

Capital Market Assumptions

2027

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Welcome to EFG's 2027 Capital Markets Assumptions (CMAs), designed to provide a structured framework to portfolio construction.

A more complex backdrop for strong markets

As we look towards 2027, investors face an interesting dilemma. Financial markets have continued to deliver strong returns despite an increasingly complex geopolitical and economic backdrop. At the same time, the pace of technological change, the concentration of equity market performance and questions over the sustainability of government finances are creating new challenges for investors. The question is not simply whether markets can continue to rise, but how investors should position their portfolios for the years ahead.

Rethinking diversification and portfolio construction

Another question on investors' minds is how to navigate a world in which traditional relationships between asset classes can no longer be taken for granted. The experience of recent years has demonstrated that diversification is not simply about holding a combination of equities and bonds. Currency exposure, geographic concentration and the interaction between different sources of risk all have an important influence on portfolio outcomes. For international investors, particularly those whose reference currency is not the US dollar, these considerations can be just as important as selecting the underlying investments.

Behavioural pitfalls in a strong market

There is also a behavioural challenge. Strong market performance can encourage investors to extrapolate recent returns into the future, while periods of uncertainty can prompt them to reduce risk at precisely the wrong moment. Neither approach is a substitute for a clearly defined investment strategy. One of the most important lessons from financial markets is that short-term developments, however significant they may appear at the time, do not necessarily determine long-term investment outcomes.

From assumptions to asset allocation decisions

This year's publication builds on that approach by extending the analysis to asset allocation, helping connect our long-term assumptions more directly with portfolio decisions. Ultimately, successful investing is not about anticipating every market development. It is about constructing portfolios that can participate in opportunities, withstand periods of uncertainty and remain aligned with investors' long-term objectives.

Supporting confident, long-term investing

We hope that our 2027 Capital Market Assumptions provide a valuable perspective on the opportunities and challenges ahead and, most importantly, help investors make more confident and disciplined long-term decisions.



Moz Afzal,
Chief Investment Officer

Past performance is not indicative of future results. The above data is based on projections. Certain assumptions have been made regarding the above information and such information is provided by way of an illustration only. Any changes to these assumptions may have a material impact on the assessment presented.

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Introduction

Higher yields have restored fixed income as a meaningful source of long-term return, while elevated valuations temper the outlook for equities.

If 2025 was a watershed year, 2026 has demonstrated that the forces it set in motion are far from exhausted. Geopolitical tensions remain elevated, with conflict in the Middle East keeping energy prices high, while the shift towards a more fragmented, multipolar world continues to influence trade, defence spending and fiscal policy.

For long-term investors, one of the most significant developments has been the change in bond markets. Yields have risen broadly in 2026, reflecting persistent inflation, higher energy prices and growing concerns over government borrowing in many developed economies. Although this has made for another challenging year for bond investors, higher starting yields provide a stronger foundation for future returns. This improvement is reflected in our 2027 Capital Market Assumptions (CMAs).

Equity markets, meanwhile, have continued to deliver strong gains. However, higher valuations tend to weigh on future returns, and our long-term assumptions have moderated accordingly. As a result, the gap between expected equity and bond returns has narrowed, creating a more balanced but increasingly differentiated investment landscape across asset classes, regions and styles.

Higher interest rates are also reshaping the outlook for alternative investments. They provide a stronger return base for hedge funds and private credit, while increasing financing costs and placing greater emphasis on operational performance in private equity.

Against this backdrop, portfolio construction is becoming increasingly important. This year's publication therefore introduces, for the first time, a dedicated chapter on asset allocation, translating our long-term assumptions into practical portfolio considerations.

Looking ahead, we expect the structural themes of deglobalisation, increased defence spending, fiscal pressures and heightened geopolitical tensions to remain important influences on markets over the coming decade.

How the CMAs can help you make better investment decisions

To achieve long-term investment success, we believe in the following principles:

1. Define and maintain a clear strategy.

Establish an investment framework that reflects your long-term objectives. While market conditions will evolve, a disciplined approach anchored to CMAs helps to ensure consistency and reduce the risk of reacting to short-term volatility.

2. Align risk with capacity and tolerance.

Investment decisions must be consistent with both the financial capacity to bear risk and the willingness to accept volatility. CMAs help calibrate expected risk-return profiles so that portfolios remain appropriate over time.

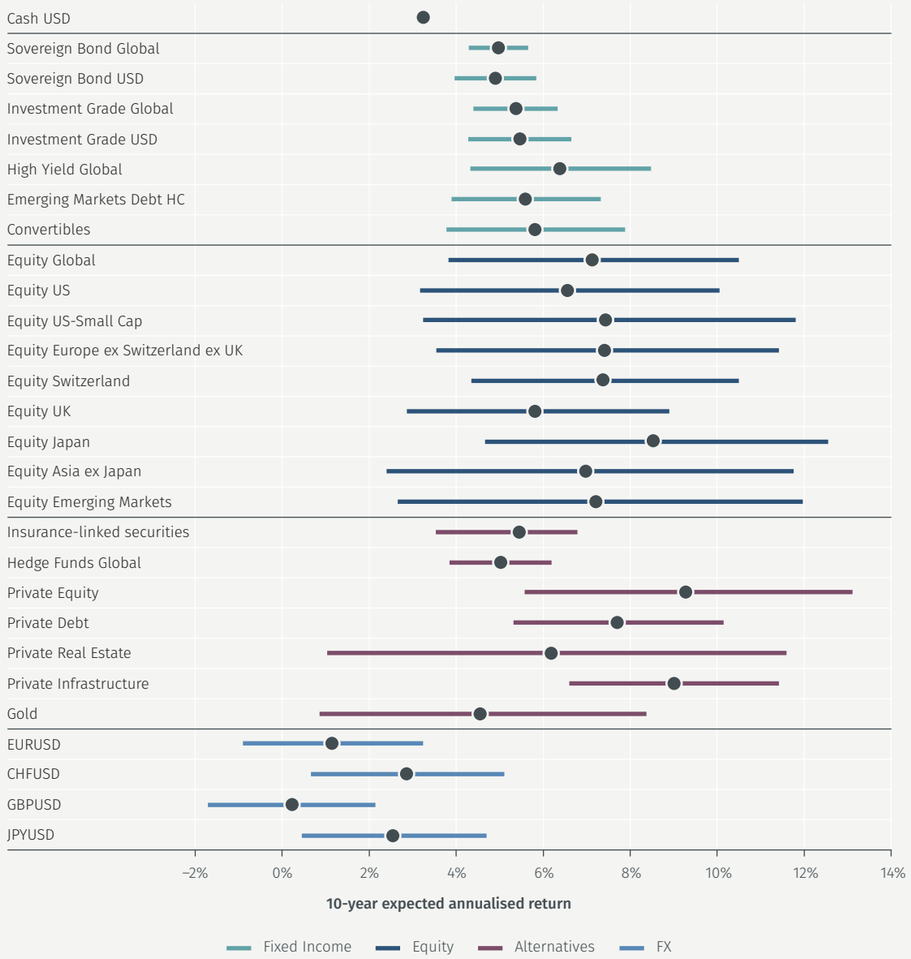
3. Diversify across asset classes and geographies.

A well-diversified portfolio spreads exposure across different markets, sectors and investment styles. This reduces concentration risk and increases access to multiple sources of return. CMAs highlight the broad variation in expected returns and volatilities, helping to design balanced portfolios.

As Figure 1 shows, there is much variation in terms of expected return and volatility across asset classes, sub asset classes and geographies. Typically, the greater the volatility, the higher the expected return, although this is not guaranteed.

