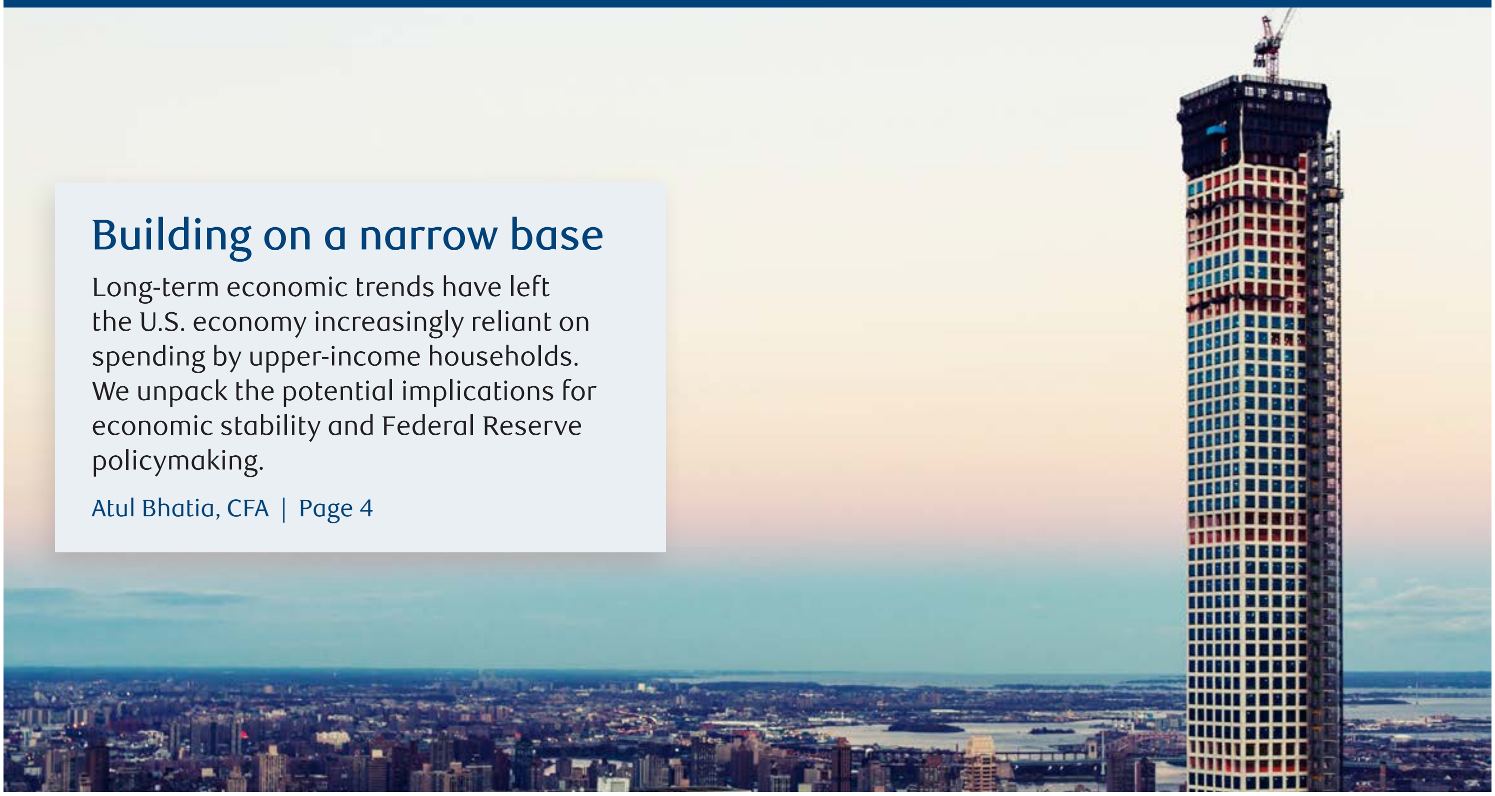
GLOBAL

Insight

January 2026

Perspectives from the Global Portfolio Advisory Committee



Building on a narrow base

Long-term economic trends have left the U.S. economy increasingly reliant on spending by upper-income households. We unpack the potential implications for economic stability and Federal Reserve policymaking.

