RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

SPRING 2025

The RBC GAM Investment Strategy Committee

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The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

- The recommended mix of cash, fixed income instruments, and equities.
- The recommended global exposure of fixed income and equity portfolios.
- The optimal term structure for fixed income investments.
- The suggested sector and geographic make-up within equity portfolios.
- The preferred exposure to major currencies.

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook.*

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Executive summary

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Uncertainty abounds as the trade war threatens economic growth, complicates the outlook on inflation, and stokes financial-market volatility, causing investors to weigh a wide range of possible outcomes. In this environment, stocks are under pressure as investors shun expensive U.S. large-cap growth stocks in favour of those with more reasonable valuations.

Tariff uncertainty threatens growth

It is a time of high uncertainty for U.S. public policy including concerns around trade, immigration, and taxation. The heightened activity and lack of clarity threatens to temporarily slow economic growth as businesses and households opt to delay key decisions. With business and consumer sentiment fading and tariffs being applied, recession risk is now substantial for Canada and Mexico, and has mounted a bit even for the U.S. where the probability of recession has jumped to 25% or more from 15%. Our developed-world growth forecasts have been nearly universally downgraded for 2025 and now rest somewhat below the consensus. U.S. growth is now expected to be just 1.9% for the year, down from 2.3% a quarter ago. 2026 should be better for global growth, with forecasts that are broadly on or slightly above the consensus. Beyond Mexico, emerging-market growth forecasts have been steadier. Notably, the China 2025 growth outlook has been upgraded by a few tenths to 4.6%. Risks to these growth forecasts extend in both directions. On the optimistic side, perhaps large tariffs can be avoided after all. On the negative side, perhaps the trade war will be even greater than feared. Another downside risk is the potential for greater geopolitical tension as the U.S. seemingly pulls away from its traditional allies, forcing a rethink of international alliances and creating a window of opportunity for bad actors.

Raising inflation forecasts

We have increased the 2025 inflation outlook for two reasons: tariffs are inflationary in the short run and inflation in the U.S. has proven sticky of late. U.S. inflation is stuck near 3.0%, while other countries have wrangled inflation rates down to the 2.0% to 2.5% range. All told, we look for U.S. inflation to increase outright in 2025, from 2.9% in 2024 to 3.3%. Other countries are also expected to experience inflation upticks. As with our growth forecasts, these land on the undesirable side of the consensus (i.e. above).

Direction of U.S.-dollar remains key driver of FX markets

The U.S. dollar is overvalued by the most it has been in almost four decades versus the currencies of its main trading partners and the most ever against the Canadian dollar. The U.S. dollar's direction has been one of the primary drivers in FX markets as investors toggled their focus between U.S. interest rates and U.S. elections. This was evident in the way that developed-market exchange rates have become increasingly synchronized since the fall of 2024. We expect that the greenback will weaken in the longer-term, but we put our bearish outlook on pause last quarter following the elections in the U.S. owing to trade measures that would be tough on U.S. trade partners. A steeper decline of a larger magnitude would likely require investor enthusiasm for allocating money outside of the U.S., tentative signs of which have recently materialized.

Central banks expected to continue easing policy in the face of tariffs

Central banks have been in rate cutting mode for the past year with some further easing likely in 2025. The Fed kept its key policy rate unchanged in January and looks likely to remain on hold on March 19 barring a sharp slowdown in economic activity. The target range for the fed funds rate is currently situated between 4.25% and 4.50%, higher than what the Fed and investors consider a neutral level – i.e. neither stimulative nor restrictive for economic growth and consumer prices.

Should tariffs remain in place for an extended period, the headwind to economic growth, rather than the tailwind on inflation, will likely be the key factor nudging central banks to cut rates. Any inflation caused by tariffs would represent a one-time price level shock and the inflation rate should rapidly return to normal afterward, whereas any related economic damage would be enduring. In turn, there is room for material further monetary easing for a number of countries, with the U.S. a potential exception due to its relatively more robust economy and higher inflation readings compared to other countries.

Return potential in sovereign bonds remains decent despite recent rally

U.S. Treasuries have so far this year acted as a ballast against broader financial market volatility. The U.S. 10-year yield rallied to 4.21% at the end of February from a high of 4.80% earlier in the year as investors sought safe-haven assets amid tariff threats and the potential negative impact on the economy. The key threat to fixed income investors would be an upside surprise to inflation caused by unfavourable trade policies, but that upward pressure could be offset by weaker growth conditions. From current levels, our models suggest the U.S. 10-year T-bond is reasonably priced and that it offers decent return potential with only modest valuation risk if inflation continues to moderate. We expect bonds to deliver at least coupon-like returns somewhere in the low-to-mid single digits over the year ahead, but with greater divergence across bond markets, reflecting their disparate economic outlooks.

Stocks tumble as trade war unfolds

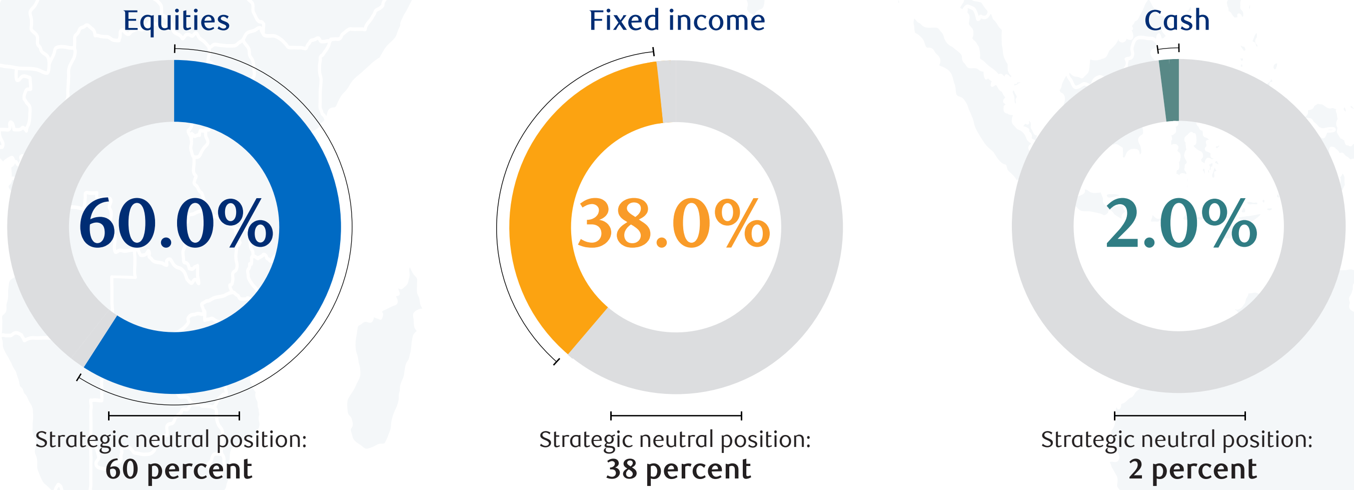
Stocks began to fall toward the end of February after reaching record levels earlier in the quarter as investors shied away from risk taking amid heightened uncertainty. The sell-off was concentrated in the most expensive U.S. stocks, whereas other markets which are more attractively priced, such as European equities, have delivered impressive gains so far this year. According to our models, U.S. large-cap equities remain expensive and require continued strong earnings growth to support further gains. The consensus of analysts estimates looks for double digit earnings growth this year and next, although those estimates may be subject to downward revisions should tariffs remain in place for an extended period, leaving stocks vulnerable given their elevated starting point. Our return estimates range from mid- to high-single digit returns over the year ahead depending on the region, but large error bands exist around our central forecasts.

Asset mix – maintaining positioning at strategic neutral

Balancing the risks and rewards in our asset mix, we are maintaining a relatively cautious stance with our recommended allocation in line with our strategic neutral positioning. Our base case is for the economy to grow at a modest pace, though we recognize that large deviations are possible given the uncertainty around tariffs. Bonds offer decent return potential and an important ballast against equity-market volatility and that diversification benefit is especially important in this environment. We have been active in tactically managing our fixed income exposures. As the U.S. 10-year yield climbed over 4.60% earlier in the year, we added 50 basis points to bonds, sourced from cash. We reversed that trade after the latest rally, recognizing that even though U.S. 10-year bonds are still appealing, they are slightly less so than earlier in the quarter. Stocks continue to offer superior long-term return potential. However, because valuations remain elevated, the premium between stocks and bonds is unusually low at the moment, particularly in U.S. equities. As such, we are more cautious on stocks in the near-term and are maintaining a neutral allocation in equities overall, but have adjusted our regional tilts. This quarter we reduced exposure to North American equities in favour of international and emerging market stocks. For a balanced global investor, our current recommended asset mix is 60.0 percent equities (strategic neutral position: 60 percent), 38.0 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash.

Recommended asset mix

RBC GAM Investment Strategy Committee



Note: As of February 28, 2025. Source: RBC GAM

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025	Spring 2025	Change from New Year 2025
Real GDP														
2024A[1]	2.79%		1.53%		0.72%		0.94%		0.07%		5.04%		4.98%	
2025E	1.90%	(0.40)	0.90%	(0.80)	1.00%	(0.30)	0.90%	(0.50)	1.50%	0.30	4.60%	0.30	4.50%	0.10
2026E	2.20%	N/C	2.20%	N/C	1.40%	N/C	1.50%	N/C	0.90%	N/C	4.30%	N/C	4.30%	N/C
CPI														
2024A	2.95%		2.38%		2.36%		2.54%		2.74%		0.25%		2.69%	
2025E	3.30%	0.70	2.90%	0.80	2.50%	0.40	3.20%	0.90	3.40%	1.30	1.10%	0.10	2.90%	0.10
2026E	2.10%	N/C	1.60%	N/C	1.90%	N/C	2.10%	N/C	1.40%	N/C	1.50%	(0.10)	2.60%	N/C

A = Actual E = Estimate *GDP Weighted Average of China, India, Brazil, Mexico and Russia. [1]2024 GDP for Canada, UK, Japan, India, Brazil and Russia are not yet available so listed GDP for Canada, UK, Japan and Emerging Markets represent the most recent consensus estimates for 2024.

Targets (RBC GAM Investment Strategy Committee)

	February 2025	Forecast February 2026	Change from New Year 2025	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.45	1.36	N/C	4.9
EUR (EUR–USD)	1.04	1.09	N/C	2.9
JPY (USD–JPY)	150.63	142.00	N/C	2.4
GBP (GBP–USD)	1.26	1.33	N/C	5.8
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	4.50	4.50	0.75	
U.S. 10-Year Bond	4.21	4.50	0.50	1.9
Canada Overnight Rate**	3.00	2.75	N/C	
Canada 10-Year Bond	2.90	3.25	N/C	(0.1)
Eurozone Deposit Facility Rate**	2.75	2.00	0.25	
Germany 10-Year Bund	2.41	2.50	0.25	1.6
U.K. Base Rate	4.50	4.00	N/C	
U.K. 10-Year Gilt	4.48	4.25	N/C	6.4
Japan Overnight Call Rate	0.48	0.75	N/C	
Japan 10-Year Bond	1.38	1.75	0.25	(2.0)
Equity markets				
S&P 500	5955	6200	(100)	5.5
S&P/TSX Composite	25393	26300	(150)	6.6
MSCI Europe	187	195	21	7.5
FTSE 100	8810	9100	750	7.1
Nikkei	37156	40000	(1600)	9.8
MSCI Emerging Markets	1097	1180	40	10.1

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. ** The European Central Bank cut its policy rate by 25-basis points to 2.50% on March 6, 2025 and the Bank of Canada cut its policy rate by 25-basis points to 2.75% on March 12, 2025.
Source: RBC GAM

Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

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[1] **Average return**: The average total return produced by the asset class over the period 1985 – 2025, based on monthly results.

[2] **Volatility**: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix

	Benchmark policy	Allowable range	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**	**Spring 2025**
Cash	2.0%	0.0% – 15.0%	1.5%	1.5%	3.0%	2.0%	**2.0%**
Bonds	38.0%	23.0% – 53.0%	38.5%	38.5%	37.0%	38.0%	**38.0%**
Stocks	60.0%	45.0% – 75.0%	60.0%	60.0%	60.0%	60.0%	**60.0%**

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long–lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation

Global bonds	**WGBI* February 2025**	Allowable range	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**	**Spring 2025**
North America	45.1%	35.1% – 55.1%	47.0%	44.5%	47.5%	49.2%	**50.1%**
Europe	32.1%	22.1% – 42.1%	34.6%	34.0%	33.1%	32.7%	**32.1%**
Asia	22.8%	12.8% – 32.8%	18.4%	21.4%	19.4%	18.1%	**17.8%**

Global equities	**MSCI** February 2025**	Allowable range	Spring 2024	Summer 2024	Fall 2024	**New Year 2025**	**Spring 2025**
North America	73.7%	63.7% – 83.7%	70.6%	70.6%	71.6%	73.2%	**72.7%**
Europe	12.0%	2.0% – 22.0%	13.8%	13.7%	13.3%	12.2%	**12.4%**
Asia	6.0%	0.0% – 16.0%	7.5%	7.5%	6.8%	6.6%	**6.3%**
Emerging markets	8.3%	0.0% – 18.3%	8.1%	8.3%	8.3%	8.0%	**8.6%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation

	MSCI February 2025**	RBC GAM ISC New Year 2025	**RBC GAM ISC Spring 2025**	Change from New Year 2025	Weight vs. benchmark
Energy	3.71%	5.37%	3.71%	(1.67)	100.0%
Materials	3.26%	2.71%	2.26%	(0.45)	69.3%
Industrials	10.75%	13.01%	10.75%	(2.26)	100.0%
Consumer discretionary	11.27%	10.28%	11.77%	1.49	104.4%
Consumer staples	5.96%	4.90%	5.46%	0.56	91.6%
Health care	10.63%	11.90%	10.63%	(1.27)	100.0%
Financials	16.50%	16.81%	18.50%	1.69	112.1%
Information technology	24.90%	24.99%	25.60%	0.61	102.8%
Communication services	8.52%	6.87%	9.52%	2.66	111.7%
Utilities	2.45%	2.63%	1.25%	(1.38)	51.0%
Real estate	2.05%	0.53%	0.55%	0.02	26.9%

*FTSE World Government Bond Index. **MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	73%	68-88%	73.0%	73.0%
Total Cash & Fixed Income	75%	60-90%	75.0%	75.0%
Canadian Equities	10%	0-20%	10.0%	9.9%
U.S. Equities	8%	0-18%	8.0%	7.7%
International Equities	7%	0-17%	7.0%	7.4%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	25.0%

	Return	Volatility
40-year average	7.5%	4.9%
Last 12 months	13.3%	5.1%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	58%	43-83%	58.0%	58.0%
Total Cash & Fixed Income	60%	45-75%	60.0%	60.0%
Canadian Equities	13%	3-23%	13.1%	12.9%
U.S. Equities	15%	5-25%	15.0%	14.5%
International Equities	12%	2-22%	11.9%	12.6%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	40.0%

	Return	Volatility
40-year average	7.9%	6.1%
Last 12 months	13.6%	5.0%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	38%	23-53%	38.0%	38.0%
Total Cash & Fixed Income	40%	25-55%	40.0%	40.0%
Canadian Equities	15%	5-25%	15.1%	14.7%
U.S. Equities	25%	15-35%	25.0%	24.3%
International Equities	15%	5-25%	15.1%	15.8%
Emerging Markets	5%	0-15%	4.8%	5.2%
Total Equities	60%	45-75%	60.0%	60.0%

	Return	Volatility
40-year average	8.7%	9.5%
Last 12 months	18.2%	5.5%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	3.0%	2.0%
Fixed Income	23%	8-38%	22.0%	23.0%
Total Cash & Fixed Income	25%	10-40%	25.0%	25.0%
Canadian Equities	18%	8-28%	18.1%	17.7%
U.S. Equities	30%	20-40%	30.0%	29.1%
International Equities	19%	9-29%	19.1%	19.9%
Emerging Markets	8%	0-18%	7.8%	8.3%
Total Equities	75%	60-90%	75.0%	75.0%

	Return	Volatility
40-year average	8.8%	9.5%
Last 12 months	23.0%	5.1%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset class	Bench- mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	2.0%
Canadian Equities	29%	19-39%	29.2%	28.6%
U.S. Equities	38%	28-48%	38.0%	36.8%
International Equities	20%	10-30%	20.1%	21.2%
Emerging Markets	11%	1-21%	10.7%	11.4%
Total Equities	98%	83-100%	98.0%	98.0%

	Return	Volatility
40-year average	9.1%	11.9%
Last 12 months	21.7%	6.3%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.

Capital markets performance

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The U.S. dollar appreciated against all other major currencies during the three months ended February 28, 2025. The greenback was up 3.3% against the Canadian dollar, 2.0% against the euro and 1.3% versus the British pound and 0.6% versus the Japanese yen. The U.S.-dollar strength can be largely attributed to higher relative interest rates from solid economic growth and President Trump's tariff-heavy trade agenda. Tariffs raise price levels which could complicate the inflation trajectory and inhibit the pace of interest rate cutting by the Federal Reserve (Fed). The loonie was a notable underperformer as Canada became a major target of Trump's tariff ire and is particularly exposed to U.S. trade. Also weighing on the loonie is the fact that Canada's economy has been sluggish owing to a lack of productivity growth, and that interest rates are lower with the Bank of Canada cutting rates more aggressively than the Fed to support the economic activity. The euro also underperformed with lower rates and a listless economy but the negativity was partially offset by the potential for more fiscal spending across the region, especially with Europe's newfound urgency to boost defense. The yen fared better as interest rates rose with the Japanese economy hitting its stride. The Sterling decline was the smallest as the U.K. is dealing with stubborn inflation and is relatively insulated from Trump's tariff threats as the country runs a trade deficit with the U.S. Over the one-year period, the U.S. dollar gained 6.6% against the Canadian dollar, 4.2% against the euro and 0.4% against both the yen and the pound.

Global fixed-income returns were weak in the latest quarter as government bond yields traversed a very wide range. Bond investors were focused on Trump's proposed policies and its effect on economic growth, inflation and government spending. The yield on the U.S. 10-year Treasury bond rose over 60 basis points to 4.80% in mid-January then fell to 4.21% by the end of February, essentially unchanged from over the quarter. Global bond index returns ranged from 2.1% loss in the Bloomberg Pan-European Government Bond Index and FTSE Japanese Government Bond Index to a 1.1% gain in the FTSE U.S. Government Bond Index in U.S.-dollars. Japanese yields climbed as the sturdy Japanese economy brushed off interest rate hikes with continued gains in wages and inflation, a welcomed development for the country after a long period of too-low inflation and interest rates. Canadian bond yields dropped as a soft labour market, slower price gains and tariff threats allowed the Bank of Canada to continue with rate cuts but Canadian dollar depreciation wiped out the gains. Over the 12-month period, the FTSE US Government Bond Index performed best, up 5.8%, compared with a decline of 6.0% for the FTSE Japanese Government Bond Index, all in U.S.-dollar terms.

Global equities were highly volatile in the latest quarter as momentum waned in the U.S. mega-cap technology stocks and investors rotated into other, less expensive, areas of the market. Investors questioned the return on investment from the enormous artificial intelligence (AI) capital expenditure especially after Chinese AI startup DeepSeek demonstrated that perhaps advancements could be made with less resources. In early 2025, signs of cooling in the U.S. economy and an improvement in the outlook of the European economy enticed investors towards international markets. As a result, the S&P 500 Index was among the worst performers over the period with a 1.0% loss while the MSCI Germany Index and MSCI France Index produced double-digit returns of 12.5% and 10.4% respectively, in U.S.-dollars. Stocks delivered great returns over the one-year period, ranging from an 8.8% return in U.S. dollars for the MSCI EAFE to 21.5% for the MSCI Germany, excluding the poor gains of 0.7% and 1.7% from the laggards MSCI Japan and MSCI France respectively.

Equity investors sought the safety of large-cap stocks amid tremendous policy uncertainty as the S&P 500's small decline of 1.0% was dwarfed by the 7.7% drop for the S&P MidCap 400 Index and 10.7% plunge in the S&P SmallCap S&P 600 Index. Both the Russell 3000 Growth Index and the Russell 3000 Value Index registered small losses of 1.3% and 2.5% respectively. Communication Services, up 5.5%, was the top performing sector over the three months as consumers continued to spend on content streaming and gaming. Real Estate was the worst performing sector, registering an 3.2% loss in a volatile interest rate environment. Over the 12-month time frame, Financials was the best performing sector with a 30.9% return while Materials ranked last with a 3.1% gain.

Exchange rates

Periods ending February 28, 2025

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.4468	3.33	0.65	6.60	4.51	1.51
USD–EUR	0.9640	2.02	(0.14)	4.19	2.63	1.25
USD–GBP	0.7950	1.33	(0.48)	0.35	2.17	0.38
USD–JPY	150.5350	0.60	(4.33)	0.41	9.40	6.89

Note: all changes above are expressed in US dollar terms

Canada fixed income markets

Periods ending February 28, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	(1.67)	1.65	1.77	(2.82)	(0.96)	1.60	8.48	1.56

U.S. fixed income markets

Periods ending February 28, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	1.07	2.76	5.84	(0.44)	(0.52)	4.44	12.77	4.03
BBg U.S. Agg. Bond Index TR1	1.06	2.74	5.81	(0.44)	(0.52)	4.42	12.74	4.03

Global fixed income markets

Periods ending February 28, 2025

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	(0.46)	1.87	1.84	(4.23)	(3.22)	2.41	8.16	(0.08)
Bloomberg Pan-European Govt TR	(2.15)	1.24	0.29	(5.63)	(4.02)	1.11	6.91	(1.38)
FTSE Japanese Government TR	(2.06)	2.55	(6.00)	(12.03)	(9.43)	1.20	0.21	(8.06)

Canada equity markets

Periods ending February 28, 2025

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	(3.52)	2.40	14.87	4.99	11.05	(0.31)	22.45	9.72
S&P/TSX 60	(2.95)	3.10	14.95	5.06	11.45	0.28	22.54	9.80
S&P/TSX Small Cap	(7.94)	(2.27)	9.21	(2.29)	9.84	(4.88)	16.42	2.11

U.S. equity markets

Periods ending February 28, 2025

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	(0.97)	1.44	18.41	12.55	16.85	2.32	26.22	17.63
S&P 400 TR	(7.74)	(0.66)	8.69	6.88	13.01	(4.67)	15.86	11.70
S&P 600 TR	(10.68)	(2.97)	6.27	2.98	10.80	(8.11)	12.87	7.45
Russell 3000 Value TR	(2.53)	4.71	15.33	8.32	12.39	0.71	22.94	13.20
Russell 3000 Growth TR	(1.34)	(1.78)	19.09	14.25	19.03	1.94	26.95	19.40
NASDAQ Composite Index TR	(1.77)	(2.31)	17.93	11.97	17.99	1.50	25.72	17.01

Note: All rates of return presented for periods longer than 1 year are annualized. [1]Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

Global equity markets

Periods ending February 28, 2025

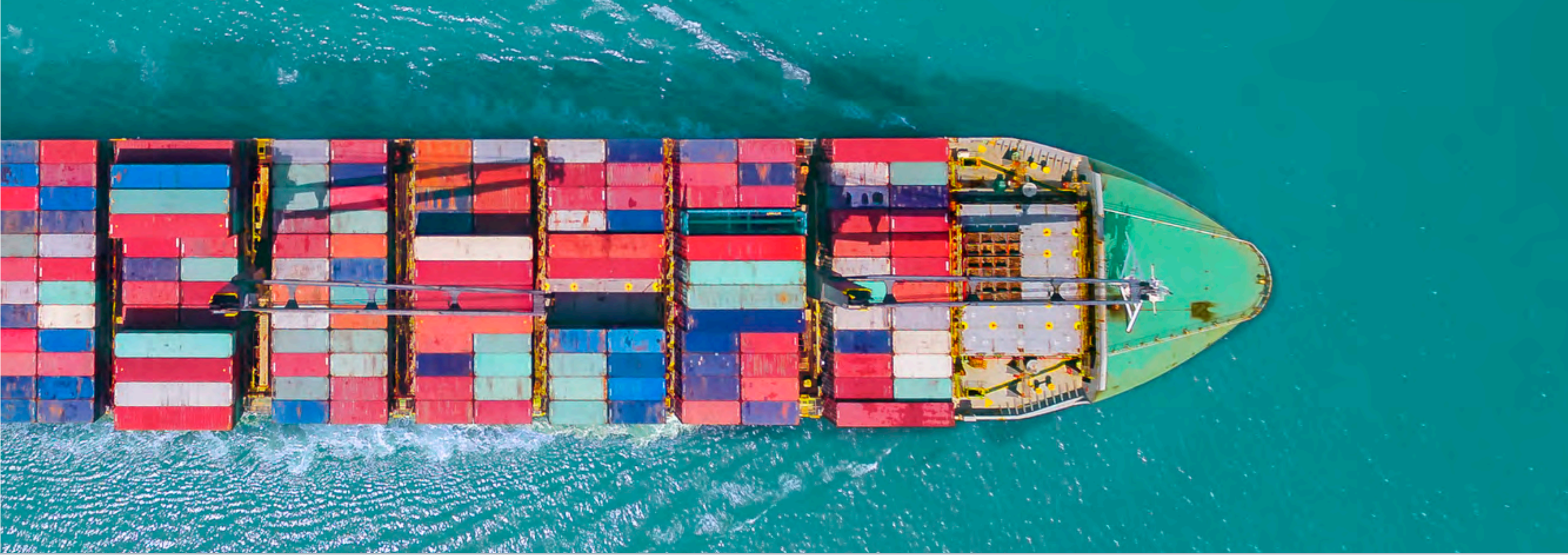
	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	0.11	2.78	15.63	10.22	13.91	2.99	22.80	14.99
MSCI EAFE TR *	4.86	7.30	8.77	6.42	8.70	7.88	15.52	11.04
MSCI Europe TR *	8.10	10.81	11.20	7.40	9.74	11.22	18.10	12.05
MSCI Pacific TR *	(1.32)	0.84	3.65	4.45	6.67	1.53	10.08	8.98
MSCI UK TR *	5.94	8.94	18.70	7.74	9.76	8.99	26.07	12.41
MSCI France TR *	10.44	10.35	1.72	6.15	9.20	13.63	8.04	10.75
MSCI Germany TR *	12.49	13.64	21.48	10.09	9.83	15.74	29.03	14.86
MSCI Japan TR *	(0.16)	0.19	0.70	5.05	7.17	2.72	6.95	9.61
MSCI Emerging Markets TR *	2.14	2.28	10.07	0.46	4.26	5.09	16.91	4.82

Global equity sectors

Periods ending February 28, 2025

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	(2.82)	5.24	7.46	10.09	14.72	(0.02)	14.13	14.86
Materials TR *	(2.85)	5.86	3.09	1.70	10.94	(0.05)	9.49	6.11
Industrials TR *	(1.89)	4.31	11.77	11.23	12.84	0.94	18.70	16.05
Consumer discretionary TR *	(0.10)	(2.36)	12.06	6.85	13.50	2.78	19.02	11.48
Consumer staples TR *	2.18	6.82	11.75	4.05	7.69	5.13	18.69	8.56
Health care TR *	1.04	7.59	3.63	5.02	9.60	3.96	10.06	9.57
Financials TR *	4.10	8.73	30.85	13.65	15.25	7.10	38.97	18.58
Information technology TR *	(2.63)	(3.33)	16.31	16.02	21.59	0.18	23.53	21.05
Communication services TR*	5.53	3.23	26.75	12.59	13.74	8.58	34.61	17.48
Utilities TR *	(2.78)	4.57	23.41	5.45	5.91	0.02	31.07	10.02
Real estate TR *	(3.17)	5.16	10.71	(0.49)	2.87	(0.38)	17.59	3.82

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI



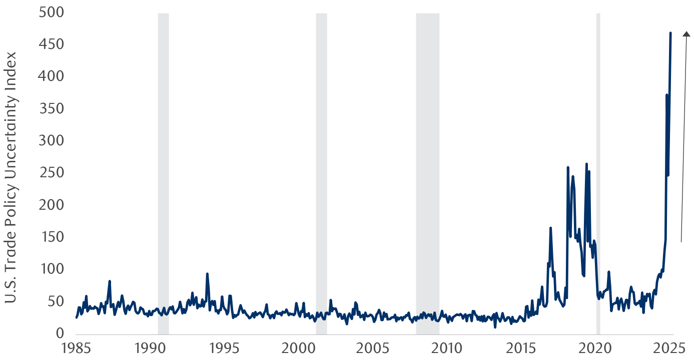
Economic outlook
Tariff threats in focus

Eric Lascelles
Managing Director & Chief Economist
RBC Global Asset Management Inc.