Figure 1: Expected returns for a USD investor

Higher expected returns typically come with wider ranges: alternatives and equity offer the highest central estimates but also the widest dispersion of 10-year outcomes, while fixed income offers lower returns but with much tighter ranges.



Returns are assumed for a USD-based investor and hedged in USD. Dots show the central expected return, i.e. the median 10-year annualised (geometric) total return. Bars show the interquartile range (25th–75th percentile): a 50% probability that the realised 10-year annualised return falls within the bar. Ranges reflect return volatility only and exclude parameter uncertainty. FX rows are not exchange rates: they show the median expected annualised change of each currency against the USD (positive = appreciation versus the USD), i.e. the effect of currency movements alone. They exclude the interest earned on holding the currency and are therefore not comparable with the total returns of the asset classes.
Source: EFG.

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1 *Equity Market* assumptions

Following several years of strong gains, equity markets enter the next decade with more demanding valuations. We still expect positive long-term returns, but at a more moderate pace, increasing the importance of diversification across regions and company sizes.

Strong gains, lower expected returns

Global equity markets are set for their fourth consecutive year of returns above 10%, having roughly doubled since their lows in 2022[1]. This is welcome news for equity investors, but it also has implications for our forward-looking Capital Market Assumptions (CMAs). Our CMAs are an approximate guide to the scale of returns over the coming years, so several years of stronger-than-expected returns should be followed by several years in which returns are, on average, below those anticipated by previous CMAs (Figure 2).

At the same time, returns are not distributed evenly: markets rise much more often than they fall. In practice, this means we would expect any 10-year period to contain more positive years than negative ones. The S&P 500 index of large US companies has a long history, and every rolling 10-year window since 1929 has still included at least one year of negative returns. To reach the average return anticipated by the CMAs, the positive years therefore need to be stronger than average.

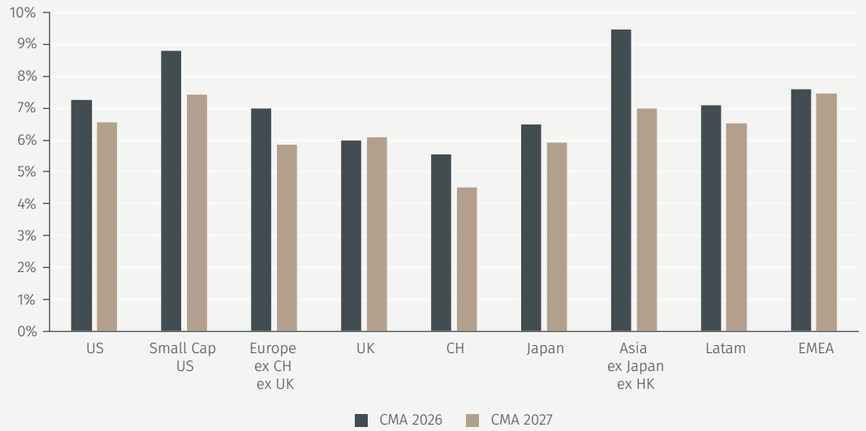
Following four strong years, including a good 2026, our outlook for the next 10 years is generally a little lower than it was last year. For example, whereas we anticipated average returns of 7.3% for US equities in the 2026 CMA, the latest CMAs project returns from US equities of 6.6% per annum.

This does not mean we are pessimistic about the next decade; it simply means that expected returns are slightly lower than previously projected. This may well be associated with a broadening of sector leadership over the next 10 years, something that would tend to reduce returns for broad market indices given the concentration of recent returns in the tech sector.

1 Source: LSEG Data & Analytics. As at 30 October 2026.

Figure 2: Ten-year expected returns for equity asset classes, 2027 versus 2026 CMAs (local currency)

The strong preceding four-year period including a good 2026 mean our outlook over the next 10-years will be lower.



Source: EFG.

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Narrowing gaps

For similar reasons, the CMAs expect the outperformance of small caps over large caps to narrow, given their strong relative performance in 2026. Small caps are still expected to generate higher returns than large caps over the next 10 years, but by a smaller margin.

The 2026 CMAs forecast US small cap returns around 1.5% per annum above those available from large cap US equity; the 2027 CMAs expect US small cap equities to outperform by around 0.9% per annum.

Likewise, emerging market equities performed well in 2026, outperforming developed markets, so the CMAs project lower returns relative to last year. Thus, Asia ex Japan ex HK expected outperformance of US equities has declined from 2.2% per year in the 2026 CMAs to 0.4% per annum in our latest CMAs, partly related the strong performance of markets like South Korea and Taiwan in 2026.

> "…returns are not distributed evenly: markets rise much more often than they fall…"

In practice, this means equity returns are still expected to be positive but more modest than in recent years, which makes diversification across regions and market capitalisation more important.

2 *Fixed Income Market* assumptions

Higher starting yields have improved the long-term outlook for bonds and strengthened their role in diversified portfolios. Inflation persistence, public borrowing and tight credit spreads remain risks, making the choice of market and credit exposure important.

Higher yields, better prospects

Whilst equity markets have delivered strong returns over the past few years, the same cannot be said of fixed income assets. Yields have risen sharply from the pandemic-era lows of 2020, including a broad-based increase in 2026. Future returns on bonds are closely linked to today's yields (the annual income a bond pays relative to its price), the CMAs point to solid returns across most fixed income markets, above what we anticipated last year (Figure 3).

Two other observations support this view. Real yields, which are yields after allowing for inflation have risen meaningfully and are near the upper end of their historical range. Risk premia, the extra yield investors demand for taking more risk, have also returned to more normal levels after spending several years at abnormally low levels due to the impact of quantitative easing. After a difficult period for bond investors, the outlook is therefore more supportive.

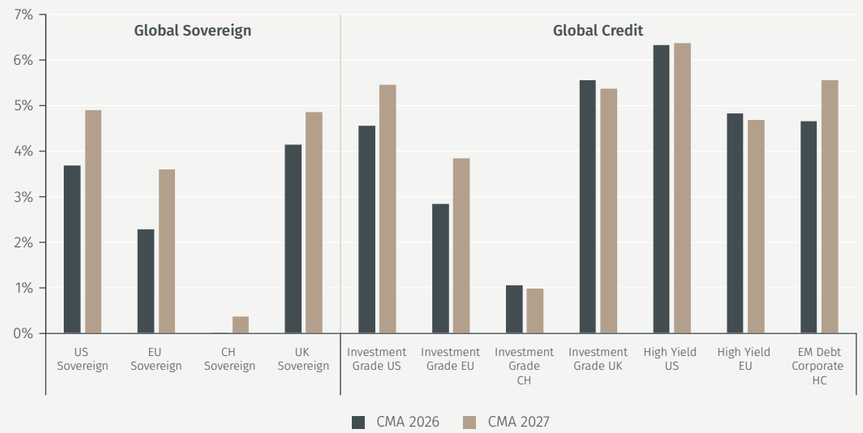
Potential headwinds

The outlook is not without risks. Inflation may prove more persistent than expected and fail to return to central banks' targets, or could even accelerate if wages and prices begin to encourage each other to move higher, for example in response to high energy prices caused by a longer-than-expected conflict in the Middle East.

Separately, the volume of government bond issuance expected over the coming years is a concern across many developed economies, many of which run large budget deficits despite already high levels of debt relative to the size of their economies. Concerns are notably acute in France and the UK, as highlighted in EFG's Outlook 2027, where discipline over government spending and borrowing appears to be particularly problematic.

Figure 3: Ten-year expected returns for fixed income asset classes, 2027 versus 2026 CMAs (local currency)

Higher yields have lifted our expected returns across most fixed income markets



Source: EFG.

