

GLOBAL Insight



Wealth
Management

September 2025

Perspectives from the Global Portfolio Advisory Committee

A question of resilience

After outpacing cautious expectations in the first half of the year, the global economy could face new challenges from trade policy uncertainty and inflation over the coming months.

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Inconclusive, again

Produced: Sept. 3, 2025, 11:02 ET; Disseminated: Sept. 3, 2025, 13:00 ET

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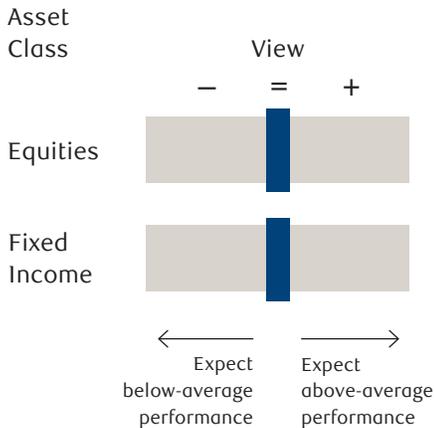
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RBC'S INVESTMENT Stance

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

- We expect equity markets, such as the S&P 500 and many outside of the U.S., will post more new highs periodically over the coming months. The key tenets of our thinking include positive market breadth—meaning that most stocks are moving higher, not just the high-profile favorites—together with the limited market downside that typically accompanies the U.S. economy when it manages to keep growing while avoiding recession.
- These forthcoming gains, however, may well come at a more modest pace than they have recently—the S&P 500 being up almost 30% since the so-called “Liberation Day” low in April. This is because we perceive that the current market pricing discounts optimistic assumptions regarding Fed rate cuts, inflation, and earnings growth.
- Overall, we believe portfolios should have a meaningful, but not an excessive, commitment to equities; therefore, we suggest investors hold Market Weight exposure or no more than the long-term strategic allocation position. We currently have no regional preference, which leaves us Market Weight across regions.

Fixed income

- Global bond market volatility has been a fixture of the year as uncertainty and shifting global dynamics have upended the status quo. Despite the volatility, the direction of travel has generally been toward lower yields as rising economic growth concerns are outweighing renewed inflationary pressures stemming from tariffs and trade disputes. However, rising global government debt levels and escalating threats on the Federal Reserve’s independence leave us more cautious on longer-dated sovereign bonds and more neutral on interest rate risk exposure.
- We remain Overweight U.S. Treasuries, paired with an Underweight for global developed market bonds. Slowing growth in the U.S., despite an anticipated uptick in inflation, will likely mean a resumption of rate cuts from the Federal Reserve later this year, potentially as early as September, according to recent comments from Federal Reserve Chair Jerome Powell. Conversely, many global central banks—such as the European Central Bank and the Bank of Canada, which have proceeded steadily with rate cuts—are now likely at the end of their cutting cycles.
- We reiterate our Market Weight stance on U.S. fixed income, with yields remaining above multi-decade averages. Credit valuations are still too rich globally, in our view, amid increasing growth risks, which leads us to continue favoring sovereign bonds over corporate bonds.

MONTHLY
Focus



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A question of resilience

The global economy in 2025 and the path ahead

This year has served up ample cause for concern, yet the economy and markets have largely outpaced cautious expectations. Consistent earnings delivery and corporate adaptability have steadied investor sentiment in the face of unresolved tariff risks, and could continue to cushion markets against shifts in trade policy.

Key points

- **Global growth has withstood U.S. tariffs so far, but fading one-off boosts could weigh on activity into late 2025.**
- **Most central banks have the capacity to reduce interest rates to counter the economic drag from trade frictions if necessary.**
- **Corporate earnings growth expectations remain constructive, in our view, but heightened valuations suggest limited cushion against setbacks.**

Economic resilience could be tested

For all the disruptions caused by U.S. trade policy, the world economy has so far proved sturdier than anticipated. Growth has slowed but avoided the recessionary outcome many economists forecasted after the Trump administration's "Liberation Day" tariff salvo in April. Several factors may explain this resilience.

