

# 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.

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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

		2026		2025	
Asset Class		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.

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# 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.

<b>Sovereign Debt</b>	<b>Developed Markets Feel the Weight</b> 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.
<b>The U.S. Dollar</b>	<b>From Privilege to Pressure</b> 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.
<b>AI Adoption</b>	<b>The Macro Shock of the Decade</b> 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.
<b>Private Markets</b>	<b>Engine of Value Creation</b> 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.

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# 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

### CAPITAL MARKET ASSUMPTIONS

The capital market assumptions are BNY Advisors' estimates based upon historical market performance and the current market environment. References to future expected returns are not promises of actual returns that may be realized and should not be relied upon. Actual returns may vary significantly. In addition, the historical returns used as a basis for this analysis are based on information gathered by BNY or from third-party sources and have not been independently verified.

The forecasts contained herein are for illustrative purposes only and are not guarantees of performance. The forecasts have inherent limitations because they are not based on actual transactions. The forecasts are based upon historical returns of the selected investments and subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so.

Some of the factors that could impact these forecasts include, but are not limited to:

- General economic conditions
- Financial market performance
- Interest rate levels
- Changes to current laws or regulations, and
- Future geopolitical conditions

Asset class returns are not reflective of anticipated returns for associated indexes.

The results do not represent, and are not necessarily indicative of, the results that may be achieved in the future.

Robust Strategic Asset Allocation (RSAA) is a framework for classifying the market environment with a combination of macroeconomic and market indicators with judgment. BNY Advisors has defined historical regimes for the period starting in May 1973.

The asset classes referenced in our capital market assumptions are represented by broad-based indices which have been selected because they are well known and are easily recognizable by investors. Indices have limitations because indices have volatility and other material characteristics that may differ from an actual portfolio. For example, investments made for a portfolio may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the index. Also, the indices noted in this presentation are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that a portfolio may incur. Finally, the performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the index performance.

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### RISKS

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Asset allocation and diversification cannot assure a profit or protect against loss.

**Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. Risks of investing in real estate securities are similar to those associated with direct investments in real estate, including falling property values due to increasing vacancies or declining rents resulting from economic, legal, political or technological developments, lack of liquidity, limited diversification and sensitivity to certain economic factors such as interest rate changes and market recessions.

**Currencies** are subject to the risk that those currencies will decline in value relative to a local currency, or, in the case of hedged positions, that the local currency will decline relative to the currency being hedged. Each of these risks could increase the fund's volatility.

**Bonds** are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets.

Investing in **foreign-denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with Emerging Markets.

**High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis.

**Asset class comparisons** such as comparing equities to bonds have limitations because different asset classes may have characteristics that materially differ from each other. Because of these differences, comparisons should not be relied upon solely as a measure when evaluating an investment for any particular portfolio. Comparisons are provided for illustrative purposes only. Although stocks have greater potential for growth than bonds, they also have much higher levels of risk. With stocks, the prices can rise and fall for a variety of reasons, including factors outside of the company's control. Bonds may be considered relatively safer. Because they're a debt security, they function as an IOU. The company pays interest to the bondholder, and once the bond matures, the bondholder receives the principal back. Bonds aren't completely risk-free; there is the possibility of the issuer defaulting on its bonds, and if sold prior to maturity the market value may be higher or lower than the purchase value. But compared to stocks, historically there's been less volatility.

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The information contained herein reflects general views and is provided for informational purposes only. This material is not intended as investment advice nor is it a recommendation to adopt any investment strategy.

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