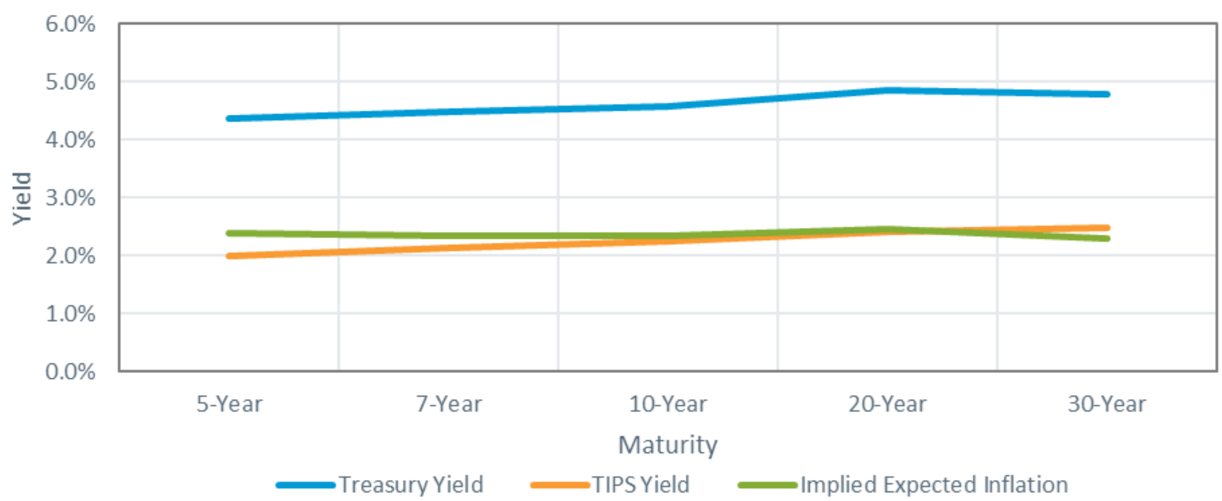
2025 Capital Market Assumptions

Introduction: Every calendar year, RVK produces long-term, forward-looking capital market assumptions through a rigorous, multi-step process, which draws on both quantitative economic and financial inputs as well as qualitative comparisons and analysis. Our *return* estimates are generally based on return decomposition models, which consider factors such as income, future growth, valuation measures, inflation prospects, and economic conditions. The *volatility* and *correlation* assumptions are generally driven by an analysis of historical trends, adjusting for changes in volatility regimes, as well as triangulation considerations.

Summary: Our long-term (20-year) return expectations decreased across broad equity markets following strong 2024 returns, leading to elevated valuations. Many fixed income assumptions increased, reflecting improved yields and better long-run interest rate expectations. Alternative asset class assumptions were mixed, with core real estate experiencing the largest change—which increased due to improved income and valuations following challenging 2024 performance. Fundamentals and assumptions for many other alternative investments remained relatively unchanged, yet many continue to be attractive options for portfolio diversification, alpha generation, and inflation protection.

Inflation: Our 2025 inflation assumption remained constant relative to 2024. This reflects short-term inflationary concerns while also accounting for long-term deflationary factors such as deficits, debt, demographics, automation, and globalization. Market expectations for inflation increased slightly during the year, as outlined in Figure 1 below.

Figure 1: Market Expectations for Inflation



As of December 31, 2024	5-Year	7-Year	10-Year	20-Year	30-Year
Treasury Yield	4.38%	4.48%	4.58%	4.86%	4.78%
TIPS Yield	2.00%	2.13%	2.24%	2.41%	2.48%
Implied Expected Inflation	2.38%	2.35%	2.34%	2.45%	2.30%

Source: FactSet and U.S. Department of the Treasury. Data as of December 31, 2024.

Fixed Income: The majority of domestic fixed income return assumptions were increased, reflecting increased yields and offsetting spread changes, as well as the expectation that the inverted yield curve will normalize over time (please see Figures 2 & 3). Historically, starting bond yields have been rather strongly correlated with future bond returns.

