amounts of debt to fund ongoing deficits, and defense costs for certain regions are only likely to compound those deficits. The demand for capital amid a global economic backdrop that remains steady is increasingly overwhelming the supply of capital, as savings rates decline and aging populations pivot from saving money to spending it.

Where might it end? We would concede that we don't have a high-conviction view on that front. We had anticipated a return to pre-global financial crisis levels—which appears to be where we are now. A return to pre-2000 yield levels of five percent to six percent appears increasingly likely as the tech boom of today seems at least comparable to the tech boom of the 1990s, propelling near-term economic growth and inflationary pressures higher.

### Central banks ready a response

For all the hyperfocus of late on central banks and the potential for rate hikes, we think any adjustments will be both modest in nature and little more than necessary recalibrations to economic realities on the ground. Single-mandate banks such as the European Central Bank (ECB) and the Bank of England (BoE), which target only price stability, will need to act sooner rather than later, while others have more time to gauge the impact on economic growth, labor markets, and inflation in their totality.

### Federal Reserve and Treasury yields

- Our base case is that the Fed keeps rates on hold through 2026 and 2027, but with a bias toward rate hikes. Though markets are pricing a 100 percent chance of a rate hike this year, we would highlight that they are giving the Fed a longer

### Current RBC central bank rate projections

	Current policy rate	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
Bank of England	3.75%	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Federal Reserve	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Bank of Canada	2.25%	2.25%	2.25%	2.25%	2.50%	2.75%	3.00%	3.25%
European Central Bank	2.25%	2.25%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%

Source - RBC Wealth Management, RBC Capital Markets

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runway for potential action than other central banks, as market-implied prospects don't exceed the key level of 80 percent until the Fed's December meeting.

- With respect to the benchmark 10-year Treasury yield, on balance we expect it to hold at current levels around 4.50 percent, but with an upward bias. Importantly, we do see scope for it to test key technical levels of this cycle: 4.80 percent in 2025 and 5.0 percent from 2023.

### European Central Bank and German Bund yields

- The ECB was the first G7 central bank to raise rates this year at its June 11 meeting, and we see two more 25 basis point rate hikes in the pipeline this year before the ECB likely holds at a policy rate of 2.75 percent into 2027.
- The German Bund yield broke above 3.0 percent following the onset of the Middle East conflict and has largely held that level since. Our forecast has it rising modestly toward 3.25 percent this year, and to 3.40 percent in 2027.

### Bank of England & Gilt yields

- After the ECB, we think the BoE will likely be the next to act with a singular rate hike at its September

meeting to 4.0 percent before pausing through 2027.

- Despite a modest BoE rate outlook, the 10-year Gilt yield has been highly volatile this year, trading as low as 4.2 percent and as high as 5.2 percent. For now, we see it steadying around 5.0 percent through year-end.

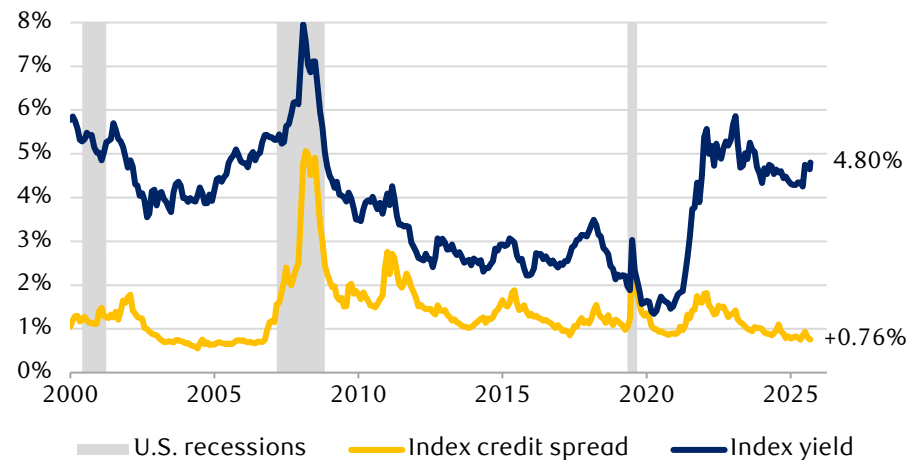
### Bank of Canada & Government of Canada yields

- The Bank of Canada (BoC) is stuck between weak economic growth and rising price pressures. But like the Fed, we think the BoC will remain on hold this year, with potential hikes in early 2027.
- The benchmark 10-year Government of Canada yield has averaged 3.4 percent over the past year, is currently trading around 3.5 percent, and we see it only rising toward 3.6 percent by year-end.

