GLOBAL Insight

October 2025

Perspectives from the Global Portfolio Advisory Committee

AI's big leaps in 2025

AI is seldom out of the headlines in 2025, with defining developments coming one after another. We look at where AI is today and how its promise is matched against technological, economic, and geopolitical challenges.

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Insight

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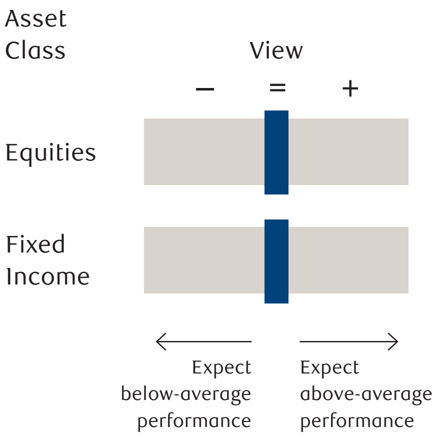

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ 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

- Following strong Q3 rallies in Canada and China, and above-average moves in the U.S. and UK, we perceive equity markets are starting to price in a lot of good news. This comes at a time when U.S. valuations have crept up further and look less appealing.
- We anticipate the S&P 500 and markets outside the U.S. will post more new highs periodically over the coming months, albeit likely with a shallower advance. We think positive market breadth—meaning most stocks have been moving higher, not just the high-profile favorites—supports the case for higher highs.
- For rallies to extend well into next year, confidence in consensus earnings forecasts and upward revisions to lackluster consensus GDP forecasts would be required, in our view.
- Overall, we continue to recommend investors hold up to Market Weight equities exposure. For investors who have yet to rebalance asset-class exposure in portfolios back to the long-term strategic allocation levels, we think now is a good time to do so.

Fixed income

- Global bond markets remain richly priced with little compelling value in the asset class, in our view. In all regions, we remain focused on medium-duration bonds, which we think provide adequate portfolio ballast against a recession while minimizing the impact of fiscal and demographic challenges.
- In Canada, we prefer sovereign to corporate bonds at current valuations, while the serious fiscal challenges in the UK leave us neutral toward that country's debt. In Continental Europe, we see potential disinflationary pressures providing a tailwind to eurozone government bonds, although fiscal challenges remain an issue in the region. In the U.S., we think markets are pricing in a more aggressive rate cut cycle than will materialize, which may put downward pressure on Treasury prices.
- Outside of Canada, we see opportunities to add income through corporate bonds. While valuations are rich, we think they are justified by the low probability of recession, and, in the case of the U.S., a significantly weaker currency.

MONTHLY

Focus

AI's big leaps in 2025

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Artificial intelligence is seldom out of the headlines in 2025, with defining developments coming one after another. From China's DeepSeek shaking up assumptions about AI leadership, to Washington pushing for an edge in the AI race through new AI strategies and chip export policies, to the surge of private capital flowing into data centers, 2025 has been marked by rapid advances and much debate. We look at where AI is today and how its promise is matched against technological, economic, and geopolitical challenges.

Key points

- **The release of DeepSeek's model, with its cutting-edge performance, shoestring development cost, and open-source availability, challenged assumptions about which country is the AI leader.**
- **The White House unveiled an ambitious plan and adjusted its chip export policy in an attempt to secure an edge in the AI race.**
- **The growth of alternative financing for data centers reveals the scale of capital now required to fuel the AI boom—and the risks associated with it.**
- **AI's potential is immense, but too much may be expected of it in the short term.**

Chinese AI enters the stage … with a bang

On Jan. 29, 2025, a little-known Chinese tech company, DeepSeek, released an AI model, R1, that shook the industry. R1's cutting-edge capabilities make it seemingly as good a model as those created by U.S. leader OpenAI, the maker of ChatGPT. But what unsettled the industry most was its shoestring development cost—just $6 million, a fraction of what comparable U.S. models required.

Barred from importing state-of-the-art chips from the U.S. due to the export restrictions imposed by the former Biden administration in October 2022, DeepSeek had to rely on older hardware. To compensate, the company pushed efficiency to the limit, making careful tradeoffs between accuracy and computing power, replicating this method at scale, and fine-tuning every other aspect of performance. This approach kept development costs remarkably low while still producing a highly capable model.

Adding to the excitement, DeepSeek-R1 was released as an open-source model—i.e., publicly available at no cost. Users can download and run it on their own computers or servers, keeping data private, and they can retain, modify, or adapt it for their own needs. This means anyone, from individuals to large companies, can build tools or applications without seeking permission or paying for expensive access.

AI'S BIG LEAPS IN 2025

Open- vs. closed-source

Open-source models stand in contrast to most of today's leading AI models, such as OpenAI's ChatGPT, Anthropic's Claude, or Google's Gemini, which are closed-source. It wasn't always so. OpenAI initially produced open-source models, but the San Francisco-based lab shifted to a closed approach in 2018.

Closed-source model creators share only parts of the code, or describe some of the training process but keep the full details private, much like a secret recipe. Users must rely on those companies to maintain the entire AI system, and are thus vulnerable to changes in model creators' prices or access rules.

For instance, in the case of ChatGPT, OpenAI is responsible for training the model, maintaining the code that runs the model, running the model on powerful servers to enable users to access ChatGPT instantly, and adding features. If OpenAI were to stop doing all that, users could not run it themselves.

DeepSeek's decision to make its cutting-edge AI model both cheap and widely available gave China an unexpected competitive edge, as its model could spread and be adapted far more widely and cheaply than those of its Western rivals. This shook the U.S. tech ecosystem to its core. Until then, the U.S. had been confident in its position as the world's leading AI force.

America's response

The rivalry in technology between China and the U.S. has been ongoing for years. Both countries see winning the AI race as a strategic advantage—not only will the winner be able to extend their geopolitical influence

Chinese AI: More to it than DeepSeek

DeepSeek may have captured the attention of the West, but China's AI achievements go far beyond a single company. That should not be a surprise as millions of engineers and scientists graduate from Chinese universities every year, the country has the spare grid capacity necessary to run the power-hungry AI models, and its permissive planning laws allow data centers to be built swiftly.

Still, China faces a critical constraint: it lacks the sufficient domestic supply of cutting-edge chips. Huawei, the country's hardware champion, cannot yet produce top-end chips in sufficient quantities. Nevertheless, the combination of these favorable conditions, remarkable ingenuity, and a relentless effort at squeezing as much efficiency as possible from older-generation chips has enabled Chinese firms to release frontier AI models (i.e., highly capable general-purpose AI models that can perform many tasks matching or exceeding the capabilities of today's most advanced models).

In July 2025 alone, Alibaba, one of China's largest tech and e-commerce companies, released Qwen3, a model approximately one-quarter the size of the most prevalent AI models, making it significantly more energy-efficient while maintaining comparable performance. Meanwhile, Moonshot AI, a lesser-known AI company, unveiled Kimi K2 in July, one of the largest open-source models ever released at that time. Kimi K2 excelled in benchmarks like MATH-500, which tests mathematical reasoning, outperforming frontier class U.S. models from OpenAI (GPT-4) and Anthropic, according to Venturebeat, a publication that focuses on technology news.

Despite this progress, China still lags the U.S. in productization—turning AI models into agentic tools, or fully integrated tools that can autonomously assist users in complex workflows. Agentic tools take initiative, make decisions, and complete multistep tasks for the user, such as reading incoming customer queries, selecting the urgent ones, drafting replies, and escalating complex issues to a human.

through the supply of AI systems to other countries, but there are also important implications for military applications.

In 2025, the White House initiatives to secure an edge in the AI race included releasing its AI Action Plan in July and changing chip export restrictions to China.

Winning the race: America's AI Action Plan

Early in his second term, U.S. President Donald Trump directed his administration to develop an AI strategy for the country. The AI Action Plan is built on three core pillars: accelerating innovation, expanding data center infrastructure, and promoting American technology abroad.

President Trump's plan for the U.S. to achieve "unquestioned global technological dominance"

Key initiatives of the U.S. AI Action Plan

Initiatives	Goals
1. Accelerate AI innovation	
Deregulate	Roll back regulations seen as obstructive to AI innovation
Support open-source AI	Improve access to AI compute and datasets through initiatives such as the National AI Research Resource
Facilitate adoption	Accelerate AI use in government and defense
Upgrade workforce & manufacturing	Expand AI literacy and retraining programs, invest in robotics and next-generation manufacturing
Foster scientific advancement	Invest in AI-enabled laboratories and innovation test beds
2. Build American AI infrastructure	
Streamline permitting	Accelerate approvals for data centers, energy projects, and semiconductor facilities while safeguarding national security
Strengthen the power grid	Modernize infrastructure for generating and distributing electricity
Reshore semiconductor manufacturing	Expand domestic chip production
Set up secure data centers	Build high-security data centers for military and intelligence uses
Develop the workforce	Train a skilled labor force to maintain AI infrastructure
Establish cybersecurity resilience	Ensure "secure by design" AI systems are widely used
3. Lead in international diplomacy and security	
Focus export strategy	Promote U.S. AI hardware, software, and standards abroad while tightening enforcement and closing loopholes in regulations for AI compute and semiconductor export
Counter authoritarian influence	Push back against Chinese influence in international AI governance forums such as the United Nations
Assess security risks	Proactively evaluate cutting-edge AI systems for national security vulnerabilities including chemical, biological, and nuclear threats

Source - Executive Office of the President, July 2025

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According to the Brookings Institution, an American think tank, the plan can be lauded for focusing on advancing and democratizing basic and applied AI research, and addressing the need to develop an AI-ready workforce. However, it has a few concerns, including that adequate safety measures may be compromised by the strong emphasis on accelerating U.S. AI innovation and global competitiveness. Insufficient oversight—particularly in financial AI applications—could pose significant systemic risk.

