

GLOBAL Insight



Wealth
Management

February 2026

Perspectives from the Global Portfolio Advisory Committee



Big Tech's AI expansion From investment to scalable returns

The AI investment cycle still has more runway ahead, but the prospect of a narrative shift toward monetization, return on investment, and enterprise applications strengthens the case for diversifying both within and beyond Big Tech to capture a broader set of opportunities.

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**Earnings and the economy
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The recent spike in Japanese bond yields has led to questions about the potential for large-scale sales of government bonds. While we don't believe the current episode portends a broader crisis, investors should remain alert to potential impacts on both Japan and the global economy.

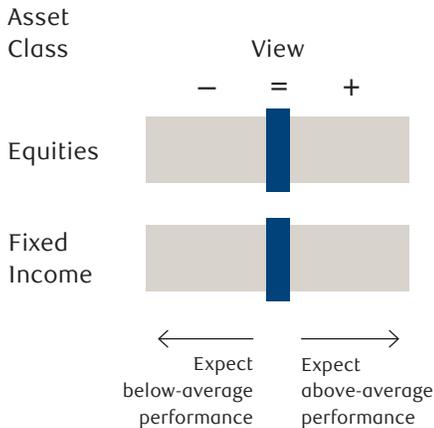
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RBC'S INVESTMENT Stance

Global asset class views



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

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

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

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

Source - RBC Wealth Management

Equities

- The consensus U.S. GDP forecast for 2026 has been moving higher on the back of well above-average Q3 2025 growth and expectations of a strong Q4 report. RBC Economics recently pushed up its 2026 GDP growth forecast to 2.4%, an above-consensus and above-average level. This development combined with European fiscal spending and good Chinese economic momentum give us more confidence that solid global economic and corporate earnings growth can materialize in 2026, including S&P 500 profit growth of 10% or better.
- We think the bull market has further to run and expect a number of developed and emerging equity markets to set more new highs this year. But we also think it's prudent to expect some potentially unnerving volatility along the way as has typically occurred during U.S. midterm election years and as investors begin to consider economic and earnings prospects for 2027. With valuations elevated, we recommend maintaining overall equity exposure at Market Weight—in other words, at the strategic recommended allocation level.

Fixed income

- Despite the volatility of 2025, the direction of travel was generally toward lower yields, but that has been shaken up to start 2026. Japanese government bond yields spiked in January to multi-decade highs largely on growing fiscal concerns. But it's just one factor on a growing list, including building U.S. economic momentum, that suggests to us that 2026 could see a trend of gradually higher sovereign bond yields.
- We remain Underweight U.S. Treasuries and have shortened duration exposure on the potential of modestly higher long-term bond yields. Credit valuations are still rich globally, in our view. In the U.S., a solid economic growth backdrop should at least support credit markets, justifying a modest Overweight for corporate bonds. But different central bank and economic trajectories have us pursuing different allocations between government and corporate bonds across certain regions.

MONTHLY
Focus

Big Tech’s AI expansion

From investment to scalable returns

The AI investment cycle still has more runway ahead, but the prospect of a narrative shift toward monetization, return on investment, and enterprise applications strengthens the case for diversifying both within and beyond Big Tech to capture a broader set of opportunities.



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Key points

- **Big Tech’s unprecedented expansion in AI infrastructure, funded by internal cash, tests the limits of sustainable growth.**
- **A decade-high capex-to-revenue ratio suggests a departure from asset-light models but introduces new risks and opportunities in the AI era.**
- **As the evolving narrative of AI adoption deepens, greater emphasis moves to monetization and tangible applications.**

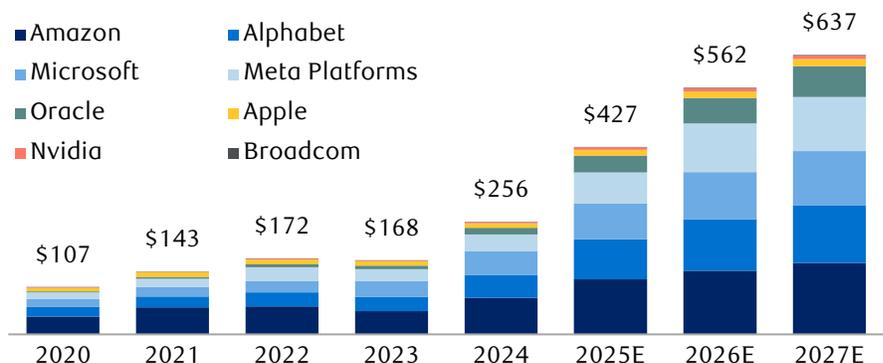
Full steam ahead

The launch of ChatGPT in late 2022 unleashed one of the fastest and largest capital expenditure (capex) cycles in decades. At its core is the infrastructure needed to train and deploy AI at scale—semiconductors, networking equipment, power systems, and data centres. Leading the investment boom are the dominant U.S. Big Tech firms vying to establish leadership in what is increasingly viewed as a transformational general-purpose technology.

