

# Long-Term Investment Perspectives

**CIO Office** | As of March 31, 2025



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Long-Term

**Market Expectations**

# Long-Term Market Expectations – Overview

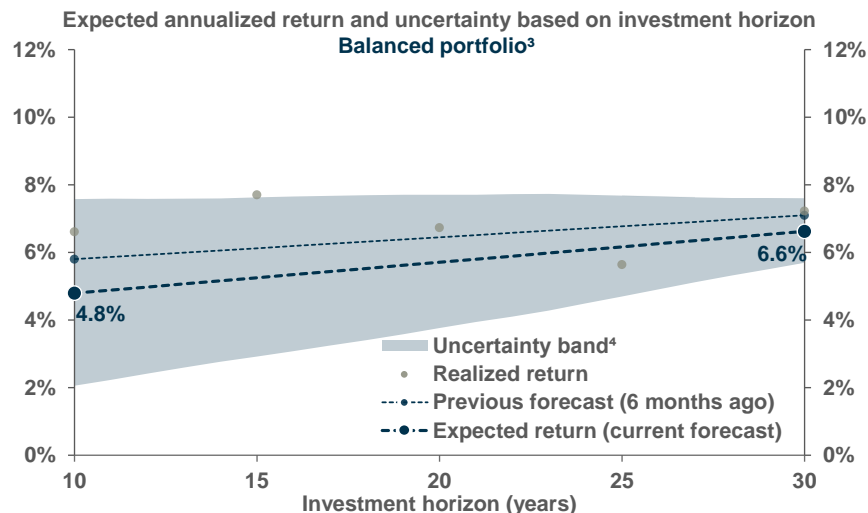
## Long-Term Market Expectations: Spring 2025 Update

Twice a year, we update our Long-Term Market Expectations (LTMEs) for major asset classes over a 10-year and 30-year investment horizon. Based on our building-block methodology (10-year) and risk premia methodology (30-year), these projections are the foundation of National Bank Investments' strategic asset allocation (SAA) and portfolio construction.

For the current edition, this results in an anticipated annual return of 4.8% for a benchmark balanced portfolio over a 10-year investment horizon, which is lower than the realized return of 6.6% over the past 10 years. This forecast is also lower than the 5.9% we anticipated in the Fall 2024 update, with a slightly less favorable outlook for both stocks and bonds.

Our model now projects an annual return of 3.5% for the Canadian fixed-income universe over the next 10 years, with the forecast being pulled down by a lower Bank of Canada policy rate and lower starting bond yields relative to six months ago. On the equity side, the expected 10-year annual return of 4.8% for our equity benchmark<sup>2</sup> – a performance below the historical average – is mainly caused by elevated valuations, especially in the United States.

Ultimately, beyond the inevitable short-term fluctuations, expectations for a balanced portfolio remain largely positive for long-term investors, albeit slightly lower than the above-average returns achieved in recent years.

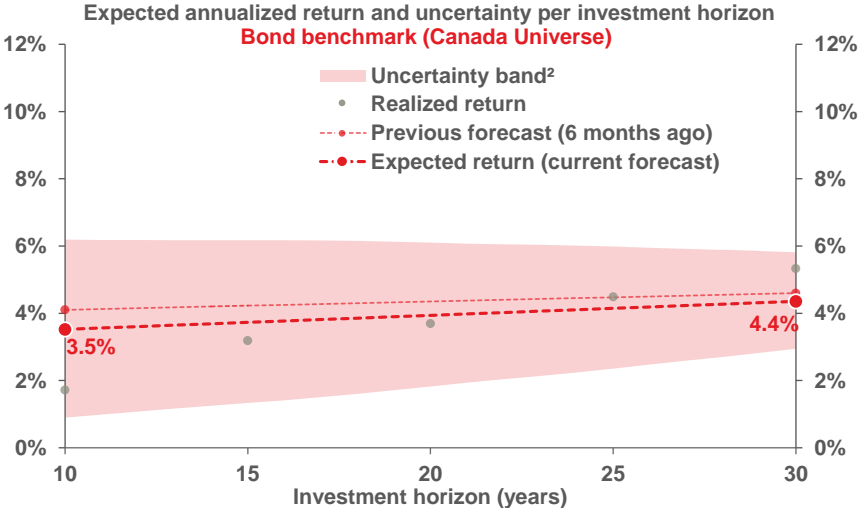
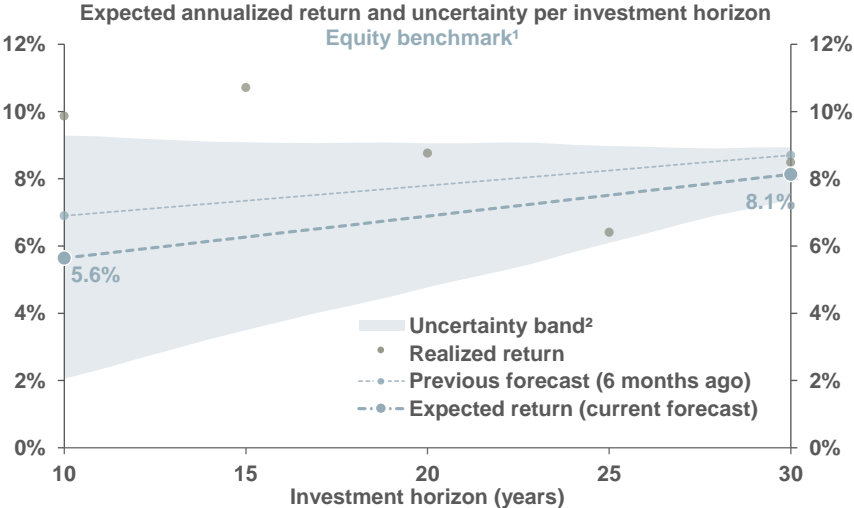


CIO Office (Data via Refinitiv). 1. Equity benchmark: 35% S&P TSX, 35% S&P 500, 20% MSCI EAFE, 10% MSCI EM, all in CAD.

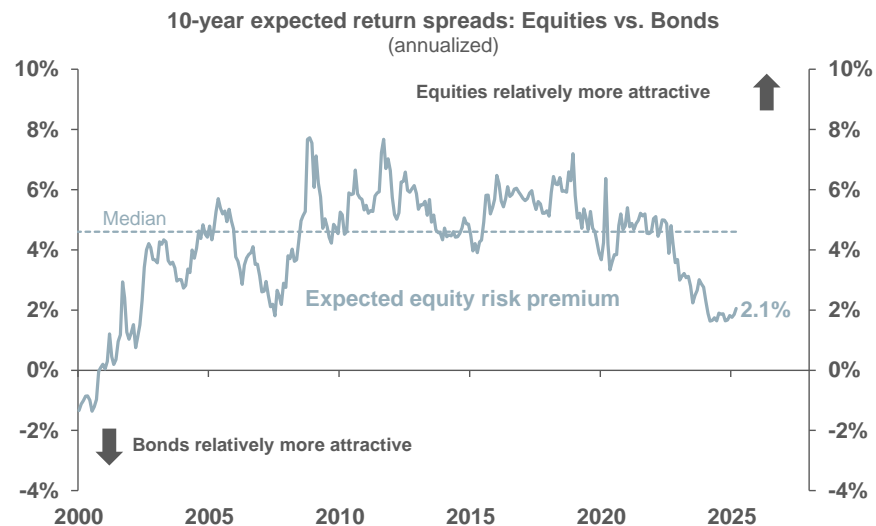
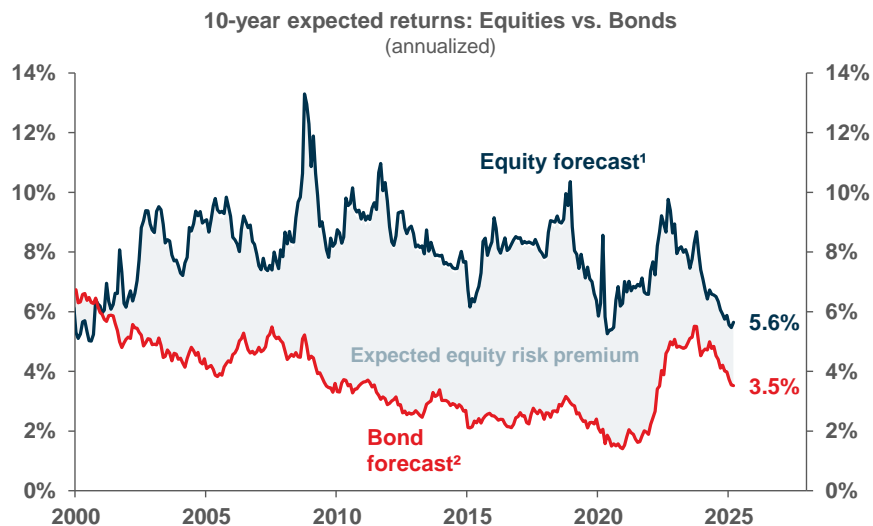
2. Balanced portfolio: 21% S&P/TSX, 21% S&P 500, 12% MSCI EAFE, 6% MSCI Emerging Markets and 40% Canada Bond Universe, all in CAD.

3. Based on the historical interquartile range of realized returns since 1950.

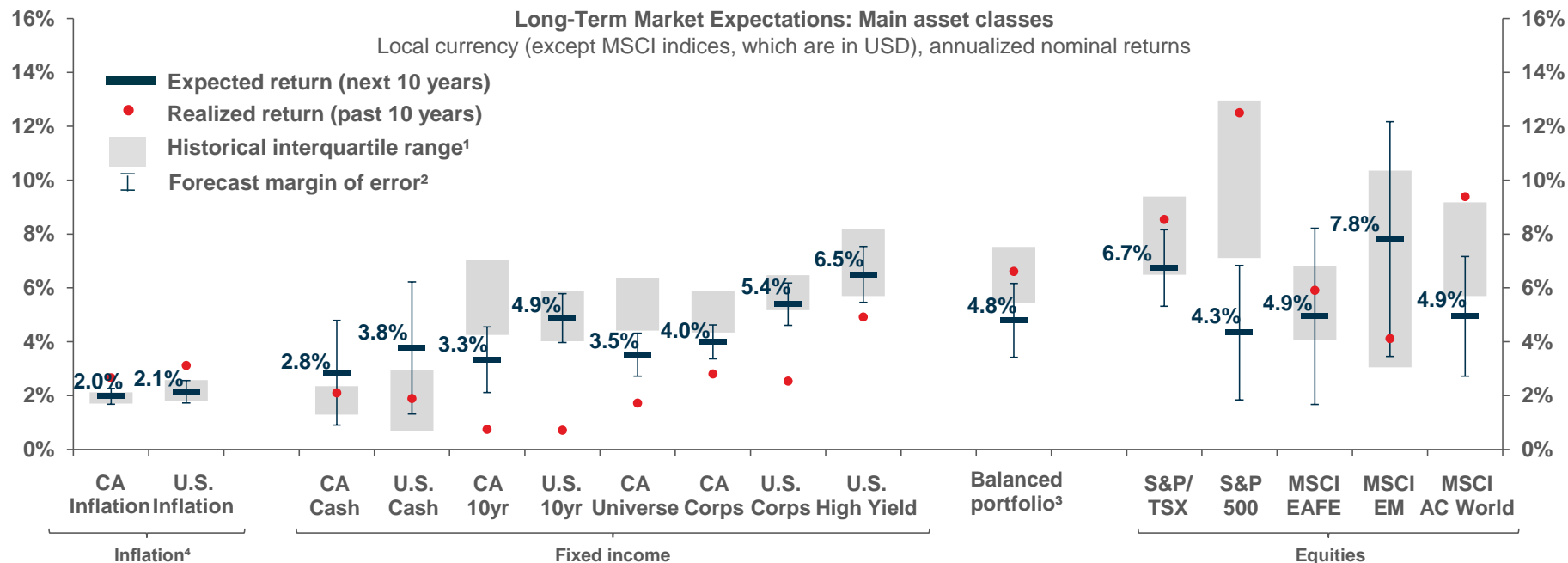
# Long-Term Market Expectations – Overview (stocks & bonds)



# 10-year market expectations – Equity risk premium



# 10-year market expectations – Main asset classes overview

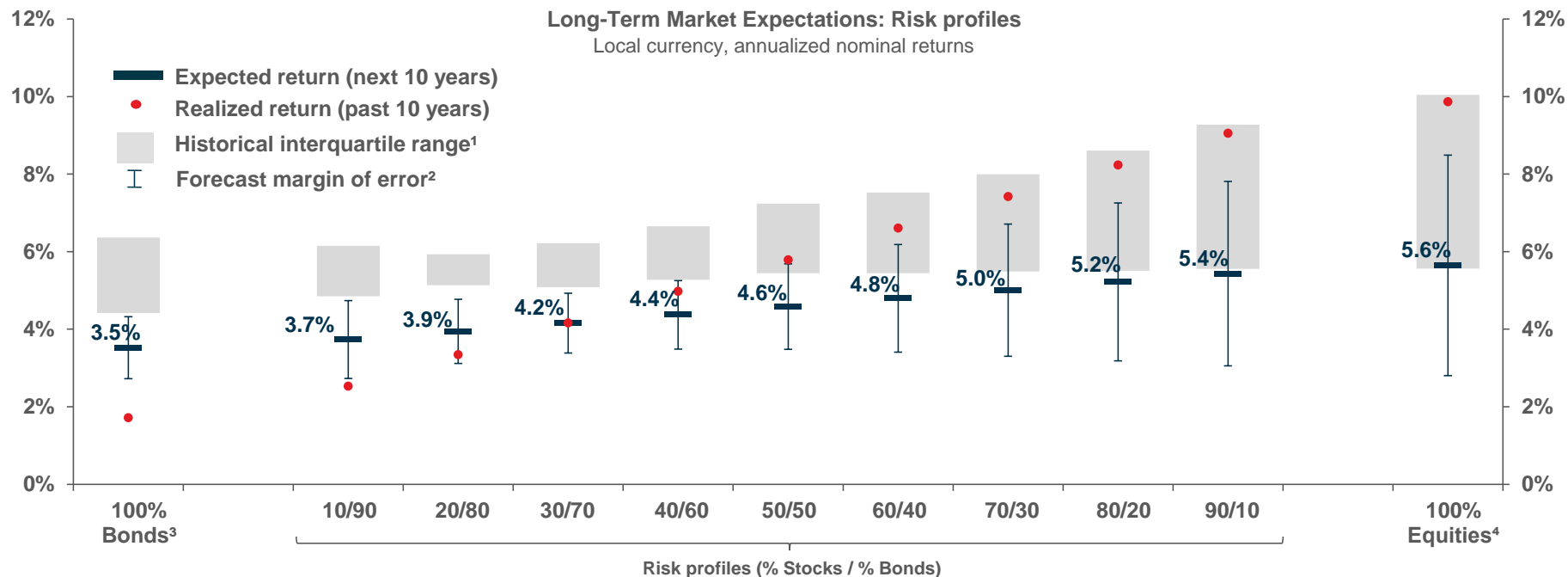


CIO Office (Data via Refinitiv). 1. The area between the 25th and 75th percentile of realized return outcomes since 1995. In other words, 50% of all observations fall within this range.

2. The forecast margin of error is based on the back-tested predictive power of our forecast model and the historical volatility of the asset.

3. Balanced portfolio: 21% S&P/TSX, 21% S&P 500, 12% MSCI EAFE, 6% MSCI Emerging Markets and 40% Canada Bond Universe, all in CAD. 4. Inflation forecast from the IMF's latest *World Economic Outlook*.

# 10-year market expectations – Risk profiles overview



CIO Office (Data via Refinitiv). 1. The area between the 25th and 75th percentile of realized return outcomes since 1995. In other words, 50% of all observations fall within this range.

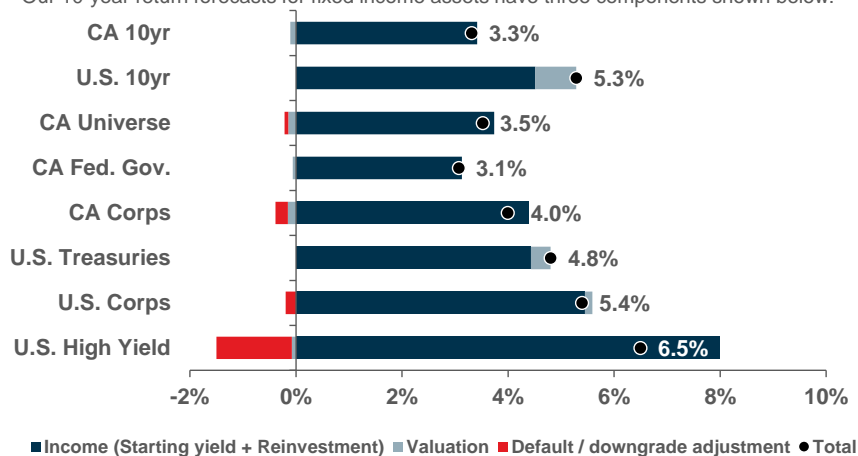
2. The forecast margin of error is based on the back-tested predictive power of our return model and the historical volatility of the asset.

