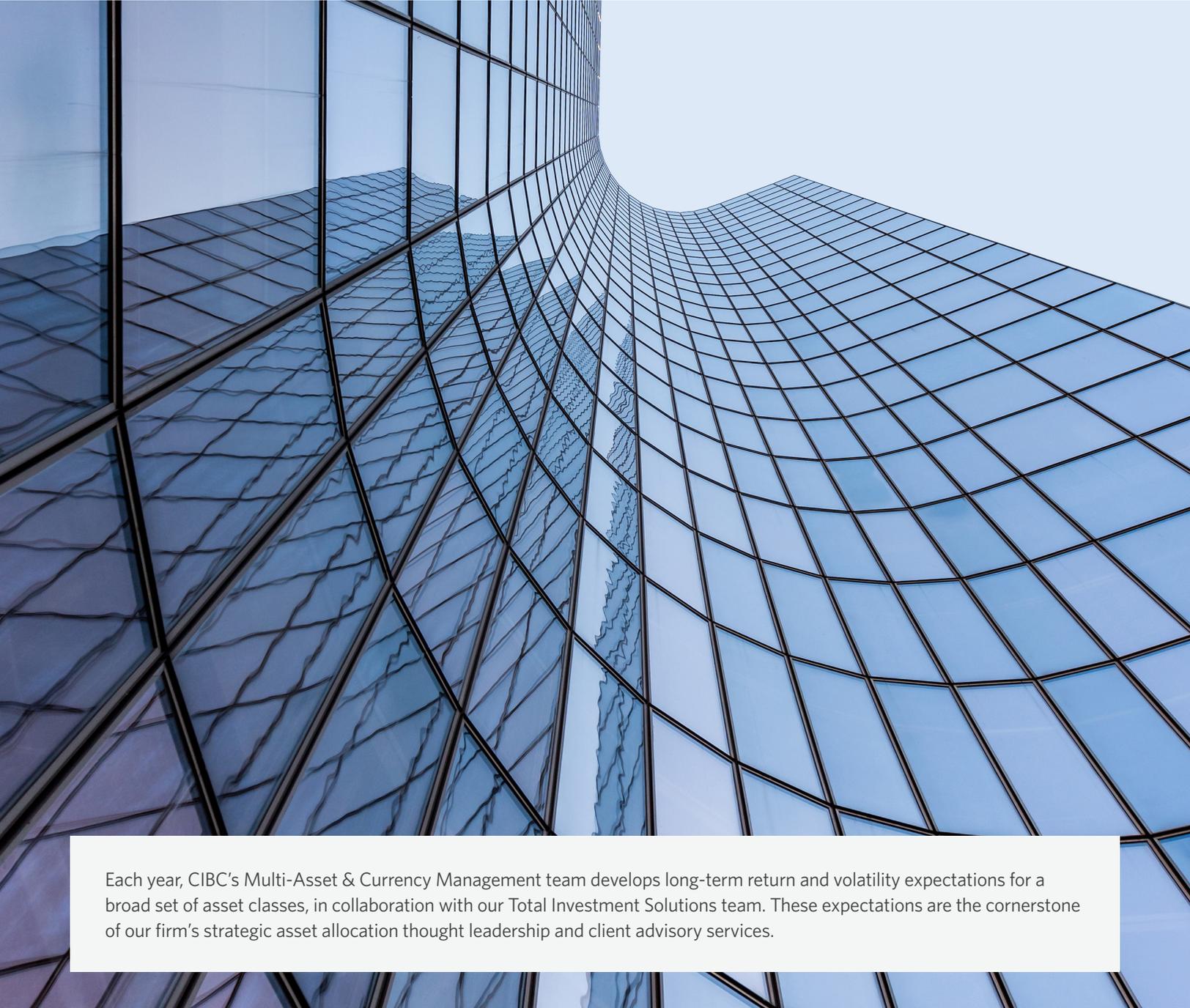# 2026 Long-term annualized capital market expected returns

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Each year, CIBC's Multi-Asset & Currency Management team develops long-term return and volatility expectations for a broad set of asset classes, in collaboration with our Total Investment Solutions team. These expectations are the cornerstone of our firm's strategic asset allocation thought leadership and client advisory services.

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Introduction

Each year, we publish annualized expected returns for the next 10 years — a horizon that looks past the cycle while remaining anchored in fundamentals. These expected returns are key inputs to our strategic thinking on portfolio construction.

Key takeaways

- **Nominal GDP Growth:** We have a constructive growth outlook for the next 10 years in aggregate — one in which favourable tailwinds, including investment spending on AI and automation, infrastructure, and defense, dominate negative factors that include adverse demographics in many countries.

- **Global Equities:** Resilient nominal economic growth should underpin healthy global earnings growth over the next decade. We also expect margin improvements driven by AI adoption. Elevated valuations, especially in the US, remain a structural headwind to long-term returns. Overall, we expect most markets to deliver mid- to high-single-digit returns in local currency (LC) terms, with Emerging Markets (EMs) offering the most attractive opportunities.

- **Global Fixed Income:** Developed Market (DM) government bonds are expected to deliver 3.0–4.5% annualized returns (LC) and to remain key portfolio diversifiers in periods of economic weakness. Canadian corporate bonds are expected to return 4.5% annually, while EM government bonds offer the highest return potential at over 7% per year (LC).

- **US Dollar (USD):** The dollar remains overvalued versus most currencies, including the Canadian dollar (CAD). This valuation gap presents a structural headwind for non-US investors in US assets. A constructive global growth backdrop and large US external and fiscal deficits should support a gradual move in USD back towards its long-term fair value. In the process, this adjustment is expected to subtract an annualized 0.8% from CAD-based returns on US assets. The performance of currently undervalued EM Asia currencies is expected to enhance local asset returns in these countries.

- **Alternatives:** We project annual expected LC returns of 6–8% for absolute return Liquid Alternatives and commodities — broadly in line with equities, but with added diversification benefits. Private credit and private equity are expected to deliver LC returns closer to 9-10%.

- **Balanced Portfolios:** The 10-year annualized expected return for a representative balanced portfolio (60% equities, 40% fixed income) is 5.7%, moderately higher than last year's 5.3%. This improvement reflects a smaller USD headwind; the dollar depreciated in 2025 and so is less overvalued than at this time last year. Expected returns to a balanced portfolio can be enhanced through an allocation of risk to active portfolio strategies, a funded tactical asset allocation overlay, and exposures with associated higher expected returns than traditional public equity and fixed income. These include EM equities and fixed income, and a range of absolute return and private market alternatives.

