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2026 Outlook

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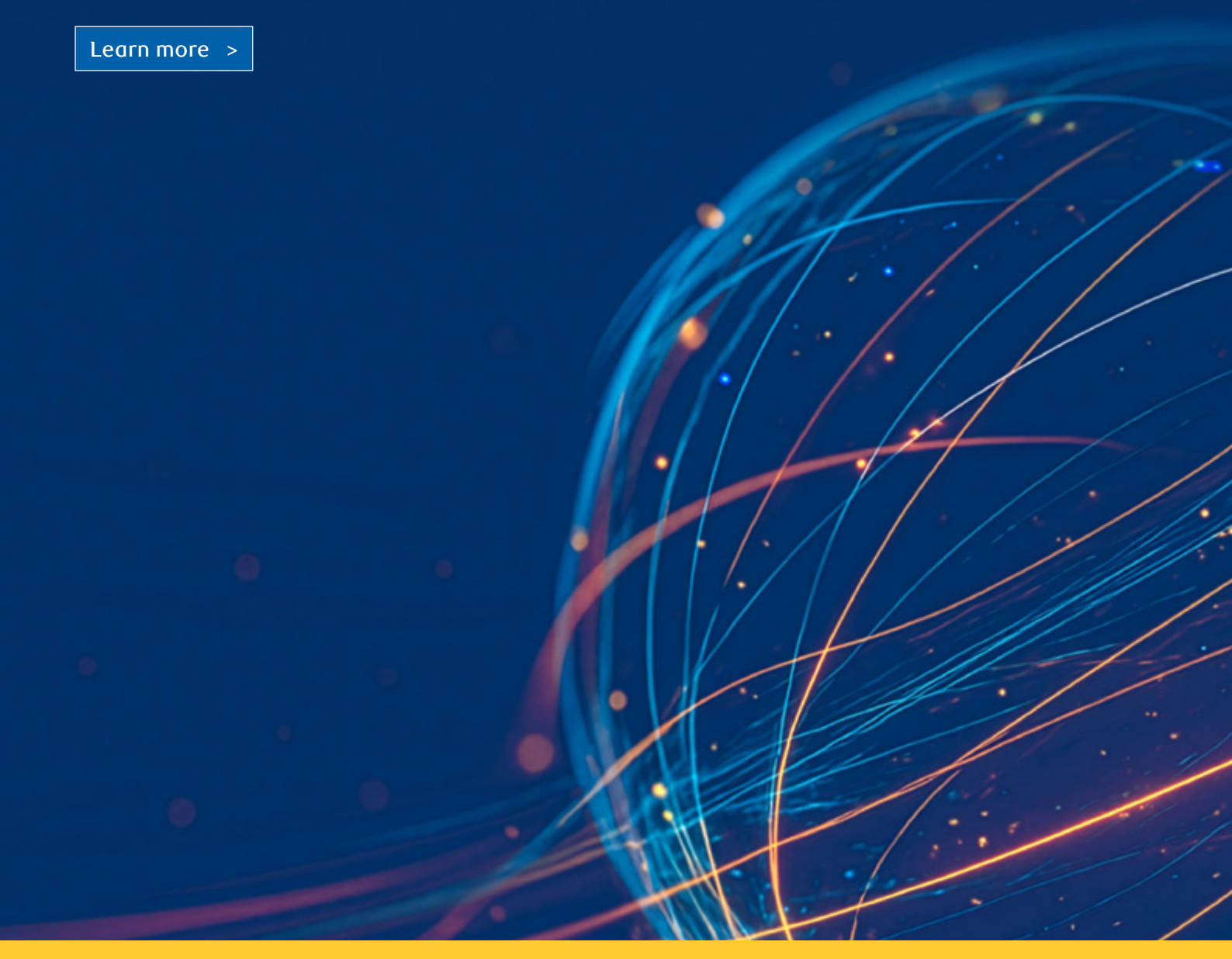


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U.S. Economic Outlook

Will the U.S. be stuck in the stagflation trap for another year?

How robust can 2026 forecasts be, given the delay in economic data due to the government shutdown?

Vito Sperduto: The longer this data gap extends, the more it risks distorting the inflation picture at a time when the Federal Reserve is setting the pace for additional rate cuts.

Frances Donald: We have enough to feel confident that the job market in the fourth quarter has been on the softer side, but certainly still stable and far from cracking. We have less data to inform inflation forecasts.

