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Market update

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Equity markets around the world continued their upward trajectory in 2025, marking a third consecutive year in which stock market returns exceeded investor expectations. Despite tariffs imposed by the United States on the majority of its trading partners, the global economy proved remarkably resilient, much to the surprise of most economists. In fact, in the spring of 2025, following Donald Trump's so-called "Liberation Day," several experts estimated the probability of a recession at 50%. In this highly uncertain environment, equity markets quickly priced in this more pessimistic scenario. Between February 19 and April 2, 2025, the S&P 500 declined by 19%, reflecting investor concerns about the potential impact of a severe trade war on economic conditions and corporate earnings.

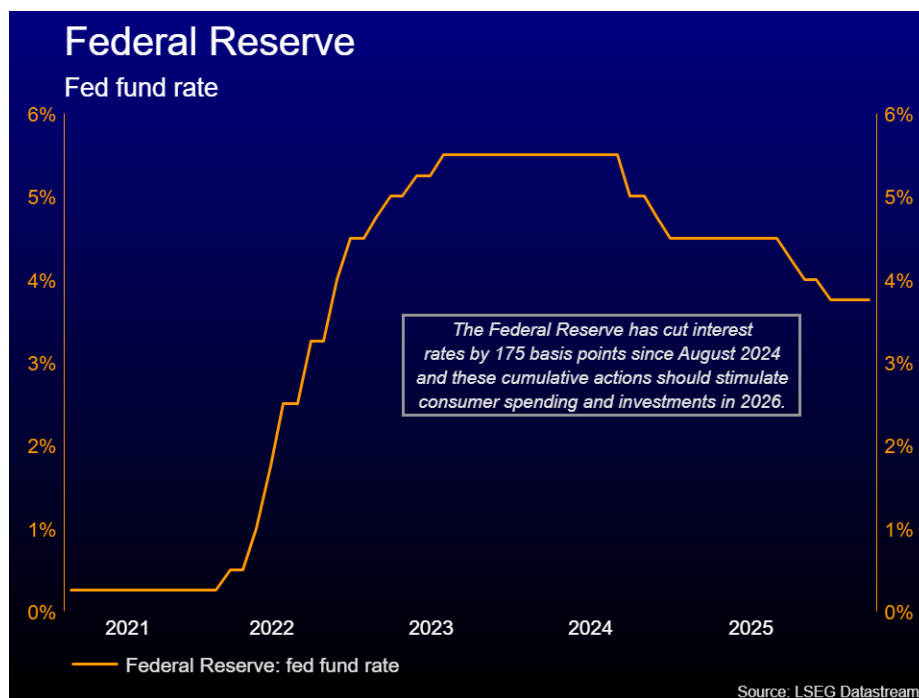
However, several factors help explain why the economic fallout was less severe than initially anticipated. First, current estimates suggest that the average tariff on imports is approximately 10-11% of the value of imported goods, well below initial projections of 17-19%. This gap can be attributed to numerous exemptions, including the vast majority of goods covered under the Canada — United States — Mexico Agreement (CUSMA), as well as actions taken by importers to adjust their supply chains in order to mitigate the impact of tariffs. In addition, it is important to highlight that most countries exercised restraint and refrained from implementing retaliatory measures against the United States. Many chose instead to avoid confrontation and negotiate agreements, thereby reducing uncertainty for economic stakeholders. Lastly, several foreign governments announced fiscal measures to stimulate their economies and support sectors most affected by U.S. tariffs, helping to cushion the impact of the U.S. tariff offensive on global economic activity.

Beyond the disruptions affecting international trade, it is important to examine other segments of the economy to better understand the strong growth in U.S. economic activity in 2025. Consumer spending, which accounts for nearly 70% of the U.S. economy, remained particularly robust. That said, consumption growth has been uneven, and many Americans continue to face budget constraints and are forced to tighten their spending. On the

investment side, representing roughly 17% of the economy, growth has been particularly strong over the past year. It is highly likely that the Federal Reserve's monetary easing cycle, initiated in September 2024, began to have a tangible impact in 2025, particularly during the third and fourth quarters.

