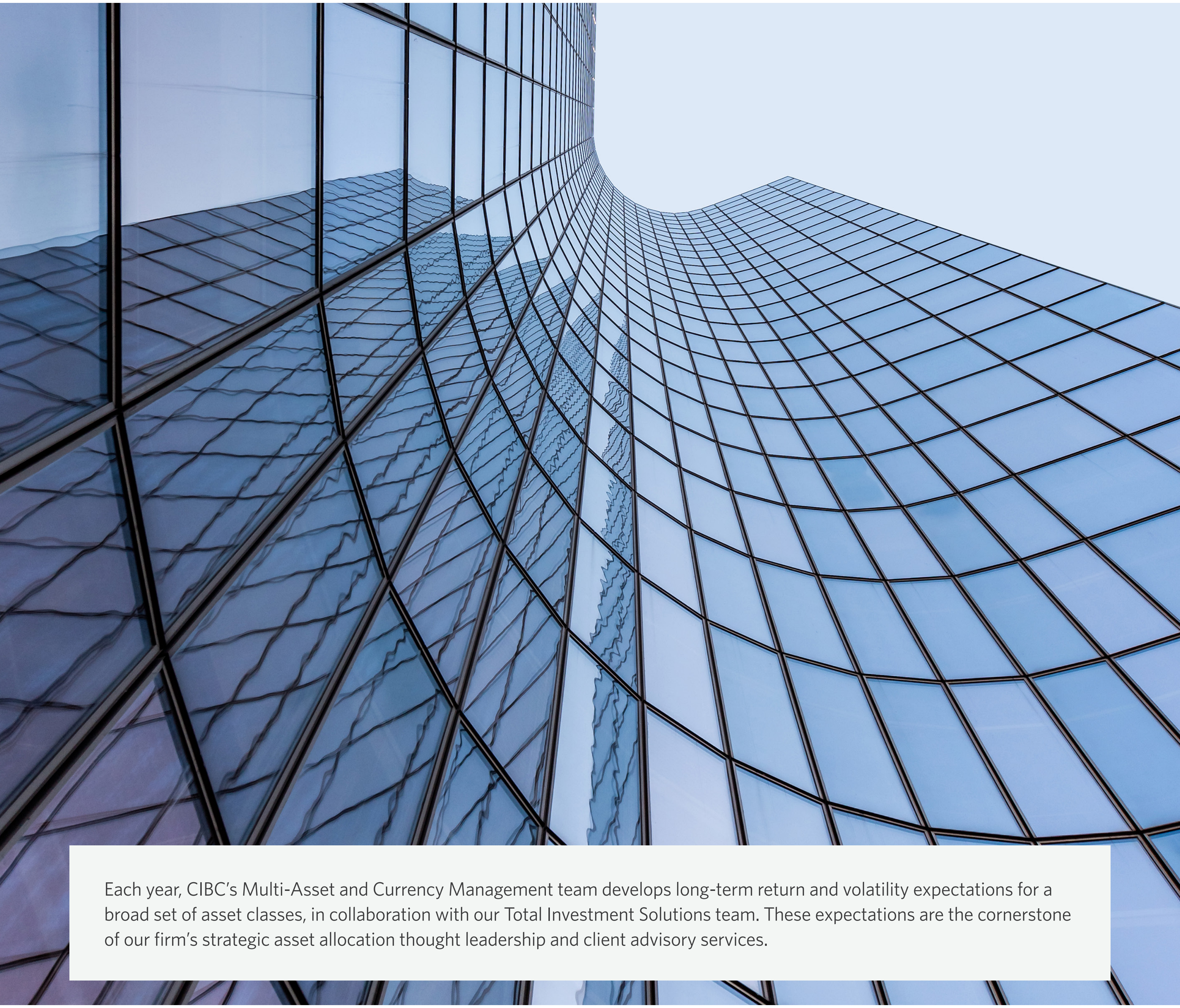
2025 Long-term annualized capital market expected returns

March 2025

By **Éric Morin**, **Michael Sager**, **Francis Thivierge**, **Vasilios Tsimiklis** and **Erik Franco**



Each year, CIBC's Multi-Asset and Currency Management team develops long-term return and volatility expectations for a broad set of asset classes, in collaboration with our Total Investment Solutions team. These expectations are the cornerstone of our firm's strategic asset allocation thought leadership and client advisory services.

Table of contents

Introduction

We publish annualized expected returns each year, focusing on the next 10 years. This horizon is long enough to minimize the influence of cyclical trends, which we address in our quarterly Perspectives publication. We view macroeconomic variables as the primary long-term drivers of capital market returns: current income, income growth, and reversion to long-term equilibrium valuation for asset prices and currencies.

Key takeaways

- **High Interest Rates to Remain:** The balance between investment spending and savings is shifting. We expect the next 10 years to be characterized by strong investment tailwinds driven by geopolitical risks, technology demand, the energy transition, and elevated infrastructure needs. Conversely, the supply of savings is expected to slow due to aging populations and persistent fiscal deficits, particularly in the US.
- **Upbeat GDP Outlook:** Reflecting strong investment demand, we expect economic growth over the next 10 years to exceed the historical average of the past 20 years in several countries, with a profile stronger than the IMF outlook.
- **Sticky Inflation with Upside Risks:** Our GDP outlook suggests positive output gaps and average inflation slightly above central bank targets. Inflation is more likely to surprise to the upside.
- **Global Equity Markets:** Most global equity markets are expected to deliver mid- to high-single-digit returns in local currencies (LC). Income and earnings growth are expected to contribute. Valuations are a headwind in many markets. Emerging markets (EMs) remain the most attractive, although awareness of country heterogeneity is particularly important for this asset class.
- **Competing Tailwinds and Headwinds for US Equity:** We anticipate US equities to generate mid-single digit returns in LC with the balance of risks skewed to the upside, reflecting a favourable earnings outlook, Artificial Intelligence (AI) adoption in the context of a large technology sector, and deregulation. These positive factors will likely be tempered by two long-term headwinds: the US dollar (USD) is overvalued against most currencies; and US equity became more expensive relative to its long-term fair value in the past year.
- **Global Fixed Income:** In Developed Markets (DMs), government bonds offer long-term expected returns of 3–4% in Canadian dollar (CAD) terms and serve as key diversifiers against downside growth risks. The attractiveness of US bonds is diminished by negative currency impacts. Annualized expected returns are 4.6% for Canadian corporate bonds and nearly 8% for EM government bonds.
- **Alternatives & Commodities:** We project annual expected returns of 7-8% for liquid alternatives and commodities in CAD. These asset classes not only offer attractive returns but also strong diversification properties.
- **Private Alternatives:** In a balanced portfolio seeking higher (total and risk-adjusted) returns, private market alternatives are important complements to traditional asset classes. We expect returns of 8–10% in LC with loadings that vary across risk factors.
- **Balanced Portfolios:** The 10-year annualized expected return for a representative Balanced Portfolio (60% equities, 40% fixed income) is 5.3% in CAD. This is lower than last year's projection of 5.9% due to more significant valuation and USD headwinds. This expected return can be enhanced by allocating to actively managed investment strategies, tactical asset allocation, or increasing exposure to higher-performing asset classes (such as EMs and alternatives).

