



PGIM

MID-YEAR 2026

# 10-YEAR CAPITAL MARKET ASSUMPTIONS



Forecasts may not be achieved and are not a guarantee or reliable indicator of future results.  
All investments involve risk, including the possible loss of capital.

# CONTENTS

---

|  |           |
|--|-----------|
| <b>Key 10-Year Forecast Updates</b>                  | <b>03</b> |
| <b>Overview</b>                                      | <b>04</b> |
| <b>Asset-Class Forecasts</b>                         | <b>07</b> |
| <b>Economic Uncertainty in Our 10-Year Forecasts</b> | <b>13</b> |
| <b>Risk-Based Portfolios</b>                         | <b>14</b> |
| <b>Steady-State Capital Market Assumptions</b>       | <b>17</b> |

# KEY 10-YEAR FORECAST UPDATES

## Fixed Income

Relative to Q1 2026, our long-term outlook for fixed income assets has improved, consistent with rising underlying sovereign rates and a normalization in our credit default rate assumptions:

**U.S. AGGREGATE BONDS**  
4.7% → 4.9%  
Q1'26 Q2'26

**U.S. LONG TREASURY BONDS**  
5.6% → 5.9%  
Q1'26 Q2'26

**U.S. HIGH YIELD BONDS**  
5.1% → 5.9%  
Q1'26 Q2'26

## Equities

Our 10-year forecasts for equity markets increased across regions as equity market declines resulted in more favorable valuations, and we revised our assumptions for valuation adjustments over the forecast horizon:

**U.S. LARGE-CAP EQUITIES**  
5.2% → 6.5%  
Q1'26 Q2'26

**INTERNATIONAL EQUITIES EX-U.S.**  
6.7% → 7.2%  
Q1'26 Q2'26

**EMERGING MARKETS EQUITIES**  
7.5% → 7.9%  
Q1'26 Q2'26

## Portfolio Positioning

Portfolio positioning recommendations include:

- Overweight international equities vs. U.S. large-cap equities
- Overweight public fixed income assets vs. broad equities
- Overweight private asset allocations to buyout equity, direct lending, and private real estate

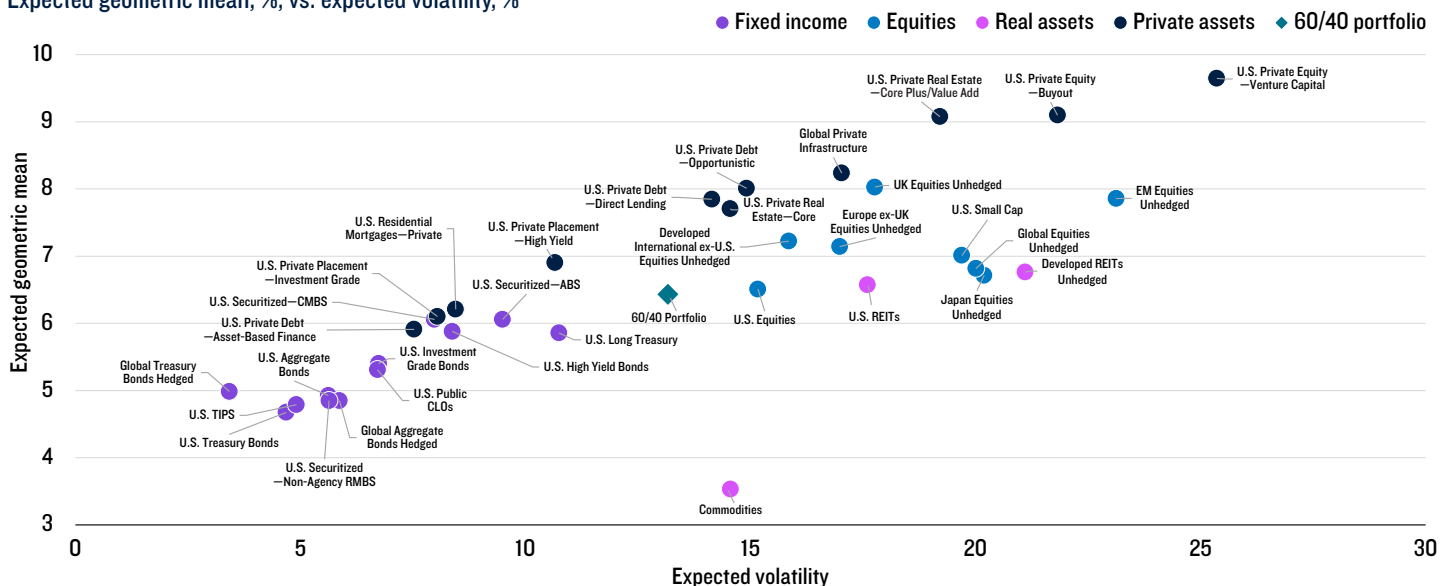
## New Assets

In Q2 2026, we are introducing forecasts for:

- U.S. private placements—high yield
- U.S. private debt—asset-based finance
- U.S. private debt—direct lending
- U.S. private debt—opportunistic

## Exhibit 1: 10-year forecast returns and volatility

Expected geometric mean, %, vs. expected volatility, %



Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.

# OVERVIEW

## Q1 2026 Developments Informing Our Long-Term Forecasts

The global economy ended 2025 on firm footing, which carried over into early 2026. However, the calm was broken in late February as hostilities broke out in Iran and across the Middle East. With the Strait of Hormuz nearly closed and other war-related damage to regional energy infrastructure, oil prices rose significantly in Q1. Subsequent developments in Q2, as of this writing, include a U.S. blockade of the Strait and a fragile ceasefire, contributing to a partial retracement of the spike in oil prices. Nevertheless, oil prices remain elevated compared to the start of 2026, with near-term implications for the outlook for economic activity and inflation.

As the conflict continues, it appears that the economic impact of the oil shock is most apparent in country-specific dynamics. The U.S. is a net oil exporter in the midst of an AI-related CapEx boom, which is helping to support GDP growth. Following U.S. GDP growth of 2% quarter-over-quarter annualized in Q1, the Atlanta Fed's GDPNow is predicting an increase to 3.0% in Q2 as of early June. Our 10-year U.S. GDP growth forecast is just shy of 2%, which remains close to

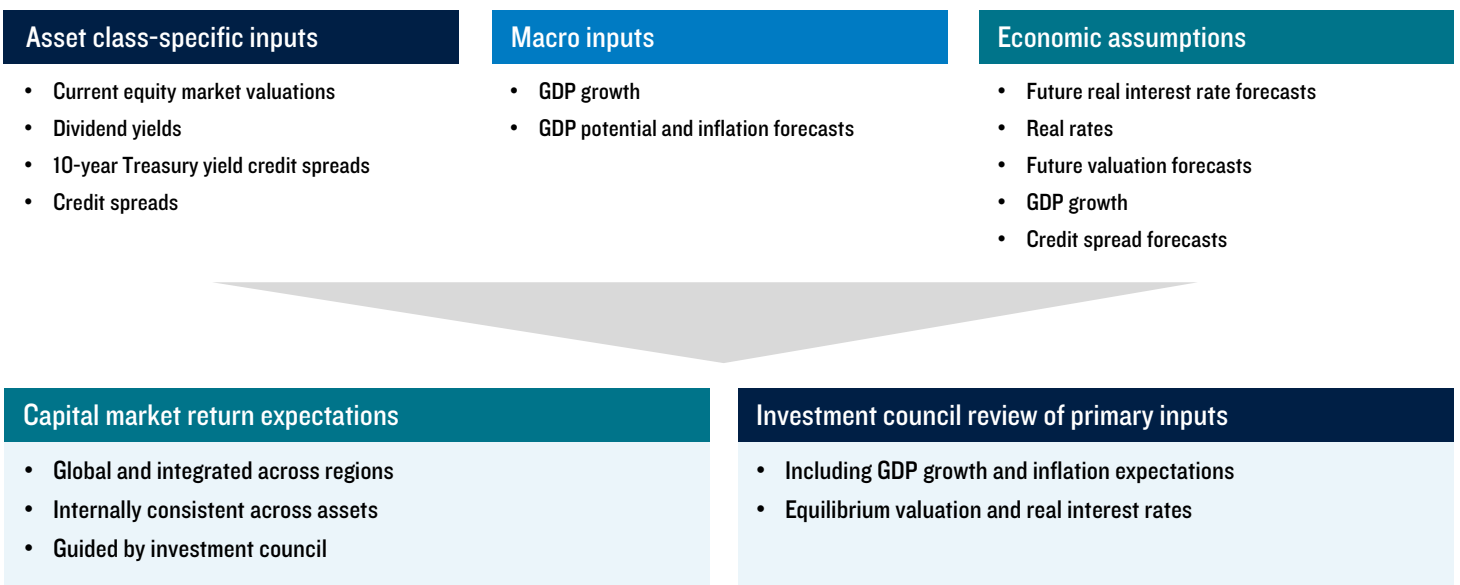
the average following the global financial crisis. However, other oil importers will be hit harder by the shock.

