# Capital market assumptions update

Fidelity International

H1 2026

Global Macro & SAA Team

May 26

For investment professional use only and not for general public distribution

# Important information

- This document may not be reproduced or circulated without prior permission.
- No statements or representations made in this document are legally binding on Fidelity or the recipient.
- This document makes reference to estimates produced by investment professionals at Fidelity International. They do not reflect the positioning or expected performance of any live portfolio, and do not constitute a recommendation. Likewise, reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.
- The value of investments and the income from them can go down as well as up so you may get back less than you invest.
- Overseas investments will be affected by movements in currency exchange rates.
- There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

# Between fragmentation and the AI revolution: Investing in a rewired world

## Implications for risk and return across asset classes across our 10-year strategic CMA horizon, 31 March 2026

### Executive summary

- **AI**: We have developed a holistic framework that combines Fidelity's top-down macro scenario thinking with bottom-up analyst insights, captured regularly through our Analyst Survey. The weighted findings form our base case: somewhat higher long-term GDP growth. This is the first step in an ongoing process - we will evolve the framework as more data becomes available, focusing on labour impacts, investment dynamics, geopolitics and energy resilience.
- **Macroeconomics**: The effects of geopolitical fragmentation, elevated debt levels, and technological/energy transitions, will keep macroeconomic volatility above its average pre-Covid era level. Inflationary pressures will also remain elevated.
- **Equities**: Equities remain the key strategic portfolio growth drivers. Expected returns have increased, largely due to the positive effect of AI through the GDP channel. Prevailing margin levels are above our forward-looking estimates across many regions, but the equilibrium level of corporate profit margins has shifted structurally higher, reflecting a more profitable and innovation-driven environment. We will continue to monitor our forecasts in this area closely as the AI revolution could create both tailwinds and headwinds for profitability (e.g. labour productivity gains and policy responses like taxation).
- **Fixed income**: Bonds remain attractive thanks to higher government yield curves, but bond market volatility and equity-bond correlations will remain elevated. Expected credit returns are appealing, but tight spreads make risk/return trade-offs key. Short-term bonds are attractive shock absorbers and sovereigns should still diversify during recessionary shocks, although the latter may be less reliable during inflationary shocks.
- **Private assets**: Expected returns remain attractive for investors willing to take on more illiquidity risk. Manager selection will be key to delivering positive outcomes, especially due to the higher rate backdrop and elevated levels of dry powder. There are no clear signs of immediate stress in private credit, but the asset class warrants close monitoring.
- **Foreign exchange**: The US dollar may not provide the same return tailwinds or safe-haven characteristics as it has in recent decades.
- **Portfolio construction**: These dynamics call for a thoughtful active investment approach that incorporates greater regional/sectorial diversification and utilises a broader toolkit that includes tactical overlays, credit spectrum diversification, and differentiated sources of risk premia like absolute return or derivative strategies.

For illustrative purposes only.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026.



