JULY 2026

Long-term expected returns - 2026 Update

Introduction

Every year we update our long-term capital market assumptions. Specifically, this includes our expectations for the long-term returns of major asset classes, along with our assumptions for volatility (the magnitude of price fluctuations) and correlations.

As we will demonstrate, these estimates are essential for constructing our strategic asset allocation, which determines the optimal weight for each asset class to maximise the expected return for a given level of risk.

In this paper, we will explain that asset class returns are driven primarily by expected inflation, expected economic and earnings growth, and the asset class specific risk premium.

Although it is tempting to estimate long-term returns from historical averages, such an approach would ignore the constantly-evolving macro environment. Inflation regimes, for example, have shifted from deflationary periods to sharp inflation spikes (see Figure 1 on page 2); each regime reshapes real returns and alters the relative attractiveness of equities, bonds and real assets.

Similarly, potential economic growth, shaped by demographics, productivity trends and business investment is not constant and is a key determinant of future returns.

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Main long-term expected returns

	Annual long-term expected returns
Global Equities (developed ex-US)	6.50% - 7.00%
US Equities	6.25%
Sovereign Bonds	3.50% - 4.50%
Corporate IG Bonds	4.00% - 5.00%
Corporate HY Bonds	5.25% - 5.75%

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Estimating long-term expected returns

The natural starting point for estimating long-term expected returns is the level of the long-term interest rate, which is determined by three main components.

1. **The potential loss of purchasing power** linked to inflation over a given period.
2. **The real interest rate**, expressed as purchasing power. This rate reflects the opportunity cost of not investing in other projects.
3. **The risk of non-repayment of capital**.

As Chart 1 shows, there has been a structural change in US inflation since the end of 1980s. This structural change has brought down expected returns of bond yields until 2021 when inflation rebounded. The best way therefore is to focus on expected inflation and expected growth trends, using theory.

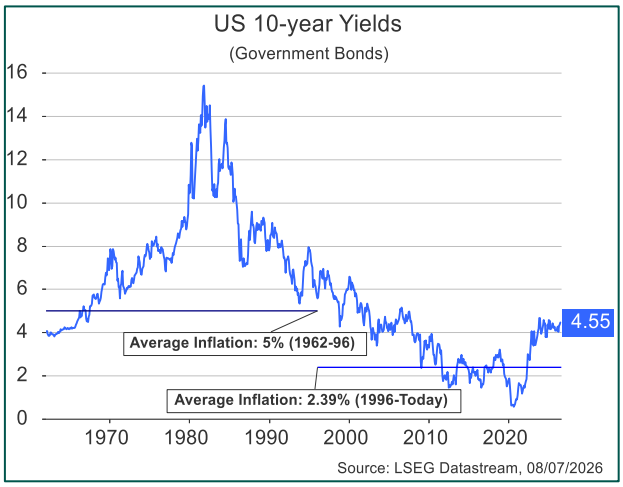
For inflation, we assume a long-term rate of 2%, which mirrors the explicit target of the major central banks and, in our view, remains a credible commitment.

The real rate component is closely linked to expected economic growth. We use "potential economic growth" as a benchmark for 10-year growth forecasts. This measure is constructed mainly from demographic trends, productivity progress and the stock of productive capital.

For the euro area we maintain our estimate of potential real growth (excluding inflation) at 1%, while we retain the previous estimate of 2 % for the United States.

Adding expected inflation to the real rate yields, i.e. the risk-free long-term rate, we obtain 3% for the eurozone (1% real plus 2% inflation) and 4% for the United States (2% real plus 2% inflation).

Figure 1 - **Structural changes in inflation**



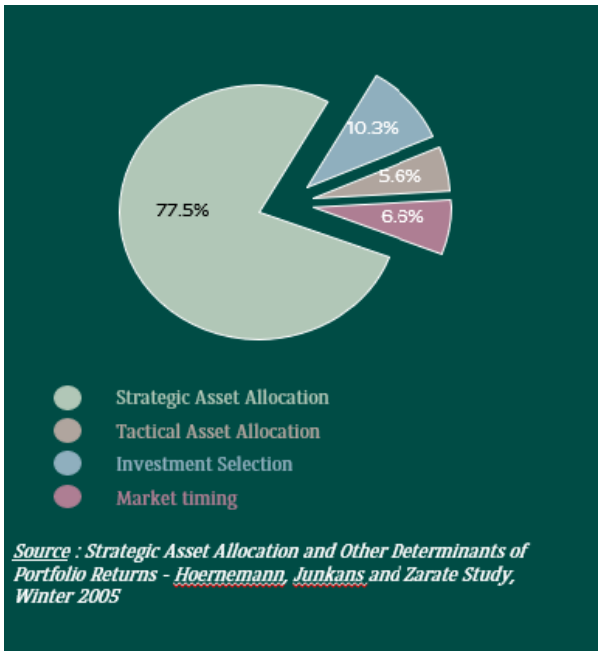
Long-term expected returns (10 years)

