Capital market assumptions

Expectations for risk and return

You can't predict what your investments will be worth in the future. But reviewing current market conditions, our long-term global outlook and historical trends can help estimate a likely range of future returns for your investments. The Edward Jones Asset Allocation Team has a systematic process in place to develop long-term risk and return expectations and update them as necessary. These expectations are developed with oversight from the Investment Policy Committee (IPC).

Our asset class approach

To set realistic performance expectations for your investments, it's important to focus first on identifying an appropriately diversified portfolio that balances your comfort with risk, time horizon and financial goals. Asset allocation, or dividing funds across a variety of asset classes, provides the foundation of a portfolio, in our view. We expect combining multiple asset classes in your portfolio to provide diversification benefits.

Our team of investment professionals follows an established process to analyze asset classes, or groups of investments with similar risk and return characteristics. Some of the asset classes include U.S. large-cap stocks, U.S. small-cap stocks, investment-grade bonds and high-yield bonds.

In the process, we incorporate our long-term outlook to determine how we expect each asset class to perform over time and in relation to one another, which we call our capital market assumptions. We then use these expectations to provide portfolio guidance to help you align your portfolio with your goals.

What you need to know

When you meet with your financial advisor to set and review your financial goals, you can use Edward Jones' capital market assumptions to help:

- Select an appropriate portfolio objective and long-term, strategic asset allocation
- Understand the trade-offs when selecting appropriate withdrawal and savings rates
- Make other decisions that help you achieve your goals

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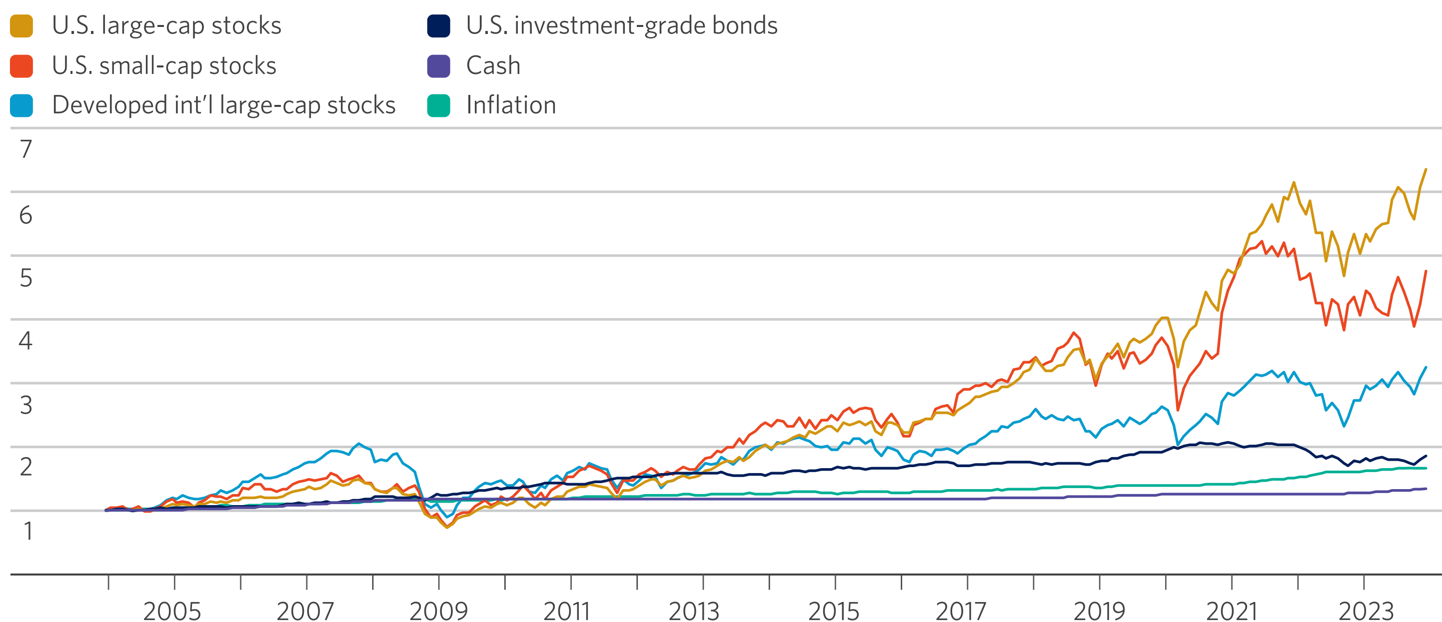
Trade-off between risk and return

While it may be tempting to aim for high returns with minimal risk, we believe such an objective is unrealistic over long periods of time. In general, higher returns come along with higher risk.

