

GLOBAL Insight



Wealth
Management

November 2025

Perspectives from the Global Portfolio Advisory Committee

Five disruptors to the U.S. economic cycle

We're increasingly of the view that a series of disruptions are masking a very real cyclical U.S. economic slowdown underneath the surface.

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For important and required non-U.S. analyst disclosures, see [page 17](#).

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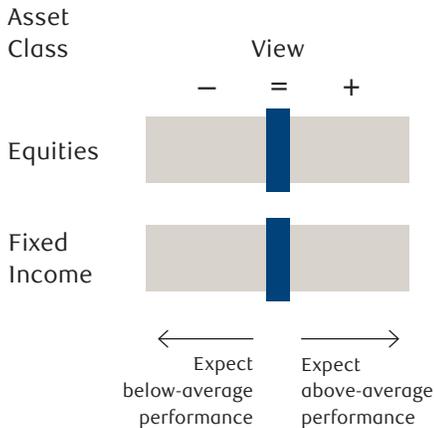
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For more thoughts on our global market assessments for 2026 and beyond, please consult our **Global Insight 2026 Outlook** that will be available in the first week of December.

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

- Major global equity markets continue to push into new high ground. This may well continue as market breadth remains healthy, meaning that most stocks, not just the high-profile favorites, are moving higher. We believe, however, that reaching higher highs will require investors to remain confident in corporations' ability to continue delivering healthy earnings growth this year and beyond.
- U.S. Q3 earnings and sales, so far, are outpacing consensus expectations. A good earnings outcome for 2026 will need the U.S. economy to avoid a recession and for AI capital spending to hold up. With tame inflation and a softening labor market, the Fed has room to cut interest rates, adding to the already improving credit conditions.
- We remain where we've been—invested but not overly committed—and ready for occasional and normal pullbacks to the markets' "three-years-and-counting" uptrend. We recommend continuing to hold U.S. and global equities at Market Weight levels in portfolios.

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 have fueled an ongoing (or renewed) process of central bank rate cuts. But now, with the Bloomberg US Aggregate Bond Index yield nearing its lowest levels of the past three years, we have moved to reduce interest rate exposure as we see scope for Treasury bond yields to reset higher.
- We remain Underweight global developed market bonds, but yields there have been trending modestly higher and could soon look more attractive relative to U.S. rates. A resumption of rate cuts by the U.S. Federal Reserve has dragged yields lower, but we think the Fed will ultimately cut less than the market currently expects—another potential catalyst for higher Treasury yields.
- We reiterate our Market Weight stance on U.S. fixed income, but falling yields have reduced attractive opportunities. Credit valuations are still too rich globally, in our view, but central bank rate cuts should support the economic outlook and credit markets, leaving us Neutral on corporates.

MONTHLY
Focus

Five disruptors to the U.S. economic cycle

A series of medium- to long-term disruptions are distorting the U.S. economy’s typical response mechanisms, muting the standard “economic cycle.” We’re increasingly of the view that these are masking a very real cyclical slowdown underneath the surface.



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The U.S. economy seems in many ways an anomaly.

Interest rates are, by many measures, in “restrictive” territory, and yet the unemployment rate remains quite low. The U.S. is in the midst of a historic trade shock with 100-year high tariffs, but inflation impacts appear limited so far. The housing market, historically a solid leading indicator, is experiencing very limited activity on par with the aftermath of the global financial crisis, yet home prices and rents continue to rise.

The answer to the disconnects, in our view, lies in a series of medium- to long-term disruptions that are distorting an economy’s typical responses and muting the standard “economic cycle.”

At the heart of these disruptions are increasingly powerful structural forces that are masking a very real cyclical slowdown underneath. These disruptions make clarity on the U.S. outlook more difficult, but not impossible. They necessitate a shift in the way we think about the business cycle, cyclical vs. structural trends, and even the way we absorb monthly economic data.

So, while our current U.S. economic outlook is best characterized as Stagflation Lite (growth running too low for comfort coupled with inflation rising somewhat too high for relief), we’re increasingly of the view that the most important economic stories lie beneath the surface of a standard growth forecast like this.