Fidelity INTERNATIONAL

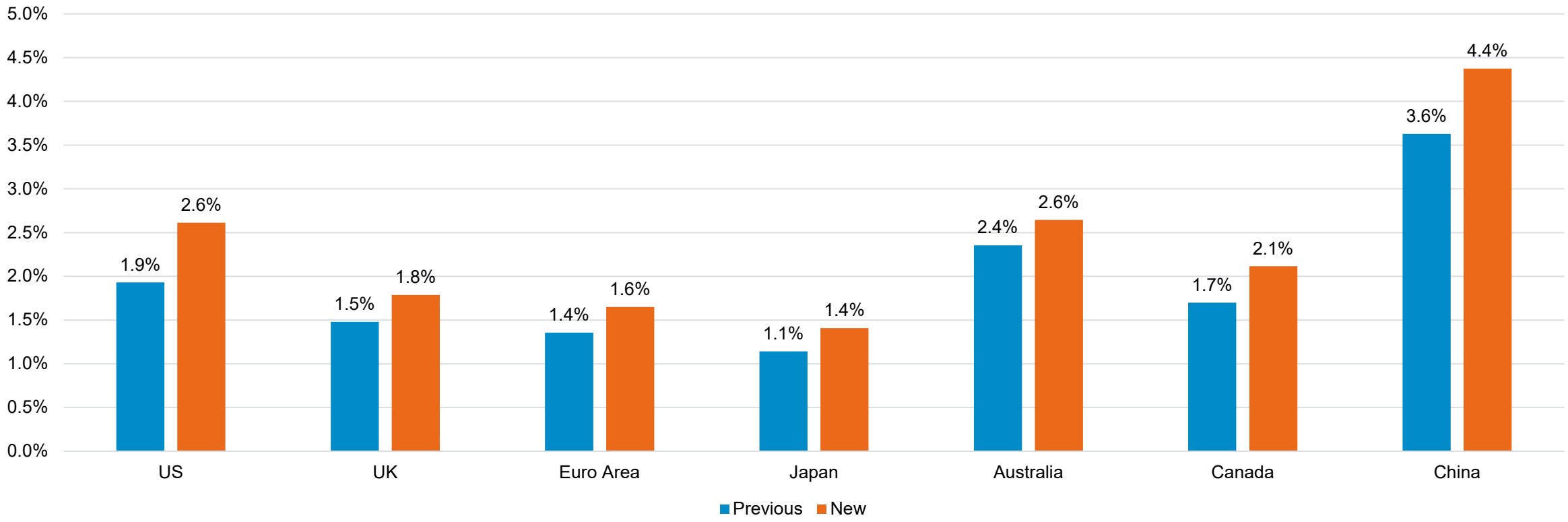
# Macroeconomic projections

Fidelity INTERNATIONAL

# While uncertainty remains, we project consistent growth over the long-term

## With AI revolution and demographics playing an important role

### Real GDP growth projections p.a., 10 -year horizon



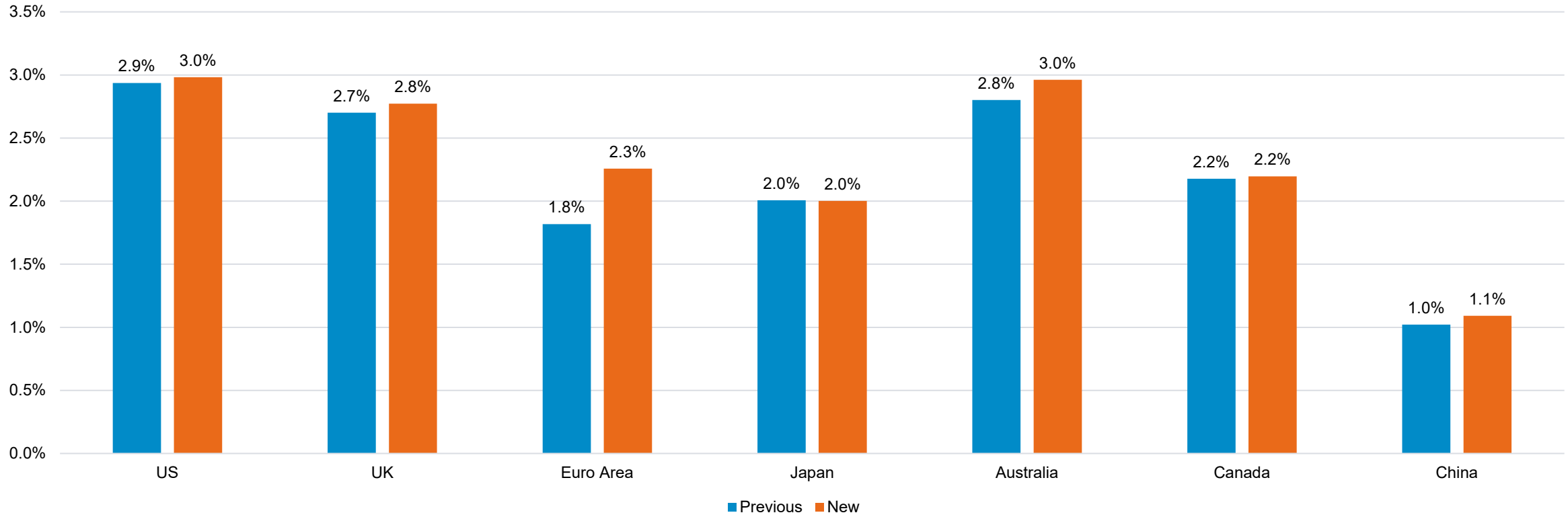

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only.