Table 1: Long-term expected returns and historical volatility

Fixed Income	CAD (%)	LC (%)	Vol. in CAD (%)***, ****
Canada 2Y government index*	2.5%	2.5%	1.4%
Canada 10Y government index*	3.3%	3.3%	6.8%
FTSE Canada All Corporate Bond Index	4.6%	4.6%	5.5%
Canada FTSE Universe Index	3.6%	3.6%	5.2%
US 10Y government index*	3.1%	5.0%	9.9%
ICE BofA US Corporate Index†	3.8%	5.8%	4.9%
ICE BofA US High Yield†	3.4%	5.4%	10.0%
JP Morgan GBI Global Ex-Canada Unhedged	3.2%	4.0%	7.7%
JP Morgan GBI-EM LC Unhedged	7.8%	7.8%	6.8%

Equity	CAD (%)	LC (%)	Vol. in CAD (%)***, ****
Canada S&P/TSX Composite Index	4.9%	4.9%	13.0%
US S&P 500 Index	4.2%	6.1%	12.5%
MSCI EAFE Index	6.0%	5.9%	11.8%
MSCI Europe	5.2%	5.6%	13.0%
MSCI Japan	8.1%	6.5%	11.7%
MSCI Australia	6.3%	6.2%	16.4%
MSCI Emerging Markets Index	7.6%	7.0%	13.2%
MSCI EM ex China	8.2%	7.9%	13.8%
MSCI Emerging Asia	7.3%	6.6%	14.3%
MSCI Emerging Europe	7.7%	8.4%	39.8%
MSCI Emerging Latam	10.8%	11.0%	23.7%
MSCI China	6.0%	4.5%	24.8%
MSCI All Country World Index	4.9%	6.1%	11.4%

Alternatives	CAD (%)	LC (%)	Vol. in CAD (%)***, ****
Private credit**	6.8%	8.3%	5.1%
Private equity**	8.3%	9.8%	9.4%
Core real estate**	5.7%	7.2%	7.9%
Private infrastructure**	6.7%	8.2%	9.1%
DJ Brookfield Global Infrastructure	5.9%	7.9%	11.6%
Liquid Alternatives*****	8.5%	8.5%	5.6%
Bloomberg Commodity Index	6.6%	8.6%	11.5%
Bloomberg Agriculture Index	7.7%	9.7%	14.3%
Crude oil (Brent)	4.9%	6.9%	43.2%
Copper	6.6%	8.6%	16.6%
Gold	5.4%	7.4%	13.0%

Source:: Calculated by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg, and PitchBook. Calculations based on data available as of January 31, 2025.
*Represents the expected return of a constant-maturity bond index that maintains a specific maturity by rebalancing every year, and which would be different from a buy-and-hold-to-maturity investment.
Assumes 75% investment in the US and 25% in Canada. ***The volatility figures for Privates are lower than otherwise due to stale pricing. ****Historical data. *** Local currency for Liquid Alternatives is CAD. † Vol is calculated on excess returns over treasuries, in local currency.

1. Methodology in a nutshell

We construct annualized expected returns for a broad set of public and private asset classes with a focus on the next 10 years. This horizon is long enough not to be overly influenced by cyclical trends, which we cover in our companion quarterly Perspectives publication. It is also not so far into the future that the determinants of returns become unforecastable with a reasonable degree of confidence.

We consider macroeconomic variables to be the primary long-term drivers of the components of capital market returns: current income, income growth, and reversion to long-term equilibrium valuation. A detailed explanation can be found in the Appendix section.