3. Bonds: ICE BofA Canada Broad Market Index (Canada Bond Universe). 4. Equity benchmark: 35% S&P TSX, 35% S&P 500, 20% MSCI EAFE, 10% MSCI EM, all in CAD.

# 10-year market expectations – Methodology

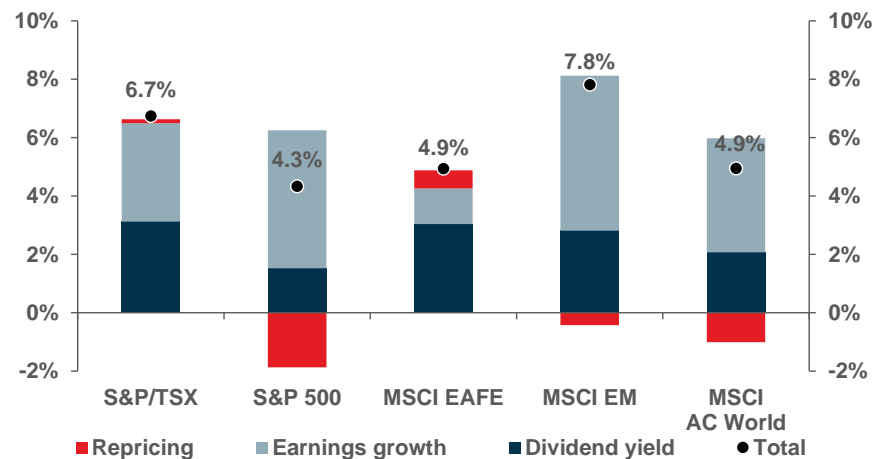
## Building blocks methodology: Fixed income

Our 10-year return forecasts for fixed income assets have three components shown below:

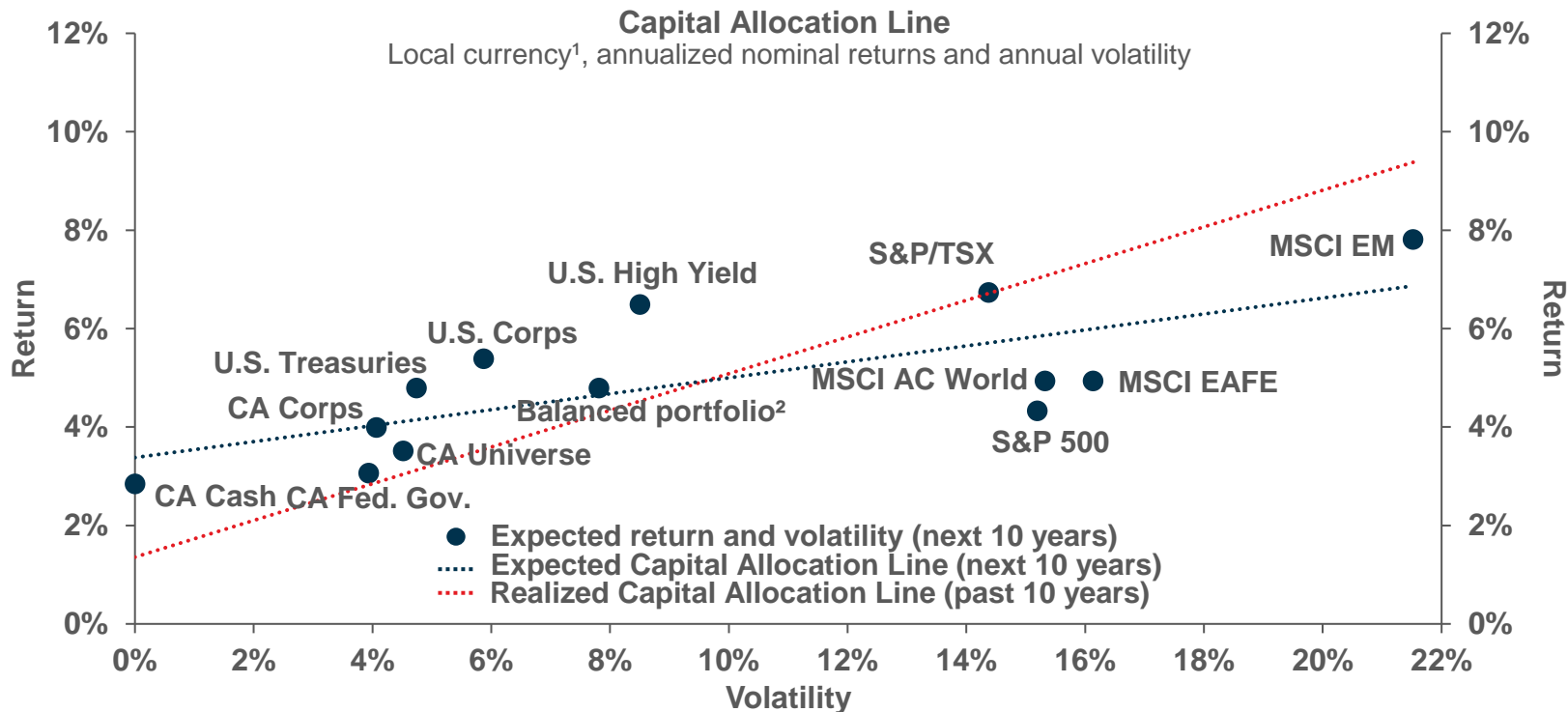


## Building blocks methodology: Equities

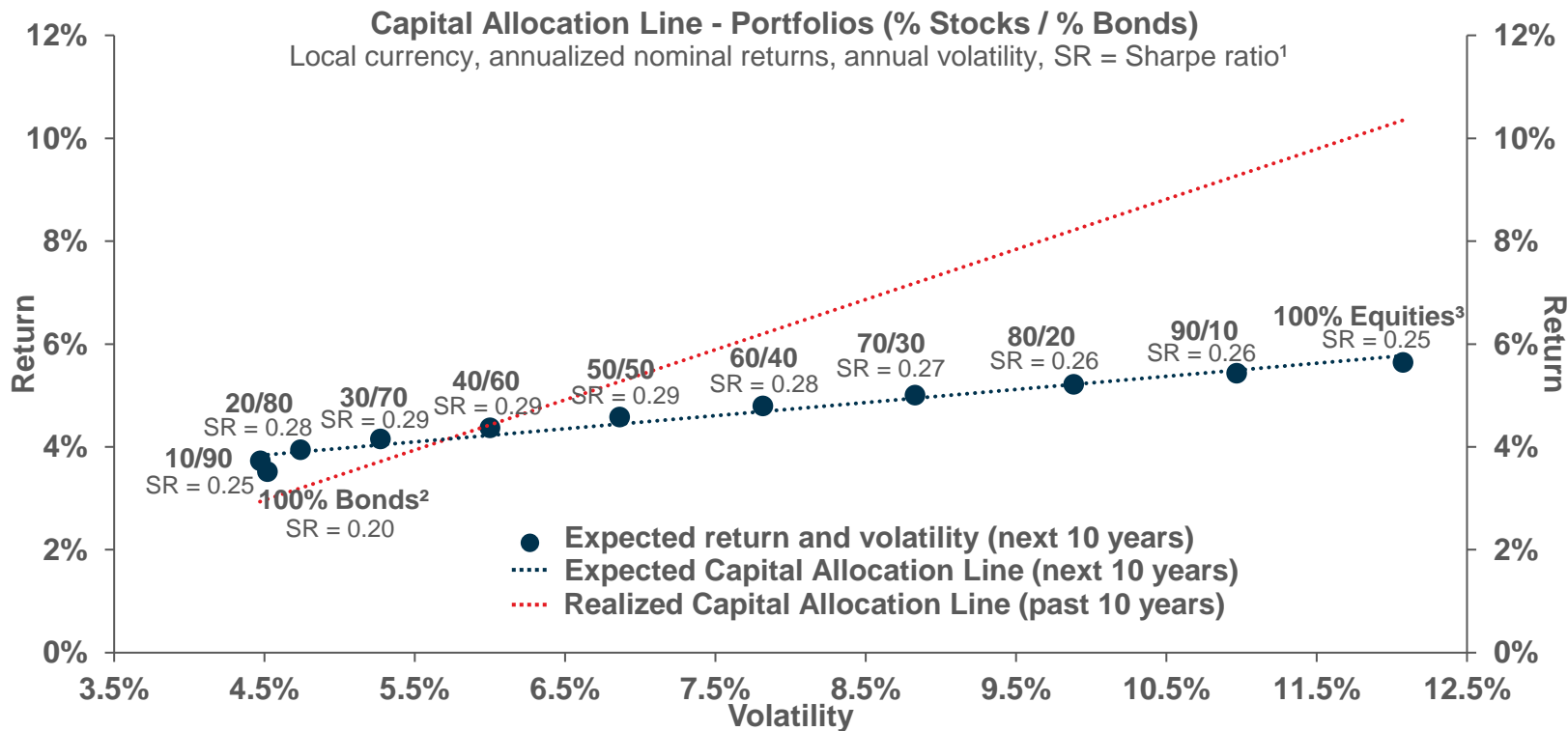
Our 10-year return forecasts for equities have three components shown below:



# 10-year market expectations – Capital Allocation Line



# 10-year market expectations – Capital Allocation Line



# Historical correlation matrix

Historical correlation matrix (local currency<sup>1</sup>)

Asset	Volatility	USDCAD	CA Cash	U.S. Cash	CA Fed. Gov.	CA Corps	CA Universe	U.S. Treasuries	U.S. Corps	Balanced	U.S. High Yield	S&P/TSX	S&P 500	MSCI EAFE	Russell 2000 (U.S.)	MSCI EM
USDCAD	8.1%		0.14	0.11	-0.28	-0.34	-0.33	-0.42	-0.57	-0.52	-0.61	-0.62	-0.67	-0.76	-0.63	-0.64
CA Cash	0.0%	0.11		0.96	0.26	0.24	0.23	0.22	0.18	0.13	0.11	0.00	0.04	0.05	-0.02	0.05
U.S. Cash	0.0%	0.00	0.88		0.28	0.22	0.23	0.26	0.17	0.09	0.09	-0.05	-0.01	0.05	-0.08	0.05
CA Fed. Gov.	3.9%	0.23	0.19	0.14		0.91	0.97	0.88	0.83	0.73	0.67	0.50	0.52	0.54	0.42	0.45
CA Corps	4.1%	-0.06	0.07	0.01	0.74		0.97	0.80	0.88	0.80	0.72	0.59	0.60	0.60	0.53	0.58
CA Universe	4.5%	0.09	0.12	0.07	0.94	0.91		0.86	0.88	0.80	0.71	0.58	0.60	0.59	0.50	0.52
U.S. Treasuries	4.7%	0.09	0.15	0.18	0.85	0.55	0.77		0.91	0.67	0.62	0.48	0.51	0.59	0.40	0.53
U.S. Corps	5.9%	-0.37	0.00	-0.01	0.57	0.80	0.73	0.60		0.83	0.80	0.68	0.70	0.75	0.60	0.71
Balanced portfolio <sup>2</sup>	7.8%	-0.30	-0.01	-0.04	0.33	0.61	0.51	0.16	0.63		0.86	0.91	0.91	0.86	0.80	0.69
U.S. High Yield	8.5%	-0.62	-0.12	-0.09	0.06	0.47	0.27	-0.03	0.68	0.71		0.79	0.83	0.81	0.77	0.65
S&P/TSX	14.4%	-0.58	-0.05	-0.05	0.00	0.39	0.21	-0.07	0.51	0.85	0.73		0.87	0.84	0.84	0.61
S&P 500	15.2%	-0.62	-0.10	-0.06	-0.01	0.32	0.18	-0.07	0.47	0.85	0.75	0.81		0.83	0.84	0.62
MSCI EAFE	16.1%	-0.69	-0.06	-0.01	0.00	0.32	0.16	-0.04	0.54	0.80	0.77	0.80	0.86		0.76	0.75
Russell 2000 (U.S.)	20.1%	-0.57	-0.12	-0.10	-0.06	0.27	0.12	-0.14	0.39	0.76	0.72	0.78	0.89	0.77		0.58
MSCI EM	21.5%	-0.72	-0.05	0.00	-0.03	0.29	0.13	-0.04	0.51	0.68	0.73	0.74	0.72	0.85	0.67	

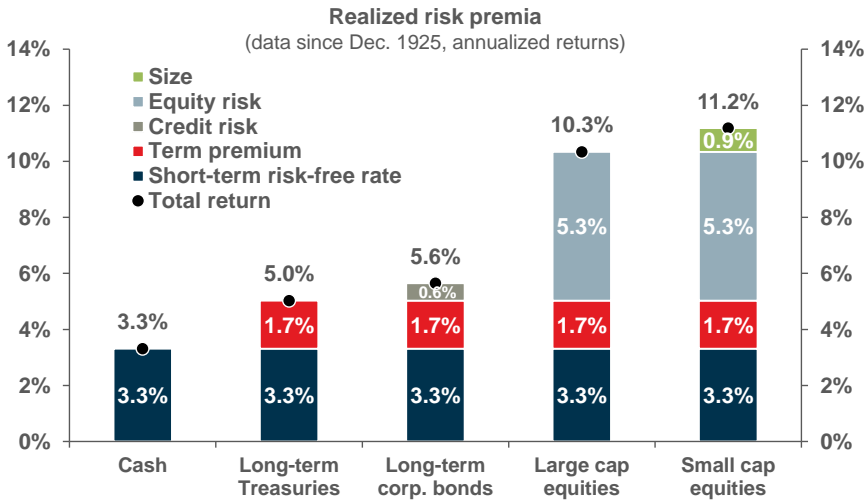
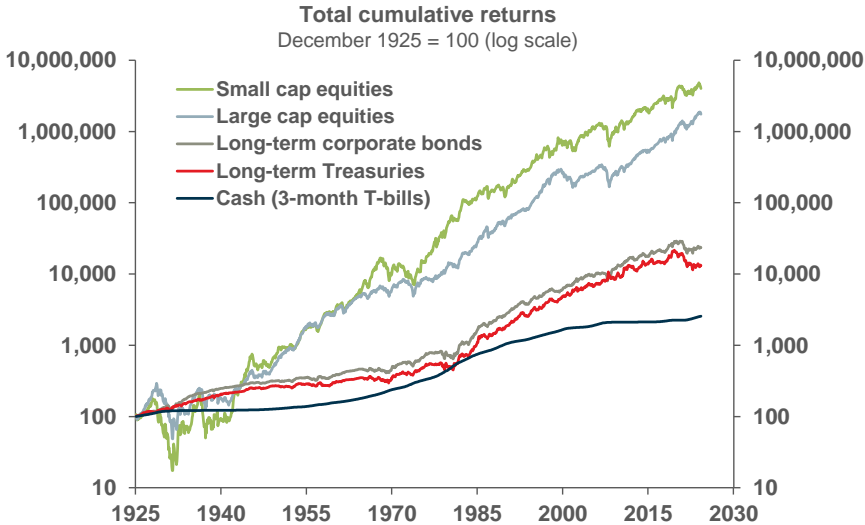
Correlation of monthly returns over the last 5 years

Correlation of monthly returns over the last 20 years

CIO Office (Data via Refinitiv). 1. With the exception of MSCI indices, which are in USD.

2. Balanced portfolio: 21% S&P/TSX, 21% S&P 500, 12% MSCI EAFE, 6% MSCI Emerging Markets and 40% Canada Bond Universe, all in CAD.

# Historical risk premia



## Detailed forecasts

### Long-Term Market Expectations - Detailed assumptions (local currency<sup>1</sup>, annualized)

	Asset	Expected nominal return		Annual volatility	Economic forecasts <sup>4</sup>	
		10-year	30-year		Inflation	Nominal GDP
Fixed income	Balanced portfolio <sup>2</sup>	4.8%	6.6%	7.8%	-	-
	Equity benchmark <sup>3</sup>	5.6%	8.1%	12.1%	-	-
	Bond benchmark (Canada Universe)	3.5%	4.4%	4.5%	-	-
	Canada Cash	2.8%	2.8%	0.0%	-	-
	U.S. Cash	3.8%	3.0%	0.0%	-	-
	Canada 10yr gov. bond	3.3%	4.1%	6.3%	-	-
	U.S. 10yr gov. bond	4.9%	4.8%	7.4%	-	-
	Canada Universe	3.5%	4.4%	4.5%	-	-
	Canada Federal Government	3.1%	4.0%	3.9%	-	-
	Canada Corporate (IG)	4.0%	4.7%	4.1%	-	-
	U.S. Treasuries	4.8%	4.7%	4.7%	-	-
	U.S. Corporate (IG)	5.4%	5.4%	5.9%	-	-
	U.S. High Yield	6.5%	6.7%	8.5%	-	-
	S&P/TSX (Canada)	6.7%	8.5%	14.4%	2.0%	4.1%
	S&P 500 (U.S.)	4.3%	8.2%	15.2%	2.1%	4.0%
Equities	Russell 2000 (U.S.)	6.4%	9.4%	20.1%	2.1%	4.0%
	MSCI EAFE	4.9%	7.6%	16.1%	1.9%	3.3%
	MSCI Emerging Markets	7.8%	7.8%	21.5%	2.3%	6.0%
	MSCI Europe	5.2%	7.8%	17.5%	1.8%	3.3%
	DAX 30 (Germany)	3.8%	7.2%	20.4%	2.0%	3.2%
	FTSE 100 (United Kingdom)	9.1%	9.9%	13.2%	2.0%	3.5%
	TOPIX (Japan)	3.7%	6.3%	16.9%	2.0%	2.8%
	S&P/ASX 200 (Australia)	8.4%	9.8%	13.1%	2.7%	4.6%
	MSCI World	4.6%	7.8%	15.2%	2.0%	3.8%
	MSCI AC World	4.9%	8.0%	15.3%	2.1%	4.1%

CIO Office (Data via Refinitiv). 1. With the exception of MSCI indices, which are in USD.

