

Capital Market Assumptions

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HSBC Asset Management

Contents

Executive Summary	02
Emerging markets – Look beneath the benchmark	05
The structural opportunity in local bonds	
EM equities offer returns for less	
Through the expected returns lens	
Diversifying the diversifiers in a multi-polar world	10
From stable correlations to distributed defensiveness	
Liquid alternatives: monetising dispersion	
Private markets: selectivity is key	
What is the neutral policy rate?	15
Main drivers of the neutral rate	
Estimating the neutral rate	
Survey estimates	
10-year expected returns for selected assets	20
Technical appendix	23

Executive Summary

Reading the newspapers and tracking the social media feeds can make it feel like a grave, new world. But despite all the events and noise, markets have been impressively resilient in 2026.

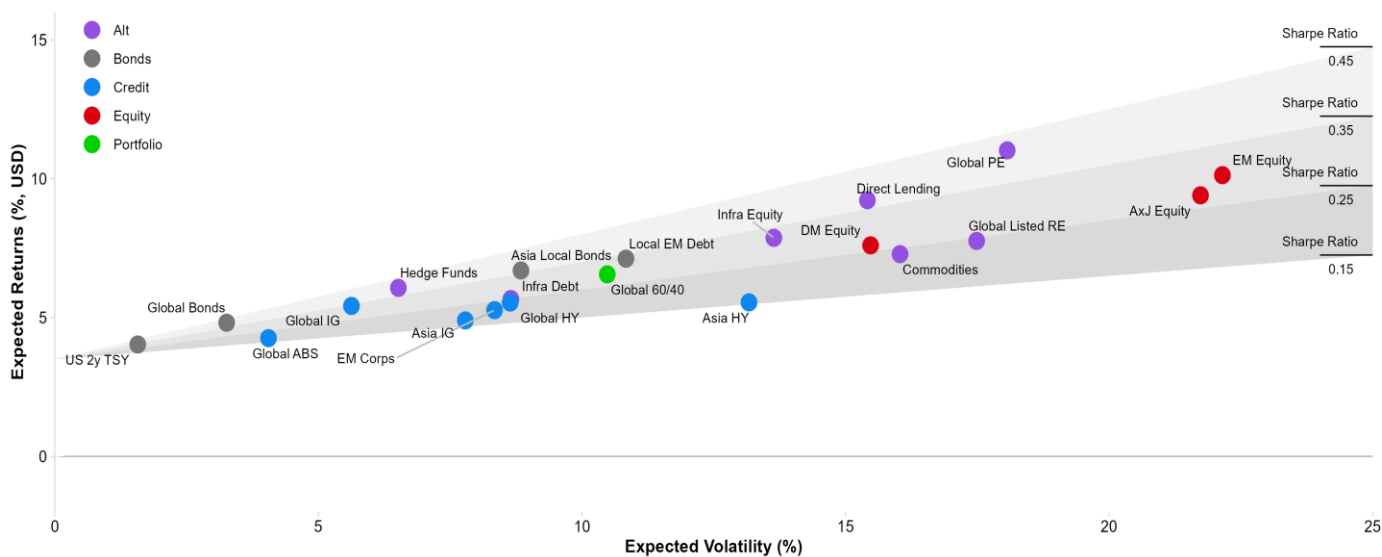
Amid geopolitical events, tech volatility, and hawkish central bankers, it's been a year of strong, but not stellar, returns for stock markets. The bright spots have been in international and emerging markets. Also, in commodities and in real assets. But the rapid repricing of interest rates has hurt fixed income performance. With the dollar and crypto also underwhelming investors.

So where should medium term investors focus their attention now? Our annual exercise to assess long term capital market assumptions across the universe of public and private markets, attempts to highlight the opportunities for strategic asset allocators. This is an important project; carefully calibrating future returns is probably the most important step to avoid disappointing portfolio performance.

As usual, we do this by building-up asset class specific expected returns. Not based on history, but on the idea that the economic environment, market valuations, and future fundamentals can guide our thinking. Starting with some assumptions for interest rates, we then add-in asset class specific risk premia. The numbers are developed with a clear philosophy of how markets work, which is backed-up by technical research.

Figure 1 shows today's pecking order of asset classes; ten-year expected returns scaled by expected volatility. Three key conclusions stand-out.

Figure 1 - HSBC AM capital market line (10 year expected returns for selected assets)



Source: HSBC Asset Management, as of September 2026. Past performance does not predict future returns. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. The views expressed above were held at the time of preparation and are subject to change without notice.



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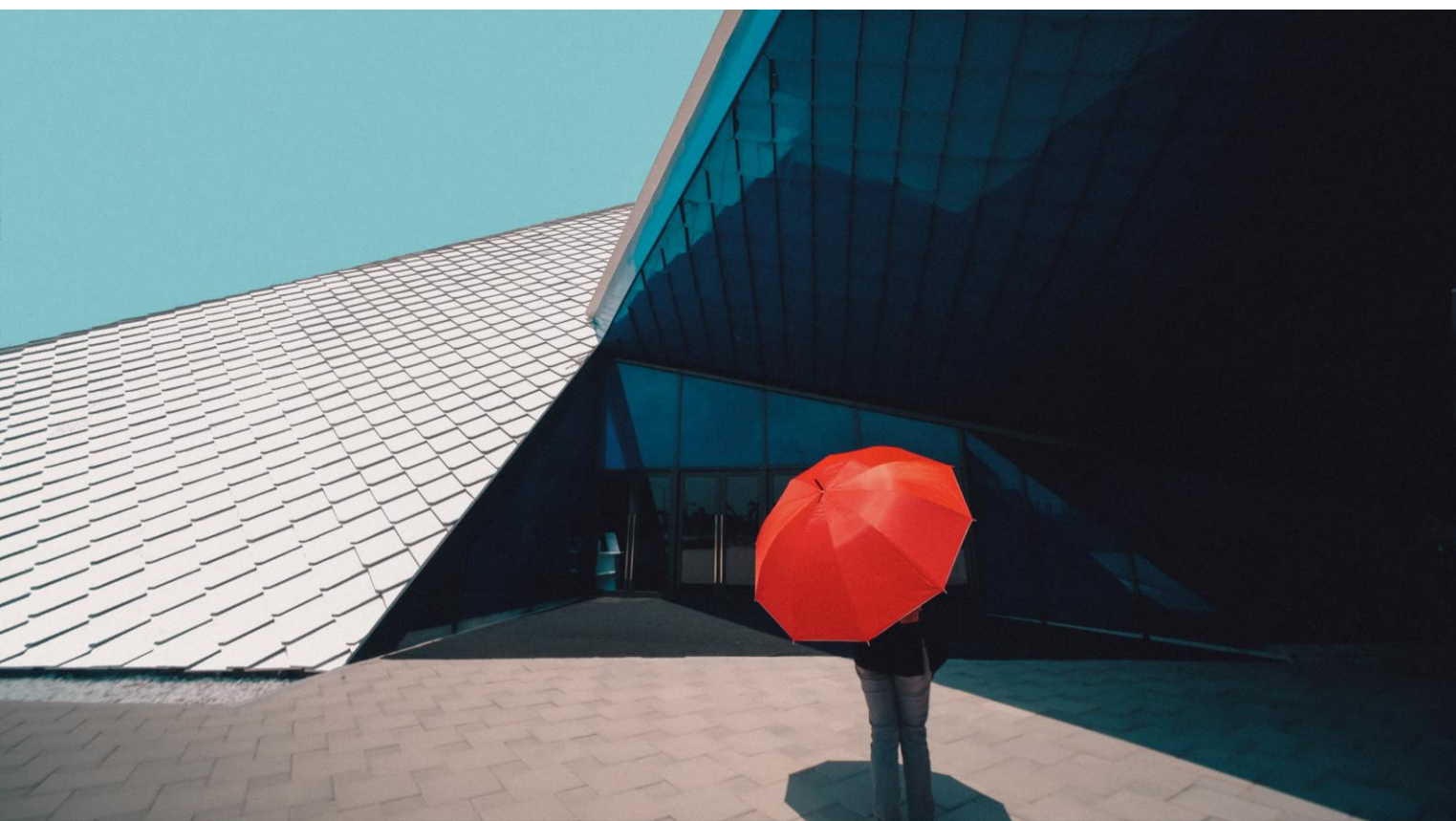
First, it is a higher-for-longer interest rate environment. The economic regime is nicely summed up by the phrase “shock and a boom”. Geopolitical uncertainties create volatility in commodities, while the AI capex boom adds heat to specific areas of the economy, and drives up the price of compute power. That creates a spikey and higher inflation profile, versus the 2010s.

And it is a world where economists are revising-up their sense of where interest rates settle. According to the IMF, government deficits remain high across the forecast horizon. And the USD 1Trn of capex planned by the US hyperscalers, coupled with a fragmentation of the global order, is shifting the balance between savings and investment. A higher interest rate environment reflects a greater scarcity of capital.

This is boosting-up the expected returns for cash, and for a range of fixed income asset classes. And it’s especially pronounced in short duration, high-quality public and private credits (e.g. securitised credits, working capital solutions).

Second, relative valuations for the stock market are being squeezed. Today, we measure the US equity risk premium at 3.45%. Many investors have raised concerns about both valuations and concentration risk in US stocks. Based on our capital market assumptions, the solution is clear: rotate portfolios into international and emerging markets. Here, valuations are lower, profitability can recover, and future returns are lifted by the prospect of appreciating currencies.

A really stark example is to note that US stocks represent 2/3rds of the global market cap benchmark (with US AI some 25%). But the emerging markets market cap weight is barely in the teens, despite being 45% of global GDP (at market exchange rates, according to the World Bank). The expected returns framework strongly supports a rotation in strategic weights, away from US markets and the US dollar.



Third, a supply shocked economic regime requires us to rethink our understanding of safe assets. Higher expected returns in G7 government bonds follow from the lost equity hedging properties. Stock-bond correlations around zero actually look a lot more normal, from a historic perspective.

We don't think there is a silver bullet for investors to hedge portfolios today. A new age of uncertainty requires us to "diversify the diversifiers". That means recognising how credit spreads can remain low, despite debt ratios weighing on government long bonds. Or understanding the progress that major emerging markets have made in reforming their economies, which fosters impressive resilience in their asset markets. And seeing how liquid alternatives – hedge funds, commodities, active FX, quantitative investment strategies – can also play a role of bond substitutes in portfolios and help protect us against bad times.

We hope you find our latest research on long term capital market assumptions interesting. The beauty of our approach is that everything is connected to first principles and fundamentals. Of course, our modelling is rigorous, scientific, and data-intensive. But it is also highly intuitive for professional investors. And that gives us conviction that the conclusions will prove correct over the medium-term.

We would like to give a special thanks to our colleagues for their contribution to this report, particularly Dominic Bryant, Maulshree Saroliya, Karen, Olney, Hussain Mehdi and Miguel Ancona.



