RBC Global Asset Management

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Investors embrace risk-taking into 2026

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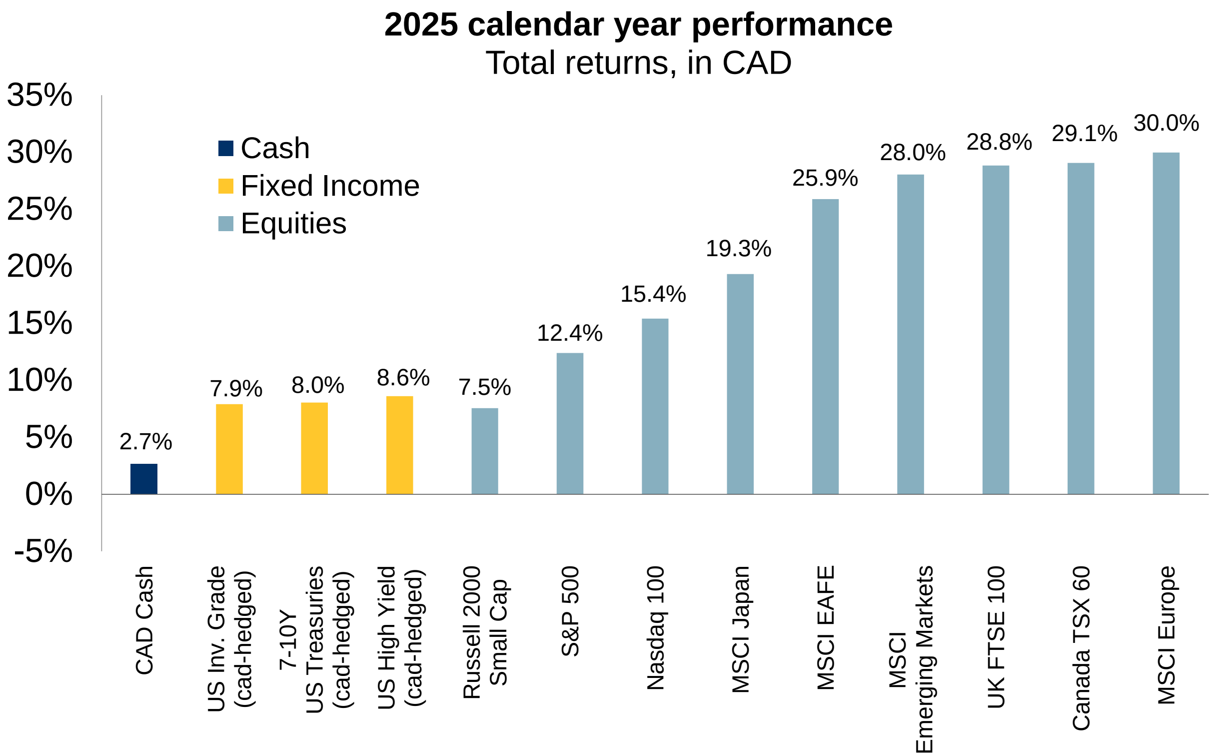
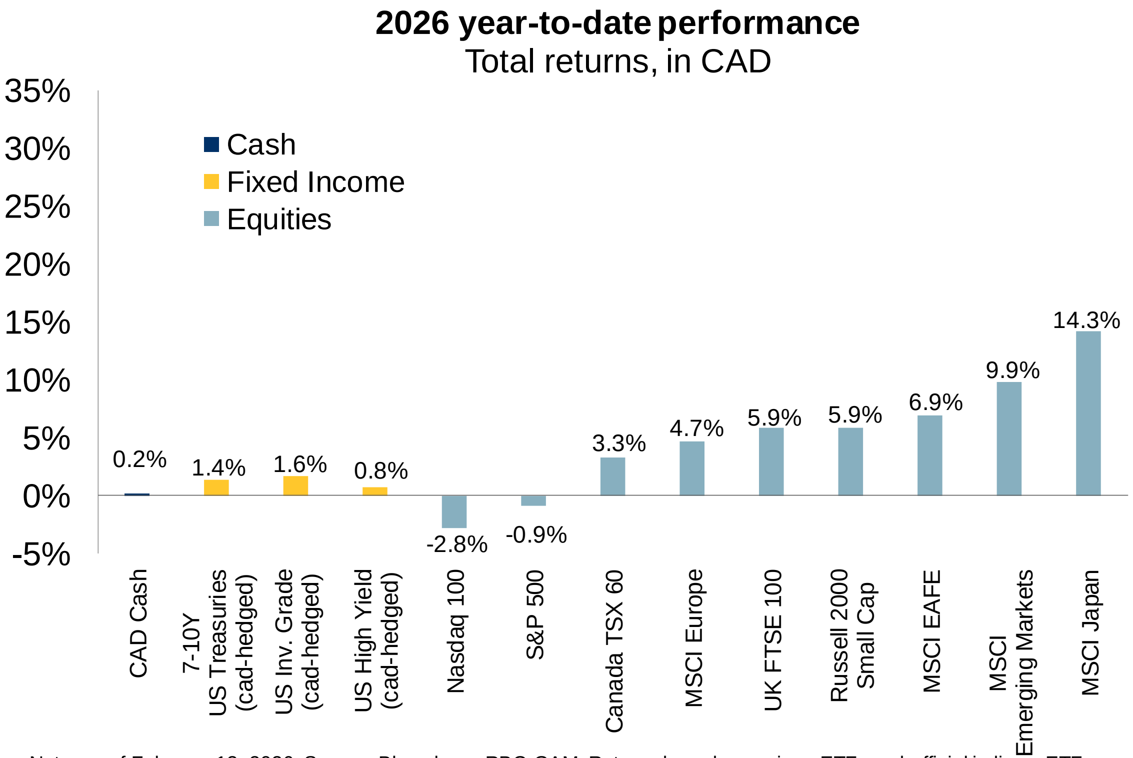
Asset class returns

Risk assets enjoy decent start to 2026, favouring geographies outside the U.S.



Note: as of December 31, 2025. Source: Bloomberg, RBC GAM. Returns based on various ETFs and official indices. ETFs used are as follows: CAD Cash (CBIL), 7-10Y US Treasuries (IEF), US High Yield (HYG), U.S. Inv. Grade (LQD).



Note: as of February 13, 2026. Source: Bloomberg, RBC GAM. Returns based on various ETFs and official indices. ETFs used are as follows: CAD Cash (CBIL), 7-10Y US Treasuries (IEF), US High Yield (HYG), U.S. Inv. Grade (LQD).

Macro landscape

Our views on the economy and financial markets

Economy

- Tariff damage less severe than initially thought
- Any new tariff threats widely deemed as negotiation tactic
- Fiscal stimulus provides a tailwind in 2026
- Inflation pressures are modest, likely to cool later this year
- Our developed-world growth and inflation forecasts are slightly above consensus

Currencies

- USD declines to new cycle lows in Jan 2026
- Structural headwinds against U.S. dollar remain:
  - Above-normal policy uncertainty
  - U.S. exceptionalism questioned
  - USD safe-haven status challenged
  - USD extremely overvalued vs. PPP

Interest rates

- U.S. pauses interest-rate cuts to further assess incoming data
- U.S. futures pricing in 50 basis points in further cuts this year, with the next cut in late-spring/early-summer
- Path of rates will be determined by economy/inflation, with greater emphasis on the labour market

Bonds

- Government bond yields increased over the past quarter, reflecting doubts around future central bank easing, and concerns over fiscal debt burdens
- At higher yields, sovereign bonds provide a critical ballast against equity market volatility
- Corporate bonds offer low potential for excess returns as credit spreads are near historic tights

Stocks

- Stock rally has recently broadened beyond U.S. large-cap growth
- Valuations have crept higher everywhere, and are situated at extremes in the U.S., Canada and Japan
- Corporate profits have been strong, but further rapid earnings growth will be required to sustain the rally given elevated valuations

Key risks:

Global growth | China | interest rates | inflation | geopolitics | U.S. politics/tariffs | AI | private credit | equity valuations | earnings

Acts of war

History suggests acts of war often have limited or no impact on equity markets

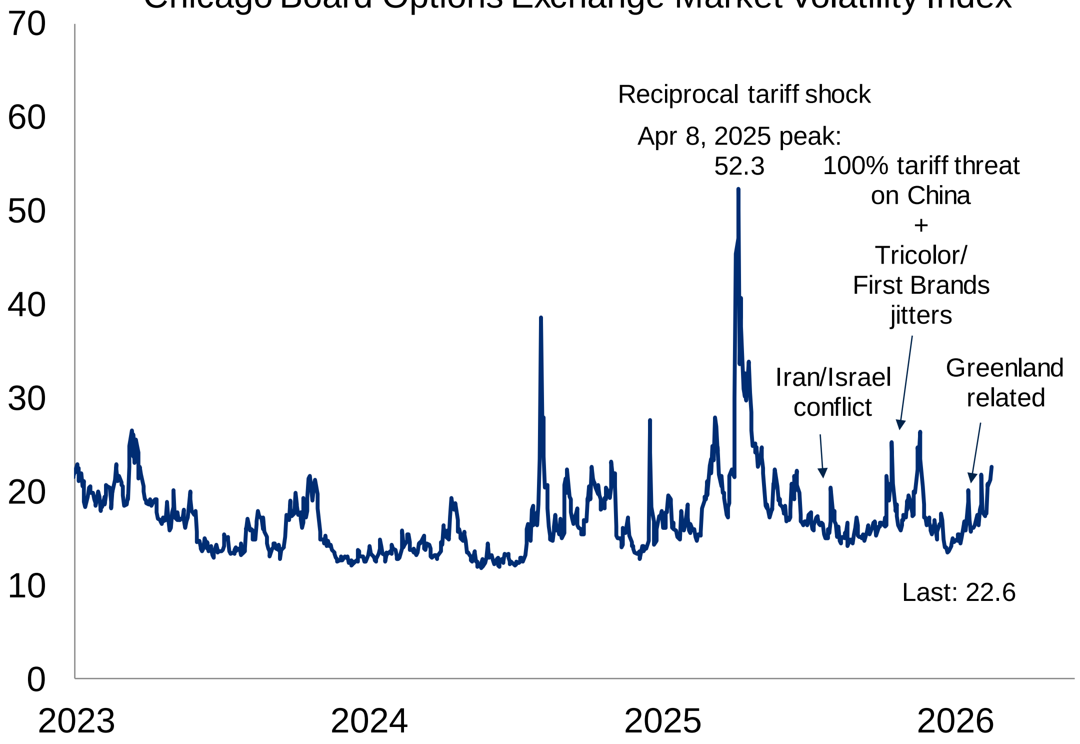
Equity Market Response to Acts of War
Impact on DJIA

		Median Experience		
		Decline		Reaction
Event	Date	Days	%	Period
ACTS OF WAR		**5**	**-2.7**	**12**
US Aggressor		**3**	**-2.0**	**11**
Hiroshima bomb	Aug 6, 1945	2	-0.9	4
Bay of Pigs invasion announced	Apr 17, 1961	6	-3.0	22
Gulf of Tonkin Incident	Aug 4, 1964	3	-2.0	11
US Bombs Cambodia	Apr 30, 1970	21	-14.1	67
Attempt to free Iranian hostages fails	Apr 28, 1980		No decline	
US invades Grenada	Oct 25, 1983	10	-2.7	14
US Bombs Libya	Apr 15, 1986		No decline	
US invades Panama	Dec 18, 1989	3	-1.9	10
Coalition bombing of Iraq	Jan 17, 1991		No decline	
Coalition Invasion of Afghanistan	Oct 5, 2001	3	-0.1	5
Invasion of Iraq	Mar 19, 2003	9	-2.5	13
U.S. kills top Iranian commander	Jan 3, 2020	2	-0.7	6
U.S. captures Venezuelan president	Jan 3, 2026		No decline	
US Target		**2**	**-2.7**	**4**
Japanese bomb Pearl Harbor	Dec 8, 1941	12	-8.2	240
U-2 shot down; US admits spying	May 9, 1960	2	-0.5	4
Cuban Missile Crisis begins	Oct 23, 1962	1	-1.9	2
US Marines killed in Lebanon	Oct 24, 1983	11	-2.7	15
Spy plane captured in China	Apr 2, 2001	2	-4.0	4
External		**11**	**-7.1**	**10**
N.Korea invades S.Korea	Jun 26, 1950	14	-12.0	59
Soviet Union invades Afghanistan	Dec 26, 1979	7	-2.2	10
Iraq invades Kuwait	Aug 2, 1990	51	-18.4	138
Russia invades Georgia	Aug 7, 2008		No decline	
Russia invades Crimea, Ukraine	Feb 28, 2014	2	-0.6	3
Russia invades Ukraine	Feb 24, 2022		No decline	
Hamas Attack on Israel	Oct 7, 2023		No decline	
Israel Attacks Iran	Jun 13, 2025	1	-1.3	4
Terrorism		**5**	**-4.1**	**12**
Seizure of American Embassy in Iran	Nov 5, 1979	3	-2.7	6
World Trade Centre bombing	Feb 26, 1993	2	-0.3	3
Oklahoma City bombing	Apr 19, 1995		No decline	
U.S. Embassy Bombings Africa	Sep 23, 1998	18	-11.8	62
Bombing of USS Cole	Oct 12, 2000	5	-4.2	12
WTC and Pentagon Attacks	Sep 11, 2001	5	-14.3	42
Madrid Attacks	Mar 10, 2004	11	-3.9	18
London Train Bombing	Jul 6, 2005		No decline	

