Investment UPDATE

Summer 2025 edition

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Investing in uncertain times

Uncertain is one way to describe what the recent path has looked like for investors. While this can be an uncomfortable feeling, this is not unusual for financial markets. There is always a lot we don't know for sure – even when we watch the trending data.

We don't know what interest rates will be. We don't know where the economy is going. We don't know if markets will rise to all-time highs or fall. But here's what we do know: historically, investors who are patient and resilient through these uncertain times are more likely to be rewarded.

In this quarter's **Investment Update**, we will explore what you can do when markets turn choppy. This will help you avoid the common mistakes investors make when they experience volatile markets.

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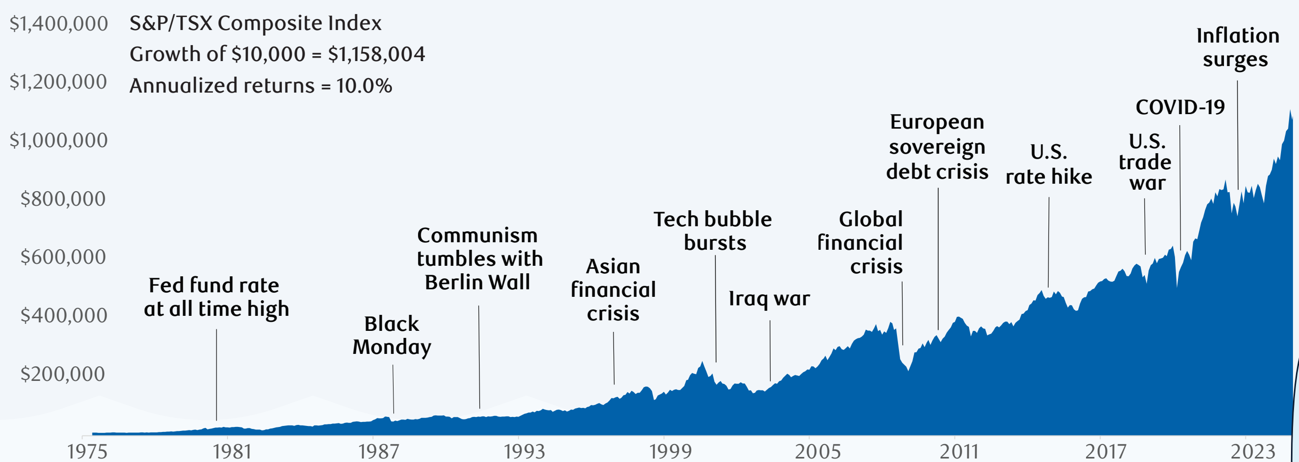
Four things to do when markets turn choppy

There will always be reasons not to invest. Markets have faced all sorts of challenges over the years. What investors don't often realize is that markets have been resilient through these events. As the iconic investor Warren Buffet said, "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

1. Maintain discipline

Downturns can be scary and may lead you to make a hasty decision to exit the market. If you sell, when do you re-enter? Time in the market is more valuable than timing the market. In fact, most of your return each year could come from the powerful rallies that occur as the market recovers from its lows.

There will always be reasons to not invest, but markets do tend to move upward over time[1]

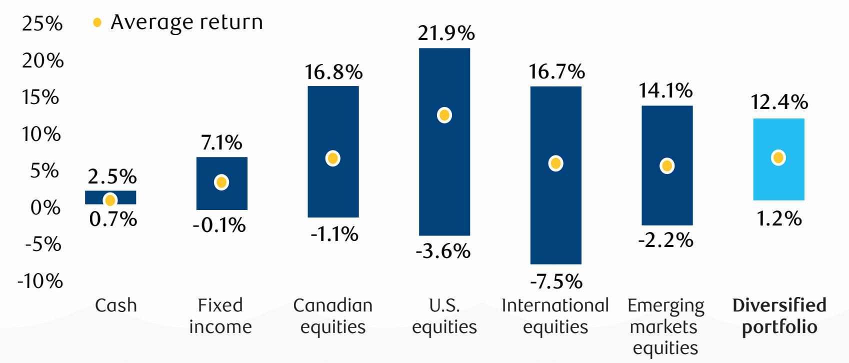


2. Diversify

Diversification is one of the best ways to create a smoother investment experience. As an investor, it means spreading your money across a mix of asset classes like equities and fixed income. Why? Different types of investments perform in different ways over time. When some are rising in value, others may be decreasing or maintaining their value. If you have a diversified portfolio and the market takes a downturn, you will likely experience less volatility than a portfolio comprised of just one asset class.

