

MARKET INSIGHT

MFS Long-Term Capital Market Expectations

JULY 2026

Executive Summary

MFS® is pleased to present the July 2026 edition of our Long-Term Capital Market Expectations, offering a proprietary outlook on return and risk across a variety of asset classes and regions. Despite continued market volatility driven by geopolitical uncertainty and shifting central bank expectations, global equities have remained resilient, advancing more than 10% through the first half of the year¹. Developed international equities have continued to outpace US large-cap stocks since the start of 2025, while emerging markets have stood out as the top performer, supported by rising demand for AI-related semiconductors and memory chips. In the US, market leadership is broadening beyond mega-cap companies, with the Magnificent Seven lagging the broader market amid concerns over rising AI capex spending and increased funding from both equity and fixed income markets. Value and SMID-cap equities are now gaining traction as earnings growth broadens beyond mega-cap. On the fixed income front, global markets moved from expecting rate cuts in 2026 at the start of the year to rate hikes as inflation concerns reemerged. Against this backdrop, global bond returns have remained subdued, gaining just 0.5% year to date after delivering nearly 5% in 2025.²

Over the next decade, we project global equities to generate a nominal total return of 2.1%, revised down from January's forecast of 2.8%. Valuations remain elevated, with forward price-to-earnings ratio continuing to trade above the long-term average of 14.8x³. Profit margins also remain high at 11%, compared with the long-term average of 8.5%, while earnings growth has remained resilient against a stable economic backdrop⁴. Looking ahead, we expect valuations and profit margins to moderate, while real sales growth and dividend yield become the primary drivers of global equity returns. From a regional perspective, US large-cap equities are expected to face the greatest valuation and margin compression, as both remain well above historical averages, resulting in a subdued 10-year nominal return forecast of 0.5%. By comparison, developed international and emerging market equities are projected to deliver stronger returns of 5.5% and 4.1%, respectively, driven by solid real sales and dividend growth, as well as valuation expansion.

Our nominal fixed income total returns over the next 10 years are 4.5% for global aggregate bonds and 4.9% for US aggregate bonds. The fixed income return expectations are based on several key building blocks, including starting yield, yield curve roll-down, price appreciation, and credit spreads. In a higher-for-longer rate environment, we expect carry, rather than changes in interest rates, to be the primary driver of fixed income returns in the years ahead. Across the fixed income spectrum, higher starting yields continue to provide compelling entry points for investors and remain the most important driver given their historically strong correlation with subsequent long-term returns. At the same time, credit spreads remain tight, with global investment-grade spreads near 78 basis points and high-yield spreads around 280 basis points, both toward the tighter end of historical ranges.⁵ Even so, corporate balance sheets and earnings growth remain healthy while overall credit quality has remained stable. That said, idiosyncratic and sector-specific risks persist, reinforcing our view that careful security selection remains critical, even in an environment characterized by relatively calm credit conditions.

Region	Asset class	Long-term return expectation ⁶	Long-term risk expectation
	Inflation	3.3%	0.9%
Equities (Unhedged nominal total return)			
US	US equities	0.8%	14.8%
	US large-cap equities	0.5%	14.3%
	US small-cap equities	3.3%	19.5%
NON-US REGIONAL	Asia ex Japan equities	3.9%	18.0%
	EAFE equities	5.5%	15.2%
	Emerging market equities	4.1%	18.0%
	Europe ex UK equities	5.5%	17.3%
	Global equities	2.1%	14.4%
COUNTRY	Australian equities	5.4%	20.2%
	Canadian equities	4.3%	16.9%
	Japanese equities	2.8%	14.3%
	UK equities	8.6%	15.5%
Fixed Income (Hedged nominal total return)			
US	US cash	3.1%	0.6%
	US aggregate bonds	4.9%	4.4%
	US high-yield bonds	4.5%	6.9%
	US inv grade-corporate bonds	5.3%	6.2%
	US TIPS	5.6%	5.0%
	US Treasury 7-10-year bonds	4.8%	6.2%
	US Long Treasury	5.6%	12.5%
	US Long Corporate	5.8%	10.8%
	US Long Govt/Credit	5.7%	10.6%
	US Muni Bonds	4.1%	4.7%
	US Taxable Muni Bonds	5.5%	6.8%
GLOBAL	Emerging market debt	5.5%	8.1%
	Global aggregate bonds	4.5%	3.6%
	Global high-yield bonds	5.1%	7.3%
	Global investment-grade bonds	5.1%	5.2%
NON-US REGIONAL	European aggregate bonds	4.1%	4.5%
	European high-yield bonds	4.3%	7.1%
	European investment-grade bonds	4.2%	4.5%
Alternatives (Unhedged nominal return)			
NON-LIQUID	US private equity ⁷	3.1%	20.8%
	US direct real estate	4.8%	4.8%
	Diversified hedge funds	4.1%	4.5%
	US private debt	6.2%	9.0%
LIQUID	Global REITs	7.4%	16.2%
	Global infrastructure	5.7%	12.0%
	Commodities	6.4%	14.3%