2. Balanced portfolio: 21% S&P/TSX, 21% S&P 500, 12% MSCI EAFE, 6% MSCI Emerging Markets and 40% Canada Bond Universe, all in CAD.

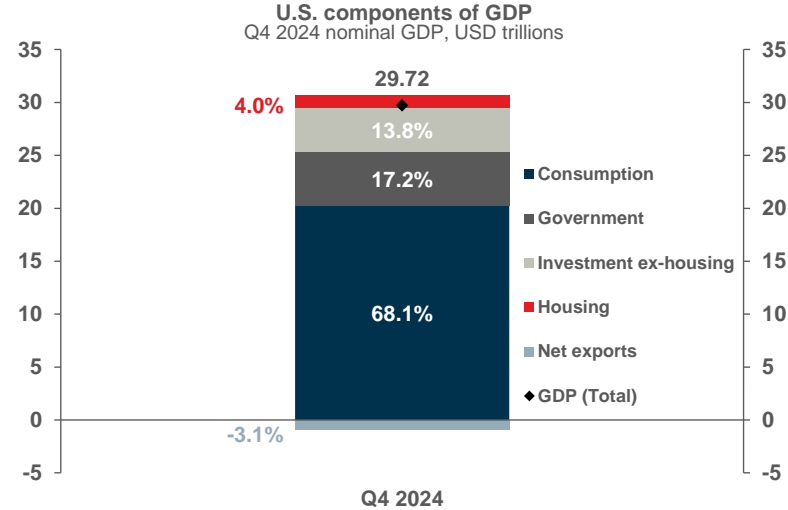
3. Equity benchmark: 35% S&P TSX, 35% S&P 500, 20% MSCI EAFE, 10% MSCI EM, all in CAD.

4. All economic forecasts are from the IMF's latest World Economic Outlook. Forecasts for equity indices with multiple regions are constructed using each region's equity weight within the index.

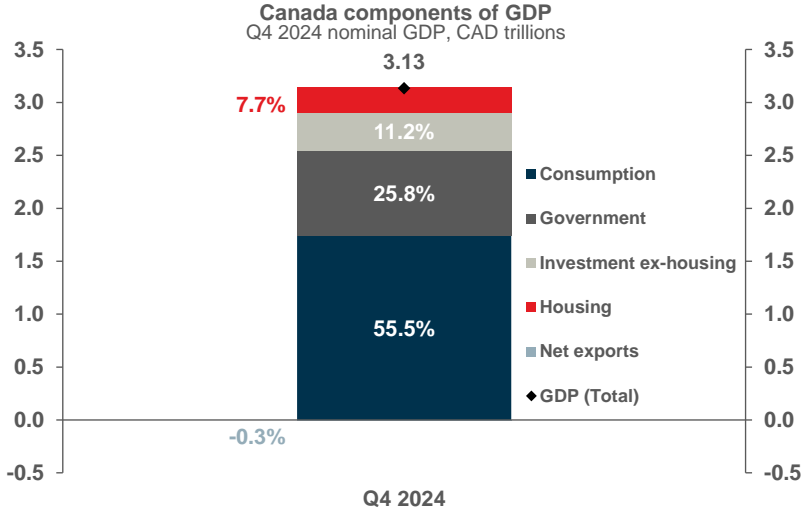
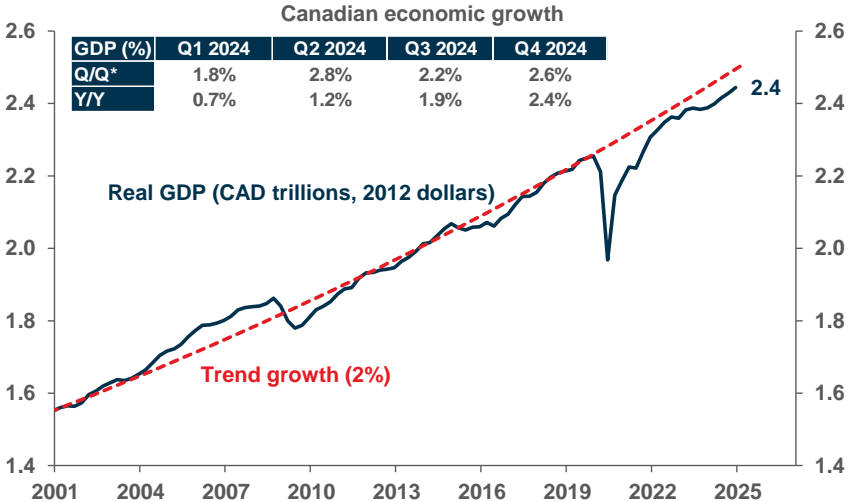
# Featured

# Charts & Tables

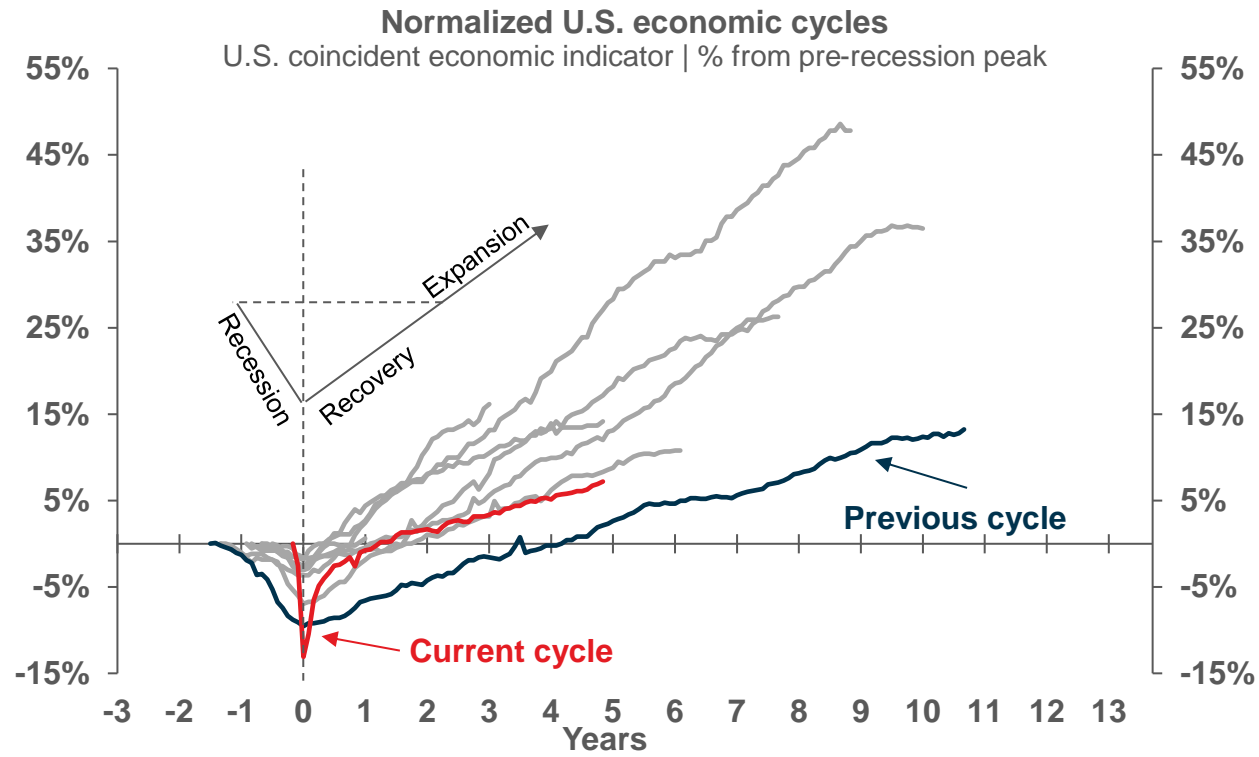
# U.S. economic growth and composition of GDP



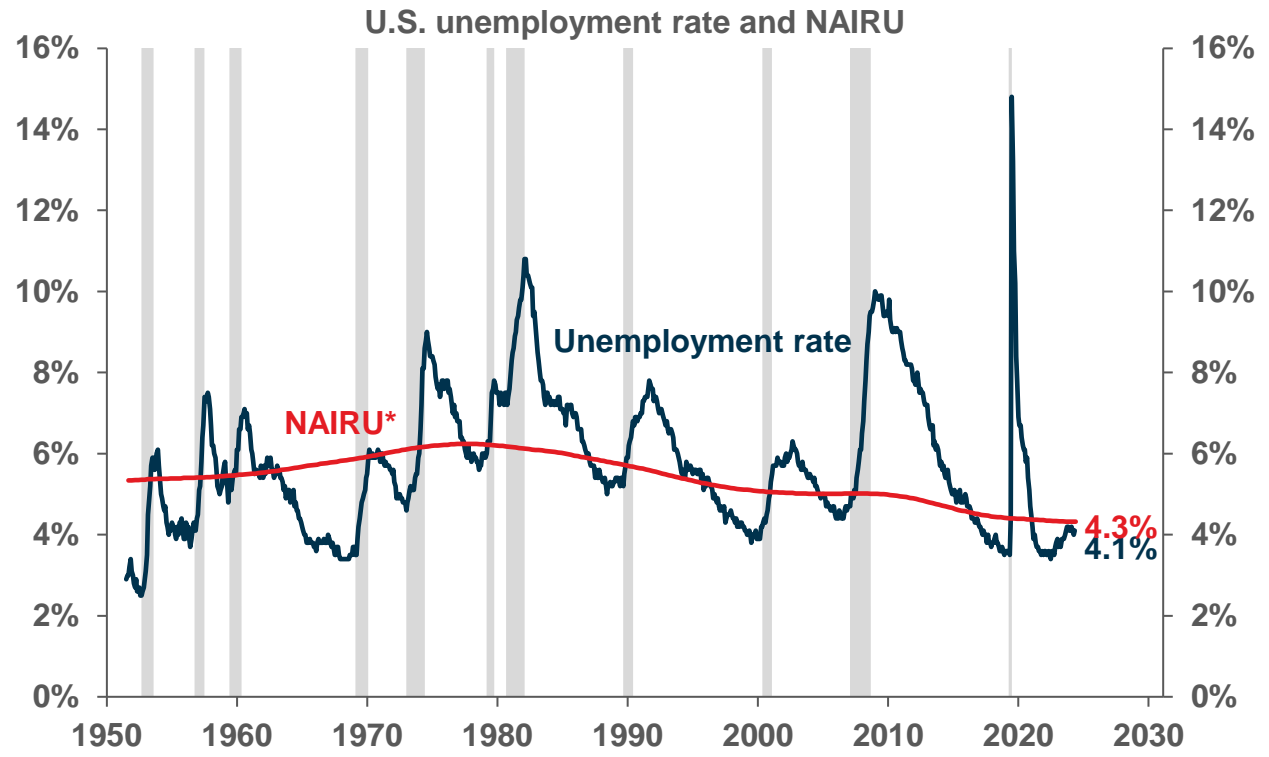
# Canadian economic growth and composition of GDP