In general, changes in monetary policy, such as adjustments to policy rates, take time to influence household and corporate decision-making, with lags typically estimated between 12 and 18 months before rate cuts reach their full effect. As illustrated in [Chart 1](#) below, the Federal Reserve implemented cumulative rate cuts totaling 1% in late 2024 before pausing. In September 2025, the central bank resumed its easing cycle with an additional 75 basis points of rate cuts. These recent actions are encouraging for 2026, as this renewed monetary impulse should support both consumer spending and investment over the coming year. In addition, fiscal initiatives included in the "One Big Beautiful Bill Act," passed on July 4, 2025, are expected to provide further support to consumption and investment. Both households and businesses will benefit from measures aimed at reducing their tax burden starting in 2026.

Chart 1

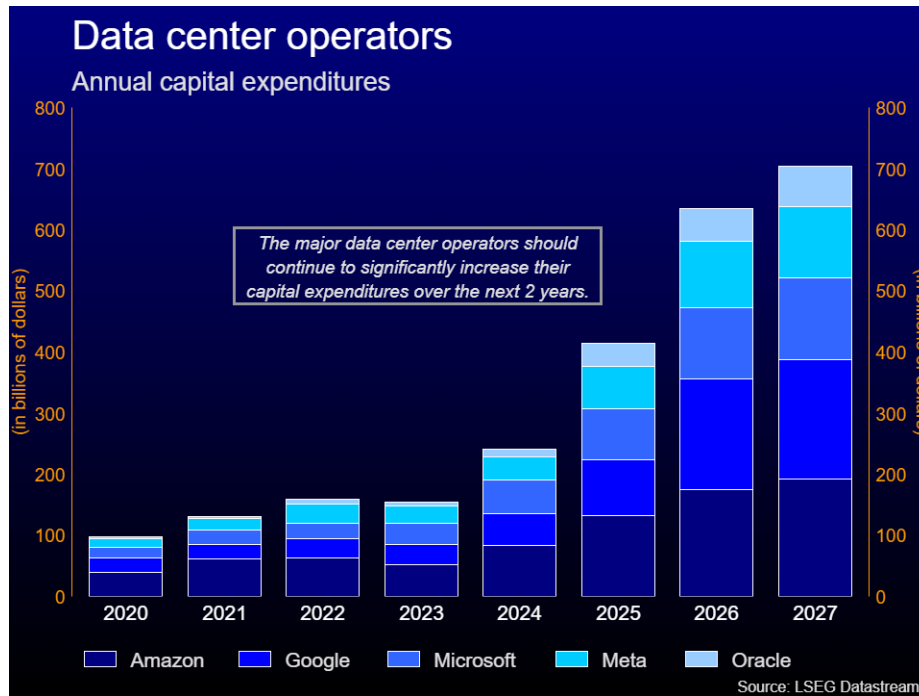


In addition to a more accommodative monetary policy and a favorable fiscal environment under the Trump administration, several long-standing structural trends continue to drive investment in the United States in particular, but also globally. These include the reshoring of industrial capacity following the pandemic, increased automation, infrastructure modernization and reinforcement, the adoption of digital technologies, and the decarbonization of multiple sectors. More recently, the emergence of artificial intelligence has led to massive investments in data center construction, enabling large-scale adoption of this technology.

These investments have generated significant economic spillovers across a broad ecosystem of companies, particularly in sectors such as communications equipment, semiconductors, and electronic components. Data center development also requires substantial investment in critical infrastructure, including real estate, high-capacity communication networks, water management and supply, as well as electricity generation and transmission. After a decade of stagnation, electricity demand

is experiencing a resurgence. Experts expect U.S. electricity demand to grow at an annual rate of 2–4% through 2035. To meet this demand, renewable energy alone will not be sufficient, natural gas will need to supply a significant portion of the additional capacity, and nuclear energy will also play a role. As illustrated in [Chart 2](#), based on the investment intentions of major data center operators, capital expenditures are expected to continue rising in the coming years, further supporting economic growth.

