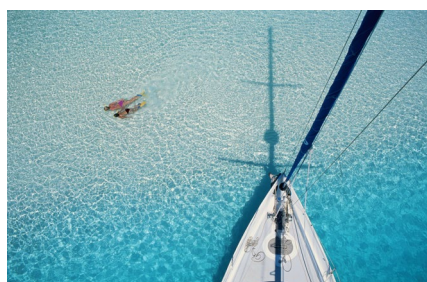


Price Private Wealth Of RBC Dominion Securities Investment Quarterly



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Buckle Up but Don't Give Up

Amid the uncertainty swirling from the Middle East crisis, several forces are pushing and pulling on stock markets. Investors should expect bouts of unnerving volatility, but we think that portfolios should remain committed to equities.

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Market Overview

The outlook for equity markets around the world is very much a function of the prospects for the global economy and, disproportionately, for the U.S. economy in particular. The war in Iran has abruptly changed that picture. The closing of the Strait of Hormuz has taken hundreds of millions of barrels of crude oil out of the global supply chain, raising prices at the pump and threatening outright shortages in the coming months.

Sharply higher gasoline prices and surging liquified natural gas (LNG) prices in Asia and Europe are squeezing household budgets worldwide, while dramatically raising input costs for agriculture and many industries. Our forecast does not expect recession for the U.S. or Canada, for Europe and Asia it can't be ruled out.

The immediate economic effects of the war have been deep and widespread. The Strait of Hormuz sees 20% of the world's crude oil and LNG shipments pass through it, along with almost a third of water-

borne fertilizer shipments. The Gulf region also accounts for significant amounts of the world's petrochemicals. Even with a ceasefire of peace agreement, the amount of damage done to port and shipping infrastructure in the Gulf will have long-lasting impacts on the world economy.

However, the GDP impacts are likely to be uneven. Countries that produce enough oil and natural gas for their own needs (the U.S.) and/or export significant quantities of oil and gas (Canada) are likely to suffer the least, if at all. Europe and Asia, which are largely dependent on imported energy from the Middle East, are likely to experience the biggest hits to GDP.

Prior to the start of the war, there was a compelling case to be made for a continuation of the stock market uptrends delivered by most major markets since the lows of October 2022, driven by reacceleration of U.S. GDP growth, the lagged effect of U.S. Federal Reserve rate cuts, and income tax refund stimulus provisioned in the One Big Beautiful Bill Act.

The war has diminished or eliminated the impact of all of these catalysts, but a stable employment picture and some broad-based strength in manufacturing activity are keeping the U.S. picture from becoming too gloomy.

Investors are usually willing to look beyond temporary disruptions in GDP and earnings growth. Consensus GDP growth estimates for this year still sit at 2.3%, while 2027 forecasts come in around 2%. As for earnings, the S&P 500 consensus estimates have been recently revised sharply higher for both years to about 16% per annum.

Despite these encouraging forecasts, there is still room for occasional periods of investor fear, uncertainty, and doubt, and history strongly suggests we are in store for more market volatility this year. Midterm election years in the U.S. typically experience corrections averaging a little more than 20%. Buckle up and hold on tight.

Meanwhile, markets have sharply repriced central bank expectations in March, flipping projections from further rate cuts this year to the potential for multiple rate hikes. One-month movements of this magnitude in sovereign bond yields have rarely occurred, with some regions seeing the highest benchmark 10-year note yields since 2008. For now, markets appear focused on inflationary risks of higher energy costs rather than downside risks to economic growth, but the outlook ultimately depends on the path and duration of the Middle East crisis.

Canada

The S&P/TSX Composite has had a volatile start to the year, with the index reaching an all-time high in early March before selling off amid the conflict in Iran and the wider Middle East. While the index still sits in positive territory for the year, risks associated with global instability and inflation are front of mind. The dynamics in the Middle East have boosted gold and energy prices, which is a positive for the heavily weighted Materials and Energy sectors.

