Special report

RBC Wealth Management

GLOBAL Insight 2025 Outlook

Beyond the horizon

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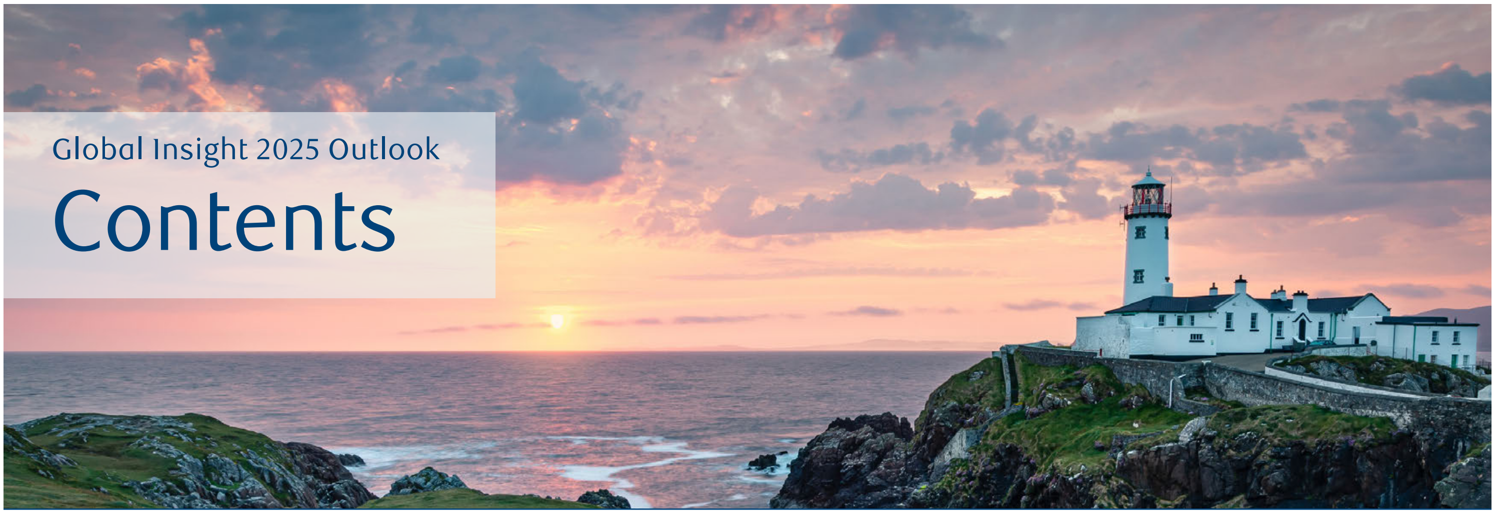
For important and required non-U.S. analyst disclosures, see page 32.



Global Insight 2025 Outlook

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All values in U.S. dollars and priced as of market close, Nov. 15, 2024, unless otherwise stated.

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Market overview

Equity balancing act

Jim Allworth
Vancouver, Canada

In 2025, global equity markets may be able to add to the remarkable gains of the past two years. We believe that will require economic and earnings pictures that don't falter.

- **Enthusiasm for AI and the future economic growth it may be promising, together with central bank cutting, pushed the majority of stocks to new highs this year. There may be more of that to come in 2025, but we believe optimism about the future will need to be buttressed by a continuation of positive economic growth.**
- **Already-stretched valuations and increasingly frothy investor sentiment readings argue for a cautious, considered approach to equity selection.**

The last washed-out low for global equity markets was in fall 2022. Investor sentiment had swung from enthusiastic optimism in January of that year to concerned pessimism at the October lows. From that point, markets turned abruptly higher and never looked back.

All the major equity markets over the intervening 25 months (China's aside until recently) advanced sharply, led by the S&P 500 up a remarkable 68 percent.

This steep path higher for the S&P was, to a great degree, forged by the performance of a handful of mega-cap technology stocks whose substantial spending commitments to the development of artificial intelligence (AI) raised the prospect of those companies delivering outsized sales and earnings growth in the years ahead.

Enthusiasm for AI fostered optimism about future economic growth bolstered by central bank cutting, pushing the majority of stocks to a succession of new highs. That can be seen more clearly in the performance of the "unweighted" version of the S&P 500, which removes much of the distortion introduced by the strong-performing, mega-cap Magnificent 7. This equally-weighted index was up a less remarkable but still surprising 48 percent.

The gains posted by the non-U.S. indexes were well above average but more subdued. None contained any of the Magnificent 7 stocks and generally had much less exposure to the Tech sector.

Valuations have changed materially as markets have moved higher over two years: the S&P 500 rose by 68 percent but the index earnings per share was up by a comparatively meager 12 percent. That leaves the price-to-earnings (P/E) multiple at 24.7x (trailing 12 months), up by half from the 16.4x at the October 2022 low.

There is no convincing line in the sand beyond which equity valuations cannot venture. With consensus earnings forecast to rise by 14.6% to $276 in 2025, we think it would not be unreasonable to look for new index highs again next year nor out of the question for the P/E multiple to move beyond the almost 25x (trailing) touched this year.

Recession realities

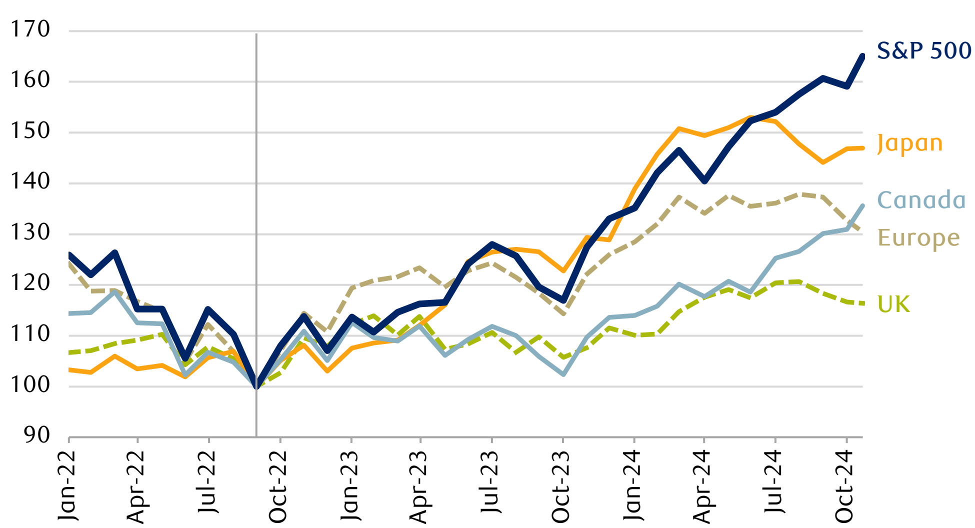
Equity markets tend to keep moving in the prevailing direction until something forces a turn. Corrections come and go unpredictably and usually don't last too long, with the market recovering any lost ground quickly. Bear markets, on the other hand, take longer to play out and entail deeper (albeit temporary) price declines. For more than a century, these deeper downturns have always been associated with a U.S. recession.

The window can't yet be closed on the possibility of a recession arriving as a consequence of the Fed tightening cycle. Recessions have started an average of 10 quarters after the first Fed rate hike. We are now in the 11th. In more than half the recessions, the first-hike-to-recession gap was longer than the 10-quarter average.

Of course, it's also possible no recession arrives, which would leave the bull market with further to run. There are two market-related measures in

Major indexes have seen two years of "up"

Equity index performance relative to September 2022



Source - FactSet; Japan is represented by the TOPIX Index, Canada by the S&P/TSX Index, Europe by the MSCI Europe ex UK Index, and the UK by the MSCI UK Index particular we are monitoring to gauge whether or not the market is running out of steam.

One is market breadth—are the majority of stocks moving in sync with the broad averages? The answer to this continues to be yes. New highs in the S&P 500, the Dow Jones Industrial Average, and the NYSE Composite, including those set in early November, have all been matched by new highs in their respective advance-decline lines and associated "unweighted" versions of the S&P 500 and Dow. Historically, market breadth has usually turned lower before the capitalization-weighted indexes have reached their final peaks in a bull market. No such negative divergence has appeared. As long as breadth measures and major market indexes remain in sync, we would expect to see more new highs for equity markets.