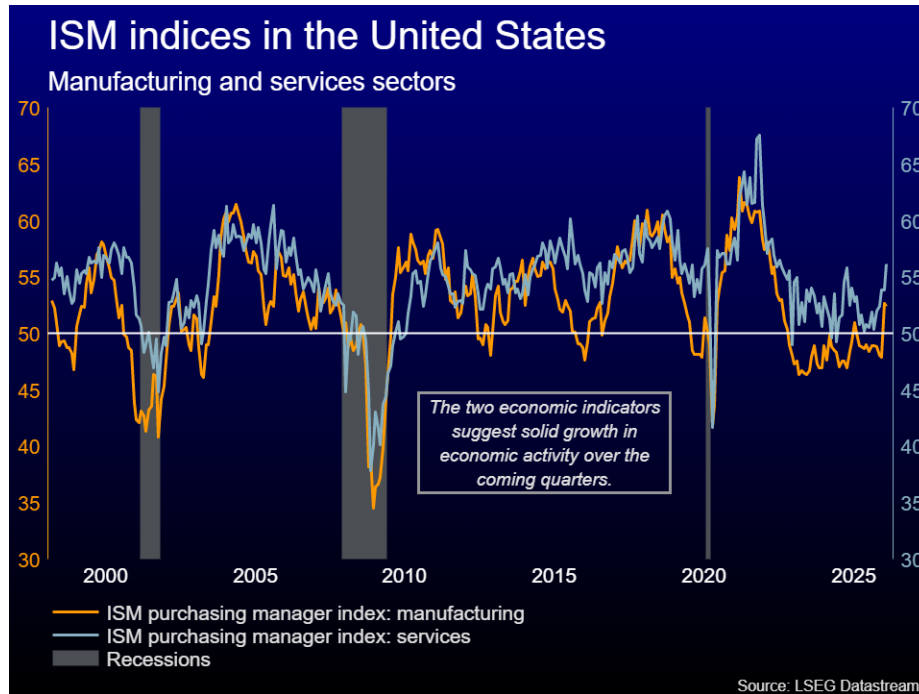
Chart 2



As with consumption, the outlook for investment appears constructive for 2026. According to the monthly ISM survey, respondents remain optimistic about the year ahead, both in the services and manufacturing sectors. As shown in [Chart 3](#) on the following page, both indices have rebounded and are comfortably above the key threshold of 50, which typically signals expansion in economic activity.

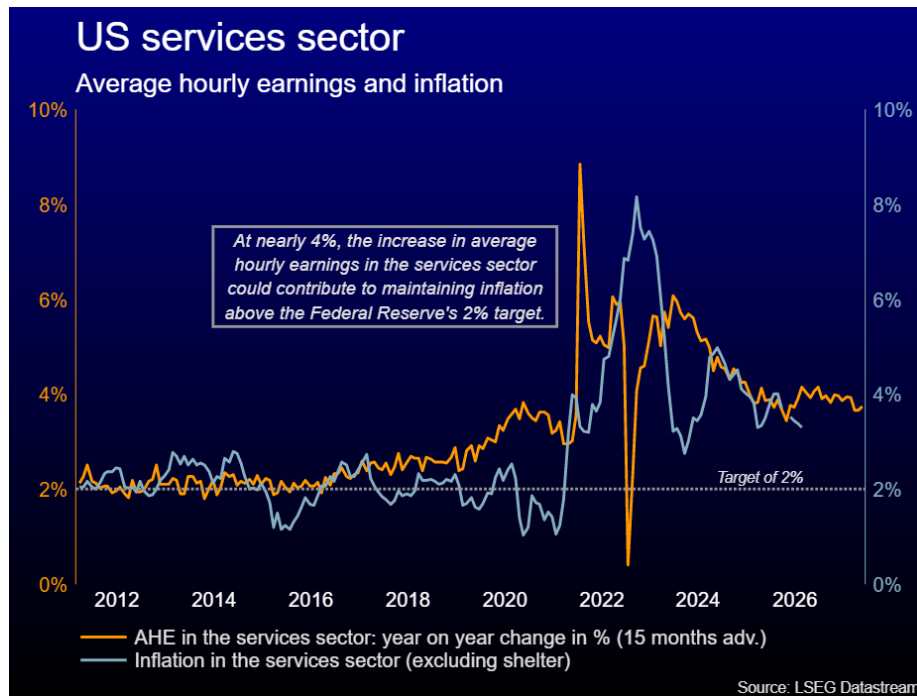
With that being said, the current environment is not without risk. Our primary concern remains that inflation is still too high from the Federal Reserve's perspective. Several factors could make a return to the 2% target more challenging. First, demographic trends in the United States are unfavorable, with labor force participation declining. An aging population is leading to a record number of retirements. Additionally, immigration policies under the Trump administration are limiting the inflow of new workers, reducing labor supply. Together, these factors could sustain upward pressure on wages and, ultimately, on the prices of goods and services.

