

GLOBAL Insight



Wealth
Management

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Perspectives from the Global Portfolio Advisory Committee



Global fixed income: Long bonds light a short fuse

Global bond yields have hit fresh multidecade highs, but is this a warning sign or a healthy market recalibration? We explore the structural forces reshaping interest rates worldwide.

Thomas Garretson, CFA

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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.

In the markets

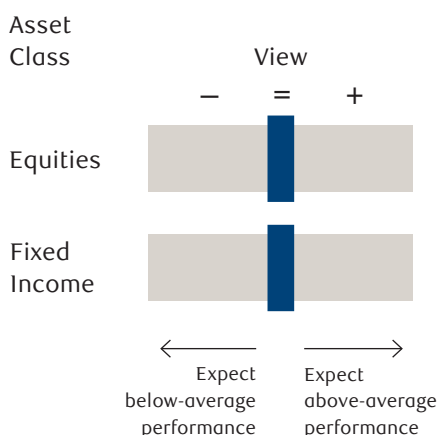
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RBC'S INVESTMENT

Stance

Global asset class views



(+/-/-) represents the Global Portfolio Advisory Committee's (GPAC) view over a 12-month investment time horizon.

+ Overweight implies the potential for better-than-average performance for the asset class or for the region relative to other asset classes or regions.

= Market Weight implies the potential for average performance for the asset class or for the region relative to other asset classes or regions.

- Underweight implies the potential for below-average performance for the asset class or for the region relative to other asset classes or regions.

Source - RBC Wealth Management

Equities

- Most major indexes hit new highs in September. A strong corporate earnings season in the U.S. and elsewhere lifted earnings expectations for this year and next. We believe global equity markets remain well-positioned for continued gains through 2027.
- The biggest threat to equity markets, in our opinion, would be indications that a recession is on the way. But we see little evidence of that. Market corrections may nevertheless occur unpredictably given the long list of concerns, including geopolitical risks and AI-related issues, but we believe these factors' ability to materially derail the growth outlook appears limited for now.
- Market corrections notwithstanding, the S&P 500 and most major global indexes should deliver worthwhile returns between now and the latter part of 2027, in our view. We recommend maintaining full, targeted equity allocations but without over-commitment.

Fixed income

- The years-long rise in global longer-term sovereign bond yields reached a crescendo in September, with the benchmark U.S. 10-year Treasury yield climbing 50 basis points, outpaced only by the 63 basis point spike in the French 10-year sovereign yield. As a result, many developed market sovereign bond yields are now trading at their highest levels in 25 to 30 years. Though we have been positioned for, and have guided to, higher yields since January, we remain inclined to believe that yields could keep moving higher still.
- We remain Underweight U.S. Treasuries and continue to favor short-duration exposure based on the potential for higher long-term bond yields. Credit valuations remain rich globally, in our view, so we remain Underweight on investment-grade corporate bonds given their dual vulnerabilities to rising Treasury yields and wider credit spreads. We maintain our exposure to short-duration credit products and preferred securities.

MONTHLY Focus



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Global fixed income:

Long bonds light a short fuse

Global bond yields have hit fresh multidecade highs, but is this a warning sign or a healthy market recalibration? We explore the structural forces reshaping interest rates worldwide.

Key points

- **Low-rate era is over:** Long-term yields have ascended to 20-year highs even as central banks lowered short-term rates—we believe this is a structural shift, not temporary spike.
- **Supply-demand mismatch:** Global trends that supported decades of low rates are reversing as capital previously deployed around the world is increasingly pulled back home, reducing demand while bond issuance stays high.
- **Healthy repricing, not a crisis:** Strong economic growth, investment, and rising “neutral” rates are driving yields higher—we expect continued upward pressure until equilibrium is reached.

When the Federal Reserve started cutting interest rates from a level of 5.5 percent back on Sept. 18, 2024, the U.S. 10-year Treasury yield was 3.7 percent and the U.S. 30-year was 4.0 percent—and neither yield has traded lower than those levels in the two years since. Not only that, each now trades around levels not seen in nearly 30 years.

