

GLOBAL Insight



Wealth
Management

March 2025

Perspectives from the Global Portfolio Advisory Committee



Power, storage, and electrification: A revolution

As burgeoning demand and innovation transform the energy landscape, we examine key trends that are likely to shape the future of renewable power and industrial electrification.

Frédérique Carrier | Page 4

Also in this issue



GLOBAL EQUITY
“Everything else” takes
its revenge



GLOBAL FIXED INCOME
Proceed with caution



U.S. RECESSION SCORECARD
Waiting for clarity

Produced: March 5, 2025, 11:40 ET; Disseminated: March 5, 2025, 12:00 ET

For important and required non-U.S. analyst disclosures, see [page 20](#).

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Contents

Monthly focus

4 Power, storage, and electrification: A revolution

As burgeoning demand and innovation transform the energy landscape, we examine key trends that are likely to shape the future of renewable power and industrial electrification.

Global equity

11 “Everything else” takes its revenge

Major equity markets outside the U.S. have fared better than we expected given the aggressive tariff policies of the new U.S. administration. But anticipation of the tariffs has already taken a sizable bite out of Q1 U.S. GDP. Worries that this could be signaling a downshift into slow-growth mode for the world’s largest economy are weighing on markets. A selective, cautious approach to equities is called for.

Global fixed income

13 Proceed with caution

While the hope is always for more clarity, it’s rarely realized. Though some may come on the tariff front in upcoming months, the biggest risks around tariffs and trade wars—higher inflation and lower growth—could eventually pose a problem for central banks.

U.S. Recession Scorecard

15 Waiting for clarity

As 2025 proceeds, the Scorecard’s leading indicators remain undecided on balance and unchanged from last month. We believe a mixed Scorecard, with the preponderance sitting in less-positive columns, argues for investors to stick to a watchful, cautious approach.

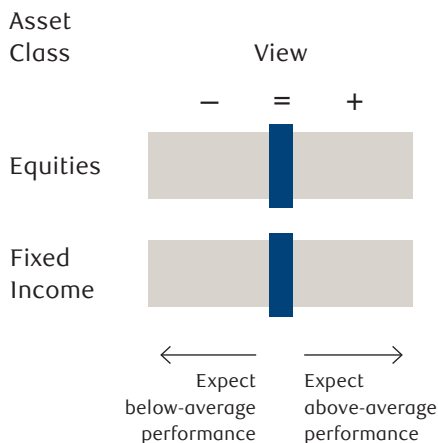
In the markets

3 RBC’s Investment Stance

18 Key forecasts

RBC'S INVESTMENT Stance

Global asset class views



(+/-/=) 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

- As enthusiasm for the Magnificent 7 stocks has taken a breather and U.S. economic data has softened, markets in other countries have outperformed or held their own against U.S. indexes thus far in 2025.
- Softer U.S. data raises questions about whether the economy can deliver a fourth straight year of GDP growth above 2%. Typically, the U.S. market performs well when GDP growth registers between 2.1%–3% per annum as this supports solid corporate revenue and profit gains. But the market often falters during slower growth periods of 1%–2% as sales and earnings are dampened.
- While RBC Global Asset Management currently forecasts 2.5% U.S. GDP growth in 2025, we are mindful there are downside risks to this forecast, particularly given the high level of Washington D.C. policy uncertainty. In our view, portfolios should stay committed to equities up to but not beyond their long-term targeted exposure.

Fixed income

- The yield narrative has shifted to start 2025. After rising sharply over the last three months of 2024, U.S. bond yields have dropped notably since January, with the benchmark 10-year Treasury yield falling to just 4.3% as of late February after trading as high as 4.8% in January. Post-election optimism has seemingly given way to greater uncertainty, and fears of higher inflation and slower growth. Global yields, however, traded modestly higher in February as market expectations for greater fiscal deficits to counter soft growth have increased. Most global central banks have paused rate cut cycles, or likely will in March, with only the European Central Bank likely to cut rates in March, in our view.
- In the U.S., we maintain our Underweight position in U.S. Treasuries after the recent drop in yields. We maintain a Neutral outlook for global developed bonds as other central banks near the end of their respective rate cut cycles, with many taking a wait-and-see approach.
- We reiterate our Market Weight stance on U.S. fixed income with yields remaining above multi-decade averages. Credit valuations remain historically rich, so we continue to be selective in our allocations to credit sectors. Globally, the risks are balanced, in our view, justifying a Neutral outlook for sovereign and corporate bonds.

MONTHLY Focus



Frédérique Carrier

London, United Kingdom
frederique.carrier@rbc.com

Power, storage, and electrification: A revolution

The energy landscape is being transformed by a combination of burgeoning demand, technological innovation, and geopolitical tensions. Against this backdrop, renewable energy has become an integral part of the global economy and is poised to play an even greater role in the coming decades. We examine key trends that are likely to generate opportunities and risks for investors.

Key points

- **New technologies are driving both rapid growth in electricity demand and innovations in renewable energy supply.**
- **The electrification of industrial processes is gaining momentum as renewable power becomes cheaper and more reliable.**
- **Energy security is an important theme as economies seek to diversify beyond fossil fuel dependence.**

The ongoing steep decline in the costs of renewable electric power, now in its second decade, promises more abundant, cheaper supplies of electricity in the years to come. Meanwhile, the rapid pace of innovation in storage and electrification is opening up important possibilities for harnessing all that cheap electric power.

Electric vehicles and artificial intelligence (AI) are the poster children for new technologies that have a growing thirst for economical electricity. Less often considered, but arguably just as important, are basic industries—notably cement, chemicals, and steel—for which cheap electric power offers opportunities to significantly reduce both input and processing costs.

We expect some of the most intriguing innovations that appear set to transform heavy industry will present a number of investable opportunities.

Power: satisfying a growing appetite

The rapid proliferation of wind farms, solar collectors, and now storage systems has driven the cost of renewable power (without subsidies) down to levels that already make renewables the least expensive energy sources in many countries, as we detailed in our 2025 Global Outlook focus article [The “Unstoppables”](#). The cost of electricity from renewables has fallen to levels that seemed unimaginable just a decade ago.