The services sector, which employs the majority of U.S. workers, is particularly sensitive to wage increases, as labor compensation represents the largest expense for companies operating in this sector. As illustrated in [Chart 4](#) on page 5, the services sector is experiencing significant wage growth, which is not conducive to a rapid return of inflation to the 2% target. On the goods side, we believe that tariffs have not yet been fully reflected in consumer prices and that additional pressures could emerge in the coming months. Several companies have already announced price increases in early 2026 directly linked to tariffs.

Chart 3

In recent weeks, geopolitical tensions have escalated into a conflict in the Middle East. With the closure of the Strait of Hormuz, a critical corridor for global oil and liquefied natural gas trade, energy prices have surged. This conflict adds a significant layer of uncertainty for economic participants. Historically, most military conflicts and geopolitical events have had a limited impact on global economic activity. However, conflicts involving major oil and gas exporters have the potential to be more disruptive. In such cases, the duration of the conflict is the key factor in determining its economic consequences. If the conflict persists, rising energy prices could fuel inflationary pressures, weigh on investor confidence, and hinder economic activity. In such a scenario, the Federal Reserve's ability to support the economy would be further constrained.

This geopolitical development brings inflationary pressures, our primary concern, back to the forefront. With the Federal Reserve's policy flexibility already limited, the situation could become more complex if the conflict endures. Many U.S. consumers are still feeling the effects of the cumulative rise in prices since the pandemic and may be forced to further reduce spending. As a result, consumption, the main driver of growth in recent years, could begin to weaken. On a more reassuring note, the global economy is significantly less dependent on oil today than it was in the 1970s and is therefore much more resilient to sharp increases in energy prices. A surge in oil prices today would have an impact on economic growth and inflation that is two to three times smaller than it was 50 years ago. For now, we do not believe the situation poses a critical threat to economic health, but we are closely monitoring developments in this geopolitical conflict, its potential duration, and its impact on energy prices.

Chart 4**Financial markets**

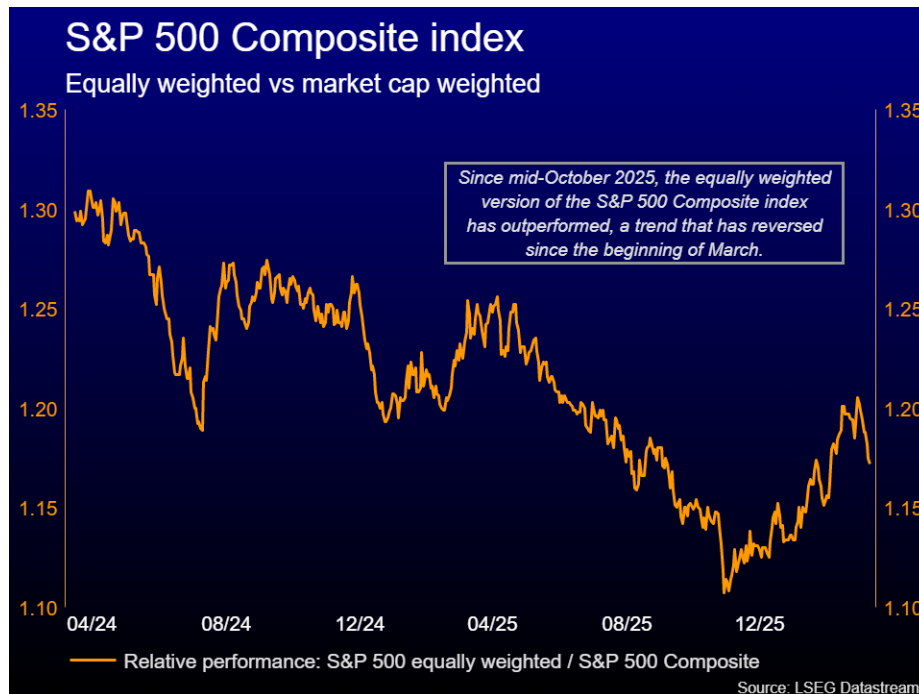
The outlook for equity markets in 2026 remains constructive. Economists expect economic growth of approximately 2.5% in the United States and slightly above 3% globally. The U.S. domestic economy ended the year on solid footing despite the impact of a 43-day government shutdown in the fourth quarter of 2025. With the rate cuts announced from September to December 2025, supportive fiscal measures, and continued growth in business investment, the economy is expected to maintain its momentum throughout 2026. According to analysts, earnings growth is expected to be strong, with profits projected to increase by approximately 14%.

