

Economic outlook



NEW YEAR 2026

Important tailwinds ahead



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Obscured by the massive day-to-day uncertainty of the past year is the fact that the expected macroeconomic themes did ultimately prevail. As anticipated, tariffs arrived and dimmed growth with fiscal stimulus providing a partial offset, immigration tumbled, and central banks continued their herky-jerky easing cycles. Accordingly, economic growth persisted, if at an uninspired clip (Exhibit 1).

This relative forecasting success provides some hope that 2026 predictions will also be realized, despite the likelihood of further policy surprises and political distractions from one day to the next.

We believe that economic growth should accelerate moderately in the year ahead and may pleasantly surprise relative to consensus expectations. The tariff headwind should be substantially absorbed before too long, and important tailwinds are set to blow. These beneficial forces include interest-rate cuts, further fiscal stimulus, low oil prices, a positive stock-market wealth effect, further growth in artificial-intelligence (AI) expenditures, and the early stages of an AI-driven productivity boost.

Inflation remains somewhat elevated, and while the worst of tariff-related damage may be passing, we believe the introduction of additional monetary stimulus paired with pandemic scarring will prevent inflation from fully retreating to normal in the near term.

Exhibit 1: Beige Book shows mediocre economic conditions



Note: As of Nov 2025. The indicator quantifies the sentiment of local contacts by assigning different weights to a spectrum of positive and negative words used to describe overall economic conditions in the Fed Beige Book.

Source: U.S. Federal Reserve, RBC GAM

From a financial-market standpoint, it is relatively rare and theoretically quite constructive to combine a rate-cutting cycle with an economic soft landing. This scenario should support risk assets, though challenging U.S. equity valuations may limit the magnitude of the expected gains.

Growth tailwinds for 2026

Let us dig into the tailwinds that are expected to spur economic growth over the coming year (Exhibit 2).

The clock has not yet run out on this monetary easing cycle (Exhibit 3). We budget for a bit more economic help, both due to the lagged effect of earlier rate cutting and future impact of additional easing to come. The U.S. Federal Reserve (Fed), in particular, can afford to deliver several more rate cuts as it moves from a restrictive to a neutral stance, and the Fed's recent move to end quantitative tightening is also supportive. The prospect of a more dovish voting lineup in 2026 supports this view. In our opinion, the Bank of England also appears to have space for further easing, and it is conceivable that Bank of Canada could return to easing.

Fiscal stimulus is also set to be an important 2026 theme. The One Big Beautiful Bill Act should have a substantially positive effect on U.S. economic growth as a variety of its tax-cutting initiatives take effect in 2026. President Trump has mused about issuing US\$2,000 stimulus cheques to Americans –

an upside risk to our base-case growth forecast, albeit one that would increase the fiscal deficit.

Fiscal stimulus is not exclusive to the U.S. Prominently, Germany recently loosened its fiscal brake. In particular, many countries have committed to additional defence spending. Canada's latest budget unveiled fiscal stimulus and a push for more infrastructure and capital investments. Japan's new prime minister is similarly ushering in a more stimulative policy environment. Attempts by the UK and France to pursue fiscal austerity have run into public opposition, limiting the scale of their actions.

The combination of significant stock-market appreciation and relatively low oil prices is also an important growth tailwind. Higher stocks have lined the pockets of investors, with a significant fraction of such gains usually recycled into consumer spending. Lower oil prices constitute a cost saving for households and businesses, and temper inflation.

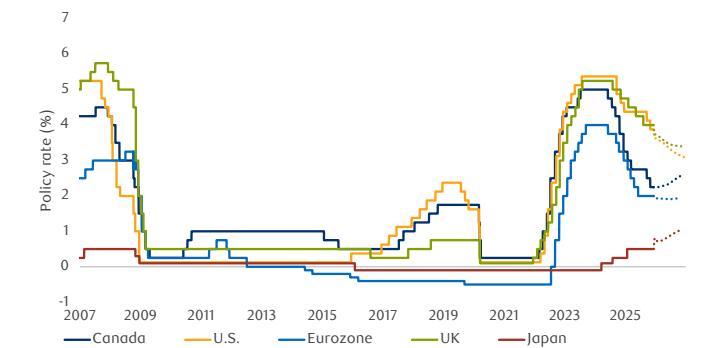
From a U.S. standpoint, the fall in the dollar over the past year and the potential for more depreciation enhance the country's competitiveness and should boost the American economy in the years ahead. (Of course, currencies are a zero-sum game, with other countries on the opposite side of this trend.)

Exhibit 2: Growth tailwinds for 2026

	U.S.	Canada	Rest of developed world
Monetary policy	+	++	++
Fiscal policy	+	+	+
Stock market wealth effect	++	++	++
Oil prices	++	+	++
U.S. dollar	+	-	-
AI cap ex	+	-	-
AI productivity	+	+	+
Overall	++	++	++

Note: As of 12/02/2025. Source: RBC GAM

Exhibit 3: Most major central banks are cutting interest rates



Notes: As of 12/08/2025. Dotted lines indicate futures pricing.
Source: Bloomberg, RBC GAM

While it is hard to fathom that the growth rate in AI capital expenditures can match the extraordinary pace achieved in 2025, there still appears to be room for further impressive growth in 2026 (Exhibit 4). This AI impact constitutes a continued tailwind for the economy.

We also budget for robust productivity growth in 2026, delivered in part by the increasing integration of AI into the working world. At a bare minimum, several technology giants appear to believe they can substantially expand their output without adding employees: that's a productivity gain.

Helpfully, some pre-existing headwinds are also fading. The damage from tariffs is increasingly being absorbed, meaning less pain left to come. The U.S. government shutdown was another headwind in 2025 but has since been resolved.

U.S. politics and policy

U.S. political and policy decisions continue to play a central role in the economic trajectory.

