



Capital market assumptions update

Fidelity International

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Global Macro & SAA Team

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Between fragmentation and the AI revolution: Investing in a rewired world

Implications for risk and return across asset classes across our 10-year strategic CMA horizon, 31 March 2026

Executive summary

- **AI:** We have developed a holistic framework that combines Fidelity's top-down macro scenario thinking with bottom-up analyst insights, captured regularly through our Analyst Survey. The weighted findings form our base case: somewhat higher long-term GDP growth. This is the first step in an ongoing process - we will evolve the framework as more data becomes available, focusing on labour impacts, investment dynamics, geopolitics and energy resilience.
- **Macroeconomics:** The effects of geopolitical fragmentation, elevated debt levels, and technological/energy transitions, will keep macroeconomic volatility above its average pre-Covid era level. Inflationary pressures will also remain elevated.
- **Equities:** Equities remain the key strategic portfolio growth drivers. Expected returns have increased, largely due to the positive effect of AI through the GDP channel. Prevailing margin levels are above our forward-looking estimates across many regions, but the equilibrium level of corporate profit margins has shifted structurally higher, reflecting a more profitable and innovation-driven environment. We will continue to monitor our forecasts in this area closely as the AI revolution could create both tailwinds and headwinds for profitability (e.g. labour productivity gains and policy responses like taxation).
- **Fixed income:** Bonds remain attractive thanks to higher government yield curves, but bond market volatility and equity-bond correlations will remain elevated. Expected credit returns are appealing, but tight spreads make risk/return trade-offs key. Short-term bonds are attractive shock absorbers and sovereigns should still diversify during recessionary shocks, although the latter may be less reliable during inflationary shocks.
- **Private assets:** Expected returns remain attractive for investors willing to take on more illiquidity risk. Manager selection will be key to delivering positive outcomes, especially due to the higher rate backdrop and elevated levels of dry powder. There are no clear signs of immediate stress in private credit, but the asset class warrants close monitoring.
- **Foreign exchange:** The US dollar may not provide the same return tailwinds or safe-haven characteristics as it has in recent decades.
- **Portfolio construction:** These dynamics call for a thoughtful active investment approach that incorporates greater regional/sectorial diversification and utilises a broader toolkit that includes tactical overlays, credit spectrum diversification, and differentiated sources of risk premia like absolute return or derivative strategies.

For illustrative purposes only.

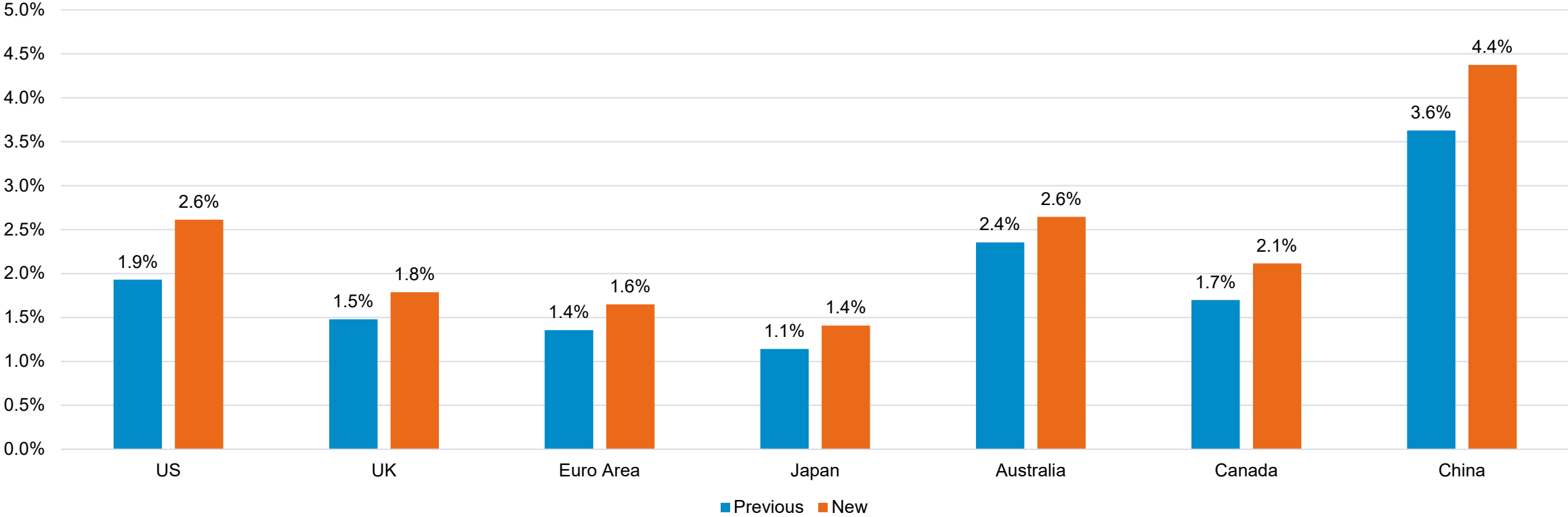
Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026.

