Regions Asset Management

# 2025 Capital Market Expectations (CME's)

## Handoffs, Trade-Offs, And Offsets Ahead With Modest Returns, Rising Volatility Driven By Policy Uncertainty

Powered By Multi-Asset Solutions (MAS)

REGIONS

# 2025 Capital Market Expectations Summary

Adjustments made to our forward-looking assumptions this year could again be described as tweaks with little in the way of meaningful changes to our outlook for stocks, bonds, and alternative investments over the decade to come, despite what has been an impressive two-year rally for U.S. stocks, specifically.

**Stocks:** Expected equity returns were revised modestly lower across the board, with U.S. SMID a notable exception. After back-to-back 25%-plus annual gains out of the S&P 500, perhaps larger downward revisions were expected, but with S&P 500 earnings expected to growth by double-digits in 2025 and 2026, we believe the bull market in stocks likely still has further to run. For U.S. stocks, specifically, it feels premature to call for a market top with a more pro-business administration in place that is prioritizing deregulation, and along with a gradual easing of monetary policy, sentiment and risk appetite should remain supportive of further gains for U.S. stocks in the coming year(s). Abroad, valuations are appealing, but the fundamental outlook remains challenged with political dysfunction and a focus on regulation providing headwinds and acting a governor on growth.

**Bonds:** Last year was a challenging one for fixed income investors as rising yields weighed on Treasuries and investment-grade corporate bonds. Non-core segments such as U.S. corporate high yield and emerging market debt fared well due to higher yields/carry, but valuations are stretched, and yields are lower than where they started last year. Broadly speaking, we ratcheted up our return expectations for higher quality core fixed income in the coming years, while revising our estimates for non-core segments lower. We expect muted returns amid a volatile rate backdrop in 2025.

**Alternatives:** The expected return out of a broadly diversified hedge fund portfolio over the next 7-to-10 years moved modestly higher year over year due largely to a higher expected Fed funds rate. Our return assumptions surrounding private equity and private real estate were ratcheted modestly higher year over year while private debt came down slightly. These sub-asset classes remain valuable diversification tools and return generators, assuming the illiquidity can be tolerated.

**Cash & Equivalents:** The expected return on cash is higher driven by our view that the terminal Fed funds rate will be higher than previously expected due to persistent inflationary pressures. Cash may have a higher nominal expected return, but on a real basis, money market yields are less attractive due to inflation remaining sticky.

| Asset Class | Asset Class Sub-Type | 10-Year Expected Annualized Return | Year-Over-Year Change in Return Expectation | 10-Year Expected Standard Deviation |
|---|---|---|---|---|
| Equity | Domestic Large Cap | 6.50% | -0.50% | 17.50% |
| | Domestic SMID | 7.25% | 0.00% | 20.50% |
| | International Developed | 7.25% | -0.50% | 17.00% |
| | Emerging Markets | 8.00% | -0.50% | 21.00% |
| | Global Stocks | 7.00% | -0.50% | 18.00% |
| | Commodity-Related Equities | 5.75% | -0.75% | 23.00% |
| Fixed Income | Domestic Investment Grade | 4.75% | 0.25% | 5.00% |
| | Investment Grade Credit | 5.00% | 0.00% | 6.00% |
| | Long Duration Credit | 5.25% | -0.25% | 12.00% |
| | International Fixed Income | 4.25% | .75% | 5.25% |
| | TIPS | 4.00% | 0.50% | 5.75% |
| | High Yield | 6.75% | -0.25% | 9.00% |
| | Bank Loans | 6.00% | 0.00% | 8.00% |
| | Intermediate Municipals | 3.75% | 0.25% | 5.00% |
| | High Yield Municipals | 5.25% | 0.25% | 8.75% |
| | Emerging Market Bonds | 6.00% | -0.75% | 9.50% |
| Alternatives | HFRX Global Hedge Index (Liquid Alts) | 5.75% | 0.25% | 6.00% |
| | HFRI Global Hedge Index (L.P.) | 6.75% | 0.25% | 5.50% |
| | Private Equity | 9.50% | 0.50% | 22.50% |
| | Private Debt | 7.75% | -0.25% | 12.00% |
| | Private Real Estate - Core | 7.00% | 0.50% | 14.00% |
| | Public Real Estate (REITs) | 7.50% | -0.50% | 19.50% |
| | Global Infrastructure | 7.50% | .75% | 15.50% |
| | Commodities | 4.50% | 0.50% | 17.25% |
| Cash & Equivalents | Cash and Equivalents | 3.50% | 0.50% | 0.50% |
| | Enhanced Cash | 4.00% | 0.00% | 1.00% |

# Revisiting 2024's Themes

1. Uneven Pace Of Monetary Policy Easing To Dictate Winners/Losers

**1) Partially Reaffirmed:** A distinction should be made between policy easing to spur economic growth, i.e. because a central bank must (Europe, China), and policymakers cutting rates to make policy less restrictive because they can. The latter should apply to the FOMC in 2025, and we expect a continental drift-like pace of policy easing stateside in the new year as inflation remains 'sticky' above the FOMC's 2% target, with economic (GDP) growth coming in around 2%. This backdrop should support the U.S. dollar (USD), and a strong greenback relative to the euro, yen, pound, and select emerging market currencies could limit the ability of some central banks abroad to ease policy as rapidly as they would like to boost economic. U.S. stocks should perform relatively well in this environment.

2. Select Non-Core Fixed Income Segments Could Compete With Stocks In '24

**2) No Longer A Theme:** U.S. corporate high yield bonds and U.S. dollar denominated emerging market debt were our preferred non-core fixed income exposures entering '24, and both segments performed well on an absolute basis and relative to other segments of the bond market. Looking forward, we expect U.S. corporate high yield to have another solid year, but a lower total return should be expected from the asset class in '25 given rich valuations and a lower starting point for yields. Emerging market debt will likely have tougher sledding in the new year with a strong U.S. dollar and trade uncertainty providing headwinds for the asset class. Mid-single-digit returns out of these two non-core fixed income segments seems achievable in '25 but given our view that equity sub-asset classes could post mid-to-high-single-digit returns in the coming year, we don't see riskier bonds providing the same level of competition for capital.

3. Looking Beyond The S&P 500: Small Caps, Emerging Markets Could Have Their Day In 2024

**3) No Longer A Theme:** The S&P Small Cap 600 Index generated an 8.7% total return in '24 while the MSCI Emerging Markets (EM) Index gained 7.5%, well below the S&P 500's 25% return. Persistent U.S. dollar strength in the coming year, along with uncertainty and saber rattling tied to U.S./China trade relations should provide headwinds for emerging market stocks. Smaller capitalization U.S. stocks should benefit from continued strength and resiliency in the U.S. economy to a degree, but a reliance on costly floating rate loans from banks to fund operations, and strength in the U.S. labor market could weigh on earnings growth estimates and put small-cap stocks at a relative disadvantage versus large- and mega-caps.