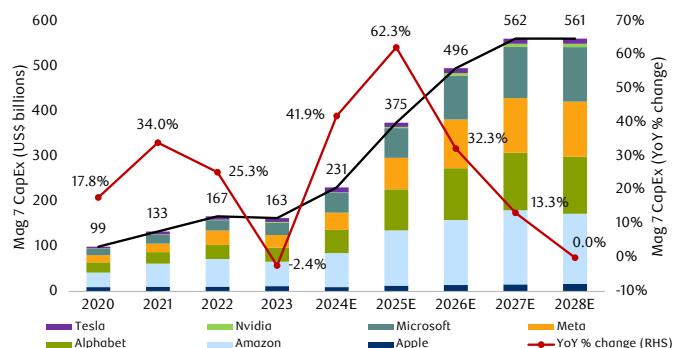
The acrimonious U.S. government shutdown was resolved in mid-November after a record 43-day standoff between Republicans and Democrats. Non-essential government work was halted during the shutdown, with three-quarters of a million workers furloughed.

We figure that fourth-quarter U.S. GDP will grow by about 1 percentage point less than normal due to the disruption, with first-quarter 2026 GDP then set to rise artificially quickly as the distortion fades.

There remains a risk that another shutdown will hit on February 1, though betting markets currently assign just a 1-in-3 chance of this outcome. Still, a second shutdown would likely be shorter as essential workers would presumably be quicker to rebel – pressuring politicians.

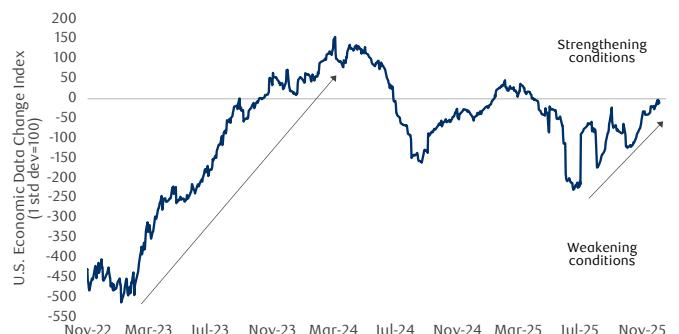
While it has been difficult to judge the precise trajectory of the U.S. economy due to the delay of economic data during the shutdown, a range of alternative indicators suggest that the economy weakened somewhat but has now broadly stabilized (Exhibit 5). Meanwhile, although the rate of hiring appears to have slowed, jobless claims remain tame (Exhibit 6).

Exhibit 4: Magnificent 7 capital-expenditure growth to remain fast but decelerate



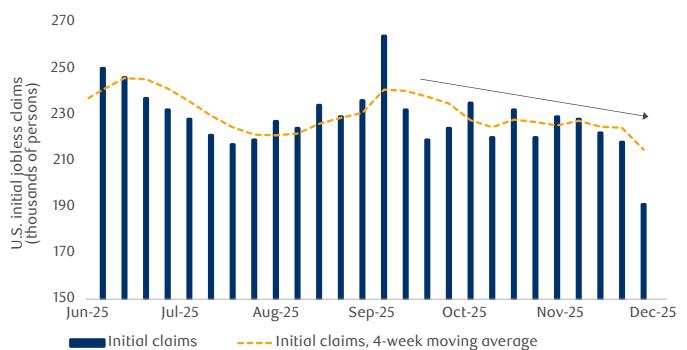
Note: As of 12/04/2025. Source: Bloomberg, RBC GAM

Exhibit 5: U.S. economic data ceasing to weaken



Note: As of 12/05/2025. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 6: U.S. jobless claims still look fine



Note: As of the week ending 11/29/2025. Source: DOL, Macrobond, RBC GAM

Turning to trade policy, the tariff story has quieted somewhat and uncertainty has been significantly reduced (Exhibit 7). Many countries have struck handshake deals with the U.S. (Exhibit 8).

The trade trajectory has even turned slightly favourable in recent months given that U.S. tariffs were pared against China, Switzerland and some Central and South American countries. Cost-of-living concerns also prompted the White House to lift tariffs on a variety of imported foodstuffs including beef, tomatoes, coffee and tropical fruits. There is a good chance that the U.S. Supreme Court shortly blocks the White House's usage of a key piece of tariff legislation. But there appear to be enough other tools in the American tariff toolkit that we do not expect the tariff regime to be enduringly diminished.

In sum, the average U.S. tariff rate is still considerable and doing economic damage, but also declining (Exhibit 9). For reasons including substitution effects and inconsistent border enforcement, realized U.S. tariff revenue is well below what would be theoretically expected, and this helps explain why tariff economic damage has not been as bad as feared.

There are, of course, a handful of countries with serious economic exposure to these tariffs including Vietnam, Mexico and Canada. But the overall impact isn't too damaging for most nations given their limited trade ties to the U.S.

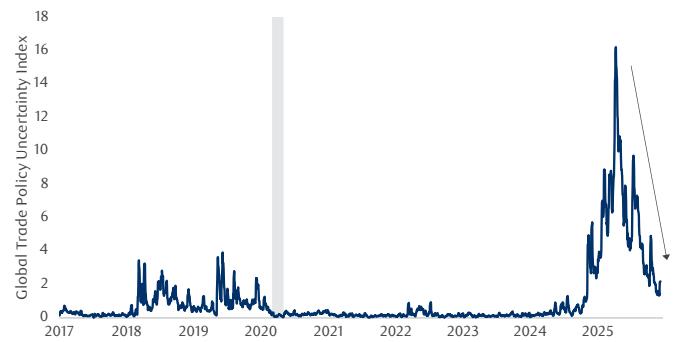
Optimistic on artificial intelligence

AI is now a topic of central importance. It is becoming a part of daily life, both in the personal and business realm, and its influence will only increase as models improve and people learn how to use them.

AI is already an important economic driver in a narrow sense: the scale of capital expenditures in the effort to build out AI models is enormous. This spending alone – setting completely aside the utility of the AI models themselves – has become an important contributor to the economy. The consensus among tech sector analysts is for a further 32.3% rise in these outlays in 2026. This is a slower growth rate than in 2025, but still supportive.