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The US is in a similar position on paper, but it has the distinct advantage of issuing the world's reserve currency, which creates natural demand for US Treasuries. As in last year's CMAs, the outlook for Swiss government bonds is constrained by very low starting yields. Even a modest rise over the next 10 years would reduce returns from Swiss bonds, implying returns even lower than today's yields suggest. For this reason, the 2027 CMAs anticipate returns of just 0.4% per annum from Swiss government bonds in CHF terms, rising to 3.1% when hedged back to USD.

In terms of specific numbers, the expected annualised return from US Treasuries has increased from 3.7% in the 2026 CMAs to 4.9% in the 2027 CMAs due to the increase in yields over the course of the year. Expected returns from eurozone government bonds have increased in local currency terms from 2.3% to 3.6% per annum. However, when hedged back to USD, expected eurozone government bond returns rise to 5.1% per annum, a little above the US forecast. This is due to the interest rate differential between the eurozone and the US.

> "The difficult past few years for fixed income investors are therefore expected to give way to some respite in the years ahead."

Higher spreads

Last year's CMAs also highlighted the potential for spreads (the extra yield that companies pay over governments to borrow) on investment grade and high yield bonds to rise over the next 10 years. Spreads remain tight, although higher absolute yields now provide a larger cushion than they did when last year's CMAs were released. Nonetheless, we expect spreads to be higher in 10 years time than they are today. The net result is that projected USD high yield returns are little changed at 6.4% in this year's CMAs versus 6.3% expected last year.

3 *Currencies and Commodities* assumptions

We expect a weaker US dollar over the long term, while currency hedging remains a key portfolio decision. Gold may offer resilience against fragmentation and debt concerns, and electrification is expected to support demand for industrial metals.

Dollar view

The currency outlook over a 7-10 year horizon remains characterised by the expectation of a weaker US dollar. In real effective terms (adjusted for inflation and weighted by trade), the dollar peaked in 2022 at the end of its longest appreciation phase since the 1970s (Figure 4). It remains about 17% above its long-run average.

Previous depreciation phases lasted seven to nine years during which the trade weighted US dollar index typically declined by roughly 25-35%. To put recent experience in that context, the decline from the 2022 peak has so far been limited, at around 7%. A larger adjustment would therefore be consistent with historical patterns. The long term fundamentals also point in this direction. For example, a surge in US government debt and the persistent current account deficit both represent longer term challenges to the the US dollar. The moderate rise in the currency in 2026 may therefore be a temporary counter-trend rally, as the dollar's role in the global financial system is questioned amid growing global fragmentation and efforts by other major economic blocs to reduce their reliance on it (de-dollarisation).

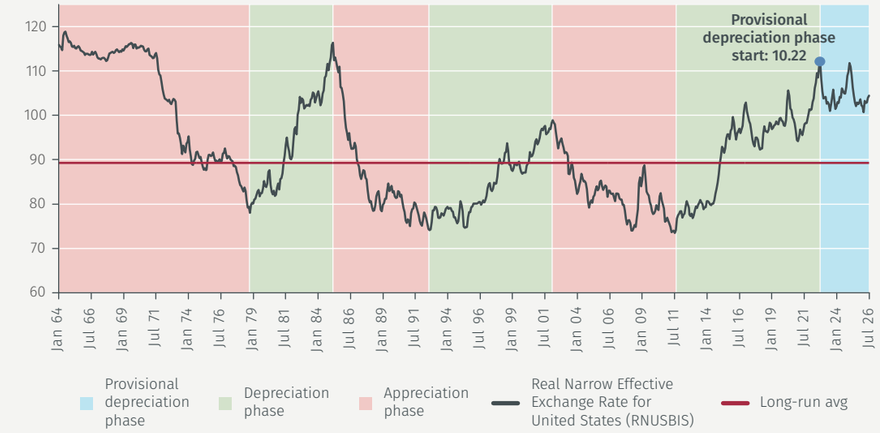
Looking at currency fundamentals, the Swiss franc stands out. Its outlook is underpinned by three factors: government debt has fallen below 40% of GDP, the trade surplus remains high, reflecting a highly competitive industrial base, and the Swiss National Bank has been effective at delivering price stability.

Beyond the directional view, investors should also consider how currency exposure affects portfolio risk. The effect depends on how the returns on foreign assets move relative to the investor's own (reference) currency. Depending on that relationship, increasing or reducing foreign-asset exposure can either raise or lower overall portfolio risk, and this influences whether hedging (protecting against exchange-rate movements) is likely to be beneficial. Currency decisions are therefore best made as part of portfolio construction, rather than by trying to forecast exchange rates.

The broad message on FX is therefore one that anticipates a strengthening of other currencies relative to the USD over the next 10 years, albeit by relatively modest amounts per annum. The euro is expected to appreciate on average by around 1.2% per annum against the USD but it is the yen and the Swiss franc that are expected to rally the most against the USD, by 2.6% per annum for the former and 2.9% per annum for the latter. In practice, currency moves will not be smooth but will happen in the context of volatile trading that will see short-term noise sometimes cloud the trend. Nonetheless, it is useful to express a long-term view on the directional bias as a tool for helping think about the relationships with risk and appropriate portfolio construction.

Figure 4: US dollar real effective exchange rate and appreciation cycles, 1964–2026.

The dollar remains expensive after its longest appreciation cycle since the 1970s, and the correction so far has been limited.



Green areas mark phases of dollar appreciation and red areas phases of depreciation, identified as moves between turning points with a reversal of at least 20%. The blue area is a provisional depreciation phase, which starts at the peak of October 2022 and is not yet confirmed as a turning point. The line is the average since 1973. Latest data: July 2026.
Source: Bank for International Settlements, Real Narrow Effective Exchange Rate for United States (RNUSBIS), retrieved from FRED, Federal Reserve Bank of St. Louis, 26 October 2026; EFG calculations.
Past performance is not indicative of future results.

Commodities outlook

Our 10-year forecast for the price of gold has been revised up slightly from last year's CMAs to 4.6% per annum. This reflects gold's negative return so far in 2026, which mechanically raises the expected return over the next ten years. Over the last 60 years, gold prices have fallen in almost two out of every five years, and in one out of every four years since the start of this century. In the most recent period, the average positive year was more than twice as large as the average negative year, which lifted average annual returns above the historical norm. Our forecast increase in the price of gold therefore remains below its historical average, which also reflects weaker expected trend growth in global nominal GDP. The main economic drivers of gold remain debt sustainability concerns and global fragmentation.

> "…the dollar's role in the global financial system is questioned amid growing global fragmentation…"

The outlook for other commodities reflects both recent events and longer-term structural drivers, primarily the transition to a net zero economy and the build-out of AI infrastructure. High hydrocarbon (oil, gas and coal) prices resulting from the multiple crises of recent years will accelerate the shift to a greener, more electrified economy, which should eventually dampen demand for hydrocarbons and their expected returns.

For that reason we expected very modest growth in the oil price of less than 1% per annum over the next 10 years. Demand for industrial metals is expected to surge as energy grids expand to carry the increased generation from renewable sources to end users.

4 *Private Markets* assumptions

Private markets continue to offer differentiated sources of return, but higher financing costs and slower exits have raised the bar. Earnings growth, credit quality and disciplined execution are increasingly important, alongside manager and vintage selection.

Private Equity

Private equity strategies excluding venture capital are expected to deliver slightly lower returns relative to last year. The expected outperformance over US stocks has also narrowed, from 3.3% last year to 2.7% in the latest CMAs (Figure 5). This is because of high financing costs, demanding entry valuations and slow exits that limit how far private equity can benefit from strong earnings trends across public and private companies. We continue to expect returns to be driven by growth in portfolio-company earnings, improved margins and cash generation, with debt repayment adding to the value attributable to equity investors. The outlook therefore relies less on selling companies at higher valuations and more on operating improvements.