	Estimates July 2026	Revisions	Estimates June 2025	Historical volatility 10 years
FIXED INCOME				
EUR cash	1.50%	0.25%	1.25%	-
USD cash	2.25%	0.25%	2.00%	-
Government bonds Eurozone	3.50%	0.25%	3.25%	5.38
Government bonds US	4.50%	0.25%	4.25%	5.08
Corporate IG bonds Europe	4.00%	0.25%	3.75%	4.79
Corporate IG bonds US	5.00%	0.25%	4.75%	6.69
HY bonds Europe	5.25%	0.00%	5.25%	6.94
HY bonds US	5.75%	0.00%	5.75%	7.18
Emerging Hard currency bonds ($)	6.25%	0.00%	6.25%	9.84
EQUITIES				
Equities Eurozone	7.00%	- 0.25%	7.25%	14.50
Equities US	6.25%	- 0.25%	6.50%	16.05
Equities UK	7.00%	- 0.25%	7.25%	13.13
Equities Japan	6.50%	- 0.25%	6.75%	16.91
Equities Emerging Markets	7.75%	- 0.50%	8.25%	17.65
ALTERNATIVES				
Alternative UCITs	4.50%	0.25%	4.25%	4.40
Hedge Funds	5.25%	0.25%	5.00%	5.10
Listed Real Estate	7.00%	0.00%	7.00%	16.90
Private Equity	9.50%	0.00%	9.50%	-
Infrastructure	9.00%	0.00%	9.00%	-
Commodities	4.50%	0.50%	4.00%	22.60
Gold	4.50%	0.75%	3.75%	15.60

Source: BNP Paribas Wealth Management

How to implement these long-term returns: strategic asset allocation, the cornerstone of long-term performance

According to the American study by Hoernemann, Junkans and Zarate, the long-term performance of a portfolio is determined by 4 factors of varying importance:



Source : Strategic Asset Allocation and Other Determinants of Portfolio Returns - Hoernemann, Junkans and Zarate Study, Winter 2005

Strategic allocation is the first essential step in portfolio construction. It consists of defining the weight of the different asset classes in wealth by thinking long-term (5 to 10 years) and taking into account the investor's risk and return profile, as well as his or her projects. Indeed, beyond the expectations in terms of performance objectives and acceptable risk, it is important to understand the deadlines and specific projects, such as a real estate investment or the sale of a company.

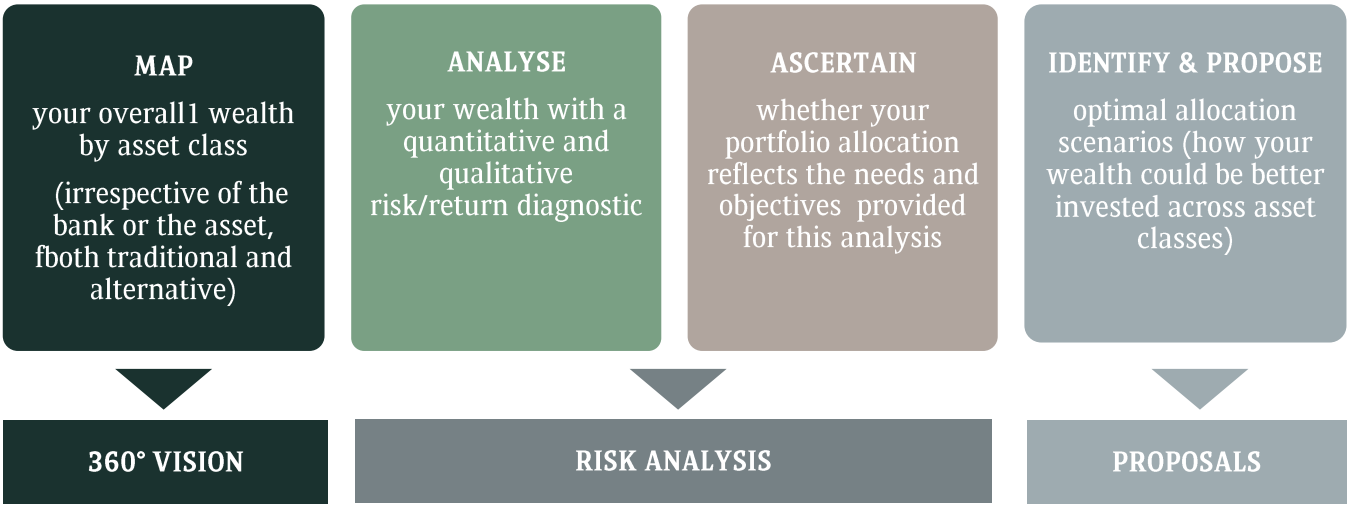
Diversification is the basis for a good strategic allocation that will provide an effective framework for preserving and growing capital over the long term.