Atul Bhatia, CFA | Page 4

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Insight

January 2026

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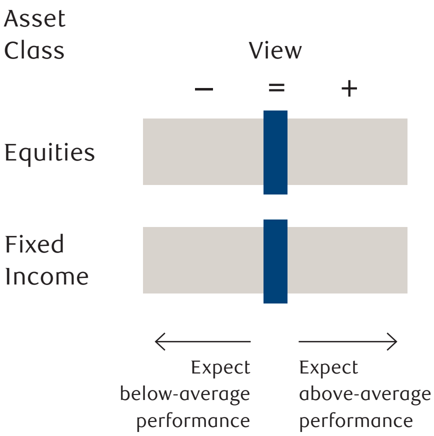

(+/=/–) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ Overweight implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= Market Weight implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

– Underweight implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

Equities

- We expect less robust gains for the S&P 500 and most other major equity markets over the next 12 months than in 2025, supported by modest easing of U.S. inflation and one or two more Fed rate cuts, together with positive earnings growth, although at levels somewhat lower than investors have been accustomed to lately.
- For this to occur, however, several conditions must be met: the U.S. and most major economies will need to avoid recession; investors will have to remain confident that earnings will grow in 2026 *and* 2027; and the AI story needs to roll on in terms of both the immense data center buildout and the effectiveness of AI integration into the general economy. Finally, market turbulence that often accompanies midterm election years will need to be sidestepped.
- We would position equity portfolios to be invested up to, but not beyond, the predetermined long-term strategic allocation level— in other words, at a Market Weight level—with a plan in place for becoming more defensive if needed.

Fixed income

- Despite 2025's volatility, the direction of travel was generally toward lower yields and, therefore, higher prices. However, with most central banks at or near the end of rate cut cycles amid rising global government debt levels and still elevated inflation, we think global yields will struggle to move much lower in 2026.
- We remain Underweight U.S. Treasuries and have shortened duration exposure on the potential for modestly higher long-term bond yields. We remain Underweight global developed market bonds with the European Central Bank on hold and the Bank of Japan likely to proceed with further rate hikes.
- We reiterate our Market Weight stance on U.S. fixed income, with yields remaining above multi-decade averages. Credit valuations are still rich globally, in our view. In the U.S., a solid economic growth backdrop should at least support credit markets, justifying Market Weight allocations for corporate bonds. But varying central bank and economic trajectories have us pursuing different allocations between government and corporate bonds across certain regions.

MONTHLY
Focus

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Building on a narrow base

Long-term economic trends have left the U.S. economy increasingly reliant on spending by upper-income households. We unpack the potential implications for economic stability and Federal Reserve policymaking.

Key points

- **Upper-income households are increasingly driving the growth in consumption, which is the largest component of the U.S. economy. Fully a third of economic activity relies on spending from the top 10% of households by pre-tax income.**
- **Higher-income households also own most investment assets in the U.S., and the rising importance of this group's purchasing power has come at a time of record-high stock prices.**
- **There are multiple reasonable explanations for the causes of rising wealth disparity, but we believe there's a strong policy and technology component.**
- **High equity and home prices make it difficult for future generations to become asset owners as early and at the same pace as prior generations, raising the stakes for policymakers.**

The pandemic recovery period was marked by a wave of stimulus programs from governments around the globe. In the U.S., these included cutting interest rates to zero, extending forgivable loans to business owners, and distributing direct support to households. While some of the programs had analogues in the global financial crisis, many were effectively unprecedented in modern times. The combined firepower was largely successful in combatting an economic slowdown, but the nature of the subsequent recovery has been uneven. The post-pandemic period has seen a sharp improvement in outcomes for higher-income households, along with stagnation and relative decline for those with lower incomes.

