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Long-term Investment Outlook

September 2026

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Introduction

We help our clients manage their strategic asset allocation (SAA) based on a view on the long-term outlook for different asset classes and their expected returns. Asset class returns can vary substantially through the business cycle and across structural economic paradigms.

Our SAA process takes these uncertainties into consideration by building a series of structural economic scenarios. We can use these to build portfolios with probability-weighted expected risk-adjusted returns across scenarios.

Many investors base their strategic asset allocation on their views of the expected returns of the asset classes available. They typically think of 'expected' returns in the statistical sense: the probability-weighted mean across economic scenarios.

Investment returns are heavily influenced by economic circumstances. The value of future cash flows is sensitive to expectations about interest rates, inflation, economic growth and other factors. Today, there is more uncertainty than usual about these variables, so it is particularly important to consider returns across different scenarios.

Aberdeen generates long-term expected returns by forecasting a variety of possible structural economic scenarios which we call 'paradigms'. These include assumptions about prevailing macro-economic variables, inflation, growth and central bank interest rates, as well as asset class risk premia and other factors. This allows us to create paradigm-specific forecasts for investment returns. We can then apply our judgements about their respective probabilities to generate a view on expected returns.

An increasingly important driver of long-term asset class returns are ESG (environmental, social and governance) factors.

These include climate change, demographic shifts and governance trends. SAA and ESG are closely linked, which is why we integrate ESG systematically into our return forecasts.

Diversification is another key area of focus for us. One of the most basic goals of asset allocation is to achieve the considerable risk-return benefits that effective diversification can provide, sometimes called the only free lunch available to investors.

If simple bond/equity diversification proves to be a mirage because the market becomes more dominated by policy shocks, then we must find an alternative way to mitigate drawdowns.

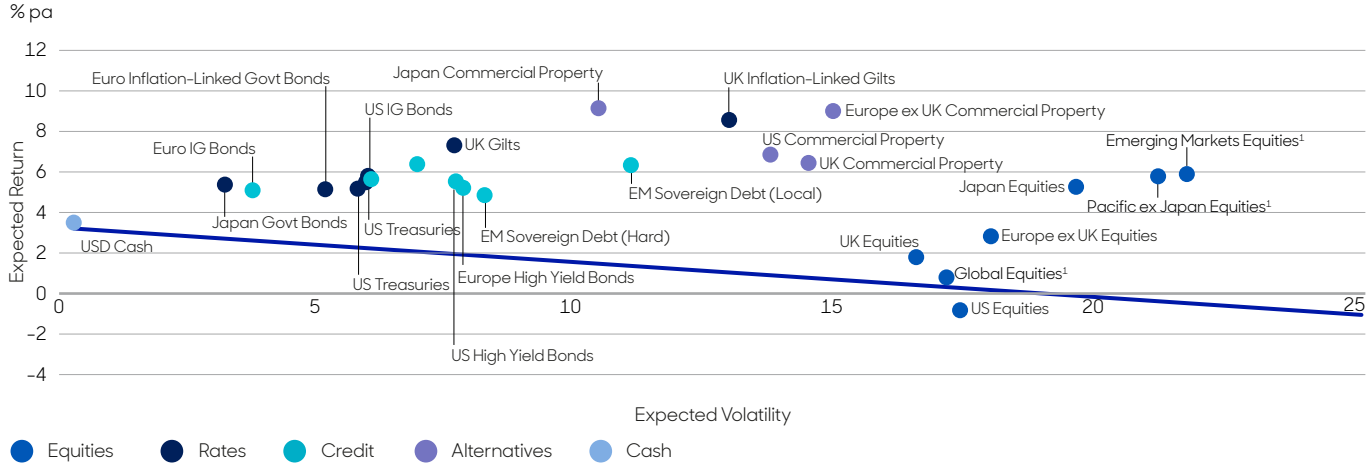
For these reasons, we are increasingly creating solutions or portfolios for clients that have a much more diversified combination of asset classes – for example, including substantial weights for emerging market debt (EMD), infrastructure, alternative credit and absolute-return strategies – and providing additional private market diversifiers for clients that can bear illiquidity risk.

While we can offer no guarantees, more substantially diversified portfolios that include these alternative assets may offer higher and more resilient risk-adjusted returns than conventional equity-bond portfolios.

For investors able to manage their asset allocation more dynamically, we also believe that opportunistic tilts following the SAA signals, together with an assessment of the economic cycle phase, can help investors achieve the same result as diversification did in the past: drawdown mitigation while sustaining expected returns.

This report provides a summary of our current long-term view of the paradigms that may lie ahead, and their implications for long-term investment returns.

Figure 1: H2 2026 5Y USD hedged risk & return



Source: Aberdeen Investments, 30 June 2026.

Chapter 1

Economic paradigms

Chapter 1

Economic paradigms



"Heightened geopolitical tension due to the US-Iran conflict contrasts sharply with hopes that artificial intelligence could be a game changer. But looking through the noise, we judge that many deep-rooted and slow-moving structural forces are little changed. As such, we have kept a high probability mass on paradigms with moderate interest rates and inflation only slightly above target over the long run."

Robert Gilhooly, Senior Economist, Global Macro Research

We have identified a set of six economic paradigms (including our base case), which we think constitute a spectrum of possible long-run equilibria that will determine asset returns over the medium- to long-run.

These paradigms reflect distinct combinations of growth, inflation and interest rates which define the separate,

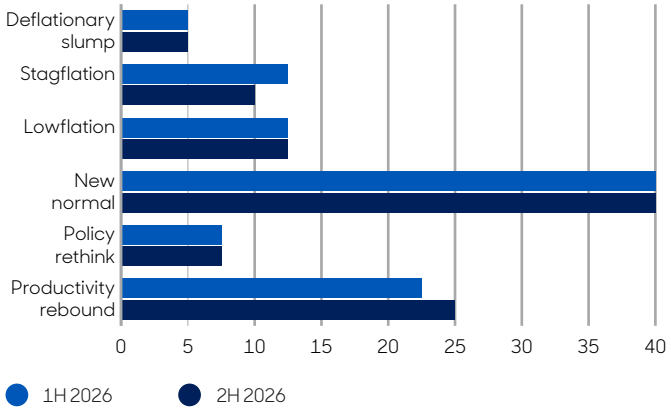
but plausible economic and market regimes, resulting from the long-run structural economic environment, policy frameworks, and the potential distribution of shocks which economies face.

They are:

- New normal
- Productivity rebound
- Policy rethink
- Stagflation
- Lowflation
- Deflationary slump

You will find a description of each of the paradigms on the following page, drawing out some of the key numbers and features for the United States.

Figure 2: The rapid AI rollout has led us (once again) to mark up the probability of 'Productivity rebound'



Source: Aberdeen Investments, 30 June 2026.

We have assigned a probability to each of the paradigms which – together with the specifications on growth, inflation and policy rates – provide the underpinnings for risk-adjusted forecasts of long-run asset returns, which drive the Strategic Asset Allocation portfolios.

Judging the key features and likelihood of paradigms which could emerge over a 5-to-10-year horizon is challenging, requiring calls to be made on slow-moving structural changes – such as demographics – and the chances that institutions and policymakers will move away from current norms. Recent events – which often reflect cyclical dynamics – do not necessarily provide a strong read-across so far in the future.

Indeed, despite inflation remaining above target in many major economies, we think central banks are on course to expunge the high inflation unleashed by the pandemic.

The Federal Reserve continues to move cautiously, keeping rates in restrictive territory and signaling that it remains concerned about underlying inflation. As the energy shock from the Middle East fades, tariff effects settle and the impact from migration policy on the breakeven rate for payrolls is revealed, it will likely show that equilibrium rates have not been reset at a permanently high level, and that inflation has not been unmoored from the 2% target.

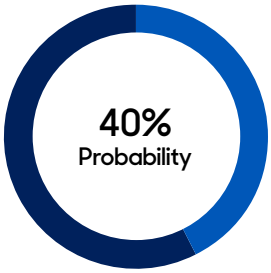
One feature of our assessments over the past two years has been to raise the probability mass assigned to 'productivity rebound', and we upped the odds again this round in light of the fast roll-out of artificial intelligence (AI) (see Figure 2). While the effects of this nascent technology are highly uncertain – and markets remain nervous about the risks of a boom and bust cycle developing – this is our second highest probability paradigm.