# New Themes To Monitor For 2025, And Beyond

### Exceptionalism Will Attract Capital Into U.S. Stocks, Generating Continued Strong Relative Performance

- U.S. stocks have outperformed the MSCI EAFE and MSCI EM over the trailing 1, 3, and 5-year time periods, and that's not likely to change in 2025, although performance dispersion should be tighter based on gaps in valuation.
- U.S. economic exceptionalism and the prospect of broad tariffs on imported goods have resulted in a stronger U.S. dollar, which could moderate over the balance of 2025 to some degree.
- The rise in the dollar is stretched/overdone and a reversal would buoy U.S. large caps and generate a relief rally abroad as well.

**Themes Driving US Stocks**

- Deregulation
- Less Restrictive Monetary Policy
- M&A Recovery

**Investment Implication:**

**Neutral/Overweight U.S. Stocks**

### More Volatile Backdrop For Interest Rates/Treasury Yields A Byproduct Of Policy Uncertainty; Shifting Preferences Abroad

- Fixed income portfolio diversification to reduce volatility and limit drawdowns will be crucial moving forward as policy uncertainty leaves us with a choppy interest rate backdrop.
- Local currency international developed market sovereign bonds appear more attractive with a strong USD, while EM debt, broadly speaking, holds less appeal as a stronger dollar presents a headwind.

**Themes Impacting Rates**

- Deficit Spending
- Policy Uncertainty/ Inflationary Pressures
- U.S. Exceptionalism

**Investment Implication:**

**Neutral/Overweight International Developed Market Bonds**

### Liquidity Backdrop Still Supportive Of Selective Risk Taking, But Larger And More Frequent Equity Drawdowns Are Likely

- Relative value is harder to identify given stretched valuations across sub-asset classes, but riskier asset classes with higher expected return profiles will likely see a continued tailwind from a supportive liquidity backdrop.
- An uptick in mergers and acquisitions (M&A) activity, and a more active and target-rich environment for private equity buyouts would contribute to upward pressure on prices of select industry groups.
- A more 'pro-business' backdrop should boost animal spirits and corporate investment, but uncertain policy outcomes could lead to volatility and deeper equity drawdowns .

**Themes Supporting Risk Assets**

- Investment Demand
- Return Of IPO Activity
- Pro-Business Politics

**Investment Implication:**

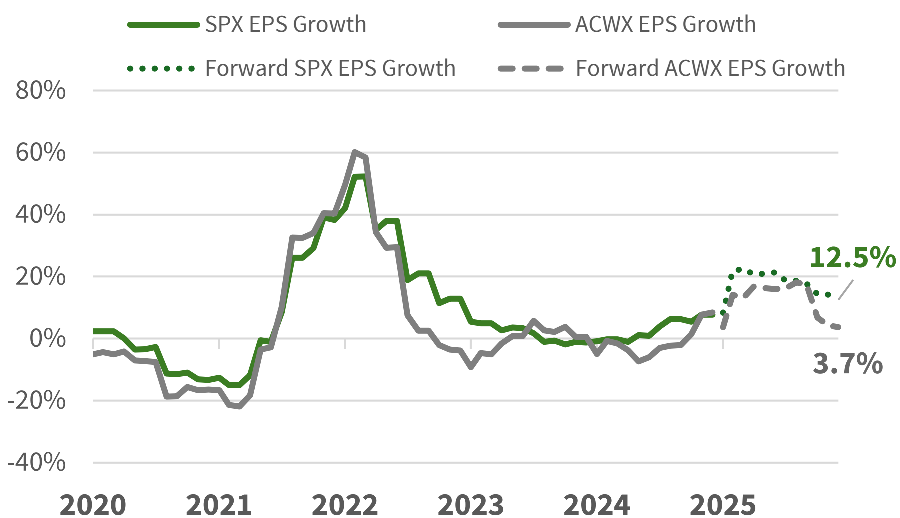
**Neutral/Overweight Stocks, Corporate Bonds**

# U.S. Stocks Likely To Outperform On A Relative Basis (Again) In '25

**Earnings Growth Should Continue To Buoy U.S. Stocks, But We Expect More Modest Returns Stateside In '25.**

- After a 25% total return for the S&P 500 in 2024 on just 8.5% earnings growth as multiple or valuation expansion drove the bulk of last year's gains, we have likely borrowed gains from the future. Some backing and filling for U.S. stocks should be expected as higher interest rates and policy uncertainty tamp down enthusiasm and put a ceiling on what price/valuation investors are willing to pay for future earnings.
- The consensus estimate entering 2025 calls for the S&P 500 to grow earnings per share by 12% year over year, far outpacing the 3% EPS growth estimate for the MSCI All Country World Index (ACWI) ex. U.S, potentially leaving U.S. stocks as the 'best house on the block' for investors seeking to take equity risk.
- Notably, with lackluster earnings growth expected abroad, foreign markets could be set up for a classic 'under promise and overdeliver' scenario with even modest signs of an improving economic growth outlook potentially generating a relief rally.

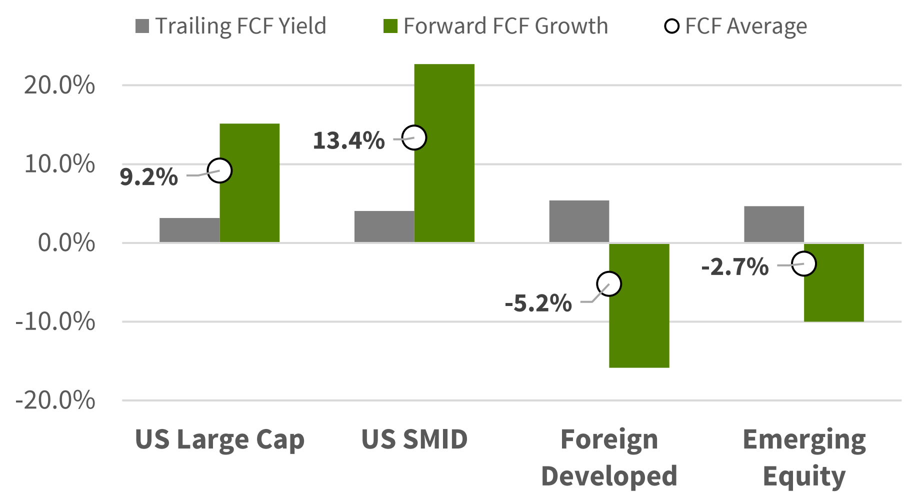
**Earnings Growth Continues To Favor Domestic Equities**




**Valuations Have Long Favored Markets Abroad, But Investors Focused On Fundamentals, Potential Positive Catalysts Should Look Stateside.**

- Both the MSCI EAFE developed markets index and the MSCI Emerging Markets (EM) index have consistently underperformed on a relative basis versus U.S. stocks in the prior decade. Policymakers in Europe continue to push regulation over innovation and the Chinese government's efforts to stimulate the country's economy have fallen short, dynamics that point toward structural headwinds for pockets of the developed and developing world abroad. Capital should continue to flow to where it is expected to be treated best – the U.S.
- Fundamentals favor U.S. stocks in the coming year(s) as innovation (AI, data centers, power grid), deregulation (energy, M&A), and a more pro-business Trump administration boosts animal spirits and are supportive of corporate spending/investment, earnings growth and the ability for U.S. stocks to grow into current lofty valuations. Positive catalysts for improved relative performance are less obvious abroad.