Figure 2: Bloomberg US Aggregate Bond Index Yield

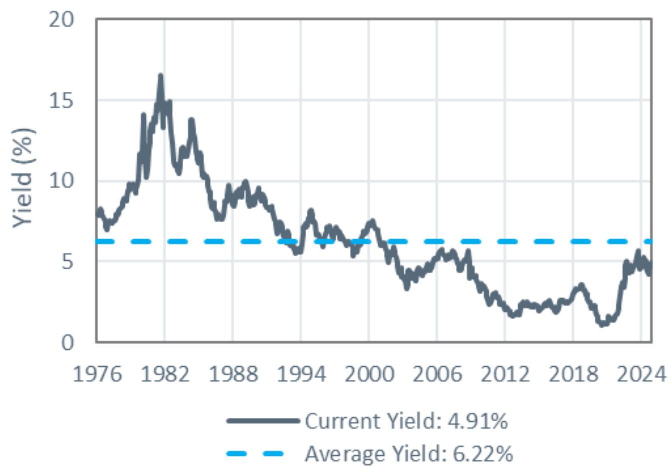
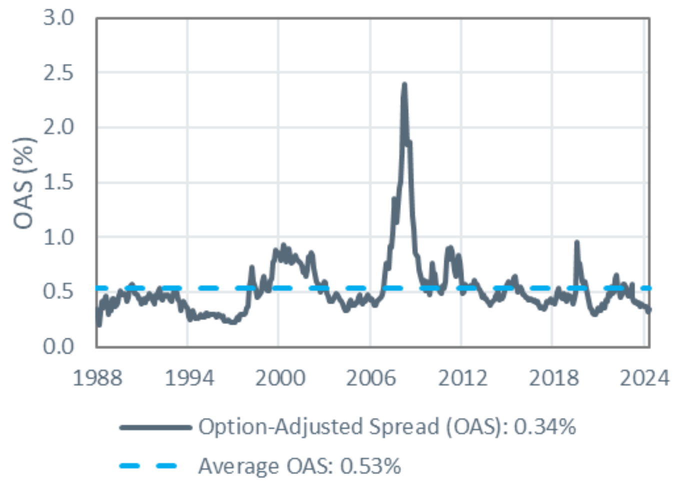


Figure 3: Bloomberg US Aggregate Bond Index Option-Adjusted Spread



Equities: Equity return forecasts decreased for most equity assumptions relative to 2024. The decrease was largely valuation driven (as shown below in Figure 4), as stock prices increased significantly in 2024, driven by a group of the largest growth-oriented companies, the “Magnificent 7.” The year-end valuation for large-cap domestic equities, as represented by the Shiller CAPE, ranked in the 98th percentile of historical values.

Figure 4: S&P 500 CAPE Ratio*

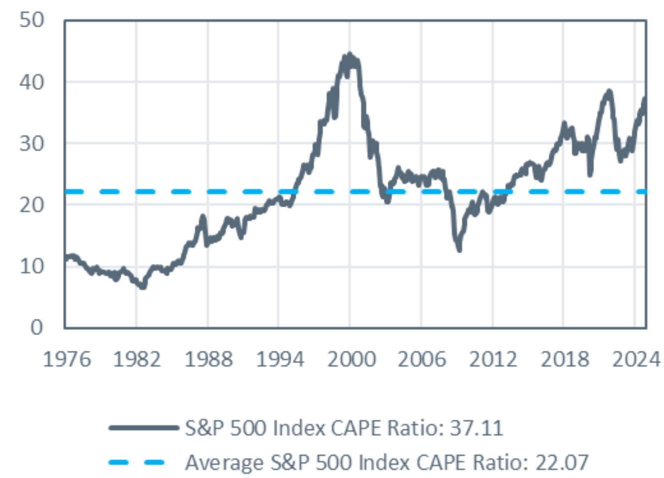
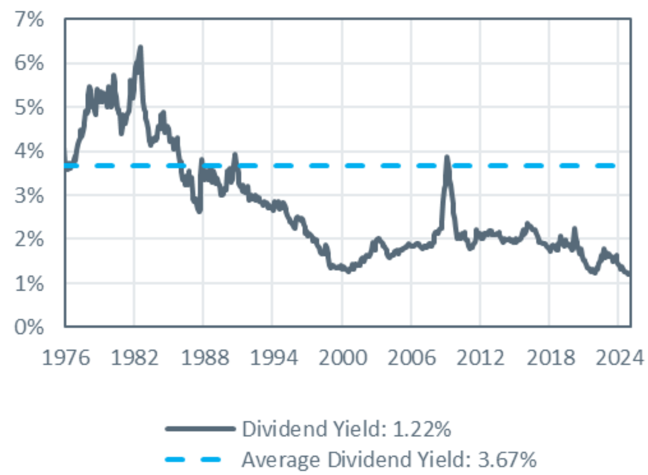