Five dislocations to the U.S. economic cycle

 <p>Tariff head fakes: A cycle disrupted from inflation to growth</p>	 <p>Two Americas: Emergence of the K-shape economy</p>
 <p>America needs workers: A shifting new labor market</p>	 <p>Big government forever: The cost of a constant floor under the economy</p>
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FIVE DISRUPTORS TO THE U.S. ECONOMIC CYCLE



Tariff head fakes: A cycle disrupted from inflation to growth

U.S. tariff policy is creating a significant cyclical disruption, but also likely a structural one that is complicating our ability to read the economy.

Cyclically, imports and inventories surged in Q1 and Q2 on tariff front-running, creating large swings in headline gross domestic product, and an “air pocket” between the implementation of tariffs, and its impact on both inflation and jobs. As we covered [here](#), we expect tariffs to push prices higher into 2026, and also weigh on job growth—a Stagflation Lite-type impact. Yet the difficulty in reading the size of the inventory overhang in sectors, coupled with atypical accounting by importers, means economists need to reduce convictions in timelines around impact and visibility into 2025 and 2026 forecasts. Our experience with the 2020 pandemic also tells us that inventory disruptions can take years to normalize. If that seems extreme, consider that goods inflation in the U.S. has only now normalized, five years after the inventory shock of 2020.

At the same time, we believe it’s reasonable to assume that structural adjustments in response to a re-ordering of trade are also happening. Shifting supply chain strategies takes considerable time, but we may be in the early innings of a tanker-sized economic transition. Effectively, that means the manufacturing economy alongside business investment will continue to operate with business-cycle dynamics, but, at the same time, it will be spending and absorbing costs associated with a long-term goal. Disaggregating the two becomes critical, otherwise there’s the risk of misinterpreting all activity as cyclical.

Why it matters

- Headline GDP and inflation aren’t likely to give us a clean read for several quarters, and possibly longer. An increased focus on final domestic purchases is critical for a better pulse on the domestic U.S. economy.
- As inventory re-calibration creates volatility in the manufacturing cycle, we can expect further disconnects from manufacturing and services activity, reducing the value of manufacturing as a leading economic indicator—similar to the aftermath of the pandemic.
- There will be ongoing sectoral divides between trade-exposed sectors and the rest in the short and medium terms. Headline growth data is unlikely to be representative of the economy in its entirety. We believe bottom-up economic analysis will grow in importance.

Read more about our view on how tariffs are likely to impact the U.S. economy:

[Transmission framework: How tariffs will flow through the U.S. economy](#)

FIVE DISRUPTORS TO THE U.S. ECONOMIC CYCLE



Two Americas: The emergence of the K-shape economy

It's always been true that high-income households contribute a disproportionate share of consumption compared to low- and middle-income groups. But, historically, all consumers mostly followed the same economic cycle, and improving economic data generally referred to better conditions for most.

Over the last several years, however, low- and middle-income Americans' economic circumstances have sharply diverged from their high-income counterparts. The root of the divergence is high-income households have benefited from higher interest rate environments (higher returns on savings), and wealth benefits from surging stock and housing markets. Lower- and middle-income households largely missed out on wealth gains and have also felt larger inflationary burdens as rent and food price increases are disproportionately painful for this group.

The result is a growing divide in sentiment aligned with circumstance between Americans. And with it, a need to read economic data—and the cycle—differently. Notably, soft data (survey data) has seen much less value as a forecasting tool. It effectively oversamples low- and middle-income households over high-income households, who are disproportionate spenders. At the same time, aggregate economic data is also likely overstating the economic circumstances of many Americans. For companies that serve low- and middle-income Americans, this is a critical distinction.

Why it matters

- Expect the divergence between soft and hard data to persist as sentiment reflects all income levels while actual spending is skewed toward higher-income consumers. This reduces the value of surveys, particularly confidence data, as a leading indicator of the real economy.
- Headline data will show the average “consumer,” but we should avoid generalizing, as it increasingly misses the economic reality for much of the population.
- When forecasting aggregate consumer behavior, there is a growing need to focus on high-income households driving spending, while leaving equal-weighted patterns for policy or company-level analyses.



America needs workers: A shifting new labor market

Assessing the labor market and its signals about the underlying economy will increasingly be a precision exercise in isolating the demand for workers against the supply.