Figure 5: Private Markets assumptions

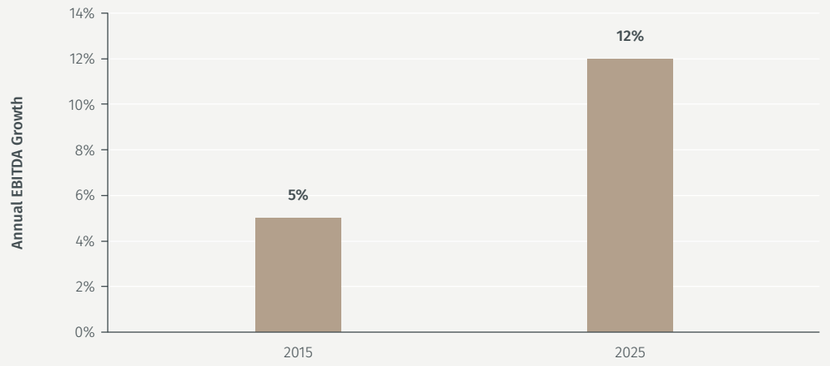
Expected annualised USD returns over the next seven-to-ten-year horizon

Asset class	Expected Return 2027
Global private equity	**9.3%**
Global private direct lending	**7.7%**
Global private real estate	**6.2%**
Global private infrastructure	**9.0%**

Preqin's indices are used as reference universes to calibrate our private market assumptions.
Source: EFG.

Figure 6: Annual EBITDA growth required to generate a 20% IRR over a five-year holding period

Today's buyouts need more than twice the earnings growth of a decade ago to deliver the same return.



Annual earnings before interest, taxes, depreciation and amortization (EBITDA) growth required to generate a 20% internal rate of return (IRR), equal to 2.5x the capital invested (MOIC), over a five-year holding period, 2015 versus 2025. Illustrative US buyout example. Interest rates of 6% (2015) and 8% (2025); debt at about 50% and about 36% of enterprise value; entry/exit multiples of 10.0x/12.5x (2015) and 14.0x/15.0x (2025). Assumptions will vary by transaction.
Source: Bain & Company, Global Private Equity Report 2026, Figure 1; chart redrawn by EFG.

Bain & Company's Global Private Equity Report 2026 shows how high the bar has risen. In an illustrative US buyout (the purchase of a company, typically financed partly with debt), delivering 2.5 times the capital invested over five years now requires annual EBITDA growth (earnings before interest, tax, depreciation and amortisation) of around 10-12%, compared with about 5% in 2015. Higher borrowing costs, lower leverage and more limited expansion in valuation multiples place greater weight on cash flow and operating improvements as performance drivers (see Figure 6). The analysis is illustrative rather than representative of the whole market, but it provides useful context for our focus on earnings growth and operational improvements.[2]

Liquidity also remains a constraint. Preqin's H2 2026 Performance Pulse notes that buyout returns have held up relatively well, but weak exits and slower distributions continue to delay the return of cash to investors, which in turn slows the redeployment of that capital into new funds, and extends fund holding periods.

Preqin's Q2 2026 Private Equity update shows a selective improvement in aggregate exit value, although the number of exits fell and activity remained concentrated in a smaller number of larger transactions. The exit market has therefore reopened only partially – a broader recovery in exits and distributions is still some way off. Delayed exits defer cash returns, so annualised returns can be lower even if eventual sale prices are unchanged.

Over a 7–10 year horizon, the outlook depends on company growth being realised through exits at sustainable prices. In such an environment, manager selection and diversification across fund launch years (vintage diversification) is even more important.[3,4]

2 Bain & Company, Global Private Equity Report 2026, "12 is the new 5" analysis. Buyout deal-level EBITDA growth required for a 2.5x investment multiple over five years.
3 Preqin, Performance Pulse: H2 2026. Private equity liquidity, exits, distributions and holding periods; data through Q1 2026.
4 Preqin, Private Equity Q2 2026: Preqin Quarterly Update. Quarterly exit value and volume developments.

Private Credit – Direct Lending

Our outlook for private credit is anchored in the income we expect a diversified global direct lending portfolio to earn. Returns come primarily from interest on floating-rate loans, which pay a base rate plus a contractual credit spread (the extra interest charged for lending risk), so higher starting base rates lift expected income. Our expected return has not changed since last year. The expected return on the comparable public market index, US high yield bonds, has risen trivially from 6.3% to 6.4%, so the expected premium of private direct lending over it remains almost the same, at 1.3% annualised.

Loans issued below their face value and borrower-paid arrangement fees may add to yield. Federal Reserve and European Central Bank projections support a "higher for longer" base-rate outlook in the near term, which should support floating-rate income. Over the CMA horizon, the expected return on cash-like money market investments is 3.2% in USD and 1.7% in EUR.

Competition for attractive borrowers may squeeze spreads or weaken lender protections, while slower growth or refinancing pressure could increase defaults and the number of loans that stop paying interest (non-accruals). Net outcomes depend on the spread earned over base rates after defaults, non-accruals and recoveries. The extra return over public credit compensates investors for credit risk and for the difficulty of selling these investments quickly (illiquidity); it is not a free return. The quality of the lender's underwriting, meaning borrowers' cash-flow resilience, prudent borrowing levels, documentation and lender protections, therefore matters as much as the headline assumptions. The analysis applies to global direct lending only.

Private Real Estate

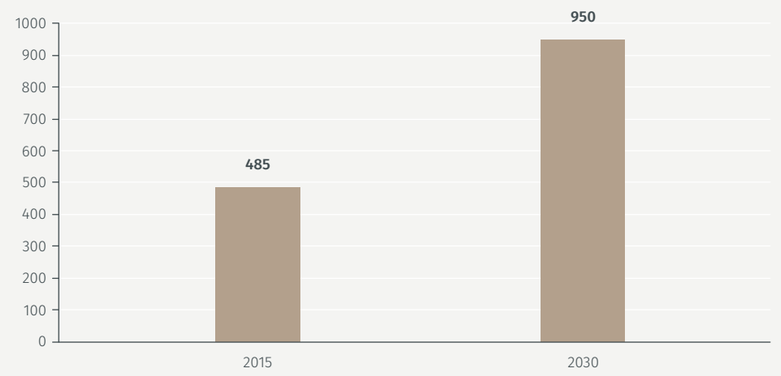
The return reflects expected property income and growth in net operating income (NOI), which is rental income after property operating costs. As leases renew, landlords may be able to adjust rents, while higher occupancy and property improvements can support income. Lower property valuations have improved income yields for new investors, and a gradual recovery in financing and transaction activity could also support values by improving liquidity. The projection does not rely on a rapid return to previous price peaks; income and operating performance are expected to make a material contribution.

> "
> ...a "higher for longer" base-rate outlook in the near term, which should support floating-rate income.

Returns will vary across property types and regions. Higher refinancing costs, weaker tenant demand, the cost of maintaining and upgrading buildings, and further declines in property prices could reduce returns, whereas asset quality, strong lease terms and prudent borrowing help protect income and value.

Figure 7: Global data centre electricity use (TWh)

The International Energy Agency projects that global data centre electricity use will roughly double.



Source: International Energy Agency, Key Questions on Energy and AI (2026), data-centre electricity demand outlook.

Private Infrastructure

The projection is supported by long-term investment needs, as infrastructure becomes the physical backbone of an increasingly digital and electrified economy. Ageing assets require replacement and investment in resilience, while artificial intelligence adoption, broader electrification and energy-security needs are increasing demand for reliable electricity sources and connectivity, as highlighted in EFG's Outlook 2027. As shown in Figure 7, the International Energy Agency projects that global data centre electricity use will roughly double over the next few years, from 485 terawatt-hours (TWh) in 2025 to 950 TWh in 2030.[5] Utilities and power assets are expected to be beneficiaries of surging electricity demand in the short to medium term.

