Long-Term Outlook

Dan Phillips, CFA
Chief Investment Officer

Carol Schleif, CFA
Chief Market Strategist

Priya Karthik
Senior Investment Strategist



Artificial Intelligence, Debt & Darwin

The BMO annual capital market assumptions process identifies long-term macro themes and establishes 10-year annualized return forecasts across major asset classes. These forecasts, combined with asset-class risk and correlation assumptions, serve as the necessary inputs for investment portfolio construction and financial planning exercises. We use a "forward-looking, historically aware" approach – first identifying historical relationships between asset classes and what drove past asset-class returns and then exploring how these relationships may change over the next decade. In our 2027 edition, we primarily focus on three defining forces: the expanding reach of artificial intelligence (AI), elevated government debt and the evolution of geopolitics.

We believe our long-term themes will influence asset-class returns, while also offering thematic investing opportunities.

Hooked on AI. We expect AI will embed itself in economic functioning along three waves – Buildout, Integration and Optimization – with each opening specific investment opportunities. The current AI Buildout is supporting infrastructure investment and generating strong demand for components ranging from copper to semi-conductors. AI Integration will allow cost-saving efficiencies, while AI Optimization will eventually open new revenue streams.

Economic Restructuring. We don't see current overall debt levels as an existential crisis, but we do see the need for a restructuring – both the composition of debt (less government, more private) as well as the composition of government revenues (less from labor). The U.S. has more options than most countries – given its vibrant economy, immense wealth and the dollar's reserve-currency status.

Geopolitical Darwinism. Geopolitics are disrupting the long-standing globalist model, creating winners and losers based on ability and willingness to adapt. Latin America – riding a pro-business wave – represents a winner thus far, while Europe faces a big test on fiscal, national-security and economic-reform fronts. Less globalism also reopens domestic investment opportunities.

At the asset class level, we expect elevated valuations to mute equity returns in an otherwise healthy fundamental backdrop.

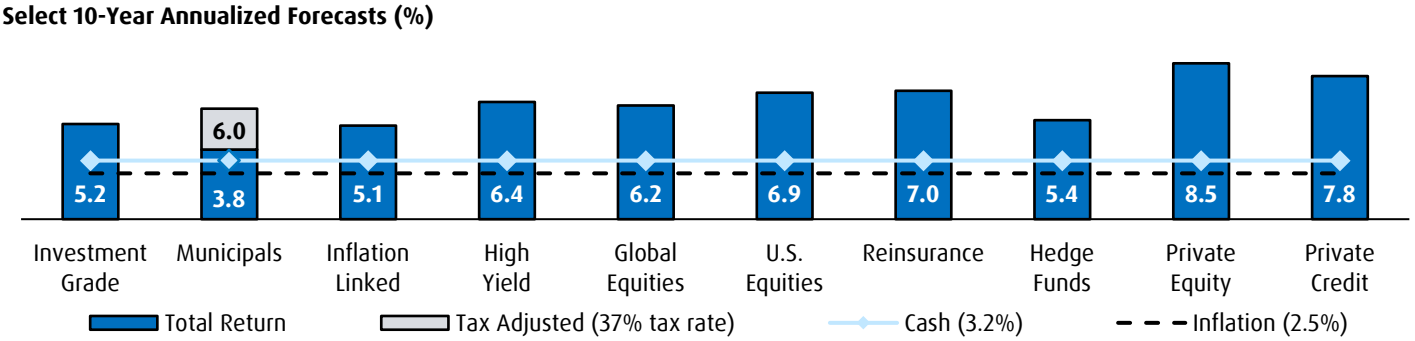
Fixed Income. We anticipate interest rates will remain mostly range bound – with the 10-year U.S. Treasury yield oscillating around a 4.75% central tendency in accordance with the economic cycle. The higher interest-rate entry point alongside continued credit-market good behavior should result in annualized total returns that are healthily above inflation and cash yields.

Equities. We expect global equities to display solid revenue growth and elevated profit margins (both getting assists from AI). But a modest mean reversion of elevated valuations suggests annualized total returns in the mid-single digits. We anticipate U.S. equities will continue their structural outperformance over the rest of the world.

Diversifiers. Diversifier total-return forecasts are dependent on alpha generation. With hedge funds, we assume alpha equals the historical average, while recognizing the wide dispersion amongst strategies and the need for a strong manager selection process.

Private Markets. Private-investment total returns are driven by an illiquidity premium and alpha, which can vary amongst strategies. For qualified investors, we believe private markets will continue to offer meaningful return premiums to public markets.

Exhibit 1: Moderating equity returns
Elevated valuations suggest lower long-term equity returns as compared to the past decade.



BMO forecasts are as of 6/30/2026 and are for illustrative purposes.

Hooked on AI

Artificial Intelligence (AI) adoption has occurred far quicker than that of previous innovations – with the global economy becoming increasingly reliant on the revolutionary technology. For investors, the question is no longer *if* AI will fundamentally alter global economic functioning, but how quickly and to what extent. We believe AI adoption will play out over our 10-year horizon and beyond, developing along three overlapping waves – Buildout (already underway); Integration (already ramping quickly); and Optimization (dependent on Integration and likely to extend past the next decade). As these waves rise and fall, we expect near-term economic choppiness to evolve into higher long-term growth.

The AI value proposition. AI enables organizations to process and synthesize enormous quantities of data at speeds impossible for human workers to match. Tasks that once required hours can now be completed in minutes, allowing workers to migrate away from repetitive preparation and toward higher-value activities such as strategic oversight and relationship building. This promise helps explain why AI adoption has accelerated faster than many previous technological revolutions. From corporate boardrooms to government agencies, AI has quickly evolved from a promising concept into a competitive necessity. The destination appears increasingly clear and the path forward is likely to unfold through three overlapping waves: Buildout, Integration and Optimization. Each wave supports the next, creating a feedback loop wherein expanding infrastructure enables broader adoption. This, in turn, unlocks ever-expanding capabilities and economic use cases.

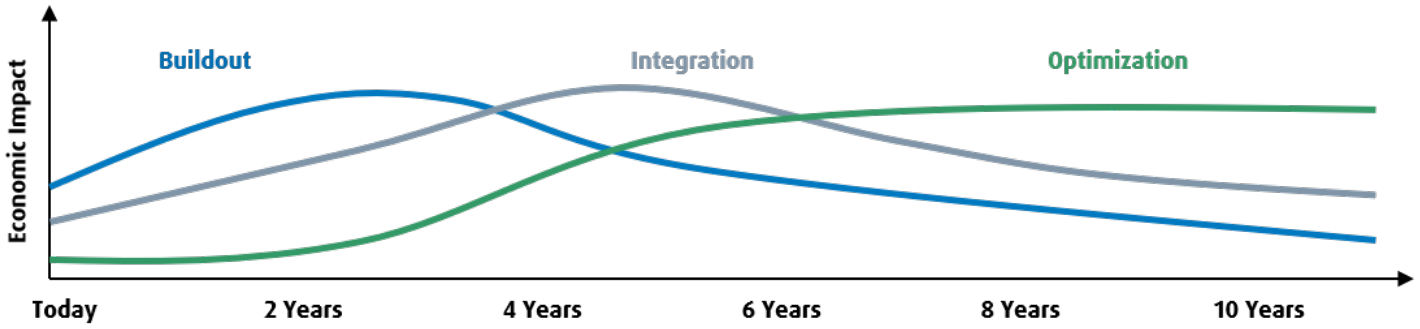
Buildout. This phase involves constructing the digital and physical infrastructure necessary to support AI on a global scale. Global AI-related capital expenditures are approaching the trillion-dollar level, while estimates from McKinsey suggest cumulative infrastructure spending could reach $5 trillion to $7 trillion by 2030. Much of this spending is directed toward advanced semiconductor fabrication facilities, GPU server clusters, networking equipment and hyperscale data centers – all of which form the computing backbone of the emerging AI economy. Technology companies and sovereign governments alike are investing aggressively to secure computational capacity, recognizing that computing power may become as economically important in the coming decades as industrial capacity was in previous eras. As computing infrastructure scales, the limiting factor shifts from chips to electricity. According to the International Energy Agency, global data-center electricity consumption is expected to double by 2030. As a result, the AI investment story extends well beyond technology itself. Utilities, transmission networks, transformer manufacturers, natural gas generation assets, renewable energy developers and nuclear power technologies are becoming critical enablers of future AI deployment. Bloomberg estimates the United States could face a 63-gigawatt gap between projected AI-related power demand and available grid capacity, underscoring the sheer size of the required investment in the AI buildout.