It is a time of nearly unparalleled uncertainty for U.S. public policy (Exhibit 1). The White House has implemented or plans major changes on many economically relevant fronts, including trade, immigration, taxation, government spending, regulations, the civil service and foreign policy.

This heightened activity and the lack of clarity around it threatens to temporarily slow economic growth as businesses and households opt to delay key decisions until they can secure more information.

Exhibit 1: U.S. trade policy uncertainty surges to record high after 2024 election



Note: As of Feb 2025. Index normalized to a value of 100 when share of articles discussing trade policy uncertainty equals 1%. Shaded area represents recession. Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020), "The Economic Effects of Trade Policy Uncertainty," Journal of Monetary Economics, 109, pp.38-59, Macrobond, RBC GAM

As for the expected policies themselves, these run the gauntlet from theoretically growth-positive decisions relating to tax cuts and deregulation to more negative ones relating to immigration and tariffs.

Until recently, one could argue that the net effect of the coming public policy barrage would be to incrementally accelerate U.S. economic growth, if also to raise inflation and slightly diminish rest-of-world economic growth. However, recent developments point in a less favourable direction. In particular, tariffs are being applied with an unanticipated vigour, and animal spirits – the enthusiasm initially shown by households and businesses to the Trump administration – are now notably fading. In turn, the U.S. growth outlook has been somewhat downgraded.

The countries most at risk of U.S. tariffs are those with the greatest trade exposure to the country, including Mexico and Canada (Exhibit 2). Should threatened large tariffs persist, this would be quite problematic for those countries' economies. In contrast, many other countries have only a small exposure to the U.S. economy, making them much less susceptible to tariffs.

Against this backdrop, U.S. economic growth is becoming somewhat less exceptional, with several other developed-world economies – including the Eurozone, U.K. and Japan – accelerating somewhat. These countries appear on track to partially bridge the U.S. growth advantage in 2025 and 2026 (Exhibit 3). Canada was on this list prior to the recent tariff escalation, but no longer.

From an investment standpoint, the high degree of uncertainty continues to argue for a well-balanced portfolio that doesn't deviate too far from neutral positioning. From a regional standpoint, expensive U.S. equity valuations and the threat of North American-focused tariffs support a modest pivot away from the continent's equities.

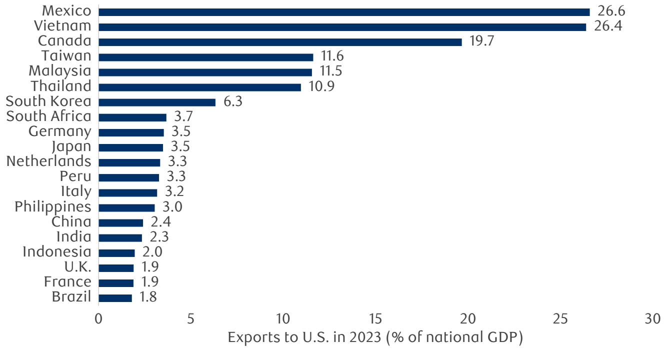
Unconventional U.S. public policy

The second Trump term is currently tracking rather differently than the first one. Whereas the first term quickly unleashed the tailwind of large tax cuts that were only partially offset at a later point by small tariffs, the sequencing and magnitudes are completely reversed this time. Today, the growth-impeding tariffs are coming first, and in a super-sized format, whereas the tax cuts may come at a later date, and are somewhat less exciting than the first iteration since much of the proposed outlay involves merely maintaining earlier tax cuts past their currently-scheduled expiry date.

As this tentative reality comes into view, the animal spirits that had so revived last autumn have begun to retreat (Exhibit 4). This is also reflected in recent stock market weakness.

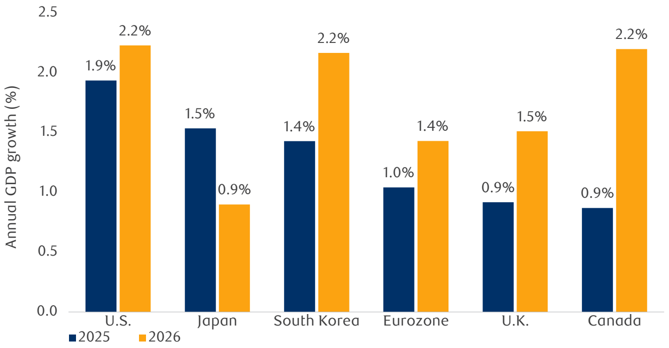
Planned spending cuts are raising concerns, both with regard to the haphazard manner in which the Department of Government Efficiency (DOGE) is eliminating spending, and the unpopular prospect of entitlements being pared if the White House is to deliver the full US$2 trillion it desires in spending cuts.

Exhibit 2: Exports to U.S. are significant for some countries



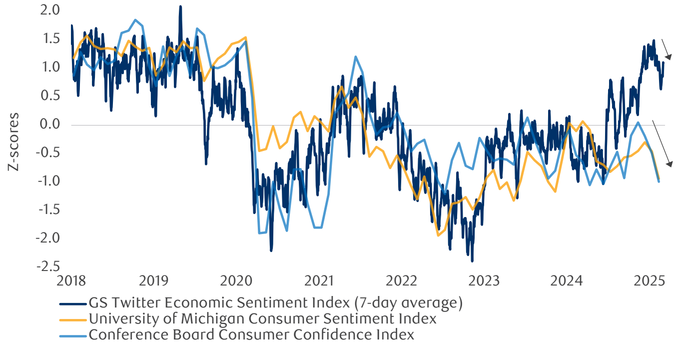
Source: IMF, Macrobond, RBC GAM

Exhibit 3: RBC GAM GDP forecast for developed markets



Note: As of 03/07/2025. Source: RBC GAM

Exhibit 4: U.S. consumer sentiment dropped on Trump policy concerns



Note: Twitter Economic Sentiment Index as of 03/03/2025, University of Michigan and Conference Board indices as of Feb 2025. Source: Goldman Sachs Global Investment Research, University of Michigan, The Conference Board, Macrobond, RBC GAM

This is not the final word on the subject. U.S. public policy may still reveal substantial surprises. The current campaign of shock and awe could slow before too long. The White House could lose its nerve with tariffs, supersize tax cuts or deliver spending cuts with sandpaper rather than a hatchet. But based on the signals so far, it is prudent to expect incrementally less economic growth rather than more (Exhibit 5).

Bigger tariffs

It is difficult to write anything coherent about the outlook for U.S. tariffs as the storyline is in constant flux. It is not even simply whether large tariffs will be applied or not, but additionally whether any large tariffs that are applied will last the week, month, year or presidential term.

Logic would argue that, when the dust settles, the White House is likely to leave in place no more than moderately-sized tariffs that balance the desire to protect American businesses and generate tax revenue with the preference not to overly damage the U.S. economy or financial markets, and perhaps even with legal restrictions.

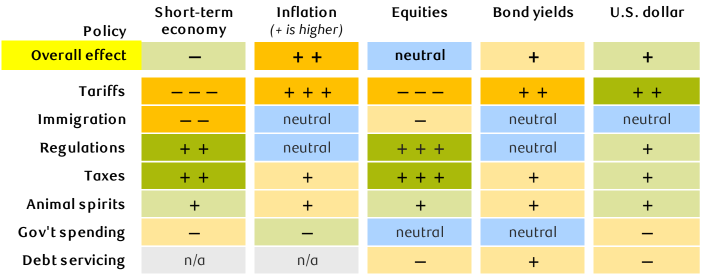
To be sure, it might make sense to threaten maximal tariffs as an initial negotiating tactic, and then to use that threat as a means to strike a deal with trading partners later, securing concessions without incurring too much economic damage. However, actually delivering large tariffs would make considerably less sense, as tariffs inflict serious economic damage via a wide range of channels, and not just on the targeted nation, but also on the implementing nation (Exhibit 6). They also increase prices. Initially, it had appeared that bluffing was indeed the strategy being pursued, as tariffs were repeatedly delayed.

But, since then, the U.S. appetite for tariffs has proven somewhat larger than expected. China has been hit by two rounds of 10% tariffs. Canada and Mexico had 25% blanket tariffs applied. While a considerable fraction of those tariffs were subsequently delayed until early April, a sizeable fraction remains in place and there is a good chance other parts will be revived later. Large worldwide steel and aluminum tariffs are now in place. And that still leaves reciprocal tariffs in early April, which President Trump has threatened on a large fraction of the world and which he has described as “the big one.”

There is some room for countries to negotiate their tariff blow lower: some countries have tariffs of their own that can be reduced, and it is not unreasonable that many countries should aim to raise their military budgets. But some U.S. demands may prove difficult for targeted countries to comply with. In particular, unorthodox expectations that countries lighten their sales taxes, revalue their exchange rates and/or break down non-tariff barriers (despite the U.S. maintaining many similar barriers) are less likely to be agreed to.

The manner in which big tariffs are being threatened, applied, withdrawn and/or recalibrated on the fly is not reassuring from a magnitude, stability or predictability perspective.

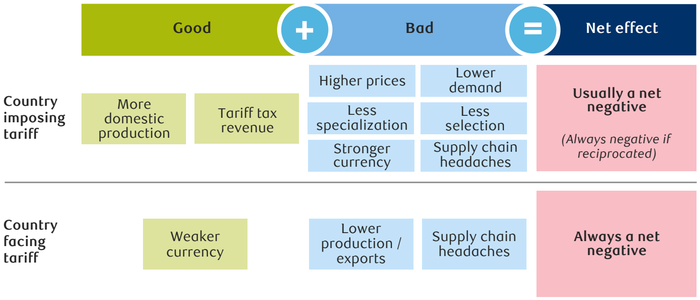
Exhibit 5: Trump policy expectations – tariffs tilt economy toward more negative interpretation



Policy	Short-term economy	Inflation *(+ is higher)*	Equities	Bond yields	U.S. dollar
Overall effect	–	+ +	neutral	+	+
Tariffs	– – –	+ + +	– – –	+ +	+ +
Immigration	– –	neutral	–	neutral	neutral
Regulations	+ +	neutral	+ + +	neutral	+
Taxes	+ +	+	+ + +	+	+
Animal spirits	+	+	+	+	+
Gov't spending	–	–	neutral	neutral	–
Debt servicing	n/a	n/a	–	+	–

Note: As at 03/03/2025. +/- indicate positive/negative impact on variable at top of column. Source: RBC GAM

Exhibit 6: Economic damage from tariffs comes via a range of subtle channels



Note: As at 02/17/2025. Source: RBC GAM

The process by which countries are selected for targeting is also frequently inscrutable, with the animosity toward Canada particularly puzzling when considered in the context of border control and trade imbalance priorities. Simultaneously, at least so far, several countries with large trade surpluses versus the U.S. including Germany, Vietnam and Thailand have been left untouched – though that could soon change. Predicting the way forward for tariffs is thus extremely challenging.

With that caveat in mind, we conclude that the threat of tariffs is greater than was initially expected, and the potential has risen for those tariffs to be both large and enduring. The most likely scenario is that large tariffs are applied, but later leavened somewhat. But large tariffs that remain problematically in place are also possible, and a scenario of more moderate tariffs is also conceivable, if less likely.

For all of its opacity, the U.S. tariff strategy does send a message to businesses that they should orient themselves toward the U.S. if they want to avoid the potential for major trade headaches. That could do lasting damage to key trading partners like Canada and Mexico, and provide an enduring boost to goods production in the U.S. – albeit alongside lasting reputational damage and foreign consumer boycotts, not to mention a questionable capacity to actually increase production given an already-low unemployment rate.

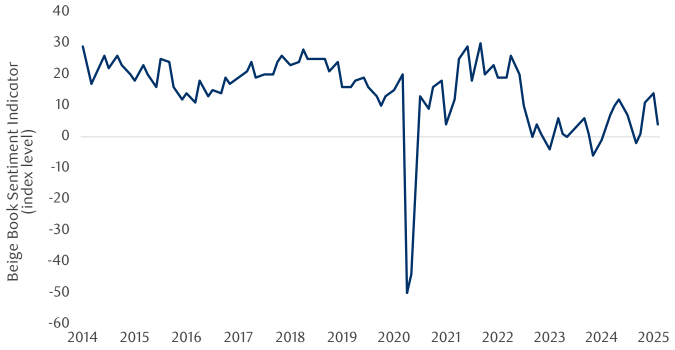
Downgraded growth forecasts

U.S. economic growth has been adequate in recent quarters (Exhibit 7), though some indicators point to a slight recent deceleration. In contrast, after a long period of sluggishness, economic growth across much of the rest of the developed world has picked up somewhat (Exhibit 8). Helping to explain this, most of the other countries have cut their policy rates by more than the U.S., they have softer – and thus more competitive – exchange rates, more space for growth after earlier underperformances, and high household savings rates that promise to unlock additional consumer spending. Several such countries have been startled out of complacency by recent U.S. actions, and are also now planning on reinvesting in their militaries and infrastructure.

Given its status as the central agitator, tariffs are set to damage the U.S. by more than most of its peers since the U.S. fights a multi-fronted trade war whereas the others are engaged in mere bilateral spats with the U.S.

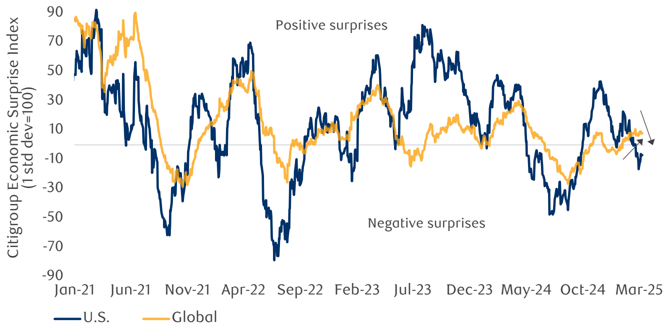
Even before the tariffs have been fully implemented, policy uncertainty is likely weighing on activity. Additionally, U.S. imports have recently been artificially higher than normal as companies seek to front-run tariffs, while exports in certain other countries have also been higher, temporarily flattering those countries (though this does not explain the entirety of the recent strength in most of those countries).

Exhibit 7: Beige Book Sentiment Indicator points to slight deceleration



Note: As of Feb 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

Exhibit 8: Global and U.S. economic surprises diverge



Note: As of 03/10/2025. Source: Citigroup, Bloomberg, RBC GAM

Overall, U.S. economic exceptionalism appears to be diminishing after a multi-year run. Our forecasts continue to anticipate somewhat faster growth in the U.S. than most of its peers – the country is still a hotbed of innovation and has superior demographics versus many of its peers even after sharply curtailing immigration – but with a smaller growth advantage than has been the norm. To illustrate, the U.S GDP growth advantage over the European Union was 2.4 percentage points in 2023 and 2.1 percentage points in 2024, versus our forecast for just 0.9 percentage points in 2025 and 0.8 percentage points in 2026.

Largely due to the tariffs, developed-world growth forecasts have been nearly universally downgraded for 2025 and now rest somewhat below the consensus. Illustrating this, U.S. growth is now expected to be just 1.9% for the year – the slowest pace since 2020 when the economy shrank due to pandemic restrictions. The subsequent year, 2026, is set to be somewhat improved, with forecasts that are broadly on or slightly above the consensus.

While the talk of recession has lately picked up, it is really only a big problem for Canada and Mexico. Yes, U.S. growth is set to be slower than otherwise under a tariff regime and given other policy decisions and, yes, the U.S. recession risk has probably jumped from a mere 15% over the next year to something at or above 25%. But it is still more a story of diminished growth than of vanished growth.

For Canada and Mexico, we don't quite forecast outright recessions given the base-case assumption that large tariffs will be applied and then lightened later in the year. But we do assume several months of declining output in the near term as the initial effect of those tariffs is felt, and then temporarily rapid growth several months later as part of that damage is unwound. This adds up to just 0.9% GDP growth for Canada in 2025, and a mere 0.3% for Mexico. These are sharp downgrades from prior forecasts.

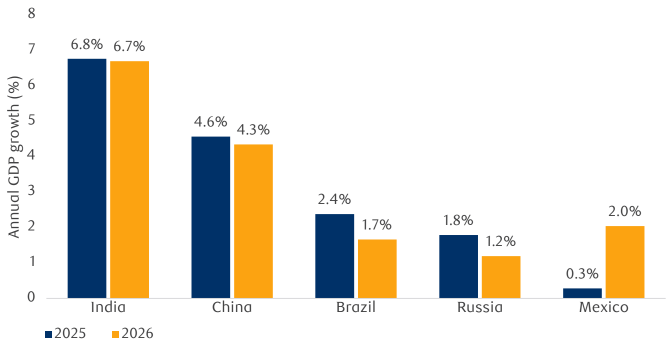
Beyond Mexico, our emerging-market growth forecasts are more subtle in their adjustments. Notably, China's 2025 growth outlook has been upgraded by a few tenths to +4.6%. The India forecast remains roughly unchanged at +6.8% (Exhibit 9).

Risks to these growth forecasts extend in both directions. On the optimistic side, perhaps large tariffs can be avoided after all. On the negative side, perhaps the trade war will be even greater than feared. Another downside risk is the potential for greater geopolitical tension as the U.S. seemingly pulls away from its traditional allies, forcing a rethink of international alliances and creating a window of opportunity for bad actors. Another risk relates to the recent outbreak of Avian flu, which highlights the small chance of another pandemic.

Upgraded inflation forecasts

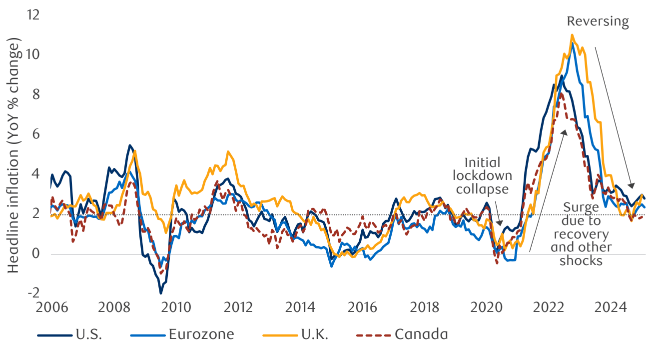
Inflation is no longer the primary market concern that it was several years ago (Exhibit 10). But neither is inflation completely settled, especially in the U.S.

Exhibit 9: RBC GAM GDP forecast for emerging markets



Note: As of 03/07/2025. Source: RBC GAM

Exhibit 10: Inflation has massively improved, but not fully normalized yet



Note: Eurozone and U.S. as of Feb 2025, Canada and U.K. as of Jan 2025. Source: Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Statistical Office of the European Communities, Macrobond, RBC GAM

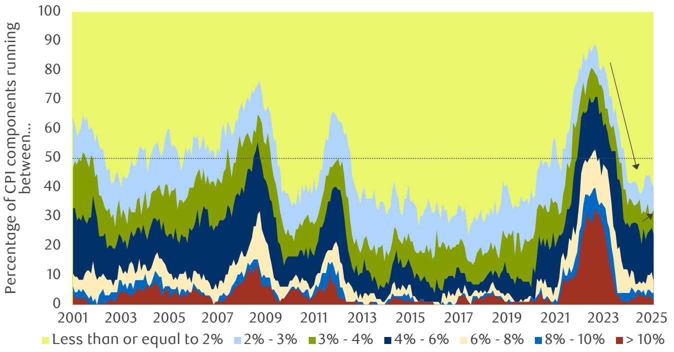
In fact, we have been compelled to increase the 2025 inflation outlook for two reasons. The first is that tariffs are inflationary in the short run, and so the increased potential for significant tariffs is relevant.

The second development is that – at least in the U.S. – inflation has proven quite sticky in recent quarters. There hasn't been much progress in pulling down elevated inflation since the middle of last year. U.S. inflation remains stuck in the realm of 3.0% even as other countries have managed to wrangle their own inflation rates down to the 2.0% to 2.5% range.

The breadth of U.S. inflationary pressures has even broadened slightly again (Exhibit 11). Similarly, while corporate pricing plans have diminished since the massive inflation shock, there has been recent resistance to further normalization (Exhibit 12). An open question is whether companies will take advantage of tariffs by increasing their prices beyond what the tariffs strictly require. In the U.S., insurance costs should rise further after a spate of recent natural disasters including the Los Angeles fires.

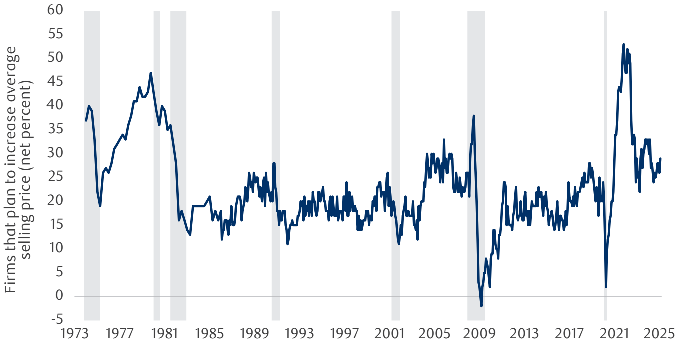
All told, we now look for U.S. inflation to increase outright in 2025, from 2.9% in 2024 to 3.3%. Other countries are also expected to experience inflation upticks (Exhibit 13). As with our growth forecasts, these now land on the undesirable side of the consensus.

Exhibit 11: U.S. inflation breadth has not made much progress lately



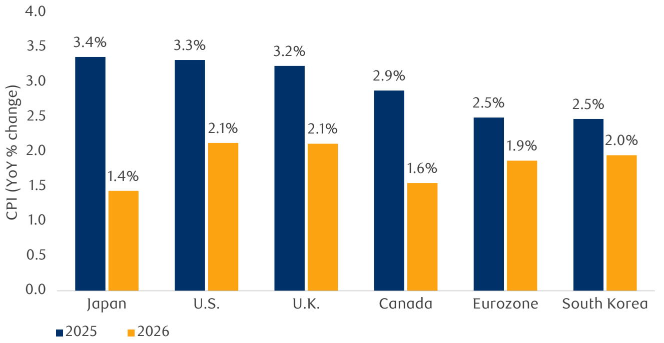
Note: As of Feb 2025. Share of CPI components with year-over-year % change falling within the ranges specified. Source: Haver Analytics, RBC GAM

Exhibit 12: Fraction of U.S. businesses planning to raise prices not yet normal



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

Exhibit 13: RBC GAM CPI forecast for developed markets



Note: As of 03/07/2025. Source: RBC GAM

Torn central banks

Central banks have been in rate cutting mode for the past year, with some further easing likely in 2025 (Exhibit 14).

Let the record show that tariffs – despite the contradiction they present in the form of higher prices pitted against weaker output – are classically a motivation for central banks to cut rates rather than raise them. This is because the inflation effect is a one-time price level shock, meaning that the rate of inflation rapidly returns to normal afterward, even if the price level itself remains permanently higher. Conversely, the economic damage is enduring and so very much relevant to central banks.

In turn, there is room for material further monetary easing for quite a number of countries, with the U.S. a potential exception due to its higher inflation readings. As an aside, the recent arrival at the U.S. debt ceiling is temporarily injecting additional liquidity into the American economy as exceptional measures are pursued, but this boost then reverses once the debt ceiling has been lifted.

Even as interest rates fall, there is still lagged pain from the earlier period of high interest rates. U.S. consumer loan delinquency rates continue to edge higher, with the exception of credit card delinquencies, which have now peaked (Exhibit 15).

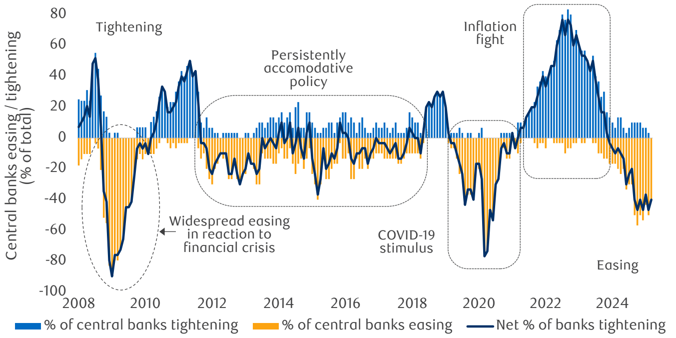
China sails on

The Chinese economy is on a slower growth trajectory than that of several years ago, but nevertheless has several important things going for it.