Over the first two months of 2026, markets pared back expectations of Bank of Canada rate hikes, as ongoing U.S. trade policy tensions and geopolitical uncertainty weighed on Canadian economic sentiment. However, the start of the crisis in the Middle East caused markets to reverse course, as short-term yields surged on higher inflation expectations. Markets are once again pricing in interest rate hikes by the BoC by the

end of the year. At the same time, macroeconomic data like GDP growth does not support the case for hikes.

This puts the BoC in a difficult position. For now, the BoC remains on hold, and kept rates steady at its March meeting. Governor Tiff Macklem has noted that the BoC is willing to look through temporary energy price inflation, and we think it would take a significantly extended period of high oil prices to prompt the bank to hike rates.

United Kingdom

It is often noted that the UK economy and UK equity markets have little in common, and this is rarely more evident than during times of Middle East conflict. The UK economy is vulnerable to increases in global energy prices and particularly gas prices, so the pound and some other UK assets reflect expectations of weaker economic growth.

Within the equity market, though, we think the UK's unique composition creates some upside potential. The UK's distinguishing feature is a lack of technology stocks, and many of the sectors that tend to have depth in UK indexes have been out of favor. As a result, the UK market tends to be under-owned by institutional investors and exhibits relatively low valuations. Compared to most major markets, the UK has an unusual blend of high energy and defense exposure, which was beneficial during the last protracted market selloff in 2022.

On the fixed income side, the energy price spikes arising from the Middle East conflict present a fundamentally different challenge than those which followed Russia's invasion of Ukraine in 2022. The UK is facing this price shock at a time of weaker consumer demand and less labor market tightness. Moreover, monetary policy is already restrictive at 3.75%. This gives the Bank of England some breathing room to assess the full inflationary impact before acting.

Market expectations have flipped from two rate cuts to nearly three hikes by the end of 2026. However, we think the market is underestimating the potential GDP growth contraction, which would limit how much the BoE can realistically tighten policy.

We think Gilts will remain vulnerable to volatility due to increased reliance on yield-sensitive investors to absorb supply, while also being sensitive to fiscal and geopolitical risks. Meanwhile, credit spreads have widened from tight levels and could widen further due

to energy cost pass-through uncertainty and weaker economic growth.

Currencies

U.S. dollar: Strength amid Middle East conflict and higher oil prices

The Middle East conflict triggered demand for the safety of the dollar, while the oil supply shock also benefited the greenback due to the U.S. being a net energy exporter. RBC Capital Markets views this dollar strength as transitory, contingent on the duration and intensity of the Iran conflict. Should the geopolitical tension resolve, as some officials have indicated, we expect that underlying structural headwinds to the dollar—U.S. fiscal concerns, fading confidence in trade policy, and constraints on Fed independence—could reassert themselves.

Canadian dollar: USMCA review on the radar

RBC Capital Markets maintains its forecast for USD/CAD to trade around 1.37 in H1 2026 but would adjust it depending on how long the Middle East conflict lasts. A joint review of the USMCA will begin July 1. We believe there could be a small boost for the CAD due to reduced trade uncertainty if a deal with limited changes is reached. However, in our opinion, the CAD could weaken if the U.S. withdraws from the trade agreement.

British pound: Near-term energy uncertainty replaces fiscal risks

The pound could remain under pressure from energy price shocks due to the Middle East conflict, as the U.K. is a net energy importer. Further ahead, we see political risks, with the local elections in May representing a key test of Prime Minister Keir Starmer's leadership. Should his Labour Party do poorly, we believe fears may resurface of an eventual change in government that could shift fiscal policy.

Commodities

Gold

Gold has continued its ascent from 2025 levels as geopolitical uncertainty and financial market volatility has driven investors to seek a perceived “safe haven,” an area gold typically dominates. Beyond the continued central bank buying that drove much of the flows in 2025, we expect the heightened global conflict to result in 2026 being another year of elevated gold prices. RBC Capital Markets is forecasting a \$5,723/oz price for the year.

Copper

Copper prices have been indirectly impacted by the war in Iran, as the spike in WTI has pushed inflation expectations higher, suppressing rate-cut potential and raising questions about global growth and capital spending. This, in turn, weighs negatively on copper as an industrial metal. That said, copper prices are backstopped to some degree by the “HALO trade” (Hard Assets, Low Obsolescence) as investors seek less-disruptable investments amongst the broader equity market volatility concentrated among issues at risk of AI disruption. RBC Capital Markets is forecasting a 2026 copper price of \$5.88/lb.