**Valuations Favor Foreign But U.S. Growth Justifies Premium**

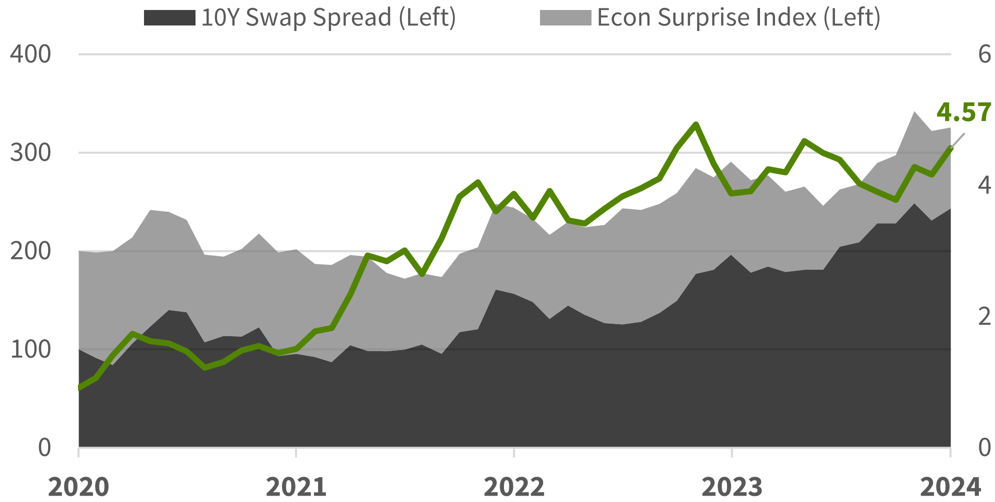


# A More Volatile Backdrop For Rates/Yields A Result Of Policy Uncertainty

**Bull Case For Stocks, The U.S. Economy, And Policy Uncertainty Could Weigh On Core Fixed Income Returns.**

- In an environment in which politicians favor 'outgrowing' the U.S. government debt burden with higher economic growth, elevated and sticky inflation will be a byproduct. Since the U.S. government embarked on their borrowing spree in 2020, swap spreads have inverted, illustrating that market participants favor futures exposure relative to outright owning government debt for liquidity and flexibility purposes.
- Pro-business policies out of D.C. could lead to upside surprises for the U.S. economy in the coming year(s), and potential shifts in immigration and trade policies could drive up wages/prices and lead to inflationary surprises as well.
- We expect Treasury yields to trade in a wider range in the coming year with a bias to the upside for rates as policy uncertainty and the prospect of upside economic surprises putting a higher floor under yields across the Treasury curve.

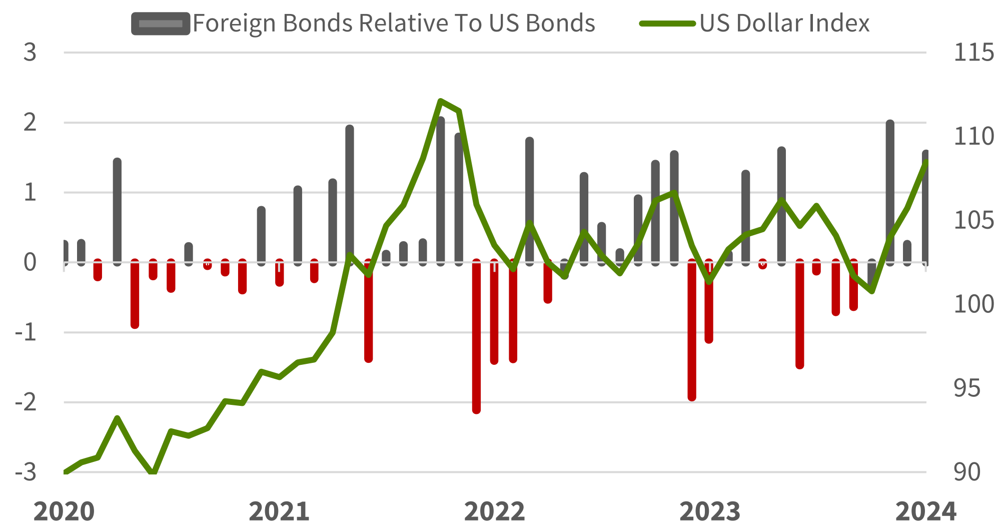
**Rising Deficit Concerns, Positive Economic Surprises Driving Rates**




**Swings In Interest Rates, Currencies To Create Opportunities For Nimble Fixed Income Investors Focused Abroad.**

- Should the U.S. dollar remain relatively 'strong' in the year ahead, fixed income investors could reduce portfolio volatility by lowering exposure to U.S. Treasuries as bonds rally/yields fall and by increasing exposure to U.S. dollar-hedged sovereign bonds abroad. International developed market sovereigns lack upfront appeal due to lower yields, but when the U.S. dollar is strengthening investors have historically boosted relative performance by allocating capital to developed sovereign bonds and hedging out currency risk to generate additional return.
- USD denominated emerging market debt would see a lift from its ties to longer duration U.S. Treasuries should yields fall and/or the dollar weaken. Emerging market sovereigns also maintain a modest quality bias relative to domestic high yield, as half the sub-asset class holds an investment grade rating.

