RBC Global Asset Management

One-minute market update

SUMMER 2025

Uncertainty around U.S. tariffs remains, but the worst-case scenario has largely been ruled out as progress toward trade deals is being made. In our base case scenario, economic growth should slow, but not stop, and any rise in inflation should prove temporary. Stocks can perform well against this backdrop if policy, earnings and investor sentiment cooperate, and bonds offer decent return potential with only moderate valuation risk.

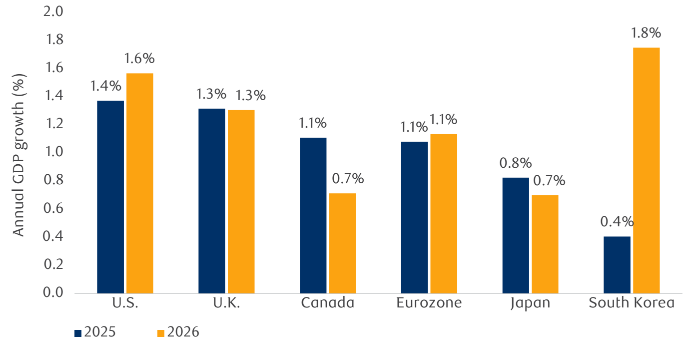
Economy

- Tariffs are set to exert a substantial drag on economic growth with modest 2025 GDP growth forecasts of sub-2% across the developed world. A mild 2025 slump triggered by tariffs is also expected for most emerging markets.
- Next year should be somewhat better with the worst of the tariff adjustment complete and U.S. tax cuts acting as a tailwind.
- Because of tariffs, U.S. annual inflation rates of 3.0% in both 2025 and 2026 are expected with a projected peak of 3.5% in late autumn.
- U.S. exceptionalism is in retreat, with adverse implications for the dollar and the broader investment landscape.

Fixed income

- Central banks are proceeding with caution as they weigh U.S. policy uncertainty and competing priorities of economic weakness and inflation strength calling for opposite action.
- The U.S. 30-year yield climbed to above 5% in May 2025, the highest since late 2023, on fiscal concerns.
- Further increases in real rates are likely limited over the long term by structural factors. As a result, the U.S. 10-year yield at 4.40% is appealing, situated slightly above the upper boundary of our model's estimate of equilibrium.
- We forecast that the U.S. 10-year yield will decline marginally to 4.25% over the year ahead, delivering mid-single digit returns with modest valuation risk.

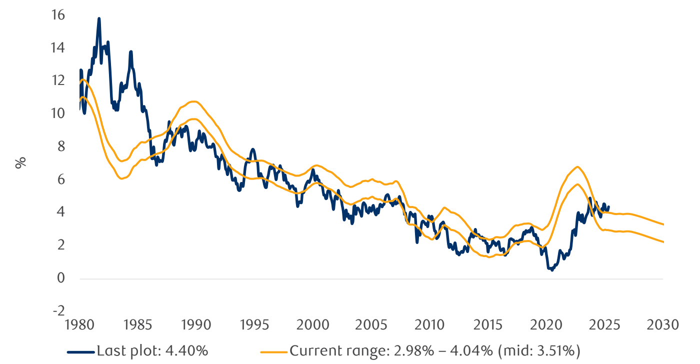
RBC GAM GDP forecast for developed markets



Note: As of May 29, 2025. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range



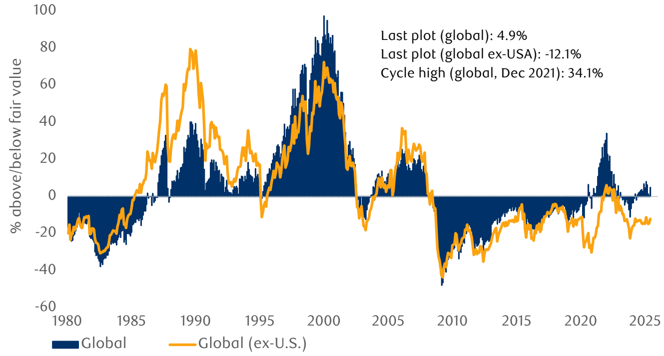
Note: As of May 31, 2025. Source: RBC GAM

Equity markets

- The tariffs sparked an intense sell-off that pushed many technical and sentiment indicators to extremes and shifted leadership away from U.S. stocks.
- Subsequent progress on trade propelled the S&P 500 back to levels which make further gains increasingly dependent on strong earnings growth and elevated investor confidence.
- Uncertainty around U.S. trade policy has depressed S&P 500 earnings estimates, with analysts now pencilling in 8.5% aggregate profit growth in 2025 and 13.5% in 2026, down from 14% and 15%, respectively, earlier this year.
- Our models suggest that global equities are fairly priced and offer attractive return potential, especially non-U.S. markets.

Global stock market composite

Equity market indexes relative to equilibrium



Note: As of May 30, 2025. Source: RBC GAM

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