That said, previous instances of tough global environments are a reminder of the risk that more difficult states of the world could emerge and become embedded for prolonged periods, even if their probability remains low.

A real interest rate sitting above the real growth rate – which generates particular strain on debt sustainability – is historically unusual but has occurred during previous 'stagflationary' episodes, such as the 1970s. Similarly, we judge that the kind of deep and sustained slowdown in the 'deflationary slump' paradigm is the least likely state of the world to emerge in the long run, but Japan's experience provides a warning against complacency.

Global paradigms

1. New normal



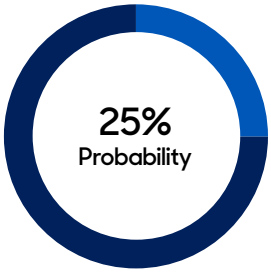
This is our base case. We judge that this paradigm has roughly a 40% chance of occurring.

In this paradigm, the global economy is in a moderate growth environment with average inflation often slightly above central bank targets. The increasing frequency of negative supply-side shocks from supply-chain disruptions, geopolitical shocks and climate change, leads us to believe inflation volatility will be structurally higher, albeit still close to target.

Many of the long-run trends that were in place prior to the pandemic remain. Specifically, we expect demographic headwinds and high levels of inequality to weigh on trend growth and equilibrium interest rates (r*) over the long run. By 2030, real GDP growth settles at a trend of 1.9% in the US, while r* is around 0.5%. Higher inflation volatility, policy uncertainty and rising debt levels are expected to push term premia higher across the globe.

But while this is our starting point, a spectrum of alternative paradigms exists, across which interest rates, inflation and growth are distinctly higher or lower.

2. Productivity rebound



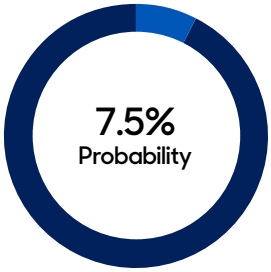
In this paradigm, a new wave of innovations and widespread adoption of cutting-edge technologies and processes – such as AI – boosts productivity growth, allowing the economy to grow rapidly without inflation.

Potential growth rises to 3%, which also pushes equilibrium real interest rates higher.

But stronger growth makes policymaking easier as growth rises more than rates.

A stronger flow of tax revenues means structural reforms are easier to push past vested interests and public spending choices are less divisive. Managing shocks and the economic cycle is also easier for central banks, which are less likely to find themselves constrained by the effective lower bound on policy rates. All of this helps to reduce term premia and further improves debt dynamics.

3. Policy rethink



AI is not the only route to higher growth. Growth-friendly regulatory and structural reforms, combined with shifts to more 'optimal' institutional structures, could pay dividends.

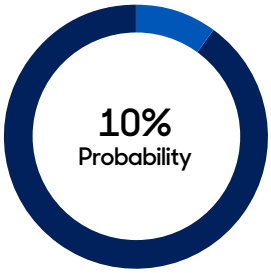
Before the pandemic, many central banks were flirting with higher inflation targets as a means to reduce the chances of being stuck at the lower bound. A higher average rate of inflation would create more policy space to lower real interest rates during crises, giving more policy firepower to help the economy recover.

The Fed's average inflation target was a modest step in this direction, but the recent experience of high inflation arguably reduces the chances that central banks attempt to re-anchor targets at a higher run rate – for example at 3-4% rather than the current 2%.

Higher inflation targets are not the only means of making central banks' jobs easier. Regulatory change – for example incentivising R&D and capital deepening or the rolling back of red tape – could raise potential growth rates, creating extra policy space for central banks by raising equilibrium interest rates while also helping to improve debt dynamics.

Admittedly, the broader policy backdrop has shifted away from 'optimal' policy in some key areas, which is why we have reduced the probability assigned to this paradigm over the past year and a half. US tariffs imply less efficient global manufacturing and trade patterns, for example.

4. Stagflation

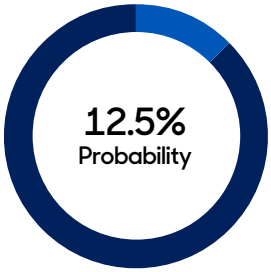


Alternatively, the current period of high inflation could plausibly turn out to be much more than a cyclical phenomenon, and instead usher in a new paradigm of sustained high inflation and low growth.

This may be because the global economy is much more susceptible to negative supply shocks than previously thought – perhaps as a result of geopolitical tensions, climate change or further pandemics. Other fundamental drivers – such as an aging population and a reversal of globalisation – could simultaneously drive real equilibrium rates (r*) higher.

Failure by central banks to adjust policy to higher levels of r* – perhaps compounded by repeated fiscal interventions which work to blunt monetary policy – could lead to inflation running hot (5.5%). At the same time, persistently higher inflation weighs on potential growth (0.5%) through distortions and disincentivising investment, while adverse debt dynamics contribute to political dysfunction. This high-inflation, low-growth paradigm sees real interest rates settle higher than the growth rate, as occurred during the 1970s.

5. Lowflation



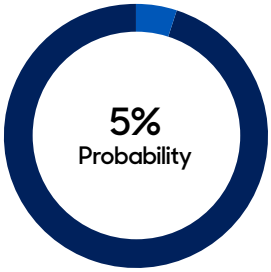
The institutional conservatism of central banks and finance ministries explains the most likely disinflationary paradigm.

Here, inflation falls below inflation targets, but central banks effectively accept it rather than fight hard to return inflation to target. They think that the adverse effects of further stimulus outweigh the benefits and don't pursue reflation with sufficient vigour. At the same time, governments may have little desire to support growth via fiscal policy, and instead choose to reduce elevated debt burdens.

Low inflation, non-negative policy rates and minimal balance-sheet expansion combine to leave 'shadow rates' above r*. As a result, real rates are higher than economies require and the world settles into a low-inflation regime.

With the Fed reticent to expand its balance sheet and unwilling to move rates aggressively, the federal funds rate settles at only 0.85%, inflation runs at 1.25% and US growth slows to 0.9% by 2030. The overall global economic and market backdrop is reminiscent of the Eurozone experience during the 2010s.

6. Deflationary slump



In the most extreme scenario, trend growth, inflation and real equilibrium interest rates are pushed especially low. In effect, the world is trapped in 'secular stagnation on steroids'.

This might be because policymakers leave rates too high for too long in their effort to expunge inflation and moderate wages, which causes a severe recession. Alternatively, AI could turn out to be a 'bubble' which bursts spectacularly, causing far-reaching damage.

This then traps the economy back at the effective lower bound, with policy unable to sufficiently stimulate the economy even if interest rates are pushed into modestly negative territory in many regions. Simultaneously, fiscal policy responses are constrained by large debt stocks and political-economy considerations – perhaps motivated by a desire to avoid repeating the pandemic's inflation shock or reflecting political gridlock.

As a result, equilibrium interest rates fall deeper into negative territory as cyclical weakness gets locked in and inflation is persistently below target – much like the experience of Japan during its so-called 'lost decade'. Both growth and inflation settle at a meagre 0.25% in the US.

ESG considerations

Environmental, social and governance (ESG) drivers are incorporated both within the paradigm specifications and their associated probability weightings.

ESG factors are one reason why inflation volatility is assumed to be higher than the pre-pandemic experience in 'new normal', and why it is difficult to rule out the world heading towards 'stagflation' (even if it is assigned a low weight). Climate change may result in greater volatility of food prices, while social pressures contribute to government policies which place strain on global supply chains. Both imply a more adverse supply-side backdrop, at least periodically.

At the same time, limited societal and governmental changes across some key dimensions help reinforce our view that the greatest probability mass should be assigned to inflation averaging close to 2%.



Low levels of unionisation remain a structural feature of major economies, suggesting a low risk of the wage-price spirals which were a feature of the high-inflation 1970s. And while the Federal Reserve has a new Chair and has launched five taskforces to review key parts of the Fed's operations, there have been no concrete proposals to move away from inflation targeting.