Despite the Federal Reserve (and many global central banks) cutting short-term policy rates considerably in recent years, longer-dated bonds have been rising steadily throughout—culminating in the 10- and 30-year sovereign bond yields of most developed-market countries hitting fresh multidecade highs in recent weeks and months.

The chart on the next page captures this dynamic in action. The ICE BofA 1-3 Year Global Sovereign Plus Index yield fell as low as 2.8 percent earlier this year, down from 4.0 percent in 2023. But as short-term rates started falling in recent years, long-term yields took a one-way flight higher. The ICE BofA 10+ Year Global Sovereign Plus Index yield now stands at 4.9 percent, eclipsing all previous levels dating back to 2002.

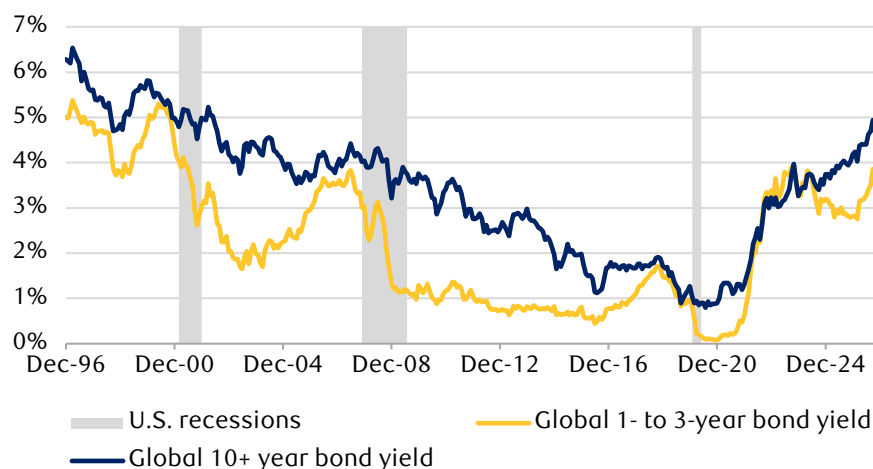
Clearly, short-term yields are now playing catch up, rising over 100 basis points in the past six months alone and are now on the cusp of exceeding even the peak rates of 2023—a time when global inflation was running north of 10.0 percent—compared to around 4.5 percent today. For many, that may seem like a circle that is difficult to square, but we’ll get to that momentarily.

Regardless, longer-dated bond yields have clearly been flagging something that perhaps central banks, short-term policy rates, and markets generally did not—and it seems as though there are a lot of issues that have been

LONG BONDS LIGHT A SHORT FUSE

Follow the leader?

Short-term bonds finally playing catch-up to long-term bonds



Source - RBC Wealth Management, ICE BofA Global Sovereign Plus 1-3 Year Index, ICE BofA Global Sovereign Plus 10+ Year Index; data through 9/23/26

percolating in global bond markets for years, which are now coming to a head, with bond markets once again being front-page news.

Any lingering doubts about whether the world has truly left the era of low interest rates behind should now be quashed, in our opinion. But if the era of low rates is behind us, then what's ahead?

The dawn of an old millennium

Since 2000, low interest rates have been the name of the game. Both the Federal Reserve and European Central Bank (ECB) cut policy rates to 1.0 percent in 2004, before the Global Financial Crisis ushered in an era of zero percent—and in some cases negative—interest rates that persisted for years.

In this context, the recent spike in yields might seem confounding, if not alarming. Yet historically speaking, current yields sit only at the lower end of what arguably might be considered “normal.”

Parallels have often been drawn to the 1990s, a seemingly idyllic time of robust economic growth, steady inflation fueled by strong productivity gains, and massive investment. Of course, those parallels are even easier to draw today given the scale of the AI-related infrastructure buildout, the impact on economic activity, and the potential to raise economic productivity.

The corporate demand for capital is now competing with the government demand for capital as global debt and deficits remain elevated even during a time of solid economic growth—the cost of money is simply going higher as a result.

Therefore, we think the yield levels that prevailed in the late 1990s are as good a guess as any with respect to where the next stopping point for global yields might be.