**Strong Dollar Historically A Tailwind For Developed Foreign Bonds**

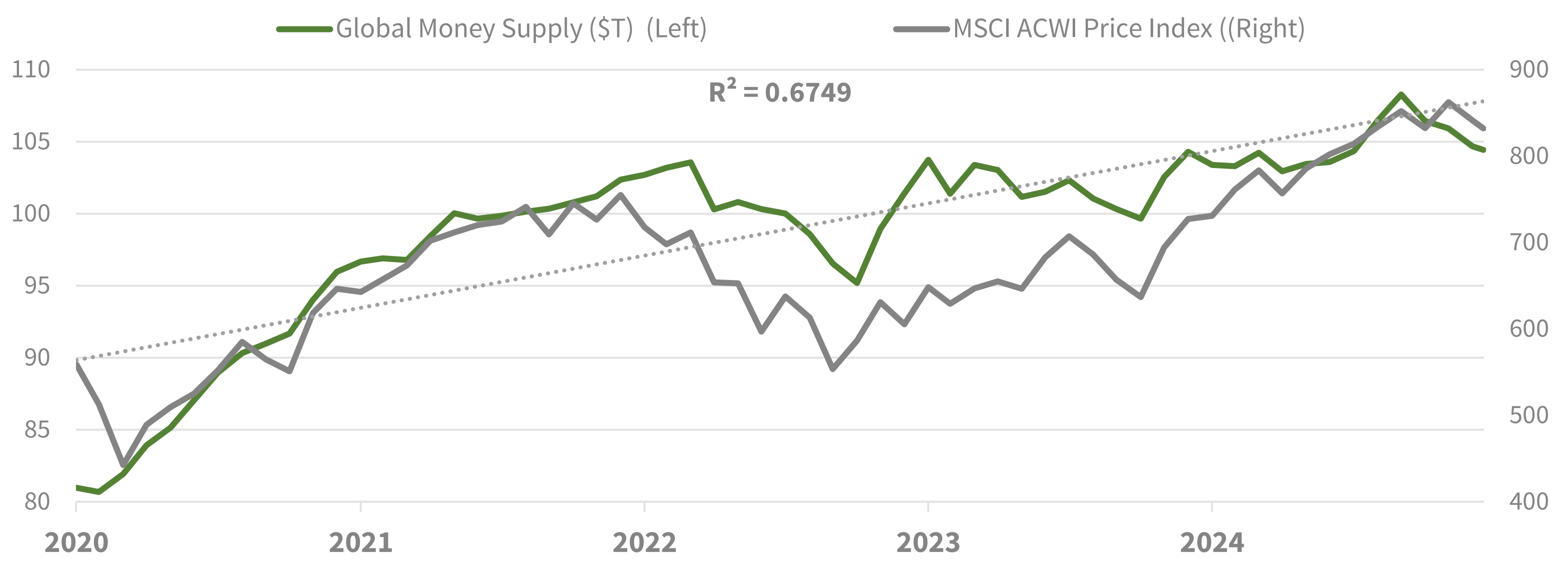


# Liquidity Backdrop To Remain Supportive Of Selective Risk Taking

**Global Liquidity Remains Supportive Of Further Gains For Stocks, Broadly Speaking, But Active Managers Should Fare Better In The Coming Year After A Trying 2024.**

- Measures of global liquidity have trailed off in recent months, contributing to the recent selloff and profit taking in stocks. However, we expect global liquidity to stabilize and gradually move higher in the coming year, providing a floor of support for prices of risk assets, i.e. stocks.
- Market breadth improved over the back-half of 2024 and every S&P 500 sector closed the year with a gain. Further improvement in the liquidity backdrop, including additional cuts to key policy rates out of central banks across the globe in the coming year, should allow participation to broaden with economically sensitive sectors keeping up with some potentially outpacing the 'Magnificent 7.'

**THE Chart Worth Watching: Liquidity To Drive Stocks**

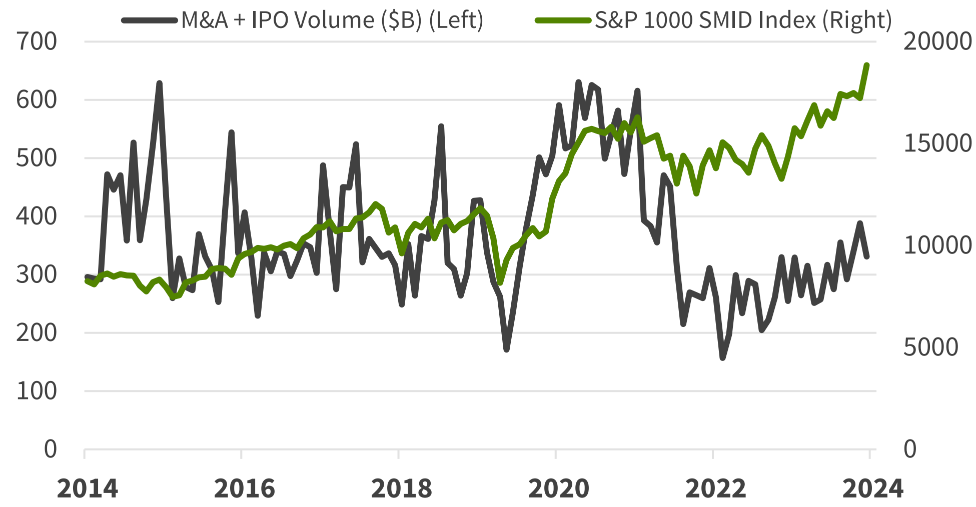


# Liquidity Backdrop To Remain Supportive Of Selective Risk Taking(Continued)

**Global Liquidity Still Supportive Of Further Gains For Stocks, Broadly Speaking, But Active Managers Should Fare Better In The Coming Year After A Trying 2024.**

- Global equity turnover, persistently tight credit spreads, and signs of life in the IPO market to close out 2024 all signal that the liquidity backdrop remains supportive of risk taking.
- Policy shifts in D.C. should provide a tailwind for mergers and acquisitions (M&A) activity in the coming year(s) as the DoJ and FTC come under new, more business-friendly leadership. This backdrop, along with improved liquidity, should boost sentiment and risk appetite.
- U.S. exceptionalism should drive inflows from abroad, but with the S&P 500 garnering 40% of revenues from abroad, selectivity will be crucial to sidestepping weakness abroad.