Oil

Crude oil prices have had a volatile start to the year, as the war in Iran has pushed them to around highs not seen since mid-2024. Despite the conflict being telegraphed for many quarters, critical infrastructure and oil export pathways are now in the crosshairs. West Texas Intermediate (WTI) and Brent Crude have climbed over 60% YTD, with RBC Capital Markets calling for the chance of a prolonged conflict into the spring potentially driving oil prices beyond the 2022 high of \$128/bbl.

Big Tech’s Pain Could Be Health Care’s Gain

The AI investment cycle still has more runway ahead, but it may soon be time to shift the narrative to monetization and tangible applications – and Health Care may be an unexpected beneficiary

The launch of ChatGPT in late 2022 unleashed one of the fastest and largest capital expenditure cycles in decades. At its core is the infrastructure needed to train and deploy AI at scale – semiconductors, networking equipment, power systems, and data centers. Leading the investment boom are the dominant U.S. Big Tech firms – Amazon, Alphabet, Microsoft, Meta Platforms, Oracle, Apple, Nvidia, and Broadcom – vying to establish leadership in what is increasingly viewed as a transformational general-purpose technology.

Capex among these firms has more than doubled in the last two years, reaching \$427 billion in 2025, and is expected to grow to \$637 billion by 2027. For now, these companies are funding these massive outlays via internally generated cash, though external debt is on the rise. Another trend worth monitoring is capital intensity. Capex as a share of revenue among these firms has risen to its highest level in over a decade. This marks a notable departure from the asset-light and capital-efficient business models that supported premium valuations over the past decade.

A more capital-intensive structure can still deliver attractive shareholder returns, but it can also introduce greater cyclicality to earnings. Outsized capex commitments could also begin to crowd out share buybacks and increase reliance on debt.

We believe AI will remain a central investment theme for years to come. The technology is still in the early phases of innovation and adoption, and capital investment remains strong, with the potential to lift the long-term growth trajectory for the economy and corporate earnings. Nevertheless, history reminds us that transformative general-purpose technologies – such as railroads and the internet – often require periods of overinvestment and lengthy diffusion-adoption cycles before delivering durable and widespread benefits.

For much of the past three-plus years, the narrative has largely focused on the speed and scale of AI infrastructure buildout. As the cycle matures, the narrative could evolve to a more discerning phase, with greater emphasis on monetization visibility and sustainability, and real-world, tangible applications.

Health Care, and particularly Pharmaceuticals, could enter the AI winners basket over the next 1-2 years. RBC Capital Markets estimates that AI could unlock ~\$90 billion in cost savings across U.S. pharmaceutical companies over the next five years. The opportunity spans the value chain: AI-driven drug discovery can collapse pre-clinical timelines by 30-40% and reduce failure rates, clinical trial optimization through patient identification and adaptive designs could cut development costs 20-30%, and manufacturing/supply chain efficiencies via predictive maintenance and demand forecasting offer margin expansion of 200-300 basis points.

Early movers in the pharmaceutical industry are already demonstrating proof-of-concept with AI designed molecules entering clinical development 2-3 years faster than traditional approaches, while AI-enabled trial recruitment has accelerated enrollment 40%-plus in recent studies.

With Big Tech having delivered exceptional returns for many years and driving elevated market concentration, ensuring portfolios are well balanced and adequately diversified across and beyond the group is sensible. By looking beyond the obvious “AI enablers,” investors can participate in AI-connected themes while helping to cushion against the risk of a “capex hangover,” manage performance correlation tied to a single risk factor, and navigate the prospect of market leadership rotations and more uneven performance among AI-linked companies. It also positions portfolios to capture a wider spectrum of opportunities, particularly if perceived AI beneficiaries expand beyond the Big Tech “hyperscalers” and “enablers” that have dominated the initial infrastructure buildout phase to include AI “adopters,” many of which are likely to reside in industries outside of the tech sector.

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