GLOBAL
Insight
WEEKLY

Perspectives from the Global Portfolio Advisory Committee

December 11, 2025

# The Fed takes a turn down easy street

Thomas Garretson, CFA – New York

Another rate cut from the Federal Reserve this week has taken U.S. interest rates into a new era where we think every rate cut not only means that policy gets easier, but risks becoming too easy, all while the decisions only get harder.

As was widely expected, the Fed delivered its third consecutive rate cut to close out 2025, while remaining noncommittal on what investors might expect into 2026. But we believe this latest cut could mark an inflection point for policy, the economy, and markets.

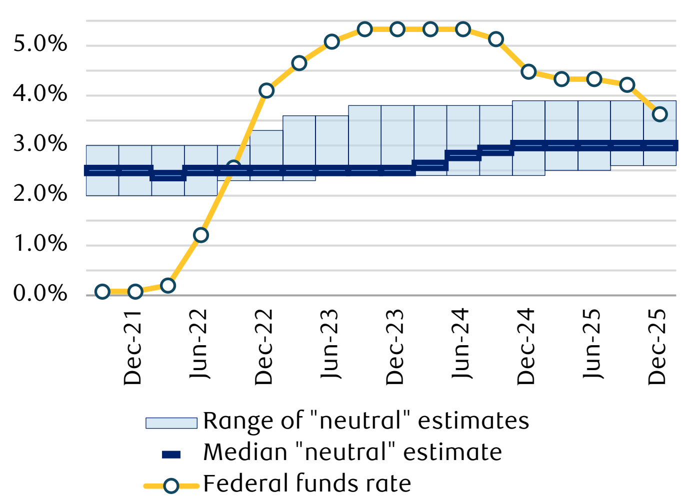
As the chart at right shows, with this latest rate cut to an effective midpoint of 3.63 percent, and after a multiyear campaign of elevated levels, policy rates now appear to be within the theoretical "neutral" range for the U.S. economy—or the estimated point at which monetary policy is neither restrictive nor supportive of economic growth and inflationary pressures. At the December meeting, policymakers judged the range to be from 2.6 percent to 3.9 percent, with a median of 3.0 percent.

While unchanged, both the median and the range have been trending higher in recent years from pandemic-type levels. And with nearly half the policymakers believing the so-called neutral rate is above 3.0 percent, any further cuts would cause more to see policy as moving into easy territory at a time when the economic and inflationary backdrop might not necessitate it.

## Impulse control

But with the Fed taking its first steps down easy street, is it at risk of a head-on collision with something unexpected?

### U.S. interest rates enter the "neutral" zone




Source - RBC Wealth Management, Bloomberg, Federal Reserve; shows median and range of longer-run fed funds projections

The Fed made several notable adjustments to its summary of economic projections. Economic growth for next year was upgraded sharply to 2.3 percent from just 1.8 percent in September. A 2.3 percent pace would also be well above the Fed's 1.8 percent estimate of the long-term sustainable growth rate for the U.S. economy—something that would normally add to inflationary impulses.

For perspectives on the week from our regional analysts, please see pages 3–4.

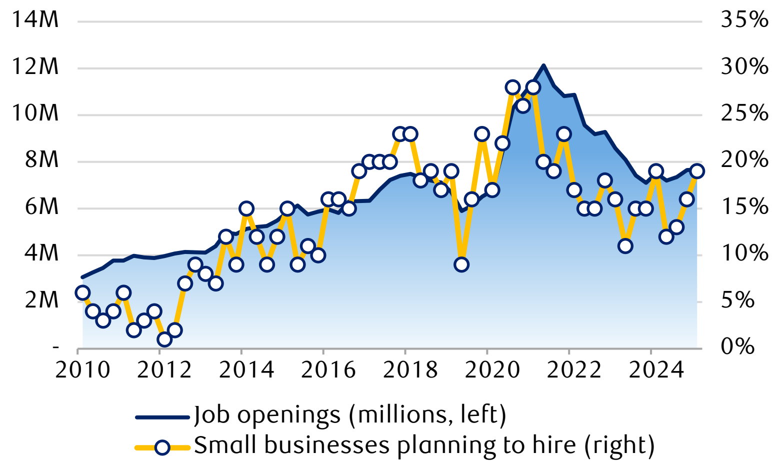


For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 6.