# Inflation will likely remain above target in the US and UK, with higher volatility

## Deglobalisation, high debt burden, AI, and net-zero transition will influence long-term equilibria

### Expected inflation p.a., 10-year horizon



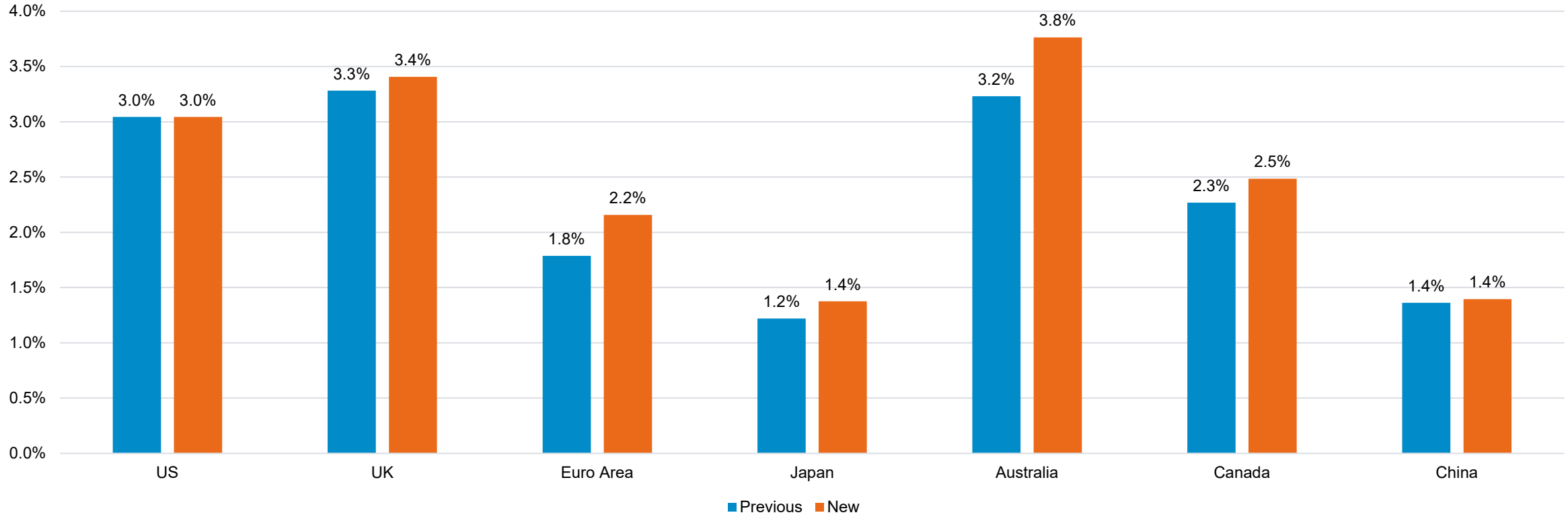

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only.

# Policy rates will be highly dependent on inflation and growth paths

## Real rates will likely remain not too far from 0% in the long term, primarily due to debt sustainability constraints

### Expected central bank policy rate p.a., 10-year horizon




Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only.