Above-trend GDP expansion of 3.3 percent in 2024 put the global economy in a position of strength to start the year, and this helped buffer subsequent trade shocks. As 2025 got underway, a burst of "front-running" as firms and consumers brought forward purchases ahead of higher tariffs temporarily lifted output and trade volumes. Targeted government spending in several large economies added some ballast, while a U.S.-led surge in AI-related spending further bolstered demand. Steady wage gains also helped households weather economic uncertainty through the first half of the year.

The second half of 2025, however, may prove a sterner test of the economy's mettle. As the U.S. concludes negotiations with trading partners and tariff rates settle at higher levels, the front-running boost will likely fade. An expected slowdown in U.S. imports over the coming months, as reflected in Bloomberg consensus forecasts, could be a drag on growth in the rest of the world. Meanwhile, higher inflation could chip away at U.S. households' purchasing power and dampen consumption, while businesses—still wary of policy unpredictability and grappling with murky demand conditions—may defer investment until visibility improves.

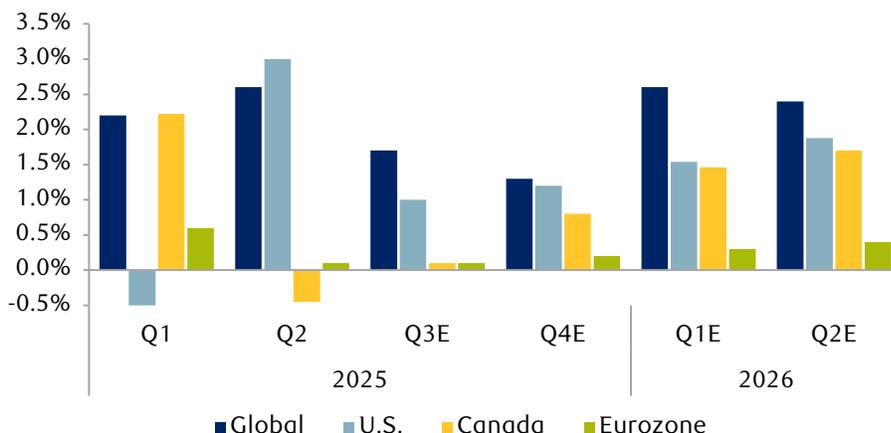
Yet there are reasons for cautious optimism, in our view. As clarity on U.S. trade policy improves, governments deploy targeted stimulus, and

A QUESTION OF RESILIENCE

supply chains adapt, we expect a modest recovery to unfold in 2026 (see exhibit). Nevertheless, we believe the range of possible outcomes remains unusually wide, as these mitigating factors will soften but not completely offset the drag from more onerous U.S. tariffs.

Economic momentum expected to decelerate before a recovery in 2026

GDP growth (q/q annualized)



Source - RBC Wealth Management, Bloomberg (U.S., Canada, and Eurozone consensus forecasts), national research correspondent (global forecasts); data through 8/21/25.

Central banks act as stabilizers

The monetary policy outlook is clouded by persistent uncertainty around growth and inflation, but the bigger picture suggests major central banks will likely lean toward easier policy, with Bloomberg models suggesting interest rates are likely to fall over the next six to 12 months.

The scope for rate cuts varies from country to country, but it is worth noting that several major central banks have already trimmed rates this year (see exhibit on next page), both to cushion the growth-sapping effects of trade frictions and because domestic inflation has settled near target levels. With global demand likely to weaken further in the near term, in our view, the bias towards monetary support seems likely to persist.