First, China's export-led economy is not overly vulnerable to U.S. tariffs. Just 16% of what China exports is destined for North America (Exhibit 16), and a mere 2.4% of what China produces overall is consumed directly by Americans. That leaves the vast majority of the country's economy in a position to sail smoothly on.

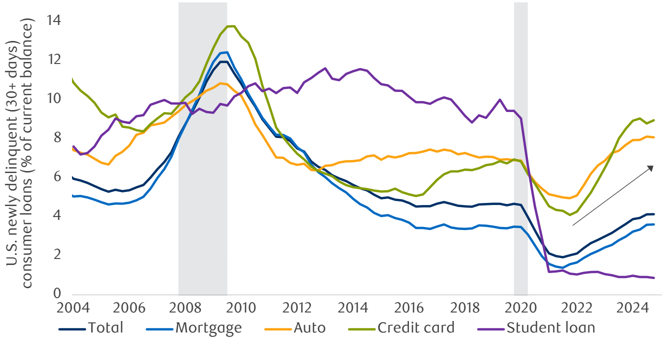
Second, there is tentative evidence that China's property market – which has been the weakest component of the economy in recent years (Exhibit 17) – is at a minimum stabilizing and possibly even beginning to show green shoots. Prominently, new home prices in first-tier cities started to rise at the end of 2024, the first increase since mid-2023.

Exhibit 14: Central bank rate cutting cycle



Note: As of 03/10/2025. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

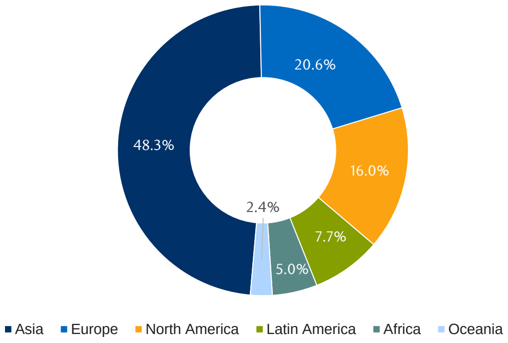
Exhibit 15: U.S. consumer loan delinquency has been rising



Note: As of Q4 2024. Shaded area represents recession. Source: FRBNY, Macrobond, RBC GAM

Exhibit 16: Chinese exports orientation

(12-month rolling sum, % of total exports)



Note: As of Dec 2024. Source: China General Administration of Customs, Macrobond, RBC GAM

Third, concerns that China might prove incapable of pushing the technological envelope forward once it had reached the limits of imitating others appear to be overblown given the country's recent success with large language model DeepSeek, not to mention its world-leading position in such technologies as electric cars, batteries, solar panels and drones. Growing economies feed on innovation.

Fourth, the long chill between the Chinese government and the country's private sector has warmed in recent months. After a sharp pivot away from the private sector in 2020, President Xi recently convened a symposium with leading Chinese entrepreneurs, emphasizing the key role of the private sector in Chinese growth, and committing to provide policies that support the business sector. In line with this, major banks have promised to lend more to the private sector. The Chinese stock market has taken enthusiastic note (Exhibit 18).

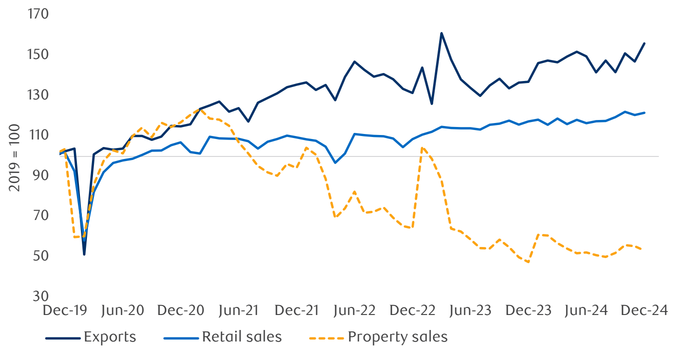
> "The U.S. retreat from international affairs and new concerns about the country's reliability create an opportunity for China..."

Fifth, with a refreshed 5% growth target and some fiscal space, there is likely to be further government support for the Chinese economy. Already, additional capital is being pumped into the banking sector.

Sixth, the U.S. retreat from international affairs and new concerns about the country's reliability create an opportunity for China to expand its global role and even to deepen trade ties with traditional U.S. allies.

Accordingly, the Chinese outlook has improved somewhat. Our growth forecasts for China are above the consensus, and the country remains on track to be – by far – the largest driver of global growth in the coming years (Exhibit 19).

Exhibit 17: Chinese recovery remains uneven

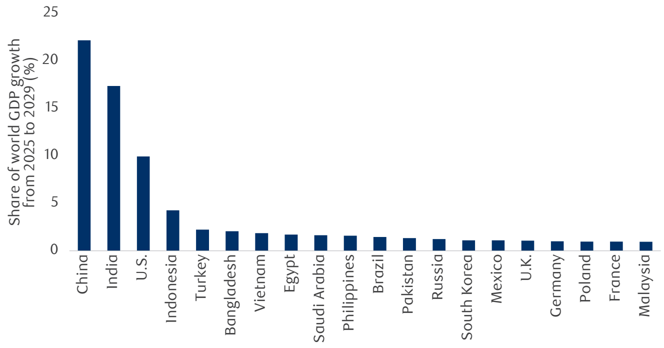


Note: As of Dec 2024. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM

Exhibit 18: Chinese stock rally led by tech stocks

Note: As of 03/07/2025. Source: MSCI, Macrobond, RBC GAM

Exhibit 19: China to remain the top driver of world growth



Note: Based on IMF forecast from 2025 to 2029. Source: IMF World Economic Outlook, Oct 2024, Macrobond, RBC GAM

Tariffs engulf Canada

The Canadian economy was strengthening at the start of 2025: fourth-quarter 2024 GDP growth arrived ahead of expectations, business expectations were strengthening (Exhibit 20), and the unemployment rate reversed a portion of its earlier increase (Exhibit 21). Productivity growth also turned positive and earlier Bank of Canada (BoC) rate cuts were starting to take effect (Exhibit 22).

To be sure, there was still a great deal of uncertainty about the impact of the country's sharply decelerating immigration figures, but the overall Canadian picture was looking up after a few challenging years.

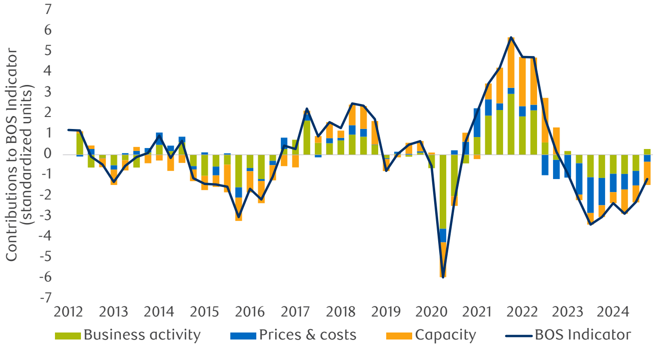
All of that has now been put into considerable doubt given the aforementioned tariff threat. No country is more exposed to U.S. tariffs than Canada. Given maximal uncertainty, it is impossible to forecast the Canadian outlook with any confidence.

A worst-case scenario, in recognition of what appears to be a particular degree of antagonism directed toward Canada, would have the repeatedly-threatened 25% tariff fully delivered, perhaps even with an overlay of steel and aluminum tariffs persisting on top. This would induce a full and fairly deep recession in Canada, with our models arguing the economy would undershoot its normal rate of growth by around 4.5 percentage points over the coming two years. The price of products in Canada would rise by nearly an additional 2%.

A more moderate (and the most likely) scenario would bring largish tariffs that are then significantly reversed within the span of a few quarters once negotiations have concluded. This would also involve some amount of economic contraction, albeit a decline that would later be partially unwound by the reversal of the tariffs. There would be real pain, and the initial experience would be no different than the worst-case scenario, but the end point would be considerably less dire.

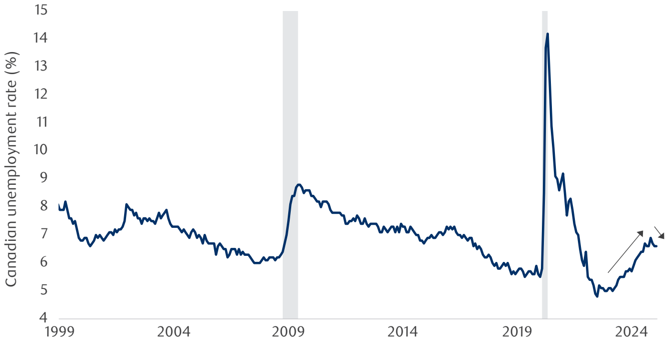
Finally, a best-case scenario would see U.S. tariffs largely avoided, perhaps as the U.S. economy comes to recognize its reliance on Canadian resources. This scenario, while desirable, is hardly perfect. Canada is already likely suffering damage from paralyzing uncertainty, as per the meagre 1,100 jobs created in the country in February. Businesses making

Exhibit 20: Canadian Business Outlook Survey Indicator has become less negative



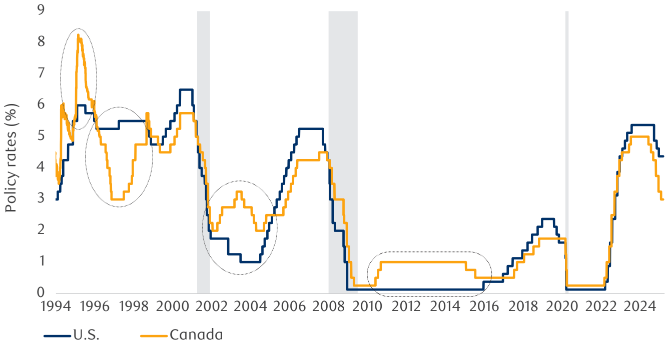
Note: As of Q4 2024. Source: Bank of Canada Business Outlook Survey, Macrobond, RBC GAM

Exhibit 21: Canadian unemployment rate started to reverse



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

Exhibit 22: North American monetary policy in easing mode



Note: As of 03/10/2025. Shaded area represents U.S. recession. Source: Macrobond, RBC GAM long-term plans may still decide that it is more logical to expand production within the U.S. given the recurring threat of tariffs.

Regardless of the scenario pursued, Canada must significantly reimagine its relationship with the U.S., both in the context of trade and foreign policy.

Canada's tariff response strategy is already fairly clear: to retaliate against U.S. tariffs in a less than one-for-one capacity, but with an effect magnified via careful targeting. In response to U.S. demands, Canada is likely in a position to oblige via additional border controls and military spending, but with less certainty on other fronts.

Should large tariffs stick, the Bank of Canada would cut its policy rate by more than otherwise, and the government would implement its fiscal support plan which is purported to include expanded eligibility for employment insurance and targeted business supports.

A Canadian election will be held later this year. The Conservative Party currently leads the incumbent Liberals in the polls, though the race has narrowed considerably in recent months and the Liberal Party has just been refreshed via the selection of a new leader. Either way, a new era of public policy beckons for Canada: one focused in the short-run on managing U.S. antagonism, and in the long-run on sustainably reviving productivity growth and prosperity after a long period of neglect.

Bottom line

This is a time of elevated uncertainty, stemming primarily from U.S. government policy. Tariffs are front and centre, with an increased risk that they seriously compromise economic growth for the most adversely affected nations – prominently among them, Canada, Mexico and of course the U.S. itself.

Perhaps the White House will take heed of recent financial market concerns, steering in a more growth-supportive direction. But this is far from certain.

Setting public policy aside, U.S. economic growth is decelerating slightly, whereas the Eurozone, U.K. and Japan are seemingly on an accelerating track. When paired with high U.S. uncertainty and expensive equity valuations, other stock markets are presently more attractive. High uncertainty also argues for holding moderate amounts of bonds and cash, the former as ballast against any market downturn, the latter as dry powder to deploy opportunistically should any market dislocations arise.

Market outlook

Tariff uncertainty rattles markets

Eric Savoie, MBA, CFA, CMT
Senior Investment Strategist
RBC Global Asset Management Inc.

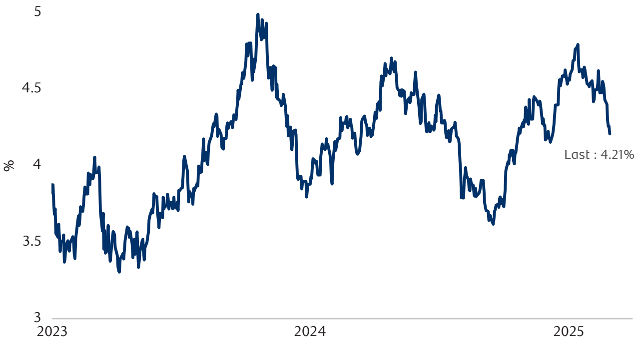
Daniel E. Chornous, CFA
Global Chief Investment Officer
RBC Global Asset Management Inc.

A trade war triggered by the U.S. president has injected significant uncertainty into the macro outlook, widening the range of possible outcomes and causing turbulence in financial markets. The lack of clarity and highly fluid situation on tariffs makes for an especially challenging forecasting environment and, while we continue to forecast growth in most major economies for the year ahead, we recognize that downside risks have intensified and that a variety of scenarios are possible. Should tariffs prove a temporary negotiation tactic, the impact may be less severe, but if tariffs are in place for a prolonged period, GDP, corporate profit growth and valuations could face meaningful headwinds. In any event, the tariffs, threats and changing narratives day-to-day and week-to-week are causing instability for businesses and policymakers alike. For investors, markets are likely to remain volatile as long as a trade war persists, and we stress that maintaining a diversified portfolio is critical in this environment.

Other risks to the outlook include the war in Ukraine, tensions in the Middle East and China's highly indebted economy, although there have been some positive developments, at the margin, on all these fronts. Ceasefire negotiations are taking place between Ukraine and Russia, a tentative ceasefire now exists in the Middle East, and China's economy is showing some signs of recovery following sizeable stimulus efforts by the government. All of these key risks are constantly in flux and could be added sources of volatility for financial markets over the months and quarters ahead.

In fixed income markets, U.S. Treasuries have so far this year acted as a ballast against broader financial market volatility. The U.S. 10-year yield rallied to 4.21% at the end of February from a high of 4.80% earlier in the year as investors sought safe-haven assets in light of tariff threats and their likely negative impact on the economy (Exhibit 1). The key threat to fixed income investors would be an upside surprise to inflation caused by unfavourable trade policies,

Exhibit 1: U.S. 10-year T-bond
Yield to maturity

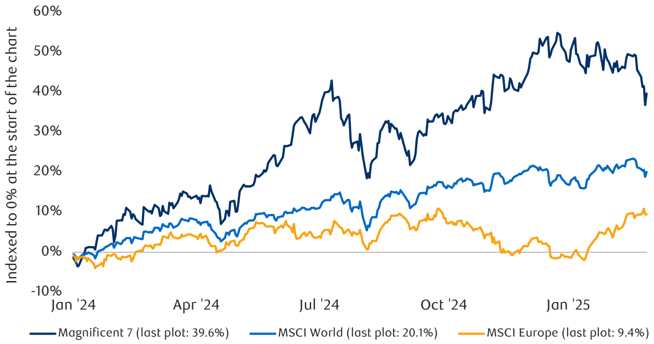


Note: As of February 28, 2025. Source: Bloomberg, RBC GAM but that upward pressure could be offset by weaker growth conditions. From current levels, our models suggest the U.S. 10-year T-bond is reasonably priced and that it offers decent return potential with only modest valuation risk as long as inflation continues to fall toward the 2% target.

Stocks began to fall toward the end of February after reaching record levels earlier in the quarter as investors shied away from risk taking amid heightened uncertainty. The sell-off was concentrated in the most expensive U.S. stocks, initially due to fading enthusiasm around American artificial intelligence (AI) companies following news of some impressive AI advances in China. The selling ultimately extended to other areas of the stock market as tariff threats intensified. Meanwhile in Europe, where valuations are more appealing, stocks have delivered solid gains so far this year, bucking the trend observed in the U.S. (Exhibit 2). According to our models, U.S. large-cap equities remain expensive, while other regions are more attractively priced, and our return estimates range from mid- to high-single digits over the year ahead depending on the region. We would note, however, that large error bands exist around our central forecasts, and that return potential generally improves as prices and valuations decline.

Balancing the risks and rewards in our asset mix, we are maintaining a relatively cautious stance with our recommended allocation in line with our strategic neutral positioning. In an environment where central banks continue to reduce interest rates, bonds offer appealing return potential and, at current yields, offer a valuable cushion against equity market volatility. We have been especially active in tactically managing our fixed income exposures. As the U.S. 10-year yield climbed over 4.60% earlier in the year we added 50 basis points to bonds, sourced from cash, as bonds offered compelling return potential and downside protection. We reversed this trade in late February after the latest rally recognizing that even though U.S. 10-year bonds still are still appealing, they are slightly less so than earlier in the quarter. For stocks, we are maintaining a neutral allocation overall, but have adjusted our regional tilts. This quarter we reduced exposure to North American equities in favour of international and emerging market stocks. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 2.0% cash.

Exhibit 2: Magnificent 7 return comparison
Cumulative price returns indices in USD

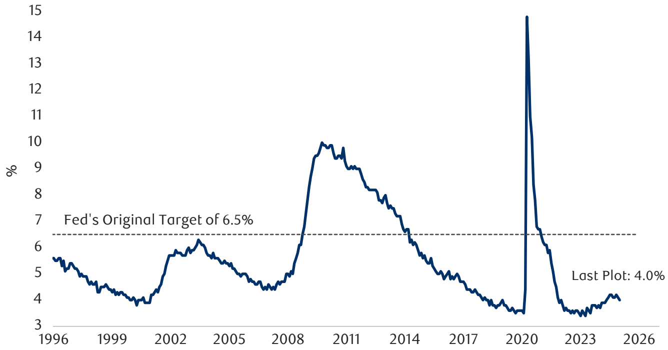


Note: As of February 28, 2025. Price returns computed in USD.
Source: Bloomberg, RBC GAM

Central banks face tricky environment

In this environment, the job of central bankers is especially difficult given their mandates to ensure price stability in a world rife with uncertainty due to shifting trade policies. The U.S. Federal Reserve (Fed) has made it clear that its interest-rate decisions are a function of the data and, at the moment, U.S. unemployment remains near historic lows (Exhibit 3) and inflation is only slightly above the Fed's 2% objective (Exhibit 4). While the monthly inflation data have started to inch higher in the past six months (Exhibit 5), these datapoints don't suggest any immediate need for rate cuts, supporting the Fed's latest decision to keep interest rates on hold.

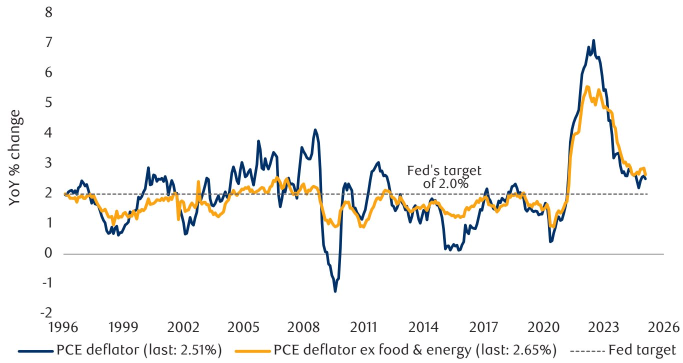
Exhibit 3: U.S. unemployment rate



Note: As of January 2025. Source: Bloomberg,RBC GAM

Exhibit 4: U.S. inflation

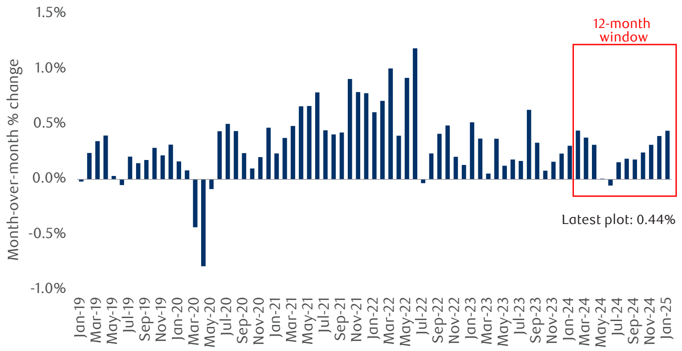
Personal Consumption Expenditures Price Index



Note: As of January 2025. Source: Bloomberg, RBC GAM

Exhibit 5: U.S. CPI Inflation

Month-over-month % change

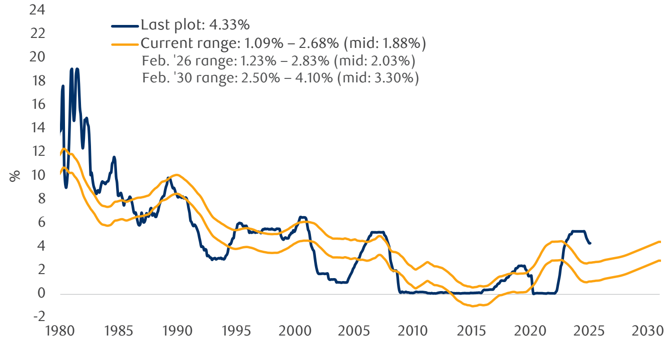


Note: As of January 31, 2025. Source: Bloomberg, RBC GAM

However, if the growth outlook were to worsen, the scope for further easing would open up. Our federal funds rate model suggests there is ample room to lower rates from here, with the current policy rate of 4.50% still in restrictive territory compared to a neutral rate between 2% and 3% (Exhibit 6). Although the Fed has voiced its willingness to be patient, financial markets have started to anticipate interest-rate cuts, with three 25-basis point cuts priced in by the end of 2025 (Exhibit 7). These interest-rate expectations have been highly volatile in recent months as illustrated in the chart, and we stress that the ultimate path for interest rates will depend on inflation and employment data. That said, pricing in markets suggests an increasing chance of a negative economic outcome that could nudge the Fed to act.

Exhibit 6: U.S. fed funds rate

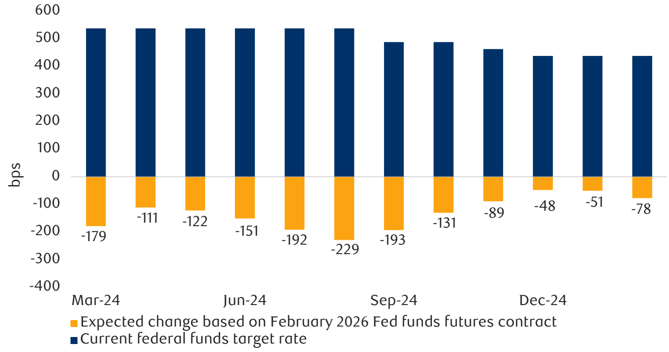
Equilibrium range



Note: As of February 28, 2025. Source: RBC GAM

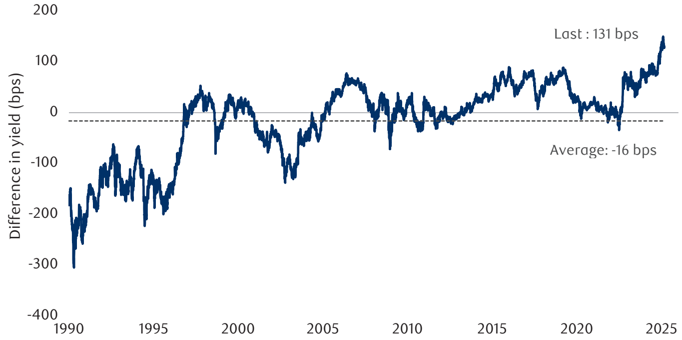
Exhibit 7: Fed funds rate and implied expectations

12-month futures contract



Note: As of February 28, 2025. Source: RBC GAM

Exhibit 8: U.S. 10-year yield minus Canada 10-year yield



Note: As of February 28, 2025. Source: Bloomberg, RBC GAM

Bond yield movements diverge

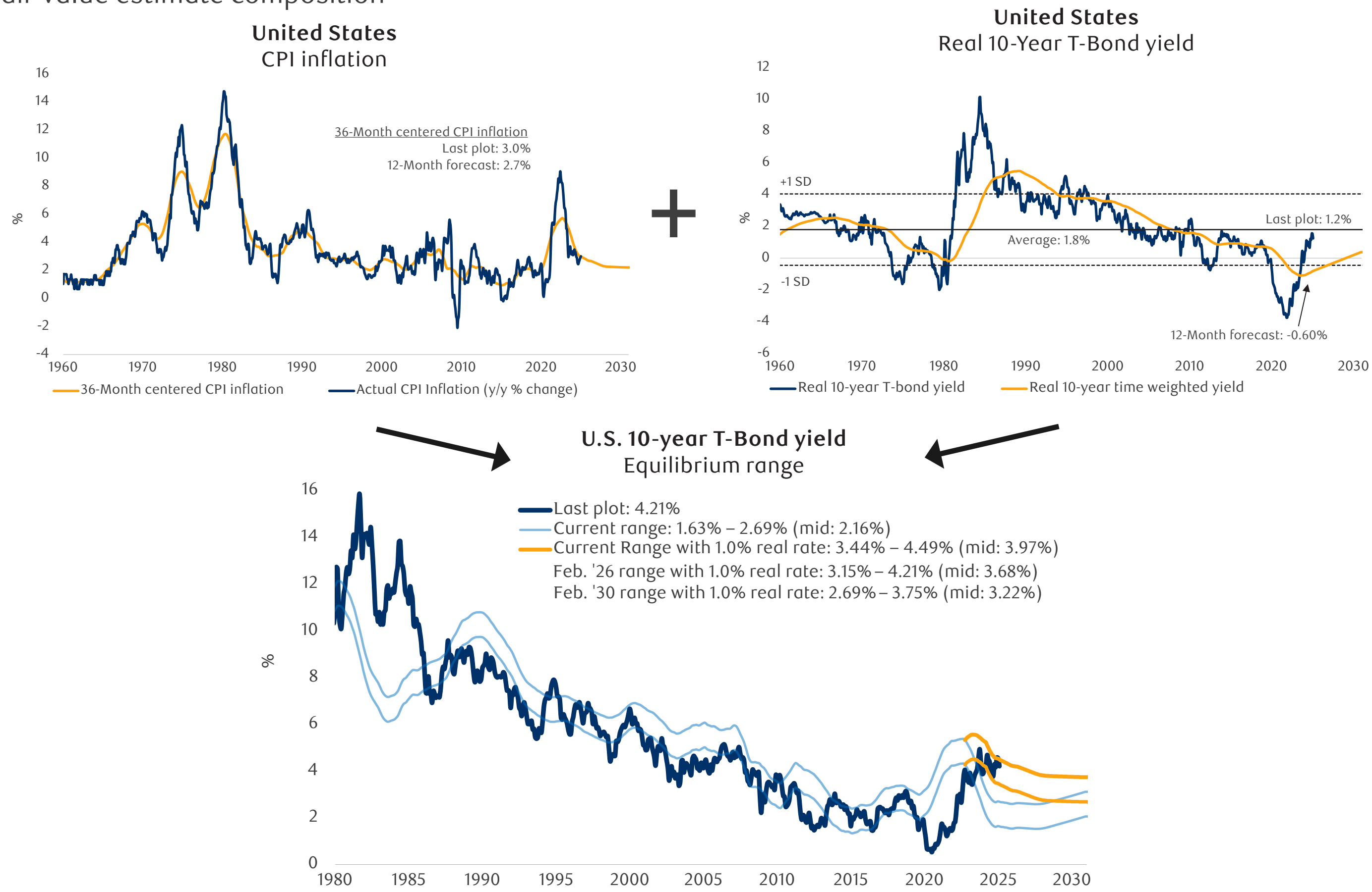
Government bond markets have been highly volatile over the past quarter with significant divergences between regions. The U.S. 10-year yield fell to 4.21% at the end of February, fully reversing the increase to 4.80% in January, to end the quarter almost unchanged. In Canada, 10-year yields also rose part-way through the quarter, but they ended the period 20 basis points lower, reflecting a weakening economic backdrop as tariffs will likely hurt Canada more than the U.S. In fact, the spread between 10-year yields in the U.S. and Canada widened to its largest reading in four decades (Exhibit 8). In both Germany and Japan, yields rose through the quarter amid better-than-expected economic data in Europe and given the fact that the Bank of Japan remains in monetary tightening mode. Aside from Japan, where yields remain well below equilibrium, our models suggest that sovereign bonds around the world offer decent return potential with only modest valuation risk, as long as inflation continues to fall toward the 2% level targeted by most major central banks (page 37).