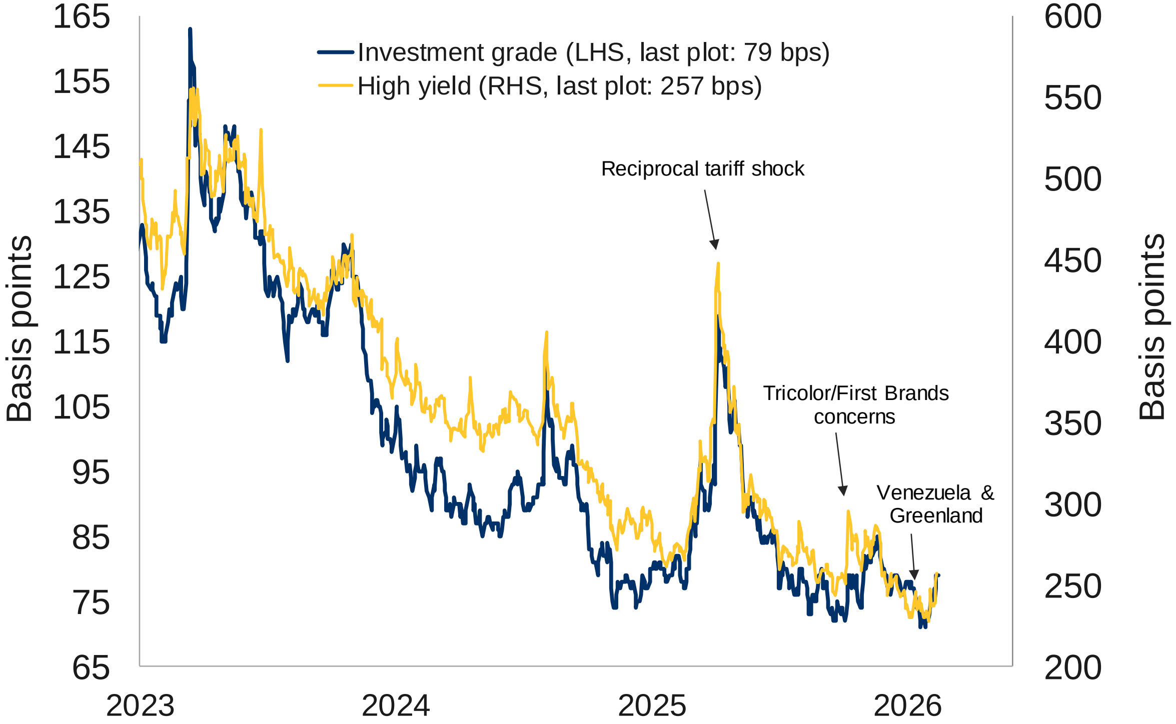
Source: RBC GAM, Ned Davis Research

Stress indicators

Risk assets have been relatively calm, less bothered by Trump threats



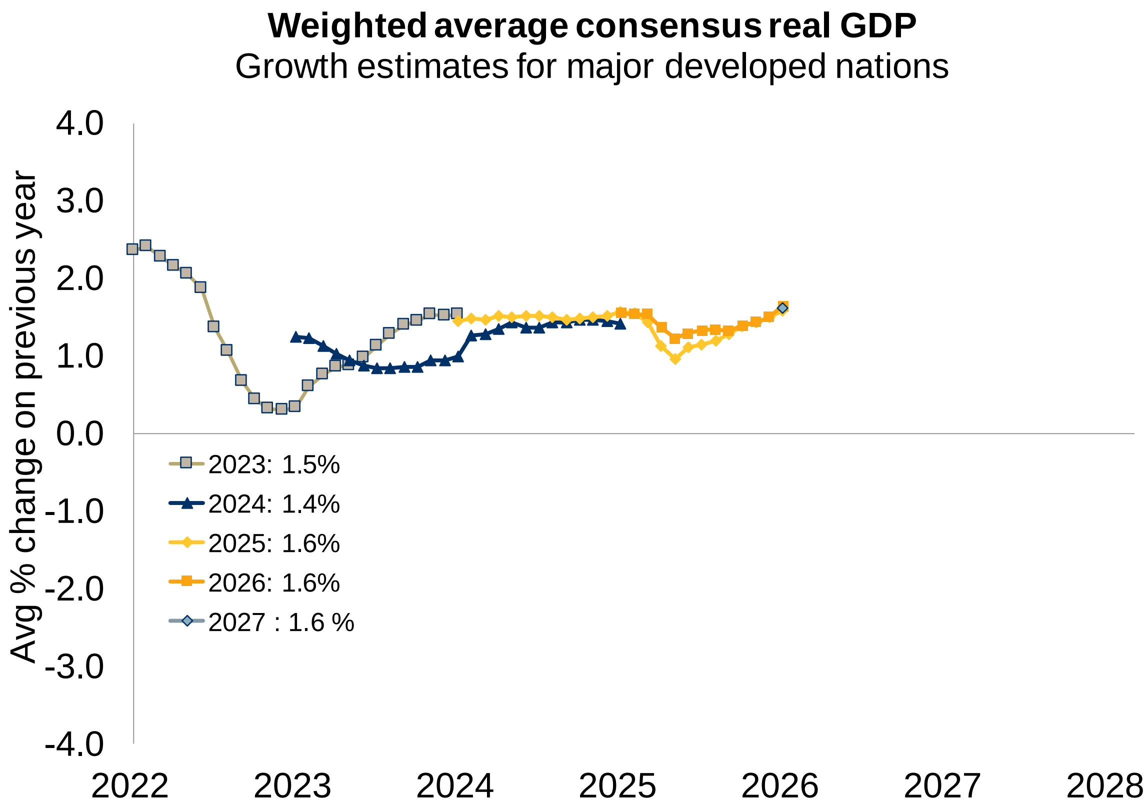
Note: As of February 17, 2026. Source: Bloomberg, RBC GAM



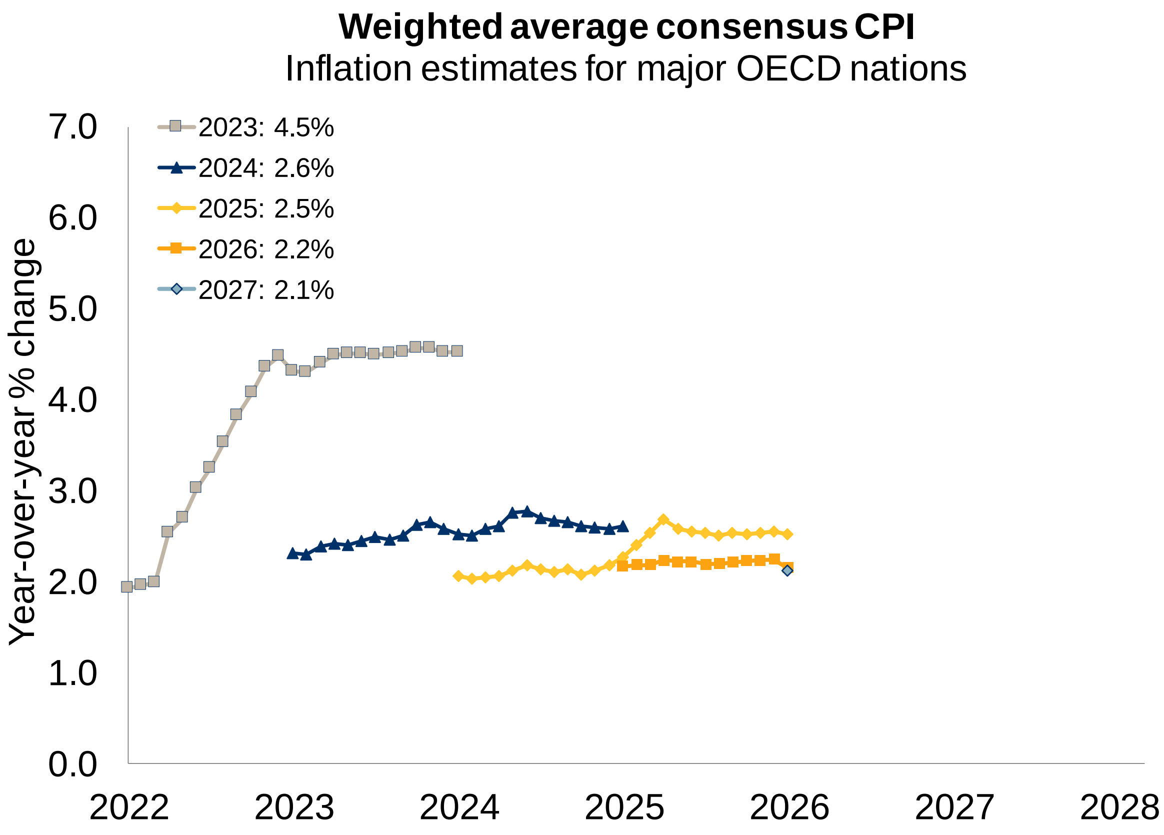
Note: As of Feb 13, 2026. Source: Barclays Capital, Bloomberg, RBC GAM

Economy: *consensus estimates for growth and inflation*

Expectations look for modest growth and for inflation to calm toward 2.0% this year



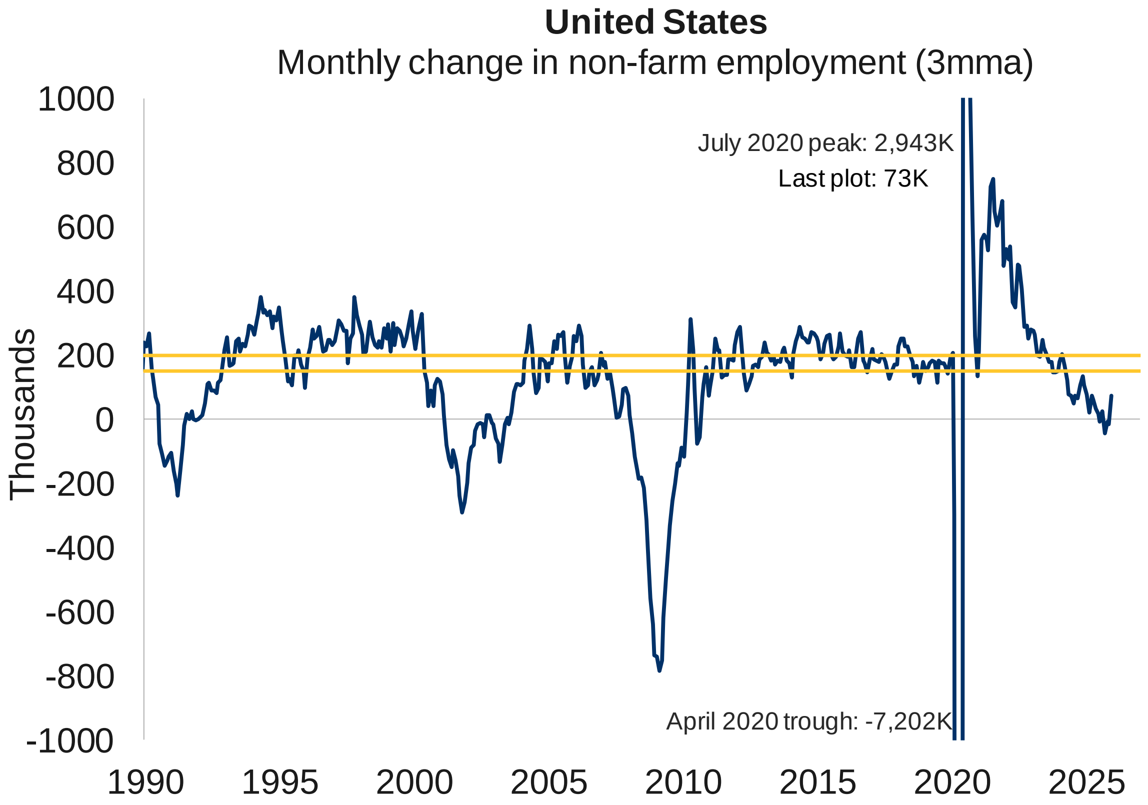
Note: As of January 2026. Source: Consensus Economics



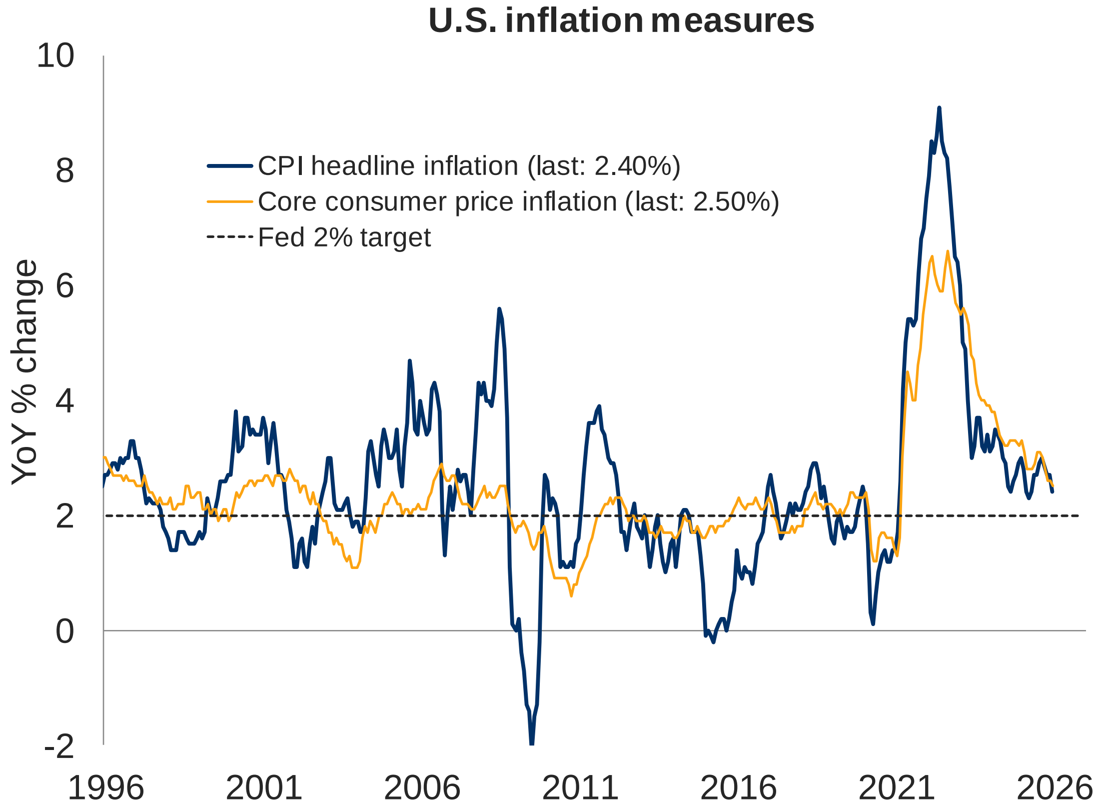
Note: As of January 2026. Source: Consensus Economics

Monetary policy: *Fed's dual mandate*

Job gains have been slowed while inflation is slightly above the 2% target



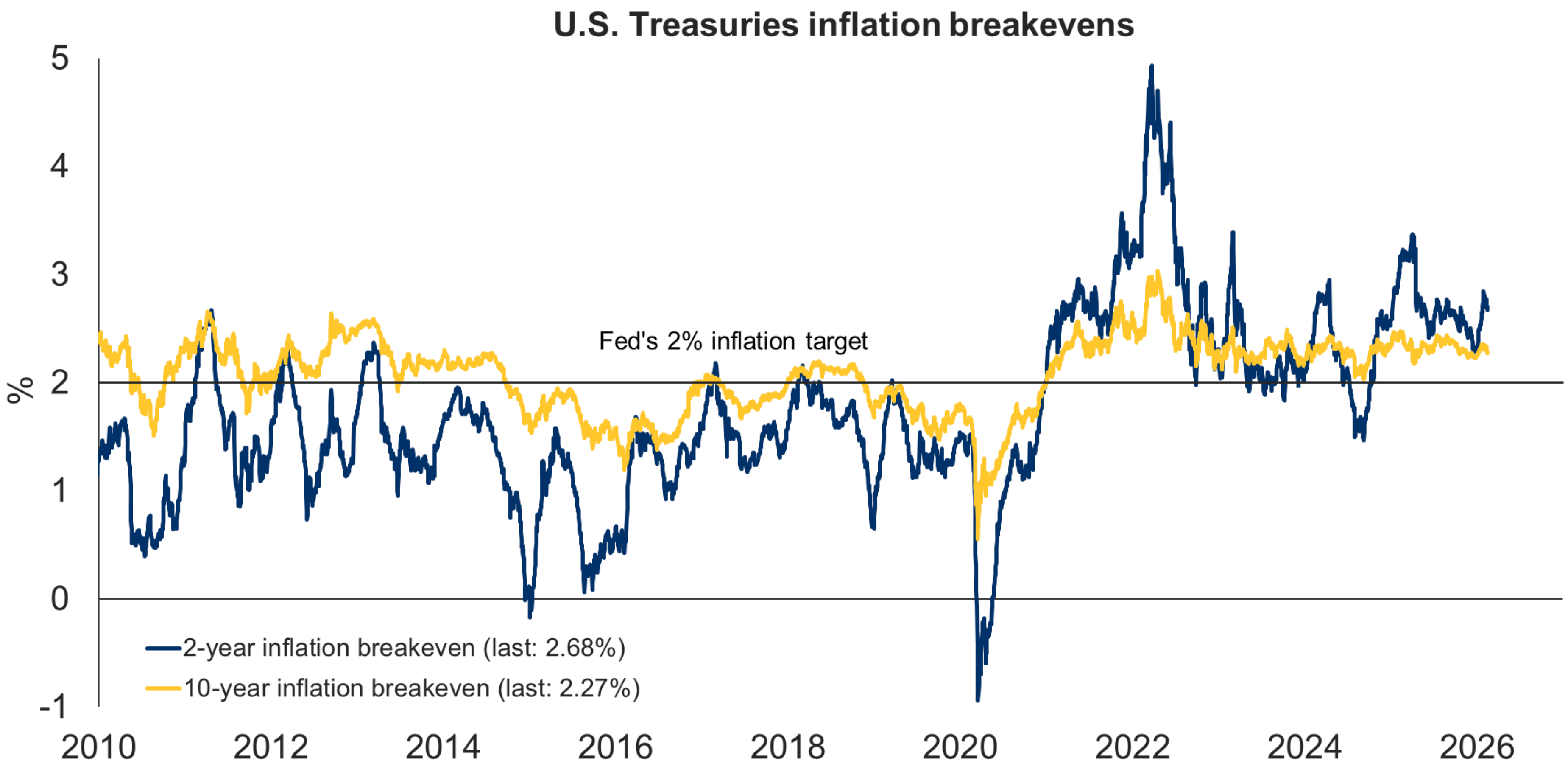
Note: As of Jan 2026. Source: Bureau of Labor Statistics