Table 1: Long-term expected returns and volatility

Fixed Income	CAD	LC	Vol. in CAD****
Canada 2Y government index*	2.9%	2.9%	1.2%
Canada 10Y government index*	3.7%	3.7%	5.6%
FTSE Canada All Corporate Bond Index	4.5%	4.5%	4.2%
Canada FTSE Universe Index	3.8%	3.8%	5.2%
US 10Y government index*	3.8%	4.5%	8.2%
ICE BofA US Corporate Index	4.6%	5.3%	6.0%
ICE BofA US High Yield†	4.1%	4.8%	9.7%
JP Morgan GBI Global Ex-Canada Unhedged	3.9%	4.2%	7.2%
JP Morgan GBI-EM LC Unhedged	7.2%	7.1%	6.1%

Equity	CAD	LC	Vol. in CAD****
Canada S&P/TSX Composite Index	6.2%	6.2%	11.8%
US S&P 500 Index	5.2%	6.0%	11.2%
MSCI EAFE Index	6.1%	6.1%	11.3%
MSCI Europe	5.2%	5.8%	12.6%
MSCI Japan	8.8%	7.1%	10.6%
MSCI Korea	9.2%	8.2%	16.4%
MSCI Australia	7.1%	7.1%	13.3%
MSCI Emerging Markets Index	8.6%	8.1%	13.0%
MSCI EM ex China	8.9%	8.4%	13.3%
MSCI Emerging Asia	8.4%	8.0%	14.0%
MSCI Emerging Europe	7.6%	7.3%	16.6%
MSCI Emerging Latam	10.7%	10.7%	23.5%
MSCI China	7.7%	7.4%	20.7%
MSCI All Country World Index	5.8%	6.2%	11.4%

Alternatives	CAD	LC	Vol. in CAD***,****
Private credit**	8.0%	8.6%	5.1%
Private equity**	9.2%	9.8%	9.4%
Core real estate**	6.2%	6.8%	7.9%
Private infrastructure**	8.1%	8.7%	9.1%
Liquid Alternatives*****	7.5%	7.5%	5.6%
Bloomberg Commodity Index	6.1%	6.9%	12.7%
Bloomberg Agriculture Index	6.4%	7.2%	15.4%
Crude oil (Brent)	5.4%	6.2%	37.0%
Copper	5.9%	6.7%	18.7%
Gold	6.7%	7.5%	13.7%

Source: Calculated by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg, and PitchBook. Calculations based on data available as of December 31, 2025.
*Represents the expected return of a constant-maturity bond index that maintains a specific maturity by rebalancing every year, and which would be different from a buy-and-hold-to-maturity investment.
Assumes 75% investment in the US and 25% in Canada. ***The volatility figures for private alternatives are lowered by infrequent reporting that leads to artificial return smoothing compared with public market equivalents. ****Historical data. *** Local currency for Absolute Return Liquid Alternatives is CAD. † Vol for HY is calculated on excess returns over treasuries, in local currency.

1. Methodology in a nutshell

We construct annualized expected returns for a broad set of public and private market asset classes over the next 10 years. This time frame is long enough to look past cyclical trends — which are addressed in our companion quarterly *Perspectives* publication — yet not so distant that the key fundamental determinants of returns become unforecastable with reasonable confidence.

We consider macroeconomic variables to be the primary long-term drivers of the components of capital market returns. These components include current income (for instance, dividend yields and interest rates), income growth (proxied by nominal GDP growth and a multiplier), and reversion to long-term equilibrium valuations.

2. Global economic outlook

2.1. GDP and inflation

Table 2: Real GDP growth and inflation assumptions

| Country or region	GDP (10yr avg.)	Inflation (10yr avg.)
Canada	2.0%	2.1%
US	2.2%	2.3%
Euro area	1.3%	2.1%
UK	1.4%	2.1%
Japan	0.8%	1.9%
Australia	2.3%	2.5%
China	4.0%	1.2%
Korea	2.3%	2.0%
India	6.5%	4.1%
Brazil	2.3%	3.1%
Mexico	2.3%	3.2%

Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg, Oxford Economics. Calculations based on data available as at December 31, 2025.

- **Global Economic Outlook:** Our 10-year economic forecasts (**Table 2**) are largely unchanged from last year. We expect robust investment tailwinds (discussed in section 2.3) to generate sufficient growth to offset demographic headwinds. In most economies — including the US, Canada, euro area, Japan, and India — we expect GDP growth to remain close to its average of the past 20 years.

- **US:** Our forecast of 2.2% annual average GDP growth is well above the forecast of the US Congressional Budget Office (CBO) and the US Federal Reserve (Fed), which are 1.8% and 1.8-2.0%, respectively. The positive gap can be attributed to stronger expected investment and productivity tailwinds.

- **Canada:** As with the US, albeit to a lesser extent, we expect Canadian GDP growth to be supported by investment tailwinds, including expanded military spending under Canada's pledge to NATO to raise spending, natural resource development, and strategic infrastructure including advancing Arctic projects. These investment tailwinds will help to mitigate the growth impediment related to stalling population growth.

- **China:** Our upbeat GDP forecast reflects the manufacturing sector's value-chain gains and price-advantaged excess capacity in global markets. China dominates manufacturing across renewables, electric vehicles (EVs), batteries, and consumer goods, and is positioned to lead in large-scale robot production. Persistent housing and demographic headwinds partially offset these positives, dampening trend growth to 4% (Chinese growth has been trending down over time, averaging 5.8% in the last 10 years).

- **Euro area & Japan:** In both cases higher military spending and multi-year fiscal stimulus will support growth, but negative and growing demographic shocks are set to intensify, providing an offset. We expect growth in both economies to remain near the historical average of the last 20 years.

- **India:** Our solid growth outlook reflects favourable demographics associated with a young and growing population, rapid urbanization, and investment spending motivated by a deficit of infrastructure. We expect the country to become the fourth largest economy over the next 10 years.

- **Global Inflation:** We expect global inflation to remain anchored near central bank targets in most economies. This represents a structural departure from the Lower for Longer regime (characterized by weak inflation and low interest rates) that followed the Global Financial Crisis (GFC). This shift is fundamentally supported by a confluence of robust investment tailwinds — most notably in AI and related infrastructure spending, and increased military expenditures (see boxes 1-3) — together with negative output gaps that have generally narrowed toward zero or become positive in certain cases. While these factors have traditionally signaled upward price pressure, we see limited upside for inflation due to expected disinflationary impacts of AI on services inflation (which should help mitigate labor shortages), renormalizing rent inflation, and excess capacity in China (which limits upside for goods inflation).

- **US Inflation:** The US is the main outlier on inflation — we expect inflation to remain above the Fed's 2% target due to a growing worker shortage, driven by lower immigration and elevated deportations, as well as a more positive output gap. We project the Fed's preferred core Personal Consumption Expenditures (PCE) to average 2.3%, an outcome similar to the mid-2000s (**Chart 1**).