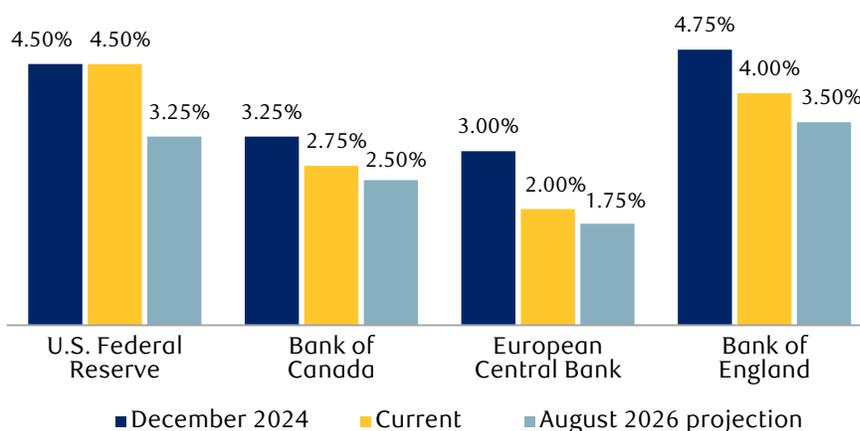
The U.S. presents a more complicated picture. Inflation remains above the Federal Reserve’s two percent target, and with some indicators suggesting that price pressures could flare up again, any shift toward rate cuts will likely be a careful balancing act. After a disappointing July jobs report and hefty downward revisions to the prior two months’ figures, markets have pulled forward their forecasts for a U.S. rate cut to as early as September. Still, the delicate balance between returning inflation to its target range and supporting growth underscores how data-dependent interest rate expectations have become.

While most central banks outside the U.S. appear inclined to cut interest rates further if conditions warrant, the Fed seems relatively more constrained amid firmer inflationary pressures. With global bond markets already discounting a series of rate cuts over the next 12 months, we believe the path of bond yields now hinges on whether these cuts materialize as expected.

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Different paths down the mountain

Central bank policy rate expectations



Source - RBC Wealth Management, Bloomberg; data through 8/21/25; expected policy rate sourced from Bloomberg interest rate models derived from the Overnight Index Swap market.

Businesses managing through headwinds

Equity and corporate bond markets have so far absorbed the shocks generated by seismic shifts in U.S. trade policy with remarkable composure. The swift rebound from April's sharp selloff reflects two important changes in how investors view policy volatility.

The first is mounting skepticism about U.S. follow-through. Having watched the Trump administration repeatedly pull back from its most extreme tariff threats since April, markets are increasingly treating such announcements as posturing and are thus reacting in a more orderly way.

The second is corporate adaptability, as firms seem better able to handle supply chain disruptions than initially feared. Admittedly, the burden is unevenly distributed across industries, but the overall impact looks more manageable than the worst-case scenarios. In this respect, tariffs are no different from other uncertainties to which businesses must adapt—and the corporate sector has proven capable of navigating through shifting operating conditions over time.

While markets are often rattled by political and economic headlines, corporate fundamentals tend to matter more over the longer term. Macro developments are relevant mainly insofar as they are perceived to have implications for profitability. After stagnating in April and May, earnings estimates have stabilized and resumed an upward trend (see exhibit on next page). Consensus estimates now point to global earnings growth of around nine percent this year and 11 percent in 2026—an outlook that provides markets with a solid foundation, allowing investors to look past trade-policy bluster.