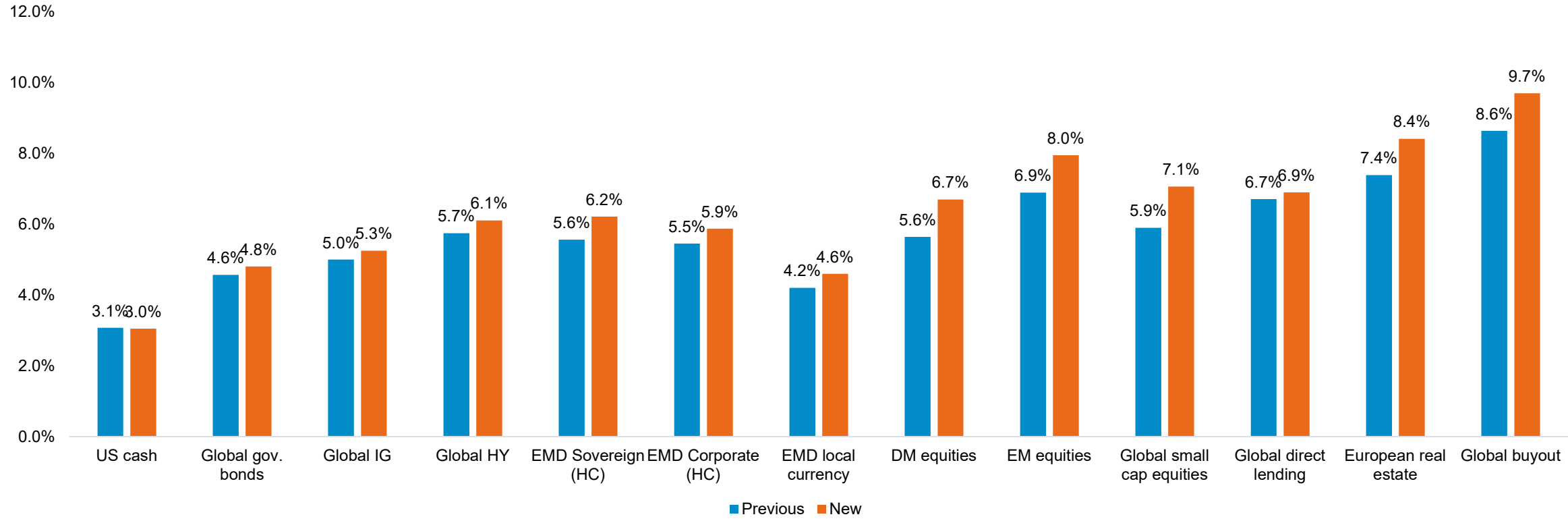
# Capital market assumptions update

Fidelity INTERNATIONAL

# Bonds are still attractive, while equities offer higher average return

## Private assets offer attractive average expected returns, however active management skill remains key

### Average nominal returns projections p.a. in USD, 10-year investment horizon



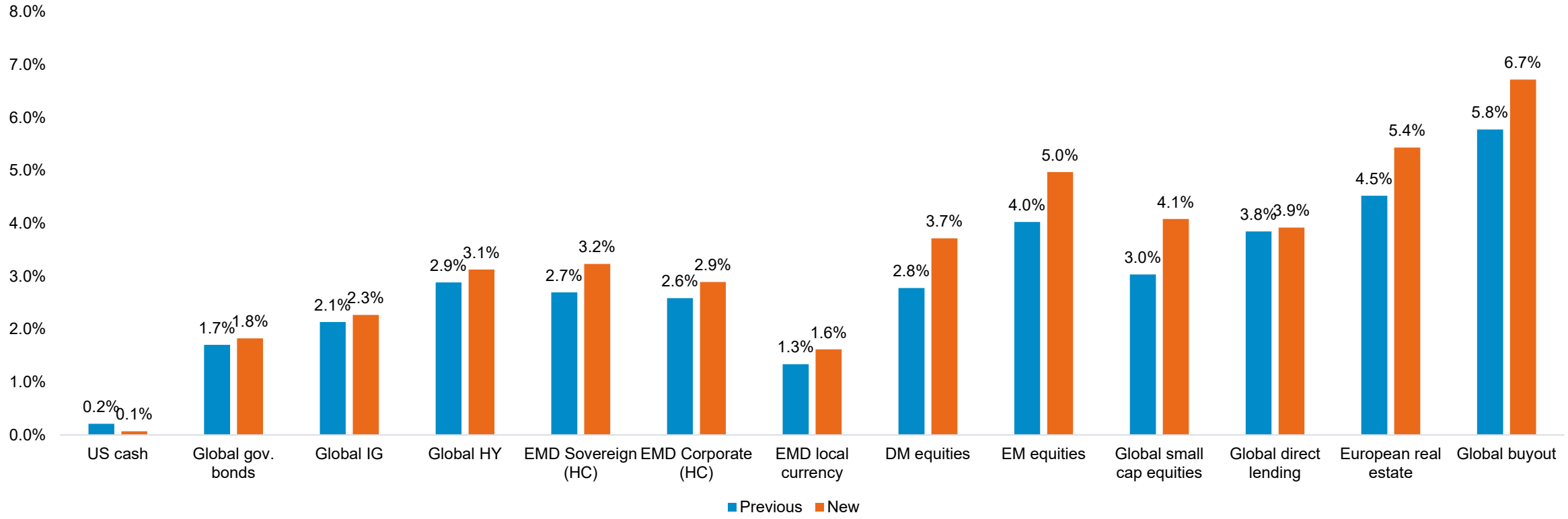

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only. Public market returns are gross and private market returns are net of fees. Private market figures assume capital is fully deployed from inception.

# Equity premium can help to beat inflation in the long-term

## Private assets expected to provide attractive long-term real returns

### Average real returns projections p.a. in USD, 10-year investment horizon




Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only. Public market returns are gross and private market returns are net of fees. Private market figures assume capital is fully deployed from inception.