Will the stagflation that characterized much of 2025 change in the year to come?

Frances Donald: Unfortunately, I think the concept of 'stagflation lite' will persist and maybe worsen in 2026. Growth is likely to be too low and inflation too high for comfort.

Growth in 2026 is going to look fairly similar to 2025, below 2%. We see core inflation rising as high as 3.5% by the middle of 2026.

This is going to be a challenge for the Federal Reserve heading into 2026. Like many developed economies around the world – Europe, Canada, Australia – this is an economy that's going to need to lean more on fiscal policy.

“We see core inflation rising to as high as 3.5% by the middle of 2026 – way outside everyone's comfort zone.”

Frances Donald, Chief Economist

What is sentiment like among different consumer segments?

Mike Reid: Over the past couple years, consumer confidence has declined notably. We're seeing wage growth slow while prices shift higher.

Vito Sperduto: The consumer has not weakened in a broad sense, but the distribution of spending power has changed. Household wealth has become concentrated in older and higher income Americans, whose liquid asset gains are supporting consumption.

Mike Reid: In our recent research, the bottom 10% in wealth terms actually look okay, because that group is heavily reliant on government transfers and benefit from COLAs.

It's really the middle folks, the 40th to 80th percentiles, that are seeing the biggest pinch. They tend to get the least amount of government support, and at the same time their wage growth just hasn't kept up.

“Household wealth has become more concentrated in older and higher income Americans whose liquid asset gains are supporting consumption.”

Vito Sperduto, Head of RBC Capital Markets U.S.

How should companies be thinking about labor strategy in light of retirement trends?

Mike Reid: There will be some notable shifts over the coming years, but a 4.5% unemployment rate is still quite low.

As the trend in retirements continues to accelerate, and when you take into account the immigration story, with a slowdown of inflows into the U.S., you could see a case where by 2027 or 2028 you could have a negative payroll print and yet the unemployment rate won't rise.

What does the persistence of big governments since the pandemic signify for the economy?

Frances Donald: By the very nature of an aging population, we see a greater reliance on social security. Pair that with the focus on infrastructure development, defense, and productivity enhancements, and governments are likely to stay big or get bigger.

When government is as large as it is, this is a U.S. economy that's probably going to have growth numbers that fluctuate less, that are stuck between smaller bands.

This is a structural trend facing the United States in 2026 and probably over the next five years.

What other factors should we be watching?

Frances Donald: The enormous trade shock from tariffs is likely only going to start materializing in 2026. Some companies are clearly shedding some jobs in response; others are raising prices. So far this seems relatively well managed, but we don't want to take our eye off the ball of tariff risks just yet.

Mike Reid: A pullback in spending by the upper 10% of income earners could be caused by something like a 10% correction in the stock market. It has serious consequences for the labor market as well as consumption, if folks who are thinking about retiring look at their portfolio and decide to work another year or two.

Vito Spurduto: I think an underappreciated risk is the impact of the 2026 election cycle, and how that could come into play in terms of decision making, if it collides with a fragile macro hand-off.

Mike Reid: AI investment in buildings and equipment is making a

notable contribution to U.S. growth right now. That helps support jobs and the communities in which datacenters are built. But keep in mind, a lot of that value is transitory.

“A pullback in spending by the upper 10% of income earners could be caused by something like a 10% correction in the stock market.”

Mike Reid, U.S. Economist

Canadian Economic Outlook

Can Canada's divided economy be healed in 2026?

How is the Canadian economy placed for 2026?

Lindsay Patrick: This past year has brought its share of curveballs. We saw a historic trade shock, a change in federal leadership, and rate cuts from the Bank of Canada, coupled with ongoing issues in affordability and productivity.

Frances Donald: Technically speaking, Canada is going to avoid a recession this year. The data heading into 2026 shows an economy that's improving.

In the labor market, layoffs have been extraordinarily low: the unemployment rate has been rising, but because we're not hiring, and that's disproportionately hurting young people.

Mortgage renewal pressures are starting to ease. Household balance sheets are rising. Even business confidence is starting to improve.

There are still pockets of this economy that are really struggling, and we're still worse off than we would have been absent a trade war. But the trade hit from U.S. tariffs has been far less than the general consensus believed.