We are also paying attention to investor sentiment, which has been no more than moderately optimistic over the past year. Recently, however, some sentiment indicators have been giving frothier readings. For example, a measure of bullish positioning in the stock futures market, compiled by RBC Capital Markets' U.S. Equity Strategy team, has recently set new all-time highs while in The Conference Board's October Consumer Confidence Survey, 51.4 percent of respondents "expected stock prices to increase over the year ahead," the highest reading since the question was first asked in 1987.

Some of this elevated investor enthusiasm could be U.S. election-related and might recede in the coming months. If it doesn't, the combination of persistent excessive optimism and the one-sided positioning noted above might suggest that those who want to be in are in. New buyers will be needed, and that often requires a period of lower prices and more compelling valuations.

Much depends on the consensus 2024 S&P 500 earnings forecast of $241 per share and 2025 forecast of $276 per share holding together. As RBC Capital Markets, LLC's Head of U.S. Equity Strategy Lori Calvasina notes, "there is room for market valuations (P/Es) to expand somewhat further but not a ton." It is our view that investors have already paid once, and generously, for these earnings prospects and may well balk at paying again.

In our view, even if more serious downside and a recession that would put that downside into play can be avoided, the road to higher equity prices from here will require some threading of the needle while leaving investors to contend with occasional pullbacks along the way.

Watchful, cautious, invested

We expect breadth and sentiment will help us determine which path prevails in the coming months. In our view, the appropriate positioning for the year ahead in a global balanced portfolio would have equities at, but not above, the long-term target exposure. Our mantra has been and continues to be "watchful, cautious, but invested."

> *Beyond the outlook for 2025, powerful trends will likely continue to play out in the global economy and could have important portfolio implications. For more on this topic, see our other focus article, "The 'Unstoppables'."*

Global Insight 2025 Outlook

Focus article

The "Unstoppables"

Frédérique Carrier
London, United Kingdom

Jim Allworth
Vancouver, Canada

Beyond the horizon of 2025, four powerful, highly predictable trends involving game-changing innovations and demographic changes are set to play out in the global economy. As these trends transform the way we live, work, and interact with each other over the coming decades, we believe they can provide an attractive way to plug investment portfolios into the future.

- **AI spending by both tech and non-tech companies will continue to grow, in our view, driven by the unacceptably high cost of being left behind.**
- **The cost of caring for and financing individuals who are no longer earning income will escalate as the world's population ages.**
- **Renewables will become the dominant source of power, in our opinion, as they have become the cheapest sources of energy.**
- **After rapid expansion and falling costs, utility-scale storage facilities are a game changer for ensuring reliable energy infrastructure.**

Unremitting AI spending

Spending on the development and application of artificial intelligence (AI) will accelerate further from today's already lofty levels as tech companies—from "mega" to "mini"—struggle to avoid being left irretrievably behind. The annual spending on AI by Microsoft *alone* has tripled since 2020 to reach close to $60 billion.

At the same time, non-tech businesses are ramping up investment in AI applications to keep their cost structures competitive. To illustrate, the AI bookings of Accenture, a global professional services company, reached over $2 billion in the first three quarters of fiscal 2024 (ending August), compared to a much more muted $300 million in all of fiscal 2023.

So far, there has been little to no financial return on these investments, but most companies committed to this spending argue that there is already a high "experiential" return which may prove vital in a business striving to remain competitive in the future. The possibility of being left behind makes under-spending a risky strategy, in our view. The U.S. Census Bureau estimates that only 6.6 percent of American companies use AI for business purposes, a share which is likely to continue to grow going forward, in our opinion.

AI equipment manufacturers and software providers have been the clear beneficiaries of the new technology, with their stock valuations having expanded markedly. We think investment portfolios would likely benefit from exposure to the infrastructure beneficiaries of generative AI (GenAI)—e.g., electricity production, transmission, and storage, as well as data centre/server farm construction, and data transmission—where the eventual spending may take a decade or more to arrive.

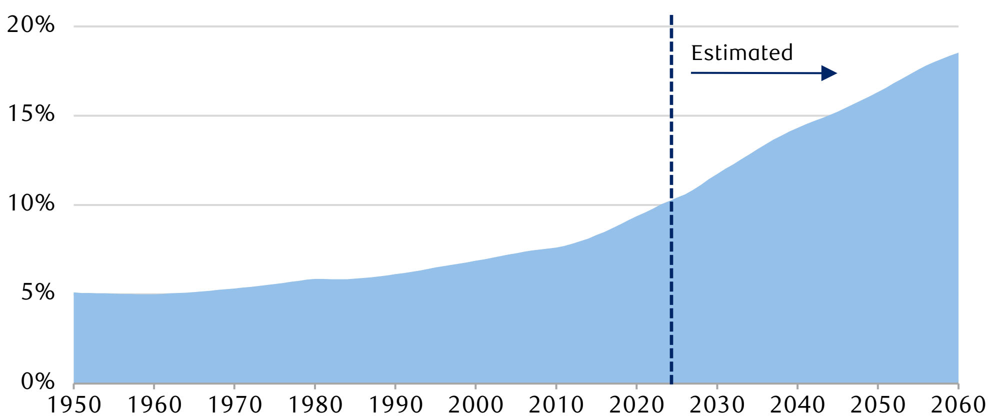
Shares of companies which adopt the new technology solutions may also benefit, but we believe investors should assess how the new technology is being implemented—to increase sales, reduce costs, or improve productivity—and keep an eye on the competition. If competitors are also using GenAI effectively, any competitive advantage may erode quickly.

> *For more on this theme, please see these articles from our "Innovations" series: Generative AI: enablers and adopters and Exploring the impacts of AI and GenAI across industries.*

The gray wave

A growing elderly population around the world will have to be cared for. We've been watching the inevitable approach of a massive "gray wave" for a couple of decades—now it's here. In all the major economies (and most of the rest) the proportion of the population over the age of 65 is already surging to levels never seen before. Even the over-80s cohort, once an insignificant minority, is rapidly becoming a component to be reckoned with everywhere. The global population of people 65 years and older will approach 1.6 billion by 2050, according to the UN.

Percentage of world population over the age of 65



Source - United Nations World Population Prospects 2024

The cost of caring for a fast-growing segment that is no longer earning income is a problem desperately looking for a solution(s). The Alzheimer's Association estimates that in 2024, total U.S. health care costs for all individuals 65 years and over suffering from Alzheimer's disease reached $360 billion, or as much as cancer and cardiology care combined. It also points out that millions of family members and unpaid caregivers provided 18.4 billion hours of care, valued at $346.6 billion in 2023.

Given these onerous costs borne by both governments and households and that up to 20 percent of life is spent battling chronic diseases in later years, scientists are focusing on lengthening healthspans, or the number of years a person is healthy in old age.

Ideas on how to implement this theme into investment portfolios include:

- Biotech companies that prioritize diseases with a meaningful unmet need and demonstrate that they are able to execute on well-designed clinical trials
- The financials industry (e.g., wealth management and insurance) as individuals will need to consider how not to outlive their savings
- Homebuilders looking to meet increased demand to accommodate both multi-generational households and single-occupancy homes

> *For more on this theme, please see Longevity: Cracking the aging code from our "Innovations" series.*

The unabating march of renewables

Renewables are set to become the dominant source of power, in our view. Kick-started by government subsidies more than two decades ago, the rapid installation of wind farms, solar collectors, and now energy storage facilities have driven the cost of renewable power (without subsidies) down to levels that could soon make it the lowest-cost energy source in many countries. In fact, costs per kilowatt hour from renewables have plummeted to a degree not imagined two decades ago.

As a result, close to a quarter of U.S. electricity now derives from renewables, close to one-third in China, and an even higher 46 percent in the UK, as of 2023, according to Our World in Data.

