

GLOBAL Insight



Wealth
Management

May 2026

Perspectives from the Global Portfolio Advisory Committee



Midterms, the market, and what matters

The U.S. midterm election in November is shaping up to be a referendum on Trump 2.0. We examine historical equity market performance surrounding midterm elections, and what this might—or might not—be suggesting for this year and next.

Kelly Bogdanova | Page 4

Also in this issue



GLOBAL EQUITY
Was that all there is?



GLOBAL FIXED INCOME
**Central banks have
seen enough**



U.S. RECESSION SCORECARD
A more constructive picture

Produced: May 6, 2026, 17:18 ET; Disseminated: May 7, 2026, 11:15 ET

For important and required non-U.S. analyst disclosures, see [page 20](#).

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Contents

Monthly focus

4 Midterms, the market, and what matters

The U.S. midterm election in November is shaping up to be a referendum on Trump 2.0. We examine historical equity market performance surrounding midterm elections, and what this might—or might not—be suggesting for this year and next.

Global equity

11 Was that all there is?

The outlook for equity markets, already faced with the historical challenges of a midterm election year, is now additionally dependent on how soon the Strait of Hormuz can reopen.

Global fixed income

14 Central banks have seen enough

After biding their time, we now see some major global central banks pivoting to rate hikes in the months ahead.

U.S. Recession Scorecard

16 A more constructive picture

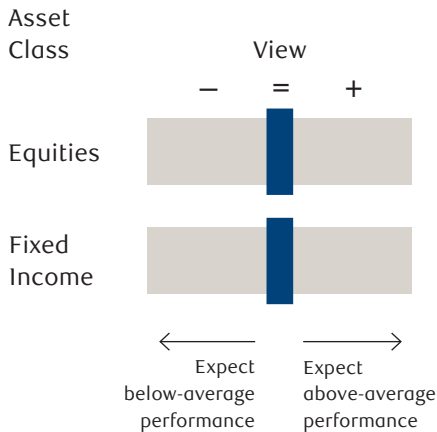
After years of slowly edging toward a recessionary Red complexion, the Scorecard looks to have reversed course and is slowly shifting toward expansionary Green, a positive for the equities outlook.

In the markets

3 RBC's investment stance

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

- Stock markets bounced back in April, discounting the potential for a swift end to the U.S./Israel–Iran war, and buoyed by a particularly strong U.S. corporate earnings season.
- Future performance hinges on how soon the flow of oil, natural gas, and other commodities is normalized through the Strait of Hormuz. A rapid normalisation would likely yield faster economic growth propelled by falling energy costs, emboldened consumers, and restored business confidence. Conversely, a prolonged failure to restore commodity flows could entrench high energy prices and trigger outright shortages of fuel and key chemicals for many countries—a combination that could weigh materially on global growth.
- In our view, the possibility that access to the Strait of Hormuz could remain constrained into the second half of the year should not be dismissed. Were this to materialize, we would expect more volatility in equity markets, particularly given that U.S. midterm election years have been prone to sharp S&P 500 corrections.
- Yet the recovery potential of major economies is high, in our view, regardless of which scenario ensues. Therefore, we continue to believe portfolios should remain committed to equities up to, but not beyond, an investor's long-term targeted allocation.

Fixed income

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

 MONTHLY
 Focus

Kelly Bogdanova

San Francisco, United States
 kelly.bogdanova@rbc.com

Midterms, the market, and what matters

The U.S. midterm election in November is shaping up to be a referendum on Trump 2.0. Independent voters and views on the economy could tip the scales. We examine historical equity market performance surrounding midterm elections, and what this might—or might not—be suggesting for this year and next.

Key points

- **The sitting president’s party has almost always lost House seats in midterm elections, and those losses have often been large. Presidential popularity has played a role.**
- **U.S. equity returns in midterm election years have been the most muted, although gains in the following year have been robust.**
- **The market has often welcomed political party gridlock in Washington—but not always, and less so with a Republican president at the helm.**
- **Election results have not been the main driver of equity prices over time. Corporate innovation, Fed policy, and economic and earnings trends have mattered more.**

Five factors framing the election

With all 435 House of Representatives seats and 35 of the 100 Senate seats up for election on Nov. 3, there are some typical and atypical factors that could impact political party control in Washington.

A referendum on Trump 2.0

Midterm elections are often a referendum on the president’s term, even though the president’s name is nowhere on the ballot. And they are usually tough sledding for the president’s party when it comes to House races.

Since 1906, the president’s party gained House seats only three times in midterm elections, and the pickups were just single digits. Big losses were far more common, with Republicans and Democrats each shedding 28 seats on a median basis.

The data suggests presidential popularity played a role.

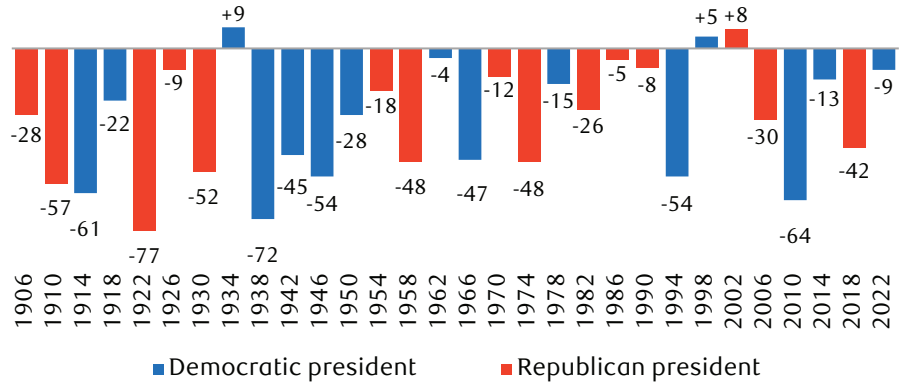
Since World War II, the two presidents who had high approval ratings in Gallup polls one month before the midterm election fared best: Democrat Bill Clinton in his second term and Republican George W. Bush in his first term. Their parties added five and eight House members in the 1998 and 2002 midterm elections, respectively.

