



Expectations for Capital Market Returns

What You Need to Know

When you meet with your Edward Jones financial advisor to set and review your financial goals, you can use Edward Jones' capital market assumptions to help:

- » Select an appropriate portfolio objective and asset allocation
- » Understand the trade-offs when selecting an appropriate withdrawal rate
- » Understand the trade-offs when selecting an appropriate savings rate
- » Make other decisions necessary to help you achieve your goals

You can't predict what your investments will be worth in the future, but looking at past performance and current market conditions can help estimate a likely range for your future returns. The Edward Jones Investment Policy Committee (IPC) has a systematic process in place to review these return expectations and update them when necessary.

Returns for Different Portfolio Objectives

From 1926 to 2019, the S&P 500's annual return averaged 10%. Mid- and small-cap returns were higher. We expect average returns for diversified U.S. equities to range from 5.5% to 7.5% and average returns for diversified international equities to be in the range of 7% to 9% over the long term. Our expectations are for fixed-income returns to average 3% to 4.25%. Therefore, if your portfolio objective is Balanced Growth and Income, for example, you can expect a long-term average return between 4.5% and 6.5%.

Each portfolio objective shown below includes a mix of equity and fixed-income investments that should reflect your comfort with risk and your investment time frame. Remember, however, each year's actual returns will be quite different from the long-term averages suggested below. Similarly, even 10-year returns can vary widely compared to those for 30 years. We calculate the range of possible returns so they are reasonable estimates for longer periods. The risk of each Portfolio Objective is measured by its historical standard deviation and increases as the percentage of equity in the portfolio increases.

Portfolio Objective	Range of Expected Long-term Taxable Portfolio Returns	Standard Deviation*
Income Focus	3.5% - 5.5%	5%
Balanced toward Income	4.0% - 6.0%	6%
Balanced Growth & Income	4.5% - 6.5%	8%
Balanced toward Growth	5.0% - 7.0%	10%
Growth Focus	5.5% - 7.5%	13%
All-equity Focus	6.0% - 8.0%	15%

Source: Edward Jones calculations, February 2020. Standard deviation is one way to measure risk. A higher number means that the value of your portfolio will fluctuate more. There are no guarantees that these expected returns can be met. Expected returns don't consider fees and taxes that could reduce actual returns. Return ranges are determined by taking the percentage of each investment type and estimating the overall return for investments held at least 10 years.

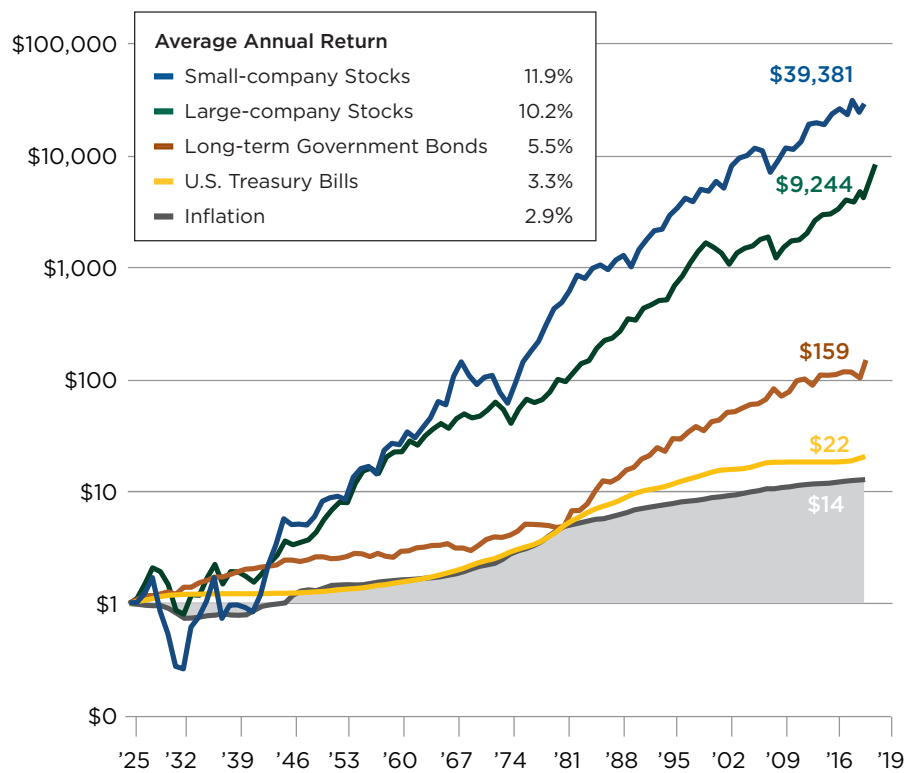
*Rounded to nearest whole percent.