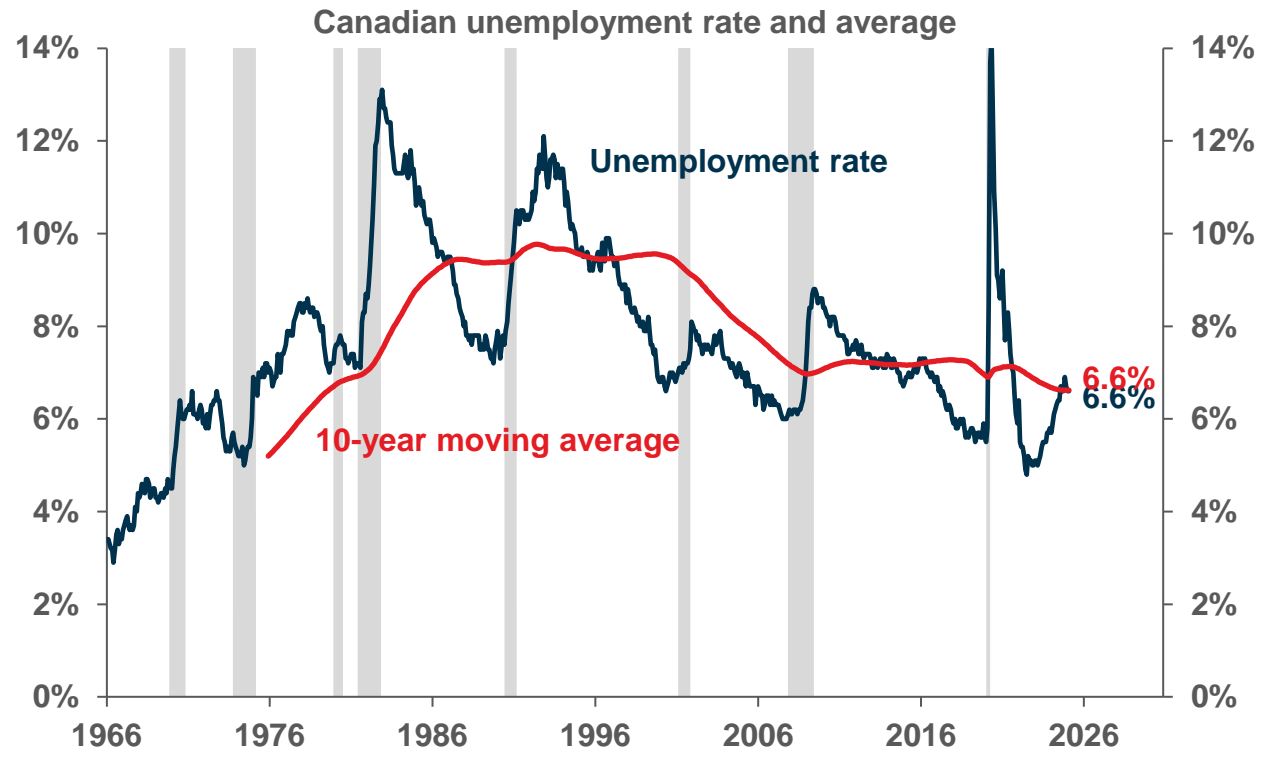
# U.S. economic cycles



# U.S. unemployment rate



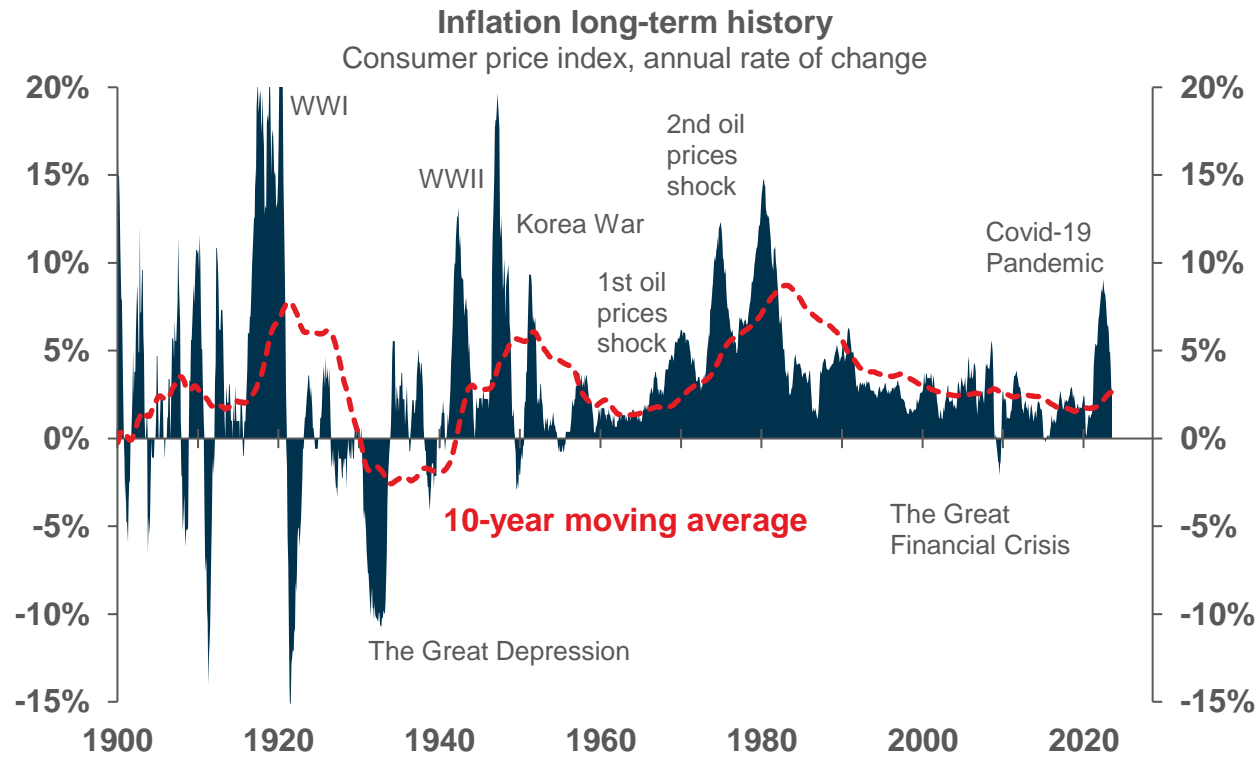
# Canadian unemployment rate



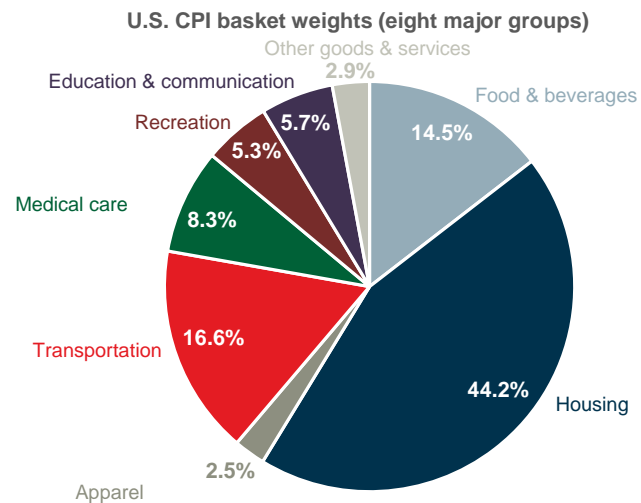
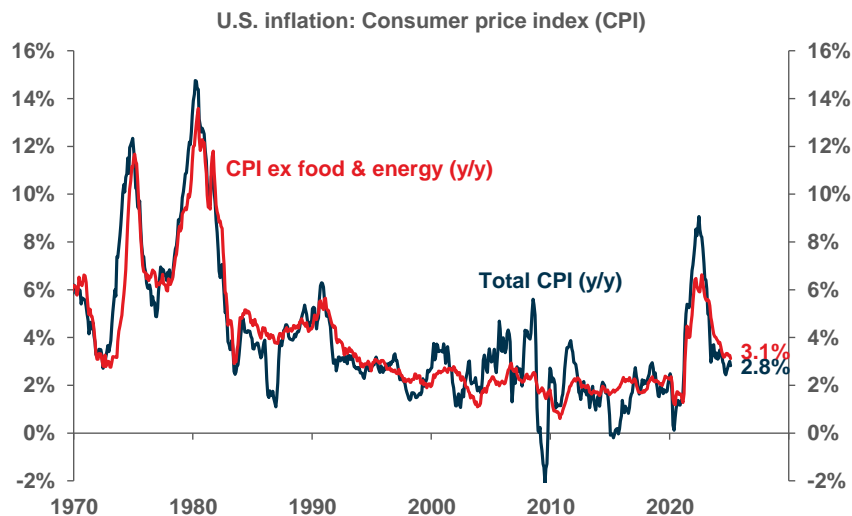
# U.S. labour demand



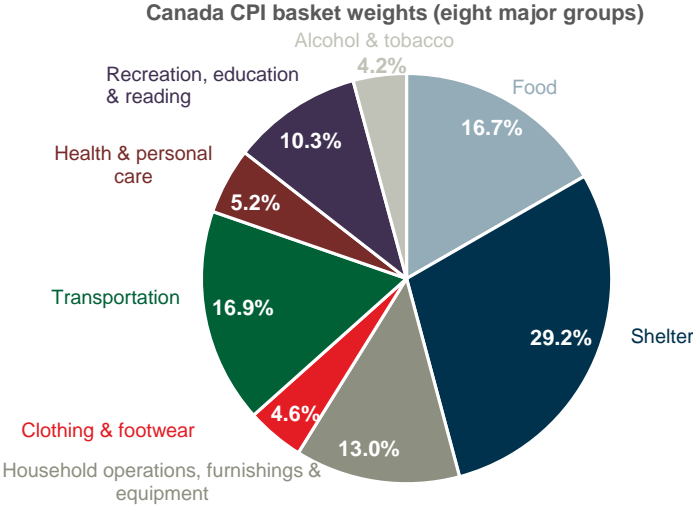
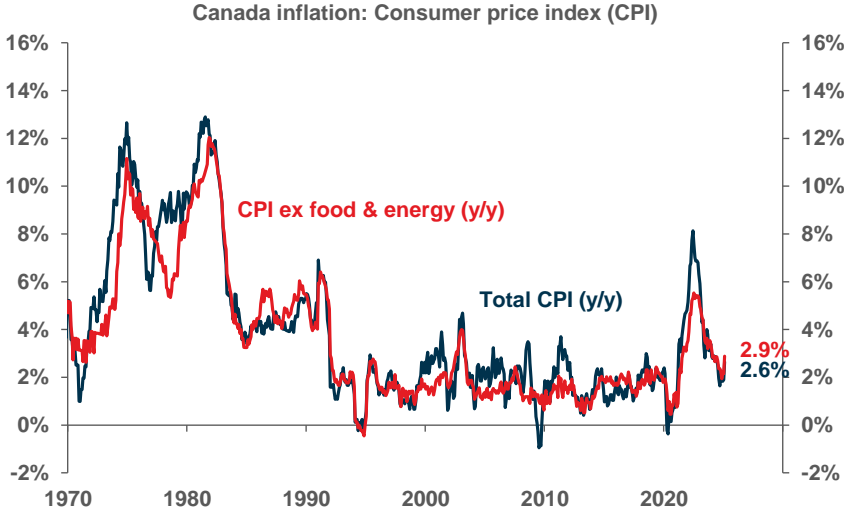
# Inflation long-term history



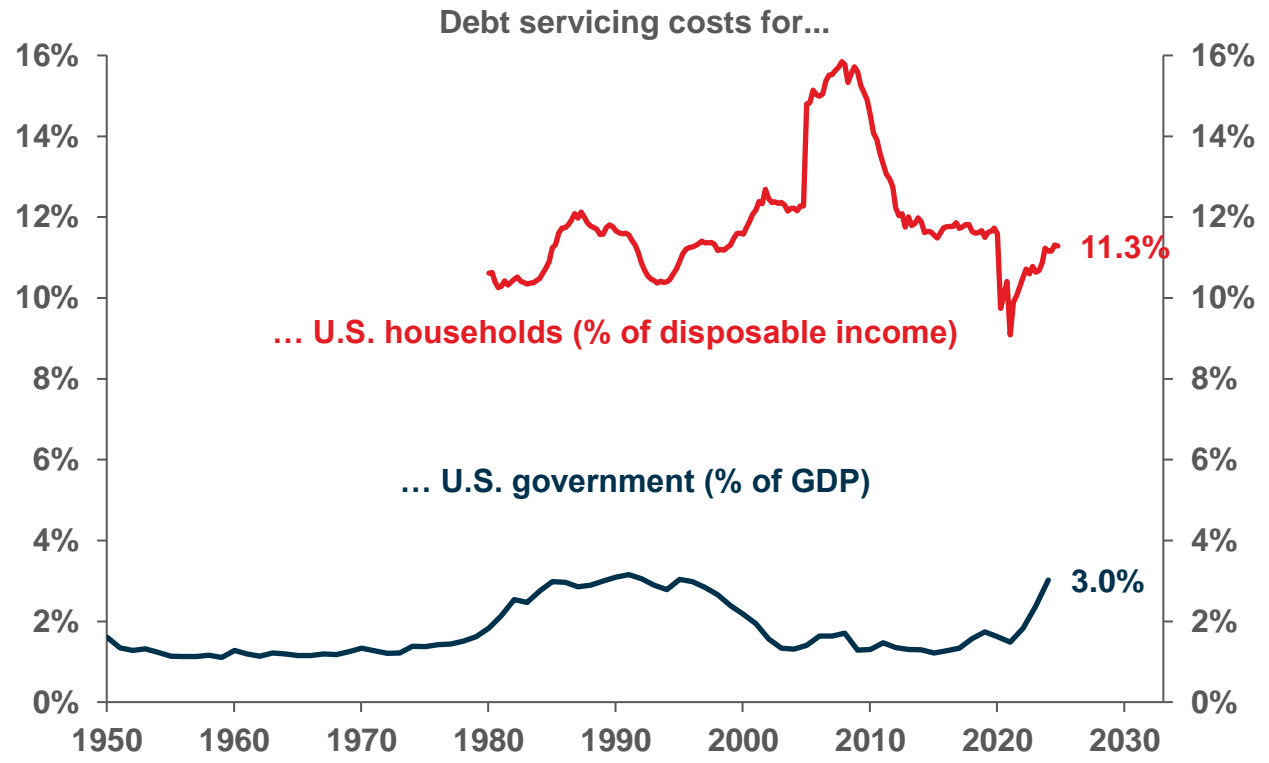
# U.S. inflation and CPI composition



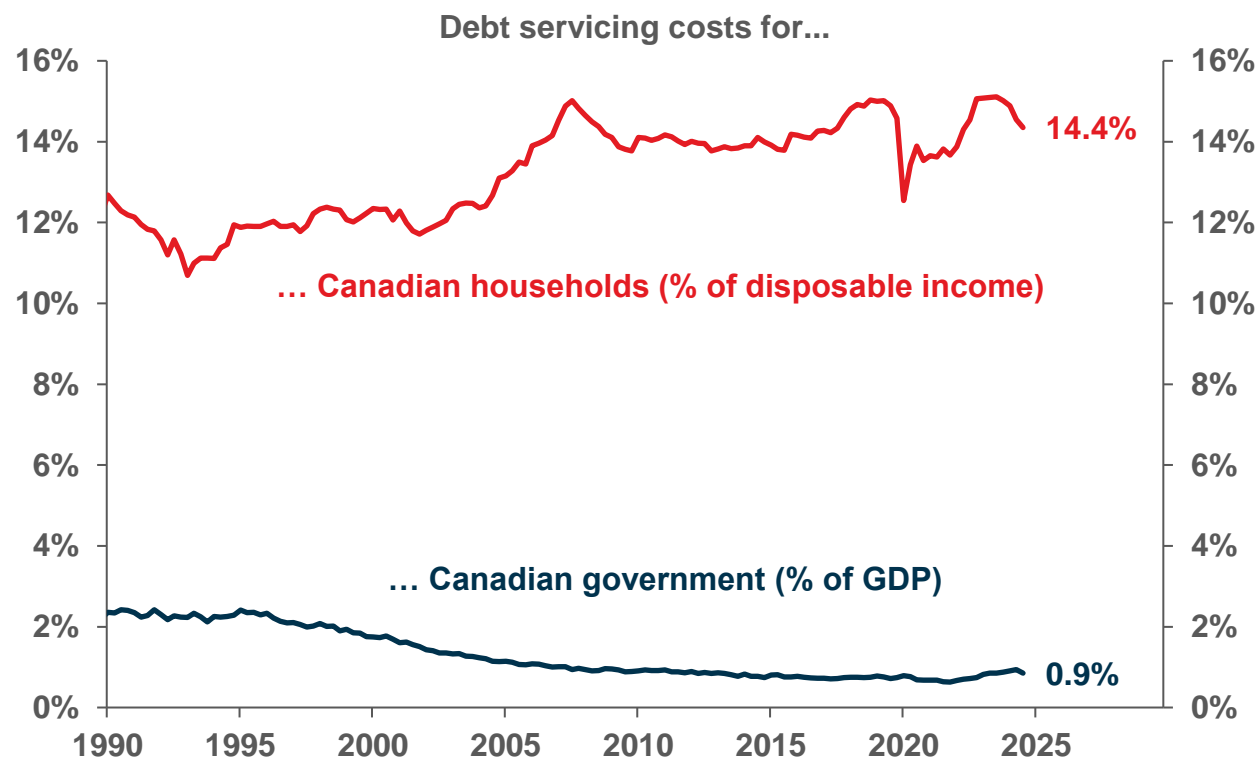
# Canadian inflation and CPI composition



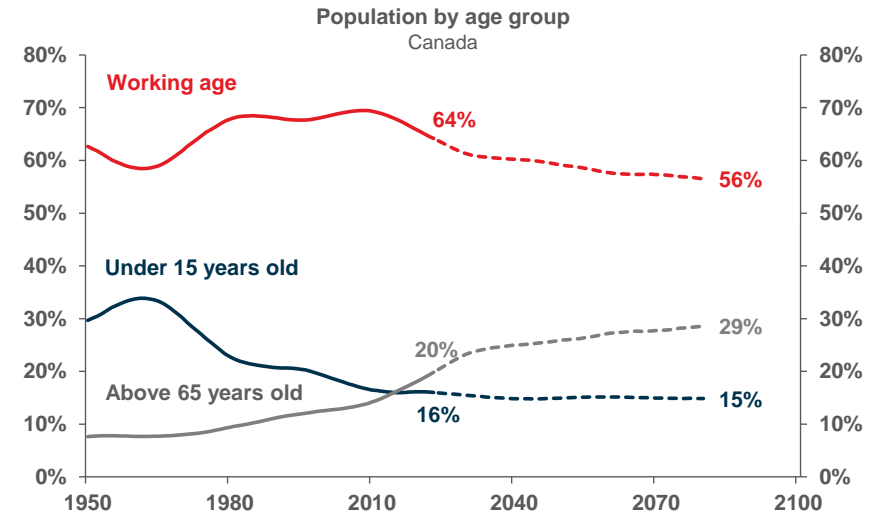
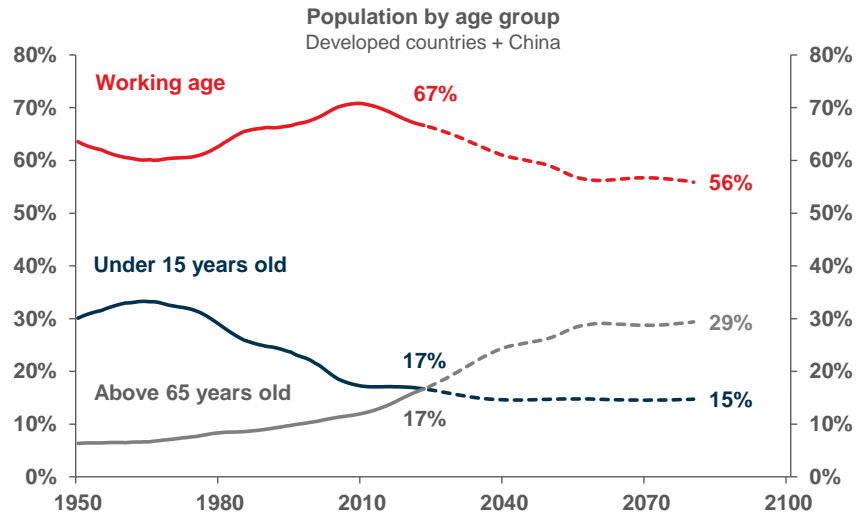
# U.S. cost of debt