Note: As of January 31, 2026. Source: Bloomberg, RBC GAM

Monetary policy: *inflation expectations*

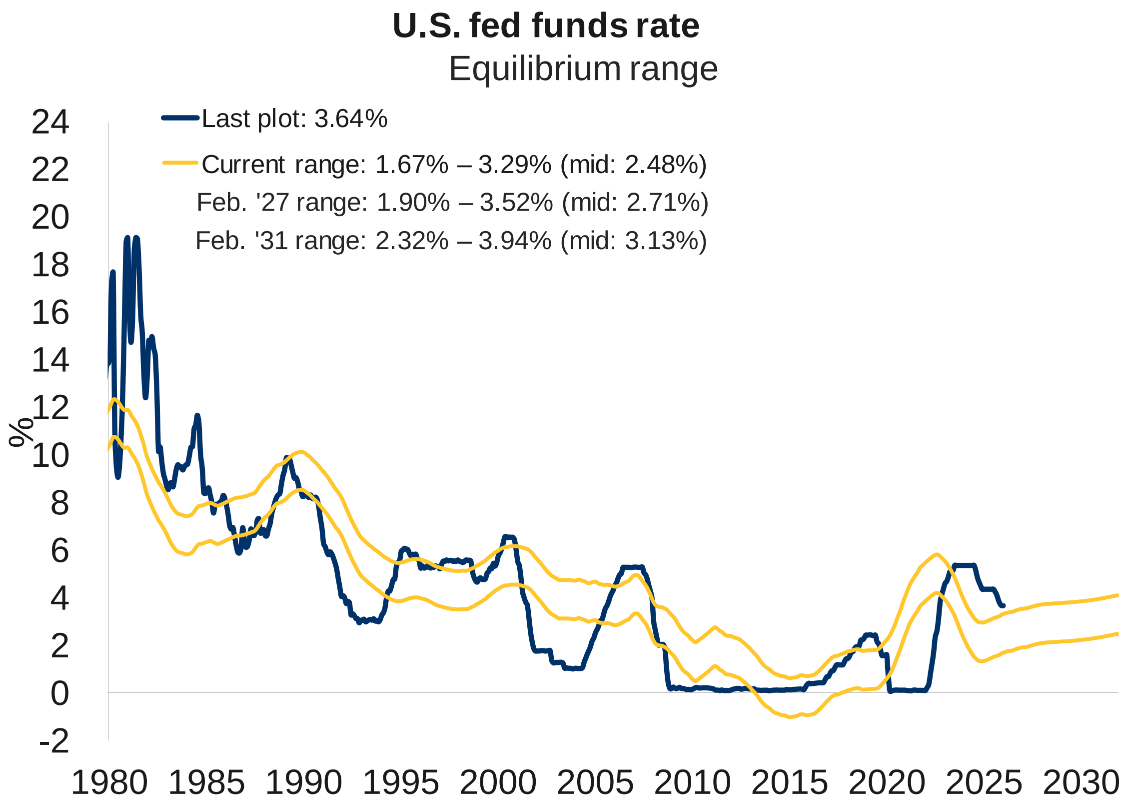
Market-based inflation expectations have perked up in the New Year



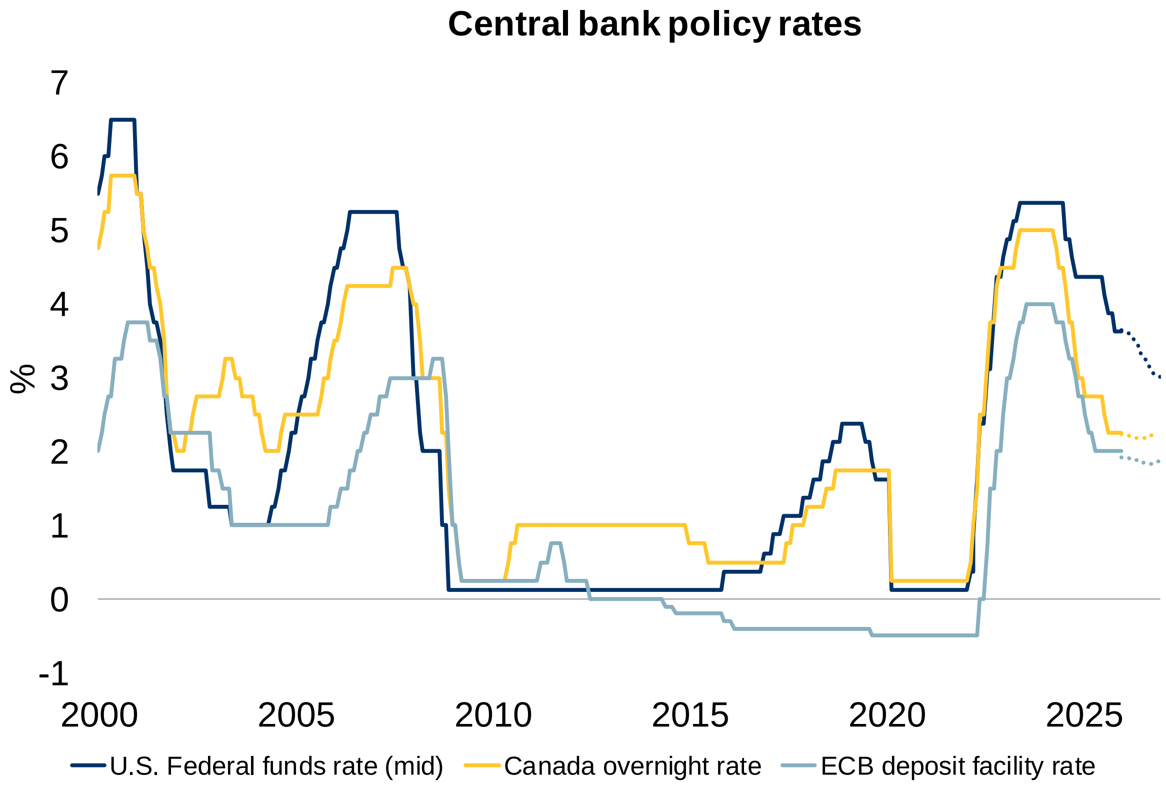
Note: As of Feb 17, 2026. Source: Bloomberg, RBC GAM

Capital markets: *short-term interest rates*

Fed pauses rate cutting, awaiting further data before delivering additional easing



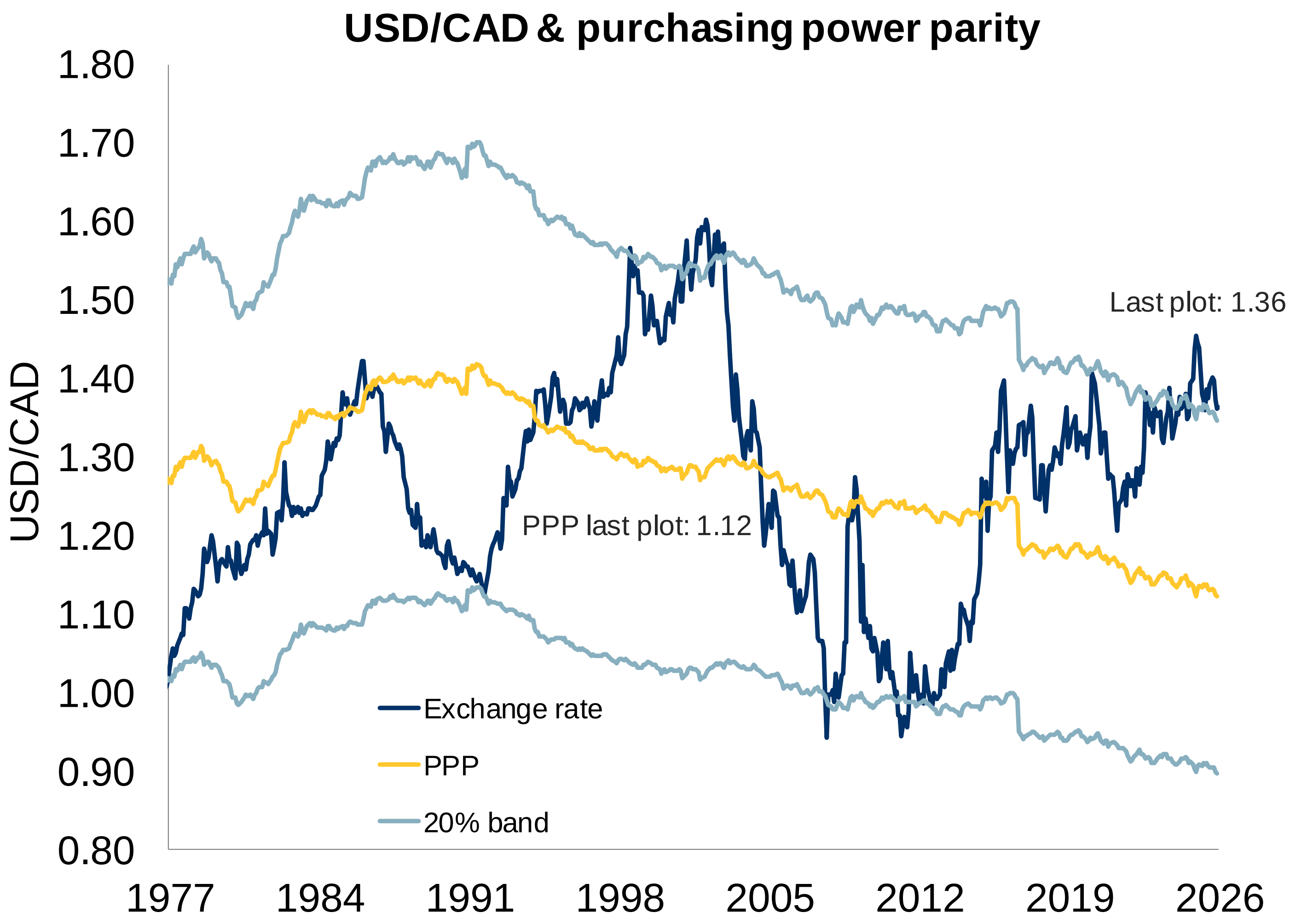
Note: As of February 13, 2026. Source: RBC GAM



Note: Forecasts, shown as dotted lines, are based on futures for the U.S. and OIS forwards for other regions. As of Feb 17, 2026. Source: Bloomberg, RBC GAM

Currencies: *U.S. dollar overvaluation*

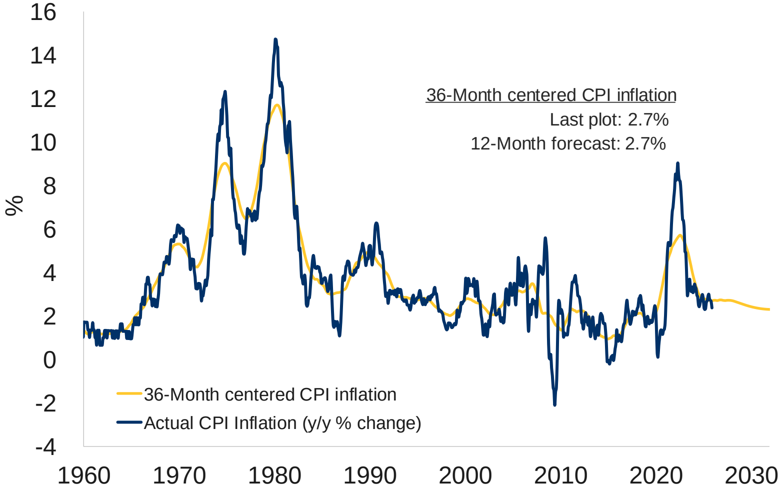
Purchasing-power-parity model suggests U.S. dollar bear market may still be in early innings



Note: As of Feb 17, 2026. Source: DB FX Research, RBC GAM

Capital markets: *fixed income*

Recent increase in yields improves return potential in bonds, valuation risk remains modest



Note: As of February 13, 2026. Source: RBC GAM

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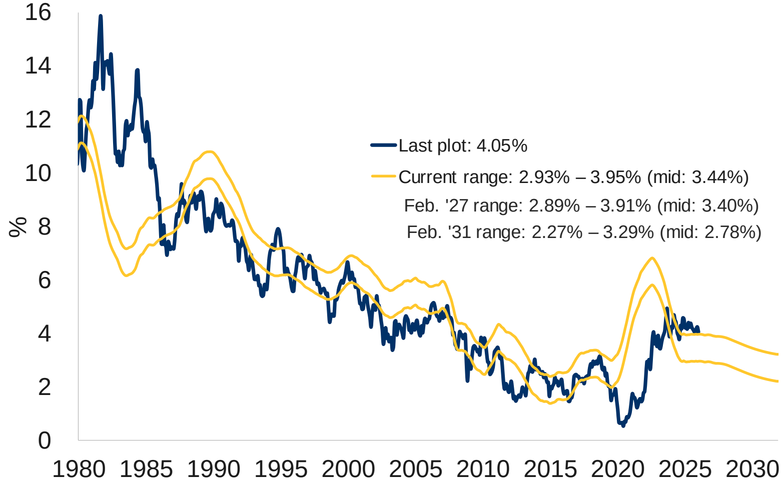
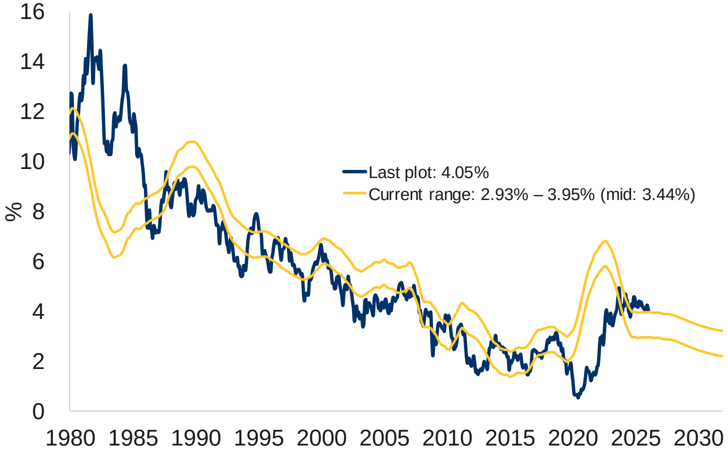


Note: As of February 13, 2026. Source: RBC GAM

Capital markets: *fixed income*

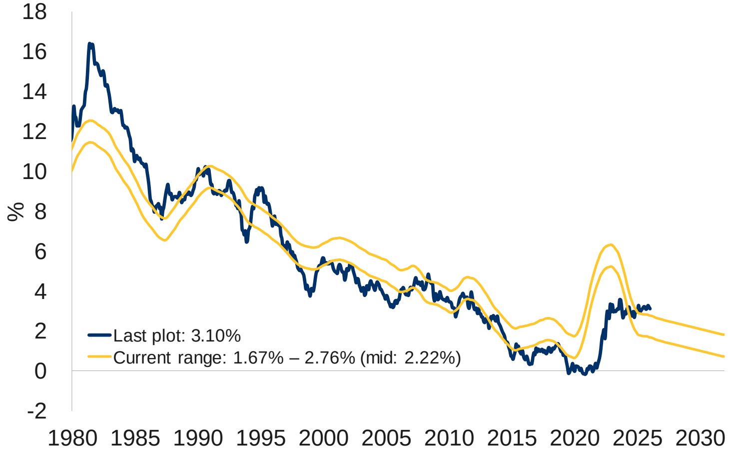
Recent increase in yields improves return potential in bonds, valuation risk remains modest

U.S. 10-year T-bond yield
Equilibrium range



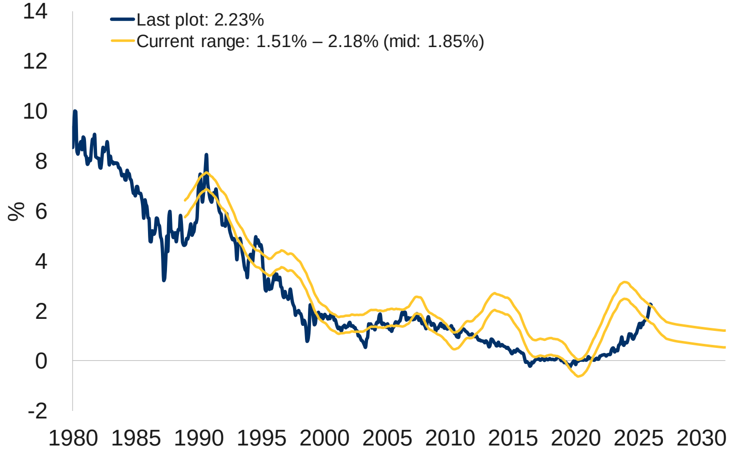
Note: As of February 13, 2026. Source: RBC GAM

Eurozone 10-year bond yield
Equilibrium range



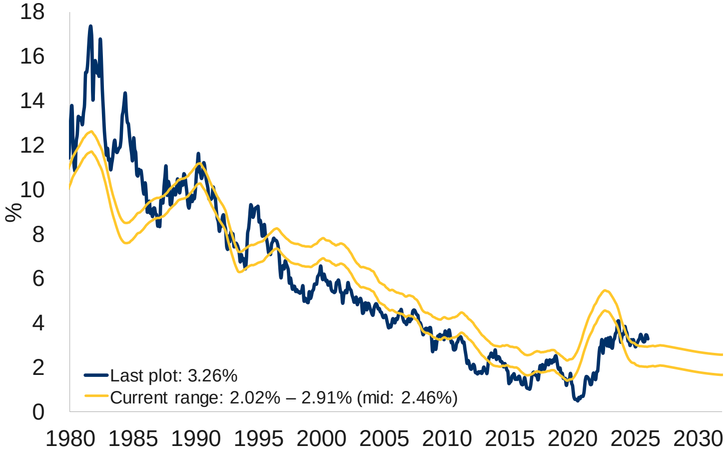
Note: As of February 13, 2026. Source: RBC GAM