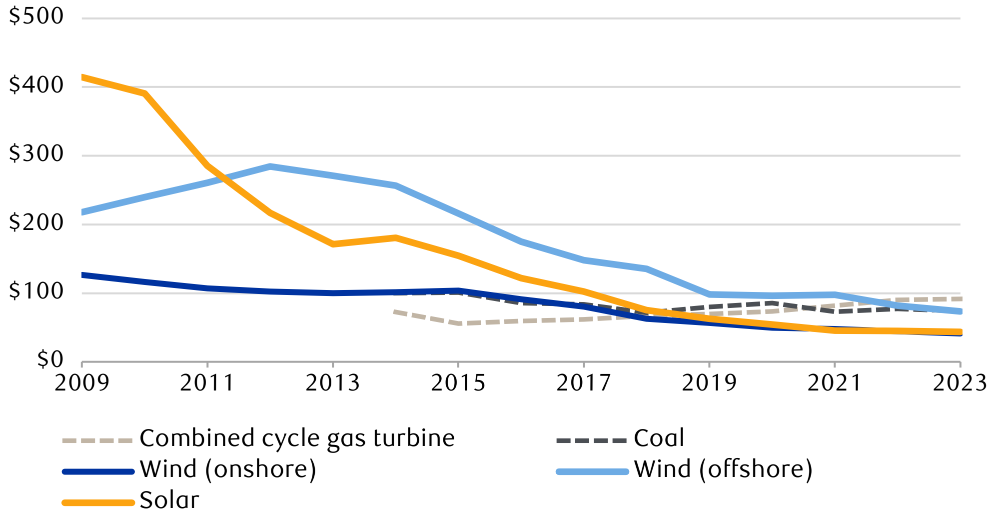
Despite the incoming Trump administration prioritizing U.S. fossil fuel production, the adoption of renewables will almost certainly continue, in our view, thanks to striking cost advantages.

Texas, which has long been the U.S. state synonymous with fossil fuels, is now the nation's leader in wind energy, while having also tripled solar energy production in the last three years, according to the Texas Comptroller of Public Accounts.

Texas is not alone in capitalizing on renewables' cost advantage. For more than a decade, global installation of new solar power generation has routinely exceeded the International Energy Agency's (IEA) five-year forecasts, sometimes by 100 percent or more.

Solar and onshore wind projects break even at the lowest electricity prices

Global levelized cost of electricity, USD/megawatt-hour (MWh)



The levelized cost of electricity (LCOE) is the long-term break-even price a power project needs to recoup all costs and meet the required rate of return. The levelized cost does not include subsidies or tax credits. Data for coal and gas power plants not available prior to 2014.

Source - BloombergNEF

The Global Solar Council estimates that global installed solar capacity has reached two terawatts—that is, two trillion watts or the equivalent of some seven billion solar panels installed—enough to power one billion homes. That is double the installed capacity reached only two years ago, an astonishing rate of growth.

Permitting for new renewable projects has proven to be a bigger time hurdle than construction of the projects themselves. The permit approval backlog is high and growing, suggesting that the growth of new renewable power installations is not likely to slow appreciably anytime soon.

Investable ideas include renewable energy equipment manufacturers and providers of energy storage, energy efficiency, and/or smart grid solutions.

The electrification of everything

Lower costs for renewable energy, with the promise of more installed capacity to come, are a harbinger that more energy will be used, even more so as the intermittent nature of wind and solar is addressed.

Technical, managerial, and systems-engineering improvements have been changing the design and management of traditional power grids to accommodate renewable sources. As a result, at certain times, more than 95 percent of California’s power can be generated by wind and solar, while Denmark can run its entire grid solely on wind.

But the rapid expansion of utility-scale storage facilities, the so-called grid-scale batteries, is the real game changer, in our view. Traditionally, hydroelectric power acted as large-scale storage, moving water between reservoirs at the top and bottom of a hill. Although dependent on topography, there are a great many sites worldwide that are physically and politically feasible for development of pumped hydro storage—enough to meet double the current electricity consumption, according to estimates from an Australian National University study. However, the recent surge in interest rates and construction costs has probably made many of those sites less financially viable than utility-scale storage facilities.

Today, giant batteries arranged in rows of sheds are the preferred technique to store power. These installations are finally taking off as prices are falling. BloombergNEF, a research group, estimates that the average price of stationary lithium batteries per kilowatt-hour of storage fell by some 40 percent in the five years to 2023. Meanwhile, new technologies and chemistries are also being developed. Promising alternatives include sodium-ion and nickel-hydrogen batteries.

The IEA believes that 90 gigawatts of battery storage was installed globally in 2023, or twice the amount installed the previous year. Bain & Company, a consultancy, estimates that the market for grid-scale storage could expand by at least 40 percent annually to the end of the decade, and possibly beyond.

Energy is a major input cost for many industries, businesses, and households. Getting plentiful, low-cost renewable energy to where it is needed from where it is produced is a major industrial enterprise on its own.

From the rapid increase in the number of server farms necessitated by AI and the proliferation of data centres, to energy-intensive industries like steel, cement, and chemical production, to the increased worldwide need for air conditioning as global temperatures rise, we believe electricity demand looks likely to go on rising sharply even as the cost of renewable power is falling. Grid-scale batteries can enhance energy resilience, balancing fluctuations in supply and demand. In our opinion, those countries which combine grid-scale batteries with nuclear energy, such as China and France, can create particularly robust and reliable energy infrastructure. Investment opportunities abound, in our view.

Plugging portfolios into the future

The "Unstoppables"—the four key themes we've described—are long-term secular trends which will likely play out over the next decades. We believe that portfolios should be able to benefit from exposure to these growth areas. However, investors will also need to ensure that the macroeconomic environment is favourable, business models are sound, and share valuations are not too widely out of sync with growth prospects, no matter how alluring they may be.

> *For more on the equity outlook for 2025, please see our other 2025 Outlook focus article, "Equity balancing act."*

Global Insight 2025 Outlook

United States

- We're constructive about U.S. equities, although the more complex investment environment calls for being nimble and keeping return expectations in check.
- Further Fed rate cuts could be off the table by early 2025, but could rate hikes be back on it later in the year?

United States equities

Kelly Bogdanova
San Francisco, United States

There are normally multiple uncertainties facing the market at any given time, but for 2025 there are also unusual complexities that could impact performance, potentially generating volatility *and* opportunities.

There is little doubt in our minds that market participants will pay much closer attention to Washington, D.C. in 2025. This is despite the fact we see little-to-no evidence that Washington policies are key drivers of U.S. equity returns over time.

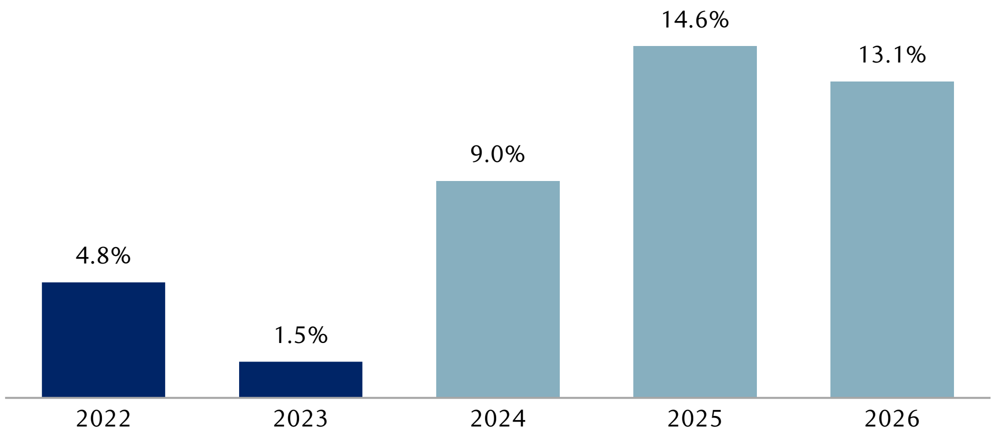
In addition to the pro-growth tax and regulatory policies likely coming from the Trump administration and Republican-led Congress, the market will potentially need to contend with the most aggressive tariff policies in almost 100 years. This makes the Fed's job of forecasting inflation and GDP growth, and properly calibrating interest rates, more complex. Tariff unknowns, including how various trading partners will respond, complicate industry and stock selections.