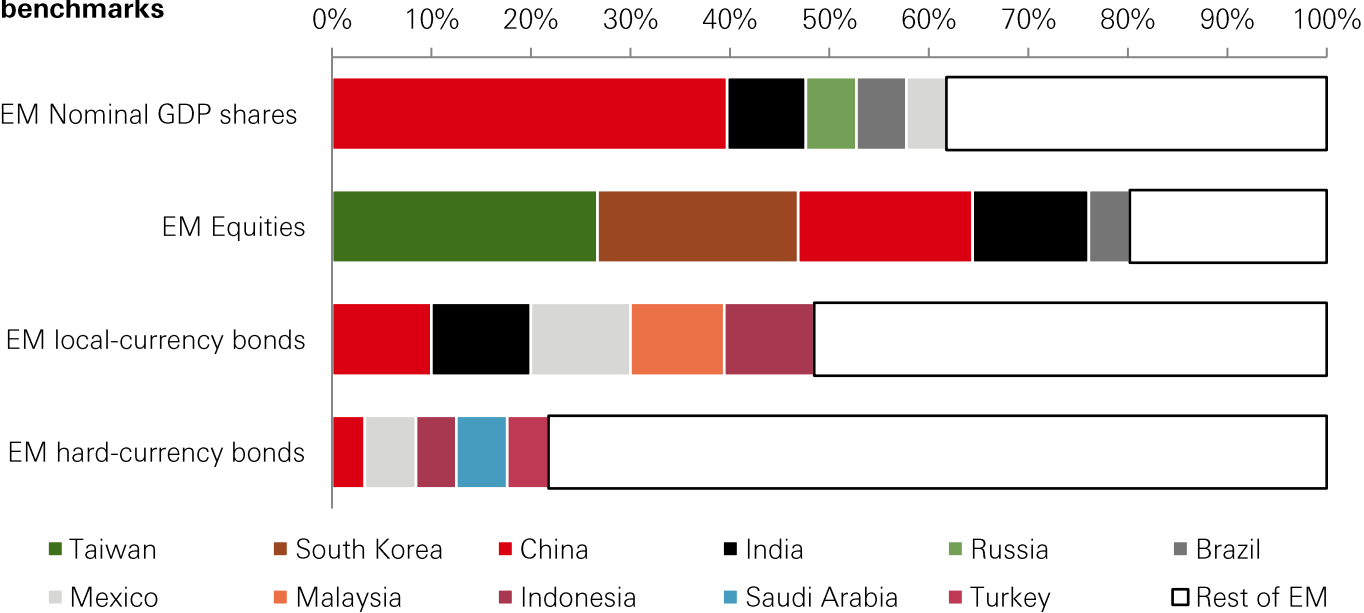
Emerging markets – Look beneath the benchmark

Benchmarks are a natural starting point for strategic asset allocation, but they are not neutral descriptions of investment opportunities. This is especially true in emerging markets (EM), where one label spans very different opportunity sets.

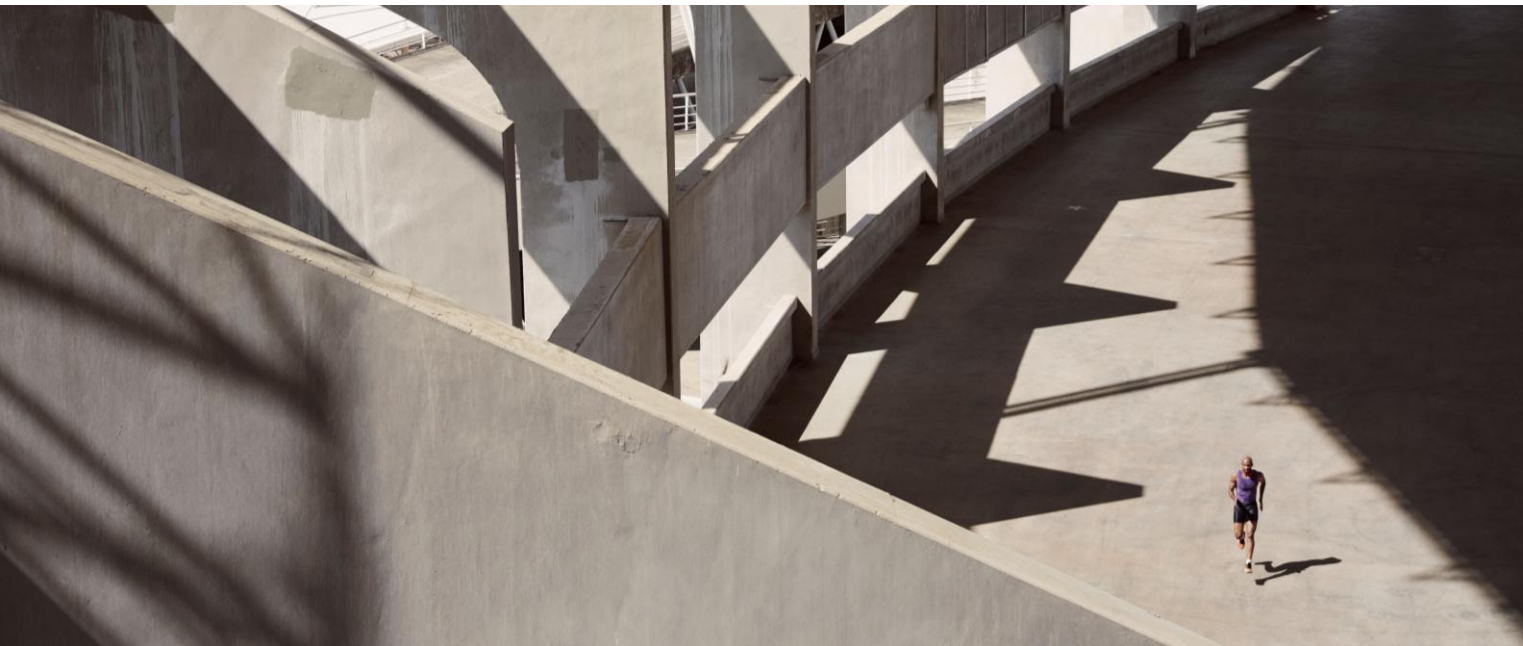
Figure 2 places the main EM benchmarks against EM GDP composition. The five largest economies account for 63% of EM output, yet the five largest markets make up 85% of EM equities, just under half of local-currency bonds and only 22% of hard-currency bonds. The differences are not simply about common geographical or sectoral concentration: equities are tilted towards North Asian technology, local debt towards large and accessible domestic bond markets, and hard-currency debt towards a much wider sovereign universe, including many frontier markets. EM looks very different depending on how we look at it.

EM varies considerably by asset class. Future rewards will depend on how investors choose to access EM and in which asset classes.

Figure 2: Concentration within EM: economy versus asset-class benchmarks



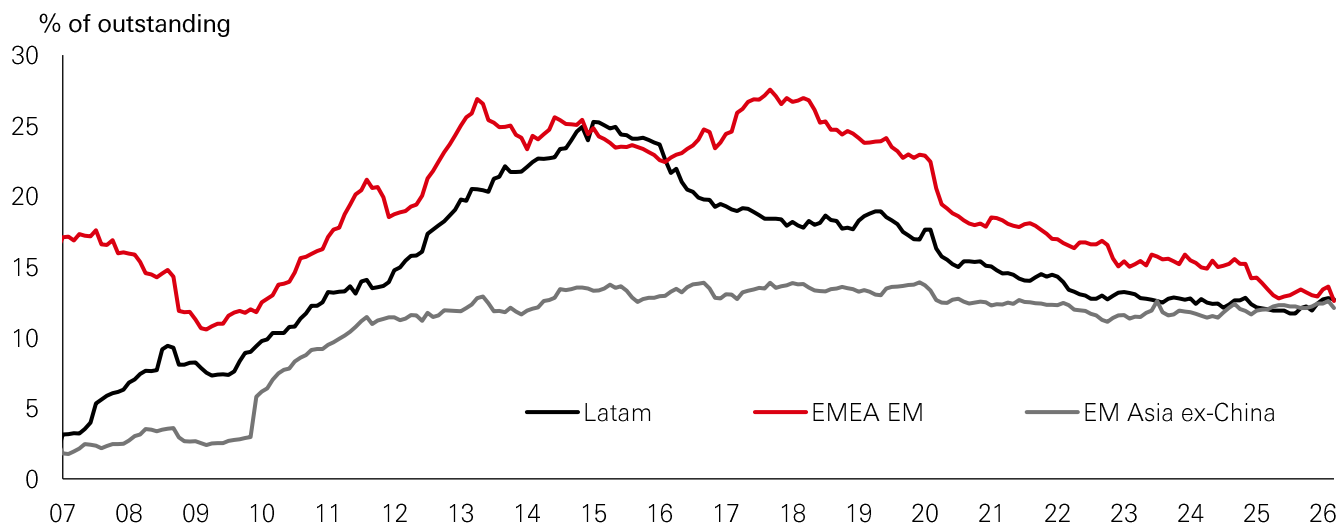
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The structural opportunity in local bonds

The structural case seems strongest in local-currency bonds. Their expansion has been accompanied by deeper domestic investor bases with banks, pension funds and insurers increasingly important holders. Figure 3 shows the other side of this change: foreign ownership has fallen sharply from earlier peaks in Latin America and EMEA and has broadly stabilised at lower levels in Asia ex-China. That does not make foreign flows irrelevant, but it reduces the extent to which local markets depend on the marginal global investor and gives domestic institutions greater capacity to absorb external shocks.

Figure 3: Foreign ownership of EM local-currency bond markets has declined

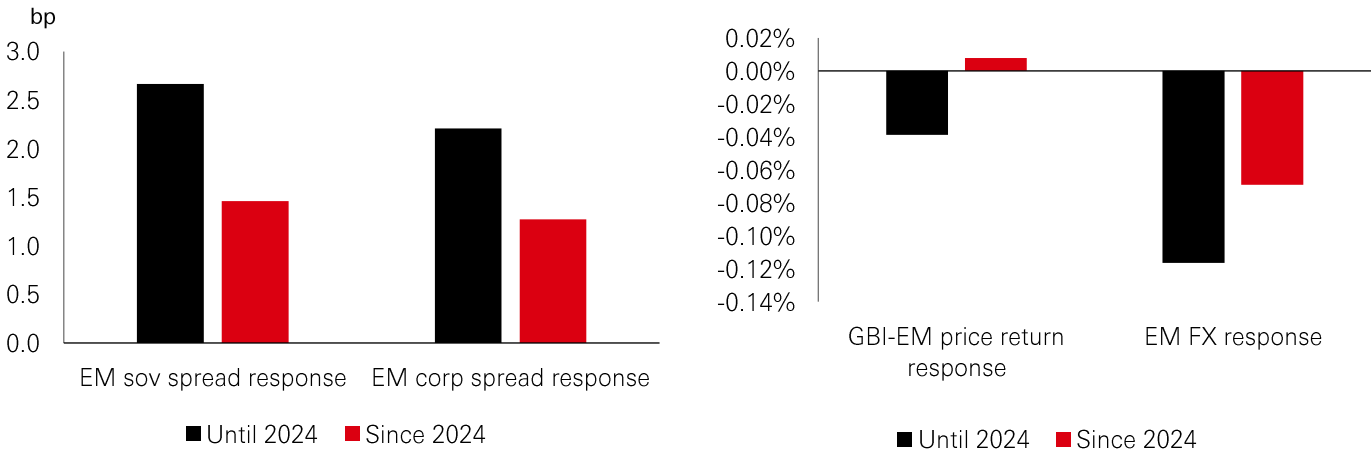


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Policy credibility has reinforced this shift. Many EM central banks were unwilling to look through inflation because it was supply driven. Protecting hard-won credibility prompted earlier and often more forceful tightening. DM policymakers in contrast were generally more willing to tolerate supply-driven inflation, particularly where returning rapidly to target risked recession. Markets have increasingly reflected that contrast: many EM curves have earned a credibility dividend and EM sovereign bond volatility has declined markedly in recent years just as volatility in DM bond markets has increased.

The response of EM fixed income to recent global risk-off episodes is another case in point. Figure 9 compares the average reaction of EM sovereign and corporate spreads and local-bond and currency returns to global equity drawdowns before and since mid-2024. The two-year period since mid-2024 is characterized by a succession of largely external shocks – from global trade-policy uncertainty to geopolitical conflict. Notably, EM spread widening and FX weakness have been materially smaller since 2024. But, most strikingly, local bonds have, on average, risen modestly during these episodes. EM fixed-income assets may still not be immune to global risk sentiment, but the response is becoming less indiscriminate and increasingly more dependent on domestic fundamentals and policy credibility.