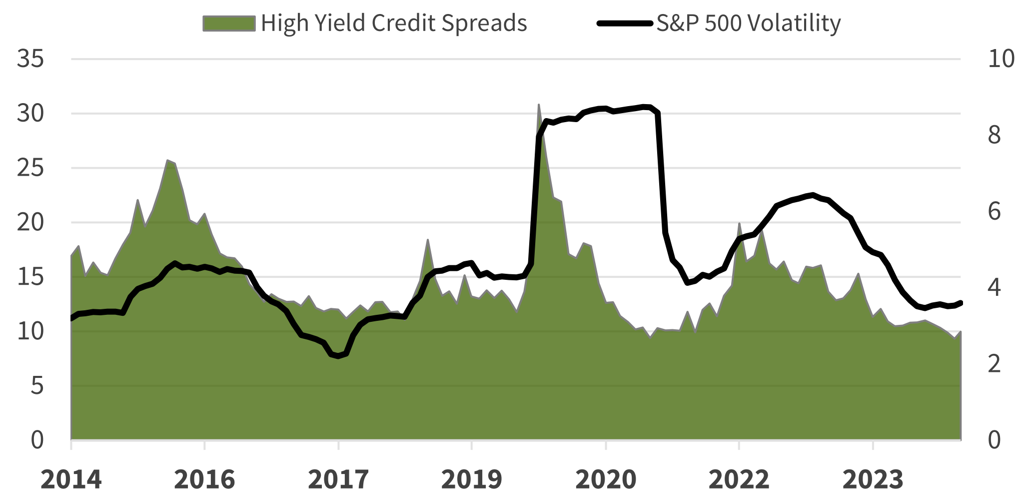
**IPO, M&A Activity Show Improving Liquidity With Room To Run**




**Volatility, Deeper Drawdowns, And Further Gains Likely As The Equity Bull Market Ages, But Policy Uncertainty Poses Potentially Bigger Potential Headwinds For Bonds.**

- We remain constructive on stocks, broadly speaking, but more modest returns with greater/elevated volatility and the prospect of deeper drawdowns along the way is our base case in the coming year. Lofty starting valuations and narrowing market breadth at year-end are signs the coming year could be set up for active mangers of both stocks and bonds to have a renaissance of sorts with diversification mattering more.
- We see credit as richly valued at present with spreads on both investment-grade and high yield corporate bonds tight by historical standards, providing paltry compensation for taking credit risk. A dynamic, 'go anywhere' approach to investing in bonds should be rewarded in '25 as rates remain volatile within a fairly wide trading range, presenting opportunities for managers capable of navigating through choppier waters.

**Volatility, Credit Spreads Have Room To Normalize/Move Higher**



# The Consensus' View Entering 2025 Versus Our Own

**The Consensus View: Sell-Side Strategists Overwhelmingly Expect The S&P 500 To Gain Between 10% And 20% In '25.**

- Our view: We expect another positive year for U.S. stocks, broadly speaking, as earnings growth propels prices higher, but the path to gains should be significantly bumpier this year relative to last year amid policy uncertainty. The S&P 500 generated a 25% total return in 2024 on 8.5% earnings growth as multiple expansion drove gains, but 2025 could see some give back on the valuation front with earnings multiples/valuations compressing due to higher interest rates/Treasury yields with the S&P 500 ultimately rising but by less than earnings actually grow year over year.

**The Consensus View: 'King Dollar' Will Reign In The Coming Year.**

- Our view: The U.S. dollar (USD) is likely to remain relatively strong due to the U.S. exceptionalism theme pulling capital into the U.S. However, the greenback appears stretched vs. the euro, Japanese yen, and British pound with the U.S. Dollar Index (DXY) hovering around the 109/ 110 zone. Some certainty on the trade/tariff and/or immigration fronts early in the year could allow the dollar to stabilize or weaken modestly, providing a tailwind for U.S. multinationals housed in the S&P 500 along the way.

**The Consensus View: Market Breadth/Participation Is Expected To Improve/Broaden In The Coming Year With Economically Sensitive Sectors And Small-Caps Taking The Leadership Baton From Information Technology.**

- Our view: While we agree that animal spirits and a more pro-business climate could boost economically sensitive sectors in the coming year, policy uncertainty will likely lead to fits and starts for cyclicals and these sectors may perform best on a relative basis in the back-half of the year.
- We still expect the 'Magnificent 7' to participate as investors gravitate to the biggest, well capitalized names in the market capable of weathering volatility and policy-related questions out of D.C. Secular growth themes such as artificial intelligence (AI), the buildout of data centers, and a focus on updating the power grid to support broader AI adoption is likely to continue to boost the 'Mag 7' and other plays.

**The Consensus View: Valuations, Mean Reversion Favors Fixed Income Vs. Stocks; Credit Spreads To Remain Tight.**

- Our view: Bond allocations have certainly grown in appeal as rates drifted higher by last year, but a significant portion of that shift higher comes from anticipation that the economy and fiscal deficits are set to continue growing. That backdrop poses a near-term headwind for fixed income portfolios even as the long-term outlook for the asset class has improved in recent years. On credit, we have trouble envisioning a major sell-off given our positive outlook for the U.S. economy, but we are tempering our expectations given tight credit spreads and stretched valuations.

# Conclusion

- Uncertainty tied to trade and immigration policy and the potential for inflationary pressures to reaccelerate in response to potential shifts on these fronts could weigh on sentiment/risk appetite and lead to elevated volatility into mid-year. Ultimately the President-elect's pro-business agenda should encourage business investment with a more robust environment for mergers and acquisitions (M&A) and initial public offerings (IPO) activity as a byproduct of improved corporate confidence. This backdrop should buoy animal spirits and push U.S. stocks higher in the coming year, albeit by a smaller magnitude relative to prior years, while also keeping upward pressure on long-term Treasury yields and limiting the total return potential of core investment grade bonds.

- We remain constructive on U.S. stocks, broadly speaking, but currently favor large-caps and mid-caps over small-caps at present. Valuations are stretched for U.S. large-cap stocks, but earnings growth and pricing power remain supportive of further gains. We expect leadership to broaden in the coming year but expect investors to continue hiding out in many of the 'Magnificent 7' names that got us here in the first place. Mid-caps are attractively valued and could be in the sweet spot for investors seeking out underfollowed economically sensitive exposures to U.S. stocks while doing so with a quality focus. Both small and mid-cap (SMid) U.S. stocks would benefit from an uptick in M&A activity but shifts in immigration and trade policy have potential implications for inflation and monetary policy which could tamp down deal volume in the near-term and/or weigh on risk appetite which leads us to prefer mid-caps relative to small-caps.

- Fixed income, broadly speaking, could face tough near-term sledding as potentially seismic policy shifts out of Washington D.C. loom, but the FOMC potentially ending quantitative easing (QT) in the first-half of the year could act as an offset to fiscal concerns and help yields stabilize. The challenging U.S. fiscal situation will likely remain top of mind for investors, but potential changes to immigration and trade policies may be a bigger driver of the direction of interest rates in the coming year and movement here is well worth watching. Diversification remains the name of the game for fixed income investors. Higher quality core exposures (Treasuries, Investment-Grade Corporates, Asset-Backed Securities, Mortgage-Backed Securities) should account for the lion's share of fixed income portfolios, but lower quality higher yielding corporate bonds still have their place to boost portfolio yield and lower interest rate sensitivity, but credit spreads are tight, and valuations are rich, so security selection is key. Abroad, with the U.S. dollar likely to remain strong in the coming year, our preference has shifted away from emerging market debt and toward developed market sovereign bonds which historically have performed best on a relative basis in that environment.