“This past year has brought its share of curveballs. We saw a historic trade shock, a change in federal leadership, and rate cuts from the Bank of Canada, coupled with ongoing issues in affordability and productivity.”

Lindsay Patrick, Chief Strategy and Innovation Officer

What areas of the economy are feeling the effects of tariffs?

Frances Donald: Steel, aluminum, and many segments within the auto sector are still being substantially tariffed, as is softwood lumber. Canada is also suffering under the weight of Chinese tariffs on canola and aquatic products.

The 10% of trade affected by tariffs is predominantly focused in southwestern Ontario. The unemployment rate there is around 9 to 11%, while areas such as Quebec City, Thunder Bay, and Victoria BC have very low unemployment.

As we head into 2026, that regionalization is going to become even more acute. For policymakers, it is a very difficult situation, because cross-country application of policy is going to be difficult.

How is consumer sentiment?

Frances Donald: We believe that what we've termed the K-shaped economy – where different household segments are operating in very different economic cycles – will be a semi-permanent theme.

Canadian consumer confidence continues to move lower and lower. Yet debit and credit card data shows spending at the top end remains high, driven by wealth accumulation and spending by the best off Canadians.

What can the central bank do in these circumstances?

Frances Donald: Monetary policy is not the right medicine for an economy that is becoming fragmented to this extent. Lower interest rates are not going to do much to help those who are really suffering from the trade war.

The Bank of Canada would step in if we saw unemployment rise because of layoffs, or the demand side of the economy falter. But it has been clear that it doesn't want to add an inflation problem to a trade problem.

This is not just a Canada story. The U.S. has a very fragmented, K-shaped economy; Europe is wrestling with the same factors. This is a new era for central banks.

“Monetary policy is not the right medicine for an economy that is becoming fragmented to this extent.”

Frances Donald, Chief Economist

What will be the impact of the latest federal budget?

Frances Donald: This government is moving away from consumption-driven to investment-led spending. The advantage is it's stickier and lasts longer. But the disadvantage is it takes a lot longer to play out.

The elements of this budget that we will see impacting us now are the tariff relief measures and the middle-class tax cuts. The focus on defense spending and acceleration of major

projects will probably have a three-year horizon, while AI and productivity initiatives could take five years to see results. More action will be needed on deregulation and tax to get the private sector moving.

How will the reversal on Canada's immigration policy play out?

Frances Donald: After a remarkable surge in population growth between 2022 and 2024, we are now reversing course, so population growth is probably going to decline below 1% or even to 0%.

We were witnessing the economy grow, but the economy per person getting smaller. That's going to turn around now. As the population starts to shrink, GDP per capita will rise.

That also means we'll need to create far fewer jobs. We now believe the Canadian economy will only need to produce zero to 5,000 jobs per month. Going into 2027, we could actually see job growth go negative and still not see the unemployment rate rise.

“As the population starts to shrink, GDP per capita will rise. That also means we'll need to create far fewer jobs.”

Frances Donald, Chief Economist

European Economic Outlook

Can Europe sustain its growth comeback in 2026?

What are the key themes shaping the economic outlook for Europe in 2026?

Peter Schaffrik: The trend growth level in the euro area has declined to around 1.25% - a little higher in the U.K. at 1.5%. The main reason is falling productivity growth.

Among the international forces at play, U.S. trade tariffs have been surprisingly well managed from the European perspective: import prices into the U.S. haven't dropped all that much, and our economic performance hasn't been really dented.

China has been a more important force. It has increased production capacity and is now competing in products that European companies tended to be good at. That's one of the reasons why our trend growth is low.

Can the euro area consolidate its modest growth comeback of 2025?

Peter Schaffrik: Domestic demand has been quite strong. There has been very low unemployment and decent wage growth, and people have been spending. The saving rate is relatively high, but coming down. Private sector investment has been tepid, but we're optimistic about that going forward.

Germany is the largest European economy and the one that's not fiscally constrained. The German budget is going to expand, and we think that will really drive growth in 2026 both in Germany itself and the euro area.

We're probably still seeing the positive impact of reduced rates in mortgage approvals or in other lending data. Our view is that the ECB is done cutting rates and will be on pause through 2026.

“The German budget is going to expand, and we think that will really drive growth in 2026 both in Germany itself and the euro area.”

Peter Schaffrik, Global Macro Strategist

What are the growth prospects for the U.K.?