### Chopping wood

While bond markets focus on the forest of interest rate dynamics, individual bond investors need to know which trees to chop down for yield. Despite rising yields, and to what are certainly historically attractive levels, we still expect a somewhat challenging landscape for bond investors. Given that we see little scope for sovereign bond yields

### Global corporate bonds offer plenty of yield, but little excess yield for potential credit risks



Source - RBC Wealth Management, Bloomberg Global Aggregate Corporate Bond Index

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to move materially lower absent economic downturns, investors should simply aim to maximize income, as bond price appreciation on top of coupons could remain elusive.

As the chart on the previous page shows, global corporate bonds present just 0.76 percent of incremental yield over their government bond peers for potential credit and default risks. While not quite as low as the lowest lows of 2005 (+0.55 percent), the margin for error is clearly miniscule.

Therefore, we hold a cautious outlook on credit, but absent a recession the asset class should perform reasonably well, and at the end of the day, extra yield is extra yield. There's also the not-so-tongue-in-cheek idea that corporate balance sheets might look healthier than government balance sheets.

# Regional fixed income perspectives

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## United States

Our base case remains that the Federal Reserve will keep policy rates on hold for the balance of 2026, but with a growing bias toward a potential rate hike. While we think this should anchor Treasury yields around current levels, it clearly introduces some upside risks to our current forecasts (see chart below). We see scope for the benchmark 10-year Treasury yield to test key highs from this cycle: 4.8% from 2025 and potentially the 5.0% level from 2023.

While the Middle East conflict—and the associated rise in oil prices and inflationary risks—could be seen as the sole culprit of the market’s flip-flop from pricing further Fed rate cuts earlier this year to now expecting at least one rate hike, we think that misses the big picture. If we take a step back, the U.S. economy remains remarkably resilient, largely supported by continued consumer strength and, to a much greater degree, the massive AI-related capital investment that is ongoing. Inflation has remained above the Fed’s target for years, major U.S. stock market indexes remain near record highs, and the unemployment rate at 4.3% remains essentially in line with the Fed’s estimate of “maximum employment.” Put simply, all signs point to the idea that Fed policy at a

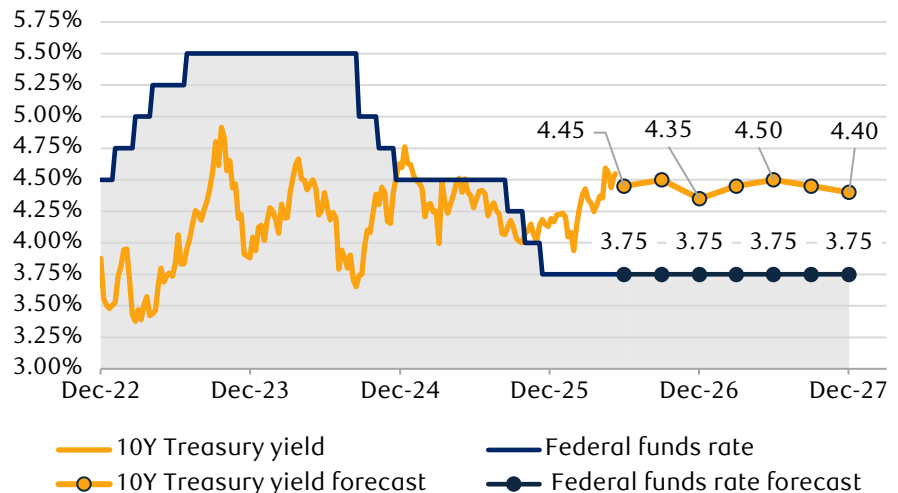
minimum is correctly calibrated, with an argument to be made that rates may have been cut too far last year.