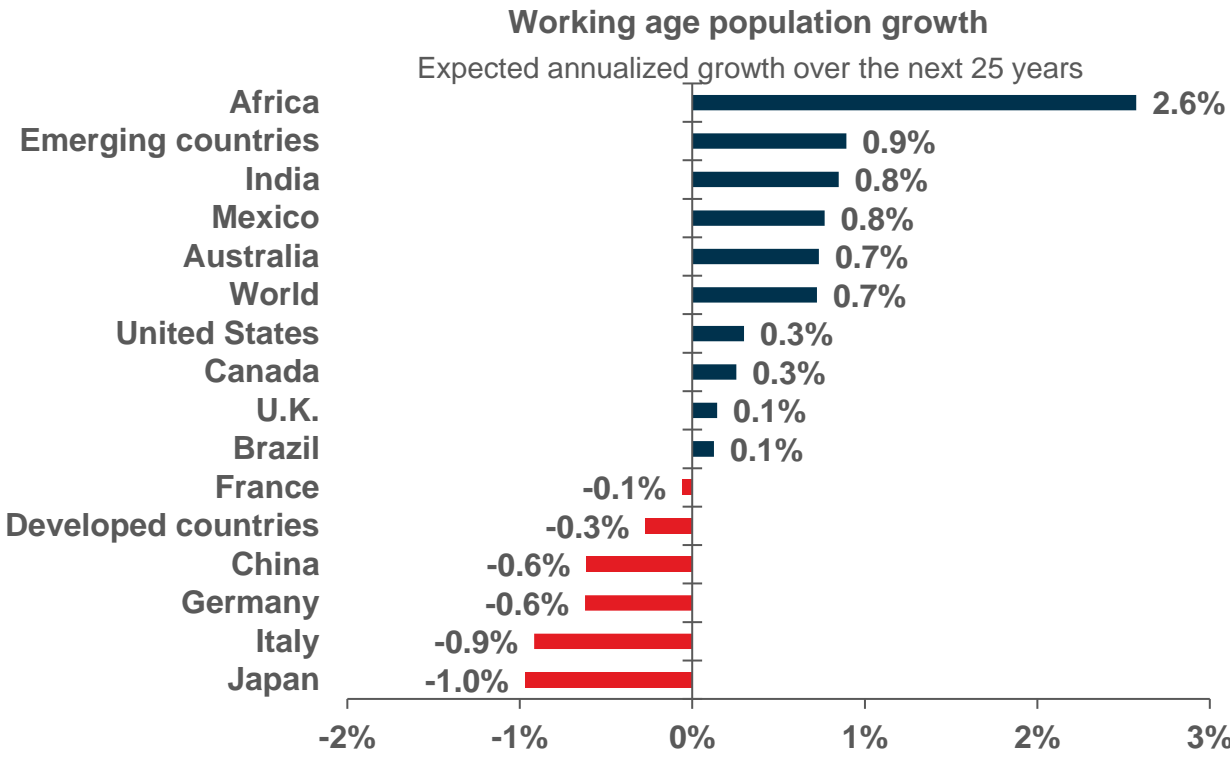
# Canadian cost of debt



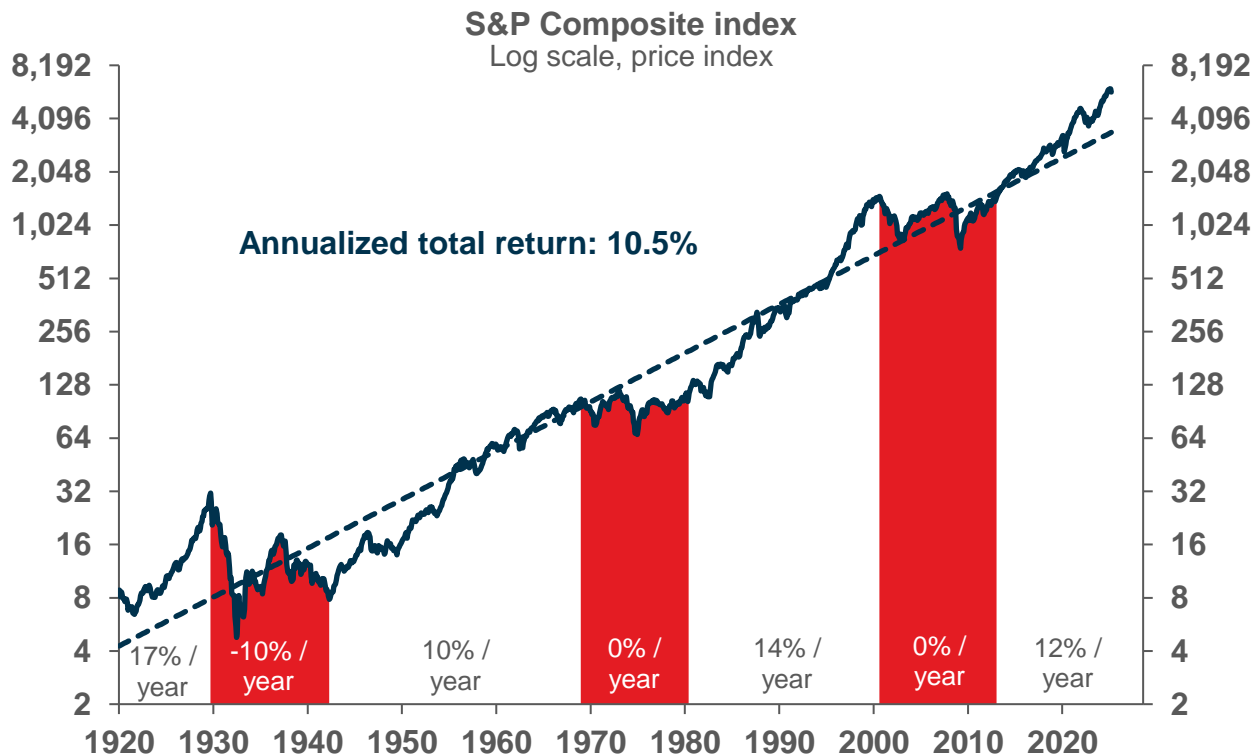
# World demographics – Age group trends



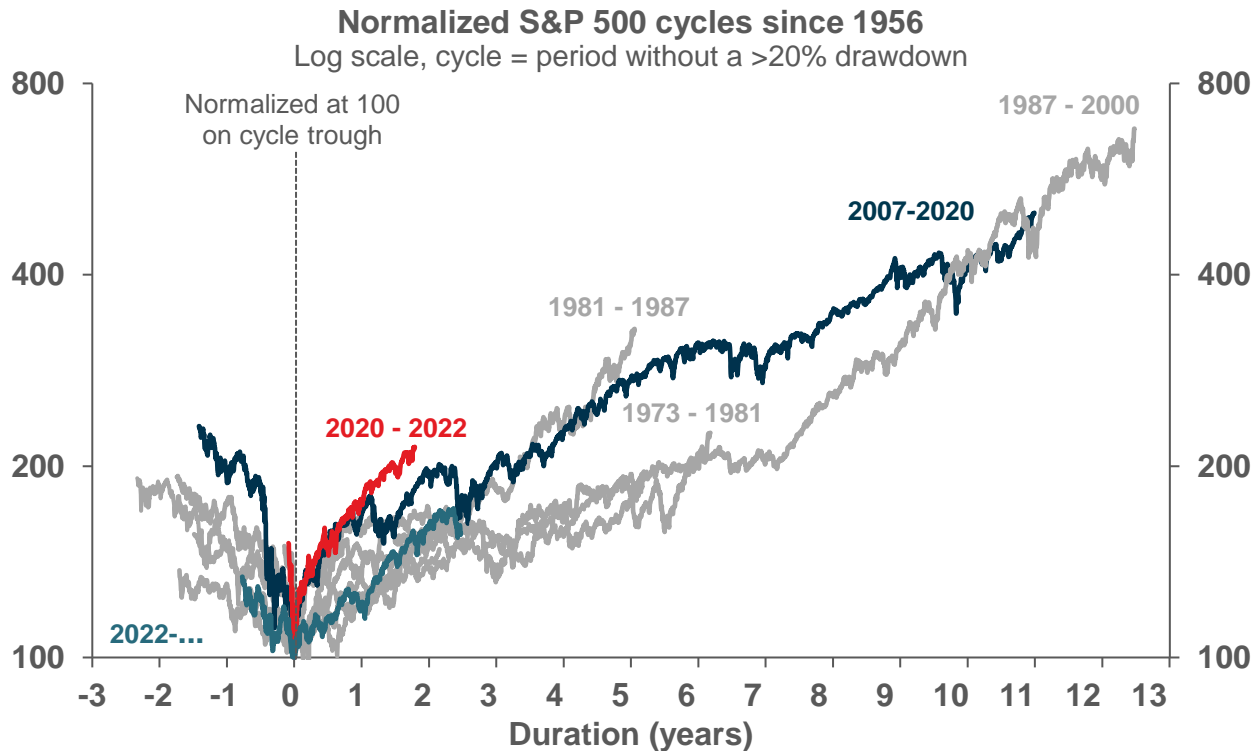
# World demographics – Geographical breakdown



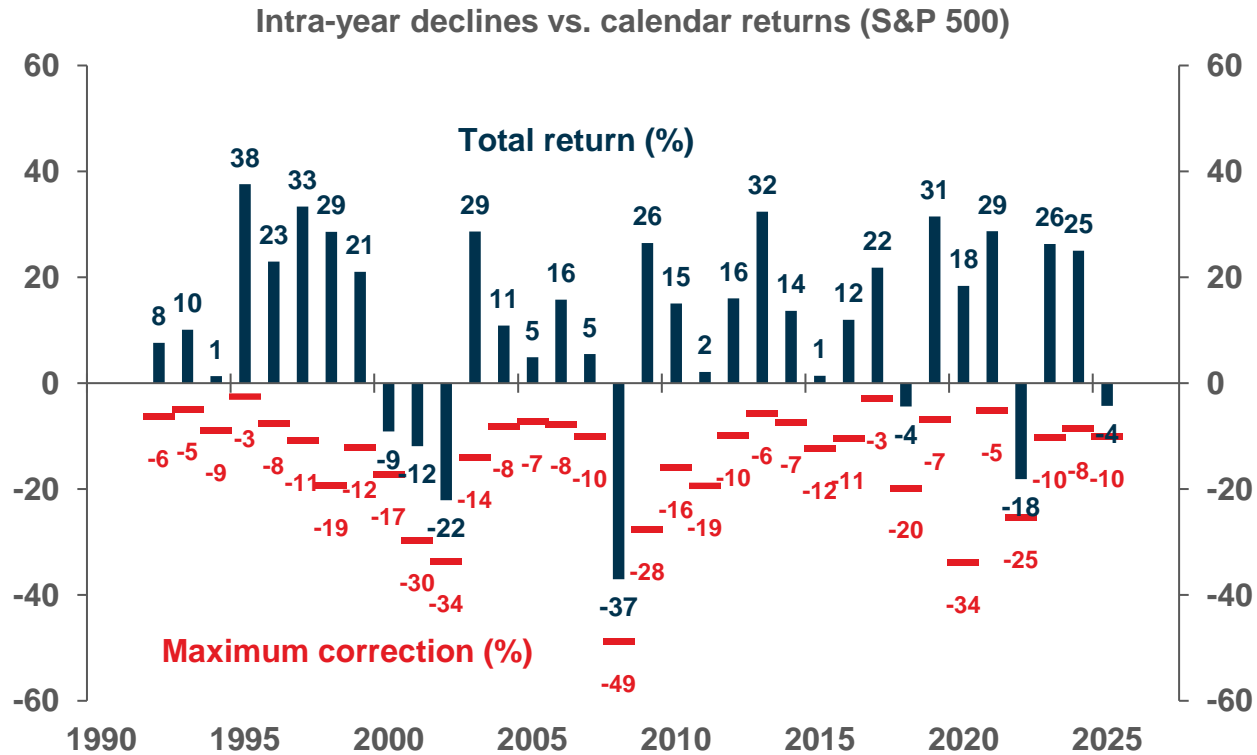
# U.S. equity market since 1920



# U.S. equity market cycles



# Annual returns and market corrections



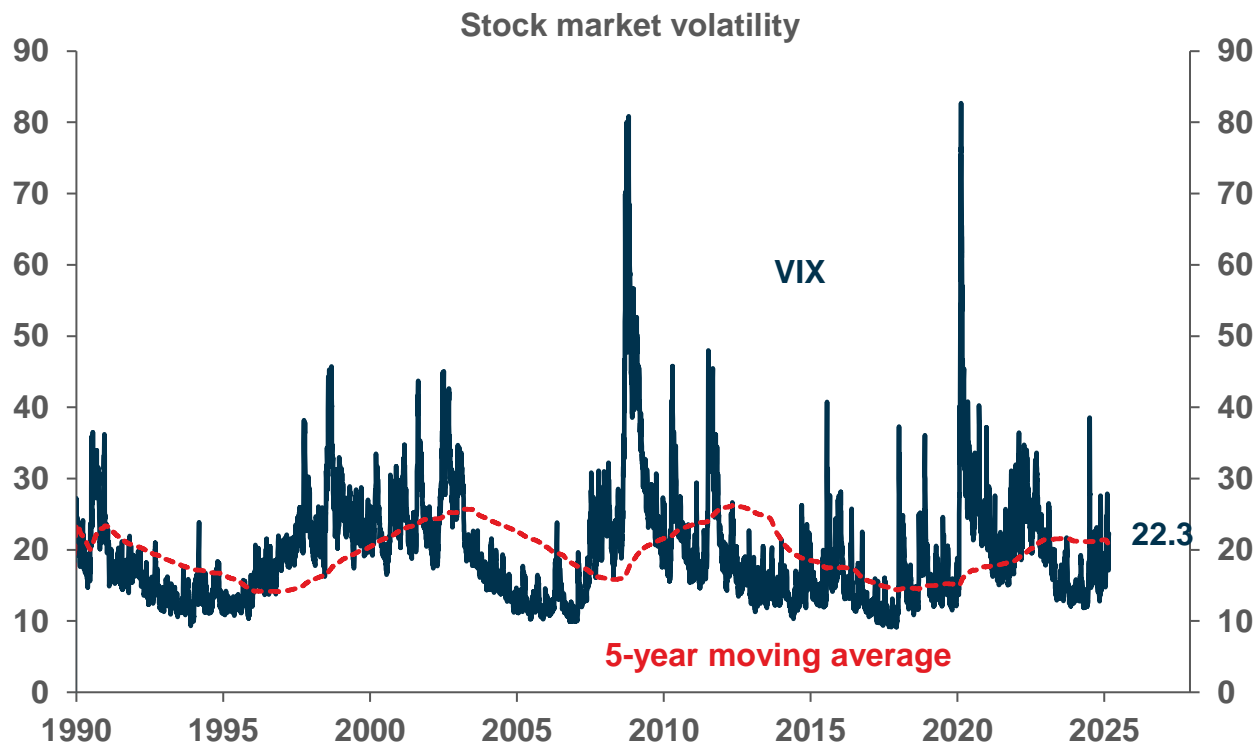
# Equity return statistics per investment horizon

## S&P 500 returns\* - Detailed statistics

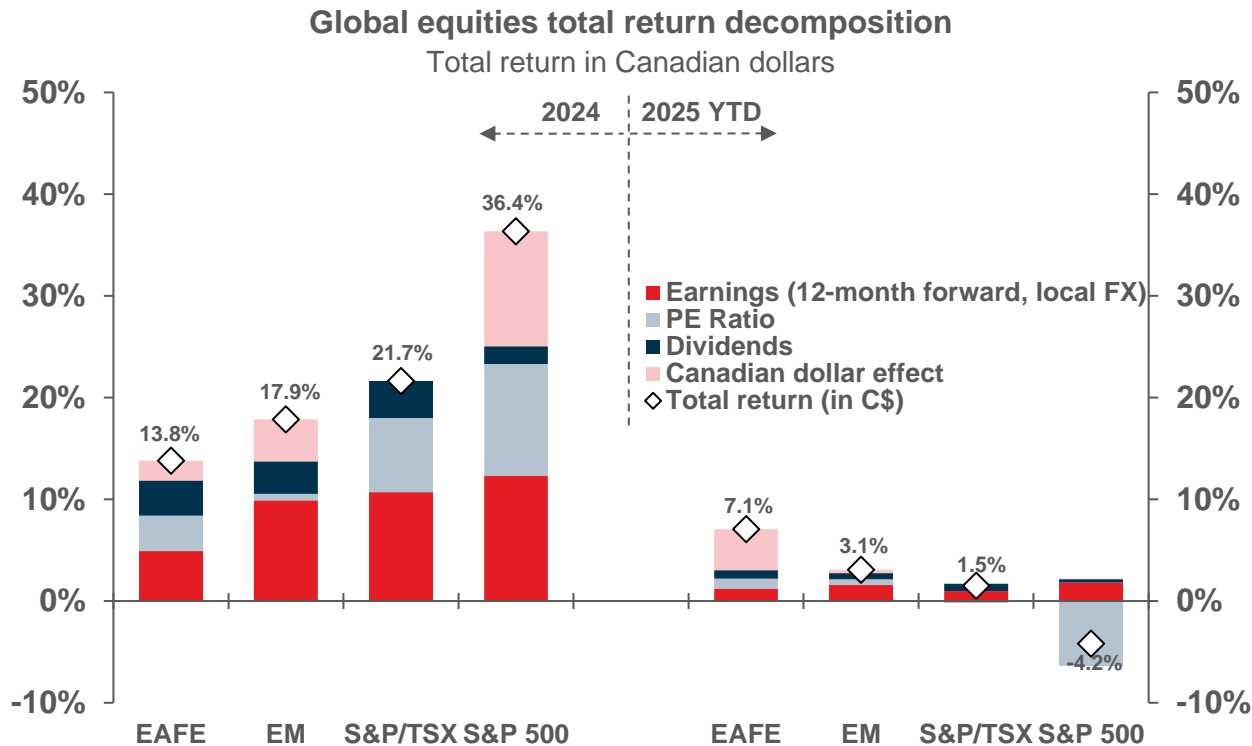
Period	Avg.	Std. dev.	Min.	Max.	Percentile				
					90th	70th	50th	30th	10th
Daily	0.0%	1.1%	-12.0%	11.6%	1.2%	0.5%	0.1%	-0.3%	-1.1%
Monthly	0.7%	4.4%	-30.8%	26.4%	5.4%	2.9%	1.1%	-0.9%	-4.4%
Quarterly	2.2%	7.4%	-41.8%	40.1%	10.4%	5.9%	2.6%	-0.6%	-6.9%
1 year	10.1%	16.1%	-49.0%	73.6%	29.0%	18.4%	11.8%	4.0%	-12.2%
3 years	8.5%	9.3%	-18.0%	32.6%	19.0%	13.0%	9.7%	4.3%	-5.1%
5 years	8.1%	7.6%	-7.4%	27.5%	17.5%	13.0%	8.7%	2.5%	-1.6%
10 years	7.4%	5.6%	-4.8%	20.1%	15.2%	10.9%	7.3%	3.4%	-0.1%
20 years	7.3%	2.2%	2.6%	11.9%	10.1%	8.6%	7.6%	6.0%	3.8%
30 years	9.7%	0.3%	8.3%	10.3%	10.0%	9.8%	9.7%	9.5%	9.3%

\*Price index from 1966 to 1987. Total return from Jan. 1st, 1988. Annualized return for periods from 3 to 30 years.