Chapter 2

Outlook for assets

Chapter 2

Outlook for assets



"On the weighted balance of paradigms, the house view is for US inflation to return to 2.3%, with growth at 1.9% and the nominal neutral rate back down at 2.8%. The environment could be assumed to be positive for equities, but the starting price is prohibitively high, especially in the US."

Maximilien Macmillan,
Head of Macro Investments, Multi-Asset and Alternative Investment Solutions.

In Strategic Asset Allocation, we look far into the future to try and ascertain what premia exist in assets today.

An asset will only add value to a fund if its return is above the domestic cash rate. But the excess return of an asset or its ex-ante estimate, the premium, does not have an objective, observable reality. By this, I don't simply mean to say that the market's expectation might be wrong, resulting in substantially different excess returns ex post to the premia it was pricing ex ante. I mean that the market's own assumptions are concealed from us.

Consider the case of a 10-year US Treasury, currently yielding 4.5%. If only we knew the market's assumption for the average cash rate over a 10-year period, we could compare the two and the difference would be the term premium. Unfortunately, the market's pure cash rate expectation over such a long period cannot be observed, if such a thing even exists. For that reason, bond term premia (which is characterised as the excess return over cash owing to the longer instrument maturity) cannot be observed either – only inferred imperfectly by models making substantial assumptions.

This is only truer in the case of corporate credit and equities, where assumptions must be made about the market's expectation for default rates, earnings growth, dividend payout ratios and implied discount rates, none of which are directly observable.

So why bother talking about premia at all?

Even if market-implied premia are largely a matter of judgement, on which analysts unsurprisingly disagree, what we can do is to evaluate our own, subjective, premia. This means that by making our own structural assumptions on macro variables such as growth, inflation and interest rates, we can back out what the premia inherent in assets today are for us, thereby estimating their long-term prospective returns.

Like any good macro process, we seek to tease out, and make very evident, what the levers of subjective judgement are versus the more objective computation of market returns within a structural environment using conventional asset pricing models. Many other SAA frameworks make extensive use of historic macro trends which are assumed to persist in the future; these assumptions are then buried deep into forecasts.

We instead make very explicit what environments we could plausibly transition to over the next five years, with each environment uniquely specified; we call these paradigms.

For each paradigm, we compute the full set of returns, and we find this to be reasonably uncontroversial. Given a set of structural assumptions on macro variables, we can infer the likely excess returns across assets (or the current inherent premia) with a reasonable degree of confidence.

The judgement lies mainly in assessing the relative probability of these paradigms, and this exercise has an overwhelming impact on the weighted long-term excess returns we publish.

What is the current call, and the consequences for asset return?

On balance of paradigms, the house view is for US inflation to return to a 2.3% level, with growth at 1.9% and the nominal neutral rate back down at 2.8% (so a positive real policy rate, in equilibrium).

The environment this creates could be assumed to be positive for equities, but the starting price is prohibitively high, especially in the US.

We have pushed further into the lopsided world where prospective returns for lenders to corporates and governments look relatively more attractive, particularly on a risk-adjusted basis, than those for owners of US equity.

US equities look particularly depleted of premium (or prospective excess returns). Although the recent downward trend in inflation has been impacted by the disruptions caused by the US-Iran conflict, economic growth and corporate earnings have remained robust, allowing stocks to perform strongly, yet again, in the first half of this year. This means our five-year forecast remains weak at -0.9% (some way below the cash return expected over the same period). US Treasuries, with a five-year expected return of 5.1%, screen as a far better risk/reward, offering a premium over cash that remains attractive.

It should be remembered that this forecast for US equities is weighted across paradigms, and there are still structural economic environments where stocks can deliver positive excess returns. If the economy transitions to a 'productivity rebound' paradigm, the five-year US equity return could reach 11%. However, the return in the highest probability paradigm, 'new normal', is close to zero (and therefore some way below cash), and we also highlight where the downside risks lie: economic paradigms where low growth and/or high inflation prevail.

Credit markets, albeit with relatively tight starting spreads, are expected to add a small amount of excess return over and above government bonds, taking the five-year prospective return to 5.6% for US IG.

On a weighted paradigm basis, emerging market equities are seen as offering more premia than the US, generating an expected 5.8% return (in unhedged GBP terms). We would caution, however, that in periods where the US equity market is rebuilding premium (such as a recession-driven sell-off) other pro-cyclical assets are likely to behave in a correlated fashion and therefore should not be seen as systemic diversifiers.

Local currency EM bonds still look interesting, as EM central banks are probably still biased towards cutting rates as the recent inflation pressures stabilise and ease.

Turning to real assets, inflation-linked government bonds in the US are expected to yield a similar return as nominal bonds. The outlook for further declines in inflation seem fairly priced by markets. The global real estate market is currently sitting in a holding pattern close to the base of its capital market cycle, with limited new supply bolstering cash flows and supporting long-term income growth potential.



Chapter 3

Asset class returns

Chapter 3

Asset class returns[1]

Rates

Method

Our government bond expected returns are built on three pillars: income, capital gains/losses and roll-down.

To estimate these, we construct full yield curves that fluctuate each year towards our forecast equilibrium. These are constructed by interpolating our expected short-end and long-end yield trajectories over that period.

In turn, these trajectories are based on assumptions of equilibrium interest rates and term premia across a set of paradigms, enabling us to chart the trajectories of one-year and 10-year rates.

The resulting change in yields, each year, as yield curves move and bonds roll down the curves, enables us to compute expected returns across all maturities. These are then summed appropriately to recreate the broad indices.

Paradigm specification

We consider a set of paradigms to which we believe we could plausibly transition over the forecast time horizon. For each, we specify neutral rates and term premia that are endogenous to the overall economic and market context. The economic estimates of inflation also enable us to compute the real rates.

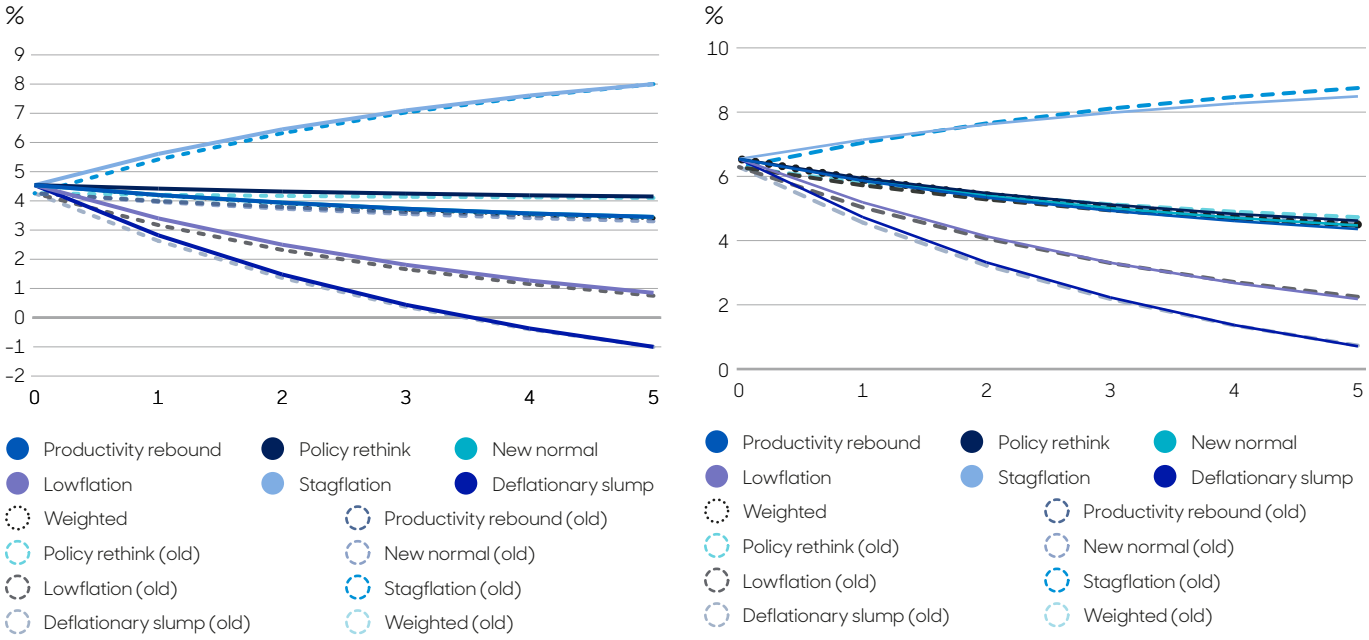
On balance of paradigms, we see 10-year Treasuries falling back down from current levels to 3.4%. As inflation continues to revert towards the Fed's 2% target, we expect to return towards a neutral policy rate around 2.8%. Real rates are expected to head back towards 0.5% in equilibrium, while we expect term premia to return to positive territory and near 65bps in equilibrium.