Credit markets remain historically rich, offering a scant 0.73% of incremental yield over comparable Treasuries and among the tightest levels seen since 2000—implying minimal credit risks at the moment. That of course jibes with our solid economic outlook, but it leaves few attractive opportunities for bond investors. That said, all-in yields remain attractive with the Bloomberg US Investment Grade Corporate Bond Index yielding 5.3%, compared to an average of 4.7% over the past five years. Additionally, bank-issued hybrid preferred bonds offer an attractive alternative to corporate bonds, in our view.

## Canada

Recent macroeconomic data has painted a mixed picture of the Canadian economy. In Q1, GDP contracted by 0.1% on a quarter-over-quarter annualized basis, significantly below the 1.5% growth consensus expectation. This was the second straight quarter of negative growth, which satisfies the technical definition of a recession. Economic output has contracted for three of the past four quarters. At the same time, underlying details in the GDP

With the Fed likely on hold, we see Treasury yields trading around current levels



Source - RBC Wealth Management, RBC Capital Markets, Bloomberg

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report offered more encouraging signs. Per-capita GDP grew at 0.9% in Q1, household consumption was solid, and early signs are pointing to a rebound of growth in April. Canadian employment data has been volatile, with significant job losses in January and February partially offset by an unexpected surge in employment gains in May. Headline CPI inflation is elevated due to high energy prices, but recent core inflation measures excluding them are close to the Bank of Canada's (BoC's) 2% target.

Despite these conflicting signals, market pricing implies one rate hike from the BoC by the end of this year. However, uncertainty continues to weigh on the nation's economy. Geopolitical tensions and ongoing U.S. tariff uncertainty as Canada-United States-Mexico Agreement (CUSMA) renewal negotiations are underway pose risks to Canadian growth, while elevated oil prices place upward pressure on inflation. We think the BoC is most likely to remain on hold until at least the end of 2026.

Meanwhile, credit investors do not appear concerned with macroeconomic uncertainty. Like in the U.S., Canadian credit spreads—the additional compensation investors receive for buying corporate bonds over “risk free” government bonds—remain as tight as ever, meaning they are less expensive for the borrower, but more expensive for the lender. This creates an accommodating environment for companies looking to issue new debt, and several are taking advantage. U.S. hyperscaler companies have begun issuing in Canada to help fund their AI-related growth plans. In May, Alphabet issued CA\$8.5 billion of bonds, the largest ever Canadian corporate bond deal. This record was short-lived, however, as Amazon.com came to market in early June with an even larger CA\$14 billion deal. Investor demand for these deals was strong, and the market absorbed them with ease, with minimal impact on credit spreads.

## United Kingdom

The UK is facing an energy price shock when softer consumer demand and a less tight labour market, in our view, are reducing the risk of higher prices feeding through into broader wage pressures as was the concern three years ago. Indeed, the Bank of England's (BoE) May Decision Maker Panel survey pointed to expectations of modestly lower inflation over the coming 12 months, but more importantly, the downward trend in employment and wage growth continues. With monetary policy already restrictive at 3.75%, the BoE has room, in our view, to tighten by less than the current cumulative 35 basis points (bps) priced in by markets by December 2026.

We see two possible scenarios for H2 2026. First, inflation returns to the BoE's 2% target over a two-year horizon, accompanied by modest second-round wage pressures and weak growth. This is our base case, and we expect one rate hike from the BoE this year. Second, the most severe scenario, in our opinion, would be a prolonged conflict with a resolution in limbo, sustained elevated energy prices, surging inflation, and contracting economic growth. This would prompt additional tightening amid heightened second-round wage pressures. We note that longer-dated market inflation expectations currently remain well anchored, with markets treating the energy shock as largely transitory, limiting the risk of persistent second-round effects.

April's public finances figures showed a worsening fiscal outlook as borrowing overshot forecasts. We project further fiscal pressure due to higher bond yields (now trading between 55–80 bps higher across the yield curve since Feb. 27), targeted energy support measures, and a weakening economy. Though we have likely seen peak Gilt issuance, with supply skewed away from longer-dated bonds, we maintain an Underweight in longer-dated bonds. For long-term investors, opportunities

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exist to lock in attractive yields when bond yields appear elevated beyond what fundamentals justify.

While bond supply is less of a headwind in the UK compared to the U.S. and Europe, high issuance in the Technology sector has limited credit spread tightening, compared to other sectors which are trading at much tighter levels. We believe credit spreads could widen from here due to energy cost pass-through uncertainty, weaker growth, and political risks. We prefer an Underweight position in corporate bonds, favouring exposure in defensive sectors over cyclicals.