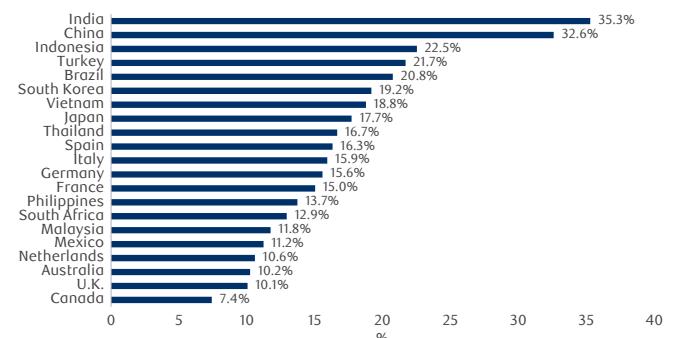
Concerns about AI bubbles and malinvestment are not inappropriate given all of the money being deployed, but the parallels to the late 1990s tech bubble are limited.

Exhibit 7: Global trade-policy uncertainty falls as deals are struck and tariffs are trimmed



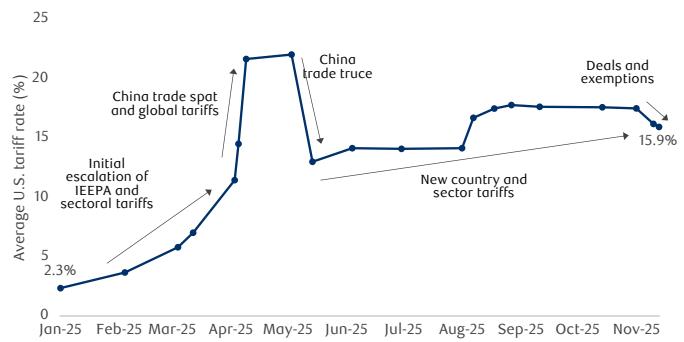
Note: As of 12/07/2025. Shaded area represents U.S. recession. Index based on searches in economic, research and government related topics in Bloomberg News and First Word feeds. Source: Bloomberg, Macrobond, RBC GAM

Exhibit 8: Effective tariff rates by country



Note: Effective tariff rates estimated based on tariffs implemented by the Trump administration up to November 27, 2025. Excludes de minimis effect. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM

Exhibit 9: Average U.S. tariff rate



Note: Effective tariff rates estimated based on tariffs in effect as at the specified date and up to 11/28/2025; threatened rates not included. Excludes the de minimis effect - suspension of de minimis exemption for China and Hong Kong in May 2025 and effective 08/29/2025 for all other countries. Expected tariff rate assumes instantaneous and complete implementation, i.e., does not account for shipping delays, implementation lags, etc. Source: Evercore ISI Tariff Tracker, IMF, Macrobond, RBC GAM

Today's valuations are less daunting, the companies involved are mostly profitable and more diversified, and most have spare cash flow even after the enormous outlays.

Even if the AI race eventually does prove to be a bubble, it is normal for chatter to that effect to start years before the bubble bursts, as per former Fed Chair Greenspan's comments about "irrational exuberance" in 1996 – four years before technology stocks imploded. Regardless of the shorter-term direction of stocks, the massive AI spending is pushing the technological frontier helpfully forward, whether or not the central actors ultimately earn an attractive return on their capital.

If this AI push is indeed unleashing the next general-purpose technology, as we suspect, that's a big deal. It promises to substantially increase productivity across a range of industries and alter how people live. Accordingly, we budget for faster productivity growth in the decades ahead and think this is now coming into view (Exhibit 10).

Whereas the bulk of AI-oriented capital expenditures are occurring in the U.S. and China, the beauty of technological breakthroughs such as this one is that their productivity benefits should accrue to the entire world.

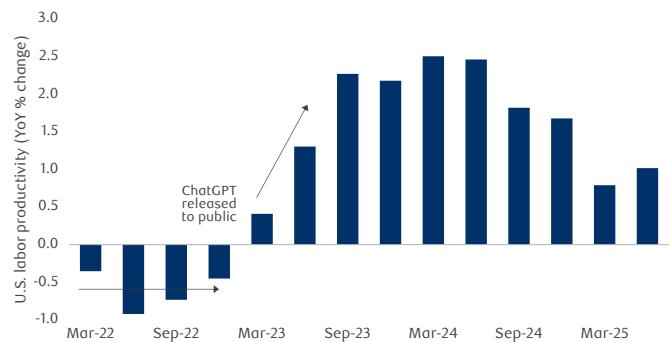
Alongside this great promise, it will be critical to watch for signs of AI displacing workers on a huge scale. There is already some research showing young workers in AI-vulnerable professions are having greater difficulty finding work, though the numbers are small and the evidence is preliminary. Higher structural unemployment would be a societal and economic problem.

K-shaped economy

U.S. consumer spending has long come disproportionately from the highest income decile of Americans, who are, incredibly, responsible for almost 50% of all such outlays. This share has increased incrementally over time, but it is far from a new phenomenon.

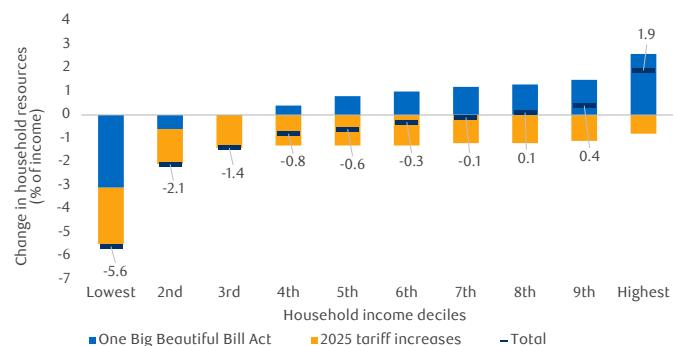
This narrow base of support for consumer spending will have to hold up over the coming year if the U.S. economy is to expand at a solid clip. Middle- and low-income households are facing many challenges, including a disproportionate blow from tariffs and only limited help from recent tax cuts (Exhibit 11), plus a sluggish job market. Conversely, higher

Exhibit 10: U.S. productivity growth has increased since the release of ChatGPT



Note: As of Q2 2025. Source: U.S. BLS, Macrobond, RBC GAM

Exhibit 11: Recent policy changes disproportionately hurt lower income Americans



Note: As of 11/17/2025. Source: Yale Budget Lab, Congressional Budget Office, RBC GAM



income households greatly benefited from tax cuts, weren't hurt too badly by tariffs, are less reliant on labour income, and have disproportionately benefited from rising equities (Exhibit 12).