U.S. 10-year Treasuries are reasonably priced

A closer look at our bond model leads us to conclude that, after the significant fluctuations throughout the quarter, the U.S. 10-year yield ended the period at a reasonable level. Exhibit 9 plots the components of our model, which combines an inflation premium with a real, or after-inflation, yield. Inflation has settled nicely after the shock in 2022, and the inflation premium is now close to our modelled level and has been relatively stable for the past several

Exhibit 9: U.S. 10-year bond yield

Fair-value estimate composition



Note: As of February 28, 2025. Source: RBC GAM

quarters. Most of the increase in the U.S. 10-year yield since the fall of 2024 was delivered through a rise in real interest rates amid an improving macro backdrop and a sense that Trump's administration would be positive for U.S. economic growth. But that increase was much greater than our model would suggest is appropriate based on a variety of structural factors such as demographics and potential long-term economic growth rates. As a result, 10-year yields pushed above the upper boundary of our model's equilibrium band in January, offering fixed-income investors improved return potential and, critically, a bigger cushion against any broader financial-market volatility. After the rally later in the quarter, the 10-year yield fell back within the range to 4.21%. Our expected range for the U.S. 10-year is between 3.50% and 4.50% and we have been using these bands when managing our tactical exposures in fixed income.

Equity markets sell off, led by mega-cap technology stocks

2025 began with global equity markets near record levels as investors were highly optimistic about the outlook. But as Trump began threatening and imposing tariffs on other major economies, stocks encountered significant volatility, erasing earlier gains. Over the three-month period ending February 28, 2025, the S&P 500 declined 1.3%, the tech-heavy NASDAQ fell 2.9% and Canada's TSX Composite fell 4.0%, all in U.S. dollar terms (Exhibit 10). Investors fell out of love with the Magnificent 7 (Mag-7) – a group of mega-cap technology stocks in the U.S. – which rose 56% last year but is now down 4.6% so far this year. Meanwhile, Europe has done especially well, up 11% so far this year to a new all-time high (Exhibit 11). Overall, it appears that investors are rotating away from more expensive areas of the market to cheaper ones.

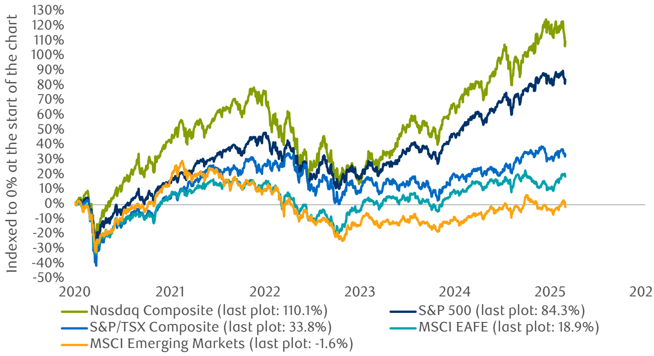
Our analysis suggests the global stock market, in aggregate, is not expensive, particularly if the U.S. is excluded from the mix. Exhibit 12 plots the stock market's distance from fair value based on a GDP-weighted composite of global equity indices. The chart shows that stocks are reasonably priced at just 7% above fair value. But most of the overvaluation is due to the expensive U.S. large-cap market (driven by the Mag-7). If we exclude the U.S. from the calculation, global stocks (ex-USA) are 12% below fair value. In some instances, the valuation difference between the U.S. and other regions is extreme. Stocks in emerging markets, the U.K. and Europe are trading close to or more than one standard deviation below fair value, whereas the S&P 500 is trading at one standard deviation above fair value (page 38).

S&P 500 Index is highly concentrated and lacking diversification

One of the major challenges with the U.S. large-cap market is that it is highly concentrated in just a small number of companies. As of the end of February, the largest 10 stocks in the S&P 500 accounted for 35% of the index weight, a figure that has climbed meaningfully from around 18% a decade

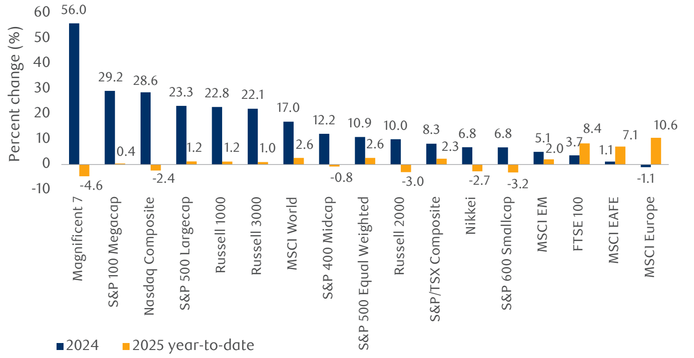
Exhibit 10: Major equity market indices

Cumulative price returns indices in USD



Note: As of February 28, 2025. Price returns computed in USD. Source: Bloomberg, RBC GAM

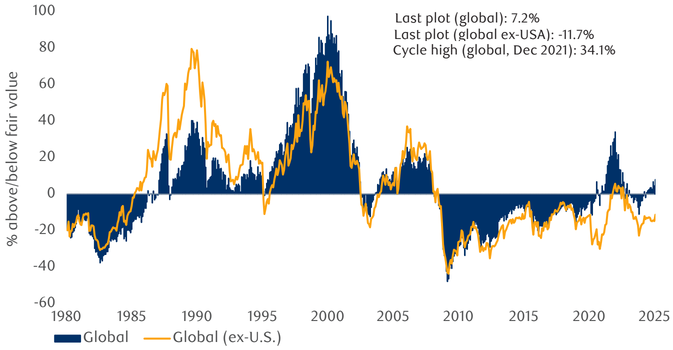
Exhibit 11: Major indices' price change in USD 2024 and YTD 2025



Note: As of February 28, 2025. Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

Exhibit 12: Global stock market composite

Equity market indexes relative to equilibrium



Note: As of February 28, 2025. Source: RBC GAM

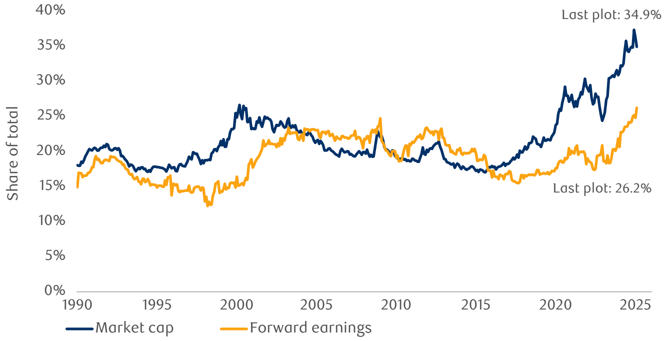
> "If we exclude the U.S. from the calculation, global stocks (ex-USA) are 12% below fair value."

ago (Exhibit 13). As a result, this small group of successful companies has been delivering a disproportionate share of the index return. In 2023, the top 10 stocks contributed almost two thirds of the S&P 500's 24% price-return (Exhibit 14). And in 2024, those 10 stocks delivered roughly half the market's return, with the other 490 stocks making up the other half. Valuation concerns largely stem from this small group of expensive companies, whereas the equal-weighted version of the S&P 500 is trading close to our modelled estimate of fair value, suggesting that the average stock in the S&P 500 is more reasonably priced (Exhibit 15). Profit growth required to sustain current valuations is substantially more demanding for the small group of current leaders than for the rest of the index.

Earnings estimates could be vulnerable to downgrades

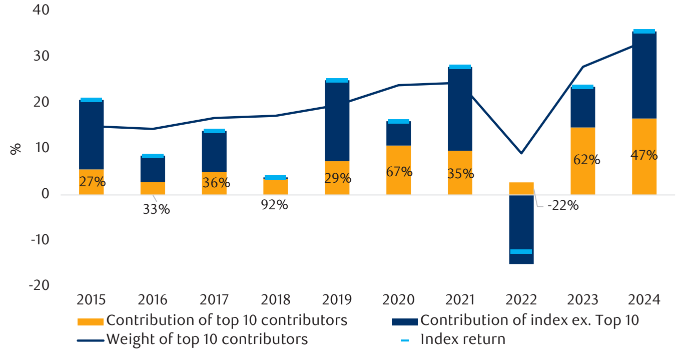
The outlook for corporate profits was rosy going into 2025 as the odds of an economic soft-landing had improved, interest rates were falling, and economic data was robust. But tariff uncertainty is clouding the path ahead, leaving earnings estimates vulnerable to downgrades if the economy falters. Analysts were looking for double digit earnings growth in the U.S. in both 2025 and 2026 (Exhibit 16). In an environment of

Exhibit 13: Top 10 stocks as a share of S&P 500 Index



Note: As of February 28, 2025. Source: RBC GAM

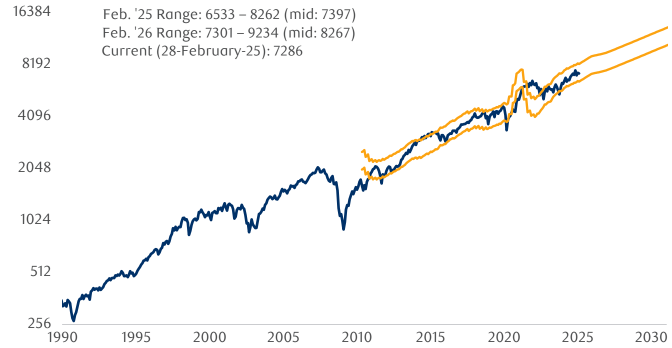
Exhibit 14: S&P 500 Top 10 contributors by calendar year



Note: As of December 31, 2024. Data labels show percentage of index return from the top 10 contributors. Source: RBC GAM

Exhibit 15: S&P 500 Equal Weighted equilibrium

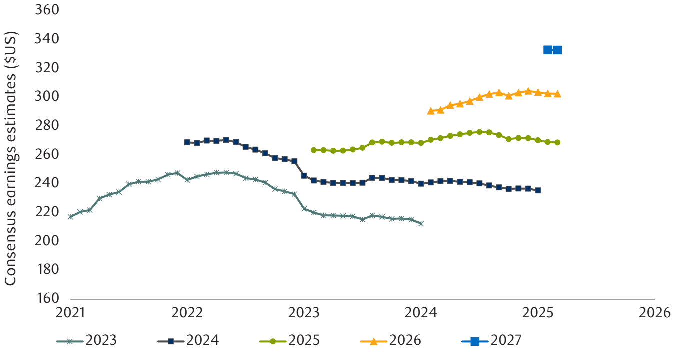
Normalized earnings & valuations



Source: RBC GAM

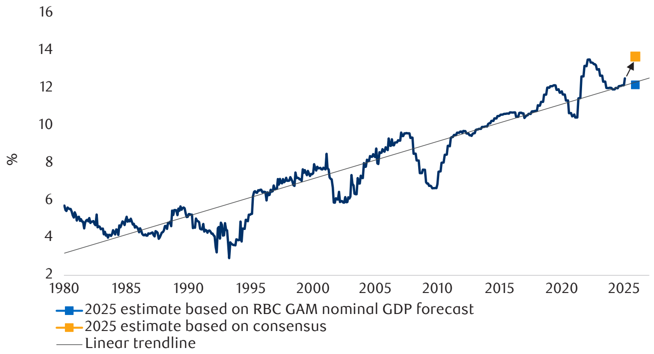
Exhibit 16: S&P 500 Index

Consensus earnings estimates



Note: As of March 7, 2025. Source: Bloomberg, RBC GAM moderate economic growth that produces low-single digit revenue growth, profit margins would need to recover to record levels in order to achieve the consensus earnings forecasts (Exhibit 17). While it is not impossible for margins to continue to expand, we would likely need to see further calming in inflation, reductions in interest rates and/or improved operating efficiencies. However, in a world where tariffs stick around for an extended period and companies are motivated to onshore production, the resulting increase in production costs would weigh on margins. As a result, analysts have become a bit more skeptical and earnings estimates have been revised lower over the past few months, although only slightly thus far.

Exhibit 17: S&P 500 – Net margins



Note: As of February 2025. Source: Bloomberg, RBC GAM

Scenarios for S&P 500 suggest valuations are demanding

With the S&P 500 at an elevated valuation, the earnings growth penciled into the consensus estimates is more of a "need-to-have" than a "nice-to-have" in order to drive further gains in the U.S. large cap market. Exhibit 18 outlines a variety of combinations for the S&P 500 based on a variety of earnings estimates and price-to-earnings ratios (P/E). If the S&P 500 traded at a P/E of 17.6 – our modelled equilibrium level based on today's interest rates, inflation and corporate profitability – and earnings per share came in at $270.50 (the current 2025 consensus), then the index would trade at 4759 by the end of this year, representing a 19% decline from the close on February 28, 2025. That same math produces 5514 by the end of 2026 which would still be a slight loss over the next 22 months. Better results are possible, though, if investor confidence remains elevated. If the S&P 500 manages to trade at a P/E of one standard deviation above equilibrium (22.1) for 2025 and 22.5 for 2026, then the S&P 500 would trade at 5981 by the end of this year and 6931 by the end of next year for gains of 2% and 10% annualized, respectively. What these numbers show is that achieving decent returns for the S&P 500 require both solid earnings growth and heightened investor confidence, which is possible if tariffs prove only temporary. But if the economy encounters lasting challenges,

Exhibit 18: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

		Consensus	Total Return		Consensus	Total Return
		2025	2025		2026	2026
	P/E	$270.5		P/E	$308.4	
+2 Standard Deviation	26.6	7203.5	22%	27.1	8347.5	21%
+1 Standard Deviation	22.1	5981.3	2%	22.5	6931.1	10%
+0.5 Standard Deviation	19.9	5370.2	-9%	20.2	6222.9	4%
Equilibrium	17.6	4759.0	-19%	17.9	5514.8	-3%
-0.5 Standard Deviation	15.3	4147.9	-29%	15.6	4806.6	-10%
-1 Standard Deviation	13.1	3536.8	-39%	13.3	4098.4	-17%
-2 Standard Deviation	8.6	2314.5	-60%	8.7	2682.1	-33%

Note: As of February 28, 2025. Total returns for 2026 are annualized. Source: LSEG I/B/E/S, RBC GAM investors become pessimistic and earnings downgrades accelerate, stocks could be vulnerable to further downside.

Themes: capital spending in AI expected to moderate

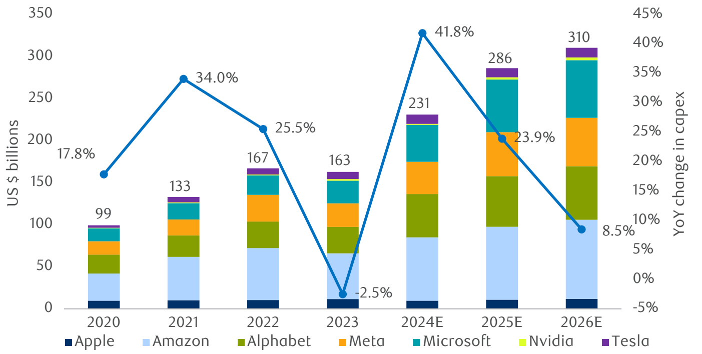
One of the more topical themes that served as a tremendous tailwind for U.S. equities has been the rapid growth in AI and related capital spending. The investment in AI software and infrastructure could be set to slow over the next couple of years. Exhibit 19 plots the yearly capital expenditures (CAPEX) by the Mag-7 and, while the numbers are impressive in the hundreds of billions, the growth rate overlaid on the chart is expected to decelerate from 42% in 2024 to 24% in 2025 and 9% in 2026. The expected slowdown in CAPEX, combined with the fact that China's generative AI company DeepSeek was able to deliver successful results with relatively little investment, presents headwinds for AI-related spending. As a result, stocks related to AI themes (i.e. software, data centres, energy) have recently sold off anywhere from 10% to 20% (Exhibit 20). If the peak in AI spending growth is behind, the market leadership of the AI-related names that has been in place for nearly a decade could be tested.

Styles and geographies: prior leaders take a breather, while Europe outperforms

Shortly after the U.S. election, investors bid up U.S. stocks, in particular small caps, over international equities on the notion that the Trump administration favoured domestic economic growth at the expense of foreign economies. That trade has since fizzled out as tariffs could destabilize the global economy and act as a drag on American consumption. From a style perspective within the U.S. market, small-cap stocks have been the worst performer so far this year, with growth stocks underperforming value stocks, and the large-cap value bucket being the only broad style delivering gains (Exhibit 21). These moves suggest that investors are shying away from smaller companies, higher-momentum stocks and expensive names in this highly uncertain environment, and favouring larger, higher quality and less expensive stocks.

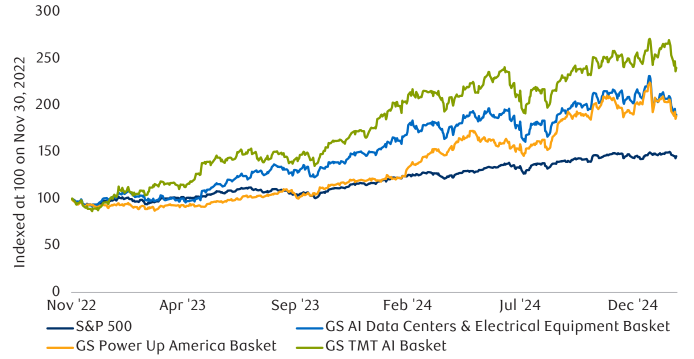
Investors have also adjusted their geographical preferences, favouring non-U.S. markets so far this year. While the S&P 500 Index declined slightly year-to-date, the MSCI Europe Index rose 11% and the MSCI Emerging Markets Index rose 2%. This period of outperformance from non-U.S. regions comes after more than a decade of U.S. equity leadership. Exhibits 22

Exhibit 19: Magnificent 7 capital expenditures



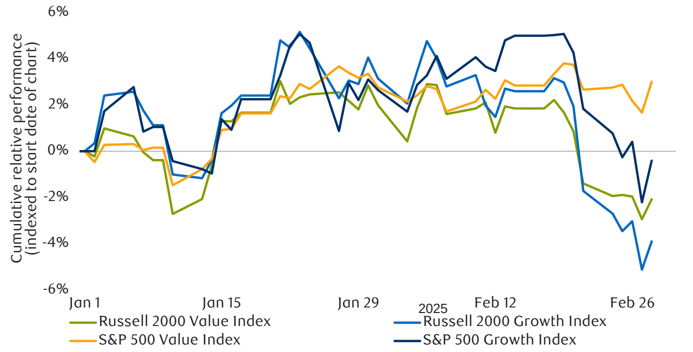
Note: As of March 3, 2025. Source: Bloomberg, RBC GAM

Exhibit 20: AI baskets performance since launch of Chat-GPT



Note: As of February 28, 2025. Source: Goldman Sachs, Bloomberg, RBC GAM

Exhibit 21: U.S. large cap/small cap value vs. growth performance



Note: As of February 28, 2025. Source: Bloomberg, RBC GAM and 23 plot the MSCI Europe and MSCI Emerging Markets, respectively, in the top panel of each chart, along with their performance relative to the S&P 500 in the bottom panel of the charts. There have been many instances in the past where European and emerging market equities outperformed for a brief period, only for U.S. leadership to resume, so it remains to be seen whether the recent shift in these trends can be sustained. If we do get a durable rotation into parts of the market outside of U.S. mega-cap tech, it could inject new life into the bull market, fueled by areas that have underperformed for many years.

> "Considering both the short-term risks and long-term return potential, we are maintaining an asset mix in line with our strategic neutral this quarter."

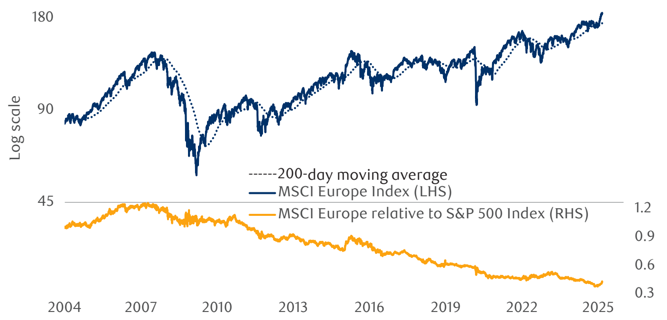
Asset mix – maintaining neutral allocation, but shifting regional equity tilts

Given the rapidly changing situation on tariffs imposed by the U.S. as well as retaliatory efforts by other countries, the near-term outlook is filled with uncertainty. With so much near-term murkiness, taking a step back to look at the potential returns over the longer term is especially useful.

A good estimate for the return that fixed income investors will receive on bonds over the long-term is the current yield to maturity. Exhibit 24 plots the relationship between the U.S. 10-year yield and the actual returns realized over the subsequent decade. The correlation between the two lines is almost perfect, suggesting that most of the returns generated by a 10-year bond over a 10-year period are explained by the starting yield. As a result, the 4.2% yield on 10-year Treasuries at the end of February establishes a reliable forecast for what bond investors may earn over the coming 10 years.

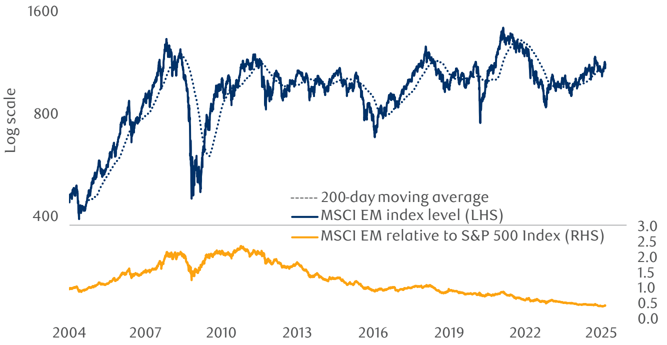
Stocks continue to offer superior long-term return potential. However, because valuations remain elevated, the premium between stocks and bonds is unusually low at the moment, particularly in U.S. equities. It is more elevated in other regions where valuations are relatively more appealing.

Exhibit 22: MSCI Europe Index



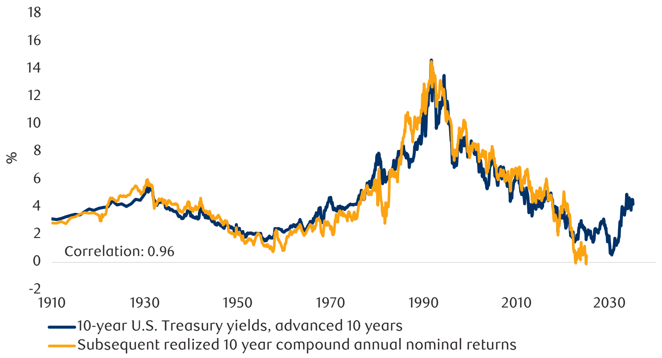
Note: As of February 28, 2025. Source: RBC GAM

Exhibit 23: MSCI Emerging Markets Index



Note: As of February 28, 2025. Source: RBC GAM

Exhibit 24: U.S. 10-year Treasury note and returns



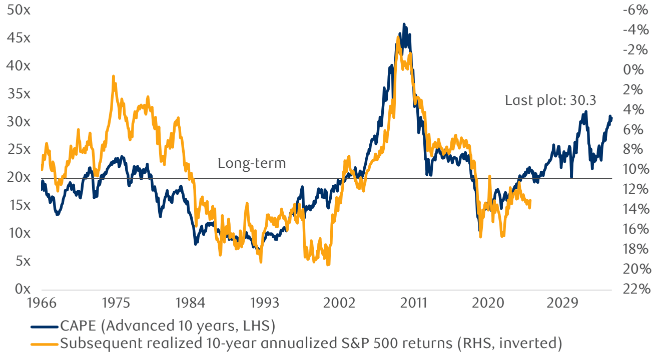
Note: February 28, 2025. Source: Deutsche Bank, Macrobond, RBC GAM

Taking the U.S. as an example, a reliable relationship between valuations and 10-year returns is Shiller's Cyclically Adjusted P/E ratio (CAPE). The relationship shown in Exhibit 25 suggests that higher valuations today correlate to lower returns over the longer term. A CAPE of 30.3 translates to around 5% annual gains over the long term, still better than bonds, but not significantly so. Should the sell-off in stocks intensify and valuations decline, then return potential would improve as a result.