Appendix

The MFS Long-Term Capital Market Expectations (LTCME) for 2026 includes return and risk expectations for equity, fixed income and alternative asset classes across country, regional and global markets. The focus of these expectations is to provide a strategic, long-term, forward-looking view of various global markets. We use a proprietary top-down approach by employing quantitative, country-based models as the foundation for our expectations. Elements of these models are influenced by views from our fundamental equity and fixed income teams.

Our expectations are developed across 26 countries comprising 18 developed countries and 8 emerging market countries.

Equity expectations

MFS equity market expectations are displayed in unhedged, nominal total return and are developed using a building-blocks approach.

Elements of market history and mean reversion are incorporated into our models. Reversion speed and target levels are calibrated based on our analysis of historical data and forward-looking expectations. Any return figure should be viewed as the mid-point in that range of outcomes.

Fixed income expectations

MFS fixed income market expectations are displayed in nominal total return, hedged to the investor's home currency. As with our equity model, our fixed income model employs a building-blocks approach. And, again like the equity model, the fixed income model derives its reversion speed and target level parameters from careful historical research as well as forward-looking expectations.

In our forecast, we focus on the returns from carry, yield change, roll-down and credit loss (where appropriate). Using this framework, we develop expectations across a range of sovereign, global credit and regional credit markets, while being careful to tune our models in accordance with the unique attributes of the various fixed income markets.

Alternative expectations

Due to the unique characteristics and varying drivers of return in alternatives, we vary our approach for each category. Our equity and fixed income capital market expectations serve as key variables in our alternatives models.

Currency expectations

We use a mean reversion approach to calculate currency expectations. Currency expectations represent the nominal excess returns which are nominal total return less domestic carry. Nominal total return is calculated as nominal prices change plus foreign currency carry. Domestic and foreign currency carry comes from the MFS Long-Term Capital Expectations cash forecasting model. Nominal price change is real price change plus inflation differential between currencies.

Appendix II

MFS 30-Year Capital Market Expectations

In addition to our 10-year capital market expectations, MFS is pleased to release our 30-year capital market expectations to provide perspective across different time horizons.

In this release, we provide asset class expectations over a period long enough to encompass a variety of equity and credit market cycles and multiple economic regimes. Our 30-year annualized expectation is 7.0% for global equity and 5.0% for global fixed income, with a 60/40 global balanced portfolio expected to return 6.4% over that timeframe. These 30-year market expectations are a critical input to the asset allocation process and have a number of practical applications that enable investment professionals to do the following:

- Analyze risk and return relationships across asset classes
- Compare and contrast 10-year expectations with 30-year expectations
- Compare historical market performance with forward-looking expectations
- Develop objective-based, multi-asset portfolios
- Serve as inputs for mean variance optimization
- Calculate expected long-term risk and return for policy portfolio
- Develop Monte Carlo simulations and stress tests on portfolios

30-Year Return and Risk Expectations



Source: MFS Long-Term Market Expectations (US Edition) as of July 2026. Global balanced portfolio is 60% global equity, 40% global fixed income. Risk-Volatility is represented by standard deviation. The expected returns presented are hypothetical in nature and are not representative of an actual account. Certain assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in calculating returns have been stated or fully considered. Projections and forward-looking assumptions are no guarantees of future performance. The expected returns are not targeted or projected performance for any MFS portfolio or advisory service.