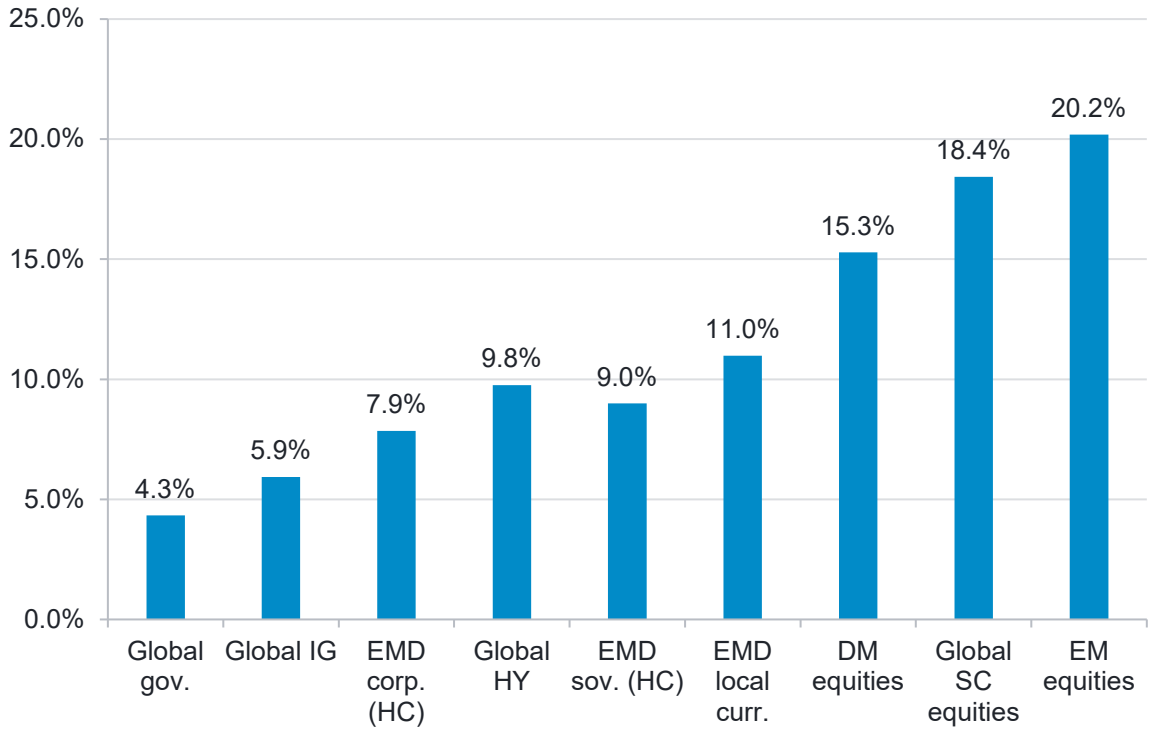
# Equity/bond correlation will likely be higher than in 2010-2020 decade

## Results for USD assets are reported below

### Correlation matrix (average)

| | Global gov. | Global IG | EMD corp. (HC) | Global HY | EMD sov. (HC) | EMD local curr. | DM equities | Global SC equities | EM equities |
|---|---|---|---|---|---|---|---|---|---|
| **Global gov.** | 1.00 | | | | | | | | |
| **Global IG** | 0.84 | 1.00 | | | | | | | |
| **EMD corp. (HC)** | 0.48 | 0.79 | 1.00 | | | | | | |
| **Global HY** | 0.59 | 0.85 | 0.92 | 1.00 | | | | | |
| **EMD sov. (HC)** | 0.35 | 0.72 | 0.82 | 0.88 | 1.00 | | | | |
| **EMD local curr.** | 0.47 | 0.68 | 0.75 | 0.83 | 0.73 | 1.00 | | | |
| **DM equities** | 0.33 | 0.64 | 0.63 | 0.74 | 0.83 | 0.67 | 1.00 | | |
| **Global SC equities** | 0.30 | 0.61 | 0.61 | 0.71 | 0.82 | 0.65 | 0.94 | 1.00 | |
| **EM equities** | 0.23 | 0.53 | 0.66 | 0.71 | 0.73 | 0.78 | 0.78 | 0.76 | 1.00 |

### Volatility assumptions (average)




Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, Bloomberg, Bank of America Merrill Lynch. Historical performance is not an indication of futu re results. Based on monthly total returns for the period September 2003 to September 2025. Indices used: ICE BofA G7 Government index (Global Govt), ICE BofA Global Corporate index (Global IG), ICE BofA Global HY index (Global HY), JP Morgan EMBIGD index (EMD Sov), JP Morgan CEMBI BD index (EMD Corp), JP Morgan GBI-EM GD index (EMD LC), MSCI World index (DM Equity), MSCI World small cap index (Small Cap) and MSCI emerging markets index (EM Equity).