Integration. This next phase – embedding AI into everyday workflows – is already quickly emerging. Early applications are overwhelmingly focused on productivity enhancement and cost reduction. Research from Bain suggests employees equipped with AI tools can improve execution efficiency by approximately 15%, largely through reductions in administrative workload. Many of the earliest use cases involve invoice processing, transaction review, account reconciliation, reporting and back-office functions. Initially, these improvements should enhance individual productivity. Over time, they could modernize operations across entire organizations.

Optimization. By this last stage, AI-driven cost savings will have been widely harvested, and the focus will increasingly shift toward revenue generation, innovation and entirely new business models. Rather than simply helping workers perform existing tasks more efficiently, AI should enable organizations to push into endeavors previously impractical or impossible. We envision large-scale AI systems that accelerate experimentation and compress innovation cycles – in some cases creating entirely new product ecosystems, much like previous technological innovations (e.g., electricity).

Broad adoption. Importantly, AI's benefits are unlikely to remain confined to technology companies alone. As illustrated in Exhibit 2, we expect the three waves to reinforce one another, creating a self-sustaining cycle of investment, adoption and innovation. The AI buildout is already accelerating cloud-computing adoption and improving the economics of energy infrastructure investment. While the transition may create periods of economic and market volatility, we believe the longer-term trajectory points toward a more productive economy characterized by faster innovation, stronger growth and – eventually – lower structural inflation.

Exhibit 2: The three waves of AI adoption
As the AI Buildout matures, AI Integration is ramping up with AI Optimization to follow closely behind.



Source: BMO Wealth Management (2026).

Economic Restructuring

The U.S. debt problem is not necessarily its size – combined government, business and household debt relative to the country's aggregate wealth has been falling ever since the Global Financial Crisis. Instead, the problem is its composition – simply put, the government's share of overall debt is too big. Capital would be better used in the generally productive business sector as opposed to the less-efficient government. Government debt reduction (even relative to the country's ever-growing net worth) seems overly optimistic (if not unobtainable). But we believe a shift towards greater business-sector debt – aided by ample profitable projects (AI and others) – is achievable. Done right, the current debt situation could represent as much opportunity as risk.

Redistribution at a grand scale. The coming decade is likely to be defined by a gradual redistribution of economic resources, though not in the way political rhetoric often suggests. Rather than a simple transfer between income groups, we expect redistribution to occur across economic sectors: debt migrating from government balance sheets toward private enterprise; national income increasingly going to capital over labor, and compensation evolving alongside technological change. Most visible is the necessary debt restructuring – a problem whose roots can be traced back to the Global Financial Crisis (GFC). Prior to 2008, systemic leverage was concentrated primarily in the household and business sectors through mortgages and corporate borrowing. When that system unraveled, policymakers intervened aggressively to stabilize the economy. Governments effectively absorbed private-market debt while, at the same time, the Federal Reserve dramatically expanded its balance sheet.

Not a debt size problem, a debt distribution problem. As shown in Exhibit 3, aggregate debt relative to national wealth has actually been falling since the post-GFC adjustment. But this deleveraging (a positive development) has occurred alongside a redistribution of that debt (a negative development). Government liabilities account for a much larger share of the economy's overall debt as compared to pre-GFC levels – a shift we view as economically suboptimal. Governments often allocate capital based on political priorities, whereas businesses allocate capital based on expected returns and productivity gains. That is to say, not all debt is created equal. Debt used to fund political priorities or finance current consumption rarely improves long-term economic growth and often saddles the economy with a larger debt burden. Meanwhile, debt used to fund productive assets that generate future cash flows can expand economic capacity, potentially having the ultimate effect of reducing the debt burden as a percent of economic output or overall wealth.

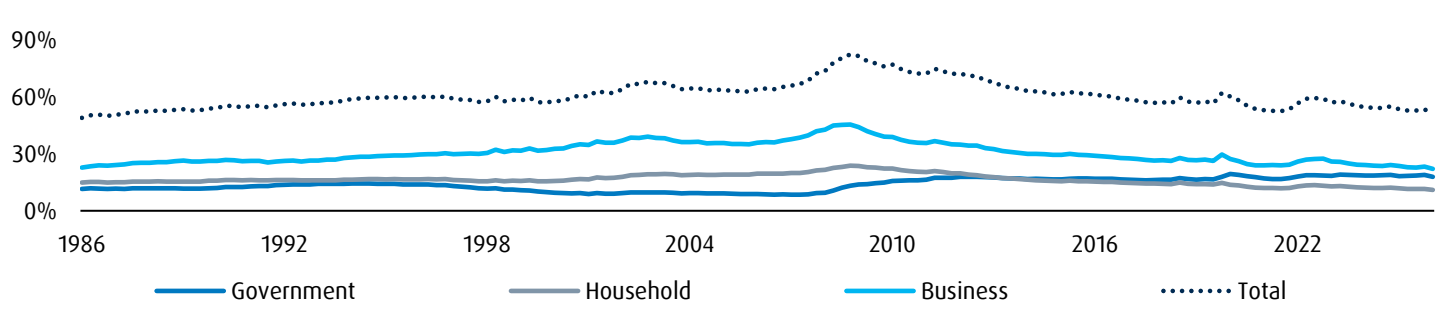
Growing out of it. The encouraging news is that the United States does not necessarily need to reduce debt outright to improve its financial position. Instead, the economy can improve the composition of debt over time. A significant investment cycle centered around artificial intelligence, automation, energy infrastructure and advanced manufacturing could drive exactly that outcome. As businesses pursue profitable projects, private-sector borrowing is likely to increase, just as stronger productivity growth expands national wealth. If economic output grows faster than government debt, public liabilities would gradually decline as a percentage of the country's overall net worth. Achieving such a transition will not be effortless. The government will still need to slow the *growth* in debt issuance. At the same time, the Federal Reserve is looking to shrink its balance sheet after nearly two decades of Zero Interest Rate Policy (ZIRP). As such, reining in the government's increasing debt issuance must coincide with developing a deeper private-sector buyer base for Treasurys. Banking regulatory reforms and stablecoin-driven demand may play a big part.

Capital gains – at the expense of labor. At the same time, technology-driven growth is likely to create new political and economic challenges. As AI and automation generate efficiency gains, the initial benefits will likely accrue disproportionately to capital owners and technology innovators. Pressure is already building for policies that redistribute some of those gains through tax reform, automation-related levies or other mechanisms. Tariff revenues and potential expansions of public investment vehicles could also become a bigger part of the policy discussion as governments seek to ensure broader participation in future economic growth.

Paving a way out. Japan demonstrated that a nation can sustain very high debt levels for decades – though it came at the cost of weaker growth. The United States, however, has historically responded to challenges through innovation, investment and economic reinvention. Our base case is neither a debt crisis nor a prolonged period of stagnation, but rather a gradual process of macroeconomic rebalancing. If capital increasingly shifts toward productive private investment opportunities and technological innovation delivers the anticipated productivity gains, the United States may ultimately be able to grow its way into a healthier balance-sheet structure. In that scenario, today's debt challenges could represent less of a risk – and increasingly the starting point for a more productive economy.

Exhibit 3: Balance-sheet dynamics

The U.S. has actually been in a deleveraging cycle for over a decade, but the government needs to moderate spending.



Source: Bloomberg L.P. (2026). Government, Household and Business represent the sector components of aggregate debt.

Geopolitical Darwinism

The geopolitical world order established in the aftermath of World War II – and reinforced with the fall of the Berlin Wall – fostered a system of global integration and rapid global economic growth. But over the past decade that system has come under assault – destabilized by forces within (e.g., growing wealth disparities) and pressured by forces acting upon it (e.g., China's rise). What emerges will be shaped foremost by the evolving competition between the U.S. and China – and secondarily by how other economic actors adapt around them. Those in control of global choke points across natural resources, trade routes, industrial capacity and financial infrastructure will quickly find individual success – but expectations for global success may need to be moderated.

Survival of the fittest. Charles Darwin observed that survival belongs not to the strongest species, but to the fittest – and the most adaptable. A similar principle is beginning to govern the global economy. For much of the post-World War II era, economic success came from integration, efficiency and cooperation. Nations prospered by lowering trade barriers, specializing production and embedding themselves within increasingly interconnected global supply chains – driving decades of rapid global growth. But, more recently, that system has destabilized. Internal pressures, such as widening wealth disparities, have weakened political support for the existing order – while external pressures, most notably China's rise, have further strained the framework that governed global commerce for decades. As illustrated in Exhibit 4, global trade openness expanded steadily for much of the modern era – and meaningfully accelerated upon China's admission to the World Trade Organization – before plateauing in recent years, effectively marking the end of the globalization era.

A bipolar world. The defining feature of today's international system is the emergence of a structural U.S.-China duopoly. The United States maintains dominant positions in global finance, advanced computing and military power projection. Meanwhile, China commands over 30% of global manufacturing and occupies critical positions across industrial supply chains, including many strategically important minerals and refined materials. Both countries possess substantial leverage over the global economy – and neither is willing to accept strategic dependence on the other.