We think high-income households can continue to spend, and so consumer spending should keep climbing. But the lack of consumer breadth is uncomfortable and represents a downside risk.

Power-based global order

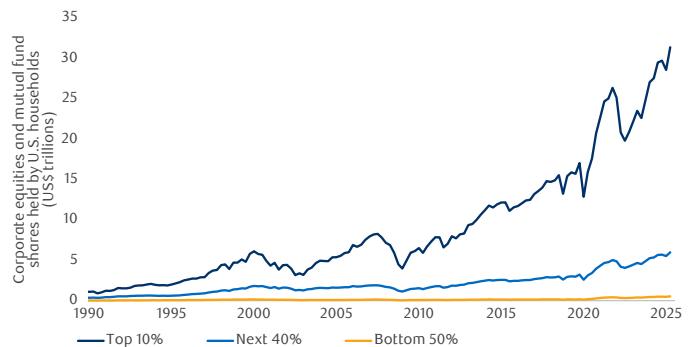
We now find ourselves in an indisputably multipolar world, one in which the U.S. is no longer the only sheriff in town. China is now the equal of the U.S. on several fronts and a formidable challenger on others. Eras characterized by multipolarity are frequently associated with deglobalization and rising nationalism, both of which are now occurring. From an economic standpoint, these environments tend to lower the rate of global economic growth slightly, and to put upward pressure on the rate of inflation.

Alongside this transition, the world is now pivoting from a rules-based order to a power-based order. For many decades, most nations respected one another's rights and boundaries, and laid a foundation of global rules that were broadly respected.

Today, the system of international rules is under pressure as the U.S. ceases its traditional sponsorship of such initiatives. Tariffs undermine the World Trade Organization, and several of the world's great powers have become more forceful vis-à-vis their neighbours. Russia is of course in Ukraine, but China is also behaving more assertively in the South China Sea and East China Sea, and along its border with India. The current U.S. administration has expressed expansionist aspirations relating to the Panama Canal, Greenland and even Canada, although it is unclear how seriously to take such ideas.

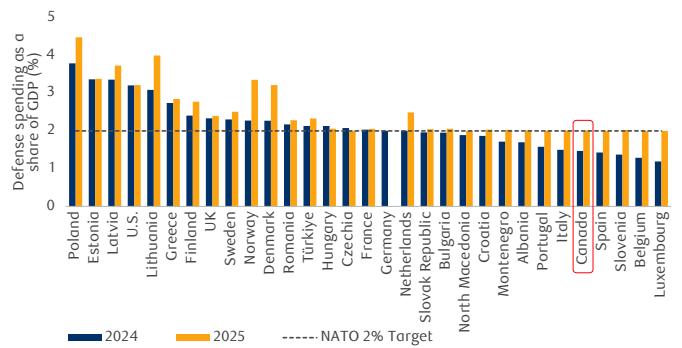
In short, it is a good time to be a powerful nation, and a bad time to be a weak one. Recognizing the danger inherent in a power-based order and U.S. pressure on allies to spend more on defense, military spending is rising nearly everywhere (Exhibit 13) and can be expected to continue increasing.

Exhibit 12: The richest Americans have disproportionately benefited from stock-market gains



Note: As of Q2 2025. Source: Federal Reserve, Macrobond, RBC GAM

Exhibit 13: Rising defence spending



Note: As at 6/3/2025. 2024 and 2025 expenditure are estimates. 2025 data not available for Germany. Source: NATO, RBC GAM

A related theme is the world's recent loss of trust in the U.S. While this should not be overstated and has seemingly not been sharp enough to induce large capital outflows, it nevertheless argues for a weaker U.S. dollar over time and contributes to the steeper U.S. yield curve now in place.

Forecast upgrades

Given the growth tailwinds expected for 2026, it is not a surprise that our developed-world forecasts mostly envision accelerating growth. Many of our forecasts are also above consensus, and indeed higher than a quarter ago.

A critical technical note: you wouldn't know that we anticipate accelerating growth by looking at the forecast figures (Exhibit 14). Those appear to show decelerating growth in several regions. What is going on? Without getting into the gory details, the industry-standard way of conveying annual GDP can be distorted by unusual strength or weakness at the end of the prior year or the beginning of the forecasted year. That is happening here. To illustrate the consequences, while the official Canadian GDP forecast for 2026 is just 0.9% growth, the average of the four quarters that make up that year is a much stronger 1.7% (refer to the quarterly chart in the Canadian section of this report for a visual depiction).

It is notable that the U.S. growth advantage has significantly eroded relative to the prior several years – an example of American exceptionalism continuing, but in diminished form.

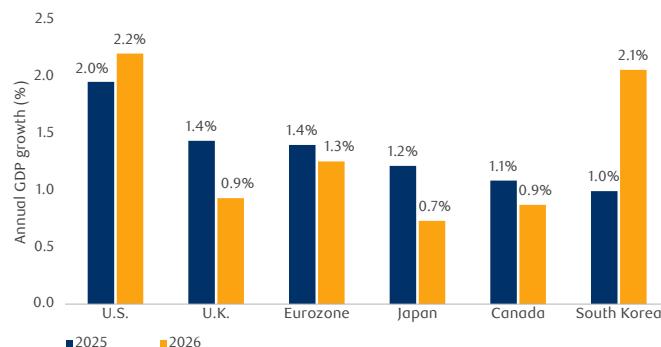
Many developed countries have been snapped awake by U.S. isolationism and are now focusing on maximizing economic growth after a long period of distraction. The European Union is now part way through its own productivity reform agenda, with more needed before one can speak with confidence of a fully rejuvenated continent (Exhibit 15).