Japan 10-year bond yield
Equilibrium range



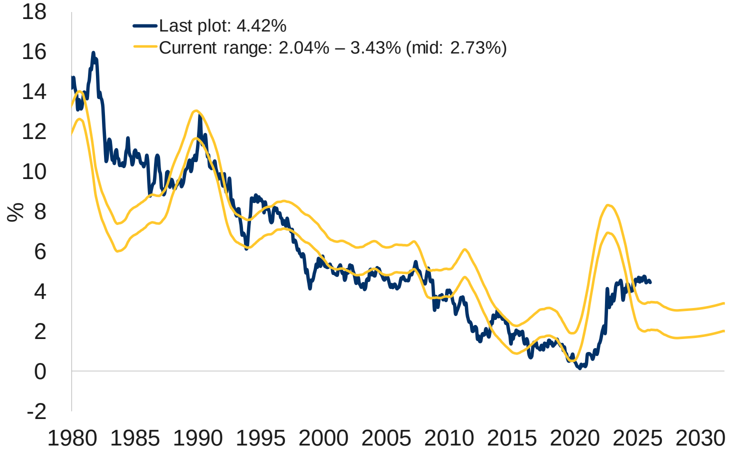
Note: As of February 13, 2026. Source: RBC GAM

Canada 10-year bond yield
Equilibrium range



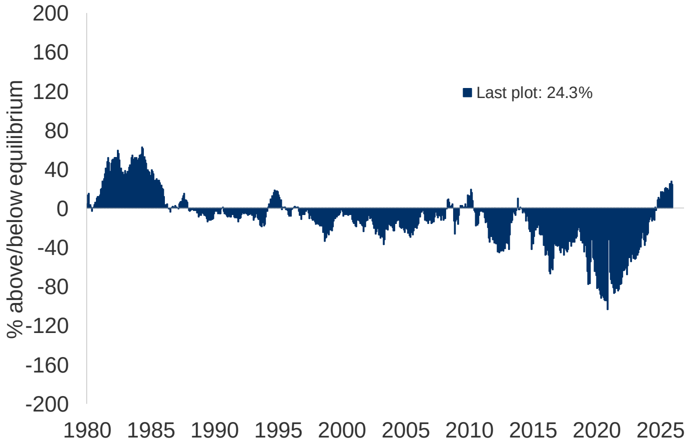
Note: As of February 13, 2026. Source: RBC GAM

U.K. 10-year bond yield
Equilibrium range



Note: As of February 13, 2026. Source: RBC GAM

Global bond market composite
10-year government bond yields relative to equilibrium

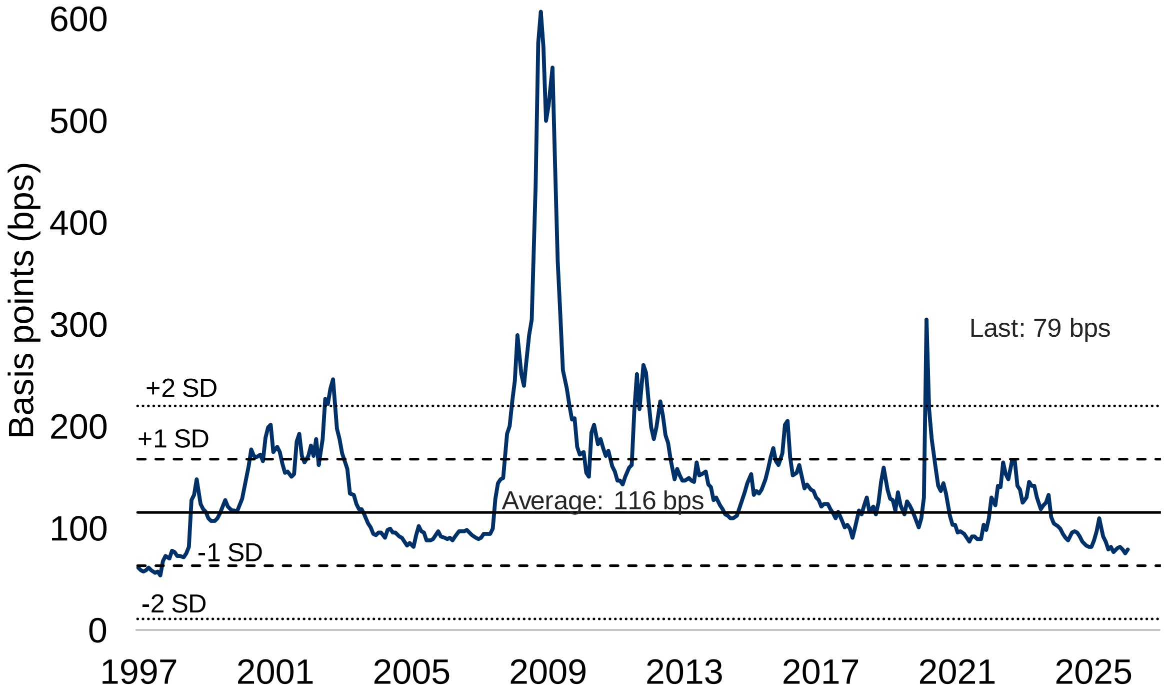


Note: As of February 17, 2026. Source: RBC GAM

Capital markets: *corporate credit*

Spreads narrow to near record tights, consistent with weak excess returns in corporate bonds

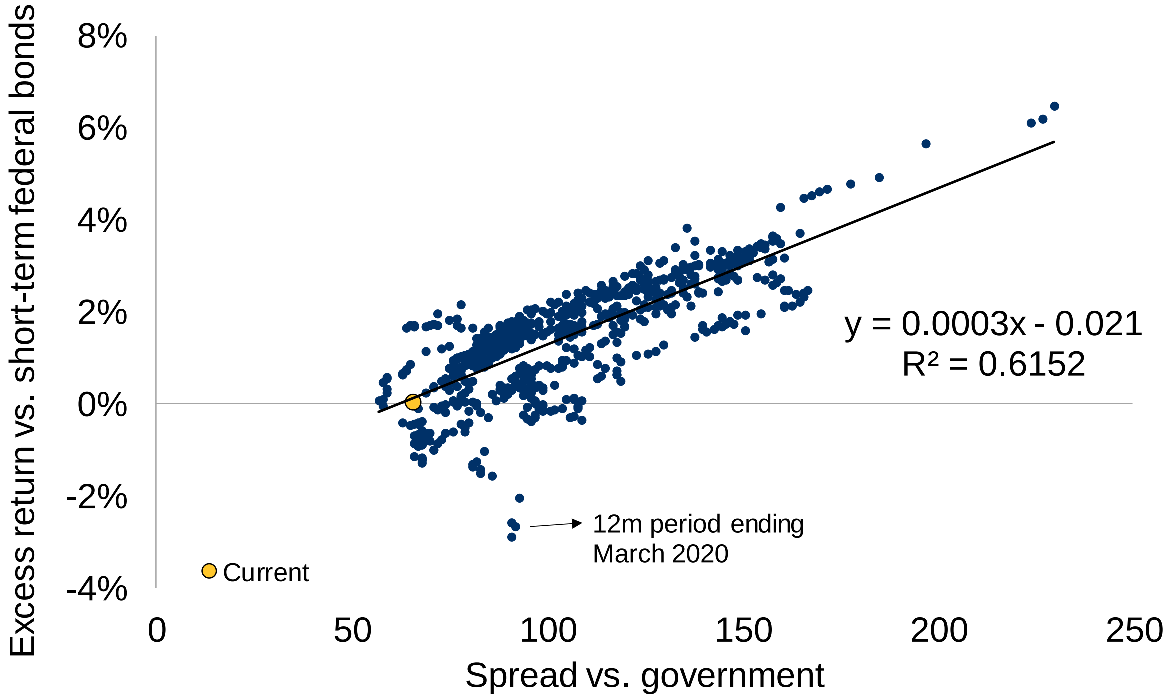
ICE BofA Canada Corporate Index spread



Note: As of Feb 16, 2026. Source: ICE BofA, Bloomberg, RBC GAM

Forward 12-month short-term corporate excess returns vs. spreads

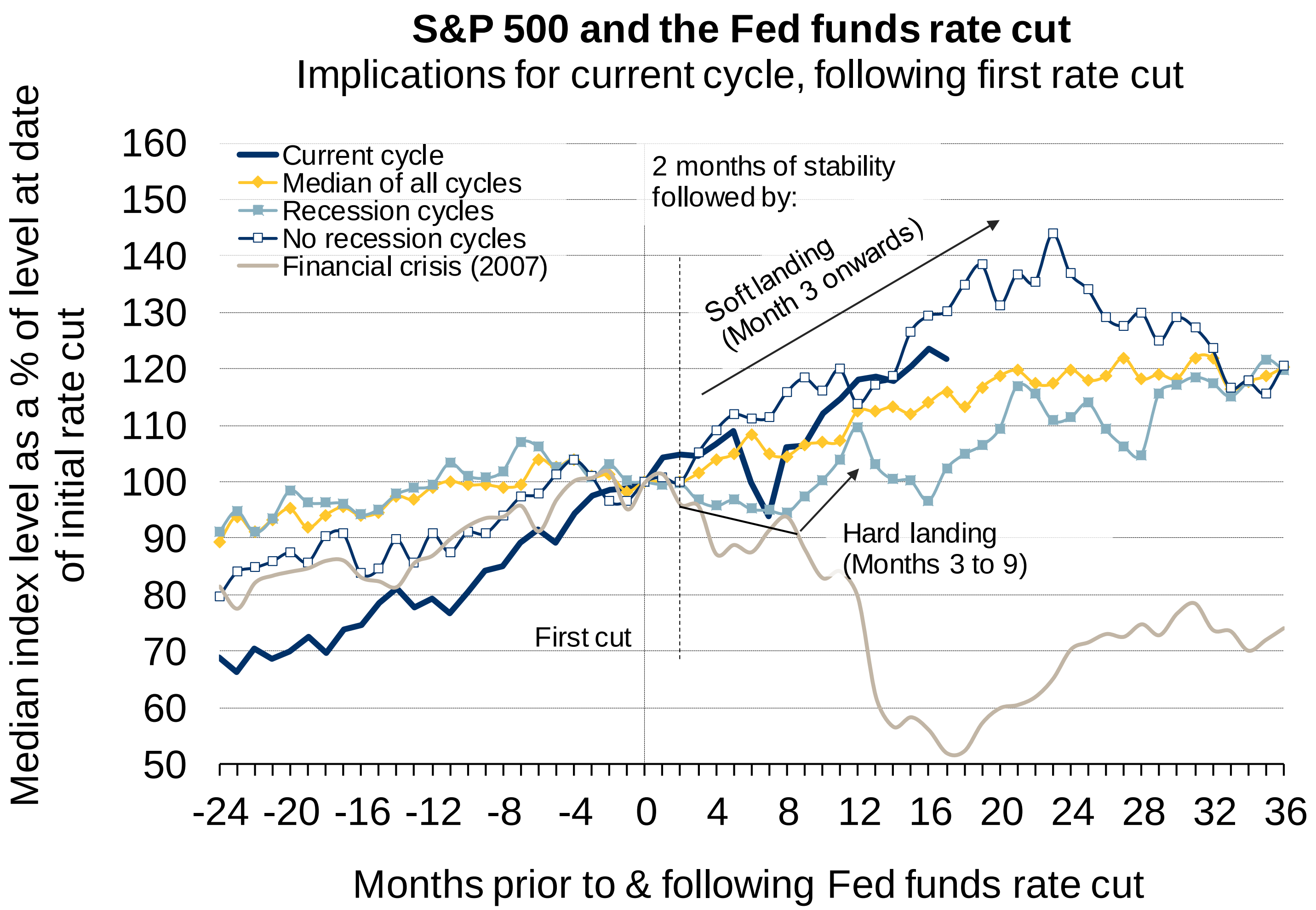
ICE BofA 1-5 Year Canada Corporate Index



Note: As of Feb 13, 2026. Source: ICE BofA, Bloomberg, RBC GAM

Capital markets: *monetary easing road maps – equities*

Equities through periods of interest-rate cuts



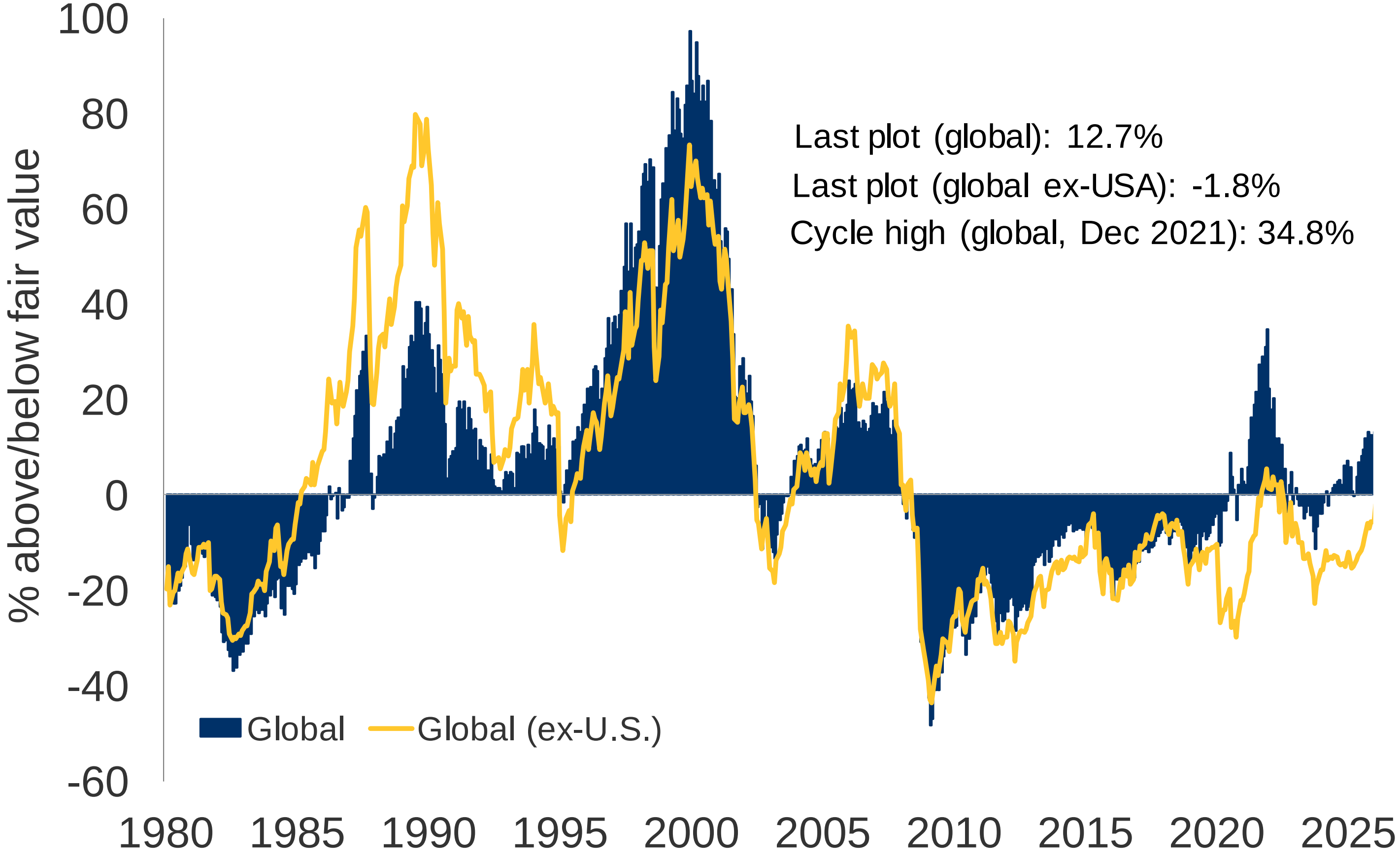
Note: As of Feb 16, 2026. Source: RBC GAM

Capital markets: *equities*

Valuation risk increases, return potential diminishes, as stock market extends gains

