2026 Capital Market Assumptions

Bell Institutional Investment Management

Contents

Executive Summary

- Capital market assumptions (CMAs) provide a forward-looking, long-term framework of expected returns, volatility, and correlations across major asset classes.
- The Fed faces a delicate balancing act between supporting employment and controlling inflation, likely avoiding aggressive rate cuts in 2026.
- Despite challenges, there are bright spots for 2026: foreign and domestic capital investment driven by tariffs and tax incentives; growth in power generation and distribution fueled by AI demand; easing rent prices helping consumers and inflation; and an expected 2.25% real GDP growth, assuming no major shocks.
- **We continue to favor U.S. equities** over both developed international and emerging markets. Within U.S. equities, we favor value and equal weight.
- We see **U.S. equities returning 8.4%,** compounded over the next 10 years, **developed international equities at 7.7% and emerging markets equities at 6.5%.**
- **Cash flow growth remains elevated in the near term** due to the continued AI buildout. However, as the hyperscalers gain scale, growth rates taper off.
- Fixed income continues to provide an alternative to stocks with **U.S. bonds offering an expected return of 4.9%.**
- **Compensation for bearing credit risk is near historical lows**, somewhat offsetting higher absolute yield levels.

		Compound Return 2025 (%)				US Equities	Intl Dev Equities	EM Equities	US Bond	US High Yield	Intl Bond	Liquid Alts	Real Estate	Cash	Inflation
		Annualized Volatility (%)													
		Arithmetic Return 2026 (%)													
		Compound Return 2026 (%)													
Base CMAs	U.S. Equities	8.38	9.38	14.92	8.92	1.00									
	Intl Dev Equities	7.67	8.91	16.59	7.88	0.76	1.00								
	EM Equities	6.50	8.60	21.67	7.89	0.53	0.74	1.00							
	U.S. Bonds	4.94	5.02	4.15	5.39	0.25	0.02	0.18	1.00						
	U.S. High Yield	6.83	7.13	8.09	7.43	0.69	0.61	0.66	0.32	1.00					
	International IG Bonds	3.67	4.00	8.28	3.37	0.21	0.26	0.25	0.66	0.35	1.00				
	Liquid Alts	5.47	6.08	11.44	5.00	0.75	0.78	0.72	0.37	0.75	0.37	1.00			
	U.S. Real Estate (REITs)	6.85	8.45	18.84	9.37	0.50	0.43	0.33	0.17	0.58	0.02	0.72	1.00		
	Cash	3.10	3.10	0.74	2.50	0.11	(0.02)	0.11	0.47	(0.05)	0.22	0.20	(0.13)	1.00	
	Inflation	2.50	2.52	1.77	2.40	0.01	0.03	0.13	(0.17)	(0.04)	(0.15)	0.16	0.03	0.36	1.00
Supplemental CMAs	S&P 500	7.91	8.88	14.63											
	Russell 1000	8.18	9.17	14.80											
	Russell 1000 Growth	7.02	8.29	16.71											
	Russell 1000 Value	8.60	9.55	14.52											
	Russell 2000	7.42	9.07	19.21											
	S&P 500 Equal Weight	9.03	10.20	16.22											

Introduction and Methodology

CMAs serve as a foundational building block in client portfolio construction by helping to establish the following over a long-term investment horizon:

- Realistic performance expectations
- Risk-return tradeoffs
- Alignment of client goals with appropriate investment strategies
- Evaluation of the potential impact of different asset allocations

We develop assumptions for the below major asset classes for use in efficient frontier modelling:

- U.S. Equity
- Developed International Equity
- Emerging Markets Equity
- U.S. Investment Grade Fixed Income
- U.S. High Yield
- International Investment Grade Fixed Income
- U.S. Publicly Traded Real Estate (REITs)
- Cash

We also provide forecasts for various equity sub-classes. However, sub-asset class forecasts are not utilized in asset allocation modeling due to multicollinearity issues.

- Multicollinearity issues present themselves in regression models when independent variables are highly correlated. This makes it difficult to determine each variable's unique effect on the outcome, leading to unstable, inflated coefficients, large standard errors, and unreliable p-values.
- For example, trying to separate two people's contributions when they always push the same boulder together. You know their combined force, but not individual strengths.

Equity Methodology

The price of any cash-flow-producing asset is the present value of expected future cash flows. No more, no less.

Our methodology for developing long-term (10 years) return estimates for equities is built on an Expectations Investing framework where inherent assumptions are reverse engineered from a stock's price. If a stock price is a function of future cash flows and a discount rate, then it stands to reason that an expected return (implied discount rate) is a function of future cash flows and price.

1. **Project future cash flows**
2. **We already know the current price**
3. **Solve for r > this is the expected return**

The value of equity can be broken down by the following fundamental equation:

$$\text{Value of Equity} = \sum_{t=1}^{t=N} \frac{E(FCFE_t)}{(1+r_e)^t} + \frac{E(FCFE_{N+1})}{(r_e - g_N) * (1+r_e)^N}$$

$$FCFE = Free\ Cash\ Flow\ to\ Equity$$

$$r_e = equity\ discount\ rate$$

$$g = terminal\ growth\ rate$$

$$t = time$$

$$N = number\ of\ periods$$

Why FCFE (Free Cash Flow to Equity) Model?

- Direct link to equity value: FCFE measures **cash flows available to equity holders** after debt payments, making it the most relevant metric for valuing stock prices.
- Consistency with market rice: Since the market price reflects equity value (not enterprise value), using FCFE aligns the model with what investors actually own.

S&P 500 Example (not current)

Year	Earnings Per Share on Index
LTM	236.52
1	270.45
2	306.54
3	338.08
4	362.52
5	377.64

Payout Ratio of 75.5%

Year	Dividends + Buybacks on Index
LTM	178.73
1	204.36
2	231.63
3	255.46
4	273.93
5	285.36

Proxy for FCFE

Current Price of the Index

$$\$6{,}032.38 = \frac{204.36}{(1+r)} + \frac{231.63}{(1+r)^2} + \frac{255.46}{(1+r)^3} + \frac{273.93}{(1+r)^4} + \frac{285.36}{(1+r)^5} + \frac{297.26}{(r-4.17\%)*(1+r)^5}$$

Current yield on 10Y UST

Solving for r, we find required return on equity = r = **8.15%**

Notes

- FCFE is calculated as dividends + buybacks
- Terminal growth rate (g) is proxied by the current 10-year U.S. Treasury yield (this approximates long-term nominal GDP growth)
- Estimates for buybacks and dividend per share data is not widely available. As a substitute, we use earnings per share as a stand-in.
- We estimate future cash flows per share based on a payout ratio (companies do not pay out all of their earnings).

Fixed Income Methodology

The objective of our fixed income capital market assumptions is to estimate long-term (10-year) expected returns across major bond sectors. Unlike equities—whose future returns depend on uncertain cash flows and valuation levels—fixed income securities deliver contractual cash flows. As a result, bond return expectations can be derived from observable starting yields, adjusted for expected credit losses and term structure effects.

Long-term fixed income returns are driven by three fundamental components:

1. **Income (Yield / Carry) (Risk Free Rate + Spread):** Represents the contractual coupon or spread income earned over the horizon.
2. **Credit Risk Premium - Credit Losses (Default × Loss Given Default):** Reflects expected impairment due to issuer defaults, net of recovery values.
3. **Term Structure / Horizon Effects (Horizon Premium):** Captures the contribution of compensation for taking duration risk, yield curve roll-down (to a lesser extent), and mean reversion of interest rates over time.

These components form the basis of our build-up methodology, which is consistent with practitioner models used by institutional consultants, central banks, and academic literature on the expectations hypothesis.

Fixed Income Return Build-Up

Inputs:

- Risk-Free Rate
- Credit Risk Premium
- Horizon Premium

Role of Risk-Free Rate:

The risk-free rate, proxied by the 10-year U.S. Treasury yield, anchors expected returns for:

- U.S. Investment Grade Corporate Bonds
- International Developed Sovereign Bonds
- Securitized and Structured Agency Products

Consistent with standard CMA practice, bonds with no credit risk earn:

$$Expected\ Return \approx Risk\ Free\ Rate + Horizon\ Premium$$

Default & Recovery Modeling:

For credit-bearing sectors (IG and HY), we incorporate long-term expected credit losses:

$$Expected\ Credit\ Loss = Default\ Rate \times (1 - Recovery\ Rate)$$

We use long-run historical averages as baseline inputs:

Rating Bucket	Annual Default Rate	Long-Run Recovery	Credit Loss Estimate
IG (A/BBB)	~0.05% – 0.20%	~40%	~0.03% – 0.12%
HY (BB/B/CCC)	~2.5% – 3.5%	~35% – 45%	~1.3% – 2.1%

Source inputs include long-term Moody's default studies, S&P credit data, and leveraged loan recovery datasets.

Credit losses matter most for high yield, modestly for BBB, and are negligible for AA/A exposures.

Team Structure and Horizon Premium:

The Horizon Premium reflects:

1. **Roll-Down Return:**
   As a bond "rolls down" an upward-sloping yield curve, its price increases as duration shortens. At Bell, we put very little weight on roll-down effects given our held-to-maturity investment philosophy. However, in models with a finite horizon this will play some role in return generation.
2. **Term Premium Mean Reversion:**
   Term premia reflect compensation for duration risk and have historically mean-reverted over long horizons (Adrian, Crump, Moench — NY Fed ACM model).
3. **Reinvestment Effects:**
   Coupons are reinvested at evolving market yields, impacting total return.

Over a 10-year horizon, price volatility from rate movements tends to mean-revert, making income the dominant component of return.

Economic Outlook

Greg Sweeney, CFA
SVP/Chief Investment &
Economic Strategist

This is the time of year when the oracles of the investment industry tell us where the economy is headed in 2026. After all, as investment managers, we should have clear sight into the markets, and should be able to position client portfolios correctly so to avoid calamities.

In reality, economic and market predictions for the coming year are the equivalent of meteorologists attempting to forecast next year's hurricane season. That analogy should provide a better picture regarding the accuracy of 2026 prognostications. Sure, there is a chance there are no disruptions and no volatility, and the year is filled with a mild breeze, sunshine and smooth sailing for our investment portfolios. That would help investors sleep well at night, but history shows that is not a likely outcome.

Now, without further delay, here are the main topics we will be watching in 2026.

The Artificial Intelligence Frenzy

There are many historical examples of frenzies around market themes over the years, including railroads, tech stocks, housing, and now artificial intelligence (AI). While the themes have always been different, what happens has been the same. Excessive optimism leads to speculation. Speculation leads to leverage (more of a good thing is always better, right?). Then herd instincts pull more investors in, pushing valuations even higher. Ultimately, it results in a disconnect from fundamentals where promises exceed economic reality.