Figure 3: Interest rates and growth rates determine an asset's fair value

US	Neutral inflation	Nominal neutral rate	Real neutral rate	Term premium	Nominal 10-year rate	Probability
Productivity rebound	2.00%	3.00%	1.00%	0.45%	3.45%	25.0%
Policy rethink	3.00%	3.50%	0.50%	0.65%	4.15%	7.5%
New normal	**2.10%**	**2.60%**	**0.50%**	**0.85%**	**3.45%**	**40.0%**
Lowflation	1.25%	0.85%	-0.40%	0.00%	0.85%	12.5%
Stagflation	5.50%	6.50%	1.00%	1.50%	8.00%	10.0%
Deflationary slump	0.25%	-0.75%	-1.00%	-0.25%	-1.00%	5.0%
Weighted	2.28%	2.77%	0.49%	0.64%	3.41%	100.0%

Source: Aberdeen Investments, 30 June 2026.

Figure 4: US Treasury Yield (LHS) vs EM Sovereign Debt Local Index (RHS) forecasted yields



Source: Aberdeen Investments, June 2026.

Market pricing for long-term returns H2 2026 is taken from 30th of June 2026 (`New' in charts above), the previous cut off for H1 2026 was 31st of December 2025 ('old' in charts above).

Developed market: the return of positive expected excess returns

Although inflation (excluding food and energy prices) moved higher in the US between February and May due to the disruptions caused by the US-Iran conflict, price changes were little changed at the end of June in comparison to the end of 2025. With the previous downward momentum in inflation at least paused, the US Federal Reserve called a halt to its interest-rate-cutting cycle. With uncertainty attached to the future path of inflation, the bond market now expects around two 25bp rate hikes by the middle of 2027. Unsurprisingly, 10-year yields drifted higher over the course of the first half of 2026.

Given that we believe that inflation and rates will, on balance, head lower over the longer term, US Treasury yields are higher than our assessment of fair value and could, therefore, achieve a return in excess of mere term premium. While the recent correlation between treasuries and risk assets has been variable, we think that amidst an economic downturn the defensive features of nominal government bonds would resurface, particularly at the short end of the curve.

Returns across most geographies are expected to be similar once the differences in index duration are taken into account. The exceptions are Japanese and European government bonds where the lower starting yields weigh on their respective return forecasts.

For bonds in the periphery, we see slightly greater value, with the caveat that these spreads trade like corporate risk, thereby reducing their diversifying virtues in the case of an economic downturn.

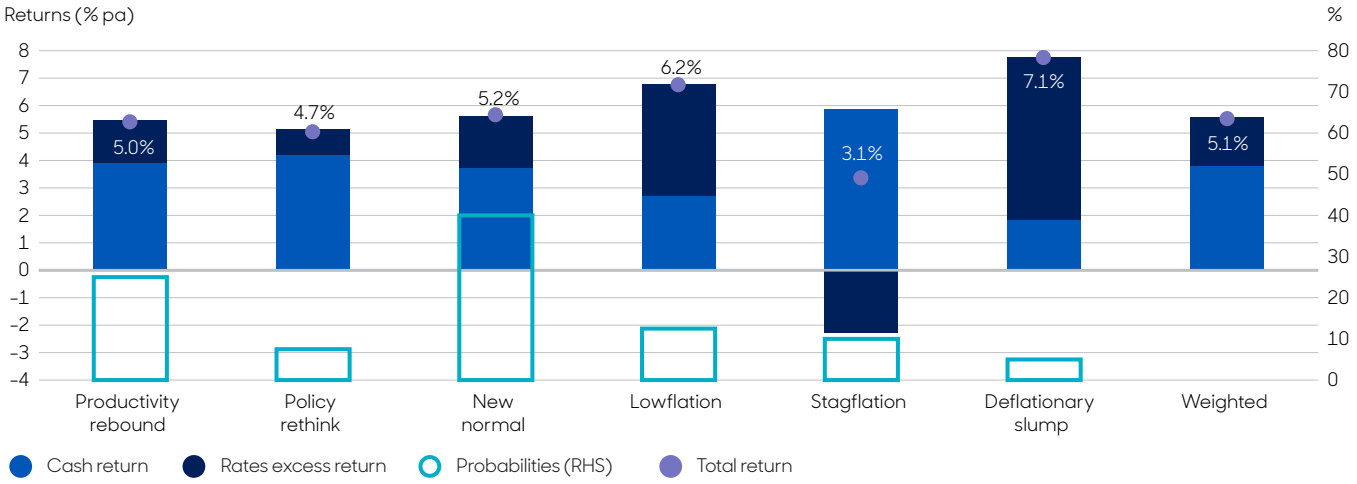
US Treasuries are expected to perform particularly strongly in cyclical downturns and paradigms where inflation rates grind lower. They are an excellent hedge to a deflationary bust, but less so in a 'stagflation' paradigm, where owning inflation swaps and other inflation-robust assets would be preferable.

Emerging markets sovereign debt (local currency): good prospects but not defensive

In emerging markets, real and nominal yields are still higher, resulting in a strong carry pick-up that we expect to be not entirely offset by FX depreciation. We also see scope for capital gains as yields are expected to trend lower from these levels, as central banks will have a bias to cutting rates again once inflation stabilises.

We would caution that EM FX tends to be the major swing factor in a risk-off episode, meaning that these bonds should not be seen as defensive or substitutes for DM duration in a crisis. This effect can be mitigated for those investing from a cyclical currency jurisdiction instead of out of dollars.

Figure 5: US Treasuries five-year returns in all paradigms



Source: Aberdeen Investments, 30 June 2026.

Credit

Method

Our corporate bond expected returns are built on four pillars: the underlying rates return, credit income, credit capital gains/losses and default/downgrade losses.

To estimate these, we construct credit spread trajectories towards our forecast equilibrium and estimate the associated default and recovery rates.

The fluctuations in the level of spreads from year to year enable us to compute expected index capital gains or losses. The spread itself is taken to be the credit income, and the default losses are then subtracted. This gives us credit excess returns. We then add the government bond returns of the appropriate maturity to compose the full corporate bond index total return.

Paradigm specification

We consider a set of paradigms to which we believe we could plausibly transition over the forecast time horizon. For each, we specify levels of credit spreads and default losses that are endogenous to the overall economic and market context.

Although spreads widened at the start of the conflict in the Middle East, by mid-year they were little changed from the end of 2025. On balance of paradigms, credit spreads are seen as tending towards their long-term, cyclically neutral levels, and these long-term levels are considered to be higher than where we are today. Default rates are expected to remain somewhat lower than long-term averages, for a given level of spread, because of the low volatility, low inflation and low real rate environment that our Global Macro Research team expects us to be returning to in the longer term.

Across paradigms, we let the equilibrium level of spreads and the relationship between spreads and default losses fluctuate to best reflect the macro environment and policy settings that are specified. This is consistent with the large fluctuations in default-loss environments that have been experienced historically. Spreads are not themselves a sufficient guide to defaults.

Credit markets: attractive yields offer high prospective returns

Credit returns from here are expected to benefit from a higher cash return and strong performance in duration. The indices with the tightest spreads are expected to perform slightly less well, but as we enter a challenging period for economic growth, they offer a better risk/reward profile than the higher-risk parts of the credit universe.