Some analysts have confined themselves to the post-pandemic period when looking at this phenomenon, but we think that view is too limited. Economic bifurcation in the U.S. accelerated after the pandemic, but it did not start five years ago. Instead, we see a multidecade process that has left the U.S. with what is effectively a two-tier economy. Upper-income households are increasingly driving the economy and reaping the benefits of its advance, while lower-income and newly formed households face a narrowing path ahead.

Most of the issues raised by this evolution are social and political in nature, but it poses challenges for investors as well. It leaves the U.S. economy less resilient, more prone to shocks, and with a potential structural need for a weaker dollar. Any social instability that results could also feed back to investors through populist programs or policies designed to reward particular income segments at the expense of others.

BUILDING ON A NARROW BASE

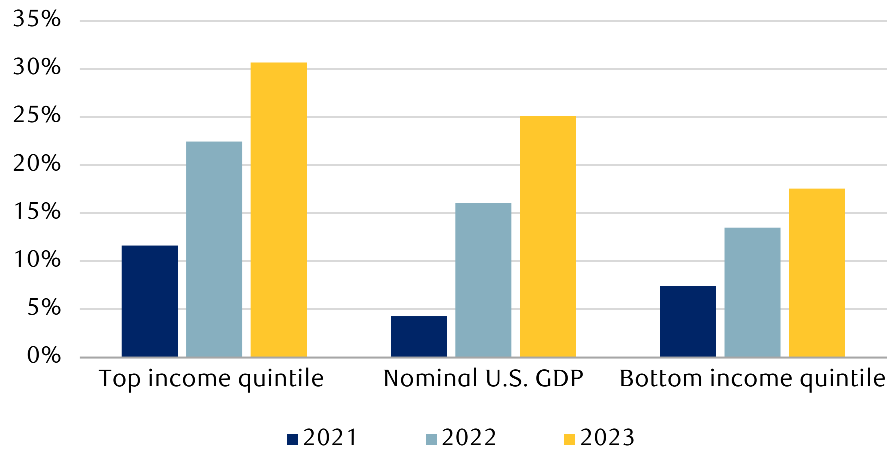
Who's buying?

The largest component of the U.S. economy—by far—is household consumption, which routinely accounts for almost three times as much economic activity as government spending or business investment. Increasingly, that consumption is coming from the top 10 percent of households by income. In the second quarter of 2025, consumers in that stratum accounted for just under half of all household spending, up from just over a third in the early 1990s. Put differently, consumption by 10 percent of households was behind 34 percent of all economic activity in the United States.

It's no coincidence, in our view, that the top 20 percent of households by income directly or indirectly hold 90 percent of stock investments and that the ramp-up in consumption is concurrent with all-time highs in U.S. equity indexes.

Upper-income spending rises faster than GDP

Cumulative growth in household spending and GDP since 2020



Note: Average annual expenditures for the top 20% and bottom 20% of U.S. households based on pre-tax income. Nominal GDP does not account for inflation.

Source - RBC Wealth Management, U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

One obvious implication is that demand for nearly a third of the goods produced in the U.S. relies on a very small slice of its population whose consumption behavior is almost certainly driven at least in part by the performance of the stock market. The circular nature of that relationship—with stock prices fueling demand that drives corporate earnings that lead to higher stock prices—means that even a relatively small shift in consumption patterns could have large implications for the overall economy and global equity performance.

How we got here

There are numerous lenses through which we can view the shift in purchasing power between income strata:

Changes in the federal budget: Larger tax deductions and expansionary fiscal policy have had both direct and indirect economic benefits for wealthy households with large investment portfolios.

BUILDING ON A NARROW BASE

Declining relative importance of wages: Viewed from the income side of GDP, labor's share of national production has been falling since 2001. For folks without investment income, the result is a relative decline in economic participation.