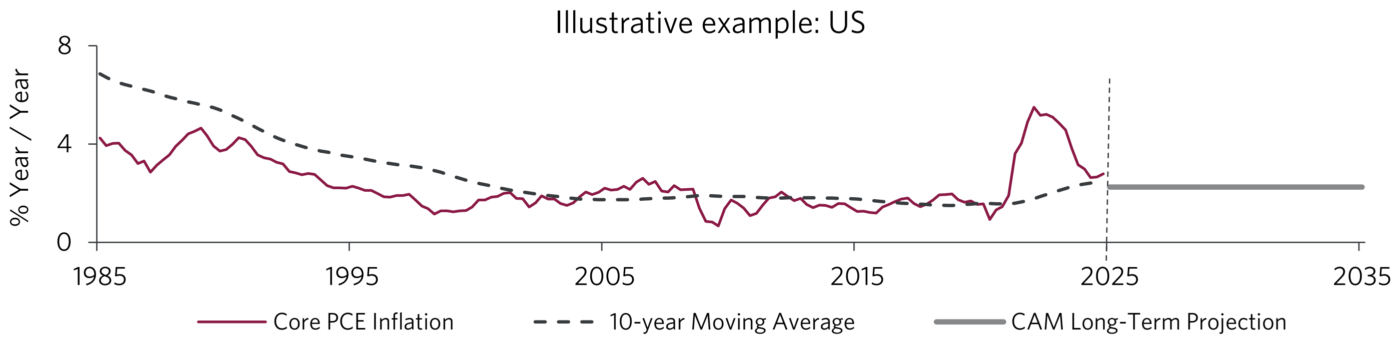
2. Global economic outlook

2.1. GDP and inflation

- **Global economic outlook:** we anticipate robust investment tailwinds (presented in section 2.3) will provide sufficient growth to offset demographic headwinds. In several economies, we expect growth to remain above the average observed over the past 15 years.
- **Comparisons with the International Monetary Fund (IMF):** for four of the five largest economies – US, China, India, and Japan – we have a stronger profile than the IMF. By region, we have a more constructive profile for North America and Asia-Pacific. Elsewhere our profile is broadly similar. The last year of the IMF forecast is 2029, close to the mid-point of our horizon. The IMF does not disclose the GDP breakdown of its projection.
- **US:** We project 2.3% average GDP growth, above the IMF (2.1%) and well above the Congressional Budget Office (CBO, 1.8%). We attribute the gap to stronger investment tailwinds, a discussion of which is presented in section 2.3.
- **Canada:** We project 2.0%, well above the 1.6% projected by the IMF, reflecting several investment tailwinds, notably in housing, military spending, and natural resources. In a world where the US is in a long-term geostrategic competition with China, Canada has more to offer than most US allies as a business partner, including natural resources as well as integrated and reliable manufacturing supply chains – necessary inputs to restore military deterrence.
- **China:** We project a weak 3.6% annualized growth rate. That said, our outlook is above the IMF (3.3%). We attribute the gap to stronger global demand for renewable-energy equipment & electric vehicles (EVs). The growth outlook remains clouded by foreign companies de-risking from China, an excess supply of housing, ill-performing debt, and a contracting population.
- **Eurozone:** We project annualized growth of 1.1%, similar to the IMF (1.2%). Key headwinds are a growing demographic drag and lackluster productivity. The balance of risk is skewed to the upside as Europe's geopolitical challenges could lead to a concerted effort to revive strategic supply chains and increase military investment spending.
- **Japan:** We project 0.8% real growth, well above the IMF (0.5%). Due to aligned interests, we expect Japan to complement the US in its geostrategic competition with China, resulting in investment tailwinds in tech, manufacturing, and military investment.
- **India:** Our outlook (6.9%) is above the IMF (6.4%), likely reflecting a stronger investment outlook for infrastructure and manufacturing. India is an attractive destination for companies willing to de-risk from an excessive reliance on Chinese supply chains, with India's abundant labor force and vast market two important attractors.
- **Australia:** We project 2.9%, also well above the IMF (2.3%). Similar to Canada and Japan, we expect Australia's economy to benefit from a changing geopolitical landscape.
- **Global Inflation:** Inflation should remain a concern for several central banks, particularly in DMs, given investment prospects and growing labor shortages associated with ageing populations and changes in immigration policies. Population ageing is not an issue for most EMs markets, which tend to have a younger population.
- **US Inflation:** Investment tailwinds, lower immigration, and deportations should keep inflation sticky and moderately above target. We project the Fed's preferred core Personal Consumption Expenditures (PCE) to average 2.3%, which is typically 0.4% lower than the core Consumer Price Index (CPI), an outlook similar to inflation during the mid-2000s (**Chart 1**).
- **Inflation Elsewhere:** Our outlook is generally moderately above target in most economies. China and Japan are the exceptions, with an outlook below target, but for different reasons in each country. In Japan, inflation is improving, inching up towards target, reflecting above-potential cyclical growth and a re-anchoring of inflation expectations. In China, inflation remains weak, due to a persistent negative domestic output gap.
- **Inflation Risks are Skewed to the Upside:** Inflation is more likely to surprise to the upside than to the downside versus our baseline view due to populism (higher deficits), an inelastic demand for military investment, risks of military conflicts, and population ageing (labor shortage).

- **Central Banks' Reaction Function:** We expect central banks to tolerate inflation moderately above target. This is because they have very limited or no influence on the inflation risks mentioned above. In this context, we expect most central banks to avoid fighting inflation excessively, in order to minimize downside risks on growth.

Chart 1: US Inflation to remain above target over the next 10 years on average

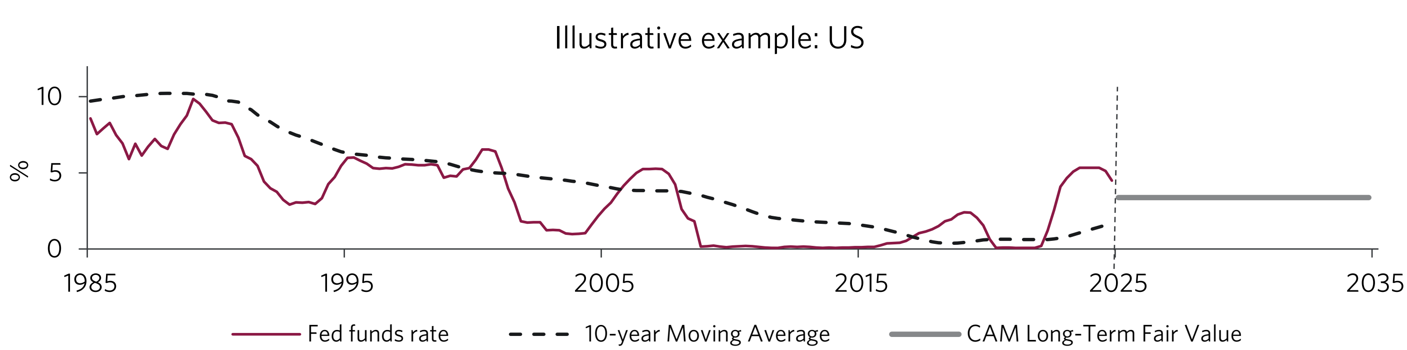


Source: The information was calculated by CIBC Asset Management Inc. using data from the following third-party service provider: Bloomberg. Data as at January 31, 2025. PCE refers to Personal Consumption Expenditures. Core inflation excludes volatile food and energy prices.

2.2. Interest rate outlook (with a focus on the US)

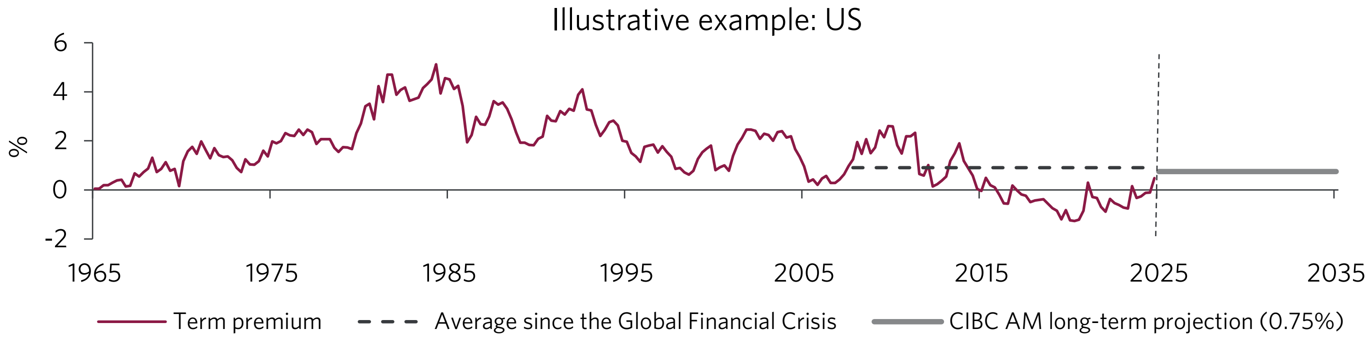
- **Global Interest Rates Outlook:** Our constructive economic outlook should keep the global demand for savings elevated, while the supply of savings will likely grow at a slower pace due to ageing populations. Both factors will keep interest rates around the post-Covid range rather than the post Global Financial Crisis lows.
- **US Terminal Policy Rate:** The long-term neutral nominal policy rate – at which economic activity and inflation are balanced – is projected to settle between 3.25% and 3.50% (**Chart 2**). Our outlook is unchanged from last year and remains above the Fed's outlook (3.0%, and slightly higher than a year earlier). Excluding inflation, our real rate outlook is 1.00%–1.25%, still below the average of about 2.0% observed between 1995 and 2007, a period marked by strong investment growth and a positive output gap.
- **US Term Premium:** The term premium compensates investors for duration risk and is influenced by supply and demand. Factors such as inflation risks, persistent US fiscal deficits, above-trend investment spending, and population ageing are expected to exert upward pressure on the term premium. Our long-term fair value estimate is 75 basis points (bps), higher than in recent years but still below historical norms (**Chart 3**). One partial mitigant is that we expect that the Fed will halt Quantitative Tightening and maintain a large balance sheet relative to GDP, which by itself will dampen the US term premium. We have revised our term premium estimate up by 15 bps from last year.
- **US 10-Year Government Bond Yield:** We estimate the long-term fair value of the 10-year yield to be 4.3%, based on the neutral nominal policy rate, term premium, and a near-zero country-risk premium. This is slightly higher than the CBO's projection of 4.1%, reflecting our stronger growth outlook. Our estimate has been revised up by 20 bps from last year.
- **International Comparisons:** We project that equilibrium government yields in most DMs will fall within a 3%-4% range. EMs have higher yields, reflecting stronger potential GDP growth. We estimate the implied equilibrium bond yield for the JP Morgan GBIEM Global Diversified Composite Unhedged Bond Index at 6.8% excluding China and 6.2% including China.