Macroeconomic projections

While uncertainty remains, we project consistent growth over the long-term

With AI revolution and demographics playing an important role

Real GDP growth projections p.a., 10-year horizon



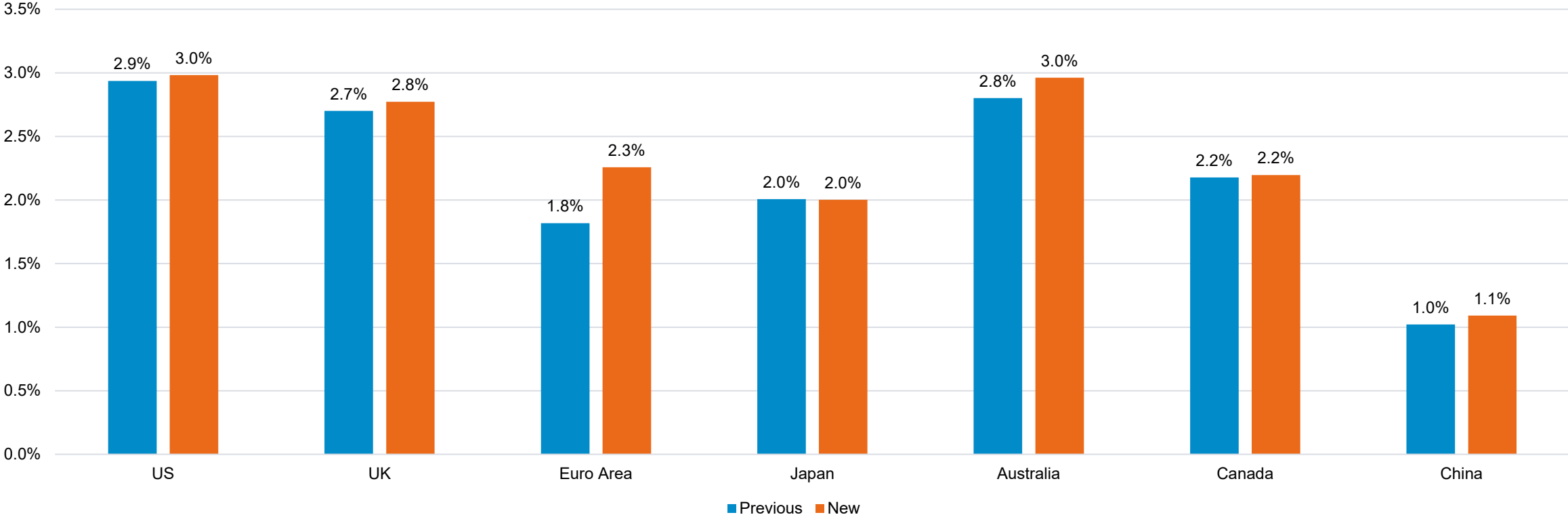
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Inflation will likely remain above target in the US and UK, with higher volatility