- Liquid alternatives remain a viable diversification tool as a higher for longer Fed funds rate provides a tailwind via a higher yield on collateral/cash, and an uptick in volatility for both stocks and interest rates increases the appeal for non-directional hedge fund-like strategies. Private markets continue to hold appeal as both a diversifier and return generating asset class for investors willing to lock up their capital, but manager selection remains crucial, particularly in the private equity arena as asset growth is likely to exaggerate performance dispersion between strategies.

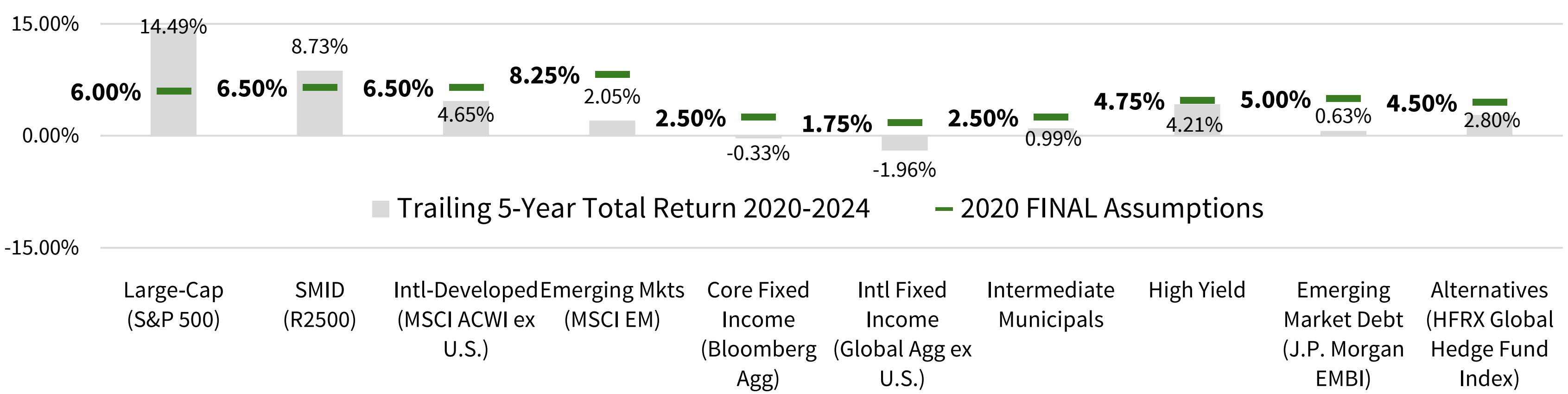

**Authors**

**Brandon Thurber, CFA, CAIA**
**Chief Market Strategist**
**SVP, Multi-Asset Solutions**

**Conner Griffith**
**Portfolio Strategist**
**VP, Multi-Asset Solutions**

# Revisiting Prior Assumptions: The 5-Year Lookback (2020-2024)

- **Stocks:**
  - **Domestic:** U.S. stocks up and down the market cap spectrum have exceeded our expectations over the prior five years, initially as beneficiaries of the ramp up of liquidity that took place in the wake of COVID-19 hitting U.S. shores in March of 2020, but more recently because of powerful themes (artificial intelligence (AI), power grid improvement, data center buildout, etc.) driving capital flows into the U.S. The Fed's balance sheet is around $6.8T at present, approximately 2X the level seen prior to COVID, and is unlikely to shrink in size much over the intermediate-term, thus remaining supportive of risk taking and risk assets. Ample liquidity, deregulation of select industries, and an improved outlook for M&A and IPO activity in the coming year(s) should drive further gains for U.S. stocks in the next half-decade. However, we expect more modest gains moving forward as valuations are lofty and it would be healthy for U.S. large-cap stocks, specifically, to move sideways and consolidate gains from the prior two years before resuming their climb.
  - **Foreign:** International developed market stocks have trailed our expected return by a sizable margin over the past half-decade, and with the euro area remaining focused on regulation over innovation, and with political dysfunction across the euro area and in the U.K. an ever-present risk, we see few catalysts to drive improved relative performance and a catch-up trade in the near-term. U.S. dollar strength has been a persistent drag on emerging market stock returns over the past five years and could remain a hurdle in 2025 due to the U.S. exceptionalism theme outlined. China has been a drag on broader emerging market indices as its economy has failed to recover from the COVID doldrums, and absent stepped-up stimulus efforts, could continue to weigh on sentiment and capital flows.
- **Fixed Income:** Our capital market assumptions released at the end of 2019 anticipated that tough sledding lied ahead for bonds, broadly speaking, due in large part to near-zero interest rates. Now five years in, and bonds have fared even more poorly than we expected with the Bloomberg Aggregate Bond Index (Agg) generating a -0.3% annualized return over the prior five years, below our paltry 2.5% return assumption. However, after Treasury yields rose throughout 2024 in response to sticky inflation and concerns surrounding the U.S. budget deficit, the Agg carried a yield north of 5% early in 2025, improving expected returns for investors in high quality, core fixed income over the next half-decade.
- **Alternatives:** The HFRX Global Hedge Fund Index has underperformed versus our 4.5% return assumption while our liquid alternatives portfolio/solution (Diversified Strategies) has outperformed our return expectation five years into the lookback period. This highlights the importance of manager selection in the alternatives area. With a higher expected Fed funds rate likely to remain in place in the coming years, hedge fund-like strategies housed in the HFRX Global Hedge Fund Index could narrow the performance gap versus our return assumption over the coming half-decade as higher yields on cash/collateral boost expected return for these types of strategies.



# CME Building Blocks

## Equity

Expected Equity Return = Expected Earnings Growth + Expected Dividend Yield and Buybacks + Expected Valuation Expansion Or Contraction