Figure 5: S&P 500 Dividend Index

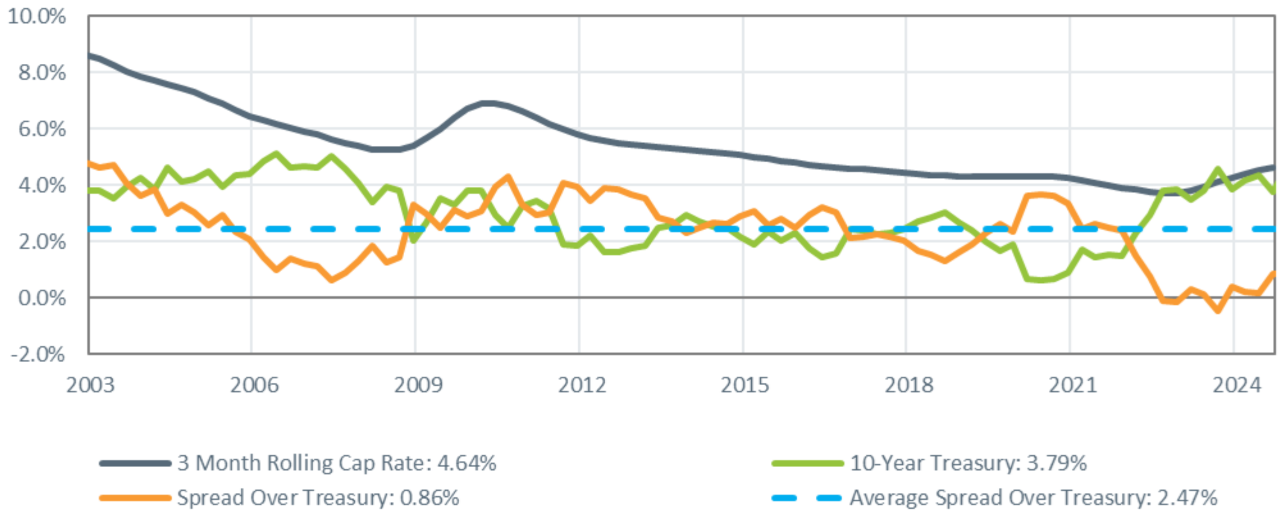


Source: FactSet. Data as of December 31, 2024.

*10-Year Cape Ratio

Real Estate: Our core real estate return expectation increased as income yields for core real estate assets improved year-over-year. However, income levels are still challenged relative to elevated Treasury rates and cap rates remain relatively low as well despite recent improvements (Figure 6).

Figure 6: Cap Rates & Spreads: NCREIF ODCE Index



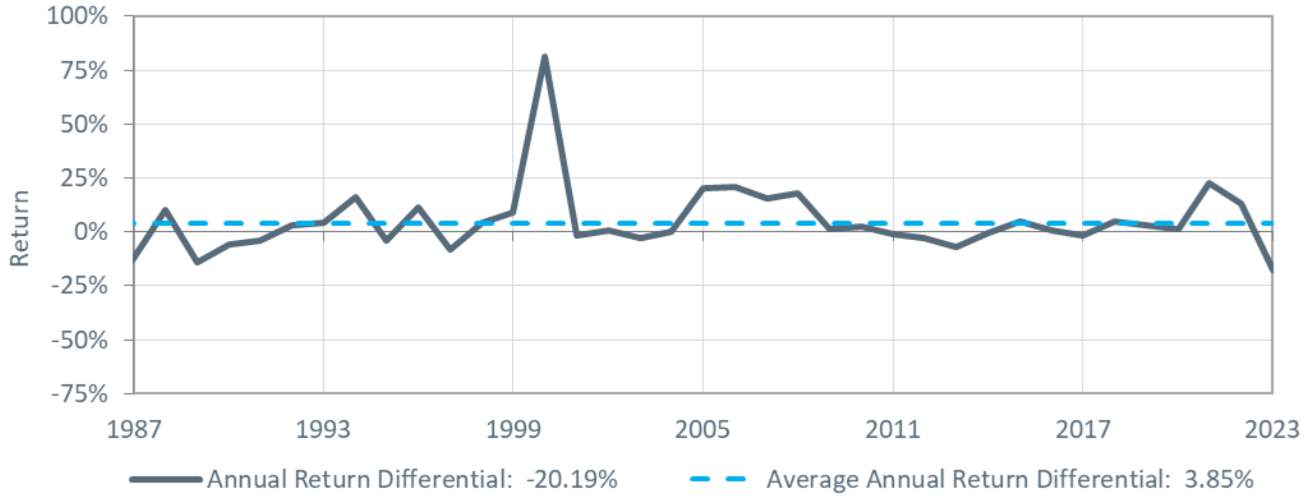
Hedge Funds: Hedge fund return assumptions remained unchanged, as decreased expected returns from beta were minimal. Alpha levels remain fairly robust since inception, but post-GFC alpha levels are more muted (Figure 7).