Massive and accelerating retirements, coupled with a low immigration policy, are likely to continue to weigh on labor force participation rates, and limit the availability of workers. This tension in the demand versus supply of labor is already visible in 2025 jobs data. Job growth has slowed from an average 168,000 per month in 2024 to 74,000 per month in 2025, and yet the unemployment rate has remained extraordinarily tight by

FIVE DISRUPTORS TO THE U.S. ECONOMIC CYCLE

historical standards. The core of the story is a simple, but powerful one: The U.S. economy needs to create fewer jobs for fewer workers.

There are several important implications. Three, in particular, stand out:

1. For the past five decades, accelerating job growth has signaled the U.S. economy is improving, and weaker or negative job growth has been a signal of a coming slowdown or recession. In our view, this will be decreasingly true.
2. The aging of the population (and workforce) also means shifting needs for certain skills, particularly with respect to health care. It's not surprising to us that over half of the job gains in the first eight months of 2025 were health care positions. This isn't a reflection of cyclical demand and a booming economy, but of a structural dynamic—meaning the total number of jobs and their composition are being impacted by this demographic tidal wave. These jobs, coupled with growing government positions, are also less likely to be impacted by the standard business cycle, reducing the cyclical nature of the job market further.
3. An unemployment rate that stays structurally low (with some cyclical variation), also reduces the labor market as a transmission mechanism for weak business activity. For example, large spikes in unemployment are less likely, and the share of the population that is impacted by labor market weakness is smaller.

Why it matters

- The unemployment rate is likely to become a less valuable cyclical indicator, and headline job growth needs to be partitioned out into cyclical vs. acyclical job sectors to get a true read on the domestic private economy.
- Labor market tightness is likely to put a floor under wage growth decelerations, and this adds further challenges to bringing down services inflation.
- As retirees take up a greater share of the population, incomes are becoming less sensitive to labor market developments. About 20% of all income in the U.S. is now transfers from governments, untied to the economic cycle. Similarly, consumption activity is likely to become cyclically tied to the economic cycle.

Read more about our views on the U.S. labor market:

[America needs workers, not jobs](#)



Forever big government: The cost of a constant floor under the economy

By almost every measure, U.S. federal government spending is running at or near all-time highs.

Naturally, this has ushered in concerns about the sustainability of government spending and Washington's ability to pay for growing debts. These are important concerns, but they aren't the only considerations.

FIVE DISRUPTORS TO THE U.S. ECONOMIC CYCLE

As the size of government grows and spending at these historic levels persists, big government also creates structural disruptions to our readings of the economic cycle.

1. Big government is likely muting the economic cycle on both the downside and upside. Instead of the traditional “counter-cyclical” government spending, the post-COVID period hasn’t just been characterized by the magnitude of spend, but also its pro-cyclical nature. Like guardrails on an economy, the sheer magnitude of government spending limits how weak the economy can become in aggregate. At the same time, since public sector spending tends to be less efficient with lower productivity, a growing government may be putting a ceiling on growth over the medium run as well.
2. Fiscal policy is increasingly influencing the direction and composition of the economy, and that’s particularly true relative to monetary policy. This is most clear in the shape of the yield curve—the front end falling on the back of expected rate cuts, but the long end of the curve at the mercy of fiscal sustainability. Problematically, this will add further pressure to costs as interest expenses continue to climb, in our opinion.
3. The attention might be predominantly on government spending, but the requirements of government are also rising as the population ages, putting additional pressures on social security, Medicare expenses, and the labor market. Health care and social assistance and public sector jobs now make up one in three jobs in the U.S.

Why it matters

- Big government is muting the economic cycle, reducing the odds of technical recessions in headline figures, but also potentially limiting the upside of the economy as well.
- Governments are far less cyclical, or even counter-cyclical in nature. As government jobs become a larger share of the workforce over time, economic weakness is less likely to bleed into broader labor and income statistics.



A housing market held hostage: The lost growth engine

The U.S. housing market is in a deep freeze, held hostage by the double whammy of 30-year mortgage rates floating around two-decade highs, and the “lock-in” effect of mortgage holders carrying historically low pandemic-era mortgage rates.