Returns will depend on entry valuations, contract structures and the successful delivery of new capacity. Construction and connection delays, cost overruns, regulation, technology change and the cost of capital remain key risks, and the growing flow of capital into these themes may reduce the yields available to new investors. Asset quality, contract length and inflation protection, together with manager selection, therefore matter as much as the headline assumption.

5 International Energy Agency, Key Questions on Energy and AI (2026). Data-centre electricity demand outlook.

5 *Hedge Funds* assumptions

Higher cash rates and greater dispersion across markets can support hedge fund returns and diversification. Outcomes nevertheless vary substantially by strategy and manager, making portfolio construction, risk controls and careful selection essential.

Hedge funds are actively managed investment funds that aim to profit from different forms of uncertainty and persistent patterns in markets: lasting trends in the global economy, differences in policy and geopolitics across countries (divergence), and differences in performance between individual stocks (dispersion). Over the next 7–10 years, we expect the environment in which hedge funds operate to resemble the period before the Global Financial Crisis (GFC) more closely than the decade that followed.

In the years after the GFC, near-zero interest rates and large-scale central bank asset purchases dampened volatility, aligned monetary policy across major economies and lifted correlations across assets (the extent to which they move together). Rising markets rewarded broad market exposure, while the conditions hedge funds rely on were scarce: interest earned on cash was negligible, policy intervention frequently interrupted trends, and stocks largely moved together. As Figure 8 shows, hedge fund returns in that period were weak on both counts: cash returns were close to zero, and all four strategies returned less than cash.

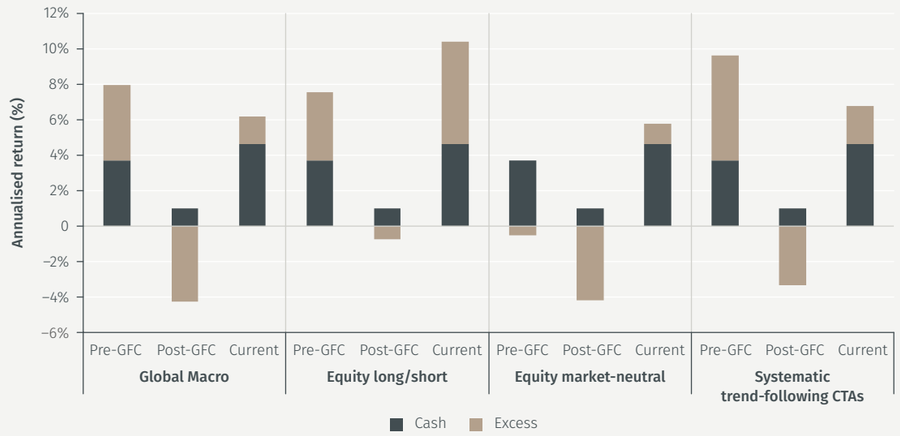
A changing environment

Several of these conditions have now reversed. Interest rates are materially above zero, inflation and growth paths differ across economies, geopolitical fragmentation is driving lasting moves in commodities, currencies and interest rates, and dispersion across stocks has increased as AI reshapes industry economics. As the figure also shows, both the cash return and the return above cash (excess return) have recovered in the current regime, although the period is relatively short.

This matters through three channels. First, hedge funds hold a substantial share of their capital as cash or collateral, so higher short-term interest rates directly lift their baseline return. Second, divergence and dispersion broaden the range of opportunities for both directional strategies (which bet on market moves) and relative-value strategies (which exploit price differences between related assets). Third, bonds can no longer be relied upon to offset equity losses in every environment, which raises the value of strategies for which returns are driven by neither equity nor bond markets.

Figure 8: Hedge fund returns by regime, cash and excess return over cash (annualized, USD)

After a post-GFC decade of near-zero cash returns and negative excess returns, hedge funds are again earning both, as in the pre-GFC regime.



Source: Factset. Pre-GFC: 2000–2007; Post-GFC: 2009–2023; Current: 2024–today; 2008 excluded. Systematic trend-following CTA data start in 2004.
Past performance is not indicative of future results.

The market environment is now closer to the pre-GFC period, but the industry is not: it is larger, more competitive and more crowded in popular trades. We therefore do not expect pre-GFC return levels to be repeated mechanically, and manager selection remains decisive.

Differences in strategies

Strategies differ mainly in how they capture this environment and in the role they play in portfolios:

Systematic trend-following strategies (commodity trading advisors, or CTAs) are the most direct beneficiaries of persistent trends in rates, currencies and commodities. They have historically performed best in genuine macro shocks, such as shifts in the inflation regime or geopolitical crises, but at the cost of periods of underperformance in range-bound markets.

Global macro strategies draw on the same divergence through flexible, discretionary and relative-value positioning across asset classes; their correlation with traditional assets depends on the market regime, and the gap between the best and worst managers is particularly wide.

> "…higher short-term interest rates directly lift their baseline return."

Equity market-neutral is the exception to this pattern: it earns interest on cash and collateral, including on short-sale proceeds, so higher interest rates lift its returns directly, while its return above cash depends on stock selection and factor timing (deciding which stock characteristics, such as value or momentum, to favour), with sudden factor reversals and crowded trades as the main risks.

Equity long/short retains meaningful equity exposure and equity-like volatility, and benefits from dispersion mainly through incremental excess return (alpha) on top of market returns.

Capital Market Assumptions

EFG's Capital Market Assumptions set out our long-term risk and return expectations across a broad range of markets and asset classes over the next 7-10 years.

Figure 9: Capital Market Assumptions 2027

Long-term risk and return in GBP, CHF, EUR and USD (7-10 years)