The International Energy Agency (IEA) estimates that the installed power generation capacity of renewables reached a record 666 gigawatts (GW) in 2024, a remarkable 30 percent increase from 2023. By 2030, the IEA estimates global renewable energy capacity could increase 2.7 times.

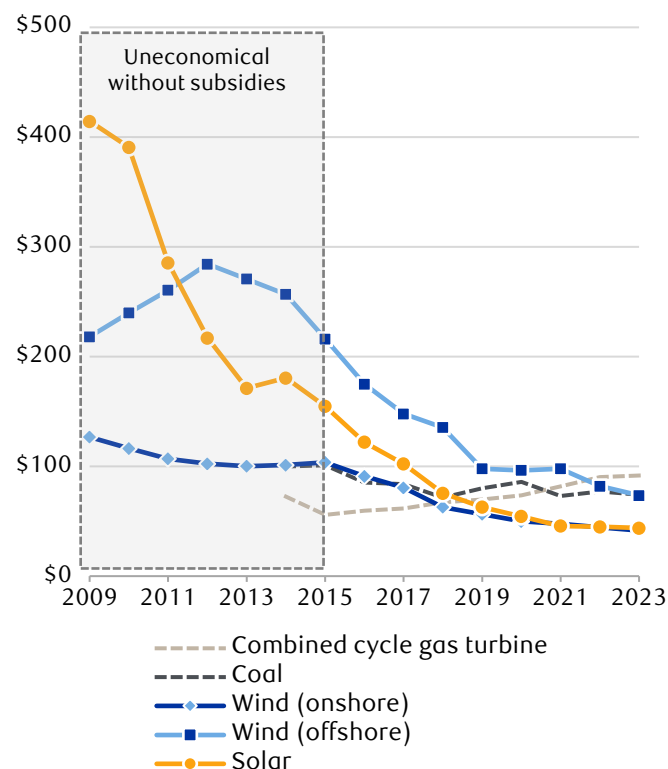


For more on major trends we see shaping the future including renewable energy and electrification, please see the *Global Insight 2025 Outlook* focus article [“The ‘Unstoppables’”](#).

POWER, STORAGE, AND ELECTRIFICATION

Solar and onshore wind are now the cheapest electricity sources

Global levelized cost of electricity per megawatt-hour



The LCOE is the long term breakeven price a power project needs to recoup all costs and meet the required rate of return. LCOEs do not include subsidies.

Source - BloombergNEF; data not available for coal and gas plants prior to 2014

Annual worldwide installation of new solar power generation plants has routinely exceeded the IEA's forward estimates over the past decade, sometimes by 100 percent or more.

This remarkable growth is being driven not only by cost advantages, but also by the world's ever-growing appetite for electricity. This demand is likely to accelerate in the future, with a major contributor being electricity consumption by more and larger data centres. Mostly owned by major technology companies, data centres consume vast amounts of energy, particularly when training and deploying AI models. For example, it takes 10 times more power to complete an AI chatbot request than a Google search.

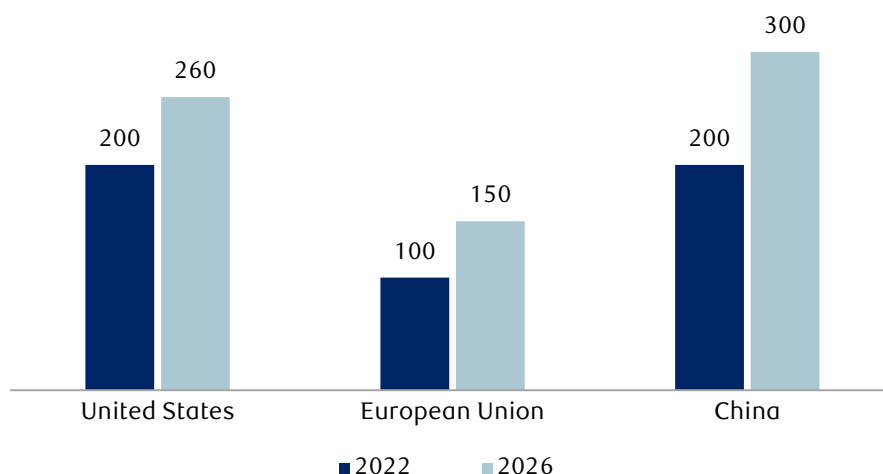
In the U.S., more than one-third of new electricity demand between 2022 and 2026 is expected to come from data centre expansion. According to the IEA, these facilities will likely leap from consuming four percent of all electricity in the U.S. in 2022 to six percent in just four years. That extra two percentage points may not seem like much, but it is equivalent to an average annual growth rate of 10 percent—a rate of expansion that could outpace the development of energy infrastructure, with consequences conceivably including more frequent power outages.

The U.S. government's decision to abandon federal climate goals has weakened corporate commitments to green initiatives. Many technology companies are reverting or trying to revert to fossil fuels, but remain committed to renewables owing to their low costs as energy demand rises.

POWER, STORAGE, AND ELECTRIFICATION

Data centre electricity consumption is rising rapidly

Estimated data centre electricity consumption (terawatt-hours)



A terawatt is 1 trillion watts.

Source - RBC Wealth Management, Statista

Some companies are also exploring nuclear power as an additional source of reliable energy over the long term.

At first glance, nuclear appears well suited to the needs of data centres as it provides highly reliable, clean energy 24 hours a day. However, building new nuclear plants not only involves substantial investment but also typically entails long delays and cost overruns, exacerbated by the dearth of nuclear expertise after the industry fell out of favour for security reasons at the turn of the century.

One emerging approach that aims to overcome these challenges is the Small Modular Reactor (SMR). These advanced reactor designs, which generate a fraction of the power produced by traditional nuclear power plants, are intended to be built in factories and assembled on site to meet customers' specific needs.

