



Figure 1: 1/31/2026 Returns (source: FactSet)
 Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	3MO	1YR	vs. 52-wk	vs. 52-wk
US Aggregate Fixed Income	AGG	0.3%	0.6%	6.9%	-1.2%	4.1%
Investment Grade Corp Bonds	LQD	0.3%	0.5%	7.6%	-2.1%	6.9%
U.S. 20+ YR Treasuries	TLT	0.0%	-2.4%	3.7%	-7.4%	4.6%
Muni Bonds	MUB	0.7%	1.1%	4.5%	-0.1%	7.5%
US High Yield	HYG	0.6%	1.9%	7.8%	-0.3%	8.0%
Non-US Corp Bonds	IBND	1.8%	3.5%	17.5%	-1.6%	16.8%
Emerging Markets Bond LC	EMLC	1.9%	4.8%	18.7%	-1.1%	14.3%
Global Equity						
ACWI Global Equity	ACWI	2.8%	3.8%	22.0%	-1.3%	43.7%
ACWI Global Equity ex US	ACWX	5.4%	8.4%	35.1%	-2.1%	44.5%
International Developed	EFA	4.9%	8.6%	31.7%	-1.5%	39.6%
Emerging Markets	IEMG	7.9%	8.1%	41.0%	-2.9%	53.4%
Global Equity by Region						
United States	VTI	1.6%	1.8%	15.4%	-1.1%	44.1%
Europe	IEUR	4.6%	9.7%	33.3%	-1.8%	39.6%
Asia ex-Japan	AAXJ	7.7%	7.1%	40.7%	-2.7%	55.9%
China	MCHI	3.9%	-0.6%	31.8%	-7.4%	39.6%
Japan	BBJP	6.1%	7.0%	31.9%	-1.0%	42.6%
Latin America	ILF	16.1%	23.1%	61.4%	-5.2%	68.6%
US Equity						
US S&P 500	IVV	1.5%	1.8%	16.4%	-0.8%	43.6%
NASDAQ 100 QQQ	QQQ	1.2%	-1.0%	19.7%	-2.4%	54.5%
US Large Growth	IWF	-1.6%	-3.9%	14.3%	-5.5%	51.0%
US Large Value	IWD	4.5%	8.0%	15.7%	-0.7%	34.7%
US Eqwt S&P 500	RSP	3.4%	5.8%	11.2%	-1.3%	31.7%
US Mid Cap	IJH	4.0%	6.3%	7.7%	-3.3%	36.9%
US Small Cap	IJR	5.7%	8.3%	8.9%	-3.5%	42.4%

Global stocks began the new year with a bang, but leadership continued to broaden beyond the tech sector. Small and midcap stocks outperformed in the US, and a weaker dollar boosted non-US assets, continuing the trends observed in 2025. Performance highlights for January and the last three months (3MO) are below.

- Bonds: The US Aggregate index (AGG) rose 0.3% this month (+0.6% last 3MO) as yields stabilized. Long-term Treasuries (TLT), which are very sensitive to interest rates, were flat (-2.4% 3MO). Corporate bonds (LQD) rose 0.3% (+0.5% 3MO); high yield (HYG) rose 0.6% (+1.9% 3MO). Non-US bonds continued to out-perform amid ongoing US dollar weakness.
- Global equity (ACWI): +2.8% in January (+3.8% last 3MO).
- US Equity: The broad market (VTI) rose 1.6% (+1.8% 3MO), and the S&P 500 (IVV) gained 1.5% (+1.8% 3MO). Small stocks (IJR) were up 5.7% this month (+8.3% 3MO); lower interest rates and strong US growth benefit smaller stocks. Energy stocks led with 14.2% gains (+16.8% 3MO) as WTI oil prices spiked above \$65 per barrel amid heightened Iran tensions; materials stocks gained 8.6% (+15.6% 3MO) as commodity prices soared. Tech (XLK) fell 0.1% (-4.2% 3MO).
- Non-US Equity: Non-US stocks continue to outperform, aided by a weaker US dollar. Developed markets (EFA) gained 4.9% (+8.6% 3MO), with Europe up 4.6% (+9.7% 3MO) and Japan up 6.1% (+7.0% 3MO). Emerging markets (IEMG) gained 7.9% (+8.1% 3MO), with huge gains in South Korea (EWY +25.9%, +29.1% 3MO) and Brazil (EWZ +16.6%, +23.1% 3MO); India underperformed (INDA -4.3%, -4.1% 3MO).

