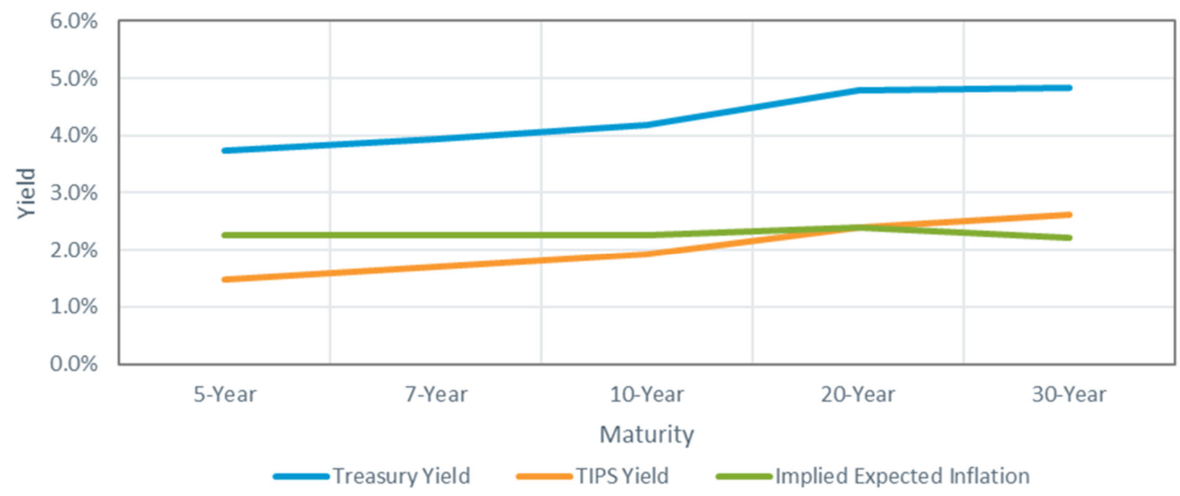
# 2026 Capital Market Assumptions

**Introduction:** Every calendar year, RVK produces long-term, forward-looking capital market assumptions through a rigorous, multi-step process, which draws on both quantitative economic and financial inputs as well as qualitative comparisons and analysis. Our *return* estimates are generally based on return decomposition models, which consider factors such as income, future growth, valuation measures, inflation prospects, and economic conditions. The *volatility* and *correlation* assumptions are generally driven by an analysis of historical trends, adjusting for changes in volatility regimes, as well as triangulation considerations.

**Summary:** Our long-term return expectations decreased across broad equity markets following strong 2025 returns, leading to elevated valuations. The majority of fixed income return assumptions were decreased to reflect yield decreases and spread compression. Alternative asset class assumptions were mixed, as fundamentals and assumptions for most alternative investments supported moderate adjustments. Many continue to be attractive options for portfolio diversification, alpha generation, and inflation protection.

**Inflation:** Our 2026 inflation assumption remained constant relative to 2025. This reflects short-term inflationary concerns while also accounting for long-term deflationary factors such as deficits, debt, demographics, and automation. Implied market expectations for inflation are outlined below in Figure 1.

**Figure 1: Market Expectations for Inflation**



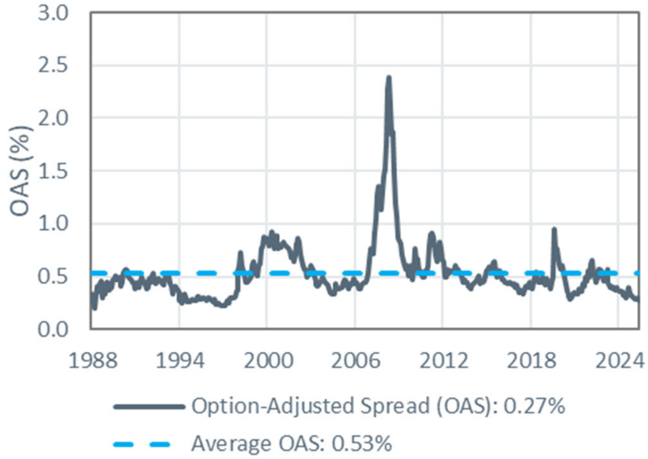

| As of December 31, 2025 | 5-Year | 7-Year | 10-Year | 20-Year | 30-Year |
|---|---|---|---|---|---|
| Treasury Yield | 3.73% | 3.94% | 4.18% | 4.79% | 4.84% |
| TIPS Yield | 1.47% | 1.69% | 1.93% | 2.39% | 2.62% |
| Implied Expected Inflation | 2.26% | 2.25% | 2.25% | 2.40% | 2.22% |

Source: FactSet and U.S. Department of the Treasury. Data as of December 31, 2025.

