Capital market assumptions: Expectations for risk and return

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, reviewing current market conditions, our long-term global outlook, and historical trends can help estimate a likely range of future returns for your investments. To help you plan for retirement or other important financial goals, the Edward Jones Asset Allocation Team has a systematic process in place to develop long-term risk and return expectations and update them as necessary. These expectations are developed with oversight from the Investment Policy Committee (IPC).

Our asset-class approach

To set realistic performance expectations for your investments, it's important to focus first on identifying an appropriately diversified portfolio that balances your comfort with risk, time horizon and financial goals. Asset allocation, or dividing funds across a variety of asset classes, provides the foundation of a portfolio, in our view. We expect combining multiple asset classes in your portfolio to provide diversification benefits.

Therefore, our team of investment professionals follows an established process to analyze asset classes, or groups of investments with similar risk and return characteristics. Some of the asset classes include Canadian and U.S. large-cap stocks, Canadian and U.S. small- and mid-cap stocks and investment-grade bonds. In the process, we incorporate our long-term outlook to determine how we expect each asset class to perform over time and in relation to one another, which we call our capital market assumptions. We then use these expectations to provide portfolio guidance to help you align your portfolio with your goals.

Trade-off between risk and return

While it may be tempting to aim for high returns with minimal risk, we believe such an objective is unrealistic over long periods of time. In general, higher returns come along with higher risk. Looking at periods of 10 years or longer, diversified equity investments have almost always provided higher returns than fixed-income investments (bonds and cash). In exchange for these higher returns, investors have weathered greater price swings on equity investments. We recommend building a portfolio across a variety of equity and fixed-income asset classes, combining relatively stable returns with returns that vary more widely.

Maintaining focus and perspective

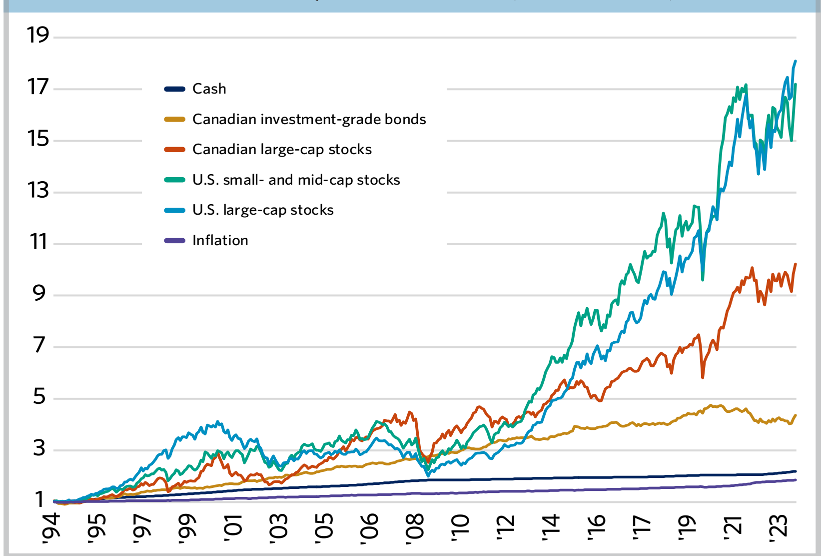
Our Asset Allocation Team, with oversight provided by the Investment Policy Committee, reviews capital market assumptions at least once a year but

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 long-term, strategic 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 that help you achieve your goals

Growth of a $1 Investment (1994-2023)



Source: Morningstar Direct, FactSet, Edward Jones. Hypothetical value of $1 being invested from 1/1/1994 - 12/31/2023. Cash represented by the FTSE Canada 91 Day Tbill Index. From 1/1/1994 - 10/31/2000, Canadian investment-grade bonds represented by the FTSE Canada Universe Bond Index. From 11/1/2000 - 12/31/2023, Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. Canadian large-cap stocks represented by the S&P/TSX Composite. U.S. small- and mid-cap stocks represented by the Russell 2500 Index. U.S. large-cap stocks represented by the S&P 500 Index. Inflation represented by the seasonally adjusted month-over-month percentage change in Canadian headline CPI. All returns, with the exception of inflation are total returns expressed in Canadian dollars. Returns do not incorporate fees or any transaction costs. Past performance does not guarantee future results.

also more frequently if market conditions warrant additional reviews. In order to produce realistic expectations, our process incorporates how today's market environment and our long-term global outlook may impact forward-looking returns, while remaining aware of historical trends.

As you know, annual returns can change drastically year-over-year, but over time the good and bad years tend to average out. As a result, long-term returns are generally more stable. Our estimates represent our expectations over the next 30 years, which is why we don't think the range of expectations about future investment returns should change very much over time.

