GLOBAL Insight WEEKLY

Perspectives from the Global Portfolio Advisory Committee January 8, 2026

U.S. equity returns in 2025: Record-breaking resilience

Kelly Bogdanova – San Francisco

The U.S. stock market powered through tariff turbulence on its way to all-time highs. But it's only natural to question whether the three-year winning streak can be extended. We look at what drove equities in 2025 and how prospects for 2026 are shaping up.

The U.S. equity market delivered its third straight year of double-digit and above-average gains, with the S&P 500 rising 17.9 percent including dividends in 2025, boosting the total return to 100.6 percent since this bull market began in October 2022 through the end of last year.

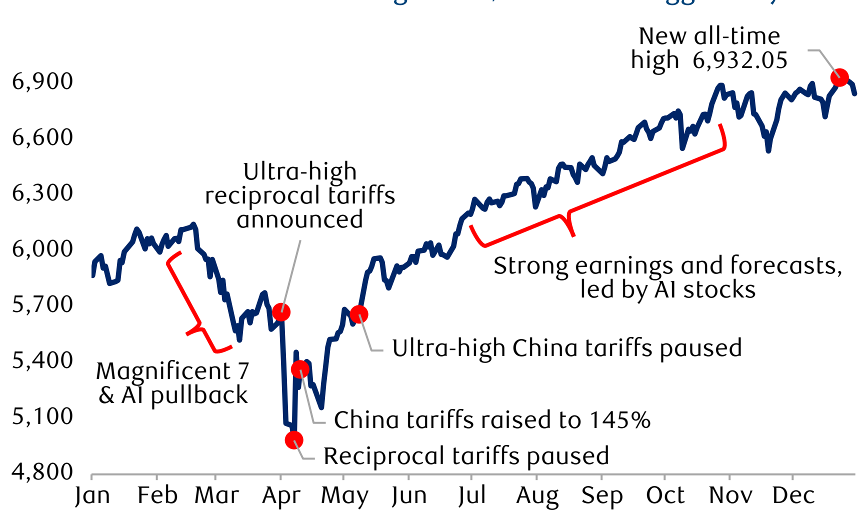
The S&P 500 and stock markets globally dropped meaningfully in the spring of 2025, punctuated by the Trump administration's introduction of ultra-high "reciprocal" tariffs on dozens of countries.

Then the S&P 500 surged nearly 39 percent on a total-return basis from the April low through year end as tariff rates were subsequently lowered via trade deals and a temporary truce with China, and AI companies went on to post strong earnings growth and raise profit forecasts meaningfully.

The market was also boosted as the domestic economy surprised to the upside with well above-average GDP growth in Q2 and Q3 of last year, rebounding from a slight retreat in Q1.

The economic backdrop improved due to an unanticipated surge in AI capital spending, three more Federal Reserve 25 basis-point interest rate cuts, passage of the taxpayer- and business-friendly One Big Beautiful Bill Act, and strong consumer spending among upper-income households. These forces helped offset tariff headwinds.

The S&P 500 Index in 2025: A big selloff, and then a bigger rally



Source - RBC Wealth Management, Bloomberg; daily data through 12/31/25

For perspectives on the week from our regional analysts, please see pages 4–5.

For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 7.

Priced (in USD) as of 1/7/26 market close (unless otherwise stated). Produced: 1/8/26, 15:38 ET; Disseminated: 1/8/26, 15:45 ET

However, high prices for goods, services, and housing due to cumulative inflation growth since the pandemic continued to pinch lower- and middle-income households. This was a drag on some retail and consumer stocks that greatly underperformed the broader market.

Big gains from a narrow group of stocks

This bull market cycle has been dominated by AI-oriented stocks.

Seven stocks represented just over half of the S&P 500's gains in 2025: NVIDIA, Alphabet, Microsoft, Broadcom, JPMorgan Chase, Palantir Technologies, and Meta Platforms. All of these stocks—even banking behemoth JPMorgan Chase—have at least some exposure to the AI theme.