Let's look at the example of the internet. When the backbone of the internet was constructed, companies like Global Crossing (established in 1997) set out to connect continents to the web by laying undersea transmission cables. By the year 2000, Global Crossing's market capitalization had grown to $47 billion. Yet just two years later, the company filed for bankruptcy. Even though Global Crossing had great revenue growth, it never turned a profit.

After numerous lawsuits, Global Crossing was eventually acquired for $3 billion in 2011 by Level 3 Communications (which was then acquired by Lumen Tech in 2017). Lumen Tech has had only two profitable years since – 2017 and 2021.

Cisco Systems was also a big player in the backbone of the internet. The company's network routers connect companies, governments and individuals to the internet. Everyone wanted and needed their product, and sales and revenues boomed. Cisco was going to be the first company to have a half trillion-dollar market cap, but it never made it. Now, 25 years later, the company's market cap is less than it was in 2000.

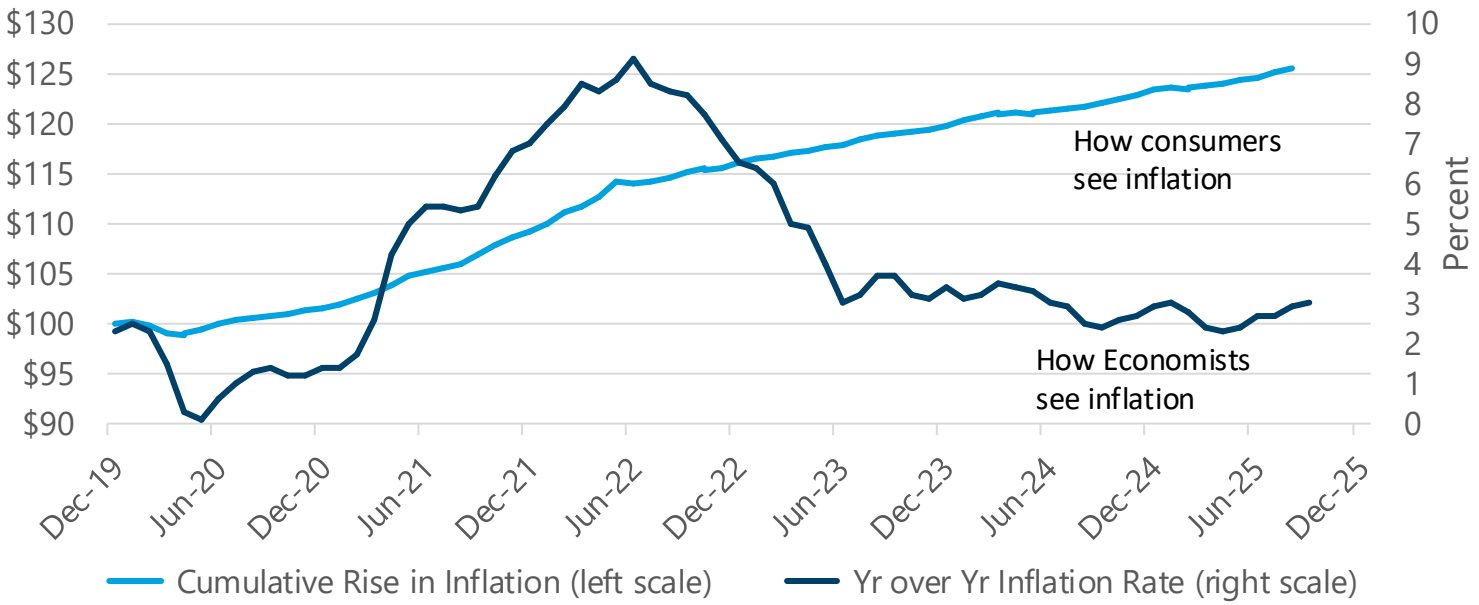
Today, as AI continues to power market growth, it's fair to wonder if we've reached the point where investor frenzy has disconnected from economic reality, similar to what happened with Global Crossing, Cisco, and many others from the 1990s or early 2000s. Indeed, that is the last step of the frenzy process.

Will future AI revenues support the massive investment up to this point? Will the leaders of the backbone build-out also be the ones to monetize the platform moving forward? Which companies will be the Global Crossing and wither away? Which companies will be Google or Microsoft and harness the future of the platform?

Will AI continue to be the primary driver of stock market returns in 2026? Or, will we see signs that it is not developing in the manner or speed as currently envisioned by investors? If the trajectory is altered, it could have a downward impact on the market.

Cost of Living and Inflation

Another topic we'll be watching closely in 2026 is cost of living, after consumers have experienced elevated inflation over the last five years. Our December monthly outlook provided a detailed perspective on how inflation affects costs for consumers. In short, inflation price changes are cumulative and continue to rise in spite of official commentary to the contrary. This puts pressure on consumers, as income has not kept pace with the cumulative effects of inflation. A picture is worth a thousand words:



When we hear news reports about the consumer being "strong" and continuing to drive retail sales, our interpretation is the top 10% of consumers are indeed "strong" while the remaining 90% are struggling to keep pace with everyday living costs. Our thinking on this is supported by a range of data points, including delinquency rates on debt, unemployment trends, confidence reports and escalation in "buy now pay later" options.

The Federal Reserve is in a tight spot. It has two mandates: maximum employment and stable prices. New job creation has been slowing, so there are calls for the Fed to reduce short-term interest rates to support increased hiring. This would support the maximum employment mandate. The risk, however, is that cheaper money (lower short-term interest rates) could put upward pressure on inflation and further increase prices for consumers.

The Fed likes to say it is "data dependent," which means it will use data to determine where to set interest rates. In the past, it was normal for the Fed to be "rule dependent." This meant the Fed would look to the Taylor Rule as a means of setting short-term interest rates. In simple terms, the Taylor Rule suggests that central banks should raise interest rates when inflation is above target levels or the economy is operating beyond its potential, and lower interest rates when inflation is below target levels or the economy is operating below its potential.

That seems simple enough in theory, but when the two mandates are in competition with each other, establishing a path forward gets much more complicated. We expect to see Fed reluctance to cut short-term rates aggressively in 2026 unless inflation is headed lower.

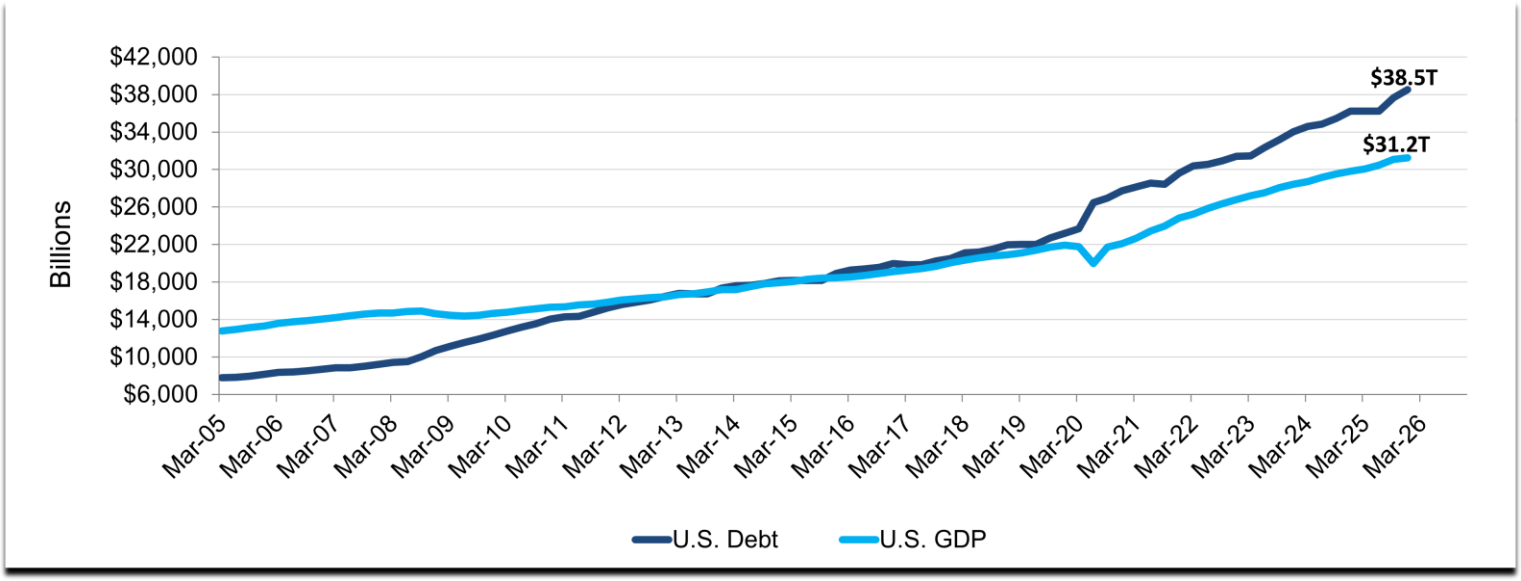
Credit Concerns?

Today, there are reports of rising stress levels percolating in private credit. Companies like United Site Services, Tricolor and First Brands Group are defaulting on loans. Critics argue this exposure comes from lax lending standards or compromised assets used as collateral for loans. There are also differences in opinion when establishing the underlying market value for loans in a private credit facility.

There has been a big push to make private credit available to retail investors, including 401(k) plans. Our cynical side feels that the source of funds from qualified investors has slowed down and the industry is looking for other avenues to keep investment dollars coming in. We also feel that past returns in the private credit space will not be indicative of future returns.

In short, we see credit spreads at decade lows. This means that everything from high-grade, publicly traded corporate credit to junk bonds are no longer compensating investors for risk as they have in the past. Looking forward, we see the potential for some sort of credit event. The last time this happened in 2008-2009, the borrowers were homebuyers. This time it could be corporate borrowers.

Speaking of credit, U.S. debt levels as a percentage of gross domestic product remain at the very high end of the historical range. The only time it was higher was right after the pandemic. Debt is currently 122% of GDP. Interest payments on this debt are over $1 trillion per year and there does not appear to be any political will to address it. Where it stops, and how it stops, will remain a mystery for now.



Reasons for Optimism

After a number of dour points, you may be asking: Is there any sunshine forecast for 2026? Absolutely. Tariffs, like them or not, have had the effect of encouraging foreign providers to take a stronger presence in the U.S. There have been numerous announcements from firms outside the U.S. implementing capital spending programs and building facilities here. That is likely to provide a notable segment of economic growth for years to come.

Additionally, the 2025 tax bill included provisions for existing U.S. companies to support expansion with faster depreciation schedules of capital expenditures, encouraging more economic growth and job prospects.

To the extent that AI continues to expand, power generation and delivery will remain in growth mode for years to come. Demand for power will include alternative energy, but the alternative space will not be capable of reliably supplying the necessary levels, leading to an expansion of traditional sources of generation capacity. This will translate to growth in power distribution networks, including powerline capacity.

We expect rent prices have peaked and are headed lower. This will provide benefits to consumers as well as help keep inflation in check. It is too early to predict if this will translate to slowing home price growth.