Global stock market composite

Equity market indexes relative to equilibrium



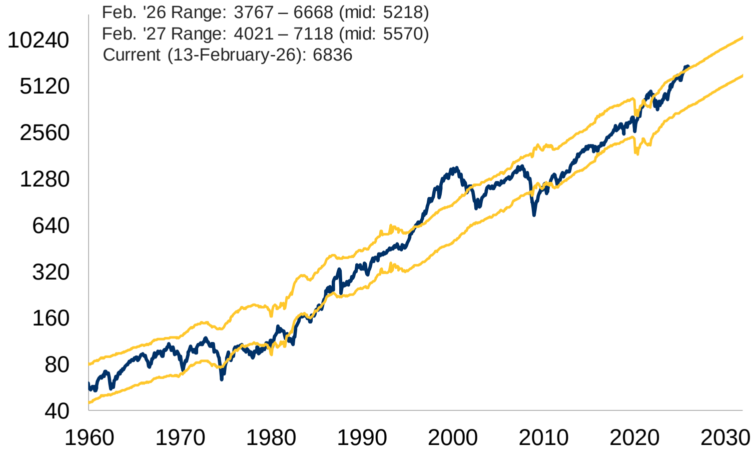
Note: As of February 16, 2026. Source: RBC GAM

Capital markets: *equities*

Valuation risk is most acute in U.S. large cap, Canadian and Japanese equities

S&P 500 equilibrium

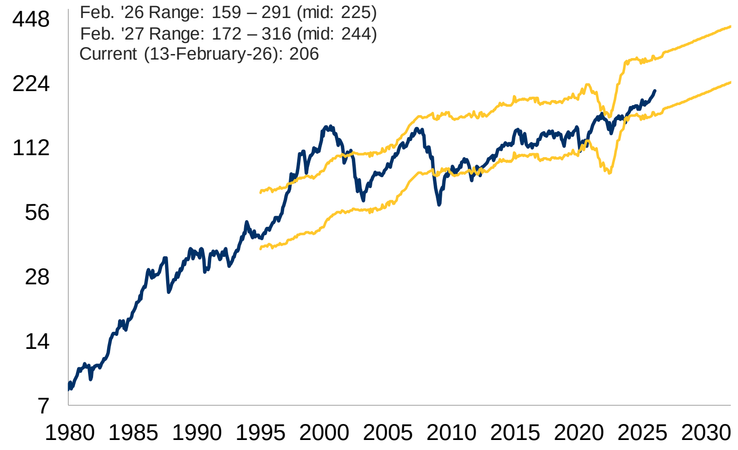
Normalized earnings & valuations



Source: RBC GAM

MSCI Europe equilibrium

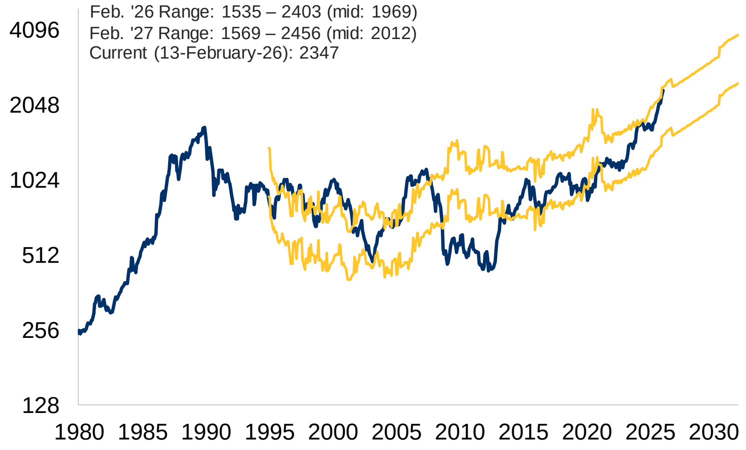
Normalized earnings & valuations



Source: RBC GAM

MSCI Japan equilibrium

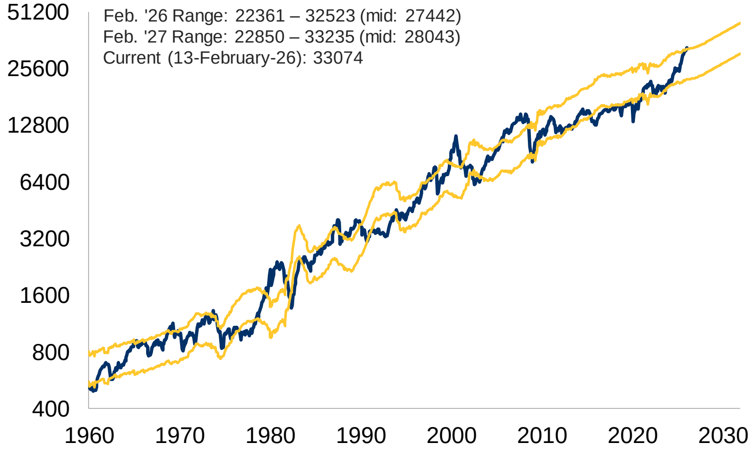
Normalized earnings & valuations



Source: RBC GAM

S&P/TSX Composite equilibrium

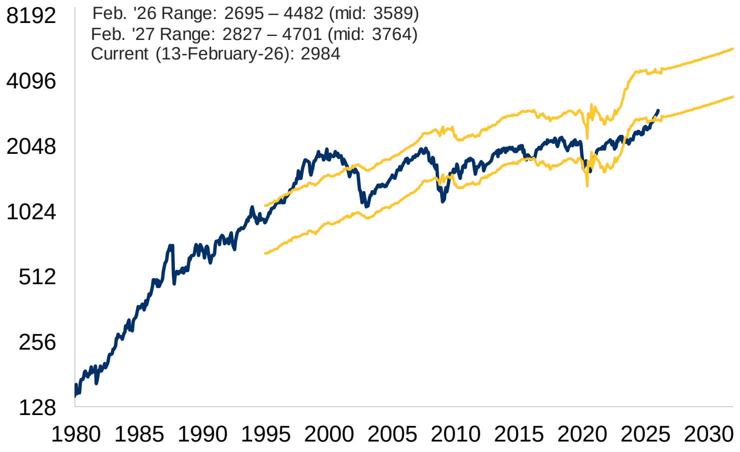
Normalized earnings & valuations



Source: RBC GAM

MSCI United Kingdom equilibrium

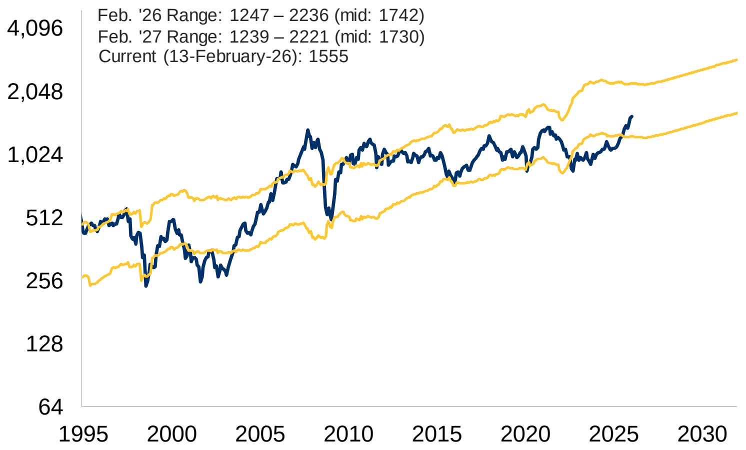
Normalized earnings & valuations



Source: RBC GAM

MSCI Emerging Markets equilibrium

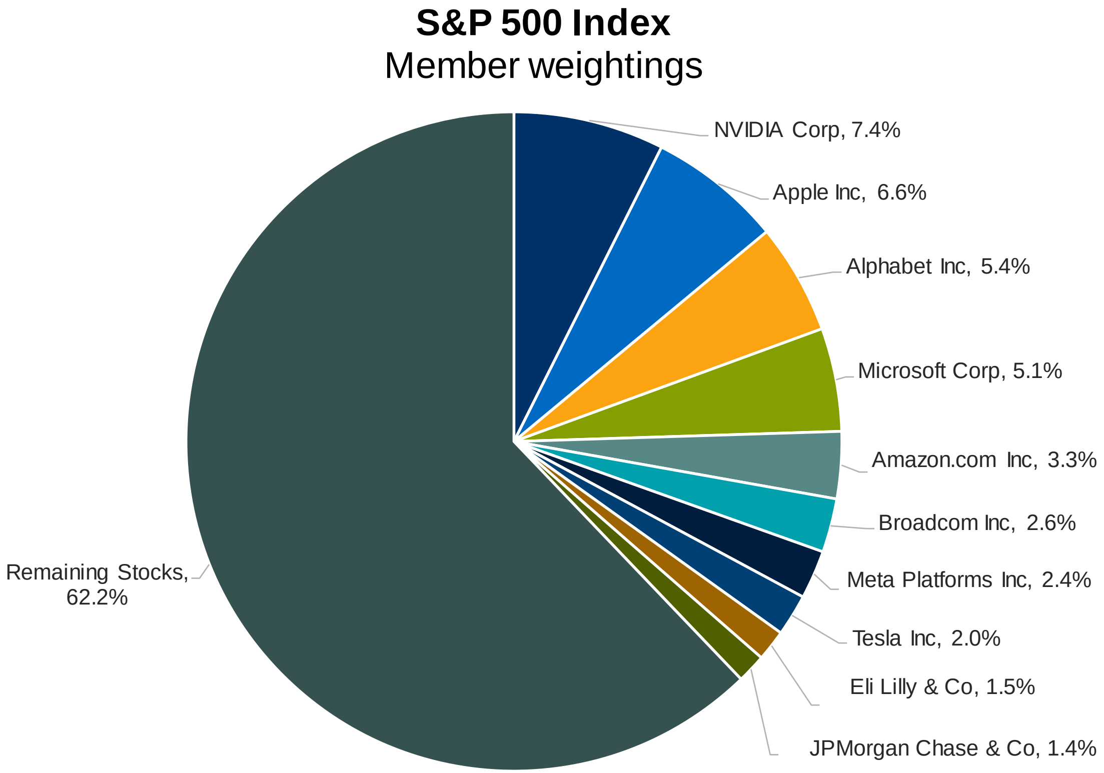
Normalized earnings & valuations



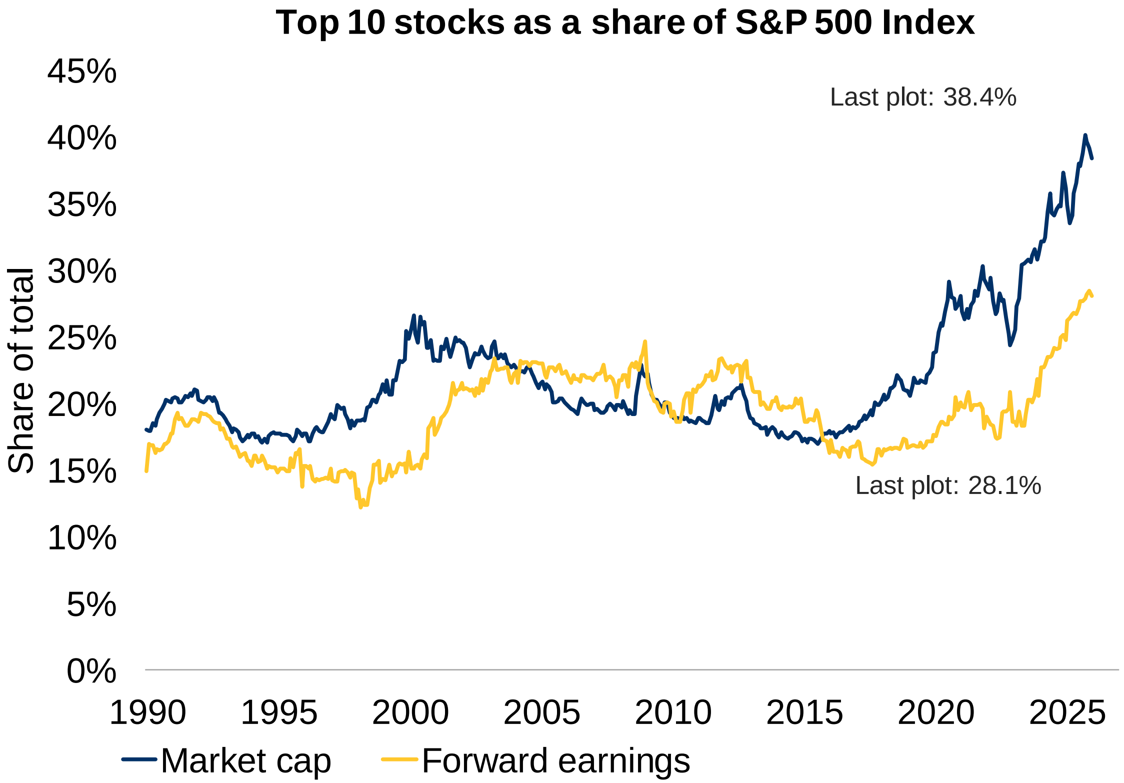
Source: RBC GAM

Capital markets: *equities*

S&P 500 Index is highly concentrated



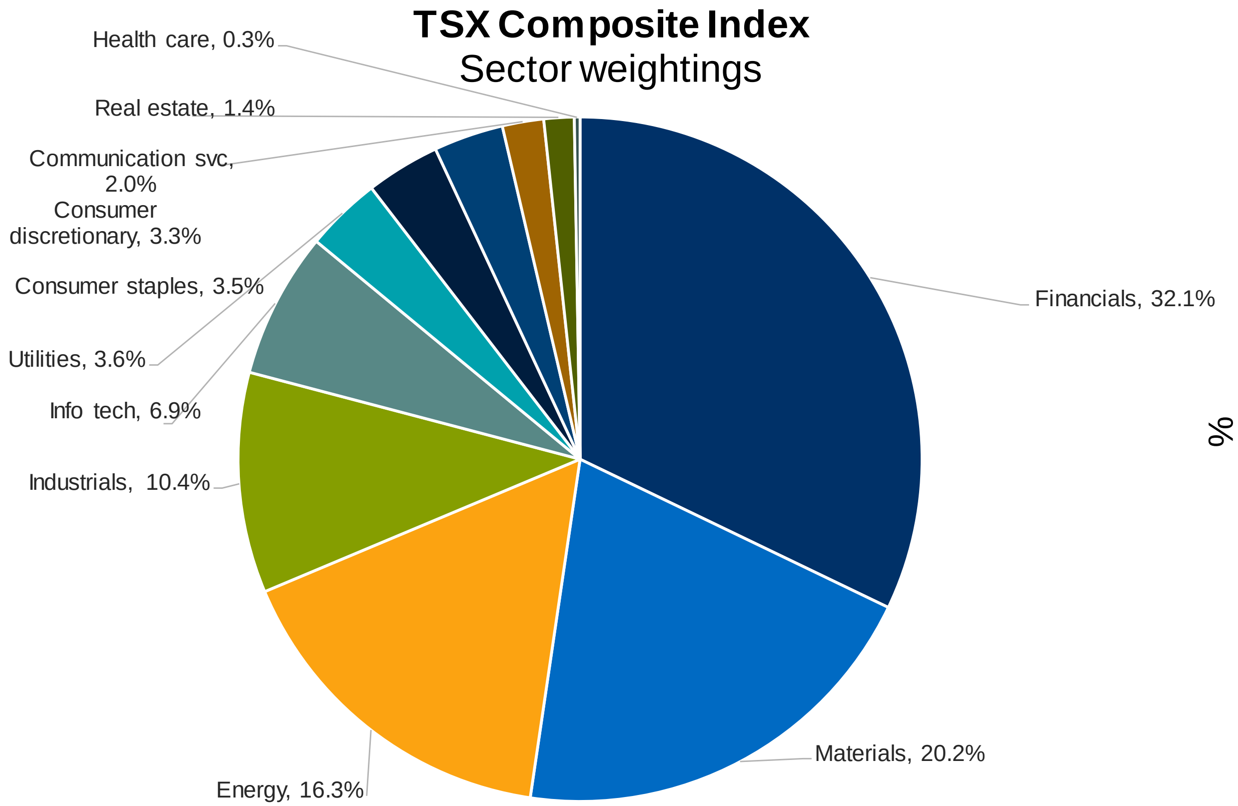
Note: As of February 17, 2026. Source: Bloomberg, RBC GAM