The bulk of housing data looks clearly recessionary. For the past three years, the volume of existing home sales has been trending around levels not seen since the global financial crisis, consumer confidence in buying a home is at a record low, along with housing affordability for first-time homebuyers. Historically, this would have been a three-alarm bell for the U.S. economy as housing has historically led the economic cycle. But the sector has dragged on total growth for nine of the past 14 quarters without pulling the broader economy down with it. Meanwhile, in contradiction, home prices are still up.

FIVE DISRUPTORS TO THE U.S. ECONOMIC CYCLE

Part of housing's disconnect lies in the sector's decreased interest rate sensitivity—another consequence of an aging population. High interest rates are another barrier in a structural shortage of housing supply. Together, these forces imply a housing economy that is now desynchronized from the business cycle as a whole. It disrupts our standard approach to the sector, and its implications for the broad economy.

Why it matters

- Housing is, at least for now, a lost growth engine for the U.S. economy, limiting upside to growth and providing reduced value as a cyclical indicator.
- Monetary policy has become a less helpful tool at stimulating the housing market as most mortgage holders are still benefiting from pandemic-level interest rates. These mortgage holders were unaffected by rising rates, and will similarly be less sensitive to falling rates absent a return to the zero lower bound.
- The economy may become more sensitive to rental markets and rents in general as home ownership levels decline.
- As retirees move into retirement communities and other assisted living facilities, the demographic shift may put downward pressure on prices. But we think this will be a more regional theme, not cyclical.

About the authors

Frances Donald is the Chief Economist at RBC and oversees a team of leading professionals who deliver economic analyses and insights to inform RBC clients around the globe. Frances is a key expert on economic issues and is highly sought after by clients, government leaders, policymakers, and media in the U.S. and Canada.

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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

Pragmatic optimism

Key points

- The global equity market’s upward trek to a succession of new highs is being delivered by more than the so-called “Magnificent Seven.” It is being fueled by confidence that earnings can grow at a solid pace through 2026.
- These constructive expectations need the U.S. to avoid recession, central banks to remain accommodative, and the AI spending story to continue unabated.
- We remain invested but not overly committed—and ready for occasional challenges to the markets’ three-years-and-counting uptrend.

Once again last month, the major global equity markets pushed into new high ground. This has further extended a rising trend for equity markets that goes back to October 2022. These broad-based stock market gains are all the more noteworthy because only the S&P 500, among all the global indexes, has meaningful exposure to the major players in AI.

That heavyweight AI exposure explains why the S&P 500 has added significantly more value than most other stock markets over that long stretch, but most of those other markets have traced out long-lasting, rewarding uptrends nonetheless.

It is also worth pointing out that, by itself, the posting of “new highs” isn’t

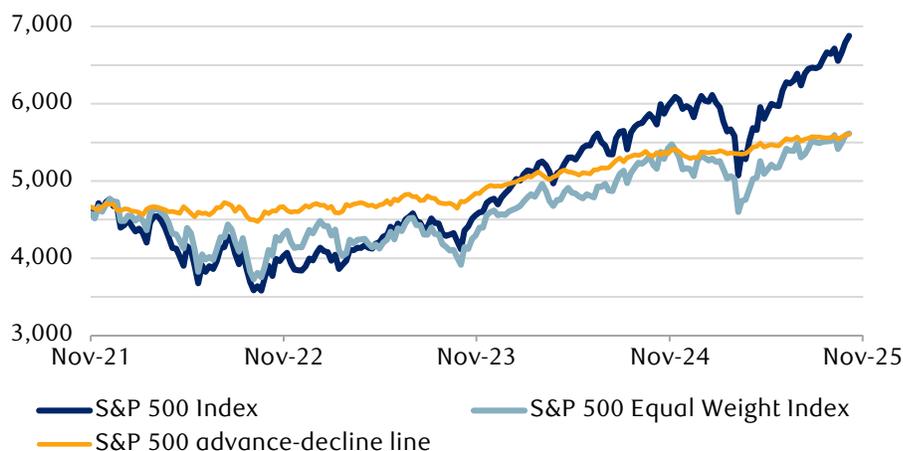
all that special—in the progression of most uptrends, at some point markets are setting new highs every few weeks for an extended period of months or even years.