	30-Year Return Expectation ^e	30-Year Risk Expectation
Inflation	2.9%	0.9%
Equities (Unhedged nominal total return)		
US large-cap equities	6.8%	14.3%
EAFE equities	6.8%	15.2%
Emerging market equities	7.0%	18.0%
Global equities	7.0%	14.4%
Fixed Income (Hedged nominal total return)		
US cash	3.0%	0.6%
US Treasury 10-year bonds	4.4%	6.2%
US Treasury 30-year bonds	4.8%	13.4%
US aggregate bonds	4.7%	4.4%
US high-yield bonds	4.9%	6.9%
US long govt/credit	5.5%	10.6%
Emerging market debt	6.5%	8.1%
Global aggregate bonds	5.0%	3.6%
Global high-yield bonds	6.1%	7.3%
Alternatives (Unhedged nominal total return)		
US private equity ^f	7.5%	20.8%
Diversified hedge funds	5.4%	4.5%
US REITs	7.4%	16.8%
Global REITs	6.9%	16.2%
Global infrastructure	6.0%	12.0%
Commodities	7.3%	14.3%
Convertible bonds	5.8%	12.2%

Methodology

In the development of these expectations, we employ a quantitative framework with our 10-year capital market expectations as a starting point and then incorporate a historical risk premium approach to extend the time horizon to 30 years. The equity risk premium is the higher return over a risk-free asset that is offered by equities to compensate for additional volatility and can be estimated on both a historical and forward-looking basis. Combining these two approaches creates extended horizon expectations that incorporate both the current market environment and a long-term historical perspective. Our 10-year market expectations are developed using a building-blocks approach where a degree of mean reversion is assumed for fundamental drivers of return, such as P/E and profit margin for equity and yield and credit spread for fixed income. For years 11 through 30, we determine historical risk premium and return relationships across asset classes and then build up to asset-class-level expectations. Expectations for the two time periods are then proportionally weighted.

GLOSSARY

Equity Expectations Building Blocks

Our equity building blocks are measured at the index level for each country.

Price/earnings (P/E) ratio Price-to-earnings ratio is the trailing 12-month P/E ratio as measured by the index level divided by the trailing 12-month earnings for the constituent members of that index. We use P/E ratio as a measure of valuation. Our very-long-term reversion target for P/E ratios is 18.

Profit margins Profit margins are a measure of profitability and are measured in percentage terms. Our margin expectations are assumed to revert toward a target based on long-term history.

Sales growth Sales growth is a measure of increase or decrease in real sales per share. To estimate this, we incorporate elements of economic theory and examine current levels relative to trends.

Dividends Dividends are measured in percentage terms, and we assume that a country's dividend payout ratio, over our forecast horizon, will be equal to its trailing 5-year average.

Fixed Income Expectations Building Blocks

Our fixed income building blocks are measured at the index level for each country.

Nominal yield Nominal yield is the observed yield at the index level. Nominal yields consist of both a real yield component and an inflation expectation component.

Real yield Real current yield is a nominal yield less the trailing 5-year annualized change in the Consumer Price Index.

Carry The carry return is calculated as the average of the current nominal yield and the expected nominal yield.

Yield change return The yield change return is calculated as the expected yield change multiplied by the current duration and then annualized.

Inflation Inflation is measured as a 5-year trailing change in the Consumer Price Index. We then assume that inflation reverts toward a global equilibrium value.

Roll-down The roll-down return expectations are based on index duration as well as localized curve steepness for the maturity being forecast.

Regional credit markets For regional credit markets, we take a building-blocks approach incorporating duration-matched risk-free return, spread return and loss return.

Duration-matched risk-free return This represents the estimated return of a sovereign bond portfolio with the same duration and nationality as the regional credit in question.