JANUARY: A POSITIVE START FOR 2026

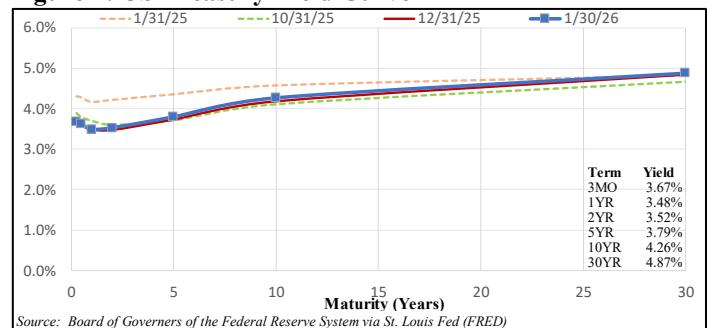
LONG-TERM CAPITAL MARKET RETURN FORECASTS

February 2, 2026

Interest Rates and the Economy

Interest rates were stable in January. After cutting short-term rates by 0.25% in each of their last three meetings, the Federal Reserve (the Fed) paused in January and expressed patience regarding future monetary policy moves. Inflation remains elevated (suggesting a need for higher rates), but employment has stabilized at weaker levels (suggesting lower rates). Investors continue to focus on incoming economic data to calibrate expectations for future cuts, with just two more 0.25% cuts forecast later in 2026. The yield curve (Figure 2) plots the interest rates for various US Treasury maturities. US 10-year Treasuries now yield 4.26%.

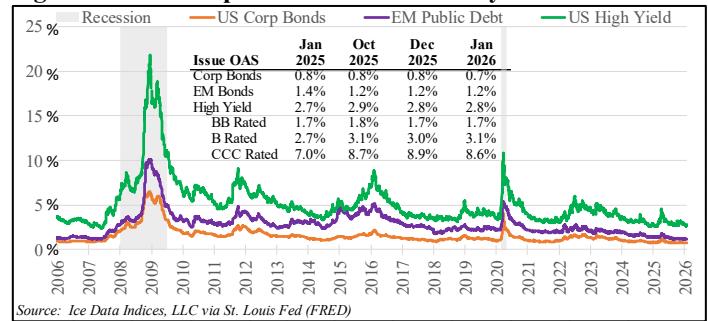
Figure 2: US Treasury Yield Curve



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads remained historically tight this month, reflecting a strong appetite for risk.

- Investment grade corporate bond spreads narrowed to +0.7% but have been relatively stable over the past year.
- High yield (non-investment grade) spreads were stable at +2.8% last month and are up slightly from +2.7% a year ago. Spreads of the riskiest bonds (rated CCC & below) narrowed to +8.6% but are well above +7.0% spreads one year ago.
- Emerging market spreads were steady at +1.2% and have been stable over the past year; investors see low risk in EM debt.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



Capital Market Assumptions: Forecasts

At the beginning of each year, we seek longer-term perspective regarding expected market returns. Many investment research firms maintain long-term capital market assumptions (expected asset class returns, volatility and correlations), including JP Morgan (some of the most robust research on the topic) and other well-respected firms such as BlackRock, Invesco, Vanguard, Research Affiliates and Grantham Mayo (GMO). Together, these firms manage over \$30 trillion on behalf of institutional and individual investors. Figure 4 summarizes their long-term forecasts.