**Fixed Income:** The majority of fixed income return assumptions were decreased, primarily reflecting decreased yields and spreads (see Figures 2 & 3) — though partially offset by our ongoing expectation for the yield curve to normalize over time. Historically, starting bond yields have been rather strongly correlated with future bond returns.

**Figure 2: Bloomberg US Aggregate Bond Index Yield**


**Figure 3: Bloomberg US Aggregate Bond Index Option-Adjusted Spread**




**Equities:** Equity return forecasts decreased for most equity assumptions relative to 2025. The decrease was largely valuation driven (as shown below in Figure 4), as stock prices continued their robust growth trend in 2025, supported by strong consumer spending, technology (AI) developments, and subsiding tariff fears. The year-end valuation for large-cap domestic equities, as represented by the Shiller CAPE, ranked in the 98th percentile of historical values.

**Figure 4: S&P 500 CAPE Ratio***

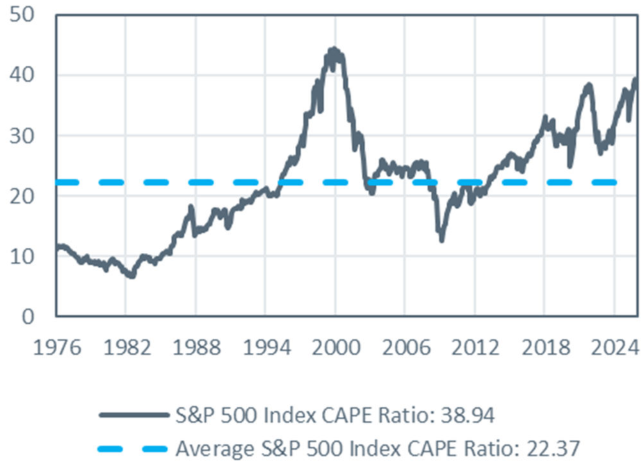
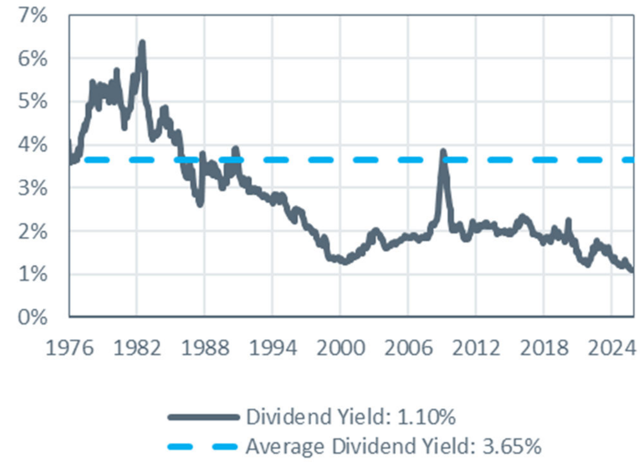



