

# Wealth Management & Capital Markets Perspective



Wealth Management  
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Winter 2026

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## Navigating 2026 growth, AI momentum, and election-year dynamics by Jim Allworth

In our recently published Global Insight 2026 Outlook, we laid out a case that favoured moderate single-digit gains for the S&P 500 and most other major equity markets. This doesn't entirely rule out the possibility of a fourth straight above-average annual gain for 2026—say something north of 11% for the S&P 500. But the conditions needed for a more moderate outcome are much less demanding and, in our view, more likely to occur.

Those conditions would include: some modest easing of inflation and one or two further cuts to the federal funds rate, together with positive earnings growth (although considerably less than the 13% year-over-year growth penciled into the consensus forecasts).

By contrast, to make an above-average market gain in 2026 a plausible outcome, in our view, would take robust earnings gains, GDP growth strong enough to deliver those earnings, as well as tamer inflation and deeper rate cuts by the Fed. However, the latter two seem less likely to materialize if GDP growth is picking up speed, keeping in mind that recent surveys of CEOs and small businesses show

a rising proportion planning to hire more, pay more, increase capital spending and raise prices.

In our opinion, both scenarios—moderate market gains or above-average ones—would need the following:

- The U.S. and most major economies avoid recession;
- Investors remain confident that earnings will grow by a reasonable amount in 2026 and, as the year progresses, in 2027 as well; and
- The AI story, particularly the forecast for associated capital spending, rolls on without any serious setback.

As the year begins, we think all three are likely outcomes for 2026.

**No recession:** The Federal Reserve has lowered the federal funds rate by 175 basis points (bps) over the past 15 months. The lagged effect of the 100 bps of cuts in late 2024 contributed to stronger-than-forecast Q3 2025 GDP growth. Those reductions plus the recent Q4 cuts should remain economically stimulative for at least another year, in our estimation. Other major central

Continued from page 1

banks, except the Bank of Japan, have also been lowering interest rates. In the U.S., \$50 billion in added tax refunds in H1 2026 wouldn't hurt the case for continued GDP growth in 2026 and neither would increased hiring, compensation, and capex plans of large and small businesses.

**Earnings growth:** For the S&P 500, the consensus 2026 earnings estimate sits at \$311.50 per index share, up 13% from 2025's estimated \$275.50. These expectations are supported by the generally positive guidance provided by management teams alongside Q3 earnings reports.

Analysts' earnings estimate revisions for 2026 also remain net positive, particularly for the Information Technology, Financials, and Health Care sectors. Corporate earnings are also forecast to rise in Canada, Europe, and Asia.

**AI powers on:** The AI story continues to dominate the market narrative and is likely to do so for the foreseeable future. There are at least two big parts to the story: (1) the future trajectory of the massive datacentre buildouts and (2) the pace and effectiveness of AI integration into tech and non-tech businesses and the general economy. Questions abound around both.

### Data centre buildout

Are there limitations on the proliferation of data centres? Is there, or will there be, sufficient electricity available to support them? Might governments move to ration power to data centres in order to keep utility rate increases in check for the rest of the economy? Will the major AI developers—Google, Microsoft, et al.—generate enough earnings and cash flow to fund or finance the needed data centre buildouts?

How long before the very expensive AI chips need to be replaced? (Hardware and chips account for roughly half the cost of a data centre. For the U.S. and most other developed economies, these components must be imported from Asia.) Is the depreciation rate on data centre assets used to calculate earnings of the AI powerhouses realistic?

If one or two AI models emerge as the “winners” will the need for more data-centre computing power level off or decline? By a little or a lot? Does the continued dominance of Taiwan in the manufacturing of the very high-end chips needed by AI pose an existential risk in the near term? We could go on.

### AI integration

Turning to the take-up and utilization of AI models by the rest of the economy, most reports say it is proceeding, but (so far) without a meaningful contribution to the users' bottom lines. That makes it similar to the advent of other world-changing technologies—think railroads, electrification,

telephones, computers, and the internet—all of which took years or decades to become widespread enough to add measurably to productivity.

