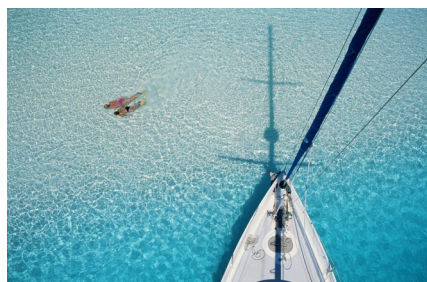


# Price Private Wealth Of RBC Dominion Securities Investment Quarterly



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## Likely less, be happy with more

*After three strong years, a more modest outcome from equity markets appears likely. Loose fiscal policy in the US and elsewhere, the lagged impact of 2025's rate cuts, with more possibly from the Fed and BoE in 2026 and continued strong business investment in technology, defence, energy etc., helped by recent changes in US tax policy, should support earnings.*

### Market Overview

We expect equity markets in the developed economies will post more new highs in 2026 and deliver all-in positive returns. After three successive years of above-average market appreciation, delivering a fourth will be a tall order. Looking at the price history of the S&P 500 from 1945, there were five instances of at least three years of back-to-back above-average gains (not counting this cycle), including one at four years and one at five.

While consensus estimates for U.S. 2026 GDP growth sit at only 1.9 percent, we think there are some factors at play which might push that growth rate into a potentially more rewarding zone above two percent.

A rebound from the government shutdown could provide a strong handoff into Q1.

CEO confidence is trending higher with a growing proportion of companies planning to hire, raise wages, and increase planned capital spending. Equally as important, small businesses have

remained more optimistic than not, with the latest National Federation of Independent Business (NFIB) survey showing a growing proportion planning to hire, boost compensation, and spend more on capex.

Importantly, as of the September Senior Loan Officer Survey from the Fed, a majority of banks have become more interested in making loans to consumers, while the number of banks lowering lending standards has continued to rise.

Changes in monetary policy are thought to act on the economy with a lag of six to 12 months. We think the lagged positive effects of late 2024 rate cuts from the Fed and early 2025 cuts from other central banks will continue to be felt in H1 2026, while the Fed's recent rate reductions should show up as better economic activity in the US in H2 2026.

New policies in the One Big Beautiful Bill Act (OBBBA) allowing for the much faster write-off of expenditures on qualified properties (warehouse, data centers, factories, and other facilities) as well as

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allowing the immediate full expensing of both research and development and equipment costs should, in our view, result in a faster rate of capex growth than would otherwise have been the case. Paradoxically, we think the terminations and phaseouts of many renewable energy projects (including wind and solar) are likely to produce an acceleration of spending on such projects in 2026 as developers push to get in under the wire.

## Broadening out of performance

Valuations in equity markets continue to be within shouting range of all-time highs. Nonetheless, timing the market is a losing proposition in the long term. Though not a useful market timing indicator, starting valuation matters for long-term investors. However, the top-heavy nature of equity market gains over the past few years means that valuations in the broader market are not as extreme as headline valuations suggest, though they are still historically elevated. We would expect that stocks and areas of the market that have driven recent performance, will give way to other areas that have been overlooked.

Most of the outperformance of the Magnificent 7 and other AI-related stocks since 2023 can be attributed to differences in earnings growth rates. While Mag 7 stocks were experiencing accelerating earnings growth, the rest of the market was in an earnings recession.

Earnings growth across the market is expected to be much more uniform beginning in 2026, neutralizing a major tailwind for Mag 7 outperformance. Given the better starting valuations outside of AI-related stocks, we expect broader market participation going forward.

## Hyperscaler hype?

Technological revolutions historically follow a three-stage life cycle: *discovery*, *infrastructure buildout*, and *monetization*. Artificial intelligence now appears squarely in the high-risk build-out phase, characterized by explosive investment but few proven, scalable revenue models. A common marker of this phase is the shift to debt-funded expansion. AI's trajectory increasingly resembles capital-intensive technological revolutions like railroads or utilities rather than the hyper-profitable, asset-light internet era. To be clear, AI *will* drive transformative productivity gains—from drug discovery to supply chain optimization. However,

as capital allocators, our role is not to forecast technological outcomes but to navigate investment cycles prudently.

On a separate note, most developed economies are also running stimulative monetary and fiscal policies in the same direction as the United States. These feature rate cutting pauses at low levels by most central banks, a commitment to much higher defense spending, initiatives to boost power-generation capacity and strengthen grids, as well as to develop AI capability.

## Canada

The recent federal budget in which the government proposed CA\$280 billion in increased spending and capital investments over five years could provide a further tailwind to the S&P/TSX. We continue to endorse businesses with robust balance sheets, sustainable-to-growing earnings profiles, and proven management teams with a track record of enduring market volatility.