Risk and Return

Looking at periods of 10 years or longer, diversified equity investments have almost always provided higher returns than fixed-income investments (bonds), and fixed-income investments generally provide higher long-term returns than cash investments, such as Treasury bills. In exchange for these higher returns, investors have weathered greater price swings on equity investments. Most investors own portfolios that include the three broad investment types (equities, fixed income and cash), combining relatively stable returns with returns that vary more widely.

Long-term Investment Returns

Growth of a \$1 Investment (1926-2019)



Small-company stocks represented by the IA SBBI US Small Stock Index.

Large-company stocks represented by the IA SBBI US Large Stock Index.

Long-term government bonds represented by the IA SBBI US LT Govt Index.

U.S. Treasury bills represented by the IA SBBI US 30 Day Tbill Index.

Inflation represented by the IA SBBI US Inflation Index.

Source: Morningstar Direct, 12/31/2019. Past performance is not a guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Calculations assume reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. Small-cap stocks carry greater risk and have greater market fluctuation than large-company stocks. Treasury bills and government bonds are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value. Fees, commissions and charges are not included and would have a negative impact on investment performance.

Our Investment Policy Committee reviews capital market assumptions at least once a year. These return and risk expectations are designed for current investments, so they are based on today's conditions as well as historical performance. We calculate capital market assumptions for each asset class and combine them into estimates for every portfolio objective.

As you know, yearly returns can change drastically, but over time the good and bad years tend to average out. As a result, long-term returns are more stable, which is why we don't think the range of expectations about future investment returns should change very much over time. We use long-term historical averages to estimate risks and correlations for each asset class. Then we use several factors in determining expected returns and risks for each asset class, including:

- Expected rate of inflation
- Dividend yields on each equity asset class
- Expected growth rates of earnings and dividends
- Price-to-earnings ratios
- Current interest rate and return spreads on fixed-income investments
- Historical relationships among various asset classes

These variables are used in mathematical models that provide what we believe are realistic long-term return and risk expectations.

Expected Long-term Equity Return Assumptions

Inflation – One of the biggest risks for long-term investors is rising prices. Since 1926, U.S. inflation has averaged about 3% per year but has ranged from mild deflation to more than 18% inflation. Currently, we believe the forces that will drive inflation in either direction are structurally well-balanced. Because of this, we expect inflation to average between 2% and 3% over the long term. Investments that provide an opportunity for rising income help address the impact of inflation.

Expected U.S. equity returns – We use a range of 1.5% to 2.5% for the dividend yield, which is below its 4% long-term average since 1926. Our expected adjusted earnings growth rate is 4% to 5%, slightly lower than its historical average due to above-average returns over the past five years.

Expected international equity returns – Long-term international equity returns are expected to be higher than U.S. equity returns. In addition to above-average foreign dividend yields of 2.5% to 3.5%, valuations remain below their long-term averages in many countries. Higher returns could result as yields and valuations return to their long-term averages over time, but we limit their impact to keep the range of returns reasonable for longer-term periods as well.

Expected Long-term Equity Return Ranges		
	U.S.	International
Dividend yield	1.5% - 2.5%	2.5% - 3.5%
Expected adjusted long-term earnings growth	4.0% - 5.0%	4.5% - 5.5%
Long-term equity returns	5.5% - 7.5%	7.0% - 9.0%

Source: Edward Jones calculations, February 2020.

Returns for Fixed Income and Cash

In general, we expect interest rates – which have been significantly impacted by accommodative global monetary policy – to rise gradually and normalize over time. Long-term fixed-income returns are tied to expectations about inflation as well as other changes in economic and market conditions. Expected long-term returns on long-term fixed-income investments may vary from today's rates because their prices drop when rates rise, partly offsetting higher rates in the future. In contrast, long-term expected returns on short-term investments such as cash, CDs and short-term bonds may be higher because today's low rates are averaged with higher rates in the future.

Expected Long-term Fixed-income Return Ranges		
	Taxable	Municipal
Long-term fixed income	3.75% - 4.25%	3.25% - 3.75%
Short-term fixed income	3.0% - 3.75%	2.75% - 3.25%
Cash	2.4%	2.4%

Source: Edward Jones calculations, February 2020.

Recommendations

Using a combination of historical averages and current market conditions can provide reasonable estimates of future returns, but no one can know how accurate they'll be. Our capital market assumptions are constructed using return and risk calculations for each asset class, and your experience could be different if your portfolio is not as well-diversified.

However, many investors don't earn the returns available in the market because they trade frequently and switch strategies at the wrong times – usually selling investments that have declined and buying those that have already risen. Over time, prices rise and fall sharply, and annual returns can vary widely. The challenge for most investors is to stick with the strategy they've chosen. Our advice is to:

- Build a well-diversified portfolio with the mix of quality investments tailored for your situation
- Review and rebalance your portfolio at least annually to ensure it remains aligned with your long-term financial goals
- Stay invested over the long term

This approach has helped investors on the path toward their financial goals in the past, and we think it can work for you as well. Talk with your financial advisor about how these strategies can help you work toward your own long-term financial goals.

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