Deglobalisation, high debt burden, AI, and net-zero transition will influence long-term equilibria

Expected inflation p.a., 10-year horizon



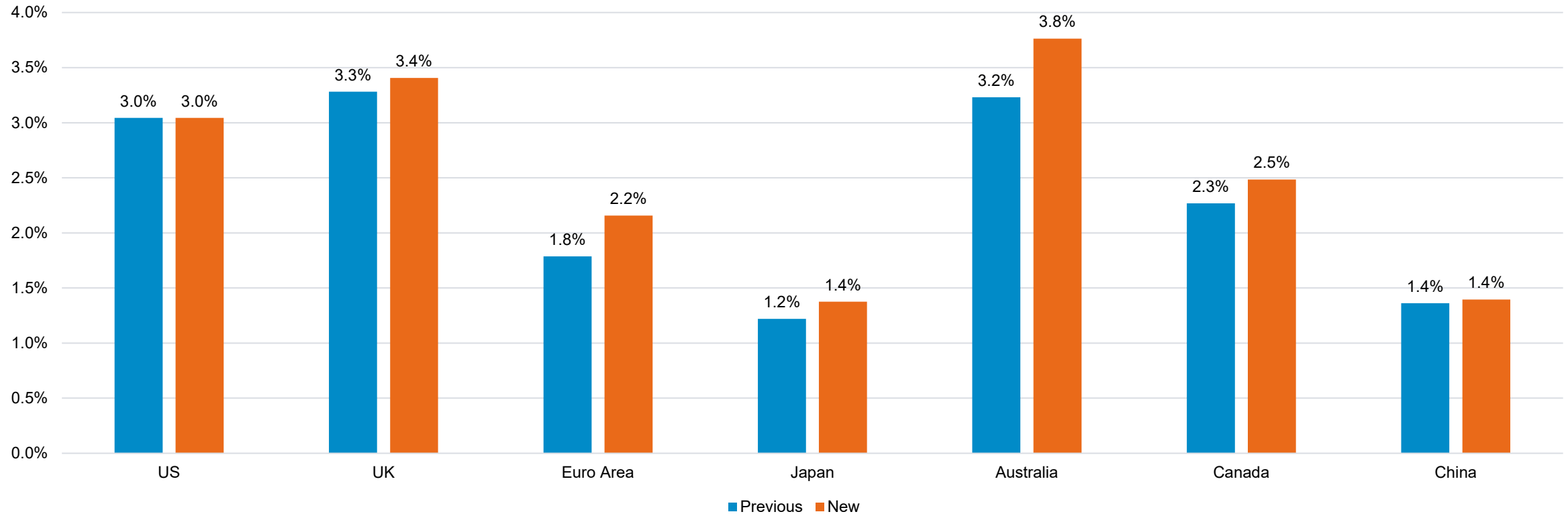
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Policy rates will be highly dependent on inflation and growth paths

Real rates will likely remain not too far from 0% in the long term, primarily due to debt sustainability constraints