Considering both the short-term risks and long-term return potential, we are maintaining an asset mix in line with our strategic neutral this quarter. This positioning reflects a relatively cautious stance given our concerns around valuations in the U.S. and heightened uncertainty due to tariff threats. Bonds offer decent return potential and an important ballast against equity-market volatility and that diversification benefit is especially important in this environment. Within stocks, however, we have adjusted our regional tilts away from North America toward international and emerging markets where valuations are relatively more appealing. For a balanced global investor, our current recommended asset mix is 60.0% equities (strategic: "neutral": 60.0%), 38.0% bonds (strategic "neutral": 38.0%) and 2.0% cash.

Exhibit 25: Shiller's CAPE

Real S&P 500 Index / 10-year average of real EPS

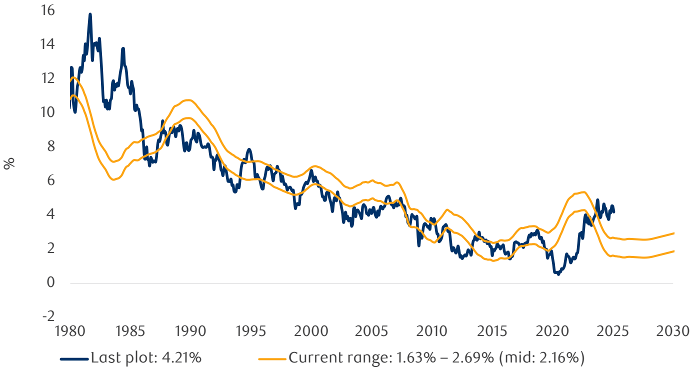


Note: As of February 28, 2025. Source: Macrobond, Bloomberg, RBC GAM

Global fixed income markets

U.S. 10-Year T-Bond Yield

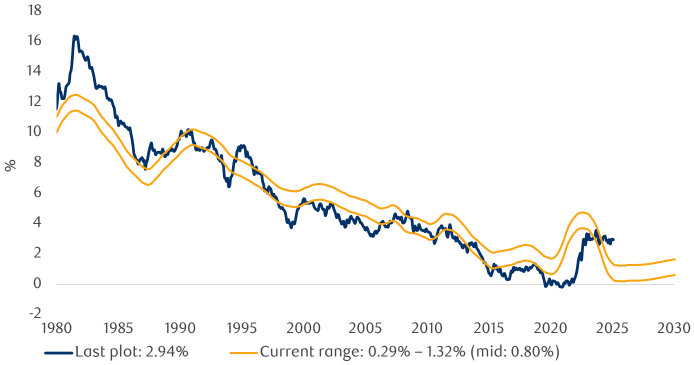
Equilibrium range



Note: As of February 28, 2025. Source: RBC GAM

Eurozone 10-Year Bond Yield

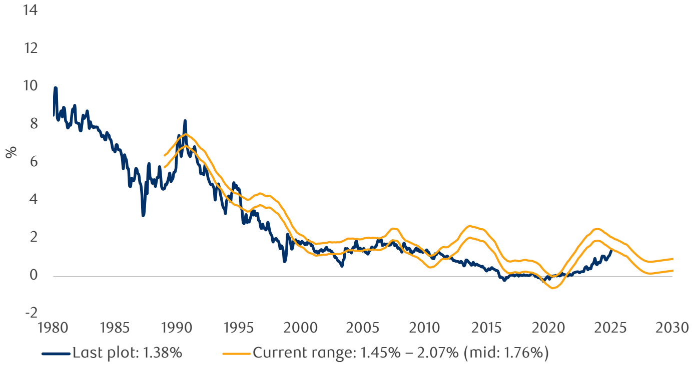
Equilibrium range



Note: As of February 28, 2025. Source: RBC GAM

Japan 10-Year Bond Yield

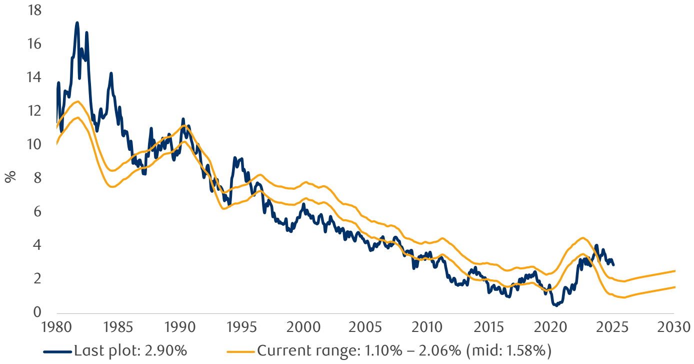
Equilibrium range



Note: As of February 28, 2025. Source: RBC GAM

Canada 10-Year Bond Yield

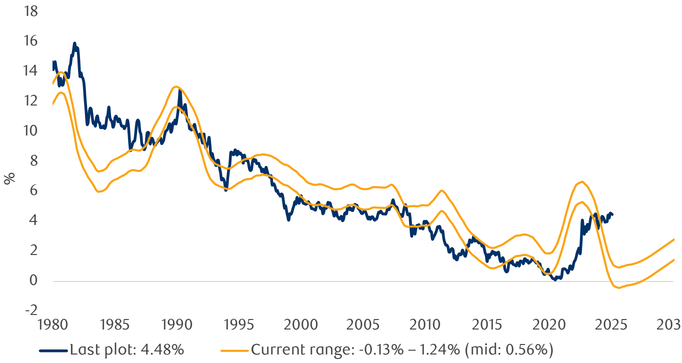
Equilibrium range



Note: As of February 28, 2025. Source: RBC GAM

U.K. 10-Year Gilt

Equilibrium range

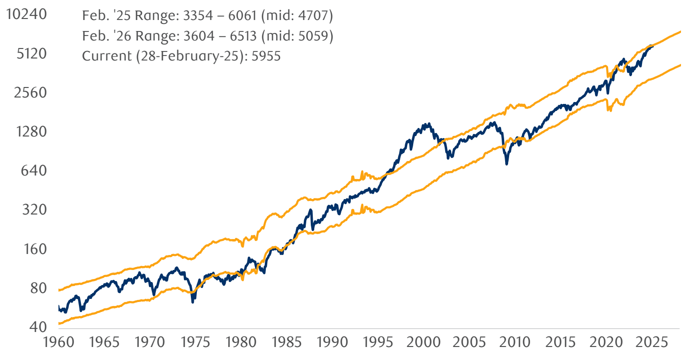


Note: As of February 28, 2025. Source: RBC GAM

> "Our models suggest that sovereign bonds offer decent return potential with only modest valuation risk as long as inflation continues falling toward the 2% level targeted by major central banks."

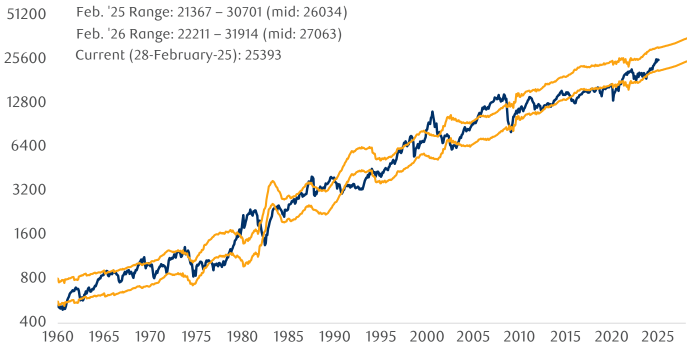
Global equity markets

S&P 500 Equilibrium
Normalized earnings and valuations



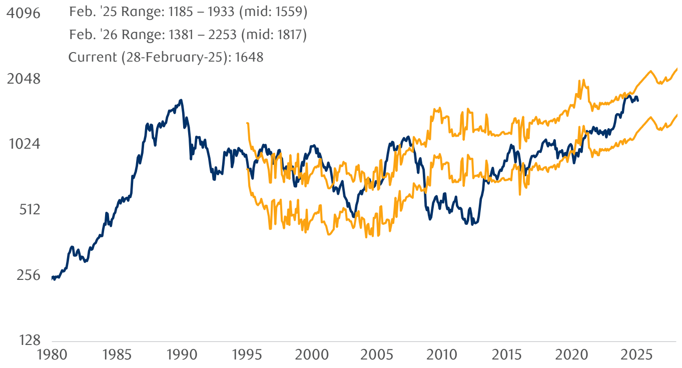
Note: As of February 28, 2025. Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



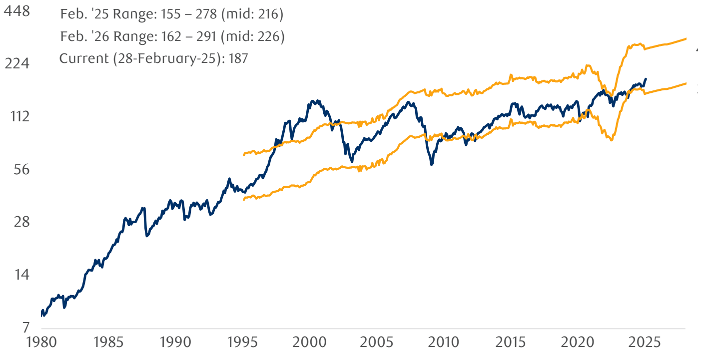
Note: As of February 28, 2025. Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



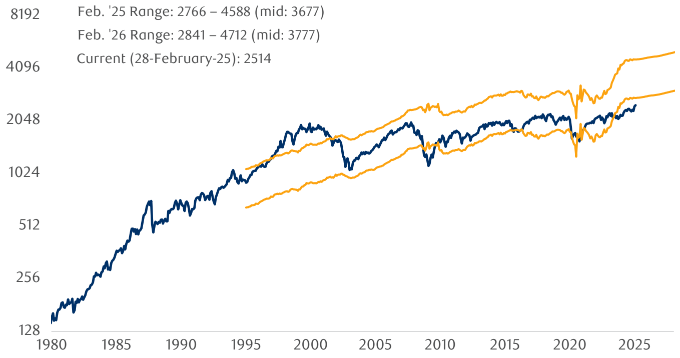
Note: As of February 28, 2025. Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



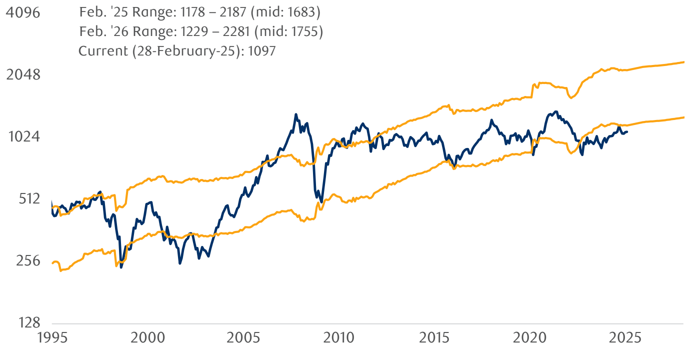
Note: As of February 28, 2025. Source: RBC GAM

MSCI UK Index
Normalized earnings and valuations



Note: As of February 28, 2025. Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Note: As of February 28, 2025. Source: RBC GAM

Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index.

Global fixed income markets

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We believe the outlooks for major bond markets have rarely been so different. Investors may be too optimistic about the prospects for the U.S economy and too pessimistic about the outlooks for Canada and Europe. We expect U.S. Treasuries to outperform as the economy is likely to struggle to meet already lofty expectations, regardless of the impact of new policies under the Trump administration.

Bond yields are still near their post-pandemic highs and inflation is much lower. We expect bonds to deliver at least coupon-like returns somewhere in the low-to-mid single digits over the year ahead. Lower inflation is also a boon for those expecting bonds to act as a counterbalance to the risk of an equity sell off as the negative correlation between stock and bond returns has historically asserted itself when inflation is at or below where it is now. All that said, and as we mentioned in the introduction, we expect returns among bond markets to show a greater divergence over the year ahead than has been the case in recent years.

In the U. S., investors are focused on the economy's impressively long run of beating expectations and avoiding a recession, bucking aggressive monetary tightening and a deeply inverted yield curve – a historically reliable indicator that a recession would happen. Investors' outlook is so rosy, in fact, that they do not seem to expect a recession in the U.S. anytime in the next decade. How do we know this? While the fed funds rate is expected to fall by 0.75% more over the next year, investors expect it to begin rising again next year and remain above 3.50% until 2035.

Of course, the election of President Trump and the Republican sweep of Congress has kindled investors' hopes that animal spirits are being amplified in the U.S. economy due to coming deregulation and tax cuts. However, the surveys that investors rely on to measure consumer optimism exhibited the same surge in the aftermath of President Trump's victory in 2016. This surge was undercut by policy uncertainty and tariffs. If anything, policymaking under the second Trump presidency is so far more haphazard and the size of tariffs being contemplated are an order of magnitude larger. We think that investors are likely to be disappointed in their expectations for a coming boom, just as they were during Trump's first term.

More importantly for bond investors, the U.S. economy already reflected high expectations before a Trump victory. Unlike a few years ago, when most investors expected a recession in the U.S., growth expectations are already quite favourable. Thanks to an impressive run of beating expectations that dates back to 2022, the U.S. economy now has a much higher hurdle to clear.

Finally, two of the three pillars of U.S. exceptionalism – the idea that the U.S. economy is structured to grow faster than its peers over time – seem to have come under threat from the new administration. We are talking about immigration and fiscal largesse. Large immigration inflows were a boon to U.S. economic activity as they expanded the labour force. But anecdotal reports from the U.S. suggest that inward immigration flows have slowed to a crawl. Moreover, the unofficial Department of Government Efficiency's actions, as well as actions to stop payments to certain agencies suggest that marginal government spending could be crimped significantly. More importantly, perhaps, there is the risk that a chaotic approach to policymaking undermines business confidence, leading to slower hiring and lower investment. The final pillar of U.S. exceptionalism – the ability of consumers to keep buying in the face of higher borrowing costs – also appears to be fading vis-à-vis U.S. peers. Where other countries should now start to see the benefit of policy easing, the Fed's policy rate sits not far from its peak and most market interest rates are still higher than those on existing borrowings (Exhibit 1).

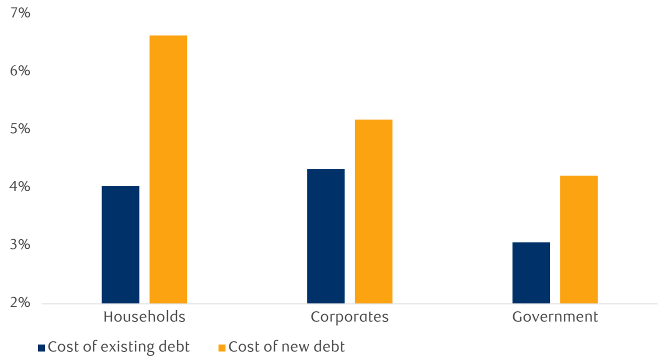
Outside the U.S., investors are quite pessimistic about growth prospects in most regions, especially those which are very exposed to changes and uncertainty in U.S. trade policy: such as Canada and Europe. Even before the threat of tariffs, we believed expectations for Canada and Europe had been beaten down too far. Germany stands out as having particularly dour expectations built in for 2025 (Exhibit 2).

This backdrop has meant that bond investors in those regions enjoyed relatively strong returns over the past year, but we think this is unlikely to be repeated. In fact, we are generally more positive on the outlook for growth and inflation in Europe and Canada than many investors.

Overall, we think that tariffs are likely to be implemented at much lower levels than Trump has threatened and has briefly imposed. On top of this, we expect there will be significant fiscal support in the event of any prolonged tariffs. Coupled with the arrival of benefits from the substantial monetary policy easing already delivered, we think growth could surprise to the upside, particularly compared with the U.S. In Europe, the prospect of an earlier-than-expected end to Russia's war in Ukraine would likely boost Europe's economic fortunes, regardless of the outcome.

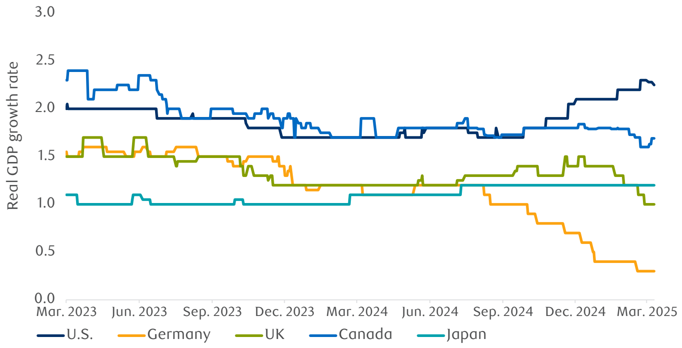
Finally, there is Japan, where policy rates continue to normalize after spending decades at, around and below zero. Inflation and wage growth continue to surprise to the upside in Japan, suggesting that price pressures are domestically generated, rather than a function of currency weakness. What is more, the Japanese economy has withstood over a year of rising bond yields and a couple of hikes by the Bank of Japan (BOJ), suggesting that fears the economy could not handle higher interest rates were overblown. Over the year ahead, we believe the return outlook for Japanese government bonds is poor as policy continues to normalize.

Exhibit 1: U.S. borrowing costs should keep rising



Note: As of March 10, 2025. Source: Bloomberg, Apollo Research, RBC GAM calculations

Exhibit 2: Investors seem much too pessimistic on Germany



Note: As of March 10, 2025. Source: Bloomberg consensus GDP forecasts for 2025

Direction of rates

In the event the Fed stays on hold, we see the U.S. 10-year bond yield at 4.50% in a year's time.

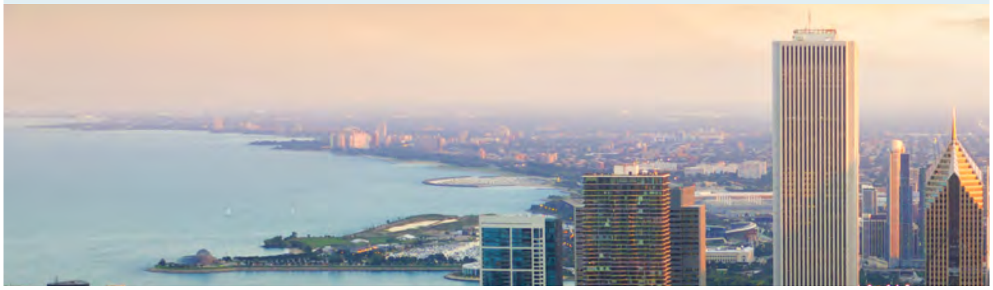
United States

The Fed kept its key policy rate unchanged in January and look likely to remain on hold again on March 19 barring a sharp slowdown in economic activity. The target range for the fed funds rate is now between 4.25% and 4.50%, higher than what the Fed and investors consider neither stimulative nor restrictive for economic growth and prices.

At the same time, the unemployment rate has fallen almost below 4%, and inflation is beginning to pick up. Consumers are increasingly concerned about higher rather than lower inflation. At this rate, the Fed risks undoing much of the good work and credibility it cached by hiking rates aggressively in 2022 and 2023. The task for policymakers is becoming more difficult due to policymaking by the Trump administration, which is focused on slashing immigration and the federal workforce, alongside much higher tariffs for the U.S.'s major trading partners. Investors are becoming increasingly concerned that the policy mix will be bad for growth as well as inflation, and worries are starting to override early optimism that a deregulatory charge from the new administration, as well as nascent animal spirits and generally better sentiment would supercharge already-lofty growth rate in the U.S.

Before these concerns surfaced, investors were expecting strong growth in the US compared to the rest of the world – continuing a theme of the past several years. However, as we highlighted above, we think other regions could start to experience an upswing in fortunes just as the U.S. begins to struggle to meet lofty expectations – a much different environment than surpassing what were very low expectations in prior years with strong growth.

Over the next year, we expect the FOMC to keep rates on hold as the Fed grapples with too-high inflation amid slightly weaker but not recessionary growth. The outlook for the US is highly uncertain and heavily dependent on the policy mix. Compared to the rest of the world, investors are well compensated to own U.S. Treasuries in terms of high real yields, high inflation expectations and high term premium. We like owning U.S. Treasuries even though our forecast calls for no Fed cuts over the next twelve months – if growth majorly disappoints in the U.S., yields could fall more significantly than we expect. In the event the Fed stays on hold, we see the U.S. 10-year bond yield at 4.50% in a year's time.



Our forecast is for the 10-year German bund yield to trade around 2.50%, up from 2.41% at the time of writing.

Eurozone

As we expected, the European Central Bank (ECB) lowered interest rates by 0.25% at each of its December, January and March meetings. The early-March cut marked the 5th consecutive cut and brought the deposit rate to just 2.50%. We see further cuts ahead for policymakers in Europe, as rates should drop to just 2.00% in the year ahead.

However, as much as we think European growth needs additional support from monetary policy, we also think that investors are much too bearish on the outlook for the single-currency area. We think growth is likely to beat expectations in Germany after many years of sluggishness. The resolution of the election uncertainty in Germany should provide a fillip to growth in the form of lower policy uncertainty and perhaps higher fiscal spending. The proposed adjustments to German's fiscal rules would provide a large tailwind to growth for Germany – boosting both military and infrastructure spending.

More uncertain but also a positive for Europe would be a resolution of the Russia-Ukraine conflict. Inflation also is above target in the eurozone, driven by higher energy prices and a weakening euro, and we think this will keep the ECB from cutting policy rates too aggressively.

We do expect the ECB to continue reducing rates in the year ahead. Our forecast is for the 10-year German bund yield to trade around 2.50%, up from 2.41% at the time of writing.

Japan

After hiking its policy rates twice in 2024, the BOJ remains on hold so far in 2025 despite lofty expectations among investors that they would hike rates. Yields on Japanese government bonds have surged higher even as the BOJ holds off on more aggressive rate hikes. Yields on long-term bonds are, in fact, as high as they were in the mid-1990s, well before Japan's long run-in with persistently low inflation and exceptionally low interest rates. Inflation continues to be strong in Japan. By some measures, Japan is experiencing both the highest wage growth and inflation among the G7 nations – a sentence that would have appeared absurd as recently as a few years ago.

We expect Japanese policymakers to eventually resume hiking interest rates in response to still-strong inflation as well as better-than-expected economic activity. Indeed, the Japanese economy has so far resisted slowing down in the face of higher bond yields, signaling that the BOJ will have the confidence to keep hiking interest rates and normalizing policy. Over the next year, we expect the central bank to hike rates to 0.75%, from 0.50% at the time of writing. Over the same time frame, we see 10-year bond yields rising to 1.75%, from just 1.37% now.

Over the next year we see 10-year bond yields rising to 1.75%, from just 1.37% now.

Canada

The Bank of Canada (BOC) cut the policy rate by 0.25 percentage point in January and again in March, bringing the policy rate to 2.75%. Policymakers cited continued moderation in inflation toward 2%, as well as easing expectations among consumers for future inflation. By some measures, inflation expectations are consistent with the period prior to the pandemic. The labour market and economic activity also remained soft through the final months of 2024 which, alongside cooling inflation, suggests that looser monetary policy is warranted.

Alongside relatively lacklustre domestic activity, the threat of significant tariffs being imposed for a prolonged period by Canada's largest trading partner, the U.S., suggests that policymakers will want to err on the side of easier policy over the next year. According to the BOC's own estimates, the policy rate at 2.75% is not particularly accommodative – it lies at the midpoint of the range of estimates for a neutral interest rate – the rate where policy is neither restricting nor stimulating economic growth.

While tariffs would likely boost inflation, we think the BOC will be more attentive to concerns about growth. Reflecting our view that tariffs are unlikely to be fully implemented for a prolonged period and, if so, at least partially offset by a boost in government spending – we expect no change in the BOC policy rate over the next year. We forecast the 10-year Government of Canada bond at 3.25% over the next year, up from 2.90% at the time of writing.

We forecast the 10-year Government of Canada bond at 3.25% over the next year, up from 2.90% at the time of writing.

United Kingdom

The Bank of England (BOE) cuts the policy rate at its February 6 meeting, dropping the bank rate to 4.50% and extending the slow, steady pace of rate cuts that began in the summer of 2024. Like the Fed, we think the BOE faces some tough decisions ahead as growth has remained relatively strong and inflation seems to be firming. Indeed, inflation for the year ended in January accelerated to 3%, the fastest pace in 10 months. Underlying measures of inflation also showed signs of firming, casting doubt that prices will ease back towards 2% as quickly as had been expected. Meanwhile, the labour market unexpectedly strengthened early in the year alongside economic growth. We think the BOE now is likely to remain on hold for a time, barring a sharper slump in activity. Eventually, we see policymakers delivering further cuts to support economic activity, with bank rate falling to 4.00% over the next year and gilt yields falling to 4.25%, from 4.48% at the time of writing.

We see bank rate falling to 4.00% over the next year and gilt yields falling to 4.25%, from 4.48% at the time of writing.

Regional recommendation

We expect returns in Japan to lag those in the U.S. and Europe. High starting yields near 4.50% and the risk of underperforming lofty growth expectations should enable the U.S. bond market to outperform that of Japan, where we expect interest rates to continue rising. We recommend being 5.0% overweight Treasurys and 5.0% underweight Japanese government bonds.

We expect returns in Japan to lag those in the U.S. and Europe.

Underweight Japanese government bonds

vs.