Despite these misgivings, Brookings scholars think that overall these factors could strengthen the regional innovation ecosystems in the U.S. so long as the federal government provides adequate support and funding.

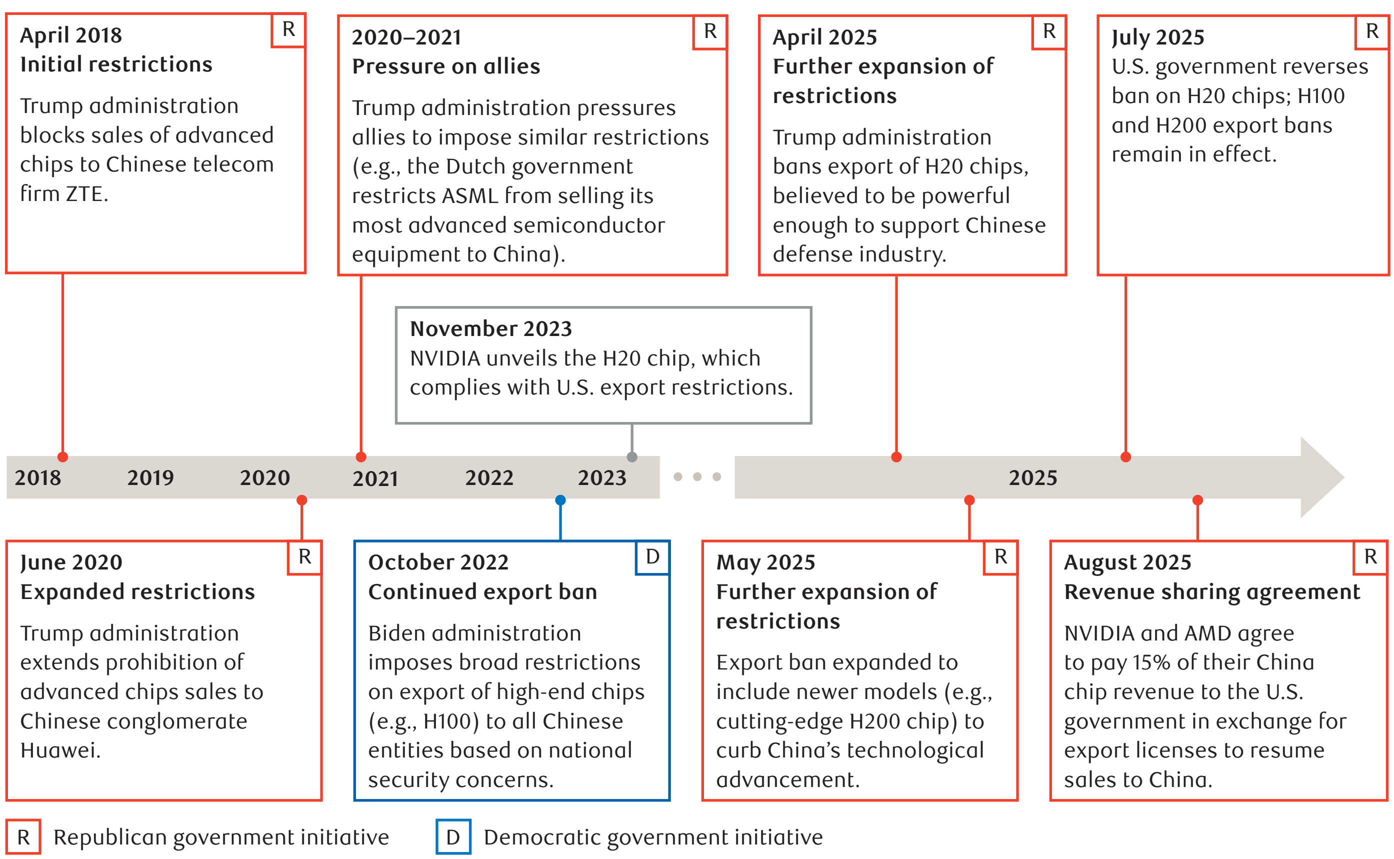
Export controls: Chips as a geopolitical weapon?

The Trump administration is also using export controls, a strategy used in Trump's first term and followed up by former President Joe Biden to respond to the Chinese threat. This time, however, the controls have sent confusing signals.

In April 2025, the Trump administration banned exports of NVIDIA's H20 chips to China over concerns the technology could strengthen Beijing's defense industry. After strong lobbying from the semiconductor industry, the ban was lifted in July. A few weeks later, Washington announced a new

U.S. chip export controls span three administrations

Timeline of U.S. strategy for semiconductor exports to China since 2018



Source - RBC Wealth Management

framework: NVIDIA and Advanced Micro Devices would be granted export licenses to sell specific chips to China so long as they shared 15 percent of their revenue from these chip sales with the U.S. government.

This policy U-turn points to the difficulty of calibrating the security and economic interests of the U.S., and exposes tensions between China hawks in the U.S. government pushing for tighter export controls and businesses eager to access the world's second-largest economy.

H20: NVIDIA's export-compliant chip for China

The H20 chip had been developed two years earlier by NVIDIA specifically for the Chinese market and to comply with the Biden administration's 2022 export controls. It was designed mainly for AI inference—the process by which trained models generate insights and suggest decisions—but lacks the power needed to train new models. By offering a chip that China could use but one that is markedly weaker than the next-generation H100 and H200, Washington sought to maintain China's dependency on American hardware, while at the same time limiting its ability to advance in frontier AI.

The Trump administration seems to have adopted NVIDIA CEO Jensen Huang's view that providing China access to NVIDIA's AI chips could serve both the company's interests and U.S. strategic goals by creating Chinese dependence on American technology. NVIDIA supplies not just the chips, but also the hardware and infrastructure that support entire data centers. If major Chinese AI firms such as Alibaba, ByteDance, and Tencent build their data centers around U.S. hardware, it could give Washington a geopolitical advantage and greater leverage in any future negotiations with China. The logic is that if U.S. technology were completely banned from China, Beijing would likely accelerate efforts to develop its own AI infrastructure.

Many observers worry that engineering a financial payout for the U.S. government has now taken precedence over national security. Reversing the H20 export ban, they argue, may be a strategic mistake, effectively providing China with the hardware it needs to surge ahead in AI.

But Chris Miller, acclaimed author of *Chip War* and professor of international history at Tufts University, offers a more nuanced perspective, drawing on his expertise in the global semiconductor industry and geopolitics. He believes that despite the 15 percent financial arrangement, national security is still at the heart of Trump's policies. He argues that despite criticizing Biden's CHIPS Act, the Trump administration continues to disburse grants promised under the 2022 law to semiconductor companies and research institutions. Moreover, the U.S. government has taken a 9.9 percent equity stake in Intel, the only U.S. semiconductor firm that both designs and manufactures leading-edge logic chips. Miller believes the U.S. administration sees Intel as relevant to the broad future of U.S. technological leadership.

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Whether the strategy of making China "addicted" to U.S. tech, in Commerce Secretary Howard Lutnick's terms, will prove successful remains to be seen. In August, China urged local companies to avoid using NVIDIA's H20 processors particularly for government-related purposes, according to Bloomberg. Then in September, it banned its largest tech firms from buying NVIDIA's AI chips in an effort to foster domestic production.

China's technological rise: A longstanding U.S. concern

Slowing China's technological progress has long been a preoccupation of U.S. administrations, and it is instructive to look at how U.S. export control policy evolved over time.

The first Trump administration realized that:

- Semiconductors were key to not only a wide range of day-to-day technologies, such as smartphones and computers, but also to military applications and winning the AI race.
- The U.S. had a real competitive advantage in designing cutting-edge semiconductors.
- By blocking semiconductor exports, the U.S. could slow China's technological advancement.

As a result, its strategy was two-pronged:

- The administration tried to attract some of the largest foreign semiconductor manufacturers to the U.S. (hence TSMC, the Taiwanese behemoth that produces most of the world's cutting-edge semiconductors, started its multibillion dollar investment in advanced semiconductor manufacturing operations in Arizona).
- The White House also imposed a ban on chip exports to Huawei, the Chinese technology giant, and pressured U.S. allies to enforce similar restrictions.