Post-crisis monetary policy: In the aftermath of the global financial crisis, countries around the world kept interest rates artificially low. This policy was intended to help support asset prices, propping up banks and investors facing large writedowns on defaulted loans, and it was largely successful. The side effect, however, was that rising asset prices made it more expensive for income-constrained workers to purchase homes or build savings portfolios.

Technological rewards: Income disparity arose alongside revolutionary changes like the rise of the internet and the launch of practical artificial intelligence (AI). The flow of rewards for those world-changing innovations to their creators has tended to exacerbate inequality.

Ultimately, we think it was the combination of technological innovation and low interest rates that led to significant gains for the U.S. economy, and it was government policymaking that helped direct most of the benefits to upper-income households.

How one views that outcome is often a matter of political perspective, and reasonable people can certainly disagree on the desirability of income inequality and the advisability of policy shifts to offset it. What cannot be reasonably disputed, however, is that the U.S. today is near the highest levels of economic inequality since record keeping began nearly 60 years ago.

No way home

The cleanest way to break up the current stagnation in economic mobility, in our view, would be to move wage-dependent households into the investor class. That is easier said than done, unfortunately, due to changes in initial conditions. For instance, although average wages are up a hefty 77 percent since 2007, rent has risen 90 percent over the same period. That 13 percent relative rent inflation is a major drag on the U.S. economy given that the overall savings rate is only 4.6 percent of disposable income. Add in food inflation and a general rise in the cost of living—not to mention the impact of high student debt levels—and the mathematical reality is that there are severe practical limits on how much younger households can save. One may argue that taking on student debt is a voluntary choice, but that doesn't change the fact that food and shelter are biological necessities.

Historically, home ownership has been the path to wealth accumulation for U.S. households. Absent a policy shift, however, it's difficult to see how low savings and high home prices will allow the next generation of Americans to enjoy the same access to home ownership as the Baby Boomers. This would hold true even if mortgage rates were to decline from current levels.

BUILDING ON A NARROW BASE

Safety first—but how?

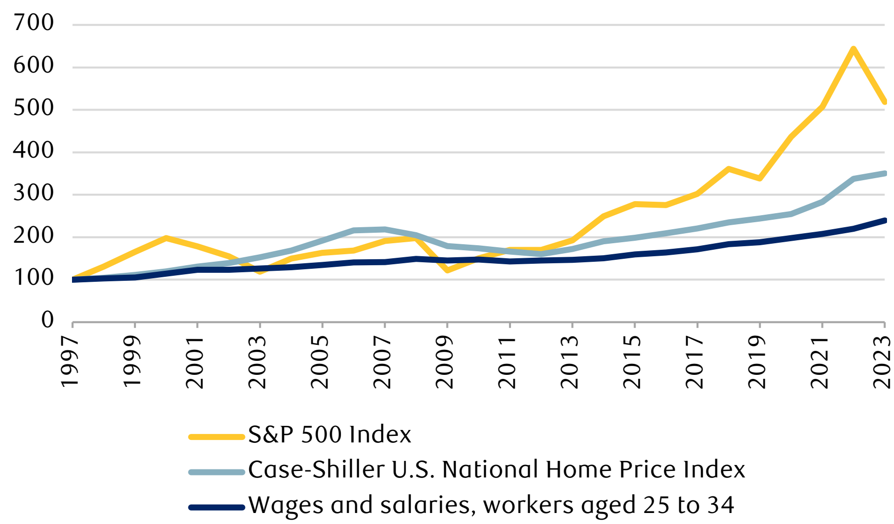
A narrow base for economic growth has potentially large implications for the Federal Reserve.

Traditionally, the U.S. central bank has cut interest rates to spur investment and hiring, based on the idea that consumption by the newly employed would lead to a virtuous cycle of economic expansion. Today, however, the case for that type of accommodation—while it still exists—looks weaker.

Instead, the low-hanging monetary fruit now appears to be asset prices, which the Fed acts on through two related channels. One is by lowering longer-term interest rates, which makes future cash flows more valuable today. The other is through currency debasement: rate cuts that weaken the dollar. Both a lower discount rate and a weaker currency tend to drive up equity and real estate prices, and those factors in turn tend to spur so called wealth-effect spending among those with large investment portfolios.