Prior to the outbreak of the Middle East conflict, equity markets were exhibiting a favorable dynamic, with value stocks leading performance and market returns becoming less dependent on large-cap technology companies. The relative performance of the equal-weighted S&P 500, illustrated in [Chart 5](#) on the following page, clearly reflects this trend in place since mid-October 2025. However, following the escalation of the conflict in March, value stocks, more sensitive to economic conditions, temporarily lost momentum, as the conflict poses a risk to economic growth. A relatively swift resolution could restore the trend that had emerged in October 2025.

The rapid development of the artificial intelligence industry is a source of concern. While the massive investments in data center construction represent a significant tailwind for a wide range of publicly traded companies, the growing exposure of both market indices and the U.S. economy to this sector introduces a concentration risk that should not be overlooked. It is difficult not to draw parallels with the massive investments in fiber optic infrastructure in the 1990s. Although internet traffic ultimately experienced extraordinary growth, the industry initially deployed far more communication capacity than was necessary. The subsequent unwinding of the technology bubble led to a collapse of the broader ecosystem supporting this emerging technology. In hindsight, substantial amounts of capital were invested without generating adequate returns. Despite

the transformative innovations associated with the internet today, investors at the time had overestimated both the value of companies in the sector and their growth prospects.

Chart 5



Artificial intelligence also has the potential to significantly reshape multiple sectors of the economy. For some industries, its adoption will primarily result in productivity gains. For others, however, it could lower barriers to entry, allowing new competitors to emerge and challenge well-established companies. Since the beginning of the year, several companies have seen their share prices decline sharply in response to this emerging threat. Following the launch of new coding tools by Anthropic, OpenAI, and other large language model developers, the software sector has been shaken, with investors even questioning the long-term viability of certain companies.

Several other industries have also been impacted by the disruptive effects of AI, including real estate and insurance brokerage, transportation and logistics, professional and information services, as well as cybersecurity and engineering. The evolution of this technology is likely to drive significant changes across multiple sectors of the economy. As such, it is essential to proceed with caution and maintain a clear understanding of the risks embedded within portfolios.

In our view, equity valuations remain the most significant challenge. As shown in [Chart 6](#) at the top of the following page, the S&P 500 is currently trading at 21.1x forward earnings, well above its 20-year average. Elevated valuation multiples leave little room for error, and even modest investor concerns can trigger significant volatility. This sensitivity was particularly evident last February during the release of fourth-quarter 2025 earnings, when several companies experienced sharp, and often unjustified, declines in their share prices.

Chart 6

Lastly, 2026 will be a U.S. midterm election year. Historically, such years are not necessarily less productive in terms of returns, but they are typically characterized by higher volatility. In addition, the Canada — United States — Mexico Agreement will be up for review in July, and some degree of political tension and strong rhetoric from the U.S. administration should be expected.

Portfolio Management

Throughout 2025 and into the beginning of this year, we have maintained a prudent approach focused on high-quality investments, while avoiding securities driven by speculative dynamics. Although the economic outlook for 2026 remains favorable, recent geopolitical developments call for continued caution. The range of potential scenarios must now incorporate the possibility of a prolonged conflict in the Middle East.

From an asset allocation perspective, we maintain a solid exposure to equities within portfolios, while remaining aligned with the strategic targets of our mandates. After several years of strong equity market performance, we have selectively reduced our exposure on a few occasions to stay close to target allocations, resulting in slightly higher realized capital gains in 2025 compared to previous years.