Under the Biden administration the strategy evolved as follows:

- The CHIPS Act funded and strengthened the domestic semiconductor industry (the administration recognized that while designed in the U.S., most cutting-edge semiconductors were manufactured abroad, leaving the U.S. vulnerable to supply chain disruptions).
- Biden also tightened export controls on semiconductor equipment and imposed broad restrictions on the export of AI chips to China one month before the release of ChatGPT.

New sources of financing

Another key AI development in 2025 has been the shift in funding sources for the substantial investment needed to build the infrastructure to support AI models.

According to McKinsey, a consulting company, global data centers will need between \$3.7 trillion and \$5.2 trillion by 2030 to meet demand for AI computing power, including hardware, processors, memory, storage, and energy.

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Much of this will be shouldered by Big Tech. Companies like Alphabet (Google), Amazon, Microsoft, and Meta Platforms (Facebook)—also referred to as "hyperscalers"—are building large data centers to support their cloud services and AI initiatives. Traditionally, they often preferred to self-fund these investments, and were able to while maintaining robust balance sheets with minimal debt. But this is changing due to the scale of financing needs.

Other tech companies are boosting the demand for data center financing as well. OpenAI has formed a joint venture with Oracle and SoftBank to invest up to $500 billion in AI infrastructure across the U.S. in the next four years. Property developers are also increasingly building data centers, further fueling the financing demand.

Financing requirements are so large that companies are turning to different sources of funding. Debt is gaining in popularity: investment-grade borrowing by U.S. tech firms was up 70 percent year over year in the first half of 2025, according to Bloomberg, with Alphabet issuing bonds for the first time in five years in April 2025. Smaller or fast-growing firms, such as CoreWeave, are even turning to borrowing arrangements that use graphics processing units (GPUs)—specialized chips that accelerate AI computations—as collateral.

Debt securitization is growing, whereby data center-related borrowing is pooled and sold to investors in tranches, much like mortgages are. The data center-related debt securitization market, virtually negligible five years ago, has grown rapidly and is now valued at around $30 billion, according to AInvest.

Private capital is playing an important role too, with large private equity firms increasingly acting as direct lenders to businesses and infrastructure projects, alongside their traditional equity investments. In August 2025, Meta finalized a $29 billion deal for its Hyperion data center project including a debt portion of $26 billion led by PIMCO, the investment management firm.

Data center lending and investing carry additional risks beyond cost overruns. Overcapacity from rapid capital investment can leave assets underutilized. For example, in the late 1990s, U.S. telecom companies laid more than 80 million miles of fiber optic cables across the country after overestimating future demand. Prices plummeted and many companies entered bankruptcy proceedings.

Technology risk is also substantial. Much of the current spending goes to data centers built to *train* powerful AI models, but as demand shifts toward *running* those models, the need for computing power could drop, lowering the value of these assets. Newer, higher-performance chips could make older facilities less useful, and some may even require innovative cooling systems, leaving existing data centers obsolete.

Hyperscalers are diversified enough to weather these challenges, in our view, though they now carry substantial infrastructure and capital commitments—they are no longer asset light. We believe smaller investors and lenders will need to be particularly vigilant.

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Superintelligence around the corner?

Some observers are optimistic that progress in AI will be swift, raising hopes that Artificial General Intelligence (an AI model with human-like cognitive abilities) and even Artificial Superintellingence (an AI model with an intellectual scope beyond human intelligence) could be achieved within their lifetimes. On July 30, 2025, Mark Zuckerberg, CEO of Meta Platforms, perhaps driven by ambition and competitive positioning, stated that "developing superintelligence is now in sight."

Such enthusiasm is understandable. The pace of AI progress has been remarkable. OpenAI's GPT-2, released in 2019, could write coherent paragraphs but often lapsed into meaningless output, while by early 2023, the company's GPT-4 model had advanced enough to pass the U.S. bar exam, scoring in the top 10 percent of test takers, as reported by Reuters. Remarkably, this leap in performance was achieved without changing the science behind AI, but rather just by feeding the model more data and using more powerful GPUs.

Yet others guard against too much enthusiasm. Rodney Brooks, robotics pioneer and former director of the MIT Computer Science and Artificial Intelligence Laboratory, and best known as the founder of the company that developed and supplied the search-and-rescue robots used at Ground Zero after the 9/11 attacks, offers a clear-eyed take on AI's current hype.

In a February 2025 interview with *Newsweek*, he emphasized that while AI models can use language fluidly, they are essentially pattern recognizers, really good at spotting and repeating patterns in data. That, in his view, is not the same as truly understanding or thinking for themselves.

He believes change will come more slowly than is generally expected because rolling out new technology almost always runs into practical hurdles like cost, integration with other systems, and regulation. And because today's AI models are pattern-matchers, they still need a great deal of careful oversight—they are far from being plug-and-play as the hype often suggests. Finally, he emphasized that corporate adoption of the new technology will be based on return on investment, not "glitziness."

On that front, a July 2025 report from the Massachusetts Institute of Technology revealed that 95 percent of generative AI (GenAI) pilot programs in enterprises yielded no measurable return on investment, despite the $30 billion–$40 billion enterprise investment in GenAI so far. The authors conceded that over 80 percent of organizations surveyed have explored or piloted tools such as ChatGPT and Copilot, with 40 percent reporting to have purchased an official large language model subscription. Interestingly, they found that workers at more than 90 percent of companies surveyed say they use personal AI tools like chatbots for work, but the report highlighted that these tools seem to primarily enhance individual productivity, not profitability.

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Promise … and challenges?

2025 has been a pivotal year for the AI industry, and 2026 will likely be as eventful. Some of the significant developments to watch in the next year include:

- OpenAI rolling out its first in-house AI chip, potentially reducing third-party hardware dependence;
- The evolution of the OpenAI-NVIDIA relationship now that the latter has taken a $100 billion stake in the former—a move that could reshape the balance of power in AI hardware and model development;
- NVIDIA's new Rubin AI chip, which holds promise to be even more efficient;
- Meta's massive multi-gigawatt AI data center, called Prometheus, being built in Ohio, which illustrates the escalating scale of investment needed to support cutting-edge AI.

Beyond these developments, which will likely keep enthusiasm high, we believe investors should also keep on eye on whether such investments and the application of AI in business are generating adequate returns. As has almost always been the case in the past, the risk remains that investors may overestimate what the new technology can deliver in the short to medium term.

GLOBAL

Equity

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Equity views

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

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

Threading the needle

Key points

- **There is room for equity markets to advance further if investors can remain confident in 2026 projected earnings.**
- **The above-average S&P 500 earnings gain currently estimated for 2026 will be difficult to achieve in the "slow growth" environment portrayed in consensus GDP forecasts. However, recent, more buoyant data may provoke upward revisions to those GDP estimates, boosting confidence in the earnings outlook.**
- **Solid employment conditions and no major setback on the AI front are necessary accompaniments to a bullish equity market outlook.**
- **We look for more new highs albeit at a slower pace with occasional pullbacks/consolidations. We would use today's elevated valuations to trim equity exposure back to long-term targeted levels.**

Last month, in this space, we contended that global equity markets would extend their powerful advances that began at the deep "liberation day" market trough set in early Q2. But it would be at a slower pace than the rocket ride from the April lows to early September. As it turned out, several markets, rather than slow down after Labor Day, accelerated. The S&P 500 tacked on another 4% in just 15 trading days. Canada's S&P/TSX Composite and Japan's blue-chip TOPIX, both of which have comparatively little representation in the mega-cap AI space, were up by an even stronger 5.9% and 4.5%, respectively.

The peak set over the past few weeks took the S&P 500 to within 6.5% of RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina's projected target of 7150, which she expects will be reached sometime in the second half of 2026. Just a month earlier, when the S&P 500 was sitting at 6300, the return to that 7150 target was twice that, at about 13%.

What happened over the month of September? Consensus estimates for 2026 S&P 500 earnings per share were mostly unchanged ($305 vs. $303), while the (widely expected) rate cut from the U.S. Federal Reserve arrived, marking an end to the central bank's eight-month pause.

Calvasina's 7150 target for 2026 assumes two further 25 basis point cuts this year and four more next year. It also factors in inflation coming in at 3% for 2025 and falling to 2.4% by year-end 2026. The same forecasting model, which incorporates the inputs laid out above to generate the 7150 target for next year, could give us even higher prospective returns (7460) if the fed funds rate is assumed to move even lower—six cuts next year to 2.5%—and inflation were to sag to 2%.

Confidence in 2026 is essential

Our view has been (and still is) that as long as investors can be confident another solid earnings gain will be delivered in 2026, the current uptrends for the S&P 500 and for most major equity markets have further to run—occasional pullbacks and consolidations notwithstanding.