Capex among these firms has more than doubled in the last two years, reaching \$427 billion in 2025 (see chart). Momentum shows few signs of fading heading into 2026, with projections pointing to a further 30 percent year-over-year increase to roughly \$562 billion. This spending is unevenly distributed, however, with Microsoft, Amazon, Alphabet, Meta and, more recently, Oracle accounting for the bulk of the increase.

Big Tech capex continues to increase

Annual capital expenditures by Big Tech companies (USD billions)



Source - RBC Wealth Management, Bloomberg; data as of 1/28/26; 2025 and later data are Bloomberg consensus estimates

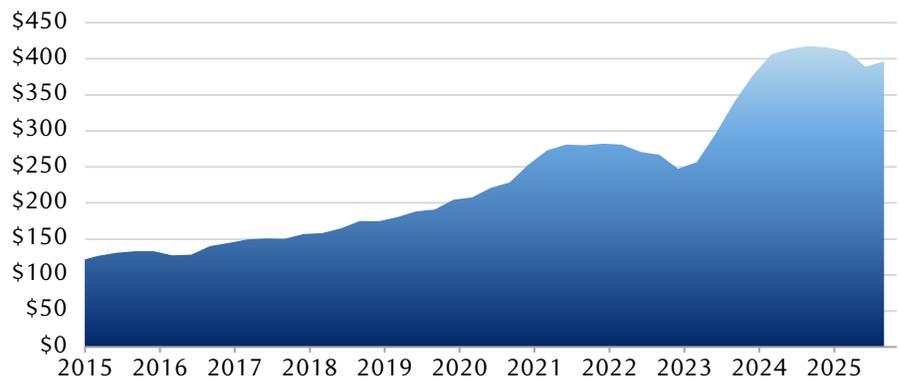
BIG TECH'S AI EXPANSION

Capex sustainability

For now, we believe these companies are broadly operating from a sturdy financial position, underscored by cash-rich balance sheets and reliable cash flow generation. As of the third quarter of 2025, these companies held cash and equivalents totalling \$490 billion and generated nearly \$400 billion in trailing 12-month free cash flow after capex outlays (see chart), implying most of the current AI-related spending has been funded by internally generated cash, rather than through external sources of financing such as debt.

Cash-rich corporate balance sheets support AI-related spending

Total trailing 12-month free cash flow of Big Tech companies* (USD billions)

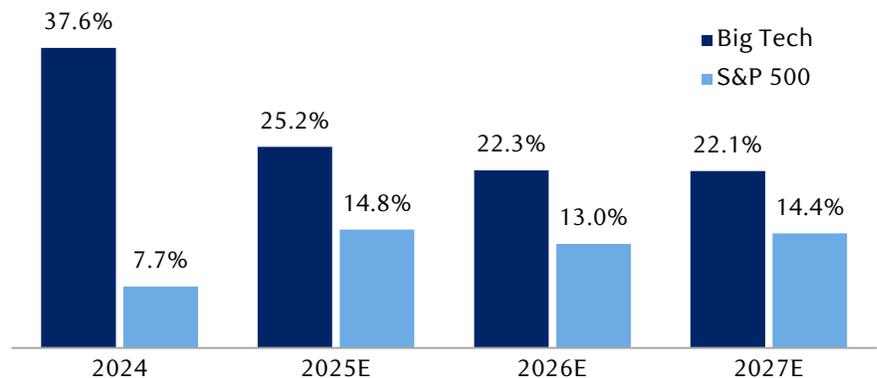


Source - RBC Wealth Management, Bloomberg; quarterly data through 9/30/25. * Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, Broadcom.