Figure 4: EM fixed income has responded less adversely to risk-off shocks since 2024

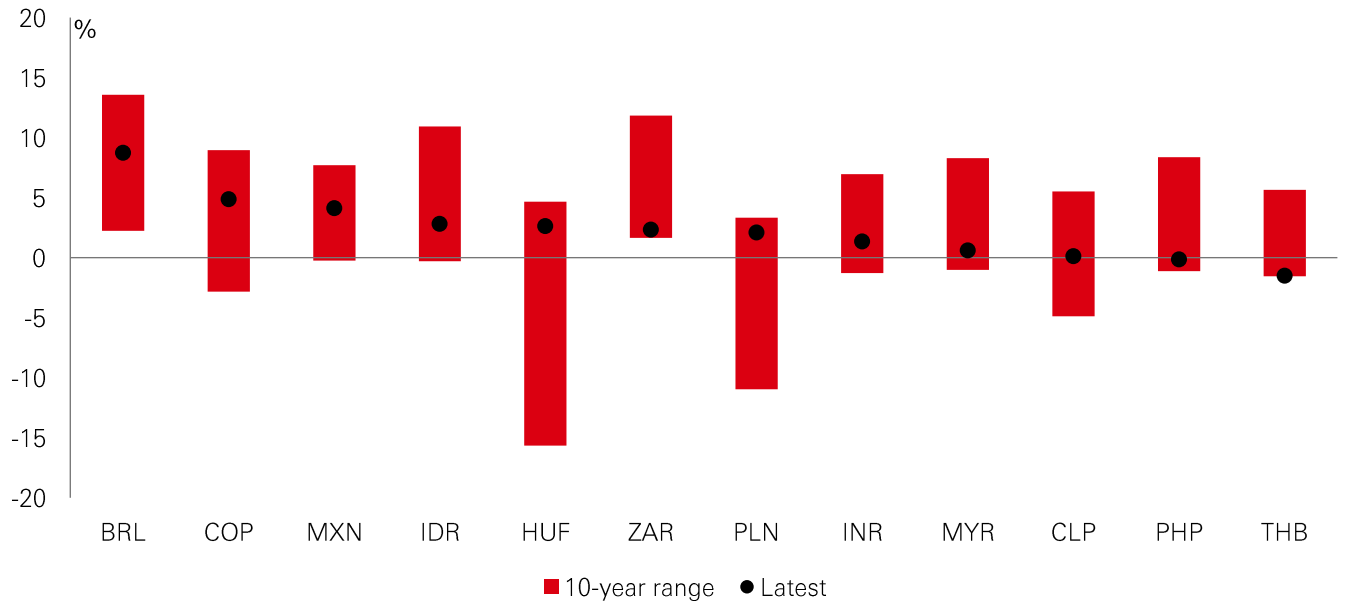


Average daily response of EM spreads and returns during equity drawdowns
Source: HSBC Asset Management, Bloomberg, September 2026. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Yet, be selective

The easy gains at asset-class level may be over. Higher DM yields mean the EM yield advantage is no longer uniformly compelling, a fact that the recent rise in US and other DM real yields amid renewed policy tightening brings into sharp relief. Figure 5 shows current 10-year real-yield differentials versus the US against their own 10-year ranges. Most markets are well inside historical extremes. There are still notable pockets of value, but there is no blanket cheapness. Brazil, Colombia and Mexico retain attractive real-yield cushions, while the likes of South Africa may have a claim to a structural transition to a lower-inflation regime. But further compression must be earned through credible disinflation, fiscal improvement or institutional reform. The same logic applies to hard-currency debt, where tight spreads leave less room for broad beta return and place a premium on active selection among reform and recovery stories.

Figure 5: EM real yields: pockets of value rather than blanket cheapness



Source: HSBC Asset Management, Bloomberg, Macrobond, September 2026.
Notes: BRL – Brazil, COP – Colombia, MXN – Mexico, IDR – Indonesia, HUF – Hungary, ZAR – South Africa, PLN – Poland, INR – India, MYR – Malaysia, CLP – Chile, PHP – Philippines, THB – Thailand. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

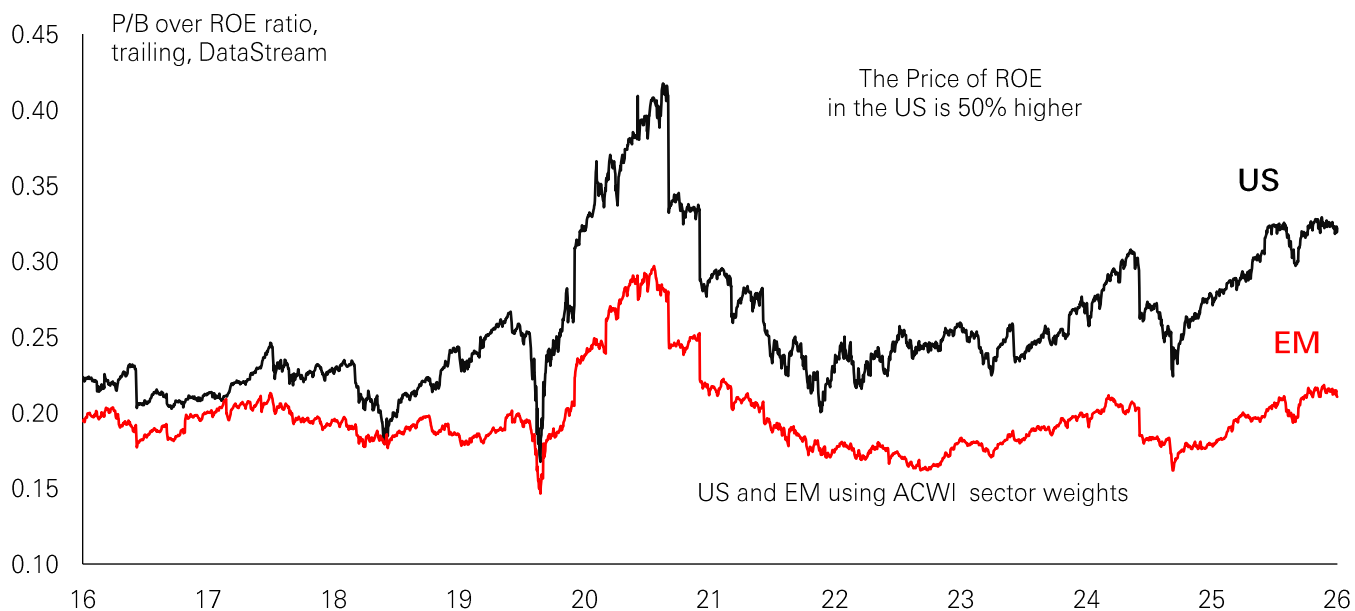
EM equities offer returns for less

The outlook for EM equities is even more nuanced. First, EM remains structurally under-owned. US exceptionalism diverted capital towards US equities and left a strategic EM underweight. There is catch-up potential as global leadership broadens. EM led global equity returns in the mid-2000s but then spent the period post-2008 lagging the US. Excluding AI exposure, that prolonged divergence has left positioning and sentiment towards EM relatively depressed versus fundamentals.

Secondly, EM itself is changing. It is no longer defined by commodities and state-owned banks, but increasingly by innovation including AI chips, pharmaceuticals, fintech and electric vehicles. Technology’s share of MSCI EM has doubled over the past decade, supporting profit growth but also increasing concentration (and the risk of AI capex-driven volatility), with Korea and Taiwan now around half of the index. Yet AI risk is not EM-specific – over the past five years, AI capex has grown by over 200% in the US versus 40% in EM and has barely moved in China. A meaningful portion of global AI capex is being funded by US corporates but feeding revenue into supply chains in EM. Rising capex, innovation, governance reform and buybacks offer potential upside to the wider EM return on equity (ROE).

Finally, long run valuation gaps *net of tech distortions* in the profitability and sector mix, need to be considered. Figure 6 homes in on country effect by using global sector weights for the US and EM before it compares price-to-book with ROE. US has a materially higher ROE than EM, but EM profitability has improved from 10% in 2023 to 13.5% today. Plus, investors pay around 50% more for each unit of US ROE, suggesting EM offers more ROE for less. We see upside not just in wider EM profitability, but also in the price investors are willing to pay. An active approach beyond benchmark concentration is likely to be rewarded.

Figure 6: EM delivers more ROE for less after neutralising sector effects

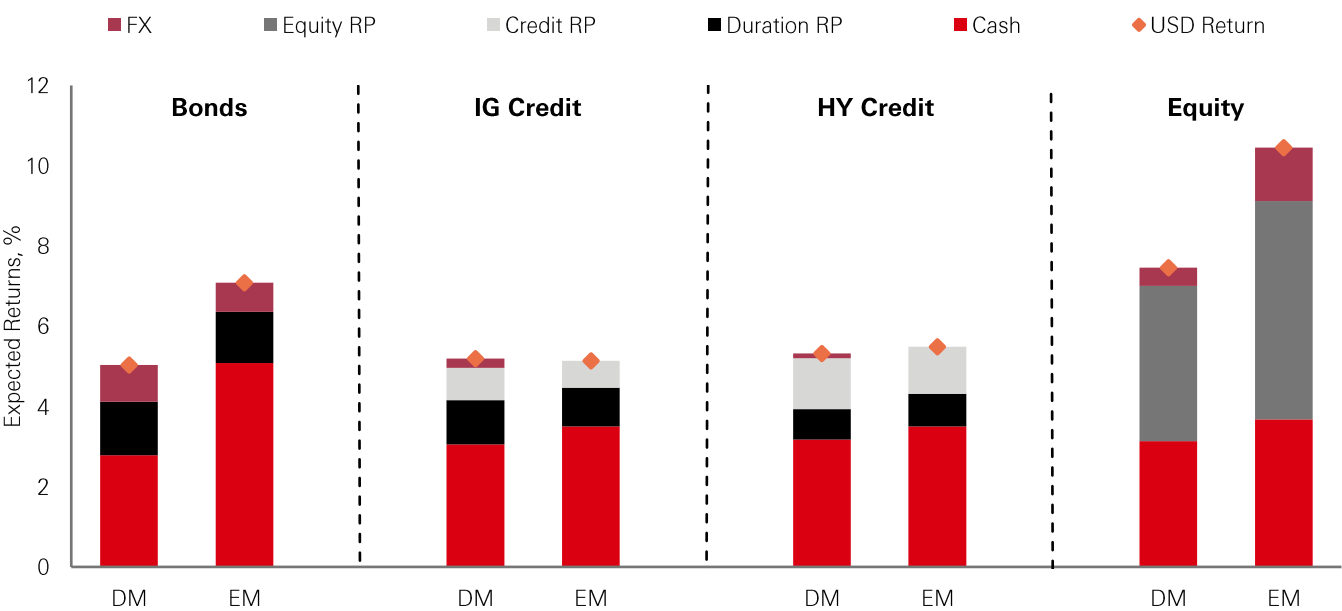


Source: HSBC Asset Management, Refinitiv, September 2026. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Through the expected-returns lens

Our ten-year expected-return assumptions bring these threads together. Figure 7 still favours EM where local rates, currencies and equity risk premia matter most: expected returns are around 7% for EM bonds versus 5% in DM, and around 10% for EM equities versus roughly 7.5% in DM. But the picture is no longer uniformly superior. Expected returns on EM and DM investment-grade and high-yield credit are now broadly similar. Unlike the 2025 assumptions, when the EM expected-return advantage extended more broadly across asset classes, credit no longer contributes meaningfully to that advantage. The decomposition therefore reinforces the message from current valuations: the stronger prospective return premium now lies in local assets and equities rather than in simply taking more EM credit risk. EM delivers more ROE for less after neutralising sector effects.