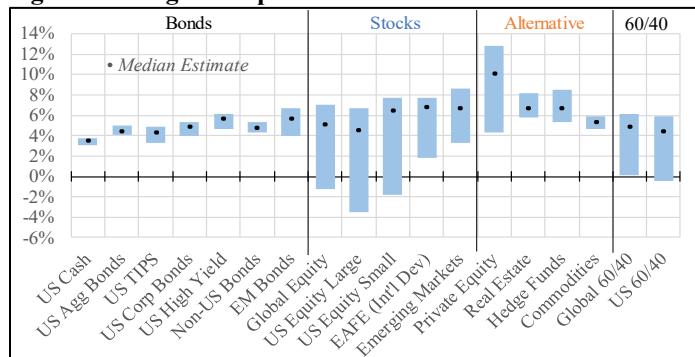
Figure 4: 10-year Return Forecasts (Nominal, Geometric)

Class	Asset	Median E(R)	Change vs. 2025	JP Morgan	Black Rock	Invesco	Vanguard	Research Affiliates	GMO
Inflation	US Inflation	2.5%	0.1%	2.5%	3.1%	3.8%	3.6%	3.5%	3.3%
Cash & Bonds	US Cash	3.5%	-0.1%	3.1%	3.8%	3.6%	3.5%	3.3%	3.3%
	US Agg Bonds	4.5%	-0.1%	4.8%	4.1%	5.0%	4.3%	4.7%	4.1%
	US TIPS	4.4%	0.3%	4.3%	4.4%	4.9%	3.3%	4.8%	4.4%
	US Corp Bonds	5.0%	0.0%	5.2%	4.0%	5.3%	4.4%	5.0%	5.0%
	US High Yield	5.7%	0.0%	6.1%	5.7%	5.8%	4.8%	4.7%	4.7%
	Non-US Bonds	4.8%	0.5%	4.3%	4.6%	4.8%	4.9%	5.3%	5.3%
Equity	EM Bonds	5.8%	0.2%	6.7%	5.2%	5.9%	5.6%	6.7%	4.0%
	Global Equity	5.1%	-0.2%	7.0%	5.9%	5.3%	4.9%	4.7%	-1.2%
	US Equity Large	4.6%	0.5%	6.7%	5.2%	4.7%	4.4%	3.1%	-3.5%
	US Equity Small	6.5%	0.4%	6.9%	4.5%	7.7%	6.1%	7.1%	-1.8%
	EAFFE (Int'l Dev)	6.9%	-1.1%	7.5%	7.6%	5.7%	6.2%	7.7%	1.8%
	Emerging Markets	6.7%	-1.0%	7.8%	5.9%	8.6%	4.5%	7.5%	3.3%
Alt	Private Equity	10.2%	0.3%	10.2%	12.9%				4.3%
	Real Estate	6.8%	0.2%	8.2%	5.8%	7.0%			6.6%
	Hedge Funds	6.7%	-0.3%	5.3%	8.5%	6.3%			7.2%
	Commodities	5.3%	-0.1%	4.6%		5.9%			5.3%
Portfolio	Global 60/40	4.9%	-0.1%	6.1%	5.6%	5.1%	4.9%	5.0%	0.1%
	US 60/40	4.5%	0.2%	5.9%	4.7%	4.8%	4.4%	4.0%	-0.5%

Sources: JP Morgan, BlackRock, Invesco, Vanguard, Research Affiliates & GMO

Figure 5 is a graphical summary of the data in Figure 4, illustrating the range of return estimates by asset class and the median forecast for each. (Note: We focus on median rather than a simple average of forecasts to limit the impact of outliers.) Expected returns have remained stable since last year's survey despite outsized US and global stock market advances in 2025, lower interest rates and lingering uncertainty (inflation, geopolitics, etc.).

