

# What's changed?

#### Below are some notable forecast changes for our June 2025 mid-year CMA update:

- Our inflation expectations moved from 2.4% to 2.6%, largely due to materially higher household inflation expectations, although TIPS Breakevens and economist forecasts also moved slightly upward over the period.
- Equity forecasts were mildly higher overall, primarily due to higher inflation expectations. Valuation changes had minimal effects as domestic equity pricing remained high and international equity pricing ended the period at similar levels.
- Our Cash forecast was unchanged at 3.8%. Stubbornly high inflation and a Federal Reserve hesitance to cut rates has kept yields elevated.
- Treasury yields moved higher alongside surprising strength shown by the U.S. economy and ongoing inflation concerns. This coincided with tightening credit spreads. The next effect has been marginally improved fixed income expectations.



# 10-year return & risk assumptions

Asset Class	Index Proxy	Ten Year Return Forecast		Standard Deviation
		Geometric	Arithmetic	Forecast
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U.S. Large	S&P 500	5.5%	6.6%	15.5%
U.S. Small	Russell 2000	6.7%	8.7%	21.4%
International Developed	MSCI EAFE	6.9%	8.3%	17.6%
International Small	MSCI EAFE Small Cap	9.1%	11.1%	21.7%
Emerging Markets	MSCIEM	7.2%	9.8%	24.6%
Global Equity	MSCI ACWI	6.1%	7.3%	16.7%
Private Equity*	CA Private Equity	8.0%	10.9%	25.6%
Private Equity Direct	CA Private Equity	9.0%	11.9%	25.6%
Private Equity (FoF)	CA Private Equity	7.0%	9.9%	25.6%
Fixed Income				
Cash	30 Day T-Bills	3.8%	3.9%	1.1%
U.S. TIPS	Bloomberg U.S. TIPS 5-10	4.6%	4.7%	5.5%
U.S. Treasury	Bloomberg Treasury 7-10 Year	4.2%	4.5%	7.1%
Global Sovereign ex U.S.	Bloomberg Global Treasury ex U.S.	2.6%	3.1%	9.9%
Core Fixed Income	Bloomberg U.S. Aggregate Bond	4.8%	4.9%	4.8%
Core Plus Fixed Income	Bloomberg U.S. Universal	4.9%	5.0%	4.5%
Short-Term Gov't/Credit	Bloomberg U.S. Gov't/Credit 1-3 Year	4.3%	4.4%	3.6%
Long-Term Credit	Bloomberg Long U.S. Credit	5.0%	5.5%	10.9%
High Yield Corp. Credit	Bloomberg U.S. Corporate High Yield	5.9%	6.5%	11.0%
Bank Loans	Morningstar LSTA Leveraged Loan	6.5%	6.8%	9.0%
Global Credit	Bloomberg Global Credit	4.4%	4.7%	7.7%
Emerging Markets Debt (Hard)	JPM EMBI Global Diversified	7.7%	8.2%	10.6%
Emerging Markets Debt (Local)	JPM GBI-EM Global Diversified	5.7%	6.4%	12.2%
Private Credit	Morningstar LSTA Leveraged Loan Index	8.3%	8.9%	11.9%
Private Credit (Direct Lending - Unlevered)	Morningstar LSTA Leveraged Loan Index	7.0%	7.4%	9.0%
Private Credit (Direct Lending - Levered)	Morningstar LSTA Leveraged Loan Index	8.1%	8.7%	12.6%
Private Credit (Credit Opportunities)	Morningstar LSTA Leveraged Loan Index	9.0%	9.8%	12.8%
Private Credit (Junior Capital / Mezzanine)	Morningstar LSTA Leveraged Loan Index	8.6%	9.4%	11.4%
Private Credit (Distressed)	Morningstar LSTA Leveraged Loan Index	9.1%	12.7%	29.1%

Investors wishing to produce expected geometric return forecasts for their portfolios should use the arithmetic return forecasts provided here as inputs into that calculation, rather than the single-asset-class geometric return forecasts. This is the industry standard approach, but requires a complex explanation only a heavy quant could love, so we have chosen not to provide further details in this document – we will happily provide those details to any readers of this who are interested.



## 10-year return & risk assumptions

Asset Class	Index Proxy	<u>Ten Year Ret</u>	urn Forecast	Standard Deviation Forecast
	mack 100xy	Geometric	Arithmetic	
Other				
Commodities	Bloomberg Commodity	6.5%	7.7%	16.1%
Hedge Funds	HFRI Fund Weighted Composite	5.0%	5.3%	7.5%
Hedge Fund of Funds	HFRI Fund of Funds Composite	4.0%	4.3%	7.5%
Core Real Estate	NCREIF Property	7.1%	7.8%	12.5%
Value-Add Real Estate	NCREIF Property + 200bps	9.1%	10.1%	15.4%
Opportunistic Real Estate	NCREIF Property + 300bps	10.1%	12.0%	21.1%
REITs	Wilshire REIT	7.1%	8.8%	19.2%
Inflation		2.6%	-	<u>-</u>

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<sup>\*\*</sup>The Risk Parity forecast shown here assumes a 10% target volatility strategy. We recommend customizing this forecast to the target volatility specifications of the risk parity strategy that an investor wishes to model. Please speak with your Verus consultant for customization needs.



<sup>\*</sup>To represent hedge fund styles, we use a combination of HFRI benchmarks: Equity Style = 33% HFRI Fundamental Growth, 33% HFRI Fundamental Value, 33% HFRI Activist. Credit Style = 20% HFRI Distressed/Restructuring, 20% HFRI Credit Arbitrage, 20% HFRI Fixed Income-Corporate, 20% HFRI Fixed Income-Convertible Arbitrage, 20% HFRI Fixed I

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