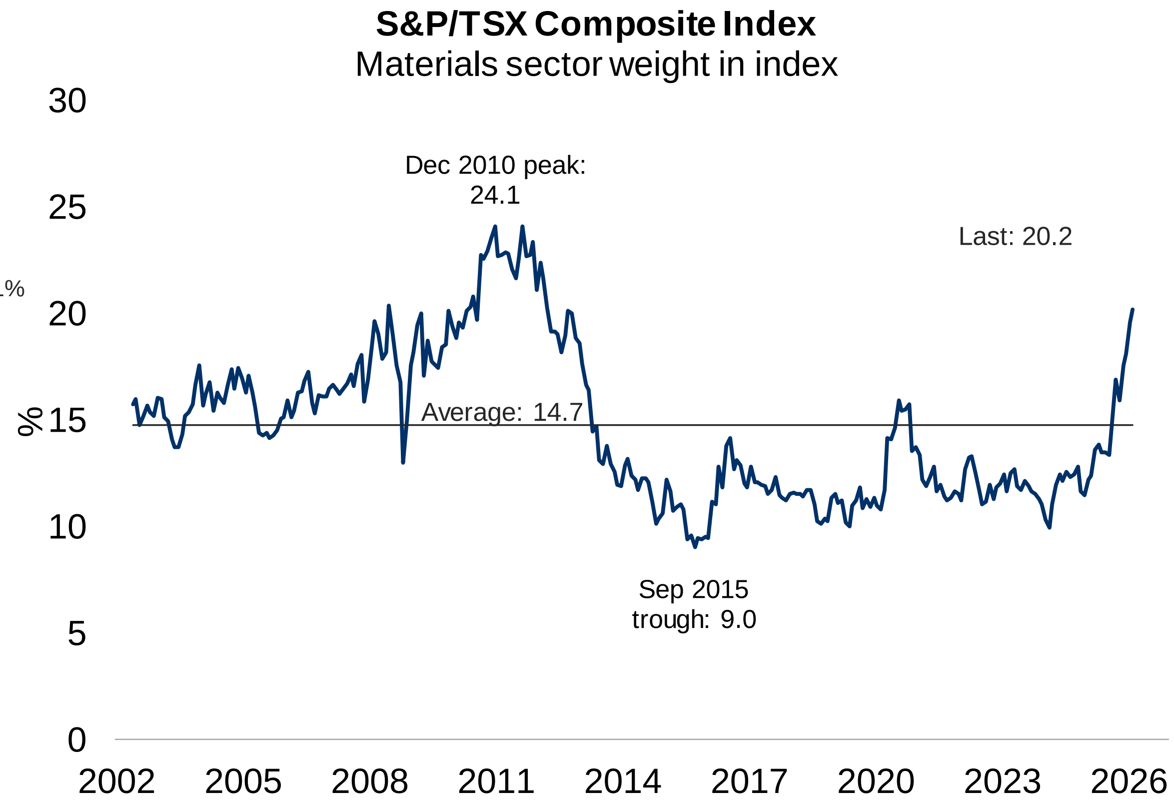
Note: As of Jan 30, 2026. Source: RBC GAM

Capital markets: *equities*

TSX Composite exposure to materials has grown rapidly



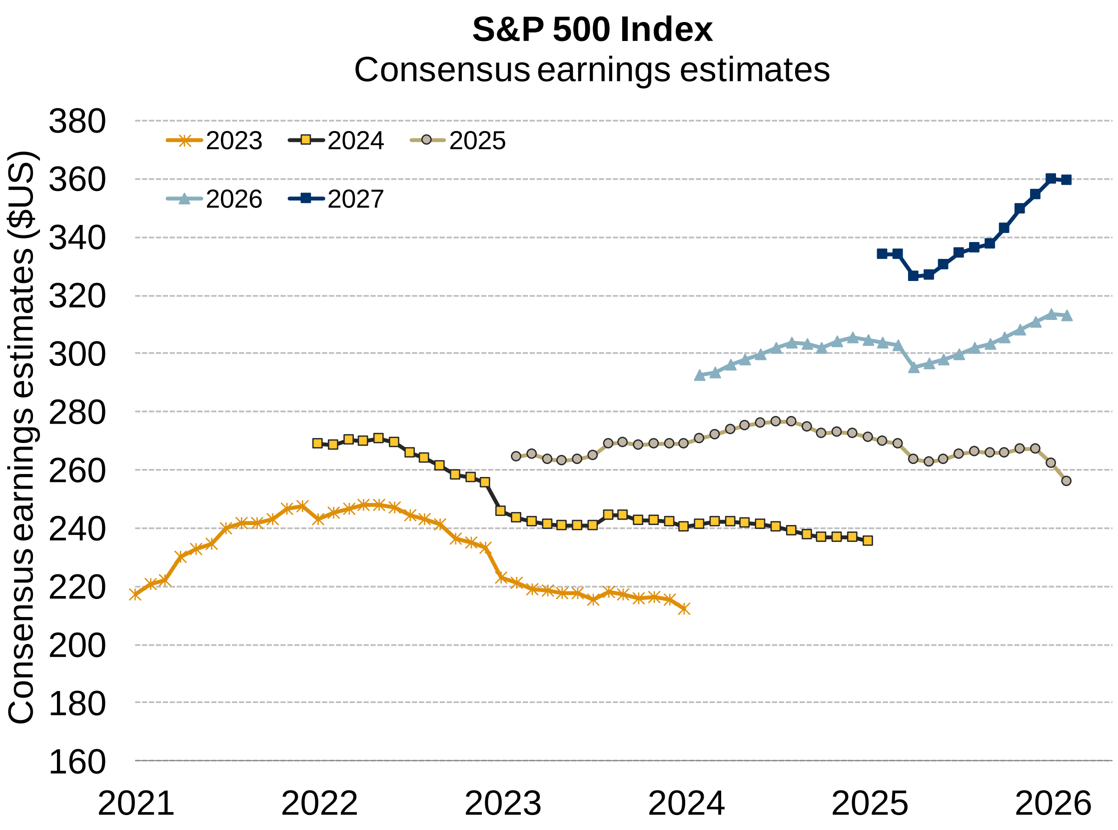
Note: As of February 17, 2026. Source: Bloomberg, RBC GAM



Note: As of Feb 17, 2026. Source: Bloomberg, RBC GAM

Capital markets: *equities*

Earnings estimates have undergone broad-based upward revisions



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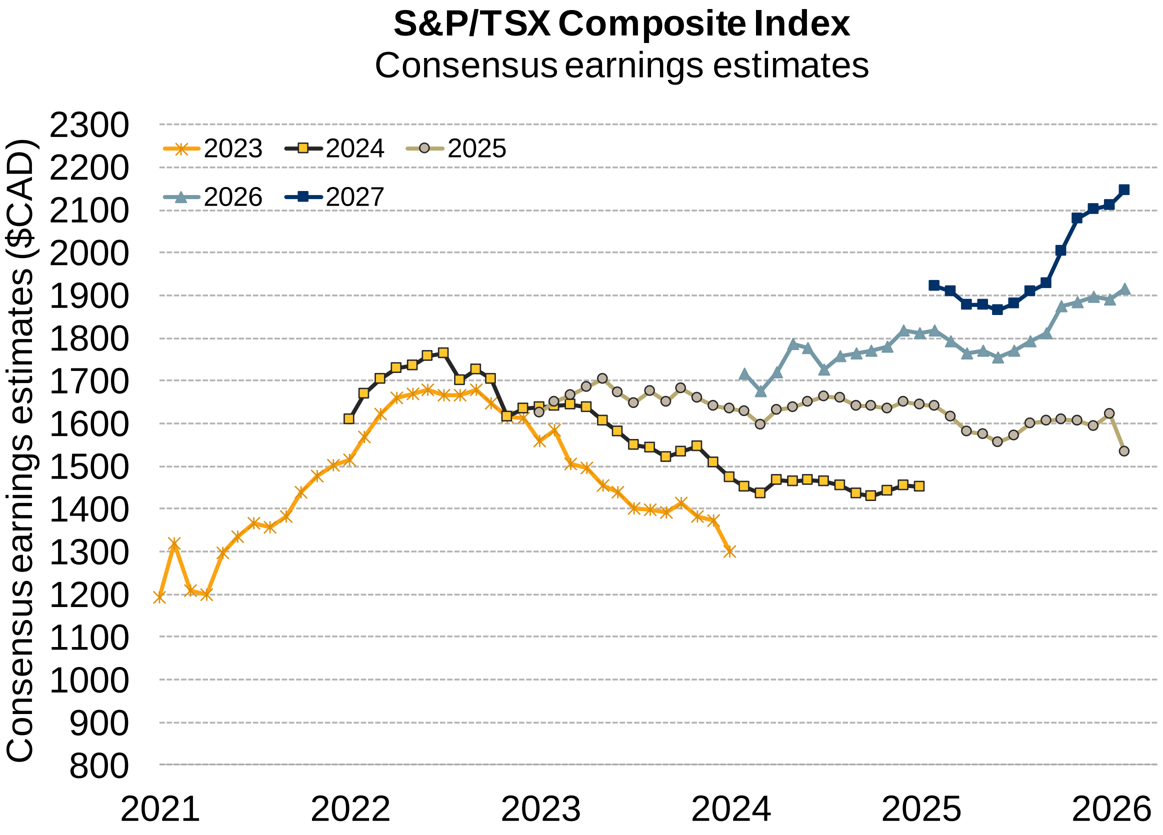
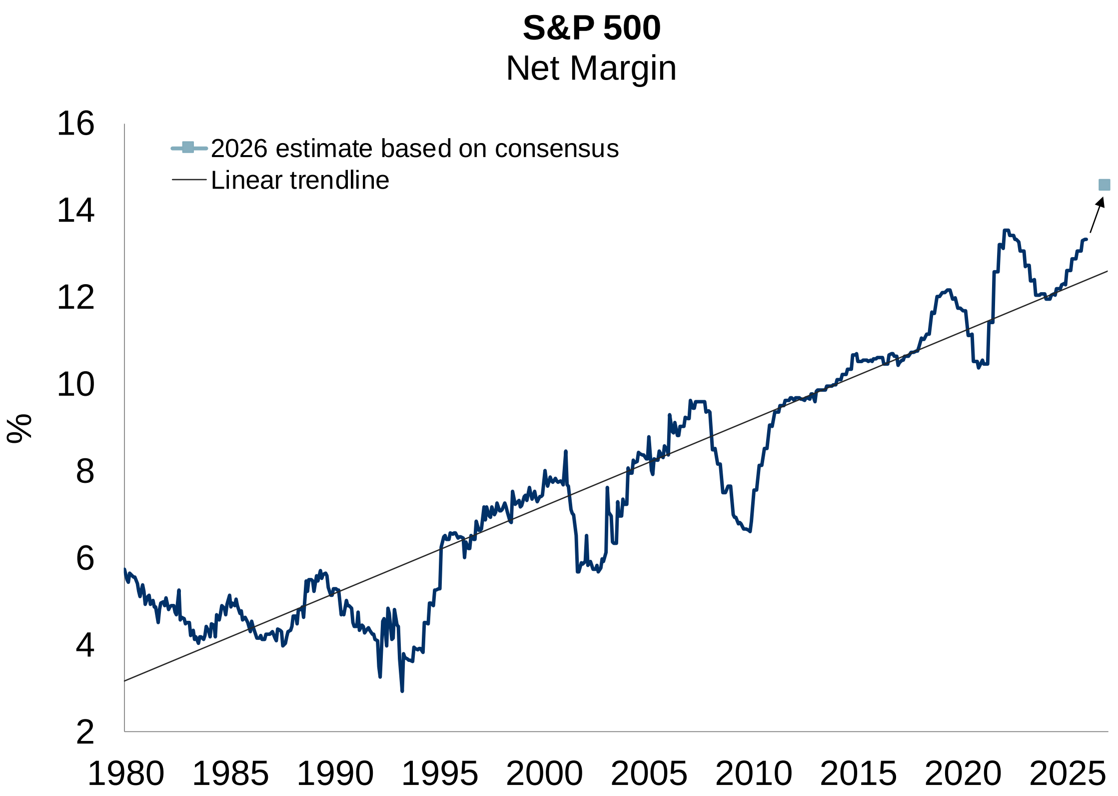


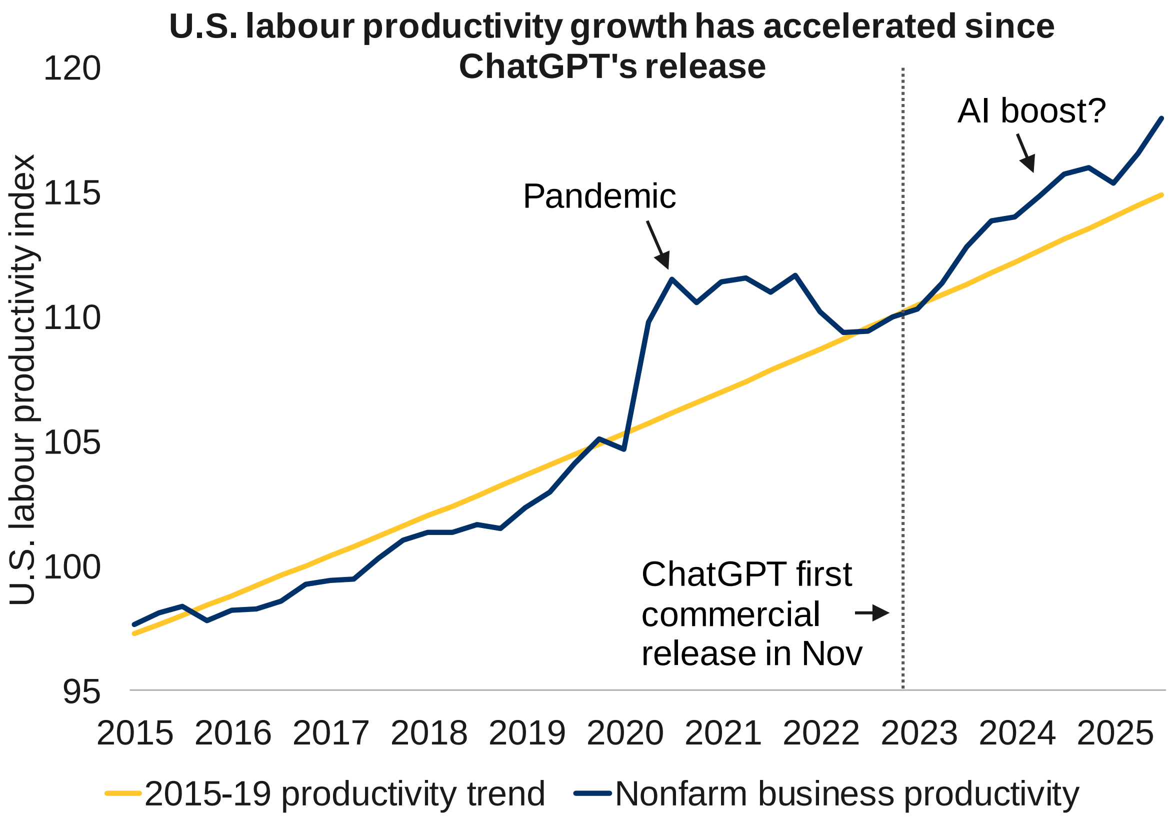
Note: As of February 16, 2026. Source: Bloomberg, RBC GAM

Capital markets: *equities*

Expanding profit margins, helped by productivity gains, could provide further fuel for S&P 500 earnings



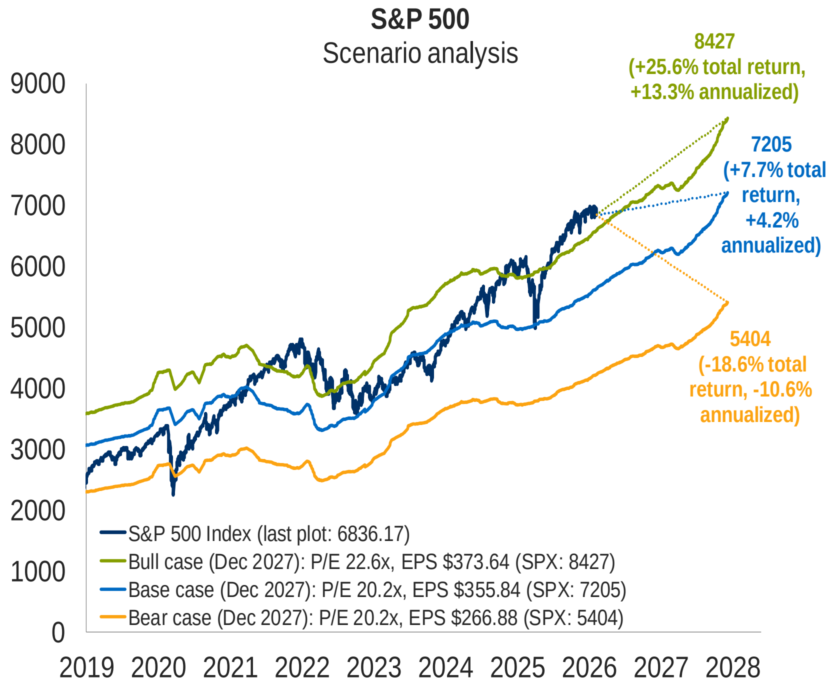
Note: As of Jan 2026. Source: Bloomberg, RBC GAM