Broad-based participation argues for further index gains

Importantly, and as we have been highlighting for some time, this long pull higher has been accompanied by rising trends for measures of market breadth. These include the advance-decline lines (which track the difference between the number of stocks rising in price on a given day and the number falling) for both the S&P 500 and the NYSE Composite Index the equal-weighted versions of the S&P 500, Canada’s S&P/TSX Composite Index, the MSCI Europe

All together now

It’s not just the Magnificent 7; the majority of S&P 500 stocks have been moving higher for most of the past 38 months



Source - RBC Wealth Management, FactSet, stockcharts.com

GLOBAL EQUITY

Index and the MSCI UK Index. In other words, the majority of stocks in most markets have been contributing to the index gains, not just a handful of heavyweight favorites.

Until some of these breadth indicators, especially those for the S&P 500, break lower and disconnect from the market’s uptrend, history suggests the probabilities favour more new index highs in the months ahead.

Not only have the breadth measures for the S&P 500 recently set new cycle highs alongside the index itself, but the market leaders, the so-called Magnificent Seven, are also in gear. Alphabet, Amazon, Apple, Microsoft, Nvidia, and Tesla have all set new closing highs in the past few weeks, with only Meta Platforms failing to do so.

The uptrend is fueled by earnings growth

Leaving these price-based indications aside, we are of the view that investors will need to remain confident that index earnings per share can go on growing through 2026 and beyond, and that current consensus estimates for S&P 500 earnings—\$274 per share for this year and \$307 for 2026—are in the right ballpark.

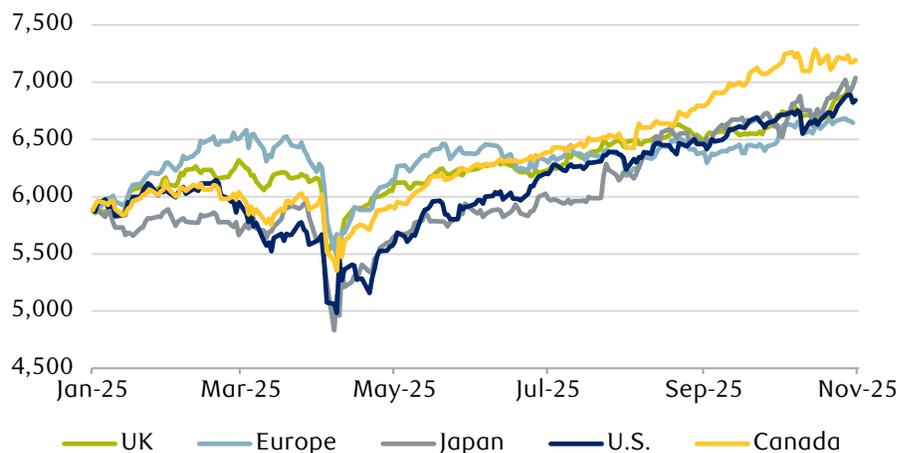
While Q3 earnings reports so far have featured sales and earnings growth ahead of consensus expectations, RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina characterises management comments as only “mixed,” with tariff impacts and policy uncertainty still clouding the view into 2026. With a smaller plurality of sales and earnings estimate revisions to the upside, she cautions that a “garden variety pull-back in the S&P 500 ... still remains a risk for equity markets.”

Table set for more to come

From our vantage point, a satisfactory market and earnings outcome for 2026 will need the U.S. economy to avoid recession and the AI story, particularly the associated growth in capital spending, to remain intact. With tame inflation and a weaker employment picture revealed in pre-government shutdown jobs data, we believe the U.S. Federal Reserve has room to cut interest rates further in the coming quarters, adding to the already improving credit conditions. Consumers remain downbeat according to surveys but, by most accounts, continue to spend, albeit at a deliberate pace.

In our view, all the above allows one to reasonably expect U.S. GDP growth

A global party



Regional performance represented by the S&P 500 Index (U.S.), TSX Composite Index (Canada), MSCI UK Index (UK), MSCI Europe ex UK Index (Europe), and TOPIX (Japan); all regions indexed to the S&P 500 Index on Jan. 1, 2025.

Source - RBC Wealth Management, FactSet

GLOBAL EQUITY

for 2026 to come in close to the 1.5%–2.0% range embodied in consensus estimates—positive, but perhaps not leaving a lot of room between “adequate” and “disappointing.” As for the sustainability of the AI trajectory, we believe the very strong order book and quarterly results recently announced by Taiwan Semiconductor Manufacturing Company, the major supplier of the world’s high-end computer chips, echoed by the solidly bullish outlook for earnings and capital spending on the part of the management teams of the AI behemoths, all speak to more strength to come.