Figure 7: HFRI Multi-Strategy 1-Year Rolling Alpha

Source: NCREIF and FactSet. Data as of September 30, 2024.

Private Equity: The private equity return forecast was held constant despite the decrease in the underlying public market return forecast. The Large/Mid Cap US Equity assumption was decreased by 0.50%, mostly due to higher valuations. Our spread assumption increased to 275 basis points (geometric) above Large/Mid Cap US Equities, due to a variety of factors, including the changing characteristics of the public market reference index.

Figure 8: Annual Return Differential
Cambridge US Private Equity & Venture Capital Index vs. S&P 500 Index

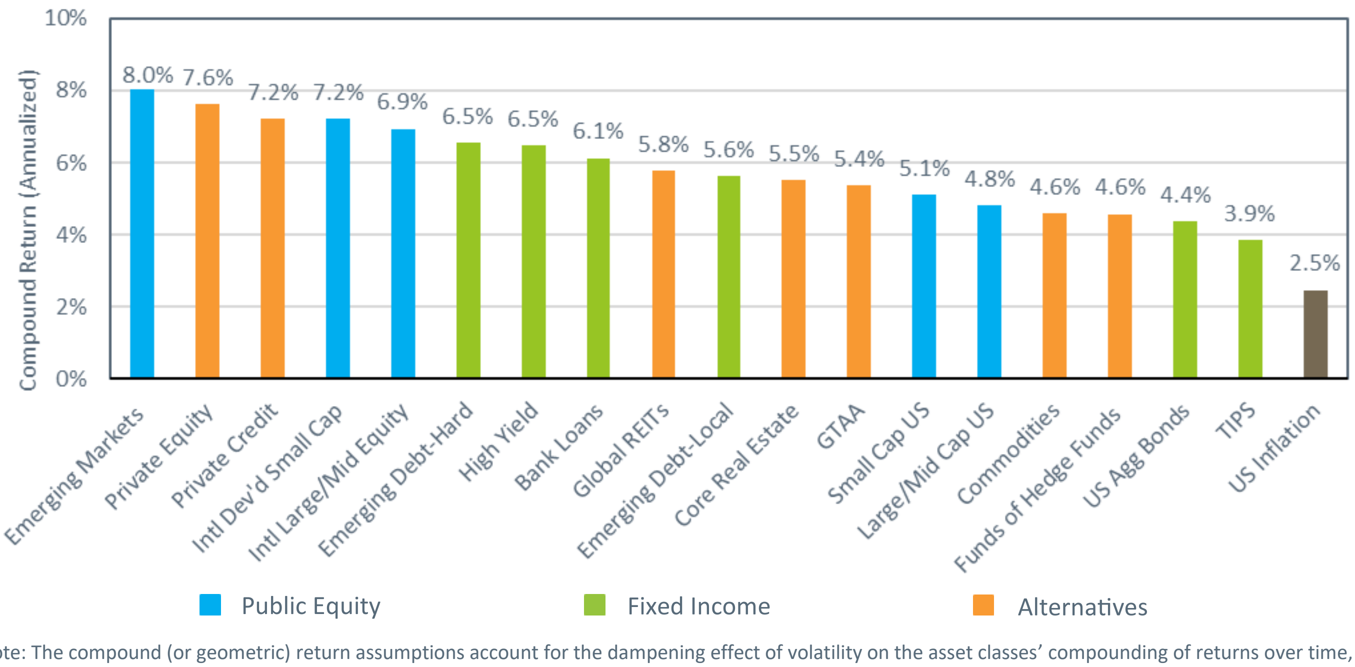


Private equity source: Cambridge Associates LLC and FactSet. Data as of June 30, 2024. Cambridge index is pooled horizon internal rates of return, net of fees, expenses, and carried interest.