Cathal Kennedy: The diminished ability to grow is a big similarity between Europe and the U.K. Productive investment in both areas has been weakened by the financial crisis.

The big change in the U.K. economy over the last year has been the loosening in the labor market. The unemployment rate is now 5%, up from a little over 4% a year ago. On the flip side, we've not seen mass redundancies. Digging deeper, what you see is a genuine improvement in labor supply.

We see that feed into slowing wage growth now. That should affect services inflation, which has been the Bank of England's focus now for a couple of years. It means the Bank can feel more confident going forward.

What will be the impact of the recent U.K. Budget?

Cathal Kennedy: It was primarily about stabilization. The Chancellor has built in more headroom into her fiscal plans, so we can escape the cycle of uncertainty we've seen in the U.K., which has kept household savings high and business investment low.

There are tax increases of £26bn, but the near-term growth impacts are fairly marginal. The government is trying to correct long-term underinvestment, but the impact is fairly modest – 1% of GDP per annum – and the payback is also longer.

Gilt issuance has already dropped by about a quarter, so that's another positive from the Budget.

We saw U.K. inflation kick back up last year, even as it came down in the euro area, but a lot of the drivers of inflation drop out into April next year. Together with Budget measures, that

should clear the way for the Bank of England to cut rates twice more in the first half of 2026 to 3.25%.

What's the outlook for bonds?

Peter Schaffrik: Despite central banks cutting rates in '25, we have seen essentially a bearish duration environment. That's probably going to continue, particularly in the euro market, where the ECB is probably going to pursue quantitative tightening for years to come.

Fixed income investors who want to buy yield are going into short duration assets with credit spreads. These are probably going to stay tight or even tighten further.

For corporates, that's a good environment, because it improves their funding position. But it's probably going to be another very difficult year for duration assets.

“The Chancellor has built in more headroom into her fiscal plans, so we can escape the cycle of uncertainty we've seen in the U.K., which has kept household savings high and business investment low.”

Cathal Kennedy, Senior U.K. Economist

What are the FX prospects for euro and sterling?

Peter Schaffrik: Our attractiveness to outside capital is probably not strong enough to warrant big inflows into these markets in 2026.

While it's not a particularly strong euro story, people who are still over-invested in U.S. markets will try to diversify a little, and that should put some downward pressure on the dollar and lift euro/dollar. We also do think the euro is probably going to do better than sterling.

Also, the renminbi and other Asian currencies are relatively weak, and we think a depreciation of European currencies against Asia would absolutely be warranted.

Asia Pacific Economic Outlook

APAC's economies brace for a challenging 2026

What will be the impact of U.S. trade tariffs on APAC?

Abbas Keshvani: Most of the region has incurred a tariff rate of 15 to 20%. Because the rates are so similar across the region, tariffs should not lead to a transfer of U.S. market share between countries.

China is a notable exception, because it has incurred a 47% tariff. Exports in 2026 will probably no longer contribute as much to Chinese growth. That will likely radiate out into the region via reduced demand for Asian goods in general, from Indonesian coal to Korean electronics.

Rob Thompson: The 10% tariff on Australia affects a few industries more than others – some meat, gold and medicines exporters. But in a macro sense, it's quite far down the list of our worries.

What's the growth outlook for major APAC economies in 2026?

Abbas Keshvani: We are projecting a growth rate in China of 4.5%, a notable miss from its 5% growth target.

The PBOC have already cut interest rates a fair amount over the years, so the onus is increasingly on fiscal stimulus to lift growth. Measures like consumption support have the greatest ability to goose growth in the near term.

Rob Thompson: We're predicting Australian growth of around 2.5% next year. While we have factored in some Chinese weakness, a further 1% undershoot in Chinese growth would probably mean about a quarter-point drag on Australian growth.

What's the likely impact of currency pressures?

Abbas Keshvani: The yuan is still very weak, especially against others like the euro, despite China's notable trade surplus with Europe. China has to be careful here, because the US-China truce is being reevaluated in 11 months, and the E.U. is being more vocal about CNY weakness.

If – more likely, when – China announces a fiscal stimulus that will boost stocks and encourage foreigners to pile into Chinese equities, which remain relatively cheap, that would result in the next round of CNY appreciation.

Rob Thompson: A softer US dollar should be unambiguously helpful for strengthening the Aussie dollar, and a stronger CNY should be the same. If we see volatility in CNY as opposed to

strength, that could be a less positive story for the Aussie dollar in a spot sense.