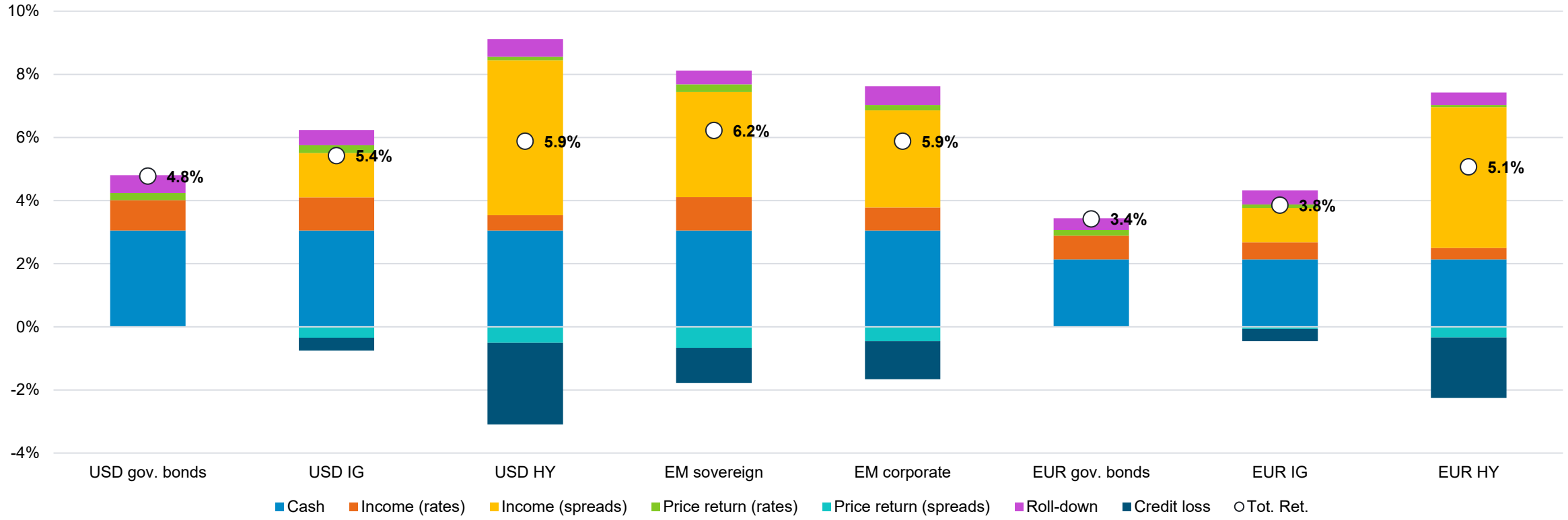


Fidelity INTERNATIONAL

# The income component will continue to drive future fixed income returns

## Cash contribution is significantly higher than just a few years ago

### Average return breakdown in local currency p.a., 10-year horizon



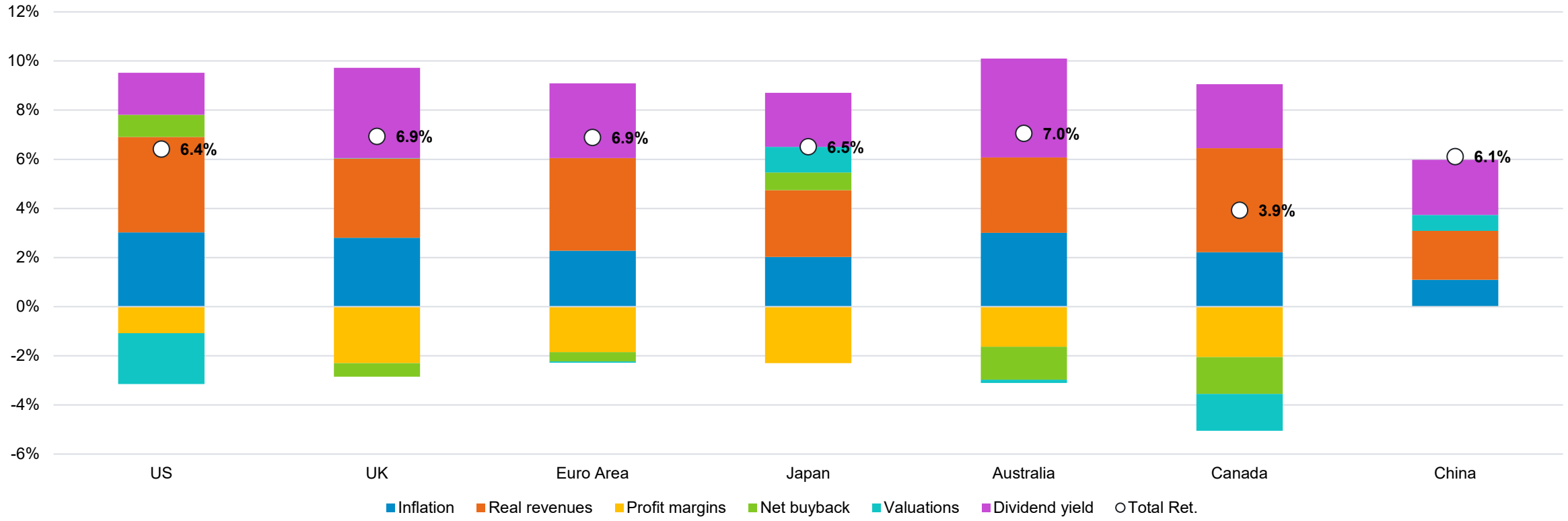

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only.

# A diversified equity exposure holds the potential to drive strategic portfolio growth

## Profit margins currently are still above our long-term equilibria in most regions

### Average return breakdown in local currency p.a., 10-year horizon




Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only.