While the impact on the real economy is less pronounced in the U.S., it is still affecting inflation. U.S. CPI climbed in March to 3.3% year-over-year, up from 2.7% at the end of 2025. Excluding food and energy prices, U.S. core CPI was a more modest 2.6% year-over-year in March, which is still elevated, but more representative of where CPI will return to after the oil price shock fades. Our 10-year U.S. inflation forecasts remain roughly unchanged at around 2.5% in this quarter's Capital Market Assumptions (CMAs).

The Federal Reserve kept rates unchanged in Q1. Holding at the early Q1 meeting was expected with the Fed signaling in late Q4 that it would slow the pace of rate cuts. And then the Fed held in March following the oil spike as it evaluated the impact on the economy. The inflation backdrop is increasing the uncertainty for U.S. monetary policy just as Kevin Warsh is set to become Chairman of the Fed.

Regardless, the Fed is more likely to look through a supply shock than other central banks. The European Central Bank (ECB) has not yet hiked rates, but has signaled concern about inflation risks. The Bank of Japan (BoJ) was in the middle of

### Exhibit 2: PGIM's capital market assumptions framework



Source: PGIM. Shown for illustrative purposes only. The macroeconomic views underpinning our 10-year CMAs may differ from those featured in our 12-month Global Market Outlook.

a hiking cycle at the start of 2026 after hiking rates twice in 2025 due to ongoing inflation pressures. While the BoJ didn't hike in Q1, it was prepared to step in to prevent further yen depreciation and is likely to hike later in the year. In China, the central bank has preferred a moderately loose stance of monetary policy, but it is likely to be impacted by the supply shock from rising oil prices as well.

## Capital Market Assumptions Framework

Our CMAs underpin the long-run outlook for strategic allocations in our individual strategies and multi-asset portfolios. They are the product of a highly systematic process for generating consistent projections across the capital markets.

CMAs provide 10-year expectations for the most widely held equity, fixed income, and non-traditional asset classes, measuring both return and risk. We update our CMAs each quarter, beginning with evolving asset-class fundamentals and macroeconomic assumptions at the country level.

For each asset class, we decompose local return expectations into three broad categories: income, growth, and valuation adjustment. We also forecast relative currency adjustments for investors in different domiciles to allow for conversion to hedged or unhedged returns. Our core building blocks

and final forecasts are reviewed at their component levels by an investment council comprising our most senior investment professionals.

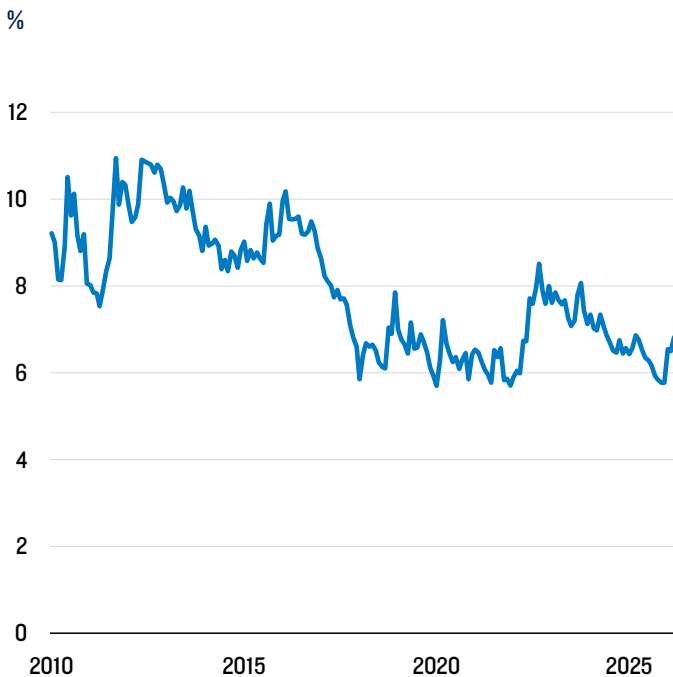
## Global Economic Outlook

Forward-looking views for economic growth and inflation are among the most critical building blocks of our CMAs. We currently compile these for 16 countries. Based on our forecasts, long-term real economic growth in developed economies over the next 10 years is expected to continue to moderate, as it has for the last three decades. This is due to the limited growth of the labor force, which is constrained by domestic demographics and based on an assumption of no significant offset from improved productivity growth.

Our forecasts for near-term economic growth and inflation are comparable to last quarter's. We expect longer-term economic growth in developed economies to be led by Australia and other countries with younger populations and more liberal immigration policies. We anticipate growth to be slowest in Japan and parts of Western Europe, where the labor force is expected to contract further over the next decade.

Inflation in developed markets is anticipated to moderate over the next 10 years relative to current levels, which still exceed

Exhibit 3: Expected 10-year return for global equities



Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

Exhibit 4: Expected 10-year return for hedged global aggregate bonds



Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

most central bank targets. Our 10-year forecasts for developed market inflation range from a 2.8% annual rate in Australia to a low of 2.0% in the Eurozone. Emerging markets, however, are expected to produce real economic growth and inflation at annualized rates of 3.3% and 2.5%, respectively, driven by younger populations and higher rates of return on capital than in developed markets.

## Evolution of Our Market Outlook

During the decade leading up to 2017, rising valuation ratios and moderating expectations for developed market growth and inflation drove a steady decline in our long-term CMAs for global equities. These assumptions stabilized at historically low levels from 2017 onward.

The decline in equity markets in 2022 and an upward revision to our longer-run inflation expectations partially reversed this trend, moving forecasts temporarily higher. Our outlook for global equity returns over the next 10 years is 6.8%, an increase of one percentage point from our 5.8% forecast in the first quarter of 2026.

Our CMAs for global fixed income assets have moved materially higher over the past three years, coincident with the significant increase in global interest rates in response to heightened developed-market inflation in 2021 and 2022. Moderating inflation in the U.S. and Europe has prompted a reduction in short-term interest rates over the past two years, though longer-term rates have held steady in a higher range, generally supporting our forward-looking global fixed income forecasts.

# ASSET-CLASS FORECASTS

## Global Fixed Income Markets

Long-term fixed income forecasts begin with our view of 10-year forward policy rates for each of the major developed market central banks. We derive expected policy rates for each central bank jurisdiction as a function of current and future equilibrium real interest rates, the expected GDP output gap over the next 10 years,<sup>1</sup> and the expected rate of inflation. Our forecasts for short-term interest rates also incorporate a forward-looking central bank reaction function, placing less weight on current interest rate levels. While the 2010s were a period of low and stable short-term interest rates, the 2020s have been characterized by a much more volatile period for short-term rates as central banks responded to the pandemic and its inflationary aftermath.

