BNY | INVESTMENTS

CAPITAL MARKET ASSUMPTIONS

DURABLE BY DESIGN

2026

Intense shifts in geopolitics, technology, and macroeconomic policy are compressing global capital markets. Effectively navigating these changing dynamics requires a long-term lens and a durable framework.

Our 10-year capital market assumptions (CMAs) are the building blocks for the development of an investor's strategic asset allocation (SAA), a key tool for long-term investors. These assumptions reflect a 10-year investment horizon and are a collaborative effort across macroeconomists, portfolio managers, quantitative and fundamental researchers, and client-facing investment professionals.

Flexibility, durability, and diversification matter more than ever.

We assess how today's markets are adapting to persistent structural pressures — most notably sovereign debt burdens, evolving currency dynamics, rapid advances in artificial intelligence (AI), and the continued expansion of private capital. Together, these forces are shaping a landscape where flexibility, durability, and diversification matter more than ever.

KEY TAKEAWAYS ACROSS ASSET CLASSES

Looking at 2026, we see growth reaccelerating, supported by global fiscal and monetary policies. We believe policy direction is diverging, reflecting varying growth dynamics, inflation pressures, and policy priorities. This could create avenues for returns but potentially make it harder to spot the opportunities — a scenario in which careful selection becomes vital. Reflecting these dynamics, our annual assessment of 10-year return expectations resulted in some notable shifts from last year.

Equities

Equities saw one of the most meaningful upgrades in our 10-year CMAs. Despite a challenging macro backdrop marked by tariff shocks and softer labor markets, global stocks proved resilient, supported by solid earnings and expectations for policy flexibility. Our return outlook has improved most notably for international markets, with developed ex-U.S. equities and emerging market equities now expected to deliver 7.8% and 8.1%, respectively. AI-driven productivity gains and a more favorable global outlook as the U.S. dollar weakens should support both markets.

Fixed Income

Our fixed income outlook reflects modest changes. Yields remain higher than in recent years, supporting moderate long-term expectations of 4.3% for U.S. aggregate bonds and 3.8% for municipal issues. However, elevated government debt in developed markets and changing demand for long-duration bonds suggest a higher term premium and potential volatility ahead.

Alternatives

Private equity return expectations rose sharply to 10.5% per year, driven by a robust illiquidity premium and the expanding role of private capital in funding innovation and infrastructure. Additionally, more companies are choosing to remain private for longer, allowing more growth to occur before reaching public markets.

2026 vs. 2025 Capital Market Assumptions

Asset Class		2026		2025	
		Expected Return	Standard Deviation	Expected Return	Standard Deviation
EQUITY	U.S. Equity	7.6%	15.9%	7.5%	16.2%
	Developed Ex-U.S.	7.8%	15.9%	6.7%	16.3%
	Emerging Markets	8.1%	17.6%	7.7%	18.7%
FIXED INCOME	U.S. Aggregate	4.3%	5.2%	4.8%	5.4%
	U.S. Municipal	3.8%	5.3%	3.6%	5.3%
	U.S. High Yield	6.1%	7.9%	6.0%	8.4%
	EM Sovereign USD	5.8%	9.1%	6.3%	9.5%
ALTERNATIVES	Commodities	2.3%	14.3%	2.2%	15.0%
	Hedge Funds	5.8%	6.1%	5.3%	6.3%
	Private Equity	10.5%	21.4%	9.7%	20.1%

Source: BNY Investments. Data as of December 31, 2025.

STRUCTURAL THEMES SHAPING THE DECADE AHEAD

When forming long-term expectations, it's essential to look beyond cyclical fluctuations and focus on the structural forces shaping trend growth, inflation, and interest rates. We see the following themes as particularly meaningful. As noted earlier, these themes are incorporated into our assumptions, and we provide a detailed exploration in our full report.

Sovereign Debt

Developed Markets Feel the Weight

Developed markets face fiscal strain as higher borrowing costs meet persistent deficits and rising issuance.

Prepare for steeper yield curves and bond market volatility. Stay active in duration and across global sovereign markets.

The U.S. Dollar

From Privilege to Pressure

Shifting trade policies, rising FX hedging activity, and narrowing global growth differentials are eroding structural support for the U.S. dollar.

Reassess global currency exposure, hedge ratios, and the diversification role of non-U.S. assets as capital flows broaden.

AI Adoption

The Macro Shock of the Decade

The impact of AI on productivity and competitive dynamics will become more visible. We expect the market to increasingly focus on who can capture value from AI.

Look toward firms and sectors that can both retain productivity gains and convert lower costs into sustained demand and earnings growth.

Private Markets

Engine of Value Creation

Private markets are at the center of an AI-driven capital expenditure boom, facilitating AI adoption and creating significant opportunities for investors.

Look beyond traditional public markets to access the full growth opportunity set and be mindful of increasing market concentration in public equities.

ENDURANCE UNDER PRESSURE

Taken together, our CMAs continue to emphasize discipline, diversification, and a long-term perspective. While cyclical uncertainty persists, structural shifts are creating opportunities for investors who remain patient and deliberate in their portfolio construction.

A thoughtful blend across equities, fixed income, alternatives, and currencies — informed by a strategic asset allocation and long-term CMAs — provides a framework to navigate markets that may remain under pressure, yet capable of durable long-term returns.

Explore our assumptions and an in-depth look at structural themes in the full report:

Endurance Under Pressure:
Capital Market Assumptions 2026

Glossary

Standard Deviation: A quantity expressing by how much the members of a group differ from the mean value for the group.

Yield Curve: The measure of the yield that investors can expect to receive with respect to the interest rates against the amount they lend to an entity. While plotting on the graph, the X-axis reflects the term to maturity, and the Y-axis depicts the expected yield.

Hedge Ratio: A financial metric showing the proportion of an investment's risk covered by a hedging instrument.

Disclosure

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