Chart 1: US inflation to remain above target over the next 10 years on average

Illustrative example: US
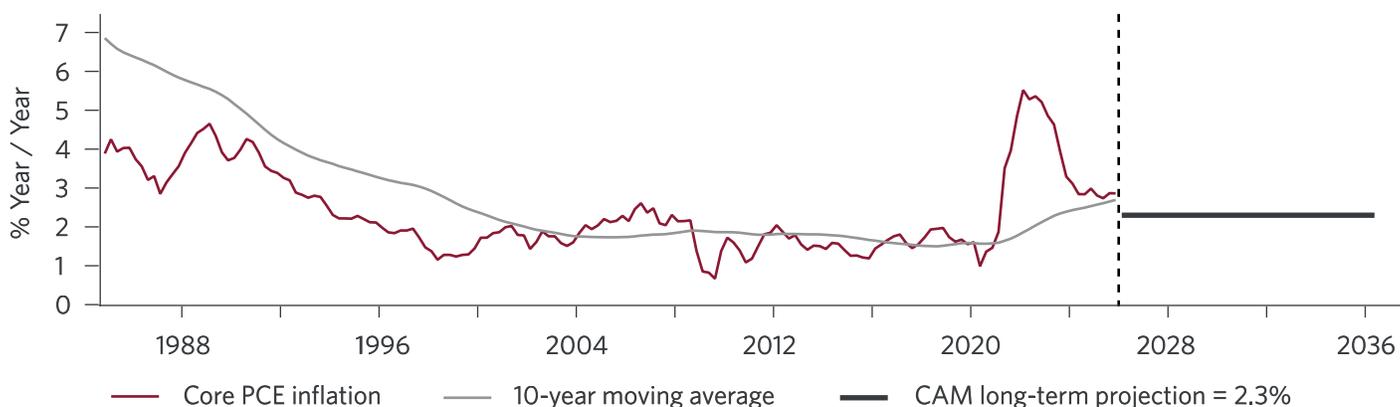
Source: The information was calculated by CIBC Asset Management Inc. (CAM) using data from the following third-party service provider: Bloomberg. Data as at December 31, 2025. PCE refers to Personal Consumption Expenditures. Core inflation excludes volatile food and energy prices.
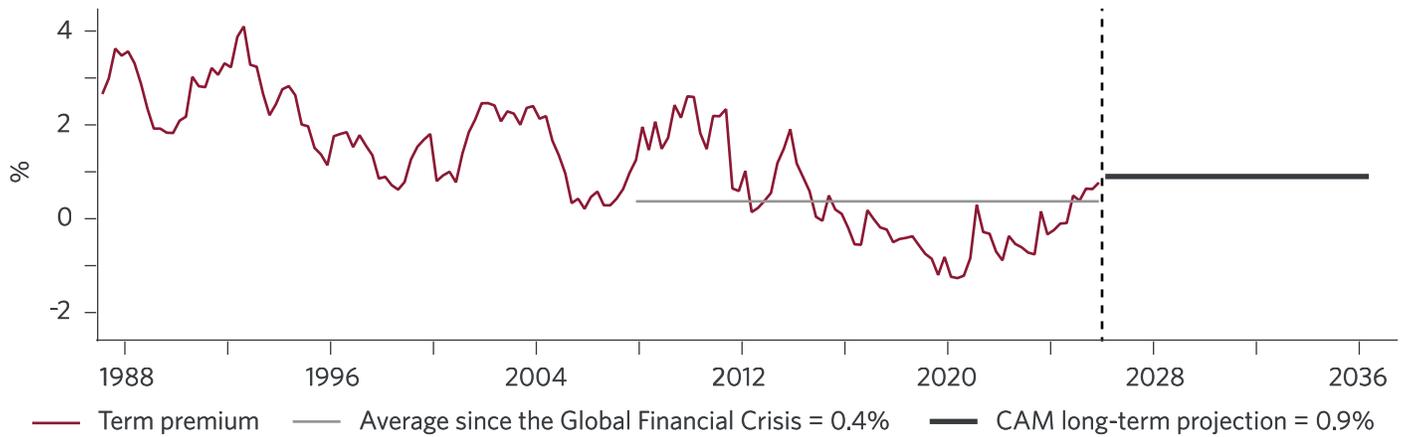
For illustrative purpose only.

2.2. Interest rate outlook (with a focus on the US)

- **Global Interest Rate Outlook:** Our constructive, investment-driven global economic outlook is consistent with sustained, elevated global demand for savings. Concurrently, the global supply of savings will likely moderate due to ageing populations. These evolving supply-demand dynamics are expected to place upward pressure on term premia, which compensate investors for duration risks.

- **US Term Premium:** The combined effects of global savings supply-demand, sticky US inflation, elevated US fiscal deficits, and increasing concerns over US institutional quality among certain investors are expected to exert upward pressure on the US term premium. Our long-term fair value estimate of this premium is 90 basis points (bps), which aligns with levels observed before the GFC (**Chart 2**). A partial mitigant is our expectation that the Fed will maintain the current size of its balance sheet relative to GDP.

- **US Long-Term Policy Rate:** The target policy rate—at which economic activity and inflation are balanced—is projected to settle between 3.25% and 3.50% (**Chart 3**). Our outlook remains unchanged from last year and continues to be above the Fed's long-term projection of 3.0%.

- **US 10-Year Government Bond Yield:** Based on our projections for the neutral nominal policy rate and term premium, we estimate the long-term fair value of the 10-year yield to be 4.3%. This estimate is unchanged from last year; we note that the CBO revised its long-term yield estimate up to 4.4% from 3.8% driven by a higher estimated term premium.

- **International Comparisons:** We expect equilibrium government yields in most DMs outside the US to remain within a 3-4% range. EMs exhibit higher equilibrium yields, with most countries falling within a 4–8% range. This reflects stronger potential GDP growth and country-specific risk premia. Our estimate for the implied equilibrium bond yield for the JP Morgan GBI-EM Global Diversified Composite Unhedged Bond Index is 6.5% excluding China and 6% including China.

## Chart 2: Slightly higher term premium over the next 10 years

Illustrative example: US

Term premium — Average since the Global Financial Crisis = 0.4% — CAM long-term projection = 0.9%

Source: The information was calculated by CIBC Asset Management Inc. using data from the following third-party service provider: Federal Reserve Bank of New York. Data as at December 31, 2025.
For illustrative purpose only.

Chart 3: Limited downside for policy rates in the next 10 years

Illustrative example: US

Fed funds rate — 10-year moving average — CAM long-term projection = 3.4%
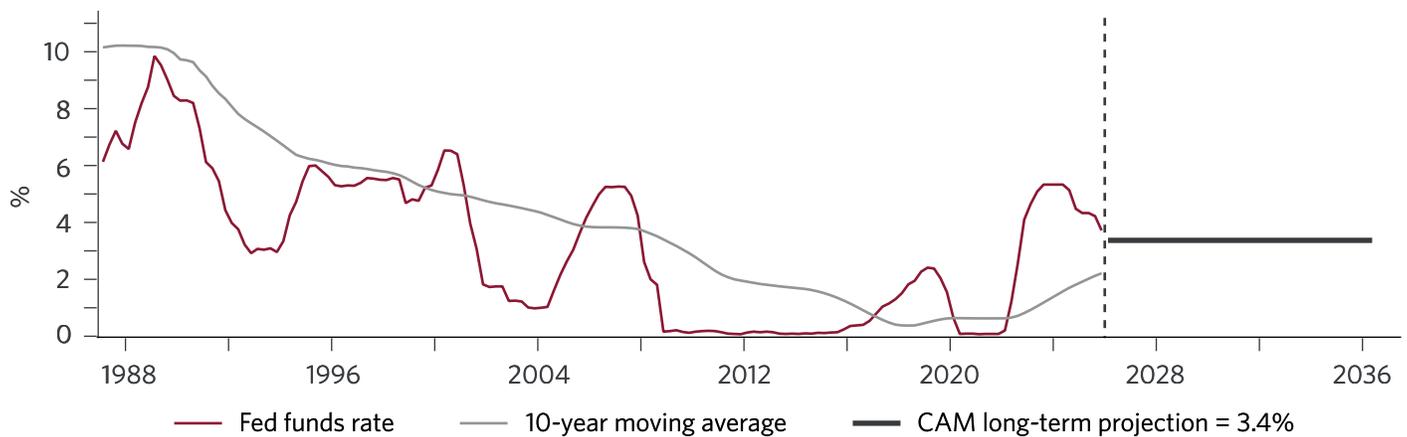
Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Bloomberg. Data as at December 31, 2025.
For illustrative purpose only.