Moreover, the volatility in short-term rates flows through to our assumptions about future rates, as elevated current rates tend to push our forecasts higher. Since our overall methodology takes a building block approach, this volatility also flows through to forecasts for other asset classes, making this a more forward-looking approach that helps to stabilize our long-term forecasts.

Our long-term forecasts for short-term interest rates are comparable to those for the first quarter of 2026. For the U.S., policy rates in 10 years are expected to be roughly 90 basis points (bps) lower than the 3.6% policy rate midpoint

that prevailed at the end of the first quarter of 2026 given our forward views of inflation and growth relative to potential.

Our bond return forecasts are largely predicated on income and valuation factors. At a given maturity point, the forecast income return for a government bond consists of the average expected coupon yield over the forecast horizon, as well as proceeds (losses) from bonds maturing to lower (higher) yields. Changes in yield at a given maturity point over the forecast horizon determine the necessary valuation adjustment. If yields are forecast to rise (fall) over the next 10 years, the valuation adjustment will be negative (positive).

U.S. 10-year Treasury yields at 4.3% were modestly higher in the first quarter of 2026, primarily attributable to inflation concerns driven by higher oil prices in the wake of the U.S.-Iran conflict. Looking forward, yields for the Bloomberg U.S. Treasury Index are expected to decline from current levels over the next 10 years, resulting in a positive valuation adjustment and an expected return of 4.7%.

Unhedged developed market government bonds outside the U.S. are forecast to deliver lower returns over the next decade, given lower starting yields. Long-run returns in developed market government bonds for a U.S. investor are forecast to be 4.6% on an unhedged basis and 5.0% on a hedged basis given the differentials in forecast short-term interest rates.

### Exhibit 5: Global interest rates

%

| Country        | Current short-term interest rates | Long-term forecast for short-term interest rates |
|----------------|-----------------------------------|--|
| United States  | 3.67                              | 2.68   |
| United Kingdom | 3.98                              | 2.26   |
| Eurozone       | 1.95                              | 1.98   |
| Japan          | 0.79                              | 1.99   |
| Australia      | 4.65                              | 3.20   |
| Canada         | 2.32                              | 2.48   |

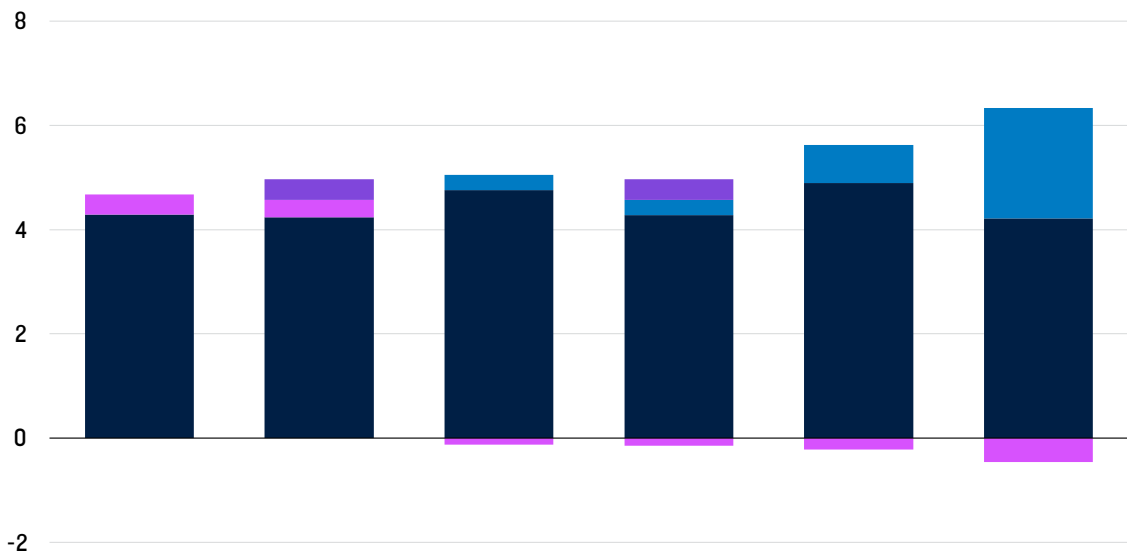
Sources: Bloomberg and PGIM, As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

For longer-maturity government bond returns, we forecast each country's expected long-term slope to define a term structure of yields across its respective government yield curve. The forecast slope for each country is a function of forecast and potential real economic growth and evolves counter cyclically. When economic growth is forecast below potential, the yield curve is expected to be steeper (early cycle), whereas when growth is forecast to be closer to or above potential (late cycle) the curve is expected to be flatter.

<sup>1</sup> GDP-weighted Eurozone country average for the European Central Bank.

## Exhibit 6: Decomposition of fixed income return forecasts

%



|                           | U.S. Treasury | Global Treasuries hedged | U.S. aggregate | Global aggregate hedged | U.S. investment grade | U.S. high yield |
|---------------------------|---------------|--------------------------|----------------|-------------------------|-----------------------|-----------------|
| ■ Benchmark rate income   | 4.29          | 4.23                     | 4.76           | 4.28                    | 4.90                  | 4.21            |
| ■ Spread income           | 0.00          | 0.00                     | 0.29           | 0.29                    | 0.72                  | 2.13            |
| ■ Valuation adjustment    | 0.39          | 0.34                     | -0.12          | -0.14                   | -0.22                 | -0.46           |
| ■ Currency hedging return | 0.00          | 0.40                     | 0.00           | 0.40                    | 0.00                  | 0.00            |
| <b>Total</b>              | <b>4.67</b>   | <b>4.99</b>              | <b>4.93</b>    | <b>4.85</b>             | <b>5.40</b>           | <b>5.88</b>     |

Source: PGIM. As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

We calculate the expected returns for fixed income credit indexes to include any additional income expected from an average credit spread yield over comparable government bonds, adjusted for expected default and downgrade losses over the forecast horizon.

We then calculate the valuation adjustment for expected changes in spreads. Our long-term return forecasts for U.S. investment grade and U.S. high yield bonds are 5.9% and 5.4%, respectively.

Our long-term forecast for U.S. aggregate bonds is 4.9%, which includes an expected spread return of 0.1%. Our forecast for hedged global aggregate bonds from a U.S. investor perspective is 4.8%, given similar assumptions for credit spreads and defaults, as well as gains from currency hedging, which partially offset lower starting yields for underlying government bonds outside the U.S. For both U.S. investment grade and U.S. high yield bonds, spreads at the end of the first quarter of 2026 were somewhat tighter than the expected 10-year averages.