If black swan events remain absent from the horizon, we see 2026 economic growth around 2.25% supported by capital investment, skilled labor demand, rising disposable income and supportive monetary policy.

The outlook for the stock market, meanwhile, is for moderating returns in the direction of longer-term market averages in the 9% range. Continued speculation in the AI race could push that return estimate higher while some attrition could move it lower.

The bond market may see some defaults from marginal corporate borrowers, but we do not expect to see this for investment-grade bonds. While short-term rates may be headed lower, we anticipate longer-term rates remaining stable and may even have an upward bias. We anticipate bond returns in the range of 4% to 5%.

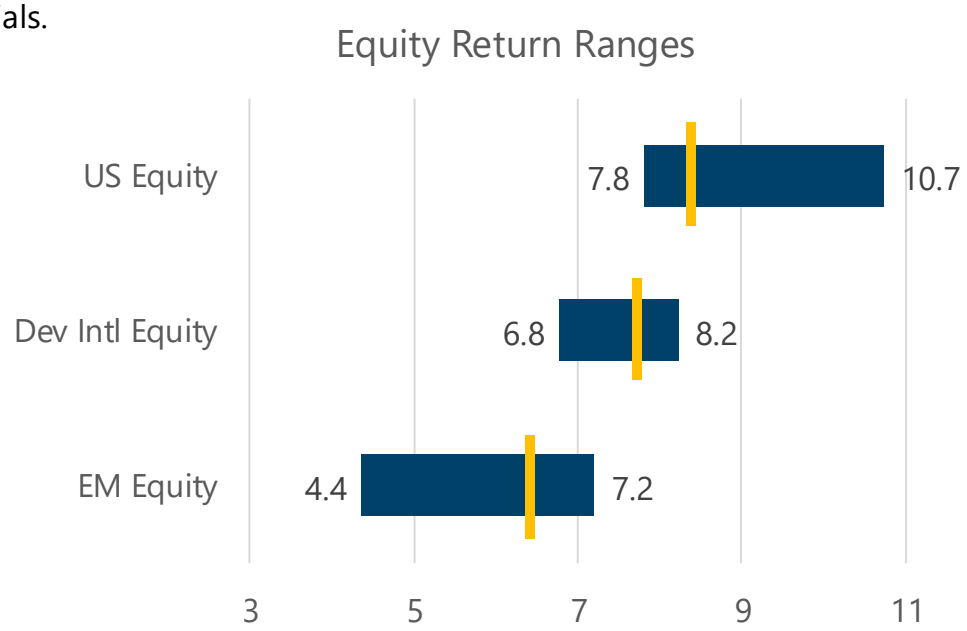
Thank You for Your Business!

These predictions may come to pass, or, perhaps more likely, 2026 will go in directions we have not anticipated. Whatever happens, Bell Bank Wealth Management will remain focused on the long term to help you meet your investment objectives. Thank you for being a Bell Bank Wealth Management client and for your confidence in us. Best wishes for a great 2026!

Equity Forecasts

Summary:

- We continue to favor U.S. equities over developed international and emerging markets. The U.S. has the deepest financial markets (including venture capital pools) and remains the champion of capitalism.
- We expect **U.S. equities to deliver a compound long-term return of 8.4%**, driven primarily by recent outsized returns and cash flow growth that begins to revert to the mean after seven years above average on a 10-year CAGR basis.
- We expect **developed international to produce an annualized return of 7.7%** over the next 10 years. Driving factors include excessive regulation and an economy reliant on aging industries such as manufacturing and industrials.
- Emerging markets (EM) are poised to benefit greatly from the continued AI buildout. This materializes in cash flow growth well in excess of historical norms. Political instability remains a cloud over the asset class. **We expect annualized returns of 6.5% for EM**.
- Knowing that the future cannot be forecasted with perfect accuracy, we also provide expected ranges for forward-looking returns.



We expect U.S. equities to compound at 8.4% over the next 10 years with potential to surprise to the upside if AI productivity gains continue to accrue. U.S. equities are favored over developed international and emerging markets. We believe the U.S. to be the champion of capitalism and the American dream to be alive and well. Capitalism results in resources being directed to their highest and best use cases. We also believe that the U.S. has the deepest financial markets and most prevalent venture capital ecosystem in the world. This results in new companies being able to access the required capital to scale and grow. The culmination is the U.S. will continue to grow cash flows at a high rate into the future.

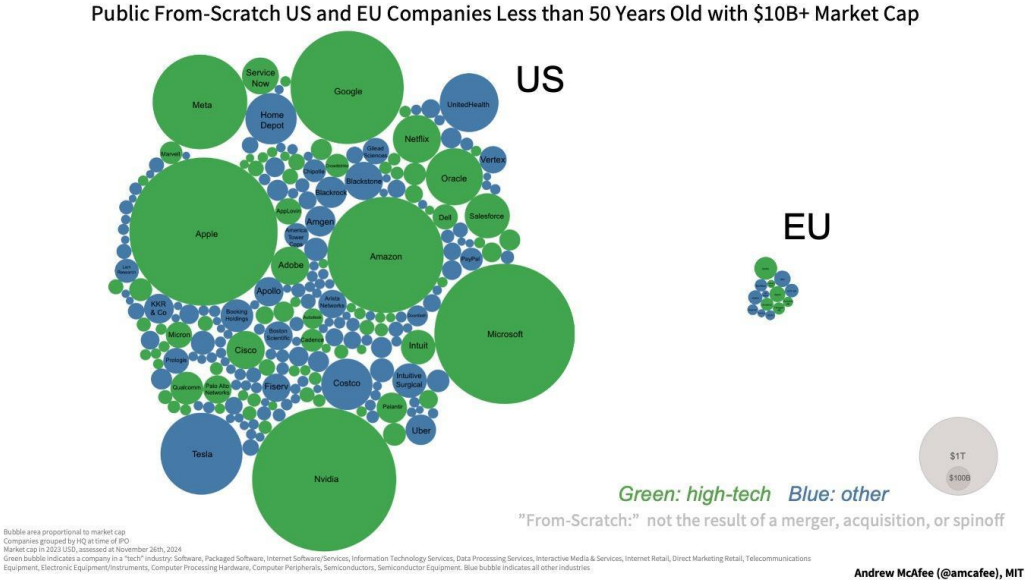
- Europe features a more socialistic approach that encompasses larger government and greater inefficiencies. Greater inefficiency leads to lower growth rates and regulatory red tape stifles innovation.
- Emerging markets could have a pivotal role to play as the AI buildout continues. Companies such as Taiwan Semiconductor Manufacturing (TSMC) remain **indispensable and in a monopolistic position** in the fabrication of GPUs. China is also a major player in the AI arms race as new models and products are announced at an increasingly frantic pace.

U.S. Equity

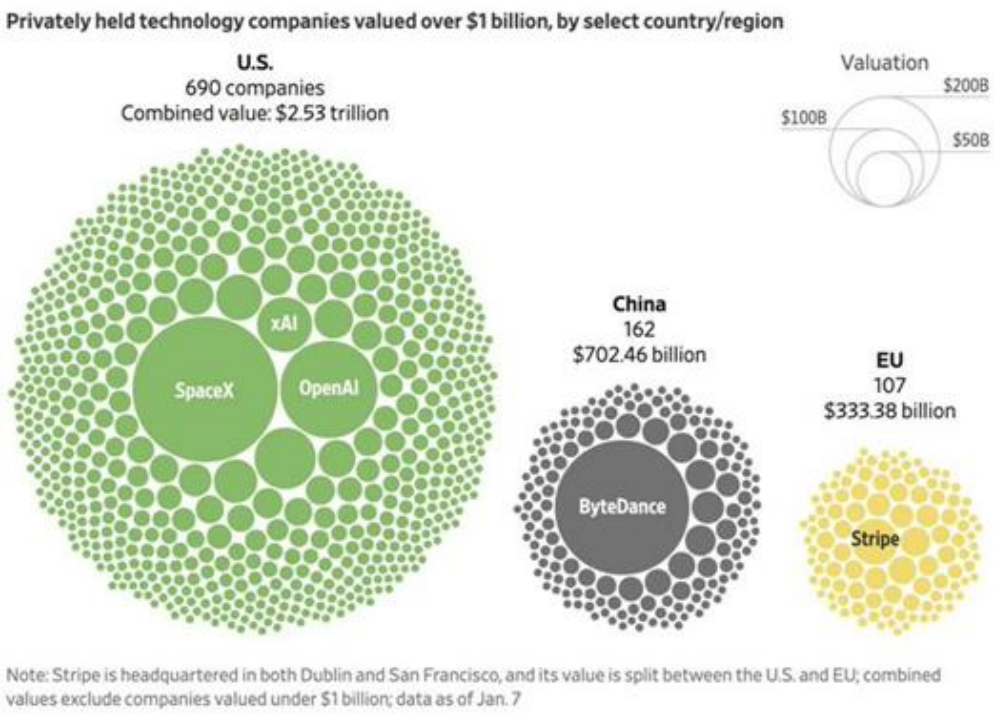
	LT Expected Return	Cash Flow CAGR
Base Case	8.4%	5.5%
Bull Case	10.7%	11.3%
Bear Case	7.9%	5.0%

Driving Factors

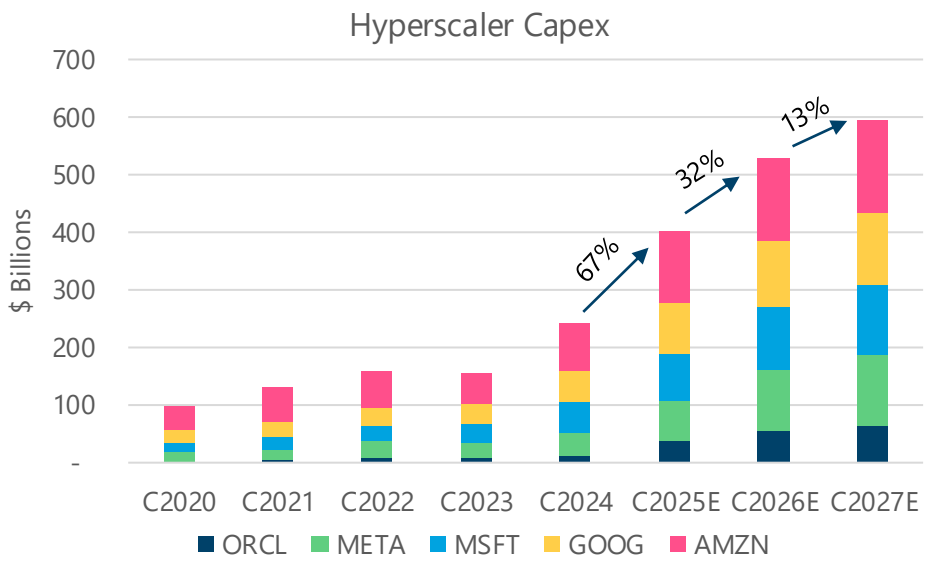
1. **Champion of capitalism.** The U.S. economy exemplifies free-market principles through robust private enterprise, efficient capital allocation and a culture that rewards entrepreneurship. This leads to sustained corporate profitability and shareholder returns and is evidenced by the dominance of U.S. firms in global indices.



