

Global equity perspective

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The great determinant

There are plenty of valid concerns facing the nearly four-year-old bull market. But, at the end of the day, equity markets tend to move in the same direction as earnings. We argue today's longish list of investor concerns has limited ability to materially alter the earnings outlook for 2026–27.

Key points

- Global stock markets have been making new highs in response to solid current year and projected earnings growth—much more than “solid” in the case of the U.S.
- Investors have a long list of concerns on their minds, but, in our view, only one—monetary policy—has the potential to tip today's resilient GDP expansion into a bull-market-ending recession and earnings decline. And that policy remains a long way short of the readings that sort of tidal shift would require.
- Notwithstanding the inevitable, unpredictable corrections that come and go, we expect the S&P 500 and most other major global equity indexes will post further new highs in the coming 12 months.

Equity views

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

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

Most global equity market averages set new highs last month—those in the UK, Shanghai, and South Korea were the exceptions.

Over the course of a year equity markets tend to move in the same direction as earnings but not necessarily at the same pace. That has been the case so far this year for most major indexes. For instance, the S&P 500 currently sits about 12% above where it ended in 2025. However, earnings per index share are ahead by 17% year to date, bringing the price-to-earnings (P/E) multiple slightly lower.

For full-year 2026, Bloomberg consensus estimates have S&P 500 earnings coming in at \$354 per share, a startling 27% lift over 2025 results, while 2027 is projected to deliver \$420, an advance of almost 19%.

In corroboration of those bullish expectations, analysts' earnings estimate revisions have been rising, not only for the S&P 500 but also for all other major developed country equity indexes, despite the non-U.S. indexes having comparatively less exposure to the Tech sector generally and, specifically, to the AI

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All values in U.S. dollars and priced as of market close, Sept. 30, 2026 unless otherwise stated.

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GLOBAL EQUITY

development juggernaut powering the U.S. equity market advance.

In our experience, analysts raising their earnings estimate for a given company is often a consequence of a more optimistic outlook being expressed by company management. CEOs are generally upbeat these days. Confidence as measured by the Business Roundtable, an association of 200+ CEOs of leading U.S. companies, rose to a four-year high in Q3 powered by hiring plans and elevated capital spending intentions. The same factors account for increased optimism on the part of small and medium-sized businesses captured in the latest survey by the National Federation of Independent Business.

In our opinion, the biggest threat to equity markets would be posed by indications a U.S. recession was on the way, along with the decline in corporate earnings that would likely accompany it. None of the conditions that historically have preceded such an economic/profit downturn are in evidence today.

In particular, the two indicators in our Recession Scorecard that incorporate monetary policy (see table below) are a long way from reaching levels that would argue convincingly a recession is on the way. The 10-year Treasury yield sits 125 basis points (bps) above

the federal funds rate. That means an inversion of the yield curve (i.e., short-term rates rising above long-term rates) is a long way off. Not only have recessions been preceded by an inverted yield curve, they have also needed the fed funds rate, at some point, to rise above the rate of GDP growth unadjusted for inflation. U.S. nominal GDP is currently growing at 7% y/y, with the fed funds rate a full three percent (i.e., 12 rate hikes of 25 bps each) below that.

Corrections, as distinct from bear markets, are another matter. They often appear out of the blue and there is always some significant proportion of market watchers convinced the next one is just around the corner, citing any number of factors as the likely trigger. The list of prominent concerns today looks pretty well identical to what it was six months ago: the Strait of Hormuz predicament; [U.S. midterm elections](#); trade policy uncertainty; rising bond yields; yen weakness; the Russia-Ukraine war; inflation and Fed policy; private credit liquidity pressures; and a swarm of issues swirling around the AI buildout.

These AI-related issues include:

- Community resistance to data centre projects;
- looming [power and grid shortfalls](#);

U.S. Recession Scorecard

Indicator	Status		
	Expansionary	Neutral	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

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- worries about the amount of debt being raised to finance data centres with no end in sight;
- rogue AI agents doing damage undetected by the model makers until too late; and
- concerns raised by AI insiders that the technology is rapidly developing capabilities beyond human ability to detect or control them.

The entire list above presents valid concerns, but, in our view, their ability to materially alter the earnings and GDP growth outlook for 2026 and 2027 is limited. We think we will eventually find our way to the next bear market and recession the conventional way—after a long period of ever tighter credit conditions, making bank loans harder and harder to get and the rising cost of those loans making much of household and business borrowing progressively less viable. It's not clear to us that the Fed's September rate hike—its first in several years—is even the beginning of that progression.

For now, the constructive earnings and growth projections persuade us the S&P 500 and most major global indexes will deliver worthwhile returns between now and the latter part of 2027. The RBC Capital Markets U.S. Equity Strategy team's model-driven approach yields a target of 8,150 for next summer for the S&P 500—an appreciation return of about 6.5% (7.5% including dividends). An intervening correction, were it to occur, might open up more compelling return potential.

Our positioning advice remains that portfolios retain a full, targeted commitment to equities but not an overcommitment.

Research resources

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			Count	Percent
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