We expect both the utilization rate for AI and the success rate of applications to build inexorably over the coming decade. However, for us the question remains: will this take-up of AI produce enough revenue to the builders of the AI infrastructure and will that revenue arrive fast enough to support the rich P/E multiples at which they now trade?

We don't expect any of the issues around AI to be resolved in any meaningful way over the next few years. Nevertheless, important developments around these and other AI issues could leap onto the stage anytime, potentially provoking even more investor excitement or perhaps consternation. Either way, volatility events, up or down, could be reasonably expected to emanate from AI and the related components of the stock market.

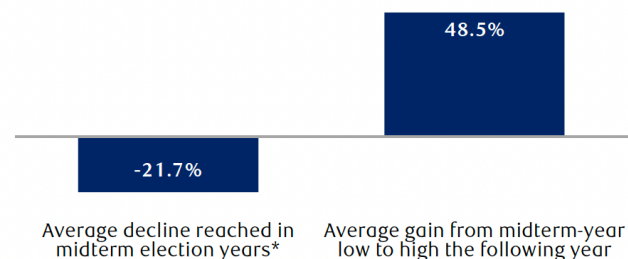
### Midterm election-year dynamics

Which brings one more historical reference into play: U.S. midterm election years have often experienced a noteworthy market pullback (see chart below). The timing of when those corrections have started and finished has been all over the map. Furthermore, the market rebound off the eventual lows has typically been quite energetic and has frequently taken indexes to new all-time highs.

The historical probabilities favour both a pullback and a subsequent bullish up-leg to new highs. However, markets and the economy are unaware of how they are “supposed” to behave according to past experiences. They can and do toss unexpected curveballs from time to time.

#### Midterm elections: Corrections, then follow-on rallies

S&P 500 returns surrounding 23 midterm elections, 1934–2022



\* Measured from the peak within 12 months before the election-year low. In 22 of 23 instances, the low was reached before the midterm election; 2018 was the exception.

Source - RBC Wealth Management, Bloomberg

We expect moderate single-digit gains for the S&P 500 and most other major equity markets over the course of the coming year. Our positioning advice has not changed. As 2026 begins, we think portfolios should be invested up to, but not beyond, a predetermined long-term equity exposure with a plan in place for becoming more defensive when and if needed.

## A slow start out of the gates by Thomas Garretson, CFA

Over the course of 2025, the central banks of Canada, the United Kingdom, and Europe lowered short-term policy rates by a total of 100 basis points (bps), while the Federal Reserve lowered rates by 75 bps. But, despite rate cuts, bond yields available to investors globally open 2026 at levels we still view as historically attractive.

That said, we anticipate a more challenging year for global bond markets. Most of the aforementioned central banks are likely now at or near the end of their respective easing cycles. And while we expect most to simply remain on hold this year, markets could at some point begin to entertain the idea of potential rate hikes.

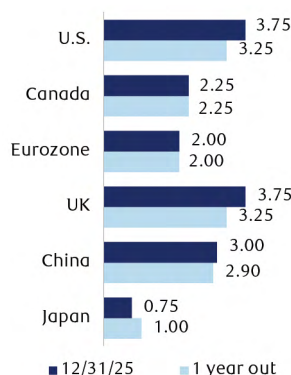
After three consecutive cuts to close out 2025, we look for the Fed to skip a reduction at its Jan. 27–28 meeting and likely remain on hold until at least June. The bias will remain toward further cuts, should inflation continue to ease or should labor market weakness continue, but bond market volatility could remain elevated along with uncertainty. We continue to look for the U.S. 10-year Treasury yield to hold north of 4.0% this year, with a current year-end 4.25% target.

The Bank of England is likely on a similar trajectory as the Fed with a bias toward further, gradual cuts. But

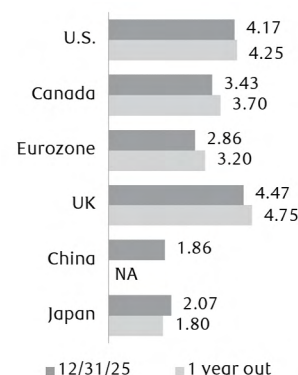
in terms of market pricing, the Bank of Canada is seen as most likely among the major central banks to pivot back to rate hikes this year, while the Bank of Japan is likely to continue with its ongoing rate-hike campaign.