While this strong self-financing capacity suggests to us that the current level of investment can be sustained in the near term, it is also tethered to the group's fundamental outlook. A meaningful slowdown in earnings growth could heighten scrutiny and test the market's tolerance for continued elevated spending, in our opinion. Consensus expectations point to Big Tech's earnings growth of roughly 22 percent in 2026 and 2027, continuing to outpace the broad market, though by a narrowing margin (see chart).

Big Tech retains an earnings edge

Average annual EPS growth rate of Big Tech companies*



Source - RBC Wealth Management, Bloomberg; data through 1/28/26; 2025 and later data are Bloomberg consensus estimates. * Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, Broadcom.

BIG TECH'S AI EXPANSION

Rising capex intensity

Another trend worth monitoring is capital intensity. Big Tech's capex as a share of revenue has risen to its highest level in over a decade (see chart). This marks a notable departure from the asset-light and capital-efficient business models—monetizing and scaling through some combination of intellectual property, software, algorithms, advertising, platforms, and network effects while spending relatively little on physical assets—that supported premium valuations over the past decade.

Capital intensity has reached decade-high levels

Median capex-to-sales ratio of Big Tech companies*



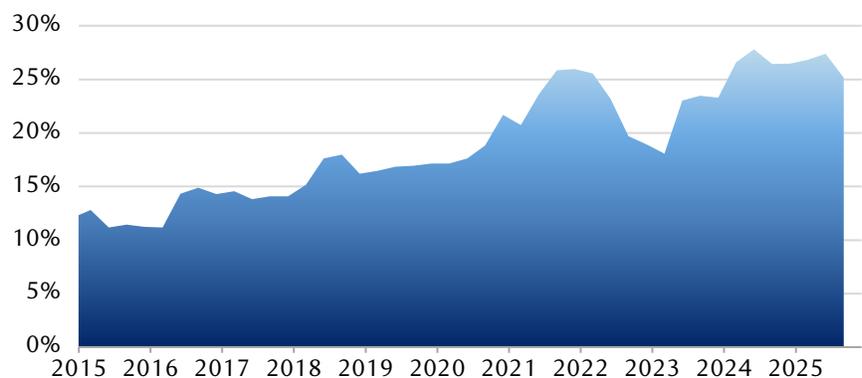
Source - RBC Wealth Management, Bloomberg; quarterly data through 9/30/25. * Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, Broadcom.

A more capital-intensive structure can still deliver attractive shareholder returns, in our view, but it can also introduce greater cyclicality to earnings, as asset-heavy businesses tend to be more sensitive to capacity utilization rates, pricing, and technological obsolescence (depreciation schedule and reinvestment needs). Another risk we are monitoring is whether outsized capex commitments could begin to crowd out share buybacks or push the AI ecosystem to increase reliance on debt.

Encouragingly, Big Tech's return on invested capital (ROIC) remains elevated (see chart), and earnings momentum continues to outpace the broader market—factors that, we believe if sustained, can help preserve

Return on invested capital remains elevated

Median return on invested capital (ROIC) of Big Tech companies*



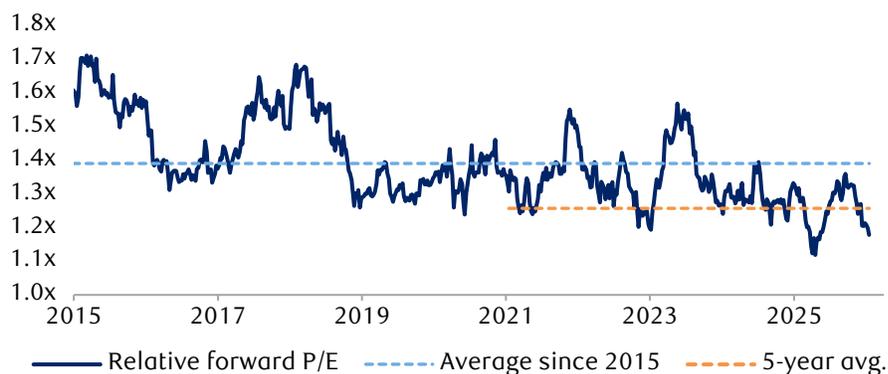
Source - RBC Wealth Management, Bloomberg; quarterly data through 9/30/25. * Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, Broadcom.

BIG TECH'S AI EXPANSION

the group's valuation premium despite higher capital intensity. This Big Tech group, which now makes up roughly a third of the S&P 500's market cap, trades at an average forward P/E multiple of 26.1x (see chart), or about a 18 percent premium to the index, but below the average premium since 2015 (39 percent) and the five-year average (26 percent).