With a balance of credit and duration risk, we expect lower dispersion of returns from corporate bonds across paradigms than for most other assets, resulting in compelling prospective Sharpe ratios. In effect, they should be compared to portfolios combining a chosen balance of pure corporate risk (such as equities) and pure duration (government bonds).

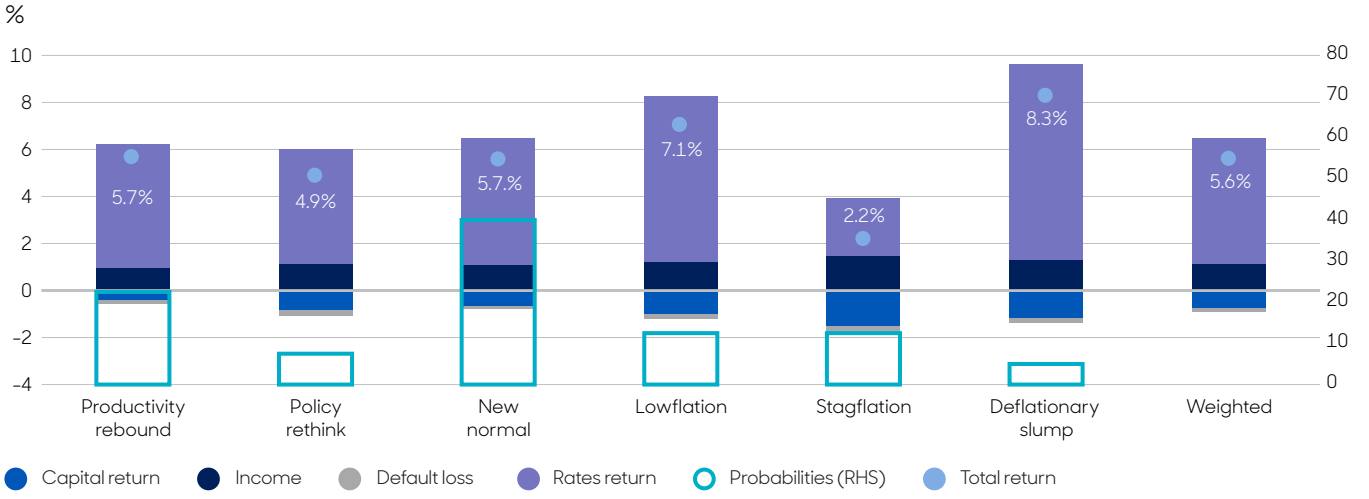
We remain concerned, however, that central banks' normalisation will result in demand destruction. In this context, default rates would increase significantly, and credit spreads would widen, though this would be offset by a rally in rates for the higher-quality bond indices.

Figure 6: Per-paradigm specification of credit spreads and default assumptions

US High Yield	Default Rate	Default Loss	Spread (Y5)
Productivity Rebound	2.3%	-1.4%	347
Policy Rethink	4.2%	-2.5%	449
New Normal	1.9%	-1.2%	408
Lowflation	3.8%	-2.3%	490
Stagflation	6.4%	-3.9%	612
Deflationary Slump	4.1%	-2.4%	530
Weighted	3.0%	-1.8%	433

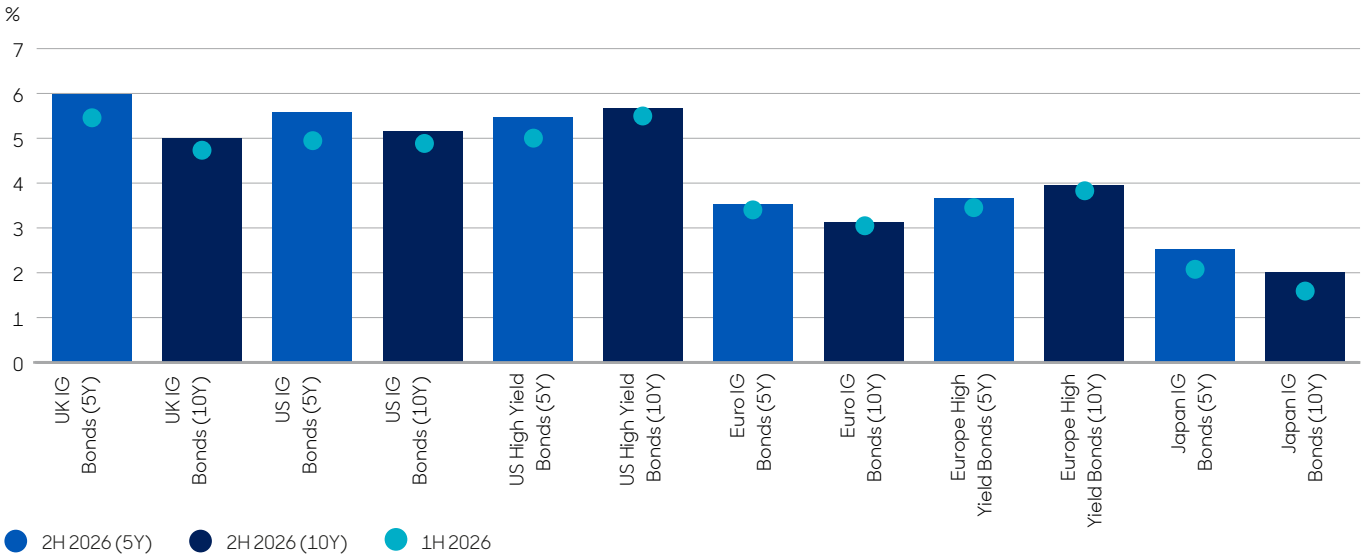
Source: Aberdeen Investments, 30 June 2026.

Figure 7: US investment-grade credit five-year returns in all paradigms



Source: Aberdeen Investments, 30 June 2026.

Figure 8: Core credit returns compared with previous SAA update



Source: Aberdeen Investments, 30 June 2026.

Equities

Method

Our return forecasts for equities are based on a simplified two-stage discounted cash flow (DCF) approach for each paradigm.

This broad approach is widely used by active investors as the basis for valuation. The basic mathematical form is the 'Gordon Growth' model: P = D/(r + ERP – g), though in practice we use a more complex equation.

We use a slightly more complex version of this formula (including a terminal value calculation) to generate a view on equity prices in five years' time, at which point we assume each paradigm to be fully in place. To do this we need views on the dividend level in year six (D), the risk-free interest rate (r), the equity risk premium (ERP) and earnings per share growth (g).

Both dividends and earnings growth are driven by the nominal GDP growth assumptions in our paradigms. Nominal GDP is closely aligned with corporate revenue growth. By adding assumptions about profit margins in each paradigm, we can translate revenue growth into earnings growth; and assumptions about payout ratios translate these to dividend levels.

Our year-five price forecast allows us to generate annualised capital growth rates and dividend yields to add the income component of total returns.

The final contributor to our total returns is a consideration of climate scenarios, where we assess the fair-value impairment based on an assessment of the stringency of climate policy in different regions and sectors, as well as assumptions about technological progress.