## Global Equity Markets

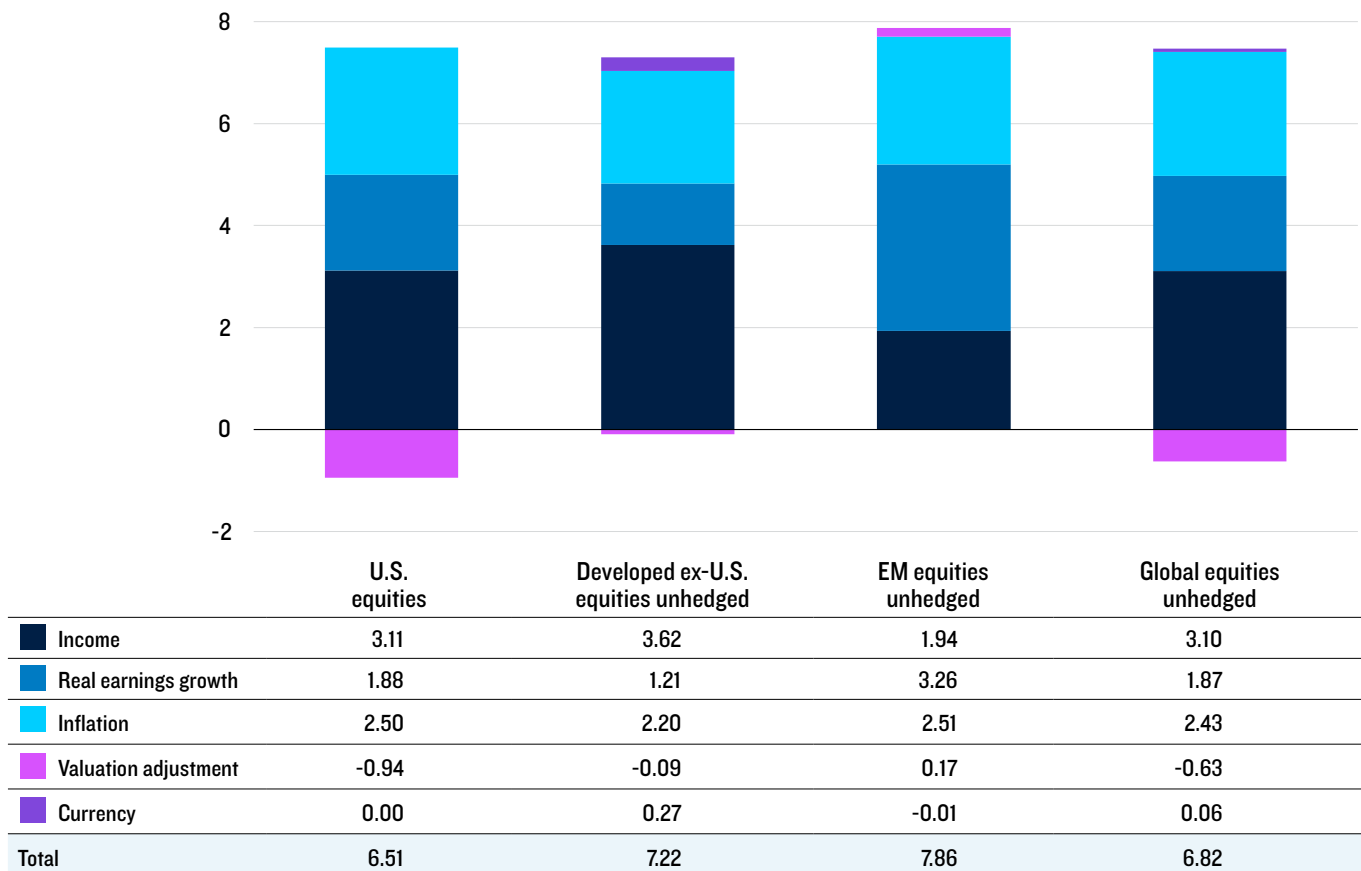
All of our long-term asset-class forecasts, including equities, are based on income, growth, and valuation considerations.

Consistent with historical precedent, and assuming the continuation of current dividend taxation regimes, the U.S. equity market derives a significant share of expected income returns from share buybacks, equal to about 1.8% in our long-term forecasts. Outside the U.S., the expected contribution of net buybacks to long-term income returns in developed economies is anticipated to be a much more modest 0.8%. For emerging markets, net share issuance is expected to result in a 0.3% drag on income returns.

To build the income component of our long-term equity forecasts, we calculate each country's expected income contribution based on current and anticipated dividend yields, as well as expected returns attributable to buyback activity (positive) or net positive share issuance (negative).

### Exhibit 7: Decomposition of global equity return forecasts

%



Source: PGIM. As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

For the growth component of our equity return forecasts, nominal GDP growth over the next 10 years is expected to approximate long-term nominal earnings growth for each equity market. We calculate this as the combined annualized rate of expected inflation plus real GDP growth. As noted earlier, our near-term growth and inflation expectations are similar to last quarter's. Our 10-year forecast for U.S. real annualized GDP growth is now 1.9%, with 2.5% for inflation translating to an earnings growth component of 4.4%. While the impact of higher oil prices may elevate inflation over the next few quarters, we anticipate inflation will continue to moderate over the longer term to a level closer to the Fed's 2% target. For developed markets outside the U.S., our 10-year expectation for real GDP growth is 1.2%, with inflation averaging 2.2%. This assumption would provide nominal earnings growth of 3.4%.

For emerging markets, higher nominal GDP growth relative to developed markets is expected to result in long-run nominal earnings growth of 5.8%. Among developed markets, the U.S. maintains a negative expected long-term valuation adjustment of -0.9% annually, attributable to still historically elevated valuation ratios.

Developed market equities outside the U.S., in contrast, are expected to have negligible valuation repricing given historical valuation ratios that are close to long-run averages. Emerging-market equity returns are forecast to be 0.2% higher per year, attributable to a positive valuation adjustment.

## Private Assets

Our methodology for forecasting buyout equity, venture capital equity, and private debt ties the forecast outcomes of these assets to those of public-market assets and assigns a premium consistent with historical empirical outcomes, acknowledging the underlying illiquidity and potential leverage employed in these asset classes relative to public market counterparts. Our forecasts for private real estate incorporate data from the NCREIF Property Index (NPI) to determine yields and relative valuations in addition to linkages to forecast macroeconomic inputs. Investors in private assets must also evaluate cash-flow

considerations that may impact other liquid allocations in a multi-asset portfolio. Private equity funds that take a buyout strategy invest in equity ownership of mature companies, resulting in a change of control. These transactions are typically large and involve the use of leverage. Our 10-year annualized forecast for U.S. buyout private equity is 9.1%, versus 6.5% for public U.S. equities. Venture capital funds seek private equity stakes in startups and small- to medium-sized companies with strong growth potential. Our annualized 10-year forecast for U.S. venture capital private equity is 9.6%, versus 7.0% for public U.S. small cap equities.

Over the last two quarters, we have substantially increased our coverage of private fixed income assets in partnership with the PGIM Credit investment group. We are now providing both U.S. investment-grade and high-yield forecasts for private placement debt with forecast returns of 6.1% and 6.9%, respectively. This compares with expected returns of 5.4% and 5.9% for public investment-grade and high-yield bonds. Additionally, our forecast returns for asset-based finance, direct lending, and opportunistic U.S. private debt are 5.9%, 7.8%, and 8.0%, respectively.

Our annualized 10-year forecast for global private infrastructure is 8.2%, versus 6.4% for global listed infrastructure.

Our forecasts for private real estate funds covered in the NPI include properties that have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. Property types included in the NPI are hotels, office buildings, industrial properties, apartments, and other retail-use properties.

Allowed properties can be wholly owned or jointly owned properties. Returns on investment are required to be reported without leverage. From the unlevered initial forecast, we then calculate a core real estate forecast to represent funds with 20% leverage and a core plus or value add real estate forecast to represent funds with 40% leverage. Our forecasts for core and U.S. Private Real Estate - Core Plus/Value Add this quarter are 7.7% and 9.1%, respectively.