Bank of Canada Governor Tiff Macklem has signaled that the central bank has likely ended easing monetary policy for now. A steeper yield curve, as long-term bond yields have edged higher on deficit concerns, argues for adding duration in portfolios. Higher starting yields for long-term bonds help offset the risk of further steepening. In anticipation of September's rate cut, market pricing since the end of July had pushed the Canadian yield curve steeper, with term premiums—the difference between long-term yields and short-term yields—rising. In other words, investors now receive more compensation for taking on additional duration risk than they did previously. Credit risk, on the other hand, remains very expensive. After widening briefly in April, credit spreads—the additional yield investors receive for buying corporate bonds over government bonds—have ground tighter and since August have been sitting near some of their lowest levels in 18 years. Markets are clearly not expressing significant concern regarding the ability of Canadian corporate issuers to repay their debt.

## United Kingdom

UK equities could continue to perform well as valuations are attractive. We still favor the Financials sector, given the propensity for a high level of

shareholder returns. Should the Bank of England loosen monetary policy more than markets currently expect, interest-rate-sensitive industries, such as housing, could outperform.

With lowered fiscal risks following the recent tax-raising budget and looser monetary policy, Gilts could potentially outperform, in our view. Treasury's bond issuance is likely past its peak and is being skewed away from long-dated Gilts due to lower pension funds demand.

Despite the challenged economic outlook, large-cap equity investors should focus on attractive valuation levels. The FTSE All-Share Index is trading significantly below its long-term median P/E ratio relative to global developed markets, even accounting for sector differences.

## Currencies

### U.S. dollar: Structural USD weakness remains unchanged

We think the US dollar will continue to be on a structural path lower in 2026, driven by more interest rate cuts in the U.S. and an ongoing asset reallocation out of the greenback into other major currencies such as the euro, unless economic data in the U.S. improve unexpectedly. Foreign investors are also likely to increase their hedge ratios on U.S. assets, which requires selling USD, as the cost of hedging would drop with more interest rate cuts in the U.S. in 2026. The independence of the Federal Reserve may also be put in question again and weigh on the dollar, with U.S. President Donald Trump likely to opt for a more dovish nominee to replace current Fed Chair Jerome Powell, whose term ends in May 2026

### Canadian dollar: USD/CAD target to 1.31 for year-end 2026

RBC Capital Markets expects USD/CAD to reach the low 1.30s in 2026, with the interest rate gap between the U.S. and Canada forecast to narrow materially by the end of 2026. RBC Capital Markets notes risks around the U.S.-Mexico-Canada Agreement (USMCA) renegotiations, but as long as exemptions remain in place for Canada, the U.S. effective tariff rate on Canadian imports should remain low versus the rest of the world. Canada is exempt from most U.S. tariffs, except for specific sectors like steel, aluminum, and automobiles, all of which face steep tariffs.

### British pound: Sources of resilience in the long term

The pound could find support from higher interest rates in the UK, which, in our view, would make the currency an attractive target for investors looking to invest in high-yielding sovereign instruments. RBC Capital Markets also notes resilience in UK economic data this year, with growth of one percent in H1 2025 that could potentially be another source of support for the pound going forward.

## Commodities

### Gold

The price of gold reached new all-time highs in 2025, driven by a combination of geopolitical risk, a declining interest rate environment, policy uncertainty, and global central banks diversifying reserves away from the U.S. dollar. Looking ahead to 2026, RBC Capital Markets expects continued central bank purchases and sustained macroeconomic uncertainty to maintain sufficient demand to keep bullion prices elevated.

### Copper

There has been a mix of drivers resulting in higher copper prices for 2025, with the key ones being escalating supply disruptions amid sustained demand. Despite Chinese economic data revealing factory activity shrinking for most months throughout the year, robust growth in China's EV production and ongoing renewable energy installations help act as offsets. If the declining rate environment in the U.S. continues, RBC Capital Markets believes we should see higher copper prices through 2027.

### Oil

The price of oil remained volatile throughout 2025, driven by a confluence of geopolitical tensions, persistent macroeconomic uncertainty, and a seemingly intensifying supply overhang as OPEC+ continued to release barrels into the market pushing above-ground inventories to new highs. This dynamic has shifted looking ahead to 2026. While the global macroeconomic landscape shows few clear signs of improvement, OPEC+ has opted to pause additional output increases for the first quarter of the year. We believe this strategic adjustment has the potential to remove some of the downward pressure and provide some degree of support for prices in the new year.