A diversified portfolio can help you strike the right balance between security and growth[2]

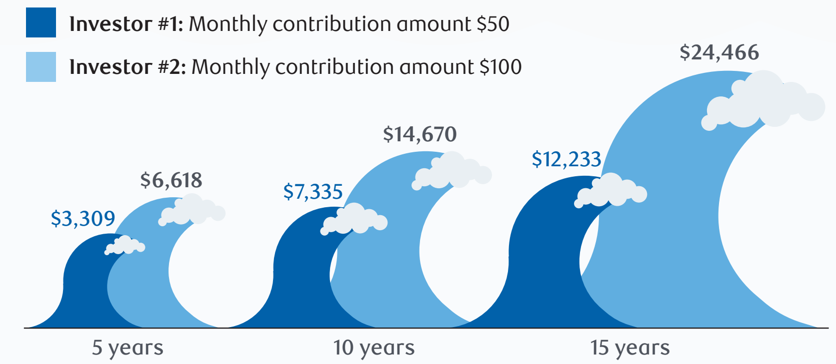
Range of rolling five-year returns over the past 20 years



3. Maintain regular contributions or increase them if possible

During volatile periods, it's important to keep making your pre-authorized contributions. That's because you are contributing a fixed amount of money to your investment at regular intervals, regardless of market conditions. When markets are down, you can buy more units of your investment with the same contribution amount. When markets start to rise, the money you've already invested is benefiting from that performance. And when you increase your contributions regularly (to keep pace with inflation), you can further compound your potential growth. This can really add up over time.

Investing more really adds up



Source: RBC GAM. Assumes a 4% annualized rate of return. Used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of any particular investment.

4. Speak with your advisor

During volatile markets you may start to question if your financial plan is achievable. These are completely normal feelings. Having a touchpoint with your advisor can help put things into perspective–especially if circumstances have changed that require changes to your financial plan. Remember, time in the markets is on your side. We expect financial markets to continue to adjust to changes in trade policy, interest rates and new economic data. If you stick to your investment plan, you are more likely to achieve positive results over the long term.

If you still have concerns, reach out to an RBC advisor to help you stay on track.

[1] Source: RBC Global Asset Management (RBC GAM), Morningstar. Values and performance are in CAD. Chart illustrates the growth of $10,000 in the S&P/TSX Composite Index (total returns) for the 50-year period from June 1, 1975 to May 31, 2025. An investment cannot be made directly in an index. Graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

[2] Source: RBC GAM, Morningstar. Historical returns refer to five-year rolling returns for the 20-year period from June 1, 2005 to May 31, 2025. Rolling returns step monthly. You can see the range of returns of each asset class - from highs to lows. Past performance is not a guarantee of future results. Five-year rolling returns refer to periods of 60 consecutive months with new periods beginning on the first day of each month. Diversified Portfolio assumes monthly rebalancing as represented by 2% Cash, 38% Fixed Income, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Markets Equities. Cash represented by FTSE Canada 30 DAY T-Bill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Index; U.S. Equities represented by S&P 500 Index; International Equities represented by MSCI EAFE Index; Emerging Markets Equities represented by MSCI Emerging Markets Index. All returns are total returns in Canadian dollars, unless otherwise noted. Index returns do not reflect deduction of expenses associated with investments. If such expenses were reflected, returns would be lower. An investment cannot be made directly in an index.

One-minute market update

Economy

- Tariffs are set to exert a substantial drag on economic growth with modest 2025 GDP growth forecasts of sub-2% across the developed world. A mild 2025 slump triggered by tariffs is also expected for most emerging markets.
- Next year should be somewhat better with the worst of the tariff adjustment complete and U.S. tax cuts acting as a tailwind.
- Because of tariffs, U.S. annual inflation rates of 3.0% in both 2025 and 2026 are expected with a projected peak of 3.5% in late autumn.
- U.S. exceptionalism is in retreat, with adverse implications for the dollar and the broader investment landscape.

Fixed income

- Central banks are proceeding with caution as they weigh U.S. policy uncertainty and competing priorities of economic weakness and inflation strength calling for opposite action.
- The U.S. 30-year yield climbed to above 5% in May 2025, the highest since late 2023, on fiscal concerns.
- Further increases in real rates are likely limited over the long term by structural factors. As a result, the U.S. 10-year yield at 4.40% is appealing, situated slightly above the upper boundary of our model's estimate of equilibrium.
- We forecast that the U.S. 10-year yield will decline marginally to 4.25% over the year ahead, delivering mid-single digit returns with modest valuation risk.

Equity markets

- The tariffs sparked an intense sell-off that pushed many technical and sentiment indicators to extremes and shifted leadership away from U.S. stocks.
- Subsequent progress on trade propelled the S&P 500 back to levels which make further gains increasingly dependent on strong earnings growth and elevated investor confidence.
- Uncertainty around U.S. trade policy has depressed S&P 500 earnings estimates, with analysts now pencilling in 8.5% aggregate profit growth in 2025 and 13.5% in 2026, down from 14% and 15%, respectively, earlier this year.
- Our models suggest that global equities are fairly priced and offer attractive return potential, especially non-U.S. markets.

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