### Europe

The uncertainties around the Middle East conflict and energy price shocks continue to inject a hawkish bias into the European Central Bank's (ECB) policy outlook. RBC Capital Markets' base case is a 0.3–0.4 percentage point drag on GDP growth this year, with a worst-case scenario of around 1.2 percentage points.

We outline two scenarios for H2 2026. First, if a resolution to the conflict occurs by the end of Q3 2026, inflation would remain elevated, before returning to the ECB's 2% target within two years. Second, if the conflict extends beyond Q3, energy prices would likely remain elevated, inflation pressures would persist with second-round wage effects, and GDP growth would weaken further. We emphasise that the ECB's June forecasts embedded three hikes into the estimates: inflation is forecast at 3.6% this year without significantly weaker economic growth of 0.8%. Therefore, embedding fewer hikes into its projections would have resulted in higher inflation and GDP growth. We conclude that the door is open for 50 bps of cumulative hikes in September and December, more than current market expectations of 40 bps.

Italian sovereign spreads—yield differentials relative to German Bunds—are unlikely to tighten in the near term despite recent fiscal improvements, in our view. French

and Belgian spreads will likely remain wider, reflecting weaker fiscal positions, while Spanish and Portuguese spreads should stay relatively tight, underpinned by solid growth and improving public finances. Bond yields, especially longer-dated yields, may drift higher due to issuance increases this year and with the ECB continuing to reduce its balance sheet by not reinvesting matured bond proceeds. In the near term, we remain cautious on adding meaningful duration in sovereign bonds, but we think opportunities for long-term investors exist when yields reach year-to-date peak levels.

Corporate credit faces a challenging backdrop of higher inflation and weaker growth. While some issuer credit ratings have improved, we forecast spreads to widen—reflecting the additional compensation investors will demand for credit risk. At current levels, we remain Underweight corporate credit, particularly cyclical and consumer-facing issuers, where energy-driven pressures are squeezing margins and real household wages. We favour defensive sectors: Telecommunications, Utilities, and Health Care. We still see selective opportunities in Financials, Energy, and Materials.

### Asia-Pacific

Asia fixed income enters H2 2026 with credit spreads materially tighter from March levels. First-half returns were supported by interest income, resilient issuer fundamentals, and limited net supply, while government fiscal support across the region also helped cushion broader macro volatility linked to the U.S.-Iran conflict. The outlook remains exposed to geopolitical risks, supply-chain disruption, energy-price volatility, and the impact from higher U.S. yields. Asian credit spreads—the premium investors demand over U.S. yields—are tighter than they have been in many years, leaving little room for negative surprises. We expect returns to become more issuer-specific from here, with dispersion likely to rise and

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performance increasingly driven by credits with durable balance sheets, and clear policy support.

In China, policy direction should remain supportive but targeted. The recent messaging from the National Development and Reform Commission (NDRC), China’s powerful central planning agency, has been more tactical, emphasizing the need for a faster policy rollout to sustain growth momentum. Fiscal support, local government special bond issuance, urban renewal, and measures to improve residency-linked public services should help underpin domestic demand, in our opinion. Anti-involution initiatives, government measures to reduce excess industrial capacity, may also support margins in selected industrial and technology sectors. In the property sector, sales of existing homes have improved in Tier 1 cities (the largest metropolitan areas), but the rebound has yet to translate into broad-based recovery.

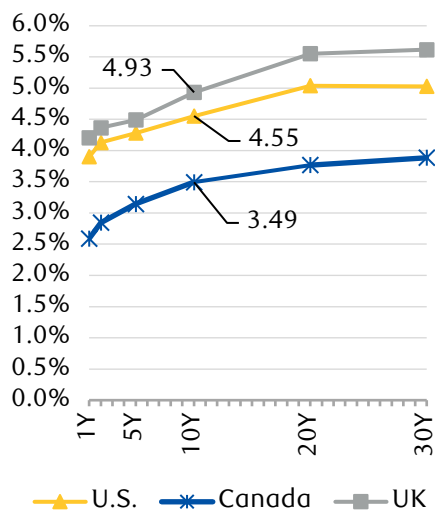
Overall, we expect China credit to favour selectivity, with better risk-reward in higher-quality State-owned enterprises, financials, and selected

industrials, while weaker private-sector issuers warrant caution.