Net-net, RBC Global Asset Management Inc.'s Chief Economist Eric Lascelles anticipates President-elect Donald Trump's policies will slightly boost economic growth during the year, all else equal. He forecasts 2.3% GDP growth in 2025, which assumes actual tariff rates get watered down compared to Trump's original proposal for 60% tariffs on Chinese goods and 10% tariffs on other countries' goods. Lascelles' GDP forecast is higher than the 1.9% Bloomberg consensus forecast.

The gap between 2.3% and 1.9% GDP growth matters for S&P 500 profits—the mother's milk of the market—and impacts whether sector profits and returns broaden out further beyond the Magnificent 7 stocks. Following outsized U.S. equity gains for two years driven largely by resilient economic growth and strong Magnificent 7 profits, the 14.6% year-over-year consensus earnings growth estimate for 2025 seems robust to us. We think it would take 2.3% or better GDP growth to achieve it, and would need more than just tech-oriented stocks to carry the load. The 14.6% earnings growth rate translates into $276 in earnings per share—higher than RBC Capital Markets' forecast of $271 per share, which implies a roughly 10% S&P 500 price return in 2025.

A 14.6% profit growth forecast for 2025 seems lofty to us, and would require relatively strong GDP growth

S&P 500 year-over-year earnings growth and consensus forecasts (light blue)



Source - Refinitiv I/B/E/S; data as of 11/22/24

We're constructive about U.S. equities yet vigilant due to the complexities. Investors should keep return expectations in check, and we recommend starting the year without major sector Overweights. We think the market will provide opportunities to take advantage of sector and industry dislocations in 2025. Be nimble.

United States fixed income

Thomas Garretson, CFA
New York, United States

The Fed could pause rate cuts sooner rather than later. We expect the Fed's bias to remain toward further rate reductions through Q1 2025 as questions about the true health of the labor market linger. But in our view, the incoming Trump administration's pro-growth policies risk overheating an already-robust U.S. economy, and with that, fueling concerns about another inflationary episode. We believe the Fed will continue the rate-cut cycle into Q1 before pausing at a policy rate around 4.25%.

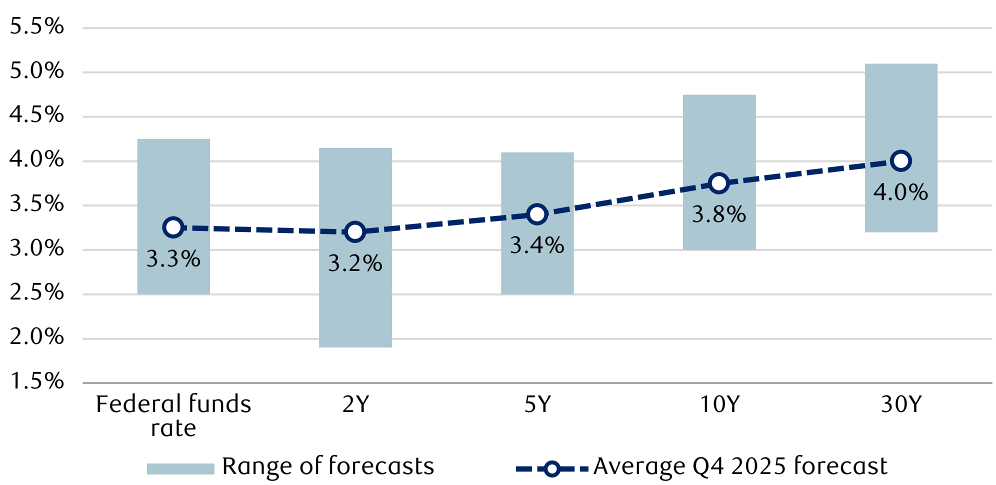
The potential for a rate *hike* in 2025 exists. Though the likelihood of a rate hike may not be great, similar to the late 1990s, the Fed could remain in a relatively constant state of calibration based on how the economy develops. Rising inflation would be the most likely candidate to spur policymakers back into action, though further economic momentum could also cause policymakers to pull back on the reins.

We think the shape of the Treasury yield curve will tell investors all they need to know in 2025. A flat yield curve will be a key gauge of whether the Fed is successfully keeping the economy, inflation, and the labor market in balance. Should the yield curve invert again because short-term yields are rising, it could indicate the market expects the Fed to raise rates to offset growth and inflation pressures. Just as we see the Fed holding rates at 4.25% in 2025, we expect the 10-year Treasury yield to trade around similar levels next year, but the range of outcomes is large.

Yields across the fixed income landscape are likely to remain well above historical averages. Economic optimism has pushed credit market valuations to historically extreme levels while fewer rate cuts in the pipeline mean that cash and short-duration securities should offer attractive income. However, we would remain biased toward increasing duration, and reducing credit risk exposure, throughout 2025.

Yields still expected to fade in 2025, but range of possible outcomes remains large

Consensus U.S. Treasury yield forecasts for year-end 2025



Source - RBC Wealth Management, Bloomberg Consensus Analyst Survey for November 2025

Global Insight 2025 Outlook

Canada

- Despite potential economic headwinds, we believe the equity market will be driven by strong earnings growth expectations and supported by a reasonable valuation.
- Ongoing rate cuts by the Bank of Canada should support fixed income returns in 2025, though we expect less outperformance in credit compared with 2024.

Canadian equities

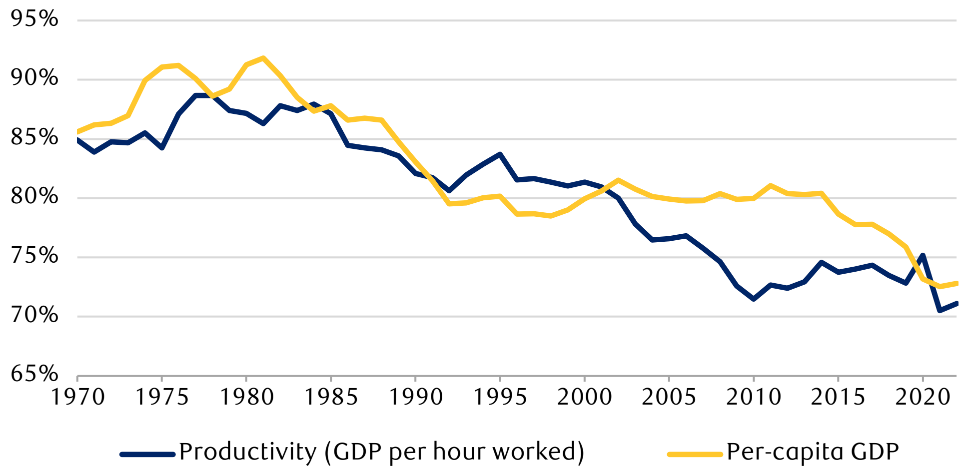
Sunny Singh, CFA
Toronto, Canada

The Canadian economy should be more sluggish than the U.S. economy in 2025, in our view. Canada has experienced a dramatic slowdown in productivity relative to the U.S., as the chart on the following page shows, which constrains growth. Furthermore, the recently announced reduced immigration targets, while potentially helpful in rebalancing the housing market, could subtract nearly one percentage point in total from GDP forecasts over the next three years, according to RBC Economics. Finally, we are mindful of possible headwinds to the Canadian economy from Donald Trump's return to the White House (e.g., blanket tariffs, renegotiation of trade agreements, and increased U.S. oil production).

After the Bank of Canada began its interest rate cutting cycle in June 2024, investor concerns about consumer spending gradually eased, leading to a rebound in Canadian bank stocks. Heading into 2025, we believe that diversification across the bank group is prudent in order to position for a range of outcomes. A pivot to a more cautious equity market backdrop could see the banks that are currently performing well continue to outperform relative to peers. Whereas if the probability of a recession continues to ease, with the ensuing relief on credit that would likely result, we could see improved relative performance by banks that have struggled in 2024.

Canada's productivity relative to the U.S. has been falling since the 1980s

Canadian productivity and per-capita GDP relative to the U.S.