Figure 7: EM retains an expected-return advantage, concentrated in local assets



Source: HSBC Asset Management, Bloomberg, Refinitiv Datastream, September 2026. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

The strategic conclusion is not simply to own more EM. Local-currency bonds offer the clearest broad opportunity, supported by carry, stronger domestic investor bases and a credibility dividend, but today’s narrower real-yield cushion rewards country selection. Hard-currency debt requires greater discrimination as spreads compress. In equities, under-ownership and improving ROE coexist with meaningful concentration risk, making active country, sector and stock selection central to strategic allocation. EM remains a compelling source of long-run diversification and return but increasingly it will be less about the asset class itself and more about how investors choose to access it.

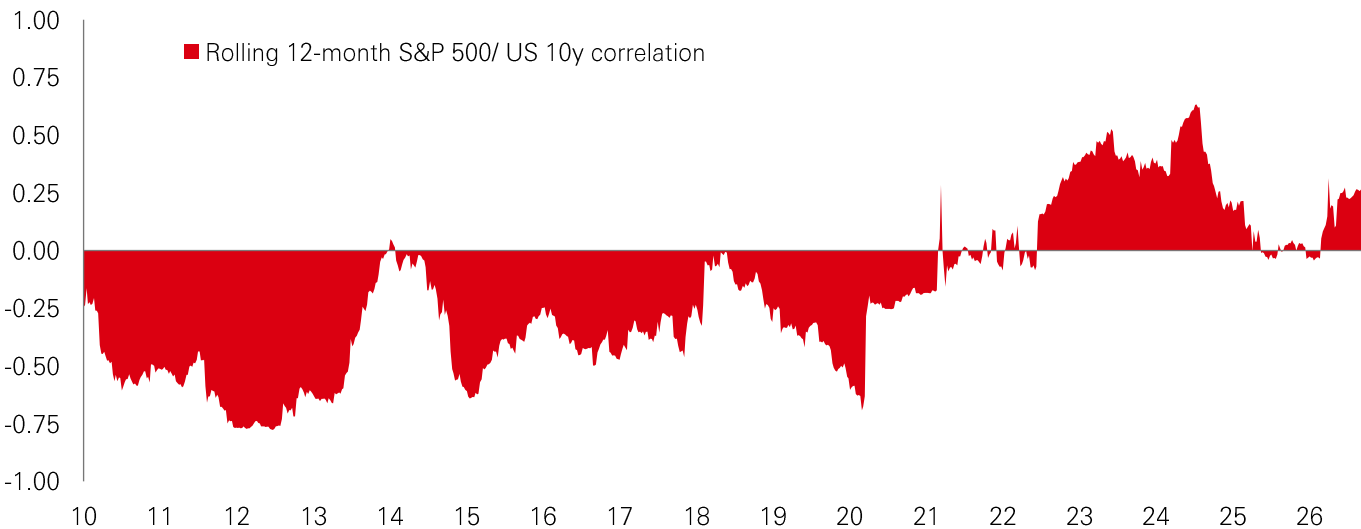
Diversifying the diversifiers in a multi-polar world

The portfolio challenge in 2026 is no longer simply where to find diversifiers. It is that diversification itself has become less reliable. For much of the past four decades, equities supplied growth and government bonds provided defence. That relationship may still work in some shocks, but it is no longer reliable enough for investors to organise their entire portfolios around it.

Government bonds have not lost their usefulness. Higher real yields and normalised term premia have improved expected returns, and duration should still rally in a conventional demand-led recession. What is different is that the policy regime is likely to be structurally less accommodating. Sticky inflation, persistent deficits and rising spending on defence, energy security and technology may leave central banks less able to offset weak growth with aggressive easing. Heavier sovereign issuance can also keep long-end yields elevated. The result is a less supportive policy backdrop in which government bonds provide income without always providing insurance.

No silver bullet for investors looking for diversification, as the world becomes more inflationary, more volatile and more multi-polar

Figure 8: Rolling equity-government bond correlation



Source: HSBC Asset Management, Bloomberg, Macrobond September 2026. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. The views expressed above were held at the time of preparation and are subject to change without notice.

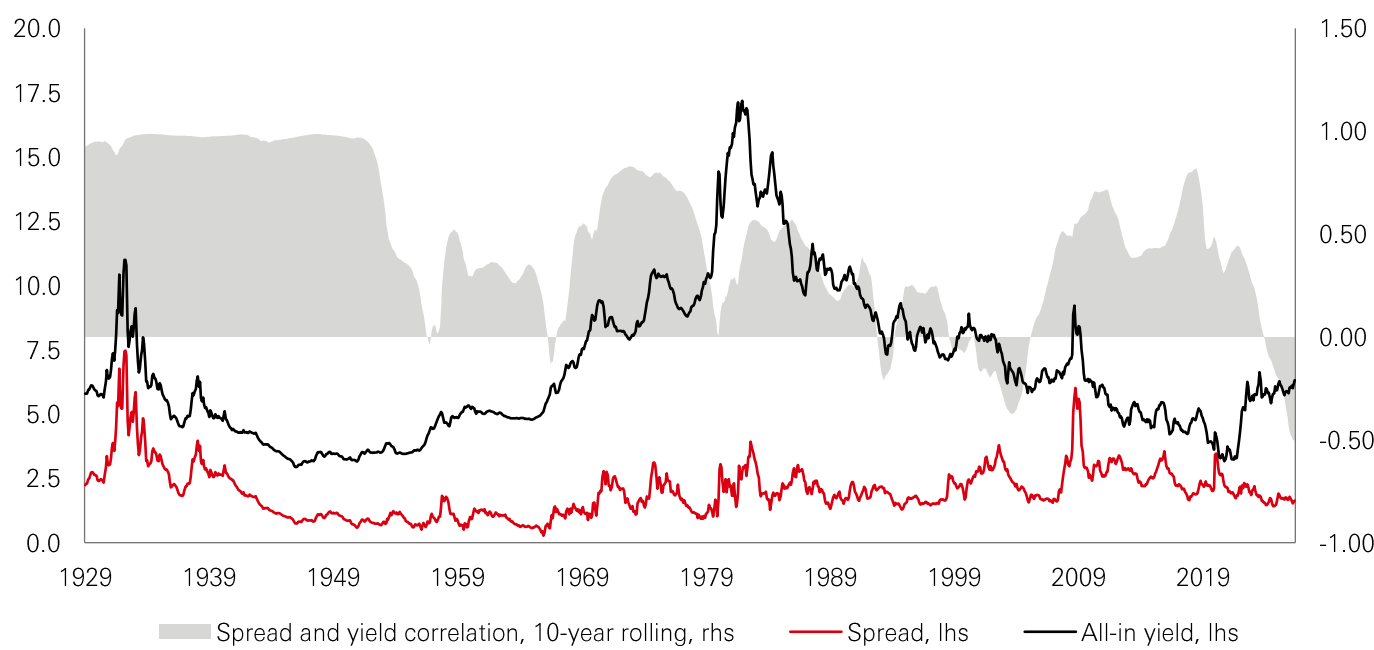


From stable correlations to distributed defensiveness

While duration is less dependable, the answer is not to replace it with a single new safe asset. Rather, it is to diversify defensiveness across more sources of return.

That diversification starts within fixed income. Sovereign balance sheets have weakened just as many large corporations have strengthened theirs. High-quality corporate credit is unlikely to match the convexity of government bonds in a deep recession, but strong cash flows, long-dated funding and low leverage mean parts of investment grade can now compete more directly for defensive capital. In that sense, the low-risk end of the investment opportunity set appears to have developed a ‘hump’: higher sovereign fiscal and term premia have lifted bond yields, while fortress corporate balance sheets offer additional spread without a proportionate increase in fundamental risk. In recent years, the correlation between the all-in yields on investment-grade corporate bonds and their corresponding spreads over Treasuries has been more negative than at almost any point in the past century.

Figure 9: Fortress balance sheets mean high all-in yields but low spreads



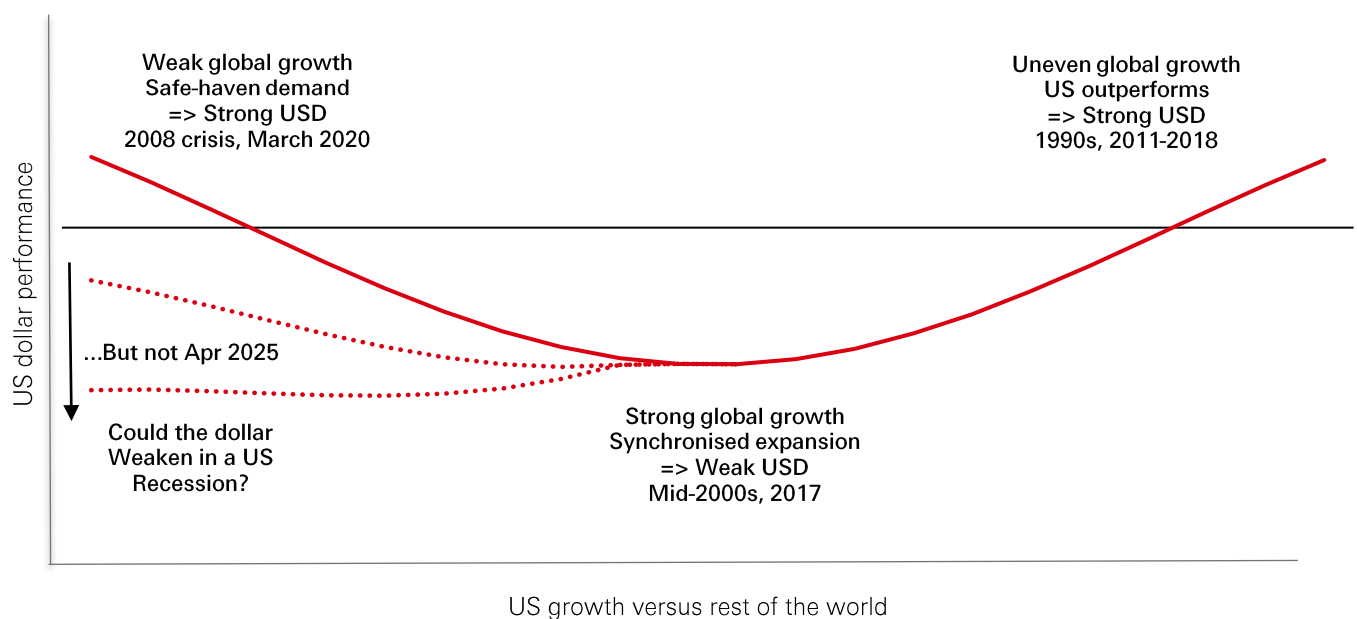
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More generally, beyond fixed income, diversification is likely to entail diversifying beta itself. Global benchmarks remain heavily concentrated in US mega-cap technology and the AI investment cycle. Europe, Japan and emerging markets offer different sector, currency and policy exposures, while equity-income strategies add a distinct cash-flow profile. These markets are not safe havens. Their value lies in reducing dependence on a single dominant source of equity risk. But that in itself should introduce a degree of structural defensiveness.