Companies are seeking to diversify their energy sources

Microsoft is a case in point. The company now anticipates that by 2030 it will need over five times more electricity than it had projected in 2020. It has signed a multi-billion-dollar deal with Brookfield Renewable Partners that will facilitate more than 10.5 gigawatts of power generation starting in 2026, largely derived from solar and wind. It will also purchase power from Constellation Energy, which plans to restart the Three Mile Island nuclear plant in the U.S. Moreover, the company created the role of Director of Nuclear Technologies in 2024 to oversee the development of Small Modular Reactor systems for data centres.

POWER, STORAGE, AND ELECTRIFICATION

Storage: solving the variability problem

If lower costs have been behind the proliferation of renewable capacity, equally important to the overall energy picture have been technological advancements that address the intermittent nature of wind and solar power.

Technical, managerial, and systems-engineering changes have improved traditional grids to accommodate renewable sources. In particular, the rapid expansion of facilities capable of storing enough electricity to compensate for the natural variability in renewable energy production has become a game changer. These so-called grid-scale batteries are electrochemical devices that collect energy from the grid, store it, and release it later to provide power when it is needed.

Beyond the obvious need to harness intermittent renewable energy sources, rapidly decreasing battery prices are contributing to this growth. The price of stationary lithium-ion batteries per kilowatt-hour of storage dropped by some 40 percent between 2020 and 2023 according to BloombergNEF.

The IEA has identified grid-scale storage as the fastest-growing energy technology. It estimates some 80 GW of new capacity will have been added in the three years to 2025, or eight times the capacity expansion in the decade to 2020.

Like electricity generation, the electricity storage category is being broadened by innovation. Sodium-ion batteries in particular have shown promise. Because sodium is a very abundant element, these batteries pose fewer [supply chain risks](#) and are also less susceptible to geopolitical tensions than lithium, an element derived from minerals concentrated in a few politically volatile regions.

Besides being cheaper to produce than lithium-ion batteries, another potential advantage of sodium-ion batteries is that they are less flammable, which reduces fire risks and results in lower insurance premiums for users. This benefit should not be underestimated; in 2021 and 2023, fires damaged two grid-scale battery facilities operated by Tesla in Australia. More recently, in January 2025, a fire at the world's largest battery storage plant in California destroyed 300 megawatts of lithium battery storage, clipping two percent off the state's total energy storage capacity.

Sodium-ion battery technology is now under active development around the world. Chinese battery manufacturer Contemporary Amperex Technology Limited (CATL) recently announced a sodium-ion battery capable of functioning at -40°C, an important attribute for colder climates. In the U.S., private company Natron Energy, backed by oil giant Chevron, is investing \$1.4 billion to establish a sodium-ion battery factory in North Carolina.

The IEA estimates sodium ion batteries will make up 10 percent of all energy storage installed in five years' time.



For more on the supply chain risks associated with minerals that have key roles in the energy transition, please see the Global Insight special report [“Mission critical: Securing supply of critical minerals”](#).

POWER, STORAGE, AND ELECTRIFICATION



For more on the growing global importance of energy security, please see the Global Insight special report “[Recharging the energy transition?](#)”

Electrification of industry: heating things up

The electrification of basic industries has long been deemed unfeasible based on the belief that electrical furnaces couldn’t produce heat high enough for many industrial processes to take place. However, recent innovations have overcome many of these limitations, enabling the electrification of processes that were previously the sole remit of fossil fuels, such as the calcination process in cement production.

In his book *Zero-Carbon Industry*, Jeffrey Rissman explains that electrification of industrial processes should be viewed in terms of the *cost-effective replacement* of fuel-based processes with electrified alternatives. In the age of [energy security](#), this objective is particularly important for countries aiming to reduce their dependence on imported fossil fuels.

Rissman points out that the electrification of industry largely boils down to a question of how to produce heat from electricity, as heat accounts for more than 90 percent of U.S. fuel use for industrial processes (excluding raw materials), according to the U.S. Energy Information Administration.

Moreover, he estimates that less half the heat for industrial processes is for applications below 500°C. For example, the food and pulp & paper industries rely on processes that require temperatures of 200°C or less. Cement kilns, by contrast, need to reach temperatures of 1300–1450°C, and steelmaking blast furnaces operate at 1600–1800°C.

For processes that require less extreme heat, such as those in the food, pulp & paper, or even pharmaceutical and textile industries, heat pumps have emerged as an alternative. Increasingly used for domestic heating, heat pumps act as reverse refrigerators, taking heat from outside and moving it inside. They are energy efficient as they do not produce new heat but merely move it, delivering substantial energy savings.

Industrial heat pumps are in use in Europe and Japan, two regions where electricity prices are low compared to natural gas prices. Japan’s Kobe Steel, for instance, sells industrial heat pumps that produce steam at 165°C. Subsidies and policy incentives have helped the take-up of this new technology.

But even in the energy-rich U.S., heat pumps are garnering more interest. It costs no more to run a heat pump to get temperatures up to 130°C than a gas boiler, according to the Renewable Thermal Collaborative (RTC), an industry consortium. Higher-temperature heat pumps are also being developed. German industrial company SPH Sustainable Process Heat GmbH has developed a heat pump that harnesses waste industrial heat and reaches temperatures of up to 200°C.

For processes that require much more intense heat, thermal batteries have emerged as a potential solution. One version consists of bricks housed in a metal box, heated by electrical conductors to over 1000°C. Thanks to effective insulation, they can retain heat for days and release it when needed at various temperatures.

POWER, STORAGE, AND ELECTRIFICATION

Many companies are working towards the electrification of industrial processes

Chemicals: A newly formed consortium bringing together German chemical behemoth BASF, Saudi chemical powerhouse SABIC, and global industrial-gases firm Linde aims to develop an electric furnace capable of producing heat sufficiently intense for the chemical reactions required in their manufacturing processes.

Mining: Rio Tinto and BHP, two of the world's largest mining firms, have launched a collaborative initiative to construct Australia's first electric smelter for iron ore.

Cement: Holcim, the German cement giant, is exploring the electrification of kilns and already incorporates renewable electricity in various stages of the production process.

Steel: Sweden's SSAB aims to commercialize green steel by 2026 by replacing coal-powered blast furnaces by hydrogen direct reduction, where hydrogen is produced via electrolysis powered by renewable electricity.