Overweight U.S. Treasuries

Interest-rate forecast: 12-month horizon
Total-return calculation: February 28, 2025 – February 28, 2026

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.50%	4.40%	4.40%	4.50%	4.75%	2.64%
Change to prev. quarter	0.63%	1.00%	0.80%	0.50%	0.35%	
High	5.25%	5.10%	5.00%	5.00%	5.20%	0.08%
Low	2.80%	3.00%	3.25%	3.75%	4.10%	7.17%

Expected Total Return US$ hedged: 3.8%

Germany

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.00%	2.00%	2.25%	2.50%	2.75%	1.96%
Change to prev. quarter	0.25%	0.40%	0.40%	0.25%	0.15%	
High	3.00%	3.00%	3.10%	3.25%	3.30%	-2.80%
Low	1.50%	1.50%	2.00%	2.25%	2.60%	3.68%

Expected Total Return US$ hedged: 3.6%

Japan

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.75%	1.20%	1.50%	1.75%	2.60%	-1.01%
Change to prev. quarter	0.00%	0.20%	0.20%	0.25%	-0.20%	
High	1.25%	1.75%	2.00%	2.25%	3.50%	-10.33%
Low	0.33%	0.50%	0.75%	1.00%	2.00%	7.39%

Expected Total Return US$ hedged: 3.1%

Canada

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	2.75%	2.90%	3.00%	3.25%	3.40%	1.09%
Change to prev. quarter	0.00%	0.10%	0.10%	0.00%	-0.05%	
High	3.50%	3.30%	3.40%	3.50%	3.60%	-0.47%
Low	**2.00%**	**2.00%**	**2.40%**	**2.75%**	**3.00%**	**4.02%**

Expected Total Return US$ hedged: 3.0%

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.00%	3.75%	4.00%	4.25%	4.90%	6.74%
Change to prev. quarter	0.00%	-0.15%	0.00%	0.00%	0.20%	
High	4.75%	4.90%	5.00%	5.25%	5.25%	1.49%
Low	3.00%	3.00%	3.10%	3.50%	4.10%	14.65%

Expected Total Return US$ hedged: 5.8%

Source: RBC GAM

Currency markets

The beginning of the end of U.S. exceptionalism

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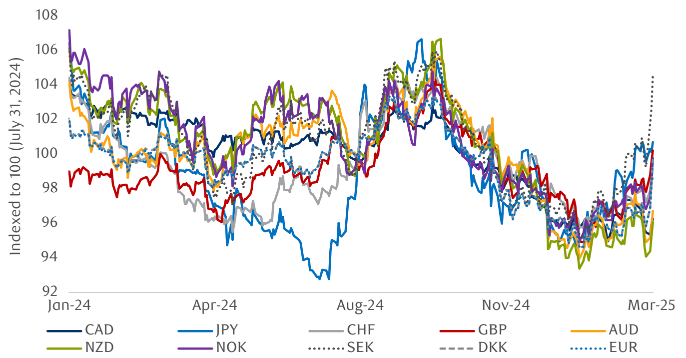
The U.S. dollar is overvalued by the most it has been in almost four decades versus the currencies of its main trade partners and the *most ever* against the Canadian dollar. The overvaluation follows the greenback's near-9% rally during the last quarter of 2024, a move that unfolded as investors assigned higher odds to President Trump's policy proposals on trade and deregulation. The U.S. dollar's strength stalled at about the same time as Trump started his 2nd term at the White House, and the currency's failure to surpass cycle highs from 2022 (Exhibit 1) suggests that the fears (and hopes) associated with the president's agenda were already built into exchange rates at that time. The U.S. dollar's direction has been one of the primary drivers in FX market as investors toggled their focus between U.S. interest rates and U.S. elections. This was evident in the way that developed-market exchange rates have become increasingly synchronized since the fall of 2024 (Exhibit 2).

Exhibit 1: USD rally falls short of 2022 cycle high

Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

Exhibit 2: Developed market currencies have been synchronized since the fall of 2024



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

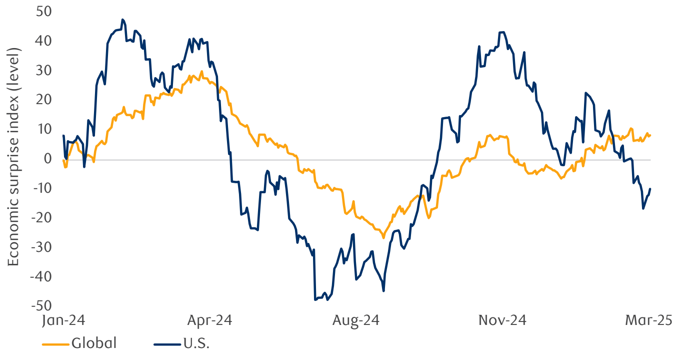
We expect that the greenback will weaken in the longer-term, but we put our bearish outlook on pause last quarter following the U.S. November elections owing to trade measures that would be tough on U.S. trade partners. At the time, Trump's victory also suggested a revival of inflation that would keep the Federal Reserve (Fed) from cutting rates as quickly as we had previously assumed. A more immediate decline of larger magnitude largely depends on signs that investors are becoming more enthusiastic about allocating money outside of the U.S. Such evidence that capital is being drawn away from the United States has indeed begun to materialize, albeit only tentatively:

- The recent agreement between the German chancellor-in waiting and coalition partners to fund defense and infrastructure boosts eurozone growth expectations and makes the region a more attractive investment destination.
- Outperformance of Chinese and European stocks in early 2025 could be an early sign that investors are beginning to appreciate those long-avoided regions. The more that these equities appreciate, the greater the chance that global investors take notice.
- An inability for the U.S. to meet increasingly elevated expectations of economic growth, as seen in the gap between Citibank's U.S. and Global economic surprise indices (Exhibit 3)

It is the 3rd of these items that most warrants monitoring. The U.S. dollar's gains in recent years are largely a result of stronger economic growth from the U.S. and the higher interest rates that are generally associated with a stronger economy. The theme of 'US exceptionalism" – larger fiscal spending than other developed-market economies over the past few years is part of the story, and, while U.S. government deficits will continue, we doubt that the fiscal boost can remain as positive as it has been over the past two years. Moreover, the considerable uncertainty surrounding Trump policies of tariffs, tax-cuts, government cutbacks and deregulation has acted to sideline business investment – the exact opposite of what the president had intended when he campaigned on bringing manufacturing capacity back to the U.S. A scenario where the European economy recovers at the same time as U.S. growth slows could trigger accelerated selling of the dollar by investors who are already overweight the currency (Exhibit 4).

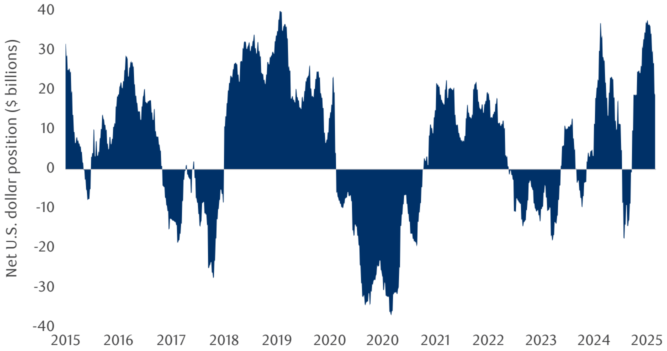
One obvious risk to this lower-dollar view would be a more heavy-handed approach from the White House on tariffs. Prior to his inauguration, Trump had promised the immediate imposition of a 10% blanket tariff worldwide and an even larger 60% levy on imports from China. Not only were these actions conspicuously absent from executive orders signed on his first day in the Oval office, but Trump's subsequent promises to tariff Canada and Mexico on Feb 4th

Exhibit 3: U.S. growth coming in below expectations



Note: As at March 5, 2025. Source: Bloomberg, Citigroup, RBC GAM

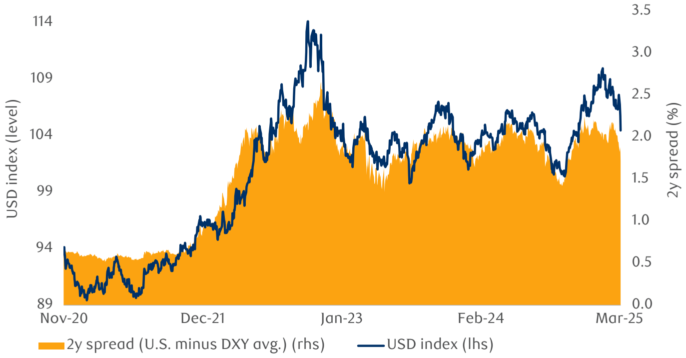
Exhibit 4: Stretched long U.S. dollar positioning



Note: As at February 28, 2025. Source: Bloomberg, CFTC, RBC GAM were delayed. His weekend-long spat with Colombia in late January, where tariffs were imposed one day and rolled back the next after Colombia ceded to U.S. demands on accepting illegal immigrants, also suggests that tariffs are being used as a negotiating tool. At this stage, our indicators show that investors have become desensitized to the impact of tariff announcements. One way to evaluate this is by looking at the dollar's performance relative to its main driving variable: the dollar's interest rate advantage (Exhibit 5). The greenback rallied more than could be explained by interest rates in early-November as markets shifted focus from Fed policy to tariffs following the U.S. presidential elections. This gap can be seen as a proxy for the impact and the likelihood of tariffs – a kind of discount applied to other currencies and a premium associated with the dollar. This gap has narrowed rather than expanded in recent weeks, indicating that a smaller probability is being assigned to the imposition of lasting tariffs. In addition to interest rates, we could also consult option markets to gauge the likelihood of large currency market fluctuations, since those instruments are often used to protect against adverse market volatility. The cost of such protection has actually fallen, suggesting that the insurance isn't in heavy demand.

Perhaps one reason why markets aren't overly concerned about tariffs is that they are less likely to stick given that their dollar-positive impact runs counter to the administration's preference for a weaker currency. President Trump and his vice-president, JD Vance, have been vocal about a weaker dollar being a key part of their agenda to promote export-competitiveness and to encourage greater manufacturing within U.S. borders. In their note "How to Devalue The Dollar," Gavekal Research theorized that the only feasible way to depress the dollar was for the US Treasury to actively intervene in foreign exchange markets by buying up other currencies. The problems with this plan are well-known in currency circles: efforts to push the greenback lower aren't likely to be successful unless intervention is coordinated with other major economic powers. It's also clear that the US$300 billion Exchange Stabilization Fund - the only approved facility with which intervention can be conducted – is way too small to leave a lasting mark on the massive US$7.5 trillion-per-day foreign-exchange market. This could be why Trump and team may be resorting to the possibility of a "Mar-a-Lago accord" to weaken the greenback, in a strategy much like the 1985 Plaza accord that was conceived at New York's Plaza Hotel

Exhibit 5: Tariffs adding a premium to the U.S. dollar



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

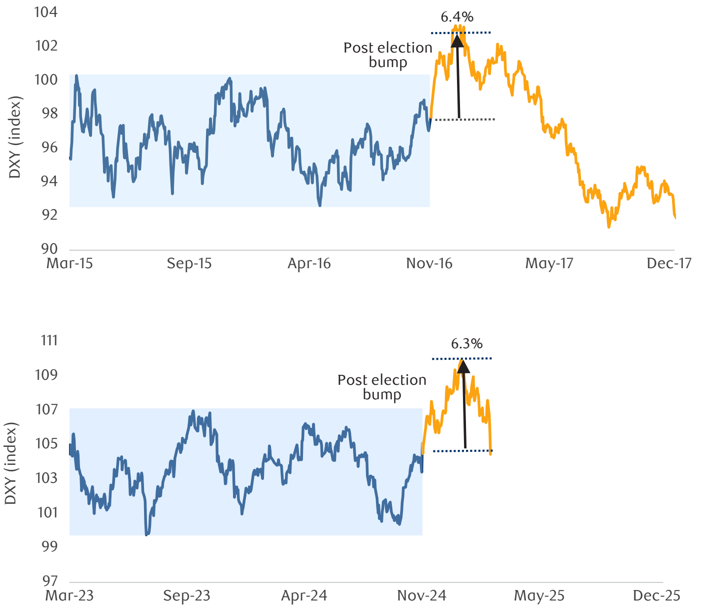
in the mid-1980s. Most recently, Treasury Secretary Scott Bessent floated the idea of encouraging foreign reserve managers into swapping their debt into non-tradeable 100-year zero-coupon bonds to avoid tariffs. Bessent's hope is that by removing that chunk of debt from active markets he will reduce the annual interest costs in the budget and increase the country's competitiveness via a weaker U.S. dollar.

Comparing the US dollar's performance this year with Trump's last inauguration in 2017, we see remarkable similarities (Exhibit 6). In both episodes, the dollar had been trading within a relatively tight 5% trading range that was broken following Trump's early-November election victories. Those initial rallies – 6% in both cases – topped out at around the time of inauguration as Trump's day-one executive orders failed to live up to what investors had feared. What followed was a 12% decline in the greenback over the first three quarters of 2017 – perhaps a prescient roadmap for the current environment as dollar weakness at the time was driven partly by faster-than expected economic growth abroad that saw investors reallocating capital away from the U.S.

Canadian dollar

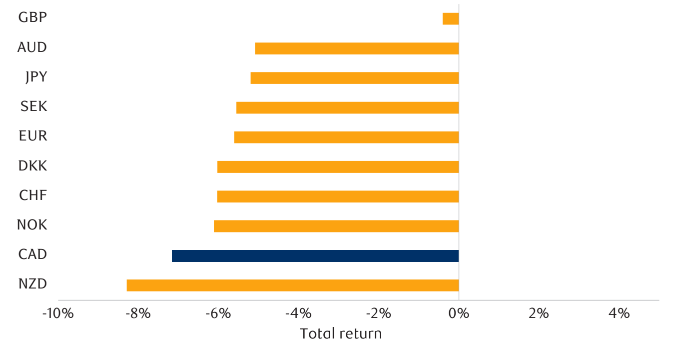
The Canadian dollar has been among the worst performing developed market currencies over the past 12 months (Exhibit 7). Contributing to that poor performance are the country's slower growth, lower interest rates, dovish central bank and lack of productivity. But the more pressing issue, of course, is that Canada has become a target of tariffs as one of the U.S.'s main trading partners. President Trump has made his stance clear on using tariffs to punish illegal border immigration and drugs, even though it's far from certain that Canada contributes meaningfully to either problem. In any case, Trump's tariff threats as well as his statements that Canada could be a 51st US state act as a warning to investors. Not only do economic growth expectations need to be revisited under a more contentious bilateral relationship, but so do many of the other long-term considerations that had previously been taken for granted: an implicit U.S. security guarantee under NATO; a strategic partnership protecting the Northwest Passage; and a collaboration toward food and energy security. In a

Exhibit 6: 2017 U.S.dollar analog



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

Exhibit 7: Canadian dollar among worst performing G10 currences over the past year



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

world where the U.S. would seek to expropriate foreign assets like Ukrainian minerals and the Panama Canal, do Canadians need to worry that Trump would attempt to take over Canada's valuable potash, metals and water resources?

A related concern is the ability of the Canadian government to respond decisively to this quickly shifting landscape given the country's political situation. Prime Minister-designate Mark Carney will have his work cut out for him as his minority government must soon seek support from other parties or call an early election. This means the loonie could get hit by tariffs more than we would otherwise expect simply because the country lacks the ability to negotiate credibly with the White House.

How far the currency could weaken is a difficult question to answer, as it's certainly not the case that a 10% tariff warrants a 10% currency decline. A number of elements complicate the dynamic, including the amount of time that tariffs are left in place and the fact that Canada will almost certainly impose counter-tariffs on its imports from the U.S. It's also likely that at least a portion of proposed tariffs will not require Canadian-dollar weakness in order for Canadian businesses to remain competitive. The relatively inelastic demand for heavy Canadian crude oil, for example, means that U.S. consumers would be the ones to bear the cost of tariffs via higher energy prices.

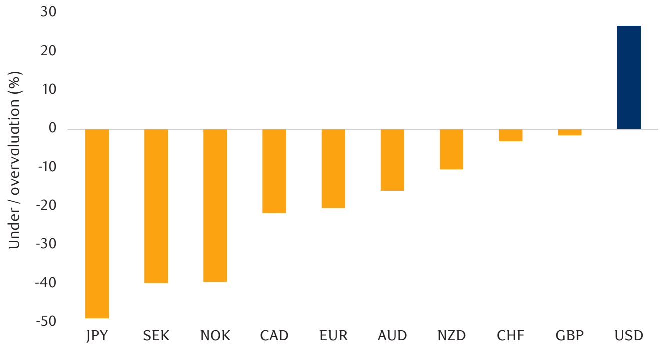
It is doubtful that all of these economic relationships could be accurately modelled to estimate the tariff impact on the Canadian dollar. Instead, we reviewed a variety of models and currency market responses to past tariffs to arrive at a range of possible scenarios (Exhibit 8). These are just a few examples: the variety of scenarios that could play out over the coming months is everchanging and highly uncertain. One condition that makes it harder for the Canadian dollar to fall much further is that the U.S. currency is 26% overvalued (Exhibit 9), and unlike in 2016-2018, Trump's election and imposition of tariffs have not come as a complete surprise. We had also already seen the Canadian dollar weaken in late 2024 to price in some of the potential tariff threats.

Exhibit 8: Potential outcomes for the Canadian dollar under different tariff scenarios

Scenario	Impact on USD/CAD exchange rate	USD/CAD rate (CAD per USD)
No tariff, indefinite delay	USD depreciates by 2-3%	1.41-1.42
10% universal tariff*	USD appreciates 5%	1.52
25% universal tariff*	USD appreciates 10%	1.60

Note: *Assumes tarrifs remain in place until the end of 2025. Source: RBC GAM

Exhibit 9: USD remains massively overvalued



Note: As at February 21, 2025. Source: Bloomberg, RBC GAM

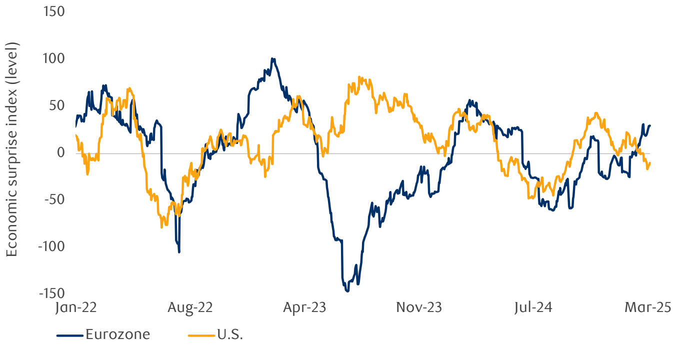
It is likely that currency markets exhibit higher levels of volatility during trade negotiations, and holders of U.S. dollars could take advantage of this volatility to buy undervalued currencies. These opportunities don't come along very often and last materialized for Canadians in 2007, when the loonie was expensive and Canadians rushed to buy properties in Florida – a decision that paid off handsomely over the following decade. We believe we are at the opposite extreme now, and while the U.S. dollar sell-off may take time to occur, we are confident that there is money to be made from buying the Canadian dollar while it's extremely cheap. Our 1-year forecast period is considerably shorter than the investment horizon of most investors, however, and over this next 12 months we expect only moderate Canadian dollar strength to C$1.36.

> "Over this next 12 months we expect only moderate Canadian dollar strength to C$1.36."

Euro

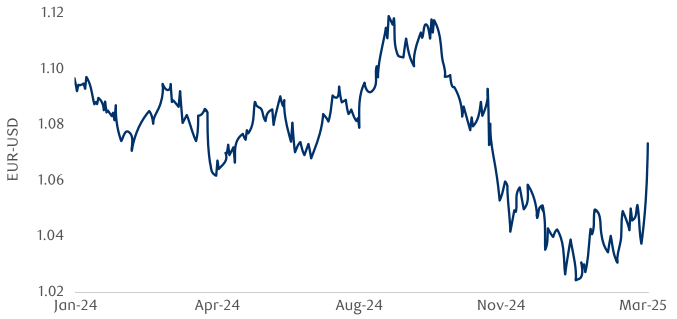
In many ways, the euro outlook reflects the flipside of the broader U.S. dollar view because together the two currencies represent the lion's share of global foreign-exchange volumes and because the euro exchange rate reflects the performance of one currency relative to the other. While this makes currency investing a comparison of relative merits, that job is made a bit easier when drivers of the two currencies are pointing in opposite directions. This seems to be the case now, as economic growth looks poised for some recovery in Europe while also set to slow from strong levels in the United States (Exhibit 10). To be fair, the U.S. is still likely to post stronger overall economic growth than Europe and will likely offer higher interest rates too, but the fact that investors are so downbeat on all things European (economy, politics, equity markets, currency) means that it doesn't take much to prompt a relief rally in the single currency. As this article was written, a number of elements have come together to buoy sentiment and lift the euro above 1.07 from its early-February lows near 1.02 (Exhibit 11). As mentioned previously, these include the possibility of a peace deal in Ukraine and better prospects for much-needed fiscal spending to support the economy and to add defense capabilities. While Germany's debt-brake has limited federal spending to 0.35% of GDP per year as a way of preventing irresponsible spending, it has also thwarted counter-cyclical fiscal policy needed to cushion

Exhibit 10: Eurozone economic growth is recovering



Note: As at March 5, 2025. Source: Bloomberg, Citigroup, RBC GAM

Exhibit 11: Euro up from February lows



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

the economy during downturns. News in early March that the German government would try to relax this policy came as a positive surprise for markets that had not expected much from the traditionally conservative stance of the German Bundestag. The shift comes on the heels of U.S. suggestions that it could reduce support or even abandon NATO – a frightening enough prospect for European policy makers, particularly following Trump's Oval Office spat with President Zelensky. And even though some of this spending would be directed toward buying U.S. goods as a token to avoid tariffs, or because of lack of domestically-produced defense equipment, it should nonetheless be supportive for European growth.

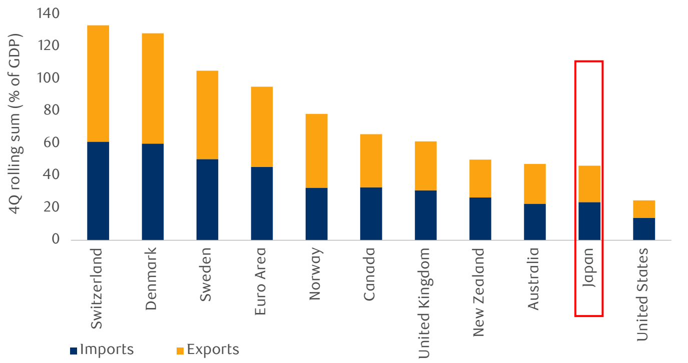
Absent any major and lasting tariffs being imposed on Europe by the Trump administration (especially on the auto sector), we suspect that the euro will continue to grind higher toward $1.09. As the economy continues to recover and as the ECB stops reducing interest rates, European assets should start to garner accelerated demand from global investors. We expect this momentum to pick up nearer to the end of our 12-month forecast horizon and for the euro to trade on more solid footing into 2026.

> "We expect the momentum to pick up nearer to the end of our 12-month forecast horizon and for the euro to trade on more solid footing into 2026."

Japanese yen

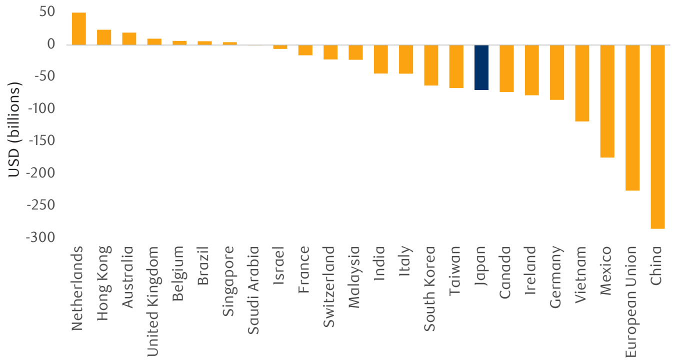
The Japanese yen is well placed to be among the best performing developed market currencies this year. For one thing, the Japanese economy is perhaps the least affected by tariffs given that it is less dependent on trade than its peers (Exhibit 12) and because the U.S. trade deficit with Japan is a fraction of those of Trump's main targets: China, Europe and Mexico (Exhibit 13). Japan-specific factors are also supportive as the yen enjoys large income receipts on assets held abroad and wage-driven inflation is guiding the Bank of Japan to hike interest rates (Exhibit 14). Not only is the currency one of the cheapest in the world, but the Japanese Ministry of Finance has also been trying to prop up its value in recent months – so Japan is one of the few U.S. trade partners whose currency preferences are aligned with the Trump administration. One final reason to love the yen is its status as a safe-haven and the tendency for Japanese investors to repatriate capital invested abroad during times of market turbulence. Given the expensive nature of U.S. stocks, it's timely to have some yen currency exposure in portfolios as insurance against market selloffs. We expect the yen to appreciate to 142 per dollar.

Exhibit 12: Japan is less dependent on trade than peers



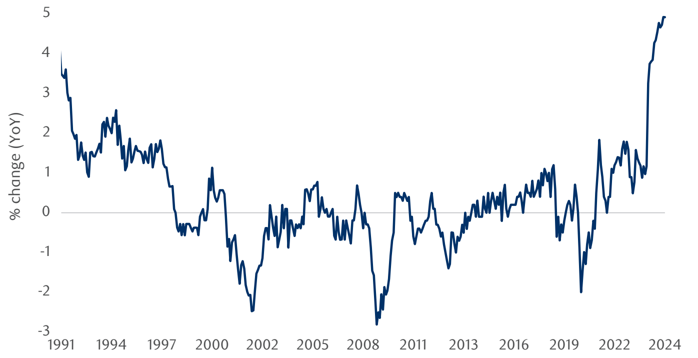
Note: As at: September 30, 2024. Source: IMF, RBC GAM

Exhibit 13: Japan's trade deficit is small compared with the U.S.' other trading partners



Note: As at: September 30, 2024. Source: BEA, RBC GAM

Exhibit 14: Wage pressure supports central bank hikes



Note: As at December 31, 2024. Cash earnings for establishments with over 5 employees. Source: Japanese Ministry of Health, Labour & Welfare, RBC GAM

British pound

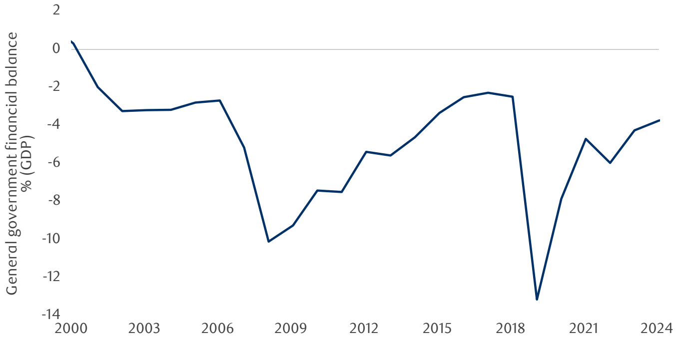
We also expect the British pound to rally this year, though there's considerable disagreement among investors on the fate of the UK's currency. January's rise in 30-year UK bond yields to new highs (Exhibit 15) acted as a reminder to investors of the 2022 flash crash in bond markets that led to the ouster of Liz Truss as Prime Minister. To be fair, the UK's persistently large fiscal and current-account deficits have caused investors to question the region's fiscal sustainability for years (Exhibit 16). While there has been an increased amount of scrutiny around fiscal deficits over the past few quarters, it doesn't appear to us as though 2025 will be the year where investors and businesses shun the UK for its excesses. For instance, UK firms have been reducing the proportion of capital expenditures they make abroad, opting to invest in domestic production instead.