Spread return The spread return is measured by the differential between the yield in the index and the yield of the sovereign bonds for that country. This is the return that can be earned for taking on credit risk.

Credit losses Credit losses are determined based on historical rates of default losses and credit quality migration that are reflective of the index being forecast.

Global credit Because of the complexities of multiple durations and multiple loss provisions across several countries, we take the current yield of the index, assume a constant roll down and subtract any loss return expectations based on expected default rates.

US Treasury Inflation-Protected Securities For TIPS, we forecast a future real yield based on the same mean-reverting assumptions we use for other sovereign indices. We then calculate a real carry return, a real yield change return, and a real roll-down return in the same manner with which we calculated nominal versions of these returns for sovereign indices. We then add back inflation expectations to produce a nominal return.

US cash Our estimate of future cash returns reflects the sum of expected real cash rates and expected inflation, both of which are based on mean reversion.

Alternatives Expectations Building Blocks

Real estate For global real estate investment trusts (REITs), we rely upon current dividend yield based on the fact that REITs pay out a considerable percentage of their funds from operations in the form of dividends.

For US direct real estate (RE), we capture the historical relationship between REITs and direct RE by unsmoothing direct RE returns and then estimating beta.

Private equity Our private equity approach starts with our capital market expectations for global developed markets and then makes adjustments based on the higher levels of risk associated with private equity.

Global infrastructure Our global infrastructure expectations are calculated based off of the relationship between listed global infrastructure and real estate.

Hedge funds We would note that hedge fund investments are pools of capital invested at the discretion of the manager, and as such, risk and return are highly dependent on skill and timing. In addition, within the hedge fund universe, there is a divergent range of asset classes, strategies and implementation approaches. We take a diversified hedge fund portfolio approach where we assume an investment across multiple hedge fund types. To calculate hedge fund expectations, we use a regression-based approach to estimate relationships between certain hedge fund styles and public markets. For hedge fund styles that do not appear to hold relationships to public markets, we use steady state expectations plus cash. Expectations for each hedge fund style are allocated to create a diversified hedge fund portfolio.

Commodities We develop our commodities expectations to represent broad exposure to the commodities market through a fully collateralized commodity position. Three primary building blocks — collateral return, spot return and roll return — are estimated and then added to determine our long-term commodities expectation.

Risk and correlations Our risk and correlation expectations are derived largely from historical observed risk and correlation patterns. Risk, as measured by standard deviation, and correlations across broad asset classes tend to be relatively stable over long periods of time. However, over shorter periods of time or during periods of market disruption, this stability can quickly break down. We use the 15-year historical standard deviation and correlations of proxy indices where available. Where a 15-year history is not available, we use the longest available history and make adjustments based on historical patterns and relationships to other asset classes.

Authors



Benjamin R. Nastou, CFA
Chief Investment Officer
Quantitative Solutions



Ted Maloney
Chief Executive Officer



Erich B. Shigley
Portfolio Manager



John Garrett
Head of Strategy and Insights Group



Jonathan W. Hubbard, CFA
Managing Director
Strategy and Insights Group



Robert M. Almeida
Global Investment Strategist
and Portfolio Manager

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Endnotes

¹ FactSet. Daily data from 31 December 2025 to 30 June 2026. Global equities = MSCI ACWI. Return is net and in USD.

² FactSet. Year to date = 31 December 2025 to 30 June 2026. 2025 = 31 December 2024 to 31 December 2025. Returns are gross and in USD. Global bonds = Bloomberg Global Aggregate.

³ FactSet. Long-term average from 30 June 2006 to 30 June 2026. Global equities = MSCI ACWI.

⁴ FactSet as of 30 June 2026. Long-term average from 30 June 2006 to 30 June 2026. Global equities = MSCI ACWI.

⁵ Bloomberg. As of 30 June 2026. Global investment-grade bonds = Bloomberg Global Aggregate Corporate. Global high-yield bonds = Bloomberg Global High Yield. Spreads = Option-adjusted spreads (OAS).

⁶ Geometric return.

⁷ As of January 2022, the methodology for US private equity risk has changed from using a fund of funds proxy to using listed private equity companies.

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