2025 Long-Term Return Expectations and Uncertainty of Returns

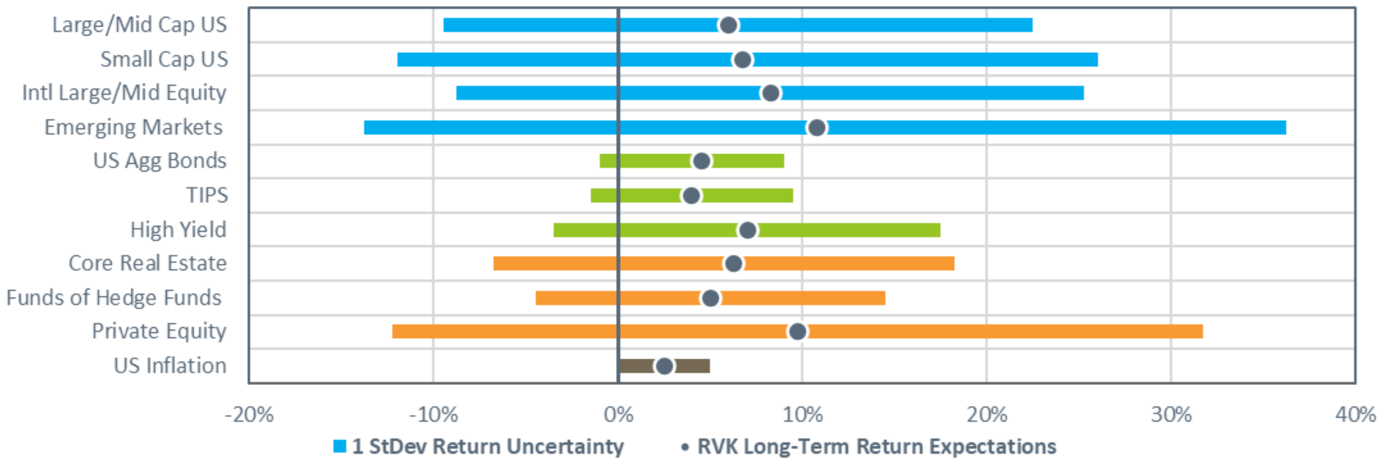
Asset Class	2024 Nominal Return	2024 Risk (St. Dev.)	2025 Nominal Return	2025 Risk (St. Dev.)	Change (2025-2024) Nominal Return	Change (2025-2024) Risk (St. Dev.)
Large/Mid Cap US	6.50%	16.00%	6.00%	16.00%	-0.50%	0.00%
Small Cap US	7.00%	19.00%	6.75%	19.00%	-0.25%	0.00%
Intl Large/Mid Equity	8.25%	17.00%	8.25%	17.00%	0.00%	0.00%
Intl Dev'd Small Cap	9.00%	20.00%	9.00%	20.00%	0.00%	0.00%
Emerging Markets	11.25%	25.00%	10.75%	25.00%	-0.50%	0.00%
US Agg Bonds	4.00%	5.00%	4.50%	5.00%	0.50%	0.00%
Emerging Debt-Hard	7.00%	10.00%	7.00%	10.00%	0.00%	0.00%
Emerging Debt-Local	6.00%	11.50%	6.25%	11.50%	0.25%	0.00%
TIPS	4.00%	5.50%	4.00%	5.50%	0.00%	0.00%
High Yield	7.00%	10.50%	7.00%	10.50%	0.00%	0.00%
Bank Loans	6.50%	9.00%	6.50%	9.00%	0.00%	0.00%
Core Real Estate	5.75%	12.50%	6.25%	12.50%	0.50%	0.00%
Global REITs	7.75%	21.00%	7.75%	21.00%	0.00%	0.00%
Funds of Hedge Funds	5.00%	9.50%	5.00%	9.50%	0.00%	0.00%
GTAA	5.75%	9.00%	5.75%	9.00%	0.00%	0.00%
Private Credit	8.00%	13.00%	8.00%	13.00%	0.00%	0.00%
Private Equity	9.75%	22.00%	9.75%	22.00%	0.00%	0.00%
Commodities	6.25%	17.50%	6.00%	17.50%	-0.25%	0.00%
US Inflation	2.50%	2.50%	2.50%	2.50%	0.00%	0.00%