2. **Innovation hub of the world.** The U.S. is the global leader in innovation due to its powerful ecosystem combining top universities, venture capital ecosystem, a culture encouraging risk-taking, strong intellectual property laws and less regulatory red tape than other developed markets. If you want to build a business, you come to the U.S. to do it.

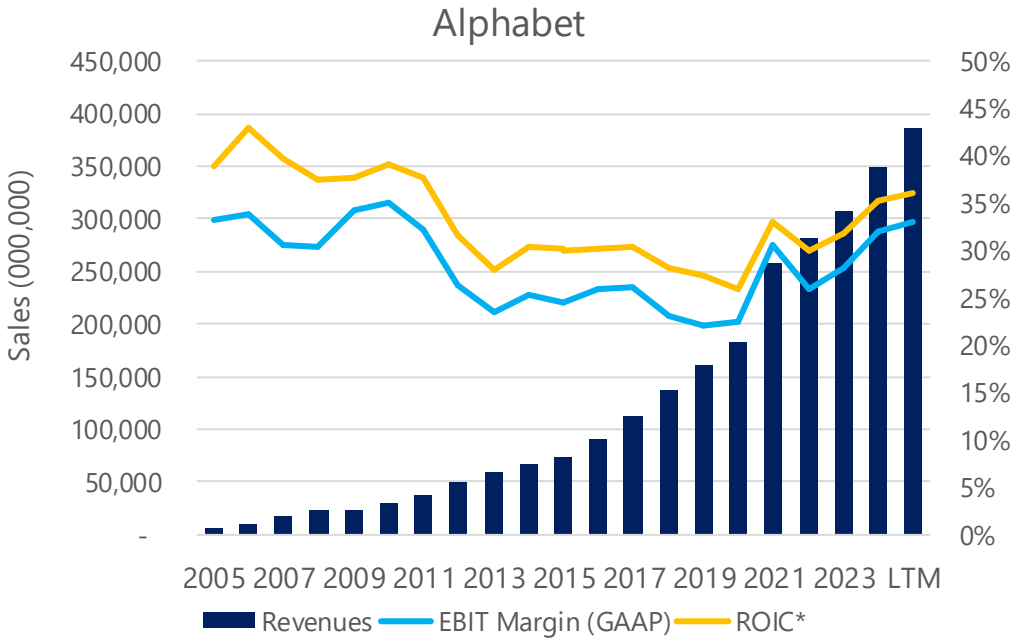


3. **The AI buildout.** Much of the expected future cash flows will be derived from continued AI spending. We believe that the AI buildout continues, but growth in spending starts to decrease as the large cloud providers gain scale. If AI fails to deliver, returns are likely to be poor. Hyperscaler capital expenditures are expected to total ~$530 billion in 2026, ~$600 billion in 2027, and could exceed $1 trillion by 2030.



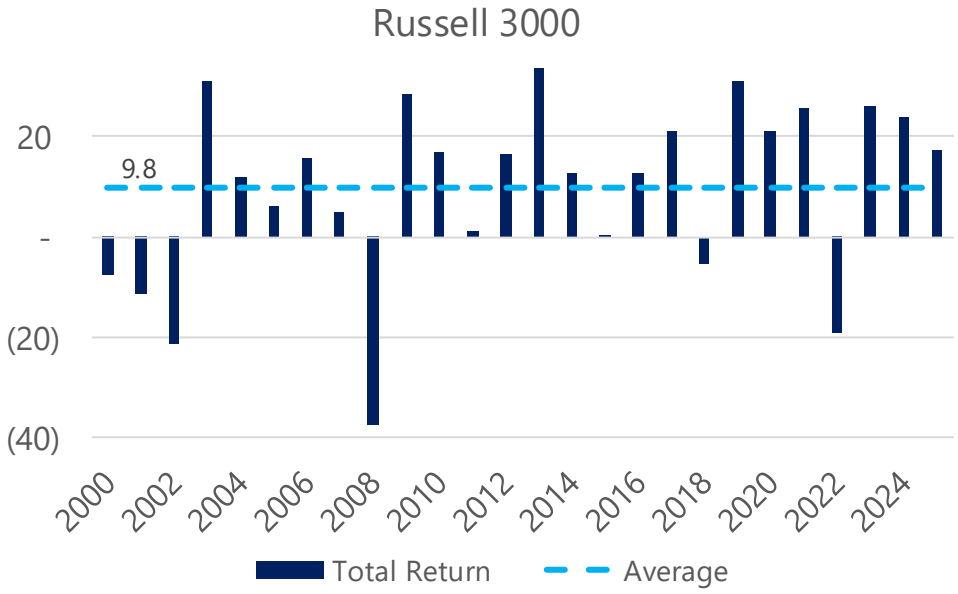
Source: FactSet as of 12/31/2025

4. **Big tech continues to get bigger.** Also known by many as the Mag 7, these companies flip the commonly taught principle of declining returns to scale (aka the law of large numbers) on its head. Increasing returns to scale are exhibited by consistently increasing operating margins and high revenue growth at massive scale. Network and aggregation effects are experienced, which lead to increasing returns to scale.



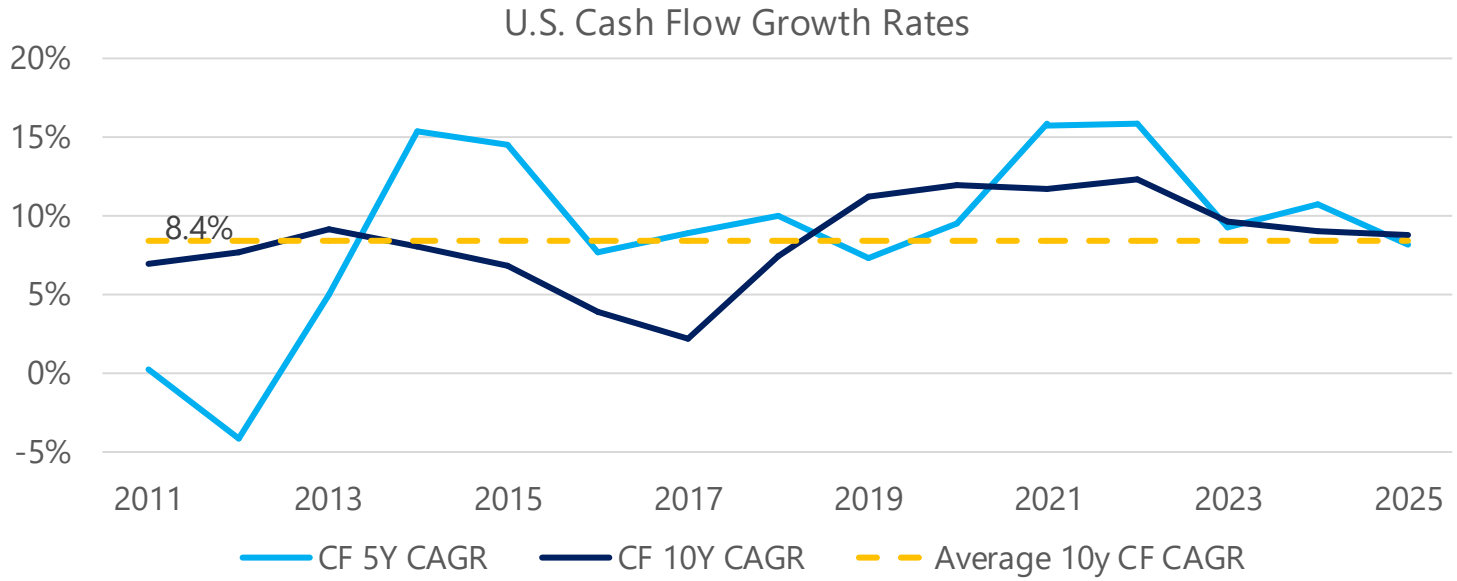
Source: FactSet as of 12/31/2025 *Adjusted for R&D Expense

5. **Recent high returns.** All forward returns are a function of future cash flows and current price. The Russell 3000 has delivered returns well in excess of long-term historical averages. Since 2000, the index has averaged annual returns of 9.8%. The recent outperformance leads us to believe that forward-looking returns will be below the long-term average, despite the continued positive outlook driven by AI. In the long-run valuations matter.



Historical Cash Flow Growth Profile and Estimates

We prefer to focus on longer-term cash flow growth rates as they tend to be more normalized, as opposed to shorter-term growth rates that have high variability (i.e. year-over-year growth rates will have large fluctuations, whereas 10-year compound growth rates will display much less variability). The average 10-year compound growth rate for cash flows of the Russell 3000 is 8.4%, which is above our forward-looking estimate of 5.5%. We anticipate cash flow growth stacked in the near-term (including 12.25% growth in 2026) driven by planned AI spending by the hyperscalers. It should also be noted that the 10-year CAGR for cash flows has been in excess of the long-term average for past seven years. As the euphoria surrounding AI wanes, we expect a reversion to the mean for cash flow growth as the economy begins to return to normalcy. Over the long term, we expect cash flow growth to taper off toward the nominal rate of GDP growth, which we estimate to be 4.2%. In our bull case, we see cash flow growth continuing above historical averages driven by ever-increasing returns to scale from big tech, increasing regulatory rollbacks, and AI proliferation. Our bear case is characterized by the law of large numbers finally catching up to big tech and increases in regulation.



Developed International Equity

	LT Expected Return	Cash Flow CAGR
Base Case	7.7%	5.0%
Bull Case	8.2%	6.3%
Bear Case	6.8%	2.5%

Driving Factors

1. **Recent high returns.** The MSCI EAFE index delivered a total return of 31.8% (USD) in 2025 and a trailing three-year return of 17.1%. These returns are well in excess of the long-term average of ~8%. Once again, recent outperformance leads us to believe that forward looking returns will be below the long-term average.

2. **Regulatory burden.** The EU has historically imposed significantly heavier regulatory requirements than the U.S. – examples include stringent data privacy rules under GDPR (General Data Protection Regulation) and DSA (Digital Services Act), complex environmental and labor directives and aggressive antitrust enforcement. A heavy regulatory burden snuffs out innovation by diverting precious resources to non-value creating projects, increased risk aversion and delayed decision making. This results in an environment that favors incumbents and a lack of disruptive innovation. As can be seen from the figures above, the 10 largest holdings in the MSCI EAFE index exhibit four companies that are over 100 years old and an average age of 87.