Japanese government bond (JGB) yields have risen sharply this year, extending last year’s move to multi-year highs. Although domestic institutions were net sellers last year, a cautious stance that now appears justified, we think higher yields are making JGBs attractive again, prompting a reallocation away from foreign bonds and back towards domestic fixed income. Foreign investors are also buying longer-dated JGBs, supported by the currency-hedged yield pickup over U.S. treasuries. While fiscal concerns remain, falling net debt and a modest primary government balance suggest to us that yields could remain anchored with JGBs increasingly looking attractive at current levels.

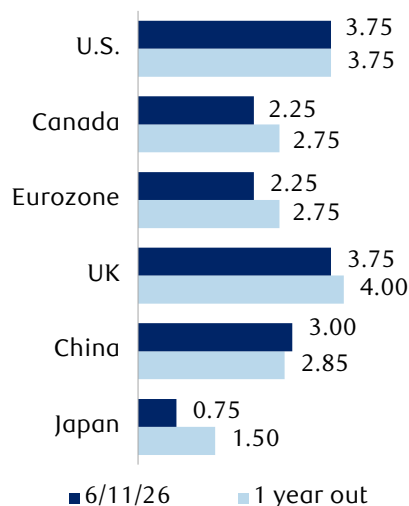
Overall, we think Asia fixed income should continue to offer steady income, but the easy gains from tighter spreads may be behind us.

Sovereign yield curves



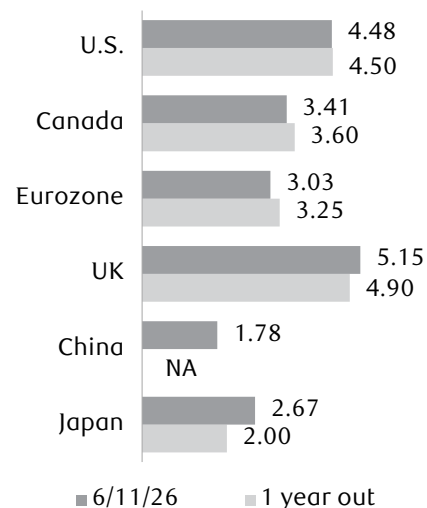
Source - Bloomberg; data through 6/10/26

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

10-year rates (%)



Note: Eurozone utilizes German Bunds. Source - RBC Investment Strategy Committee, Global Portfolio Advisory Committee, RBC Global Asset Management

# Commodities

## Matt Altro, CFA

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### Commodity forecasts

Commodity	2026E	2027E
Oil (WTI \$/bbl)	83.63	76.72
Natural gas (\$/MMBtu)	4.07	4.00
Gold (\$/oz)	4,564	4,225
Copper (\$/lb)	5.83	6.00
Soybeans (\$/bu)	11.37	11.35
Wheat (\$/bu)	6.00	6.30

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybeans and wheat); data as of 6/2/26

### Crude oil

Discussions between Iran and the U.S. have consistently given false signals about a resolution to the conflict impacting the Strait of Hormuz. With Iran’s uranium enrichment capabilities and stockpiles remaining a focus for the U.S., many in the shipping industry believe an Iranian military defeat is likely the prerequisite for a full recovery of maritime traffic. RBC Capital Markets is forecasting WTI to average at US\$83.63/bbl for 2026, before dropping to US\$76.72/bbl in 2027.



### Natural gas

U.S. natural gas prices have been unusually low compared to global markets as seasonal maintenance reduced U.S. LNG export volumes, causing a relative domestic oversupply. RBC Capital Markets does not expect this to last, and with more export facilities coming online amid broader geopolitical tensions, prices are biased higher in the year ahead. RBC Capital Markets forecasts 2026 and 2027 average prices of US\$4.07/mmBtu and US\$4.00/mmBtu, respectively.



### Gold

The price of gold rose modestly through the first half of the year, even while contending with significant volatility, as the risk of rising inflation (and therefore, potentially higher interest rates) weighed on investor sentiment. RBC Capital Markets is still constructive on higher gold prices beyond the short term as central banks remain consistent buyers, and forecasts a 2026 average price of \$4,564/oz.