Presidents with approval ratings below 50 percent in Gallup polls one month before election day in the post-World War II era saw their parties stumble, with a median loss of 30 seats (range: 9–64 seats); for those with approval ratings above 50 percent, the median loss was only eight seats.

MIDTERMS, THE MARKET, AND WHAT MATTERS

The president’s party has often suffered big losses

Change in House of Representatives seats held by the president’s party



Source - RBC Wealth Management, U.S. House of Representatives, Brookings Institution, The American Presidency Project at the University of California, Santa Barbara

This historical pattern is relevant for the upcoming midterm election given President Donald Trump’s approval ratings have been well below 50 percent in many polls for some time and Republicans currently control the House by only a narrow margin.

Regardless of where the presidential approval rating sits in the last few weeks before the November vote—when this rating matters most—there is little doubt in our minds that this midterm election will be a referendum on Trump 2.0 given the president’s outsized influence in the domestic political arena (and on the global stage too).

This has the potential to affect not only House and Senate races at the federal level but also some “down ballot” state races, shaping political party control over state legislatures and governorships.

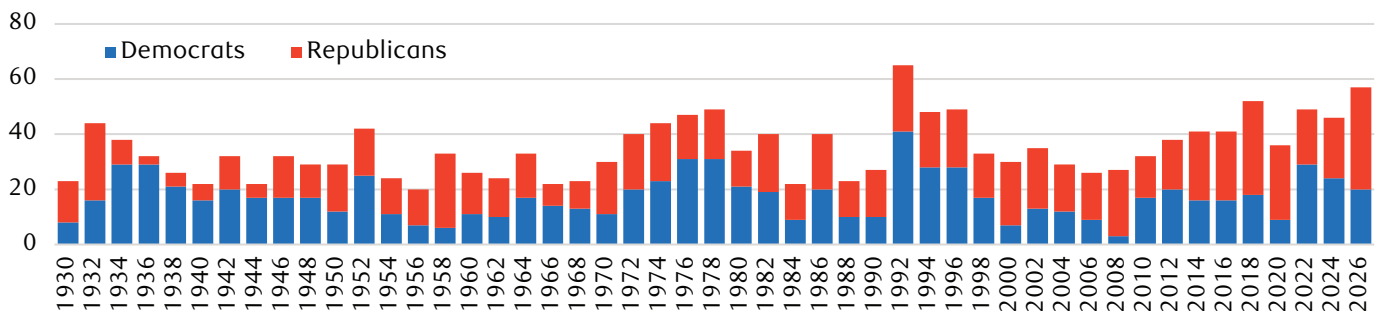
Most House seats up for grabs in many years

Another factor indicating to us that it will be challenging for Republicans to retain House control is the high number of open seats where no incumbent is running for office.

Among the 435 total House seats, 57 are open with 37 of those Republican, as of this writing. This is the second most total vacancies since 1930 and the largest number of Republican open seats during this period.

Second-highest number of House departures and highest number of Republican departures since 1930

Number of U.S. Representatives not running for re-election (either retiring or seeking a different office) by election year



Source - RBC Wealth Management, Brookings Institution “Vital Statistics on Congress” project (historical data), Associated Press “Tracking U.S. House retirements” (2026 data, as of 4/29/26)

MIDTERMS, THE MARKET, AND WHAT MATTERS

Many of the vacancies are in districts that will likely be uncompetitive, where voter registration leans heavily toward one party or the other.

More than anything, the large number of Republican open seats is a marker to us. We doubt so many Republicans would be moving on if rank-and-file members felt confident the party would retain House control.

It's well known inside the Washington Beltway that the majority party holds more power and perks—this is by design—and these preferences diminish noticeably for those same members, especially those in leadership, when party control flips and they are in the minority.

Redistricting shenanigans

The Trump administration and House Republicans set out to improve the party's prospects in this midterm election by encouraging Republican-leaning states to voluntarily redraw their congressional districts in order to increase the likelihood that Republicans could win more seats. This process is often called “gerrymandering.”

Among the many criticisms of this process, redistricting can end up dividing voters within cities or counties who have shared interests, lumping them together with communities that differ greatly. Both Republicans and Democrats have engaged in gerrymandering for decades.

This cycle, initially the process did not go as Republicans had planned because some Democratic-leaning states ended up gerrymandering as well.

It remains to be seen how redistricting efforts could affect the balance of power in the House. There are some court challenges outstanding, and a recent landmark Supreme Court ruling about racial gerrymandering in Louisiana has raised the possibility that additional states could redraw congressional districts ahead of primary elections.

A high hurdle to flip the Senate

Republicans currently control the upper chamber with 53 of the 100 seats, and it would take a net gain of four seats for the Democrats to take control (a 50-50 tie would give the president's party the majority as the vice president votes to break ties).