3.   Investment tailwinds underpin our constructive outlook

Our constructive global economic outlook is underpinned by strong investment tailwinds that drive earnings growth and sustain elevated interest rates. Similar to last year, the list of investment tailwinds is long and includes:

- **Strengthening Strategically Important Supply Chains:** Investment is increasing in critical minerals, benefiting mining sectors in Canada, Australia, and Latin America, and in semiconductors and advanced technology supporting industries in the US, Japan, and South Korea.
- **Tech Investment:** AI and robotics are expected to provide significant advantages for industrial and manufacturing sectors by complementing skilled workers, automating low-value tasks, and supporting profit margins while mitigating labor shortages. China's ambitions for a world-class AI-driven military are likely to spur rival strong, inelastic tech investment, especially in the US.
- **Increased Military Investment:** NATO countries and US allies in the Asia-Pacific (Japan, South Korea, Australia, New Zealand, and the Philippines) are expected to raise annual military spending from about 1-2% currently to approximately 3.5% of GDP over the next decade.
- **Infrastructure Gap:** DM economies face rising costs associated with the maintenance and upgrade of existing infrastructure. US infrastructure investment spending is projected to exceed 1% of GDP annually by the American Society of Civil Engineers.
- **Pressure On Global Power Grids:** Surging electricity demand from AI data centers, EVs, industrialization, and climate change, are putting immense pressure on aging infrastructure. Meeting this demand will require grid investments exceeding 2% of total global GDP over the next decade.[1]
- **The Energy Transition Continues:** The International Energy Agency (IEA) forecasts over 5,500 GW of new renewable energy capacity by 2030, matching the current combined capacity of China, the EU, India, and the US. This will benefit China, the largest producer of renewable energy equipment, as well as resource suppliers such as Chile, Peru, South Africa, Indonesia, Australia, and Brazil.
- **India's Rise:** India has significant untapped economic potential and may surpass China as the most important driver of global economic growth by the end of the current decade. To realize this potential, the country must address a major infrastructure gap, which — along with urbanization — is expected to drive nearly half of India's potential growth.

Box 1: The global race for autonomous labor: Inelastic demand for AI infrastructure

The global race toward autonomous labor is a capital-intensive tailwind for the global economy. AI development, particularly AI-powered autonomous labor, is becoming a geopolitical and economic imperative for major economies, especially the US and China. Demand for AI and related infrastructure could increase world GDP by about 1% over the next five years according to external estimates.[2] Training AI for robot automation is far more complex and costly than for chatbots, requiring significant investment in virtual environments since millions of physical humanoid robots are not yet available. The gradual mass production of humanoids and robots is expected to support growth but also increase demand for natural resources required, particularly cyclical metals such as copper and aluminum.

Strategic considerations should keep investment in AI and robotics strong and resilient. For the US and other DMs, autonomous labor is expected to facilitate the reshoring of strategically important industries while maintaining cost competitiveness. For China, autonomous labor should help preserve its global manufacturing advantage despite demographic challenges — its working age population is shrinking rapidly, emphasizing the urgency of replacing retiring workers with robots.[3]

The adoption of AI and robotics is expected to support productivity and help mitigate inflationary pressures arising from increasing labor shortages linked to population ageing in developed economies and China.

Key Investment Implications: AI-related investment in infrastructure, manufacturing capacity, robots, and natural resources is expected to generate global growth tailwinds and productivity gains, positively impacting corporate earnings through direct sales and stronger margins. US equities are well-positioned to capitalize on AI due to a concentration of technology leaders and first-mover advantage. Importantly, these advantages are sensitive to geopolitical and physical constraints, specifically the significant reliance on Taiwan's dominant role in semiconductor manufacturing and China's dominance over critical minerals and refining capacity essential for AI hardware. Chinese equities are also well positioned given increasing technological expertise and vast industrial data sets. While the US and China are central, we also anticipate a positive impact on equities in Japan and South Korea, where high robot density and leadership in AI are increasingly leveraged.

Box 2: Surging electricity demand and the one-two punch from copper scarcity

Global electricity demand is projected to grow substantially over the next decade, led by datacenters, rising EV penetration, cooling demand, and economic growth in EMs. The IEA projects electricity demand will rise by around 40% by 2035 and nearly double by 2050 (**Chart 4**),[4] enabling sustained infrastructure investment in nuclear, renewables, and power grids.

Chart 4: Electricity demand is expected to rise 40% by 2035
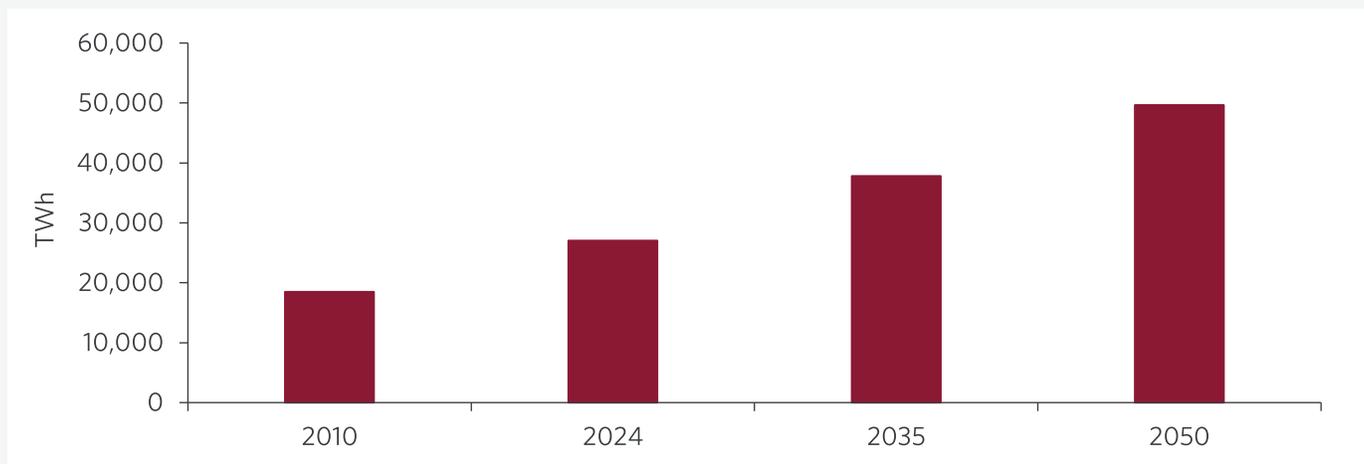
Source: The information was calculated by CIBC Asset Management Inc. using data from the following third-party service provider: IEA – The World Energy Outlook 2025. Data as at November 12, 2025. For illustrative purpose only.

Copper prices will likely experience continued upward pressure due to strong demand and tight supply. Datacenters, EVs, and renewables are all highly copper-intensive.[5] For example, datacenters require 10-20 times more power than traditional facilities,[6] driving a significant expansion of copper-heavy power distribution systems. Renewables use much more copper per megawatt than fossil fuel plants, and EVs require up to four times more copper than conventional cars. The IEA estimates that the world must add or replace 80 million kilometers of power lines by 2040, creating a significant copper supply shortfall.[7] Upside pressures on cyclical metals will eventually be passed through to consumers, reinforcing our view of sticky inflation.

Key Investment Implications: Investment tailwinds and cost-push inflation from cyclical metal prices limit the downside for yields. Equities are well positioned to benefit from investment tailwinds, particularly in sectors such as utilities and technology. However, a key risk to this outlook is potential bottlenecks — such as regulatory hurdles or a shortage of skilled workers — in the buildout of infrastructures.