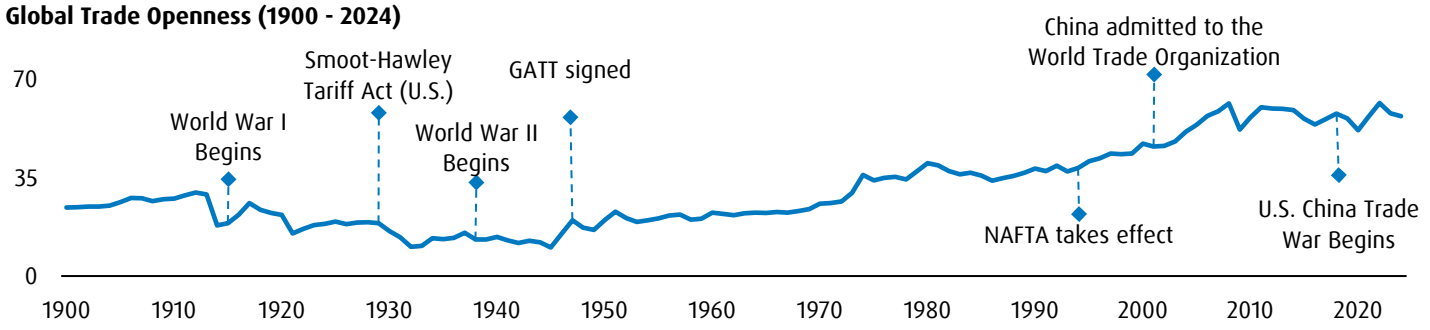
Seeking new comparative advantages. This shifting dynamic has fundamentally altered the U.S.-China relationship. Before, decisions were driven by comparative advantage – the key underpinning of global trade. Today, resilience, security and control increasingly take precedence. The pandemic exposed the vulnerabilities associated with hyper-optimized, comparative-advantage seeking global supply chains. Meanwhile, trade disputes, sanctions and export controls demonstrated how economic interdependence could be weaponized. Deep U.S.-China economic interdependence and the enormous costs of reshoring supply chains make complete economic separation unlikely. But both the U.S. and China are separating where they can, increasingly focused on "new-world-order" advantages – including technological superiority, energy resources, manufacturing capacity and trade-route control.

What if you aren't the U.S. or China? As the U.S. and China establish new boundaries and traditional multilateral institutions face declining influence, middle powers are increasingly pursuing pragmatic strategies – sometimes collectively – designed to preserve economic flexibility. Fully aligning with either Washington or Beijing carries risks – whether in the form of financial sanctions, tariffs, export restrictions or industrial supply disruptions. As a result, many countries are adopting a more transactional approach, pursuing bilateral relationships that allow them to access American capital, technology and energy while maintaining ties to Chinese manufacturing and industrial ecosystems. Their goal is optionality. Overall, success in this new world order will come down to flexibility and resilience. Nations that can leverage strategic advantages in a bipolar world will do best. But make no mistake – the shift from globalism, all else equal, is a negative development.

AI the savior? The enabler? Both? Reshoring, redundant supply chains and strategic stockpiles all introduce additional costs into the system, hurting economic growth. But the move away from globalism is coinciding with what is most likely the biggest technological revolution in modern history. In fact, AI is likely just as much to blame for the deglobalization trend – effectively enabling it – as it is the potential remedy to its consequences. Regardless, Geopolitical Darwinism's winners are likely to be those that harness AI's power – while countries that control critical choke points in natural resources, industrial capacity and trade routes will also benefit. Overall, we anticipate AI will be able to offset the negative effects of this new world order – but AI is unlikely to be the tide that raises all boats as globalization was. In the era of Geopolitical Darwinism, there will likely be winners and losers – and adaptability is once again becoming the defining trait of long-term success.

Exhibit 4: Global trade evolution

Globalization has peaked, replaced by a geopolitical battle between the U.S. and China and forcing others to adapt.



Source: OurWorldinData.org (2026), Bloomberg L.P. (2026).

Macro Assumptions

Growth

We expect the U.S. real economy to grow at a 2.5% annual pace on average over the next 10 years, keeping the same pace as the previous decade. Between the two key drivers of real economic growth – population growth and productivity – the latter will likely be doing more of the heavy lifting in the decade ahead. Overseas, we expect 2.8% annualized growth, as slower European Union growth is more than offset by higher – albeit moderating (notably in China) – growth levels in emerging markets.

Hooked on AI will have a key influence on long-term growth – with increased productivity offsetting declining demographic trends. Concurrently, **Geopolitical Darwinism** will drive strategic reshoring of manufacturing and supply chains, higher investments in energy, defense and infrastructure. All said, this represents an increase in economic demand – but via inefficient means. This new dynamic – after ~70 years of the globalization trend – will impact inflation (see below) while also causing uneven global economic growth.

Inflation

We expect U.S. inflation to average 2.5% over the next decade (vs. 3.3% over the past decade). Many of the past decade's acute inflationary forces (e.g., pandemic supply-chain disruption, tariff implementation, AI buildout) are behind us. But **Geopolitical Darwinism**, and associated deglobalization, will likely keep inflation structurally above the Fed's 2% target – as free-trade policies are scrutinized from the perspective of economic resilience and national security, leading to less efficient global production.

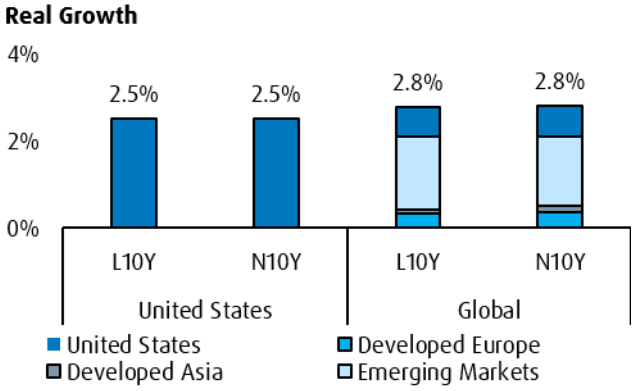
The inflationary effects of deglobalization are counterbalanced by **Hooked on AI**. Globalization worked primarily because of low-cost labor and specialization. AI – more specifically, running AI-powered automation/robots 24/7 – dilutes these advantages, reducing the deglobalization's inflationary impact. Meanwhile, as a potential positive risk case, **Economic Restructuring** could shift the global composition of debt – putting a greater share in the hands of more productive private-market endeavors, thus increasing overall supply.

Monetary Policy

While the Fed's near-term policy decisions will remain focused on balancing inflation and employment, longer-term equilibrium rates are likely to be shaped by rising debt burdens and sustained demand for capital. Under **Hooked on AI**, one potential outcome is that elevated capital expenditures will push interest rates higher due to greater investment demand (from borrowers) for steadier supply (from savers). Market expectations – implying an upward-trending Fed funds path – appear to be driven by this line of thinking.

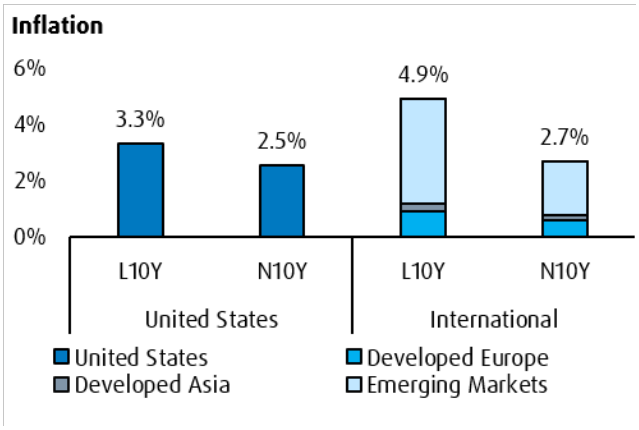
But we believe there may also be a wealth component that can accommodate the higher investment requirements noted above (greater investment demand, but also greater return on that investment, thus increasing the supply of savings). As described in **Economic Restructuring**, just as the nation's ever-expanding wealth makes our aggregate debt load more manageable, it also offers increased savings dollars for AI and other investment. In turn, this should ultimately allow for a lower-rate trajectory.

Exhibit 5: Steady on the surface
Our 2.5% U.S. real growth forecast masks economic undercurrents.