Republicans have a natural geographic advantage this election cycle. Among the 35 Senate seats up for election, more of them are in red states (those that tend to vote Republican) than in blue states (those that usually vote Democratic).

Polls have shown for many months that the Democrats would have to clear a high hurdle to take control of the Senate. However, a number of pollsters have recently shifted some seats to the “contested” bucket that just a couple months ago looked likely to be Republican wins.

Closer to the election, we think the president's approval rating and voters' opinions about their economic prospects and inflation could impact some key Senate races. Pocketbook issues tend to be the most important concern of American voters in each and every election.

MIDTERMS, THE MARKET, AND WHAT MATTERS

Independent voters in command

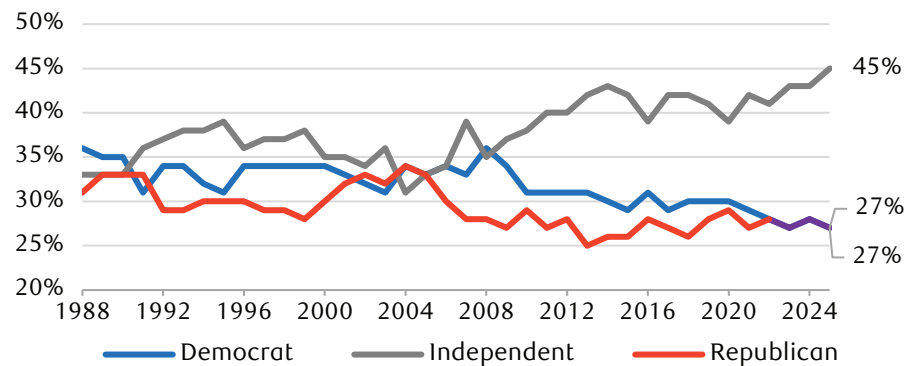
We think independent voters will tip the scales in some hotly contested House and Senate races this November.

Party loyalty has been decreasing for many years, and more voters now self-identify as independent rather than as a Republican or Democrat.

These are voters who are not registered as either Republicans or Democrats, or who are registered to one of these two major parties but no longer think of themselves as loyal party members or have a low opinion of both parties.

Independents still growing

Gallup poll question: In politics, as of today, do you consider yourself a Republican, a Democrat, or an independent?



Democrat and Republican data are the same (overlap) from 2022 to 2025.

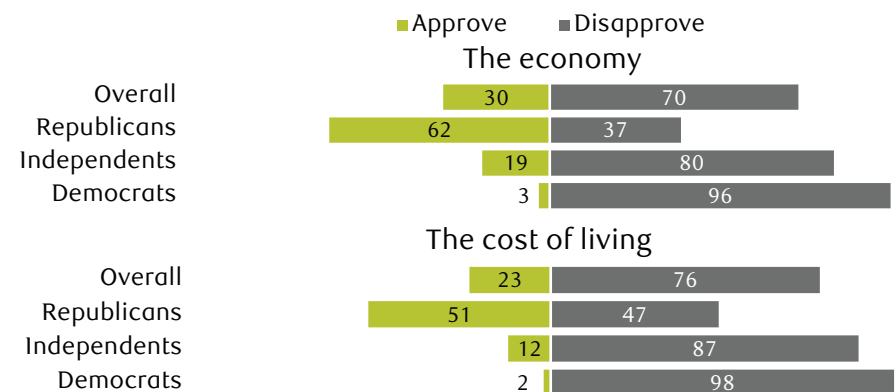
Source - Gallup; based on annual averages of telephone interview data, 1988–2025

President Trump won the 2024 election with the help of independent voters, and many of these supporters perceived their economic prospects would brighten with his return to the White House.

But since then, independent voters’ assessment of the president’s handling of the economy has soured. Discontent about ongoing inflation seems to be a key reason.

Independents and Democrats rather negative about economic issues

AP-NORC poll question: Overall, do you approve or disapprove of the way Donald Trump is handling the economy and the cost of living?



Source - AP-NORC (The Associated Press-NORC Center for Public Affairs Research at the University of Chicago); poll conducted April 16–20, 2026 with 2,596 adults nationwide

MIDTERMS, THE MARKET,
AND WHAT MATTERS

What historical patterns say about the election effect

The big questions for investors are, do elections impact stock market performance and does political party control in Washington matter for the market?

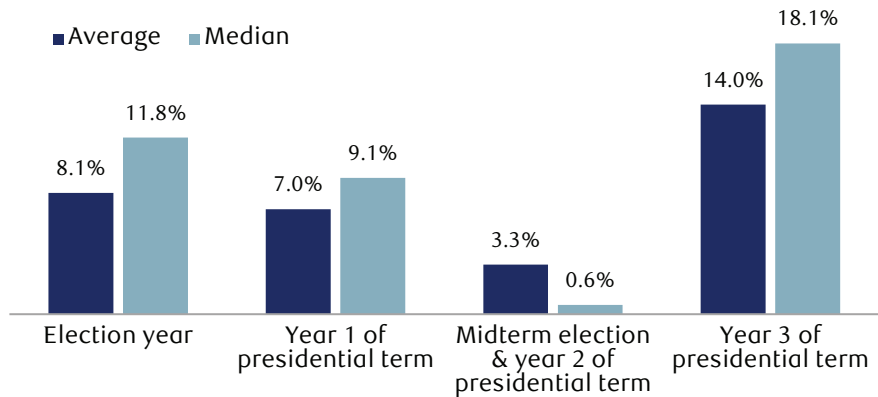
Four-year presidential cycle

When we analyze return data within the framework of the four-year presidential cycle, there are some notable patterns.