This group punched well above its weight. While these seven stocks represented 25 percent of the S&P 500's market capitalization last year, they accounted for 52 percent of the index's total return.

This is the second year in a row that NVIDIA, Meta, Alphabet, Broadcom, and Microsoft were among the stocks that delivered the bulk of S&P 500 gains—partly due to their mega-sized market capitalizations as a proportion of the index, and also because of their strong share price performances.

AI investment's starring role

The unprecedented capital spent to build AI data centers, including purchases of advanced semiconductor chips and other hardware equipment, not only helped drive the U.S. economy in 2025, it also fueled AI stocks. The continued development and training of AI large language models also contributed to the advance of hyperscaler and chip/hardware stocks, as did high cloud computing revenue growth.

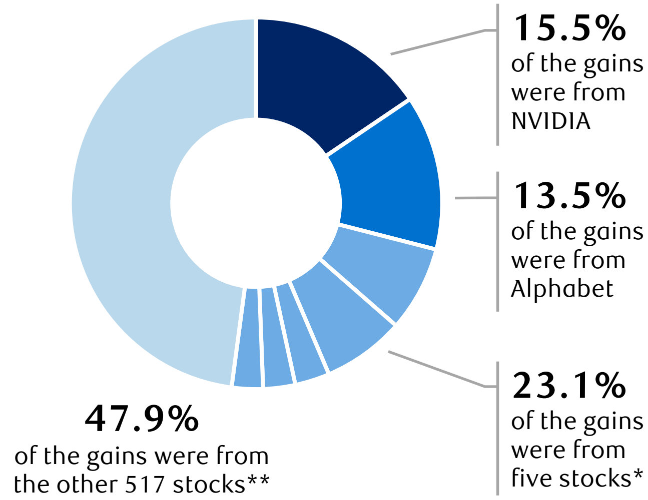
Based on assessments of company data, we estimate that seven large tech firms invested $437 billion in capital in 2025 (data will be finalized after Q4 earnings are released in coming weeks). This unprecedented level is 61 percent above what was spent in 2024 and almost 2.5 times more than in 2023—and even higher spending seems likely in 2026.

We continue to view AI as a transformative technology—at least as much, if not more so than the development and mass commercialization of the internet. RBC Global Asset Management Inc.'s Chief Economist Eric Lascelles flagged AI as one of the key long-term investment themes for the second quarter of the 21st century.

That said, currently there are open questions about the AI transformation related to the ongoing data center buildout and the technology's uptake—questions we raised in January's Global Insight.

A small group of stocks represented a little over half of the annual gains

Contributions to the S&P 500's 17.9% total return in 2025



* The five stocks, from largest to smallest contribution to the S&P 500 total return, were Microsoft, Broadcom, JPMorgan Chase, Palantir Technologies, and Meta Platforms.

** 524 stocks were in the S&P 500 during the period (two Alphabet share classes counted once), a small number for part of the year.

Source - RBC Wealth Management, FactSet; annual total-return data (includes dividends) through 12/31/25.

The article that discusses this asserts that important AI developments "could leap onto the stage anytime, potentially provoking even more investor excitement or perhaps consternation. Either way, volatility events, up or down, could be reasonably expected to emanate from AI and the related components of the stock market."

Impact of earnings growth from the supporting cast

As AI stocks outperformed in 2025, so too did the tech-heavy S&P 500 Growth Index and Nasdaq, as the upper chart on the next page shows. This was largely due to strong profit growth.

Information Technology sector net income (profits) grew 22 percent in Q1 2025 and accelerated to 29 percent in Q3 on a year-over-year basis, according to Bloomberg. The consensus forecast for Q4 (results will be reported in coming weeks) and the first half of 2026 calls for strong Tech sector earnings growth to persist, and earnings estimates have risen in the past couple months.

But last year's stock market rally and profit growth weren't solely about AI and Tech stocks in general.

Excluding the Tech sector, the rest of the S&P 500 grew earnings by an average of 9.8 percent from Q1 through Q3 2025—a pretty good clip considering there were tariff headwinds during that period.