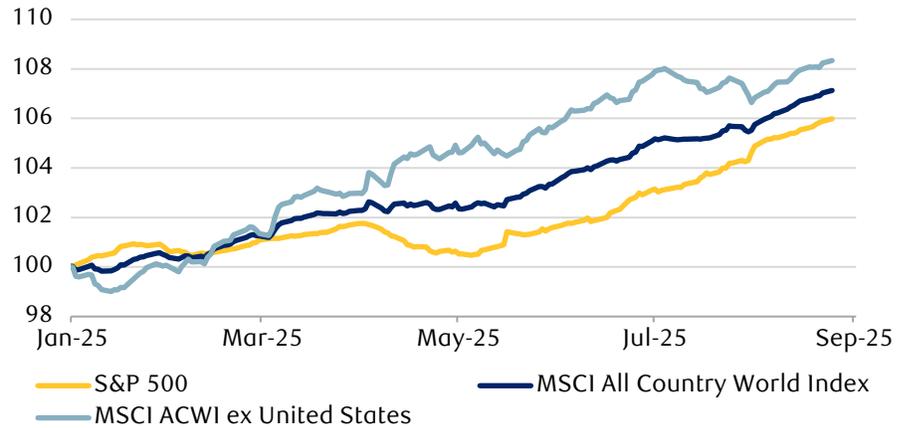
Reality versus perception

Financial markets have managed to overcome a drumbeat of negative headlines in 2025, confounding pessimists. Much of this can be attributed to reality exceeding expectations, which has helped markets climb the proverbial “wall of worry.”

A QUESTION OF RESILIENCE

Corporate earnings trending upward

Forward 12-month EPS estimates, indexed to 100 at Jan. 1, 2025



Source - RBC Wealth Management, Bloomberg consensus estimates; data through 8/21/25

The recession fears that prevailed in the wake the U.S. tariff offensive in April was followed by relative resilience. Trade frictions have unquestionably eroded growth momentum in major economies. But policymakers have leaned against the drag with monetary and fiscal stimulus, helping ensure that growth, while slowing, has not tipped into contraction.

Companies, too, have shown a degree of adaptability in navigating supply-chain pressures, underscored by steady earnings delivery. While there may be some complacency on trade-related impacts, which are still unfolding, the outlook for profits remains constructive, in our view.

After a strong rally since April, however, asset valuations now appear to reflect a high level of optimism. The MSCI All Country World Index now trades at 19.1x forward 12-month earnings estimates (see exhibit), up from 15.6x at the worst of the correction in early April and well above the 10-year

Bullish expectations are embedded in equity valuations

Forward price-to-earnings ratio



Source - RBC Wealth Management, Bloomberg; data through 8/21/25

A QUESTION OF RESILIENCE

average of 16.5x. Meanwhile, the compensation for taking credit risk in corporate bonds has fallen to historically mediocre levels.

As long as the business cycle remains intact, earnings should continue to edge higher and provide support for asset prices. But with valuations leaving little margin for any disappointment, investors should prepare for occasional bouts of volatility. In this environment, leaning into a quality orientation and maintaining broad diversification across geographies and sectors remains a sensible basis for portfolio positioning, in our view.

GLOBAL
Equity

New highs but a shallower trajectory ahead

Key points

- New highs set by global equity markets confirmed by broadening participation point to additional gains ahead.
- Inflation is low enough to permit extended Fed and other central bank rate cutting, a necessary condition of meaningful further appreciation.
- The slope of any market advance from here is likely to be shallower and bumpier as stocks earn their way higher.



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All the major global equity indexes, including China’s, posted new highs last month. Importantly, market breadth remains “in gear” for the S&P 500—i.e., the majority of stocks are moving higher, not just the high-profile favorites. A similar story of broad-based participation is being told by the unweighted versions of both the S&P 500 and Canada’s S&P/TSX Composite Index.

We think this positive “internal” setup suggests there may be more new highs ahead for the blue-chip S&P 500 and for most of the non-U.S. broad averages as well.

But for many investors, “new highs” will be taken to mean a full-blown continuation of the supercharged surge upward off the deeply depressed so-called “Liberation Day” lows. From that mark, the S&P 500 is up a staggering 30 percent in less than four months. But if we leave out the deep dive triggered by the tariff panic and instead measure the market gains from where the year began, the S&P is up a more sedate, but still healthy, nine percent. We expect that this is the more likely trajectory from here.