Priced (in USD) as of 12/10/25 market close (unless otherwise stated). Produced: 12/11/25, 16:17 ET; Disseminated: 12/11/25, 16:25 ET

But perhaps not so, at least in the eyes of the Fed. Expected core personal consumption expenditures inflation for next year was lowered slightly to 2.5 percent from 2.6 percent in September, though also still well above the Fed's 2.0 percent inflation target (in fact, the Fed's latest projections don't have inflation returning to 2.0 percent until 2028). When pressed on why stronger growth next year was paired with a lower inflation forecast, Fed Chair Jerome Powell alluded to the idea that AI and productivity gains could help to offset inflationary pressures. While possible, technology-driven productivity gains can be fleeting, while taking years to fully understand and realize.

**U.S. labor market showing signs of life?**




Source - RBC Wealth Management, Bloomberg, NFIB Small Business Survey

Finally, unemployment is seen ending 2026 at 4.4 percent, unchanged from the Fed's prior estimate, and in line with the current unemployment rate. Again, that's at odds with a stronger growth backdrop, but this too could be reflective of AI as labor markets face a technology-driven transition and inflection point.

That said, we are flagging signs of an improving labor backdrop in recent months. This week, job openings through October were much higher than Bloomberg consensus expectations, and as shown by the chart at right, now appear largely unchanged over the past year, and still at historically high levels. At the same time, 19 percent of small businesses reported plans to hire, matching the best reading since 2022. Though intentions to hire can be volatile, this does square with other recent measures of consumer sentiment such as the Conference Board's survey of whether jobs are perceived as "hard to get," which fell to the lowest level since June, and the University of Michigan's survey of job loss probability, which fell sharply in the first part of December.

All told, we see upside risks to economic growth and to some extent inflation next year, while we think recent Fed action will be sufficient to shore up labor markets with potential for another hiring rebound, just as we saw in early 2025.

## When 2 = 6

The other focal point of the meeting was on the extent to which policymakers might dissent, either in favor of a cut if the Fed held rates steady, or in favor of doing nothing if it cut. In the end, just two policymakers voted against this week's rate cut.

However, looking at the Fed's updated rate projections, six policymakers penciled in rates ending this year at an upper bound of 4.0 percent, implying no further rate cut at the December meeting this week. Perhaps none of those people vote on policy this year, or perhaps Powell was simply able to wrangle others into supporting a rate cut. But that suggests there's already a large cohort at the Fed that still foresees a strong case to keep rates steady.

The composition of voters next year will also tilt more hawkish, in our view, with two of the most hawkish members at the Fed based on public comments, the presidents of the Dallas and Cleveland Federal Reserve Banks, joining the voting rotation, along with the Minneapolis Fed president who has also been vocal about being cautious with respect to further rate cuts.

Regardless, the stage is set for next year—and a new Fed chair—and what will likely be a continuation of contentious Fed decisions. It may also mean more volatility and uncertainty as the power at the Fed may shift from the chair to the voting committee, with markets more attuned than usual to public comments beyond the Fed chair.

## What does it all mean?

With respect to Treasury yields, and the shape of yield curves, we think moderately higher and slightly steeper is the near-term trend. With the Fed on hold, though biased toward another cut, the 2-year Treasury yield is likely to remain around 3.5 percent. But the 10-year yield, which is more sensitive to economic growth and inflation, likely faces further upside risk from a current level around 4.10 percent. In our view, if labor markets stabilize and/or reaccelerate, we see scope for it to move back into a range of 4.2 percent to 4.6 percent, where it was prior to September.

For fixed income investors, we believe this will remain an attractive environment to take advantage of steep yield curves and any backup in yields to reposition portfolios by exiting shorter-dated bonds in favor of locking in higher yields and for a longer time further out on curves.