Another technology that has taken on a critical role is electrolysis. Instead of stimulating chemical reactions with heat, electrolysis drives reactions by passing an electric current through a solution. Extensively used for green hydrogen production, electrolysis is being investigated for the smelting of iron ore and potentially to replace the kiln in cement production.

Finally, where the most extreme temperatures are required, a technology that has been around for almost a century is increasingly being used: the electric arc furnace. In the steel industry, these devices use electric arcs to melt scrap metal to be repurposed into new steel. They offer a more energy-efficient and environmentally friendly alternative to traditional blast furnaces, which make steel from iron ore and coking coal in a process known as smelting. Electric arc furnaces are mostly suited to developed markets where scrap is easily available and plentiful.

Though well established, this technology is attracting new converts. In 2024, Tata Steel shut down its blast furnaces in Wales, UK, intending to move to electrified steelmaking.

Innovate, baby, innovate

Will these new technologies work at large scales? Time will tell. But sceptics should remember that other low carbon technologies like wind and solar initially experienced high failure rates and slow rollouts. As engineers and businesses progressed along the learning curve, failure rates declined and adoption accelerated faster than anyone had anticipated.

POWER, STORAGE, AND ELECTRIFICATION

Even if these new technologies prove scalable and efficient, electrifying industry will take time. Changing processes may involve high upfront costs, including training, and disruptive stoppages.

Yet the march toward electrification, underpinned by the falling cost of renewable electric power and the rising importance of energy security, is progressing. Innovations in power, storage, and electrification of industrial processes continue.

While new technologies and disruptive innovations may present promising opportunities for investors in time, they come with inherent risks. As companies grow and at times merge, market dynamics shift and prices fluctuate; the path forward can be uncertain. Thus, although staying alert to new developments is important, many investors may opt to focus on more established industries and themes. Energy efficiency, for example, is an investment theme that underpins many businesses providing products and services aimed at optimizing consumption and lowering energy costs.

As new innovations emerge to meet the challenges of a changing world, we encourage investors to consider the opportunities and risks in light of their long-term investment goals.

GLOBAL Equity



Jim Allworth

Vancouver, Canada
jim.allworth@rbc.com

“Everything else” takes its revenge

Over the last month, each of the so-called “Magnificent 7” (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) has been falling in price, led by Tesla down 40% from its peak and 32% on the month. That’s been enough to bring all the U.S. large-cap indexes down by somewhere in the mid-to-high single digits. Over the same interval, indexes elsewhere are either up sharply (Europe, the UK, and Hong Kong) or holding their own (Canada, South Korea, Taiwan, and Japan).

This is all the more remarkable, in our view, because much of the “everything else”—e.g., Canada, Europe, Asia, and the UK—looks likely to feel the painful bite of U.S. tariffs. So too will some important segments of U.S. manufacturing—mostly autos—even before retaliatory tariffs are factored in.

This apparent buoyancy in the equity indexes of threatened economies is being read by some market participants as indicating that tariffs will prove to be much more moderate and short-lived than headlines suggest. For our part, we are uncomfortable with an investment approach that starts with the premise that the stock market is an infallible predictor of the future.

Equity markets are driven in some large part by expectations for the economy—particularly the U.S. economy. RBC Capital Markets Head of U.S. Equity Strategy Lori Calvasina makes an important distinction between moderate U.S. GDP growth of 2.1%–3% per annum and slow growth of 1%–2%. The former allows for solid corporate revenue and profit growth, enough to stimulate capital spending and innovation. Such growth tends to be non-inflationary, not requiring the U.S. Federal Reserve to take action to cool things off. Periods of moderate GDP growth have tended to be good for equities.

Equity views

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

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

However, GDP growth rates below 2% dampen sales and earnings. Equity performance typically falters during periods of slow growth.

The “Goldilocks” zone, between 2.1% and 3% per annum, is where U.S. GDP growth has been running for some time. In Q4 of last year the annualised rate was 2.3%. In the past three calendar years it ran at 2.5%, 2.9%, and 2.8%. That has been a very good stretch for corporate revenues, earnings, and share prices.

Consensus estimates for 2025 U.S. GDP growth have been running in the low-to-mid-2% range and the Q1 pace had been widely expected to come in between 2.2% and 2.5%. However, some recent data is putting both the Q1 forecasts and the conviction around the full-year estimates into question. January foreign trade and consumer spending results were much weaker than the market expected or than quarterly consensus estimates had factored in. Now some are raising the prospect that Q1 GDP growth could be negative: somewhere between minus 1% and minus 2% rather than the plus 2.3% previously pencilled in.

Forecasters on the Street are quick to point out that special factors are to blame: on the international trade front, many U.S. businesses

GLOBAL EQUITY

pre-bought foreign-sourced supplies to get ahead of tariffs, which temporarily worsened the trade deficit; while on the consumer front, lingering effects of the Boeing strike, the California wildfires, and cold weather produced not just slower growth in consumer spending but an outright decline. These shortfalls are all expected by most economists to reverse themselves in the coming months.

Maybe. But all of the “special factors” noted above were visible for some time and presumably factored into Q1 estimates but clearly not to anything like a sufficient degree. So, investors can be forgiven if they are now a bit leery of accepting assurances that all this undershooting will be recouped quickly. So far, full-year consensus estimates have not been adjusted or pared back. But uncertainty around this won’t even partially go away until the first estimates of Q2 growth are released by the U.S. Bureau of Economic Analysis in midsummer, if then.

For now, RBC Global Asset Management Chief Economist Eric Lascelles believes the damage to Q1 won’t be as great as currently feared. His team estimates full-year 2025 GDP at 2.5%.

But if investors decide to worry that this sudden data confusion is in fact marking a negative change of trend, they may decide to act first and wait for clarity later. Rich price-to-earnings multiples need to have the underlying positive fundamental assumptions constantly and unequivocally reaffirmed.