Our exposure to high-quality fixed income securities and alternative investments remains close to our overall target for these asset classes combined. Finally, cash levels remain slightly above target. Over the coming months, we will continue to closely monitor developments in the Middle East and their potential impact on inflation, economic activity, and corporate earnings growth, and remain prepared to adjust portfolio positioning as needed.

Equities

We favor companies that generate strong returns on invested capital, produce robust cash flows, and maintain low levels of debt. Over the past year, we took advantage of several opportunities to increase our exposure to certain existing holdings, including Toromont, Canadian Natural Resources, Fortis, Nutrien, Manulife, NextEra, and Boston Scientific. We also used the strong market performance of certain securities to reduce our exposure when valuations appeared to be approaching fair value, notably Dollarama, National Bank, Thomson Reuters, Enbridge, Magna, Abbott Laboratories, JPMorgan, Apple, Alphabet, Emerson, Stryker, Johnson & Johnson, Texas Instruments, and the U.S. Energy Index ETF.

With respect to new positions added to portfolios over the past year, below is a summary:

RB Global (RBA):

RB Global operates a network of auction sites across 13 countries along with a digital platform which enable clients to buy and sell a wide range of vehicles and commercial assets. The integration of its most recent acquisition is progressing well, and realized synergies are expected to contribute to strong earnings growth. The company maintains a solid financial position, and its valuation remains attractive.

MSCI EAFE (EFA):

We initiated a position in the MSCI EAFE Index ETF to enhance international diversification and reduce exposure to the U.S. dollar.

Capital Power (CPX):

Capital Power is an electricity producer operating in Canada and the United States. The electrification of the economy and the construction of new data centers required for the development of the artificial intelligence sector are expected to support strong growth in electricity demand over the coming years. We believe the company is well positioned to benefit from this trend.

US Bancorp (USB):

We initiated a position in this high-quality regional bank, as its valuation appeared attractive relative to peers. In addition, potential deregulation in the U.S. financial services sector could support bank valuations over the longer term.

Thermo Fisher (TMO):

Thermo Fisher provides a broad range of products and services for the life sciences sector, including analytical instruments, laboratory equipment for research and diagnostics, as well as drug development and manufacturing services. We added this position as it meets our quality criteria and is currently trading at a valuation well below its historical average, while sector fundamentals are beginning to improve.

Palo Alto (PANW):

The company is a leading player in cybersecurity, a rapidly growing sector. Threats to corporate and government networks and data are becoming increasingly sophisticated, and Palo Alto offers a comprehensive suite of solutions to address these challenges. We took advantage of a pullback in the share price last year to initiate a position.

Xylem (XYL):

Xylem's products and services enable the efficient and responsible transport, treatment, analysis, monitoring, and return of water to the environment across various sectors, including buildings, industry, and agriculture. With aging water infrastructure, ongoing population growth, and increasing demand in developing countries, the sector's growth prospects are favorable. Xylem is well positioned to capture market share. We also appreciate the company's low leverage and strong cash flow generation.

Uber Technologie (UBER):

While some view the rise of autonomous vehicles as a threat to Uber, we believe the company's expertise and extensive user network position it as a potential partner of choice. The company is financially sound and is expected to generate significant cash flow growth over the coming years. We believe its valuation could expand as concerns around autonomous vehicles gradually subside.

Killam Apartment REIT (KPM.UN):

Killam is a real estate investment trust focused on the multi-residential segment. With occupancy rates exceeding 97% and average rents approximately 15% below comparable market levels, the company is well positioned to grow its revenues at a solid pace in the coming years. We find the valuation attractive and appreciate the stability of the Canadian multi-residential sector.

Telus (T):

Telus has completed the deployment of its fiber optic network, and we expect a meaningful decline in capital expenditures, which should lead to significantly higher free cash flow generation in the coming years. In addition, we are observing greater pricing discipline among industry participants following a period of intense competition.