Expected central bank policy rate p.a., 10-year horizon



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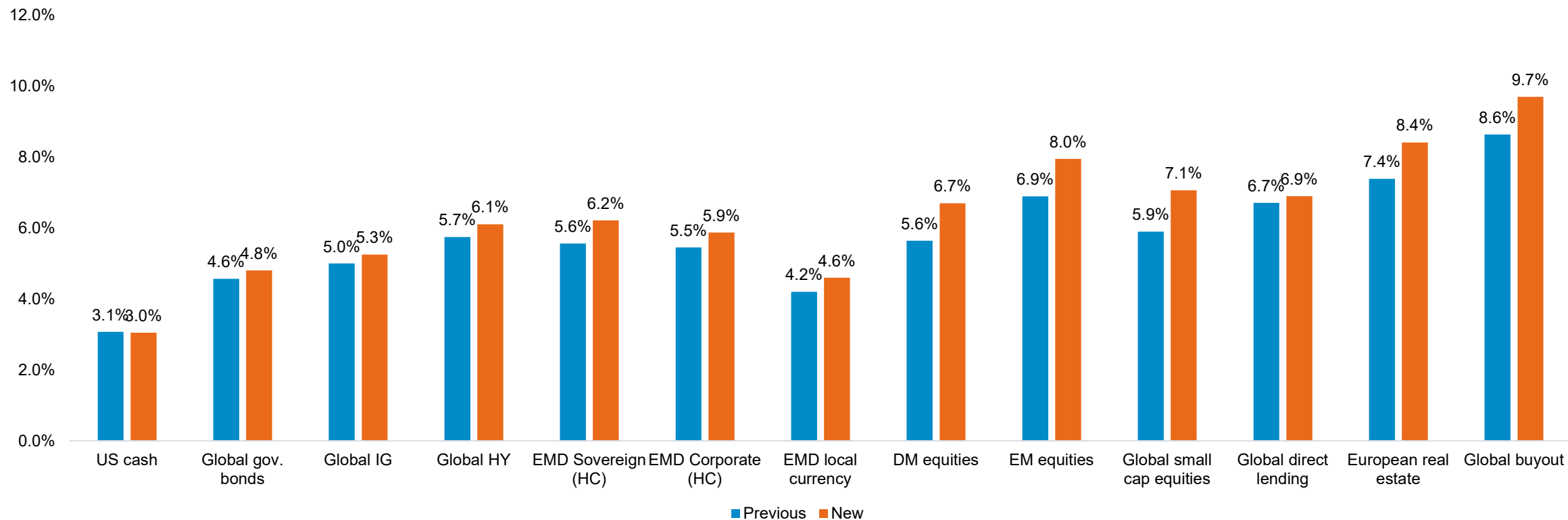
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Capital market assumptions update

Bonds are still attractive, while equities offer higher average return

Private assets offer attractive average expected returns, however active management skill remains key

Average nominal returns projections p.a. in USD, 10-year investment horizon



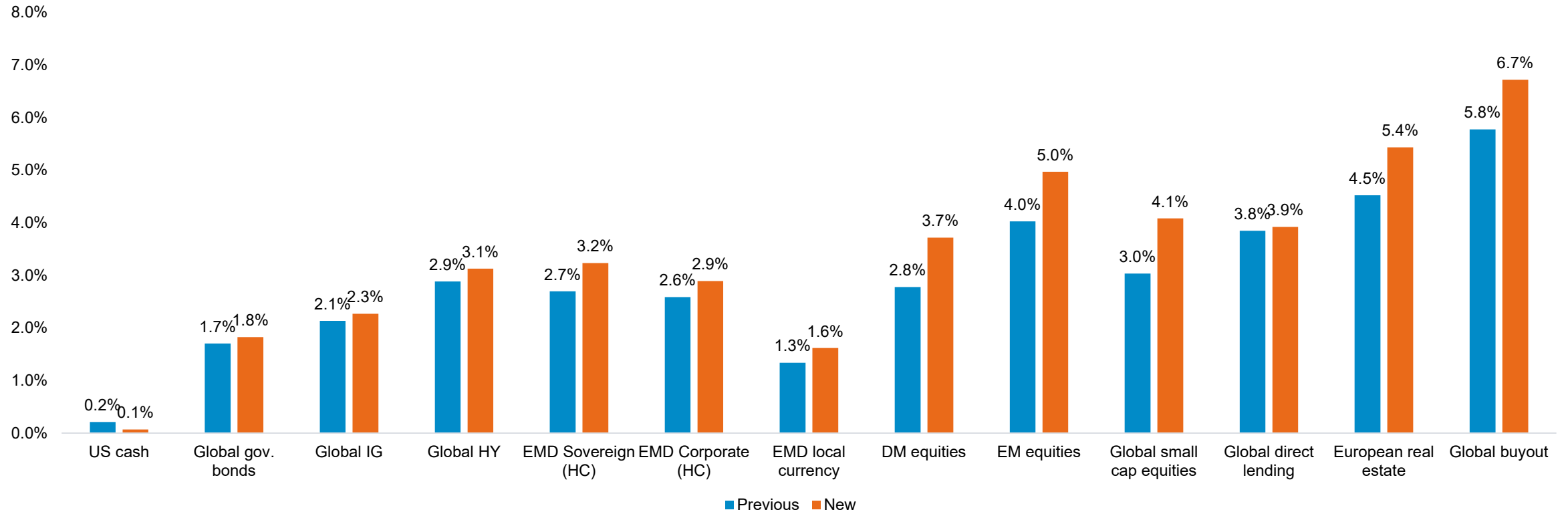
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Source: Fidelity International, April 2026. Capital market assumptions based on data as of 31 March 2026. For illustrative purposes only. Public market returns are gross and private market returns are net of fees. Private market figures assume capital is fully deployed from inception.