Big Tech's valuation premium is below its long-term average

Average forward P/E multiple of Big Tech companies*



Source - RBC Wealth Management, Bloomberg; data through 1/16/26. * Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, Broadcom.

A balancing act

As outlined in our [Global Insight 2026 Outlook](#), we believe AI will remain a central macro theme for years to come. The technology is still in the early phases of innovation and adoption, capital investment remains strong, and the potential to lift the long-term growth trajectory for the economy and corporate earnings is immense, in our view. Nevertheless, history reminds us that transformative general-purpose technologies—such as railroads and the internet—often require periods of overinvestment and lengthy diffusion-adoption cycles before delivering durable and widespread benefits.

For much of the past three years, the narrative has largely focused on the speed and scale of AI infrastructure buildout. As the cycle matures, we believe the narrative could evolve to a more discerning phase, with greater emphasis along two considerations:

- Monetization visibility and sustainability:** The efficiency with which AI infrastructure investments translates into recurring revenues and generates sufficient returns on investment within a reasonable timeframe. This is likely, in our view, to sharpen the differentiation between tech companies that can fund AI spending through operating cash flow backed by durable business models with more concrete and measurable monetization pathways, and those more reliant on debt financing with less certain prospects for sustainable returns.
- AI “adopters” demonstrating real-world, tangible applications:** Companies integrating AI in their businesses to accelerate automation, optimize cost structures, expand product and service capabilities, and boost productivity in ways that generate measurable value and help establish new or deepen existing competitive advantages. In this

BIG TECH'S AI EXPANSION

context, we believe AI represents a potentially disruptive force that could create a technological divide across industries, making it critical for companies to successfully harness the technology, particularly in sectors where AI has the capacity to reshape long-term earnings power.

With Big Tech having delivered exceptional returns for many years and driving elevated market concentration, ensuring portfolios are well balanced and adequately diversified across and beyond the group appears sensible to us.

We believe this discipline allows portfolios to maintain participation in AI-connected investment themes while helping to cushion against the risk of a “capex hangover,” manage performance correlation tied to a single risk factor, and navigate the prospect of market leadership rotations and more uneven performance among AI-linked companies (see table).

Performance dispersion picked up in 2025

Excess returns relative to the S&P 500

Company	2022	2023	2024	2025
Amazon	-31.5%	54.6%	19.4%	-12.7%
Alphabet	-21.0%	32.1%	11.0%	48.1%
Microsoft	-9.9%	31.9%	-12.1%	-2.3%
Meta Platforms	-46.1%	167.9%	41.0%	-4.8%
Oracle	13.5%	4.7%	35.0%	0.3%
Apple	-8.3%	22.7%	5.7%	-8.8%
Nvidia	-32.1%	212.8%	146.3%	21.1%
Broadcom	4.9%	78.0%	85.4%	32.8%
Average relative performance	-16.3%	75.6%	41.5%	9.2%

Source - RBC Wealth Management, Bloomberg

It also positions portfolios, in our view, to capture a wider spectrum of opportunities, particularly if perceived AI beneficiaries expand beyond the Big Tech “hyperscalers” and “enablers” that have dominated the initial infrastructure buildout phase to include AI “adopters,” many of which are likely to reside in industries out of the tech sector.

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

Earnings and the economy will tell the tale

Key points

- Rising estimates for earnings and GDP growth are supportive of more new highs in 2026.
- Policy uncertainty remains a headwind in the U.S., and could be accentuated by the coming midterm elections.
- We remain committed to equities but not over-committed.

The S&P 500 rose by a healthy 16% over the past 12 months. Japan's Topix and Canada's S&P/TSX Composite, as well as the UK and Europe MSCI indexes were all up by considerably more (see table). This despite the fact none of the latter have anything like the S&P 500's exposure to the market-leading, megacap AI stocks, and all are contending with significant trade upheavals.

All the indexes are trading at price-to-earnings (P/E) ratios well above their long-term averages. That said, the S&P 500 is nowhere near as richly valued in relation to earnings as it was in 2000 through the last upward leg of the tech bubble.

We expect all the major equity indexes will post further new highs in 2026. Most, including the S&P 500, should end the year higher than they were at the beginning. RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina draws on five different models to develop a year-end 2026 S&P 500 price target of 7,750—an advance of 13% over the 2025 ending value.

