Expectations for Capital Market Returns

How much will my investments be worth in the future? That's the primary question most people ask when investing. Unfortunately, no one can tell you exactly what your investments will earn in the future. However, we can provide some good estimates about a likely range of future returns by reviewing historical performance and what's happening in the market today. To help you as you plan for retirement or other important financial goals, the Edward Jones Investment Policy Committee (IPC) has a systematic process in place to review these return expectations and update when necessary.

Our capital market assumptions are designed to assist you and your advisor when:

- Selecting a Portfolio Objective
- Determining the appropriate withdrawal rate
- Discussing other decisions to help you achieve your long-term financial goals

While past performance does not guarantee future results, the guidance combines our views on the current environment with long-term historical performance. The long-term annual rate of return on the S&P/TSX Composite Index (TSX) was 9.3% per year between 1960 and 2020.[1] We expect average returns for Canadian equities to be in the range of 6.0% to 7.5% and average returns for long-term fixed-income investments to be in the range of 3.0% to 3.5% over the long term. As a result, if your portfolio objective is Balanced Growth & Income, we expect its average annual return to be in the range of 4.5% to 6.5%. The return expectations for the six portfolio objectives are shown in the table below.

Returns for Different Portfolio Objectives

Each portfolio objective is a mix of equity and fixed-income investments designed to reflect your comfort with risk and your investment time frame. Our expected returns stated above and below are for the overall market and don't consider fees and taxes that could reduce actual returns. We have taken the recommended mix of assets for each portfolio objective to estimate the range of annual return rates you might expect if you own your investments for 10 years or more. Remember, however, each year's actual returns can be quite different from the long-term averages suggested below.

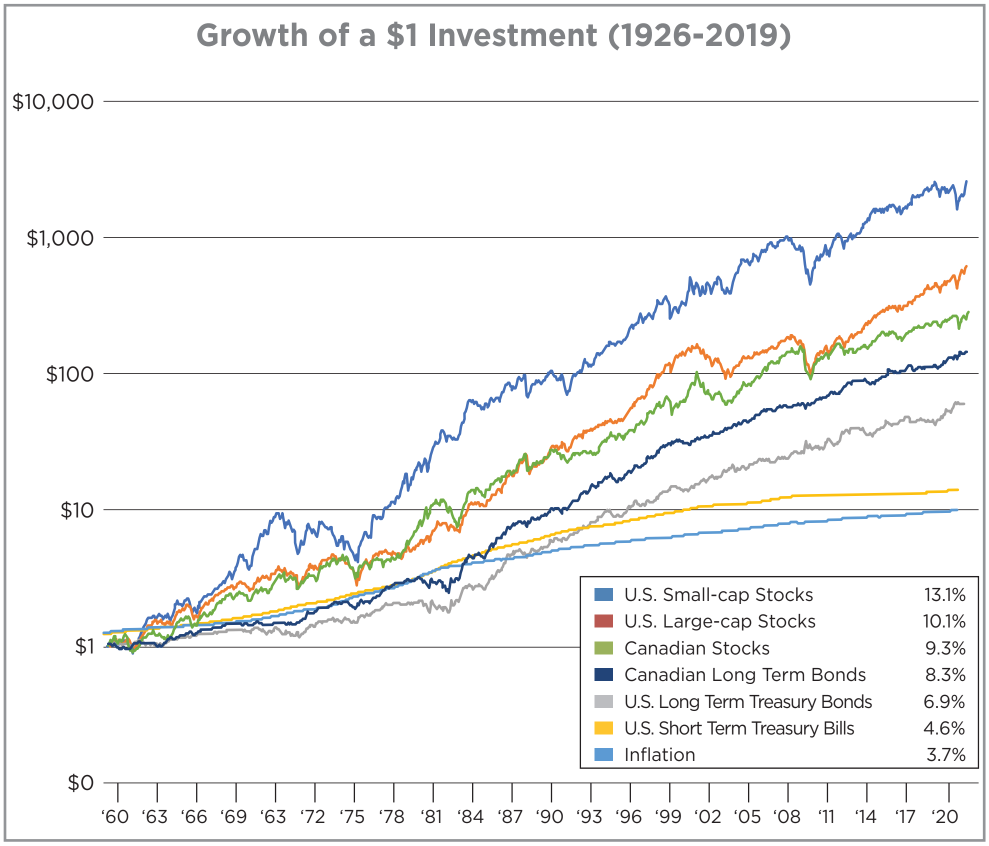
Portfolio Objective	Range of Expected Long-term Taxable Portfolio Returns	Standard Deviation*
Income Focus	3.0%-5.0%	5%
Balanced toward Income	3.5%-5.5%	6%
Balanced Growth & Income	4.5%-6.5%	8%
Balanced toward Growth	5.0%-7.0%	10%
Growth Focus	5.5%-7.5%	12%
All-equity Focus	6.0%-8.0%	14%

Source: Edward Jones calculations, February 2021. Standard deviation is one way to measure risk. A higher number means that the value of the portfolio is likely to fluctuate more. There are no guarantees that these expected returns can be met.