# Stock market volatility



# Decomposition of equity returns



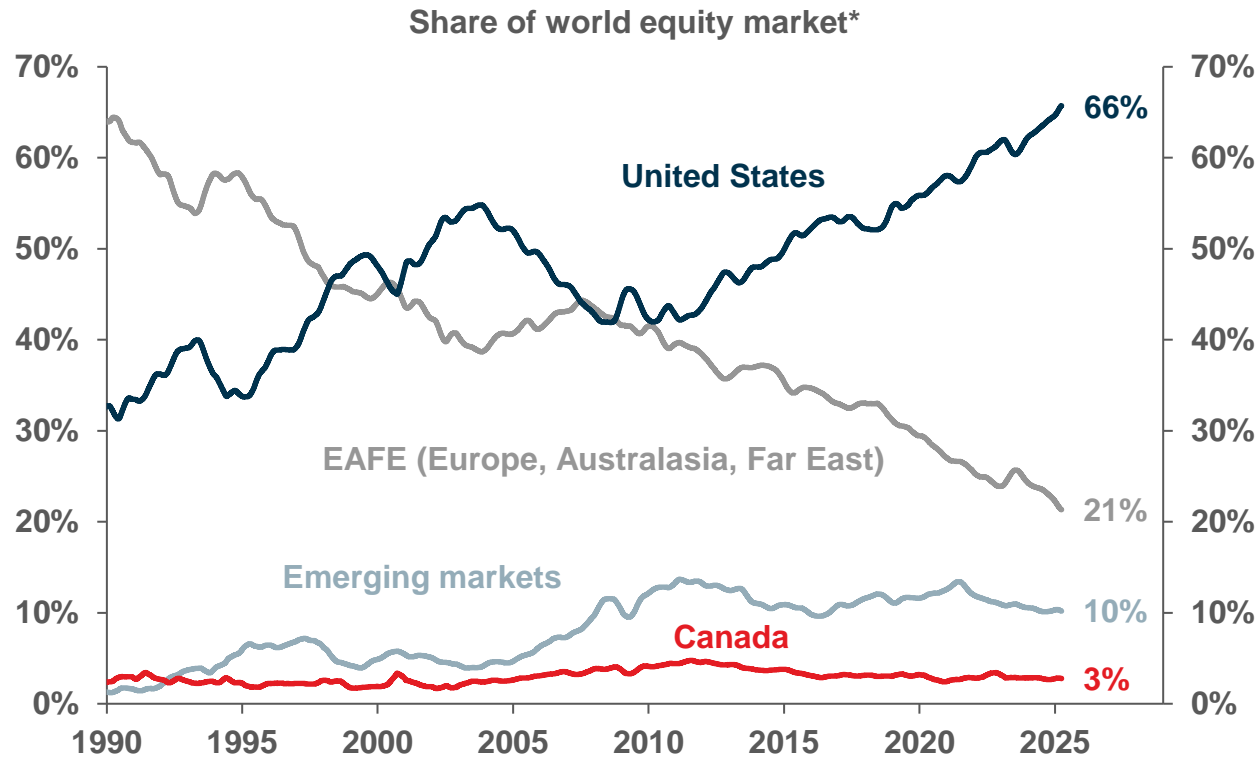
# Global equity sector allocation

Global equity sector allocation

	S&P 500	S&P/TSX	Emerging markets	EAFE
Technology	29.6%	9.3%	23.2%	7.9%
Financials	14.7%	32.1%	23.2%	19.1%
Healthcare	11.2%	0.3%	4.4%	13.5%
Cons. disc.	10.3%	3.2%	13.7%	12.0%
Comm. serv.	9.2%	2.4%	9.9%	4.2%
Industrials	8.5%	12.2%	7.5%	15.9%
Staples	6.1%	3.9%	4.7%	9.7%
Energy	3.7%	17.2%	5.0%	4.8%
Utilities	2.5%	3.9%	1.6%	3.3%
Real estate	2.3%	1.9%	1.5%	2.3%
Materials	2.0%	13.6%	5.3%	7.4%
Cyclical/Value*	41%	80%	56%	61%
Defensive/Growth**	59%	20%	44%	39%

\*Financials, Consumer discretionary, Materials, Energy, Industrials, Real estate. \*\*Technology, Communication services, Staples, Healthcare, Utilities. Data via Refinitiv (S&P 500 and S&P/TSX), Regression based (EM), and API (iShares EAFE).

# Share of world equity market

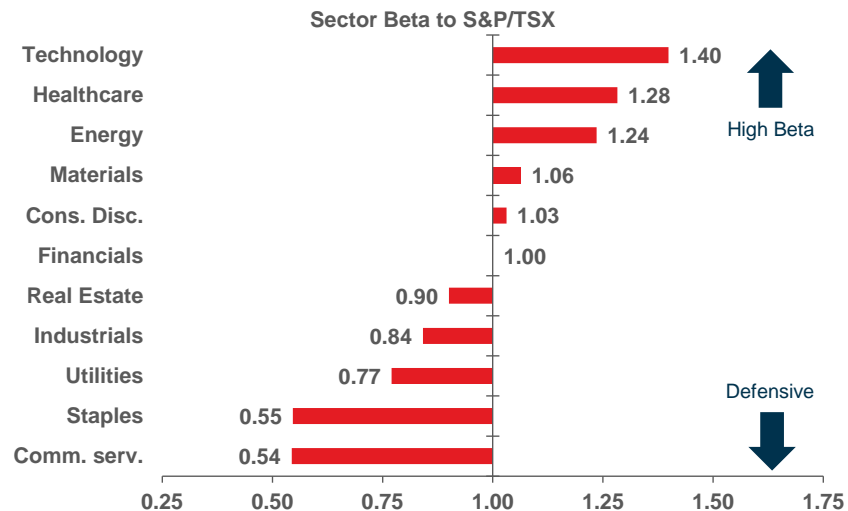
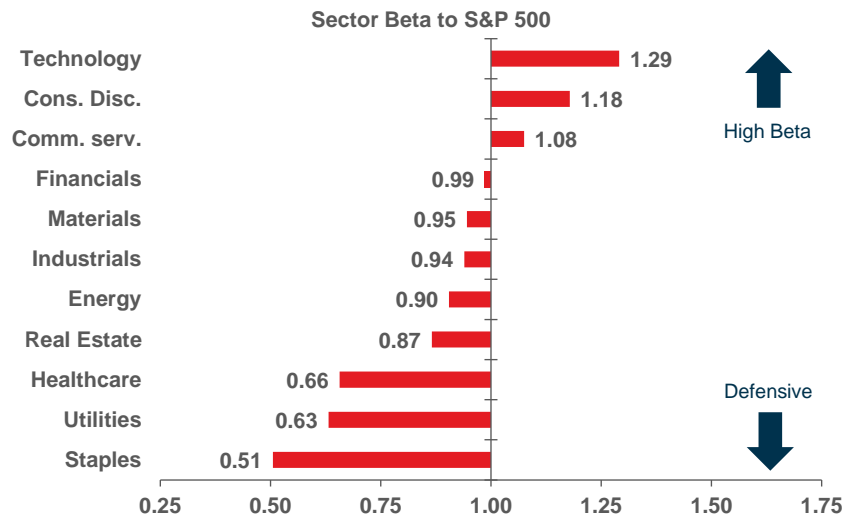


# S&P 500 bear markets since 1950

S&P 500 bear markets since 1950

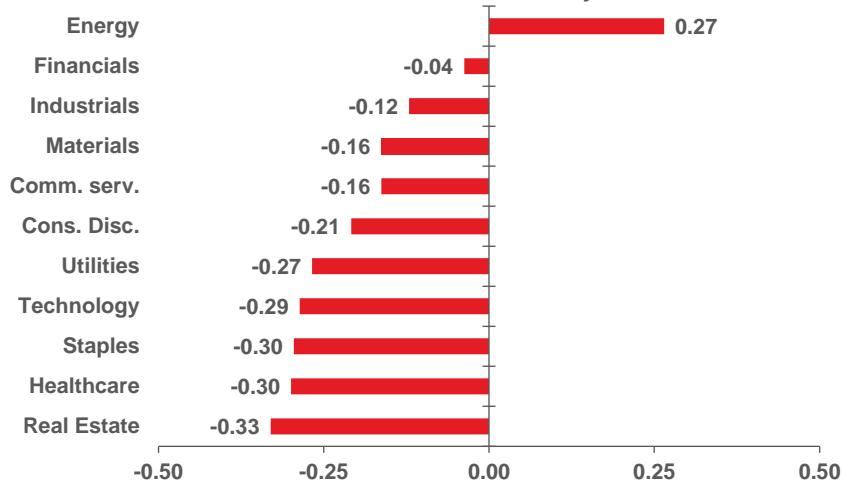
Peak	Bottom	Recovery	Event	Peak-bottom (months)	Bottom-recov. (months)	Total duration (months)	Max drawdown
Aug 1956	Oct 1957	Sep 1958	Recession of 1958	15	11	26	-21.6%
Dec 1961	Jun 1962	Sep 1963	Kennedy Slide of 1962	6	14	21	-28.0%
Feb 1966	Oct 1966	May 1967	Aggressive Fed tightening	8	7	15	-22.2%
Nov 1968	May 1970	Mar 1972	Recession of 1969-1970	18	21	39	-36.1%
Jan 1973	Oct 1974	Jul 1980	1970s energy crisis	21	70	90	-48.2%
Nov 1980	Aug 1982	Nov 1982	Early 1980s recession	20	3	23	-27.1%
Aug 1987	Dec 1987	Jul 1989	Black Monday	3	20	23	-33.5%
Mar 2000	Oct 2002	May 2007	Dot-com bubble	31	56	86	-49.1%
Oct 2007	Mar 2009	Mar 2013	Great Financial Crisis	17	49	66	-56.8%
Feb 2020	Mar 2020	Aug 2020	COVID-19 pandemic	1	5	6	-33.9%
Jan 2022	Oct 2022	Jan 2024	Central banks catch-up	9	15	24	-25.4%
Average				14	25	39	-35.7%

# Sector properties – Beta to index

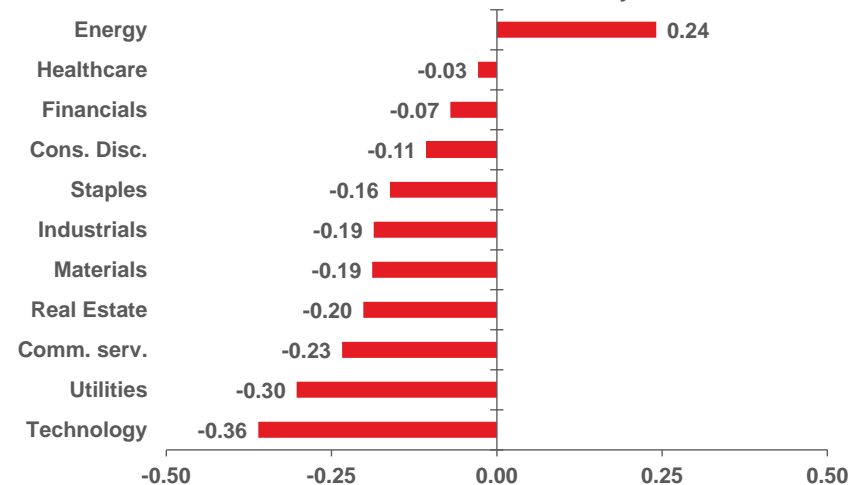


# Sector properties – Correlation to 10-year rates

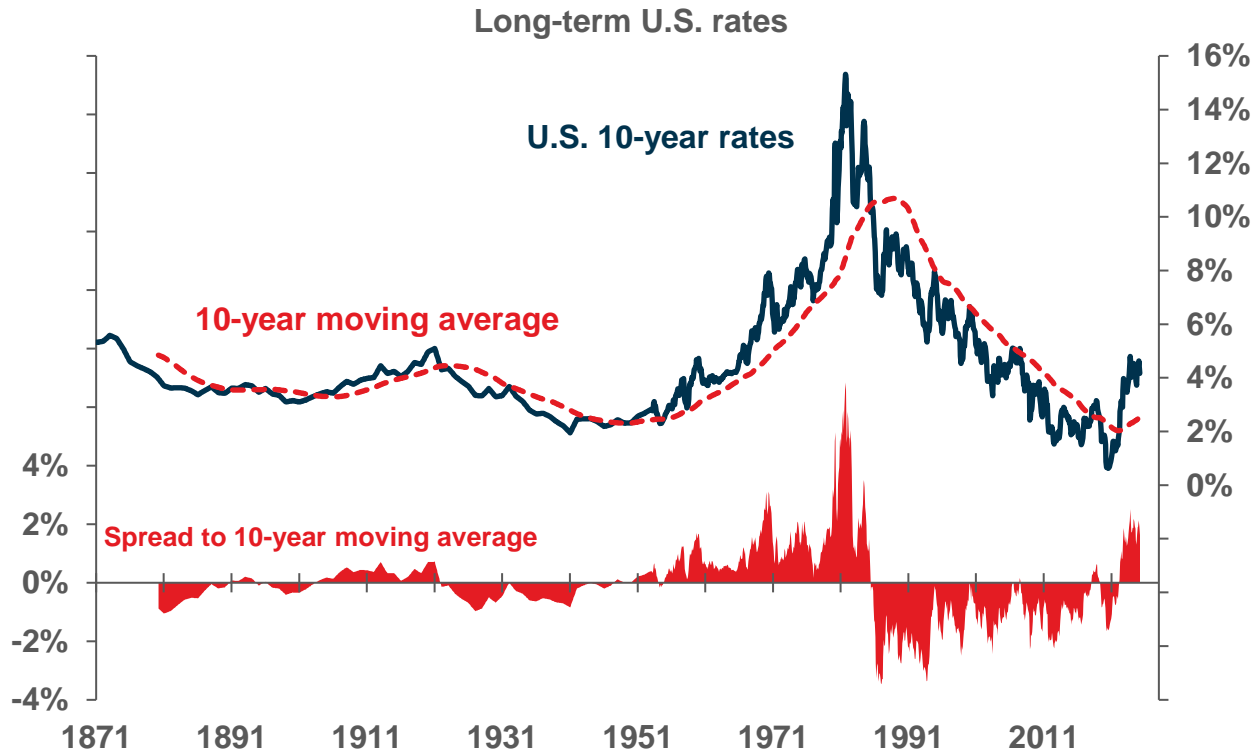
S&P 500 sector correlation with U.S. 10-year rates



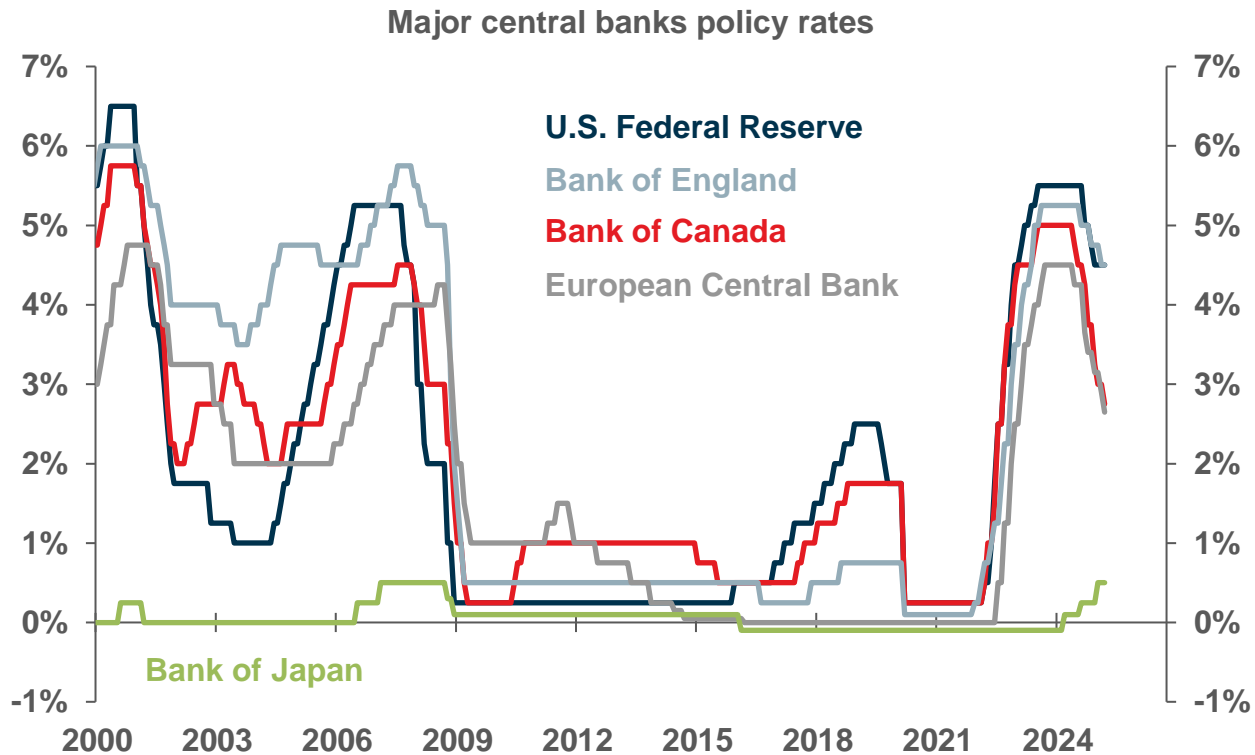
S&P/TSX sector correlation with canadian 10-year rates