The principal underpinning to this target would be a similar percentage gain in S&P 500 earnings per share (EPS) for the year. Consensus

estimates for those earnings currently sit at \$313 per share, up 14% from 2025's estimated \$273 per share.

To make the 13% estimated upside for the index plausible, U.S. GDP would need to expand at a sufficient pace to produce the necessary above-average EPS growth. For some time, consensus estimates for 2026 GDP growth were mired in the stagnant 1% to 2% range. However, recently those estimates have begun to ratchet higher fueled by stronger-than-expected Q3 results and solid consumer spending data in Q4 (despite the government shutdown).

RBC Economics recently boosted its 2026 U.S. GDP growth projection to 2.4% (up from 1.6%). As we've noted here previously, in prior years where U.S. GDP growth landed in the 2.1% to 3.0% range the median S&P 500 return has been 11%–13%.

From where we stand today, not much has to change to make a GDP number north of 2% a likely outcome.

Fed policy acts with a lag. RBC Economics forecasts no more rate cuts from the U.S. Federal Reserve this year. (The consensus is somewhat more optimistic.) But 175 basis points of rate cuts have already

Percentage appreciation over 12 months to Jan. 30, 2026

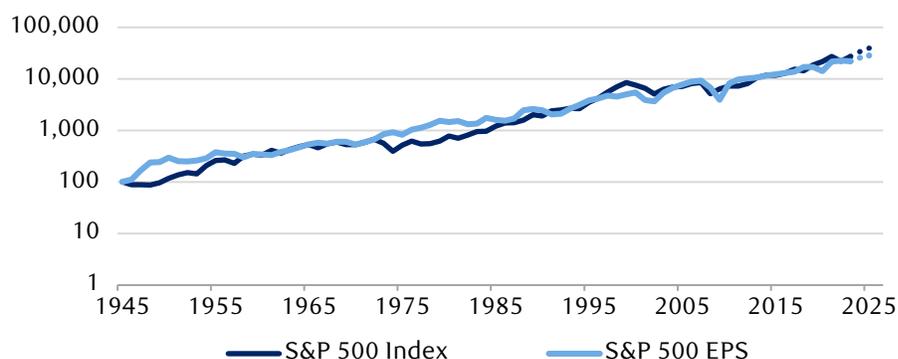
	S&P 500 (U.S.)	S&P/TSX Composite (Canada)	MSCI Europe	MSCI UK	TOPIX (Japan)
In local currency	16%	29%	12%	18%	28%
In U.S. dollars	16%	38%	27%	30%	28%

Source - RBC Wealth Management, FactSet

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S&P 500 earnings have kept pace with the index level

S&P 500 Index and EPS indexed to 100 at 1945 (log scale)



Over the long term, the index has appreciated (7.7% per annum) almost exactly as fast as earnings have grown (7.4% per annum). Dashed lines represent RBC estimates.

Source - RBC Wealth Management, FactSet, Bloomberg

been put in place over the past 16 months. And we would note that monetary policy changes typically act with a lag of about a year on the economy. Right on schedule, the 100 basis points of cuts put in place back in Q4 2024 showed up as better-than-expected consumer spending growth in Q3 and Q4 this past year. And they'll likely go on having a stimulative effect in the first half of this year, while the 75 basis points of cuts made in late 2025 should show up as better economic activity in the latter half of this year.

No consumer heroics needed. The consumer backdrop looks mildly positive to us. The unemployment rate is steady, while layoffs and unemployment claims are trending lower. A majority of small businesses and CEOs of large companies surveyed by Chief Executive magazine and the National Federation of Independent Business are planning to hire more and raise compensation. They all report skilled/qualified workers are in short supply. Real consumer incomes should grow moderately, while an estimated boost of \$50 billion in tax refunds should give an assist to consumer spending in the first half. Bank lending standards on most types of consumer loans, including credit cards, are easing.

Capex looks solid. Both CEO and small business surveys reveal a

growing proportion of businesses are planning to increase capital expenditures in the coming months. Reshoring—stimulated by tariff policy—spending on AI applications, and the data centre buildout continue to be in play.

Not all a bed of roses

However, there are a number of factors keeping the U.S. economic picture somewhat clouded. Consumers within the bottom half of household incomes are having trouble making ends meet. Rising utility rates are not playing well in an unusually cold winter while fueling a growing backlash against data centre construction. Power availability is already a constraint for those AI-based developments and is likely to be an even bigger headwind beyond 2026, in our view, as it will be difficult for grid additions to keep pace with the number of new data centres already announced.