*Rounded to nearest whole percent.

Risk and Return

Looking at 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. In contrast, the variation of returns from year to year historically has been highest for equity investments and lower for fixed-income investments. In exchange for these higher returns, investors have weathered greater price fluctuations in equity investments. Most investors own portfolios that include these three asset classes (equities, fixed income and cash) to provide a combination of relatively stable returns with those that vary more greatly.



Source: Morningstar Direct, Bloomberg, Edward Jones Calculations; as of 12/31/2020. All values represented in local currency. Past performance is not a guarantee of future results. Hypothetical value of $1 invested at the beginning of 1960. Assumes reinvestment of income and no transaction cost or taxes. This is for illustrative purposes and not indicative of any investment. An investment cannot be made directly in an index.

Capital Market Assumptions

The Edward Jones IPC reviews the assumptions about capital markets at least once a year. These assumptions are designed for current investments, so they take into account the current environment as well as the historical performance of various assets. They are based on the:

- Expected rate of inflation
- Dividend yields on Canadian and international equities
- Expected growth rates of earnings and dividends
- Price-to-earnings ratios
- Interest rates on fixed-income investments
- Historical relationship among various asset classes

How Much Should Capital Market Assumptions Change over Time?

We think the range of expectations about future investment returns should not change very much over time. From year to year, stock market prices and current interest rates typically vary widely, but good and bad short-term performance tends to average out over time. As a result, longer-term returns vary much less widely.

Inflation

One of the biggest risks for long-term investors is rising prices (or inflation). Since 1960, inflation has averaged 3.8% per year, but it has ranged from a low of nearly 0% to more than 12%. The impact of the 2008 recession may keep price increases below average in the intermediate-term; therefore, we expect moderately low inflation, similar to that of the recent past. Our expectation is for inflation to average between 2% and 3% per year over the next decade. Investments that provide rising income help address the impact of inflation.

Expected Long-term Equity Return Assumptions

Canadian dividend yield – Just below its long-term average of 3.1% since 1956, the dividend yield is slightly under 3%. We use a range of 2.5% to 3.0% for the Canadian dividend yield.[1]

Expected long-term growth rate adjusted for current stock market conditions – For Canada, the historical growth rate of earnings is 5.7% [1], and we expect the range of earnings growth over the next 10 years to be slightly below its long-term average. We expect valuations in Canada to grow over time, so we made a slight upward adjustment to our expected Canadian equity return rate.

Expected U.S. and overseas equity returns – We expect long-term overseas equity returns to be higher than the U.S. and Canada equity returns, which is driven mainly by our expectation for a higher foreign earnings growth of 4.5% - 5.5%. Valuations are high relative to long-term historical trends and, therefore, may pressure returns as they revert back to their long-term averages over time, but we expect the dividend yield and earnings growth to keep international returns within our expected ranges over the next 10-30 years.

Expected Long-term Equity Return Ranges

	Canada	U.S.	Overseas
Dividend yield	2.5% – 3.0%	1.5% - 2.5%	2.5% - 3.5%
Expected adjusted long-term earnings growth	3.5% - 4.5%	4.0% - 5.0%	4.5% - 5.5%
Long-term equity returns	6.0% – 7.5%	5.5% - 7.5%	7.0% - 9.0%

Source: Edward Jones calculations, February 2021.

Returns for Fixed Income and Cash

The best approach for estimating long-term fixed-income returns is to use the current long-term bond rate, since changes in long-term interest rates are unpredictable and are tied to expectations about inflation as well as other changes in economic and market conditions. Estimates of shorter-term bond rates combine current rates for GICs and short-term bonds with long-term historical averages. The rates for cash are based on current short-term Treasury bill rates and historical averages.

Expected Returns for Fixed Income over the Long Term

	Expected Range
Long-term fixed income	3.0% - 3.5%
Short-term fixed income	2.75% - 3.25%
Cash	2.1%

Source: Edward Jones calculations, February 2021.

Recommendations

As you review your portfolio with your Edward Jones advisor, keep in mind that you need a long-term investment strategy to help you receive the long-term returns available in the market. 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.

However, many investors fail to 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 vary widely; the challenge for most investors is to continue to execute 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 it periodically to help ensure it remains appropriately balanced
- Stay invested over time

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

The S&P/TSX Composite is an unmanaged index that cannot be invested into directly.
Source: 1 Morningstar Direct. 2 Bloomberg.

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