Confidence in a sufficiently robust growth path for U.S. GDP in 2025 and 2026 has become more elusive in a world where policy uncertainty has soared. And policy uncertainty inevitably has translated into business and consumer uncertainty. CEOs reporting good, often better-than-expected results for Q4 have been reluctant to give guidance for 2025. Plans for hiring and capital expenditure look to have become more fluid, less set in stone.

Even lower growth than we are forecasting could feature sticky, perhaps even higher, inflation. (The “prices paid” component of the February ISM Manufacturing Purchasing Managers’ Index soared to a new cycle high.) Manufacturers protected by tariffs are likely to raise prices because they can. Meanwhile, businesses that are hit by rising input costs from tariffs on imported goods have said in surveys they will try to pass on these costs to consumers. Faced with this dynamic, the Fed and other central banks may well stay “on pause” regarding further rate cuts.

All that said, we see plausible scenarios that could reignite the uptrend in North American equities while building on the recent upsurge in the European and UK stock markets. One would be a peace treaty, ceasefire, or any other agreed gearing down of the Russia-Ukraine conflict. Recent chaotic developments notwithstanding, that can’t be ruled out.

Another, obviously, would be some meaningful scaling back of trade issues. We think hopes for some quick resolution on the trade front are just that—“hopes.” Banking on their saving the day in the short run looks to us like a risky stance. But equity markets are known for the propensity to “climb a wall of worry,” and to that end any movement in the right direction on trade or the situation in Ukraine might well be all the bulls need to keep control.

And, of course, the distortions in the January trade and consumer spending data could be recouped more rapidly and fully than we expect, restoring credibility and confidence in full-year GDP growth estimates in the market-friendly 2.1%–3% zone.

For now, worries that the world’s largest economy could be downshifting into slow-growth mode are weighing on markets. A selective, cautious approach to equities has served us well for some time. In our view, it continues to be the right setting.

GLOBAL

Fixed income

**Thomas Garretson, CFA**

New York, United States
tom.garretson@rbc.com

Proceed with caution

After a series of rate cuts in recent months, we think most central banks will likely take a pass in March in favor of waiting for some level of clarity before taking the next steps.

The Federal Reserve already skipped a rate hike in January, so another skip likely won't come as much of a surprise. But we think the Fed may soon find itself between a rock and a hard place.

Inflation expectations everywhere—from business surveys, consumer surveys, and market-derived measures—are on the rise, and notably so. But at the same time, various measures of economic activity are showing early signs of deterioration. Retail sales data was soft in January, while companies are increasingly flagging waning consumer spending in earnings calls. The S&P Global Purchasing Managers' Index for the U.S. service sector showed its first contraction in headline activity since January 2023.

While the inflation backdrop, and uncertainty around tariffs, would suggest the Fed is—at a minimum—

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

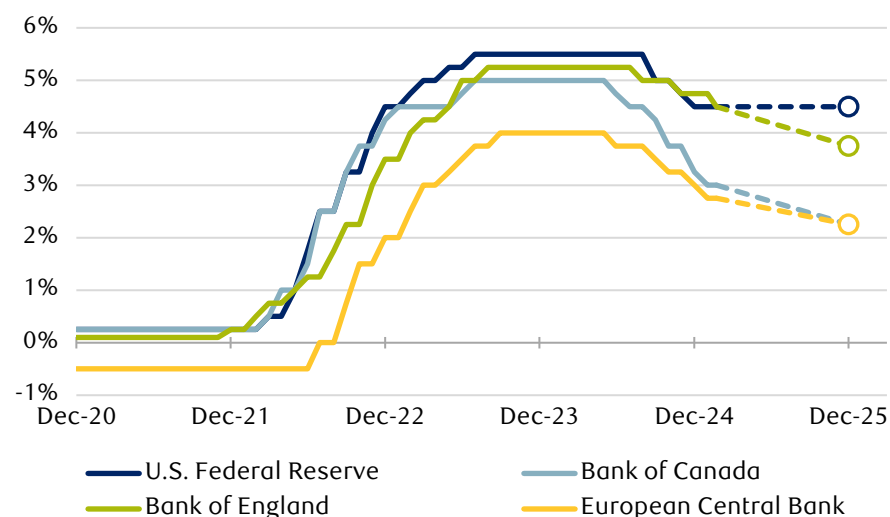
+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

likely to hold rates steady for an extended stretch, the growth backdrop, should it continue to soften, could argue for further rate cuts. But doing so might also add to inflation pressures. A tightrope walk could be awaiting the Fed, indeed.

Globally, it's a similar story. Recent rate cuts have helped to shore up economic activity, allowing both the Bank of Canada and the Bank of England to take a gradual approach from here. In Europe, all signs point to continued rate cuts. As the chart shows, all central banks sans the

After a series of rate cuts, many central banks are likely to proceed cautiously

Policy interest rates of major central banks



Dashed lines and circles show RBC Capital Markets year-end forecasts.

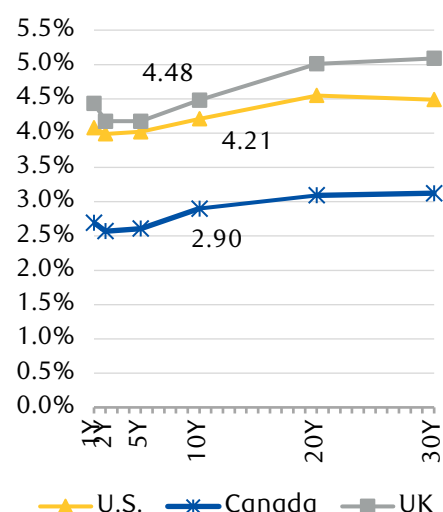
Source - RBC Wealth Management, Bloomberg

GLOBAL FIXED INCOME

Fed are still expected to proceed with further cuts this year with the European Central Bank still on track to cut rates this month, in our view.