Returns across paradigms

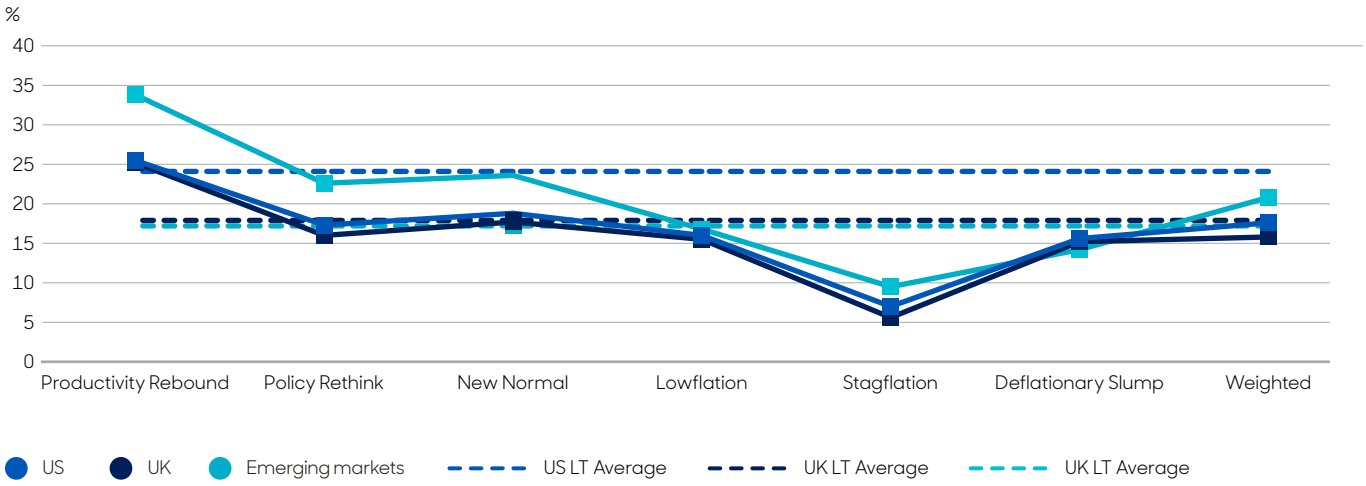
One key feature of the DCF set up is that valuation is an inverse function of the gap between discount rates (risk-free rate + ERP) and growth rates. This means that in paradigms with high interest rates and weak growth, equity returns are very low or negative. Returns are much stronger in paradigms where low interest rates persist, and we see solid growth. Paradigms with high inflation tend to result in low nominal returns because the uncertainty caused by higher interest rates drives higher risk premia, which overwhelms the benefit of higher nominal growth.

Overall, our paradigm analysis suggests that the probability distribution is dominated by macro-economic environments where central banks are successful at managing today's inflation pressures; interest rates return to levels which are low by historical standards; and earnings growth is higher, if rather below long-term trends. These environments are relatively benign from an equity valuation perspective.

Perhaps the most obvious long-term risk to the forecast is that the current levels of inflation stubbornly remain above central bank targets and result in a materially higher long-term interest rate environment than in our central case.

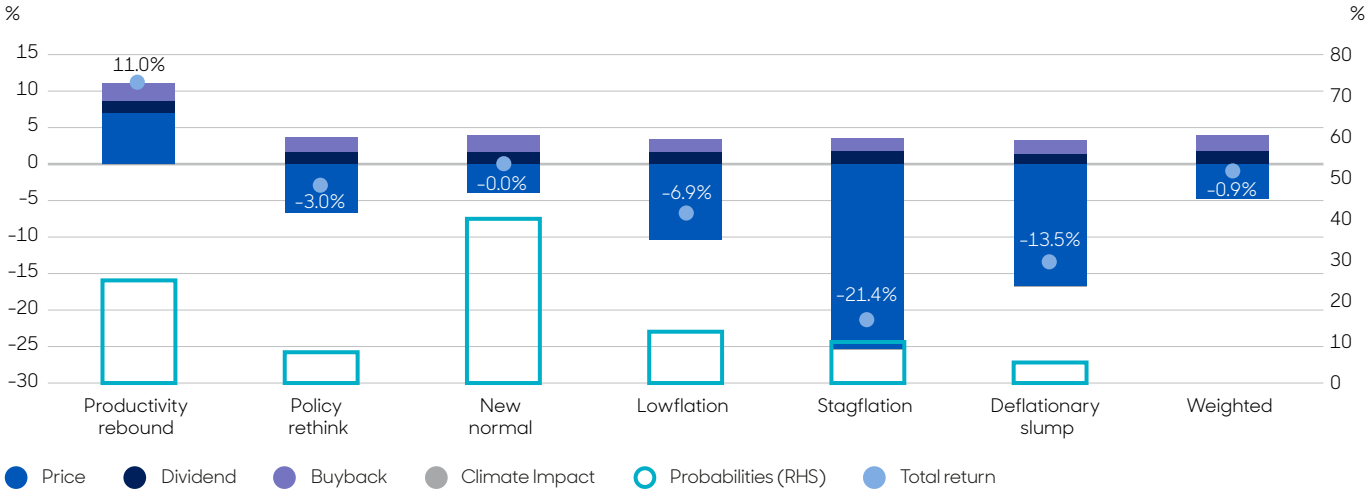
We think it very unlikely that there will be a return to the extended period of high inflation we saw in the 1970s, but a change in monetary policy regime ('policy rethink') is a more probable alternative. Persistently higher rates would likely push valuations materially lower and result in lower returns than the mean expected value we forecast.

Figure 9: Price to forward earnings in year five for core markets



Source: Aberdeen Investments, 30 June 2026.

Figure 10: Five-year US equities total return decomposition



Source: Aberdeen Investments, 30 June 2026.



Regional outlook

The first half of 2026 saw global equity prices gain another 11.5% by the end of June, despite a 10% peak-to-trough fall around the start of the US-Iran conflict.

Prior to the joint US-Israeli airstrikes against Iran on 28 February, regional equity performance was defined by themes such as "Rest of the World" outperformance versus US assets and fiscal loosening in Japan that saw UK, EM and Japanese stocks rise by 10.3%, 14.9% and 15.6% respectively. In contrast, US equities only gained 0.7% over the same span. The escalation of the conflict saw the regional performance divergence narrow but the US remained the laggard heading into the second quarter.

The signing of a US-Iran memorandum of understanding and the reopening of key oil routes triggered a fall in geopolitical risk premia. The Brent crude oil price fell 38.4% over the second quarter, its largest quarterly decline since the Covid pandemic. The oil reversal helped ease stagflation fears and supported stocks, while a powerful AI-led rally also supported higher equity prices. US equities had their best quarter since the 2020 rebound during Covid, while US technology stocks gained 21.6%. Europe rose by 11.9%, Japan gained 37.3%, and Korea surged by 67.9%, helped by exceptional demand for semiconductors; the Korea-and-Taiwan-dominated MSCI EM index was up 24.2%. Almost all global equity-market gains were attributable to semiconductor stocks. The rally was not uniform, however: energy equities lagged as oil fell, while Hong Kong and parts of Latin America were also weak. UK stocks lagged, only rising 3.9% over Q2.

Changes to market prices are important for our forecasts, since our return expectations are driven by two things, as discussed above: changes to market prices and changes to paradigm specifications. Given this assessment, markets with stretched valuations at present see more depleted prospective returns (and are expected to grow premia in the coming years), and markets with depressed valuations see attractive returns (as they deplete premia).

Indeed, the biggest change in equity return expectations versus our 1H 2026 forecast round has been the recent strong performance across all equity markets. This has increased the starting price point for equity indices across the board.

There have also been some adjustments to dividend growth forecasts, driven by the higher probability attached to 'productivity rebound' in some regions, as this paradigm might see higher growth rates; minor upward amendments to the level of where we believe margins will revert in the future in the US; and upward revisions to inflation in Japan as Aberdeen's Global Macro Research team (GMR) reassessed the potential upside of the country's reform agenda.

Note that the modification in inflation views flows through to dividend growth via the impact on nominal growth.

However, there is a further impact via the Global Macro Research team's related forecasts for nominal rates and therefore the discount rates used in the DCF models: higher inflation expectations mark discount rates higher, while lower inflation forecasts prompt lower discount rate assumptions.

In addition, GMR made a small increase to the term premium applied across scenarios due to the Iran-US conflict, with additional adjustments for the UK based on market dynamics. These filter through to higher discount rates too, especially in Japan and China.



Real assets

Method

Our approach to expected returns for real estate remains similar to the one we use for equities. It is based on discounted cash flow models but is informed by market-level forecasts across regions, sectors and countries.

For real estate, our growth assumptions in each paradigm are driven by Aberdeen's Real Estate team forecasts for rental income, supply, pricing and capital-market conditions. These are then anchored in our structural macro views.

Returns across paradigms

Real estate is a long-duration asset with sensitivity to changes in real interest rates. Higher real rates remain the principal threat to returns, but our current view is that the cycle is becoming more supportive as inflation and rates gradually normalise. Events in the Middle East continue to introduce near-term volatility in energy prices, but valuations remain close to their cyclical lows, reducing the downside risk to the return outlook.

Income remains the dominant return driver across most markets, and rental growth is still matching or beating inflation in many sectors because occupier demand is resilient and new supply is constrained.