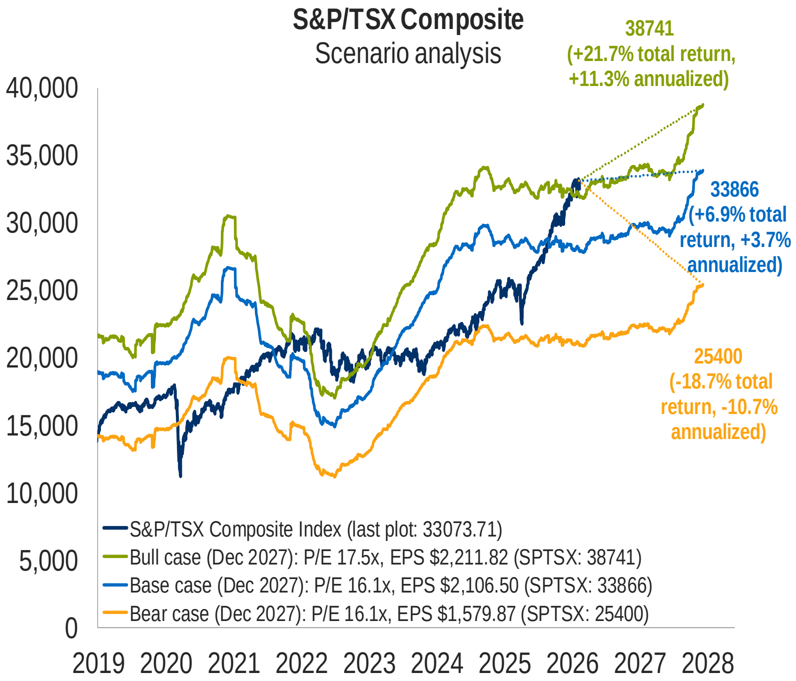
Note: As of Q3 2025. Source: St. Louis Fed, Macrobond, RBC GAM

Scenario analysis

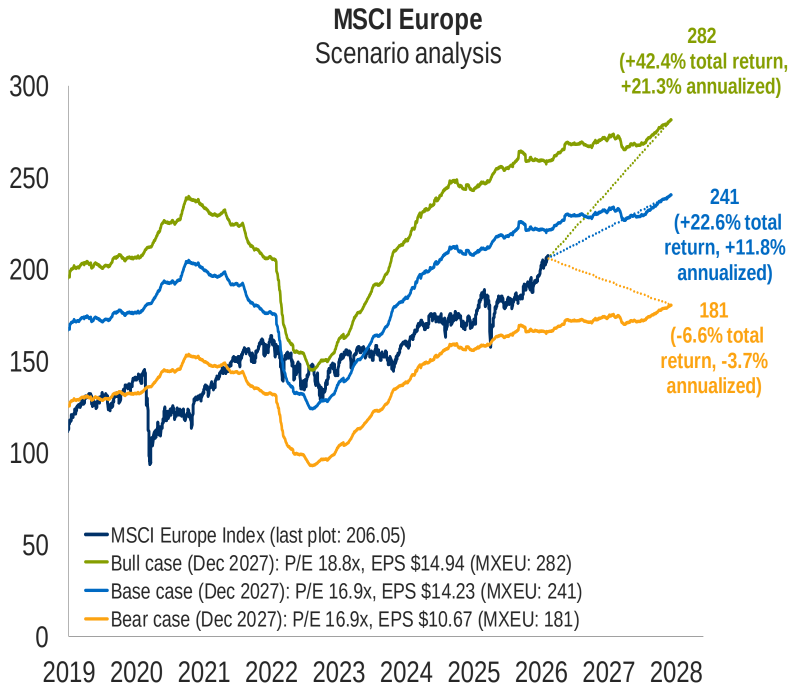
Risk/reward is more compelling in regions outside of North America



Note: As of February 13, 2026. Source: Bloomberg, RBC GAM



Note: As of February 13, 2026. Source: Bloomberg, RBC GAM

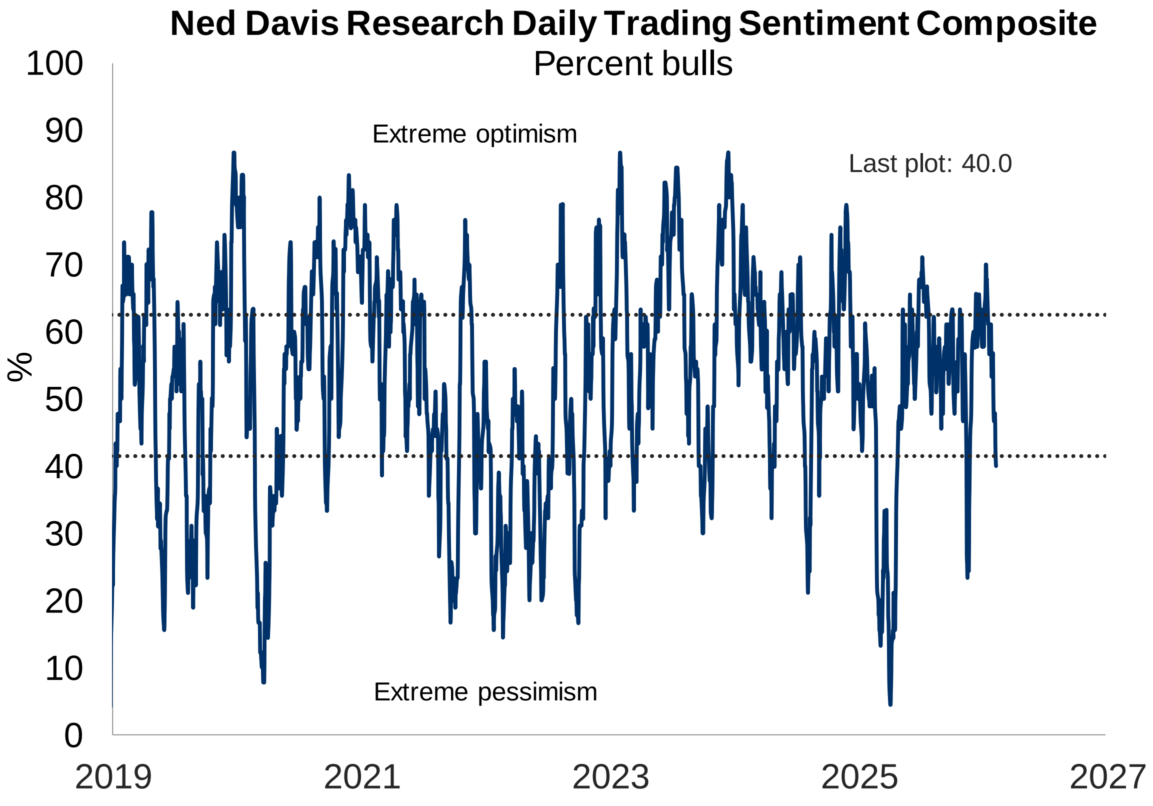


Note: As of February 13, 2026. Source: Bloomberg, RBC GAM

Investment themes: *sentiment*

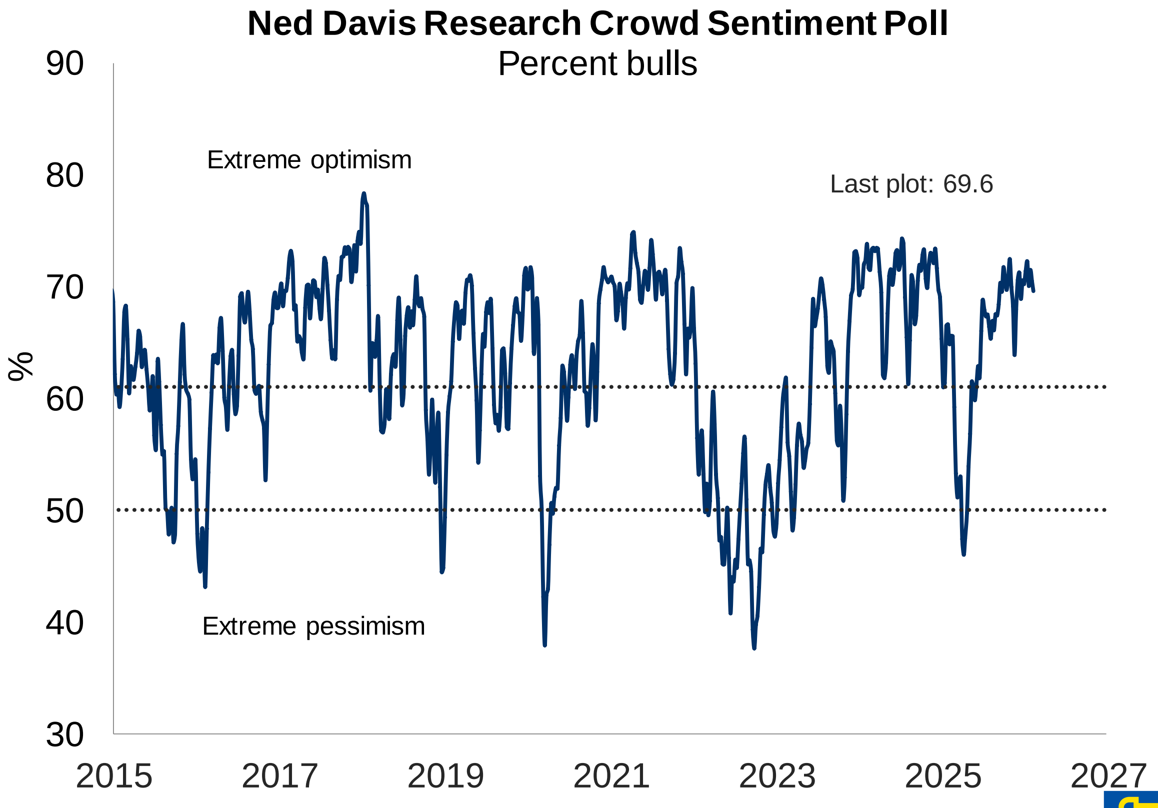
Short-term sentiment has been volatile but intermediate-term sentiment has remained highly optimistic

Short term sentiment



Note: As of February 12, 2026. Source: Ned Davis Research, RBC GAM

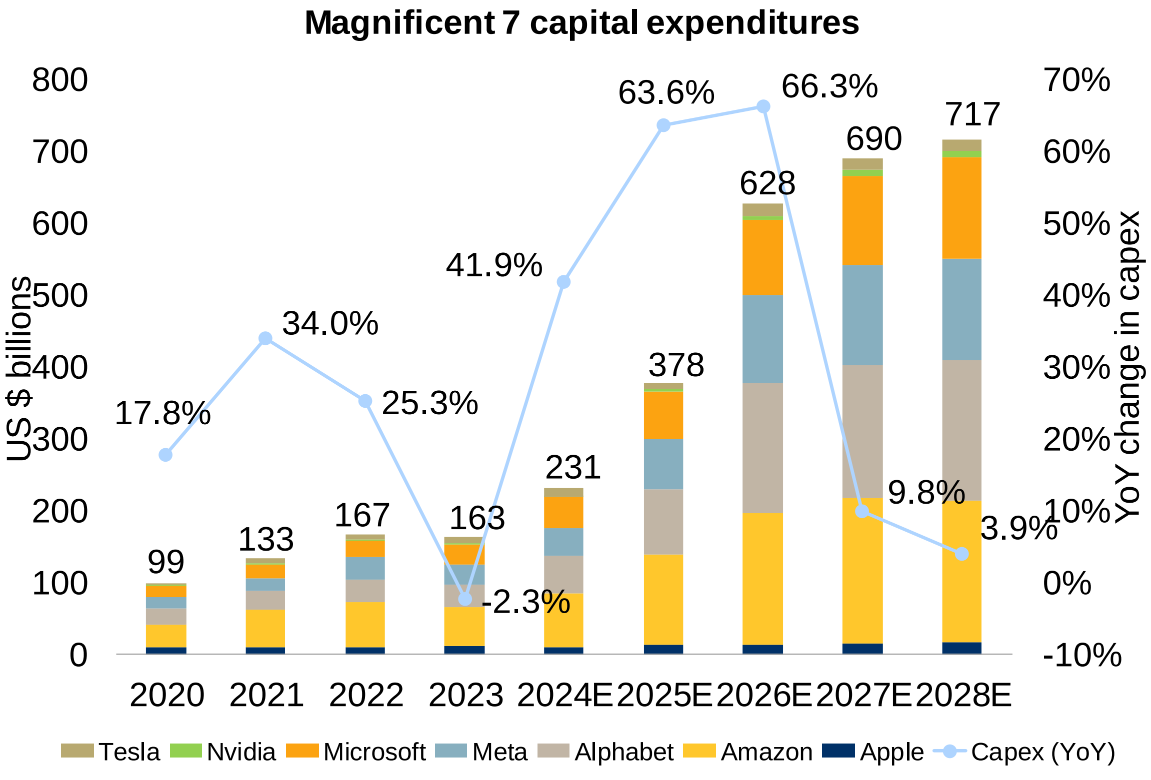
Intermediate term sentiment



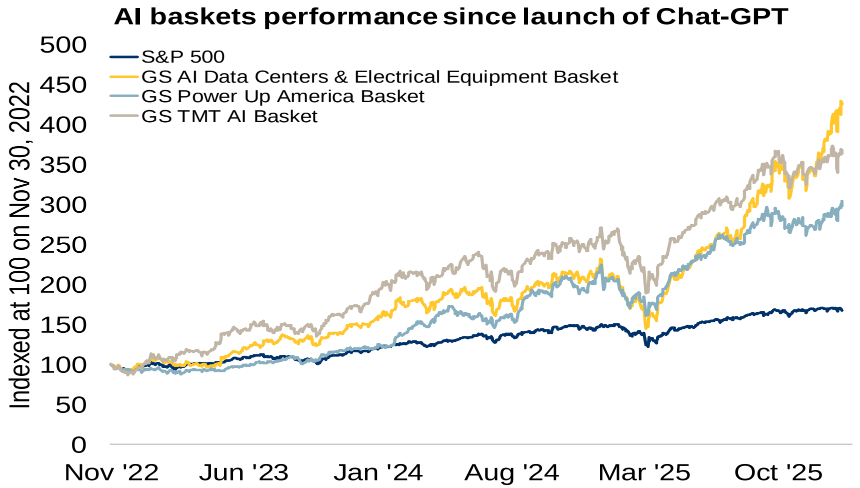
Note: As of February 12, 2026. Source: Ned Davis Research, RBC GAM

Investment themes: *artificial intelligence*

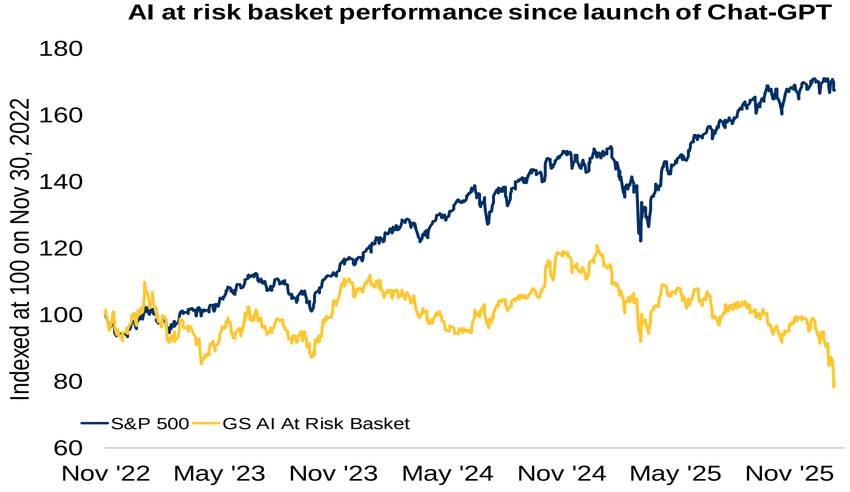
Extraordinary capital spending bolsters entire AI ecosystem, while causing meaningful disruption