# Box 3: Global military spending: From peace dividend to defense boom

Elevated geopolitical risk and the push to modernize military resources are prompting a significant increase in defense budgets across major economies. Since the early 2020s, the global geopolitical landscape has undergone fundamental changes. Key factors include the emergence of a multipolar world, shifts in US foreign policy, and reduced American deterrence resulting from China's rapidly expanding military capacity. Importantly, as the US already spends about 3.4% of GDP on military expenditures,[8] fiscal constraints are likely to impede it from substantially increasing this further.

The Peace Dividend that defined the post-Cold War era has given way to a period marked by prolonged conflict and heightened security demands. In 2024, according to the Stockholm International Peace Research Institute, world military expenditures increased to USD$2.7 trillion — a 9.4% increase over the previous year,[9] and the largest annual rise since 1988. We expect this trend to continue, and project global military spending as share of GDP to rise to levels last seen before the fall of the Berlin Wall (**Chart 5**). The most significant driver of this expenditure growth is the commitment by NATO allies to increase defense spending to 5% of GDP over the next decade, up from the previous target of 2%, as they adapt to a new multipolar reality.[10] Europe is undergoing a major rearmament cycle, led by Germany, with plans to double defense expenditures over the next five years and establish Germany as the continent's strongest conventional military. In Asia, Japan and South Korea are rapidly increasing their military budgets, driven by US pressure for allies to share a greater security burden, by China's growing assertiveness, and by North Korea's advancing nuclear program. Additionally, China is increasingly focused on naval expansion and intelligent warfare systems to counter potential US intervention in the Pacific.

We project that global military spending will reach approximately 4% of global GDP by 2035, a level last seen before the collapse of the USSR.

Chart 5: Military expenditures will comprise a larger share of GDP by 2035

Global military expenditures as a % of GDP
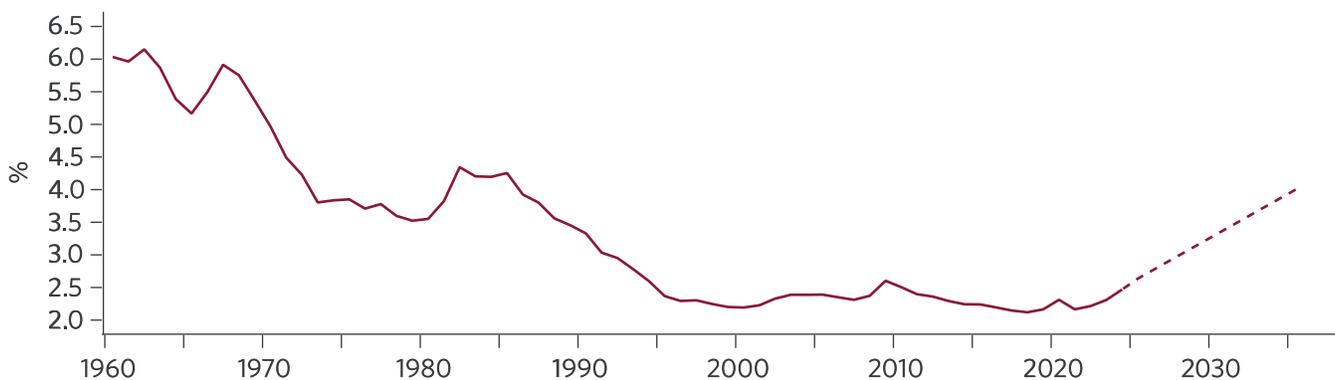
Source: The information was calculated by CIBC Asset Management Inc. using data from the following third-party service provider: World Bank. Data as at January 15, 2025.
For illustrative purpose only.

Key Investment Implications: We expect elevated military spending to support global growth in the next decade, and provide tailwind for equities, especially in markets with deep defense industrial bases. The US is expected to be a primary beneficiary, and relevant equity sectors in Europe — especially in Germany — are well-positioned to capitalize on this theme, driven by the region's historic rearmament drive. South Korea and Japan, both pledging significant increases to military budgets, are also poised to benefit given their industrial bases. Canada's commitment to significantly increase its military spending over the next decade should provide positive spillovers to its economy and equity markets.[11] For fixed income, this theme reinforces a less constructive outlook for DM government bonds, emphasizing the limited downside for yields.

4. Long-term expected returns

4.1. Currencies

Key Takeaways: USD remains overvalued against most currencies, including CAD, and particularly against several EM and Asian currencies. While its overvaluation narrowed in 2025, it remains elevated and is similar to conditions observed in the early 2000s, late-1980s, and mid-1970s — periods that were followed by sustained USD weakness (**Chart 6**). For Canadian investors, USD reversion back towards long-term fair value should lower expected returns on US assets and enhance expected returns on assets denominated in currencies more undervalued than CAD.

- **USD Overvalued:** Using our proprietary valuation methodology, we estimate USD is approximately 10% overvalued against a broad basket of currencies. For Canadian investors, this overvaluation is expected to diminish the average annual return on US assets by approximately 0.8%.
- **EM Currencies:** Conversely, many EM currencies remain undervalued versus CAD. Their projected appreciation over the long run should boost returns for Canadian investors holding local assets in these markets.
- **Other DM Currencies:** The expected impact of DM currencies varies for Canadian investors depending on the market. It is negative for the euro area and positive for Japan, and close to zero for Australia.

Chart 6: USD expensive, represents headwind for US assets

Trade-weighted estimated USD deviation from fair value, %

Source: Information calculated by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg. Data as of December 31, 2025.

4.2. Global Fixed Income

Key Takeaways: In DMs, most 10-year government bonds offer long-term annualized expected returns of 3.0-4.5% in LC terms (**Chart 7**). They also serve as key diversifiers, providing a hedge against downside growth risks. The attractiveness of US bonds is reduced by a negative currency impact. Expected returns are the highest for EM government bonds, also in LC terms.

- **Canadian Government Bonds:** A 10-year government bond index (constant maturity) offers an annualized expected return of 3.7%.
- **US Government Bonds:** Reflecting a USD headwind, we expect an annualized return of 3.8% in CAD terms. In LC, the outlook is a more attractive 4.5%.
- **Developed Markets Government Bonds:** We expect an annualized return of 3.9% in CAD terms and 4.2% in LC terms for the JP Morgan GBI Global Ex-Canada Index (unhedged).
- **Corporate and High-Yield Bonds:** Canadian corporate bonds offer investors an expected annualized return of 4.5%. The expected return on US investment grade and high-yield bonds will also be negatively affected by currency valuations, resulting in returns for Canadian investors of 4.6% and 4.1% for US investment grade and high-yield bonds, respectively.
- **EM Government Bonds (Denominated in Local Currencies):** EM government bonds continue to provide the highest expected returns within the fixed income universe, at 7.1% in LC terms, supported by high-yielding countries such as Brazil, India, Indonesia, Mexico, and South Africa.