For markets broadly, the Fed now joins an ever-growing number of global central banks that are at or near the end of their respective rate cut cycles, with some even turning the page toward the potential of higher rates—and an associated turn toward a more volatile market backdrop.

## UNITED STATES

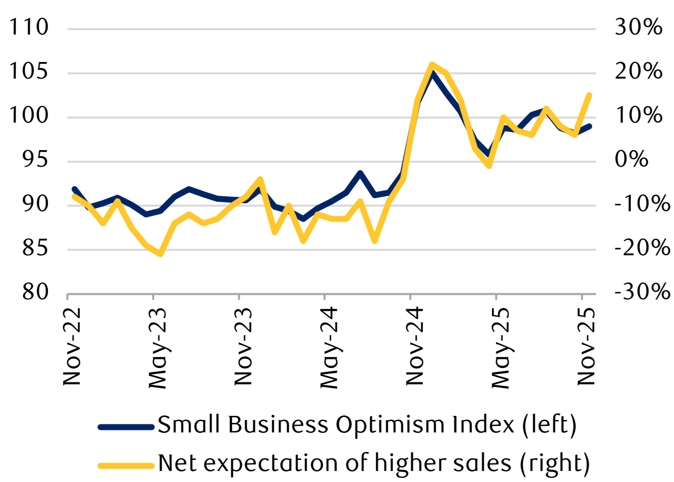
Tyler Frawley, CFA – Minneapolis

- **Small-business optimism ticked higher in November.** According to the NFIB Small Business Survey, small firms (which make up roughly half of private-sector employment in the U.S.) reported a modest improvement in sentiment. The rise was largely driven by a rebound in sales expectations, with more owners forecasting higher sales in the months ahead. This suggests to us that businesses are cautiously confident about demand despite ongoing cost pressures and labor concerns. While capital spending and hiring plans remain relatively subdued, the upticks in the headline index and forward-looking sales expectations point to steady, measured optimism. Smaller firms appear to see enough momentum to feel more confident about near-term growth, even as they continue to manage expenses carefully and approach expansion cautiously.

- **The U.S. has reopened the door for advanced AI chip sales to China.** The Trump administration's decision this week to approve exports of NVIDIA's H200 chips marks the first meaningful loosening of semiconductor controls since 2022, and reintroduces American compute into a market where it had been effectively shut out. The chips would be sold under a 25 percent surcharge and strict Commerce Department oversight, but the broader signal is that Washington is testing a more flexible, managed approach to tech containment rather than relying solely on outright bans. That shift raises new questions about how the U.S. now defines acceptable AI capability in China and whether controlled access can remain enforceable once hardware is on the ground. China's reaction is unclear at this stage, as the H200 is not NVIDIA's most advanced architecture and Beijing continues to incentivize domestic chipmaking. Yet even limited imports could influence its AI development pace and its long-term drive for self-reliance. Looking ahead, we will continue to watch whether meaningful shipment volumes occur, whether political pressure in Washington, D.C. forces another reversal, how allies respond, and whether this "managed access" framework spreads to other areas of strategic technology. Overall, we think this move represents an attempt to recalibrate U.S.-China tech policy, with potential implications beyond a single chip.

### Small-business optimism edged higher in November

NFIB Small Business Optimism and Sales Expectations




Source - Bloomberg, National Federation of Independent Business; data as of 12/11/25

## CANADA

Zachariah Muhn & Elizabeth Grant – Toronto

- **The Bank of Canada (BoC) held its policy rate steady at 2.25%** on Wednesday, at the bottom of its neutral range estimate and where we expect it to remain through the end of 2026. The rate decision followed a stronger-than-expected Q3 GDP report, upward revisions to GDP figures since 2022 (revealing that Canada was on stronger footing than previously estimated), and resilient job gains in November that saw the unemployment rate drop to 6.5% from 6.9%. With recent data suggesting the economy has weathered U.S. tariffs better than anticipated, the BoC sees the current policy rate level as appropriate for the economy. It views excess economic capacity as sufficient to offset cost pressures associated with trade reconfiguration, thereby keeping inflation around the 2% target. While in agreement, RBC Economics believes the balance of risks is tilted toward more inflationary pressures—particularly if consumer demand growth and improvements in labour market conditions persist—developments that could increase the likelihood that the next move in interest rates will be a hike.