Current consensus earnings estimates of $270 for this year (up 9% y/y) and $305 for 2026 (up 13% y/y) offer just such a constructive backdrop.

In recent weeks, the majority of earnings estimate revisions for large-cap stocks has been upward. Business confidence has also recently reversed course and moved higher, both for CEOs of large companies and those of small and mid-sized

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businesses. The very recent revision higher for Q2 U.S. GDP due to stronger-than-previously-reported consumer spending and business investment underscores this improvement in outlook.

Fed cuts act with a lag

In one sense, this is right on schedule. Monetary policy changes are thought to act on the economy with a six- to 12-month lag. Most market watchers spent the first eight months of this year focused solely on the fact the Fed had not cut the funds rate since last December and on the prospects for when it would resume cutting and by how much. That cut (of 25 basis points) arrived at the Fed's September meeting.

Predictably, the Street's attention has now shifted to prospects for the next cut. Meanwhile, the 100 basis points of rate cuts put in place in Q4 2024 have been working their way into the economy and are now starting to show up in better-than-expected consumer and business spending.

By the same token, the latest Fed rate cut and the further ones we expect this year and next are unlikely to show up as better economic activity much before the second half of 2026. But over the intervening period, Street expectations for moderate economic growth and some further receding of inflation would leave the path open to additional Fed easing and, importantly, would be consistent with some year-over-year earnings gains in 2026.

History warms to faster GDP growth

The icing on the cake, should it occur, would be a lift in the consensus estimates for U.S. GDP growth to a level firmly in the 2% to 3% range. Today's GDP growth estimates sit at 1.7% for 2025 and 1.8% for 2026. The historical record reveals that a GDP growth rate between 1% and 2% has been associated, on average, with subpar equity market performance. Measured from 1947, such "slow growth" years experienced negative S&P 500 price performance 60% of the time and an average return of -3.4%.

Move that GDP growth rate up to between 2% and 3% and the sun shines much more brightly—in such years the S&P 500 has produced positive returns 71% of the time and an average gain of 7.7%.

It's not out of the question to imagine that the recent upward revision to Q2 GDP growth (to 3.8% from 3.3%) and the energetic pickup in Q3 capital goods orders could provoke some more optimistic expectations among forecasters for next year's GDP prospects, perhaps bumping them up into that 2%–3% range, in the process providing a solid historical rationale for further S&P 500 Index gains in 2026.

Today's narrative needs staying power

Meanwhile, investors are left threading the needle. We think consensus estimates for S&P 500 earnings growth—up 13% to $305 for next year—look optimistic for an economy projected to grow, as things stand today, at just 1.8%. And from our vantage point, even were growth to pick up into a higher bracket, important elements of today's positive backdrop would need to remain in gear:

- The employment picture needs to remain solid. So far, unemployment claims and the unemployment rate have been quiet, not surging higher in a way that would put pressure on consumer spending and threaten recession.
- The AI landscape needs to avoid any major setback. In particular, the pace of AI-related capital spending has to remain positive and the earnings outlook for the major providers buoyant. These are tall orders, as we see it, given the dollar amounts in question and the fact that very few corporate adopters of AI have reported any meaningful earnings gains from doing so.

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Things can continue to go right from here

We do expect more new highs in the coming quarters—but the projected earnings gains for 2026 and beyond may require somewhat more optimistic operating and economic growth assumptions than currently prevail to make today's elevated valuation metrics sustainable. That leaves us inclined to think cautiously about portfolio positioning.

A great deal rides on the AI outlook. The relative handful of mega-cap growth stocks driven by the AI story has accounted for much of the earnings growth and value added (i.e., price-to-earnings [P/E] expansion) to the S&P 500 in recent years. But even the P/E ratio for the rest of the index, while not at the rarified levels of the leaders, is nonetheless well above its long-term average.

In our view, this is a time to be committed but not overcommitted to equities. Using today's elevated prices to trim equity exposure back to long-term targeted levels seems an appropriate response. Developing a plan for how to transition to a more defensive posture, if and when called for, sounds to us like time well spent.

Regional equity perspectives

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United States

Major U.S. indexes powered higher in Q3, with the S&P 500 rising 7.8%, extending the rally that began after the April tariff selloff. A strong corporate earnings season, resilient consumer spending and service sector trends, and improved prospects for above-average earnings growth in 2026 supported the market. Mega-capitalization artificial intelligence (AI) stocks led the advance, as has been the case for much of the past couple of years, and Consumer Discretionary also outperformed.

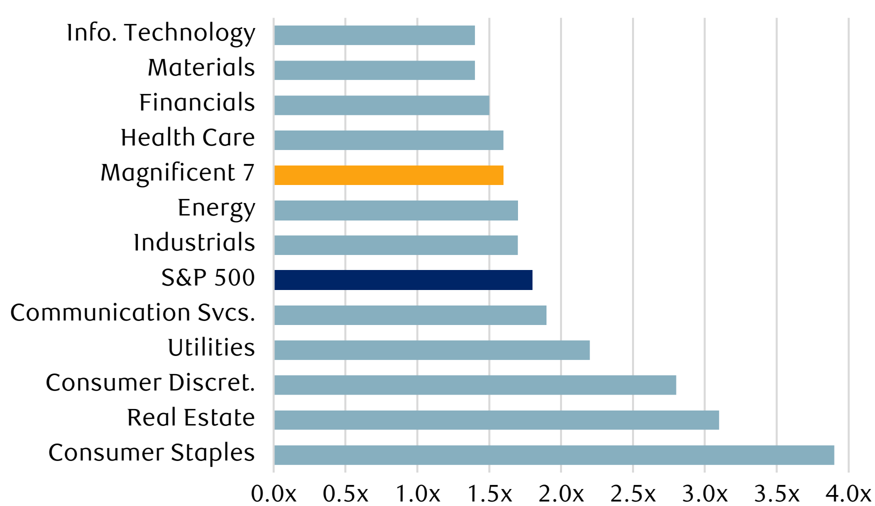
We're uncomfortable with the S&P 500's 12-month forward price-to-earnings (P/E) ratio of 22.6x, as it's well above the 16.6x average since 1990 and 18.7x 10-year average. However, valuations have historically remained stretched during the latter part of a bull market phase until the music stops, so to speak. What could derail the bull market rally? Another economic "growth scare" or rising recession risks could be difficult for the market to manage. We also have our eye on AI capital spending. If trends were to shift down for some unforeseen reason or AI earnings growth were to disappoint, the largest market-cap stocks would be vulnerable to correcting and could tug the rest of the market down with them. (For additional thoughts on potential market vulnerabilities, see this article.)

Importantly, it's not as if mega-cap AI stock prices have been rising for dubious fundamental reasons or due to hype alone, as occurred during the Tech Bubble 25 years ago. Actual, meaningful revenue and earnings growth, and improved outlooks drove much of the stock prices gains in this segment in Q3 and the past couple of years. When evaluated on a price-to-earnings-to-growth (PEG) basis, the Magnificent 7 stocks (large AI-oriented stocks) look less expensive than stocks in other sectors, as the chart shows—assuming they deliver on consensus earnings projections.

We would give the market the benefit of the doubt for the time being and recommend staying invested up to the long-term recommended Market Weight level. We still favor dividend growth stocks and note this area has historically performed

On a PEG-ratio basis, the Magnificent 7 stocks look less pricey than many non-tech sectors

Price-earnings-growth (PEG) ratios for S&P 500, sectors, and Magnificent 7* based on 12-month forward consensus estimates



* Magnificent 7 stocks are Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Source - RBC Wealth Management, FactSet (S&P 500 and sectors), Bloomberg (Magnificent 7); data as of 9/26/25

REGIONAL EQUITY PERSPECTIVES

well during Fed rate cut cycles. We would maintain a slightly Overweight position in the Technology sector but would not deploy a lot of new cash here given the recent sprint higher.

Canada

As the so-called American "Liberation Day" and the introduction of numerous tariffs increasingly feel like a distant memory, an abundance of global trade deals has softened the final impact of the initially proposed tariffs on most economies. The restructuring of certain global supply chains has also helped cushion the blow. For Canada, much of this impact has been mitigated by the United States-Mexico-Canada Agreement (USMCA). If the USMCA exemption remains in place, there appears to be low risk that the effective tariff rate on Canada will jump, and therefore the ongoing North American trade talks will likely have more sectoral than broad-based impact. Although U.S. President Donald Trump could attempt to revise the USMCA, our current base case is that the existing agreement will remain intact.

During the recent corporate earnings reporting season, it became evident to us that management teams have shifted their focus from a volatile, tariff-reactive operating environment to a more proactive one as they have become better able to gauge potential tariff impacts. Following earnings season, commentary from Canadian businesses has pointed to interest rates, prices, and consumer demand as the key potential headwinds. The Financials, Materials, and Consumer sectors stand out as being the most exposed to these challenges, with management teams actively addressing their exposure and initiating mitigation efforts where relevant.