This gives real estate some resilience in inflationary paradigms, although listed markets and transaction liquidity can still be volatile when policy expectations shift.

Deflationary or recessionary scenarios would weaken occupier demand, slow rental growth and reduce capital values, meaning cash flows are economically sensitive to lower growth paradigms.

Current views

Non-listed real estate is expected to provide stable long-term cash flows and moderate capital growth over the long term, offering a more attractive entry point as the asset class remains close to the base of its cycle. Timing remains important for investors thinking about real estate's role as a portfolio diversifier.

Transaction markets are subdued and liquidity is uneven, but rebased capital values, improving financing conditions and durable occupier demand suggest 2026 and 2027 could be positive vintages for new allocations.

Returns and risks continue to vary across sectors, although the gap between them has converged substantially. Industrial, logistics, living and selected alternatives continue to be supported by long-term structural demand, while retail has recovered to become the best performing sector so far this year after a long rebasing period. Offices require greater selectivity despite improving return prospects overall.

Sector preferences remain central to performance, but regional dispersion is increasingly important.

In Europe and the UK, repricing and constrained supply support a constructive outlook, with continental Europe forecast to deliver the strongest five-year all-property returns. We favour essential retail, retail parks, light industrial, logistics and income-secure residential, while remaining selective on offices and cautious on UK PBSA.

Asia Pacific remains differentiated. Japan, Australia, Singapore and parts of Korea offer attractive fundamentals in offices, residential and logistics, while China and Hong Kong face weaker rental growth, higher vacancy and more challenging exit liquidity.

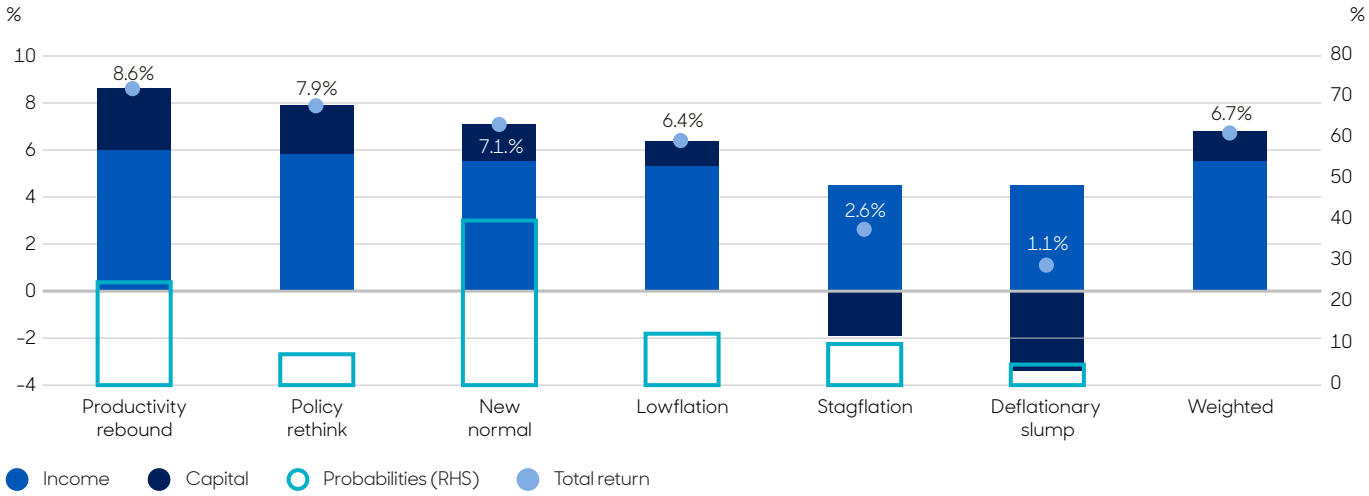


In North America, returns are stabilising but remain income-led. We prefer necessity-based retail, multifamily and selective offices in constrained East Coast or gateway markets, while remaining cautious where returns depend on leverage, refinancing or a broad office recovery story. Industrials have been through a softer period, having been disrupted by US trade policy uncertainty, but fundamentals are improving and we are increasingly positive on the outlook.

After a prolonged correction, real estate is positioned for gradual recovery, supported by income resilience, limited new supply and improving confidence as macro headwinds ease. For the first time in several years, all sectors are offering more interesting opportunities and fewer structural vulnerabilities.

Global all-property returns are forecast at around 6.7% annually over the next five years on a weighted paradigm basis, led by continental Europe at 7.4%, North America at 6.8%, the UK at 6.0% and Japan at 6.6%.

Figure 11: Five-year global real estate total return decomposition



Source: Aberdeen Investments. 30 June 2026.



Risk and return for GBP investors

Asset	Local currency	Local		GBP		GBP Hedged		Volatility	5Y Sharpe Ratio
		5Y	10Y	5Y	10Y	5Y	10Y		
UK Equities	GBP	1.4	4.5	1.4	4.5	1.4	4.5	16.2	-0.11
US Equities	USD	-0.9	3.8	-0.9	3.9	-1.2	3.4	17.1	-0.26
Europe ex UK Equities	EUR	1.3	3.9	1.7	4.3	2.4	4.8	17.6	-0.04
Japan Equities	JPY	2.8	4.4	3.8	5.4	4.9	6.1	19.3	0.09
Pacific ex Japan Equities	Various	5.4	6.9	5.7	7.3	5.4	6.8	n/a	n/a
Emerging Markets Equities*	Various	5.7	6.3	5.8	6.5	5.8	6.5	19.0	0.14
UK Gilts	GBP	6.9	4.8	6.9	4.8	6.9	4.8	7.4	0.51
UK Inflation-Linked Gilts	GBP	8.1	5.5	8.1	5.5	8.1	5.5	12.6	0.39
US Treasuries	USD	5.1	4.3	5.1	4.4	4.8	3.9	5.5	0.29
US Inflation-Linked Treasuries	USD	5.4	4.6	5.4	4.7	5.1	4.2	5.7	0.34
Euro Govt Bonds	EUR	3.6	2.7	4.0	3.1	4.7	3.6	4.9	0.32
Euro Inflation-Linked Govt Bonds	EUR	4.2	3.3	4.6	3.8	5.4	4.3	5.7	0.39
Japan Govt Bonds	JPY	2.9	2.1	4.0	3.1	5.0	3.7	3.0	0.61
Euro IG Bonds	EUR	3.5	3.1	3.9	3.6	4.7	4.1	3.5	0.43
UK IG Bonds	GBP	6.0	5.0	6.0	5.0	6.0	5.0	6.7	0.42
US IG Bonds	USD	5.6	5.2	5.5	5.3	5.2	4.7	5.8	0.36
Europe High Yield Bonds	EUR	3.7	4.0	4.0	4.4	4.8	4.9	7.5	0.22
US High Yield Bonds	USD	5.5	5.7	5.4	5.8	5.1	5.2	7.4	0.27
EM Sovereign Debt (Hard)	USD	4.8	5.4	4.8	5.5	4.5	5.0	8.0	0.16
EM Sovereign Debt (Local)*	Various	6.3	4.9	6.2	5.0	6.2	5.0	9.8	0.32
UK Commercial Property	GBP	6.0	5.6	6.0	5.6	6.0	5.6	14.2	0.20
US Commercial Property	USD	6.8	6.6	6.8	6.7	6.5	6.2	13.4	0.24
Europe ex UK Commercial Property	EUR	7.4	6.9	7.8	7.4	8.6	7.9	14.6	0.37
Japan Commercial Property	JPY	6.6	5.8	7.7	6.9	8.7	7.5	10.1	0.55
US Private Equity Buyout	USD	n/a	4.3	n/a	4.4	n/a	3.8	n/a	n/a
US Private Equity Venture Capital	USD	n/a	4.3	n/a	4.4	n/a	3.8	n/a	n/a
GBP Cash	GBP	3.2	2.7	3.2	2.7	3.2	2.7	0.3	0.00
USD Cash	USD	3.5	3.2	3.5	3.3	3.2	2.7	0.3	0.00
EUR Cash	EUR	2.0	1.8	2.4	2.3	3.2	2.7	0.2	0.00

Source: Aberdeen Investments, 30 June 2026.