Strategic-A, an optimisation and decision-making tool

Strategic-A is a customised strategic asset allocation analysis service covering traditional and non-traditional asset classes dedicated to our Key Clients (and/or their family offices). It aims at helping clients to optimise your global wealth allocation in order to preserve your capital over time (long-term investment horizon > 5 years).

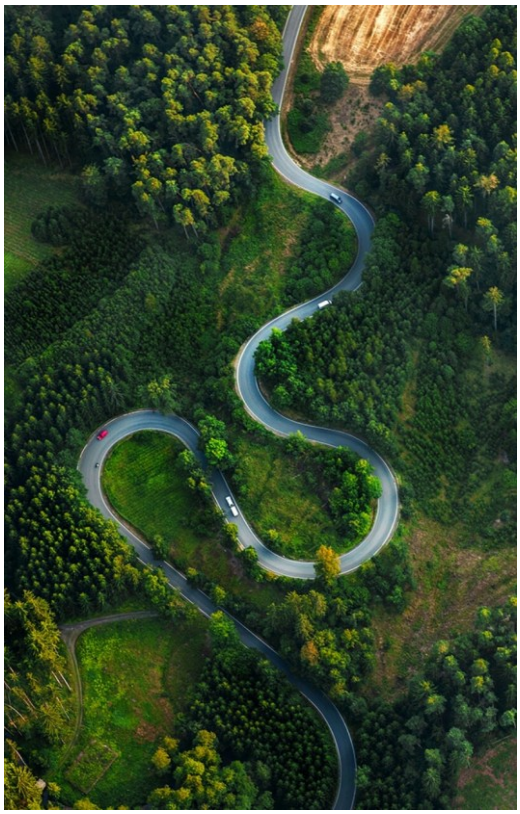
- Strategic-A is based on a traditional mean-variance optimisation approach, which aims at maximising return for a given level of volatility, or minimising volatility for a target return, according to your profile, particularly your return objective and risk tolerance.
- Our modelling integrates all major asset classes, both traditional (cash, equities, bonds) and alternative (hedge funds, direct and listed real estate and private equity). To do this, we have identified one benchmark index by asset class and geographical region. For each index we use monthly data since 1974 whenever possible (or at least 18 years of data).
- To calculate the expected returns by asset class, the methodology of long-term returns was described in the previous section.
- For volatility and correlations between asset classes, we use historical data in line with the financial consensus, i.e. the variability of historical returns per asset class.

The Strategic-A process: 4 key steps to build your strategic allocation



Asset class vision and personalised support

Thanks to Strategic-A, you will obtain, in a personalised summary document, an overview of your asset allocation as well as all the allocation scenarios investigated, associated with expected profitability and volatility indicators (based on expected long-term profitability and volatility by asset class). This analysis will be a valuable decision-making tool to define your target strategic allocation.



Tactical allocation, as opposed to strategic allocation, is a short-term portfolio management choice. The objective is to take advantage of a period of outperformance of an asset class over a timeframe, generally 6 to 12 months. The investment strategy, the choice of investment vehicles and the timing of the implementation of decisions are all essential.

Note that the choice to entrust the management of your portfolio to a manager allows you to meet the needs of tactical allocation, choice of vehicles, timing in the market or risk management thanks to a turnkey solution.

Regardless of the management method chosen, any strategic allocation is scalable according to the evolution of a client's projects and objectives.