A shallower rate of ascent probably means there will be periodic pullbacks that will be more visible (and occasionally worrying) than the barely noticeable pauses of the past four months. However, we believe any such pullbacks are likely to remain contained, and investors will stay committed as long as they feel confident that next year can

deliver another strong earnings gain. They are very much that way inclined today, buoyed by consensus earnings estimates that stand at \$270 for 2025 (+10 percent year over year) and \$303 (+12 percent year over year) for 2026.

Are those earnings estimates reasonable, and what do they mean for S&P 500 performance over the coming 16 months to the end of 2026? RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina offers two takes on answers to those questions, which provide a useful framework for assessing risk/reward from here.

In her recent research, Calvasina considers scenarios that incorporate four inputs: consensus estimates for 2025 and 2026 S&P 500 earnings, RBC Capital Markets’ forecasts for inflation, Federal Reserve policy rates, and bond yields. Her models use these inputs to forecast 2025 and 2026 year-end targets for the S&P 500 Index. The models also generate bullish and bearish variants by assuming better or worse outcomes for the inputs. Calvasina has not yet published her S&P price target for 2026, but uses this valuation and EPS modeling to see what it might be signaling for next year.

Only two of these forecast targets would put the S&P 500 above current levels. The most generous outcome—the bullish variant for 2026, which has the index reaching 7,428 (up 15 percent from today)—requires that the most bullish underlying assumptions prove to be true in each

Equity views

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

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

GLOBAL EQUITY

S&P 500 price targets based on consensus earnings estimates

Year end	Earnings estimate	Implied S&P 500 price	Bullish variant	Bearish variant
2025	\$270	5,932	6,417	5,536
2026	\$303	7,006	7,428	6,138

Source - RBC Wealth Management, Bloomberg (consensus estimates), RBC Capital Markets U.S. Equity Strategy (implied price targets based on economic inputs, and bullish and bearish variants); data as of 8/24/25

year. These include the Fed cutting its key interest rate by 25 basis points three times over the remainder of this year and five times next year.

Inflation under this scenario would sink to two percent by the end of 2025 and stay there through 2026. A steadily dropping federal funds rate and sagging inflation would usually be associated with slow U.S. GDP growth, and that is what the consensus forecast anticipates—1.6 percent for 2025 and 1.7 percent in 2026. That anemic GDP growth, along with subdued inflation, would not normally lead one to expect the kind of robust index earnings growth reflected in current consensus estimates.

However, Calvasina points out that S&P 500 earnings estimates for the current and the next years almost always work their way lower as time passes. Applying a normal “haircut” to this year’s \$270 estimate would see it erode down to just \$258 by the time the books are closed for 2025, while next year’s projected \$303 could eventually turn out to be closer to \$273. Both would still represent decent year-over-year gains but at a much slower pace. That slower earnings growth, in our view, would be more consistent with the sub-two-

percent GDP growth that is the Street consensus forecast for each year.

Plugging these historically more realistic earnings estimates into Calvasina’s model turns the table above into the one below.

Now, only one forecast produces an S&P 500 price target above today’s level—the bullish variant featuring eight Fed rate cuts, two percent inflation, and lower bond yields gives an end-of-2026 price target of 6,683, up just 3.7 percent from today’s level. Although that would be considerably slower than the 15 percent appreciation projected if today’s earnings estimates suffered no erosion over the next 16 months, history says it could be worse. Looking at all the years since 1946 when GDP growth came in somewhere between 1.1 percent and 2.0 percent, the average S&P 500 price change was a 3.4 percent decline.

Of course, S&P 500 performance could turn out to be better than the bullish scenario’s 15 percent appreciation or worse than the historical average 3.4 percent decline. This isn’t science; it’s arithmetic applied to many decades of observation of which P/E multiples were associated with various

S&P 500 price targets based on consensus earnings estimates after normal “erosion”

Year end	Earnings estimate	Implied S&P 500 price	Bullish variant	Bearish variant
2025	\$258	5,670	6,133	5,292
2026	\$273	6,304	6,683	5,515

Source - RBC Wealth Management, Bloomberg (consensus estimates), RBC Capital Markets U.S. Equity Strategy (implied price targets based on normal “erosion” of consensus estimates and economic inputs, and bullish and bearish variants); data as of 8/24/25

GLOBAL EQUITY

combinations of earnings growth, Fed policy rates, inflation, and bond yields.