Source - Organisation for Economic Co-operation and Development, RBC Economics; purchasing power parity (PPP) adjusted, GDP in 2015 U.S. dollars

Commodity prices should once again influence Energy sector performance. We see oil prices as potentially rangebound with geopolitical risks providing a floor, and excess capacity providing a ceiling to prices. The US$65–US$75 per barrel range provides sufficient cash generation for attractive energy stock returns, in our view. Additionally, Energy investors should have the ability to reap meaningful cash returns via share buybacks and dividends, as companies are better equipped to navigate even a challenging macro backdrop via fortified balance sheets and reasonable capital expenditure needs.

On balance, in 2025 we believe the Canadian equity market will be supported by strong earnings growth expectations and a valuation that is not terribly extended, particularly compared to the U.S. equity market.

Canadian fixed income

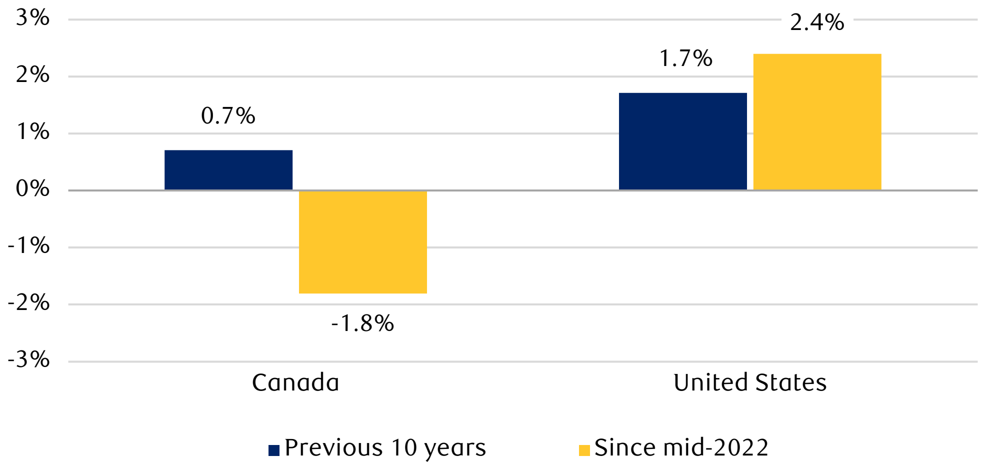
Josh Nye
Toronto, Canada

The Bank of Canada (BoC) cut interest rates by more than its G7 peers in 2024, but Canada's economy continues to feel the effects of restrictive monetary policy. Since mid-2022, when the BoC accelerated its tightening cycle, Canada's economy has consistently contracted on a per-capita basis. Meanwhile, the U.S. economy has seen strong population-adjusted GDP growth, even exceeding the rate seen in the previous decade. Economic and central bank divergence caused Canadian bond yields to decline and bond prices to rise relative to the U.S., resulting in moderate outperformance in Canadian fixed income in 2024.

While the difference (spread) between U.S. and Canadian government bond yields is now wider than it has been in several decades, we see scope for

Canada's economy is contracting on a population-adjusted basis, while the U.S. economy has expanded at a healthy pace

Annual average growth in per-capita real gross domestic product (GDP)



Source - RBC Wealth Management, Bloomberg

further widening in 2025 as the BoC continues to cut its policy rate faster than the U.S. Federal Reserve. We believe that should keep Canadian fixed income returns from significantly lagging the U.S. in 2025 despite higher U.S. yields heading into the year. Divergence could further weigh on the Canadian dollar, which recently fell to its lowest level relative to the U.S. dollar since 2020.

Despite a challenging domestic economic backdrop, Canadian corporate bond spreads, which measure the additional yield investors receive for taking on credit risk, tightened in 2024 amid a general improvement in risk appetite. That supported excess returns in corporate bonds over government bonds of similar maturities. We see less scope for that to continue in 2025 with spreads now relatively tight and susceptible to widening if the Canadian economy deteriorates further or if risk sentiment softens.

Canada's preferred share market performed strongly in the first half of 2024 amid a number of asset class-specific tailwinds as well as strong demand for what are typically "riskier" assets, but that rally lost momentum in the second half of the year. With valuations in preferred shares now looking much less attractive, we expect overall returns will be more moderate in 2025.

Global Insight 2025 Outlook

United Kingdom

- More challenges ahead for the UK economy, but the stock market's record low valuations present attractive long-term opportunities.
- Despite Gilt supply headwinds, bonds still appear attractive as Gilt yields are at one-year highs and pockets of opportunity in credit still exist.

United Kingdom equities

Frédérique Carrier
London, United Kingdom

Thomas McGarrity, CFA
London, United Kingdom

The UK economy fared better than widely expected by investors in 2024, though the outlook remains subdued with consensus GDP growth of 1.3% estimated for 2025. The likely imposition of U.S. tariffs would negatively impact the UK economy, in our view, but the *direct* impact may be less than what EU countries may suffer. UK exports to the U.S. are only 2% of GDP, compared to 4% for Germany. Besides, the UK economy is more services-oriented than those of its neighbours.

But from our vantage point, the UK economy is also likely to suffer from an indirect impact. Exports to the EU may decline as the region's overall growth is restrained by trade uncertainty. Even after Brexit, the EU remains the UK's most important export market by far, accounting for 42% of all UK exports. Moreover, proposed U.S. tariffs and any potential retaliation may dampen UK business confidence.

The government may not have much room to manoeuvre to offset a tariff-related negative growth shock, having used much of its fiscal leeway in the recent budget. The Bank of England (BoE), with an eye on sticky services inflation, may be reluctant to loosen monetary policy too quickly.

The FTSE All-Share Index tends to perform relatively well during global downturns—not our base case forecast—thanks to its high relative exposure to defensive sectors such as Health Care, Utilities, and Consumer Staples.

Conversely, it tends to lag in periods when growth sectors are favoured due to its low exposure to Technology in particular.

UK valuations remain close to all-time low levels compared to other markets. The FTSE All-Share Index is trading well below its relative long-term median price-to-earnings ratio versus global developed markets, even accounting for sector differences.

Overall, we recommend holding an Underweight position in UK equities, but we believe select quality large caps remain attractive long-term opportunities as they trade at a valuation discount to peers listed in other markets. We favour stocks exposed to UK consumer spending, which should benefit from Bank of England interest rate cuts over the next 12 months.

UK equities valuation at 10-year low relative to global equities

FTSE All-Share 12-month forward price-to-earnings ratio relative to the MSCI World Index

Source - RBC Wealth Management, Bloomberg; data through 11/13/24

United Kingdom fixed income

Rufaro Chiriseri, CFA
London, United Kingdom

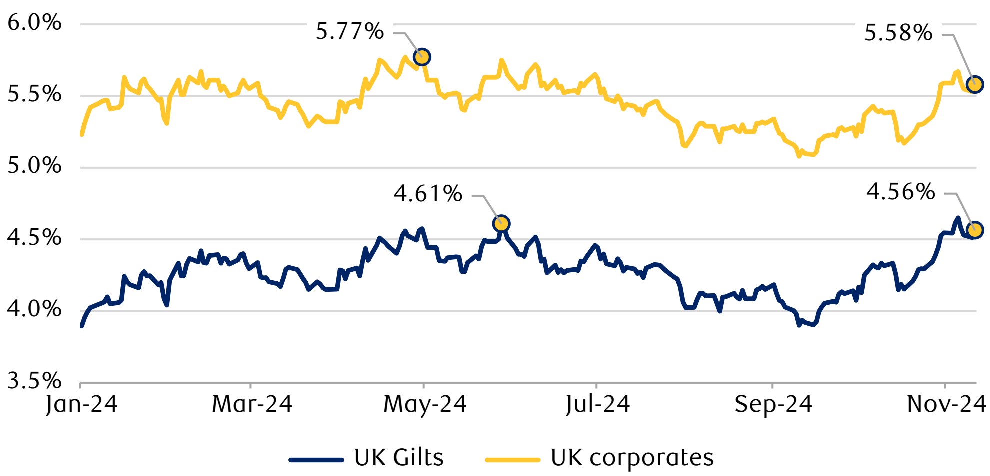
The Bank of England (BoE) is facing more palatable incoming inflation data, albeit with risks lying ahead. According to the Office of Budget Responsibility, the budget will raise GDP growth, but also reignite inflation above the BoE's target over the 2025–2029 forecast period. Though the BoE refrained from remarking on the effects of stimulative fiscal policy and potential U.S tariffs on the economy, the message was clear in its November projections, in our view. According to the central bank's forecasts, inflation should return to target in Q1 2027, a year later than suggested in the August estimates.