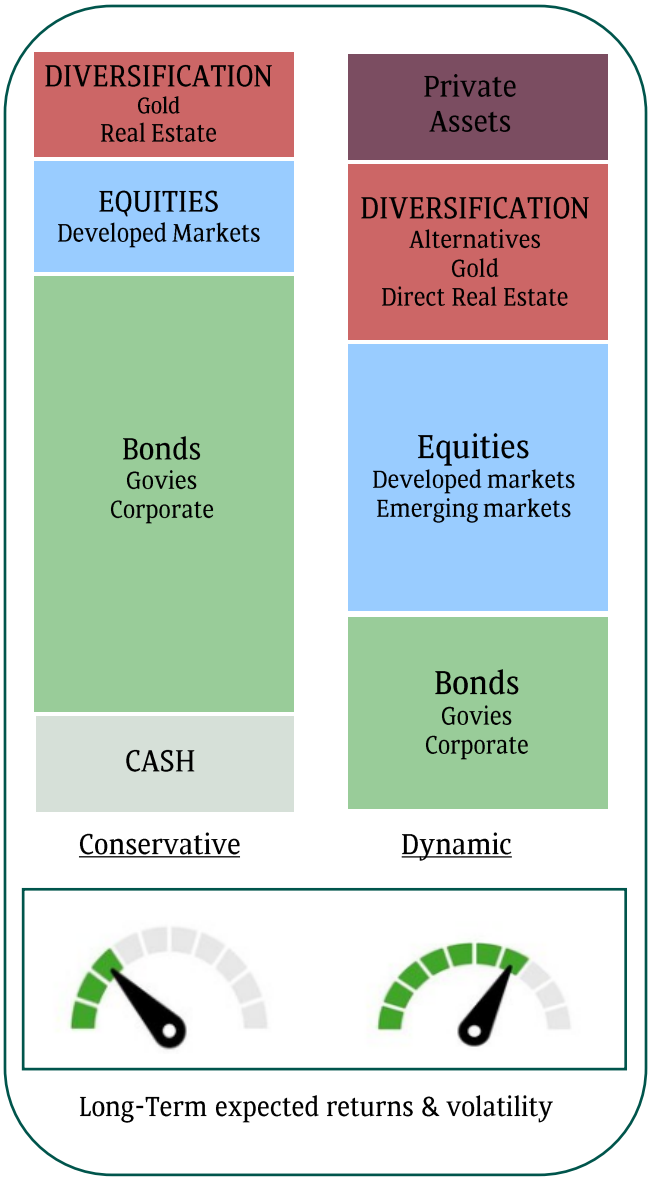
Examples of strategic allocation

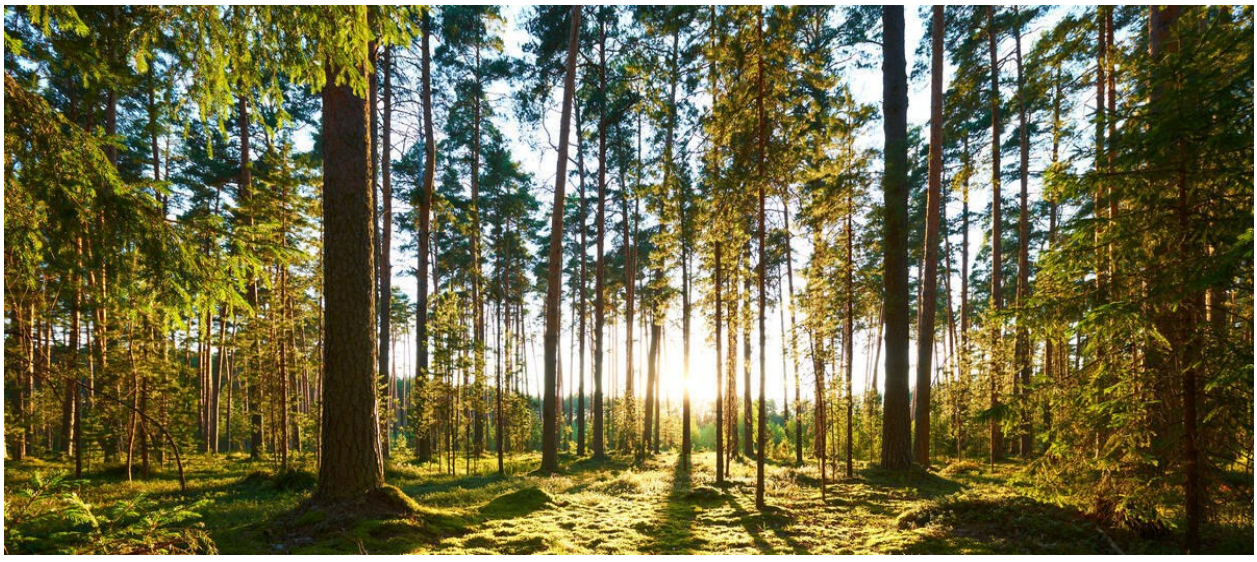
- Dynamic strategic allocation

Let's take the case of an investor in his thirties, with good financial knowledge and an objective to generate performance in order to grow his wealth over the long term while accepting to have a high level of risk and to tie up his capital. Strong exposure to equities, a driver of performance, is one of his objectives. A pocket of private assets will also be included. It will be a source of diversification, and for the investor to seek potentially high performance (uncorrelated with listed financial markets) but on the other hand, accepting a higher risk -and low liquidity. A more secure bond pocket will finally complete the allocation.

- Conservative strategic allocation

Conversely, let's take the example of a client in his sixties who is preparing for retirement and who is looking to obtain other regular sources of income, while preserving his assets. He is relatively familiar with financial concepts and only accepts a controlled level of risk. The proposed strategic allocation will favour asset classes with moderate expected volatility, such as fixed income, while integrating equity exposure to boost performance, but to a lesser extent than in the previous scenario. A portfolio of diversification assets will also be included.





Methodology and assumptions

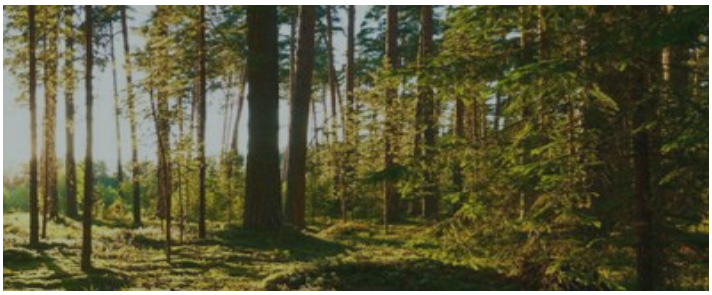
Fixed Income

Bond market return assumptions are built on risk-free rates. As mentioned on page 2, the estimates for risk-free rates are 3% for the euro area (1% real plus 2% inflation) and 4% for the United States (2% real plus 2% inflation). For sovereign government bonds, we add a 0.5 % term premium to account for the additional risk of holding longer-dated securities, resulting in an estimated long-term return of 3.5 % for eurozone government bonds and 4.5 % for US Treasuries.