Though 2025 was not without volatility, global yields generally pulled back (and prices rose). We expect more volatility this year, and while yields remain historically high, we look for rangebound trading with a bias for moderately higher yields (and lower prices).

Central bank rates (%)



10-year rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

Note: Eurozone utilizes German Bunds. Source - RBC Economics, RBC Global Asset Management, Bloomberg

## A(nother) year of giving back

We recognize that we are only as strong as the communities in which we operate, and as such, giving back continues to be a hallmark of Grimes Handscomb Asset Management. This past year our team focused on areas including food security, community connection, and environmental care. We supported food access through meal preparation and service with The 519, Scott Mission, Good Shepherd Mission, and Haven Toronto, as well as by helping establish the Parkdale Community Food Bank.

We also partnered with the Waterfront Community Centre for a garden clean-up and winterization, and hosted a financial literacy session to support local residents. In addition, our team helped secure a grant to improve accessibility within the Waterfront community garden, which now supplies fresh produce to the Spadina–York Food Bank. Staying mindful of our environmental impact, team members came together for a garbage clean-up at Cherry Beach.

We closed the year with a holiday toy and clothing drive in support of Scott Mission, providing new

and gently used items to families in need. Through these efforts, we remain committed to fostering a thriving community by investing our time, care, and professional expertise through meaningful volunteerism and educational outreach.

A heartfelt thank you to Laurie for her leadership, dedication, and care in organizing our volunteer initiatives throughout the year!



## Administrative corner

### Tips to streamline your tax reporting:

- Tax slips will be mailed beginning in early February 2026 until approximately the end of March. In addition to your tax slips, your tax package will include your fee summary, gain/loss report and foreign property summary.
- Please provide the tax package in its entirety to your accountant. If you would like your accountant to receive a duplicate copy of your tax package, please let us know.
- For a more efficient and environmentally friendly option, consider switching to eTax. With electronic delivery, you'll receive your tax package securely via WM Online, saving time and paper. To learn more about this option, please contact us directly.

RBC Dominion Securities – Tax reporting schedule	
RBC DS completes all tax reporting by	March 31, 2026
Important personal tax deadlines	
Personal income tax installments	March 16, 2026 June 15, 2026 September 15, 2026 December 15, 2026
Personal income tax return filing	April 30, 2026
Self-employed income tax return filing	June 16, 2026
Balance owing for taxes payable	April 30, 2026

### TFSA and RRSP information

TFSA information	
Maximum annual contribution limits	\$5,000 each year 2009 - 2012 \$5,500 each year 2013 - 2014 \$10,000 for 2015 \$5,500 for 2016 - 2018 \$6,000 for 2019 - 2022 \$6,500 for 2023 \$7,000 for 2024 - 2026
Maximum contribution limit since inception	\$109,000 from 2009-2026, if born in 1991 or earlier and eligible resident of Canada during those years
RRSP information	
RRSP maximum annual deduction limit	18% of the prior year's earned income to a maximum of: \$32,490 for 2025 – deadline March 2, 2026 \$33,810 for 2026 – deadline March 1, 2027

## Benchmarks

Equity market 12 month trailing return (for month ending December 31, 2025)	
S&P/TSX composite total return index	31.7%
S&P 500 total return (C\$)	12.5%
S&P 500 total return (U\$)	17.9%
DJIA total return (C\$)	9.7%
DJIA total return (U\$)	14.9%
Nasdaq composite price return (C\$)	14.9%
Nasdaq composite price return (U\$)	20.4%

RBC CM Canadian bond market indices 12-month trailing return (for month ending December 31, 2025)	
Short-term index	3.9%
Intermediate-term	4.0%
Three-month T-Bill (C\$)	2.8%
Three-month T-Bill (U\$)	4.4%



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