Equity premium can help to beat inflation in the long-term

Private assets expected to provide attractive long-term real returns

Average real returns projections p.a. in USD, 10-year investment horizon



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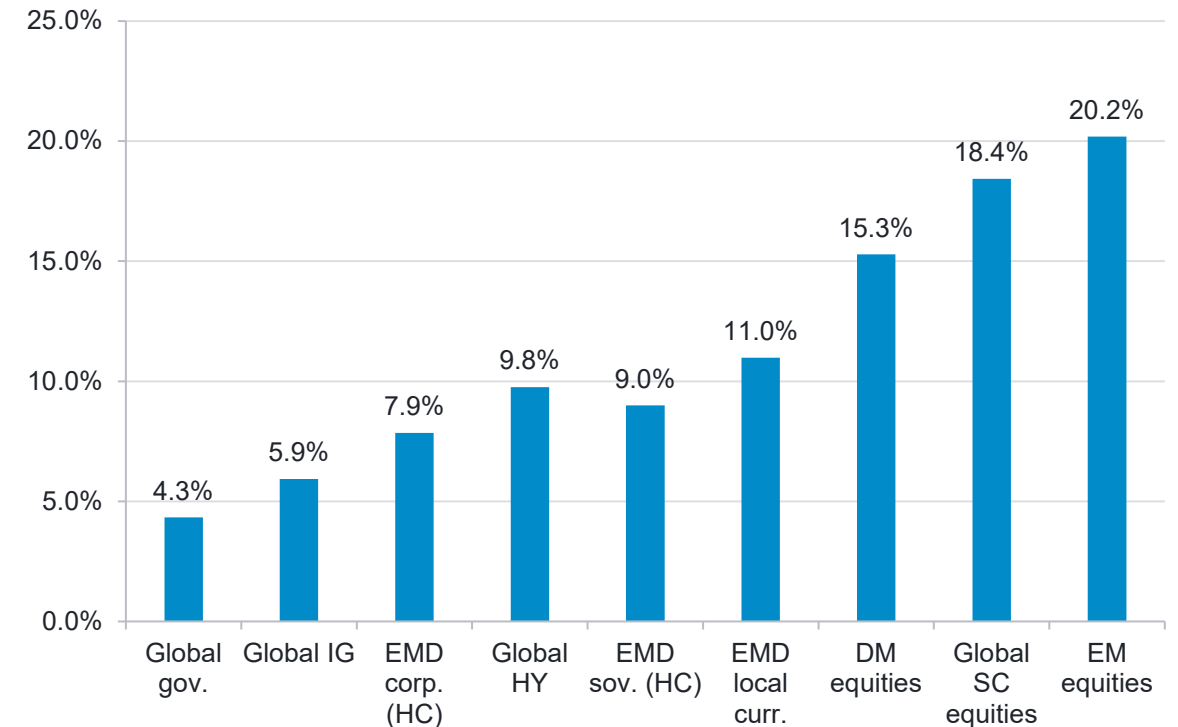
Equity/bond correlation will likely be higher than in 2010-2020 decade