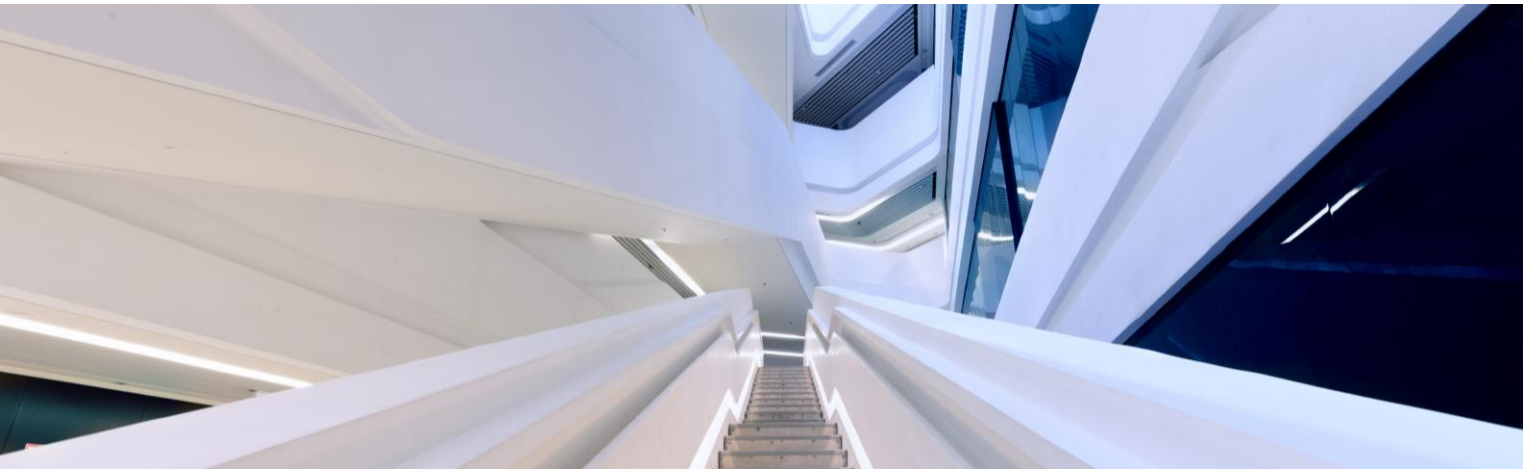
Emerging markets are especially interesting. A wide and heterogeneous opportunity set implies high expected-return dispersion beneath the headline index. Country inflation cycles, policy paths, commodity exposures and reform agendas are diverging, creating idiosyncratic sources of long-term return. At the same time, frontier and smaller markets can behave very differently from the broad EM complex. Country effects are back, and geographical allocation and security selection can themselves become sources of diversification.

Other traditional safe havens have also become less reliable in isolation. Gold retains a strong strategic case as geopolitical fragmentation, reserve diversification and fiscal concerns encourage demand for assets outside any single sovereign balance sheet. Yet episodes of market deleveraging have shown that gold can behave like a volatile risk asset over shorter horizons. Likewise, the dollar remains the dominant reserve currency, but US-specific fiscal, trade and institutional risks have fueled concerns about dollar debasement and gradual de-dollarisation as global investors reconsider their exposure to US assets. The familiar dollar ‘smile’ has become less symmetric: the greenback has occasionally failed to gain during equity sell-offs. This asymmetry could become the norm rather than the exception over the longer term.

Figure 10: The dollar ‘smirk’



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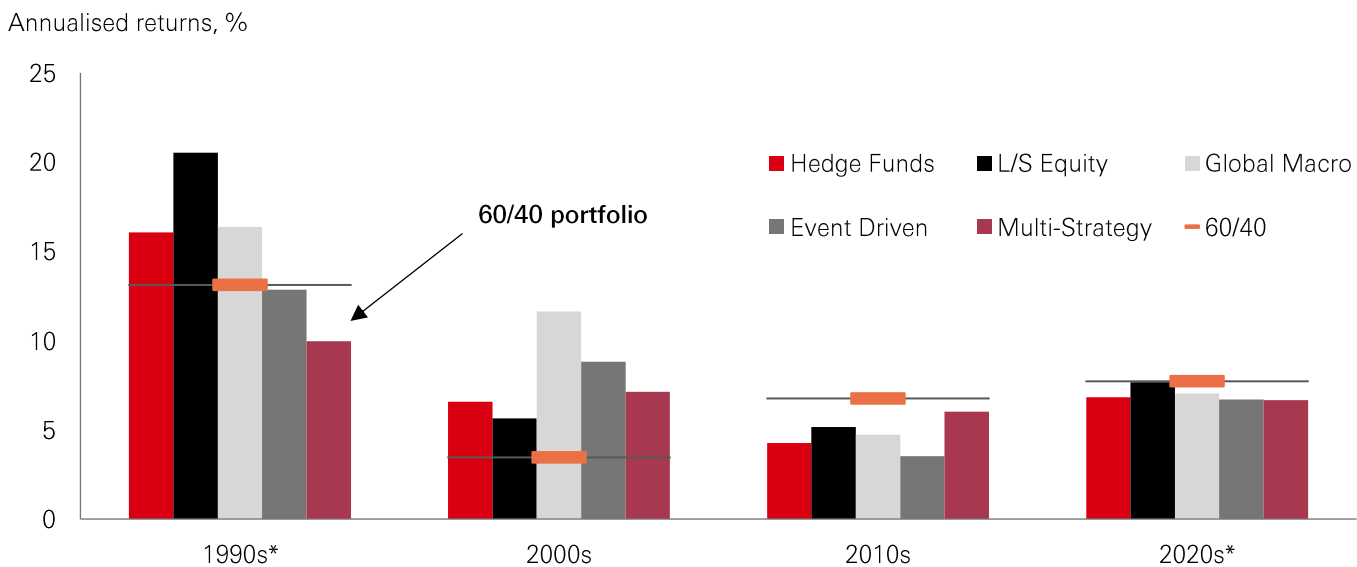


Liquid alternatives: monetising dispersion

These structural worries about traditional havens strengthen the case for liquid alternatives in general and hedge funds in particular. In a world where correlations are less stable but cross-sectional dispersion is higher, flexibility becomes more valuable than static hedging. Divergent monetary policies, geopolitical shocks, commodity volatility and widening differences across countries, sectors and companies create more relative-value opportunities. Strategies such as global macro can exploit rates and currency divergence; equity market-neutral strategies can isolate company-specific alpha; and credit and event-driven managers can target episodic dislocations.

The backdrop has echoes of the 1990s: greater policy differentiation, more distinct winners and losers, and more scope for active managers to monetise instability itself. Historically, these approaches have delivered lower volatility and stronger risk-adjusted returns than a traditional 60/40 portfolio. During periods of macroeconomic stress or systemic market shocks, they have also experienced much shallower drawdowns, helping to offset concentrated equity risk when diversification is needed most.

Figure 11: Hedge fund strategy performance versus 60/40 portfolio



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Private markets: selectivity is key

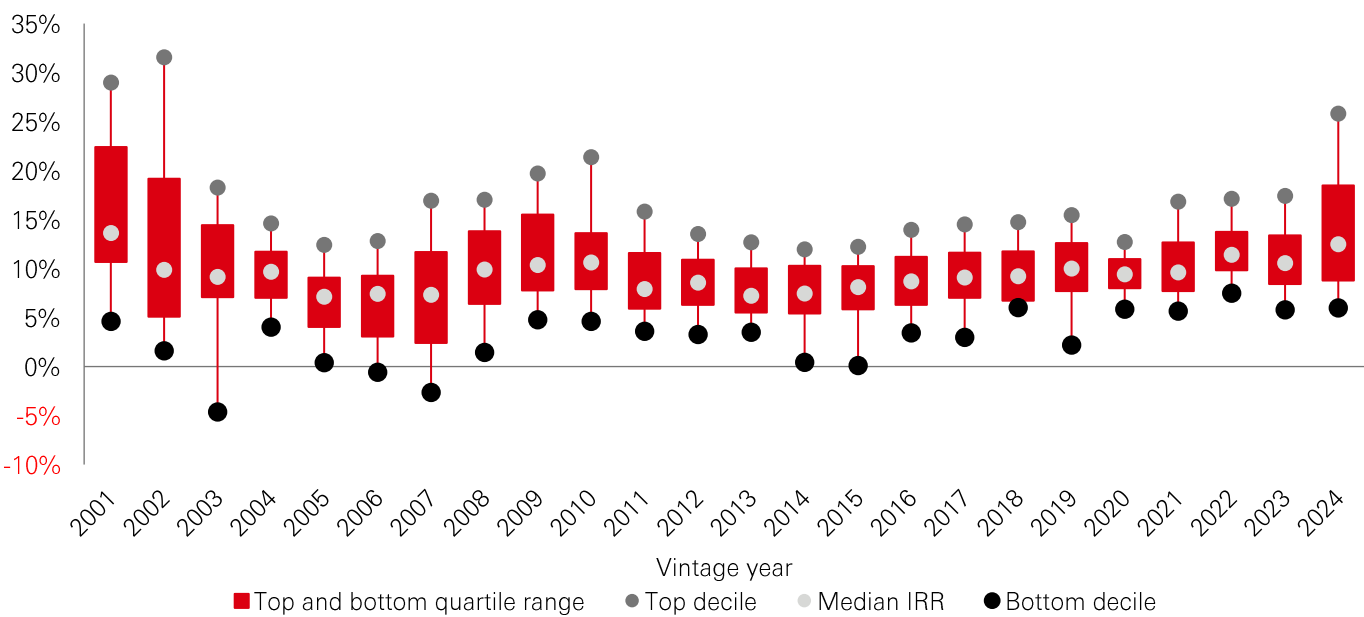
Despite some jitters in recent months, the USD 3 trillion private-credit market remains an important part of strategic asset allocation, even as the argument is evolving. Private credit increasingly appeals to institutional allocators because it offers a sustained yield premium over public-market equivalents, reliable cash-flow generation and the potential to act as an effective volatility dampener. This ‘volatility laundering’ can be useful if investors are patient and do not respond to temporary price dislocations, but it is feasible only for those investors with the liquidity and appetite to hold through market stress. The fundamental economic risk associated with the asset class has not disappeared.

Even so, private credit continues to offer strong carry and a natural hedge against sticky inflation, thanks to the floating-rate nature of many instruments. However, a materially larger and less transparent market demands greater scrutiny and selectivity from investors.

More broadly, dispersion between managers, vintages and strategies is rising across private markets. That makes selectivity, access and alpha more important just as broad private-market beta becomes less compelling. Infrastructure remains attractive where structural capital spending is strongest: data centers, power networks, grids, energy transition and security. Private equity still offers opportunities, but entry valuation and manager skill matter more, with parts of Europe potentially more attractive than the US.

As investors become more selective, opportunity sets beyond traditional private-market segments are likely to attract greater attention. Capital-solutions strategies, for example, can broaden the private-credit universe beyond conventional direct lending, providing access to bespoke financing with differentiated collateral, contractual protections and cash-flow profiles. For strategic investors, select exposures can combine attractive contractual income with shorter duration and lower sensitivity to public-market volatility, although origination access and structuring discipline remain critical.

Figure 12: Dispersion in private-debt markets rising after a long period of stability



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What is the neutral policy rate?

The nominal neutral policy rate is the interest rate that, over the medium term, neither stimulates nor restrains economic activity when the economy is at full employment and inflation is stable around the central bank's target. Alternatively, it's the rate consistent with desired saving and investment being in balance. The neutral rate, therefore, allows policy makers and investors to judge whether policy is restrictive or accommodative.

In our in-house asset allocation models, the nominal neutral policy rate — also referred to as the equilibrium cash rate — serves as the risk-free base rate to which various risk premia are added when deriving expected returns across a broad range of asset classes.

The neutral cash rate has risen in recent years, shifting expected returns across asset classes

Main drivers of the neutral rate — and what's been shifting

The neutral rate is influenced by a wide set of structural and cyclical forces. Below we group the main drivers by whether they have, in recent years, likely pushed the neutral rate higher, pulled it lower, or had an unclear net effect.

Upward pressure

1. Trend productivity growth and investment returns

Faster underlying productivity growth and stronger expected returns tend to raise firms' demand for capital. That increases the real neutral rate (r^*).