## Real Assets

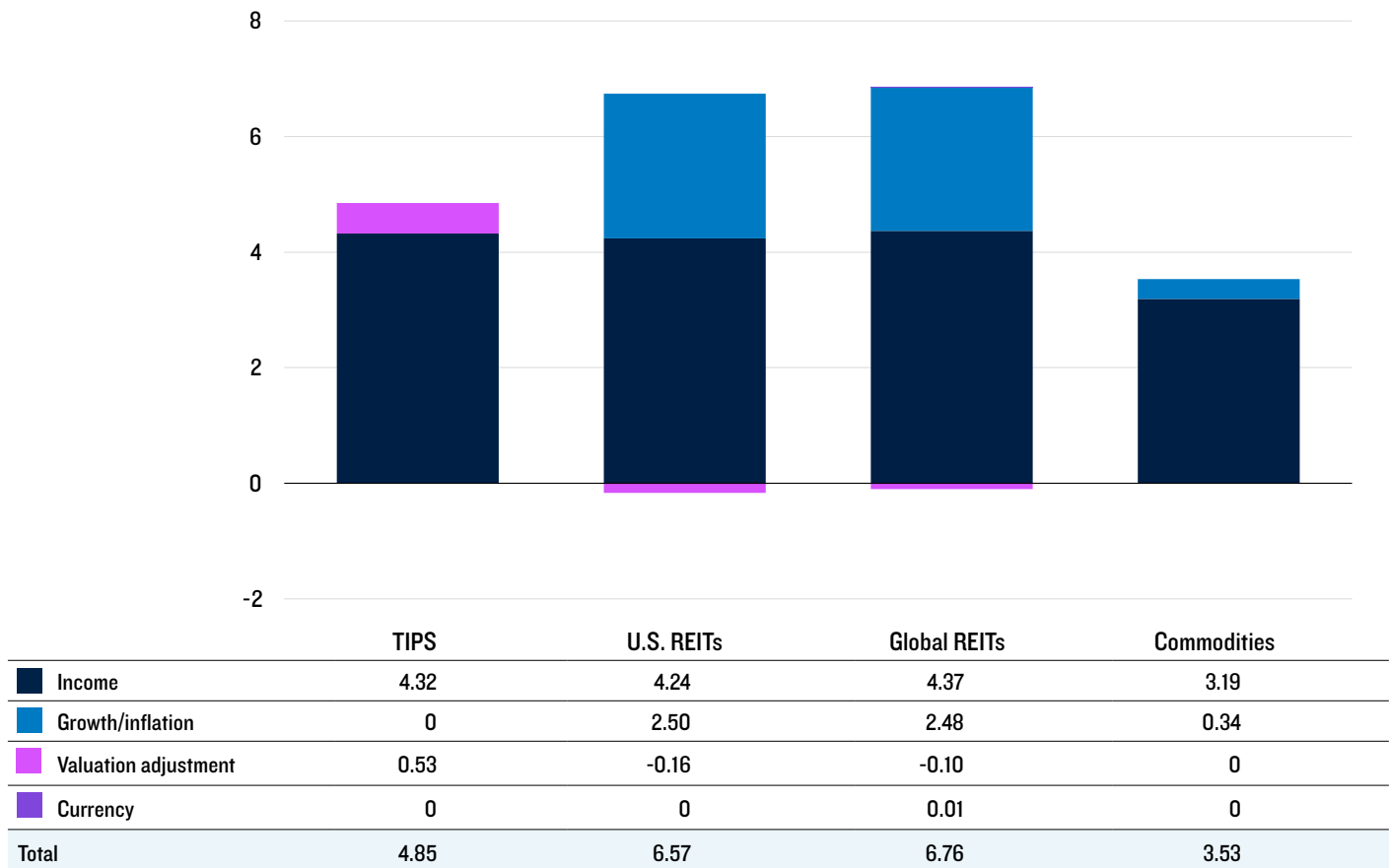
We group commodities, REITs, and TIPS together as real assets in our CMAs. For U.S. TIPS, we assume that expected inflation and break-even inflation converge over time, implying that inflation risk premia and liquidity risk premia offset one another. Under these assumptions, we forecast a long-term return from TIPS of 4.9%, which is somewhat above the expected return of U.S. Treasuries given the slightly higher duration of U.S. TIPS. Our forecast returns for U.S. and global REITs include current and forecast dividend payments, expected appreciation linked to forecast price level changes, and a valuation adjustment based on current payout ratios. Our long-run forecasts for U.S. and global REITs are 6.6% and 6.8%, respectively. Our long-run expected return for commodities is 3.5%, reflecting a return on cash investment of 3.2%, assuming investment through liquid futures and a growth premium of 0.3%, consistent with historical spot returns over cash and a linkage to forecast inflation.

## Currency and Currency Hedging Returns

Our long-term forecasts for currency returns and return to currency hedging are based on our forward views of local relative price levels and short-term policy rates. These views allow us to provide our long-term forecasts for a range of domiciles outside the U.S. Over the next 10 years we are forecasting generally negative returns for the U.S. dollar relative to developed market peers with outcomes ranging from an annualized loss of -0.4% for the Australian dollar to a gain of 1.6% for the Swiss franc. Forecast outcomes for emerging market currencies range from an expected loss of -1.8% for the Indian rupee to a gain of 0.7% for the Taiwan dollar. Long-term currency hedging returns against a market-weighted basket of developed market exposures are forecast to be net positive for U.S. investors as short-term interest rates are anticipated to be higher over the long term in the U.S. relative to the Eurozone and Japan.

### Exhibit 8: Decomposition of real asset return forecasts

%



Source: PGIM. As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

## Global 60/40 Portfolio

Based on our long-term forecasts, a balanced portfolio of 60% global equities unhedged and 40% global aggregate bonds hedged is forecast to return 6.4% annually over the next 10 years, an increase of 0.7% from our first-quarter 2026 forecast.

### Exhibit 9: Q2 2026 10-year capital market assumptions

All data points in %, except expected Sharpe ratio

| Asset   | Expected geometric return | Expected arithmetic return | Expected volatility | Expected Sharpe ratio |
|---|---------------------------|----------------------------|---------------------|-----------------------|
| <b>FIXED INCOME</b>                               |                           |                            |                     |                       |
| Cash  | 3.19                      | —                          | —                   | —                     |
| U.S. Treasury Bonds                               | 4.67                      | 4.78                       | 4.68                | 0.34                  |
| U.S. Long Treasury                                | 5.86                      | 6.43                       | 10.75               | 0.30                  |
| Global Treasury Bonds Hedged                      | 4.99                      | 5.05                       | 3.42                | 0.54                  |
| U.S. Aggregate Bonds                              | 4.93                      | 5.08                       | 5.62                | 0.34                  |
| Global Aggregate Bonds Hedged                     | 4.85                      | 5.02                       | 5.87                | 0.31                  |
| U.S. Investment Grade Bonds                       | 5.40                      | 5.63                       | 6.74                | 0.36                  |
| U.S. High Yield Bonds                             | 5.88                      | 6.23                       | 8.37                | 0.36                  |
| U.S. TIPS   | 4.79                      | 4.91                       | 4.91                | 0.35                  |
| U.S. Public CLOs                                  | 5.31                      | 5.53                       | 6.71                | 0.35                  |
| U.S. Securitized—ABS                              | 6.06                      | 6.51                       | 9.49                | 0.35                  |
| U.S. Securitized—CMBS                             | 6.06                      | 6.38                       | 7.98                | 0.40                  |
| U.S. Securitized—Non-Agency RMBS                  | 4.85                      | 5.01                       | 5.64                | 0.32                  |
| <b>EQUITIES</b>                                   |                           |                            |                     |                       |
| U.S. Equities                                     | 6.51                      | 7.66                       | 15.17               | 0.29                  |
| U.S. Small Cap                                    | 7.01                      | 8.95                       | 19.70               | 0.29                  |
| UK Equities Unhedged                              | 8.03                      | 9.61                       | 17.76               | 0.36                  |
| Europe ex-UK Equities Unhedged                    | 7.14                      | 8.58                       | 16.98               | 0.32                  |
| Japan Equities Unhedged                           | 6.71                      | 8.75                       | 20.19               | 0.28                  |
| Developed International ex-U.S. Equities Unhedged | 7.22                      | 8.48                       | 15.85               | 0.33                  |
| EM Equities Unhedged                              | 7.86                      | 10.53                      | 23.12               | 0.32                  |
| Global Equities Unhedged                          | 6.82                      | 8.82                       | 20.01               | 0.28                  |
| <b>REAL ASSETS</b>                                |                           |                            |                     |                       |
| U.S. REITs  | 6.57                      | 8.12                       | 17.60               | 0.28                  |
| Developed REITs Unhedged                          | 6.76                      | 8.99                       | 21.10               | 0.27                  |
| Commodities                                       | 3.53                      | 4.59                       | 14.56               | 0.10                  |
| <b>PRIVATE ASSETS</b>                             |                           |                            |                     |                       |
| U.S. Private Real Estate—Core                     | 7.70                      | 8.76                       | 14.55               | 0.38                  |
| U.S. Private Real Estate—Core Plus/Value Add      | 9.08                      | 10.92                      | 19.21               | 0.40                  |
| U.S. Residential Mortgages—Private                | 6.21                      | 6.57                       | 8.45                | 0.40                  |
| U.S. Private Placement—Investment Grade           | 6.10                      | 6.43                       | 8.04                | 0.40                  |
| U.S. Private Placement—High Yield                 | 6.90                      | 7.47                       | 10.66               | 0.40                  |
| U.S. Private Debt—Asset-Based Finance             | 5.91                      | 6.19                       | 7.53                | 0.40                  |
| U.S. Private Debt—Direct Lending                  | 7.85                      | 8.85                       | 14.14               | 0.40                  |
| U.S. Private Debt—Opportunistic                   | 8.01                      | 9.12                       | 14.91               | 0.40                  |
| U.S. Private Equity—Buyout                        | 9.10                      | 11.48                      | 21.82               | 0.38                  |
| U.S. Private Equity—Venture Capital               | 9.65                      | 12.86                      | 25.36               | 0.38                  |
| Global Private Infrastructure                     | 8.24                      | 9.69                       | 17.03               | 0.38                  |
| <b>60/40 PORTFOLIO</b>                            | <b>6.43</b>               | <b>7.30</b>                | <b>13.16</b>        | <b>0.31</b>           |