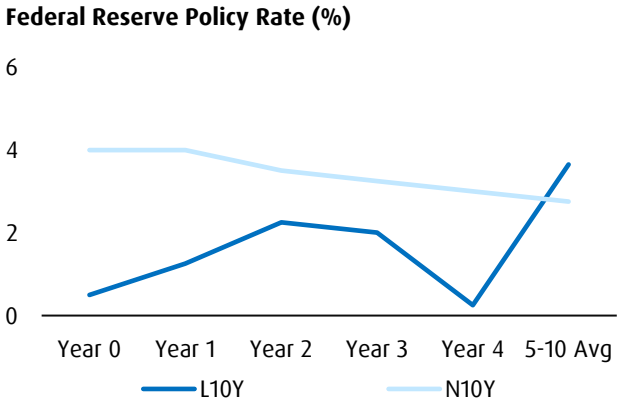
Source: IMF (2026), Bloomberg L.P. (2026), BMO estimates for N10Y.

Exhibit 6: Still elevated
We expect 2.5% annual inflation, staying above the Fed's 2% target.



Source: IMF (2026), Bloomberg L.P. (2026), BMO estimates for N10Y.

Exhibit 7: Lower (eventually)
We believe AI will ultimately push equilibrium rates lower.



Source: Bloomberg L.P. (2026), BMO estimates for N10Y. Year 0 = 6/30/2016 for L10Y and 6/30/2026 for N10Y.

Quantitative Foundation

We start the return-forecasting process with a quantitative foundation, involving three steps: 1.) identify the primary risks capital-market investors are paid to take (known as compensated risk factors); 2.) determine long-term return expectations for those compensated risk factors (using valuations as a long-term return predictor); and 3.) derive long-term return expectations for portfolio-included asset classes (based on the risk-factor return expectations and asset-class exposures to those risk factors). Quantitative models like the above are useful in identifying historical relationships, which are adjusted based on our forward-looking themes (pages 2-4) and macro assumptions (page 5) – ultimately arriving at our official return forecasts (pages 8-11).

Understanding what risks to take. Return forecasts are effectively the expected compensation for taking risk. As such, we first seek to understand the risks worth taking. We believe financial markets offer compensating returns for taking three primary risks: interest rate (duration) risk, credit risk and equity risk – called compensating risk factors and referred to as Term, Default and Market. Historically, these three compensating risk factors have provided a robust return premium above the return on cash (e.g., rates of return on money market funds or bank deposits). Together, they explain a large part of the returns found in the typical investment portfolio. Therefore, forecasting these compensated risk factors provides a foundation for forecasting all of our asset classes.

Valuations as the return-forecasting starting point. Longer-term returns (such as the 10-year returns we are forecasting here) have historically been heavily influenced by starting-point valuations. For instance, global equity valuations – in the form of earnings yield (the inverse of the price-to-earnings ratio) – has explained 27% of 10-year global equity returns going back to 6/30/1995. While this number doesn't seem to be very high, consider that 10-year annualized earnings growth has virtually zero predictive power on 10-year returns (see Exhibit 8). Also, unlike future earnings growth, we know the earnings yield at the time of forecasting. Meanwhile, starting-point yields (effectively bond-market valuations) explain 57% and 88% of global high-yield and U.S. Treasury returns, respectively. All said, a valuation model offers a better starting-point return forecast than solely relying on historical-return averages. We review all three compensated risk factors – both historical-return averages and quantitative forecasts – on page 7.

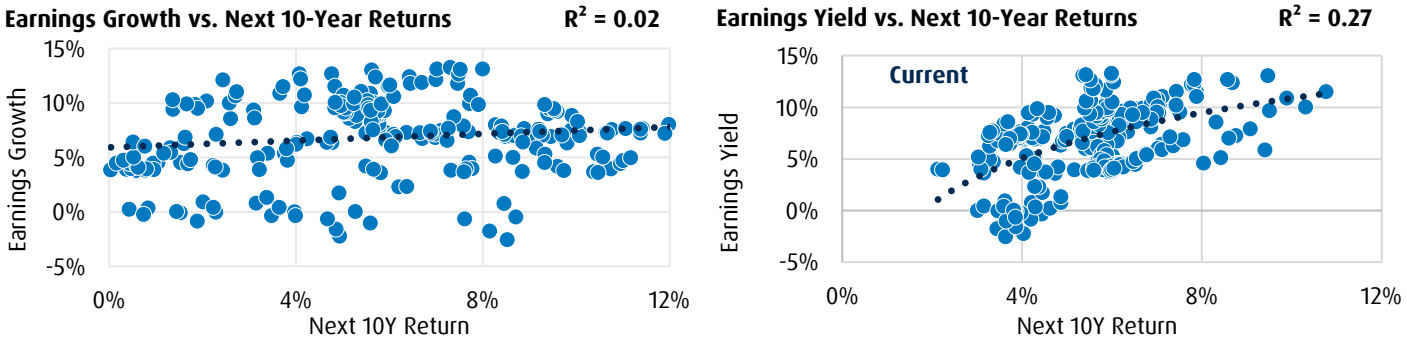
Understanding asset-class risk exposures. All asset classes we forecast are driven by at least one (or more) of our compensated risk factors. Understanding these risk exposures (also known as betas) is the final step in establishing our quantitative foundation. We run regression models to quantify each asset class's risk exposures/betas. We then multiply each beta by the underlying risk-factor return forecast to understand our compensation for risk.

Understanding alpha. Any returns not explained by our three risk factors (also known as alpha) – are either due to "esoteric" risks (risks other than Term, Default and Market) or represent returns not tied to risk at all. In either case, positive alpha is valuable in the investment portfolio and is further examined to determine whether we believe that alpha can continue. The classic example is hedge funds, whose portfolio-value is derived from alpha generation – but other asset classes (such as U.S. Equities) have shown alpha at the asset-class (index) level as well (for instance, U.S. Equities have returned more than what their Market beta would suggest). These alphas and betas are based on the past 10 years of monthly returns – a long enough window of time to understand trends while not excessively long that they give false signals (past relationships that no longer exist).

Adding the "forward-looking" to the "historically aware." These quantitatively derived forecasts are then subjected to our forward-looking views. That is, our long-term themes (pages 2-4) and macro-variable forecasts (page 5). The goal is to identify which historical relationships (the betas) will continue and which may be changing – and, similarly, where alpha (returns not tied to our three risk factors) will persist – or not. For instance, for most of the past 40 years, interest rates have been falling (alongside lower inflation) and geopolitical risk was muted (with the U.S. as the world's sole superpower after the fall of the USSR). Today, we have passed the bottom of the decades-long interest-rate cycle and are entering a new geopolitical world order. We look to determine the impacts of these (and other) regime shifts on past relationships and asset class returns – across Fixed Income, Equities, Private Markets and Diversifiers – on pages 8-11.

*Term, Default and Market are proxied by U.S. Treasurys (Bloomberg U.S. Treasury Index), global high-yield fixed income (Bloomberg Global High Yield Index) and global equities (MSCI World Index), respectively.

Exhibit 8: A bird in the hand...
Current earnings yield (which we know today) is a better predictor than future earnings growth (which we don't).



Source: Bloomberg L.P. (2026). Monthly data from 7/31/1995 to 6/30/2026. Market proxied by the MSCI World Index.

Risk-Factor Return Forecasts

Term (Duration Risk)

Of the three risk factors, yields are most predictive of Term-risk return expectations – and intuitively so, as Term has the lowest volatility (range of outcomes). The predictive power (r-squared) of starting-point yields on next-10-year annualized returns is 88% – meaning starting-point yields explain 88% of return variability. Historically (past 30-plus years), the average return is 0.3% above the yield, with a maximum of 1.8% and a minimum of -0.9% – that is, the return has never been more than 0.9% below or 1.8% above the yield.

Our model suggests the current (6/30/2026) 4.4% yield will result in a 4.9% 10-year annualized return – the 0.5% difference being just above the 0.3% average. That said, over the data period (7/31/1995-6/30/2016), interest rates were trending downward – a different environment than we find ourselves in today, wherein yields started to structurally shift upward after the pandemic. This changing dynamic is factored into our Fixed Income forecasts as part of our forward-looking fundamental analysis – discussed on page 8.

Default (Credit Risk)

Given Default's greater risk profile (vis-à-vis Term), the predictive power of yields on next-10-year-annualized returns falls to 57%. However, removing the circled cluster of data points – the starting-point yields between 10/31/1998 and 4/30/1999, which suffered from both the dot-com bust and the global financial crisis (GFC) – increases the predictive power to 65%. The average 10-year annualized return vs. starting-point yield difference is -2.0% – with a max of 2.1% and a minimum of -8.5% (11/30/2008, with a 20.5% yield vs. 12.0% return).