As asset price gains outpace wage growth, younger workers see a slower path to accumulate assets

Change in equity prices, home prices, and wages, 1997–2023



Note: Data normalized to Jan. 1, 1997; wage and salary data for 2024 not available at time of publication.

Source - RBC Wealth Management, Federal Reserve Bank of St. Louis

In our view, this type of policy framework has three important implications:

First, it's heavily reliant on longer-term interest rates. The Fed cannot directly control those by adjusting its overnight policy rates, so it may have to consider less conventional tools like bond purchases. Reaction to the Fed's latest rate cut underscores this point: while 2-year Treasury yields fell nearly 8 basis points in the days following the cut, both 10-year and 30-year yields rose in that period.

Second, currency debasement is a two-party game. Other countries may not play along with moves that benefit the U.S. to the detriment of overseas producers. Currency wars are potentially problematic across multiple dimensions of international trade and relationships.

Finally, there is a limit to what the Fed can do. Absent negative interest rates, which have their own host of problems, the Fed is stopped at the zero bound. Once it is reached, we believe the U.S. will either have to generate true growth or face a potential reckoning.

It’s important to note that there are multiple ways to view Fed policy adjustments. One is the story sketched above: using monetary policy to inflate asset prices. The other is through the lens of the Fed’s full employment mandate. In that interpretation, the Fed would not be targeting the S&P 500 Index or home prices per se. Instead, it would be recognizing that falling equity prices would challenge consumption, economic growth, and eventually employment, and looking to fight that impact.

Whatever lens we use to view that type of policy move, however, we believe the key takeaway is that the longer the central bank is in the business of asset price support, the more painful it is to get off the treadmill.

Related challenges, shared burdens

As we survey the U.S. economic landscape, we see a series of interconnected challenges: debt growing at an unsustainable pace, a two-tier economy, and economic growth that appears increasingly dependent on a narrowing base of upper-income spending and a weaker dollar. Ultimately, we believe these challenges can be overcome, but doing so will require a degree of political unity and a rational discourse on burden sharing. While such a scenario may seem remote, we think that ultimately facts and economic reality will force that conversation. In other words, if something can’t go on, it won’t—but the longer we wait, the more expensive the adjustment is likely to be.

GLOBAL

Equity

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Navigating 2026 growth, AI momentum, and election-year dynamics

Key points

- **The S&P 500 and major equity markets are expected to see moderate, single-digit gains in 2026, contingent on tame inflation, modest further rate cuts, and steady earnings growth.**
- **While AI integration promises long-term productivity gains, near-term challenges—including infrastructure costs and adoption uncertainty—could drive market volatility.**
- **Market pullbacks during midterm election years are not uncommon. Rebounds to new highs often follow.**

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 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

Equity views

Region	Current view
Global	=
United States	=
Canada	=
Continental Europe	=
United Kingdom	=
Asia (ex Japan)	=
Japan	=

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

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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 above). 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

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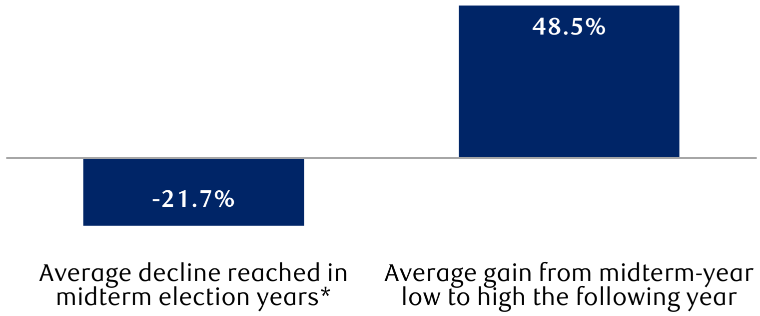
Midterm elections: Corrections, then follow-on rallies

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

unaware of how they are "supposed" to behave according to past experiences. They can and do toss unexpected curveballs from time to time.