# Appendix – capital market assumption tables

Fidelity INTERNATIONAL

# USD capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | USD Cash | 3.0% | 3.1% |
| | USD Government Bonds | 4.8% | 4.6% |
| | USD Investment Grade Bonds | 5.4% | 5.4% |
| | USD High Yield Bonds | 5.9% | 6.1% |
| | Global Government Bonds | 4.8% | 4.6% |
| | Global Investment Grade Bonds | 5.3% | 5.3% |
| | Global High Yield Bonds | 6.1% | 6.4% |
| **Equities** | US Equities | 6.4% | 7.4% |
| | Developed Markets Equities | 6.7% | 7.6% |
| | Emerging Markets Equities | 8.0% | 8.9% |
| | Global Small Cap Equities | 7.1% | 8.1% |
| **Private Assets** | European Real Estate | 8.4% | 8.7% |
| | Global Direct Lending | 6.9% | 7.1% |
| | Global Buyout | 9.7% | 10.6% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# GBP capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | GBP Cash | 3.4% | 3.4% |
| | GBP Government Bonds | 5.5% | 5.1% |
| | GBP Investment Grade Bonds | 5.8% | 5.7% |
| | Global Government Bonds | 5.2% | 4.9% |
| | Global Investment Grade Bonds | 5.6% | 5.6% |
| | Global High Yield Bonds | 6.5% | 6.7% |
| **Equities** | UK Equities | 6.9% | 8.1% |
| | Developed Markets Equities | 7.1% | 7.9% |
| | Emerging Markets Equities | 8.3% | 9.2% |
| | Global Small Cap Equities | 7.4% | 8.4% |
| **Private Assets** | European Real Estate | 8.8% | 9.0% |
| | Global Direct Lending | 7.3% | 7.4% |
| | Global Buyout | 10.1% | 10.9% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# EUR capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | EUR Cash | 2.1% | 2.2% |
| | EUR Government Bonds | 3.4% | 3.3% |
| | EUR Investment Grade Bonds | 3.8% | 3.8% |
| | EUR High Yield Bonds | 5.1% | 5.2% |
| | Global Government Bonds | 3.9% | 3.7% |
| | Global Investment Grade Bonds | 4.3% | 4.3% |
| | Global High Yield Bonds | 5.2% | 5.4% |
| **Equities** | Euro Area Equities | 6.9% | 7.2% |
| | Developed Markets Equities | 5.8% | 6.7% |
| | Emerging Markets Equities | 7.0% | 7.9% |
| | Global Small Cap Equities | 6.2% | 7.1% |
| **Private Assets** | European Real Estate | 7.5% | 7.7% |
| | Global Direct Lending | 6.0% | 6.2% |
| | Global Buyout | 8.8% | 9.7% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# JPY capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | JPY Cash | 1.4% | 1.2% |
| | JPY Government Bonds | 3.6% | 2.8% |
| | JPY Investment Grade Bonds | 2.5% | 2.1% |
| | Global Government Bonds | 3.1% | 2.7% |
| | Global Investment Grade Bonds | 3.6% | 3.3% |
| | Global High Yield Bonds | 4.4% | 4.4% |
| **Equities** | Japan Equities | 6.5% | 7.0% |
| | Developed Markets Equities | 5.0% | 5.7% |
| | Emerging Markets Equities | 6.3% | 6.9% |
| | Global Small Cap Equities | 5.4% | 6.1% |
| **Private Assets** | European Real Estate | 6.7% | 6.7% |
| | Global Direct Lending | 5.2% | 5.2% |
| | Global Buyout | 8.0% | 8.7% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# AUD capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | AUD Cash | 3.8% | 3.5% |
| | AUD Government Bonds | 5.5% | 5.1% |
| | AUD Investment Grade Bonds | 6.1% | 5.7% |
| | Global Government Bonds | 5.6% | 5.0% |
| | Global Investment Grade Bonds | 6.0% | 5.6% |
| | Global High Yield Bonds | 6.9% | 6.7% |
| **Equities** | Australia Equities | 7.0% | 7.9% |
| | Developed Markets Equities | 7.4% | 8.0% |
| | Emerging Markets Equities | 8.7% | 9.2% |
| | Global Small Cap Equities | 7.8% | 8.4% |
| **Private Assets** | European Real Estate | 9.2% | 9.0% |
| | Global Direct Lending | 7.6% | 7.5% |
| | Global Buyout | 10.4% | 11.0% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# CAD capital market assumptions

## Average expected returns

| | Asset class | 10 years | 20 years |
|---|---|---|---|
| **Fixed Income** | CAD Cash | 2.5% | 2.5% |
| | CAD Government Bonds | 3.9% | 3.8% |
| | CAD Investment Grade Bonds | 4.5% | 4.5% |
| | Global Government Bonds | 4.2% | 3.9% |
| | Global Investment Grade Bonds | 4.7% | 4.6% |
| | Global High Yield Bonds | 5.5% | 5.7% |
| **Equities** | Canada Equities | 3.9% | 5.0% |
| | Developed Markets Equities | 6.1% | 6.9% |
| | Emerging Markets Equities | 7.4% | 8.2% |
| | Global Small Cap Equities | 6.5% | 7.4% |
| **Private Assets** | European Real Estate | 7.8% | 8.0% |
| | Global Direct Lending | 6.3% | 6.5% |
| | Global Buyout | 9.1% | 9.9% |

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

# Important information

This material is for Institutional Investors and Investment Professionals only and should not be distributed to the general public or be relied upon by private investors.