S&P 500	
Company	**Age**
NVIDIA	28
Apple	49
Microsoft	32
Amazon	30
Alphabet	27
Broadcom	52
Meta	21
Tesla	23
Berkshire Hathaway	71
JP Morgan *	86
Average	*42*

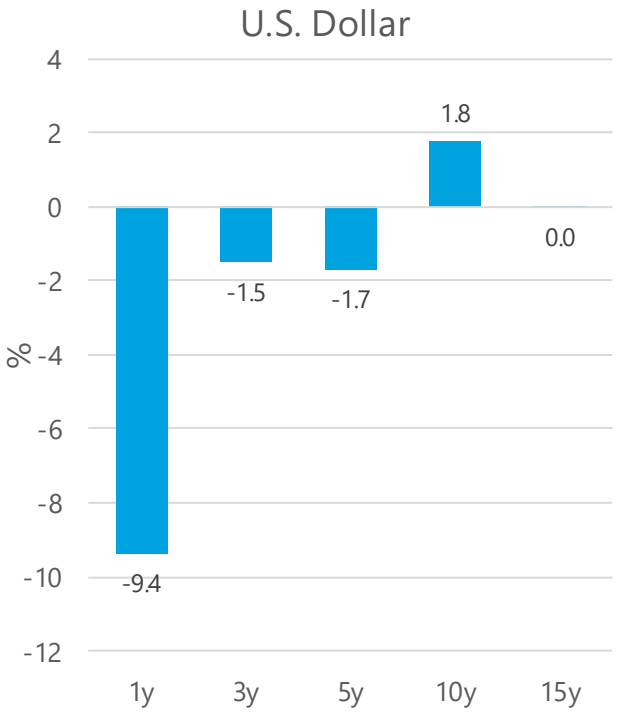
MSCI EAFE	
Company	**Age**
ASML	32
Roche Holdings	130
AstraZeneca*	34
HSBC Holdings*	160
Novartis	30
Siemens Aktiengesellschaft	179
Shell*	119
Toyota Motor*	93
LVMH*	39
Mitsubishi Motor*	56
Average	*87*

*company has earlier historical roots and was formed through numerous acquisitions and mergers

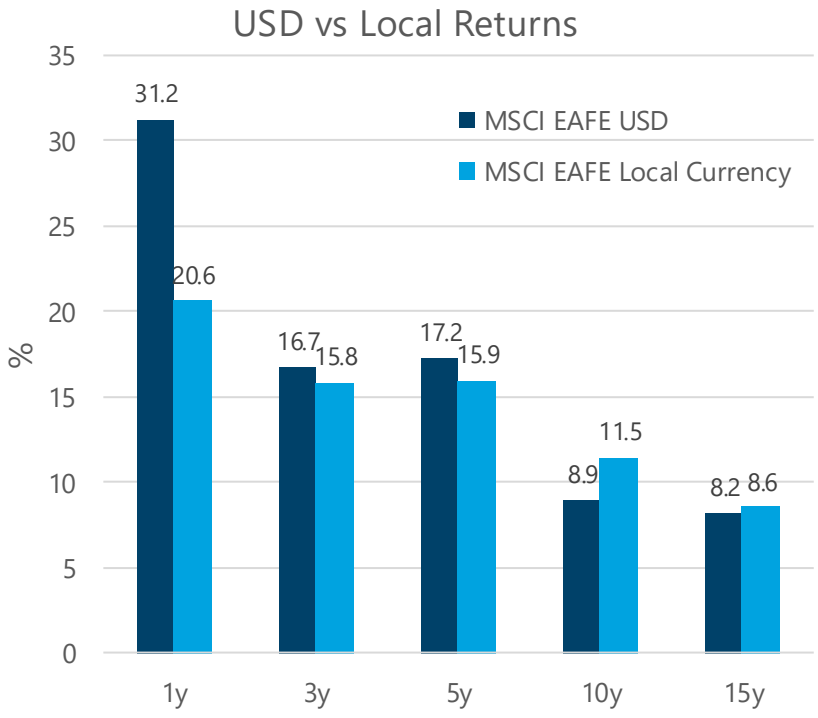
as of 12/31/2025

3. **AI could level the playing field.** AI has the potential to allow the older companies of the MSCI EAFE index to improve margins and boost operating performance and cash flows. However, developed international markets do not have any leaders in AI (like OpenAI, Google, etc).

4. **Watch the U.S. Dollar.** Over time, we believe currency fluctuations do not have a material impact on returns. However, on an annual basis, fluctuations can vary widely. 2025 was a year that showcased this wide variability, with the U.S. Dollar falling 9.4%. This resulted in an 11.2% performance boost for international equities. While 2025 saw a large decline in the U.S. Dollar, over time, currency impacts are generally insignificant.



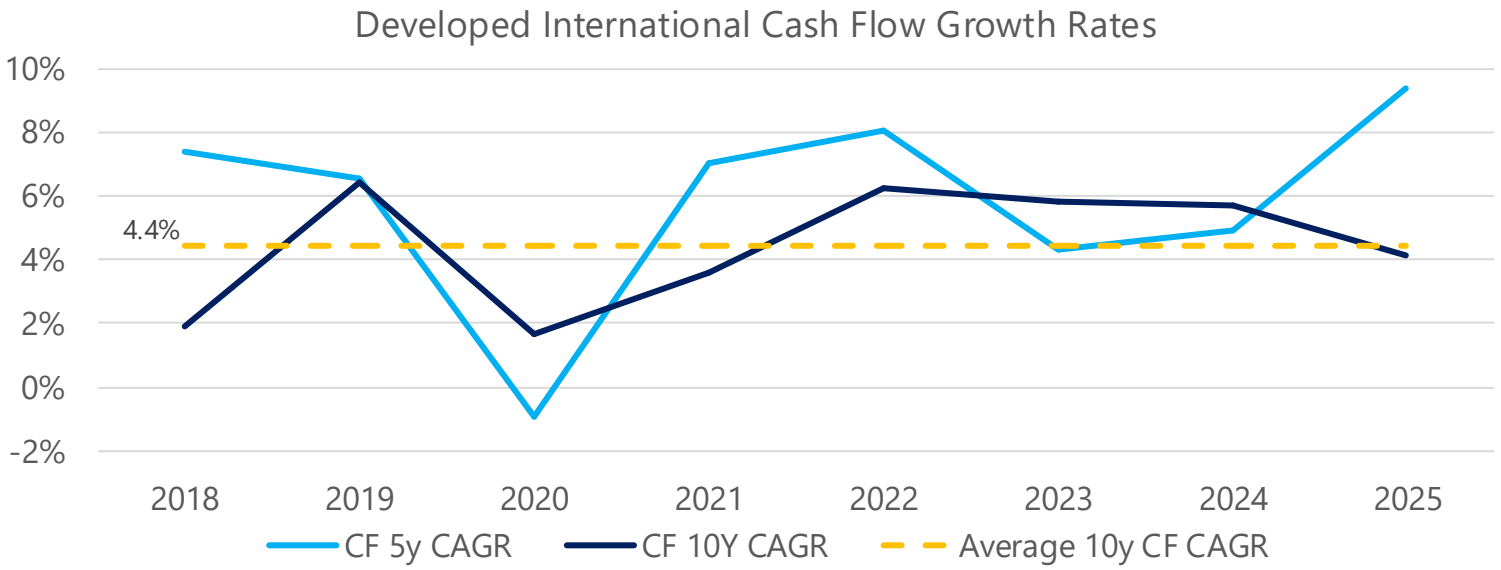
Source: FactSet as of 12/31/2025



Source: FactSet as of 12/31/2025

Historical Cash Flow Growth Profile and Estimates

The average 10-year compound growth rate for cash flows of the MSCI EAFE is 4.4%, which is slightly below our estimate of 5.0%. The developed international market is much more industrial and manufacturing heavy than the U.S. Specifically, there is more emphasis placed on sectors such as machinery, chemicals, automobiles, and pharmaceuticals. We believe that these sectors stand to benefit from enhancements made by AI and robotics. Much like U.S. equities, we expect growth to be front loaded with cash flow growth in 2026 of 10.8% and growth tapering down over time toward the nominal GDP growth rate of 2.9%. In our bull case, growth remains elevated as the tech economy grows, AI results in newfound growth and expanding margins, and Europe moves toward a more capitalistic society with less regulatory burden. On the other hand, if AI does not work out, developed international equities shouldn't be overly punished given manufacturing and industrial sectors are more insulated.



Emerging Markets Equity

	LT Expected Return	Cash Flow CAGR
Base Case	6.5%	6.6%
Bull Case	7.2%	8.7%
Bear Case	4.4%	-0.4%

Driving Factors

1. **Political instability.** Emerging markets remain vulnerable to heightened political and geopolitical instability. These issues result in investors demanding higher returns (risk premiums) to invest in companies in EM countries. Elevated political uncertainty can also lead to capital flight, supply chain disruptions, and lower growth. As a general principle, greater uncertainty leads to greater volatility and lower returns.

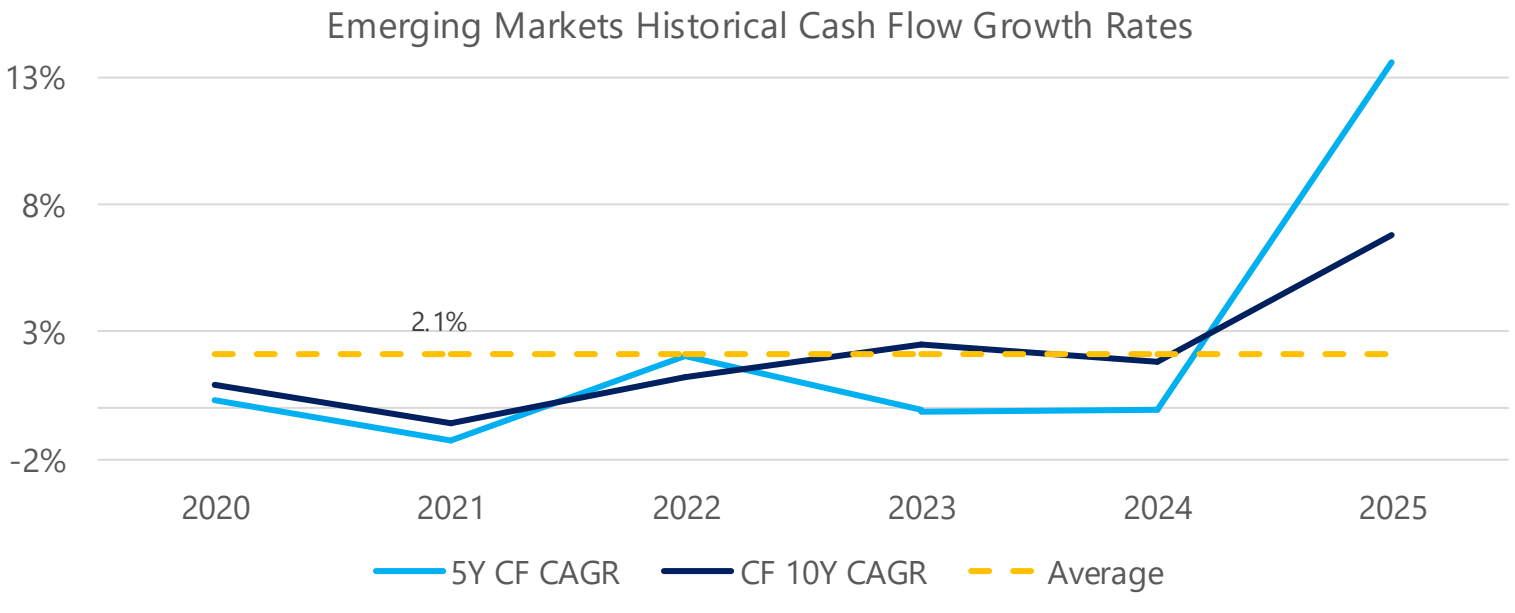
2. **TSMC as the core AI enabler.** Taiwan Semiconductor Manufacturing Company (TSMC) is the world's largest semiconductor foundry and has a virtual monopoly on the fabrication of the most advanced AI chips for companies like NVIDIA, AMD, and OpenAI. There continues to be more demand for AI compute than there is supply. Everything that TSMC makes is immediately sold. TSMC accounts for 12.5% of the index.