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

Meanwhile, we note that whatever the expectations for market performance between now and the end of 2026, every one of the price targets for the end of the current calendar year in the two tables above call for index values to fall by varying degrees between now and year end.

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

GLOBAL
Fixed income



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The Fed’s smoke signals

Key points

- In the eyes of markets, Fed Chair Jerome Powell has signaled a potential rate cut this month, but that signal may be murkier than his past guidance.
- Labor markets have cooled in some respects, setting the stage for further policy easing even in the face of ongoing inflation concerns.
- We are seeing early signs that companies are starting to pick up hiring activity following trade and tariff deals. While a September rate cut appears likely, it is not a lock.

In August 2024, following a year that saw the U.S. unemployment rate rise to 4.2% from 3.4%, Federal Reserve Chair Jerome Powell stated in no uncertain terms that “We do not seek or welcome further cooling in labor market conditions.” This was a rather explicit signal that rate cuts were on the horizon, which ultimately preceded the Fed cutting interest rates by 100 basis points by the end of the year.

In August 2025, following a recent deceleration in employment growth, Powell stated that “...the shifting balance of risks may warrant adjusting our policy stance.”

This is not quite as clear a signal, but one which markets are taking to mean that a softer labor market—

even amid inflationary pressures—could justify further cuts, and as early as this month’s Fed meeting. But we’re not so sure.

The labor market has certainly cooled in some respects, but perhaps only in the number of jobs gained, rather than jobs lost. Since last summer, the unemployment rate has held steady around 4.2% while the pace of hiring slowed to a crawl of just 35,000 jobs added between May and July. But from our vantage point, there are good reasons to believe this was largely due to the paralysis created by constantly changing trade and tariff plans. Now that some of that uncertainty seems to be fading, early business survey indicators in August have pointed to an uptick in hiring.

Fixed income views

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

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

Inflation expectations reaching multiyear highs with the Fed on the cusp of resuming rate cuts

Market-implied U.S. inflation expectations



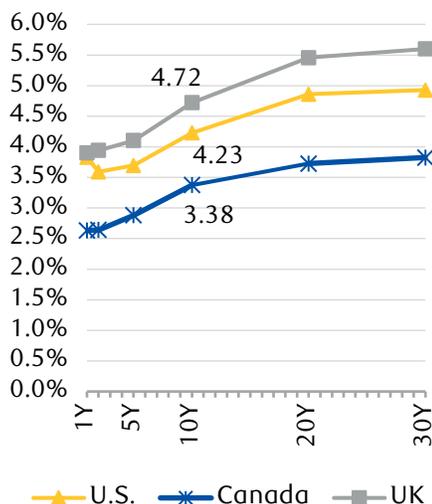
Source - RBC Wealth Management, Bloomberg; inflation expectations based on 1-year CPI swap index; data through 8/28/25

GLOBAL FIXED INCOME

As we see it, whether or not the Fed cuts this month will depend almost entirely on the Sept. 5 Nonfarm Payrolls Report. And recovery, paired with building inflationary pressures, could easily keep the Fed on hold. But ultimately, we still see one rate cut as likely in December, while conceding that September is more likely than not.