Chart 2 Limited downside for policy rates in the next 10 years



Source: The information was prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Bloomberg. Data as at January 31, 2025.

Chart 3: Term premium to see upside pressure



Source: The information was calculated by CIBC Asset Management Inc. using data from the following third-party service provider: Federal Reserve Bank of New York. Data as at January 31, 2025

2.3. Investment tailwinds underpin our outlook

Several investment tailwinds support our positive global economic outlook, boosting earnings and keeping interest rates elevated.

- **De-risking from China:** A bipartisan consensus in Washington views China as a long-term economic, political, and military threat. We expect this consensus to drive inelastic investment spending aimed at reducing US dependence on Chinese supply chains, enhancing technological competition, and strengthening critical supply chains for potential military conflicts. This risk is also gaining relevance in several Asia-Pacific countries, including Japan, the Philippines, South Korea, Taiwan, and Australia.
- **Reshoring Limits, Friendshoring Tailwinds:** The new US administration is forcing the hands of its partners to re-establish some degree of manufacturing in the US leading to higher cost of manufacturing as a price to pay to maintain access to the US market. We expect friendshoring investments to continue relocating certain supply chains outside of China. We anticipate that US allies like Japan and South Korea (for technology), along with trusted partners such as India, the Philippines, and Mexico (for manufacturing), will also be beneficiaries of these initiatives.
- **Military Deterrence:** According to the US Department of Defense, the US is "laser-focused on deterring conflict in the Indo-Pacific" as China enhances its military power.[1] Deterring China's maritime and territorial ambitions is vital to US interests in Asia, geopolitical stability, technology dominance (especially regarding Taiwan and semiconductors), free navigation in international waters, and national security. China's military capabilities have materially increased, and it now boasts the world's largest naval force, primarily consisting of modern multi-mission ships and submarines, and is leading in combat drone exports. Its hypersonic missiles pose a threat to US power in the Pacific. Meanwhile, the war in Ukraine has revealed vulnerabilities in NATO's defense sector, with members depleting ammunition supplies. In this context, we expect NATO countries and US allies in the Asia-Pacific to increase military spending by 1-2% of GDP over the next decade.
- **Tech Investment:** Investment in AI and robotics is poised to be a significant advantage for the private sector. These technologies can complement skilled workers and automate low-value-added tasks, resulting in tailwinds for profit margins, and likely mitigating labor shortages in several industries. Additionally, China's ambitions of establishing a world-class military centered around artificial intelligence are likely to trigger strong and inelastic tech investment in several countries, particularly the US.
- **Infrastructure Gap:** Several developed economies face an infrastructure investment gap due to rising maintenance needs and an increasing share of infrastructure nearing the end of its lifespan. For instance, the American Society of Civil Engineers estimates that costs will exceed 1% of GDP per year over the next decade. [2]
- **Global Power Grids Under Pressure:** Global electricity consumption is projected to grow significantly over the next decade due to rising demand from EMs, cooling needs, EVs, and data centers. Meeting this demand will require accelerated investments exceeding 2% of global GDP in grid upgrades and expansions.[3] Power grids are increasingly under pressure worldwide, including in the US, India, China, and Japan.
- **Housing Shortage in Several Countries:** An ongoing housing shortage in countries such as the US, Canada, the UK, Sweden, and Australia is expected to drive housing construction beyond the pace of potential growth for several years.
- **The Energy Transition Continues:** In 2023, clean energy investments accounted for about 10% of the increase of global GDP and 85% of new electricity capacity worldwide.[4] In its Renewables 2024 report, the International Energy Agency (IEA) forecasts the addition of over 5,500 gigawatts of renewable power capacity by 2030, matching the current combined capacity of China, the EU, India, and the US.[5] The energy transition benefits China, the largest producer of renewable energy equipment and EVs, as well as countries such as Chile, Peru, South Africa, Indonesia, Australia, and potentially Brazil, which supply mining inputs for batteries and renewable-energy equipment.

- **India's Rise:** India has significant untapped economic potential and could surpass China as the world's growth engine by the end of the decade. However, the country faces a substantial infrastructure gap. According to the World Bank, India will need to invest $840 billion in infrastructure by 2036 – an average of 1.2% of GDP per year.[6] We see upside risks to this estimate due to pressures from urbanization.

3. Long-term expected returns

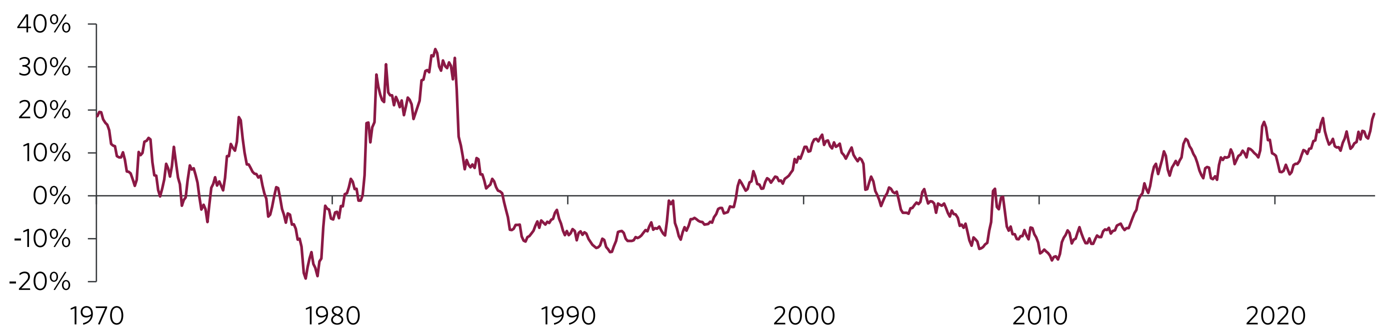
3.1. Currencies

Key Takeaways:
USD is overvalued against most currencies, including the Canadian dollar (CAD), and particularly against several EM and Asian currencies. This overvaluation resembles conditions in the early 2000s, mid-1980s, and early 1970s, each of which were followed by prolonged USD weakness (**Chart 4**). For Canadian investors, over the long run, currency reversion back to long-term fair values should reduce expected returns on US assets and increase expected returns on assets in currencies more undervalued than CAD.