We remain where we’ve been: invested but not overly committed—and ready for occasional challenges to the markets’ three-years-and-counting uptrend.

For more thoughts on our global equity market assessments for 2026 and beyond, please consult our Global Insight 2026 Outlook that will be available in the first week of December.

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

Rate cuts to boost growth

Key points

- Central banks have restarted, or resumed, rate cut cycles at the tail end of 2025 in an effort to shore up economic outlooks for 2026.
- The U.S. Federal Reserve’s second cut in as many months, with the potential for more to come, is likely the most consequential by a major central bank.
- Despite central banks lowering short-term policy rates, a better global economic outlook could see longer-dated bond yields rise from current levels.

Rate cut cycles have resumed this fall as central banks aim to right-size, or in certain cases simply fine-tune, the stance of monetary policy.

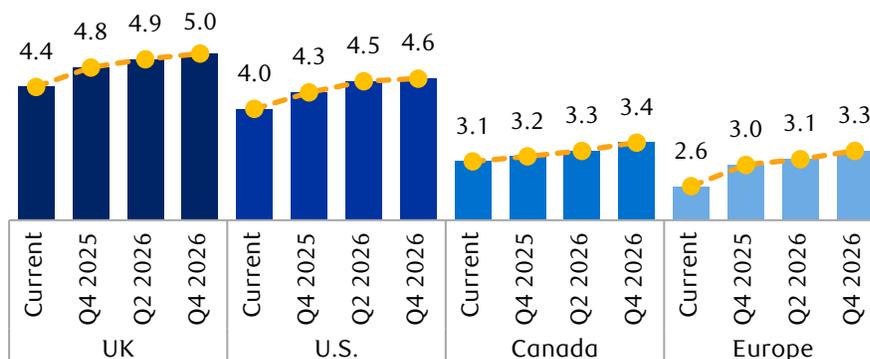
The Federal Reserve is in the midst of calibrating its policy rate having held rates unchanged at 4.50% for the bulk of the year. A second consecutive 25 basis point cut at its October meeting now leaves the policy rate at 4.00%. While markets continue to be convinced the Fed will cut once more this year in December, we think elevated inflation and a labor market that remains on steady footing could cause the Fed to skip a cut in December. Of course, the U.S. government shutdown and the lack of economic data as a result will undoubtedly complicate matters for policymakers.

By the same token, after 25 basis point rate cuts in September and October on the back of lackluster economic data, we see the Bank of Canada holding policy rates at 2.25%. We also expect the Bank of England to deliver another rate cut this month, having opted to skip a move at its September confab. The European Central Bank hasn’t committed to a particular path, but we expect policy rates to remain on hold at 2.00% for the foreseeable future.

But even as central banks continue to lower short-term policy rates, we increasingly expect bond yields to rise over the course of 2026. As the chart below shows, RBC Capital Markets projects benchmark 10-year sovereign yields to rise from current trading levels next year, if by varying degrees.

RBC projects rising government bond yields in 2026

Current 10-year government bond yields and forecasts (%)



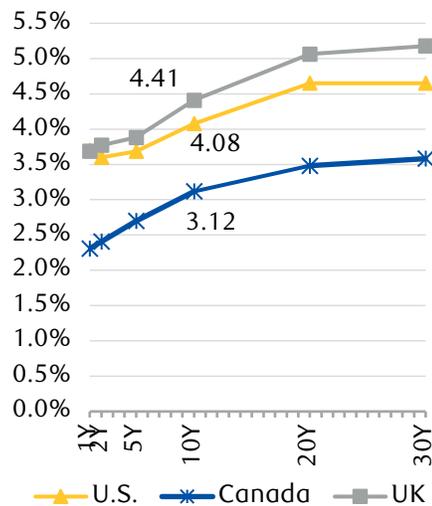
Source - RBC Wealth Management, Bloomberg, RBC Capital Markets forecasts as of October 2025; Europe represented by German Bunds

GLOBAL FIXED INCOME

While it may seem incongruous with central bank rate cuts, such moves this year should drive moderately higher growth and inflation expectations next year as a result, and therefore potentially higher longer-term bond yields.