This material is provided for information purposes only and is intended only for the person or entity to which it is sent. It must not be reproduced or circulated to any other party without prior permission of Fidelity.

This material does not constitute a distribution, an offer or solicitation to engage the investment management services of Fidelity, or an offer to buy or sell or the solicitation of any offer to buy or sell any securities in any jurisdiction or country where such distribution or offer is not authorised or would be contrary to local laws or regulations. Fidelity makes no representations that the contents are appropriate for use in all locations or that the transactions or services discussed are available or appropriate for sale or use in all jurisdictions or countries or by all investors or counterparties.

This communication is not directed at and must not be acted on by persons inside the United States. All persons and entities accessing the information do so on their own initiative and are responsible for compliance with applicable local laws and regulations and should consult their professional advisers. This material may contain materials from third parties which are supplied by companies that are not affiliated with any Fidelity entity (Third-Party Content). Fidelity has not been involved in the preparation, adoption or editing of such third-party materials and does not explicitly or implicitly endorse or approve such content. Fidelity International is not responsible for any errors or omissions relating to specific information provided by third parties.

Fidelity International refers to the group of companies which form the global investment management organization that provides products and services in designated jurisdictions outside of North America. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client.

Europe: Issued by FIL Pensions Management (authorised and regulated by the Financial Conduct Authority in UK), FIL Investment Management (Luxembourg) S.à r.l. (authorised and supervised by the CSSF, Commission de Surveillance du Secteur Financier), FIL Gestion (authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 21 Avenue Kléber, 75016 Paris) and FIL Investment Switzerland AG.

UAE: The DIFC branch of FIL Distributors International Limited is regulated by the DFSA for the provision of Arranging Deals in Investments only. All communications and services are directed at Professional Clients and Market Counterparties only. Persons other than Professional Clients and Market Counterparties, such as Retail Clients, are NOT the intended recipients of our communications or services. The branch is established pursuant to the DIFC Companies Law, with registration number CL2923, as a branch of FIL Distributors International Limited, registered in Bermuda.  FIL Distributors International Limited is licensed to conduct investment business by the Bermuda Monetary Authority.

In Hong Kong, this material is issued by FIL Investment Management (Hong Kong) Limited and it has not been reviewed by the Securities and Future Commission.

# Important information

FIL Investment Management (Singapore) Limited (Co. Reg. No: 199006300E) is the legal representative of Fidelity International in Singapore. This document / advertisement has not been reviewed by the Monetary Authority of Singapore.

In Taiwan, independently operated by Fidelity Securities Investment Trust Co. (Taiwan) Limited 11F, No.68, Zhongxiao East Road, Section 5, Taipei 110, Taiwan, R.O.C. Customer Service Number: 0800-00-9911.

In Korea, this material is issued by FIL Asset Management (Korea) Limited. This material has not been reviewed by the Financial Supervisory Service and is intended for the general information of institutional and professional investors only to which it is sent.

Issued in Japan, this material is prepared by FIL Investments (Japan) Limited (hereafter called “FIJ”) based on reliable data, but FIJ is not held liable for its accuracy or completeness. Information in this material is good for the date and time of preparation and is subject to change without prior notice depending on the market environments and other conditions. All rights concerning this material except quotations are held by FIJ and should by no means be used or copied partially or wholly for any purpose without permission. This material aims at providing information for your reference only but does not aim to recommend or solicit funds /securities.

For information purposes only. Neither FIL Limited nor any member within the Fidelity Group is licensed to carry out fund management activities in Brunei, Indonesia, Malaysia, Thailand and Philippines.

FIL Investment Management (Australia) Limited (ABN 34 006 773 575, AFSL No. 237865) and FIL Responsible Entity (Australia) Limited (ABN 33 148 059 009, AFSL No. 409340) are the legal representatives of Fidelity International in Australia. This is intended as general information for a person who is a "wholesale client" under section 761G of the Corporations Act 2001 (Cth) and has been prepared without taking into account any person’s objectives, financial situation or needs.  Not for distribution to or use by retail clients.

GCT260453GLO