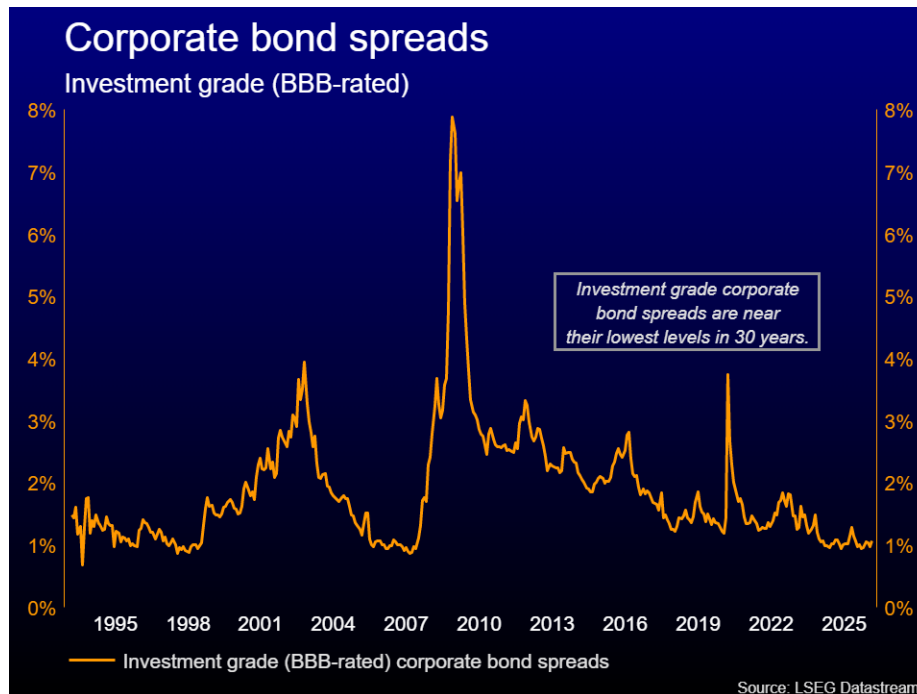
In addition, over the past year, we exited positions in Crown Castle, the KBW Bank Index ETF, CVS Health, Diageo, Honeywell, Roper Technologies, Corteva, Home Depot, First Capital REIT, Bombardier, Constellation Software, and BCE. As a reminder, we typically sell positions when upside potential becomes limited, when fundamentals deteriorate, or when our quality criteria are no longer met

Fixed Income

The year 2025 was particularly strong for fixed income securities. Performance in this segment was driven by the decline in interest rates in Canada over the past year, as well as the outstanding performance of preferred shares, which delivered total returns of over 15% for a second consecutive year.

We believe 2026 is unlikely to be as favorable for bonds, as the Bank of Canada has likely concluded its monetary easing cycle. We also observe that credit spreads in the corporate bond market have become less attractive and, in our view, insufficient. As illustrated in [Chart 7](#) on the following page, spreads are near their lowest levels of the past 30 years, and we therefore prefer to reinvest maturities into high-quality government bonds.

We will continue to favor bonds trading at a discount to par value in order to benefit from their advantageous tax treatment. Over the past year, we have also reduced our exposure to preferred shares following their strong performance over the previous 24 months. Combined with a gradual increase in government bond allocations, the overall risk profile of our fixed income holdings has been reduced, providing us with greater flexibility to allocate capital to our alternative strategies.

Chart 7**Alternative Investments**

Over the past year, we have continued to deploy capital into private alternative investments. We increased our existing position in the RBC Global Infrastructure Fund. This strategy aims to provide diversified exposure to high-quality infrastructure assets that generate strong cash flows while offering attractive long-term growth potential.

We also initiated a position in a private credit fund managed by Oaktree Capital Management, a manager known for its more conservative approach within this asset class. The portfolio is well diversified, with 166 issuers, and more than 90% of the loans are senior secured.

In addition, we initiated a position in Blackstone Private Equity Strategies (BXPE). This fund provides access to a wide range of strategies managed by the largest private equity platform in the world. An increasing number of companies are choosing to remain private, and the number of publicly listed companies continues to decline. BXPE therefore gives us access to a broader universe of companies, often at more attractive valuations.

We continue to believe that this asset class is attractive for investors. In addition to offering compelling return potential, it enhances portfolio diversification and contributes to overall risk reduction. With exposure to real estate, infrastructure, private credit, and private equity, our portfolios are now well positioned across the main private alternative strategies.

We hope this overview of our portfolio management approach has been helpful. Please do not hesitate to contact us should you have any questions or require further clarification. We would also like to take this opportunity to thank you for your continued trust.



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