LONG BONDS LIGHT A SHORT FUSE

Next shoe to drop?

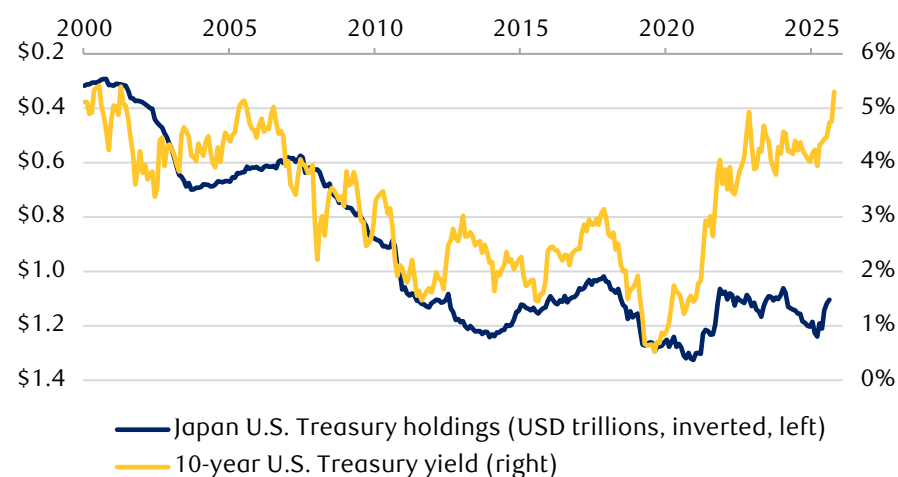
Given the sharp rise in yields, a lot has already been priced into markets. But is the global bond selloff nearing the beginning of the end, or is it simply at the end of the beginning?

In the U.S., traders are now looking for the Fed to raise rates to 5.00 percent (currently 4.00 percent); the Bank of England to 5.00 percent (currently 3.75 percent); the ECB to 3.50 percent (currently 2.50 percent); the Bank of Canada to 3.50 percent (currently 2.50 percent); and the Bank of Japan to 2.00 percent (currently 1.25 percent).

Though yields have repriced a lot of risks, we still harbor concerns that lingering factors could fuel another leg higher.

1. Bond supply vs. bond demand. With all the bond issuance, a natural question is who is going to buy it? As the second chart (below) shows, a generation of disinflation and low—and at times negative—interest rates caused Japanese investors to leave their home market in search of yield, bulking up on U.S. Treasuries to the tune of \$1.3 trillion from barely \$200 billion 25 years ago. But as Japan has staged an economic comeback—and interest rates have normalized with their global peers—domestic investors may find more attractive opportunities closer to home. If the relationship shown in the chart holds, it would suggest that every \$100 billion change in Japanese holdings contributes to a +/- 50 basis point change in the 10-year Treasury yield. As of July 2026, Japan's holdings are already down \$120 billion so far this year and about \$300 billion from the peak levels in 2021. Broadly speaking, if bond supply continues to rise and demand lags, then naturally yields will keep rising until supply and demand are brought back into balance.

Treasury yields fell as Japan bulked up on U.S. debt; now a reversal risks a further rise in yields



Source - RBC Wealth Management, Bloomberg, U.S. Treasury Department; data through 9/23/26

2. Economic overheating. The so-called “neutral” rate of interest that keeps economic balance—stable prices and maximum employment—has been rising in recent years and is likely notably higher at the moment as a result of AI-related investment, in our assessment. Put differently,

LONG BONDS LIGHT A SHORT FUSE

that would mean that the Fed's three 2025 rate cuts—when neutral rates were rising—were perhaps the equivalent of something like six rate cuts. That's significant monetary stimulus that would be hitting the economy now, given it acts with a lag. To wit, U.S. purchasing managers' indexes for September 2026 flagged a sharp uptick in economic activity, which also caused a spike in Treasury yields. The risk, in our view, is that the Fed might already be behind the curve despite raising rates at its September meeting and may have to raise rates even more than currently priced in by markets.