As a result, the more diversified Dow Jones Industrial Average and the more defensive S&P 500 Value Index also performed well in 2025, as the chart at right shows, and eclipsed their long-term average annual returns. They both outperformed the S&P 500 in the beginning and latter part of last year. Like the S&P 500, they have also risen by double digits for the third straight year.

Prospects for 2026 earnings are also bright. Bloomberg's S&P 500 consensus forecast calls for $313 per share, up from $308 just two months ago, and is 13.6 percent higher than the current 2025 forecast.

While 13.6 percent year-over-year growth seems like a tall order, we think the S&P 500 has the potential to deliver respectable earnings growth this year. Whether the rate ends up beating, matching, or missing the current consensus forecast will largely hinge on whether Tech sector earnings remain robust.

Tempered optimism

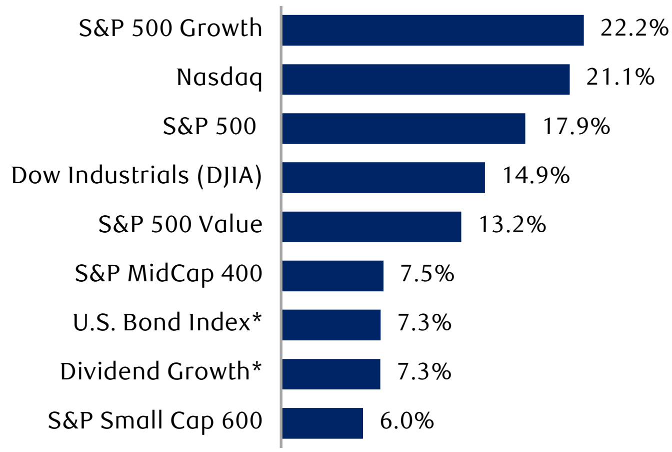
All told, seven of 11 S&P 500 sectors delivered double-digit gains in 2025, and five sectors have risen 80 percent or more since the bull market began in October 2022, as the chart below shows.

With the U.S. market's three-year winning streak in the books, it's only natural to question whether the rally can be extended.

Since 1945, the S&P 500 has delivered back-to-back above-average gains for three or more consecutive years on five other occasions (not counting this cycle), including one streak that ran for four years and another for five.

A number of U.S. indexes posted above-average returns in 2025

Full-year total returns (includes dividends)



* "U.S. Bond Index" is the U.S. Bloomberg Aggregate Bond Index; "Dividend Growth" is the S&P 500 Dividend Aristocrats Index.