- **USD Overvalued:** Using our proprietary valuation methodology, we estimate the USD is overvalued by about 20% against a broad basket of currencies. For Canadian investors, this overvaluation is expected to reduce the average annual return on US assets by approximately -2.0%.
- **EM Currencies:** Conversely, many EM currencies appear undervalued. Their projected appreciation over the next decade should provide additional returns for Canadian investors exposed to local assets in these countries.
- **Other DM Currencies:** The DM currency impact varies for Canadian investors across markets. It is negative for the eurozone, positive for Japan, and close to zero for Australia.

Chart 4: USD expensive, represents headwind for US assets

Trade-weighted estimated USD deviation from fair value, %



Source: Information calculated by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg. Data as of January 31, 2025.

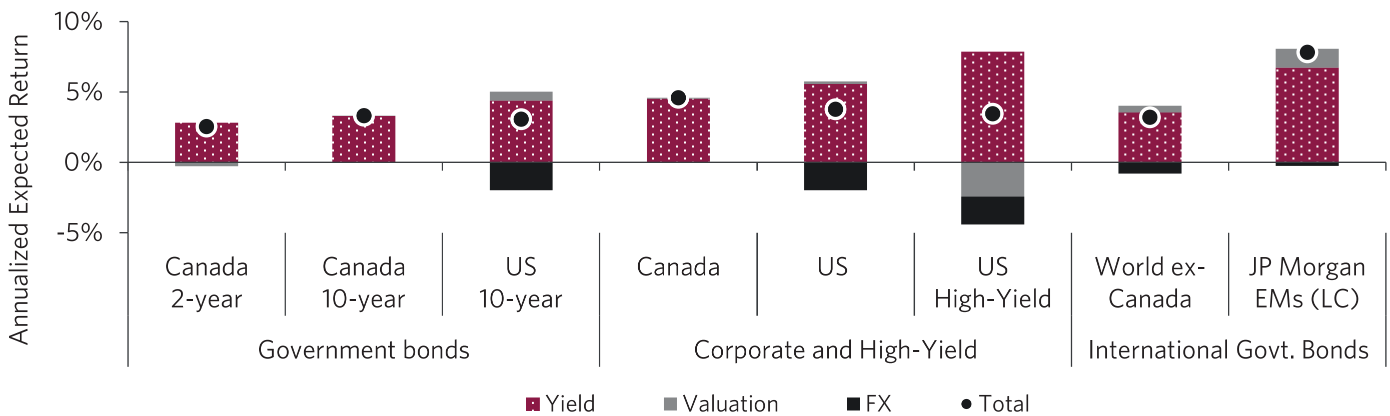
3.2. Global fixed income

Key Takeaways:
In DMs, government bonds offer long-term annualized expected returns of 3-4% in CAD terms (**Chart 5**). They also serve as key diversifiers, hedging against downside growth risks. The attractiveness of US bonds is diminished by a negative currency impact. Expected returns are around 4.6% for Canadian corporate bonds and nearly 8% for EM government bonds.

- **Canadian government bonds:** A 10-year government bond index (constant maturity) offers 3.3% expected returns. For a buy-and-hold investor, Canadian bonds offer an expected return of 3.1%.
- **US government bonds**: Reflecting a USD headwind, we expect an annualized 3.1% in CAD terms. In LC, the outlook is more appealing, at 5.0%, reflecting a higher long-term fair value for yields. For a buy-and-hold investor, US bonds offer an expected return of 2.6% in CAD.
- **DM government bonds:** We expect an annualized return of 3.2% for Canadian investors in the JP Morgan GBI Global Ex-Canada Index (unhedged).

- **Corporate and high-yield bonds:** Canadian corporate bonds offer investors an expected annualized return of 4.6%. The expected return on US investment grade and high-yield bonds continues to be negatively impacted by currency valuations, resulting in a lower expected return for Canadian investors.
- **EM government Bonds (Denominated in LC):** EM government bonds continue to offer the highest expected returns within the fixed income universe, supported by high-yielding countries such as Brazil, India, Indonesia, Mexico, and South Africa. The currency impact is marginal.

Chart 5: Fixed income long-term expected returns*, %



* Valuation comprises rolldown yield and default net of recovery.

Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at January 31, 2025.

3.3. Global equity

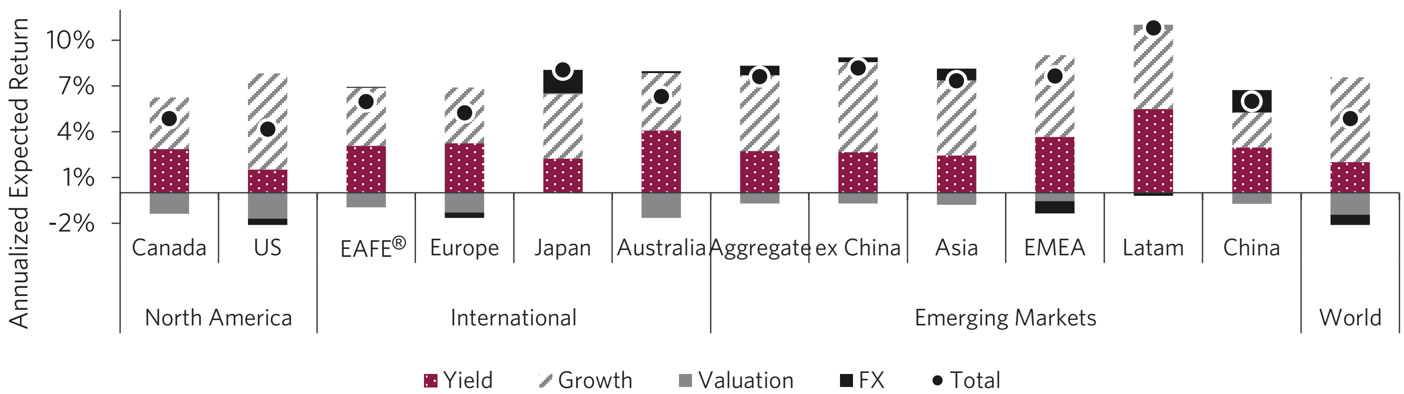
Key takeaways:

We project most equity markets to deliver mid- to high-single-digit returns on average over the next 10 years. Income (dividend yields) and income growth (earnings growth) are expected to perform well, with an outlook of 7-8% in most cases that reflects constructive macroeconomic prospects. However, valuation represents a drag in nearly all markets – and a more significant one than last year – bringing total expected returns below 7% in LC for many countries. The impact of currency varies across markets, with the negative USD valuation effect being an outlier. In CAD terms, expected returns for DM equities lie in a range of 4-6% (**Chart 6**), significantly below the expected annual 7.6% return for EMs.