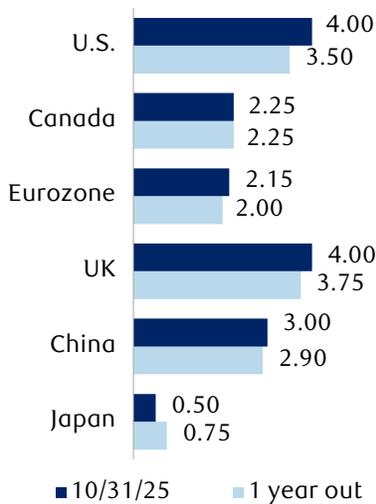
For more thoughts on our global fixed income market assessments for 2026 and beyond, please consult our Global Insight 2026 Outlook that will be available in the first week of December.

Sovereign yield curves



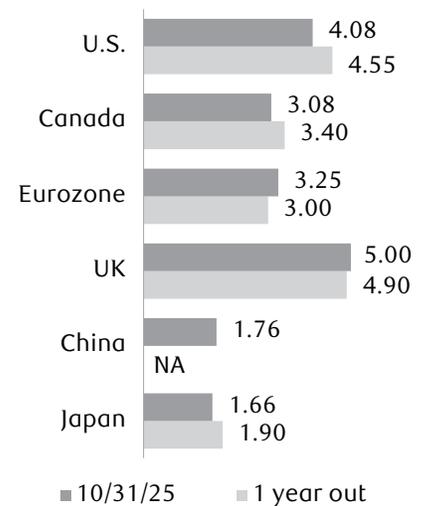
Source - Bloomberg; data through 10/31/25

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

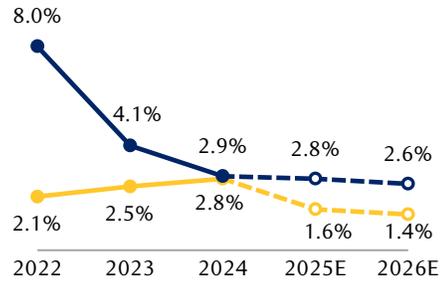
10-year rates (%)



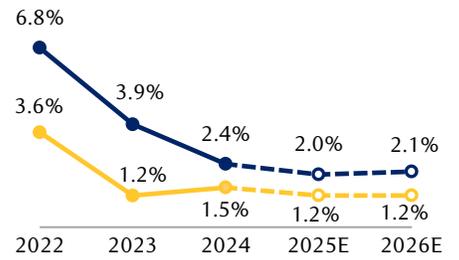
Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

KEY Forecasts

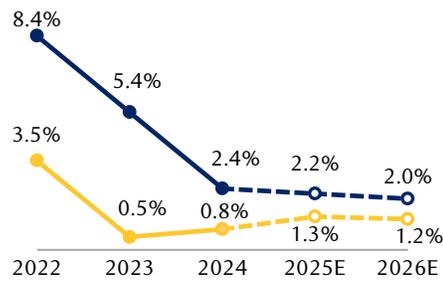
United States



Canada



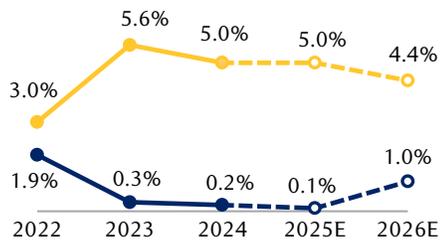
Eurozone



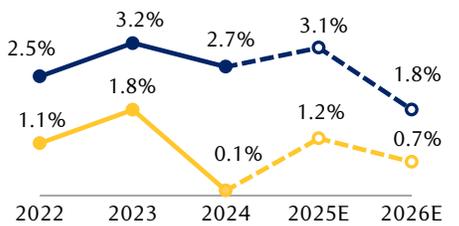
United Kingdom



China



Japan



—●— Real GDP growth

—●— Inflation rate

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

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities.

The Global Portfolio Advisory Committee leverages the broad market outlook as developed by the RBC Investment

Strategy Committee (RISC), providing additional tactical and thematic support utilizing research from the RISC, RBC Capital Markets, and third-party resources.

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