For IG corporate bonds, we use an average credit spread of about 0.80% over government bonds, an average default rate of 0.9% with a recovery rate of 50% (see references at the end of this document). Based on these assumptions, we estimate the expected return for Investment Grade Corporate bonds at 4% in the eurozone and 5% in the US.

For eurozone High Yield (HY) Corporate bonds, we include a spread over Government bonds of around 380 basis points. We include an expected default rate of 3.5%, and a recovery rate of 40%. Using these assumptions, we estimate the expected return at 5.25%.

The same set of assumptions, applied to the United States, yields an estimated long-term return of 5.75 % for US corporate bonds. For emerging market (EM) bonds denominated in hard currency we start from the historical long-term spread of roughly 400 basis points over US Treasury yields, then adjust for the expected default frequency and the assumed recovery rate. Using the same methodology that underpins the corporate bond estimates, we arrive at an expected return of 6.25 % for hard currency EM bonds.



Equities

For equity markets, we adopt the Gordon Shapiro model, the constant growth version of the dividend discount model, which links the expected return on a stock (or a stock index) to its dividend yield and the anticipated growth rate of dividends.

In addition to the dividend component, we incorporate possible re-rating effects (changes in the price to earnings multiple) and the impact of share repurchase programmes (see Table 2 for details of the relevant assumptions) An alternative, and often a complementary way to derive equity return expectations, is to start with the long-term government bond yield for a given country and add the historical long-term equity risk premium. During the period 1900-2025, the average equity risk premium was close to 4 % (see Dimson, Marsh and Staunton, 2026). Applying this premium to the Sovereign Bond yields generates equity return forecasts that are broadly consistent with the Gordon Shapiro estimates for most markets. The United States however differs because current valuations are unusually high.