### Copper

Copper prices have trended higher through the first half of the year as mine supply has remained constrained and Chinese demand has been strong. Furthermore, sulfur shortages in the Middle East as well as lower copper grades and adverse weather conditions in Chile are likely to keep prices elevated in the near term. RBC Capital Markets is forecasting 2026 and 2027 prices of US\$5.83/lb. and US\$6.00/lb., respectively.



### Soybeans

The U.S. Department of Agriculture (USDA) projects U.S. soybean production for the 2026/27 marketing year to climb 4%, driven by higher planted area and trend yield. Foreign markets are seeing strength as well, with production expected to rise by 9.2MM metric tons on higher output from many regions. Bloomberg consensus estimates a 2026 price of \$11.37/bu.



### Wheat

The USDA projects U.S. wheat ending stocks for 2026/27 down 18% from 2025/26, as total supplies are down 11% y/y due to lower production. Winter wheat production was the smallest since 1965/66, as planting area and yields were down significantly amidst widespread drought and higher input costs. Bloomberg consensus estimates a 2026 price of \$6.00/bu rising to \$6.30/bu in 2027.



Chart source - RBC Wealth Management, Bloomberg; data range 12/27/24–6/2/26

# Currencies

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## Currency forecasts

Currency pair	Current rate	Forecast June 2027	Change
<b>Major currencies</b>			
USD Index	100.15	95.04	-5%
CAD/USD	0.72	0.76	5%
USD/CAD	1.39	1.32	-5%
EUR/USD	1.15	1.22	6%
GBP/USD	1.33	1.40	5%
USD/CHF	0.80	0.76	-5%
USD/JPY	160.55	160.00	0%
AUD/USD	0.70	0.74	6%
NZD/USD	0.58	0.63	9%
EUR/JPY	185.20	172.0	-7%
EUR/GBP	0.86	0.87	1%
EUR/CHF	0.92	0.93	1%
<b>Emerging currencies</b>			
USD/CNY	6.78	6.74	-1%
USD/INR	95.27	92.50	-3%

Change is defined as the implied appreciation or depreciation of the first currency in the pair quote.

Source - RBC Capital Markets forecasts except USD/JPY from national research correspondent, Bloomberg; current rates as of 6/10/26

## U.S. dollar: Resilience amid Middle East conflict

While April's ceasefire announcement temporarily pressured the dollar by reducing demand for its perceived safety, the greenback stabilized somewhat in Q2 on resilient U.S. economic data and anticipation of an interest rate hike from the Federal Reserve (as opposed to earlier expectations of a cut). A potential U.S.-Iran peace deal presents downside risk, but higher Treasury yields could keep the dollar supported in H2 2026.

## Euro: Lower on high energy prices

The euro faces persistent headwinds from elevated energy prices, as Middle East tensions and Europe's dependence on energy imports weigh on EUR/USD, which has settled in the middle of this year's 1.14–1.21 range. RBC Economics expects the European Central Bank to hike interest rates to 2.75% from 2% in 2026, which may provide some support to the euro, but softer economic data may limit any upside, suggesting EUR/USD will likely remain below 1.20.

## Canadian dollar: Technical recession

Canada has entered a technical recession following two consecutive quarters of negative growth. With economic momentum slowing, the Bank of Canada is likely to remain on

hold, while rising U.S. Treasury yields continue to support the greenback. This could push USD/CAD above 1.40 through H2 2026, with additional pressure on the loonie anticipated around July's review of the USMCA trade agreement.

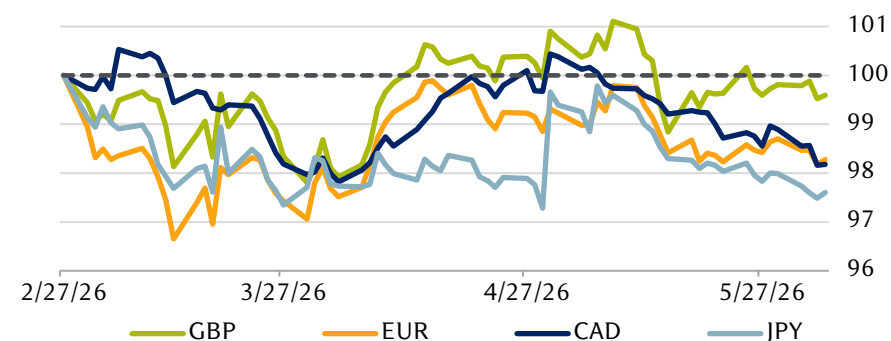
## British pound: Consolidating around 1.35 USD