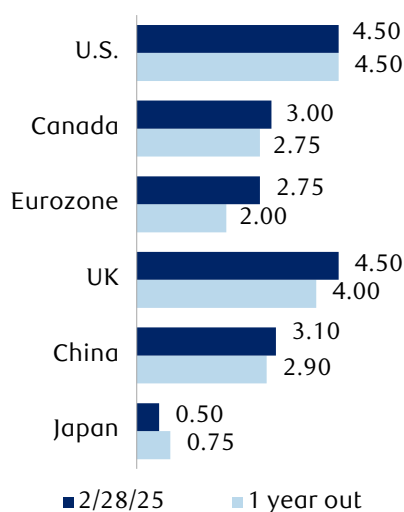
While the hope is always for more clarity, it's rarely realized. Though some may come on the tariff front in upcoming months, the biggest risks around tariffs and trade wars—higher inflation and lower growth—could eventually pose a problem for central banks.

Sovereign yield curves



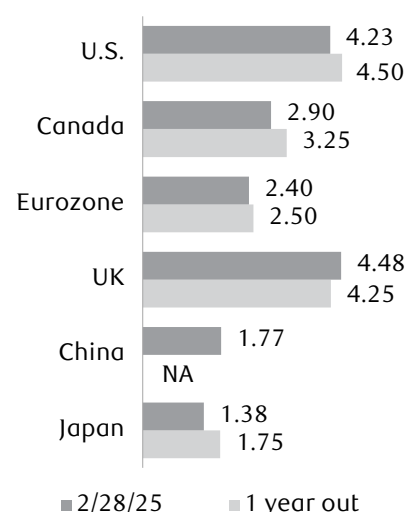
Source - Bloomberg; data through 2/28/25

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Investment Strategy Committee, Global Portfolio Advisory Committee, RBC Global Asset Management

U.S. RECESSION

Scorecard

Waiting for clarity

As 2025 proceeds, the Scorecard’s leading indicators remain undecided on balance and unchanged from last month. We believe a mixed Scorecard, with the preponderance sitting in less-positive columns, argues for investors to stick to a watchful, cautious approach.

Two, perhaps three, of the indicators could shift to more positive readings over the next month or two. At the same time, distortions induced by very elevated policy uncertainty extending into future months, and the fluidity of the tariff situation make us reluctant to confidently extrapolate any one month’s direction.

Yield curve

In November, the yield curve returned to a “normal” positioning where short-term Treasury yields are lower than long-term yields. This shift ended the longest-ever inversion of the curve—29 months—from July 2022 to November 2024. Normalization of the yield curve resulted from the Fed taking short-term rates down by 100 basis points in response to inflation getting to within 1% of its 2% target, while bond investors were pushing longer-term Treasury yields higher by about 100 basis points as they

worried inflation might stay higher than hoped under the influence of a stronger-than-expected U.S. economy and the prospect for broad implementation of tariffs.

The good news is that the drag from the extended period of tight monetary conditions should gradually abate across the economy. However, the historical record would argue there remains room for a recession. In seven of the past 10 U.S. recessions, the yield curve had de-inverted before or just as the recession got underway.

But there are two glimmers of better news on the credit front: while all consumer loan rates remain very high compared to three years ago, credit cards, auto loans and mortgages have all seen borrowing rates ease slightly in the past month; and the latest Senior Loan Officer Survey indicated a (very narrow) majority of banks lowering lending standards on consumer loans.

These (modest) improvements are arriving “on schedule” about six months after the first fed rate cut. The additional cuts to the fed funds rate made after September point to further easing in consumer lending

U.S. Recession Scorecard

Indicator	Status		
	Expansionary	Neutral/ Cautionary	Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate			✓
Conference Board Leading Economic Index			✓
Non-financial corporate cash flows	✓		
ISM New Orders minus Inventories		✓	
Fed funds rate vs. nominal GDP growth			✓

Source - RBC Wealth Management

U.S. RECESSION SCORECARD

rates in the coming months, in conformation with the notion that monetary policy changes act with a lag of six months to a year.

A further widening of the gap between the 10-year and 1-year Treasury yields together with more signs of bank credit standards easing would be needed to persuade us to shift our rating of this indicator out of the Recessionary column.

Conference Board Leading Economic Index

The U.S. leading index rose by 0.3% in November after 30 straight months of decline. It scratched out another 0.1% increase in December before sagging back by 0.3% in January. For our part, we would need to see several months of a sustained upward trend before moving this indicator to a more benign rating.

Unemployment claims

Claims set a low for this cycle in September 2022, but subsequently have failed to establish the sustained upward trend that typically precedes the start of a recession. The weekly count jumped sharply higher in early December, but the seasonal adjustment factor around the holiday period is generally regarded as unreliable. As things stand, we think “undecided” is the correct interpretation of the claims data.

Unemployment rate

The unemployment rate usually surges higher just before or just as a recession is getting underway. Typically, it takes an upward move of as little as half-of-one percentage point from the cycle low to signal the start of recession. The low for the unemployment rate was set at 3.4% in April 2023, so that condition has been met. However, as with claims, the anticipated “surge” higher has been more of a “creep” to a recent high of 4.3%. The unemployment rate sits at 4.0% as of this writing.

Also, like claims, seasonality adjustments in December and January may be suspect, not to mention the fallout from how tariffs and other big Washington policy shifts play out. Those concerns notwithstanding, were the unemployment rate to settle back convincingly below 4%, we would re-rate this indicator to Neutral/Cautionary.

ISM New Orders minus Inventories

The difference between the New Orders and Inventories sub-indexes of the ISM Purchasing Managers’ Index has turned negative near the start of most U.S. recessions. But it has also registered occasional false positives—signaling a recession was imminent when none subsequently arrived. Moreover, this indicator only relates to activity in the manufacturing sector (some 15% of the U.S. economy) and is derived from a survey rather than hard data. For those reasons, we look at it as a corroborative indicator rather than a decisive one taken on its own.

After setting its most recent low in September 2022, this series has risen steadily (we use a three-month moving average) and moved back above zero in August 2023. It has managed to stay above zero over the intervening 17 months and recently surged to levels that would usually have us re-rate this indicator to Expansionary. However, we think the prospects for tariffs, which have been on the rise since Election Day, have pulled some demand forward which may get reversed in the coming months. For now, we are leaving the rating unchanged.