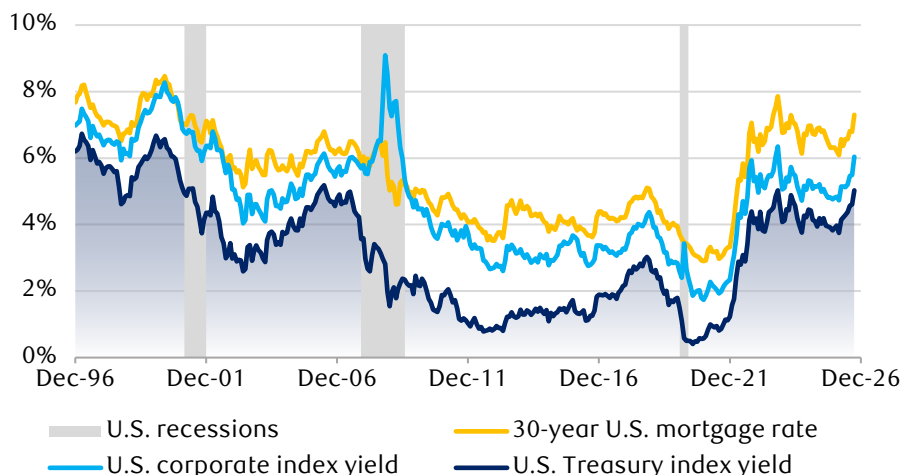
3. **Term premiums.** In the U.S., we see risks around the Fed's seeming retrenchment under Chair Kevin Warsh in the form of less communication and limited forward guidance, while the Treasury Department's encroachment into markets this year in the form of currency interventions and enlarged Treasury bond buyback programs could tarnish its credibility and distort market signals. Those two factors, along with others including debt and deficits, are reasons we believe investors could demand greater term premiums—or higher yields—to buy and hold longer-dated government bonds. Estimates of the current term premium on the U.S. 10-year Treasury are currently just 0.8 percent, which is still barely half of the average levels that prevailed prior to 2008.

All that said and as is often the case, the cure for high yields is high yields themselves—either they rise so high that investors can't ignore the value and rush in to buy them, or something breaks. As it stands, we don't see the risk of either as particularly high, and that is why we maintain the view that we have held all year: global yields are more likely to keep grinding higher.

A recalibration, not (yet) a reckoning

At the end of the day, we see no single factor that explains the ongoing rise in global yields; we don't see two factors; we don't even see three factors. There are dozens of things at play.

Key U.S. borrowing costs rising on the back of the benchmark 10-year Treasury yield



Source - RBC Wealth Management, Bloomberg US Treasury Index; Bloomberg US Aggregate Corporate Index; Mortgage Bankers Association; data through 9/21/26

LONG BONDS LIGHT A SHORT FUSE

To be sure, while we think the Middle East war and the spike in oil prices have played a notable role in the rise of longer-term bond yields and the swift repricing of central bank rate hike expectations, we think its importance is somewhat overstated. The consistent rise in longer-term bond yields predates this year's spike in oil prices and has been telling a more fundamental story underpinned by the structural factors at play.

But when we take a step back, it simply seems that all the normal signals coming from both markets and the economy point to one simple truth: interest rates just need to be higher, and markets are in the midst of repricing that reality.

With much of the focus on the 10-year Treasury yield, which Fed Chair Kevin Warsh recently characterized as "... the most important asset anywhere in the world ... it's the risk-free asset which every price of virtually every asset in the world is related to," it's important to solidify our thinking there. Over the near term, we see it eventually finding a trading range of 5.25% to 5.75%. Should the 30-year Treasury yield breach 6.00%—which we think is possible—then the 10-year could be dragged toward that level as well. But our working thesis for now is that, if the Fed were to take its policy rate toward 5.00%, we would add 25 basis points for a target 2-year Treasury yield around 5.25%, and then add another 25 basis points for a target 10-year Treasury yield around 5.50% as strong economic growth and low recession risks should keep yield curves positively sloped rather than inverted.