Note: Local returns for assets comprised of various currencies exclude any foreign currency movement. Volatility and Sharpe ratio refers to GBP Hedged (except for "*" which refers to GBP Unhedged). Private Equity buyout and venture capital volatilities and Sharpe ratios cannot be calculated because the required high frequency data is not available. DM = developed market, IG = investment grade, EM = emerging market, LIBOR = London interbank offered rate. Return projections are estimates and provide no guarantee of future results.

Risk and return for EUR investors

Asset	Local currency	Local		EUR		EUR Hedged		Volatility	5Y Sharpe Ratio
		5Y	10Y	5Y	10Y	5Y	10Y		
UK Equities	GBP	1.4	4.5	1.0	4.0	0.3	3.6	16.2	-0.11
US Equities	USD	-0.9	3.8	-1.3	3.5	-2.3	2.5	17.1	-0.25
Europe ex UK Equities	EUR	1.3	3.9	1.3	3.9	1.3	3.9	17.6	-0.04
Japan Equities	JPY	2.8	4.4	3.5	5.0	3.7	5.1	19.3	0.09
Pacific ex Japan Equities	Various	5.4	6.9	5.3	6.8	4.2	5.9	n/a	n/a
Emerging Markets Equities*	Various	5.7	6.3	5.4	6.0	5.4	6.0	19.5	0.17
UK Gilts	GBP	6.9	4.8	6.5	4.4	5.7	3.9	7.4	0.50
UK Inflation-Linked Gilts	GBP	8.1	5.5	7.7	5.0	7.0	4.5	12.6	0.39
US Treasuries	USD	5.1	4.3	4.7	3.9	3.6	2.9	5.5	0.29
US Inflation-Linked Treasuries	USD	5.4	4.6	5.0	4.3	3.9	3.2	5.7	0.33
Euro Govt Bonds	EUR	3.6	2.7	3.6	2.7	3.6	2.7	4.9	0.32
Euro Inflation-Linked Govt Bonds	EUR	4.2	3.3	4.2	3.3	4.2	3.3	5.7	0.39
Japan Govt Bonds	JPY	2.9	2.1	3.6	2.7	3.8	2.8	3.0	0.60
Euro IG Bonds	EUR	3.5	3.1	3.5	3.1	3.5	3.1	3.5	0.43
UK IG Bonds	GBP	6.0	5.0	5.6	4.5	4.8	4.1	6.7	0.42
US IG Bonds	USD	5.6	5.2	5.2	4.8	4.1	3.8	5.8	0.36
Europe High Yield Bonds	EUR	3.7	4.0	3.7	4.0	3.7	4.0	7.5	0.22
US High Yield Bonds	USD	5.5	5.7	5.0	5.3	4.0	4.3	7.4	0.26
EM Sovereign Debt (Hard)	USD	4.8	5.4	4.4	5.0	3.3	4.0	8.0	0.16
EM Sovereign Debt (Local)*	Various	6.3	4.9	5.8	4.5	5.8	4.5	8.4	0.45
UK Commercial Property	GBP	6.0	5.6	5.6	5.1	4.9	4.7	14.2	0.20
US Commercial Property	USD	6.8	6.6	6.4	6.2	5.3	5.2	13.4	0.24
Europe ex UK Commercial Property	EUR	7.4	6.9	7.4	6.9	7.4	6.9	14.6	0.37
Japan Commercial Property	JPY	6.6	5.8	7.3	6.4	7.5	6.6	10.1	0.54
US Private Equity Buyout	USD	n/a	4.3	n/a	3.9	n/a	2.9	n/a	n/a
US Private Equity Venture Capital	USD	n/a	4.3	n/a	3.9	n/a	2.9	n/a	n/a
GBP Cash	GBP	3.2	2.7	2.8	2.3	2.0	1.8	0.3	0.00
USD Cash	USD	3.5	3.2	3.1	2.8	2.0	1.8	0.3	0.00
EUR Cash	EUR	2.0	1.8	2.0	1.8	2.0	1.8	0.2	0.00

Source: Aberdeen Investments, 30 June 2026.

Note: Local returns for assets comprised of various currencies exclude any foreign currency movement. Volatility and Sharpe ratio refers to EUR Hedged (except for "*" which refers to EUR Unhedged). Private Equity buyout and venture capital volatilities and Sharpe ratios cannot be calculated because the required high frequency data is not available. DM = developed market, IG = investment grade, EM = emerging market, LIBOR = London interbank offered rate. Return projections are estimates and provide no guarantee of future results.

Risk and return for USD investors

Asset	Local currency	Local		USD		USD Hedged		Volatility	5Y Sharpe Ratio
		5Y	10Y	5Y	10Y	5Y	10Y		
UK Equities	GBP	1.4	4.5	1.4	4.4	1.7	5.0	16.2	-0.11
US Equities	USD	-0.9	3.8	-0.9	3.8	-0.9	3.8	17.1	-0.26
Europe ex UK Equities	EUR	1.3	3.9	1.7	4.2	2.8	5.3	17.6	-0.04
Japan Equities	JPY	2.8	4.4	3.9	5.3	5.2	6.5	19.3	0.09
Pacific ex Japan Equities	Various	5.4	6.9	5.7	7.2	5.8	7.3	n/a	n/a
Emerging Markets Equities*	Various	5.7	6.3	5.8	6.4	5.8	6.4	21.4	0.11
UK Gilts	GBP	6.9	4.8	6.9	4.7	7.2	5.3	7.4	0.51
UK Inflation-Linked Gilts	GBP	8.1	5.5	8.2	5.4	8.5	5.9	12.6	0.40
US Treasuries	USD	5.1	4.3	5.1	4.3	5.1	4.3	5.5	0.29
US Inflation-Linked Treasuries	USD	5.4	4.6	5.4	4.6	5.4	4.6	5.7	0.34
Euro Govt Bonds	EUR	3.6	2.7	4.0	3.0	5.1	4.0	4.9	0.32
Euro Inflation-Linked Govt Bonds	EUR	4.2	3.3	4.7	3.7	5.7	4.7	5.7	0.39
Japan Govt Bonds	JPY	2.9	2.1	4.0	3.0	5.3	4.2	3.0	0.61
Euro IG Bonds	EUR	3.5	3.1	4.0	3.5	5.0	4.5	3.5	0.44
UK IG Bonds	GBP	6.0	5.0	6.0	4.9	6.3	5.5	6.7	0.42
US IG Bonds	USD	5.6	5.2	5.6	5.2	5.6	5.2	5.8	0.36
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UK Commercial Property	GBP	6.0	5.6	6.1	5.5	6.4	6.1	14.2	0.20
US Commercial Property	USD	6.8	6.6	6.8	6.6	6.8	6.6	13.4	0.25
Europe ex UK Commercial Property	EUR	7.4	6.9	7.8	7.3	8.9	8.3	14.6	0.37
Japan Commercial Property	JPY	6.6	5.8	7.7	6.8	9.1	8.0	10.1	0.55
US Private Equity Buyout	USD	n/a	4.3	n/a	4.3	n/a	4.3	n/a	n/a
US Private Equity Venture Capital	USD	n/a	4.3	n/a	4.3	n/a	4.3	n/a	n/a
GBP Cash	GBP	3.2	2.7	3.2	2.6	3.5	3.2	0.3	0.00
USD Cash	USD	3.5	3.2	3.5	3.2	3.5	3.2	0.3	0.00
EUR Cash	EUR	2.0	1.8	2.4	2.2	3.5	3.2	0.2	0.00

Source: Aberdeen Investments, 30 June 2026.

Note: Local returns for assets comprised of various currencies exclude any foreign currency movement. Volatility and Sharpe ratio refers to USD Hedged (except for "*" which refers to USD Unhedged). Private Equity buyout and venture capital volatilities and Sharpe ratios cannot be calculated because the required high frequency data is not available. DM = developed market, IG = investment grade, EM = emerging market, LIBOR = London interbank offered rate. Return projections are estimates and provide no guarantee of future results.

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Return projections are estimates and provide no guarantee of future results.

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