# The next quarter century has begun

*As we enter 2026 we look at what longer term themes might shape financial markets and global economies. Some themes that have emerged relatively recently should persist, and new themes have the potential to shape global economic developments and drive certain sectors.*

Somehow, the 21st century is now more than a quarter complete. Amazingly, we are already inhabiting the second quarter of the century—an era that will extend until the distant year of 2049.

Thinking over such long durations is valuable: a broad aperture is a better match for the average investor's time horizon than the more frenetic year-to-year or even day-to-day analysis that usually prevails. Doing so helps to separate the wheat from the chaff: it is the macro themes that stick around for decades that arguably matter the most.

## Continuation of longstanding themes

It is arguably a failure of imagination that so many of the expected themes constitute the continuation of existing themes. But the reality is that many forces exert themselves over time periods even longer than a quarter century.

- China may no longer be growing at 10 percent per year, but it still appears capable of generating fairly remarkable economic growth and of taking an ever-more-central role in the world over the coming decades.
- As China becomes wealthier and other emerging-market economies nip at its heels, the rise of the global middle class should continue, with all the usual implications in terms of greater consumption, stronger demand for discretionary goods and services, and so on.
- The tech sector looks capable of remaining at the center of economic growth and innovation, though AI applications could broaden productivity gains to a larger fraction of the economy.
- Demographic challenges are set to intensify, with fertility rates continuing to fall and longevity continuing to rise. Our demographic model forecasts that the global population peaks in 2066—out of the timeframe of the

next quarter century but not significantly so than those of its Western rivals.

## Relatively new themes that may persist

Now we turn to new themes that may have legs—and could remain relevant for years to come.

- The relatively recent pivot from a hegemonic world with the U.S. as the sole superpower to a multipolar world wherein multiple countries play leadership roles looks likely to be enduring, with China a fierce and formidable competitor for the U.S.
- The prior Western-led, rules-based global order appears to be transforming into a power-based order. Strong countries are less likely to heed international norms and more likely to push smaller countries around. Conflict is likely to increase, and military spending is certain to rise. Geopolitical stability declines.
- AI has now been a central theme for a few years and has shown every ability to remain a central theme—perhaps even the main economic theme—for years and perhaps decades to come.
- Climate change is not new, but its effects are starting to become more visible, more problematic, and less easily reversed. Among many possible consequences, migration pressures could mount from the hottest parts of the world. The political will to combat this force is seemingly fading as other economic and political imperatives dominate.
- The recent pivot toward deglobalization may persist, if hopefully at a somewhat less frenetic pace than the last nine months, as cliques of countries form and nationalization trumps multilateralism.
- The bond market may remain in its new state of greater alertness after a decade-plus of

drowsy indifference. In particular, fiscal excesses may attract greater scrutiny, leading to a relatively steep yield curve and bond yields that are not as low as during the 2010s.

## New themes

Finally, we contemplate fresh new themes that could prove highly significant over the next quarter century.

- U.S. exceptionalism is likely to diminish somewhat. While the U.S. economy will probably continue to grow faster than most of its developed-world peers, the growth advantage may not be as great as it has been in recent years. U.S. immigration is down, and questionable public policy decisions could undermine some fraction of the country's long-term growth. Conversely, other countries, startled and awakened by recent events, are re-prioritizing economic growth. Given American domestic political polarization, fiscal excesses, and more competitive posture toward both allies and rivals, the clout of the U.S. dollar and the Treasury market should decline somewhat over time.
- We budget for faster global productivity growth in the decades ahead, given a confluence of exciting and potentially revolutionary technologies, including AI applications in natural language processing, robotics and sensing (potentially combined to great effect in self-driving cars), health care innovations, and beyond. It remains to be seen whether the demand for human labor will decline at the economy-wide level, but if so, there would be far-reaching consequences including structurally higher unemployment, more generous government income supports, and likely a higher tax rate on capital.
- Oil demand is expected to peak around 2029–2034. That doesn't mean that oil drilling will grind to a halt—the decline rate on existing wells is such that exploration will have to continue for the foreseeable future. It also doesn't guarantee that oil prices will fall, as that depends on the sensitive interplay of supply decisions against projected demand. But it does mark a significant change and one of substantial relevance to several industries.
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- Not that these countries are unimportant today, but India and several Southeast Asian nations including Indonesia appear to be on the cusp of really making waves in the global economy over the coming decades, given their large populations and rapid growth. Africa should also start to become more relevant, though its biggest impact may be saved for the latter half of the century.
- In financial markets, one might imagine the stock market generating more modest equity returns than over the past few decades, given limits to how much further valuations can rise and perhaps also limits to how substantially profit margins can rise from here. But rapid productivity growth should remain an important support and, in a best-case scenario, could outmuscle other drags.

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