Despite continuous macroeconomic and political noise, the S&P/TSX Composite has maintained its leadership with a high-teens total return year to date, exceeding all other major North American equity indexes. Gold has contributed to this performance in a meaningful way, as Canadian gold producers are flush with cash thanks to a surge in gold prices coupled with relatively steady production costs. But strength in the TSX has been broad-based, and we expect this to continue. As we begin the final quarter of the year, we believe investors should evaluate the degree to which cyclical stocks can remain resilient when making investment decisions. This should not be read as a suggestion to avoid cyclical sectors; rather, it's a recommendation to focus on the highest-quality cyclicals amongst a peer group. We suggest focusing on companies with resilient earnings streams, fortified balance sheets, and experienced management teams.

United Kingdom

The pattern of resilient economic growth in the first half of the year, followed by a weaker second half, as seen over the past three years, seems to be repeating itself again this year. Amid a labour market under pressure, April's tax increases, and the prospect of further hikes together with an uncertain global economic outlook due to U.S. tariffs, UK growth slowed to 0.3% q/q in Q2 from 0.7% q/q in Q1. The economy then stalled in July, with growth flat in the month.

The government is not in a position to meaningfully stimulate the economy, in our opinion, and the nation's fiscal position is in a precarious state.

The Chancellor of the Exchequer has three unpalatable options for the November budget: (1) loosen the fiscal rules and risk a rise in bond yields as markets grow uneasy; (2) cut public spending further and risk triggering an internal party rebellion and voter backlash; or (3) raise taxes and break manifesto commitments.

If the government is reluctant to deploy fiscal stimulus, the Bank of England (BoE) is equally cautious about loosening monetary policy too quickly. Headline inflation has remained stubbornly above the 2% target, coming in at 3.8% y/y in August, as additional taxes imposed

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last autumn and an increase in the minimum wage feed through. As a result, the BoE is reluctant to cut rates much further, at least this year.

Despite the challenged economic outlook, large-cap equity investors should focus on attractive valuation levels, which we think matter more than the domestic economic backdrop.

The FTSE All-Share Index is trading significantly below its long-term median price-to-earnings ratio relative to global developed markets, even accounting for sector differences. As a result, we suggest a Market Weight position in UK equities. For global investors, quality UK large-cap stocks are trading at a valuation discount to foreign peers, and we believe are an attractive opportunity. We continue to favour attractively valued companies in the Financials sector, given their high level of shareholder returns via dividends and share buybacks.

Europe

The return from the traditional August holidays was marred by financial market volatility as the French government collapsed, unable to push through the National Assembly an austerity programme to rein in the ballooning fiscal deficit. A new government will now try its hand, with a watered-down budget. Although the French business climate has held steady for now, uncertainty regarding the future budget will likely weigh on the country's economic momentum in the months to come.

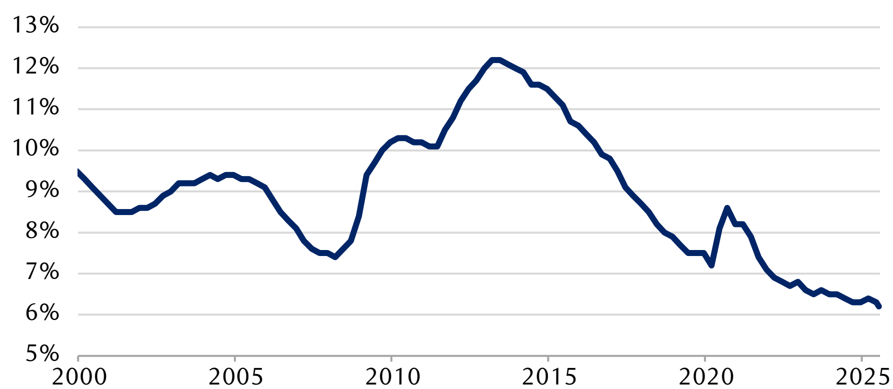
Despite these difficulties, prospects for the region are improving, in our view, thanks to the European Central Bank more than halving interest rates to 2.15% in this easing cycle and Germany's renewed fiscal drive. The country announced over the summer that it is front-loading its 10-year €500 billion infrastructure programme, with around €58 billion to be spent by 2026, alongside some €25 billion in annual defence spending. Peak stimulus is pencilled in for 2026.

The details released by the German Finance Ministry show a high share of spending is going to areas that should boost economic growth. In 2025 alone, €22 billion, or about 0.5% of German GDP, is going to rail sector improvements. Moreover, each year €4 billion is earmarked for housing projects, €4 billion for digitalization, and €6.5 billion for education and childcare.

RBC Capital Markets expects this spending to be a substantial stimulus for Germany and that it will trickle through to euro area growth in 2025 and 2026, though the stimulus should fade beyond that point. This increases RBC Capital Markets' confidence in its EU GDP growth estimates of 1.1% and 1.2%, respectively, for this year and next.

European unemployment improves, helped by ECB rate-cutting cycle

Eurozone unemployment adjusted for seasonal patterns



Source - RBC Wealth Management, Bloomberg

REGIONAL EQUITY PERSPECTIVES

The STOXX Europe ex UK Index trades at 16.5x the next-twelve-months consensus earnings forecast, slightly above its long-term average, a premium which we believe is warranted given the region's improved medium-term growth outlook.

We continue to prefer sectors we think are likely to benefit from the fiscal stimulus, such as select Industrials, including defence, and Materials. In our view, banks should benefit from the region's improved medium-term growth outlook, while continuing to offer attractive dividends and share buyback opportunities.

Asia-Pacific

We are entering a policy-intensive quarter in China with investors focusing on the upcoming fourth plenary session of the 20th Communist Party of China Central Committee this month. During the meeting, top leaders will formulate the proposals of China's 15th Five-Year Plan (2026–2030).

We think key areas to watch in the plan will include potential structural reforms, strategically focused industries, and the tone of future growth targets. The market widely expects the plan to emphasize boosting domestic consumption, particularly services-related consumption. Setting numerical targets for service consumption's contribution to total economic growth would be encouraging, in our view. Reducing overcapacity and supporting advanced manufacturing are also likely to be highlighted.

While policymakers may not set an explicit GDP growth target, to achieve the goal of doubling China's GDP and household disposable income per capita by 2035 compared to that of 2020, we assess that a 4%–5% annual growth rate is needed from 2026 to 2030.

Currently, Chinese equities are supported by market liquidity and positive investor sentiment, which could drive further upside. While we think existing positions can be maintained, we advise against adding large positions at this level due to moderate economic momentum.

The Bank of Japan (BoJ) announced a long-term exit strategy for its substantial exchange-traded funds (ETF) holdings. The central bank will begin selling its ETF holdings at an annual pace of around JPY620 billion (market value) per annum. Based on its current holdings of around JPY80 trillion, it would take more than 100 years to completely wind down those holdings. Our local research correspondents noted that the BoJ could halve its holdings in five years if they are matched with corporate share buybacks. BoJ ETF purchases supported the market during volatile periods, and as the economy and market have improved, the BoJ now considers the holdings no longer necessary. Overall, we view the announcement positively and as potentially removing an overhang on Japan equities given some investors were previously concerned about an accelerated sale.

We maintain our constructive view on Japan equities as a sustainable 2% inflation target seems in sight and due to renewed investment from friend-shoring and on-shoring; improving return-on-equity and shareholder returns; resilient domestic demand supported by high savings and wage hikes; inbound tourism; and elevated domestic retail inflows under the revamped Nippon Individual Savings Account scheme.

Japan may soon see its first female prime minister. Sanae Takaichi is emerging as one of the front-runners in the ruling Liberal Democratic Party's leadership race following Prime Minister Shigeru Ishiba's resignation announcement. Takaichi is seen as a favorite among the general public along with Minister of Agriculture Shinjiro Koizumi, according to polls.

GLOBAL

Fixed income

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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

One cut down

Key points

- **The Fed delivered an expected 25 basis point (bps) cut last month with more accommodation forecast, likely putting the U.S. at the forefront of policy easing.**
- **We see sound economic reasons to front-load U.S. rate cuts but are skeptical of how much monetary accommodation the Fed can provide without adding to U.S. dollar weakness.**
- **Currency moves continue to reverberate across financial markets, impacting multiple asset classes.**

The Fed lowered overnight interest rates by 25 bps at its September meeting, a move widely expected by both economists and investors. The central bank also released an updated Summary of Economic Projections, which contains individual Fed officials' multiyear forecasts for a variety of economic variables including inflation, unemployment, and policy rates.

