RBC Global Asset Management

One-minute market update

SPRING 2025

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.

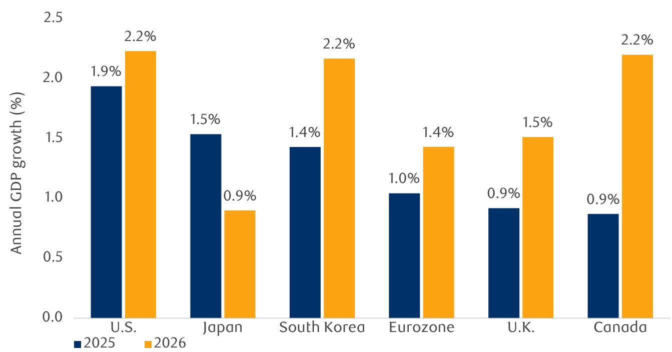
Economy

- The heightened activity and lack of clarity around U.S. policy threatens to temporarily slow economic growth as businesses and households opt to delay key decisions.
- 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.
- Risks to these growth forecasts extend in both directions, mostly related to the ultimate intensity and duration of tariffs, in conjunction with the downside risk of greater geopolitical tensions.

Fixed income

- The U.S. 10-year yield rallied to 4.21% at the end of February from a high of 4.80% earlier this 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.
- 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.

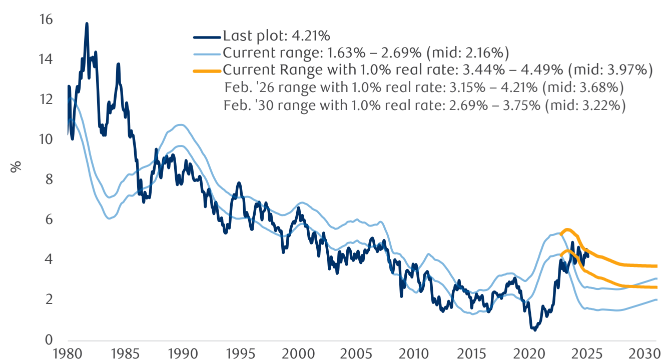
RBC GAM GDP forecast for developed markets



Note: As of March 7, 2025. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range



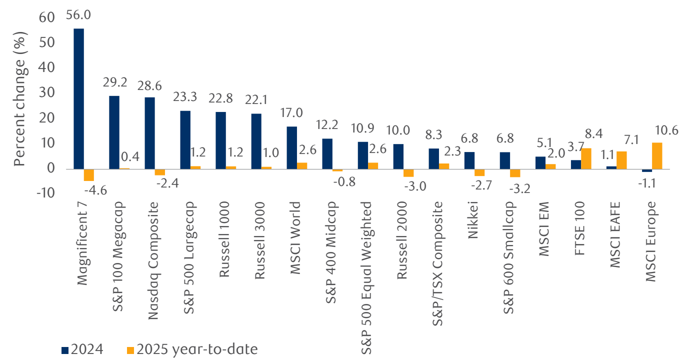
Note: As of February 28, 2025. Source: RBC GAM

Equity markets

- 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.
- U.S. large-cap equities remain expensive and require continued strong earnings growth to support further gains. Stocks are vulnerable given their elevated starting point in the event tariffs prove long-lasting and earnings estimates get revised lower.
- 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.

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

Disclosure

For institutional investor use only - not for public distribution.

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), RBC Global Asset Management (Asia) Limited (RBC GAM-Asia) and RBC Indigo Asset Management Inc. (RBC Indigo), which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC GAM Inc. (including PH&N Institutional) and/or RBC Indigo, each of which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC GAM-US , a federally registered investment adviser. In Europe this document is provided by RBC GAM-UK, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC GAM-Asia, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at www.rbcgam.com.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions in such information.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

Publication date: March 15, 2025

100757 (03/2025)