

Investment UPDATE

Winter 2026 edition



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Lessons learned from 2025

Investors went through a bit of a roller coaster ride in financial markets in 2025. New U.S. tariffs shocked investors. Gold hit new highs. Artificial intelligence (AI) fever fueled technology stocks. And many central banks embraced interest rate cuts.

Yet, the economy remained resilient, company earnings were robust and stock markets, while bumpy, hit many all-time highs. In this update, we break down the year's biggest themes, why they matter and lessons you can take into next year.



The year at a glance

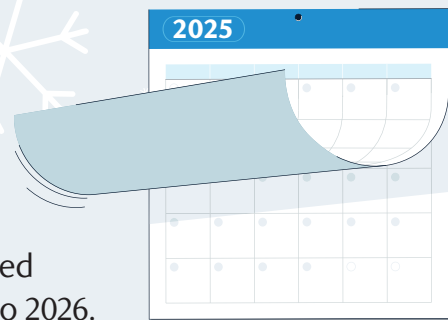
S&P 500 in 2025



Source: RBC Global Asset Management Inc., Morningstar. S&P 500 Price Index (USD). For the period January 1, 2025 – November 28, 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.

What happened in 2025 and why it matters

Every year brings new challenges and opportunities for investors. Let's explore some of the most notable events and themes that impacted financial markets in 2025 – and three lessons you can carry forward into 2026.



U.S. dollar dropped

The U.S. dollar fell 10% in the first half of 2025 – the biggest six-month decline since 2009 and one of its worst starts to a year since the early 1970s. However, it has rebounded slightly. Higher U.S. debt, sticky inflation, fast-changing U.S. policy, and slower immigration all dented business and consumer confidence.

Why it matters: A cheaper dollar helped overseas stocks and investments outshine their U.S. peers. Those who invested in globally diversified portfolios were better positioned to benefit from this.



Global stock market rose

Some U.S. stocks jumped to all-time highs as investors refocused on company performance and AI.

- Apple, Microsoft, Nvidia and other large technology firms hit record highs.
- Canadian, European and emerging market equities outperformed the pricey U.S. index, thanks to lower valuations and stimulus in these regions.

Why it matters: Fears of an AI bubble remain in the highly concentrated U.S. market where a few technology stocks dominate. As other markets deliver strong performance, this highlights the value and importance of staying diversified in your portfolio.



Interest rate cuts rolled out

Both the Bank of Canada and the U.S. Federal Reserve ("Fed") cut rates this year as inflation and the labour market cooled. For Canada, the cuts started in 2024 and continued throughout 2025. For the U.S., the Fed made its first rate cut in September 2025 after being on pause.

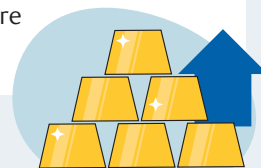
Why it matters: Lower rates boost bond prices and cut borrowing costs, so investors may see stronger returns from fixed income. Households can refinance mortgages or loans at cheaper rates, freeing up cash to spend or invest elsewhere.



Gold prices surged

Gold prices rose to over US\$ 4,300 per oz at one point setting a record high as nervous investors searched for a safe haven and foreign central banks filled their reserves. For the first time in 30 years, many central banks held more gold than U.S. bonds as worries about U.S. debt, sticky inflation and a weaker dollar all drove demand.

Why it matters: The rush into gold often signals that investors should diversify and prepare for inflation or dollar weakness.



3 lessons for 2026

LESSON	WHY IT MATTERS	WHAT TO DO
<i>Stay diversified</i>	No one can predict the next winner – gold, tech, or something else.	Choose a mix of funds or investments that will help you reach your goals. Rebalance at least once a year.
<i>Stay invested</i>	Timing the market rarely works. Markets may rebound well before headlines turn positive.	Avoid selling on fear. If you have money to invest, consider adding to your investments when markets are down and 'on sale.' Or invest regularly whether markets are up or down, letting it average out, and continue working towards reaching your investment goals.
<i>Stick to your plan</i>	A plan helps take the emotion out of investing, so you don't get caught up in short-term worries.	If you're considering changes to your investments, talk to an RBC advisor. They'll help you make decisions based on your goals and how long you have to invest.

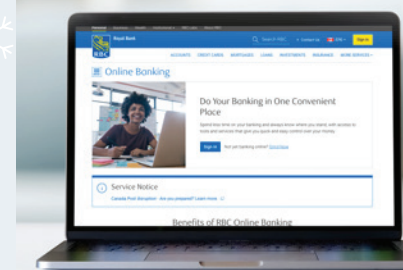
We can't predict the future, but we can plan for it. Speak to an RBC advisor today to help ensure your plan is ready for all types of markets.



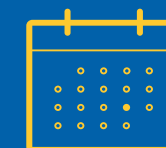
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Key dates in 2026



January 1, 2026
2026 TFSA contribution limit of \$7,000 applies

March 2, 2026
RRSP contribution deadline for the 2025 tax year

April 30, 2026
Filing deadline for your 2025 personal income taxes



Economy

- Slowing growth due to U.S. tariffs and tumbling immigration was partially offset in 2025 by fiscal stimulus and continued interest-rate cuts by central banks.
- We believe economic growth should accelerate moderately in the year ahead and may pleasantly surprise relative to consensus expectations.
- Tariff headwinds should fade, and important tailwinds are set to blow. These beneficial forces include interest-rate cuts, further fiscal stimulus, low oil prices, a positive stock-market wealth effect, further growth in artificial-intelligence (AI) expenditures and the early stages of an AI-driven productivity boost.
- Inflation may not fall by quite as much as consensus expectations for 2026, but is expected to slowly ease after an expected peak in the spring.

Fixed income

- Risk premiums embedded in real yields could keep the U.S. 10-year yield from falling meaningfully from here.
- Our model argues the 10-year yield should theoretically fall from the current 4.0%, but in practice this depends not just on inflation pressures subsiding, but also on a diminishment in concerns about governments' fiscal health.
- With governments seemingly content to continue running large deficits, we forecast that government fixed-income assets will deliver coupon or cash-like returns.
- In corporate bonds, the added compensation for taking credit risk is historically small. That said, conditions for sustained spread widening are not present as corporate default risk is low.

Equity markets

- Equity markets ultimately found their footing in 2025 and rewarded investors with strong returns in most major markets.
- The strong gains mean that valuations have been creeping higher almost everywhere, and the overvaluation story is no longer just a U.S. large-cap phenomenon.
- Valuations are demanding for U.S. large-cap, Canadian and Japanese equities, whereas European and emerging market stocks remain attractively priced.
- Profit growth will be increasingly critical to sustaining any further advance in the S&P 500. A positive outcome is certainly possible but given that valuations are historically stretched, the market is vulnerable to any disappointment.

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