Looking at periods of 10 years or longer, diversified equity investments have almost always provided higher returns than fixed-income investments (bonds and cash). In exchange for these higher returns, investors have weathered greater price swings on equity investments.

We recommend building a portfolio across a variety of equity and fixed-income asset classes, combining relatively stable returns with returns that vary more widely.

Long-term investment returns — Growth of a $1 investment (2004 – 2023)



Source: Morningstar. Hypothetical value of $1 invested beginning 12/31/2003 through 12/31/2023. U.S. small-cap stocks represented by the Russell 2000 TR USD Index. U.S. large-cap stocks represented by the S&P 500 TR USD Index. Developed int'l large-cap stocks represented by the MSCI EAFE NR USD Index. U.S. investment-grade bonds represented by the Bloomberg US Aggregate Bond TR Index. Cash represented by the Bloomberg US Treasury Bellwethers 3M TR Index. Inflation represented by U.S. seasonally adjusted consumer price index. An index is unmanaged and is not available for direct investment. Returns assume reinvestment of interest and dividends back into the index. Returns do not incorporate the impact of trading, liquidity, costs, fees or taxes a client may experience when investing, which may lower performance results. Historic average annual return incorporate the impacts of compounding over time. Small-cap stocks carry greater risk and have greater market fluctuation than large-company stocks. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss.

Maintaining focus and perspective

Our Asset Allocation Team, with oversight provided by the Investment Policy Committee, reviews capital market assumptions at least once each year but also more frequently if market conditions warrant additional reviews. To produce realistic expectations, our process incorporates how today's market environment and our long-term global outlook may impact forward-looking returns, while remaining aware of historical trends.

Annual returns can change drastically from year to year, but over time the good and bad years tend to average out. As a result, long-term returns are generally more stable.

Our estimates represent our expectations over the next 30 years. This is why we don't think the range of expectations about future investment returns should change very much over time.

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We use several components to estimate the risk, return and correlations for each asset class, including:

- Expected rate of inflation
- Dividend yields on each equity asset class
- Expected growth rates of earnings
- Valuation metrics, such as price-to-earnings ratios
- Current interest rate and return spreads on fixed-income investments
- Long-term estimates of interest rates and spread premiums on fixed-income investments
- Historical trends and relationships among various asset classes

These variables are used in mathematical models that provide what we believe are realistic long-term return and risk expectations.

Components of our expected long-term equity returns

Equity asset classes	Dividend yield	Nominal earnings growth	Change in valuations
U.S. large-cap stocks	1.8%	5.7%	-0.7%
U.S. mid-cap stocks	1.7%	6.4%	0.0%
U.S. small-cap stocks	1.5%	6.9%	-0.1%
Developed int'l large-cap stocks	2.8%	4.5%	0.2%
Developed int'l small- and mid-cap stocks	2.5%	5.4%	0.9%
Emerging-market stocks	2.5%	6.3%	0.2%

Source: Edward Jones calculations, March 2024.

Expected long-term inflation

One of the biggest risks for long-term investors is rising prices. Since 1926, U.S. inflation has averaged about 3% per year but has ranged from mild deflation to more than 18% inflation.

More recently, inflation has declined meaningfully from its peak of over 9% in 2022. Supply chain disruptions were a large reason behind this surge in inflation, but they have since begun to normalize. We believe inflation will average about 2.8% over the longer term.

Expected long-term equity returns

Within U.S. equity asset classes, valuations expanded over the course of the past year. We see limited potential for further valuation expansion in the U.S. over the next 30 years. While this could weigh on return potential, we expect corporate profit growth could provide strength.

Within international equity asset classes, we expect mostly higher long-term average annual returns than U.S. equity returns. While earnings growth may be slower within developed international asset classes than their domestic counterparts, valuations remain attractive across international equities, providing greater support to long-term return potential. Additionally, we continue to expect higher foreign dividend yields, which has been the case historically.

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Expected long-term fixed-income returns

Long-term fixed-income returns are tied to expectations about inflation as well as other changes in economic and market conditions. Elevated inflation and tightening monetary policies caused interest rates to rise meaningfully since the beginning of 2022. With long-term fixed-income returns largely driven by starting yields, particularly for higher-quality bonds, higher yields relative to the previous year have provided greater support to our long-term fixed-income expected returns.