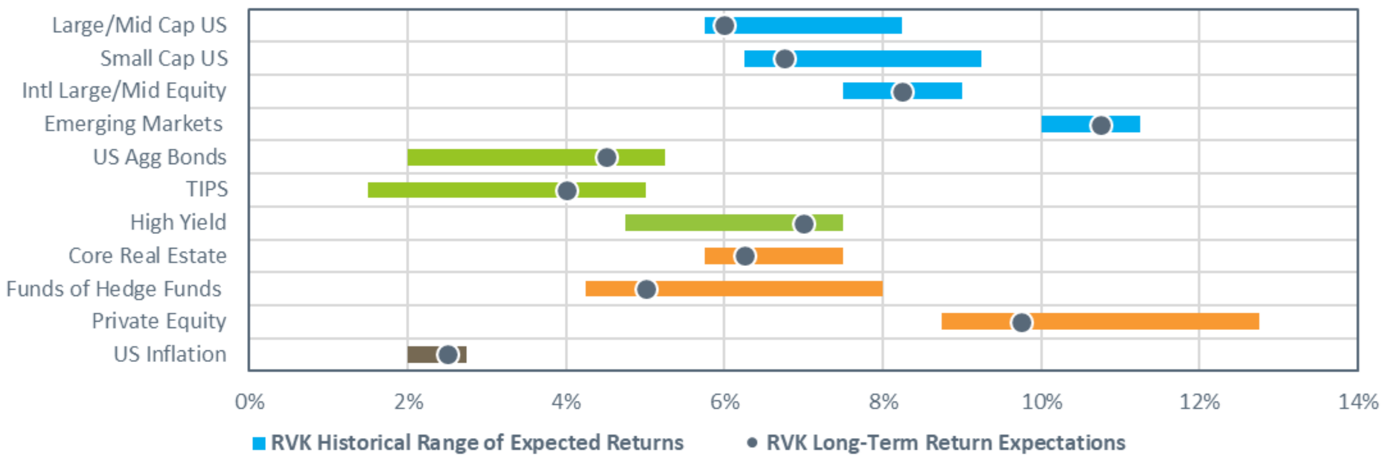
2025 Long-Term Return Expectations and Uncertainty of Returns



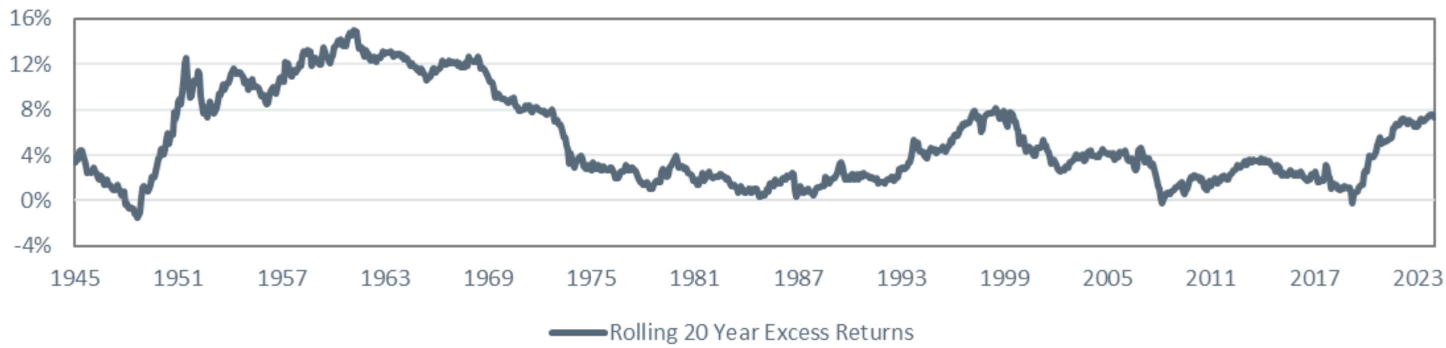
Note: The compound (or geometric) return assumptions account for the dampening effect of volatility on the asset classes' compounding of returns over time, and thus are less than their arithmetic counterparts over time.

2025 Long-Term Return Expectations and Uncertainty of Returns*





Historical Return Premium of Stocks vs. Bonds**



Note: *Data shown includes 2006 through 2025 Capital Market Assumptions for selected asset classes.

**Stocks are represented by the S&P 500 index, while bonds are represented by the US Intermediate bonds prior to 1976, and the Bloomberg US Aggregate Bond Index thereafter.

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