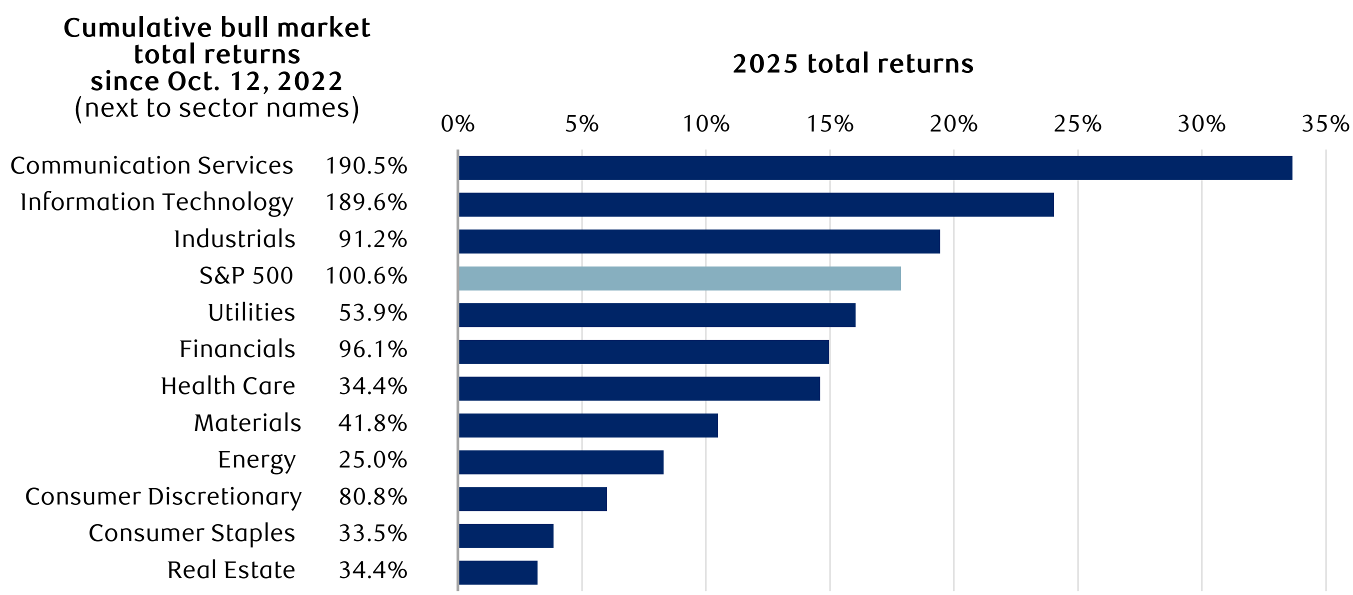
Source - RBC Wealth Management, Bloomberg; data through 12/31/25

The combination of lower inflation, lower interest rates, and roughly two percent or better GDP growth required for continued stock market gains may not be easy to achieve in 2026, and the typical volatility associated with midterm election years could also take its toll on the market at times. We think a "positive" rather than "above-average" year is the outcome to plan for.

For more thoughts about our equity and fixed income views for this year and longer-term investment themes, please have a look at the various Global Insight 2026 Outlook articles on the web or in PDF format.

Seven of 11 sectors delivered double-digit returns, led by the two with the most tech exposure

S&P 500 and sector total returns (including dividends)



Source - RBC Wealth Management, FactSet; data through 12/31/25

UNITED STATES

Alan Robinson – Seattle

- **U.S. stock indexes started the week on a strong footing, registering new all-time highs for the S&P 500,** before giving up gains later in the week. Investors struggled to weigh the impact of the increasingly volatile geopolitical backdrop ahead of the release of the December employment report and the Supreme Court ruling on President Donald Trump's tariffs—both scheduled for Jan 9.

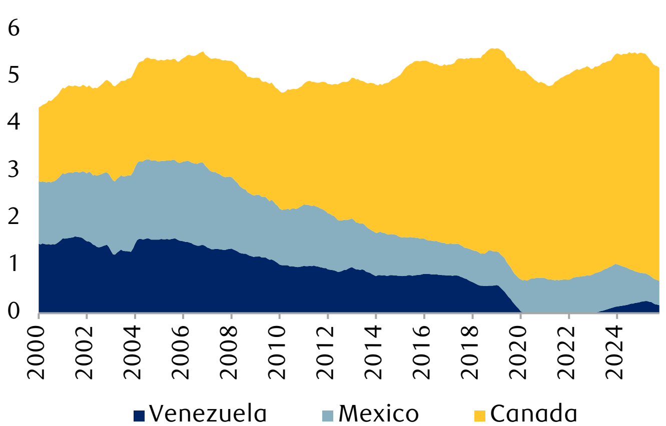
- **RBC Capital Markets, LLC's Global Head of Commodity Strategy Helima Croft addressed the causes and implications** of the extradition of Venezuela's President Nicolás Maduro in a call to institutional clients at the start of the week. She noted the action addressed several administration goals including increasing U.S. control of the Western Hemisphere, reducing the regional influence of China, Russia, Iran, and Cuba, and securing and diversifying supplies of the heavy grade of crude oil used by most U.S. refiners (see chart). However, she also noted the administration's desire to regain Venezuela's pre-revolution oil production rate of 2–3 million barrels per day was not likely until the 2030s given the cost to rebuild infrastructure.