How will the economic picture translate to interest rate moves?

Rob Thompson: In Australia we've seen a pick-up in private sector demand, adding to pretty strong spending from the public sector. Supply and demand are not in perfect balance. We expect the Reserve Bank to keep rates on hold through 2026 but given this inflationary backdrop, the risk of a fresh hiking cycle is climbing fast.

Abbas Keshvani: For most countries in Asia, inflation is tracking around or below the official target. A lot of central banks probably have another one to two cuts left in them. What's holding them back is financial stability, including defending the currency and some macro prudential considerations like soaring property prices.

“We expect the Reserve Bank of Australia to keep rates on hold through 2026 but given the inflationary backdrop, the risk of a fresh hiking cycle is climbing fast.”

Rob Thompson, Macro Rates Strategist

How will the housing and property markets develop?

Rob Thompson: Long-term population growth in Australia is averaging 1.5% to 2%, well above most other countries. This is adding to demand. On the housing side, things remain very, very tight. It's very hard to see a situation where the housing market doesn't continue to appreciate in price terms.

Abbas Keshvani: China's property market is proving to be a real drag on growth, with new home prices down 7% over the last few years and 18% in the resale market. That leads to less spending and less property construction and investment. Even if buyers return to the market, it will be some time before property investment recovers.

“China's property market is proving to be a real drag on growth – even if buyers return, it will be some time before property investment recovers.”

Abbas Keshvani, Asia Macro Strategist

What external forces will be significant?

Abbas Keshvani: The E.U. sounds increasingly protectionist lately. So there's a risk that in 2026 China deals with another trade war – the European edition.

Rob Thompson: The trajectory of Australian growth remains deeply impacted by what happens to the China story and by U.S. Fed policy. We will be very much a follower of the broader direction of longer-term interest rates set by the U.S.

Rates Outlook

What course will the world's central banks take next?

What course will the Federal Reserve take on further interest rate cuts in 2026?

Jason Daw: There's a lot of uncertainty surrounding the Fed next year. Hawks and doves on the Federal Open Market Committee have never sounded more divided than they are right now, and the lack of timely macroeconomic data certainly hasn't made resolving those differences any easier.

Blake Gwinn: Each additional cut from here is going to be increasingly hard fought. You're going to see the hawks getting louder and louder. With the current divide, they really only have to swing one or two of the centrists to capture a majority.

The impact of Trump's appointment of a new Chair has perhaps been overdone. Powell is already on the dove side of the committee, so replacing him with another dove is not really going to swing the scales.

All told, we have only two more cuts from here. That's the terminal rate, stopping in the 3.25 to 3.5% range – definitely short of the 3% that's currently priced in the market. After that, I have them on hold for the rest of the year.

“Each additional cut from here is going to be increasingly hard fought – you’re going to see the hawks getting louder and louder.”

Blake Gwinn, Head of U.S. Rates Strategy

What does that mean for Treasury yields and curves?

Blake Gwinn: If we do see the Fed stopping short as we expect, I think it's enough to shift us back into the kind of yield ranges that we saw before the negative non-farm payroll revisions in mid-2025.

2026 is likely to be a fairly range-bound environment for Treasuries. It's going to be more about tactical trading than putting on large directional positions on either duration or curve.

I don't think we're expecting a meaningful rise in term premium this year, but I could potentially see some temporary upward yield shocks. There could be tariff revenue reversals or even a resurgence of de-dollarization concerns, but I don't have a fundamentally bearish view around these things.

What's the growth outlook for Canada and what does that mean for rates?

Simon Deeley: The general trend has been pretty weak productivity and investment numbers relative to the U.S.

We see growth in the 1.5% to 2.2% annualized range in each quarter of 2026. This should reduce economic slack, and even eliminate it, over the course of the year. Heavy government investment should add about 0.3% to growth as a whole in 2026.

In October, the Bank of Canada did introduce a conditional pause to the overnight rate at 2.25%, which solidified our view that they will keep it there through the end of 2026.

What are the prospects for Canadian bonds?

Simon Deeley: In terms of yield, some expected pricing of hikes in late 2026 should see some flattening of the curve. Government of Canada bonds are typically impacted pretty heavily by moves in the U.S. Treasury market, so that will be worth watching as well.