Figure 5: Range of Expected Return Forecasts



Sources: JP Morgan, BlackRock, Invesco, Vanguard, Research Affiliates & GMO

Bonds: Despite multiple interest rate cuts by the Fed and other global central banks, long-term yields and forward return forecasts remained relatively stable versus last year's forecasts:

- Cash: Expecting 3.5% p.a. (per annum, i.e., annualized over the next 10 years), down slightly versus last year; this makes sense as the Fed nears the end of the current rate cut cycle.
- US bonds: Forecasting 4.5% p.a., down from 4.6% last year
- US corporate bonds: Forecasts stabilized at 5.0% p.a.
- High yield bonds: Forecasts were unchanged at 5.7%, reflecting tight but relatively stable credit spreads going forward.
- Non-US bonds: Forecasts increased to 4.8% p.a., reflecting expected further weakness for the US dollar; emerging market debt return forecasts moved higher to 5.8% p.a.

Stocks: Given strong equity performance in 2025, we would have expected forecasts to decline, but expectations remain robust:

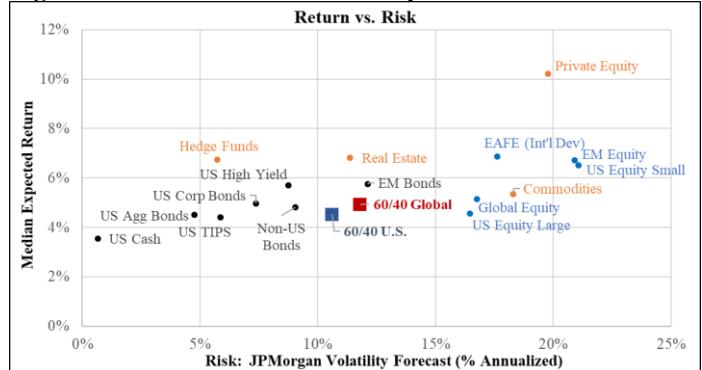
- Global equity: 10-year expectations fell slightly to 5.1% p.a.
- US equity: The 10-year annualized forecast for large US stocks increased to 4.6% p.a.; small cap forecasts rose to 6.5% p.a.
- Non-US equity: After 30+% returns on non-US equity investments in 2025, developed market (e.g. Europe, Japan, Canada, Australia) forecasts declined to 6.9% p.a., and emerging markets (e.g. Asia and Latin America stocks) declined to 6.7% p.a. Still, non-US equities are expected to outperform US stocks.

Alternatives: Large institutional investors invest in illiquid assets in search of returns and portfolio diversification. Return forecasts for alternative assets remained strong in this year's survey, particularly for private investments as investors factor in lower borrowing costs associated with these debt-financed investments:

- Private Equity: Forecasts increased to 10.2% p.a.
- Real Estate: Forecasts increased to 6.8% p.a.
- Hedge funds: Expectations decreased to 6.7% p.a.
- Commodities: Forecasts declined to 5.3% p.a.

Risk: Returns are only part of the investment process. Figure 6 plots the risk/return tradeoff for the various asset classes discussed in this article (median expected return on the Y-axis, and JP Morgan's annualized volatility estimate on the X-axis). Over the long run, higher returns can only be achieved by taking more risk; therefore, it makes sense that less risky assets like cash and bonds fall in the lower left while riskier asset classes like emerging market and private equity lie in the upper right.

Figure 6: 10-Year Ann. Median Expected Return vs. Risk



Sources: JP Morgan, BlackRock, Invesco, Vanguard, Research Affiliates & GMO

Bottom Line

Stocks began the new year on a positive note, with market leadership continuing to shift away from the Magnificent 7 AI stocks in favor of small and midcap stocks in the US. Non-US assets continue to outperform, aided by ongoing US dollar weakness.

Despite strong recent returns, forward-looking return expectations are robust (10-year average return estimates, annualized):

- Bonds: The median forecast for US bonds is 4.5% p.a.; attractive yields and dollar weakness still favor non-US bonds.
- Stocks: Median forecasts are 4.6% p.a. for large US stocks and 6.5% for small caps; non-US forecasts are nearly 7% p.a.
- Alternative assets are expected to generate solid returns and portfolio diversification for qualified investors.

Seeking higher returns requires more risk, with larger allocations to alternatives and non-US assets. Diversification is critical given elevated uncertainty (interest rates, tariffs, geopolitics, etc.).



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