Risks to these relatively constructive macroeconomic views include the possibility that inflation pressures fail to abate, that the bond market objects to large sustained fiscal deficits, that AI proves to be a bubble, or that the struggles of lower-income households become more acute.

The central narrative is similar for emerging markets. Many emerging-market economies are also anticipated to grow more quickly in 2026. Note the same technical distortion exists in the emerging-market forecasts, obscuring this narrative (Exhibit 16). China and India constitute important exceptions to the accelerating growth trend, but we look for steady, robust growth from both. Once again, our forecasts are mostly above the consensus.

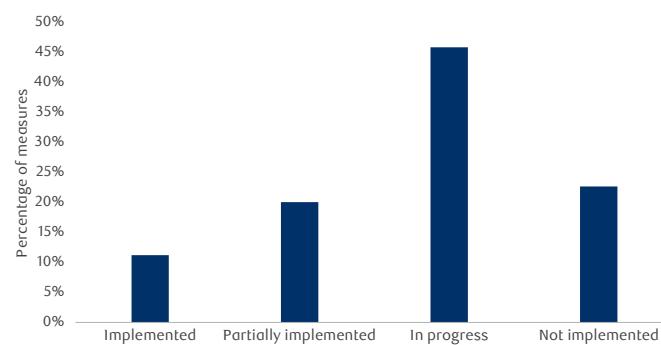
Turning briefly from the one-year outlook to more distant vistas, it is worth acknowledging that a large part of what determines economic growth rates is how substantially a country lags the world's richest nations in per-capita income. The poorer the country, the faster it can theoretically grow as it mimics best practices and races to catch up to the developed world. But there is significant variation around this principle, influenced by such factors as education levels and

Exhibit 14: RBC GAM GDP forecast for developed markets



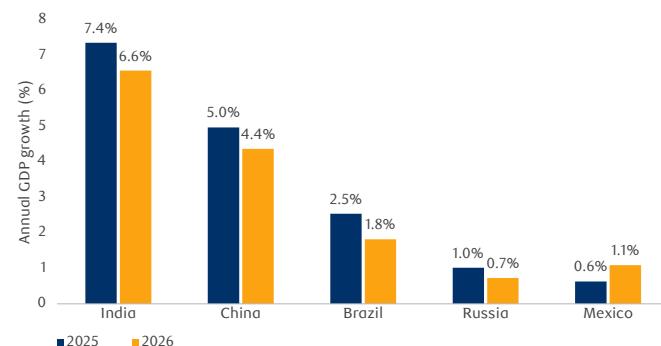
Note: As of 11/03/2025. Source: RBC GAM

Exhibit 15: Most European productivity reforms not yet fully implemented



Note: As of 09/04/2025. Source: European Policy Innovation Council (EPIC), RBC GAM

Exhibit 16: RBC GAM GDP forecast for emerging markets



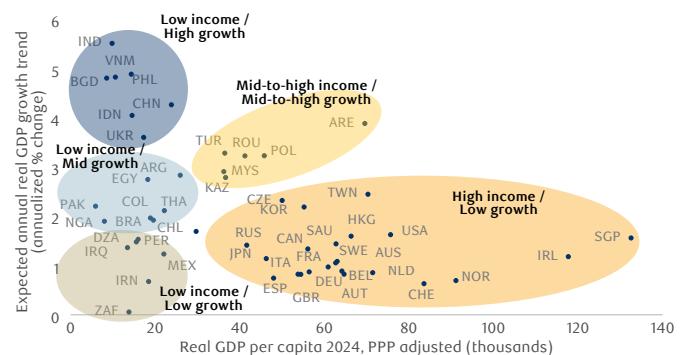
Note: As of 11/03/2025. Source: RBC GAM

governance quality (Exhibit 17). Some countries, such as India and Vietnam, are growing even faster than their low GDP per capita level would suggest, while others, such as South Africa and Mexico, are underperforming. Such divergences tend to persist over long periods.

Improving but sticky inflation

Inflation remains too high in the U.S. and is slightly elevated in several other developed markets. This is due to a mix of tariff hikes and post-pandemic scarring, with an emphasis on the latter for non-U.S. markets. Our CPI forecasts are mostly a hair above the consensus for 2026, motivated by the view that central-bank rate cutting is running ahead of what one would normally expect in the present inflation environment, given the expectation that a modicum of scarring will persist, and with a view that large fiscal deficits may persuade some countries to tolerate incrementally higher inflation than otherwise (Exhibit 18).

Exhibit 17: Economic growth vs. income level



Note: Top 50 countries in the world by 2024 real GDP shown in chart. Expected GDP growth from 2025 to 2029 based on IMF forecast. Source: U.S. Central Intelligence Agency, IMF World Economic Outlook October 2025, RBC GAM