Results for USD assets are reported below

Correlation matrix (average)

	Global gov.	Global IG	EMD corp. (HC)	Global HY	EMD sov. (HC)	EMD local curr.	DM equities	Global SC equities	EM equities
Global gov.	1.00								
Global IG	0.84	1.00							
EMD corp. (HC)	0.48	0.79	1.00						
Global HY	0.59	0.85	0.92	1.00					
EMD sov. (HC)	0.35	0.72	0.82	0.88	1.00				
EMD local curr.	0.47	0.68	0.75	0.83	0.73	1.00			
DM equities	0.33	0.64	0.63	0.74	0.83	0.67	1.00		
Global SC equities	0.30	0.61	0.61	0.71	0.82	0.65	0.94	1.00	
EM equities	0.23	0.53	0.66	0.71	0.73	0.78	0.78	0.76	1.00

Volatility assumptions (average)



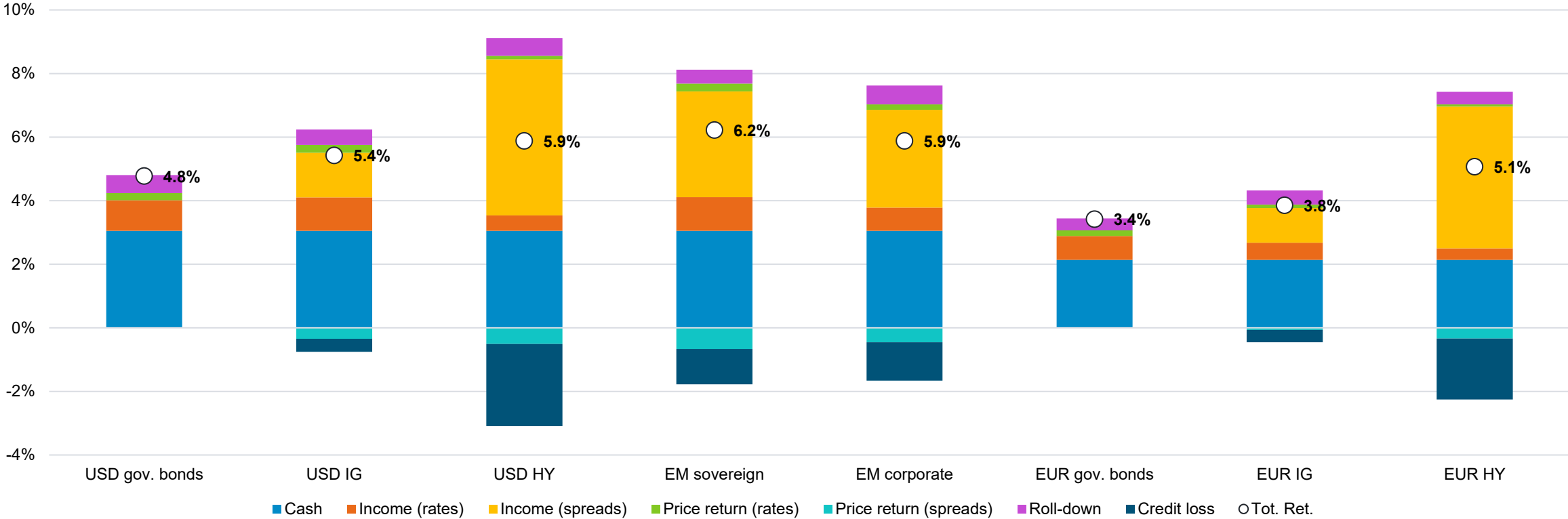
Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, Bloomberg, Bank of America Merrill Lynch. Historical performance is not an indication of future results. Based on monthly total returns for the period September 2003 to September 2025. Indices used: ICE BofA G7 Government index (Global Govt), ICE BofA Global Corporate index (Global IG), ICE BofA Global HY index (Global HY), JP Morgan EMBIGD index (EMD Sov), JP Morgan CEMBI BD index (EMD Corp), JP Morgan GBI-EM GD index (EMD LC), MSCI World index (DM Equity), MSCI World small cap index (Small Cap) and MSCI emerging markets index (EM Equity).