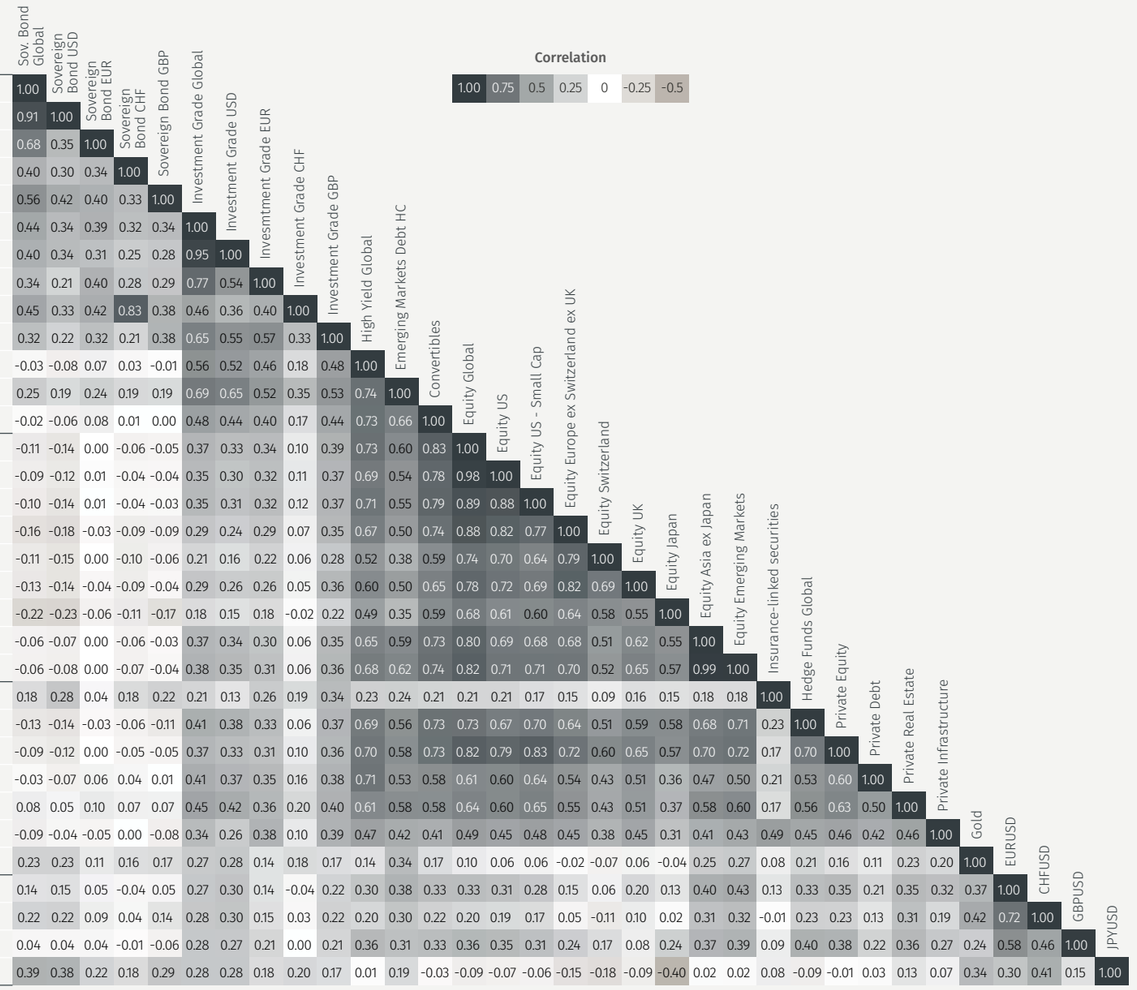
		GBP	Expected Return	CHF	Expected Return	EUR	Expected Return	USD	Expected Return	Volatility
	Cash		3.50%		0.50%		1.75%		3.25%	0.00%
Fixed Income	Sovereign Bond Global		5.23%		2.18%		3.45%		4.97%	3.05%
	Sovereign Bond USD		5.15%		2.10%		3.37%		4.90%	4.22%
	Sovereign Bond EUR		5.39%		2.33%		3.61%		5.13%	4.19%
	Sovereign Bond CHF		3.38%		0.38%		1.63%		3.13%	3.90%
	Sovereign Bond GBP		4.86%		1.82%		3.09%		4.61%	4.61%
	Investment Grade Global		5.61%		2.55%		3.83%		5.36%	4.31%
	Investment Grade USD		5.71%		2.65%		3.92%		5.45%	5.28%
	Invesmtment Grade EUR		5.63%		2.57%		3.84%		5.37%	4.63%
	Investment Grade CHF		4.01%		1.00%		2.25%		3.76%	3.80%
	Investment Grade GBP		5.38%		2.32%		3.60%		5.12%	5.60%
	High Yield Global		6.64%		3.55%		4.83%		6.38%	9.16%
	Emerging Markets Debt HC		5.85%		2.78%		4.06%		5.59%	7.62%
	Convertibles		6.07%		2.99%		4.27%		5.81%	9.08%
Equity	Equity Global		7.37%		4.26%		5.56%		7.11%	14.61%
	Equity US		6.81%		3.72%		5.01%		6.56%	15.13%
	Equity US - Small Cap		7.70%		4.58%		5.88%		7.44%	18.67%
	Equity Europe ex Switzerland ex UK		7.67%		4.55%		5.85%		7.41%	17.19%
	Equity Switzerland		7.64%		4.52%		5.82%		7.38%	13.43%
	Equity UK		6.09%		3.02%		4.30%		5.84%	13.36%
	Equity Japan		8.80%		5.64%		6.96%		8.53%	17.02%
	Equity Asia ex Japan		7.24%		4.13%		5.42%		6.98%	20.48%
	Equity Emerging Markets		7.47%		4.35%		5.65%		7.21%	20.34%
Alternatives	Insurance-linked securities		5.71%		2.64%		3.92%		5.45%	8.60%
	Hedge Funds Global		5.27%		2.22%		3.49%		5.01%	5.24%
	Private Equity		9.54%		6.37%		7.69%		9.28%	16.17%
	Private Debt		7.96%		4.83%		6.14%		7.70%	10.51%
	Private Real Estate		6.44%		3.36%		4.64%		6.18%	23.32%
	Private Infrastructure		9.24%		6.08%		7.40%		8.98%	10.36%
	Gold		4.80%		1.76%		3.03%		4.55%	16.86%
FX		USDGBP	-0.20%	USDCHF	-2.78%	USDEUR	-1.14%	EURUSD	1.15%	9.59%
		EURGBP	0.95%	EURCHF	-1.66%	CHFEUR	1.69%	CHFUSD	2.86%	10.13%
		CHFGBP	2.65%	GBPCHF	-2.59%	GBPEUR	-0.94%	GBPUSD	0.20%	9.02%
		JPYGBP	2.35%	JPYCHF	-0.30%	JPYEUR	1.38%	JPYUSD	2.55%	9.71%

Expected returns are 10-year geometric annual total returns for an investor based in the respective currency. All asset classes are considered hedged versus the reference currency. Geometric returns are the annualised compound growth rate an investor can expect over the horizon (the median outcome); they are lower than average annual returns because volatility erodes compounding. Source: EFG.

The above data is based on projections for risk and return expectations over the next 7-10 year period. Certain assumptions have been made regarding the above information and such information is provided by way of illustration only. Any changes to these assumptions may have a material impact on the assessment presented. There is no guarantee that these forecasts will be achieved.

Figure 10: Capital Market Assumptions 2027

Correlation Matrix in USD (7-10 years)



Expected returns are 10-year geometric annual total returns for an investor based in USD. Covariance matrix for an investor based in USD. All asset classes are considered hedged versus USD. Geometric returns are the annualised compound growth rate an investor can expect over the horizon (the median outcome); they are lower than average annual returns because volatility erodes compounding. Volatility (annual) and correlations are shown for a USD-based investor.
Source: EFG.

EFG
Asset Allocation

Capital Market Assumptions are not an end in themselves: their value lies in how they inform portfolio decisions. Asset allocation, the decision on how money is divided across asset classes, regions and currencies, is the main way our long-term views reach client portfolios. It is also the decision that has the greatest bearing on the risk a portfolio carries and the return it can reasonably be expected to deliver.

EFG's 2027 Capital Market Assumptions point to different opportunities across asset classes.

In equities, the CMAs indicate that the strong gains of recent years temper the scope for further upside over the 10-year horizon. This does not imply an imminent downturn, but it does mean that broad developed market exposure is less compelling as the sole driver of portfolio returns. The expected reduction in small-cap outperformance over large caps, and of emerging markets over developed markets, suggests that the equity opportunity set is somewhat narrower. Being selective across regions and investment styles therefore becomes more important than relying only on market-capitalisation-weighted indices (which give the largest companies the biggest weights).

In fixed income, assumptions are anchored on today's higher yields, supported by real yields towards the upper end of their historical range and risk premia that have normalised from previously depressed levels. This broadens the opportunity set across many sovereign and corporate credit markets. This backdrop supports portfolios in which the defensive part can play a more meaningful role in delivering long-term outcomes across risk profiles, while the return-seeking part remains important but less dominant than when the extra return from equities was clearly superior.