It is important to note that the pound is also supported by the UK's relatively higher yields (Exhibit 17), which act as a magnet for capital in a world where most central banks have pivoted to interest rate cuts. While the Bank of England (BoE) has cut three times since mid-2024, we think the UK central bank will be slower cutting rates going forward owing to sticky underlying inflation that looks unlikely to reach the bank's 2% target. Those expecting a stronger pound also point to a more muted impact from trade tensions given that the UK conducts most of its trade with Continental Europe and that the country isn't a target for President Trump's tariffs because the UK actually runs a trade deficit with the U.S. We expect the pound to rise toward $1.33 within 12 months, which would see it strengthen alongside other major developed market currencies as the U.S. dollar begins to falter later this year.

Exhibit 15: UK government bond yields touched new highs in January 2025

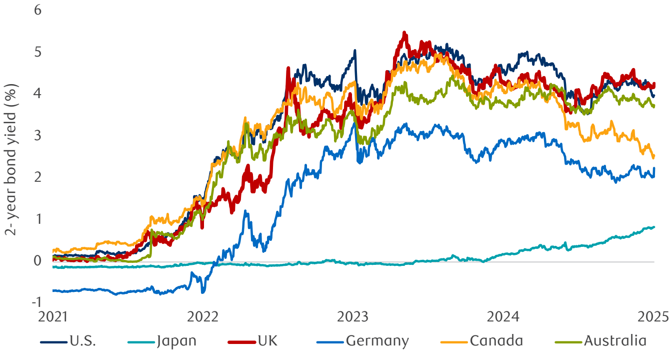
Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

Exhibit 16: The UK has run a budget deficit for decades



Note: As at December 31, 2024. Source: IMF, RBC GAM

Exhibit 17: Relatively higher yields offer support for the British pound



Note: As at March 5, 2025. Source: Bloomberg, RBC GAM

Regional outlook – United States

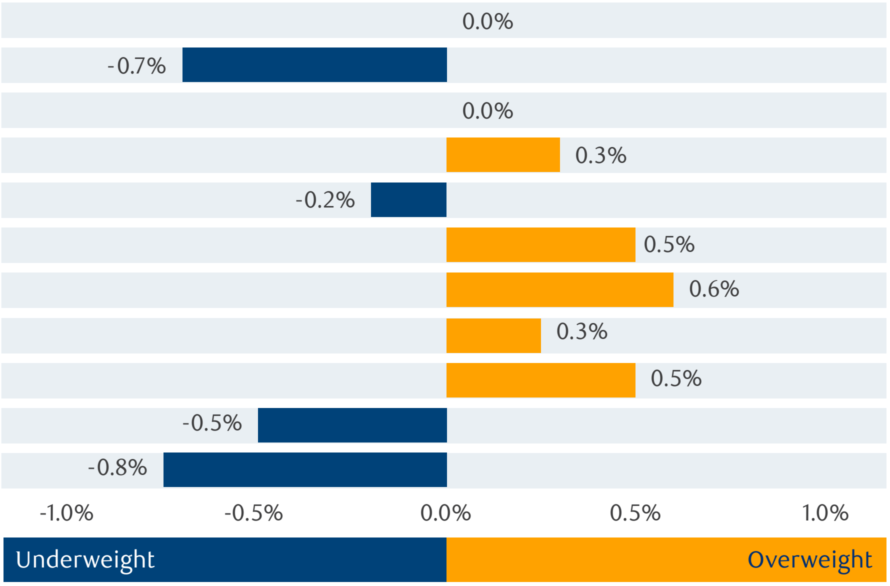
Brad Willock, CFA
Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

U.S. stocks, measured by the S&P 500 Index, dropped 3% during the three months ended February 28, 2025, on concern about the impact of U.S. policy that could bring on a global trade war. Of note was the fact that the stock market closed at an all-time high during the third week of February, but President Trump's threats of increasingly aggressive tariffs on Canada, Mexico China and Europe have shaken investor confidence, precipitating a 5% sell-off to end the period. Moreover, economic growth has been above trend, unemployment low and corporate earnings better than expected. The recent weakness in equities appears to be based on the idea that the administration's trade policies could disrupt the otherwise constructive investment backdrop. Only four of 11 sectors outperformed over the three-month period, including Communications Services, led by AT&T and Meta; Consumer Staples, where Phillip Morris and Coke were standouts; pharmaceuticals and biotechnology in Health Care; and banks and credit cards in Financials. Economically sensitive cyclical sectors were the biggest laggards with Energy, Industrials and Materials performing the worst. With the S&P 500 down roughly 5% from a recent high and the new administration less than two months on the job, it seems like a good time to evaluate recent policy changes and review recent corporate financial results.

Let's begin by examining the implications of the new administration's policies for stocks. In simple terms, Trump's campaign pledged to focus on four major policy areas: immigration; trade (tariffs); tax cuts; and deregulation. The first two, immigration and tariffs are seen as potential headwinds for the economy, and Trump's actions since inauguration have been striking. Until recently, investors have largely expected that tough talk on tariffs would end up as mostly talk, but with the administration's decision to levy 25% tariffs on imports from both Canada and Mexico, as well as an additional 10% tariff on imports from China, investors have started to believe the talk is more than bluster. The imposition of higher tariffs on imported goods could raise prices, stoke inflation and reduce growth. There are many unanswered questions. How high will tariffs go and will they be levied solely on China, Mexico and Canada, or will they include Europe and/or tariffs on global imports? How long will they be in place? Canada and China have promised to retaliate. What will they do and how will the U.S. respond? Will tax cuts and deregulation will be enough to offset the likely drags from reduced immigration and tariffs? It's hard to know the answers at this point, but investors were quick to price in much of the potential upside from tax cuts and deregulation and without discounting the potential headwinds from tariffs. In our opinion, it seems increasingly likely that tariffs are more lasting given President Trump's long-held goal of correcting global trade imbalances.

United States – Recommended sector weights

	S&P 500	
Energy	3.3%	0.0%
Materials	2.0%	-0.7%
Industrials	8.4%	0.0%
Consumer discretionary	10.3%	0.3%
Consumer staples	6.0%	-0.2%
Health care	11.1%	0.5%
Financials	14.1%	0.6%
Information technology	30.6%	0.3%
Communication services	9.6%	0.5%
Utilities	2.4%	-0.5%
Real estate	2.2%	-0.8%

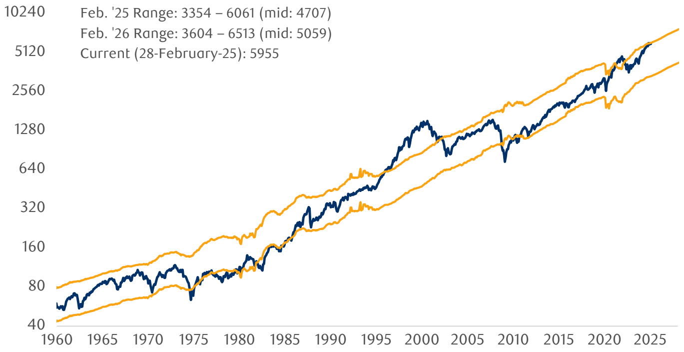


Note: As of February 28, 2025. Source: RBC GAM

> “The recent weakness in equities appears to be based on the idea that the administration’s trade policies could disrupt the otherwise constructive investment backdrop.”

S&P 500 Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

Now let's look at the most recent financial results and evaluate where the U.S. market's largest corporations stand. In the third quarter, earnings-per-share growth for the S&P 500 came in at roughly 10% year over year driven by revenue growth of just over 5%, and that earnings growth figure was over 13% excluding the volatile Energy sector. These results were led by strong earnings from the Information Technology sector, which rose 20%, and Financials, up 29%, while profits for less cyclical sectors such as Health Care and Utilities were up 6% and 12%, respectively. A strong U.S. dollar, weak commodity prices and weak growth in Europe and China were a drag on cyclical sectors such as Energy and Industrials, with earnings growth down 30% and 7%, respectively. The Consumer Discretionary sector excluding Amazon generated earnings growth of only 6% on top-line growth of 4% as narrower profit margins was offset by aggressive stock buybacks. Notably, the areas of the economy that are home to the six artificial-intelligence-related mega-caps posted solid results with an aggregate earnings gain of over 30% for the second straight quarter. However, in a sign that expectations for this cohort were very high, only Meta outperformed the market during the week it released earnings. With over 90% of companies having reported fourth-quarter earnings, consensus S&P 500 earnings estimates for all of 2024 imply profit growth of roughly 10%, which seems reasonable, and estimates for 2025 imply a similar 10% profit growth rate with Technology contributing about half the growth and a more balanced contribution from the other sectors making up the rest. The bar is high but achievable assuming there is no serious policy error.

The rally in stocks since the low in the fall of 2022 has been supported by above trend economic growth and solid earnings growth. Since the election, investors have expected the potential benefits of tax relief and deregulation to outweigh the potential drags from deportations and tariffs. More recently, following the inauguration, as the administration has announced its intentions to impose tariffs on its closest trading partners, investors have started to reconsider their prior expectations. However, with the S&P 500 at about 5950 trades at roughly 21 times the next 12 months' estimated earnings, which is expensive relative to history. High valuations at the index level reflect a great deal of investor optimism about the future for AI-related meg-cap stocks, which collectively trade at 28 times forward earnings. To keep the bull market going, we need earnings to continue to surprise on the upside. The policy moves of the Trump administration are ratcheting up the uncertainty and changing the rules of the game, making it more likely that corporate earnings will eventually disappoint and bring the bull market to an end. We have increased our allocation to cheaper, defensive sectors such as Utilities, Health Care and Consumer Staples sectors in case the administration follows through on its tariff threats and economy slows more than expected.

Regional outlook – Canada

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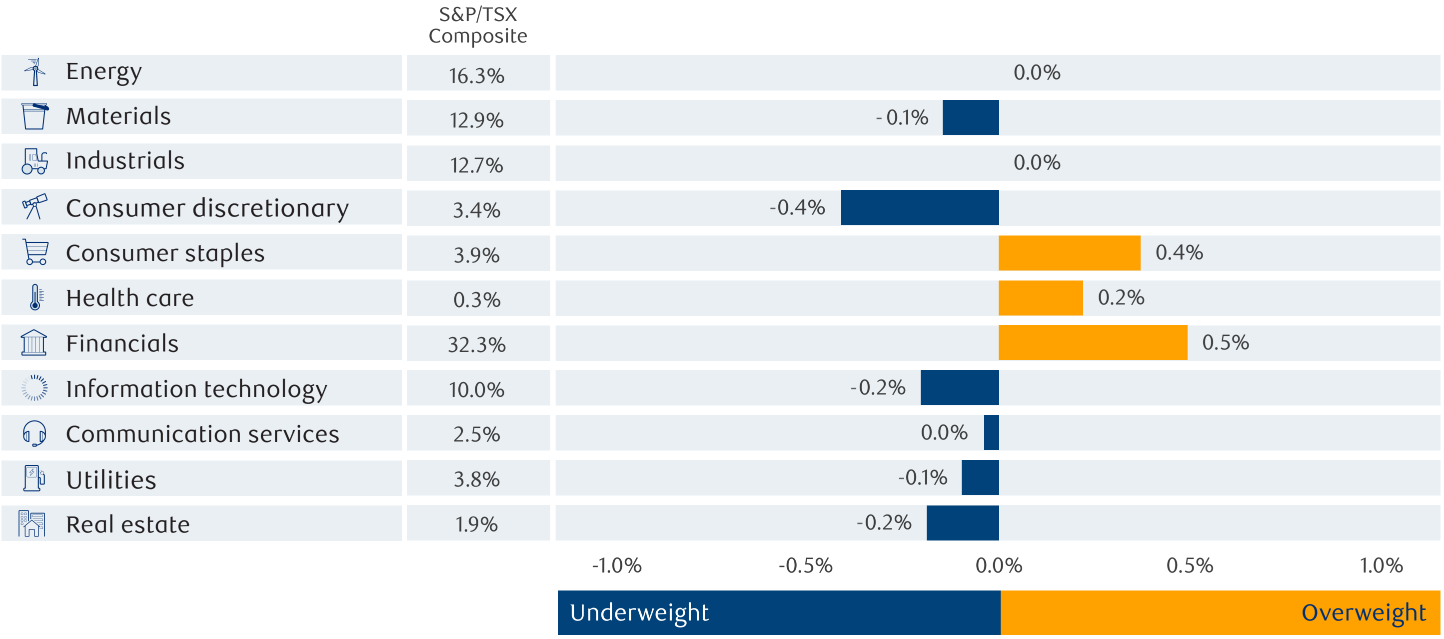
Canada's stock benchmark, the S&P/TSX Composite Index, recorded total returns of -0.3% in the three months ended February 28, 2025. In U.S.-dollar terms, the S&P/TSX dropped 3.5%. These results lagged the S&P 500 Index, which fell 0.97%, while the MSCI World Index, gained 0.11%.

The outlook has clouded up considerably since the strong equity performance of 2024, which was driven by expanding valuations due to improving profit growth and lower interest rates. Uncertainty has emerged in recent months about the path of earnings growth and interest rates as the new U.S. administration has threatened to ramp up global trade barriers. Canada is a particular focus, as new U.S. tariffs on Canadian goods is raising concerns about trade disruptions and economic instability. Moreover, the political outlook will remain murky for at least the next few months as an election will be required to gauge shifting public sentiment, creating an unpredictable economic landscape. In Canada, there are signs that this uncertainty is weighing on consumer and business confidence and investment. Investors are focusing their attention on the political arena as they try to understand what the many changes being discussed will mean for corporate profits and valuations. As a result, the stock market is in a wait-and-see pattern, with investors exercising caution.

Canada's economy showed some improvement into the end of 2024, helped by rising consumer spending and better housing investment thanks to lower interest rates. Business spending in Canada is an area of concern given that trade uncertainty is slowing investment. Analysts are anticipating that Canada's economy will expand 1.6% in 2025, compared with 1.3% in 2024 and 2.3% forecast for the U.S. Economic forecasts have not accounted for what will almost certainly be the negative impact of the proposed tariffs.

Should a high-tariff scenario play out over an extended period, there is the potential for a significant economic blow to Canada and sustained weakness in the Canadian dollar. Given these risks, the Bank of Canada (BOC) has continued to lower interest rates, dropping the policy rate to 2.75%, reflecting uninspiring economic growth and elevated unemployment. The most recent reading on inflation came in at 2%, which is the target level for the BOC. Investors expect the BOC to continue lowering interest rates at a pace that will depend on the impact of tariffs that are effected. The U.S. Federal Reserve (Fed) opted to hold policy rates steady in January, given the resilience of the economy and inflation still being slightly above target. With U.S. short-term interest rates having fallen much less than Canada's and the prospect of a trade war, the Canadian dollar has depreciated relative to the U.S. dollar by 3% over the past three months.

Canada – Recommended sector weights



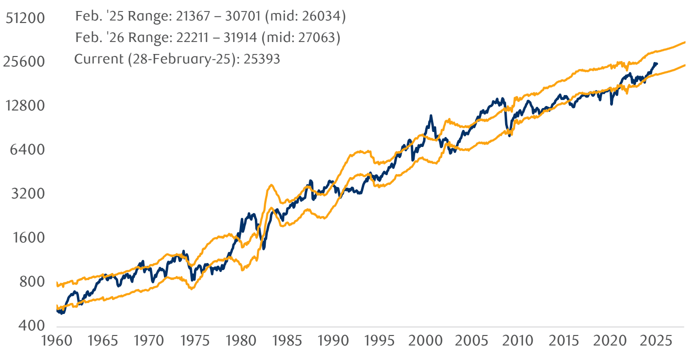
	S&P/TSX Composite	
Energy	16.3%	0.0%
Materials	12.9%	- 0.1%
Industrials	12.7%	0.0%
Consumer discretionary	3.4%	-0.4%
Consumer staples	3.9%	0.4%
Health care	0.3%	0.2%
Financials	32.3%	0.5%
Information technology	10.0%	-0.2%
Communication services	2.5%	0.0%
Utilities	3.8%	-0.1%
Real estate	1.9%	-0.2%

Note: As of February 28, 2025. Source: RBC GAM

> “Investors are focusing their attention on the political arena as they try to understand what the many changes being discussed will mean for corporate profits and valuations.”

S&P/TSX Composite Equilibrium

Normalized earnings and valuations



Note: The fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index. Source: RBC GAM

In the Canadian stock market, the Materials sector outperformed as the gold price recently traded above US$2,900 for the first time. Gold, often viewed as a safe haven from global turmoil, has benefited from increased central-bank buying as well. Telecommunications stocks held back return as concerns about profitability, competition and the sustainability of dividend payouts persist. Information Technology stocks, now make up 10.5% of the S&P/TSX Index, and were the market leaders in 2024, however have had a muted start to the year as upward momentum has slowed for high growth companies including Shopify and Constellation.

Current consensus estimates are for S&P/TSX earnings to rise 10% in 2025, and another 10% in 2026. The Materials sector is expected to drive a large portion of the overall earnings growth as elevated gold prices get reflected in profits. Financials, the biggest earnings contributor, will grow by 5% and the Energy sector is forecast to grow modestly. These earnings-growth forecasts do not reflect the potential impact of tariffs and are at risk of being revised lower once the trade situation is confirmed. The price to forward earnings multiple of the S&P/TSX has increased to 15 and now sits slightly ahead of its long-term average. The trade outlook and economic-growth expectations would have to firm up for valuations in Canada to rise from these levels. The index remains at a significant discount to the S&P 500, which is valued at 21 times forward earnings, influenced higher by several large, highly valued technology stocks.

Canadian bank stocks have declined 1.6% over the past three months. Banks recently released their first quarter results, which highlighted a constructive environment for most areas of the business resulting in positive earnings revisions for the group. Consensus expectations for the Big 6 banks project earnings growth of 8% in 2025 and 10% in 2026, a notable improvement after nearly three years of stagnation. The positive outlook commentary was overshadowed by the uncertainty of economic outcomes because of potential tariffs from the US. Given that the bank group trades above its historical average at 12x P/E, we expect cautious investor positioning.

Banks guided to higher provisions for credit losses in the first half of 2025. However, this headwind could ease in the latter half of the year as the recent rate cuts work through the economy. That said, the labour market remains a key risk. While lower interest rates may alleviate pressure on Canadian consumers, tariff impacts would negatively affect employment and could weigh on credit conditions.

Canada's Energy sector stocks have dropped by 7.2% since the talk about tariffs began in November. North American energy prices are steady, with crude oil staying flat at US$70 per barrel and natural gas has recovered from extreme weakness last year. Canada exports 4 million barrels a day of crude oil to the U.S. and a potential tariff on this could negatively impact the profitability of Canada's energy producers. However, the refiners that consume Canada's crude in the U.S. have limited ability to source alternate crudes in the near term, so initially some of the tariff burden will be shared with US consumers. The weaker Canadian dollar offsets some of this impact, since Canada's energy producers sell their products in U.S. dollars but have costs in Canadian dollars. The discussion about tariffs has shone a light on Canada's resource sectors and highlighted the limited avenues we have to seek alternative buyers for products. The lack of energy export pipelines is of particular focus, where early discussions are happening about expanding existing export routes to the coast or developing new pipes, which could support infrastructure growth backlogs. Even with tariff concerns, energy producers in Canada continue to generate healthy levels of free cash flow which they return a majority of to shareholders through dividends and buybacks, helping to support attractive total returns.

Regional outlook – Europe

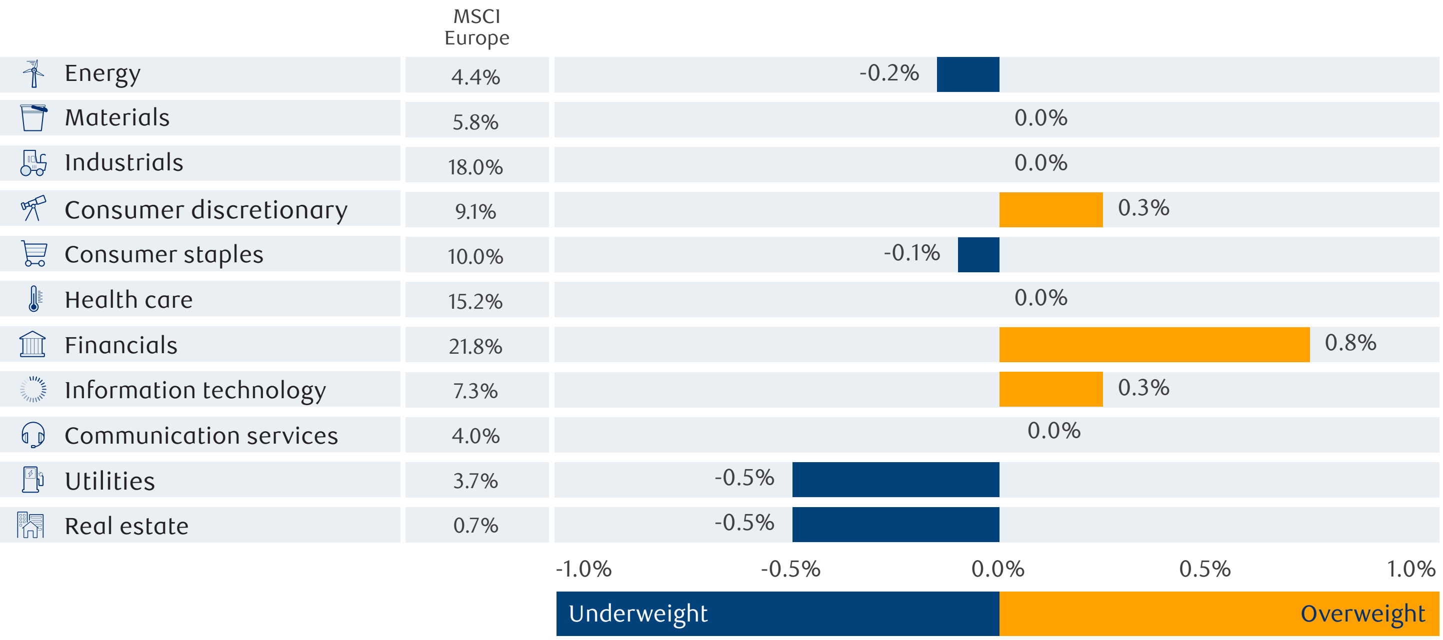
Siddhi Purohit
Portfolio Manager,
RBC Global Asset Management (UK) Limited

European equity markets underperformed the global benchmark last year, and the current macroeconomic climate is fraught with challenges such as sluggish economic growth, high inflation and political uncertainty. Nonetheless, there's a glimmer of hope as European stocks trade at valuations below their long-term averages. A weaker euro and the additional fiscal spending in Germany are among the factors that could help revive Europe's economy. Other potential positives include the chance that the new U.S. administration's approach to tariffs may be less aggressive than many investors believe given that the approach, as contemplated, could be detrimental to the U.S. economy. Additionally, the prospect of an end to the Russia/Ukraine war and further Chinese economic stimulus could contribute to a more favourable investment climate. The start of the year has shown some promise, with MSCI Europe Index outperforming the MSCI World Index by 9 percentage points as of 28 February 2025.

The eurozone faces headwinds, with the currency bloc's economic performance continuing to trail the U.S. amid trade uncertainty and slack business confidence. The eurozone's economy expanded 0.7% in 2024 compared with 2.8% in the U.S., and returns for Europe's MSCI stock benchmark trailed the comparable U.S. benchmark by 7 percentage points (6% versus 13%) in euros. Inflation in the eurozone edged up to 2.4%, compared with 2.9% in the U.S. Investors expect eurozone inflation to gradually decline toward the European Central Bank's (ECB) 2% target, although the threat of rising energy costs and U.S. trade tensions threaten this outcome. Economic indicators suggest that growth is picking up in the eurozone, with business services offsetting a slowdown in manufacturing. In the UK, inflation was at 3% in January, and signs are mounting that the economy is starting to weaken. Both the ECB and the Bank of England cut their benchmark interest rate in recent weeks in a bid to spur an economic expansion as growth outweighs concerns about persistent inflation and large government budget deficits.

Tariffs and defense spending are the other themes set to define 2025, with Trump's pressure on Canada and Mexico likely extending to Europe. Trump's threats could provide a temporary boost to European exports as purchasers try to beat the actual imposition of tariffs. However, the EU is built for free trade, and a world embroiled in protectionism will be negative for the region's overall growth. Increased European defense budgets seem inevitable, but the road to this outcome will be defined by debates over where the money for such spending can be found. As a counterpoint, there is evidence that household savings in Europe and the UK, which are already high at 15.6% of income, have started to grow again, and while consumer confidence remains somewhat fragile, a return to the historical average of 12.8% would contribute a significant boost to regional GDP.

Europe – Recommended sector weights

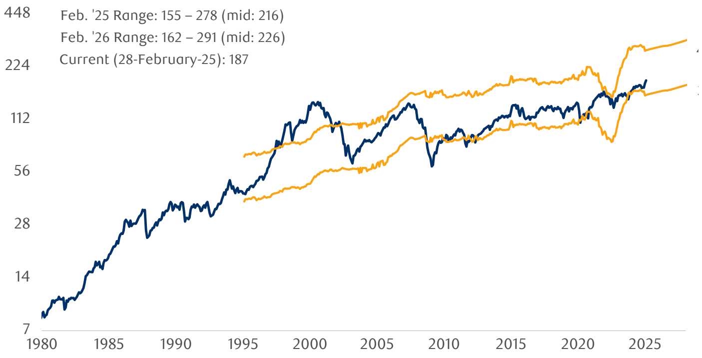


Note: As of February 28, 2025. Source: RBC GAM

> “Tariffs and defense spending are the other themes set to define 2025, with Trump’s pressure on Canada and Mexico likely extending to Europe.”