Stock market returns in midterm election years tend to be the most muted of the four-year cycle, with the S&P 500 rising 3.3 percent on average in those years since 1932. However, gains in the year following the midterms tend to be the most robust, with the index rising 14.0 percent on average.

Midterm election years tend to be weak, but the following year is typically strong

S&P 500 performance during the four-year presidential cycle since 1932



Source - RBC Wealth Management, Bloomberg; based on price return data 1932–2025, excluding dividends

Midterm election idiosyncrasies

Within the four-year cycle there are market return patterns associated with midterm elections that are not captured by the annual performance data, and these patterns have persisted regardless of events in Washington, and regardless of which party was in power or was gaining or losing momentum.

In the 23 instances we examined stretching back to 1934, the S&P 500 typically pulled back or corrected at some point during the 12-month period before the midterm election. The index declined 20.8 percent, on average.

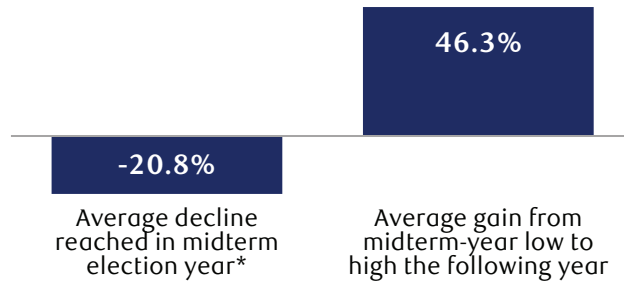
However, the downside quite often was more than made up for with subsequent rallies. In those 23 instances, the market was higher at some point in the calendar year after the midterm election by 46.3 percent, on average.

As is typical with historical market data, there was significant variation in returns. The data behind the 46.3 percent average gain represents a wide range—from a 14.7 percent to 87.1 percent gain—although the market was able to exceed its previous high on 74 percent of the 23 occasions.

MIDTERMS, THE MARKET, AND WHAT MATTERS

Corrections are common in midterm years, and so are follow-on rallies

S&P 500 returns surrounding midterm elections (1934–2023)



* Measured from the peak (within 12 months before the midterm election-year low) to that low. In 22 of 23 instances, the low occurred before the midterm election; the exception was in 2018, when it occurred after the election.

Source - RBC Wealth Management, Bloomberg; performance surrounding 23 midterm election years

It's also notable that during previous midterm election periods that were accompanied by inflation challenges, the market reached a new high in the year after the midterm election less frequently than during noninflationary periods.

Gridlock is good—sometimes

In terms of political party control, the market has welcomed certain forms of gridlock in Washington—otherwise known as split or divided government between the two major parties—but not always.

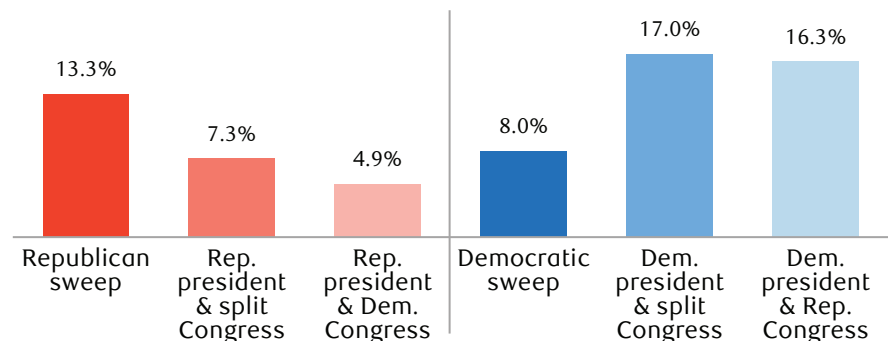
Our study going back to 1953 found that S&P 500 returns have historically been the highest in three cases:

- When Democrats have controlled the presidency and the two parties have split control of the House and Senate;
- When a Democratic president has served alongside a Republican-controlled Congress; or
- When Republicans have controlled the presidency and both chambers of Congress.

By contrast, returns have been more muted with a Republican president and either a split or Democratic-controlled Congress, as the chart shows.

Elephant or donkey—or both?

Average annual S&P 500 returns since 1953 by party control



Source - RBC Wealth Management, Bloomberg; based on price return data 1953–2025, excluding dividends

MIDTERMS, THE MARKET, AND WHAT MATTERS

Elections matter, but economic fundamentals matter more

Americans and observers outside the country who are interested in politics and public policy rightly assign high importance to U.S. election outcomes.

The data demonstrates there are indeed market performance patterns associated with midterm election years that we believe are worth paying attention to and respecting.

We are aware that the midterm election sample size is not large enough to permit one to draw conclusions supported by high “statistical confidence.” That said, the data is very suggestive.

- In midterm elections, the sitting president’s party almost always loses seats and often those losses are large.
- The U.S. stock market has usually encountered a noteworthy correction in that year, which also has consistently been the lowest-performing year of the four-year presidential cycle.
- That correction has typically been followed by a robust rally in the calendar year following the midterm election, most often taking the market to new highs and making that year the strongest of the four-year cycle.