- **The initial market reaction was a rally in stocks of the major U.S. oil companies** on potential access to Venezuela's reserves, and a decline in Canadian oil company stocks on increased heavy oil supply. This was reversed when U.S. oil CEOs balked at the costs and security concerns of moving back into Venezuela. Investors also weighed the implications of a renewed focus on Greenland by the administration, with construction, defense, and resource extraction themes favored if an expansion of the U.S. presence is agreed upon.

- **Trump threw investors another curve ball during the week** after commenting on capital allocation policies of the major defense contractors. He suggested these companies should limit executive pay, stop issuing dividends and buying back shares, and instead invest in new production. These comments caused declines in the share prices of the major defense companies that were subsequently reversed after he proposed a record $1.5 trillion 2027 defense budget, up from $901 billion in 2026.

Resumption of Venezuelan crude imports may partially displace U.S. imports from Canada

U.S. Western Hemisphere crude oil imports, millions of barrels per day, 12-month average



No imports from Venezuela were reported from July 2019 to December 2022.

Source - U.S. Energy Information Administration, RBC Wealth Management, Wall Street Journal

CANADA

Matt Altro, CFA & Nguyen Dang, CFA – Toronto

- **Recent developments in Venezuela introduce a longer-term, rather than immediate, consideration for Canadian energy markets.** The U.S. capture of Venezuelan President Nicolás Maduro and the prospect of U.S.-led involvement in rebuilding Venezuela's oil sector have revived expectations that Venezuelan production—currently around 1 million barrels per day (bbl/d)—could recover to around 3 million bbl/d over time. In the near term, however, decades of underinvestment, operational deterioration, corruption, and political instability suggest to us that any increase in supply will be slow and capital-intensive, likely limiting short-run implications for oil prices.

- **For Canada, the main medium- to long-term risk is a sustained return of Venezuelan heavy crude,** which could intensify competition for U.S. Gulf Coast refineries that are currently well supplied by Canadian barrels. However, Canada's entrenched pipeline network into the U.S. Midwest, combined with improved market diversification following the Trans Mountain Pipeline expansion to the Canadian west coast, should help to preserve core market share. While Venezuela's oil exports represent a potential longer-term headwind, Canada's oil sector remains comparatively well positioned, in our view.

- **The S&P/TSX Composite Energy Sector Index has fallen roughly 4% following the U.S. military action against Venezuela and Maduro's capture,** with share prices of select oil producers sliding as much as 10% as investors brace for potential oil market implications. The primary concern is that U.S. refineries could potentially replace Canadian heavy crude with Venezuelan oil, which could lead to price competition for limited refinery capacity. A widening of the Western Canada Select (WCS)-West Texas Intermediate (WTI) differential—the spread between Canadian and U.S. oil prices—would create a headwind for Canadian producers. In our view, the swift negative market reaction does not appear to be factoring in the significant time and investment required to boost Venezuelan oil production, nor the improved export systems from which Canada has been benefitting since the Trans Mountain Pipeline expansion. Overall, while the medium- to long-term implications of a full-scale production ramp up in Venezuela could affect the outlook for Canadian producers, this scenario involves considerable complexity, cost, and time.

EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **European defence stocks jumped following the developments in Venezuela.** U.S. President Donald Trump's recent intervention in the Latin American country was performed with minimal, if any, input from European leaders, underscoring the need for Europe to rearm and deliver upon its promises of higher military spending amid a changing world order.

- **Moreover, Trump's willingness to intervene in another sovereign country has lent greater credence to his stated intention of taking over Greenland,** which he views as strategically important to U.S. security. This is preoccupying Europe, as Greenland is a self-governing Danish territory, particularly as Danish Prime Minister Mette Frederiksen has reiterated that her country would not oppose the U.S. increasing its existing military presence and that the territory is "not for sale."

- **Should the U.S. take a more confrontational stance towards Greenland** and threaten its sovereignty, we would expect Europe to respond, but in a measured way, prioritizing the preservation of alliance cohesion within NATO, alongside trade ties and cooperation on Ukraine.