MSCI Europe Index Equilibrium

Normalized earnings and valuations



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Germany is currently going through significant political changes. The results of last month's federal election led to a centrist government emerging as the strongest party. Due to recent global events, Germany has decided to dramatically shift its fiscal policy stance. The country is poised to undertake one of the largest fiscal expansions in its post-war history, with a proposed €500 billion special investment fund for infrastructure and digitalization, and plans increase defense spending beyond the restrictions of constitutional cap on government spending. This move, aimed at rearming and achieving strategic independence, coincides with the European Commission's willingness to increase defense spending. Assuming the proposal passes through German parliament, these changes signal a potential end to Germany's economic stagnation and a rebalancing away from excessive reliance on external demand, potentially impacting the broader EU fiscal approach and the US-EU trade imbalance. Following this news, Germany's benchmark stock index has seen a 13% increase since the start of the year, and the domestic based German mid-cap index has also gone up by 11%.

Looking ahead, European equities will face the likelihood that current sustained levels of inflation will keep interest rates higher than is desirable in a weak-growth environment, meaning that earnings growth will be required for stocks to continue advancing as valuation expansion may be limited. Investors are projecting European earnings growth of 8% in 2025 and 10% in the U.S., but these forecasts were unrealistic in our view even before the impact of trade-related uncertainty and Chinese economic weakness. With inflation near target and nominal GDP growth expected at the historical average, we think European equities could see mid-single-digit earnings-per-share growth, slightly below the consensus. On the positive side, European corporate balance sheets are robust: the ratio of net debt to earnings before interest, taxes depreciation and amortization is around 0.9 and cash levels are near record highs, signalling some degree of protection against an economic downturn and providing opportunities for capital investment, as well as higher dividends and share repurchases.

Another plus for eurozone equities is attractive valuations. Eurozone stocks trade at their highest-ever valuation discount to U.S. equities, and shareholder yield – dividends and share buybacks per share as a percentage of stock prices – significantly exceeds that of U.S. The value case is strong, but European equity markets will need a catalyst as discussed above to improve on a relative basis in 2025.

We are inclined to prefer cyclical sectors through 2025 given tentative signs of an economic recovery, and we favour Financials in particular. We also like the luxury-goods sector, which underperformed for most of last year. We think valuations in this area overemphasize global growth risks and at current levels provide the potential for decent long-term returns. Among defensive stocks, we see a particularly attractive entry point for pharmaceuticals following a recent pull-back.

Regional outlook – Asia

Chris Lai
Portfolio Manager
RBC Global Asset Management (Asia) Limited

Asian equities posted moderate gains over the past three months, slightly outperforming global equity markets. Within Asia, China and Hong Kong outperformed, while Indonesia and India underperformed.

China and Hong Kong rallied largely on wider awareness of the artificial intelligence tool known as DeepSeek, rekindling expectations for China's potential to boost innovation, offsetting the negative impact of sinking property prices and the manner in which officials dealt with the aftermath of the pandemic.

Indonesia underperformed as the strong U.S. dollar led investors to seek higher Treasury yields, prompting the Indonesian central bank to step in to support the currency. Investors soured on India as the domestic economy lost steam, with recent GDP figures coming at 5.4%, well below forecasts of about 7%.

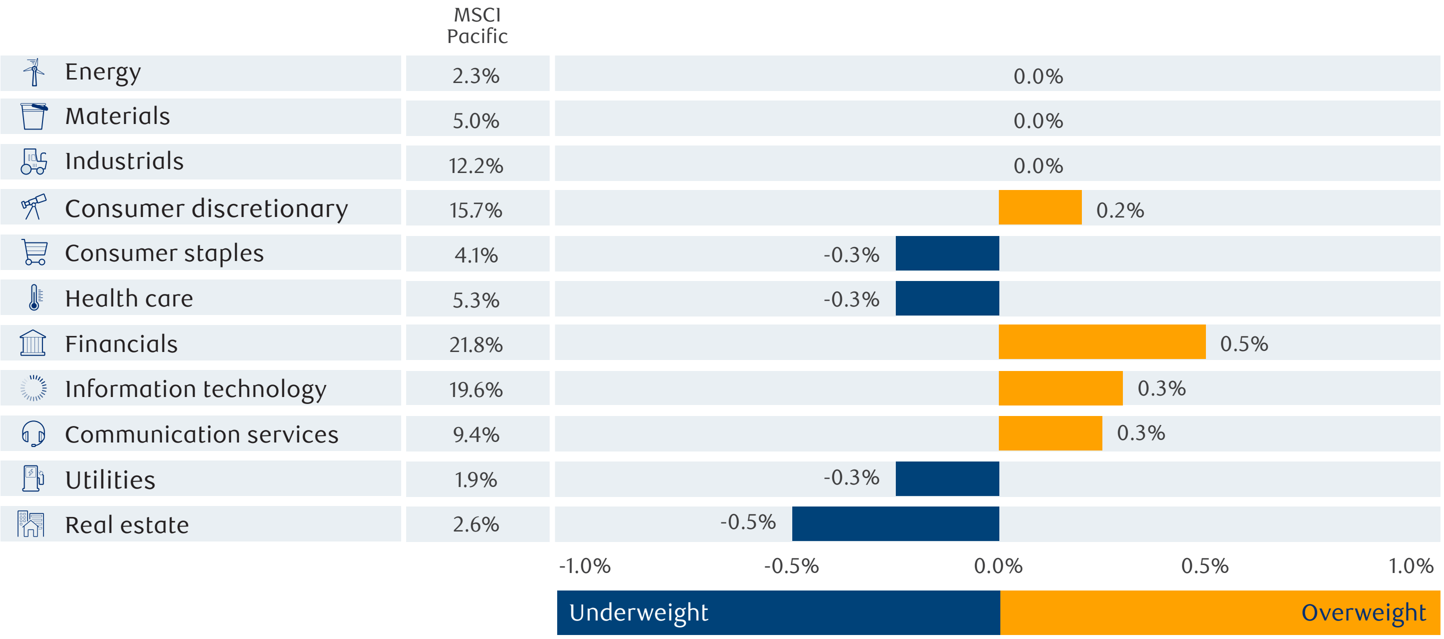
We expect to see some volatility in Asian equities for the remainder of 2025. President Trump has inherited a strong U.S. economy and his decisions on tariffs, deportations of illegal immigrants and tax cuts for the wealthy could risk a resurgence of inflation and keep interest rates elevated. Tariffs could certainly be used by Trump as a bargaining chip for trade negotiations.

Japan

The Bank of Japan (BOJ) hiked its policy rate by 0.25 percentage point in January, raising the short-term rate to 0.50%. The market had largely priced in the move ahead of time given earlier speeches by BOJ Governor Kazuo Ueda. As the domestic economic continues to normalize, we expect two further rate hikes in 2025, with rates rising to 1.00% by the end of the year. We believe the BOJ will be careful to communicate with investors in a way that avoids the stock-market plunge precipitated in August 2024 by an unexpected rate hike. A rise in interest rates is a positive sign for Japan as it signals confidence in the economy and signals wage gains that could help sustain inflation at a healthy 2% level.

Looking ahead, we expect economic growth and the government's agenda of corporate reforms to lead to increases in returns on equity. Given that the Japanese yen is at a relative weak level of 150 against the U.S. dollar, we estimate corporate earnings will continue to grow by 7% even without support from exchange rates. Returns on equity will be supported by a pickup in investments and share buybacks. Even after accounting for the strong performance of Japanese stocks in the last three years, valuations remain reasonable as earnings have grown. Global investors remain slightly underweight Japan and there's discussions of Japanese government pension funds increasing its weight in Japanese equities. Retail investors from both Japan and abroad remain

Asia – Recommended sector weights



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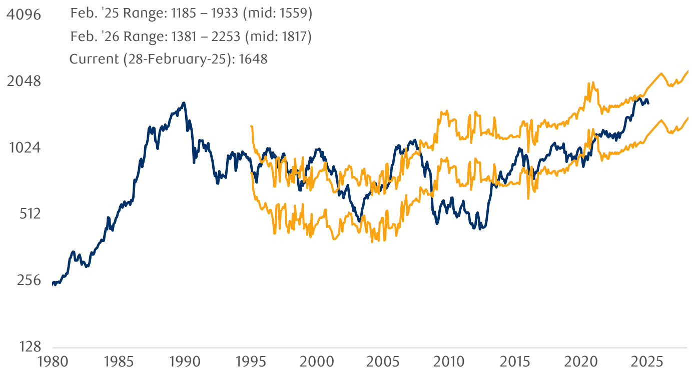
> "Global investors remain slightly underweight Japan and there's discussions of Japanese government pension funds increasing its weight in Japanese equities."

MSCI Japan Index Equilibrium

Normalized earnings and valuations



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underweight Japanese equites. Japan's consensus 2025 GDP is forecast at 1.2%, an improvement from 2024 when the economy grew just 0.1%. We maintain the view that consumer spending will pick up, backed by wage growth exceeding the rate of inflation.

Rest of Asia

We believe that China's 2025 outlook hinges on two factors: external tariffs and domestic stimulus. We view Trump's stance on China as a short-term negotiating ploy, with the Trump administration's near-term priorities focused on addressing domestic issues and reaching a Russia-Ukraine peace deal. In the longer term, however, we believe China remains a focus of the Trump administration and that tensions between the world's two largest economies may worsen, especially as China has been making strides in artificial intelligence and robotics.

President Trump has announced plans to triple tariffs on Chinese goods compared to the Biden administration. He announced a 10-percentage-point increase in February leading to a tariff rate of about 21% followed by another hike to 31% in early March. We forecast that the additional tariffs will lower China's GDP by between 0.7% and 1.2%, depending on the pace, timing and scale of changes. In the first half of 2025, exports will appear strong given that orders will be front-loaded to avoid higher tariffs, and we therefore expect the negative impact of tariffs to be seen in the second half of 2025. On the domestic front, weak confidence and deflation continue to weigh on the economy. The government has also launched multiple rounds of stimulus that has so far failed boost consumer optimism. We forecast that GDP growth could retreat to 4.6% in 2025 after hitting 5.0% in 2024 and pencil in a pickup in both consumption and investment as a partial offset to trade headwinds. Under our realistic policy expectations, China may not find an easy way out of deflation in this year and our 2025 CPI forecast is 0.6%.

In India, GDP momentum has softened in the past two quarters, with the most recent quarter coming in at 5.4%, well below the 7% levels in recent periods. We expect GDP to improve, albeit at a lower level of 6.8%, with some credit growth from expected monetary easing. Rural consumption, a key contributor of Indian GDP, is also likely to improve in 2025, although we await further data on wage growth in cities before we can be optimistic about urban demand.

We believe that Australia's economy troughed in the third quarter of 2024, and that 2025 growth will be around historically low at 2%, as relatively high 2.6% inflation is offset by the positive impact of fiscal spending in an election year and decent wage growth. Below-average productivity growth suggests that 2.0% real GDP growth is close to what the economy can support with a resurgence of domestic inflation pressure. Driving economic activity will be domestic demand given growth in the number of people of working age to levels above the long-term trend. In this environment, the Reserve Bank of Australia is likely to reduce interest rates to 3.55% by the end of 2025 from 4.10% currently.

In South Korea, we expect political uncertainty to gradually ease following the ouster earlier this year of a president who declared martial law and political divisions caused by a December 2024 plane crash. We expect the constitutional court to uphold the impeachment of President Yoon around March, leading to new elections around June. GDP forecasts have been lowered by 0.1% to 2.1% in 2024 and to 1.5% in 2025 as the short-lived and unpopular imposition of martial law negatively affect recent economic optimism. We expect the Bank of Korea to cut interest rates by 0.50 percentage point to 2.5% by the end 2025, as the central bank will prioritize economic growth with inflation under control at near 2%.

Regional outlook – Emerging markets

Guido Giammattei
Portfolio Manager,
RBC Global Asset Management (UK) Limited

Looking back at 2024, MSCI Emerging Markets posted a 5% USD price return and underperformed the MSCI All Country World Index. The underperformance was however largely due to strong U.S. equity performance while MSCI Emerging Markets performed better than developed market stocks as proxied by the MSCI World ex-U.S. Index last year. From a longer-term perspective, we observe a similar pattern of two extremes. Emerging market (EM) equities underperformance over the past five years was driven by U.S. exceptionalism and China weakness.

Looking ahead to 2025, earnings growth should become a key driver of emerging market equities returns. Following the high growth in 2024, earnings per share (EPS) for EM are also expected to grow strongly in 2025. The robust EPS growth recorded in 2024 and expected in 2025 represents a significant shift and major acceleration from the previous ten-year average of 2%. EM valuations have also become particularly attractive. EM Equities now trade at a 35% discount to DM equities in terms of price-to-earnings ratio, the largest discount in the last 15 years. While valuation does not drive short term performance it should offer longer term support.

We see three key structural and cyclical drivers for a change in the EPS growth for EM: China's return-on-equity (ROE) recovery, monetary policy easing and continued strong global investments in technology, given a large part of the value chain is in EM.

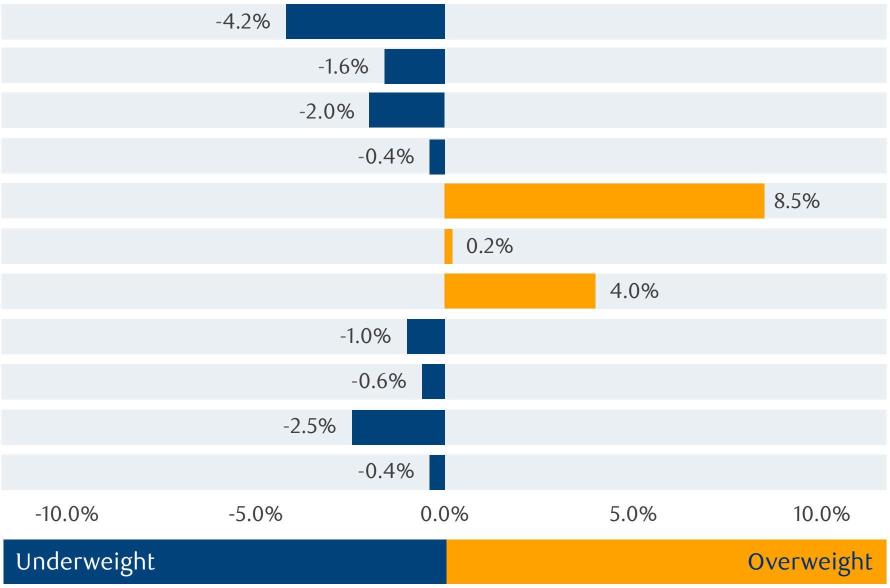
Despite the macro headwinds, Chinese corporates delivered very strong EPS growth in 2024, the third strongest among EM markets, and expectations are for EPS to also grow strongly in 2025 as the EPS recovery broadens out from Internet and Tech companies to Industrials and consumer names.

The underlying factor supporting the strong EPS growth is a recovery in ROE. China's ROE bottomed between 2021 and 2022, with a strong recovery in 2024. The improvement has been driven by excess capacity normalization across most industries, including property, and better asset turnover, driven by improved consumption and regulatory environments. The Chinese government has lately stepped up their game in terms of policy announcements and measures to support the economy. One key difference from the prior measures taken by the Chinese government is that the new measures are increasingly directed at the consumer and property markets, deviating from their usual playbook of pouring funds into infrastructure projects aggravating an already rather large excess supply issue.

Another key driver of growth for EM economies in 2025 is domestic consumption. This is the result of two factors: lower inflation and lower rates. Inflation has halved in EM from its peak in 2022 but real wage growth has remained very robust. The latter dynamic, coupled with low unemployment, supports a benign environment for consumer spending. In addition to that, virtually all EM central banks should cut rates in 2025 which will also be supportive of consumption.

Emerging markets – Recommended sector weights

	MSCI Emerging Markets	
Energy	4.2%	-4.2%
Materials	5.7%	-1.6%
Industrials	6.3%	-2.0%
Consumer discretionary	14.8%	-0.4%
Consumer staples	4.6%	8.5%
Health care	3.3%	0.2%
Financials	23.5%	4.0%
Information technology	23.0%	-1.0%
Communication services	10.5%	-0.6%
Utilities	2.5%	-2.5%
Real estate	1.7%	-0.4%

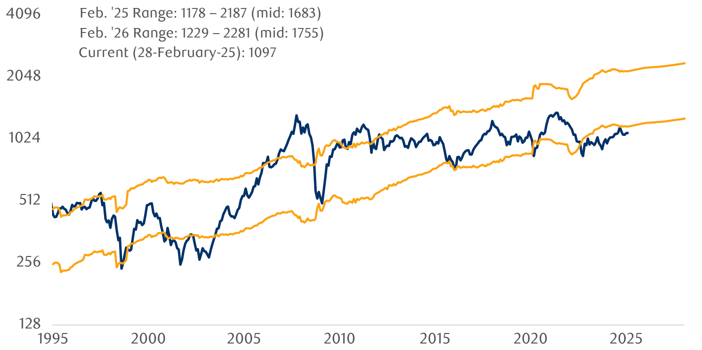


Note: As of February 28, 2025. Source: RBC GAM

> “Despite the macro headwinds, Chinese corporates delivered very strong EPS growth in 2024 and expectations are for EPS to also grow strongly in 2025…”

MSCI Emerging Markets Index Equilibrium

Normalized earnings and valuations



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The technology sector is also expected to continue to deliver very strong growth in 2025, as investments in artificial intelligence (AI) continue to be elevated. While U.S. companies are typically thought of as key AI beneficiaries, what is often overlooked is the fact that the bulk of the tech and AI supply chain sits in emerging markets like Taiwan, South Korea and China. The AI industry has become an important and structural driver of earnings growth and equity performance for the asset class. Demand for semiconductors, however, has fundamentally shifted. Smartphones, tablets, PCs, and other consumer gadgets accounted for the majority of demand over the past decade. But now, the majority of demand growth is driven by servers and, in the last 1.5 years, artificial intelligence. Tech products have become more complex to produce with shorter products lifecycles and higher capital requirements resulting in consolidated market structures and higher profitability.

The key risk to the positive outlook described above remains geopolitical, specifically trade tensions which could arise from the introduction of tariffs on U.S. imports. While circumstances may change quickly, our sense is that Tariffs are a negotiation tactic more than a revenue generation tool for Trump. Trump is more concerned with negotiating agreements and far less ideological, hence his regulation may be simpler for China and other countries to live with. When asked why he only mentioned tariffs on Canada and Mexico, he stated that the two nations were reportedly allowing "vast numbers of people" and fentanyl into the United States. Trump's threats against Mexico and Canada demonstrate that tariffs are likely to be used primarily as negotiating leverage to get concessions from allies. Likewise, tariffs on Colombia in late January lasted less than 48 hours, after the Latin American government agreed to the U.S. terms on repatriation of migrants. Many of the areas in which the U.S. is interested (more border controls, purchasing more U.S. goods, intellectual property protection, fentanyl, corporate business deals and investments in the U.S., etc.) can be negotiated with Mexico, Canada and China in our view, and tariffs are Trump’s bargaining chip.

We acknowledge that there is a possibility that conversations and negotiations between the parties involved will not go as planned, and that extra or new tariffs, whether temporary or long-term, may be imposed. In this respect, Mexico, Vietnam and Thailand appear to be most at risk based on their sizeable exports’ exposure to the U.S. China is also at risk given Trump’s objective to reduce the U.S. current account deficits, of which nearly half is with China. There are some mitigating factors, one of which is that the decoupling of EM trade from DM trade continues. Historically, the great bulk of EM exports have been to DM end markets. However, intra-EM trade continues to expand fast with about half of EM exports going to other EM. This has two positive implications for EM economies as it lowers the correlation to the DM economic cycle and also on USD funding requirements, reducing the impact from U.S. rates and USD strength.

RBC GAM Investment Strategy Committee

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Head of Global Fixed Income & Currencies
RBC Global Asset Management Inc.

Chair, RBC GAM Investment Strategy Committee

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals with almost $200 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and chairs the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Leadership Committee. Dagmara, holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

*AUM in CAD as of February 28, 2025

Daniel E. Chornous, CFA

Global Chief Investment Officer
RBC Global Asset Management Inc.

Dan Chornous is Global Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) $720.5 billion* for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chaired the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

Soo Boo Cheah, MBA, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick. Soo Boo has been a CFA charterholder since 2002.

Irene Fernando, MBA, CFA

Managing Director & Senior Portfolio Manager
Co-head North American Equities
RBC Global Asset Management Inc.

Irene is a senior portfolio manager and co-leads the North American Equity team. Irene started at the firm in 2007 as a member of the Wealth Management Generalist program. Prior to joining RBC, Irene was employed as an analyst at a multi-national investment bank. After the Generalist program she joined the RBC North American Equity Team as a research analyst covering Canadian equities, with a focus on the Financials and Real Estate sectors. She was named Associate Portfolio Manager in 2014, Portfolio Manager in 2016, and Senior Portfolio Manager in 2022. She was named co-head of the North American Equity Team in 2025. Irene earned a Bachelor of Commerce from the University of Toronto and is a CFA Charterholder.

Stuart Kedwell, CFA

Managing Director & Senior Portfolio Manager
Head of Equities
RBC Global Asset Management Inc.

Stu leads the Equities team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles

Managing Director &
Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.

Scott Lysakowski, CFA

Managing Director & Senior
Portfolio Manager, Head of
Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.

Hanif Mamdani

Managing Director &
Head of Alternative
Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Bryan Mascoe, CFA

Managing Director & Senior
Portfolio Manager, Co-head Fixed
Income (Vancouver)
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.

Daniel Mitchell, CFA

Managing Director & Senior Portfolio Manager,
Global Fixed Income & Currencie
RBC Global Asset Management Inc.

Dan is a Managing Director and Senior Portfolio Manager on RBC GAM's Global Fixed Income and Currencies team. He joined the firm in 2004 as a fixed income analyst helping to identify investment opportunities in Canadian bond markets. Dan transitioned to currency markets in 2006 in order to build out the infrastructure required to manage foreign exchange on a large scale and later became a member of the active currency management team as a portfolio manager. He oversees the currency hedging program and is responsible for tactical currency overlay strategies employed in fixed income, equity and balanced portfolios.

Dan graduated from Dalhousie University with a bachelor's degree in commerce and has held the Chartered Financial Analyst designation since 2007.

Sarah Neilson, CFA

Managing Director & Senior Portfolio Manager
Co-head North American Equities
RBC Global Asset Management Inc.

Sarah is a senior portfolio manager and co-leads the North American Equity team at RBC Global Asset Management (RBC GAM). Sarah joined the firm in 2004 as a member of the Wealth Management Generalist program, where she spent a year with the RBC Dominion Securities portfolio advisory group covering income trusts and then completed a rotation as an analyst with the U.S. portfolio management team. Upon completing the Generalist program, Sarah joined the RBC Dominion Securities portfolio advisory group where she worked for two years in Canadian equities. In 2008, Sarah joined RBC GAM as a research analyst covering Canadian equities with a focus on the Energy sector. She was named Associate Portfolio Manager in 2014, Portfolio Manager in 2016, and Senior Portfolio Manager in 2022. She was named co-head of the North American Equity Team in 2025. Sarah earned a Bachelor of Science in Mechanical Engineering at Queens University, and an MBA from McGill University. She was awarded the CFA Charter in 2009.

Sarah Riopelle, CFA

Managing Director & Senior Portfolio Manager
Head of Investment Solutions and Platform Talent
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals $180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

Eric Savoie, MBA, CFA, CMT

Senior Investment Strategist
RBC Global Asset Management Inc.

Eric is a senior investment strategist on RBC GAM's Macro Economic and Strategy team. In this role, he constructs and maintains 'top-down' forecasting and valuation models for global fixed income, equity and currency markets. He also analyzes capital markets and macroeconomic data used to drive market forecasts, asset mix, country/regional allocations and sector recommendations for balanced portfolios.

His career in the investment industry began when he joined RBC GAM in 2012. Eric has been working alongside the Chief Investment Officer as well as the Senior Portfolio Manager of RBC Portfolio Solutions since 2013.

Eric earned an MBA in 2011 from the Sprott School of Business and a Bachelor of Engineering in 2010 from Carleton University. He has been a CFA charterholder since 2015 and a CMT charterholder since 2023.

Kristian Sawkins, CFA

Managing Director & Senior Portfolio Manager
Co-head Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.

Jaco Van der Walt, DCom

Managing Director & Head of
Quantitative Research & Investments
RBC Global Asset Management Inc.

As Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.

Milos Vukovic, CFA

Managing Director &
Head of Investment Policy
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.

Brad Willock, CFA

Managing Director &
Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

Global equity advisory committee

- **Philippe Langham**
  Managing Director &
  Senior Portfolio Manager,
  Head of Emerging Market Equities
  RBC Global Asset Management (UK)
  Limited

- **David Lambert**
  Managing Director & Senior Portfolio
  Manager, Head of European Equities
  RBC Global Asset Management (UK)
  Limited

- **Mayur Nallamala**
  Managing Director &
  Head of Asian Equities
  RBC Global Asset Management (Asia)
  Limited

- **Eric Savoie, MBA, CFA, CMT**
  Senior Investment Strategist
  RBC Global Asset Management Inc.

- **Brad Willock, CFA**
  Managing Director &
  Senior Portfolio Manager,
  North American Equities
  RBC Global Asset Management Inc.

Global Fixed Income & Currencies advisory committee

- **Dagmara Fijalkowski, MBA, CFA**
  Managing Director & Head of
  Global Fixed Income & Currencies
  RBC Global Asset Management Inc.

- **Soo Boo Cheah, MBA, CFA**
  Managing Director &
  Senior Portfolio Manager,
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- **Joanne Lee, MFin, CFA**
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- **Eric Lascelles**
  Managing Director &
  Chief Economist
  RBC Global Asset Management Inc.

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