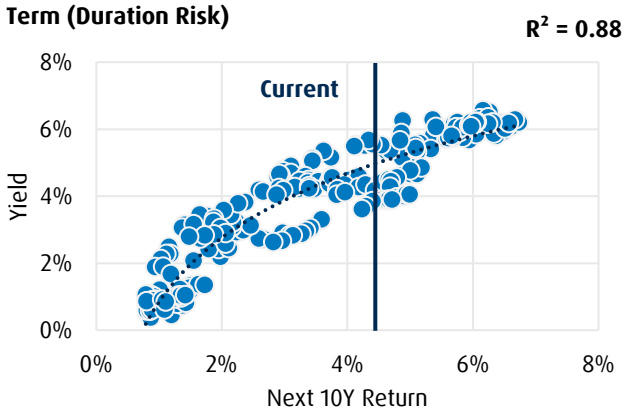
Today's 6.9% starting-point yield results in a 5.8% return forecast – the 1.1% shortfall (driven primarily by assumed defaults) compared to a historical average shortfall of 2.0%. Over the past 30 years, the High Yield index's credit quality has improved, causing credit spreads to trend lower over time. We review the impact of this trend on the credit-sensitive fixed-income forecasts on page 8 as well as credit-sensitive equity forecasts (specifically, Emerging Market Equities, which show an acute sensitivity to credit risk) on page 9.

Market (Equity Risk)

Our Market return forecast uses earnings yield (the inverse of the price-to-earnings ratio) and has the lowest predictive power of our three risk factors at 27%. As noted, this ostensibly low r-squared is still a better foundation than the much lower (2% r-squared) offered by earnings growth. The greater challenge in predicting Market-risk returns aligns with the risk factor's higher volatility and wider range of outcomes. The return-minus-yield difference shows a +0.9% average – with a max of 9.7% and a minimum of -11.1%.

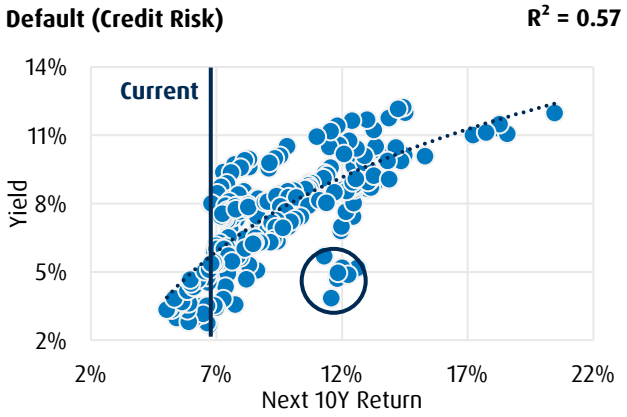
The current 4.0% earnings yield (equating to a price-to-earnings ratio of 24.9) translates to a 5.1% expected return – the +1.1% difference modestly above the historical average. That said, return-minus-yield differentials have been trending upward ever since the 2/28/1999 low of -11.1%, with the most recent data point (6/30/2016) at 5.1%. The key question – discussed in the Equities section on page 9 – is whether the recent trend of lower earnings yields (higher price-to-earnings ratios) will continue to level off or start to mean revert.

Exhibit 9: Expected compensation for Term risk
The current 4.4% yield implies a 4.9% long-term annualized return.



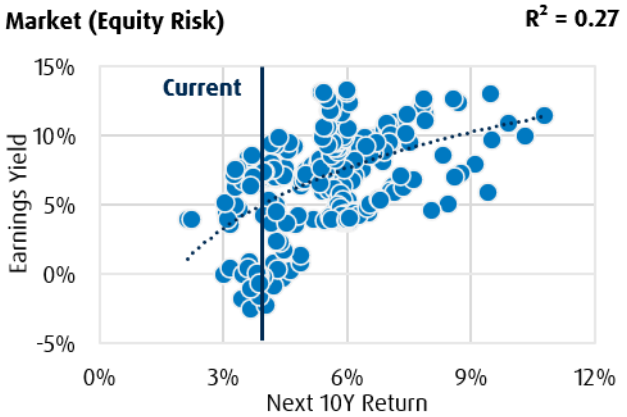
Source: Bloomberg L.P. (2026). Monthly data from 7/31/1995 to 6/30/2016. Term proxied by the Bloomberg U.S. Treasury Index.

Exhibit 10: Expected compensation for Default risk
The current 6.9% yield leads to a 5.8% long-term return figure.



Source: Bloomberg L.P. (2026). Monthly data from 7/31/1995 to 6/30/2016. Default proxied by the Bloomberg Global High Yield Index.

Exhibit 11: Expected compensation for Market risk
The current 4.0% earnings yield translates into a 5.1% return.



Source: Bloomberg L.P. (2026). Monthly data from 7/31/1995 to 6/30/2016. Market proxied by the MSCI World Index.

Fixed Income

Fixed-income forecasts represent the compensation for taking Term and/or Default risk, driven by expected changes in interest rates and credit spreads. Our expectations for 2.5% inflation (above the Fed's current target but fairly stable at this higher level) and a 3.2% average Fed funds rate (involving a 4.0% ceiling to the current rate cycle and a 2.75% terminal level) suggest interest rates should be relatively range bound – primarily driven by the economic cycle (and not materially driven by government debt levels). We expect the 10-year U.S. Treasury yield to oscillate around a 4.75% central tendency. Meanwhile, we expect credit-sensitive asset classes (e.g., high yield) to maintain historically tight credit spreads, helped by solid-growth and elevated-inflation assumptions.

Forecasting process. Perhaps unsurprisingly, the best starting point for fixed-income forecasting is the starting-point yield. For instance, the average Investment Grade 10-year annualized (10YA) return is just 0.1% above the starting-point-yield level (data back to 1/31/1976). At most, the 10YA return has outpaced the starting yield by 3.5% and the most it has trailed is 2.2%. Thus, we begin our fundamental forecasting process with the current yield and then factor our expectations for future interest rate and credit spread movements into our return forecast – using the above min-max range as guardrails. This analysis is then compared to our quantitative model prediction as well as the last-10YA return as we assess how the next 10 years will compare to the last 10 years.

On interest rates and credit spreads. We believe interest rates will continue to be driven by economic fundamentals (growth and inflation). Per **Economic Restructuring**, we don't expect high government debt levels will materially impact rates. But we do expect rates will (finally) reflect true equilibrium levels – as the Fed works to shrink its balance sheet and reduce its Treasury holdings. We expect credit spreads (at the index level) will benefit from higher-quality index composition, further supported by solid economic growth and lingering inflation (easier to pay debt).

Investment Grade. Our 5.2% forecast is 0.5% above the 4.7% starting-point yield and 0.2% above the 5.0% quantitative forecast. Investment Grade's longer-duration profile (6.0 years) modestly benefits from our expectation for range-bound interest rates. We expect Investment-grade credit spreads to remain near current levels and add some total-return pickup relative to Treasurys in the corporate-bond component of the index (~24% weight). Finally, continued low-to-modest refinancing should limit lost coupon income within the mortgage-backed securities index component (~25%). All said, our 5.2% forecast is 3.7% above the L10YA return – driven by higher yields (as compared with 10 years ago) and no expectation for the dramatic interest-rate increase that hindered total returns during the previous decade (wherein from, mid-2020 to late-2023, the 10-year Treasury yield increased by 4.5%).

Municipals. Our 3.8% forecast (6.0% tax-equivalent based on a 37% tax rate) is 0.7% above the 3.1% starting-point yield and 0.2% below the 4.0% quantitative forecast. While Municipals returns will vary by state and local municipality – driven by differing starting-point yields, debt loads and overall credit quality – broad asset-class price movements are foundational on changes in U.S. Treasury yields. Our 3.8% return forecast is 1.9% higher than the L10YA return of 1.9% – a muted improvement as compared to the 3.7% jump in our Investment Grade return forecast, driven by a smaller change in the yield environment today as compared to 10 years ago.

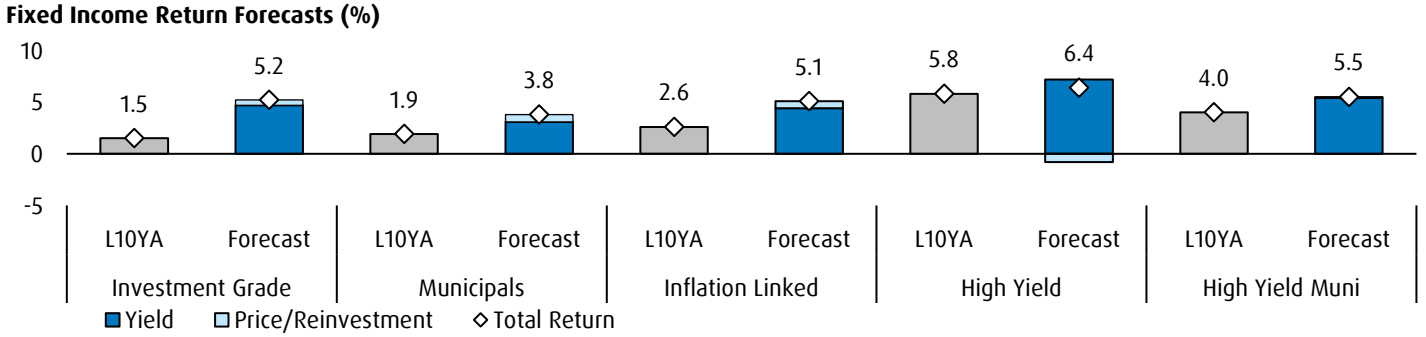
Inflation Linked (TIPS). Our 5.1% forecast is 0.7% above the 4.4% starting-point yield and 0.3% above the 4.8% quantitative forecast. This puts our TIPS forecast 2.5% higher than the L10YA return of 2.6%, benefitting from a higher starting-point yield but falls short of the 3.7% jump in the Investment Grade (vs. its own L10YA return) given the higher inflation rate (breakeven) priced into TIPS today and our expectation that inflation is unlikely to breakout over the next decade as it did over the last decade.