Note: As of Feb 17, 2026. Source: Bloomberg, RBC GAM



Note: As of Feb 13, 2026. Source: Goldman Sachs, Bloomberg, RBC GAM

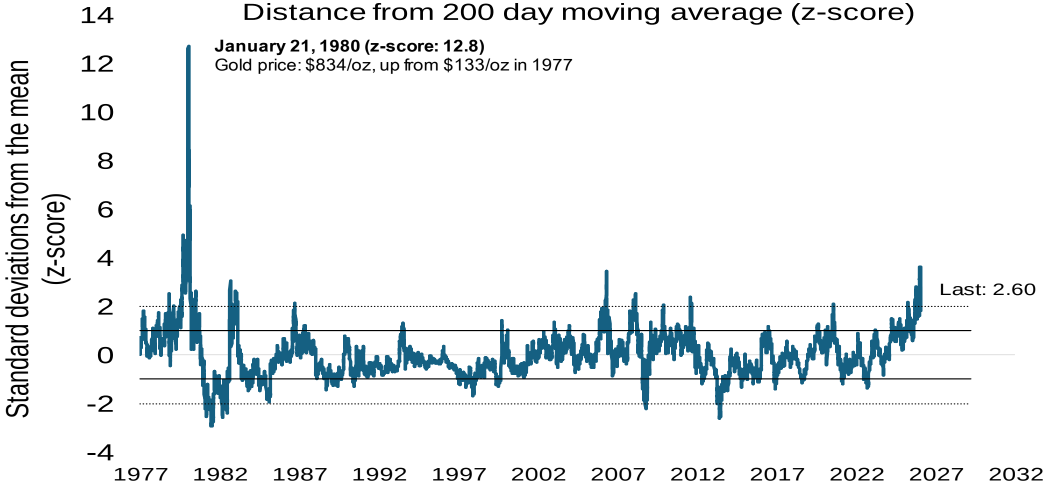


Note: As of Feb 13, 2026. Source: Goldman Sachs, Bloomberg, RBC GAM

Investment themes: *precious metals*

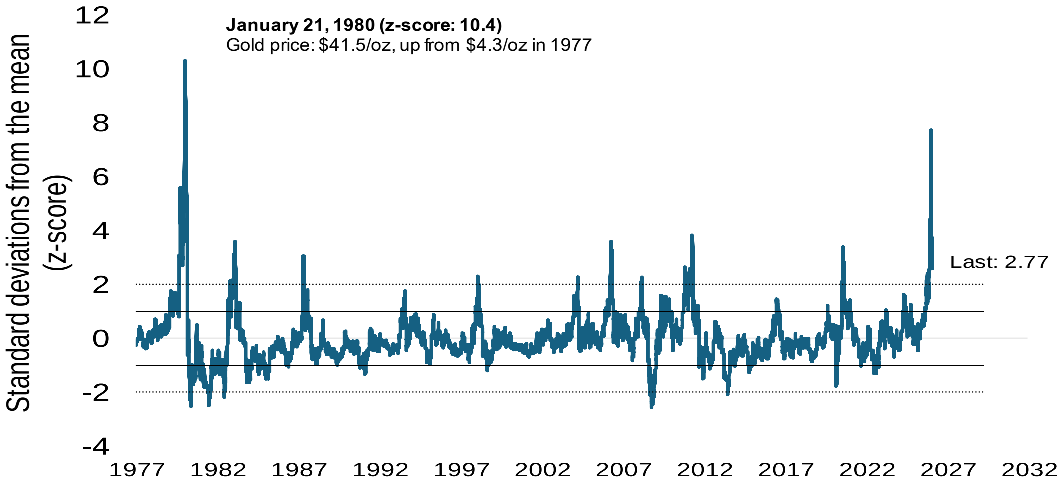
Rapid surge in gold and silver prices reached extremes, especially pronounced for silver

Gold price ($/oz)
Distance from 200 day moving average (z-score)



Note: as of February 13, 2026. Source: Bloomberg, RBC GAM

Silver price ($/oz)
Distance from 200 day moving average (z-score)



Note: as of February 13, 2026. Source: Bloomberg, RBC GAM

Tactical asset allocation: *styles*

U.S. leadership shifted away from large-cap growth since late October to smaller cap and value

S&P 500 Value vs. S&P 500 Growth

S&P 500 Equal Weighted vs. S&P 500

Russell 2000 vs. S&P 500

Magnificent 7 vs. S&P 500

Tactical asset allocation: *geographies*

Regional relative strength against MSCI World

MSCI EAFE vs. MSCI World

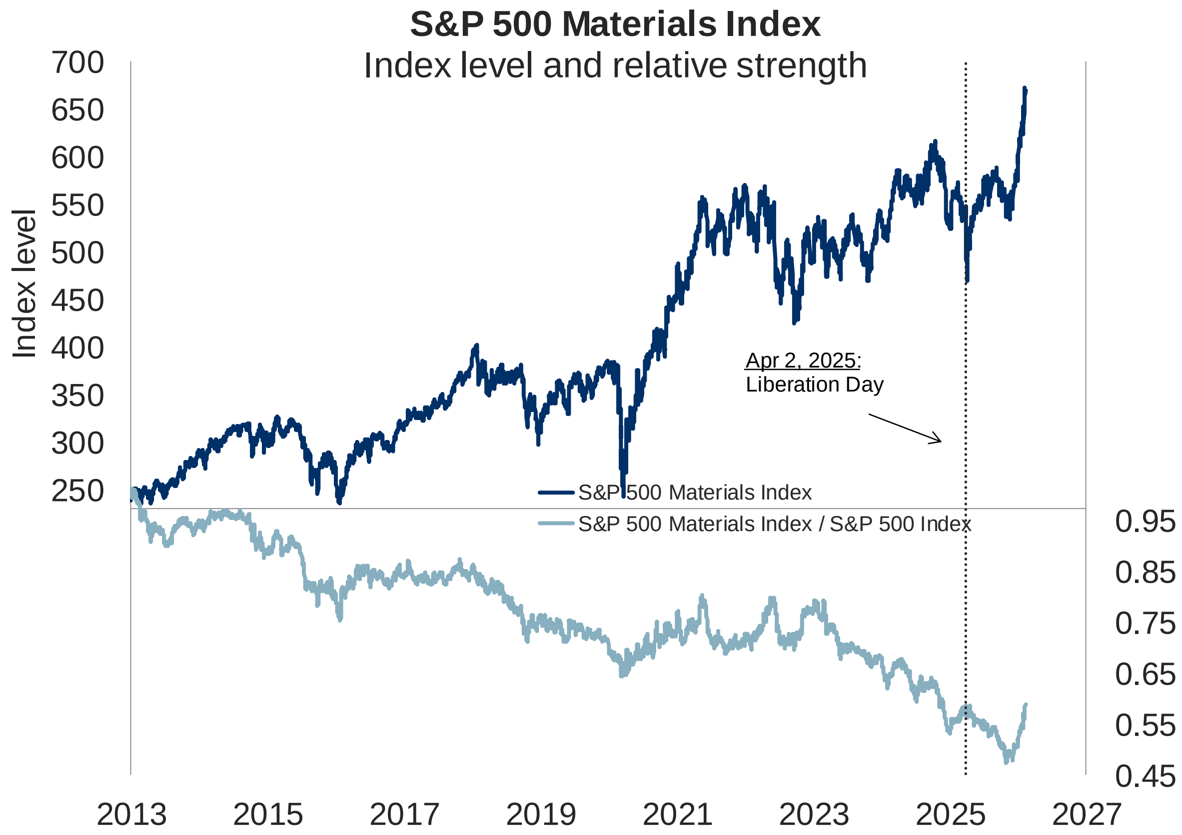
MSCI Emerging Markets vs. MSCI World

S&P 500 vs. MSCI World

TSX Composite (USD) vs. MSCI World

Tactical asset allocation: *sectors*

What's working lately: *Materials and Industrials*

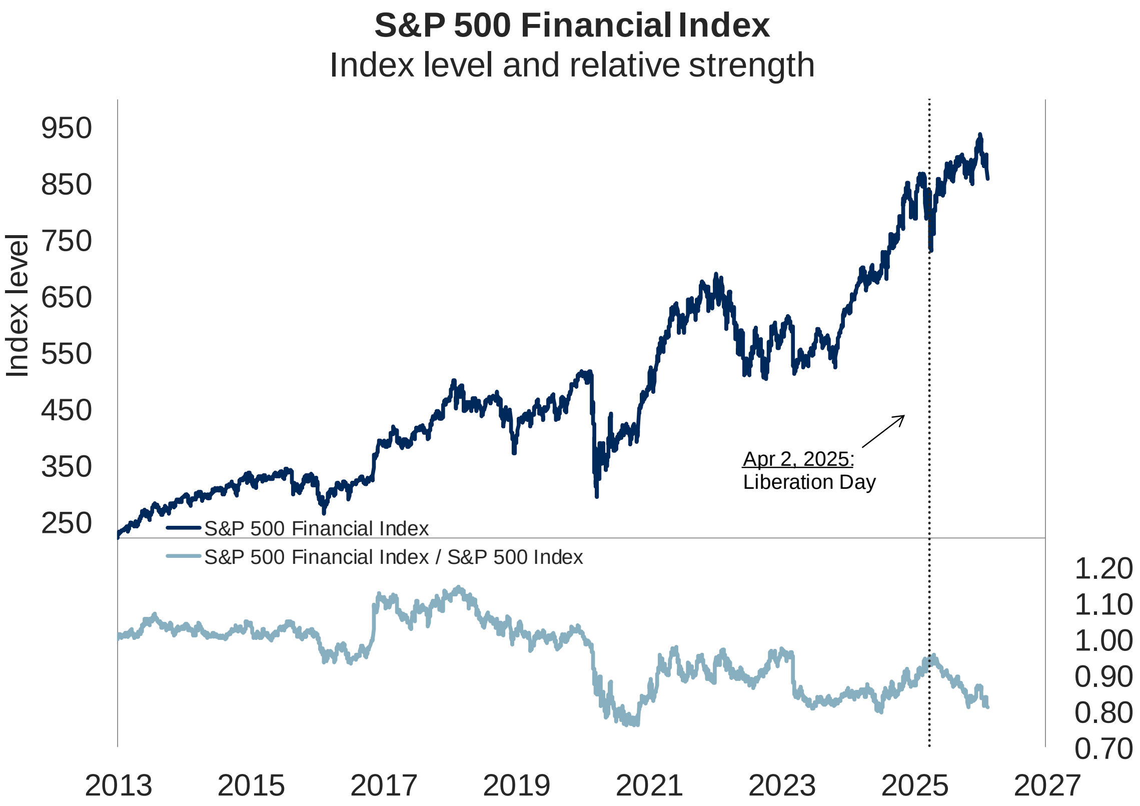


Note: As of Feb 13, 2026. Source: Bloomberg, RBC GAM

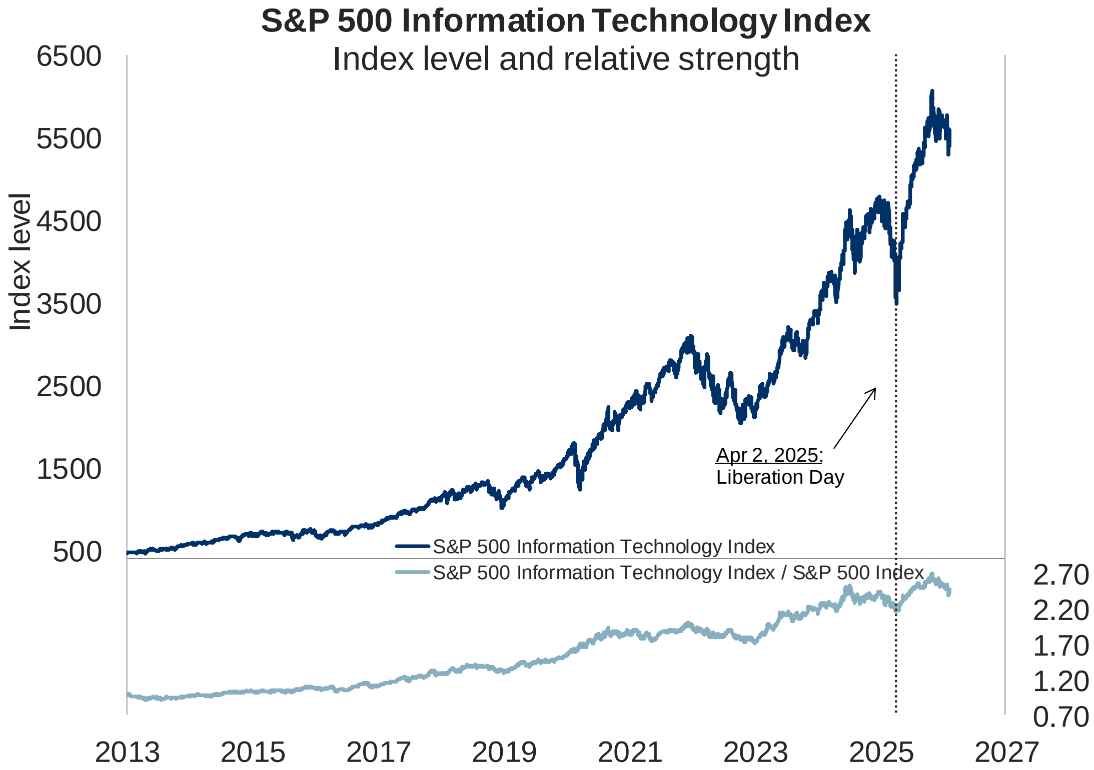
Note: As of Feb 13, 2026. Source: Bloomberg, RBC GAM

Tactical asset allocation: *sectors*

What's not working lately: F*inancials and Information technology*



Note: As of Feb 13, 2026. Source: Bloomberg, RBC GAM



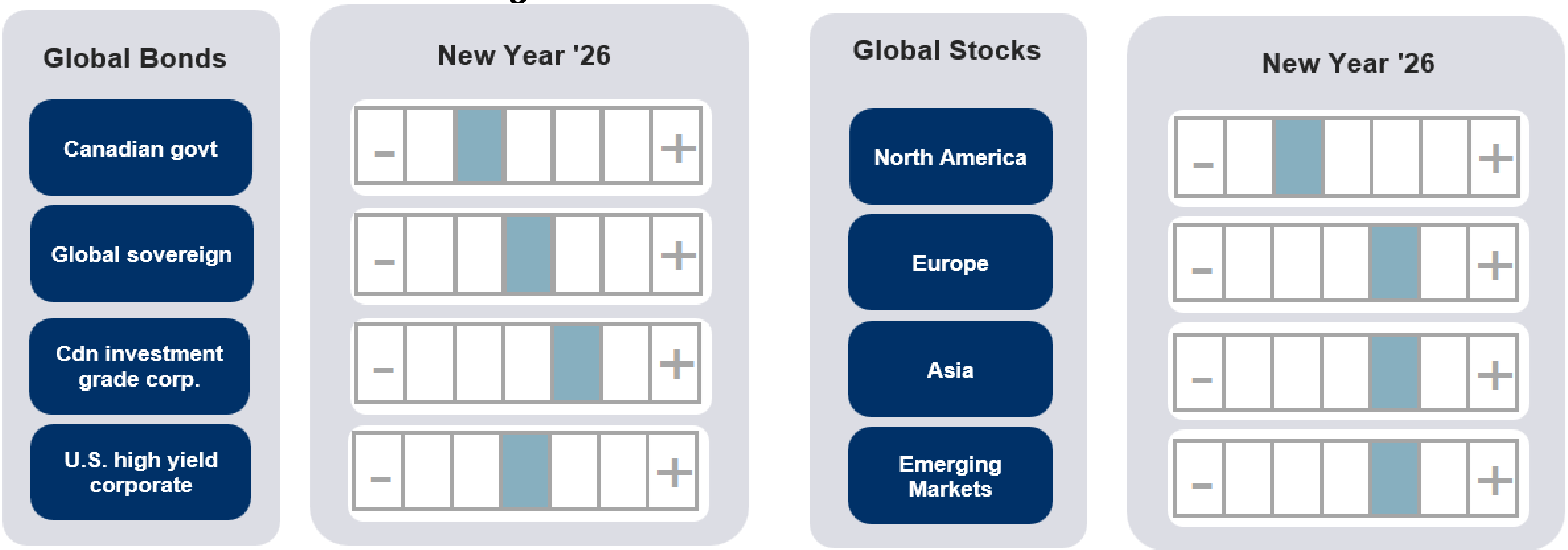
Note: As of Feb 13, 2026. Source: Bloomberg, RBC GAM

Tactical asset allocation

RBC GAM Investment Strategy Committee Recommended Asset Mix – New Year 2026

	Benchmark	New Year '25	January '25	Spring '25	Summer '25	Fall '25	**New Year '26**
Cash	**2.0%**	2.0%	1.5%	2.0%	1.0%	1.0%	**2.0%**
Bonds	**38.0%**	38.0%	38.5%	38.0%	38.0%	37.0%	**37.0%**
Stocks	**60.0%**	60.0%	60.0%	60.0%	61.0%	62.0%	**61.0%**

Regional and sub-asset class allocation



Note: center of bars on the graphics represent the benchmark weighting.

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