In our assessment, however, elections and political party control in Washington are not the main drivers of U.S. stock prices over time. We think other issues have historically impacted the U.S. market more:

- Corporate innovation trends;
- The Federal Reserve’s monetary policy decisions;
- The natural ebb-and-flow of the business cycle and economy; and
- Related corporate earnings trends.

When it comes to asset allocation recommendations, we focus on domestic economic and corporate earnings fundamentals, and specifically on indicators associated with recession risks. It’s recessions that are usually responsible for ushering in equity bear markets.

We don’t think the approaching midterm election or its outcome in terms of party control of the House and the Senate are reasons for long-term investors to change their allocation to U.S. equities in portfolios.

GLOBAL Equity



Jim Allworth

Vancouver, Canada
jim.allworth@rbc.com

Equity views

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

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

Was that all there is?

Key points

- After a short, steep dive, major global equity markets regained their poise, with the S&P 500 and Nasdaq posting new highs; stock markets are trading in a way suggestive of a near-term resolution of the U.S./Israel-Iran conflict.
- The paths of the global economy and stock markets over the next 12 months hinge on whether the reopening of the Strait of Hormuz is close at hand or further down the road.
- Even if a more painful, drawn-out resolution prevails, we think the recovery potential of the major economies is high and argues for maintaining a neutral portfolio exposure to stocks.

Most of the world's equity markets set new all-time highs early this year, and then rolled over into a five-week nosedive triggered by the U.S./Israel-Iran conflict. The S&P 500 lost some 9% in that retreat. All major markets gained back most of what they lost in just 10 trading days, although the S&P 500 and Nasdaq were alone in setting new highs, perhaps due to the extra oomph provided by hedge fund short covering. Someone on a long winter holiday might have missed the entire round trip.

Investors may be wondering: Was this the anticipated midterm election year correction? Is it done and now behind us? Or was this just an opening salvo?

Considering what the market might do over the next three to six months is of interest—but not nearly so much as what it might do over the next three to six years. Consider this: from its pre-COVID peak in early 2020, the S&P 500 has appreciated by 114%—that is 12.9% per annum. Including reinvested dividends, the annual return rate bumps up to 15% per annum.

Along the way, the market served up a harrowing pandemic plunge of 33% in just four weeks in 2020, a drawn-out nine-month sag of 22% in 2022, and a steep nine-week slide of 19% early in 2025 as a Magnificent 7 correction and the opening salvos in the tariff confrontation took a toll—not to mention several other disconcerting wobbles.

That 15% per annum return over some six years has all those unnerving corrections imbedded within it. One can't help concluding that all the time and energy spent trying to divine where the market is going over the next days, weeks, and months would be better spent plotting the likely path and drivers of the economy over the next five to 10 years, then determining which sectors and businesses are likely to fare best (and worst!) within that economic backdrop. *[More on those longer-term prospects next month.]*

The 12-month outlook

Our focus in the monthly Global Insight is on the outlook for the next 12 months.

Looking at the prospects for the S&P 500 out into May 2027, the RBC Capital Markets, LLC U.S. Equity Strategy team, led by Lori Calvasina, is carrying a price target of 7,750, about 7% above today's index level. It is roughly the median expectation of five independent models used by the team.

One of these models considers average market returns delivered by different levels of U.S. GDP growth over a 12-month stretch. This approach then uses consensus estimates for GDP growth over the coming 12 months to derive a price target for the index. RBC Economics forecasts U.S. GDP growth will come in at close to 1.8% over the

GLOBAL EQUITY

forecast period, while the Bloomberg consensus estimate is slightly higher at 1.9%.

In past periods where 12-month GDP growth ran in the 1.1%–2.0% range, the S&P 500 delivered returns in the mid-single digits on average—reasonable, but not particularly compelling.

However, move the GDP growth rate up above 2%, and the average market return achieved moves up to a more appetising rate somewhere either side of 10%. On the other hand, were the GDP expansion rate to sag downwards to a barely positive pace between 0% and 1%, equity market losses would be the typical outcome.

The Hinge of Hormuz

It's not difficult to imagine either of these two alternate scenarios coming to pass. And it's no overstatement to assert that the pathway for the global economy over the next 12 months very much hinges on when the Strait of Hormuz reopens and how soon full traffic flow is reestablished.

If the current ceasefire turns into a reopening of the Strait in the next few weeks with a normalised traffic flow emerging by midsummer, it's likely that oil prices would decline, inflation fears would subside, central banks would not be forced to tighten, and bond yields would ease. In our view, Europe and much of Asia would likely avoid recession, while consumers everywhere would have more cash available to meet fixed obligations and for discretionary spending. A destressed, more confident consumer would augment an already positive outlook on business capital spending and earnings.

In our view, the very strong reversal of the February/March stock market plunge suggests this is what investors are coming to expect. It is also what the oil futures curve has been indicating from the outset.

However, a ceasefire still leaves this conflict short of a sustainable truce. Volatile rhetoric, an inability to reopen face-to-face talks, shifting demands, and a willingness to walk

away from the table leave lots of room for miscalculation and a resumption of active hostilities. Were that to occur, it could push out the hoped-for second quarter reopening of the Strait into the second half of the year. The longer the delay, the more inflation is likely to broaden, becoming more entrenched in the global economy, and the more painful the ultimate remedies could become.

In that scenario, higher inflation, central bank rates, and bond yields would pressure GDP growth, earnings, and price-to-earnings multiples. Recessions would become more likely in Europe and much of Asia. Economic growth would weaken in North America and China.