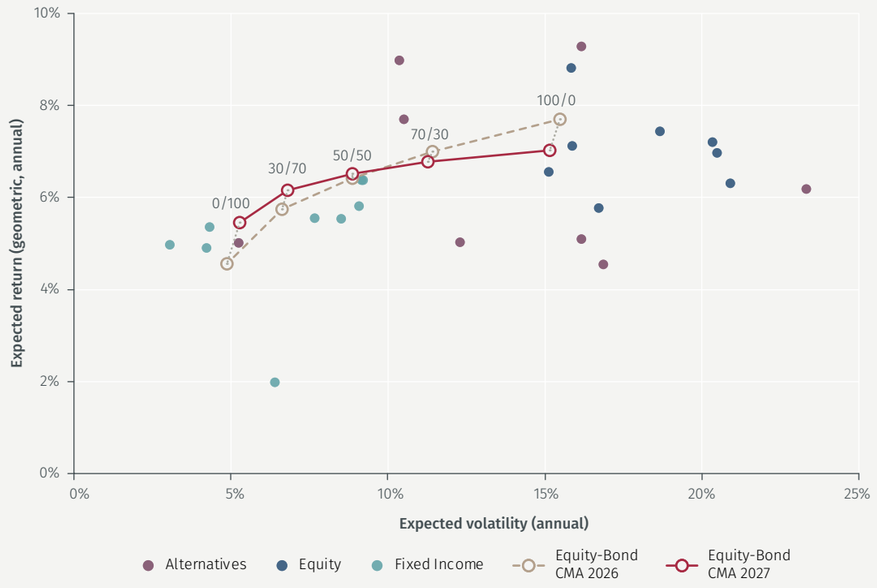
Alternatives complement this picture. Private markets and hedge funds draw returns from sources distinct from listed equities and bonds, offering potential diversification and efficiency gains. Their contribution is not automatic, however: it depends on the strategy and manager selected, on liquidity (how quickly an investment can be turned into cash) and on costs. This is why alternatives are sized separately from the liquid allocation.

The chart overleaf compares the expected risk and return of five stylized portfolios, from 100% bonds to 100% equities, based on this year's and last year's CMAs. At the defensive end, expected returns are slightly higher, as portfolios benefit from higher projected bond returns; at the growth end they are lower, reflecting more moderate equity expectations. The curve is therefore flatter, and shorter: volatility rises at the fixed income end and falls at the equity end, narrowing the range of risk across portfolios.

This configuration has clear advantages. Defensive portfolios earn higher expected returns for a modest increase in volatility, the return given up by choosing a more cautious portfolio is smaller, and growth-oriented profiles are exposed to less volatility, although with less compensation for each additional unit of risk. Risk profiles also become closer to one another, which reinforces the case for disciplined diversification rather than reliance on equity risk alone.

Figure 11: CMA 2027 vs. CMA 2026

Higher expected returns for defensive portfolios, lower for equity-heavy ones: a flatter risk–return curve



Returns are assumed for a USD-based investor and expressed in USD. Expected returns are geometric (median) annual total returns; volatilities refer to annual log returns. Portfolios are fixed-weight mixes - 0/100: 100% Bonds; 30/70: 30% Equity, 70% Bonds; 50/50: 50% Equity, 50% Bonds; 70/30: 70% Equity, 30% Bonds; 100/0: 100% Equity. Indices — Equity: Equity Global Unhedged; Bonds: Grey lines connect each portfolio across the two CMA vintages. Background dots show individual assets under the CMA 2027.
Source: EFG.

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Technical Appendix

Academic research has long highlighted the central role of policy allocation, the long-term mix of asset classes chosen for a portfolio.

Brinson, Hood and Beebower (1986) found that it explains most of the variation in a portfolio's returns over time, and Ibbotson and Kaplan (2000) showed that it accounts for essentially all of the average long-term return, although differences in performance between portfolios also depend on security selection, timing and costs.

An investment process built on distinct horizons.
At EFG, portfolio construction follows a structured sequence in which each layer has a defined role and time horizon:

- ***Capital Market Assumptions*** provide forward-looking estimates of returns, volatilities and correlations over a 10-year horizon, reviewed annually. They are the common quantitative foundation for all subsequent decisions.
- ***Strategic Asset Allocation (SAA)*** translates these estimates into a long-term neutral allocation for each risk profile, reflecting return objectives, risk tolerance, investment horizon, liquidity needs and reference currency. It is the anchor of the portfolio.
- ***Tactical Asset Allocation (TAA)*** allows controlled deviations from the SAA, within predefined ranges, over a horizon of typically six to twelve months, to capture opportunities or mitigate risks identified by the CIO Office.
- ***Instrument Selection*** implements the allocation through funds, exchange-traded funds (ETFs), direct securities and external managers, with attention to cost, liquidity and the quality of the exposure.

Diversification and the nature of shocks. A well-constructed allocation combines return drivers that respond differently to changes in economic growth, price inflation and their uncertainty, reducing dependence on any single economic outcome. Effective diversification relies on genuinely distinct sources of risk and return across asset classes, regions and currencies, rather than on many holdings that respond to the same underlying driver. Relationships between assets are not constant: correlations (how closely asset prices move together) shift with the macroeconomic regime, which is why they are an explicit input to the Capital Market Assumptions and are reviewed every year. Because long-term estimates are inherently uncertain, a robust allocation should not depend on the precision of single-point forecasts but should remain resilient across a range of plausible scenarios.

Discipline and governance. A clearly defined strategic allocation also brings discipline. Periodic rebalancing, which brings the portfolio back towards its strategic weights, counteracts portfolio drift and limits behavioural biases such as chasing past performance or selling in periods of stress. Separating long-term from short-term decisions prevents tactical views from gradually eroding the intended risk profile and gives each decision clear accountability.

EFG's Capital Market Assumptions are developed using a predominantly quantitative process that consists of four stages. A further step translates them into EFG Asset Allocation, as set out below.

Stage 1 – Market Equilibrium

The first step in developing our Capital Market Assumptions is the estimation of long-term market equilibrium risk and return. This stage provides a stable anchor for the entire framework.

Following the principles of Modern Portfolio Theory, we apply reverse optimisation: rather than starting with expected returns to find the best portfolio, we start from the portfolio the global market holds today and work out the returns that are consistent with it.

The process begins with a covariance matrix (a table showing how volatile each asset class is and how closely they move together), estimated from 25 years of historical data. To reduce the statistical noise that arises in large correlation structures, we apply a Ledoit–Wolf shrinkage estimator, a standard technique that pulls extreme estimates towards more stable values. Where asset classes have histories of different lengths, a statistical adjustment extends the shorter series using their relationship with the longer ones, so that the full history of every market is used.

A purely variance-based approach can underestimate the risk of asset classes with low volatility but heavy tails, meaning a small chance of very large losses. We therefore apply a tail-risk correction called the "Kurtosis Kicker", so that the equilibrium premia (the extra return expected for bearing risk) of these assets are not understated.

Private assets require further adjustment. Their reported valuations are updated only periodically and tend to smooth out market movements, which understates both their volatility and their correlation with listed markets. We correct for this smoothing before these returns enter the equilibrium calculation, so that their risk is measured on a realistic basis.

The outcome of this stage is a set of equilibrium expected returns and a covariance matrix for every asset class in our universe. This is the stable starting point onto which the CIO's views are layered in the next stage.

Stage 2 – Fundamental and Expert View

The second step is to estimate expected risk and return on a medium- to long-term basis, typically over a 7–10 year horizon.

For equities, the analysis is centred on valuations. While valuation measures have limited predictive power in the short run, they remain reliable guides for long-term returns. Our framework assumes mean reversion in valuations (the tendency for valuations to drift back towards their long-term average), with the Shiller price-to-earnings ratio (CAPE) as the core metric. CAPE divides a market's price by its average inflation-adjusted earnings over the past 10 years. When current valuations are above their long-term cyclically adjusted level, the model implies that future returns will fall below historical averages. Conversely, valuations below long-term norms imply higher prospective returns.