3. **Broader AI ecosystem participation.** Beyond TSMC, key holdings like Samsung (AI accelerators and memory) and Chinese platforms Tencent and Alibaba (developing LLMs and AI infrastructure) illustrate how emerging markets are not just suppliers but active participants in AI innovation and adoption. This multi-faceted exposure enhances long-term growth potential as global AI spending continues to escalate.

MSCI EM Top Holdings - %	
1. Taiwan Semiconductor Manufacturing	12.5
2. Samsung Electronics Co. Ltd.	4.9
3. Tencent Holdings Ltd	4.7
4. Alibaba Group Holding Limited	3.0
5. SK Hynix Inc.	2.7
6. HDFC Bank Limited	1.1
7. Reliance Industries Limited	0.9
8. China Construction Bank Corp.	0.9
9. Hon Hai Precision Industry Co	0.9
10. PDD Holdings Inc Sponsored ADR	0.8

Historical Cash Flow Growth Profile and Estimates

Forward returns for emerging markets equities are highly dependent on the fate of artificial intelligence. The average 10-year compound growth rate for cash flows of the MSCI EM index is only 2.1%. However, **year-over-year growth in 2025 was 58%**, which reflects the gains that companies like TSMC, Tencent, and Samsung have seen from the AI buildout. In our base case, we use a 10-year compound growth rate for cash flows of 6.6%. We believe TSMC will remain in a near-monopoly position within semiconductor fabrication and index concentration will deepen. We also believe geopolitical tensions will remain subdued, with only minor flare-ups, and China will not impose any unforeseen regulations (in 2021, China passed regulation limiting gaming time for minors to 1 hour per day only on weekends and forced for-profit education companies to become non-profit). As with U.S. and developed international equities, we believe growth will be front loaded with growth in 2026 of 13.2% and tapering down to the nominal rate of GDP growth of 1.8%. Our bull case scenario coincides with the U.S. and developed international bull cases with AI proliferating well into the future. TSMC continues to dominate semiconductor fabrication and memory makers such as SK Hynix and Samsung continue to see outsized profits. Our bear case involves AI fizzling out and bouts of political instability from China to South America.

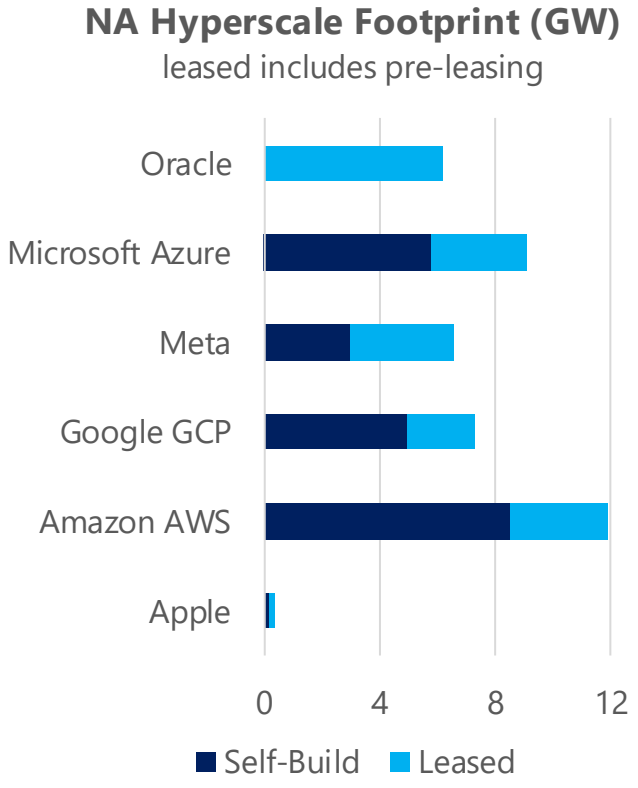


US Real Estate (REITs)

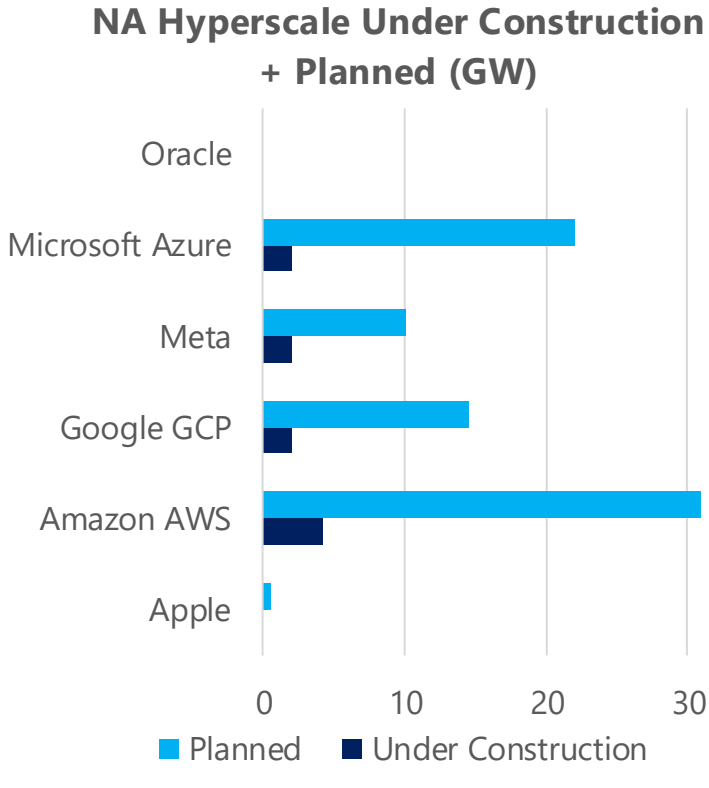
	LT Expected Return	Cash Flow CAGR
Base Case	6.9%	2.5%
Bull Case	7.3%	3.5%
Bear Case	5.7%	-0.8%

Driving Factors

1. **The AI buildout.** We believe that the AI buildout continues, but growth in spending starts to decrease as the large cloud providers gain scale. Hyperscaler capital expenditures are expected to total ~$530 billion in 2026, ~$600 billion in 2027, and could exceed $1 trillion by 2030. Datacenter exposure, while not particularly high, continues to increase, while retail and office REITs decline.



Source: datacenterHawk



Source: datacenterHawk

2. **Returns are highly dependent on economic conditions.** Inflation continues to print above the 2% Fed target, which is likely to reduce the amount of rate cuts in the future. Why does this matter? REITs often rely on debt to finance acquisitions and development. Lower interest rates reduce borrowing costs, making it easier for REITs to refinance debt and pursue new acquisitions. Wide variability in year-to-year cash flows are to be expected.

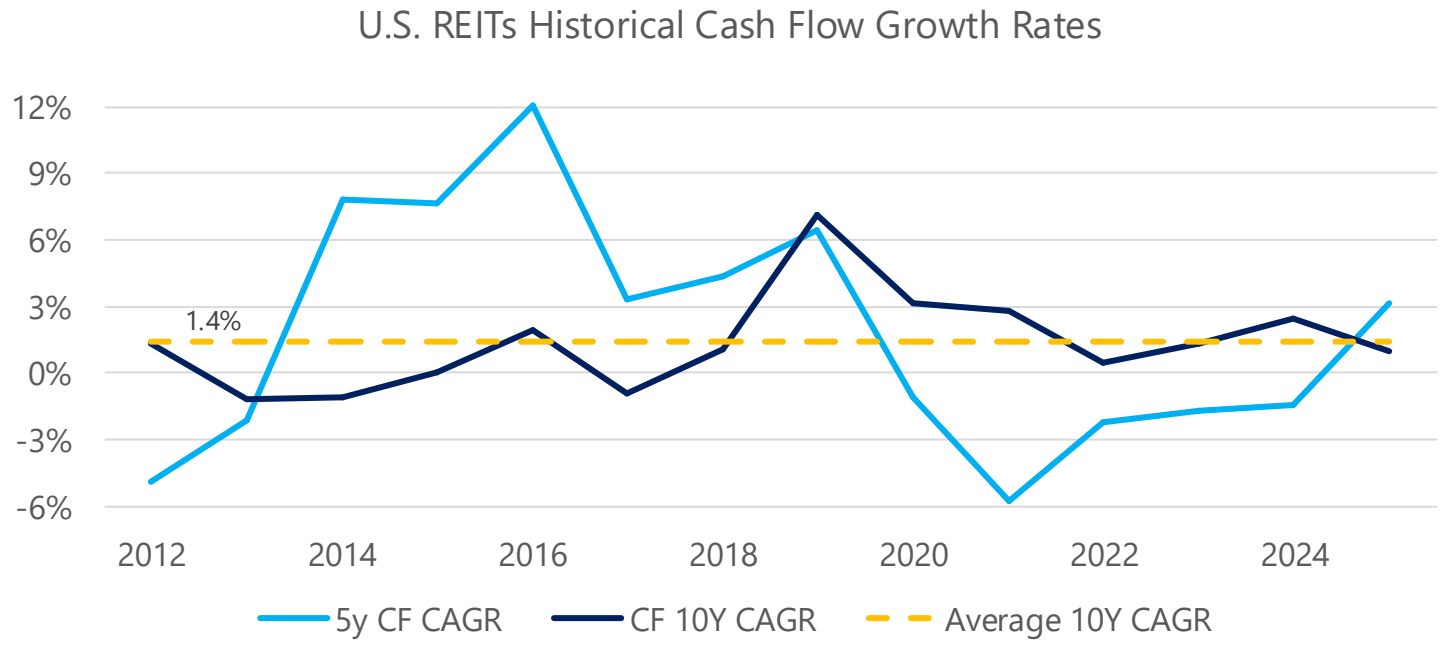
3. **Remote work's lasting impact.** Despite calls to return to the office, office REITS face structural headwinds due to elevated vacancies and potential stranded assets. The COVID-19 pandemic created an environment that made remote work essential, and people are naturally resistant to change. Remote work has become widespread, and we believe it will be difficult to put the genie back in the bottle despite calls for a return to the office. This results in office REITs continuing to show weakness while weight to datacenters and healthcare increases as the index tilts toward higher growth sectors.