**Figure 5: S&P 500 Dividend Index**

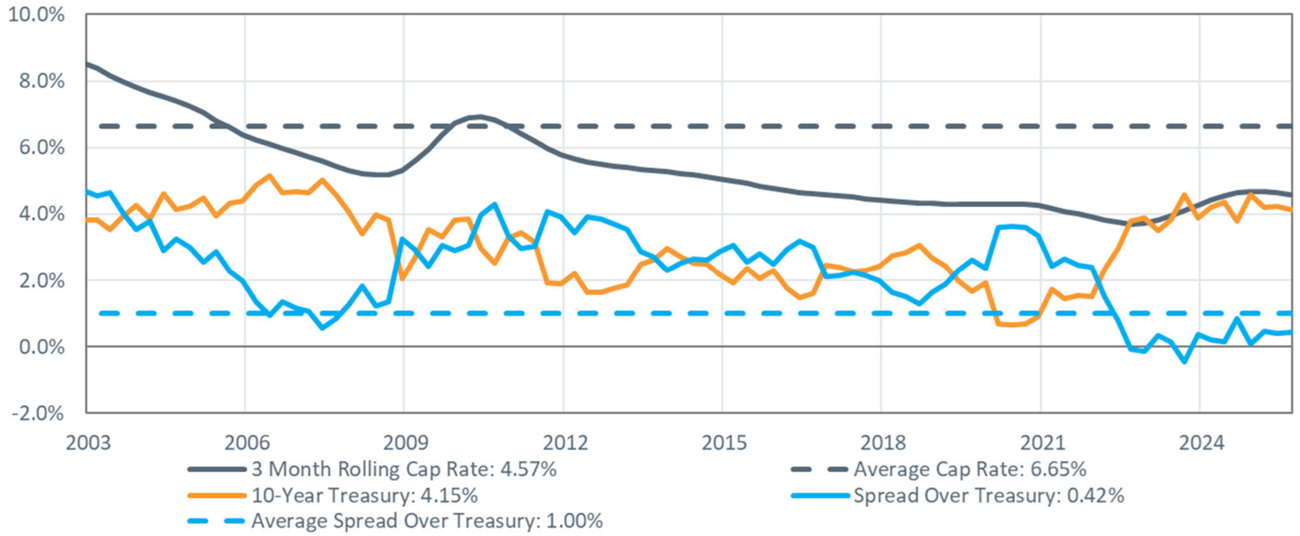



Source: FactSet. Data as of December 31, 2025.

*10-Year Cape Ratio

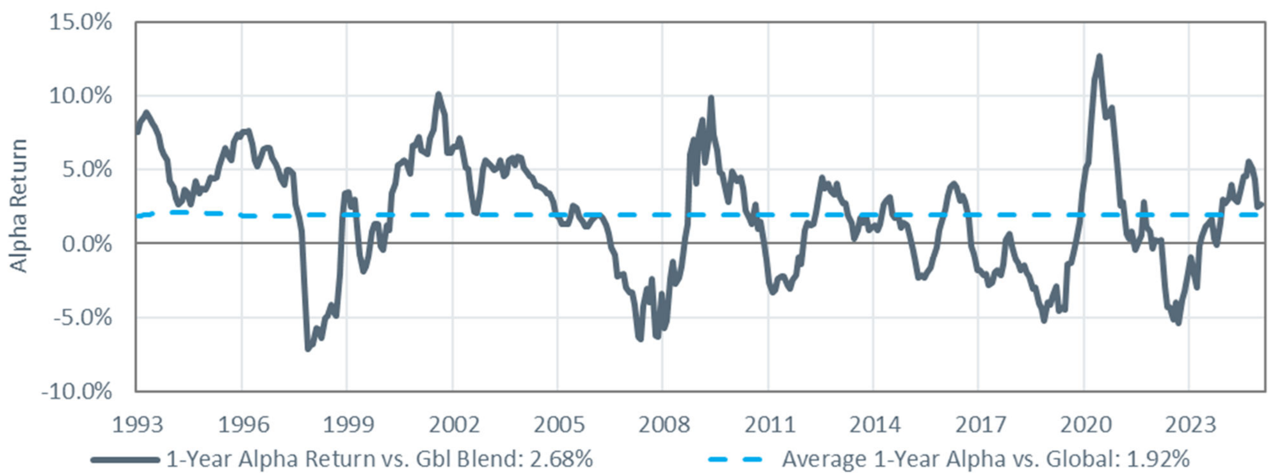
**Real Estate:** Our core real estate return expectation increased as income yields remained steady and valuations stabilized year-over-year. However, income levels are still challenged relative to improved Treasury rates, with cap rates and spreads remaining relatively low (Figure 6).

**Figure 6: Cap Rates & Spreads: NCREIF ODCE Index**




**Hedge Funds:** Hedge fund return assumptions were increased slightly to reflect a general upward trend in alpha levels as well as modeling outcomes for residual beta sources. Alpha levels remain fairly robust since inception, but post-GFC alpha levels are more muted (Figure 7).

**Figure 7: HFRI Multi-Strategy 1-Year Rolling Alpha**




Source: NCREIF and FactSet. Data as of September 30, 2025.

