

## 2026 CMAs Illuminate Transcript

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### TRANSCRIPT

**Host:** Today, we're diving into the 2026 Capital Market Assumptions. It's a fascinating look at where experts see the investment landscape heading. Are we talking boom or bust?

**Guest:** Well, it's definitely a mixed bag. There are some bright spots, but also some areas where expectations have been tempered.

**Host:** So, not a straightforward "everything's going up" scenario?

**Guest:** Not at all. There's a lot of nuance, and some significant shifts compared to previous forecasts.

**Host:** Alright, let's unpack this. What are the key takeaways from these assumptions?

**Guest:** One of the most notable changes is the improved outlook for fixed income assets. We're seeing revisions upwards across both sovereign and spread exposures.

**Host:** So, bonds are looking more attractive than they did last quarter?

**Guest:** Precisely. For example, U.S. Aggregate Bonds are revised to 4.7% from 4.6%, and U.S. Long Treasury Bonds jumped to 5.6% from 5.2%. Even U.S. High Yield Bonds saw an increase.

**Host:** That's a pretty decent bump. What's driving this renewed optimism in fixed income?

**Guest:** A few factors. The market may be anticipating slower economic growth, which tends to favor bonds. Also, the Fed's rate-cutting cycle, even with its projected slower pace, is likely playing a role.

**Host:** Okay, so fixed income is looking up. What about equities? I noticed the forecasts have been adjusted downwards.

**Guest:** Yes, that's correct. 10-year forecasts for equity markets have declined modestly across regions. The strong performance in global equities last quarter, a 3.3% gain, actually weighed on valuations.

**Host:** So, a good quarter actually hurt the long-term outlook? That's counterintuitive.

**Guest:** It's all about perspective. That gain pushed valuations higher, making future returns potentially lower. For instance, U.S. Large-Cap Equities are now forecast at 5.2%, down from 5.3% last quarter.

**Host:** And it's not just the U.S., right?

**Guest:** Exactly. International Equities ex-U.S. and Emerging Markets Equities also saw downward revisions.

**Host:** The report also mentions broadening the forecasts to include securitized and private credit. Why the expansion?

**Guest:** It's about relative attractiveness. With corporate spreads tightening, these asset classes are becoming more appealing to investors seeking yield.

**Host:** So, it's a search for better opportunities in a potentially lower-return environment?

**Guest:** Precisely. Investors are looking for alternative sources of income and growth, and these areas are gaining attention.

**Host:** Let's talk about the economic backdrop. The report highlights Q4 2025 developments. What were the key factors influencing these forecasts?

**Guest:** The global economy showed surprising resilience, despite policy uncertainty, particularly in the U.S.

**Host:** That shutdown must have caused some ripples.

**Guest:** It did, but the data suggests that economic activity and the labor market remained strong, especially when excluding government workers. U.S. real GDP growth was quite robust.

**Host:** I remember hearing about those GDP numbers. So, strong growth, but what about inflation?

**Guest:** Inflation remained elevated, although it did ease slightly from Q3 to Q4. 10-year U.S. inflation forecasts remain around 2.5%.

**Host:** The report also touches on central bank policies. It seems like everyone's doing their own thing.

**Guest:** That's a key point. The Fed continued its rate-cutting cycle, even with elevated inflation. Meanwhile, the ECB has been able to lower rates more aggressively due to greater progress on inflation.

**Host:** And Japan is going in the opposite direction, right?

**Guest:** Exactly. Rising inflation and yen weakness prompted the Bank of Japan to raise its target rate. It's a very divergent picture globally.

**Host:** So, how do these diverging policies impact the capital market assumptions?

**Guest:** They create both opportunities and risks. Divergent policies can lead to currency fluctuations, shifts in capital flows, and varying levels of economic growth across regions, all of which influence investment returns.

**Host:** The report mentions tensions between the Trump administration and the Fed. How much does political uncertainty factor into these forecasts?

**Guest:** Political uncertainty is always a significant consideration. It can impact investor sentiment, trade policies, and overall economic stability. The relationship between the government and the central bank is particularly important.

**Host:** It sounds like navigating the markets in 2026 requires a keen understanding of both economic and political factors.

**Guest:** Absolutely. It's a complex landscape, and investors need to be prepared for potential volatility.

**Host:** Let's zoom in on some specific regions. What's the outlook for Japan, given the new Prime Minister and rising inflation?

**Guest:** Japan is an interesting case. Prime Minister Takaichi's push for fiscal stimulus could provide near-term support for growth. However, rising inflation and a weaker yen present challenges.

**Host:** And what about China? The report mentions falling inflation and a strengthening yuan.

**Guest:** China is trending in the opposite direction. The government is likely to focus on maintaining stability and supporting growth in a more controlled manner.

**Host:** So, based on these capital market assumptions, what kind of investment strategies might be prudent for 2026?

**Guest:** Diversification is key, as always. Given the improved outlook for fixed income, it may be wise to increase allocations to bonds. However, investors should also consider alternative asset classes like securitized and private credit.

**Host:** What about equities? Should investors be more cautious?

**Guest:** While equity returns are expected to be more modest, they still offer growth potential. A focus on high-quality companies with strong fundamentals is crucial.

**Host:** What are the biggest risks that investors should be aware of in this environment?

**Guest:** Inflation remains a key risk, as does the potential for economic slowdown. Geopolitical tensions and policy uncertainty also pose significant threats.

**Host:** So, it's a balancing act between seeking returns and managing risk.

**Guest:** Precisely. Investors need to carefully assess their risk tolerance and adjust their portfolios accordingly.

**Host:** These are 10-year forecasts. How much weight should investors give them, considering how quickly things can change?

**Guest:** Capital market assumptions are not predictions, but rather a framework for thinking about long-term investment strategies. They should be used as a guide, but investors need to remain flexible and adapt to changing market conditions.

**Host:** This has been a really insightful discussion. Thank you for sharing your expertise on the 2026 Capital Market Assumptions.

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