Sector	12/31/2025	12/31/2022	12/31/2019
Healthcare	20.4%	12.8%	11.4%
Retail	18.2%	17.7%	14.9%
Industrial	14.9%	17.1%	12.7%
Multi-Family	12.0%	12.9%	18.1%
Data Center	9.0%	10.2%	3.5%
Self Storage	8.6%	9.6%	8.2%
Single-Family	5.7%	6.4%	6.9%
Office	4.2%	5.1%	13.8%
Hotels	3.2%	3.8%	6.9%

Source: State Street

Historical Cash Flow Growth Profile and Estimates

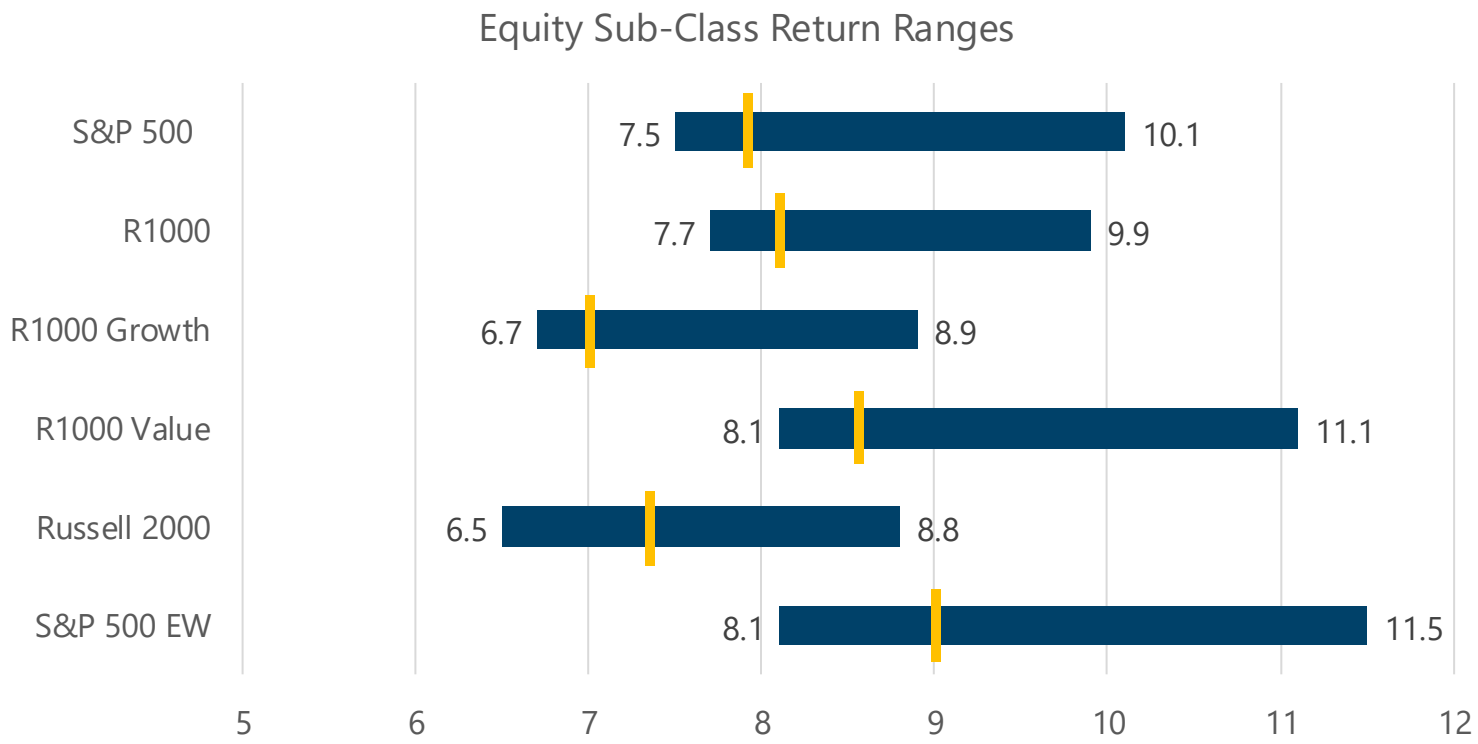
The average 10-year compound growth rate for cash flows of the Dow Jones U.S. Select REIT Index is only 1.4%. This low CAGR is due to large volatility in year-to-year growth rates, as the REIT space is highly dependent on economic variables and susceptible to paradigm shifts (think work from home). In our base case, we assume cash flows grow at a 2.5% compound rate, which is roughly in line with expected inflation. We expect growth to be fairly uniform on a year-over-year basis amidst a favorable economic backdrop. Our bull case calls for compound cash flow growth of 3.5% and incorporates outsized growth from the datacenter buildout and healthcare benefitting from ever-increasing life spans. Interest rates fall, due to slowing inflation and a robust economic backdrop, allowing for more investment and lower borrowing costs. Our bear base calls for a slight contraction in cash flow with a 10-year CAGR of -0.8%. The bear case involves economic instability, stalling datacenter builds, and disruption of the retail sector by companies like Amazon.



Equity Sub-Asset Classes

To the right are our long-term forecasts for equity sub-class returns. We do not include equity sub-asset class returns in efficient frontier modeling due to multi-collinearity issues.

Index	Base	Bear	Bull
S&P 500	7.9%	7.5%	10.1%
Russell 1000	8.2%	7.7%	9.9%
Russell 1000 Growth	7.0%	6.5%	8.9%
Russell 1000 Value	8.6%	8.0%	11.1%
Russell 2000	7.4%	6.8%	8.8%
S&P 500 Equal Weight	9.0%	8.1%	11.5%



Fixed Income

As stated in the Fixed Income Methodology section, fixed income investing is different than equity investing. While equity investments offer partial ownership of issuing companies without guaranteeing returns, fixed income securities promise fixed cash flows at specific future dates. Assuming a fixed income security is held to maturity and delivers payments as expected, investor expected returns will most accurately reflect their starting yield.

Fixed income scenario dispersion is narrower than equities due to contractual cash flows and the dominant role of starting yield. Bull scenarios reflect favorable credit and term premium regimes. Bear scenarios reflect credit stress (HY) and depressed term premia (IG and Intl). Over long horizons, income dominates total return across all cases.

Asset Class	Base	Bull	Bear
U.S. IG Bonds	4.9%	6.0%	3.5%
U.S. High Yield	6.8%	8.2%	3.0%
Intl Bond	3.7%	4.6%	2.4%

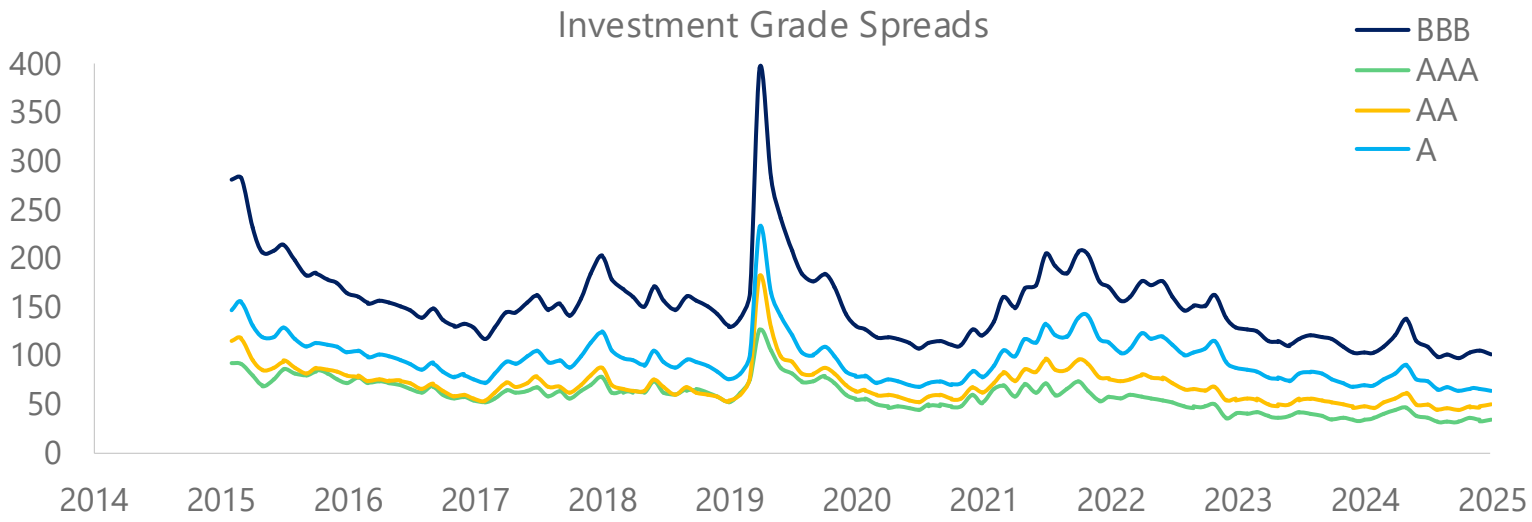
Scenario Analysis Methodology Notes:

- Base Case reflects long-run structural averages and today's starting yields.
- Bull Case reflects favorable credit + curve regimes (lower defaults, positive roll-down).
- Bear Case reflects recession / credit event dynamics (higher defaults, flatter curve).
- Returns reflect annualized total returns over a 10-year horizon.
- Scenario spreads are directionally consistent with historical data (Moody's default studies, NY Fed ACM term premium, yield curve research).

U.S. Investment Grade Bonds

- Expected return primarily reflects starting yields.
- Credit losses are minimal in IG space.
- Horizon premium modestly positive due to term structure.

Long-horizon returns are dominated by carry, consistent with academic evidence that yield-to-worst is a strong predictor of 10-year bond returns. Starting yield explains ~90%+ of 10-year forward returns for broad U.S. bonds — providing strong support for a starting-yield anchored methodology.