All of the above—from a rapid reopening/normalisation to a delayed/drawn-out one—yield plausible outcomes ranging between these two:

- Faster economic growth propelled by falling energy costs, emboldened consumers, and restored business confidence;
- A markedly slower global economy hamstrung by stubbornly high energy prices and outright shortages of fuel and important chemicals, and knock-on supply chain effects.

And this whole range of possible outcomes can be looked through the historical lens of the second year of the presidential cycle in the world's largest economy. That features, on average, the slowest pace of GDP growth of the cycle's four years, usually punctuated by a confidence-sapping stock market correction with an average drawdown of around 20%, which most often is a prelude to a strong rebound/recovery that goes on to set new highs the subsequent year.

Back to the beginning

Which leaves us with the question we began with: Has the midterm election correction already come and gone? On the face of it, looking at the past record, there was a lot wrong with the February/March stock market swoon: it started too early, was too shallow,

GLOBAL EQUITY

and didn't last long enough. The historical roadmap of these midterm-year corrections says they should start in the April/May period, should pull back by twice the amount of this year's late-winter dive, and should run through to autumn. But a perfect track record doesn't guarantee history will repeat itself neatly each time around.

Stock markets have been acting in a way that looks to be anticipating a negotiated reopening of the Strait this quarter. RBC Global Asset Management Inc. Chief Economist Eric Lascelles offers the rule of thumb that oil shocks lasting more than three months threaten longer-term damage to most economies. And we note that the chances of access to the Strait remaining constrained into the second half of the year are too big to be ignored.

That said, most major economies including the U.S. were gathering positive momentum going into the conflict. In our view, their recovery potential is high under all the scenarios we have outlined. Our positioning advice remains the same: portfolios should remain committed to equities up to, but not beyond, an investor's long-term targeted exposure.

GLOBAL
Fixed income



Thomas Garretson, CFA
San Diego, United States
tom.garretson@rbc.com

Central banks have seen enough

Key points

- On the back of a sustained move higher in energy prices, we now expect the Bank of England and the European Central Bank to deliver rate hikes this year.
- We still see the Bank of Canada holding rates steady this year, but the bias is increasingly tilting toward potential rate hikes in the second half.
- Kevin Warsh is now likely to take over as Fed Chair, but his focus on reducing the Fed’s communications and forward guidance could fuel greater uncertainty.

Having taken a “wait-and-see” approach since the onset of the Iran war, it now appears that central banks have seen enough and are readying their respective responses following key meetings in April.

Prior to the Iran war, we had projected that most of the major central banks would likely keep their policy rates on hold this year. We now see the European Central Bank (ECB) moving first, with a 25 basis point rate hike at its June meeting—followed by two more rate hikes in September and December, which would bring its policy rate to 2.75%.

We expect the ECB’s move to be followed in short order with a rate hike from the Bank of England at its July meeting to take its policy

rate back up to 4.00%. While energy costs pose upside risks to inflation and downside risks to economic activity, both central banks operate with a mandate of maintaining price stability; therefore, we believe they will err on the side of caution with modest rate hikes to keep inflation in check.

In North America, we still see the Federal Reserve and the Bank of Canada on hold for the balance of 2026, but for the former, how monetary policy decisions are made—rather than the decisions themselves—may dominate the near-term narrative.

We expect that Kevin Warsh will receive Senate confirmation for Federal Reserve Chair this month.

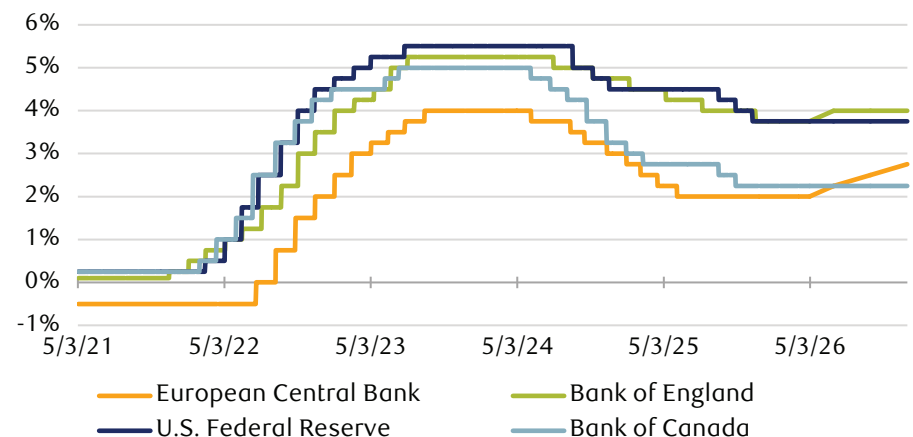
Fixed income views

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

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

The European Union and UK are seen pivoting back to rate hikes, with the U.S. and Canada still on hold this year

Central bank policy interest rates and RBC Capital Markets projections through December 2026



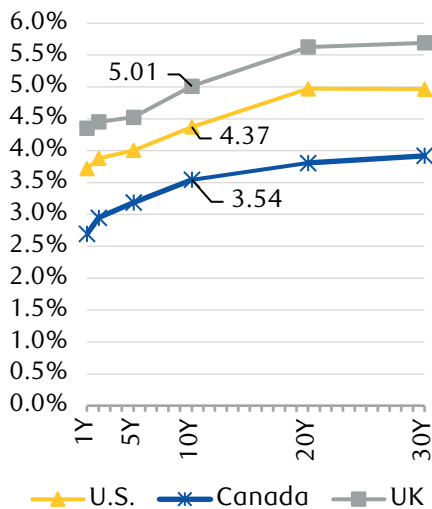
Source - RBC Wealth Management, Bloomberg; dashed lines represent RBC Capital Markets projections as of 5/1/26