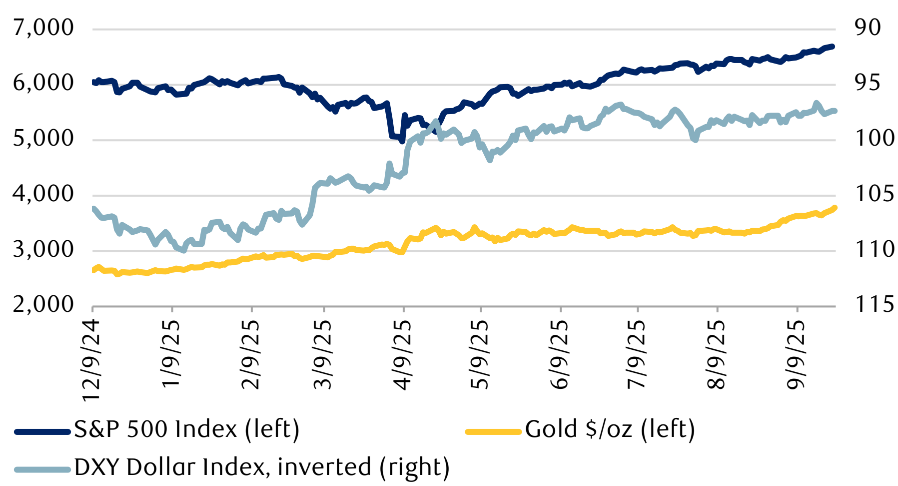
The most recent update showed a divided Federal Open Market Committee, with a near-even split between members forecasting at most one more rate cut this year and those seeing two additional cuts. Further out, the median forecast for year-end 2026 policy rates dipped to 3.38%, a 25 bps decline relative to the June forecast, despite an uptick in forecast inflation and a drop in the expected unemployment rate.

Interest rate futures show even more accommodation in the pipeline, with year-end 2026 rates below 3%.

The forecast trajectory for U.S. rates put the country as a global outlier among major central banks. Interest rate futures reflect a high probability that both the Bank of England and the European Central Bank will remain on hold through at least year-end, while the Bank of Japan is likely to hike, rather than cut, rates this year. The outlook for the Bank of Canada is mixed, with a near-even probability of steady policy and potentially one more cut.

If U.S. interest rates fall relative to global counterparts, we think it would lower the attractiveness of the U.S. dollar for global investors and create an additional headwind for the greenback. The dollar is already

A weaker U.S. dollar contributes to stronger equities, gold



Source - RBC Wealth Management, Bloomberg; data through 9/23/25

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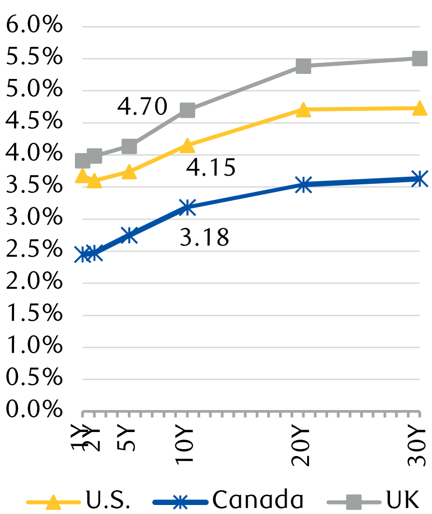
down nearly 10% year to date, and we believe that the U.S. currency's devaluation has contributed to the rise in U.S. equities, precious metals, and real estate. It is telling, we believe, that all of these traditional inflation hedges are at or near their all-time highs in dollar terms.

Ultimately, we believe the path for interest rates globally will be driven by economic data, and in the case of the U.S., it is likely to be a function of labor markets and inflation rates.

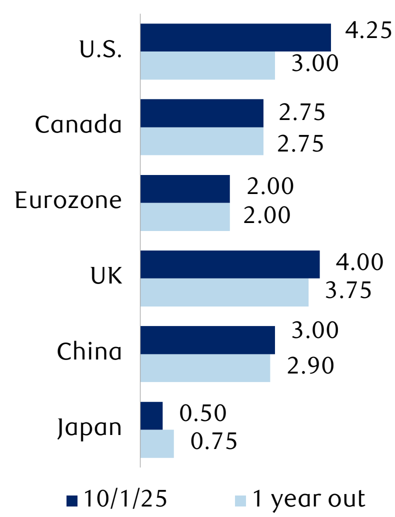
Although we are skeptical that additional rate cuts are necessary or even particularly helpful—unemployment remains well below its long-term average and the economy remains in a solid expansion—we see merits to front-loading any rate cuts. Monetary policy acts with a lag, so adding accommodation earlier gives faster clarity on its overall economic impact.

Sovereign yield curves



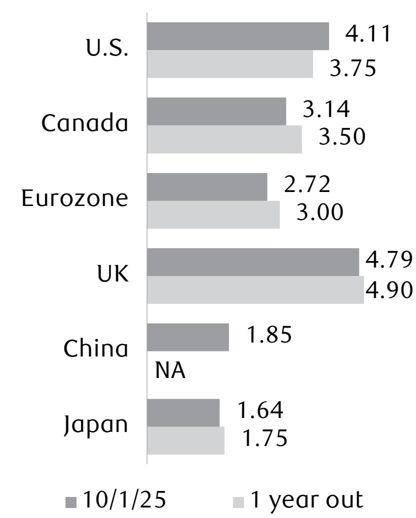
Source - Bloomberg; data through 9/30/25

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

Regional fixed income perspectives

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United States

U.S. bond markets performed well over the summer as economic data showed slowing labor demand—including a large downward revision to previously reported nonfarm payroll growth—alongside still robust economic expansion. The negative implications of reduced hiring were largely offset by a shrinking labor force leaving the overall unemployment rate little changed at 4.3%.

Weaker labor demand was the key reason the Fed cited in its decision to reduced policy rates by 25 basis points (bps) at its September meeting. Alongside the cut—which Fed Chair Jerome Powell characterized as a "risk management" move—the U.S. central bank released its Summary of Economic Projections (SEP), a compilation of individual members' multiyear forecasts for key economic variables. The document showed a committee nearly evenly divided between members seeing one or fewer additional cuts in 2025 and those seeing two more as likely. Beyond that, the projections indicated a greater tolerance for inflation relative to the June SEP, as members saw lower policy rates despite higher projected inflation and lower projected unemployment.

Looking ahead, we think it may be difficult for the Fed to cut as deeply as current market pricing reflects. Interest rate futures after the September meeting, for instance, showed a near certainty that the Fed would take policy rates below 3% by the end of 2026. While possible, we think such a scenario is unlikely outside of a recession. The combination of a large and growing federal budget deficit and a shrinking labor pool makes it difficult, in our view, for monetary policy to ease to that extent without sparking inflationary pressures.

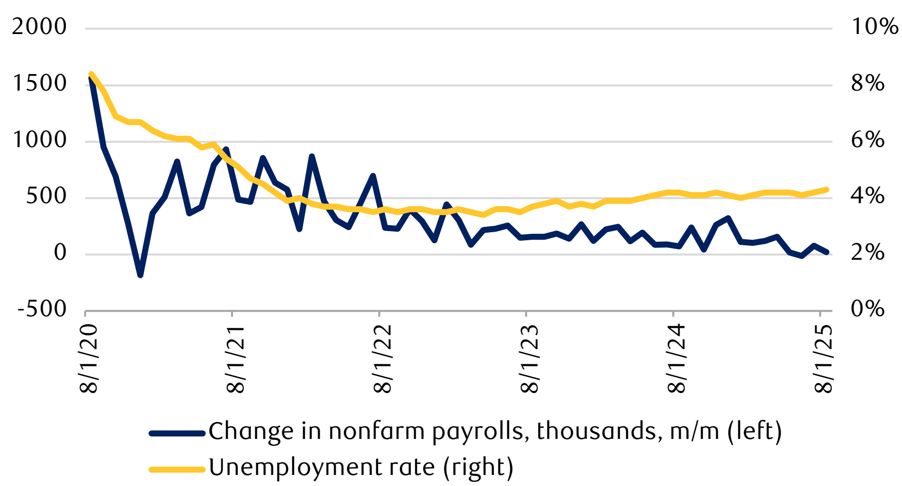
Although the additional yield that corporate bonds provide relative to their government counterparts is at or near multiyear lows, we still prefer the sector for its higher income. We see the combination of a large federal budget deficit, a weaker dollar, and an accommodative central bank as likely to keep corporate default rates low relative to historical standards, helping justify current corporate bond pricing.

Canada

After several months of "wait and see," the Bank of Canada (BoC) resumed easing monetary policy by cutting the overnight interest rate to 2.50% in September. This brings the

U.S. payroll growth decelerates sharply, unemployment steady

The economy can keep labor markets balanced with fewer new jobs



Source - RBC Wealth Management, Bloomberg

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total amount of rate cuts delivered by the BoC since mid-2024 to 250 basis points (bps). While the BoC's preferred measures of core inflation in Canada are still running well above their 2% target, inflationary pressures appear to be gradually easing, and key components such as shelter cost growth rates are slowly moderating. With the recent cancellation of Canada's counter-tariffs charged against CUSMA-compliant goods entering the nation from the U.S., the BoC views the upside risks to inflation as diminished. At the same time, unemployment has crept up to 7.1%, and economic investment, in the face of trade policy uncertainty, is weak. As such, the BoC felt it was appropriate to bring policy rates toward the lower end of their 2.25%–3.25% estimated neutral range.