Source: FactSet as of 12/31/2025

High Yield Bonds

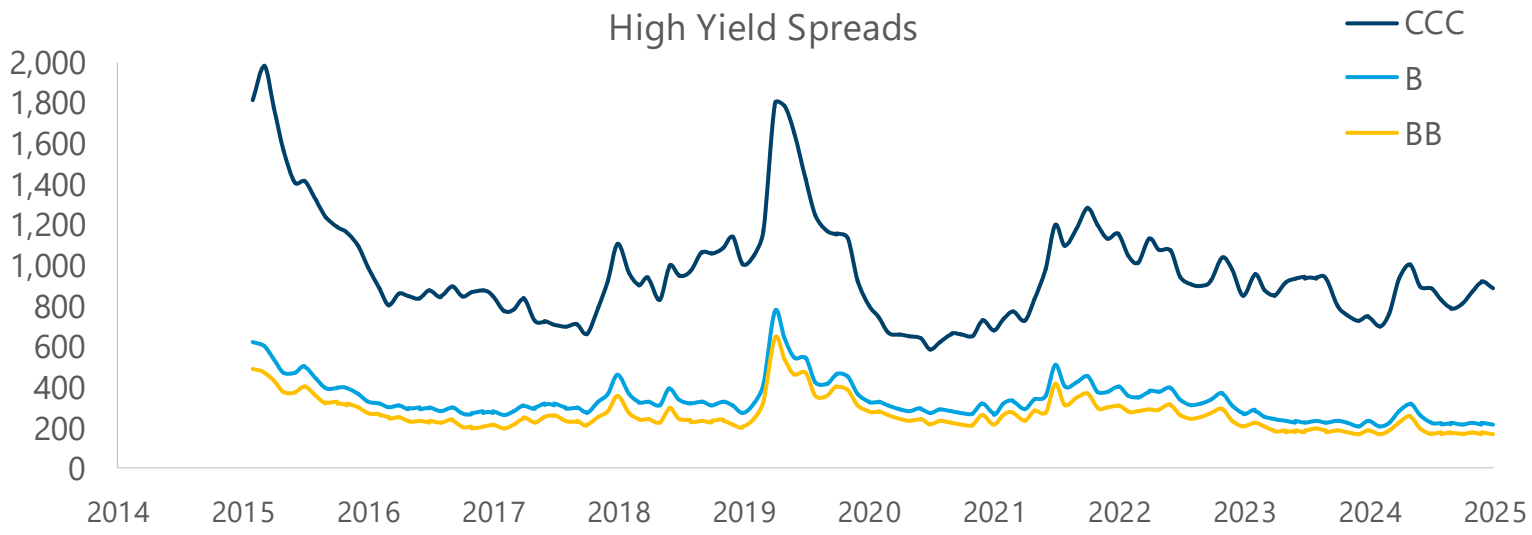
High yield benefits from higher coupons but must be adjusted for default losses:

$$Expected\ Return \approx Starting\ Yield - Credit\ Losses + Horizon\ Premium$$

Assumptions embedded in our base case:

- Default rates remain near long-run averages
- Recoveries lag IG due to lower seniority
- Credit spreads partially compensate but are historically tight

This produces a forward return premium above IG, but below naïve yield assumptions that ignore credit losses.



Source: FactSet as of 12/31/2025

International Bonds

Drivers include:

- Lower developed market risk-free yields
- Currency hedging costs (interest rate differentials)
- Minimal credit risk

Over long horizons, hedged foreign sovereigns tend to produce returns converging toward hedged yield differentials, which are currently below U.S. levels.

Volatility and Correlation Context (Not Forecasting)

While not part of the return build-up, volatility and correlations matter for portfolio construction:

- IG bonds provide defensive duration exposure
- HY bonds behave as a spread asset, correlated to equities in drawdowns
- Hedged international bonds add diversification without FX volatility

These characteristics are incorporated in our efficient frontier modeling.

Appendix

Correlation Table

	Intl Developed Equities	Emerging Markets Equities	U.S. Bond	U.S. High Yield	International Bond	Liquid Alts	Real Estate	Cash	Inflation
U.S. Equities	0.76	0.53	0.25	0.69	0.21	0.75	0.50	0.11	0.01
Intl Dev Equities		0.74	0.02	0.61	0.26	0.78	0.43	-0.02	0.03
Emerging Markets Equities			0.18	0.66	0.25	0.72	0.33	0.11	0.13
U.S. Bond				0.32	0.66	0.37	0.17	0.47	-0.17
U.S. High Yield					0.35	0.75	0.58	-0.05	-0.04
International Bond						0.37	0.02	0.22	-0.15
Liquid Alts							0.72	0.20	0.16
Real Estate								-0.13	0.03
Cash									0.36

Bell Allocation Breakdowns - %

Equity / Fixed Income	20/80	40/60	60/40	80/20	100/0
U.S. Equities	16.0	31.9	47.9	63.8	79.8
Dev Intl Equities	4.1	8.1	12.2	16.2	20.3
EM Equities	0.0	0.0	0.0	0.0	0.0
U.S. Bonds	76.1	57.1	38.0	19.0	0.0
U.S. High Yield	3.9	2.9	2.0	1.0	0.0
Intl Bonds	0.0	0.0	0.0	0.0	0.0
Liquid Alts	0.0	0.0	0.0	0.0	0.0
Cash	0.0	0.0	0.0	0.0	0.0

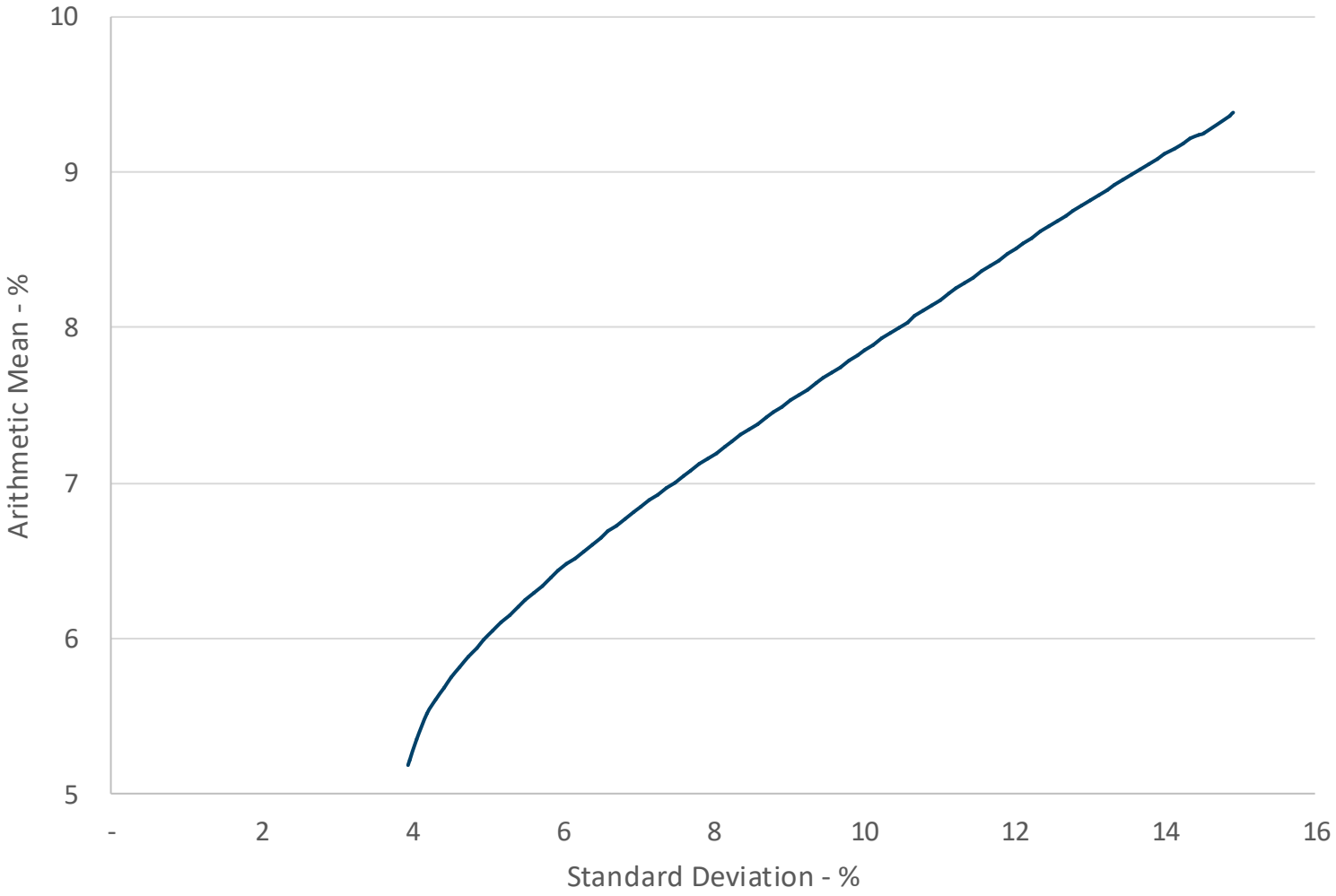
Equity / Fixed Income	0/100	10/90	30/70	50/50	70/30	90/10
U.S. Equities	0.0	8.0	23.9	39.9	55.8	71.8
Dev Intl Equities	0.0	2.0	6.1	10.1	14.2	18.2
EM Equities	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Bonds	95.1	85.6	66.6	47.6	26.6	9.5
U.S. High Yield	4.9	4.4	3.4	2.5	1.4	0.5
Intl Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Liquid Alts	0.0	0.0	0.0	0.0	0.0	0.0
Cash	0.0	0.0	0.0	0.0	0.0	0.0

Bell Allocation Return Forecasts

Asset Mix	Arithmetic Mean	Geometric Mean (Simulated)	Standard Deviation (Simulated)	Skewness	Excess Kurtosis	Return to Risk (Simulated)
0-100	5.1	5.0	4.1	-1.6	4.8	1.2
10-90	5.5	5.4	4.3	-1.3	3.3	1.3
20-80	6.0	5.8	4.9	-1.0	1.7	1.2
30-70	6.4	6.2	5.8	-0.8	0.9	1.1
40-60	6.8	6.5	6.9	-0.8	0.5	0.9
50-50	7.2	6.9	8.1	-0.8	0.4	0.9
60-40	7.6	7.2	9.3	-0.8	0.3	0.8
70-30	8.0	7.4	10.6	-0.8	0.3	0.7
80-20	8.5	7.7	11.9	-0.8	0.3	0.6
90-10	8.9	7.9	13.2	-0.8	0.3	0.6
100-0	9.3	8.1	14.6	-0.8	0.3	0.6

Asset Mix	Arithmetic Mean	Geometric Mean (Simulated)	Standard Deviation (Simulated)	Skewness	Excess Kurtosis	Return to Risk (Simulated)
Agg Growth	9.2	8.0	14.3	-0.8	0.3	0.6
Growth	8.4	7.6	11.9	-0.8	0.3	0.6
Growth w Income	7.8	7.3	9.9	-0.8	0.3	0.7
Balanced	7.2	6.8	8.0	-0.8	0.4	0.8
Income w Growth	6.5	6.3	6.3	-0.8	0.6	1.0
Income	5.9	5.8	4.8	-1.0	1.7	1.2
Conservative Income	5.1	5.0	4.0	-1.6	4.7	1.2

Efficient Frontier



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