Markets are pricing in a 4.25% Bank Rate in H1 2025, which seems reasonable if incoming inflation data is broadly in line with the BoE's forecast. Policy easing could be limited in 2025 if there are persistent upside inflation surprises fueled by tariffs and government spending, relative to BoE forecasts.

The Debt Management Office's forecast over the next few years shows that gross Gilt issuance will remain above the historic 10-year averages (excluding 2020, a year with heavy issuances due to the COVID-19 pandemic). Gilt demand remains robust, even with the overhang of £142 billion of additional borrowing on the horizon. We think the fiscal and supply glut risks are largely priced in over the near term, with 10-year Gilt yields at one-year highs, and we have favoured adding duration in portfolios.

Corporate bond yield compensation for duration is around one-year averages, thanks to higher Gilt yields. While all-in yields look compelling to us, spreads have narrowed markedly, shifting further into expensive territory, and we believe the risk of widening from current tight levels is high. A potential headwind lies ahead for corporates that struggle to pass on increased labour costs due to larger employer national insurance contributions and a higher minimum wage. We are cautious and selective on allocations in the near term and favour allocations in Consumer Staples, Industrials, and Financials.

UK bond yields near 2024 peak levels



Source - RBC Wealth Management, Bloomberg; yields represented by the Bloomberg Sterling Aggregate Corporate Index and Sterling Gilts Index; data through 11/13/24

Global Insight 2025 Outlook

Europe

- A Trump presidency brings additional challenges to Europe, dimming the outlook for the region's equities despite undemanding valuations.
- We think markets will continue to price in meaningful monetary policy easing from the European Central Bank until there is further clarity on U.S. tariffs.

European equities

Frédérique Carrier
London, United Kingdom

Thomas McGarrity, CFA
London, United Kingdom

Incoming U.S. president Donald Trump's proposed 10%–20% blanket tariffs on all European imports bring considerable uncertainties. Tariffs would be a headwind to already meagre economic growth, even if not applied in their entirety. Europe is a very open economy and has a large goods trade surplus with the U.S. Moreover, should Trump proceed with imposing 60% tariffs on China, the latter may redirect its exports to other countries, potentially increasing competition further for Europe in these markets. Overall, European business sentiment is likely to suffer, in our view.

Such challenges could convince the European Central Bank to accelerate its interest rate cutting cycle. Given the tight monetary conditions of late, this could support the European economy, especially due to its high sensitivity to interest rates. Nevertheless, the domestic and geopolitical environments are complex and challenging for 2025, in our view.

The circumstances could prompt the EU to act with a sense of greater urgency to implement reforms to revitalize the economy and boost productivity. Investors hope that German elections in 2025 will result in more functional leadership, and that the newly appointed EU Commission and other national leaders will step up to promote unity. However, there are no quick fixes to the situation, from our vantage point.

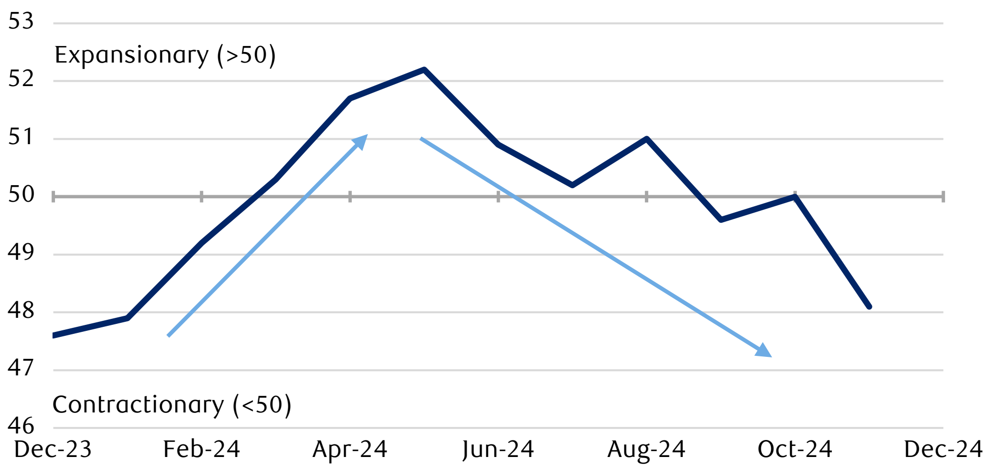
Although the challenges seem reflected in modest equity valuations, we believe the notable near-term headwinds warrant holding a modest Underweight allocation in European equities.

Yet we believe Europe is a region primed for active stock picking rather than taking a passive index approach, as its equity market is not representative of its economy. Today, as much as 60% of listed European companies' revenues derive from *outside* the region.

We would focus on world-leading companies that benefit from and drive global structural trends, particularly in niches such as semiconductor manufacturing equipment, electrical and mechanical engineering, industrial gases, and health care.

The European recovery seems to have petered out in mid-2024

HCOB Eurozone Composite Purchasing Managers' Index (PMI)



Source - RBC Wealth Management, Bloomberg; data as of 11/22/24

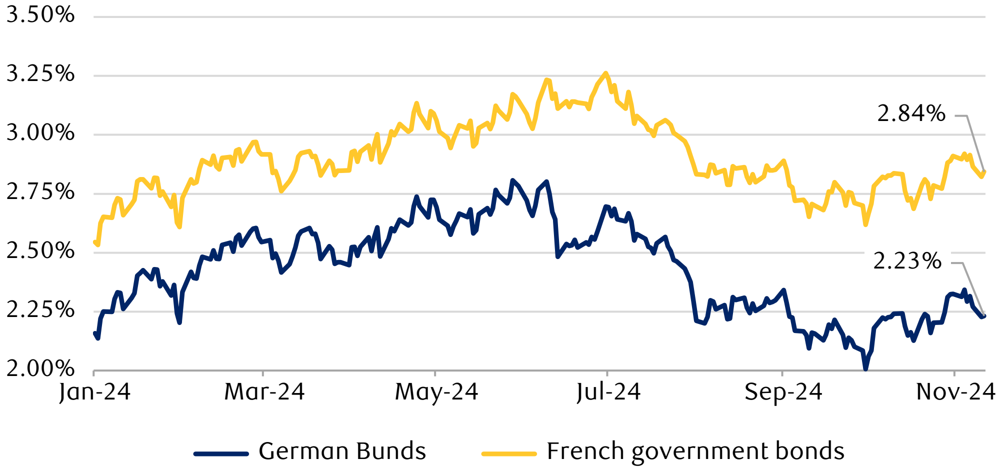
European fixed income

Rufaro Chiriseri, CFA
London, United Kingdom

The European Central Bank (ECB) has to contend with diverging national economic growth, as the outlook for northern economies is markedly weaker compared to that of southern economies. The ECB will be weighing the potential 10%–20% U.S. tariff, which would be a significant blow to European exports. According to ECB Vice President Luis de Guindos, the imposition of U.S. tariffs would lead to weaker output and stronger price pressures, and disrupt the established trade flow. The tariff impact, and the response from the European Union, are difficult to gauge at present. We expect tariff negotiations; therefore, the impact will not be immediate, in our view. Against the pre-existing backdrop of weakening growth, we expect a cumulative 100 basis points (bps) of rate cuts from December through H1 2025 and view current market pricing of 125 bps as too aggressive. With output risks tilted to the downside, we think the Governing Council may be more comfortable easing policy at a slower pace should the potential tariffs be watered down.

French risk premium remains elevated

Yield differential between French and German bonds remains above year-to-date averages



Source - RBC Wealth Management, Bloomberg; German and French bond yields represented by the Bloomberg Euro Aggregate Treasury Indexes; data as of 11/13/24

The recent collapse of Germany's government raises the possibility of the country adopting a more stimulative fiscal policy, and until there is clarity on future government policy, Bund rallies could be limited. We maintain an Underweight position in France and prefer allocations in The Netherlands, Spain, Agencies, and Multi-national debt due to attractive spreads over Bunds, and we continue to favour Greece over Italy among lower-rated nations.