Source: PGIM. As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.** See Spread Assumptions and Expected Returns footnotes on page 19 for additional detail on spread assumptions and expected returns.

# INCORPORATING ECONOMIC UNCERTAINTY IN OUR 10-YEAR FORECASTS

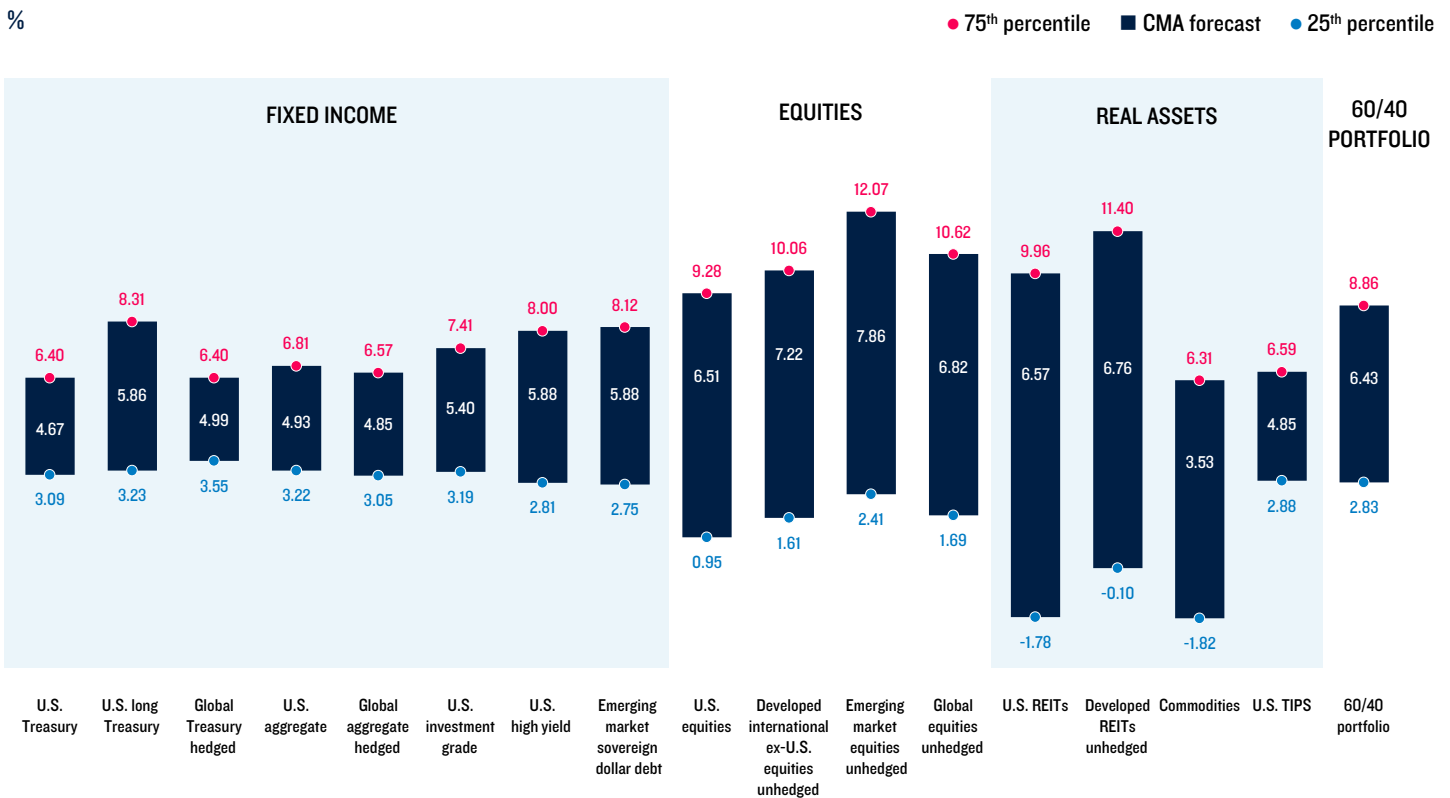
## Dynamic Modeling for Economic Uncertainty

Our 10-year forecasts are based on building blocks with inherent uncertainty, particularly uncertainty as to the economic environment that will prevail over the next 10 years. To model this economic uncertainty, we conduct forward-looking simulations incorporating joint distributions of expansionary and recessionary investment environments. In contrast to simulations assuming a single multivariate normal distribution of asset class

returns that are inconsistent with observed historical outcomes, our robust simulations consider periods of crisis that result in more pronounced drawdowns than would be captured in static average expected return and covariance forecasts.

Through these simulations we generate a distribution of return outcomes centered on our CMAs. Presented in the following chart are the 25<sup>th</sup> and 75<sup>th</sup> percentile ranges for the primary asset classes we forecast.

Exhibit 10: Simulation-based forecast ranges



Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.** We generate 1,000 potential return paths using the forward testing simulation methodology described above. The uncertainty bands represent 25<sup>th</sup> and 75<sup>th</sup> percentile of potential return paths from the forward tested simulation. Return paths are hypothetical in nature and do not reflect actual investment results. The information is shown for illustrative purposes only, does not constitute investment advice, and is not indicative or a guarantee of future results. Results from the projected forward tested simulation may vary over time and with each use. Asset return expectations are gross of fees, shown for illustrative purposes only and are subject to change.

# RISK-BASED PORTFOLIOS

To provide insight into how our evolving CMAs can be used to inform multi-asset portfolios, we produce three representative risk-based policy portfolios every quarter.<sup>2</sup> These policy portfolios are based on public-market assets only and are meant to mimic three distinct liability profiles from a U.S. investor perspective. Suggested portfolios are constructed each quarter through constrained optimization based on our evolving risk and return forecasts. Suggested portfolios selected along the efficient frontier will be those with the highest Sharpe ratios and with at least the same expected return as the respective policy portfolio to which they are benchmarked.