The pound is consolidating around 1.35 against the dollar as competing forces offset each other. Political uncertainty surrounding Prime Minister Keir Starmer's leadership presents a headwind, but anticipated Bank of England rate hikes provide support. We expect GBP/USD to remain range-bound between 1.32 and 1.37 through H2 2026, with the outcome dependent on the relative weight of political developments versus monetary policy expectations.

## Japanese yen: Expect underperformance

RBC Capital Markets has revised its USD/JPY forecast to 160 by year's end, up from 147 previously. This reflects Japan's energy import vulnerability amid Middle East tensions as well as concerns about the government's push for a more proactive fiscal policy despite an already large deficit. While Japanese authorities intervened in late April to defend the 160 level, we view such interventions as a temporary ceiling, rather than a catalyst for sustained yen strength.

## Indexed performance versus the U.S. dollar (2/27/26 = 100)

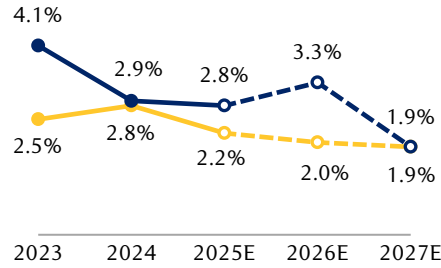


Most major currencies have performed mildly lower against the USD since the start of the Middle East conflict. GBP has fared better, potentially due to higher UK bond yields, while JPY has been the biggest underperformer, likely due to Japan's low yields and reliance on energy imports.

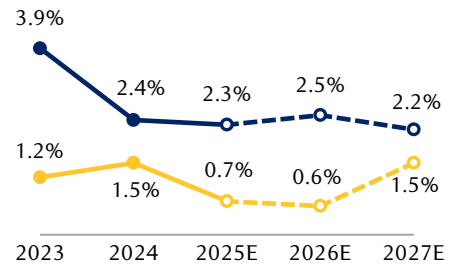
Source - RBC Wealth Management, Bloomberg, data through 6/4/26

# KEY Forecasts

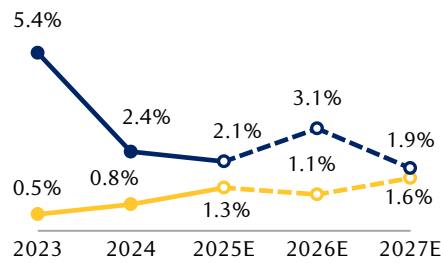
## United States



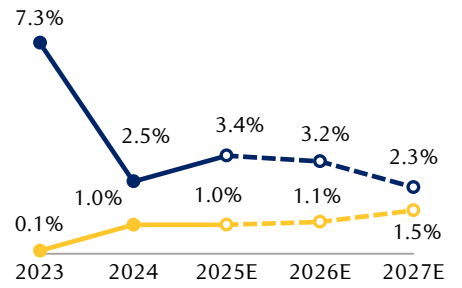
## Canada



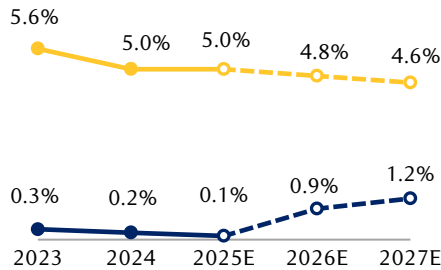
## Eurozone



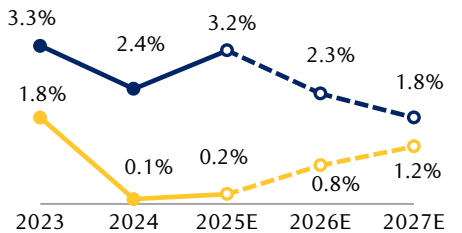
## United Kingdom



## China



## Japan



—●— Real GDP growth

—●— Inflation rate

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management, Bloomberg consensus estimates

## Research resources

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			Count	Percent
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