**Private Equity:** The private equity return forecast was decreased due to the reduction in the underlying public market return forecast. The Large/Mid Cap US Equity assumption was decreased by 0.25%, mostly due to higher valuations. Our spread (illiquidity premium) assumption was maintained at 275 basis points (geometric) above Large/Mid Cap US Equities, due to a variety of factors, including the changing characteristics of the public market reference index.

**Figure 8: Annual Return Differential***

**Cambridge US Private Equity & Venture Capital Index vs. S&P 500 Index**

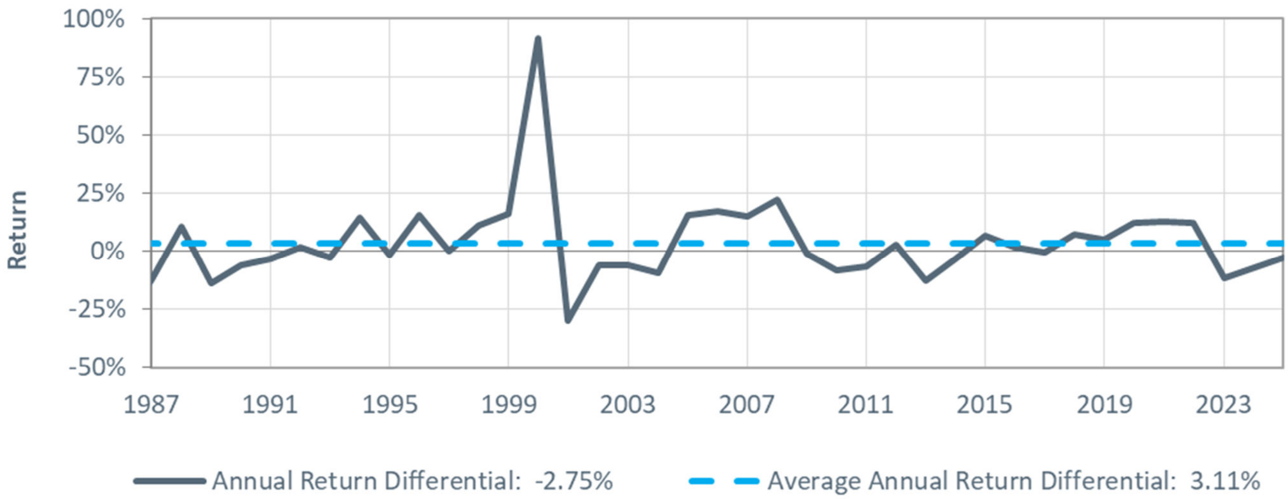
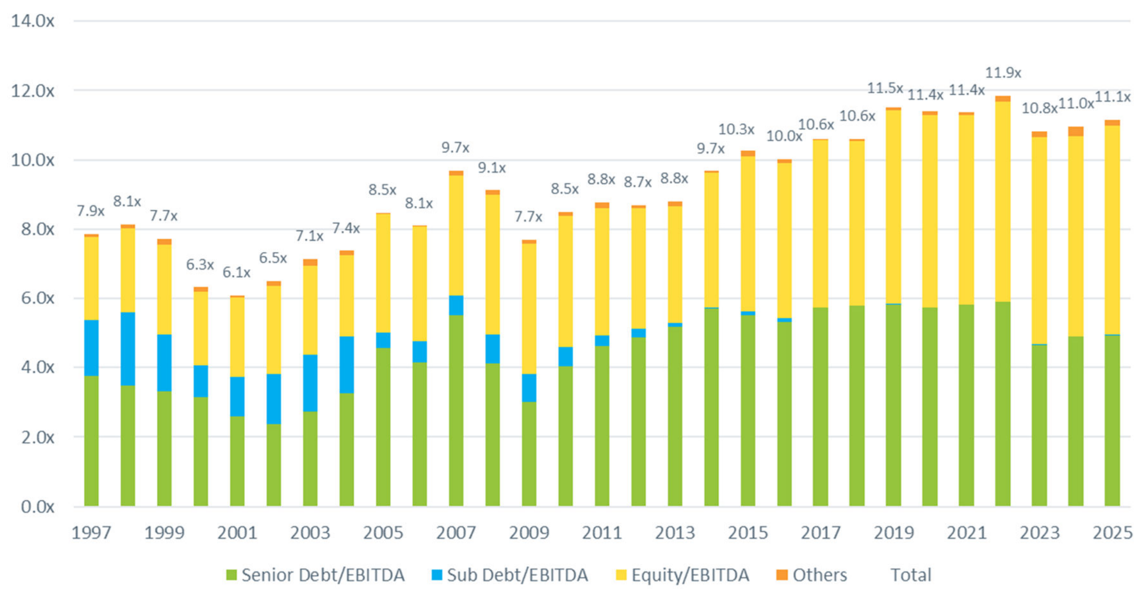