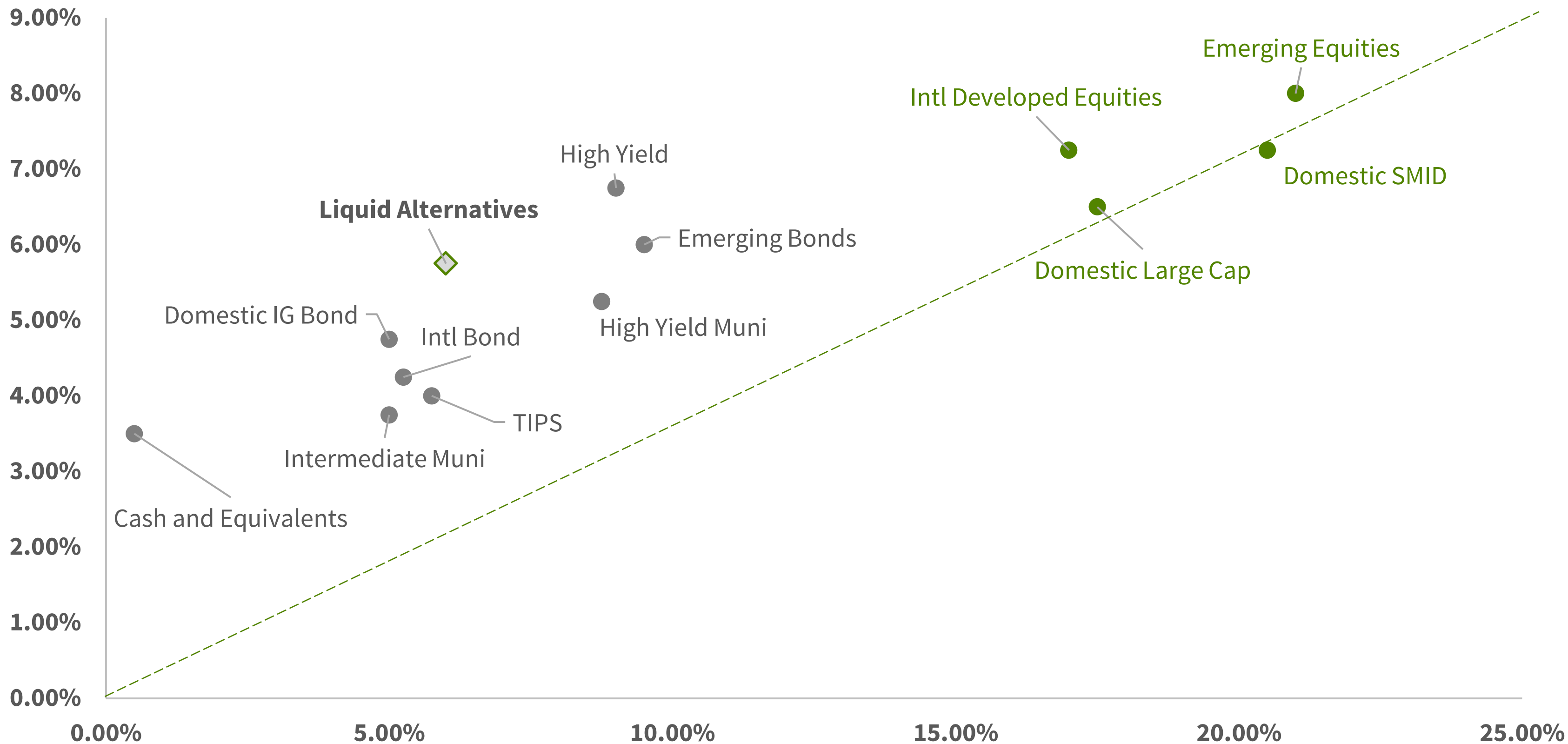
- Equity capital market expectations are derived from established fundamental drivers of return including income estimates and capital appreciation forecasts.
- Expected earnings growth is tied to economic growth, which is impacted by variables such as monetary policy, population growth, and productivity, all of which require other assumptions to be made, increasing the likelihood of deviation from actual experience across the forecasted time horizon.
- Expected dividend yield is a relatively straightforward input as we can use the trailing yield of an index and adjust for expected annual dividend growth, a figure unlikely to change much from one year to the next. This is the easiest component of expected return to forecast but is also the least variable from year to year and thus shouldn't cause the final return estimate to shift much.
- Expansion/contraction in valuations (earnings multiples) are tied to expectations surrounding economic growth, monetary policy (easy monetary policy leads to higher forward earnings multiples, i.e., expansion, while tighter policy leads to lower multiples, i.e., contraction), and investor sentiment (risk appetite), among other variables. Valuations are often intertwined with global central bank policy regimes as valuations expand as liquidity is injected and compress as liquidity is removed. We're entering a period in which liquidity is going to be injected into the global economy, which should be supportive of forward price-to-earnings (P/E) and other valuation metrics. Notably, after valuations may remain elevated relative to historical levels due to how much liquidity has been injected in recent years.

## Fixed Income

Expected Fixed Income Return = Current Yield-To-Worst + Change in Expected Defaults + Expected Base Currency Gain/Loss (USD)

- Formulating capital market return expectations for fixed income is a simpler exercise with fewer variables relative to what is required for equities.
- Current yield for 'risk-free' bonds such as U.S. Treasuries, or yield-to-worst for corporate credit and other riskier types of debt, are observable and the primary contributor to expected forward returns for fixed income. A bond's yield or yield-to-worst should be an investor's expected return, assuming the issuer makes coupon payments on time and avoids default, which is why formulating an expected return for core, investment-grade fixed income is a more straightforward exercise with fewer assumptions required than it is for riskier bonds such as high yield corporates and emerging market debt.
- Default expectations must be a consideration for investment-grade and high yield corporate bonds, and it is our expectation that defaults for high yield issuers, will rise modestly over the coming year which should be supportive of a 'clip your coupon'-plus type environment.
- Appreciation or depreciation of the U.S. dollar versus foreign currencies is a variable to consider but given that the bulk of our exposure to foreign bonds is tied to U.S.-dollar denominated debt, this isn't an input that's going to cause large shifts in forward expectations. However, given our outlook which calls for the U.S. dollar to depreciate in '24, foreign issuers could find themselves in a far better position to repay existing U.S. dollar denominated debt and may find a more willing buyer base that allows them to float new debt to fund/finance future economic growth.

# 10 Year Return and Volatility Forecast




**Monte Carlo Analysis Of Selected Portfolios**

| Asset Mix | Project Year | 95th | 75th | 50th | 25th | 5th |
|---|---|---|---|---|---|---|
| Growth | 10 | 14.0 | 9.8 | 7.0 | 4.3 | 0.5 |
| Balanced | 10 | 10.6 | 8.0 | 6.3 | 4.7 | 2.3 |
| Current Income | 10 | 8.6 | 6.9 | 5.8 | 4.6 | 3.0 |

Forecast displays 5th/25th/50th/75th/95th percentile ranges of 2,000 MVO Monte Carlo simulations for projected ten-year annualized returns as of December 31, 2023. The equity portion of the portfolios is 65% U.S. equity and 35% global ex-U.S. equity. The bond portion of the portfolios is 80% U.S. investment grade bonds, 10% global ex-U.S. bonds and 10% U.S. corporate high yield bonds. The diversified strategies portion of the portfolios is 100% HFRX Global Hedge Fund index.