- **Valuation Adjustment Uncertainty:** The timing and path of the valuation adjustment are highly uncertain. Long-term convergence to fair value for Cyclically-Adjusted P/E (CAPE) ratios is unlikely to be linear. Unlike currencies, equity valuation convergence may be delayed by constructive cyclical economic conditions (USD could depreciate in favorable global conditions, while stocks may become more expensive). Given the inherent uncertainty and volatility in equity valuation, investors may want to place less emphasis on this factor in the context of a constructive cyclical outlook.
- **Canadian Equities:** We expect an annualized return to Canadian equities of 4.9%. This is substantially lower than last year's 6.7%, as Canadian stocks have become more expensive. We project valuation will subtract 1.4% from returns per year. On a positive note, the balance of risks around our expected return appears skewed to the upside. Dividend growth in two key sectors of the Canadian market – banks (which have accumulated record capital and face a robust housing outlook) and energy firms (expected to continue generating attractive free cash flows) – could surprise to the upside.
- **US Equities:** Our outlook for US equities projects an annualized return of 6.1% in LC. This is down from 7.3% last year, reflecting a larger valuation drag, which on a go-ahead basis is expected to subtract 1.7% from annual returns. For Canadian investors, the annualized expected return to US equity is 4.2%, well below last year's 5.8%, due to larger currency and valuation drags. US stocks have become more expensive, with the US CAPE ratio rising further above its long-term fair value of 26 (**Chart 7**). While the timing of reversion to fair value for CAPE ratios and currencies is uncertain and volatile, Canadian investors heavily exposed to US stocks risk not meeting their long-term return targets. However, we believe the balance of risks surrounding our US equity outlook is skewed to the upside in the coming years due to several factors: 1) US stocks have the highest earnings growth outlook, and the CAPE valuation adjustment could be delayed; 2) US equities are well-positioned to capitalize on AI potential, benefiting from a high concentration of technology and a first-mover advantage. Large-scale AI implementation could enhance labor productivity, streamline operations, and improve corporate profit margins; 3) a loosening regulatory environment could support private investment and mergers and acquisitions (M&A). We acknowledge downside risks in the technology sector due to concentration

risk within the S&P 500, relatively high valuations, and the possibility that AI may only yield a small, temporary productivity boost. Overall, however, we do not view downside risks as significant compared to the medium-term upside potential.

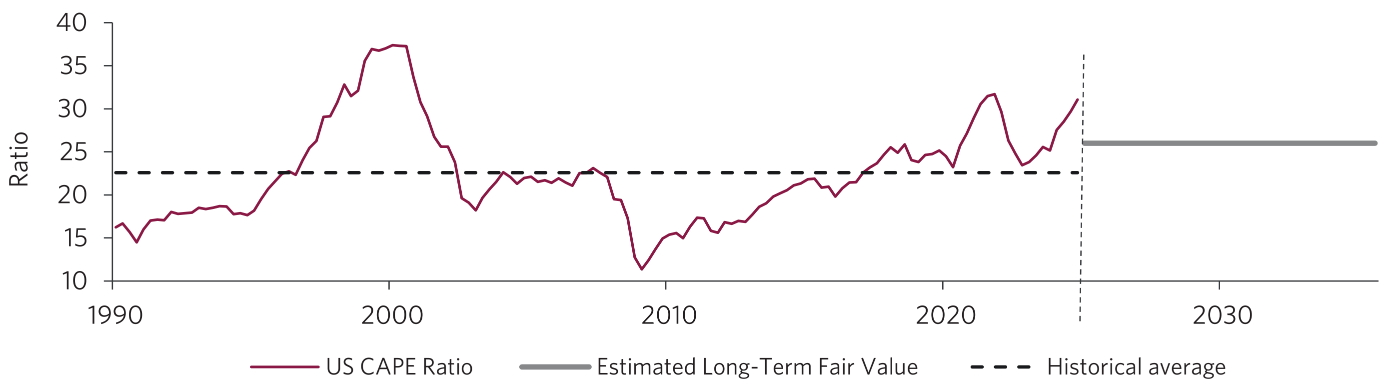
Chart 6 Equity long-term expected returns, %



Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at January 31, 2025. "EAFE" is a registered trademark of MSCI Inc., used under license

Chart 7: US equity valuations remain a modest headwind

US Cyclically-Adjusted P/E (CAPE) Ratio



Source: Information prepared by CIBC Asset Management Inc. using data from the following third-party service provider: Bloomberg. Data as of January 31, 2025.

- **International equities (EAFE®):** Our long-term outlook for Canadian investors is 6%, with a small negative currency impact. This aggregate figure masks heterogeneity across economies, with stronger outlooks for Japan (8.1%) and Australia (6.3%) compared to Europe (5.2%). Japan, with its significant exposure to industrials and manufacturing, is well-positioned to benefit from global investment tailwinds in technology and efforts to reduce economic reliance on China. Additionally, Japanese corporate reforms are gaining momentum, focusing on profitability and shareholder value. Australia is likely to benefit from the global renewable energy transition, possessing large reserves of lead, nickel, copper, and lithium – key metals for electric vehicle manufacturing.[7] The IEA expects demand for these metals to increase tenfold by 2040. Domestic housing prospects also support Australia's financial sector. In contrast, lower expected returns for Europe reflect weaker expected economic growth. Overall, we consider the risks surrounding expected returns for international equities to be balanced.
- **EMs excluding China:** These markets have the highest expected return, at 8.2% in CAD terms, driven primarily by projected earnings growth. An expected valuation drag is mostly offset by a currency tailwind. An important factor for the region (outside of China) is the rise of the consumer, evident in equity index composition. Consumption sectors now account for about two-thirds of EM market capitalization, up from around 50% two decades ago. This is linked to improved expected returns and reduced market volatility, as tertiary sectors exhibit less cyclicality than commodities and manufacturing. Within EM Asia (excluding China), expected returns are supported by healthy domestic demand, geopolitical investment tailwinds, and a comparative advantage in semiconductor manufacturing (for Taiwan and South Korea). The outlook for CEEMEA and Latin America is slightly stronger, reflecting larger dividend yields, but these regions are also more volatile.