Chart 7: Fixed income long-term expected returns*, %
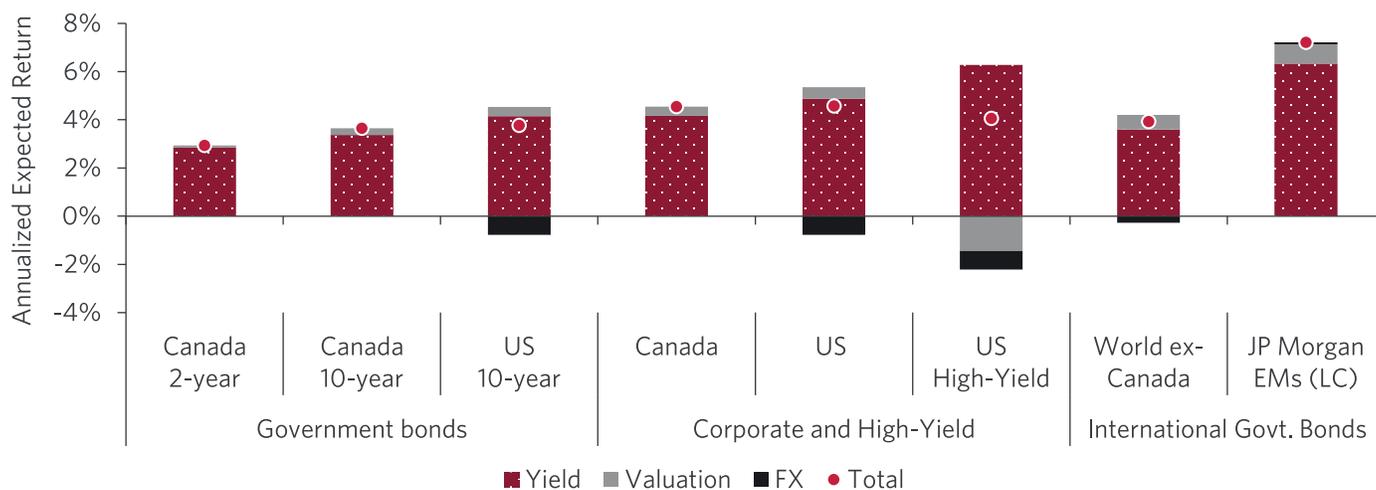
* Valuation comprises rolldown yield and default net of recovery.

Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at December 31, 2025.

4.3. Global Equity

Key Takeaways: We expect most equity markets to deliver mid- to high-single-digit average returns in LC terms over the next 10 years. Income (dividend yields) and income growth (earnings growth) are projected to perform well, supported by constructive macroeconomic prospects. Combining these factors implies a return outlook of 7-10% for most markets. This outlook is moderated by adverse valuation effects reducing LC expected returns to a range of 6-8%. The expected impact of currency returns differs across markets, with the negative USD valuation effect standing out as an outlier. In CAD terms, expected returns for most DMs equities are in a range of 5-7% (**Chart 8**), below the expected annual 8.6% return for EMs.

- **Canadian Equities:** We expect an annualized return for Canadian equities over the next 10 years to be 6.2%. This is higher than last year's annual expected return of 4.9%. The outlook has turned more constructive, underpinned by tailwinds for the mining sector. A robust gold price trend, driven by persistent geopolitical uncertainty and central bank diversification, provides support for higher profit growth in Canada's mining sector. Additionally, the sector stands to benefit from strong global demand for strategically important minerals essential to electric vehicle battery supply chains, defense and aerospace industries, and fertilizer production — areas where Canadian miners are well positioned. Beyond the mining sector, a strong financial sector — anchored by the stability and high dividend yields of major Canadian banks, as well as attractive relative valuations — offers a reliable foundation for higher expected returns. Given that the materials and financials sectors comprise over 50% of the index, our positive outlook for these sectors suggests Canadian equities are likely to perform well on average over the next decade and slightly outpace US and European equities in LC terms.

- **US Equities:** We expect annualized LC returns of 6.0%. This is virtually unchanged from last year's 6.1%, despite a larger valuation drag, which on a go-ahead basis is expected to subtract 2.2% from annual returns on average. For Canadian investors, the annualized expected return to US equity is 5.2%, up from last year's 4.2%, reflecting a reduced expected currency drag (as USD is less overvalued than a year ago). US stocks have become more expensive, with the US Cyclically-Adjusted P/E (CAPE) ratio (our preferred valuation metric) rising further above its long-term fair value of 26 (**Chart 9**). While both the timing and pace of reversion to fair value for CAPE ratios and currencies is uncertain and volatile, we believe the balance of risks surrounding our US equity outlook is slightly skewed to the upside over the medium term owing to several factors: 1) US stocks have the strongest earnings growth outlook, and reversion forces to fair value CAPE ratios could be delayed in a positive cyclical environment; 2) US equities are well-positioned to capitalize on the transformative potential of AI, given a high concentration of technology leaders and a first-mover advantage. Broad AI adoption could further enhance labor productivity, streamline operations, and improve corporate profit margins; 3) a more accommodative regulatory environment could further support private investment and mergers and acquisitions (M&A).

Chart 8: Equity long-term expected returns, %
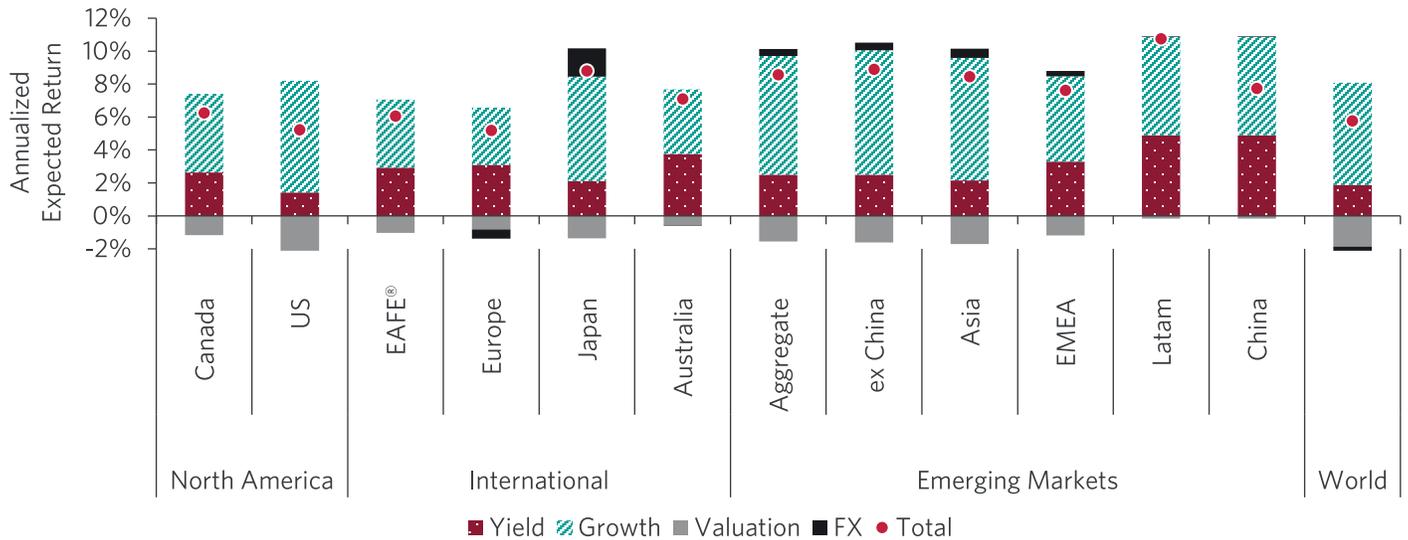
Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at January 31, 2025.