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.

GLOBAL

Fixed income

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A slow start out of the gates

Key points

- **After a year of steady rate reductions, most global central banks will now likely be on hold in early 2026.**
- **Despite central banks' rate cuts, yields available to investors remain near the highest starting levels on offer since 2002.**
- **Less central bank clarity is likely to mean greater volatility for bond markets.**

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 10-year Treasury yield to hold north of 4.0% this year, with a current year-end 4.35% 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.

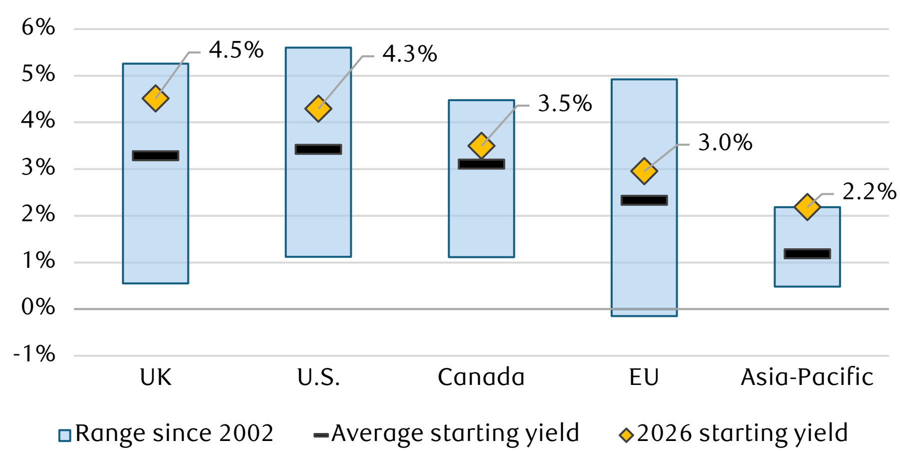
Though 2025 was not without volatility, global yields generally pulled back (and prices rose). We expect more volatility this year, and while yields remain historically high, we look for rangebound trading with a bias for moderately higher yields (and lower prices).

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	–	+	3–7
Canada	+	–	3–7
Continental Europe	+	+	3–7
United Kingdom	=	+	3–7

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

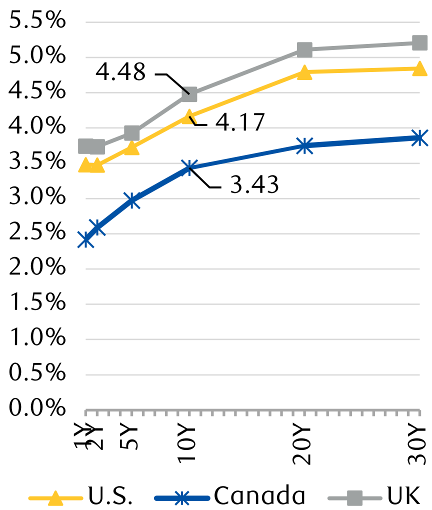
Global yields set to open 2026 at still-lofty levels