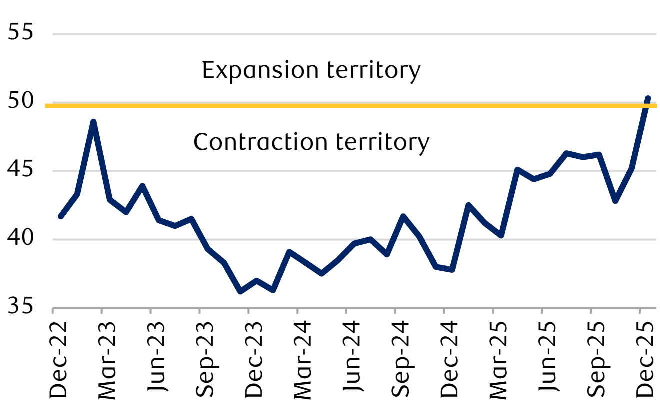
- Amid rising geopolitical tensions, owning exposure to the defence industry offers a hedge, providing portfolio diversification benefits, in our view.

- **European defence stocks performed strongly in 2025 overall,** but pulled back in Q4, which we think likely reflected both hopes for a ceasefire between Russia and Ukraine and year-end profit-taking. However, since the new year began, the major European defence stocks have rallied and are up between 16% and 18% in 2026 so far. We believe the European defence industry remains an attractive opportunity given the prospect of a long military spending upcycle ahead, which we believe should support growth prospects for the local defence leaders.

- Elsewhere in Europe, **the German Construction Purchasing Managers' Index had its first expansionary reading in more than three years,** reaching a high of 50.3 in December, up from a subdued 45.2 in November. (A level above 50 suggests an expansion.) If this trend is confirmed, it could be a welcome sign that the long-awaited German infrastructure spending is starting to trickle through to the economy.

German construction activity finally expanding

S&P Global/BME Germany Manufacturing Purchasing Managers' Index (PMI)



Source - Bloomberg

ASIA-PACIFIC

Jasmine Duan – Hong Kong

- **We think the Venezuela crisis has limited immediate economic impact on China.** Despite China being the largest buyer of Venezuelan crude oil, only around 2% of China's oil imports came from Venezuela in 2024. If the oil supply from Venezuela is cut off, we think China can easily source from alternative markets as it imports crude oil from a diverse group of countries including Russia, Saudi Arabia, Iraq, and the United Arab Emirates.

- **Small, independent refiners are the main Chinese buyers of Venezuelan crude, and they may be affected more.** However, large Chinese oil companies don't have much exposure to Venezuelan crude, and they maintain relatively small entitlement reserves in Venezuela.

- For example, Sinopec Group holds 2.8 billion barrels of reserves in Venezuela, primarily at the parent-company level. China National Petroleum Corporation (CNPC), which is the parent of PetroChina (857 HK), holds 1.6 billion. Combined, these reserves represent just 1.4% of Venezuela's total reserves. CNOOC (883 HK) has negligible exposure, as its South American operations mainly focus on Brazil, Guyana, and Argentina.

- **We believe the crisis serves as a reminder to China that its economy heavily relies on imported energy.** China has previously demonstrated it is fully aware of these risks, which is why policymakers have been emphasizing the importance of energy diversity and security and have actively pushed for electric vehicle development. We think China will further accelerate electrification efforts to reduce long-term dependence on imported energy.

- **In 2023, China elevated its relationship with Venezuela to an "all-weather strategic partnership,"** its second-highest diplomatic tier. As ties between China and Latin America have deepened, the trend has been viewed with increasing concern by the U.S. government. In our opinion, the competition between China and the U.S. could intensify beyond economic and technological areas going forward.