Fed funds rate vs. nominal GDP growth

The fed funds rate has risen above the six-month annualized run rate of nominal GDP either before or at the start of every recession in the past 70 years. (Nominal GDP is GDP

U.S. RECESSION SCORECARD

not adjusted for inflation.) That GDP run rate has been declining since its pandemic reopening high of 23% recorded in Q4 2020. By the end of last year, it had slowed to 6.7%, still above the 5.50% fed funds rate. However, for Q2 and most of Q3 the six-month annualized run rate of nominal GDP was running below where the fed funds rate sat at the time, meeting the condition observed before every recession. This indicator remains in the Recessionary column.

Non-financial corporate cash flows

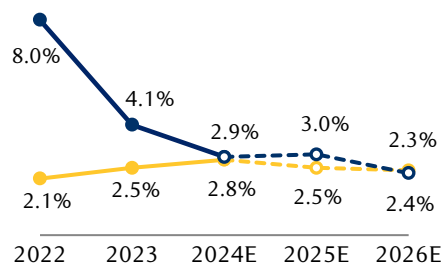
This gives an indication of the ability of such businesses, in aggregate, to internally fund any capital spending they want or need to do. Historically,

whenever it has posted a year-over-year negative reading, a decline in corporate capital spending has typically followed, either indicating a recession is coming or a deepening one is already underway. These cash flows, while down from their pandemic peak, are still above a negative crossing point as of Q3, which leaves it as the sole indicator still giving the U.S. economy an expansionary “green” light. There is a long lag time before this data is reported with the Q4 release not coming until later this month.

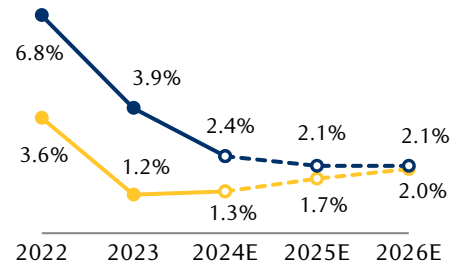
KEY

Forecasts

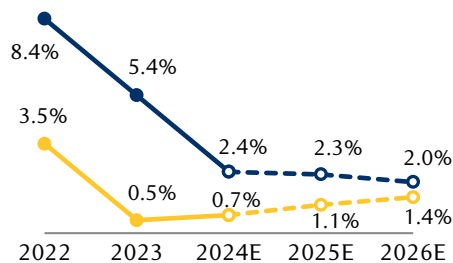
United States



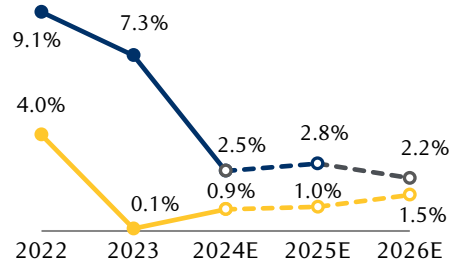
Canada



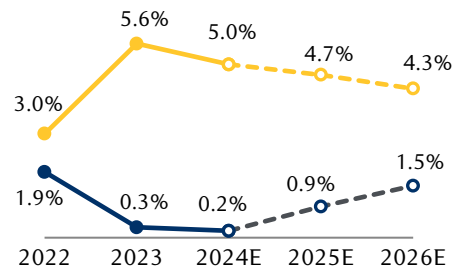
Eurozone



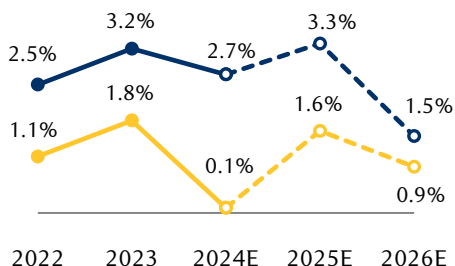
United Kingdom



China



Japan



—●— Real GDP growth

—●— Inflation rate

Source - RBC Investment Strategy Committee, RBC Capital Markets, Global Portfolio Advisory Committee, RBC Global Asset Management, Bloomberg consensus estimates

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.

The Global Portfolio Advisory Committee leverages the broad market outlook as developed by the RBC Investment

Strategy Committee (RISC), providing additional tactical and thematic support utilizing research from the RISC, RBC Capital Markets, and third-party resources.

The RISC consists of senior investment professionals drawn from individual, client-focused business units within RBC, including the Portfolio Advisory Group. The RISC builds a broad global investment outlook and develops specific guidelines that can be used to manage portfolios. The RISC is chaired by Daniel Chornous, CFA, Chief Investment Officer of RBC Global Asset Management Inc.

Global Portfolio Advisory Committee members

Jim Allworth – Co-chair
Investment Strategist, RBC Dominion Securities Inc.

Kelly Bogdanova – Co-chair
Portfolio Analyst, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

Frédérique Carrier – Co-chair
Managing Director & Head of Investment Strategy, RBC Europe Limited

Mark Bayko, CFA – Head, Portfolio Management, RBC Dominion Securities Inc.

Luis Castillo – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – Head of Fixed Income, British Isles, RBC Europe Limited

Janet Engels – Vice President & Head, Global Investments, RBC Wealth Management, RBC Capital Markets, LLC

Thomas Garretson, CFA – Fixed Income Senior Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group, RBC Capital Markets, LLC

Patrick McAllister, CFA – Manager, Equity Advisory & Portfolio Management, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Josh Nye – Fixed Income Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group, RBC Dominion Securities Inc.

Alan Robinson – Senior Portfolio Advisor, RBC Wealth Management Portfolio Advisory Group – U.S. Equities, RBC Capital Markets, LLC

Michael Schuette, CFA – Multi-Asset Portfolio Strategist, RBC Wealth Management Portfolio Advisory Group U.S., RBC Capital Markets, LLC

David Storm, CFA, CAIA – Chief Investment Officer, British Isles & Asia, RBC Europe Limited

Yuh Harn Tan – Head of Discretionary Portfolio Management & UHNW Solutions, Royal Bank of Canada, Singapore Branch

Joseph Wu, CFA – Portfolio Manager, Multi-Asset Strategy, RBC Dominion Securities Inc.