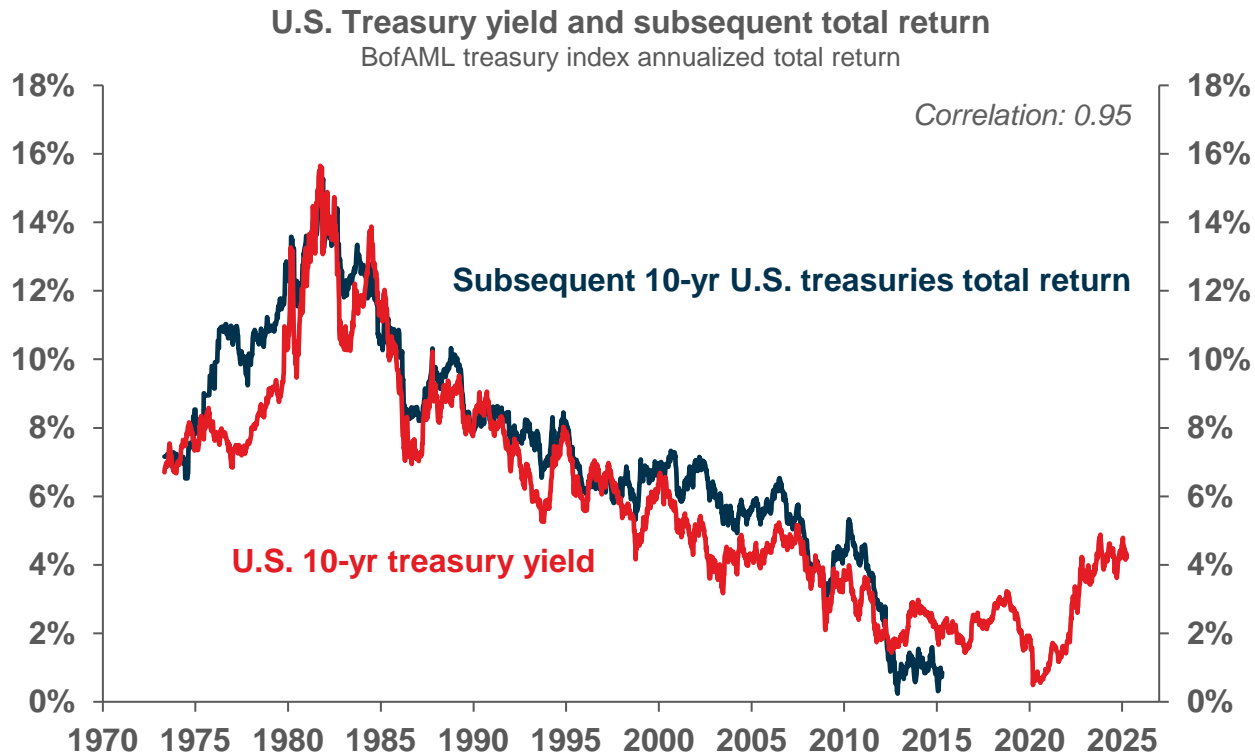
# U.S. rates: Looking back 150 years



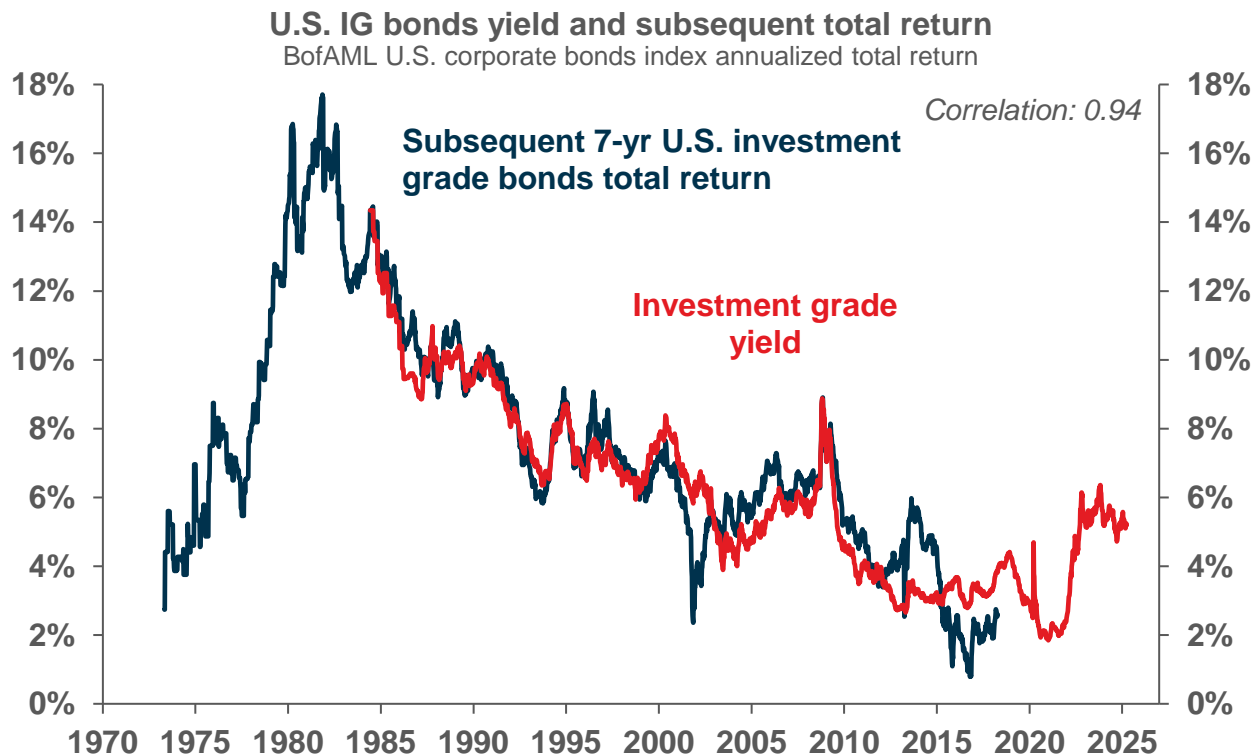
# Global policy rates



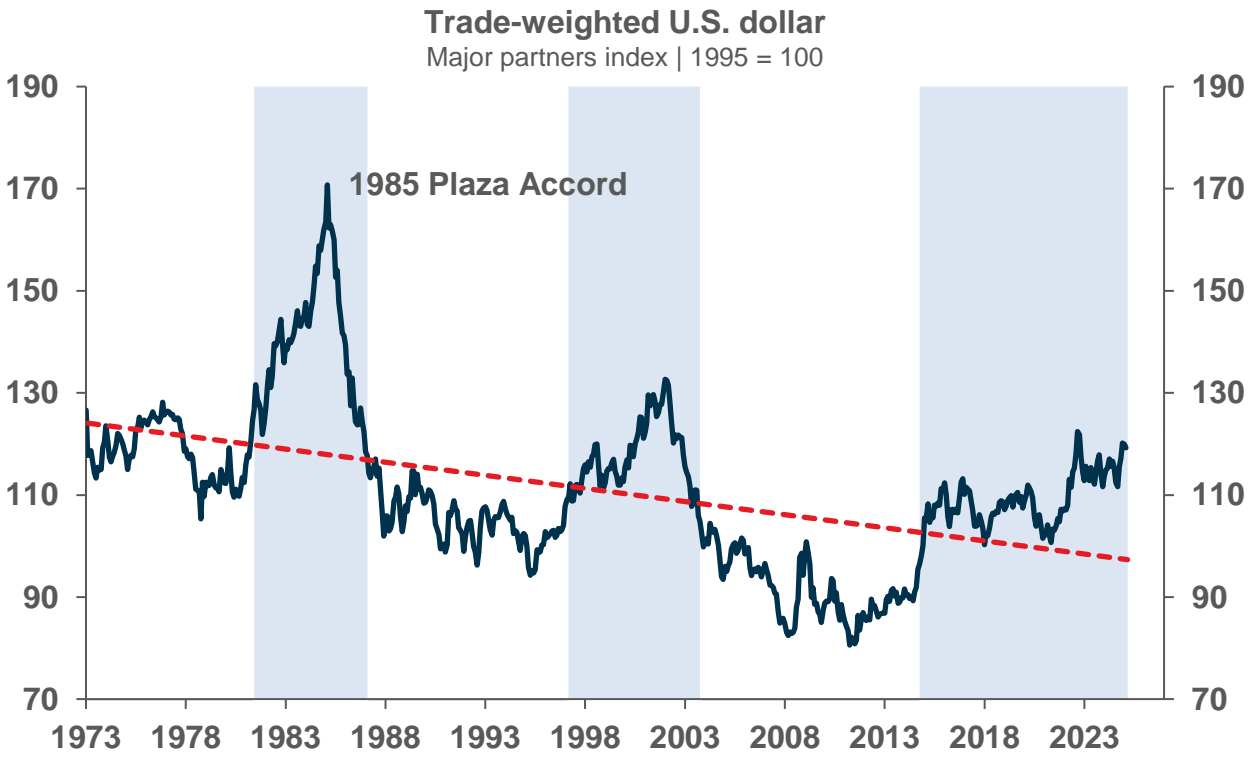
# Fixed income yield and return – Treasuries



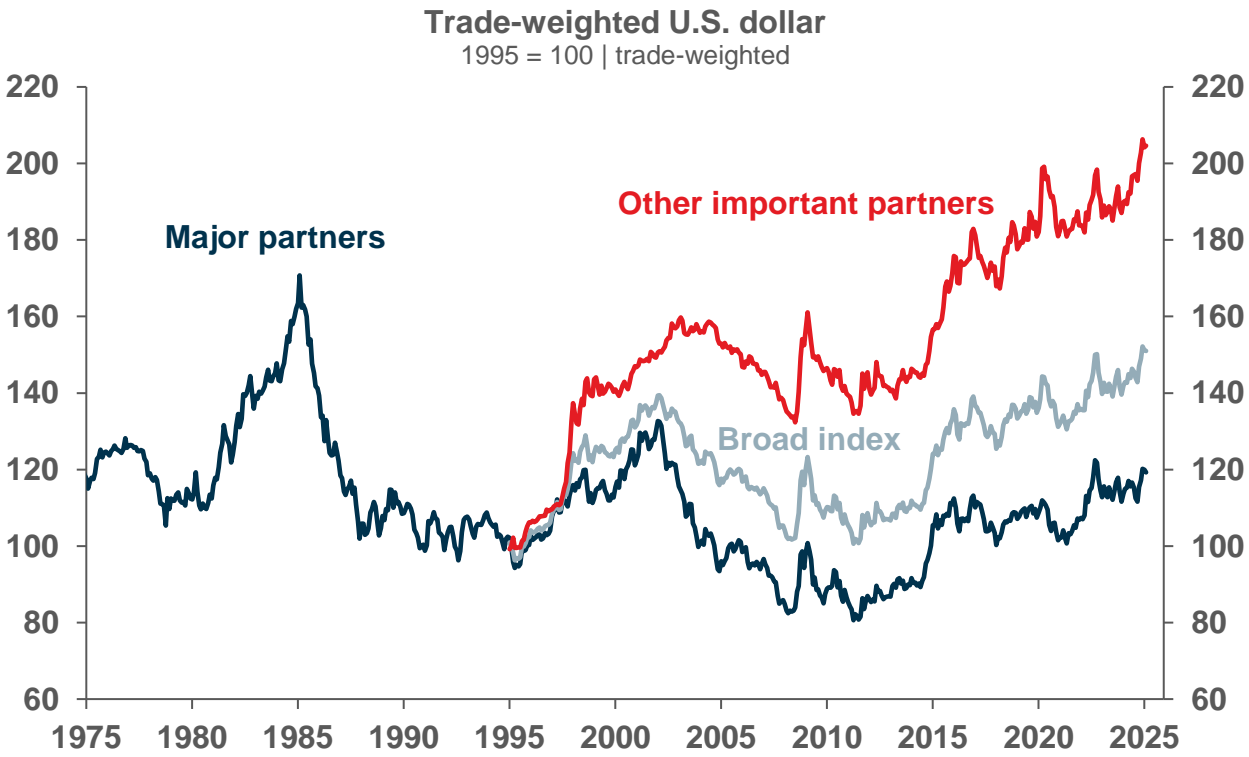
# Fixed income yield and return – Investment grade



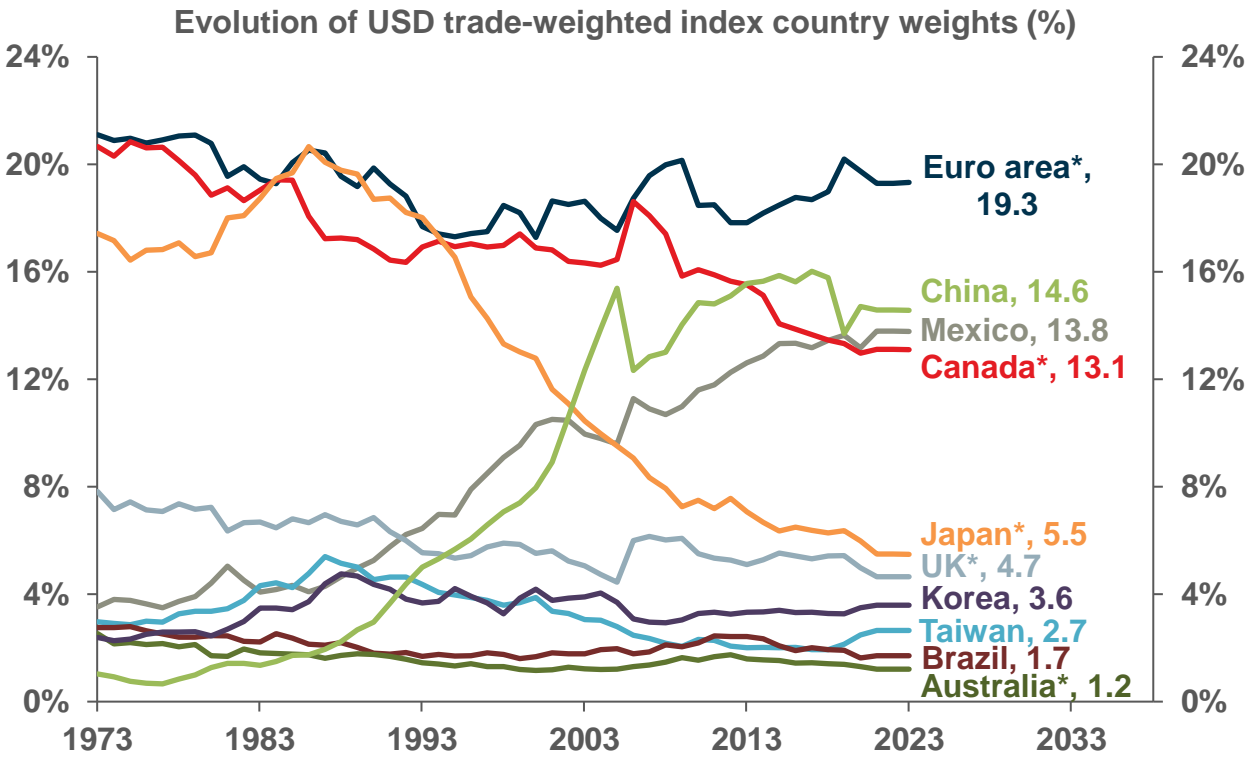
# US dollar secular trend



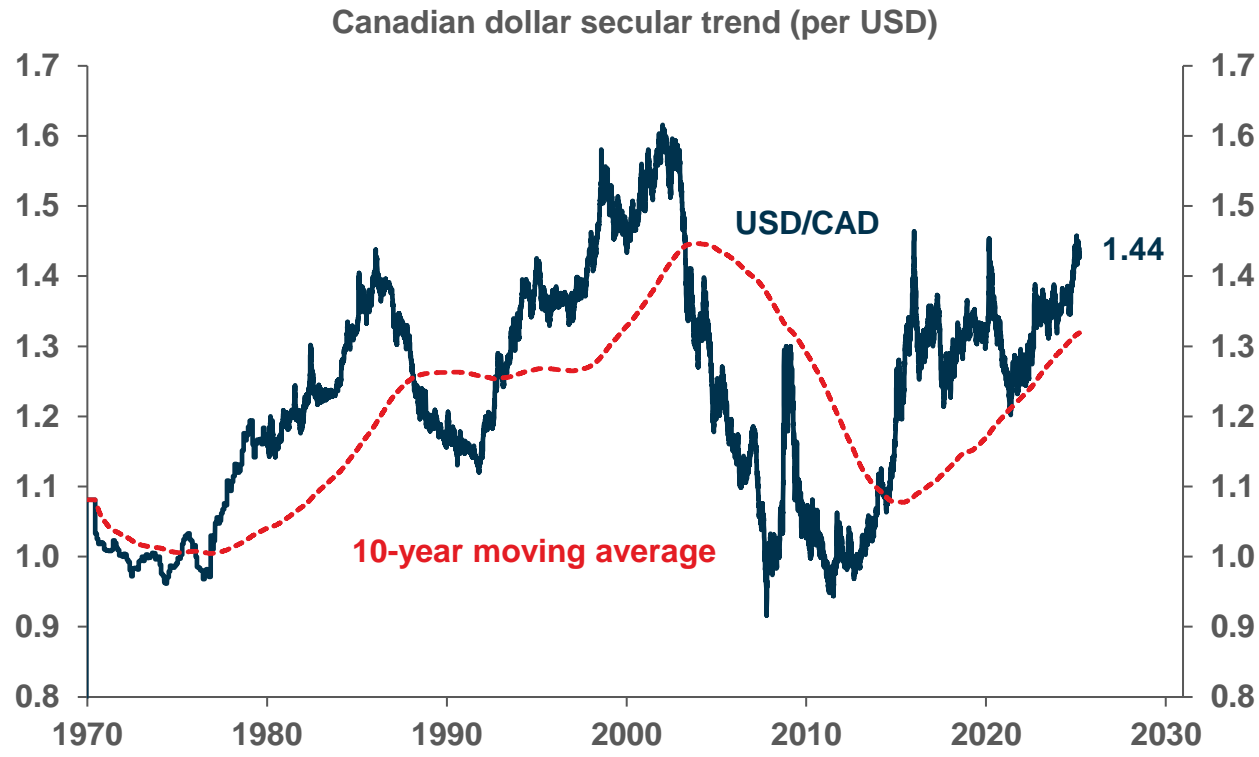
# US dollar secular trend by country group