The shortage of skilled workers is only getting worse. The CEO of Ford Motor Company has said he needs 6,000 highly skilled technicians in dealerships “tomorrow” and can't find them. Commitments to build chip factories, especially those needed to establish the capacity to fabricate the most advanced chips required by AI, are being slowed or stymied by the dearth of specially skilled workers and the highly restricted ability to bring them in from abroad.

GLOBAL EQUITY

While the 250 CEOs polled in Chief Executive’s survey indicated they are going to hire more, pay more, and spend more, they are apparently doing so while feeling a growing sense of unease about the economy. The January reading of that publication’s CEO Confidence Index was notably weaker, and Chief Executive noted that it “marks the first time CEOs have begun a new year with such a sharp drop in sentiment.” Most CEOs surveyed cited the vagaries of U.S. federal government policy as the principal concern weighing on their 2026 outlook.

Growth prospects encouraging elsewhere

European economies are benefitting from increased commitments to defense spending and energy security. More than 50% of the EU’s power generation now is delivered by low-cost renewables with more to come. Manufacturers everywhere are spending to lower costs as an offset to tariffs. Canada is part of the NATO defense buildup and has committed to fast-tracking a growing list of major developments including long-delayed mining projects, major additions to liquefied natural gas and port capacity, grid building initiatives, significant capacity expansions to existing oil pipelines, and probably one new greenfield pipeline.

All these non-U.S. projects have what we see as multiyear runways that speak to durable contributions to employment and GDP in those countries.

Midterm election volatility

As we noted here last month, “U.S. midterm election years have often experienced a noteworthy market pullback. At what point in the year those corrections have started and finished has been all over the map. However, the market rebound off the eventual lows has typically been quite energetic and frequently taken the indexes to new all-time highs.

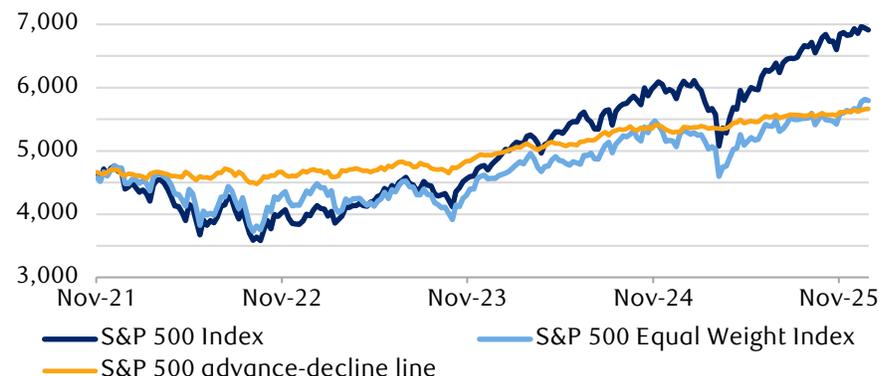
“The probabilities favour both a pullback and a subsequent bullish upleg to new highs. However, markets and the economy are unaware of how they are ‘supposed’ to behave according to past experience. They can and do toss unexpected curveballs.”

Market breadth remains in gear

In the case of the S&P 500, the majority of stocks are moving in the same direction as the index itself, as indicated by commensurate new highs for both the advance-decline line and the unweighted version of the index (see chart below). In our opinion, this suggests the ultimate high-water mark for this bull market

‘New highs’ all around

It’s not just the megacap growth stocks; the majority of S&P 500 stocks have been moving higher for most of the past 39 months



Note: The advance-decline line is a series built over time from the difference in each day’s trading between the number of issues rising and those falling.

Source - RBC Wealth Management, FactSet, stockcharts.com; weekly data through 1/23/26

GLOBAL EQUITY

may still lie a fair way ahead since the majority of stocks have usually rolled over into downtrends several months before the index itself sets its final peak.

The same is true for other major equity markets where unweighted indexes are setting new highs alongside their capitalisation-weighted brethren.

Invested but watchful

We currently expect global stock markets to set more new highs over the remainder of this year. We also think it's prudent to expect some potentially unnerving volatility along the way, as has typically been the case during U.S. midterm election years.

At some point during the year, investors will want to be assured 2027 too will bring more GDP and earnings growth. For our part, we think portfolios should remain committed to equities up to but not beyond an investor's long-term targeted exposure.