For fixed income, the most common predictor of long-term returns is the yield to maturity (the annual return from holding a bond until it is repaid). The model assumes that bond returns will closely align with current yields, adjusted for assumptions about reinvestment and the expected direction of interest rates. Periods of falling yields typically imply returns slightly above the yield to maturity, while rising yields imply the opposite.

In this edition of our CMAs, we have enhanced the fundamental analysis for foreign exchange rates. Alongside the established dynamic Purchasing Power Parity (PPP) model, we also use the Uncovered Interest Parity (UIP) model, based on both the 10-year government bond yield and the risk-free rate used in the CMAs. The PPP model anticipates that economies with higher inflation will see their currencies depreciate against those of economies with lower inflation. The UIP model anticipates that economies with higher interest rates will see their currencies depreciate, so that investors cannot earn risk-free profits by moving money between currencies (arbitrage). The annualised changes in exchange rates implied by the three models are then averaged.

New this year, expected returns for hedge funds are informed by a factor model inspired by the work of Fung and Hsieh. This approach describes hedge fund returns through their exposure to a set of systematic risk factors (broad market drivers such as equity and bond market movements), providing a more rigorous link between strategy performance and the same market drivers that shape our other asset classes.

To complement the purely quantitative signals, the CIO's perspective is directly integrated into this stage. Rather than applying an overlay after the results are produced, the CIO view is embedded within the fundamental framework itself. This ensures greater transparency, consistency and interpretability of the results. The CIO view reflects a qualitative assessment of structural trends as well as shorter-term considerations around policy, regulation and market structure.

For asset classes that are less suited to purely quantitative modelling, such as private markets and hedge funds, we have also relied on the expertise of internal specialists. Their input allows us to integrate the bank's qualitative perspective with quantitative anchors, ensuring that the expected returns for these asset classes reflect both empirical evidence and professional judgement.

By combining quantitative fundamentals with the CIO's strategic perspective and the expertise of our internal specialists where required, this stage provides a set of expected returns that balances data-driven analysis with forward-looking insights, offering a more complete representation of the drivers of asset class performance over the next decade.

Stage 3 – Merging Equilibrium and Fundamental Views

The third step combines the long-term equilibrium with the forward-looking views of Stage 2, using the Black–Litterman framework.

The equilibrium returns serve as the anchor, and the views are blended in according to our confidence in them. When conviction is high, expected returns move further from equilibrium; when it is lower, they remain closer to the anchor.

This approach avoids the instability of introducing subjective views directly into a portfolio optimisation and makes the role of each input explicit. Because asset classes are correlated, a view on one market also informs the expected return of related markets, keeping the full set of assumptions internally consistent.

Every set of views is reviewed against a series of diagnostic checks before it is finalised. These show how each view moves the final assumptions, which markets are affected beyond the one targeted, how ambitious each view is compared with history, and whether views on closely related markets are consistent with each other.

The resulting assumptions are then aggregated to the asset classes used across the bank and expressed as expected total returns and volatility in each base currency.

Stage 4 – Subjective Overlay

Although the CIO's perspective is already embedded in our fundamental analysis, we recognise that no model can capture every dimension of market reality, so we retain the possibility of a limited manual overlay.

This step is used sparingly, in circumstances where quantitative methods and qualitative assessments may still fall short, for instance when structural breaks or regime shifts are not fully reflected in the data. It is also used for asset classes such as private equity and private credit, where expressing an illiquidity premium (the extra return for holding assets that cannot be sold quickly) through a correlated listed market would transfer that premium to assets that do not earn it.

The manual overlay provides a controlled degree of flexibility, keeping our long-term assumptions aligned with EFG's own views. Adjustments made at this stage are documented and subject to internal review, reinforcing the robustness and governance of the CMA framework.

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As a complement to our Annual Outlook, EFG's Capital Market Assumptions provide a structured view of how we expect major asset classes to behave over the next 7–10 years.

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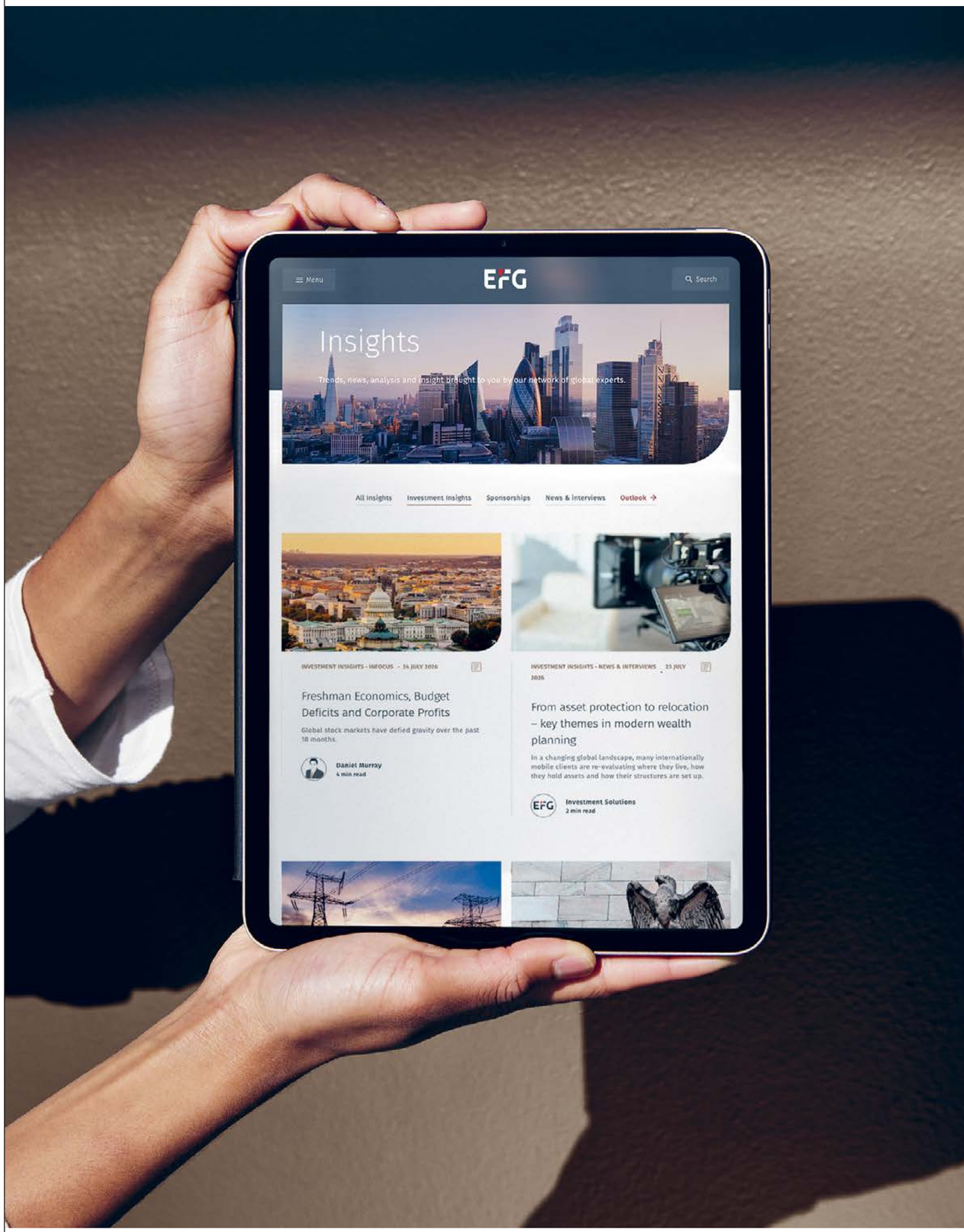


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