Table 2 - Long-term expected returns for equities

EUROPE: 7.00%	▪ Dividend yield: 3.00% ▪ Growth of dividends: 3.75% ▪ Stock repurchase effect: 0.25%
UNITED-STATES: 6.25%	▪ Dividend yield: 1.50% ▪ Growth of dividends: 4.50% ▪ Stock repurchase effect: 0.25%
UNITED-KINGDOM: 7.00%	▪ Dividend yield: 3.00% ▪ Growth of dividends: 3.50% ▪ Stock repurchase effect: 0.25% ▪ Re-rating effect: 0.25%
JAPAN: 6.50%	▪ Dividend yield: 2.25% ▪ Growth of dividends: 3.75% ▪ Stock repurchase effect: 0.25% ▪ Re-rating effect: 0.25%
EMERGING MARKETS: 7.75%	▪ Dividend yield: 2.50% ▪ Growth of dividends: 5.25% ▪ No re-rating effect

Source: BNP Paribas Wealth Management

Private Equity

R. Harris, T. Jenkinson and S. Kaplan (2014) documented that private equity funds have outperformed the S&P 500 by roughly 20%–27% over the life of the fund, which translates into more than 3 percentage points of excess return per annum. Although the historical record is impressive, several forward-looking factors suggest that future outperformance may be more modest. Higher interest rates, a tightening competitive landscape and an excess of capital relative to the limited number of attractive deals all point to a reduction in the private equity premium. Ilmanen (2022) provides a more detailed discussion of these dynamics.

Taking these considerations into account, we estimate an excess return of 2.5 % over large-cap equities, implying an expected total return on private equity investments of 9.5%. The illiquidity of private equity holdings justifies part of this risk premium.

Infrastructure

Antti Ilmanen (2011) studied the history of the UBS Global Infrastructure Index, including and excluding utilities (the index dates back to 1990). He argued that *"Infrastructure stocks earned an annual total return of 9.3% over 1990–2009*". Using data from the 1990-2015 period, the historical return on infrastructure assets is close to 7% per annum.

More recent performance is captured by the S&P Global Infrastructure index, which delivered an annual total return of roughly 9.5 % over the 2002-2022 period. Combining these observations, we applied a risk premium of 2% over traditional equity indices to arrive at a long-term expected return for infrastructure investments of about 9%. The additional premium compensates investors for the liquidity risk.

Alternative UCITs and Real Estate

To capture the wide variety and inherent complexity of alternative asset strategies, we based our return estimates on academic studies that adjust for measurement biases in the underlying historical data. Our primary source is Ibbotson, Chen and Zhu (2011), which identifies a persistent excess return of 2.5% over cash.

We applied this premium to the expected average cash return in each currency, adding it to the projected euro area cash yield and the US dollar cash yield respectively. Consequently, we obtained an estimated average return for alternative strategy UCITS of 4.5%. When the currency specific cash assumptions are combined with the 2.5% premium, the implied expected returns are 4% for euro-denominated portfolios and 4.75% for US dollar-denominated portfolios.

Hedge funds face fewer liquidity constraints than several other alternative asset classes, allowing them to command a return premium. However, this premium comes with greater return volatility. Based on our assumptions about spreads and cash returns, we estimate a long-term expected return of 5.25% for hedge fund strategies in aggregate. Using the currency specific cash components, the implied expected return is 4.75% for euro-denominated hedge funds and 5.5% for those priced in US dollars.

For listed real estate investments, we adopt a methodology analogous to that used for equities. We assume a dividend yield of 4.5%, a real dividend growth rate of 0.5%, and an inflation rate of 2%. Adding the real growth component and inflation to the dividend yield gives an expected total return of approximately 7%.

Commodities

Estimating the expected return on commodities — particularly on gold that provides no discounted cash flow is inherently challenging. Ilmanen, Antti (2022) examined a long-term data series spanning 1877 to 2020, concluding that, "*with no statistical evidence of time-varying expected returns, the best forward-looking estimate for the long-term future is the historical average premium*". He found that "*based on the evidence above, a constant premium of some 3% over cash seems appropriate for a diversified commodity portfolio (though not for single commodities)".* Based on our assumption on the expected return on cash, we have an expected return on commodities of 4.50%. With a similar approach for gold, we used the same estimate.

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