## Exhibit 11

### Q2 2026 Risk-based policy portfolios

All data points in %, except expected Sharpe ratio

|                             | Income focused | Balanced income and growth | Growth focused |
|-----------------------------|----------------|----------------------------|----------------|
| <b>EQUITIES</b>             | 30.0           | 55.0                       | 70.0           |
| U.S. Large Cap              | 20.0           | 35.0                       | 40.0           |
| U.S. Small Cap              | 2.0            | 3.0                        | 8.0            |
| International ex-U.S.       | 5.0            | 12.0                       | 15.0           |
| Emerging Markets            | 3.0            | 5.0                        | 7.0            |
| <b>FIXED INCOME</b>         | 60.0           | 35.0                       | 20.0           |
| U.S. Aggregate              | 50.0           | 30.0                       | 10.0           |
| U.S. Investment Grade       | 8.0            | 3.0                        | 3.0            |
| U.S. High Yield             | 2.0            | 2.0                        | 7.0            |
| <b>REAL ASSETS</b>          | 10.0           | 10.0                       | 10.0           |
| TIPS                        | 6.0            | 3.0                        | 2.0            |
| U.S. REITs                  | 2.0            | 4.0                        | 5.0            |
| Commodities                 | 2.0            | 3.0                        | 3.0            |
| Expected geometric return   | 5.9            | 6.4                        | 6.8            |
| Expected standard deviation | 7.1            | 9.9                        | 12.3           |
| Expected Sharpe ratio       | 0.41           | 0.38                       | 0.35           |

Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.** Asset return expectations are gross of fees, shown for illustrative purposes only, and are subject to change. The asset allocations are hypothetical and should not be construed as investment advice. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There is no guarantee strategies will be successful.

<sup>2</sup> For illustrative purposes only. All risk-based policy portfolios have significant inherent shortcomings and do not consider many real-world frictions. Does not constitute investment advice and should not be used as the basis for any investment decision.

For the second quarter of 2026, starting from the benchmark policy portfolios, intra-equity allocation changes common to all the policy portfolios included reductions in exposure to U.S. large cap equities and increased allocations to international ex-U.S. and emerging markets equities. Within fixed income, allocations to U.S. aggregate bonds were increased in the Income and Growth portfolios while decreased in the Balanced portfolios. Investment grade bond allocations were increased in the Balanced and Growth portfolios, and high yield bond allocations were increased in the Income and Balanced portfolios. Within real assets, allocations to commodities

## Exhibit 12

### Q2 2026 Optimized risk-based policy portfolios

All data points in %, except expected Sharpe ratio

|                             | Income focused | Balanced income and growth | Growth focused |
|-----------------------------|----------------|----------------------------|----------------|
| <b>EQUITIES</b>             | 27.5           | 51.0                       | 67.0           |
| U.S. Large Cap              | 15.0           | 30.0                       | 35.0           |
| U.S. Small Cap              | 1.0            | 1.0                        | 6.0            |
| International ex-U.S.       | 6.5            | 13.0                       | 17.0           |
| Emerging Markets            | 5.0            | 7.0                        | 9.0            |
| <b>FIXED INCOME</b>         | 62.0           | 37.0                       | 25.0           |
| U.S. Aggregate              | 52.0           | 28.0                       | 14.0           |
| U.S. Investment Grade       | 6.0            | 5.0                        | 5.0            |
| U.S. High Yield             | 4.0            | 4.0                        | 6.0            |
| <b>REAL ASSETS</b>          | 10.5           | 12.0                       | 8.0            |
| TIPS                        | 8.0            | 5.0                        | 0.0            |
| U.S. REITs                  | 2.5            | 6.0                        | 7.0            |
| Commodities                 | 0.0            | 1.0                        | 1.0            |
| Expected geometric return   | 5.9            | 6.5                        | 6.9            |
| Expected standard deviation | 7.0            | 9.7                        | 12.1           |
| Expected Sharpe ratio       | 0.43           | 0.39                       | 0.36           |

### Exhibit 13: Q4'25 to Q2'26 change in optimized risk-based policy portfolio allocations

All data points in %, except expected Sharpe ratio

|                             | Income focused | Balanced income and growth | Growth focused |
|-----------------------------|----------------|----------------------------|----------------|
| <b>EQUITIES</b>             | -3.5           | -1.0                       | 2.0            |
| U.S. Large Cap              | 0.0            | 0.0                        | 0.0            |
| U.S. Small Cap              | -3.0           | 0.0                        | 0.0            |
| International ex-U.S.       | -0.5           | -1.0                       | 2.0            |
| Emerging Markets            | 0.0            | 0.0                        | 0.0            |
| <b>FIXED INCOME</b>         | 5.0            | 1.0                        | 2.0            |
| U.S. Aggregate              | 1.0            | -7.0                       | -1.0           |
| U.S. Investment Grade       | 0.0            | 4.0                        | 2.0            |
| U.S. High Yield             | 4.0            | 4.0                        | 1.0            |
| <b>REAL ASSETS</b>          | -1.5           | 0.0                        | -4.0           |
| <b>TIPS</b>                 | 4.0            | 0.5                        | -4.0           |
| U.S. REITs                  | -1.5           | 0.0                        | 0.0            |
| Commodities                 | -4.0           | -0.5                       | 0.0            |
| Expected geometric return   | 0.4            | 0.6                        | 0.7            |
| Expected standard deviation | -0.5           | 0.0                        | 0.3            |
| Expected Sharpe ratio       | 0.08           | 0.07                       | 0.06           |

Source: PGIM. As of March 31, 2026. Compares Q2 2026 to Q4 2025. This information is not intended as a recommendation to invest in any particular asset class or strategy.

**Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.** Asset return expectations are gross of fees, shown for illustrative purposes only, and are subject to change. The asset allocations are hypothetical and should not be construed as investment advice. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There is no guarantee strategies will be successful.

were decreased across all portfolios and REIT allocations were increased across all the portfolios. Allocations to TIPS were increased in the Income and Balanced portfolios and decreased in the Growth portfolio.

Across broad asset class groups, equity allocations were decreased across all portfolios to fund increased allocations to fixed income. Real asset allocations were increased in the Income and Balanced portfolios and decreased in the Growth portfolio.

### Policy Portfolio Including Private Assets

Given the rising prominence of private markets in institutional investing, we also include a policy portfolio that incorporates allocations to a number of private asset classes. The allocations are designed to approximate the risk profile of the Balanced policy portfolio, while providing diversifying exposure to private equity, private debt, and private real estate allocations. As in the policy portfolios that include only public markets, suggested portfolios are constructed through constrained optimization based on our evolving risk and return forecasts. Suggested portfolios selected along the efficient frontier will be those with the highest Sharpe ratios and with at least the same expected return as the benchmark policy portfolio.

For the second quarter of 2026, the Private Assets policy portfolio allocation changes mirrored many of those in the Balanced portfolio that included only public markets investments. Specifically, exposure to U.S. equities was reduced in order to fund an overweight allocation to emerging markets equities and to fund cross-asset class allocations to fixed income and private assets. Within fixed income, the allocation to investment grade bonds was decreased while the allocation to U.S. aggregate bonds was increased. Within real assets, REIT and commodities allocations declined, while exposure to TIPS increased. In private assets, allocations were increased to private equity buyout, direct lending, and opportunistic private debt, as well as to core and core plus and value add real estate. In contrast, the allocations to venture capital and asset-based finance private debt were reduced.