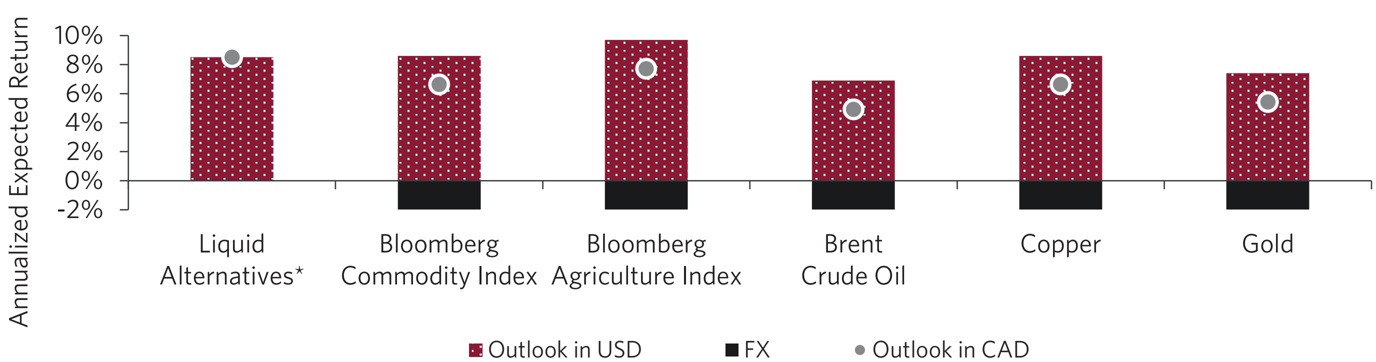
- **China:** We expect an annualized return of 6.0% for Canadian investors, with a positive 1.5% contribution from currency. The expected return in domestic currency is low at 4.5%, reflecting declining economic potential and low foreign investment. We consider risks to be balanced, but volatility is expected to remain elevated due to several opposing forces. The most significant positive risk is that China could ascend the value chain to become a global leader in manufacturing EVs, chips, and AI. This potential was recently highlighted when a Chinese technology firm (DeepSeek) reportedly built an AI model at a fraction of the cost of similar US models. Conversely, China faces significant growth impediments, including excess housing supply, a declining population, and massive leveraging of ill-performing debt, which could adversely impact the profitability of state-owned enterprises that account for about half of Chinese market capitalization.[8] Additionally, several Chinese companies may face long-term risks related to sanctions due to their collaboration with the People's Liberation Army (PLA). The US House of Representatives Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party (CCP) has flagged several listed Chinese companies linked to those contributing directly or indirectly to developing weapons for the PLA and advancing the CCP's mission of technological supremacy. Flagged companies account for about 5% of the value of A-shares, and the Select Committee considers this just the tip of the iceberg.[9]

3.4. Liquid alternatives and commodities

Key takeaways:
We project annualized expected returns of 7-8% for Liquid Alternatives and commodities (**Chart 8**). Returns are not the only attractive feature of these asset classes; they also offer strong diversification properties. Liquid alternatives are generally lowly correlated with major market risks and can outperform during economic slowdowns, while commodities can hedge against inflation, geopolitical risks, and climate change, as discussed in a recent paper.

- **Liquid alternatives:** We assume an expected annualized return of 5% plus cash, resulting in a total return of about 8.5% for Canadian investors. This aligns with the standard target for these investment strategies and is broadly consistent with historical experience.
- **Commodities:** The Bloomberg Commodity Price Index (BCOM) is expected to return 8.6% per year in USD, or 6.6% for Canadian investors. Expected returns are highest for copper and agricultural commodities. In CAD terms, copper is projected to return an average of 6.6% (8.6% in USD), reflecting its increasing importance in alternative energy production and infrastructure. Agricultural commodities have the highest expected returns at 8.0% (10.0% in USD), driven by the challenges of climate change in food production. Gold has less appealing prospects but, given its properties as a store of value, could hedge against certain political tail risks, such as military conflicts or a deterioration in the quality of US institutions that may incentivize central banks to continue to boost gold reserves to reduce reliance on US assets. Among major commodities, the outlook for oil is the weakest, reflecting higher energy efficiency in DMs and the global penetration of EVs. However, we see two mitigating factors that could exert upward pressure on prices: global underinvestment in fossil energy and a slowing global EV transition, which may be constrained by insufficient charging capacity and inadequate EM power grid capacity, lower subsidies for EV purchases in DMs, and DM tariffs on Chinese EVs.

Chart 8 Commodities, long-term expected returns, %



Source: CIBC Asset Management calculations using data from the following third-party service providers: Bloomberg. Calculations based on data available as at January 31, 2025. * Local currency for Liquid Alternatives is assumed to be CAD.

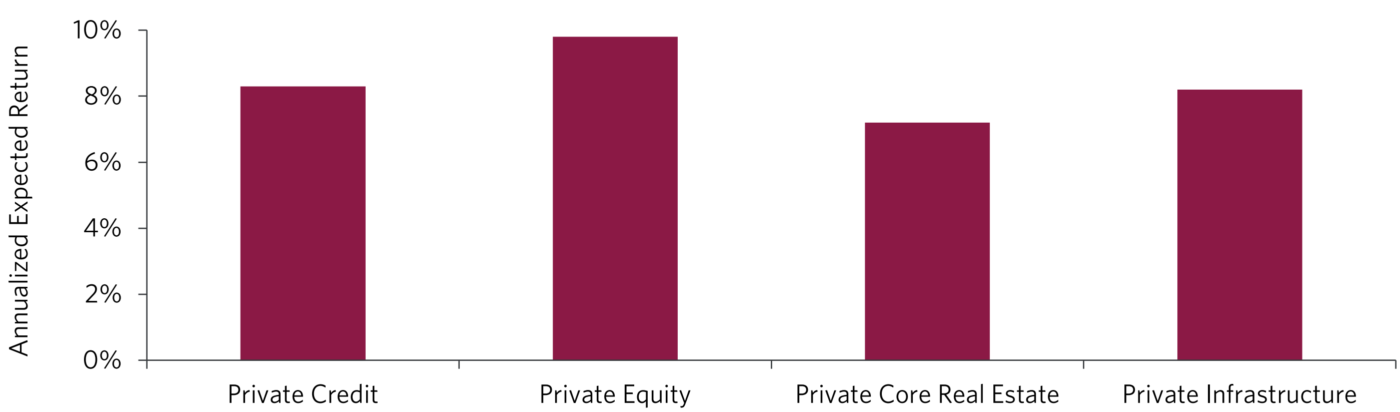
3.5. Private market alternatives

Key takeaways:

In a balanced portfolio seeking higher returns, private market alternatives represent complements to traditional asset classes, offering expected annualized returns of 8-10% in LC (**Chart 9**). A prudent portfolio allocation focusing on high-quality assets in private credit, core real assets, and growth-oriented private equity strategies can help investors achieve steady income, inflation protection, and long-term growth.

- **Private Equity:** Our expected annualized returns in LC are 9.8%. This enhanced return over public market equivalents reflects risk premiums for illiquidity, complexity, and greater exposure to idiosyncratic risk. Growth equity strategies, now representing the largest share of private equity deals, have gained traction as valuations stabilize and mid-market investment opportunities expand. The secondary market is growing rapidly, providing more liquidity options for aging portfolios and enhancing capital reallocation efficiency.
- **Private Credit:** We expect an annualized LC return of 8.3% to unlevered direct lending strategies (gross yields). This represents a compelling yield premium relative to high-yield bonds. As corporate M&A activity resumes and regulations continue to constrain regional banks' lending, private credit is becoming a more popular financing solution. Floating interest rates in direct lending strategies also hedge against interest rate fluctuations, while sectors like specialty finance and insurance-linked securities provide diversification and resilience with low correlation to traditional markets.
- **Private Real Estate & Infrastructure:** Our expected annualized LC are 7.2% and 8.2%, respectively. These asset classes offer stable income streams and inflation-hedging benefits. In real estate, logistics and industrial sectors remain particularly attractive, bolstered by e-commerce growth. Multifamily housing prospects are strong, especially in Canada, supported by historically low vacancy rates, favorable household formation prospects, and increasing land scarcity in major urban centers. Infrastructure, particularly renewable energy and digital assets, stands out for its inflation hedging features and stable income potential, with yield spreads in infrastructure debt remaining attractive.