High Yield. Our 6.4% forecast is 0.8% below the 7.2% starting-point yield. This 0.8% haircut compares to a historical average haircut of 1.1% (going back to 1987) – driven by the better credit quality of the index and our expectations for structurally higher inflation (making it easier to pay off debt). Our 6.4% forecast is 1.1% above the 5.3% quantitative forecast and 0.6% above the L10YA return.

High Yield Muni. Our 5.5% High Yield Muni total-return forecast (8.7% tax-equivalent based on a 37% tax rate) is mostly in line with the starting-point yield. As with its investment-grade counterpart (Municipals), the idiosyncratic nature of High Yield Muni returns makes forecasting difficult – but structurally higher inflation should benefit the asset class in similar fashion to (taxable) High Yield. Our 5.5% forecast is 1.5% above the 4.0% L10YA return.

Exhibit 12: Higher rates, higher returns

We believe interest-rate sensitive areas (e.g., Investment Grade) will benefit from higher starting-point yields and steadier interest rates.



Source: Bloomberg L.P. (2026): L10YA = Last 10-year annualized return (as of 6/30/2026). Forecast: BMO estimates.

Equities

Equity forecasts are the compensation for taking Market risk and can be broken into expectations for corporate revenue growth, profit margins, valuations and dividend yields. Overall, we forecast equity total returns (annualized) to be 6.9% in the U.S. and 6.2% globally. Revenues will remain supported by solid economic growth. But stubborn inflation will put modest pressure on profit margins and a new equilibrium level for interest rates over the next decade (as compared to the last decade) will cause a slight mean reversion in valuations. In sum, we expect lower equity returns as compared to the torrid pace of the past 10 years (though in line with longer-term averages) – largely the consequence of going from rapidly expanding to modestly reverting valuations.

Forecasting process. Equity forecasting combines quantifying the expected compensation for taking Market risk (the equity return premium) with forecasting the impact of the fundamental building blocks noted above. Our revenue growth forecast is based on the regional revenue mix and our expectations for nominal economic growth across each region. For instance, within U.S. Equities, 62% of revenues come domestically (plus Canada), 11% from Europe, 9% from Asia and 18% from emerging markets. We then determine the appropriate "corporate adjustment" to reflect expected differences between corporate revenue growth and economic growth. We similarly forecast the other variables (profit margins, valuations and dividend yields) based on our forward-looking views in the context of historical averages. Finally, we compare our fundamental outlook to our quantitative baseline and the past 10-year asset class returns.

On revenue growth, profit margins and valuations. The key difference between our expected 5.1% return compensation for Market risk (see page 7) and our official global equity forecast of 6.2% is driven by the valuation component. The quantitative model that underpins the Market forecast implicitly assumes valuations fully revert to the long-term mean (going back to 1995). We believe valuations will stop short of full reversion, driven by structurally higher tech (and tech-adjacent) sector index weights. We also expect only modest – and still-historically attractive – profit-margin contraction, helped by **Hooked on AI** productivity benefits that mostly offset any cost increases from **Geopolitical Darwinism**.

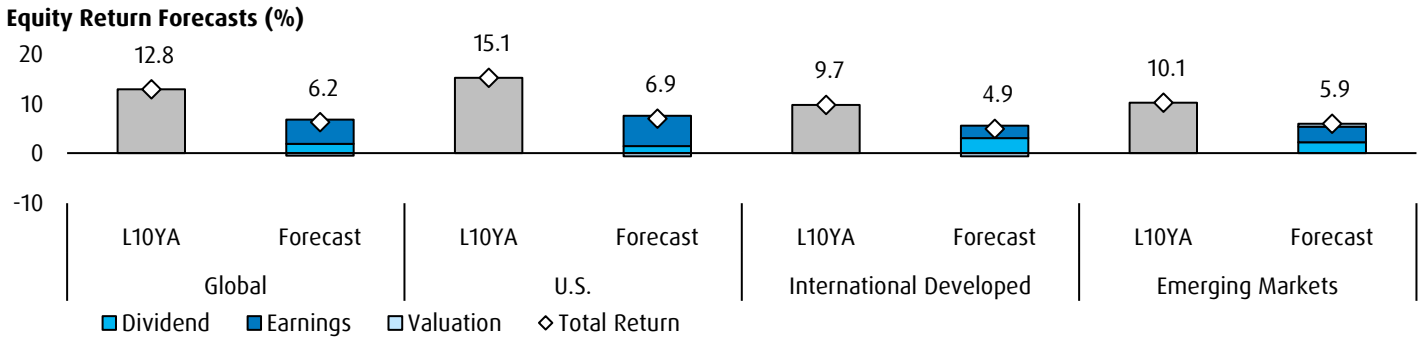
U.S. Equities. Our 6.9% forecast is 8.2% lower than the 15.1% last 10-year annualized (L10YA) return and 1.3% higher than our 5.6% quantitative-model prediction. Our 6.6% per-share annualized revenue-growth forecast is 0.5% lower than the 7.1% annual growth rate experienced over the last 10 years (L10Y) and includes a 1.5% corporate adjustment (vs. 1.9% L10Y), reflecting the continued positive impact AI/other technologies have on revenue (as compared to economic) growth. We believe profit margins will remain elevated (9.5% vs. 8.5% L10Y), which will offer support to price/trailing earnings (forecast of 27.0x vs. 24.1x L10Y). A 1.4% dividend yield turns our 5.5% price-return forecast into our 6.9% total-return forecast.

International Developed Equities. Our 4.9% forecast is 4.8% lower than the 9.7% L10YA return and 0.2% higher than our 4.7% quantitative-model prediction. Over the past 10 years, returns within International Developed (ID) Equities have significantly underperformed U.S. Equities – largely due to a much smaller tech-sector presence. While tech-related names make up half of U.S. Equities, ID Equities' tech-sector weight equals just 10%. We only assume 2.9% per-share revenue growth, including a -2.0% corporate adjustment (vs. -3.0% L10Y). Seemingly low, this 2.9% revenue component is actually higher than the 1.3% of the past decade. Structurally lower ID Equities profit margins (as compared to the U.S.) add additional pressure to per-share net income growth (forecasted at 2.5%). Meanwhile, current ID Equities price/trailing earnings levels sit far below that of U.S. Equities driven by less economic vibrancy, greater geopolitical risk and a smaller tech sector. Lower valuations mean less risk of material price corrections, but we don't expect much valuation expansion either. Our 17.5x valuation forecast is just slightly above the L10Y average. The resulting 1.9% price-return forecast is notably boosted by the 3.0% dividend yield.

Emerging Market Equities. Our 5.9% forecast is 4.2% lower than the 10.1% L10YA return and 0.9% lower than the 6.8% quantitative-model prediction. The quantitative model highlights the notable default (credit) exposure found in the asset class, as Emerging Market (EM) companies are typically more beholden to credit availability. As they mature – and are able to more-freely borrow and/or issue equity – EM companies are reducing credit-market dependence, which should promote stability and higher valuations. Our building blocks entail 3.6% per-share revenue growth; a 10.1% profit margin (vs. 9.2% L10Y); and a 20.0x price-to-earnings level (vs. 14.9x L10Y) – equaling a 3.7% price return, enhanced by a 2.2% dividend yield.

Exhibit 13: Tough shoes to fill

We expect returns will be solid, but below the past decade, given modest valuation and profit-margin contraction.



Source: Bloomberg L.P. (2026): L10YA = Last 10-year annualized return (as of 6/30/2026). Forecast: BMO estimates.

Diversifiers

Diversifiers represent investments with low risk-factor exposures (beta) and potentially higher risk-adjusted returns (alpha). Their low betas can provide meaningful diversification to the overall investment portfolio via uncorrelated returns – but must also offer alpha to justify a place in the investment portfolio. Our 7.0% Reinsurance forecast is informed by its starting-point yield and historical alpha (in the form of compensation for assuming natural disaster risk, which is uncorrelated to our risk factors). Our 5.4% Hedge Fund forecast assumes a 1.0% alpha (representing the average hedge-fund alpha of the past decade). Because hedge-fund returns (and alphas) can vary widely, hedge-fund investing success relies on a strong manager-selection process.