## Exhibit 14: Capital market assumptions Balanced portfolio with private assets allocations

All data points in %, except expected Sharpe ratio

|                              | Benchmark | Optimal |
|------------------------------|-----------|---------|
| <b>EQUITIES</b>              | 28.0      | 23.0    |
| U.S. Large Cap               | 18.0      | 13.0    |
| U.S. Small Cap               | 2.0       | 0.0     |
| International ex-U.S.        | 6.0       | 6.0     |
| Emerging Markets             | 2.0       | 4.0     |
| <b>FIXED INCOME</b>          | 35.0      | 37.0    |
| U.S. Aggregate               | 30.0      | 34.0    |
| U.S. Investment Grade        | 3.0       | 1.0     |
| U.S. High Yield              | 2.0       | 2.0     |
| <b>REAL ASSETS</b>           | 7.0       | 5.0     |
| TIPS                         | 2.0       | 4.0     |
| U.S. REITs                   | 3.0       | 1.0     |
| Commodities                  | 2.0       | 0.0     |
| <b>PRIVATE ASSETS</b>        | 30.0      | 35.0    |
| Private Equity Buyout        | 6.0       | 7.0     |
| Venture Capital              | 4.0       | 2.0     |
| Asset-Based Finance          | 3.0       | 1.0     |
| Direct Lending               | 4.0       | 6.0     |
| Opportunistic Private Credit | 3.0       | 5.0     |
| Core Real Estate             | 6.0       | 8.0     |
| Core Plus and Value Add      | 4.0       | 6.0     |
| <b>TOTAL</b>                 | 100.0     | 100.0   |
| Expected geometric return    | 7.2       | 7.3     |
| Expected standard deviation  | 8.5       | 7.8     |
| Expected Sharpe ratio        | 0.51      | 0.56    |

Source: PGIM. As of March 31, 2026. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.** Asset return expectations are gross of fees, shown for illustrative purposes only, and are subject to change. The asset allocations are hypothetical and should not be construed as investment advice. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There is no guarantee strategies will be successful.

# STEADY-STATE CAPITAL MARKET ASSUMPTIONS

In addition to our standard forecasts, we also provide a longer-term forecast beyond a 10-year horizon based on our “steady state” views for asset classes. We construct long-term CMAs by combining 10-year CMAs and steady-state CMAs. Returns are expected to follow the 10-year CMAs’ scenario for the first segment of history and then follow the steady-state CMAs

thereafter. This structure reflects the view that assets that are cheap (rich) on a valuation basis might have better (worse) returns over the near-term horizon. However, the longer an investor’s time horizon, the less weight they should place on an asset class being cheap or rich today, and the more weight they should place on what happens in the steady state. Steady-

## Exhibit 15: Long-term capital market assumptions

All data points in %, except expected Sharpe ratio

| Asset   | Expected geometric return | Expected arithmetic return | Expected volatility | Expected Sharpe ratio |
|---|---------------------------|----------------------------|---------------------|-----------------------|
| <b>FIXED INCOME</b>                               |                           |                            |                     |                       |
| Cash  | 2.68                      | —                          | —                   | —                     |
| U.S. Treasury Bonds                               | 4.01                      | 4.11                       | 4.34                | 0.33                  |
| Global Treasury Bonds Hedged                      | 3.92                      | 3.97                       | 3.03                | 0.42                  |
| U.S. Aggregate Bonds                              | 4.38                      | 4.52                       | 5.30                | 0.35                  |
| Global Aggregate Bonds Hedged                     | 4.02                      | 4.16                       | 5.34                | 0.28                  |
| U.S. Investment Grade Bonds                       | 4.91                      | 5.11                       | 6.42                | 0.38                  |
| U.S. High Yield Bonds                             | 6.29                      | 6.66                       | 8.66                | 0.46                  |
| U.S. TIPS   | 4.03                      | 4.17                       | 5.14                | 0.29                  |
| <b>EQUITIES</b>                                   |                           |                            |                     |                       |
| U.S. Equities                                     | 8.23                      | 9.68                       | 17.05               | 0.41                  |
| U.S. Small Cap                                    | 8.73                      | 11.14                      | 21.98               | 0.39                  |
| UK Equities Unhedged                              | 8.28                      | 9.90                       | 18.03               | 0.40                  |
| Europe ex-UK Equities Unhedged                    | 7.26                      | 8.72                       | 17.12               | 0.35                  |
| Japan Equities Unhedged                           | 6.02                      | 7.85                       | 19.12               | 0.27                  |
| Developed International ex-U.S. Equities Unhedged | 7.33                      | 8.61                       | 15.97               | 0.37                  |
| EM Equities Unhedged                              | 9.19                      | 12.31                      | 25.00               | 0.39                  |
| Global Equities Unhedged                          | 8.13                      | 10.51                      | 21.84               | 0.36                  |
| <b>REAL ASSETS</b>                                |                           |                            |                     |                       |
| U.S. REITs  | 6.60                      | 8.15                       | 17.63               | 0.31                  |
| Developed REITs Unhedged                          | 6.76                      | 8.98                       | 21.09               | 0.30                  |
| Commodities                                       | 3.23                      | 4.19                       | 13.92               | 0.11                  |
| 60/40 Portfolio                                   | 6.97                      | 7.97                       | 14.14               | 0.37                  |

Source: PGIM. As of March 31, 2026. Expected returns are gross of fees. Shown for illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy. **Forecasts may not be achieved, are subject to change, and are not a guarantee or reliable indicator of future results.**

state CMAs are intended to answer the question: “what will asset returns be after prices have returned to equilibrium and economies grow at their long-run pace?” To accomplish this, we remove valuation components and cyclical terms in our existing model, anchoring them to an equilibrium level.

Volatility estimates for our CMAs are constructed based on historical standard deviations over the long term. To construct steady-state volatility, we rely on the methodology developed by Cox, Ingersoll, and Ross (1985), whose model links the volatility of interest rates to the square root of interest rates.<sup>3</sup> Higher interest rates are associated with greater volatility in interest rates, just not linearly. In our case, we have volatility

estimates over the subsequent 10 years, and want to model how those values would change if the return estimates change. The steady-state volatility is calculated by scaling the 10-year volatility by the square root of the ratio of the steady-state return to the 10-year return expectation. This approach ensures that if an asset class has a higher return in the steady state, such as would occur due to interest rates rising beyond our typical 10-year horizon, then the volatility is also scaled higher. However, since the scaling uses a square root instead of a linear adjustment, volatility will not increase as much as returns in the steady state. This means that the Sharpe ratio will also increase.

<sup>3</sup> Cox, Ingersoll, & Ross. 1985. “A Theory of the Term Structure of Interest Rates.” *Econometrica*, 53 (2): 385-407. <https://doi.org/10.2307/1911242>.

## Authors

**MARCO AIOLFI, PHD**

Portfolio Manager, Head of Multi-Asset

**JOHN HALL, CFA**

Portfolio Manager

**LORNE JOHNSON, PHD**

Portfolio Manager, Head of  
Multi-Asset Portfolio Design

## Spread Assumptions and Expected Returns

**Residential mortgage:** The expected return reflects loss-adjusted and option-adjusted spread of non-agency residential mortgage loans as of March 31, 2026.

**Asset-backed securities (ABS):** Reflects March 31, 2026 spread relative to ICE BofA U.S. Fixed Rate ABS Index.

**Collateralized loan obligations (CLOs):** Reflects March 31, 2026 spread associated with a sample portfolio of public CLOs with credit quality ranging from AAA through A.

**Commercial mortgage-backed securities (CMBS):** Reflects March 31, 2026 spread associated with a sample portfolio of CMBS (including SASB, CRE CLO, conduit, and agency) with credit quality ranging from AAA through BBB.

**Residential mortgage-backed securities (RMBS):** Reflects March 31, 2026 spread associated with a sample portfolio of non-agency RMBS with credit quality ranging from AAA through BBB.

## Notice Language

Source(s) of data (unless otherwise noted): PGIM as of June 2026.

The information contained herein is provided by PGIM, the principal asset management business of Prudential Financial, Inc. (PFI), and a trading name of PGIM, Inc. and its global subsidiaries and affiliates.

Please visit [Important Disclosures](#) for additional information, including details on non-U.S. jurisdictions.

This information is for informational purposes only and does not constitute investment advice, a recommendation, or a solicitation where prohibited. Certain information has been obtained from sources that PGIM believes to be reliable as of the date presented; however, PGIM does not guarantee its accuracy or completeness. Information may be changed without notice, and PGIM has no obligation to update it.

PGIM and its affiliates may develop and publish research that is independent of and different from the information contained herein.

Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom, or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

© 2026 Prudential Financial, Inc. (PFI) and its related entities. All rights reserved.

5540182