Putting performance into perspective

	Historical perspective (past 30 years)*	Capital market assumptions (expectations over the next 30 years)	
Equities	Average annual return	Estimated average annual return	Estimated standard deviation
U.S. large-cap stocks	10.2%	6.8%	15.0%
Int'l large-cap stocks	5.2%	7.5%	17.0%
U.S. mid-cap stocks	10.6%	8.1%	17.5%
U.S. small-cap stocks	8.6%	8.3%	20.0%
Int'l small- and mid-cap stocks	5.5%	8.8%	17.5%
Emerging-market equity	4.8%	9.0%	21.0%
Fixed income			
U.S. investment-grade bonds	4.4%	4.4%	4.0%
International bonds	4.8%	4.7%	3.0%
Municipal investment-grade bonds	3.7%	3.3%	3.5%
U.S. high-yield bonds	6.7%	6.0%	9.0%
Emerging-market debt	7.4%	6.1%	9.0%
Municipal high-yield bonds	4.7%	5.0%	7.0%
Cash	2.5%	2.9%	0.5%

*Source: Morningstar, Edward Jones calculations. Historical index returns cover the dates 1/1/1994–12/31/2023, except for municipal investment-grade bonds (1/1/2002–12/31/2023) and municipal high-yield bonds (1/1/1996–12/31/2023). Capital market assumptions are based on Edward Jones calculations as of March 2024. U.S. large-cap stocks represented by the S&P 500 TR USD Index. Developed int'l large-cap stocks represented by the MSCI EAFE NR USD Index. U.S. mid-cap stocks represented by the Russell Mid-cap TR USD Index. U.S. small-cap stocks represented by the Russell 2000 TR USD Index. Developed int'l small- and mid-cap stocks represented by the MSCI EAFE SMID NR USD Index. For periods prior to 5/31/1994, the S&P Developed Ex-U.S. Small-cap Index was used to represent developed int'l small- and mid-cap stocks. Emerging-market equity represented by the MSCI Emerging Markets NR USD Index. U.S. investment-grade bonds represented by the Bloomberg US Aggregate TR USD Index. International bonds represented by the Bloomberg Global Agg Ex USD TR Hedged USD Index. Municipal investment-grade bonds represented by the Bloomberg Municipal 1-15 Year TR Index. U.S. high-yield bonds represented by the Bloomberg US HY 2% Issuer Cap TR USD Index. Emerging-market debt represented by the Bloomberg Emerging Market USD Agg TR USD Index. Municipal high-yield bonds represented by the Bloomberg Municipal Yield TR Index. For periods before 7/1/2009, the Bloomberg High-Yield Municipal TR Index was used to represent municipal high-yield bonds. Cash represented by the Bloomberg US Trsy Bellwethers 3Mon TR USD Index. Indexes are unmanaged, not available for direct investment and not meant to depict an actual investment. Returns assume reinvestment of interest and dividends back into the index. Returns do not incorporate the impact of trading, liquidity, costs, fees or taxes a client may experience when investing, which may lower performance results. Historic average annual return incorporate the impacts of compounding over time. Past performance does not guarantee future results.

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Recommendations

In our analysis, we consider how the current market environment and our long-term global outlook may impact returns over the next 30 years, while staying aware of historical trends. Although we believe this process provides realistic estimates of future returns for each asset class, no one can know how accurate they'll be. Your experience could be different, particularly if your investments within each asset class are not well-diversified.

Many investors won't earn the returns available in the market because they trade frequently or switch strategies at the wrong times — usually selling investments that have declined in value and buying those that have already risen. Over time, prices rise and fall sharply, and annual returns can vary widely. The challenge you'll most likely face is to stick with the strategy you've chosen. Our advice is to:

- Build a well-diversified portfolio with the mix of quality investments tailored for your situation
- Review and rebalance your portfolio at least annually to help ensure it remains aligned with your long-term financial goals
- Stay invested over the long term

How we can help

This approach has helped investors on the path toward their financial goals in the past, and we think it can work for you as well. Talk with your financial advisor about how these strategies can help you work toward your own long-term financial goals.

Diversification does not guarantee a profit or protect against loss in a declining market. Investing in equities involves risks. The value of your shares will fluctuate, and you may lose principal. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events. Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

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