GLOBAL FIXED INCOME

But having previously spoken of the need for “regime change” at the Fed—largely with respect to changing how much policymakers communicate with the market; his lack of belief in offering markets forward guidance; and his perceived lack of usefulness in economic and rate projections, including the so-called “dot plot”—markets may need to prepare for fog settling in around the Fed’s thinking, rather than for the next move in

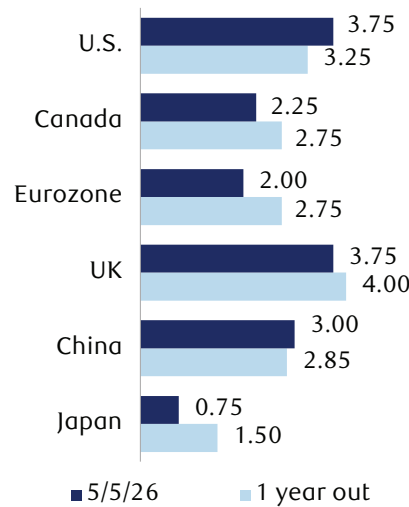
interest rates. Though we don’t expect any major changes by the time of his first meeting as chair in June, we would look to his first public comments following confirmation for clues as to any changes he might make to the Fed’s operating strategy as chair.

Sovereign yield curves



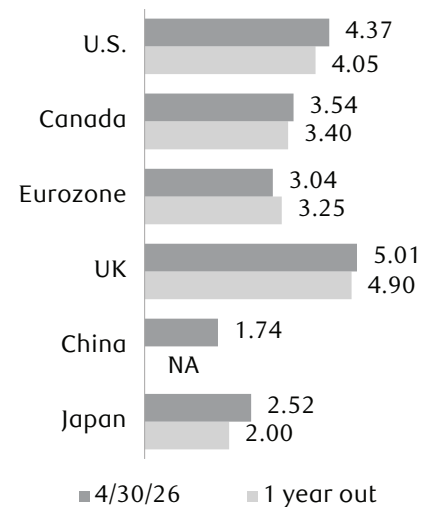
Source - Bloomberg; data through 4/30/26

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

U.S. RECESSION

Scorecard

A more constructive picture

Over the past four years, the overall “hue” of the U.S. Recession Scorecard has been gradually edging away from the unanimous expansionary Green readings of early 2022 toward a “redder” (recessionary) coloration. In June 2025, the only Green indicator left standing was “free cash flow of non-financial businesses” which remained stubbornly and decisively positive. The remaining six indicators were evenly split between cautionary Yellow and recessionary Red.

However, since that low point, the tide appears to be coming back in. By our reckoning, only two of the seven indicators remain in the Red column, two at Yellow, and three Green.

Seeing recessions coming ahead of time matters to the equity investor because U.S. recessions have always been associated with equity bear markets. In our view, the current state of our Scorecard indicators suggest that monetary conditions are not tight, the employment picture benign, and the corporate order book strong. These are consistent with a moderately constructive outlook for equities.

Yield curve (10-year to 1-year Treasuries)

Shifting to Green. Short-term Treasury yields—in this case the market yield on the 1-year T-bill—fell below the 10-year yield in December 2024, reverting the yield curve to its normal shape in the process. Much of that shift was due to the Federal Reserve cutting rates three times in the latter part of that year. After a couple months, we shifted this indicator’s ranking to Yellow but not to Green because, typically in past cycles, such a normalising crossing point has occurred—usually in response to the start of Fed rate cutting—but the recession has arrived anyway.

However, as 2025 progressed, despite challenges—uncertainty over the impact of tariffs, sticky inflation, congressional deadlocks, government shutdown—real GDP growth remained resilient over the full year aided by the lagged effects of prior Fed cuts, surging capital spending by business on data centres, and fiscal stimulus. In our view, a normalised yield curve, wherein short-term Treasury yields

U.S. Recession Scorecard

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

Source - RBC Wealth Management

U.S. RECESSION SCORECARD

are comfortably below long-term yields, is consistent with an economic expansion that has further to run. We have upgraded this indicator from Yellow to Green.

Fed funds rate vs. nominal GDP growth

Confirmed at Red. Before every recession, the Fed funds rate has managed to climb higher than the annualised run rate of nominal GDP (that is, GDP not adjusted for inflation). That was the case through much of last year before the Fed resumed cutting rates. However, in Q4 the nominal GDP growth rate managed to climb modestly above the declining Fed funds rate, only to fall back well below that level with the preliminary release of Q1 2026 GDP. The indicator rating remains decisively at recessionary Red for now

Unemployment claims

Unchanged at Yellow. Historically, unemployment claims have been dynamically cyclical. Employers were either rushing to bring back laid-off workers or hire new ones to take advantage of an economy rebounding out of recession and into a new expansion or they were slashing their workforce to cut costs as the economy was rolling over into a cyclical downturn.