GLOBAL
Fixed income



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The year of the ‘bond vigilante’?

Key points

- Global bond markets were rocked in January by another round of sovereign debt fears, sending government bond yields higher.
- Though it’s possible this turbulence could morph into something more problematic for global markets, we think this risk is low this year.
- Ultimately, we view the ongoing rise in Japanese bond yields as a sign the country’s economy is exiting a decades-long stretch of lagging its global peers.

The idea of “bond vigilantes,”—a mysterious cabal of investors who could sell their government bond holdings in protest against, or in fear of, government fiscal profligacy—has been around since the 1980s, predicated on the risk that such an action could send bond yields soaring.

In fact, the story of global bonds over the past 40 years has been one of ever-lower yields. Fears of vigilantes spring up from time to time, a few headlines are written, and they fade as quickly as they appeared.

Budget fears in the United Kingdom sent yields spiking back in 2022, but market stress lasted barely longer than a head of lettuce. The U.S. had its own scare in 2023, as increasing public concern over rising budget deficits sparked fears of larger-than-

expected Treasury issuance needs, but there too, the jump in yields dissipated in short order.

January 2026 marks the latest episode, as the 40-year Japanese Government Bond (JGB) yield jumped by more than 60 basis points at one point to 4.2%—a large move in such a small timeframe in almost any context, and a massive one for a country more famous for its negative yields than high yields in recent years. But in our view, this episode was triggered by factors similar to those that touched off earlier spikes—plans for unfunded tax cuts, presumably to be paid for with debt.

But will this episode last longer? We don’t think so. In another sense, and as the chart highlights, the rise in Japanese bond yields could simply indicate that the

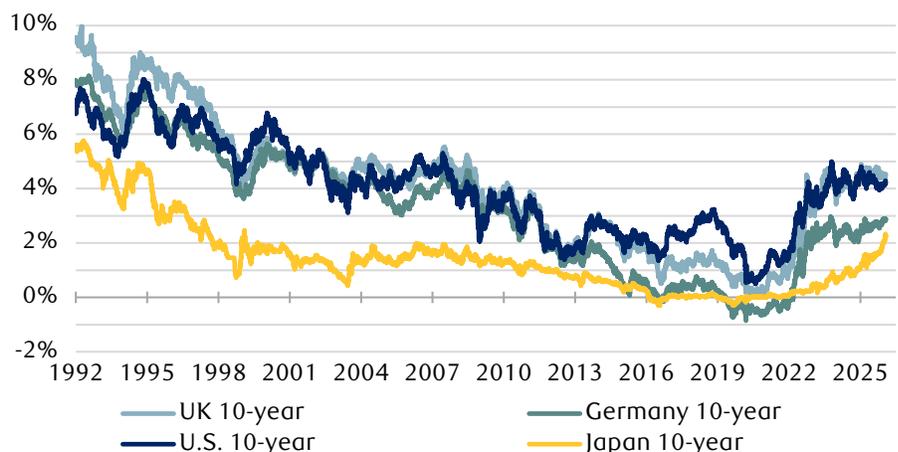
Fixed income views

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

The great normalization?

Rising Japanese bond yields appear to be merely converging with global trends



Source - RBC Wealth Management, Bloomberg

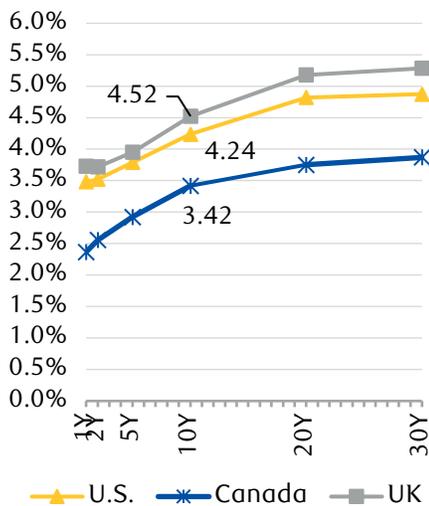
GLOBAL FIXED INCOME

country’s economy—after decades of stagnation, disinflation, and low yields—is reconverging with its global peers.

There are, of course, risks too. The “yen carry trade”—in which investors borrow money in a low-yield currency in order to reinvest it elsewhere with better return prospects—risks being unwound. At the same time, any type of sharp market move always comes with the potential of “breaking something.”