MARKET
Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,920.93	1.1%	1.1%	17.1%	47.3%
Dow Industrials (DJIA)	48,996.08	1.9%	1.9%	15.2%	30.8%
Nasdaq	23,584.28	1.5%	1.5%	21.0%	62.4%
Russell 2000	2,575.42	3.8%	3.8%	14.5%	32.0%
S&P/TSX Comp	32,135.49	1.3%	1.3%	28.9%	53.5%
FTSE All-Share	5,417.07	1.2%	1.2%	20.6%	29.1%
STOXX Europe 600	604.99	2.2%	2.2%	17.5%	27.0%
EURO STOXX 50	5,923.57	2.3%	2.3%	18.2%	32.7%
Hang Seng	26,458.95	3.2%	3.2%	36.1%	60.0%
Shanghai Comp	4,085.77	2.9%	2.9%	26.5%	39.5%
Nikkei 225	51,961.98	3.2%	3.2%	29.6%	55.7%
India Sensex	84,961.14	-0.3%	-0.3%	8.6%	18.0%
Singapore Straits Times	4,747.62	2.2%	2.2%	24.0%	49.1%
Brazil Ibovespa	161,975.24	0.5%	0.5%	33.7%	22.7%
Mexican Bolsa IPC	64,871.70	0.9%	0.9%	29.5%	15.4%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.148%	-1.9	-1.9	-53.8	10.2
Canada 10-Yr	3.396%	-3.7	-3.7	9.4	13.8
UK 10-Yr	4.416%	-6.3	-6.3	-26.7	62.9
Germany 10-Yr	2.812%	-4.3	-4.3	32.9	65.6
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.33%	0.0%	0.0%	7.9%	10.0%
U.S. Investment-Grade Corp	4.82%	0.0%	0.0%	8.5%	11.8%
U.S. High-Yield Corp	6.46%	0.3%	0.3%	8.5%	19.2%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	4,456.47	3.2%	3.2%	68.3%	117.9%
Silver (spot $/oz)	78.19	9.1%	9.1%	160.2%	237.1%
Copper ($/metric ton)	13,240.98	6.3%	6.3%	49.0%	58.4%
Oil (WTI spot $/bbl)	55.99	-2.5%	-2.5%	-24.6%	-24.1%
Oil (Brent spot $/bbl)	60.43	-0.7%	-0.7%	-21.6%	-23.3%
Natural Gas ($/mmBtu)	3.53	-4.4%	-4.4%	2.2%	21.8%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	98.7220	0.4%	0.4%	-9.0%	-3.6%
CAD/USD	0.7216	-1.0%	-1.0%	3.7%	-3.6%
USD/CAD	1.3858	1.0%	1.0%	-3.6%	3.7%
EUR/USD	1.1678	-0.6%	-0.6%	12.9%	6.7%
GBP/USD	1.3462	-0.1%	-0.1%	7.9%	5.8%
AUD/USD	0.6723	0.7%	0.7%	7.9%	0.1%
USD/JPY	156.7100	0.0%	0.0%	-0.8%	8.4%
EUR/JPY	183.0100	-0.5%	-0.5%	12.0%	15.6%
EUR/GBP	0.8675	-0.5%	-0.5%	4.7%	0.8%
EUR/CHF	0.9314	0.1%	0.1%	-1.0%	0.1%
USD/SGD	1.2823	-0.2%	-0.2%	-6.0%	-3.6%
USD/CNY	6.9916	0.1%	0.1%	-4.6%	-2.2%
USD/MXN	17.9769	-0.2%	-0.2%	-11.6%	6.5%
USD/BRL	5.3887	-1.6%	-1.6%	-11.7%	10.5%

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/USD -1.0% return means the Canadian dollar has fallen 1.0% vs. the U.S. dollar year to date. USD/JPY 156.71 means 1 U.S. dollar will buy 156.71 yen. USD/JPY 0.0% return means the U.S. dollar is level vs. the yen year to date.

Source - Bloomberg; data as of 1/7/26

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As of December 31, 2025

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Rating	Count	Percent	Count	Percent
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Hold [Sector Perform]	586	38.65	160	27.30
Sell [Underperform]	46	3.03	3	6.52

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