This time, uncharacteristically, initial unemployment claims have been moving quietly sideways, rather than trending sharply up or down, for more than four years. Recently they have flirted with the lowest posting ever recorded but are showing no signs of accelerating in one direction or the other. We are leaving the rating at Yellow.

Unemployment rate

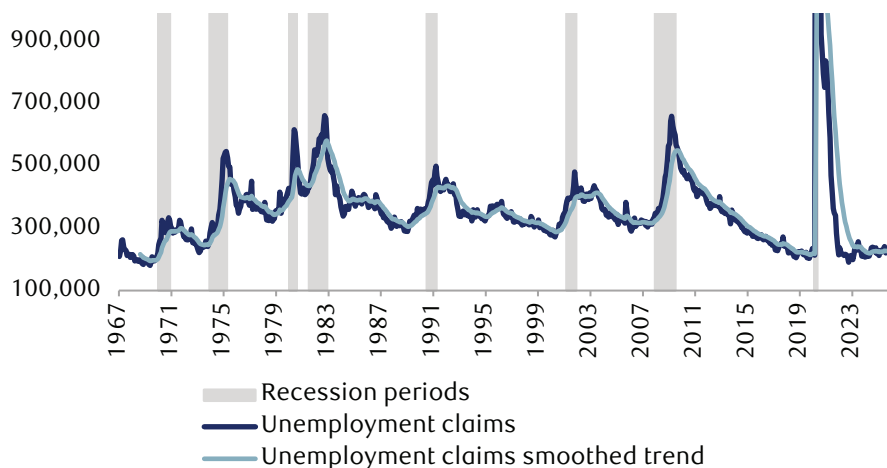
Unchanged at Yellow. The U-Rate has risen above its cycle low (3.4% in April 2023), but it has done so gradually, rather than with the sustained surge that usually indicates a corner has been turned in labor conditions and a recession is imminent. Meanwhile, weekly claims—which usually lead the way higher for the unemployment rate—remain restrained, as noted above. We remain alert to the fact this indicator could change trend quickly but are leaving its rating at Yellow until it does.

ISM New Orders minus Inventories

Decisively shifted to Green. New orders have been on a bit of a tear—giving readings well above the 50% breakeven level for three consecutive months while inventories on hand have consistently trended lower. We are shifting this indicator from Yellow to Green.

Jobless claims in a strong downtrend

Monthly U.S. unemployment insurance claims



Source - RBC Wealth Management, Federal Reserve Bank of St. Louis (FRED); data through April 2026

U.S. RECESSION SCORECARD

Conference Board Leading Economic Index

The long slide continues. The LEI has now declined in 46 of the past 51 months. It remains firmly in the Red column.

Non-financial corporate cash flows

Comfortably Green. This measure of the capability of non-financial businesses in aggregate to self-fund capital expansion has always declined as a percentage of GDP before or just after a recession got underway. As of the Q4 data release in March, it sits in positive territory. This data is reported with a long, three-month lag, with the next release expected in late June.

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.

The RISC consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios.

Global Portfolio Advisory Committee members

Jim Allworth – Co-chair
Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair
Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair
Managing Director & Head of Investment Strategy, RBC Europe Limited

Luis Castillo – Vice President & Head, Fixed Income Strategies, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – Director & Head of Fixed Income, British Isles, RBC Europe Limited

Janet Engels – Vice President & Head, Global Investments, RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Patrick McAllister, CFA – Manager, Equity Advisory & Portfolio Management, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Sean Naughton, CFA – Head, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Alan Robinson – Senior Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

David Storm, CFA, CAIA – Chief Investment Officer, British Isles & Asia, RBC Europe Limited

Yuh Harn Tan – Head of Discretionary Portfolio Management & UHNW Solutions, Royal Bank of Canada, Singapore Branch

Joseph Wu, CFA – Portfolio Manager, Multi-Asset Strategy, RBC Dominion Securities Inc.

Required disclosures

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets. This report has been prepared by RBC Capital Markets which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Wealth Management and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 250 Nicollet Mall, Suite 1800, Minneapolis, MN 55401-1931.

RBC Capital Markets Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because RBC Capital Markets' ratings are determined on a relative basis.

Distribution of ratings – RBC Capital Markets Equity Research As of March 31, 2026

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	899	57.52	286	31.81
Hold [Sector Perform]	612	39.16	153	25.00
Sell [Underperform]	52	3.33	5	9.62

Explanation of RBC Capital Markets Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months. **Underperform (U):** Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2>. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal

offices located in Minnesota and New York, USA; RBC Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ("SFC"); Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

Third-party Disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion

Securities Inc., which is a foreign affiliate of RBC Capital Markets, LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. * Member Canadian Investor Protection Fund. ® Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and Royal Bank of Canada (Channel Islands) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: 100 Bishopsgate, London, EC2N 4AA, UK. Royal Bank of Canada (Channel Islands) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands.

To persons receiving this from Royal Bank of Canada, Hong Kong Branch: This document is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the SFC. This document is not for distribution in Hong Kong, to investors who are not “professional investors”, as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This document has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Past performance is not indicative of future performance. **WARNING:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the investment. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

To persons receiving this from Royal Bank of Canada, Singapore Branch:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This publication is not for distribution in Singapore, to investors who are not “accredited investors” and “institutional investors”, as defined in the Securities and Futures Act 2001 of Singapore. This publication has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

© 2026 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC
© 2026 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund
© 2026 RBC Europe Limited
© 2026 Royal Bank of Canada
All rights reserved
RBC1524



Wealth
Management