Forecasting process. Diversifiers' relatively low betas (risk-factor exposures) put the forecasting focus on potential alpha generation. Reinsurance returns represent compensation for the risk of property damage caused by extreme weather events – technically showing up as alpha given the risk's low correlation to our three primary risk factors (see page 6). We focus on current starting-point yields (similar to Fixed Income) and separate out the (very modest) risk-factor betas to assess alpha potential. Hedge Fund indexes reflect the average hedge-fund manager return, with a wide range of potential outcomes across managers. As such, a good manager selection process is imperative to hedge-fund investing. To set a baseline return expectation for the average hedge fund, we strip out returns tied to our risk factors, with an expectation that a robust manager selection process may result in superior alpha generation and greater value-add in the investment portfolio.

Reinsurance. Reinsurance as an asset class has grown over the last few decades as insurers and reinsurers alike have increasingly tapped the capital markets as an efficient way to offload concentrated risk to the investor community. Catastrophe bonds or "cat bonds" are the most liquid and fastest growing source of new reinsurance capital. Cat bonds offer uncorrelated returns that are tied to natural disaster activity – as opposed to our traditional risk factors – making it a great diversifier for the investment portfolio. When running cat bond returns through our quantitative model, we find very low exposures to our risk factors and a robust 3.6% alpha. Cat bonds are global in nature and have an increasing number of risk-exposure types – but the asset class is still largely dominated by U.S. wind (e.g., hurricanes) and earthquake risk. Asset-class returns are driven by Reinsurance pricing, with (what are effectively) insurance premiums paid out in the form of bond yields. This pricing is driven by the frequency and severity of natural disasters, with pricing increasing after a period of greater activity and vice versa. Our 7.0% forecast is 0.1% below the 7.1% last 10-year annualized (L10YA) return, given the recent dearth of major natural disasters (and, therefore, softer pricing).

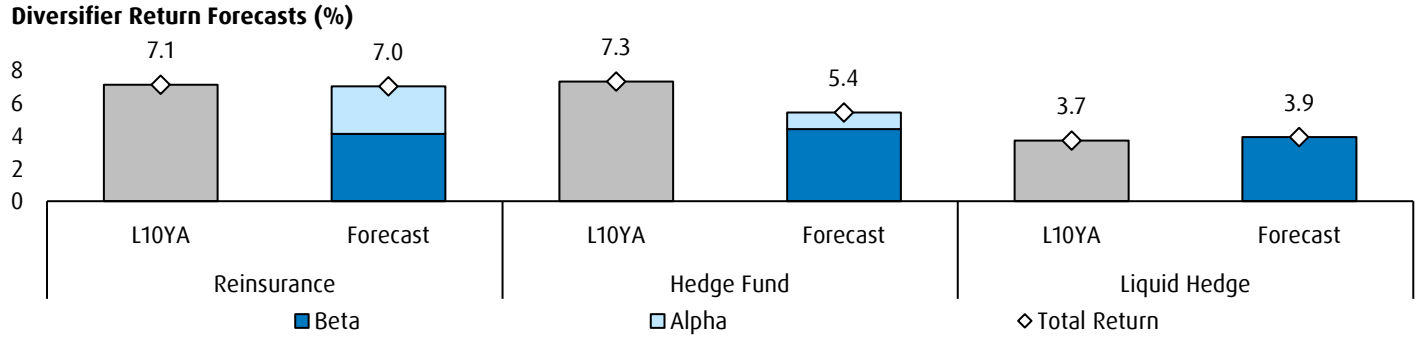
Hedge Funds. Our 5.4% Hedge Funds total-return forecast assumes 1.0% alpha – with a 0.27 market beta, a 0.27 default beta and a 0.02 term beta. Our forecast is 1.9% below the 7.3% L10YA return – but is 0.9% higher than the 4.5% predicted by the quantitative model, due to our 0.9% positive adjustment to the model's 0.1% alpha. Hedge funds thrive in an environment of elevated volatility and low correlations across financial securities. The past decade-plus – a period of unprecedented government stimulus causing reduced market volatility and higher correlations – made for a difficult environment for Hedge Funds. Specifically we expect **Hooked on AI** and **Geopolitical Darwinism** will result in market conditions that are more favorable to hedge-fund alpha generation. Constructing a hedge-fund portfolio is an exercise in allocating to managers across our primary hedge-fund sectors – Hedged Equity, Relative Value, Event Driven and Global Macro. We believe both sector and manager selection will be the key driver of successful outcomes.

Liquid Hedge. We also expect Liquid Hedge to have an improved opportunity set in the decade ahead. However, the need for increased liquidity as well as leverage and security-shorting restrictions makes it more difficult for Liquid Hedge to keep pace with Hedge Funds (and their limited-partnership vehicles). Our liquid-hedge manager selection focuses on long-short and multi-strategy solutions, combining the potential upside of the former with the foundational diversification and lower risk of the latter. Our 3.9% forecast reflects similar betas and lower alpha as compared to our Hedge Fund forecast above. Our forecast is 0.2% above the 3.7% L10YA return – and 1.6% higher than the 2.3% predicted by the quantitative model (from a positive adjustment to expected alpha).

A note on alternative currencies. Alternative currencies – notably Gold and Bitcoin – fall into the Diversifiers bucket. However, we do not offer forecasts given the lack of any reliable valuation metrics and virtually no exposure to our risk factors – thus making them great Diversifiers, but difficult to forecast. That said, in general, we see a decent environment for alternative currencies as a hedge against any degradation in the U.S. dollar's reserve-currency status.

Exhibit 14: Looking for alpha generation

We expect Reinsurance alpha generation to continue, while Hedge Fund alpha will be driven by sector & manager selection processes.



Source: Bloomberg L.P. (2026), HFRI (2026). L10YA = Last 10-year annualized return as of 6/30/2026. Forecast: BMO estimates.

Private Markets

Private Markets generally offer a return premium to public markets in exchange for illiquidity risk and access to investments not available to public markets (together equaling alpha). Over the past decade, the average Private Equity alpha was 4.6%. We believe this can continue for the next 10 years, leading to an 8.5% Private Equity forecast. Meanwhile, Private Credit alpha was an even-higher 6.2% – a number we haircut by 1.4%, resulting in a 7.8% return forecast. These return forecasts are based on the average private-investment fund – but the range of outcomes can vary widely (even more so than with active public-market equity managers). As such, an effective manager selection process is vital for good investment-portfolio outcomes.

Forecasting process. Generally speaking, private investments are accessed via the hundreds of funds across Private Equity, Private Credit and Real Assets. The respective benchmark indexes are simply the average-returning fund in each opportunity set – and, therefore, cannot be easily replicated in the investment portfolio (as, for instance, with the S&P 500). Manager returns can also vary widely across each private asset class. While we are forecasting the average fund return, the true investor experience will be subject to their access to the top-performing managers. This makes manager selection a key part of the private-market investing process.

Unique factors. Further complicating the forecasting process, private-market returns do not have market-based pricing – leading to lags in true valuations. As such, we must understand private-market return exposure not only to coincident-quarter public-market returns, but also previous-quarter market returns. This is done to better separate beta (which we can obtain in the public markets at less expense) from alpha (the true private-market portfolio benefit). Because of these nuances and the direct link between Private Equity and Private Credit to their public-market counterparts, our quantitative starting point is based specifically on relationships to U.S. Equities and High Yield, respectively.