European credit valuations on a one-year basis appear rich, with lower-quality credit spreads tightening the most. Company fundamentals and strong demand will likely support spreads in the near term, but sectors exposed to U.S. exports such as Autos, Industrials, and Materials could drag spreads wider from current levels. Thus, we think it's prudent to have a cautious and selective approach.

- Asia's equities outlook is likely to be shaped by U.S. president-elect Donald Trump's proposed tariffs, China's stimulus measures, and economic growth brought by Japan's structural changes.
- Asian credit markets face trade and geopolitical pressures in 2025, but stable fundamentals and targeted stimulus support a cautiously optimistic outlook for investment-grade bonds.

Asia Pacific equities

Jasmine Duan
Hong Kong, China

Nicholas Gwee, CFA
Singapore

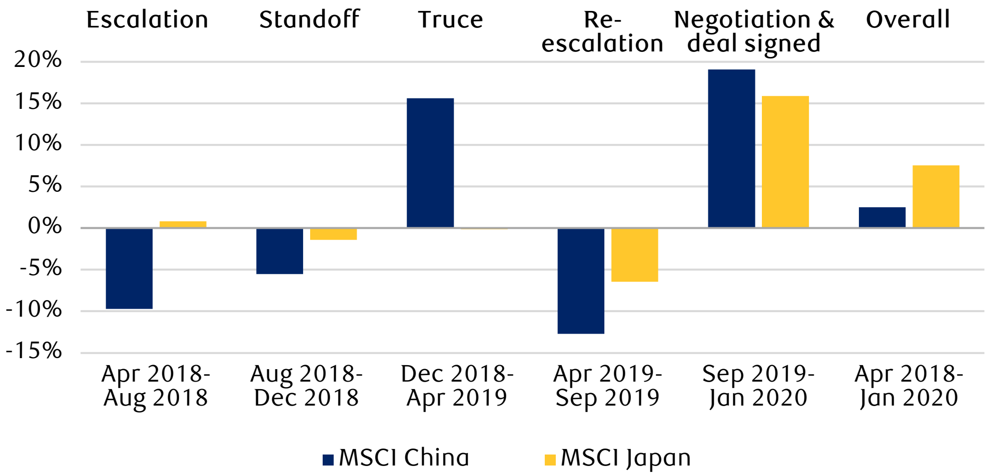
We believe the key focus for China in 2025 will be the announcement and implementation of policy stimulus. Following a policy shift in September 2024, officials have started introducing measures to stabilize the economy and support the equity market. With the new U.S. government taking office in January 2025 and thereafter introducing its policies, we expect China to respond with additional stimulus measures.

The potential for 60% U.S. tariffs on Chinese goods and additional trade restrictions could generate volatility in Chinese equities. RBC Global Asset Management estimates that such tariffs could reduce China's aggregate Real GDP by 1.6% two years after implementation. However, we believe if China's fiscal stimulus is substantial—market expectations currently suggest at least 1.4% of total GDP—it could largely offset the negative impact from tariffs and declining exports.

A major concern for China's growth is local government debt and the ongoing property market slowdown. We believe the government is determined to stabilize the property market, which is essential for shoring up domestic demand and supporting the equity market's valuation. We remain cautiously optimistic about Chinese equities as many economic headwinds appear to be

Performance of China and Japan equities during the five phases of U.S.-China trade tension

Percentage return



Source - RBC Wealth Management, Bloomberg

priced into the market already. We see more upside potential than downside risk in 2025.

Our constructive view on Japan equities is underpinned by our belief that a sustainable 2% inflation target is in sight; the potential for inflows from friend-shoring and on-shoring investments; the likelihood corporate Japan will raise shareholder returns; potential elevated domestic demand on the back of high savings and wage hikes; and forthcoming retail inflows from the revamped Nippon Individual Savings Account scheme.

Risks to our view include the possibility of the Japan Government Pension Investment Fund tilting its allocation in favor of domestic bonds over domestic stocks, the Bank of Japan (BoJ) reducing its equity ETF holdings and, lastly, a volatile yen weighing on corporate earnings.

Japan's political climate has become more unpredictable as the ruling coalition government lost its majority in the lower house election. We believe the new government, likely still led by the Liberal Democratic Party, will see Prime Minister Shigeru Ishiba's fiscal agenda become less hawkish.

The consensus of economists is for the BoJ to continue to raise interest rates into late 2025. We think the incoming Trump administration increases the prospect of a somewhat stronger U.S. economy, which we view as positive for Japanese equities overall. However, we would be selective among exporters due to risks associated with U.S. tariffs and stricter U.S. regulations vis-à-vis China, an important Japanese export market.

Asia Pacific fixed income

Kennard Ling
Singapore

Shawn Sim
Singapore

Heading into 2025, Asian credit markets face a complex macroeconomic landscape, influenced by potential geopolitical tensions and U.S. protectionist policies under the incoming Trump administration. Market concerns over the U.S. imposing tariffs on the region are expected to pressure Asian credit. We have a preference for Asian investment-grade bonds, despite tight credit spreads, given expectations of higher U.S. Treasury bond yields and a steeper U.S. Treasury curve. Asian financial institutions, especially major banks, appear well-positioned to manage currency volatility and may benefit from an inflationary backdrop, in our view. Overall, firm demand for high total yields, moderate supply, and stable fundamentals underpin our cautiously optimistic outlook for Asian credit.

China enters 2025 with familiar pressures, bearing the brunt of President-elect Donald Trump's tariff agenda—where he threatens to impose a 60% tariff on Chinese imports. However, we expect this threat to be used as a bargaining chip to extract concessions from China, and the tariffs imposed to be lower. Domestically, China introduced a fiscal package in November 2024 aimed at addressing local government debt risks. This follows an earlier round of monetary stimulus in September 2024 aimed at reviving the property sector and boosting consumption. Additional measures are likely to be announced in the next months, in our view. Despite low consumer sentiment, bright spots are evident in sectors like food service and air travel, which are showing resilience. Investment-grade bonds remain our preferred choice within China's credit market.

Asia ex Japan USD investment-grade credit spread tightened from January to October 2024

Bloomberg Asia ex Japan USD Credit Corporate IG Index relative to U.S. Treasury curve

Source - Bloomberg

In Japan, the Bank of Japan's (BoJ) actions continue to be closely guided by yen movement. The lead-up to Trump's election victory and the market's expectations of ensuing higher U.S. Treasury bond yields have led to a weaker yen. A near-term hike by the BoJ could be possible if the currency continues to weaken excessively, boosting import prices for consumers and businesses and dampening domestic demand. We have a preference for Japanese investment-grade credit, which should act as a defensive buffer against a potential rise in Japanese government bond yields and imposition of the 10%–20% tariffs proposed by the incoming Trump administration.

Global Insight 2025 Outlook

Commodities

Matt Altro, CFA
Toronto, Canada

Crude oil: Supply

The price of oil has been volatile in 2024 as geopolitical- and demand-induced variants have contributed to the current uncertainty. With the Trump presidency agenda to increase drilling, further barrels added to the market alongside OPEC+ retaliation may lead prices lower. RBC Capital Markets has lowered its 2025 West Texas Intermediate estimate to US$68/bbl.

Natural gas: Weather

Warmer-than-average weather has been a drag on natural gas pricing, but RBC Capital Markets expects the winter months should be supportive of pricing and that a normalization of power demand could provide a backstop. The potential for growth in exports together with improving domestic demand have RBC Capital Markets expecting an average price of US$3.13/mmBtu for 2025.

Gold: Higher

Gold prices have continued to rally throughout 2024, driven by central bank buying, Chinese demand, macro uncertainty, and rate cuts. Furthermore, according to the World Gold Council's Gold Demand Trends report, gold demand continues to be aided by investment inflows into ETFs, indicative of growing demand from retail investors amidst broader economic uncertainty. RBC Capital Markets forecasts $2,618/oz in 2025.