Exhibit 18: Fiscal-health scorecard

Country	Fiscal Health Index (1 - 5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current Account (% of GDP)	Foreign-held debt (% share)	Committed spending share (%)	Currency control
U.S.	3.3	122	7.6	2.3	3.9	3.7	122.3	26	70	Yes
France	3.1	113	5.7	1.6	1.9	3.2	113.1	46	63	No
U.K.	3.1	101	5.5	1.5	3.1	3.8	101.2	25	63	Yes
Italy	3.0	135	3.5	-0.3	3.7	2.7	135.3	28	62	No
Belgium	3.0	105	4.8	1.0	2.0	3.1	104.7	52	58	No
Brazil	2.9	87	6.7	0.8	8.2	6.0	87.3	11	66	Yes
South Africa	2.8	76	5.7	1.5	5.0	4.9	76.0	23	41	Yes
Spain	2.8	102	3.1	-0.5	2.4	3.9	101.6	41	63	No
Mexico	2.7	58	5.9	2.5	6.2	5.6	58.3	23	n.a.	Yes
Japan	2.7	236	1.6	-3.8	1.2	2.5	236.1	13	67	Yes
India	2.6	82	7.9	-0.4	5.4	10.8	81.6	5	n.a.	Yes
Canada	2.5	111	1.8	-2.9	3.2	4.3	111.3	21	63	Yes
Norway	2.5	43	8.0	6.7	0.6	3.2	42.7	63	60	Yes
Finland	2.5	82	3.4	0.0	1.1	3.6	82.1	46	62	No
Greece	2.4	155	-0.5	-5.1	2.8	3.6	154.8	n.a.	57	No
China	2.4	123	6.8	-1.3	0.9	5.4	88.3	3	44	Yes
Portugal	2.2	95	-0.3	-3.3	2.2	3.8	94.9	46	62	No
Australia	2.1	51	3.1	0.9	1.6	4.5	50.7	33	57	Yes
Germany	1.9	63	2.0	-0.2	0.9	2.9	63.5	42	61	No
Turkey	1.7	24	4.7	0.0	2.6	18.4	24.0	n.a.	57	Yes
Indonesia	1.7	40	2.2	-1.0	2.1	7.8	40.2	34	32	Yes
Netherlands	1.4	44	1.2	-0.4	0.7	3.3	43.8	37	57	No
Ireland	1.4	39	-3.6	-4.8	0.7	4.3	38.8	56	60	No
Russia	1.4	20	2.4	0.7	0.8	5.2	20.3	8	46	Yes
Denmark	1.3	31	-4.4	-5.4	0.7	3.4	31.5	26	64	Yes
Sweden	1.2	33	0.7	-0.6	0.7	3.7	33.0	16	57	Yes
South Korea	1.2	50	0.7	-1.8	0.9	4.0	49.8	17	n.a.	Yes

Legend: Extremely poor (red), Very poor (orange), Poor (yellow), Fair (light green), Good (green)

Note: 2024 data for all indicators except interest payments (2023) and GDP growth (IMF forecast for 2030 used as proxy for "normal"). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

That said, we do look for year-over-year inflation to peak in the spring of 2026 and then begin to edge lower (Exhibit 19). There are several reasons for this.

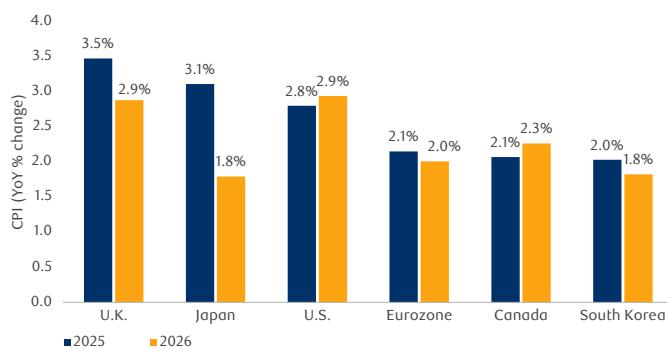
First, economies are not overheating, indicating that there should be some pull in the direction of inflation targets. In line with this, the U.S. labour market is clearly cooling based on a decline in job openings and rising unemployment (Exhibit 20).

Second, the impact of tariffs on inflation is relatively tame – adding little to most countries and about a percentage

point to the U.S. price level. That's far less than the inflation shock of 2021-2023. Reflecting this, the fraction of businesses planning to raise prices has only increased slightly (Exhibit 21).

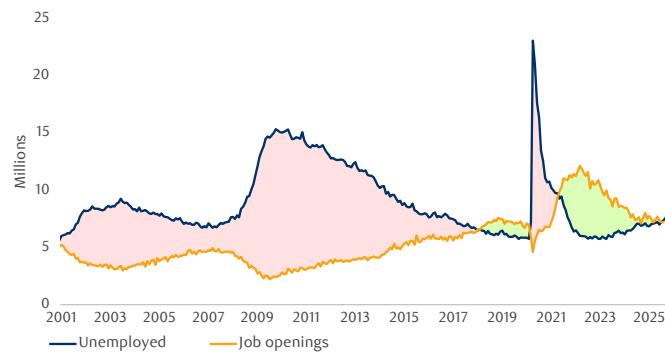
Third, even as tariffs impose inflationary pressures on the goods side of the price basket, a slowdown in increases for rent and mortgage payments is providing a helpful offset elsewhere (Exhibit 22). That downward trend should persist for some time.

Exhibit 19: RBC GAM CPI forecast for developed markets



Note: As of 11/03/2025. Source: RBC GAM

Exhibit 20: Gap between job openings and unemployment in the U.S. has closed



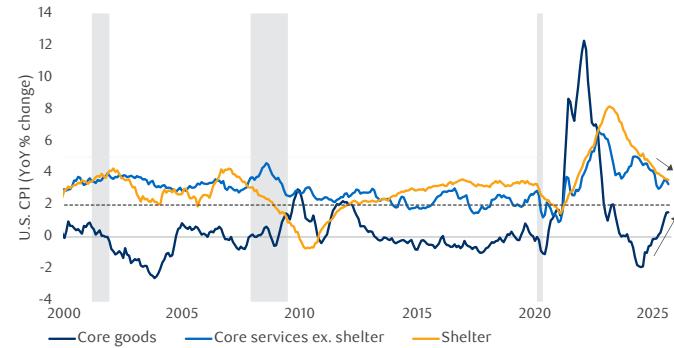
Note: Unemployment as of Sep 2025, job openings as of Aug 2025. Source: BLS, Macrobond, RBC GAM

Exhibit 21: Rising fraction of U.S. businesses planning to raise prices



Note: As of Oct 2025. Shaded area represents recession. Source: NFIB Small Business Economic Survey, Macrobond, RBC GAM

Exhibit 22: U.S. goods inflation rising, services inflation falling



Note: As of Sep 2025. Shaded area represents recession. Source: BLS, Haver Analytics, Macrobond, RBC GAM

Fourth, low and gradually declining oil prices provide another helping hand for overall inflation (Exhibit 23).