In anticipation of September's rate cut, market pricing since the end of July had pushed the Canadian yield curve steeper, with term premiums—the difference in yield between long-term bonds and short-term bonds—rising. In other words, investors now receive more compensation for taking on additional duration risk than they did previously. Credit risk, on the other hand, remains very expensive. After widening briefly in April, credit spreads—the additional yield investors receive for buying corporate bonds over government bonds—have ground tighter and since August have been sitting near some of their lowest levels in 18 years. Markets are clearly not expressing significant concern regarding the ability of Canadian corporate issuers to repay their debt.

Other corners of the Canadian credit landscape have similarly richened alongside corporate bonds. Preferred shares rallied nearly 40% on a price-return basis since late 2023, supported by a flurry of issuer redemptions, particularly from the banks. However, redemptions look likely to slow heading into 2026, and we question how much further this rally could go. One issuer complex took advantage of elevated preferred valuations, and the Canadian preferred share market saw its first new issuance in 3.5 years in September.

United Kingdom

The case for no further Bank of England (BoE) rate cuts has strengthened given the upside risks to inflation, especially services inflation which remains sticky. Yet, we think there is still a small chance for a December cut due to the weakening labour market. For this to happen, hiring intentions would need to continue to weaken, limiting wage growth and ultimately headline inflation. For now, wage growth is still meaningfully above the 3.0%–3.5% level consistent with achieving the BoE's 2.0% inflation target, although it is showing signs of easing.

We believe the Office for Budget Responsibility is likely to lower its productivity and growth forecasts in November. This would push borrowing higher, so to maintain Chancellor Rachel Reeves's £9.9 billion fiscal headroom, in our view, she will likely raise taxes and cut expenditures to plug the £28 billion shortfall in government finances. While potential fiscal tightening risks dampening economic growth, it also works toward reducing the deficit.

To ease the upward pressure on Gilt yields, the BoE announced that it would slow quantitative tightening (QT)—or the reduction of its bond holdings through sales and maturities—to £70 billion between October 2025 and September 2026, down from £100 billion previously. Moreover, QT sales and Treasury issuance will be tilted away from long-dated bonds where structurally lower investor demand would exert further pressure on Gilt yields. We continue to avoid adding to long-dated Gilts given the looming Autumn Budget is a potential catalyst for higher yields.

Corporate bonds have largely shrugged off fiscal concerns, and credit spreads—the additional yield investors receive for buying

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corporate bonds over government bond—are at tight levels. They are likely to remain tight as companies are holding back from issuing new debt for the second consecutive year due to high refinancing costs, with the BoE lowering rates only gradually. Yields, however, are above five-year averages and are at compelling levels, so we remain constructive on corporate bonds and continue focusing on income.

Europe

The European Central Bank (ECB) is likely to, as ECB President Christine Lagarde said recently, "continue to be in a good place" at 2% for this monetary policy cycle, unless the growth and inflation data deteriorate meaningfully, in our view. Although Lagarde stated that the "disinflationary process is over," we think downside inflation risks remain. The central bank sees risks to the growth outlook as "more balanced" and fuelled by increasing real incomes, declining savings, and spending to materialise in defence and infrastructure. The ECB forecasts 2025 GDP growth of 1.2%, which is close to our 1.3% estimate.

Most eurozone governments are likely to continue running sizeable near-term deficits, in our view, with risks of fiscal sustainability remaining in focus. France's unpredictable political backdrop makes fiscal tightening seem like a tall order. We think French yields are likely to remain at or above Italian yields. On the other hand, Germany has the fiscal headroom to borrow, while Italy is on track to reduce its fiscal deficit and potentially exit the European Union's excessive-deficit programme by year's end. Elsewhere, we think debt levels in Spain, Portugal, and Greece are likely to improve, and sovereign bond spreads relative to Germany have compressed. Thus, we maintain a modest Underweight near-term position. We view 10-year German Bund yields levels above 2.70% as an opportunity for long-term investors to consider adding to their positions.

Despite an economic backdrop pointing to a slowdown but not a recession, credit spreads—the difference in yield between sovereign debt and higher-risk credit classes—have tightened the most in lower-quality corporate debt as the rush for credit continues. Although spreads are tight, we believe they are unlikely to tighten further for the rest of the year; therefore, our focus would be on maximising income rather than positioning for spread compression. Current yields are compelling, in our view, with compensation for interest rate risk ratio above five-year averages. Thus, we remain constructive on credit through to year end, but we would be selective and avoid excessive risk, particularly in lower-quality high-yield bonds.

Asia-Pacific

Asian credit markets remain resilient and are well supported by the recent rally in rates and by technical factors including below-average bond issuance, leading to moderate spread compression—or the difference in yields between sovereign debt and riskier credit—since the start of Q3 2025. Asia High Yield (HY) bonds continue to outperform and now trade at historically tight spreads of approximately 319 basis points (bps).

Recent Chinese economic activity was below market expectations, as ongoing U.S.-China trade tensions continued to affect exports while preparations for a major military parade restricted construction activity. In response, the Politburo pledged a proactive fiscal policy stance to support economic growth and stabilize credit conditions, especially in property-related and private sectors. However, China continues to face structural headwinds, such as an ongoing property downturn and thematic divestment by foreign investors. Therefore, we believe selection will be key for Chinese corporate bonds.

Japanese Government Bond (JGB) yields continue to hover near year-to-date highs despite the Bank of Japan

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hiking interest rates only once this year, with the yield curve steepening by another 10 bps since the start of August. Contributing factors include elevated political uncertainty due to the resignation of Prime Minister Shigeru Ishiba and the ensuing leadership vote on Oct. 4, as a new leader may pursue an aggressive fiscal expansion. Investors also continue to worry about the impacts of U.S. tariffs and inflation on the domestic economy becoming too entrenched. These concerns have led markets to price in political and fiscal risk premiums. Additionally, to maintain their high solvency requirements, Japanese life insurance companies have sold longer-term JGBs that have lost value as yields rose, and have risked weakening their balance sheets. Overall demand for JGBs has reduced significantly, and as a result, we believe the yield curve will remain steep.

Looking to October and Q4 2025, Asian corporate bonds are expected to remain resilient, although credit selection will be critical, in our opinion. We maintain a preference for Investment Grade (IG) over HY credit, as we believe investors are not adequately compensated for the additional risk. Nonetheless, Asian IG credit continues to offer attractive all-in yields—currently sitting at the higher end of historical ranges—and remains supported by regional investors' steady demand and the favorable technical backdrop this year. Given the environment of moderate economic growth and ongoing macro risks, we favor positions in higher-quality Asian IG names.

Commodities

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Commodity forecasts

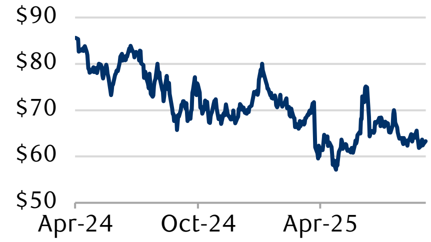
Commodity	2025E	2026E
Oil (WTI $/bbl)	62.23	52.52
Natural gas ($/MMBtu)	3.84	4.00
Gold ($/oz)	3,163	3,489
Copper ($/lb)	4.31	4.50
Soybeans ($/bu)	10.24	10.65
Wheat ($/bu)	5.50	5.73

Source - RBC Capital Markets forecasts (oil, natural gas, gold, and copper), Bloomberg consensus forecasts (soybeans and wheat); data as of 9/15/25

Chart source - RBC Wealth Management, Bloomberg; data range 4/12/24–9/15/25

Crude oil

The backdrop for oil remains subdued as continuous supply additions coupled with macro uncertainty act as a price overhang. OPEC+ plans to continue increasing production, building further from the cut put in place in April 2023. As a result, RBC Capital Markets expects the West Texas Intermediate price at $62.23/bbl for 2025 and $52.52/bbl for 2026.

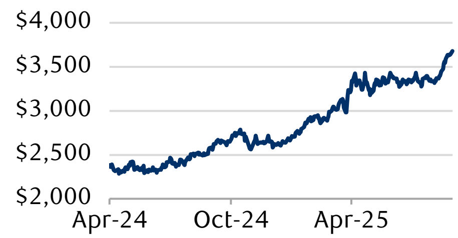


Natural gas

The U.S. natural gas outlook looks structurally positive for most of this decade. Long term, LNG exports and AI/data center power demand should deliver sustainably higher prices. Near term, underground storage levels are above the 5-year average, pointing to a low price scenario through 2026. RBC Capital Markets sees prices for 2025–26 in a range of $3.84–$4.00/mmBtu.