**Figure 9: Private Equity Price Multiples****

**Average Purchase Price and Equity Contribution by Sponsors of All LBO Loans—Purchase Price Breakdown**

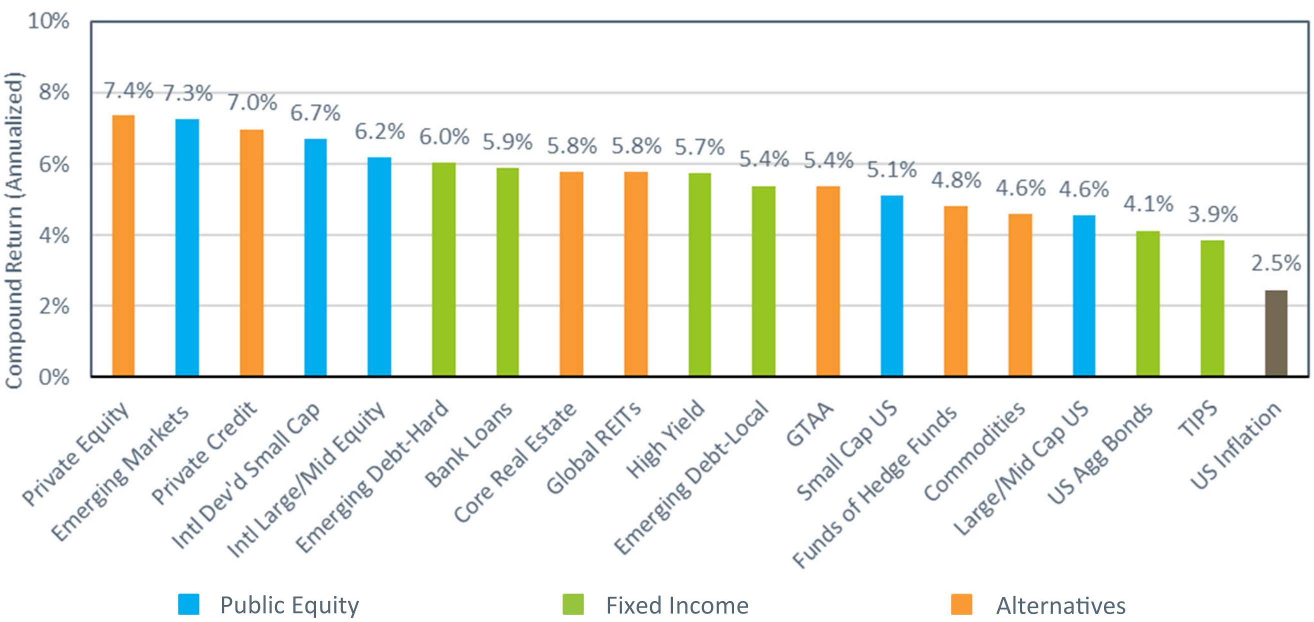



Note: *Source: Cambridge Associates LLC and FactSet. Data as of June 30, 2025. Cambridge index is pooled horizon internal rates of return, net of fees, expenses, and carried interest. ** Source: Pitchbook. Data as of December 31, 2025. Prior to 2003 Media, Telecom, Energy, and Utility deals were excluded. From then on, all outliers, regardless of industry are excluded.