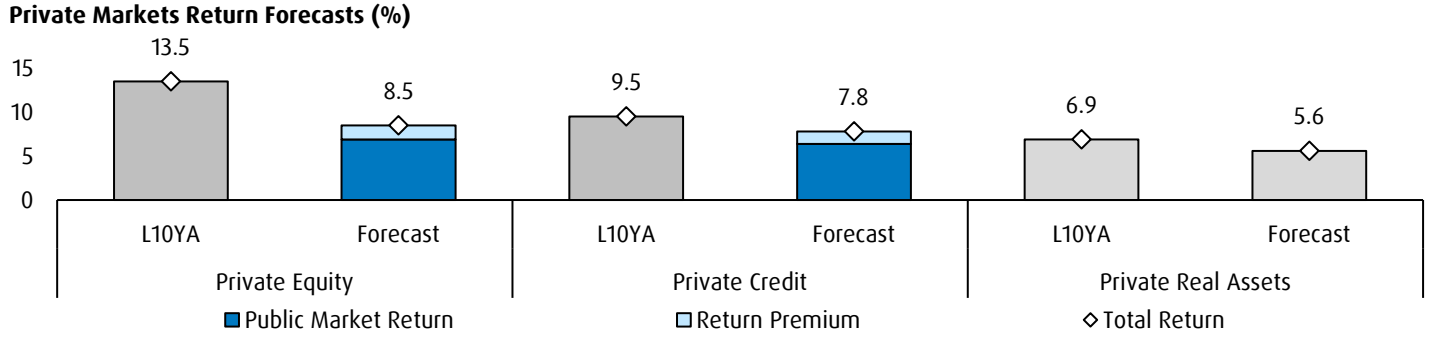
Private Equity. Our 8.5% Private Equity total-return forecast breaks down to 4.6% from alpha and 4.4% from beta exposure to U.S. Equities – using two lagged quarters of U.S. Equities returns in our model to capture delayed valuations. Our forecast represents a 1.6% return premium to our 6.9% U.S. Equities forecast and is 5.0% below Private Equity's last 10-year-annualized (L10YA) return. Financing costs – an important driver of the Private Equity outlook – are above pre-2022 levels, placing a premium on underwriting discipline. This discipline is further enhanced by the increased competition for investment dollars from the expansion of Private Credit and reenergized public markets. Liquidity conditions in private markets should continue to improve, largely thanks to the structural buildout of the secondary market and other innovations. Buyouts should see a measured pickup in deal activity as pipelines rebuild. Venture capital and other growth investments are expected to benefit from **Hooked on AI** waves of new technology adoption – some of which will be inaccessible through public markets – but valuation discipline will remain critical, especially as entry valuations remain elevated.

Private Credit. Our 7.8% total-return forecast is comprised of 4.8% from alpha (qualitatively revised down by 1.4% from 6.2%) and 3.0% from beta exposure to High Yield – using one lagged quarter of High Yield returns to correct for delayed pricing. Our forecast represents a 1.4% return premium to our 6.4% High Yield forecast and is 1.7% below the 9.5% L10YA return. Investor appetite for Private Equity has fueled demand for Private Credit – as private-equity firms often favor Private Credit for its speed, confidentiality and flexible terms. Private Credit has historically provided a ~2% return premium to publicly traded debt, with lower default rates thanks to stronger covenants. However, this superior return/risk dynamic may be muted given the increased demand for the asset class, which – as suggested by the past year – has put underwriting standards at risk. Meanwhile, the productive shift in capital use toward the business sector from a gradual **Economic Restructuring** may also provide new Private Credit opportunities.

Real Assets. Real Assets are a mix of 70% Real Estate, 15% Infrastructure and 15% Natural Resources. Given less-direct public-market equivalents, our 5.6% total-return forecast (1.3% below the 6.9% L10YA return) relies primarily on our fundamental outlook. Real estate continues to undergo a significant structural shift in the post-pandemic world – with emphasis placed on the highest quality assets (while lower quality assets have faced lower occupancy rates). Meanwhile, industrial properties are prospering – benefitting from onshoring and ongoing move to e-commerce (increasing warehouse demand). **Hooked on AI** – and related data-center demand – is driving Infrastructure while Natural Resources may find support from **Geopolitical Darwinism** – and potential stockpiling – as well as the positives stemming from **Hooked on AI**, specifically the demand for the raw materials needed for the AI buildout.

Exhibit 15: Expecting return premiums

We believe private investments will continue to offer (somewhat moderated) return premiums over their public-market counterparts.



Source: Bloomberg L.P. (2026) L10YA = Last 10-year annualized return as of 6/30/2026. Forecast: BMO estimates.

Contributors

Dan Phillips, CFA
Chief Investment Officer

Carol Schleif, CFA
Chief Market Strategist

Priya Karthik
Senior Investment Strategist

Ben Baier
Director of Investments, Sunbelt Region

Dan Ballantine, CFA
Director of Model Management

Richard Belley, CFA
Fixed Income Portfolio Manager

Henray Cohen, CFA, CPA
U.S. Director of Investments

James Futrell, CFA, CAIA
Director of Investments, Family Office

Elizabeth Jones
Director of Investments, Chicagoland

Brent Joyce, CFA
Chief Investment Strategist

Kate Lyons, CFA, CAIA
Director of Investments, North Region

Jeff Marshall, CFA
Head, Hedge/Equity Manager Research

Michael Miranda, CFA
Director of Investments

Shalese Neal
Senior Portfolio Strategist

Agnes Vongkhamsay, CFA
Head, Credit/Fixed Income Research

Index Definitions

Bloomberg US Treasury Bill: 1-3 Months Index (Cash) tracks the market for treasury bills with 1 to 2.9999 months to maturity issued by the US government. **Bloomberg U.S. Aggregate Bond (Core Fixed Income/ Investment Grade)** is a broad-based, market capitalization-weighted index that represents the investment-grade, U.S. dollar-denominated fixed-rate taxable bond market. **Bloomberg 1-10 Year Blend Municipal Bond Index (Municipal)** measures the performance of U.S. municipal bonds with maturities ranging from 1 to 10 years. **Bloomberg US Treasury Inflation-Linked Bond Index (Inflation Linked)** measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. **Bloomberg U.S. Corporate High-Yield Bond Index (High Yield)** is an unmanaged index that covers the U.S.D.-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. **Bloomberg Municipal Bond High Yield Index (High Yield Muni)** measures the US municipal tax-exempt non-investment grade bond market.

MSCI ACWI (Global Equity) captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. **The Russell 3000® Index (U.S. Equity)** measures the performance of the largest 3,000 US companies designed to represent approximately 98% of the investable US equity market. **The S&P 500® Index (U.S. Large Cap)** measures the performance of 500 leading U.S. companies and represents approximately 80% of available U.S. market capitalization**. MSCI EAFE Index (International Developed)** — MSCI EAFE Index Europe, Australasia and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. **MSCI Emerging Markets Index (Emerging Market Equity)** is a market capitalization weighted index representative of the market structure of the emerging markets in Europe, Latin America, Africa, Middle East and Asia.

Preqin Private Equity Index (Private Equity) is a money-weighted index that tracks the performance of private equity funds, using fund-level cash flow transactions and net asset values. **Preqin Private Credit Index (Private Credit)** is a benchmark that tracks the performance of private credit funds globally**. Preqin Real Assets (Private Real Assets)** indices measure the average returns for investors in tangible assets like private real estate, infrastructure and natural resources, using data from closed-end funds to provide benchmarks for these illiquid investments**. Swiss Re Global Catastrophe Bond Index (Reinsurance)** is a benchmark that tracks the performance of the global catastrophe bond market. **HFRI Fund Weighted Composite Index (Hedge Fund)** is a global, equal-weighted index that tracks over 1,500 single-manager hedge funds that report to the HFR Database. **The HFRX Global Hedge Composite Index (Liquid Hedge)** is a benchmark representing the broad hedge fund universe by combining various strategies (like Equity Hedge, Macro, Event-Driven, Relative Value) for funds open to new investment, designed to track industry-level performance with asset-weighting reflecting overall industry asset distribution, providing a daily-reported view of hedge fund returns.

Bloomberg Magnificent 7 Total Return Index (Mag7) is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS). **Standard and Poor's 500 Software & Services Index (Dotcom)** is a capitalization-weighted index. **MSCI World Index (Market)** captures large and mid-cap representation across 23 Developed Markets (DM) countries. **Bloomberg Global High Yield Index (Default)** is a multi-currency flagship measure of the global high yield debt market. **Bloomberg U.S. Treasury Index (Term)** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

Data is as of 6/30/26 unless separately noted. Market data provided is from Bloomberg L.P. (2026) unless otherwise noted.
L10Y = Last 10 Years, N10Y = Next 10 Years.
Forecast, N10Y data are BMO estimates. Exhibits 9 - 11: Forecast are BMO estimates.

Disclosures

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BMO Wealth Management develops capital market return assumptions for numerous asset classes around the world. The assumptions are based on a 10-year investment time horizon and are intended to guide investors in developing their long-term strategic asset allocations. Our Capital Market Assumptions rely on models, consensus data, projections, and various economic and market views of our investment strategy team.

Our forecasts and capital market assumptions (CMA) returns are estimates, do not reflect actual investment performance, and are for illustrative purposes. Actual results may materially differ. Individual tax rates may vary.

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Investment involves risk. Market conditions and trends will fluctuate. Investment returns fluctuate and investments when redeemed, may be worth more or less than the original investment. Asset allocation and diversification do not guarantee a profit and do not eliminate the risk of experiencing investment losses. Past performance is not indicative of future results.

Alternative investments, such as private equity and hedge funds, present higher risks than other securities. These risks include illiquidity, stock or sector concentration, financial leverage, difficulties in valuation and short selling. Alternative investments have minimal regulatory oversight and alternative fund managers have the latitude to employ numerous investment strategies with varying degrees of risk.

The index data shown is used for informational and comparative purposes. You cannot invest directly in an index. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced.

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