Overall, we do think the Government of Canada can outperform Treasuries as U.S. cuts are priced out, especially in the belly of the curve, so around the five-year sector.

“We think the Government of Canada can outperform Treasuries as U.S. cuts are priced out, especially in the belly of the curve, so around the five-year sector.”

Simon Deeley, Canada Rates Strategist

What are the factors affecting European and U.K. central bank decisions?

Peter Schaffrik: Unemployment is still relatively low, wage growth is still slightly elevated, and inflation is at the ECB's target. The market is still expecting residual rate cuts going into 2026, but I have difficulty seeing that happen.

The U.K. is a different animal. Inflation is going to come down. Growth is going to be weak-ish, and even if the labor market starts to recover, it will take some time. In that environment, we think that the Bank of England, one of the last central banks that's running restrictive policy, can ease policy quite a bit.

What direction will European bond yields go?

Peter Schaffrik: We have a fairly negative view for bond yields. On top of the lack of stimulus for yields to come down from the shorthand of the curve, I would argue that the steepening that we've seen in the Euro curve probably has still further to run.

In relative terms, however, we like the U.K. If you want to build a portfolio where you take some long duration, we really recommend it to take it in the UK, relative to the euro area, and in the front end of the of the sterling curve we even think some absolute gains can be achieved.

“If you want to build a portfolio where you take some long duration, we really recommend it to take it in the UK.”

Peter Schaffrik, Chief European Macro Strategist

What's the rate outlook for Australia in 2026?

Robert Thompson: Earlier in the year, Australia's inflation looked to be fading, with the central bank's 2.5% midpoint target coming into sight. Instead, inflation is back to 3%-plus. The supply side of the economy simply isn't able to keep up with the pick-up on the demand side.

Our base case is that the bank leaves rates unchanged through 2026. The cash rate is already on the restrictive side at 3.6%, and the bank has recently preferred a smooth, patient approach to the rate cycle, tolerating some high short-term inflation to protect the labor market.

But we'd put the odds of at least one hike at around the 25% mark. If inflation doesn't slow materially over the next three to six months, the resumption of the hiking cycle will likely become the base case.

“Australia's inflation looked to be fading, but is back to 3%-plus – the supply side of the economy simply isn't able to keep up with the pick-up on the demand side.”

Robert Thompson, Macro Rates Strategist

What can investors expect from Australian bond performance?

Robert Thompson: It's been a rough ride for investors in Aussie bonds lately. The benchmark 10-year spread over Treasuries has jumped from -20 basis points in June to +50 now. We think there's more than enough value in there already for investors. The main issue is that there's no imminent catalyst from the Aussie side on the calendar to allow this kind of trade to perform. So, against the U.S., relative performance may depend more on our view that U.S. rates should sell off given the Fed is priced for too much.

We also tend towards the view that the curve can resume flattening through 2026. There's likely to be more movement in the Fed story next year than the RBA story, so marginal flattening will be driven by the Aussie correlation with the Treasury curve, punctuated with occasional domestic-led movements.

Defense Outlook

Who will capitalize on the defense spending surge in 2026?

How is defense investment evolving, and how does that affect the wider industrial outlook for 2026?

Cliff Bayer: U.S. defense spending has increased, both in absolute dollars and as a percentage of GDP. Priority spending areas are shipbuilding, unmanned aircraft, drones and counter-drone technology, and missile defense.

Rob Jurd: New European spending targets of 3.5% of GDP were confirmed at the recent NATO summit. This will drive revenue for aerospace and defense companies both in North America and Europe. A further 1.5% commitment relates to infrastructure, cyber security and resilience, and these are likely to be provided by non-defense and dual-use companies.

Spending in Europe is going to rise by close to €600 billion per annum. In contrast, the combined 2024 revenue of the largest 10 defense companies is roughly €50 billion. This is why European defense companies are trading at all-time highs.

Claire Sturgess: Canada heads into 2026 with a much more focused defense posture. The government's new defense investment agenda has a 'Buy Canada' mandate. We expect this to benefit businesses in the aerospace, shipbuilding, advanced manufacturing, cybersecurity, AI, and quantum technology sectors, among others.

How is cross-border collaboration evolving between Canada and Europe?

Rob Jurd: Canada is exploring procurement of the Swedish Gripen fighter jet, with manufacturing collaboration between Saab and Bombardier. Further, the Canadian defense company CAE signed Saab up as its preferred supplier for its GlobalEye airborne early warning system. But Canada and Europe still remain highly dependent on U.S. defense.