Chart 9: US equity valuations remain a modest headwind

US Cyclically-Adjusted P/E (CAPE) Ratio
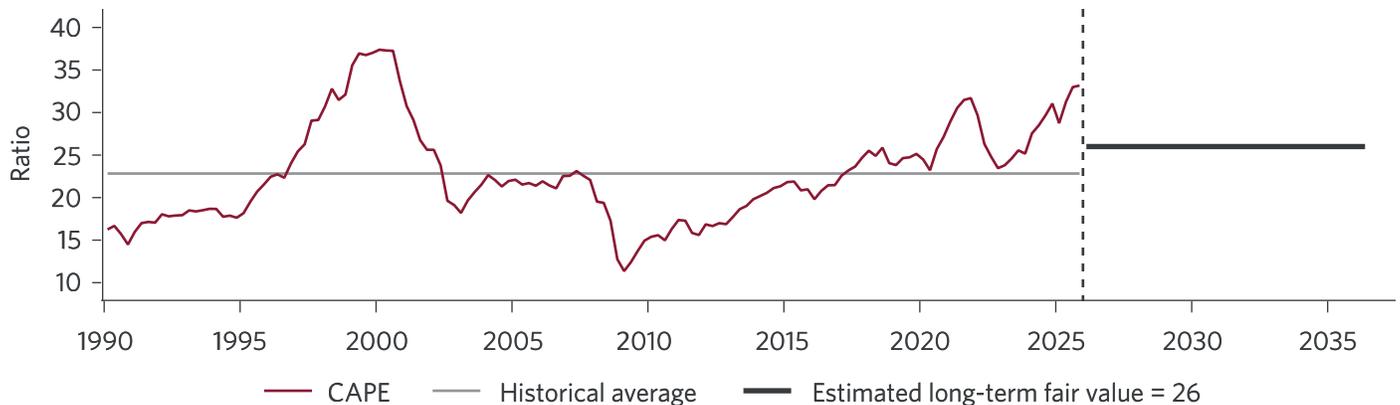
Source: Information prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Bloomberg. Data as of December 31, 2025.

For illustrative purpose only.

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- **International Equities (EAFE®):** Our annualized 10-year expected return in LC terms is 6.1%. This aggregate figure conceals heterogeneity across markets, with stronger outlooks for Japan (7.1%) and Australia (7.1%) compared to Europe (5.8%). Japan, with its significant exposure to industrials and manufacturing, is well-positioned to benefit from global investment tailwinds in technology and efforts to reduce economic reliance on China. Additionally, Japanese corporate reforms continue to gain momentum, focusing on profitability and shareholder value. Australia is likely to benefit from the global renewable energy transition, given its large reserves of critical minerals.[12] According to the IEA, the country has the second largest reserves of lithium, comprising about 23% of global reserves and 35% of global lithium output. In contrast, lower expected returns for Europe reflect important headwinds from China's growing EV dominance and aggressive export strategies to Europe, which continues to weigh on Germany's export capacity. These headwinds are only partially mitigated by a commitment to increased military spending and defense modernization. Overall, we consider the risks surrounding expected returns for international equities as balanced.

- **EM Equities Excluding China:** These markets have the highest expected annualized return, at 8.4% in LC terms. The main driver is projected earnings growth. Within EM Asia (excluding China), expected returns are supported by healthy domestic demand, geopolitical investment tailwinds, and a comparative advantage in semiconductor manufacturing (notably for Taiwan and South Korea). The outlook for CEEMEA (Central and Eastern Europe, Middle East, and Africa) and Latin America is slightly stronger, reflecting larger dividend yields, although these regions tend to exhibit greater volatility. An important factor for EM is the rise of the consumer, as reflected in equity index composition. Consumption sectors now account for approximately two-thirds of EM market capitalization, up from about 50% two decades ago. This theme suggests improved expected returns and reduced market volatility, as tertiary sectors exhibit less cyclicality than commodities and manufacturing.

- **China:** We expect an annualized return of 7.4% in LC terms, up from our previous 4.5% estimate. Sentiment toward Chinese equities has been cautious due to property sector weakness, but the outlook is improving significantly on other fronts. Advances in technology and high-end innovation are driving this change, enabling strategic investments in robotics, automation, and AI. The economy has been undergoing a transition from real estate-led growth to a model focused on "New Quality Productive Forces" — a state-led, capital-intensive strategy aimed at achieving technological leadership and industrial self-sufficiency.[13] Over the next decade, Chinese manufacturers are poised to benefit from accelerated penetration into international markets for high value-added goods and technology products, as well as improved margins, driven by ongoing technological advancements and the implementation of anti-involution policies.[14]

4.4. Liquid Alternatives and Commodities

Key Takeaways: We project annualized expected LC returns of 6-8% for Liquid Alternatives and commodities (**Chart 10**). This expected return is comparable to public equities and higher than public fixed income. In addition to attractive returns, these asset classes offer strong diversification and liquidity. Liquid alternatives — which span a wide range of strategies, including multi-strategy platforms, long/short equity, long/short credit, global macro, and active currency — tend to have low average correlations and betas to common market risk factors, and can outperform during economic slowdowns. And, as we discussed in Inflation and commodities: Medium-term outlook and portfolio implications, commodities can hedge against inflation, geopolitical risks, and climate change.

- **Liquid Alternatives:** We assume an expected annualized return of 5% plus cash, resulting in a total expected return of about 6.0-8.5% in LC terms, depending on the cash rate. This aligns with the standard targets for these investment strategies and is broadly consistent with historical performance.

- **Commodities:** The Bloomberg Commodity Price Index (BCOM) is expected to return an annualized 6.9% in LC terms. Expected returns are highest for gold and agricultural commodities. Gold is projected to return an average of 7.5%, supported by its role as a store of value and as a hedge against geopolitical tail risks — including military conflicts or a deterioration in the quality of US institutions, which may encourage central banks to increase further gold reserves and reduce exposure to US assets. Agricultural commodities have an annualized expected return of 7.2% annually in LC terms, primarily driven by the impact of climate change in food production and energy inflation. Copper is projected to return an annualized average of 6.7% in LC terms, reflecting its increasing importance in alternative energy production and infrastructure. Among major commodities, the outlook for oil is lower, and lower than its historical average, at 6.2% in LC terms, reflecting higher DM energy efficiency and increased global adoption of EVs. However, two factors could support oil prices: global underinvestment in fossil energy and a potentially slowing global EV transition, which may be constrained by insufficient charging infrastructure, inadequate power grid in EMs, and reduced subsidies for EV purchases in DMs.

Chart 10: Commodities, long-term expected returns, %
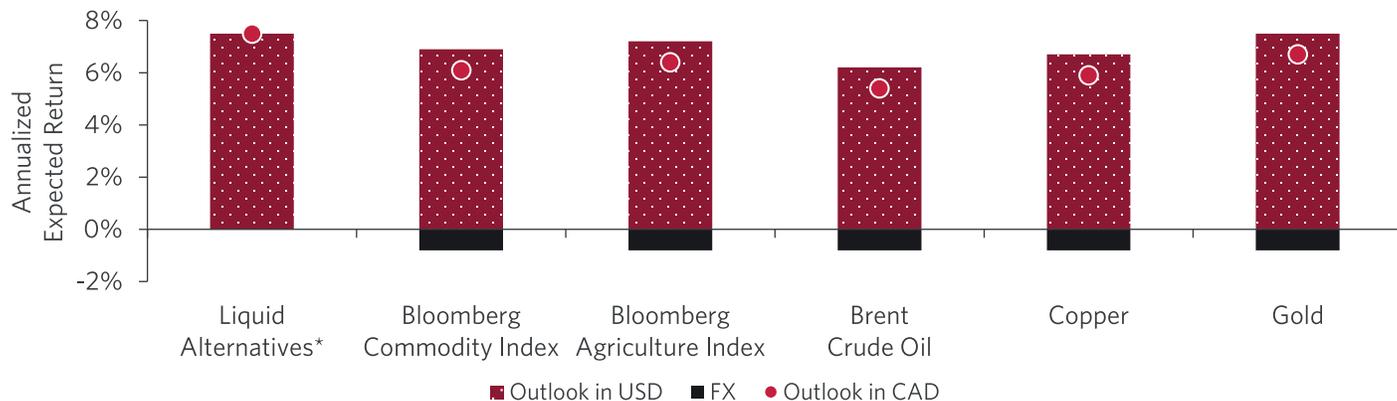
Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at December 31, 2025.