- **Canada's labour market strengthened.** The Canadian economy gained 54,000 jobs in November, building on the cumulative 127,000 increase over September and October. Meanwhile, the unemployment rate fell to 6.5% from 6.9% in October, the largest single-month decline since February 2022 and the lowest rate in 16 months. However, the lower unemployment rate was driven primarily by a decline in the participation rate and the size of the labour force. The November employment gains were driven by higher levels of part-time work—which rose by 63,000 jobs and more than offset a 9,000 decline in full-time opportunities—and 50,000 new youth (aged 15–24) jobs. Building on 21,000 more youth jobs in October, this was the first sustained employment growth for the cohort since early 2025. By sector, employment gains were concentrated in the healthcare and social assistance fields, with trade-exposed sectors of the economy continuing to struggle, highlighted by muted gains in transportation and warehousing and outright losses in manufacturing employment. Monthly labour market data is highly volatile; however, RBC Economics noted the November unemployment decline is consistent with job openings data from alternative sources, indicating Canadian hiring demand has begun to rebound.

## EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **In France, the National Assembly voted to adopt the first part of the 2026 budget, dealing with social security spending.** While some countries have only one consolidated budget, France's public finances are structured around two main pillars: the social security budget and the state budget. Reaching agreement on the 2026 budget has been highly contentious and has already toppled previous French governments.

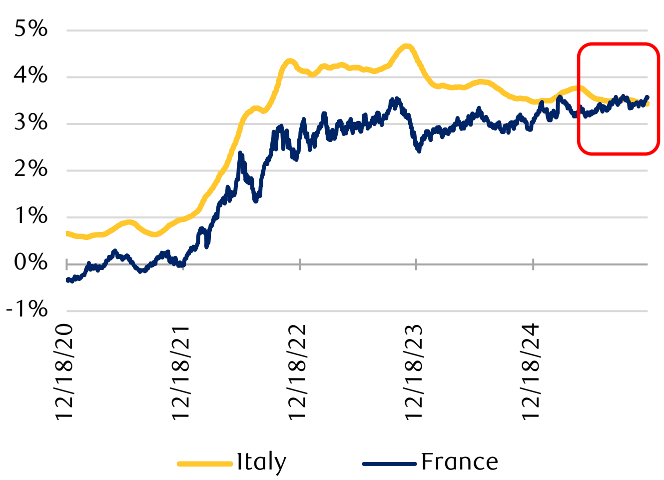
- **To ensure the the highly fragmented Assembly would pass the social security budget, the government markedly expanded it.** The government suspended the 2023 pension reform that raised the legal retirement age to 64 from 62, increased healthcare expenditures, and agreed to transfer some €4.5 billion to the social security budget from the state budget.

- Passage of the social security budget, while welcome, does not guarantee approval of the state budget, which must be voted on before Dec. 23. **Given the fractious state of French politics, we view the probability of the state budget being approved as relatively low.** Failure to agree on a 2026 state budget in December would result in the 2025 budget being carried over into 2026, with negotiations resuming in the new year. Thus, France's fiscal deficit is unlikely to improve with debt levels continuing to drift higher. Our view remains that French sovereign bond yields are likely to stay at or above Italian yields.

- **In Germany, lawmakers appear set to approve 29 defence-related contracts worth a record €52 billion (US$61 billion) next week,** according to a Bloomberg report citing people familiar with the matter. This would be the highest value of government contracts approved in a single session by the budget committee of the Bundestag, Germany's lower house of parliament. The share prices of European defence players, which significantly outperformed earlier in the year following the unveiling of the EU's "Readiness 2030/ReArm Europe" plan in March, have pulled back in recent months. In our view, the recent pullback creates a buying opportunity to add European defence exposure to portfolios, reflecting the prospect of a long defence spending upcycle ahead.