On the whole, then, inflation may not fall by quite as much as the consensus expects, but there is room for improvement in the year ahead.

China optimism

First, the bad news. The Chinese economy no longer grows at 10%, 8% or even 6% per year. U.S. tariffs hurt, the property market remains depressed (Exhibit 24), the country has pockets of debt excesses, and the demographic picture is ugly.

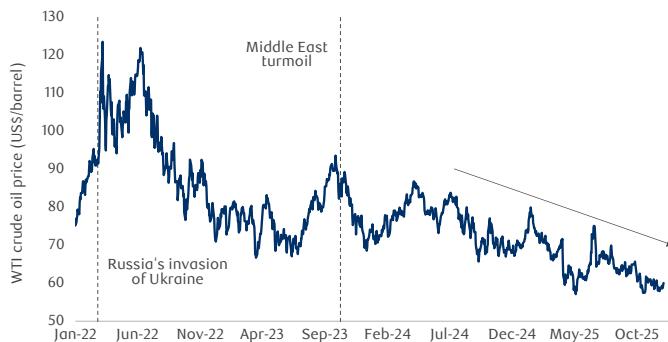
But, for all that, we ultimately land on the optimistic side of the ledger with regard to China. Part of this is because the

bad news is already well appreciated and so factored into the consensus outlook.

Another reason is that, despite it all, China continues to grow at a 4%-plus rate, which is admirable by global standards. By dint of that growth being spread across a shrinking population, the average Chinese citizen is still enjoying rapidly rising prosperity via an annual productivity growth rate that remains above 5% (Exhibit 25).

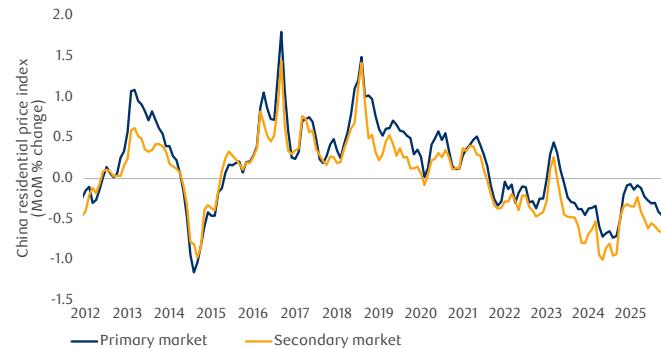
While China would prefer unfettered access to U.S. markets, it has had enough clout to go toe to toe with the U.S. in trade disputes, limiting the damage. China is also proving highly successful at finding new trade partners to replace lost U.S. business (Exhibit 26).

Exhibit 23: Crude-oil prices fall as OPEC+ increases production



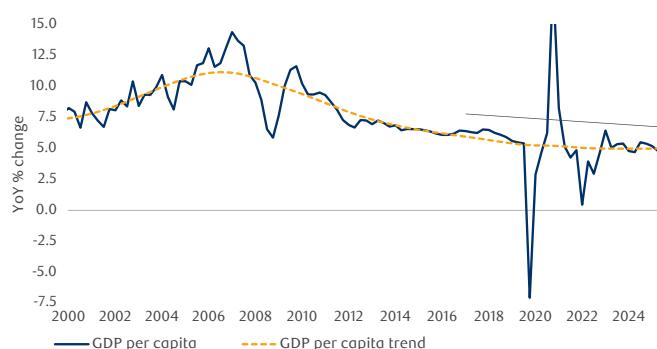
Note: As of 12/05/2025. Source: Macrobond, RBC GAM

Exhibit 24: Chinese home prices continue to fall



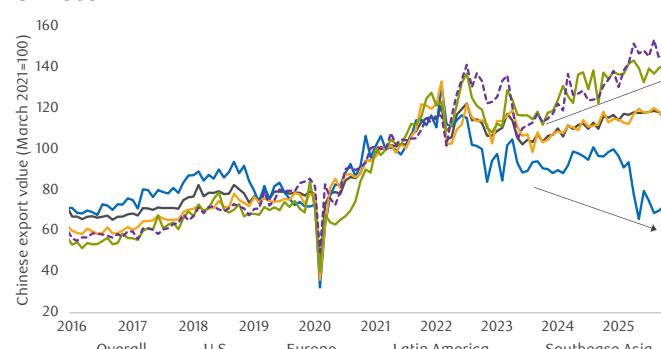
Note: As of Oct 2025. Source: CNBS, Macrobond, RBC GAM

Exhibit 25: China's productivity growth remains robust



Note: As of Q3 2025. Trend estimated using Hodrick-Prescott filter. Source: China National Bureau of Statistics, Macrobond, RBC GAM

Exhibit 26: China pivots from U.S. to other export markets



Note: As of Oct 2025. Source: China General Administration of Customs, Macrobond, RBC GAM

But the real driver of Chinese growth is the country's fast-expanding capacity for innovation. China has progressed from a copycat economy to one that is genuinely at the technological frontier. Its cutting-edge developments already span AI, computer chips, pharmaceuticals, electrical vehicles, batteries, solar panels and drones. China's "new economy" is beginning to fill the hole left by its housing bust.

China also retains some capacity to deliver additional monetary and fiscal stimulus, limiting the near-term downside economic risk.

Canadian confusion

It is unusually difficult to judge the current condition of the Canadian economy. It was certainly weak during the spring and summer. Since then, business surveys have shown a reluctance by companies to hire, and the labour supply has stagnated due a lack of population growth (Exhibit 27).