2. Structural inflation forces (e.g., deglobalisation, geopolitical shocks, tighter labour supply)

Persistent inflationary pressures lift the nominal neutral policy rate (i^*). Whether that shows up mainly as a higher real neutral rate (r^*) or higher expected inflation, depends on the credibility of the central bank's inflation anchor.

3. Fiscal stance and debt dynamics

Persistently larger fiscal deficits can push up r^* unless desired private saving rises to offset the increase in public borrowing.

Downward pressure

1. Labour-force growth and demographics

Slower labour-force growth, due to ageing populations, can reduce desired investment because fewer workers need to be equipped with capital. That would tend to lower r^* .

2. Household saving preferences and inequality

A rise in households' desired saving pushes r^* down. This could reflect retirement preparation or income shifting towards higher-saving groups.

3. Higher uncertainty

Elevated uncertainty can increase precautionary saving and reduce investment appetite, putting downward pressure on r^* .

Ambiguous

1. Monetary policy framework credibility

Because the nominal neutral rate includes expected inflation, the strength of the inflation anchor is central.

2. Broad financial conditions

If credit spreads or risk premia fall persistently, economy-wide borrowing costs decline. That can raise the neutral policy rate by easing financial conditions even without changes in the policy rate.

3. Global savings–investment balance

A "global saving glut" can lower r^* by easing domestic financing conditions. Conversely, stronger global investment demand can push r^* higher.

Estimating the neutral rate

The challenge is that the neutral rate is not directly observable – it must be inferred. Two common approaches are model-based estimates and surveys.

Model-based measures

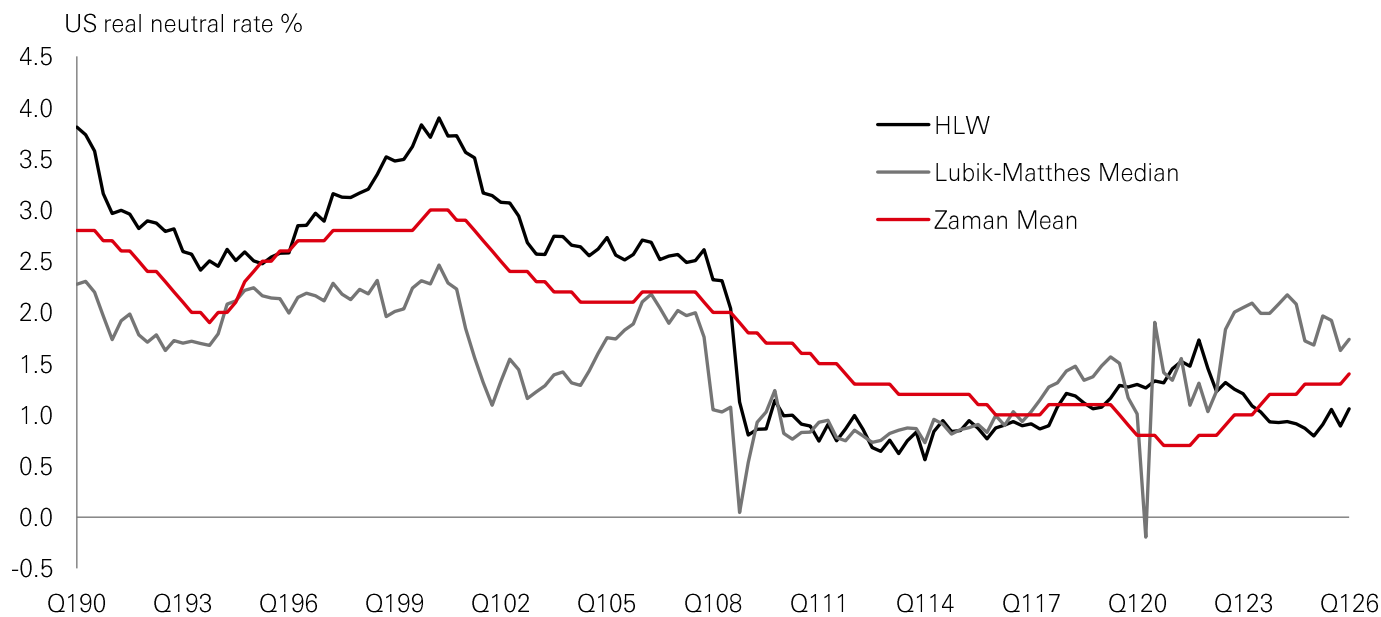
The best-known framework is the Holston–Laubach–Williams (HLW) model, which estimates the neutral real policy rate (r^*) by fitting a small macro model to output, inflation and the policy rate. It decomposes each series into a slow-moving trend and a cyclical component, then infers the unobserved trend paths that best explain the co-movement between output, inflation and real rates.

Since HLW was introduced, additional approaches have become widely used, including Lubik-Matthes¹ and Zaman².

Lubik-Matthes differs from HLW by using a more theory-based macro model. In this framework, the neutral real rate is not primarily a statistical trend chosen to fit the data; it is implied by economic relationships (such as how demand and inflation respond to interest rates) and by the underlying shocks identified by the model.

The Cleveland Fed’s Zaman model is a semi-structural framework that estimates both the real and implied nominal neutral rate, while also estimating other “stars” (such as trend growth and trend inflation).

Figure 13: Model estimates of US real neutral rate



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Across these models, current central estimates for US real r^* range from 1.1% to 1.7% - but this range understates the true uncertainty. The Richmond Fed publishes lower and upper bound estimates for Lubik-Matthes; in Q2 2026 these stood at 1.1% and 2.7%. The Cleveland Fed provides confidence intervals for Zaman, showing a 68% probability that real r^* lies between 0.7% and 2.0%.

1. [Lubik-Matthes Natural Rate of Interest | Richmond Fed](#)
2. [Neutral Interest Rates and the Monetary Policy Stance](#)

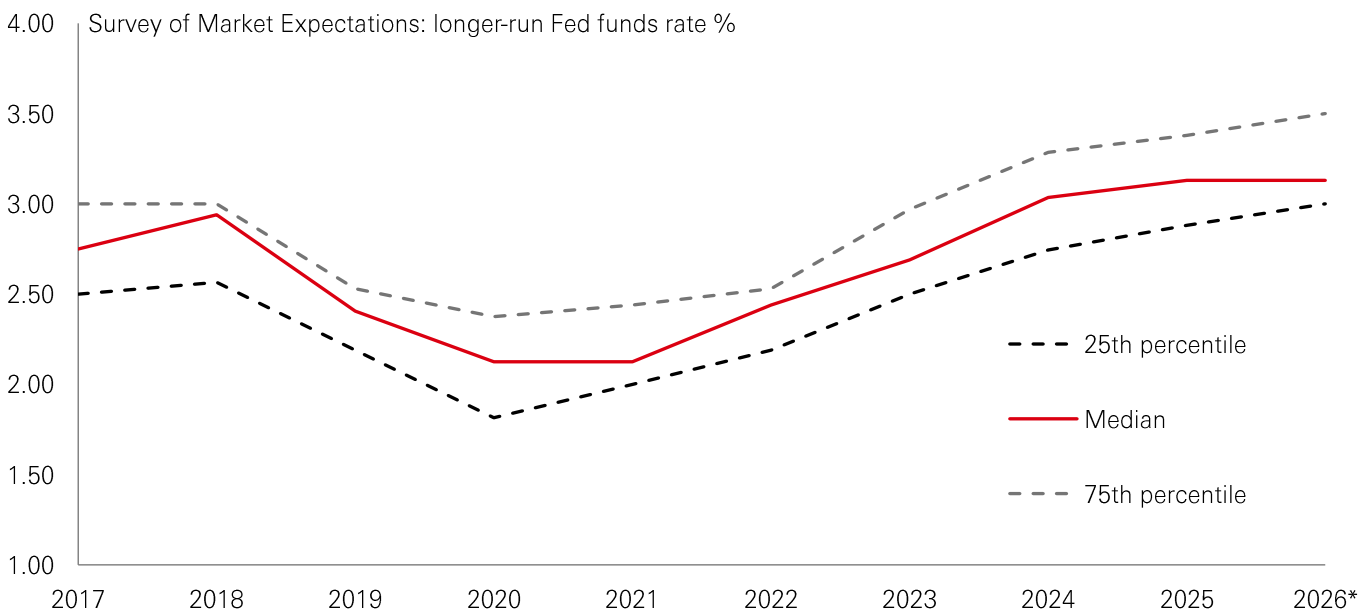
Other model-based estimates broadly sit within these ranges, including the New York Fed’s DSGE model³ and the Kansas City Fed’s monthly estimates⁴.

A further source of uncertainty is the conversion from real r^* to the nominal neutral rate. A simple method assumes inflation returns to target over the medium term. For the US, that implies a nominal neutral rate of 3.1% using HLW and 3.7% using Lubik-Matthes (assuming 2% equilibrium inflation). The Zaman approach estimates a “natural” rate of inflation of 2.2%, implying a nominal neutral policy rate of 3.6%.

Survey estimates

Surveys offer a judgement-based complement to model estimates. The New York Fed’s Survey of Market Expectations (SoME)⁵ asks 50-plus financial institutions for their view of the longer-term level of the fed funds rate. It shows a gradual upward drift in longer-run expectations, with the median reaching 3.1% by June 2026 and an interquartile range of 3.00%–3.50%.

Figure 14: Survey measure of US neutral rate



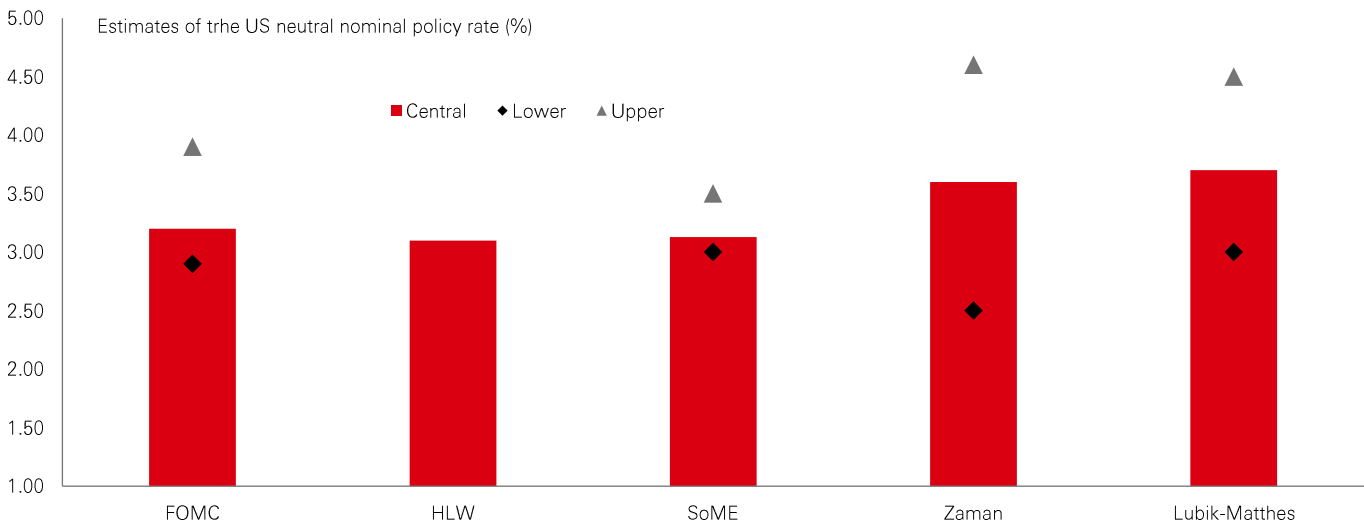
Source: HSBC Asset Management, Macrobond, September 2026 * June 2026 figure, all other years are December figures. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Another key reference point is the Federal Open Market Committee (FOMC). Each participant submits a longer-run fed funds rate projection as part of the quarterly forecasts. Those projections show a similar upward drift, with a median of 3.2% in September 2026.