Claire Sturgess: A commitment to a significant increase in Canadian spending on European space agency programs should increase contract opportunities for Canadian companies. Canada is also the first non-European country granted preferential access to SAFE, the EU's military purchasing fund.

"A commitment to a significant increase in Canadian spending on European space agency programs should increase contract opportunities for Canadian companies."

Claire Sturgess, Head of Canadian Industrials and CME Investment Banking

How are European manufacturers tackling capacity constraints?

Rob Jurd: Global supply disruptions due to tariff changes and other geopolitical impacts have exposed structural capacity gaps across numerous areas, such as electronic subcomponents.

Modernization is under way. It's helpful that Europe has a highly skilled labor base, and is among the leaders in discrete automation, for example, in automotive manufacturing and robotics. But it could take some time to utilize European industrial companies that don't have current exposure to the defense sector.

"Global supply disruptions due to tariff changes and other geopolitical impacts have exposed structural capacity gaps across numerous areas, such as electronic subcomponents."

Rob Jurd, Head of Industrials for Europe

What are key opportunities in 2026 as the wider industrial sector intersects with defense?

Cliff Bayer: The military is increasingly seeking to break away from slow traditional procurement and embrace innovation. The key is the prioritization of software, and we've seen defense disruptors win new contracts away from some of the larger defense primes.

Rob Jurd: Defense tech startups are entering procurement cycles faster than before. Systems in the battlefield now need to be interoperable from the start, versus retrofitted. Open architecture, common design standards are a particular challenge in Europe, because many of these companies aren't software-first.

Claire Sturgess: In Arctic sovereignty and surveillance, the dual-use tech spillover is relevant both in developing tools to observe how that environment is changing from a climate perspective, and in building a strong Arctic defense system.

"The key is the prioritization of software, and we've seen defense disruptors win new contracts away from some of the larger defense primes."

Cliff Bayer, Head of Aerospace, Defense and Government Services

What does this mean for deal activity?

Cliff Bayer: We're seeing a large uptick in M&A activity focused on the defense space. U.S. companies are trying to position themselves for the increasing level of European defense spending. I would expect to see more transactions at the mid-cap range.

Rob Jurd: In Europe we have seen a focus on the supply chain, for OEMs, to ensure capability delivery is there. Large defense companies are also trying to assess how to invest and partner with defense tech companies, to foster innovation.

There is a significant desire to deploy private capital into the sector, in the context of governments and public markets not necessarily being able to fund growth. On the public market side, there have been quite a few defense-related IPOs, including TKMS this year.

Strategics are looking to work in partnership, take minority investments, or come up with unique structures – perhaps to have a very small anchor investment to support a company, but then signing MOUs and working with them to supply capability.

Cliff Bayer: In the past, private equity sellers have been hesitant to exit through IPOs because of the time requirement. But given where sector valuations are today, companies are evaluating that quite seriously. You're seeing almost a doubling of public market valuations in the last five-to-six years.

Rob Jurd: There has been a much higher allocation in IPOs over the last few years to European investors, predominantly because of ESG concerns being alleviated through government pressure. We have seen a complete shift in investor sentiment towards the defense sector over the last couple of years.

How will these trends evolve in 2026 and how is RBC supporting clients to navigate the defense investment landscape?

Claire Sturgess: Our clients are encouraging us to take on the opportunity of educating investors around the defense ecosystem, including in the space system, which remains a very niche and poorly understood sector in the investment community.

Rob Jurd: RBC is well placed to help clients think through the convergence that is happening as we're seeing more dual-use technologies and non-defense companies, making forays into the space.

Cliff Bayer: The global threat environment is only increasing. Companies are looking at how to best position themselves to support global economies in that environment, which takes capital.

What we'll see in 2026 is different ways to help finance this growth, whether it be through the private markets, the public markets, or through debt capital.

Energy and Critical Minerals Outlook

The race to feed surging power demand in 2026

What are the macro forces shaping demand for energy and critical minerals?

Chris Redgate: We're seeing a substantial build-out of North American LNG and AI datacenter gas-fired demand. That is driving significant investment and setting the stage for natural gas demand growth over the next decade.

We've also seen a return of international buyers seeking North American resource, and a scarcity of Tier 1 resource in the Lower 48 that is driving transaction activity and a renewed interest in Canadian resource.