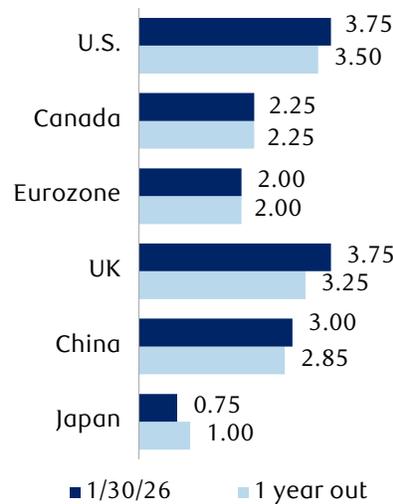
With central banks seemingly largely done cutting rates, this year could bring heightened focus on sovereign finances. But from a global perspective, we still see a net positive if new policies implemented by Japan’s government ultimately return its economy to sustainable form, and the ongoing rise in yields—even if chaotic at times—may prove to be little more than a byproduct of that process.

Sovereign yield curves



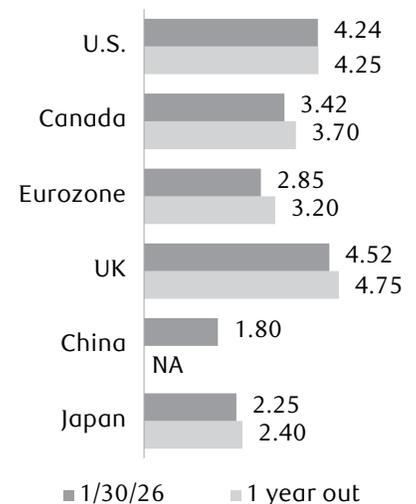
Source - Bloomberg; data through 1/31/26

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

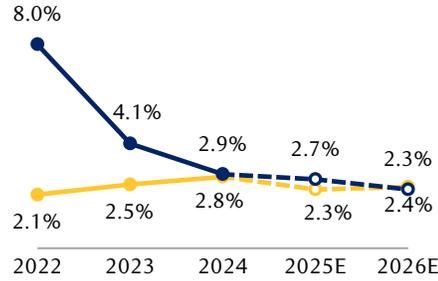
10-year rates (%)



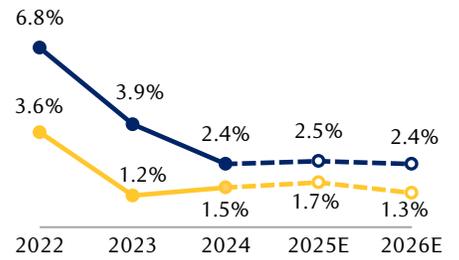
Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

KEY Forecasts

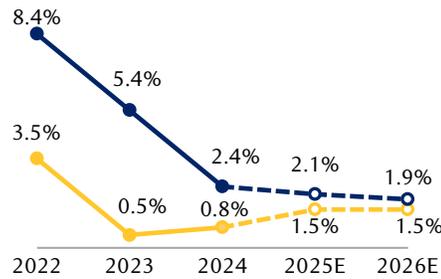
United States



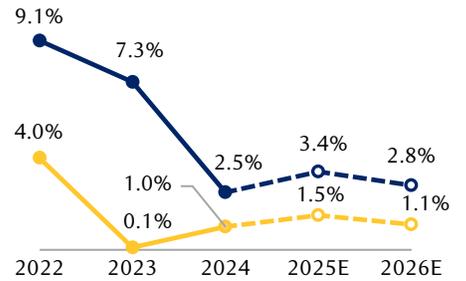
Canada



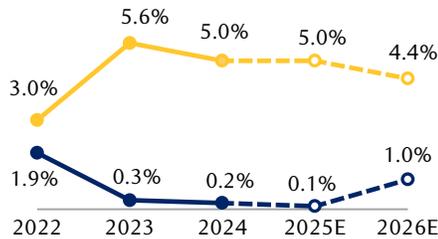
Eurozone



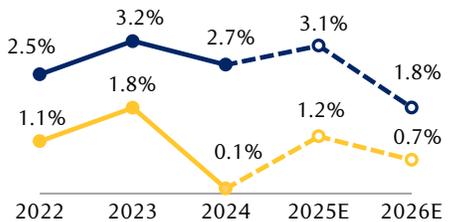
United Kingdom



China



Japan



—●— Real GDP growth

—●— Inflation rate

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

Research resources

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