Bringing these strands together suggests an average “central” estimate for the nominal neutral fed funds rate of around 3.3%. However, the spread of estimates — particularly across the FOMC and SoME — indicates greater upside than downside risk. On that basis, 3.50% appears a reasonable single-point assumption for the current US nominal neutral policy rate.

3. [The New York Fed DSGE Model Forecast - FEDERAL RESERVE BANK of NEW YORK](#)
4. [Introducing New Monthly Estimates of the Natural Rate of Interest and Natural Unemployment Rate - Federal Reserve Bank of Kansas City](#)
5. The Survey of Market Expectations began in 2025. Prior to 2025, the New York Fed conducted a Survey of Primary Dealers and a Survey of Market Participants.

Figure 15: Comparison of US nominal neutral rate estimates



Source: HSBC Asset Management, Macrobond, September 2026
Notes: HLW and Lubik-Matthes assume 2% equilibrium inflation. Upper and lower figures are minimum and maximum estimates for FOMC, interquartile range for Survey of Market Expectations (SoME), 68th percentile range for Zaman and lower and upper bound for Lubik-Matthes

Cross-country estimates

Timely, comparable neutral rate estimates are less widely available outside the US – even across major developed markets. The New York Fed publishes HLW estimates for the eurozone and Canada. It also provides figures using another method for a broader set of developed economies⁶. Those broader estimates tend to be higher than the HLW results and higher than some national central bank estimates (though part of that gap may reflect differences in the periods being estimated).

For the eurozone, recent New York Fed HLW estimates suggest the ECB’s neutral real policy rate is around 0.00%–0.50%, implying a nominal neutral rate of 2.00%–2.50% (assuming inflation returns to target over the medium term). That is broadly consistent with the ECB’s own estimated range of 1.75%–2.25%, and the 2.00% median longer-run rate from the ECB Survey of Monetary Analysts⁷.

For Japan, the Bank of Japan has recently used six well-cited academic approaches to estimate a range for the real neutral rate⁸. As of Q3 2025, it placed that range at -0.90% to +0.50%, with an average of around -0.3% to -0.4%. With an inflation target of 2.0%, that points to a nominal neutral rate in the region of 1.75%.

Several structural forces shape where the nominal neutral rate ultimately settles. While some factors have continued to weigh on the neutral rate, the overall picture across major economies has been a gradual upward shift. That likely reflects stronger investment demand, more persistent supply-side and geopolitical frictions that can lift inflation risk premia, and larger, more durable fiscal deficits that raise equilibrium real yields.

6. [The Fed - Real-Time Global Longer-Run Neutral Rates](#)
7. [The ECB Survey of Monetary Analysts \(SMA\), July 2026, Aggregate Results](#)
8. [Developments in the Natural Rate of Interest and the Assessment of the Degree of Monetary Accommodation](#)

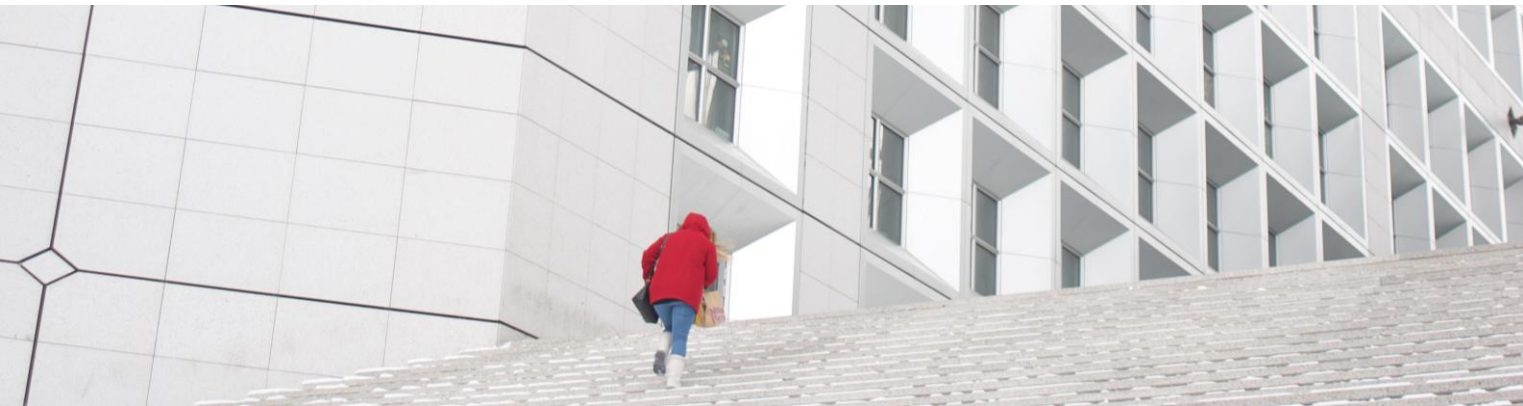
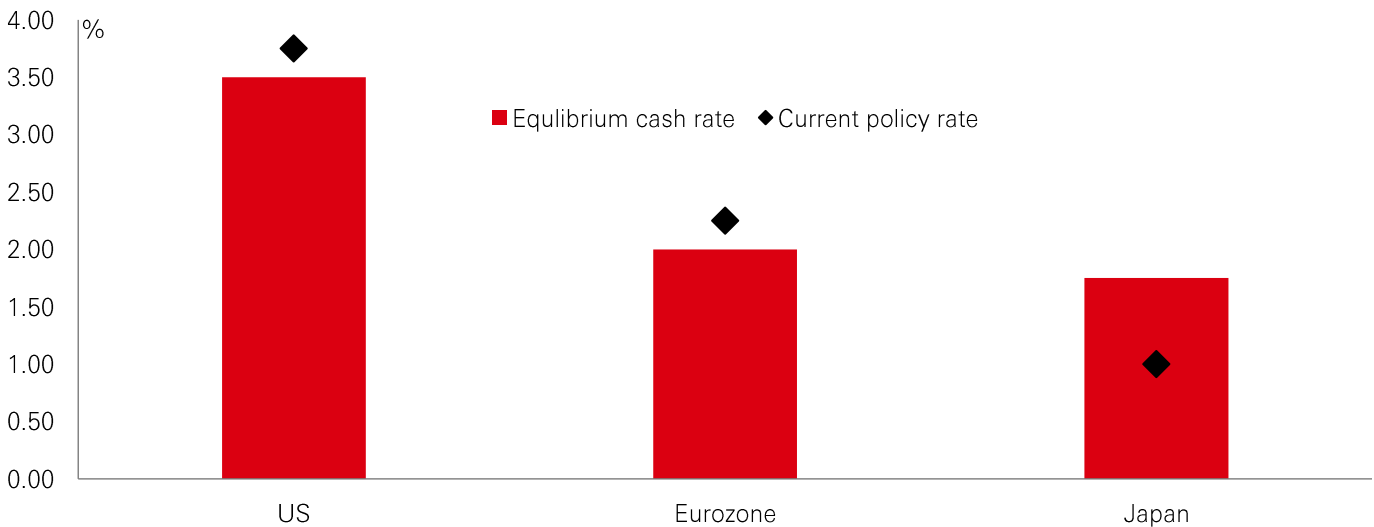


Figure 16: Current policy rate and equilibrium cash rate assumptions

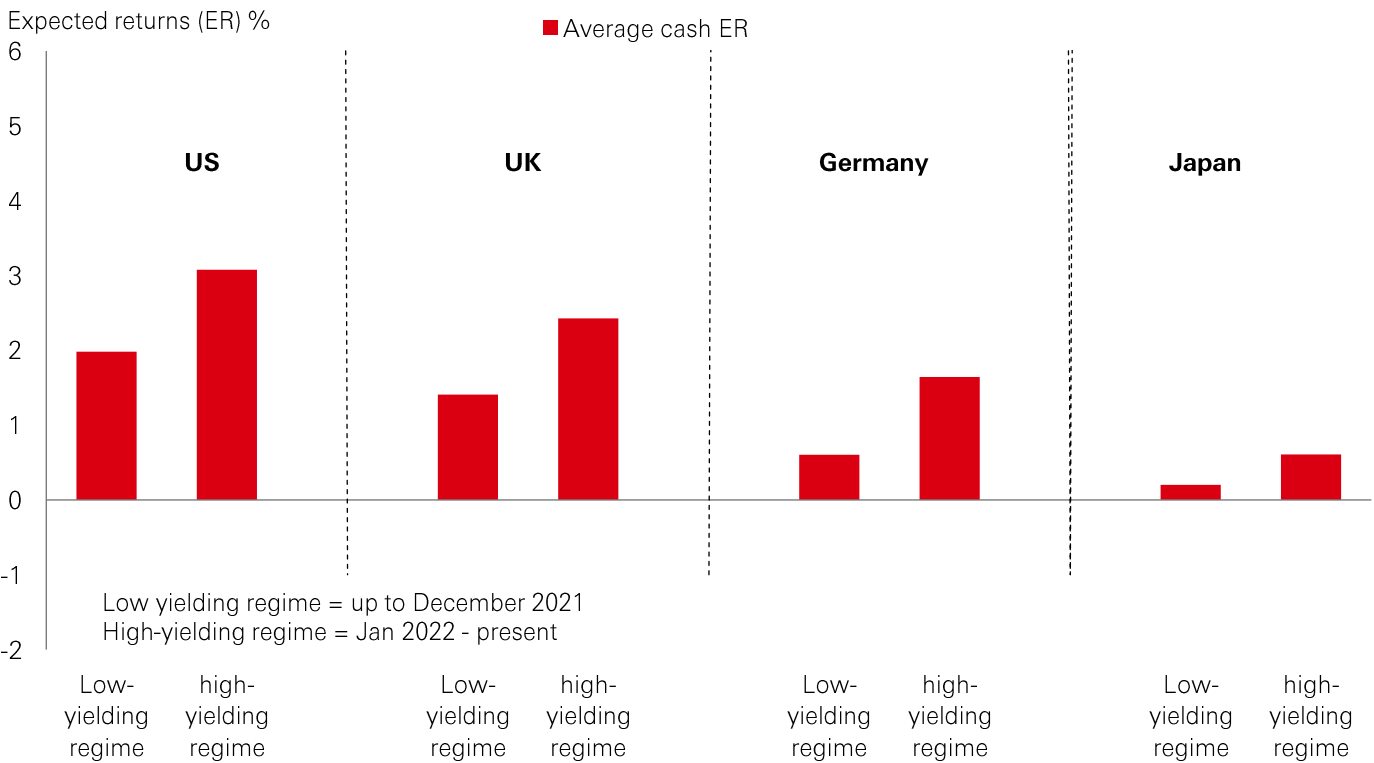


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Against this backdrop, the practical single-point benchmarks for nominal neutral policy rates — or equilibrium cash rates — used in our expected return models are 3.50% for the US, 2.00% for the eurozone, and 1.75% for Japan.

These neutral policy rates are critical control variables in our wider expected returns modelling, given the hierarchical paradigm that we follow with cash at its base. An important reason why our expected returns across asset classes have undergone a shift in recent years is the step-up in average neutral cash rates and cash expected returns, against the backdrop of not only persistent inflationary supply shocks but also a rise in productivity in the US and other economies at the heart of the AI capex boom.