### European sovereign yields: France surpasses Italy

10-year sovereign bond yields




Source - Bloomberg; data through 12/10/25

## ASIA-PACIFIC

Jasmine Duan – Hong Kong

- **Chinese exports rose 5.9% y/y in November, beating the Bloomberg consensus estimate** of 4.0% growth and reversing October's 1.1% decline. **Growth was mainly driven by exports to non-U.S. markets,** with shipments to the EU and Southeast Asian countries, such as Vietnam, Thailand, and Indonesia, offsetting the decline in exports to the U.S.

- By product category, **shipments of automobiles, chips, and rare earths and minerals led the growth,** while traditional products like toys, clothing, and footwear saw double-digit declines.

- However, **import growth rose only 1.9% y/y,** undershooting the Bloomberg estimate of 3.0%. While semiconductor imports increased in value, other product categories declined.

- **We think the November data highlights the resilience of Chinese exports,** which have been on a post-pandemic uptrend. However, over the same period, China's imports have remained largely flat.

- We believe **the widening gap between export and import value may reflect broader trends,** including China's self-reliance policies amid heightened geopolitical tensions, its efforts to move up the supply chain, and relatively weak domestic demand.

- These changes may pose **challenges for China's trading partners,** who face increasing competition from Chinese companies, and find it more and more difficult to sell products that China wants. As a result, the risk of escalating trade conflicts with trading partners persists, in our view.

- Driven by strong exports and subdued import growth, **China's trade surplus for the first 11 months of the year topped US$1 trillion** for the first time in history. We believe this substantial trade surplus could serve as a key liquidity source for Chinese equities, potentially supporting a more sustainable uptrend in the market.