Chart 9 Private alternatives, long-term expected returns, % (LC)



Source: CIBC Asset Management calculations using data from the following third party providers: Bloomberg; PitchBook. Calculations based on data available as at January 31, 2025.

3.6. Balanced portfolio

Key takeaways:

The 10-year annualized expected return for a representative Balanced Portfolio (60% equity, 40% bonds) is 5.3%. This is lower than last year's projection of 5.9%, reflecting larger valuation and USD headwinds, but similar to the 5.4% projected a few years ago. This expected return can be further enhanced by allocating, as appropriate, to actively managed investment strategies (our analysis excludes potential alpha returns from manager skill), tactical asset allocation, or by increasing exposure to higher-performing asset classes (such as EMs and alternatives) based on risk tolerance.

Appendix

Description of methodology

1. Public market fixed income and equity

Overview: We calculate our expected returns for public fixed income and equities using a building-block approach that includes: 1) current income, 2) income growth, and 3) reversion to long-term equilibrium valuation. For fixed income, equity, and currencies, we adopt the simplifying assumption of linear reversion to long-term fair value over our 10-year forecast horizon.

- **Current Income:** Coupons or dividend yields.
- **Income Growth, Equities:** This component captures the expected annualized percentage change in earnings per share (EPS), which is a function of projected trade-weighted nominal GDP growth and a multiplier. The multiplier is typically 1.0 for most countries, indicating that total earnings grow at the same pace as aggregate demand. For countries with significant exposure to technology or strong investment tailwinds from geopolitical risks, we assume a moderately higher multiplier. Our EPS outlook is also influenced by share buybacks/dilution and expected changes in profit margins.
- **Income Growth, Government Bonds:** This captures the incremental impact of the difference between current and projected yields.
- **Long-Term Valuation, Equities:** We assume that cyclically adjusted price-to-earnings (CAPE) ratios will converge to their long-term fair values, estimated using proprietary econometric models that incorporate potential GDP growth, the output gap, and long-term interest rates.
- **Long-Term Valuation, Bonds:** We assume that 10-year government yields will converge to their long-term equilibrium yields, which are a function of long-term policy rates and risk premia. Long-term policy rates are calculated using Taylor rules, while country-risk premia are determined by current sovereign credit default swaps, projected debt levels, and the quality of domestic institutions. Term premia are based on the projected supply of and demand for savings. For simplicity, we include valuation roll-down yields and expected defaults net of recovery.

2. Alternatives

Overview: We project returns using a building-block approach for liquid and private alternatives, adding premia to the projected long-term policy rate. For commodities, our projection is derived from a global supply-demand model.

- **Liquid Alternatives:** We assume an expected return of 5% plus cash, which serves as a standard return target.
- **Commodities:** We use a global supply-demand model to derive future oil prices, primarily driven by our economic outlook for EM countries. Our framework connects the copper and agricultural price outlooks to the oil projection. Gold prices depend on global economic growth and money supply growth rates.
- **Private Market Alternatives:** For each asset class, we add an appropriate risk premium to the most comparable benchmark index, based on the historical spread. We also include the expected change in any associated illiquidity premium, as well as idiosyncratic factors specific to individual private alternative asset classes.

3. Currencies

- **Reversion to long-term fair value:** Reversion to Long-Term Fair Value: Projected currency returns are determined by current deviations of exchange rates from estimated equilibria, measured using proprietary Behavioural Equilibrium Exchange Rate (BEER) models that incorporate price levels, productivity, and terms of trade. These returns also account for projected changes in estimated equilibria driven by country inflation and productivity differentials.

4. Macroeconomic Inputs

- **Nominal GDP Growth:** This variable is key to our long-term projections for equity earnings growth, price-to-earnings ratios, and interest rates. Nominal growth consists of inflation and real growth.
- **Real GDP Growth:** This variable captures economic growth and is driven over the long run by labor input (total hours worked) and productivity (the change in GDP per hour worked). For labor input, we use external projections from the United Nations on working-age populations, complemented by country-specific assumptions on participation rates and immigration. This methodology allows us to estimate projected percentage changes in hours worked. For productivity growth, we calculate our country-specific outlook based on a common productivity factor (proxied as the change in US productivity) and country-specific factors, such as investment tailwinds or headwinds.
- **Inflation:** Our outlook includes the expected inflation effects of demand (e.g., strong investment) and supply (e.g., labor shortages) shocks on country output gaps (e.g., remaining positive) and monetary policy (e.g., limited downside on policy rates).

Authors

Eric Morin
Director
Global Macro & Strategy

Michael Sager
Managing Director & Head
Multi-Asset & Currency Management

Francis Thivierge
Senior Portfolio Manager
Multi Asset & Currency Management

Erik Franco
Senior Analyst
Multi-Asset and Currency Management

Vasilios Tsimiklis
Associate Portfolio Manager & Investment Strategist
Multi-Asset and Currency Management

About CIBC Asset Management

At CIBC Asset Management, we believe that every customized investment solution begins with research and rigour. We specialize in a variety of investment solutions such as equities, fixed income, currency management, liability-driven investments, asset allocation, and responsible investments.

Across a spectrum of investment solutions, we commit to best-in-class research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset-class teams. By sharing insight across asset class teams, we maximize opportunities to add value to our client portfolios.

Contact us any time

To learn more about CIBC Asset Management and our investment solutions, please contact your advisor or your CIBC representative. For more insights, connect with us on LinkedIn.

[1] Clark, October 2023. U.S. Focuses on Deterrence as China Raises Stakes in Indo-Pacific. U.S. Department of Defense. Accessed January 10, 2025.

[2] American Society of Civil Engineers, 2021. A Comprehensive Assessment of America's Infrastructure. Accessed January, 2025.

[3] Christoffersen, February 2024. Enable or Inhibit: Power Grids, Key to the Energy Transition, Require $3.1 Trillion in Investments by 2030. Rystad Energy. Accessed January 10, 2025.

[4] Klein, July 2024. 85% of new electricity built in 2023 came from renewables. Canary Media. Accessed January 10, 2025.

[5] IEA, October 2024. Massive global growth of renewables to 2030 is set to match entire power capacity of major economies today, moving world closer to tripling goal. Accessed January 10, 2025

[6] Kouamé, January 2024. Gearing up for India's Rapid Urban Transformation. World Bank Group. Accessed January 10, 2025.

[7] IEA, March 2022. The Role of Critical Minerals in Clean Energy Transitions. Accessed January 10, 2025.

[8] Bloomberg News, July 2023. Xi's Pitch to Investors Hinges on Revitalizing State-Owned Firms. Accessed January 10, 2025.

[9] U.S. House Select Committee on the Chinese Communist Party, July 2023. Letter from the Committee to the Chairman and Chief Executive Officer MSCI Inc. Accessed January 10, 2025.