## 2026 Long-Term Return Expectations and Uncertainty of Returns

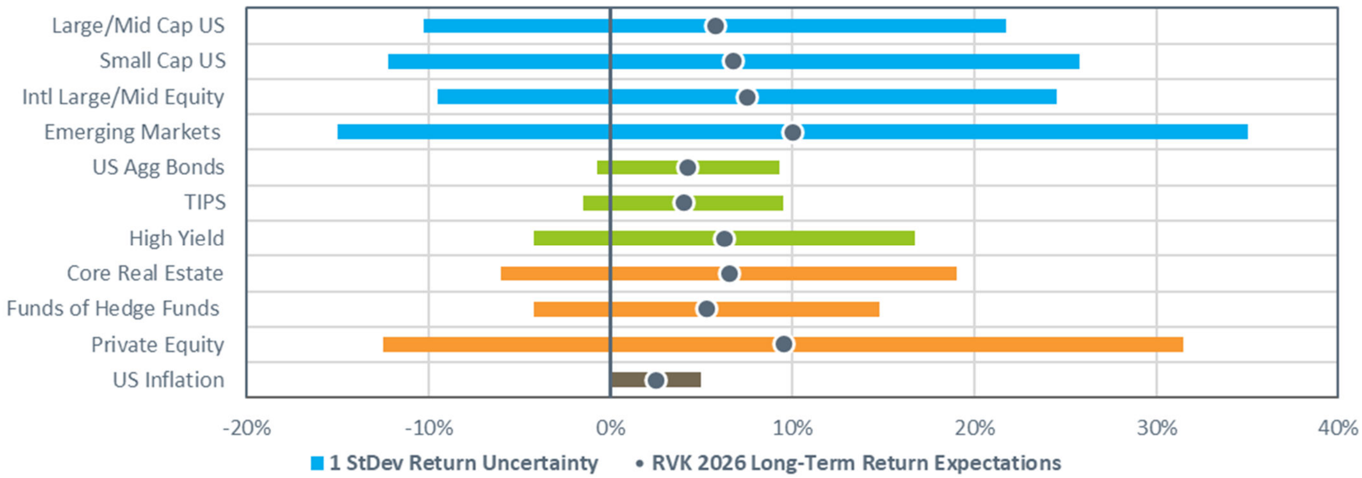
| Asset Class | 2025 Nominal Return | 2025 Risk (St. Dev.) | 2026 Nominal Return | 2026 Risk (St. Dev.) | Change (2025-2024) Nominal Return | Change (2025-2024) Risk (St. Dev.) |
|---|---|---|---|---|---|---|
| Large/Mid Cap US | 6.00% | 16.00% | 5.75% | 16.00% | -0.25% | 0.00% |
| Small Cap US | 6.75% | 19.00% | 6.75% | 19.00% | 0.00% | 0.00% |
| Intl Large/Mid Equity | 8.25% | 17.00% | 7.50% | 17.00% | -0.75% | 0.00% |
| Intl Dev'd Small Cap | 9.00% | 20.00% | 8.50% | 20.00% | -0.50% | 0.00% |
| Emerging Markets | 10.75% | 25.00% | 10.00% | 25.00% | -0.75% | 0.00% |
| US Agg Bonds | 4.50% | 5.00% | 4.25% | 5.00% | -0.25% | 0.00% |
| Emerging Debt-Hard | 7.00% | 10.00% | 6.50% | 10.00% | -0.50% | 0.00% |
| Emerging Debt-Local | 6.25% | 11.50% | 6.00% | 11.50% | -0.25% | 0.00% |
| TIPS | 4.00% | 5.50% | 4.00% | 5.50% | 0.00% | 0.00% |
| High Yield | 7.00% | 10.50% | 6.25% | 10.50% | -0.75% | 0.00% |
| Bank Loans | 6.50% | 9.00% | 6.25% | 9.00% | -0.25% | 0.00% |
| Core Real Estate | 6.25% | 12.50% | 6.50% | 12.50% | 0.25% | 0.00% |
| Global REITs | 7.75% | 21.00% | 7.75% | 21.00% | 0.00% | 0.00% |
| Funds of Hedge Funds | 5.00% | 9.50% | 5.25% | 9.50% | 0.25% | 0.00% |
| GTAA | 5.75% | 9.00% | 5.75% | 9.00% | 0.00% | 0.00% |
| Private Credit | 8.00% | 13.00% | 7.75% | 13.00% | -0.25% | 0.00% |
| Private Equity | 9.75% | 22.00% | 9.50% | 22.00% | -0.25% | 0.00% |
| Commodities | 6.00% | 17.50% | 6.00% | 17.50% | 0.00% | 0.00% |
| US Inflation | 2.50% | 2.50% | 2.50% | 2.50% | 0.00% | 0.00% |