Finally, and of course, if a fuse has seemingly been lit under global bond markets, then what happens when it runs out? Well, the powder keg explodes or—and hopefully—it turns out to be a dud.

In short, we think it proves to be a dud. Bond yields can rise for "bad" reasons, but they can also rise for "good" reasons. To this point, we think the bulk of the move has been for largely good reasons. That is, strong economic growth, higher neutral interest rate levels globally, and attractive investment alternatives. Of course, there's a lingering risk that some of the bad drivers of higher yields come into play like inflation and/or term premiums, but for now, we err on the side of this being a healthy recalibration.

GLOBAL Equity



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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.

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 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.

Equity views

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

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

GLOBAL EQUITY

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](#);
- 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

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

GLOBAL EQUITY

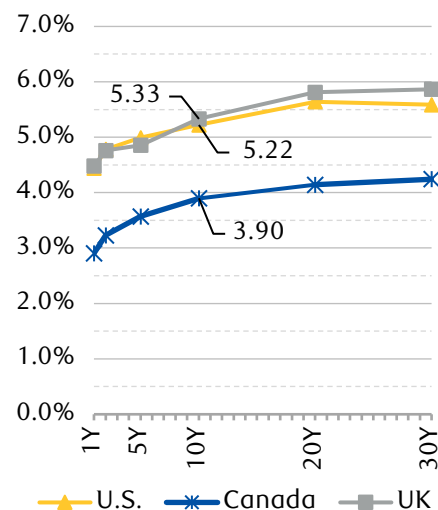
indexes will deliver worthwhile returns between now and the latter part of 2027. The RBC Capital Markets U.S. Equity Strategy team's model-driven approach yields a target of 8,150 for next summer for the S&P 500—an appreciation return of about 6.5% (7.5% including dividends). An intervening correction, 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.

GLOBAL Fixed income

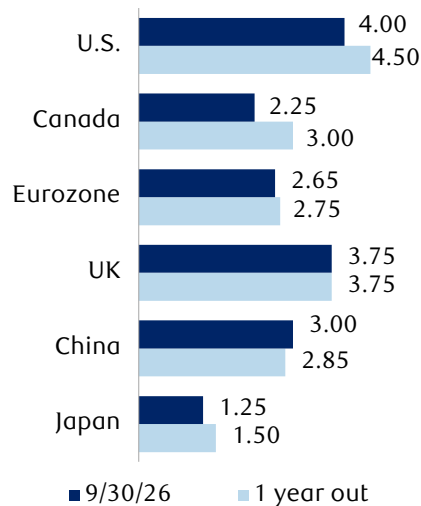
For our perspectives on global fixed income, please see the October Monthly Focus article by Thomas Garretson, CFA: “Long bonds light a short fuse.”

Sovereign yield curves



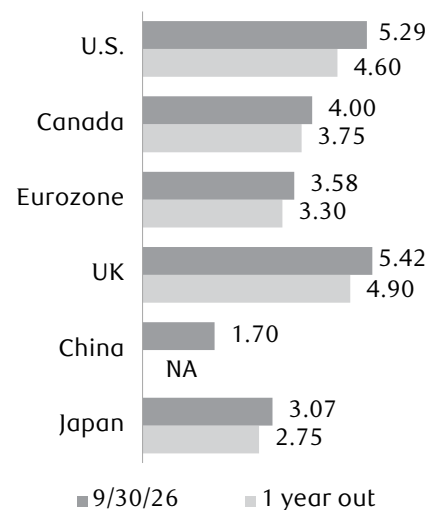
Source - Bloomberg; data through 9/30/26

Central bank rates (%)



Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Investment Strategy Committee, RBC Capital Markets forecasts, Global Portfolio Advisory Committee, RBC Global Asset Management

Fixed income views

Region	Gov't bonds	Corp. credit	Duration
United States	—	—	1–3
Canada	+	—	3–7
Continental Europe	—	—	3–7
United Kingdom	—	—	3–7

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

Research resources

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			Count	Percent
Buy [Outperform]	953	57.62	313	32.84
Hold [Sector Perform]	649	39.24	164	25.27
Sell [Underperform]	52	3.14	3	5.77

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