Copper: Tight

Copper supply continues to be tight, with the overarching themes of energy transition, electric vehicles, and accelerated U.S. onshoring of manufacturing facilities presenting demand drivers over the next year and beyond. While concerns about slower global economic growth remain, positive shifts in fiscal and monetary stimulus out of China could offer upside to pricing, in our view. RBC Capital Markets forecasts copper at US$4.50/lb for 2025.

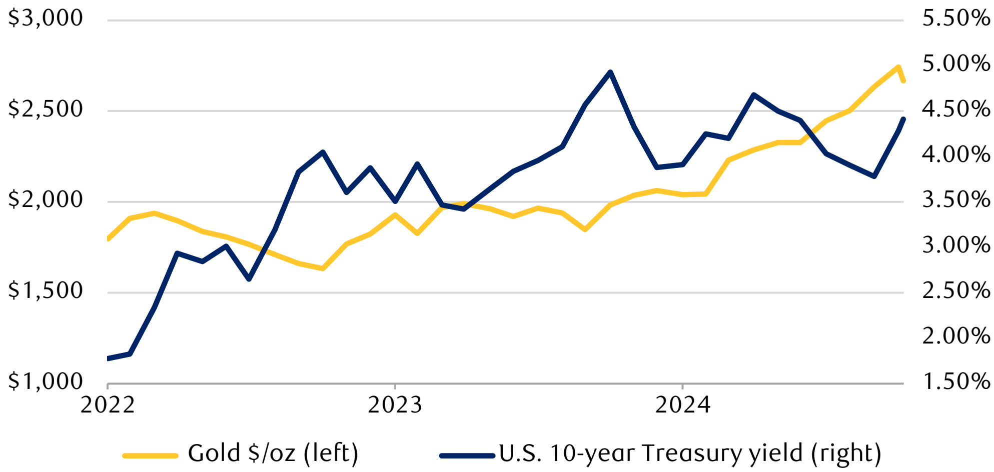
2025 commodities forecasts

Commodity	Price
Oil (WTI $/bbl)	$68.00
Natural gas ($/MMBtu)	$3.13
Gold ($/oz)	$2,618
Copper ($/lb)	$4.50
Soybeans ($/bu)	$11.50
Wheat ($/bu)	$6.18

Source - RBC Capital Markets forecasts (oil, natural gas, gold, copper), Bloomberg consensus forecasts (soybeans, wheat); data as of 11/6/24

Gold continues to climb as interest rates fall

Gold price versus the U.S. 10-year Treasury yield



Source - Bloomberg; data through 11/6/24

Soybeans: Yields

The United States Department of Agriculture (USDA) has lowered its 2024–2025 marketing year average yield on the back of low soybean yields in some states. The U.S. production forecast is now four million bushels lower than the previous estimate, and the Bloomberg consensus forecast, at $11.50/bu, is higher than current futures pricing.

Wheat: Planting

According to the USDA, wheat exports are forecast to be 17% higher than the 2023–2024 highs and the highest in four years. A significant uptick in production was helped by elevated prices through 2023–2024, incentivizing farmers to increase wheat planting. The 2025 Bloomberg consensus forecast is $6.18/bu.

Global Insight 2025 Outlook

Currencies

Nicolas Wong, CFA
Singapore

U.S. dollar: Higher for longer after a Trump win

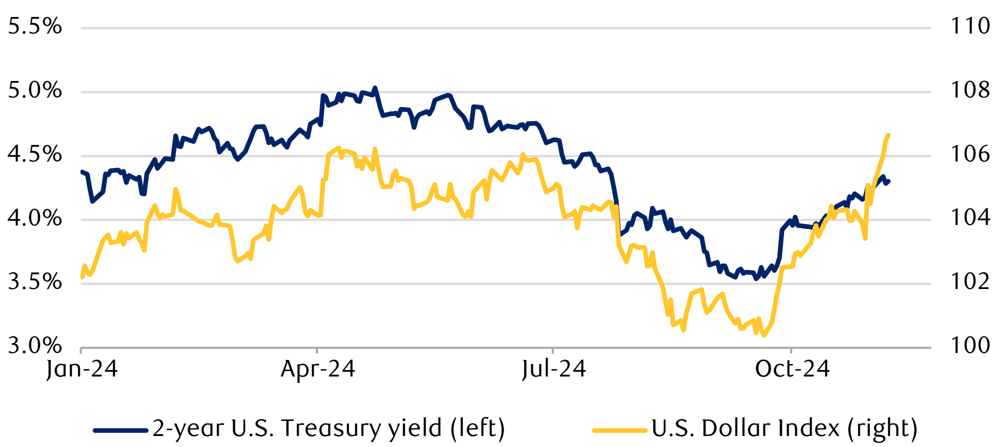
President-elect Donald Trump's economic policies are widely expected to be inflationary and lead to U.S. interest rates staying higher than markets had expected; we believe this should continue to support the dollar. The dollar's strength in 2025 will depend on the timing and magnitude of the protectionist policies of the incoming administration, in our view. However, potential catalysts that could produce a softer greenback include a softening of U.S. economic activity that prompts the Fed to cut interest rates more than markets currently expect, or an aggressive course of fiscal stimulus by other countries—such as China—that counters some of the relative U.S. economic outperformance.

Euro: Weighed down by political risk and more ECB easing

While we had previously expected the EUR/USD pair to recover above 1.10 in 2025, we believe Trump's tariff policies will likely have a negative impact on an already struggling eurozone and potentially lead to more easing

The U.S. Dollar Index (DXY) tracked 2-year Treasury yields in 2024 as the Fed started a monetary easing cycle

We expect USD strength to extend through H1 2025 as the new administration's potentially inflationary policies keep U.S. Treasury yields higher than current market expectations



Source - RBC Wealth Management, Bloomberg; data through 11/14/24 from the European Central Bank (ECB). RBC Capital Markets analysts have downgraded their EUR/USD forecast to 1.02 in Q1 2025, while noting a high degree of uncertainty in their estimate. In our view, the economic impact will ultimately depend on how the tariffs situation evolves. Uncertainty stemming from Germany's snap election in February could also weigh on the euro's performance early in 2025.

Canadian dollar: Recovery in H2 2025

RBC Economics sees the Bank of Canada reaching a terminal interest rate of 3% in Q2 2025, and the U.S. Federal Reserve settling on a terminal rate around 4% in Q1 2025. Based on the interest rate differential in favour of the U.S. dollar, we expect the USD/CAD pair to grind higher to 1.43 in Q2. However, we believe the aggressive monetary easing in Canada will likely fuel a growth rebound in the second half of 2025, with the Canadian dollar recovering to 1.41 against the greenback at the end of the year.

British pound: Vulnerable to downside risk

October's widely anticipated UK Budget saw the Labour government announce increases in both taxes and spending. In our view, the potential impact of higher spending on near-term growth could lead the Bank of England to maintain a more hawkish stance and keep the pound supported in the early part of 2025. Further ahead, RBC Capital Markets sees the pound as vulnerable to downside risks and notes that it remains overvalued on a real effective exchange rate basis (which measures the pound against a basket of other currencies).

Japanese yen: Cautious hikes from the BoJ in 2025

The USD/JPY pair continues to be driven by interest rate differentials between the two countries. Despite the Bank of Japan (BoJ) finally raising interest rates to 0.25% from -0.10% in 2024, the pair has failed to break the 2024 low near 140 as the gap between Fed and BoJ rates has remained wide. We expect a similar story in 2025, as potentially inflationary policies from the Trump administration keep short-term U.S. Treasury yields high while the BoJ may be reluctant to hike rates aggressively amid political uncertainty that could last until the Upper House elections in mid-2025.

2025 currencies forecasts

Currencies	Forecast Dec. 2025
U.S. Dollar Index	106.79
EUR/USD	1.05
USD/CAD	1.41
GBP/USD	1.24
USD/JPY	150.0

Source - RBC Capital Markets estimates; data as of 11/13/24

Research resources

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As of September 30, 2024

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Hold [Sector Perform]	599	40.07	153	25.54
Sell [Underperform]	38	2.54	3	7.89

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