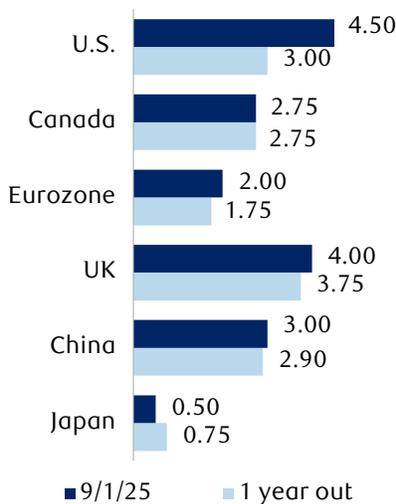
With the Fed moving back to the forefront of global central bank activity, we expect that many of the rest will now adopt a wait-and-see approach having completed their respective rate cut cycles for the time being.

Sovereign yield curves



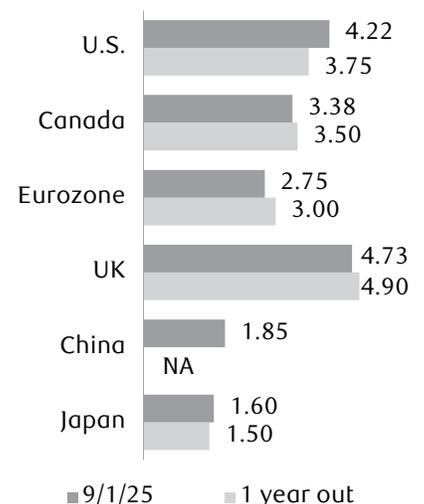
Source - Bloomberg; data through 8/31/25

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

U.S. RECESSION

Scorecard

Inconclusive, again

The U.S. Recession Scorecard has been stuck at a mixed, indecisive setting for some time now. Two of the most reliable indicators that the U.S. economy is in or very close to recession have historically been weekly unemployment claims and the unemployment rate. Both set cycle lows some time ago, but have done little more than meander sideways to moderately higher ever since. In the past, it has been a sustained surge higher in these numbers that has provided convincing evidence the U.S. economy was passing the point of no return and sliding into recession. Absent that surge in unemployment—but absent, too, any signs of dynamic job creation—one is left with what we've seen in recent months: an economy that is bumping along at below-trend growth.

In our view, the mixed state of the scorecard indicators argues for a watchful portfolio investment approach in an environment where the impact of tariffs is only beginning to be felt.

Yield curve

Still waiting... Inversion of the yield curve (short-term interest rates climbing above long-term rates) has been a reliable precursor of U.S.

recessions for the past century. But although the latest inversion (from July 2022 to October 2024) was the longest on record, no recession has yet arrived.

Past recessions have often arrived some months after the curve reverted to normal, but at 10 months and counting, this measure, too, is definitely long in the tooth. While it is tempting to pull the rating back to a cautionary Yellow, we have chosen to leave it at recessionary Red for now, in part because one version of the curve—the federal funds rate versus the 10-year Treasury yield—has recently re-inverted (barely).

Fed funds rate versus nominal GDP growth

Reaffirmed at Red. Before every recession, the federal funds rate has managed to climb higher than the annualised run rate of nominal GDP (that is, GDP not adjusted for inflation). That occurred briefly in the summer of last year, just before the Fed began cutting rates. Flagging GDP growth has once again put that condition in place, reaffirming its reading at recessionary Red.

U.S. Recession Scorecard

Indicator	Status		
	Expansionary	Neutral/ Cautionary	Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Fed funds rate vs. nominal GDP growth			✓
Unemployment claims		✓	
Unemployment rate		✓	
ISM New Orders minus Inventories		✓	
Conference Board Leading Economic Index			✓
Non-financial corporate cash flows	✓		

Source - RBC Wealth Management

U.S. RECESSION SCORECARD

Weekly unemployment claims

Rising but restrained. Claims are well above their cycle low of more than two years ago, but the climb has been gradual. They have not experienced the multi-month surge that typically signals a recession is on the way. For now, this indicator rates no worse (or better) than a cautionary Yellow.