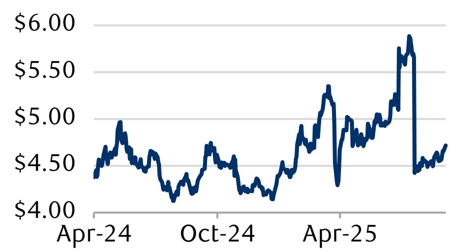
Gold

The gold price continues to gain new highs driven mostly by central bank and investment buying. RBC Capital Markets argues additional strength can be attributed to uncertain policy out of the White House, the effects of tariffs on the global economy, and lower interest rates. It forecasts an average gold price of $3,163/oz for 2025, rising to $3,489/oz for 2026.



Copper

Tariff uncertainty has left an overhang on the copper price. Both manufacturing and housing market indicators in China have been in contraction for some time, while other copper-intensive sectors in China are showing steady demand for the commodity. RBC Capital Markets expects copper prices will average $4.31/lb for 2025, with a potential rise to $5.00/lb by 2027–28.



Soybeans

The USDA reduced its global soybean production estimates for 2025 and 2026 due to lower production out of India and the EU, partially offset by higher production out of Russia and the U.S. Furthermore, global demand remains strong and ending stocks are projected to move lower. Bloomberg projects prices for 2025 and 2026 of $10.24/bu and $10.65/bu, respectively.

Wheat

Global wheat production in 2025–26 is forecast by the USDA to be lower than it previously projected but remains at record levels. China stands out as the largest detractor driven by lower yields, but strength out of the EU, Romania, and Slovakia help as offsets. Bloomberg projects prices for 2025 and 2026 of $5.50/bu and $5.73/bu, respectively.

Currencies

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Currency forecasts

Currency pair	Current rate	Forecast September 2026	Change
Major currencies			
USD Index	97.78	92.32	-6%
CAD/USD	0.71	0.75	6%
USD/CAD	1.39	1.33	-4%
EUR/USD	1.17	1.22	4%
GBP/USD	1.34	1.40	4%
USD/CHF	0.80	0.79	-1%
USD/JPY	147.90	125.00	-15%
AUD/USD	0.65	0.67	3%
NZD/USD	0.58	0.60	3%
EUR/JPY	173.53	153.00	-12%
EUR/GBP	0.87	0.87	0%
EUR/CHF	0.93	0.96	3%
Emerging currencies			
USD/CNY	7.11	7.02	-1%
USD/INR	88.79	89.00	0%

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

Source - RBC Capital Markets forecasts, Bloomberg

U.S. dollar: Structural weakness persists

The U.S. Dollar Index has depreciated by more than 10% so far in 2025, and we think it will continue to be on a structural path lower, driven by more interest rate cuts in the U.S. and an ongoing asset reallocation out of the dollar that may last until 2026, unless economic data in the U.S. improves unexpectedly. Foreign investors are also likely to increase their hedge ratios on U.S. assets (which requires selling USD) as the cost of hedging drops with more interest rate cuts expected by investors in the U.S. in 2026.

Euro: Maintaining a 1.24 target for year-end 2026

Political turmoil in France has put a dent in the euro's recent rally and reminded investors of the risks of investing in Europe. However, we expect EUR/USD to trend higher in the long term, driven by improving European economic growth in 2026, a rotation of assets from U.S. to Europe, and as the cost of hedging U.S. assets falls for European investors.

Canadian dollar: USD/CAD target at 1.31 for year-end 2026

RBC Capital Markets expects USD/CAD to reach the low 1.30s in 2026, with the interest rate gap between the U.S. and Canada forecast to narrow materially by the end of 2026. RBC Capital Markets notes risks around the U.S.-Mexico-Canada Agreement (USMCA) renegotiations but as long as the exemption remains in place for Canada (Canada is exempt from most U.S. tariffs, though specific sectors like steel, aluminium, and automobiles face tariffs), the U.S. effective tariff rate on Canadian imports should remain low versus the rest of world. In the long run, RBC Capital Markets continues to think any rallies above 1.38 should be viewed as selling opportunities.

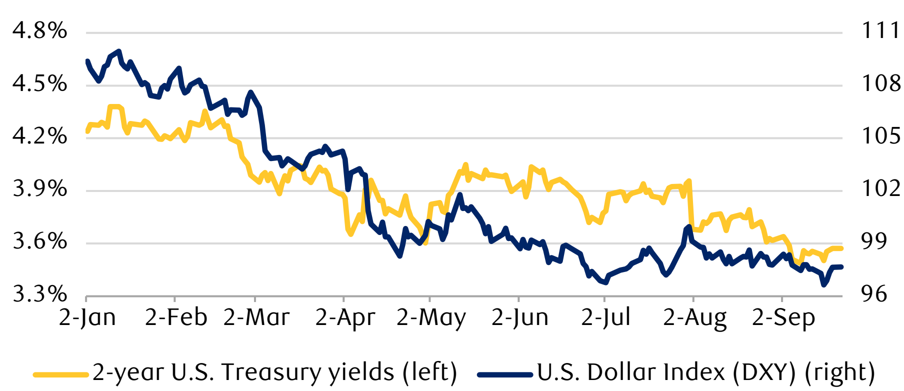
British pound: Near-term fiscal risks

While the pound could underperform in the short term on fiscal uncertainties ahead of the Budget announcement next month, in the longer term, the pound could find support from higher interest rates in the UK that would make the currency an attractive target for investors looking to invest in high-yielding sovereign instruments. RBC Capital Markets also notes resilience in UK economic data this year, with growth of 1% in H1 2025 that could potentially be another source of strength for the pound going forward.

Japanese yen: Supported by domestic hedging activity

Japan's political instability following Prime Minister Shigeru Ishiba's resignation has heightened short-term risks, but RBC Capital Markets remains bullish on the yen and sees domestic investment becoming increasingly attractive due to rising yields in Japan, while foreign asset hedging is expected to grow, both of which are supportive for the yen.

The U.S. dollar index fell with the 2-year Treasury yields in Q3

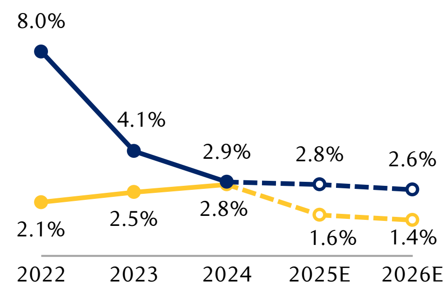


Source - RBC Wealth Management, Bloomberg, data through 9/22/25

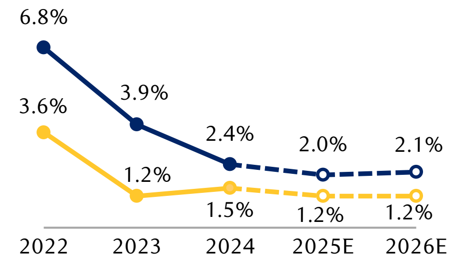
KEY

Forecasts

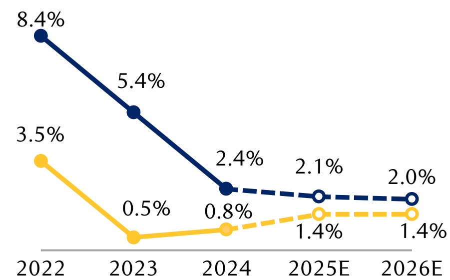
United States



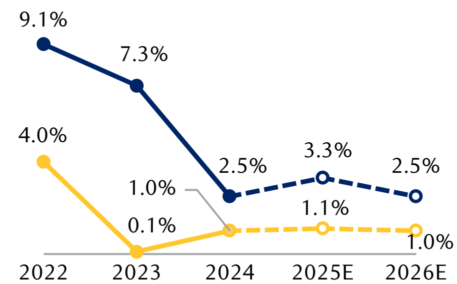
Canada



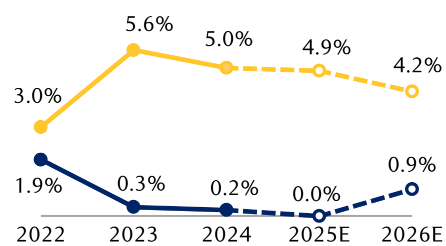
Eurozone



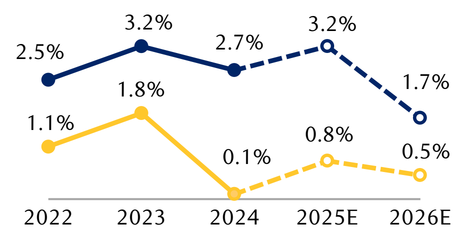
United Kingdom



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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As of September 30, 2025

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
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Hold [Sector Perform]	552	37.94	140	25.36
Sell [Underperform]	41	2.82	5	12.20

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