Required disclosures

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Important Disclosures

In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets. This report has been prepared by RBC Capital Markets which is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada.

Non-U.S. Analyst Disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Wealth Management and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

In the event that this is a compendium report (covers six or more companies), RBC Wealth Management may choose to provide important disclosure information by reference. To access current disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2> to view disclosures regarding RBC Wealth Management and its affiliated firms. Such information is also available upon request to RBC Wealth Management Publishing, 250 Nicollet Mall, Suite 1800, Minneapolis, MN 55401-1931.

RBC Capital Markets Distribution of Ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories – Buy, Hold/Neutral, or Sell – regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because RBC Capital Markets' ratings are determined on a relative basis.

Distribution of ratings – RBC Capital Markets Equity Research As of December 31, 2024

Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	883	58.17	303	34.31
Hold [Sector Perform]	588	38.74	153	26.02
Sell [Underperform]	47	3.10	4	8.51

Explanation of RBC Capital Markets Equity Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Outperform (O): Expected to materially outperform sector average over 12 months. **Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months. **Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances. **Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

Risk Rating: The Speculative risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Valuation and Risks to Rating and Price Target

When RBC Capital Markets assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled "Valuation" and "Risks to Rating and Price Target", respectively.

The analyst(s) responsible for preparing this research report have received (or will receive) compensation that is based upon various factors, including total revenues of RBC Capital Markets, and its affiliates, a portion of which are or have been generated by investment banking activities of RBC Capital Markets and its affiliates.

Other Disclosures

Prepared with the assistance of our national research sources. RBC Wealth Management prepared this report and takes sole responsibility for its content and distribution. The content may have been based, at least in part, on material provided by our third-party correspondent research services. Our third-party correspondent has given RBC Wealth Management general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. Our third-party correspondent may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. Our third-party correspondent may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

RBC Wealth Management endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. In certain investment advisory accounts, RBC Wealth Management or a designated third party will act as overlay manager for our clients and will initiate transactions in the securities referenced herein for those accounts upon receipt of this report. These transactions may occur before or after your receipt of this report and may have a short-term impact on the market price of the securities in which transactions occur. RBC Wealth Management research is posted to our proprietary Web sites to ensure eligible clients receive coverage initiations and changes in rating, targets, and opinions in a timely manner. Additional distribution may be done by sales personnel via e-mail, fax, or regular mail. Clients may also receive our research via third-party vendors. Please contact your RBC Wealth Management Financial Advisor for more information regarding RBC Wealth Management research.

Conflicts Disclosure: RBC Wealth Management is registered with the Securities and Exchange Commission as a broker/dealer and an investment adviser, offering both brokerage and investment advisory services. RBC Wealth Management's Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on our website at <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=2>. Conflicts of interests related to our investment advisory business can be found in Part 2A Appendix 1 of the Firm's Form ADV or the RBC Advisory Programs Disclosure Document. Copies of any of these documents are available upon request through your Financial Advisor. We reserve the right to amend or supplement this policy, Part 2A Appendix 1 of the Form ADV, or the RBC Advisory Programs Disclosure Document at any time.

The authors are employed by one of the following entities: RBC Wealth Management USA, a division of RBC Capital Markets, LLC, a securities broker-dealer with principal offices located in Minnesota and New York, USA; RBC

Dominion Securities Inc., a securities broker-dealer with principal offices located in Toronto, Canada; Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ("SFC"); Royal Bank of Canada, Singapore Branch, a licensed wholesale bank with its principal office located in Singapore; and RBC Europe Limited, a licensed bank with principal offices located in London, United Kingdom.

Third-party Disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

The information contained in this report has been compiled by RBC Wealth Management, a division of RBC Capital Markets, LLC, from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Wealth Management, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Wealth Management's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients, including clients who are affiliates of Royal Bank of Canada, and does not have regard to the particular circumstances or needs of any specific person who may read it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. To the full extent permitted by law neither Royal Bank of Canada nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of Royal Bank of Canada in each instance. In the U.S., RBC Wealth Management operates as a division of RBC Capital Markets, LLC. In Canada, RBC Wealth Management includes, without limitation, RBC Dominion Securities Inc., which is a foreign affiliate of RBC Capital Markets,

LLC. This report has been prepared by RBC Capital Markets, LLC. Additional information is available upon request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. RBC Capital Markets, LLC, is an indirect wholly-owned subsidiary of the Royal Bank of Canada and, as such, is a related issuer of Royal Bank of Canada. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC. International investing involves risks not typically associated with U.S. investing, including currency fluctuation, foreign taxation, political instability and different accounting standards.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member Canadian Investor Protection Fund. ®Registered trademark of Royal Bank of Canada. Used under license. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under license.

RBC Wealth Management (British Isles): This publication is distributed by RBC Europe Limited and Royal Bank of Canada (Channel Islands) Limited. RBC Europe Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FCA registration number: 124543). Registered office: 100 Bishopsgate, London, EC2N 4AA, UK. Royal Bank of Canada (Channel Islands) Limited is regulated by the Jersey Financial Services Commission in the conduct of investment business in Jersey. Registered office: Gaspé House, 66-72 Esplanade, St Helier, Jersey JE2 3QT, Channel Islands.

To persons receiving this from Royal Bank of Canada, Hong Kong Branch: This document is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch which is regulated by the Hong Kong Monetary Authority and the SFC. This document is not for distribution in Hong Kong, to investors who are not “professional investors”, as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance. This document has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Past performance is not indicative of future performance. **WARNING:** The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the investment. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

To persons receiving this from Royal Bank of Canada, Singapore Branch:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This publication is not for distribution in Singapore, to investors who are not “accredited investors” and “institutional investors”, as defined in the Securities and Futures Act 2001 of Singapore. This publication has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch.

© 2025 RBC Capital Markets, LLC – Member NYSE/FINRA/SIPC
 © 2025 RBC Dominion Securities Inc. – Member Canadian Investor Protection Fund
 © 2025 RBC Europe Limited
 © 2025 Royal Bank of Canada
 All rights reserved
 RBC1524



**Wealth
Management**