Chart Source: Morningstar Direct ©Morningstar 2025. All rights reserved. Use of the content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

# Appendix/Important Disclosure

| Asset Classes | Arithmetic Mean | Geometric Mean | Standard Deviation | CVaR Cutoff 5.0% |
|---|---|---|---|---|
| DS | 5.9 | 5.7 | 5.9 | 6.6 |
| Equity | 8.4 | 7.0 | 16.7 | 24.4 |
| Taxable FI | 5.0 | 4.9 | 4.4 | 4.4 |
| Tax Exempt FI | 4.0 | 3.9 | 4.3 | 5.1 |

**Correlations**

| | DS | Equity | Taxable FI | Tax Exempt FI |
|---|---|---|---|---|
| DS | 1 | 0.6 | 0.16 | 0.17 |
| Equity | 0.6 | 1 | 0.18 | 0.16 |
| Taxable FI | 0.16 | 0.18 | 1 | 0.78 |
| Tax Exempt FI | 0.17 | 0.16 | 0.78 | 1 |

**Asset Mix Statistics (Simulated)**

| | Taxable | | Tax Exempt | |
|---|---|---|---|---|
| Asset Mix | Geometric Mean | CVaR Cutoff 5.0% | Geometric Mean | CVaR Cutoff 5.0% |
| Aggressive Growth | 7.0 | 22.2 | 7.0 | 22.3 |
| Growth | 6.8 | 18.1 | 6.7 | 18.3 |
| Growth w Income | 6.5 | 12.9 | 6.2 | 13.3 |
| Balanced | 6.2 | 9.5 | 5.8 | 9.9 |
| Income w Growth | 6.1 | 7.8 | 5.6 | 8.3 |
| Current Income | 5.7 | 5.4 | 5.1 | 5.9 |
| Enhanced Income | 5.0 | 3.6 | 4.1 | 4.3 |

Source: Regions Asset Management and Morningstar Direct

*This proposal is intended for the sole use of the prospective client herein named and is not to be distributed to any other party. The proposal is intended to provide the client general information about Regions Institutional Services. The proposal response is not intended to provide legal or tax advice. Although this proposal is based on information from other sources believed to be reliable and accurate, Regions Institutional Services makes no representations or warranties with respect to information contained in this report. Opinions regarding any securities mentioned are subject to change at any time.*

*The Capital Market Expectations ("CME's") are Regions Asset Management estimates based on historical performance and the current market environment. We do not present the CME's as actual future performance. This information has been prepared by Regions Asset Management based on data and information provided by internal and external sources. While we believe the information provided by external sources to be reliable, we do not warrant its accuracy or completeness. References to future expected returns and performance are not promises or even estimates of actual returns or performance that may be realized, and should not be relied upon. The forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice, interpreted as a recommendation, or be guarantees of performance. In addition, the forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. They have inherent limitations because they are not based on actual transactions, but are based on the historical returns of the selected investments and various assumptions of past and future events. The results do not represent, and are not necessarily indicative of, the results that may be achieved in the future; actual returns may vary significantly.*

*A Monte Carlo simulation is an analytical tool that is designed to depict a range of potential future portfolio outcomes. The simulations chart the probability of meeting specific financial goals in the future and analyzes the probability of outcomes resulting from underlying assumptions regarding certain economic parameters.*

# Important Disclosure Continued

*The simulated results contained in this presentation are hypothetical, and are based on forward-looking capital markets assumptions for estimated returns, standard deviation, and correlations. Hypothetical results do not involve market risk, and are achieved with the benefit of hindsight. Actual performance numbers may be materially different from the performance numbers noted above. The scenarios generated from the Monte Carlos simulation represent a spectrum of possible results. The simulated projections have certain inherent limitations since they do not reflect the impact that material economic and market factors might have. Since the activity in your simulation has not actually occurred, the results of the simulation may under- or over-compensate for the impact, if any, of certain market factors and may underestimate the impact of market extreme and the related risk of loss. It is important to remember that this process is based on assumptions that may not reflect the behavior of actual events. For example, Monte Carlo Simulation may not fully account for certain rare and extreme market catastrophes which fall outside normal expectations. A different set of assumptions would create a different probability distribution. Expert opinion regarding expected returns, volatility and market trends vary widely. The simulations are not representative of the performance of any client account. All of the graphs and other information are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Actual investment returns, standard deviation, inflation, interest rates and the cash flows generated by the products and strategies will vary from the projections shown, perhaps significantly. The graphs are not meant to project the performance of the products and strategies or the cash flows that they will generate. The graphs presented represent only three of the many possible outcomes. Results may vary with each outcome and over time. In addition, other products and investment strategies not considered may have characteristics similar or superior to those analyzed in the graphs. The simulations are presented in inflation-adjusted dollars and are based on the specific characteristics of the current and proposed portfolio.*

*It is possible to lose some or all of your investment. The value of an investment will fluctuate over time and may be worth less than its original cost. Since past performance and market conditions may not be repeated in the future, investment goals may not be fulfilled by following the advice that is based on the projections of the Monte Carlo Simulation.*

*Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."*

*Past performance is not a guarantee of future results. Current performance may be lower or higher than the performance data presented. The investment return and principle value of an investment will fluctuate so that, when redeemed, it may be worth more or less than the original value. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presented herein. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.*

Trust and investment management services are offered through Regions Wealth Management, a business unit of Regions Bank. The information contained herein was gathered from sources believed to be reliable but is not guaranteed by Regions Bank nor is it to be considered all-inclusive. It is not meant to replace or supersede the information provided on your statement of account, which is the official record of all activity and balances in your account for the period of time specified on the account statement. Further, the information does not purport to be a complete analysis of any security, company or industry mentioned. The rationales contained in this presentation are the result of internal Working Groups and Committees within Regions Wealth Management, and does not necessarily reflect the opinion of Regions Bank or its affiliates. The rationales are included for informative purposes only, and to provide thought processes behind the investment decisions made on behalf of some clients. Opinions regarding any securities and/or sectors mentioned are subject to change at any time. Neither the information nor any opinion expressed shall constitute a solicitation for the purchase or sale of any security.

Neither Regions Bank, Regions Wealth Management, Regions Asset Management, Multi-Asset Solutions nor any affiliates or subsidiaries of Regions Bank (collectively, "Regions") are registered municipal advisors nor provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for such services. With respect to this presentation and any other information, materials or communications provided by Regions, (a) Regions is not recommending an action to any municipal entity or obligated person, (b) Regions is not acting as an advisor to any municipal entity or obligated person and does not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such presentation, information, materials or communications, (c) Regions is acting for its own interests, and (d) you should discuss this presentation and any such other information, materials or communications with any and all internal and external advisors and experts that you deem appropriate before acting on this presentation or any such other information, materials or communications.
Copyright 2025 Regions Bank, Member FDIC.

| Investment, Insurance and Annuity Products |
| --- |
| Are Not FDIC-Insured \| Are Not Bank Guaranteed \| May Lose Value \| Are Not Deposits |
| Are Not Insured by Any Federal Government Agency \| Are Not a Condition of Any Banking Activity |