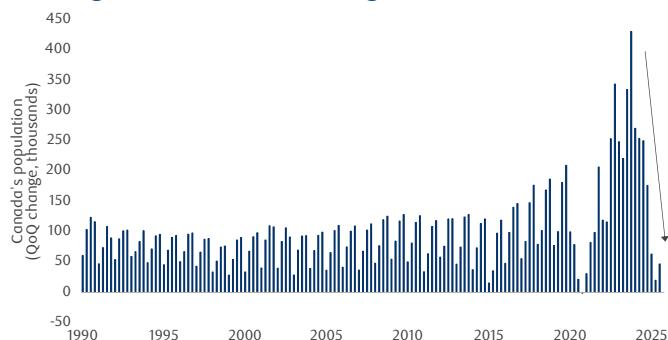
"We suspect the Canadian economy is picking up after a uniquely difficult period, but not quite on the scale of the most optimistic figures."

Somehow, though, the three most recent monthly job reports have all been extremely strong. Or not: a less closely watched payroll survey suggests substantial numbers of jobs are being lost.

There have also been unusual swings in other Canadian economic numbers, with third-quarter GDP up by far more than had been expected, but against a backdrop of stagnant domestic demand. Reflecting the latter condition, retail sales are softening (Exhibit 28).

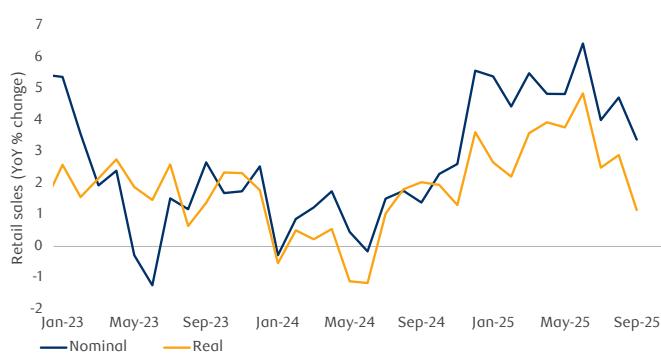
It is hard to know what to do with this jumble of contradictions. For our part, we suspect the Canadian economy is picking up after a uniquely difficult period, but not quite on the scale of the most optimistic figures. A recession appears to have been avoided. We continue to budget for a period of subdued growth through the first quarter of 2026 as tariff impacts settle and until greater clarity is achieved on the fate of the USMCA trade deal. At that point, the duo of rate cuts and fiscal stimulus should permit a steady acceleration into the end of the year (Exhibit 29).

Exhibit 27: Canada's population growth dropped as federal government cut immigration



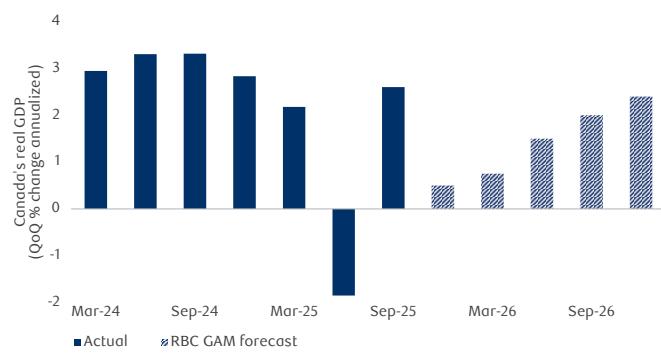
Note: As of 07/01/2025. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 28: Canadian retail sales decelerating



Note: As of Sep 2025. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 29: Canadian economy growth to improve in 2026



Note: Actual data as of Q3 2025. RBC GAM forecast as of 11/03/2025. Source: Statistics Canada, Macrobond, RBC GAM

Even after recent revisions dulled the edge of Canada's productivity underperformance over the past few years, the picture is still not pretty. Capital expenditures have stagnated or declined over many years (Exhibit 30). The government's latest budget goes some distance toward encouraging productivity-enhancing investments via accelerated depreciation and a reduction of red tape around

major infrastructure and resource sector investments. These measures should begin to help over the next few years.

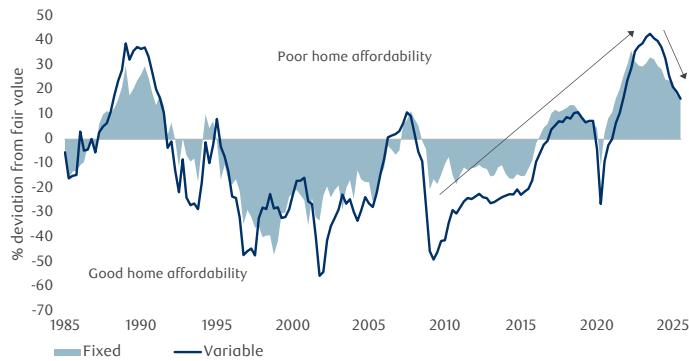
We presume that Canada's housing market will remain cool over the next year, providing more time for poor housing affordability to be remedied by rising incomes, falling interest rates and flat to falling home prices (Exhibit 31).

Exhibit 30: Canadian investment in machinery and equipment has declined since post-pandemic re-opening



Note: As of Q3 2025. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 31: Canadian housing affordability is poor but improving



Note: As of Q3 2025. Current carrying cost of a home versus the historical norm. Source: CREA, Statistics Canada, Haver Analytics, RBC GAM

Bottom line

Economic growth in 2026 should outpace this year's level as tariff headwinds fade, and interest-rate cuts, fiscal stimulus, AI expenditures and potentially faster productivity growth support economic activity.

The U.S. economy should remain among the developed-world's economic growth leaders, but it probably won't lap the field like in recent years. China should exceed consensus expectations as it successfully pursues an innovation agenda. The Canadian economy is probably not performing quite as well as the country's latest economic numbers would suggest, but its growth rate can accelerate in 2026.

Inflation stickiness should not be underestimated, but price pressures should ease somewhat over the coming year as tariff distortions are absorbed.

In financial markets, short-term interest rates will probably decline thanks to modest further monetary easing, while longer-term rates may be steadier as the bond market insists on a term premium in this era of large fiscal deficits and above-target inflation. The stock market may not replicate the large gains of recent years given the valuation starting point, but the combination of monetary easing and an economic soft landing has historically been fruitful.

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