We use several components to estimate the risk, returns, and correlations for each asset class, including:

- Expected rate of inflation
- Dividend yields on each equity asset class
- Expected growth rates of earnings
- Valuation metrics, such as price-to-earnings ratios
- Current interest rate and return spreads on fixed-income investments
- Long-term estimates of interest rates and spread premiums on fixed-income investments
- Historical trends and relationships among various asset classes

Components of our expected long-term equity returns

Equity asset classes	Canadian large-cap stocks	Canadian mid-cap stocks	U.S. large-cap stocks	U.S. small- and mid-cap stocks	Developed overseas large-cap stocks	Developed overseas small- and mid-cap stocks	Emerging-market stocks
Dividend yield	2.7%	2.6%	1.8%	1.6%	2.8%	2.5%	2.5%
Nominal earnings growth	5.2%	5.8%	5.7%	6.6%	4.5%	5.4%	6.3%
Change in valuations	0.5%	1.0%	-0.7%	0.2%	0.2%	0.9%	0.2%

Expected long-term inflation

One of the biggest risks for long-term investors is rising prices (or inflation). Since 1960, inflation has averaged 3.7% per year, but it has ranged from a low of less than 0% to more than 12%. More recently, inflation has declined meaningfully from its peak of over 8% in June 2022. Supply chain disruptions were a large reason behind this surge in inflation, which have since began to normalize. We believe over the longer term, inflation will average about 3%.

Expected long-term equity returns

Each of our recommended equity asset class finished higher in 2023, driven largely by rising valuations. For Canadian and overseas equities, we believe valuations could expand further over the coming years, enhancing long-term return potential. Conversely, we see limited potential for further valuation expansion in the U.S. over the next thirty years. While this may weigh on return potential, we expect corporate profit growth to provide strength.

Given the boost we expect from expanding valuations, as well as the higher dividends yield estimates, we believe Canadian and overseas equity asset classes offer higher long-term average annual return potential when compared to their counterparts in the U.S.

Expected long-term fixed-income returns

Long-term fixed-income returns are tied to expectations about inflation as well as other changes in economic and market conditions. Elevated inflation and tightening monetary policies caused interest rates to rise meaningfully since the beginning of 2022. With long-term fixed-income returns largely driven by the starting yields, particularly for higher-quality bonds, higher yields relative to the previous year have provided greater support to our long-term fixed-income expected returns.

Putting performance into perspective

Equities	Historical perspective (Last 30 years*)	Capital market assumptions (Expectations over the next 30 years)	
	Average annual return	Estimated average annual return	Estimated standard deviation
Canadian large-cap stocks	8.1%	8.4%	13.0%
U.S. large-cap stocks	10.1%	6.8%	12.0%
Developed overseas large-cap stocks	5.2%	7.5%	13.0%
Canadian mid-cap stocks	8.0%	9.4%	13.0%
U.S. small- and mid-cap stocks	9.9%	8.4%	15.5%
Developed overseas small- and mid-cap stocks	5.5%	8.8%	14.0%
Emerging market stocks	4.8%	9.0%	16.0%
Fixed Income			
Canadian investment-grade bonds	5.0%	4.0%	4.5%
International bonds	5.1%	4.4%	3.5%
International high-yield bonds	7.1%	6.7%	8.0%
Cash	2.6%	2.9%	0.5%

*Source: Morningstar Direct, Edward Jones calculations. Historical index returns cover the dates 1/1/1994-12/31/2023. Capital market assumptions are based on Edward Jones calculations as of October 2023. Canadian large-cap stocks represented by S&P TSX Composite Index. U.S. large-cap stocks represented by the S&P 500 Index. Developed overseas large-cap stocks represented by the MSCI EAFE Index. Canadian mid-cap stocks represented by the S&P TSX Completion Index. For periods before 6/1/1999 the S&P/TSX Composite was used to represent Canadian mid-cap stocks. U.S. small- and mid-cap stocks represented by the Russell 2500 Index. Developed overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. For periods before 6/1/1994, the S&P Developed ex U.S. Small-cap index was used to represent developed overseas small- and mid-cap stocks. Emerging-market stocks represented by the MSCI Emerging Markets Index. Canadian investment-grade bonds represented by Bloomberg Canada Aggregate Bond Index. For periods before 11/1/2000 the FTSE Canada Universe Bond Index was used to represent Canadian investment-grade bonds. International bonds represented by the Bloomberg Global Aggregate Hedged Index. For periods before 2/1/1999, the Bloomberg Global Aggregate Bond Index was used to represent international bonds. International high-yield bonds represented by the Bloomberg Global High-yield Index. Cash represented by the FTSE TMX Canada 91 Day Tbill Index. An index is unmanaged, not available for direct investment and does not depict an actual investment. Returns assume reinvestment of interest and dividends back into the index. Returns do not incorporate the impact of trading, liquidity, costs, fees or taxes a client may experience when investing, which may lower performance results. Historic average annual return incorporate the impacts of compounding over time. Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss.

Recommendations

In our analysis, we consider how the current market environment and our long-term global outlook may impact returns over the next 30 years, while staying aware of historical trends. Although we believe this process provides realistic estimates of future returns for each asset class, no one can know how accurate they'll be and your experience could be different, particularly if your investments within each asset class are not well-diversified.

Many investors won'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 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 can work for you as well. Talk with your Edward Jones advisor about how these strategies can help you work toward reaching your long-term financial goals.