The income component will continue to drive future fixed income returns

Cash contribution is significantly higher than just a few years ago

Average return breakdown in local currency p.a., 10-year horizon



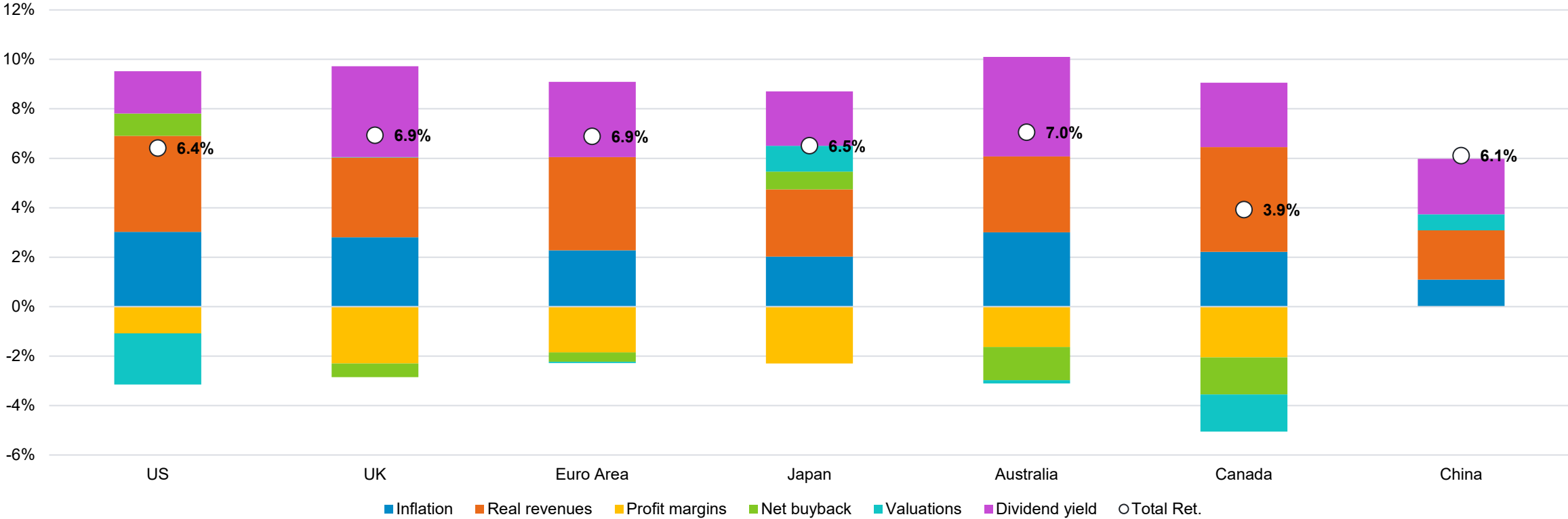
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A diversified equity exposure holds the potential to drive strategic portfolio growth

Profit margins currently are still above our long-term equilibria in most regions

Average return breakdown in local currency p.a., 10-year horizon



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Appendix – capital market assumption tables

USD capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	USD Cash	3.0%	3.1%
	USD Government Bonds	4.8%	4.6%
	USD Investment Grade Bonds	5.4%	5.4%
	USD High Yield Bonds	5.9%	6.1%
	Global Government Bonds	4.8%	4.6%
	Global Investment Grade Bonds	5.3%	5.3%
	Global High Yield Bonds	6.1%	6.4%
Equities	US Equities	6.4%	7.4%
	Developed Markets Equities	6.7%	7.6%
	Emerging Markets Equities	8.0%	8.9%
	Global Small Cap Equities	7.1%	8.1%
Private Assets	European Real Estate	8.4%	8.7%
	Global Direct Lending	6.9%	7.1%
	Global Buyout	9.7%	10.6%

Assumptions are based on proprietary modelling, for illustrative purposes only. They reflect the views of investment professionals at Fidelity International.

Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

GBP capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	GBP Cash	3.4%	3.4%
	GBP Government Bonds	5.5%	5.1%
	GBP Investment Grade Bonds	5.8%	5.7%
	Global Government Bonds	5.2%	4.9%
	Global Investment Grade Bonds	5.6%	5.6%
	Global High Yield Bonds	6.5%	6.7%
Equities	UK Equities	6.9%	8.1%
	Developed Markets Equities	7.1%	7.9%
	Emerging Markets Equities	8.3%	9.2%
	Global Small Cap Equities	7.4%	8.4%
Private Assets	European Real Estate	8.8%	9.0%
	Global Direct Lending	7.3%	7.4%
	Global Buyout	10.1%	10.9%

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Source: Fidelity International, April 2026. Public asset returns are gross of fee and private assets returns are net of fee.

EUR capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	EUR Cash	2.1%	2.2%
	EUR Government Bonds	3.4%	3.3%
	EUR Investment Grade Bonds	3.8%	3.8%
	EUR High Yield Bonds	5.1%	5.2%
	Global Government Bonds	3.9%	3.7%
	Global Investment Grade Bonds	4.3%	4.3%
	Global High Yield Bonds	5.2%	5.4%
Equities	Euro Area Equities	6.9%	7.2%
	Developed Markets Equities	5.8%	6.7%
	Emerging Markets Equities	7.0%	7.9%
	Global Small Cap Equities	6.2%	7.1%
Private Assets	European Real Estate	7.5%	7.7%
	Global Direct Lending	6.0%	6.2%
	Global Buyout	8.8%	9.7%

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JPY capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	JPY Cash	1.4%	1.2%
	JPY Government Bonds	3.6%	2.8%
	JPY Investment Grade Bonds	2.5%	2.1%
	Global Government Bonds	3.1%	2.7%
	Global Investment Grade Bonds	3.6%	3.3%
	Global High Yield Bonds	4.4%	4.4%
Equities	Japan Equities	6.5%	7.0%
	Developed Markets Equities	5.0%	5.7%
	Emerging Markets Equities	6.3%	6.9%
	Global Small Cap Equities	5.4%	6.1%
Private Assets	European Real Estate	6.7%	6.7%
	Global Direct Lending	5.2%	5.2%
	Global Buyout	8.0%	8.7%

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AUD capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	AUD Cash	3.8%	3.5%
	AUD Government Bonds	5.5%	5.1%
	AUD Investment Grade Bonds	6.1%	5.7%
	Global Government Bonds	5.6%	5.0%
	Global Investment Grade Bonds	6.0%	5.6%
	Global High Yield Bonds	6.9%	6.7%
Equities	Australia Equities	7.0%	7.9%
	Developed Markets Equities	7.4%	8.0%
	Emerging Markets Equities	8.7%	9.2%
	Global Small Cap Equities	7.8%	8.4%
Private Assets	European Real Estate	9.2%	9.0%
	Global Direct Lending	7.6%	7.5%
	Global Buyout	10.4%	11.0%

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CAD capital market assumptions

Average expected returns

	Asset class	10 years	20 years
Fixed Income	CAD Cash	2.5%	2.5%
	CAD Government Bonds	3.9%	3.8%
	CAD Investment Grade Bonds	4.5%	4.5%
	Global Government Bonds	4.2%	3.9%
	Global Investment Grade Bonds	4.7%	4.6%
	Global High Yield Bonds	5.5%	5.7%
Equities	Canada Equities	3.9%	5.0%
	Developed Markets Equities	6.1%	6.9%
	Emerging Markets Equities	7.4%	8.2%
	Global Small Cap Equities	6.5%	7.4%
Private Assets	European Real Estate	7.8%	8.0%
	Global Direct Lending	6.3%	6.5%
	Global Buyout	9.1%	9.9%

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