Source - RBC Wealth Management, regional Bloomberg Aggregate Bond Indexes

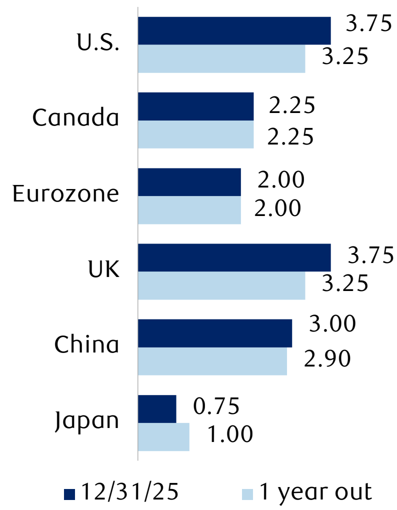
GLOBAL FIXED INCOME

Sovereign yield curves



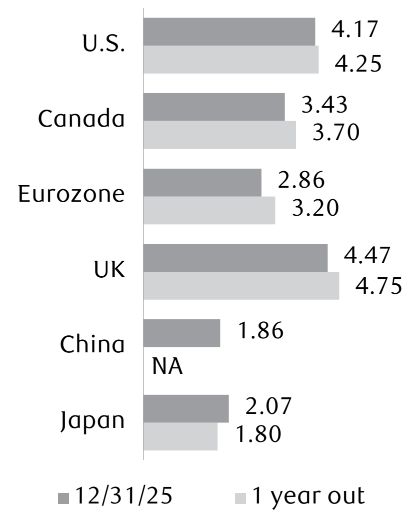
Source - Bloomberg; data through 12/31/25

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

10-year rates (%)

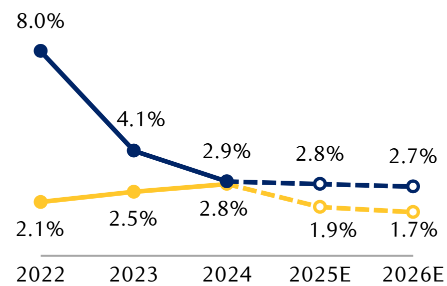


Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

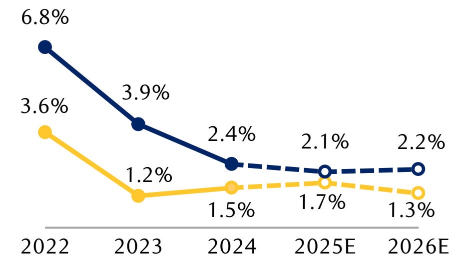
KEY

Forecasts

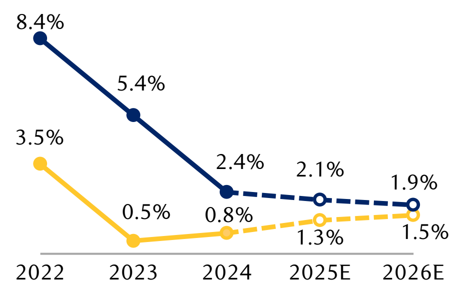
United States



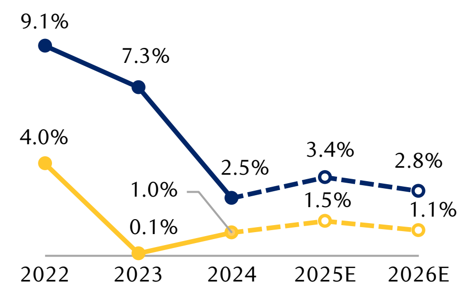
Canada



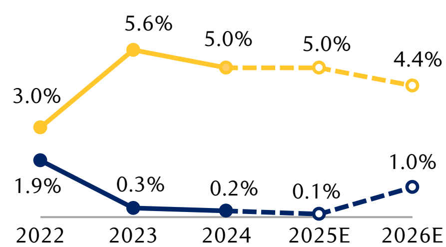
Eurozone



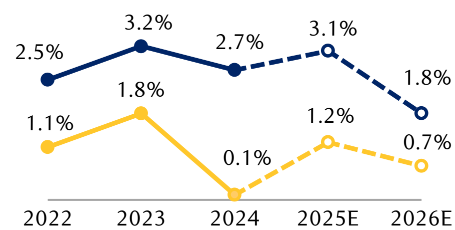
United Kingdom



China



Japan



Real GDP growth

Inflation rate

Source - RBC Global Asset Management, RBC Wealth Management Global Portfolio Advisory Committee

Research resources

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC Wealth Management Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's investment advisors / financial advisors who are engaged in assembling portfolios incorporating individual marketable securities.

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As of December 31, 2025

			Investment Banking Services Provided During Past 12 Months	
Rating	Count	Percent	Count	Percent
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