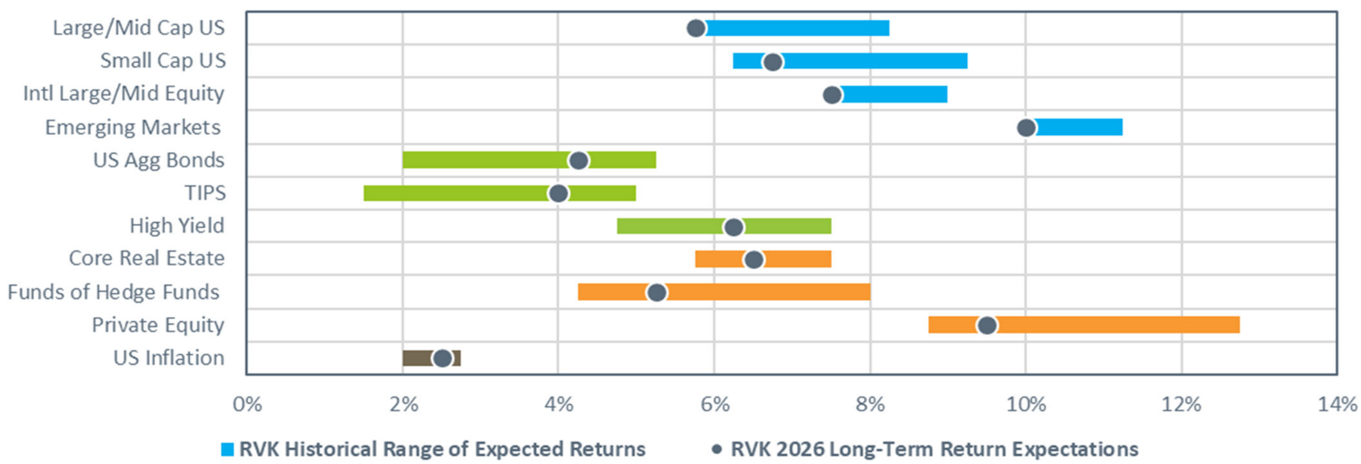
## 2026 Long-Term Return Expectations and Uncertainty of Returns



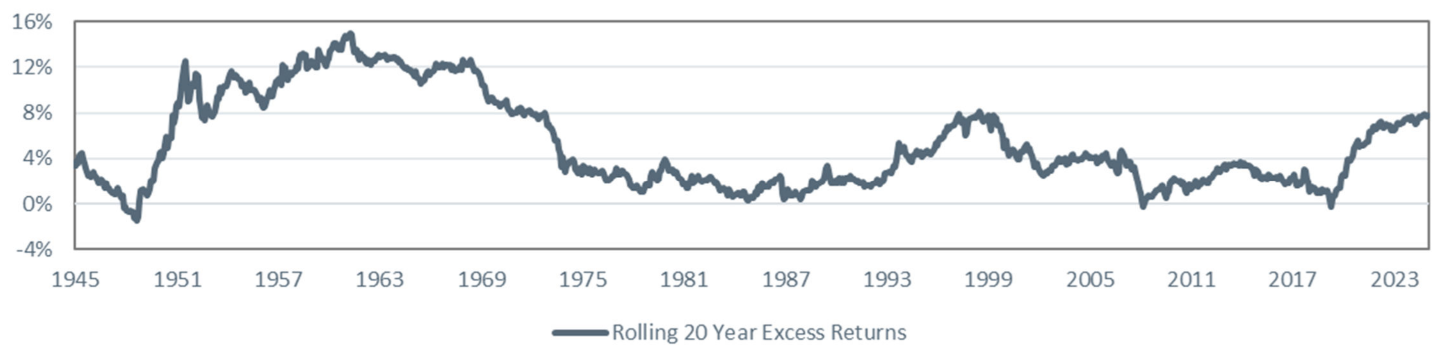

Note: The compound (or geometric) return assumptions account for the dampening effect of volatility on the asset classes' compounding of returns over time, and thus are less than their arithmetic counterparts over time.

## 2026 Long-Term Return Expectations and Uncertainty of Returns*




## Historical Return Premium of Stocks vs. Bonds**




Note: *Data shown includes 2007 through 2026 Capital Market Assumptions for selected asset classes.
**Stocks are represented by the S&P 500 index, while bonds are represented by the US Intermediate bonds prior to 1976, and the Bloomberg US Aggregate Bond Index thereafter.

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