## MARKET
# Scorecard

| Equities (local currency) | Level | MTD | YTD | 1 yr | 2 yr |
|---|---|---|---|---|---|
| S&P 500 | 6,886.68 | 0.5% | 17.1% | 14.1% | 49.6% |
| Dow Industrials (DJIA) | 48,057.75 | 0.7% | 13.0% | 8.6% | 32.6% |
| Nasdaq | 23,654.15 | 1.2% | 22.5% | 20.1% | 64.2% |
| Russell 2000 | 2,559.61 | 2.4% | 14.8% | 7.4% | 36.1% |
| S&P/TSX Comp | 31,490.85 | 0.3% | 27.3% | 23.5% | 54.9% |
| FTSE All-Share | 5,201.95 | -0.8% | 16.4% | 14.9% | 26.4% |
| STOXX Europe 600 | 578.17 | 0.3% | 13.9% | 11.5% | 22.4% |
| EURO STOXX 50 | 5,708.12 | 0.7% | 16.6% | 15.3% | 26.2% |
| Hang Seng | 25,540.78 | -1.2% | 27.3% | 25.7% | 56.4% |
| Shanghai Comp | 3,900.50 | 0.3% | 16.4% | 14.0% | 31.3% |
| Nikkei 225 | 50,602.80 | 0.7% | 26.8% | 28.5% | 56.6% |
| India Sensex | 84,391.27 | -1.5% | 8.0% | 3.5% | 20.9% |
| Singapore Straits Times | 4,511.90 | -0.3% | 19.1% | 18.3% | 45.0% |
| Brazil Ibovespa | 159,074.97 | 0.0% | 32.3% | 24.1% | 25.2% |
| Mexican Bolsa IPC | 63,409.40 | -0.3% | 28.1% | 23.4% | 16.6% |
| **Gov't bonds (bps change)** | **Yield** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. 10-Yr Treasury | 4.153% | 14.0 | -41.6 | -7.4 | -7.3 |
| Canada 10-Yr | 3.421% | 27.3 | 19.6 | 40.3 | 4.8 |
| UK 10-Yr | 4.506% | 6.6 | -6.2 | 18.3 | 46.5 |
| Germany 10-Yr | 2.851% | 16.2 | 48.4 | 72.9 | 57.5 |
| **Fixed income (returns)** | **Yield** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. Aggregate | 4.40% | -0.7% | 6.7% | 4.9% | 11.1% |
| U.S. Investment-Grade Corp | 4.88% | -0.7% | 7.3% | 5.0% | 13.0% |
| U.S. High-Yield Corp | 6.71% | -0.1% | 8.0% | 7.0% | 20.3% |
| **Commodities (USD)** | **Price** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| Gold (spot $/oz) | 4,229.11 | -0.2% | 61.1% | 57.0% | 111.0% |
| Silver (spot $/oz) | 61.86 | 9.5% | 114.0% | 93.9% | 168.9% |
| Copper ($/metric ton) | 11,487.00 | 2.3% | 32.8% | 26.2% | 37.3% |
| Oil (WTI spot $/bbl) | 58.93 | 0.6% | -17.8% | -14.1% | -17.3% |
| Oil (Brent spot $/bbl) | 62.64 | -0.9% | -16.1% | -13.2% | -17.4% |
| Natural Gas ($/mmBtu) | 4.62 | -4.8% | 27.1% | 46.0% | 79.0% |
| **Currencies** | **Rate** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. Dollar Index | 98.6760 | -0.8% | -9.0% | -7.3% | -5.1% |
| CAD/USD | 0.7250 | 1.3% | 4.3% | 2.8% | -1.5% |
| USD/CAD | 1.3793 | -1.3% | -4.1% | -2.7% | 1.5% |
| EUR/USD | 1.1691 | 0.8% | 12.9% | 11.1% | 8.6% |
| GBP/USD | 1.3383 | 1.1% | 6.9% | 4.8% | 6.6% |
| AUD/USD | 0.6677 | 1.9% | 7.9% | 4.7% | 1.5% |
| USD/JPY | 156.0500 | -0.1% | -0.7% | 2.7% | 7.7% |
| EUR/JPY | 182.4400 | 0.7% | 12.1% | 14.0% | 16.9% |
| EUR/GBP | 0.8736 | -0.3% | 5.6% | 6.0% | 1.9% |
| EUR/CHF | 0.9355 | 0.4% | -0.5% | 0.6% | -1.2% |
| USD/SGD | 1.2928 | -0.3% | -5.3% | -3.7% | -3.7% |
| USD/CNY | 7.0680 | -0.1% | -3.2% | -2.5% | -1.4% |
| USD/MXN | 18.1642 | -0.7% | -12.8% | -9.9% | 4.7% |
| USD/BRL | 5.4718 | 2.6% | -11.4% | -9.6% | 11.0% |

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD4.3% return means the Canadian dollar has risen 4.3% vs. the U.S. dollar year to date. USD/JPY 156.05 means 1 U.S. dollar will buy 156.05 yen. USD/JPY -0.7% return means the U.S. dollar has fallen 0.7% vs. the yen year to date.

Source - Bloomberg; data as of 12/10/25

## Authors


**Frédérique Carrier – London, United Kingdom**
frederique.carrier@rbc.com; RBC Europe Limited

**Jasmine Duan – Hong Kong, China**
jasmine.duan@rbc.com; Royal Bank of Canada, Hong Kong Branch

**Tyler Frawley, CFA – Minneapolis, United States**
tyler.frawley@rbc.com; RBC Capital Markets, LLC

**Thomas Garretson, CFA – New York, United States**
tom.garretson@rbc.com; RBC Capital Markets, LLC

**Elizabeth Grant – Toronto, Canada**
elizabeth.grant@rbc.com; RBC Dominion Securities Inc.

**Thomas McGarrity, CFA – London, United Kingdom**
thomas.mcgarrity@rbc.com; RBC Europe Limited

**Zachariah Muhn – Toronto, Canada**
zachariah.muhn@rbc.com; RBC Dominion Securities Inc.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As of September 30, 2025

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|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
| Buy [Outperform] | 862 | 59.24 | 277 | 32.13 |
| Hold [Sector Perform] | 552 | 37.94 | 140 | 25.36 |
| Sell [Underperform] | 41 | 2.82 | 5 | 12.20 |

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