* Local currency for absolute return Liquid Alternatives is CAD.

4.5. Private Market Alternatives

Key Takeaways: Private market alternatives are expected to remain important complements to traditional public market asset classes, particularly in an environment of less favourable equity valuations and sticky inflation (above target) only in the US. We expect annualized returns in a range 7-10% in LC terms (**Chart 11**). Expected returns are supported by disciplined underwriting, better deal pricing, and stronger income profiles across private credit, real assets, and select private equity strategies. A prudent portfolio allocation focusing on high-quality assets in private credit, core real assets, and growth-oriented private equity strategies can help investors achieve steady income, inflation protection, and long-term capital appreciation.

- **Private Equity:** Our expected annualized LC returns are 9.8%. This enhanced return over public market equivalents reflects compensation for illiquidity, complexity risk, and exposure to idiosyncratic risk. Growth equity strategies, which represent the largest share of private equity deals, have gained traction as valuations have stabilized and mid-market investment opportunities have expanded. Managers with operational expertise and access to proprietary deal flow are expected to be better positioned, particularly in sectors related to technology enablement, health care, and business services.

- **Private Credit:** We expect an annualized LC return of 8.6% for unlevered direct lending strategies (gross yields). This represents a compelling yield premium relative to high-yield bonds. As M&A activity gradually rebounds and refinancing needs increase, both themes we expect to observe, private lenders are expected to play a larger role in financing, specifically across senior secured, asset-backed, and specialty strategies. Elevated spreads and floating-rate structures should continue to offer attractive risk-adjusted returns while providing some protection against rate uncertainty. Sectors like specialty finance and insurance-linked securities provide diversification and resilience with low correlation to public markets.

- **Private Real Estate & Infrastructure:** Our expected annualized LC returns are 6.8% and 8.7%, respectively. In real estate, demand is anticipated to remain strong in logistics, data centers, and multifamily housing; weaker office fundamentals require careful selectivity. Infrastructure, particularly renewable energy and digital assets, stands out for its inflation hedging features and stable income potential, with yield spreads in infrastructure debt remaining attractive.

Chart 11: Private alternatives, long-term expected returns, % (LC)
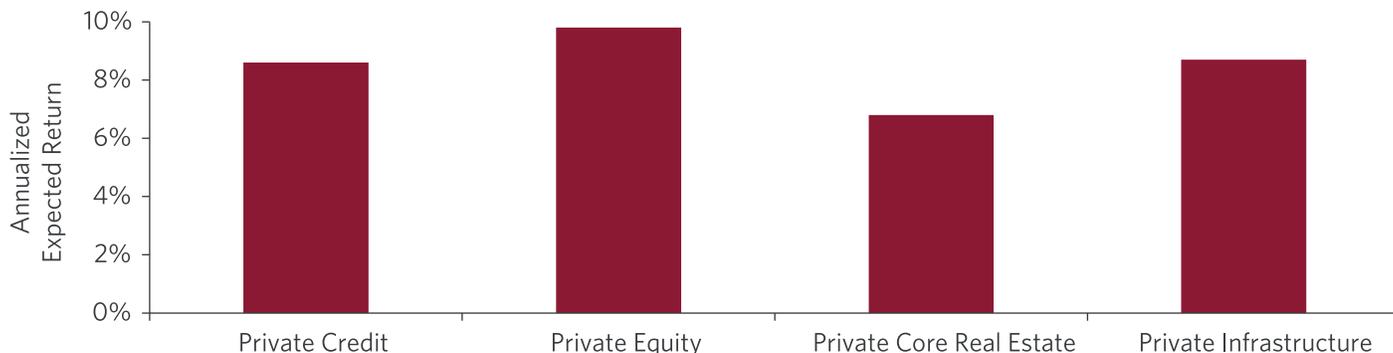
Source: CIBC Asset Management calculations using data from the following third-party providers: Bloomberg; PitchBook. Calculations based on data available as at December 31, 2025.

Appendix

Description of methodology

1. Public Market Fixed Income and Equity

Overview: We calculate expected returns using a building-block approach that includes: 1) current income, 2) income growth, and 3) reversion to long-term equilibrium valuation. For fixed income, equity, and currencies, we adopt the simplifying assumption of linear reversion to long-term fair value over our 10-year forecast horizon.

- **Current Income:** Coupons or dividend yields.
- **Income Growth, Equities:** This component captures the expected annualized percentage change in earnings per share (EPS), which is a function of projected trade-weighted nominal GDP growth and a multiplier. The multiplier equals 1.0 for most countries, indicating that total earnings grow at the same pace as aggregate demand. For countries with significant exposure to technology or strong investment tailwinds from infrastructure spending and geopolitical risks, including the US, we assume a moderately higher multiplier. Our EPS outlook is also influenced by share buybacks/dilution and expected changes in profit margins.
- **Income Growth, Government Bonds:** This component captures the impact of the difference between current and projected yields.
- **Long-Term Valuation, Equities:** We assume that CAPE ratios will converge to their long-term fair values, estimated using proprietary econometric models that incorporate potential GDP growth, output gap, and long-term interest rates.
- **Long-Term Valuation, Bonds:** We assume that 10-year government yields will converge to their long-term equilibrium yields, which are measured as a function of long-term projected policy rates and risk premia.

2. Alternatives

Overview: We project returns using a building-block approach for liquid and private alternatives, adding premia to the projected long-term policy rate. For commodities, our projection is derived from a global supply-demand model.

- **Liquid Alternatives:** We assume an expected return of 5% plus cash, which serves as a standard return target for this asset class.
- **Commodities:** We use a global supply-demand model to derive future oil prices. Oil demand is predominantly driven by EMs, as demand from DMs has remained flat for over a decade. Our forecasting framework uses oil price projections as an input to model copper and agricultural prices, reflecting oil's role in production and transportation costs. The price of gold is assumed to depend on global economic growth, money supply growth, and geopolitical risks, which incentivises persistent strategic buying by central banks to diversify reserves.
- **Private Market Alternatives:** For each asset class, we add an appropriate set of risk premia to the appropriate benchmark index, based on historical spreads.

3. Currencies

- **Reversion to Long-Term Fair Value:** Projected currency returns are determined by current deviations of exchange rates from estimated equilibria, measured using proprietary Behavioural Equilibrium Exchange Rate (BEER) models that incorporate price levels, and inter-country productivity and terms of trade differentials.

4. Macroeconomic Inputs

- **Nominal GDP Growth:** This variable is key to our long-term projections for equity earnings growth, price-to-earnings ratios, and interest rates. Nominal growth can be disaggregated into real GDP growth and inflation.
- **Real GDP Growth:** Is driven over our forecasting horizon by a labor input (total hours worked) and productivity (the change in GDP per hour worked). For the labor input, we use external projections from the United Nations on working-age populations, complemented by country-specific assumptions on participation rates and immigration. For productivity growth, we calculate country-specific projections using a common productivity factor (proxied as the change in US productivity) and country-specific factors, such as investment tailwinds or headwinds.
- **Inflation:** Our outlook includes the expected inflation effects of demand and supply shocks on country output gaps and monetary policy.

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