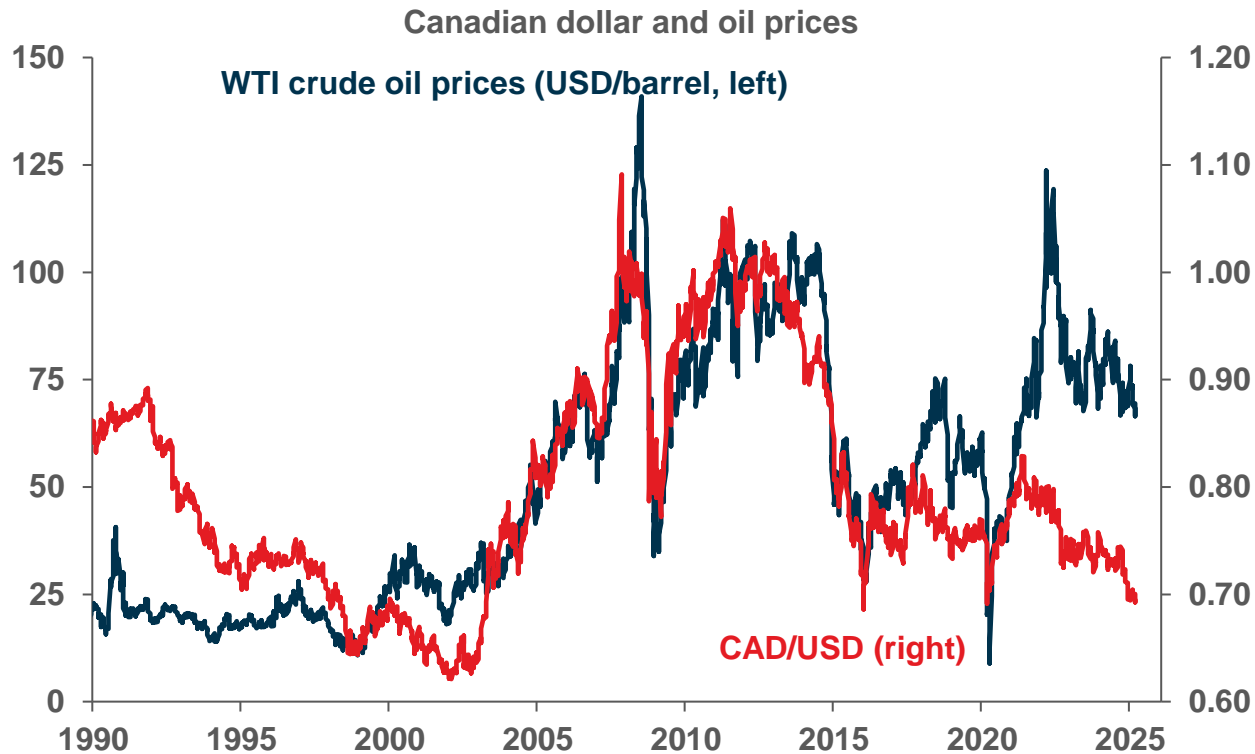
# Share of trade-weighted US dollar index



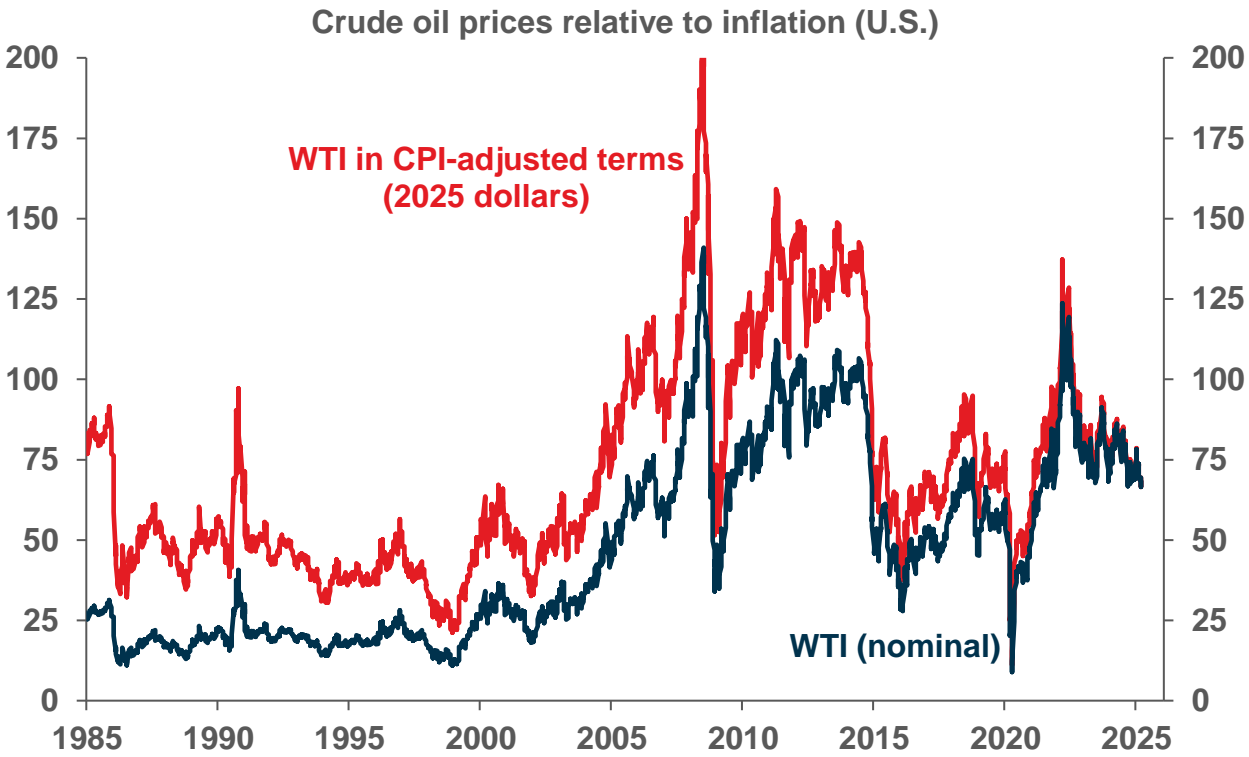
# Canadian dollar secular trend



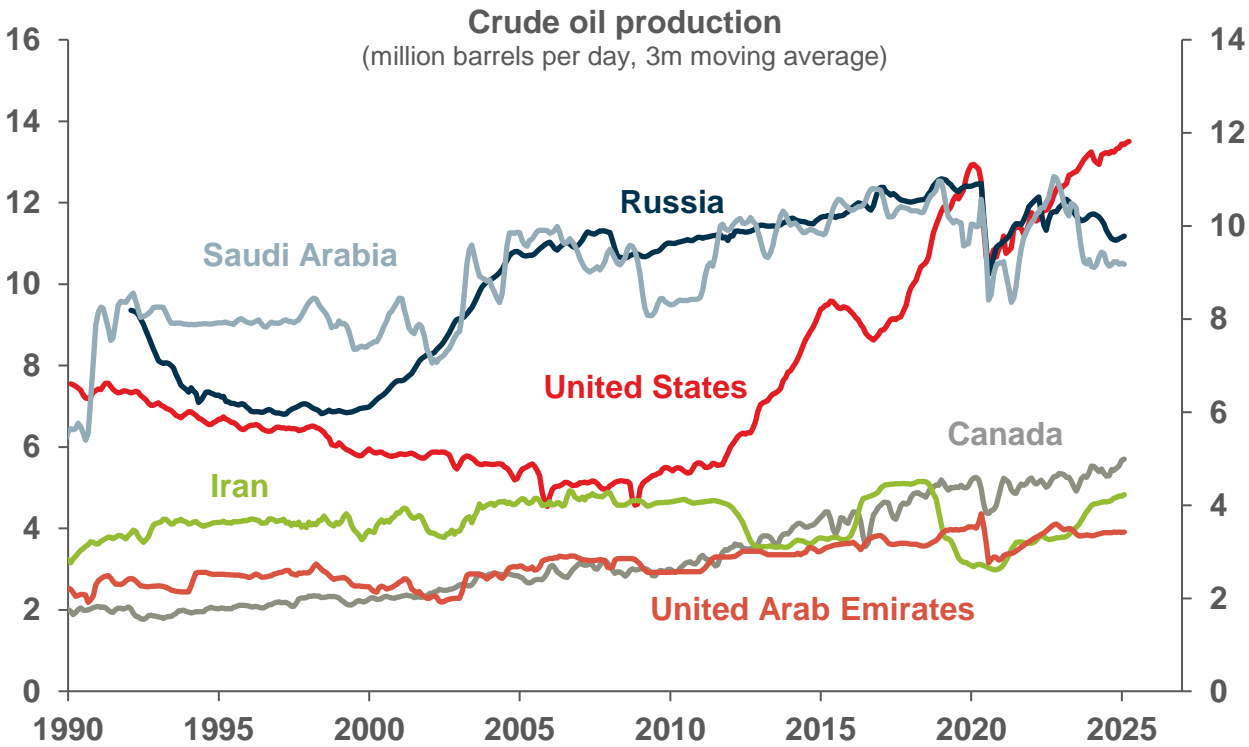
# Canadian dollar & crude oil



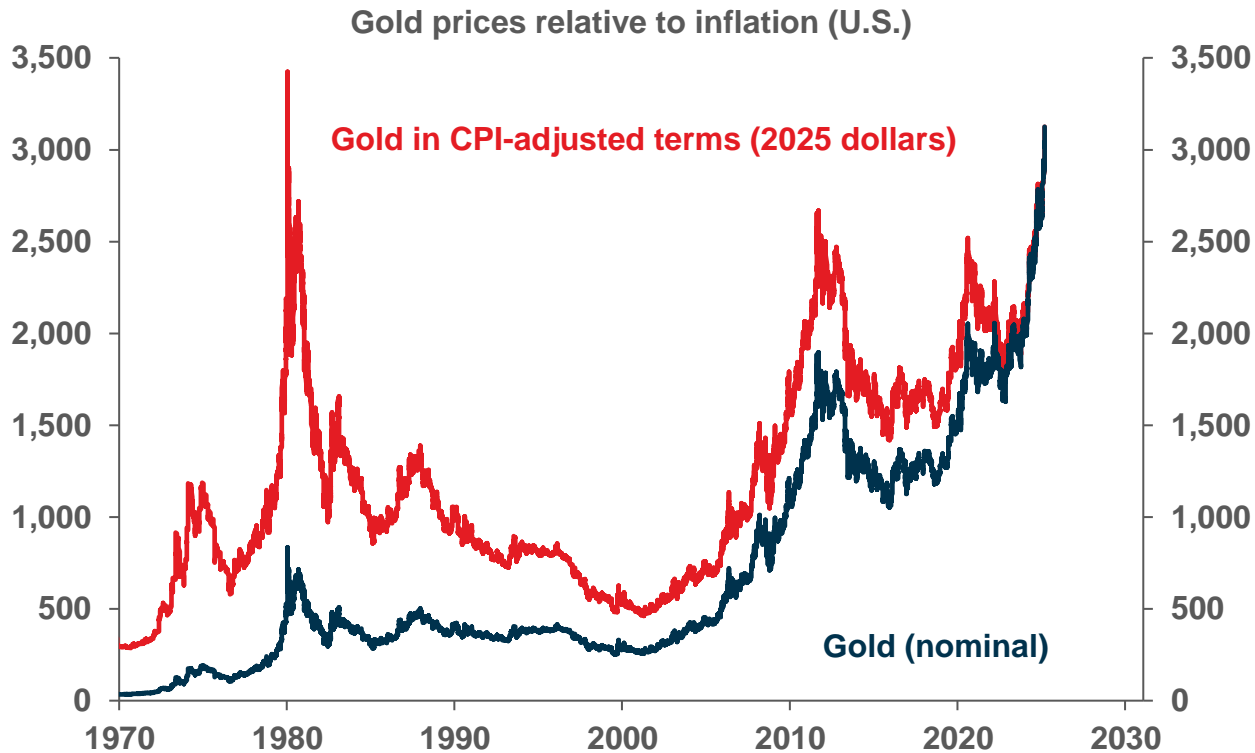
# Oil – Nominal vs real prices



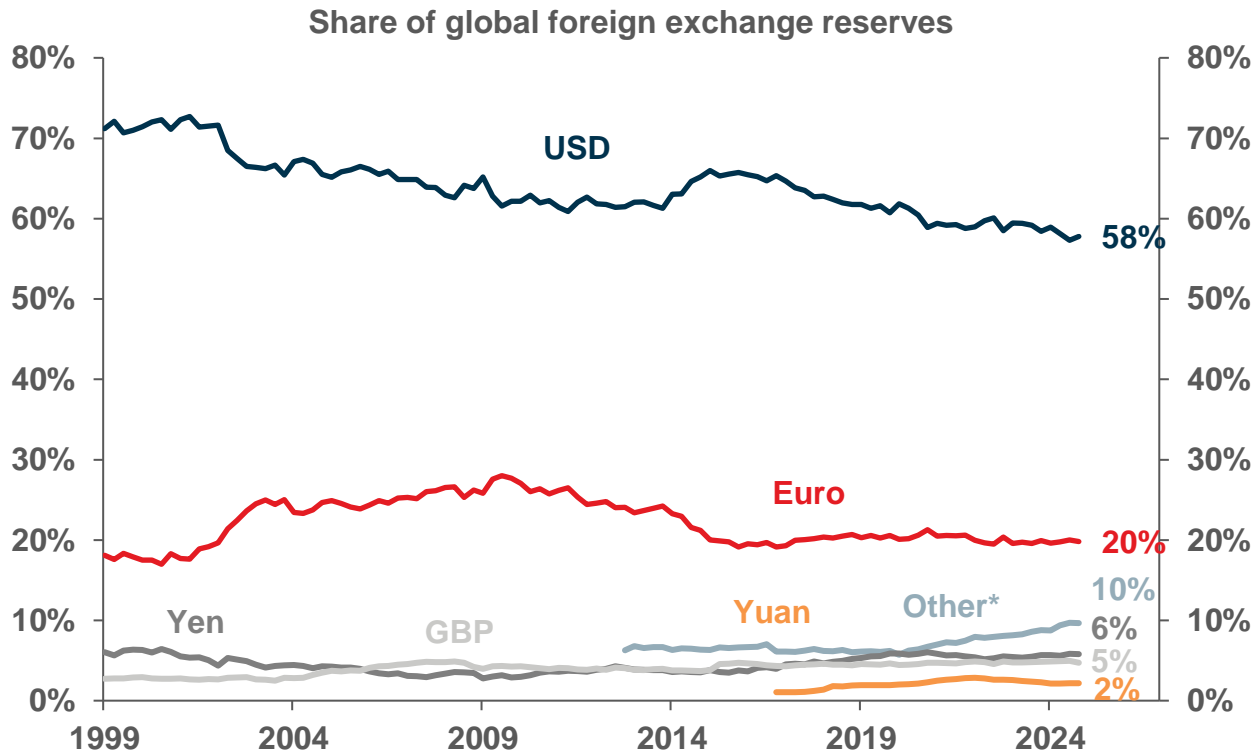
# Oil supply by main producing countries



# Gold – Nominal vs real prices



# Share of global foreign exchange reserves



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