Unemployment rate

A watchful Yellow. The U-Rate has risen above its cycle low (3.4% back in April 2023), but it has done so gradually, rather than with the sustained surge that usually indicates a corner has been turned in labor conditions and a recession is imminent. Meanwhile, weekly claims—which usually lead the way higher for the unemployment rate—remain restrained, as noted above. We scaled back this indicator in June to cautionary Yellow, aware that this could worsen quickly if and when tariffs bite.

ISM New Orders minus Inventories

Tariff distortion clouds the picture. The New Orders sub-index of the ISM Manufacturing Index remains weak enough to have pushed the 3-month moving average of our data series below zero for two months running. That would normally be enough to shift this indicator back into the Red column. But we note that the on-again, off-again tariff policy path may be producing distorted readings that could quickly reverse. We've decided to leave this indicator at cautionary Yellow and wait to see if the clouds lift in the fall.

Conference Board Leading Economic Index

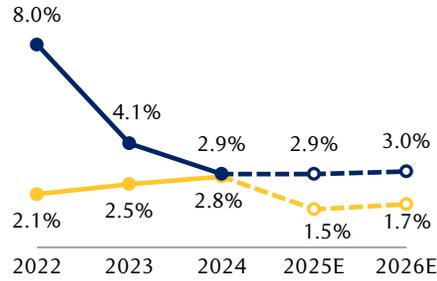
The long slide continues. The LEI, down again in July, has now declined in 40 of the past 43 months. It has never reached these levels in the past without a recession arriving. It remains firmly in the Red column.

Free cash flow of non-financial businesses

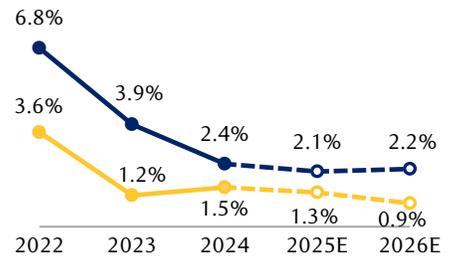
Last green standing. This measure of the capability of non-financial businesses to self-fund capital expansion has always declined as a percentage of GDP before or just after a recession got underway. It has not done so yet. We await the Q2 data, which won't be released until late September.

KEY Forecasts

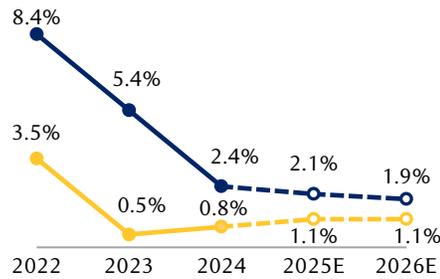
United States



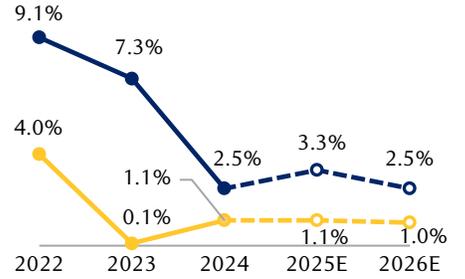
Canada



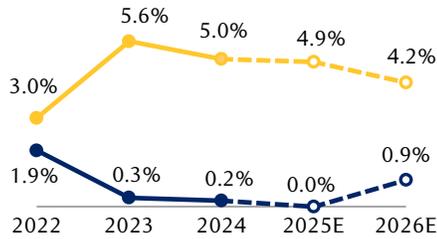
Eurozone



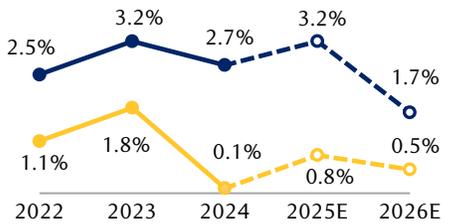
United Kingdom



China



Japan



—●— Real GDP growth

—●— Inflation rate

Source - RBC Global Asset Management, RBC Wealth Management Global Portfolio Advisory Committee

Research resources

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