Energy policy in a more supportive regulatory environment in Canada and the U.S. is creating the environment to drive significant investment in the coming years.

The Canadian government and the province of Alberta recently signed an MOU that's the foundation for a potential million-barrel-a-day oil pipeline to the west coast, and the Pathways CCUS project that would be the world's largest. We see these tailwinds as very encouraging.

Farid Dadashev: Over the next 20 years, humanity is likely to need a lot more copper than we consumed over the past 10,000 years. We've seen governments take an equity stake in copper and rare earth mines on a new scale.

The need is to ramp up supply for multi-billion dollar projects with long lead times. Gone are the days when the companies were building the project by themselves: there has to be project syndication and risk sharing.

“Energy policy in a more supportive regulatory environment in Canada and the U.S. is creating the environment to drive significant investment in the coming years.”

Chris Redgate, Head of Canadian Energy Investment Banking

“This could be the beginning of an inflection point where technologies start playing a more pivotal role in helping us balance the copper market, which is extremely exciting.”

Farid Dadashev, Global Co-Head of Mining and Metals

How are companies working to meet surging demand?

Craig Edgar: Power and utilities clients are considering how they can be ready to meet the ever-increasing need for capital and development. That means diversification of funding sources and power sources.

We're seeing the largest providers of private capital partnering up directly with the corporates that have the expertise to build datacenter power supply, and with the datacenter developers that need the supply. The U.S. government is leaning in to support companies through loan guarantees and other means.

Farid Dadashev: If the core of a mining project is solid, there will be many funding options. We've seen many companies, even at early stage, funding projects through a gold or silver stream, which have provided very attractive cost of capital. Funding these projects and buying equity stakes has become extremely competitive. We expect this trend to continue in 2026.

Chris Redgate: We're seeing a lot more interest in integration across sectors and value chains. Buyers are integrating through the natural gas value chain, through long-term supply arrangements, partnerships and acquisitions amongst producers, mid streamers, LNG entities and off-takers, power producers, and datacenters.

Oil companies have been acquiring remaining Tier 1 inventory in the U.S., and many have been acquiring or evaluating opportunities beyond the Lower 48 to backfill inventory into the 2030s.

What role can tech innovations play?

Farid Dadashev: After 30 years of research and development, Rio Tinto's own Nuton technology, which harnesses bacteria to extract copper from primary sulphides, recently produced its first copper cathode.

This could be the beginning of an inflection point where technologies start playing a more pivotal role in helping us balance the copper market, which is extremely exciting.

Craig Edgar: The pace of innovation in the broader power industry has increased. Most large utility companies are now working on using small modular nuclear reactor power. A lot of them have established internal VC functions to evaluate emerging technologies.

What's the outlook for M&A activity in 2026?

Chris Redgate: In Canada, we've seen a resurgence of U.S. and international interest from private equity and strategics. 2025 saw a very notable increase in public corporate consolidation in Canada, a trend that we certainly expect to continue into 2026.

Craig Edgar: Deal activity in power has been around capital allocation – whether that's electric companies selling their gas subsidiaries to focus on electric growth, or large regulated companies divesting non-regulated businesses to reallocate capital to the core.

Strategics in the industry are partnering with sources of private capital. That has proven to be a major force for M&A activity in our space. Of late, we're starting to see a trend back towards corporate-to-corporate combinations: size and scale matter in very large projects.

Farid Dadashev: 2024-2025 has been very busy for global mining M&A. Going forward, combinations with a strong strategic rationale, leveraging infrastructure or technical expertise to unlock value, are most likely to be pursued.

I'm a little cautious about the mega transactions involving cross-border critical minerals, because they are subject to so much scrutiny.

“Strategics in the industry are partnering with sources of private capital – that has proven to be a major force for M&A activity.”

Craig Edgar, Managing Director, Power and Utilities

What are the potential risks to the outlook?

Chris Redgate: We see very constructive tailwinds for oil and natural gas, but a range of scenarios and technological advancements could impact that longer-term outlook. I think that drives to the importance of companies built to withstand lower commodity prices.

Craig Edgar: One risk is volatility reemerging in the capital markets, the cost of financing going up. I think that's where RBC can provide real leadership and advice – helping clients not only to meet energy demands, but to do so in a resilient way.

Our Experts

Macro Views



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