Figure 17: Expected returns



Source: HSBC Asset Management, September 2026. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

10-year expected returns for selected assets

Assets Class	Reference Index	Local Expected Return (%)	Risk Premium	USD Unhedged Expected Return (%)	USD Hedged Expected Return (%)
Cash					
USD Cash	USD Swap OIS	3.50	-	3.50	3.50
GBP Cash	UK Base Rate	3.04	-	3.39	3.50
EUR Cash	EURO Swap OIS	2.01	-	2.55	3.50
CHF Cash	CHF Swap OIS	1.18	-	2.21	3.50
JPY Cash	JPY Swap OIS	1.25	-	6.53	3.50
CNY Cash	PBOC 7d Reverse Repo Rate	1.48	-	4.84	3.50
INR Cash	BoI Repo Rate Policy	5.70	-	6.81	3.50
Government Bond Indexes					
US Aggregate	BBG US Treasury	4.58	1.08	4.58	4.58
US TIPS	BBG US Govt Inflation-linked all maturities	5.40	1.89	5.40	5.40
Euro Bonds	BBG Euro-Aggregate Treasury	3.66	1.65	4.20	5.15
Asia Local Bonds	JPM JADE Global Asia Diversified Broad	4.12	0.79	6.53	4.29
EM Local Currency Bonds	JPM GBI-EM Global Diversified	6.36	1.28	7.08	4.78
EM Hard Currency Bonds	JPM EMBI Global Diversified	6.09	2.59	6.09	6.09
Global Bonds	BBG Global Bond Aggregate	4.12	1.33	5.03	4.83
Global Index Linked Bonds (ILBs)	BBG World Govt Inflation-linked all maturities	5.47	2.40	5.66	5.90
Government Bonds					
US 2y	Generic US 2y	4.07	0.57	4.07	4.07
US 10y	Generic US 10y	4.78	1.28	4.78	4.78
UK 2y	Generic UK 2y	4.00	0.96	4.36	4.46
UK 10y	Generic UK 10y	5.33	2.29	5.69	5.79
Bund 2y	Generic German 2y	2.60	0.59	3.14	4.09
Bund 10y	Generic German 10y	3.36	1.35	3.90	4.85
JGB 2y	Generic Japan 2y	1.65	0.40	6.94	3.91
JGB 10y	Generic Japan 10y	3.06	1.81	8.34	5.31
China 10y	Generic China 10y	1.08	-0.39	4.45	3.11
India 2y	Generic India 2y	6.19	0.49	7.31	3.99
India 10y	Generic India 10y	6.68	0.98	7.79	4.48
Mexico 2y	Generic Mexico 2y	7.55	0.56	5.34	4.06
Mexico 10y	Generic Mexico 10y	9.31	2.32	7.10	5.82

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10-year expected returns for selected assets

Assets Class	Reference Index	Local Expected Return (%)	Risk Premium	USD Unhedged Expected Return (%)	USD Hedged Expected Return (%)
Credit					
US Corporate	BBG US Aggregate Corporate	5.60	2.10	5.60	5.60
US Investment Grade	BBG US Investment Grade	5.62	2.12	5.62	5.62
US High Yield	BBG US High Yield	5.52	2.02	5.52	5.52
US MBS	BBG US MBS	4.82	1.32	4.82	4.82
US Leveraged Loans	JPM Liquid Loan	4.64	1.14	4.64	4.64
Euro Corporate	BBG Euro Aggregate Credit - Corporate	3.50	1.48	4.04	4.98
Euro Investment Grade	BBG Euro-Aggregate IG	3.49	1.47	4.03	4.97
Euro High Yield	BBG Liquidity Screened Euro High Yield Bond	3.94	1.93	4.48	5.43
Asia Corporate	JPM Asia Credit (JACI)	4.97	1.47	4.97	4.97
Asia Investment Grade	JPM Asia Credit IG (JACI)	4.92	1.42	4.92	4.92
Asia High Yield	JPM Asia Credit HY (JACI)	5.42	1.92	5.42	5.42
EM Corporates	JPM CEMBI	5.27	1.76	5.27	5.27
EM Investment Grade	JPM CEMBI IG	5.13	1.63	5.13	5.13
EM High Yield	JPM CEMBI HY	5.49	1.99	5.49	5.49
Global Corporate	BBG Global Credit	4.99	1.93	5.21	5.43
Global Investment Grade	BBG Global Aggregate	4.96	1.91	5.19	5.41
Global High Yield	BBG High Yield	5.20	2.02	5.32	5.52
Global Securitised Credit	80% BBG US ABS Floating Rate, 20% BBG EURO ABS Floating Rate	3.97	0.77	4.08	4.27
Equity					
Global	MSCI ACWI	7.25	4.05	7.81	7.55
Developed Markets	MSCI World	7.00	3.87	7.46	7.37
US	MSCI USA	6.95	3.45	6.95	6.95
UK	MSCI United Kingdom	7.58	4.55	7.94	8.05
Germany	MSCI Germany	7.79	5.78	8.33	9.28
Europe ex UK	MSCI Europe ex UK	7.79	5.91	8.56	9.41
Switzerland	MSCI Switzerland	6.40	5.22	7.43	8.72
Japan	MSCI Japan	5.96	4.71	11.24	8.21
Hong Kong	MSCI Hong Kong	8.45	4.95	8.45	8.45
Emerging Markets	MSCI Emerging Markets	9.12	5.44	10.45	8.94
China (Onshore)	MSCI China A Onshore	7.55	6.07	10.92	9.57
China	MSCI China	10.26	6.76	10.26	10.26
India	MSCI India	10.46	4.76	11.57	8.26
Mexico	MSCI Mexico	13.64	6.65	11.43	10.15
Asia ex-Japan	MSCI Asia ex Japan	8.19	5.10	9.81	8.60
ASEAN	MSCI ASEAN	7.69	5.15	10.17	8.65
Frontier	MSCI Frontier Markets	8.31	4.81	8.31	8.31
GCC	MSCI GCC	8.16	4.66	8.16	8.16

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10-year expected returns for selected assets

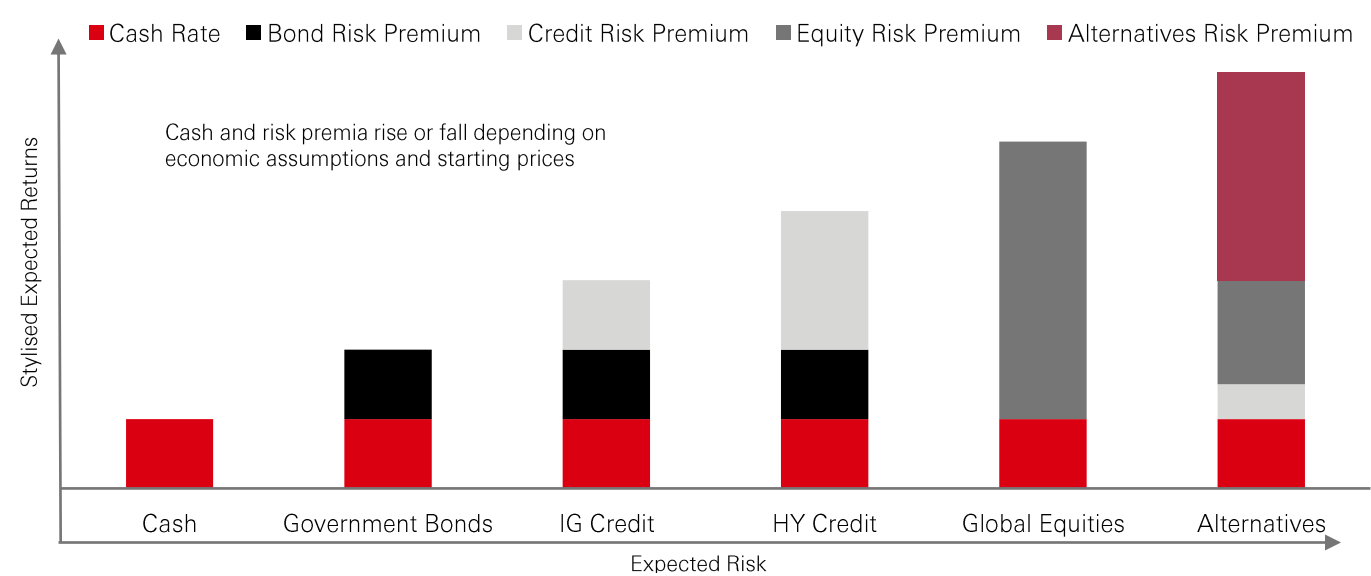
Assets Class	Reference Index	Local Expected Return (%)	Risk Premium	USD Unhedged Expected Return (%)	USD Hedged Expected Return (%)
Global Equity Sectors					
Technology	MSCI ACWI IT	8.08	4.88	8.62	8.38
Finance	MSCI ACWI Financials	7.80	4.63	8.45	8.13
Consumer Discretionary	MSCI ACWI Consumer Discretionary	8.16	4.96	8.76	8.46
Health Care	MSCI ACWI Health Care	7.74	4.63	8.08	8.13
Industrials	MSCI ACWI Industrials	6.89	3.95	7.85	7.45
Comm. Services	MSCI ACWI Comm. Services	7.45	4.10	7.79	7.60
Consumer Staples	MSCI ACWI Consumer Staples	7.53	4.31	7.93	7.81
Materials	MSCI ACWI Materials	7.49	4.04	8.02	7.55
Energy	MSCI ACWI Energy	8.92	5.46	9.28	8.96
Utility	MSCI ACWI Utility	7.12	3.87	7.48	7.37
Alternatives					
Hedge Funds	Credit Suisse Hedge Fund	6.03	2.53	6.03	6.03
L/S Equity	Credit Suisse Long/Short Equity	5.86	2.36	5.86	5.86
Global Macro	Credit Suisse Global Macro	6.04	2.54	6.04	6.04
Managed Futures	Credit Suisse Managed Futures	4.53	1.03	4.53	4.53
Distressed	Credit Suisse Distressed	6.11	2.61	6.11	6.11
Market Neutral	Credit Suisse Equity Market Neutral	4.35	0.85	4.35	4.35
FI Arbitrage	Credit Suisse FI Arbitrage	4.65	1.15	4.65	4.65
Multi-Strategy	Credit Suisse Multi-Strategy	4.72	1.22	4.72	4.72
Convertible Arbitrage	Credit Suisse Convertible Arbitrage	4.89	1.39	4.89	4.89
Event Driven	Credit Suisse Event Driven	5.84	2.34	5.84	5.84
Direct Lending	Cliffwater Direct Lending (Senior Only)	9.27	5.77	9.27	9.27
Private Equity	Preqin Private Equity (Buyout)	11.05	7.54	11.05	11.05
Listed Real Assets					
Global REITs	FTSE EPRA/NAREIT Global	7.87	4.75	8.45	8.25
Global Infra	Dow Jones Brookfield Global Infrastructure Index	7.44	4.52	7.87	8.02
Unlisted Real Assets					
Real Estate	NCREIF Property	6.39	2.89	6.39	6.39
Infra Equity	Edhec Broadmarket Unlisted Infrastructure Equity	10.20	7.05	10.75	10.55
Infra Debt	Edhec Broadmarket Private Infrastructure Debt	5.39	2.17	5.75	5.67
Commodities	BBG Commodities (BCOM)	6.72	3.22	6.72	6.72
Gold	Gold USD Spot	-1.32	-4.83	-1.32	-1.32
FX					
US Dollar	US Dollar (DXY)	-1.31	-	-	-
EM FX	JP Morgan ELMI+	1.12	-	-	-
Asia FX	BBG Asia Dollar	1.21	-	-	-

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Technical appendix

Asset class return assumptions come from two key “building blocks”: (1) a risk-free interest rate; and (2), a risk premium, which reflects the future reward for taking economic, asset-specific, specialist, or currency risk. Figure 18 illustrates this idea. The risk-free interest rate is modelled using our scenario for policy interest rates for advanced and emerging economies. Then, based on current market pricing and the economic assumptions for asset class fundamentals, we model a “risk premium” for each asset. By doing this, our expected returns framework is anchored by current market pricing, rather than just our economic forecasts.

Figure 18 – A risk premia approach to building expected returns



Source: HSBC Asset Management, September 2026

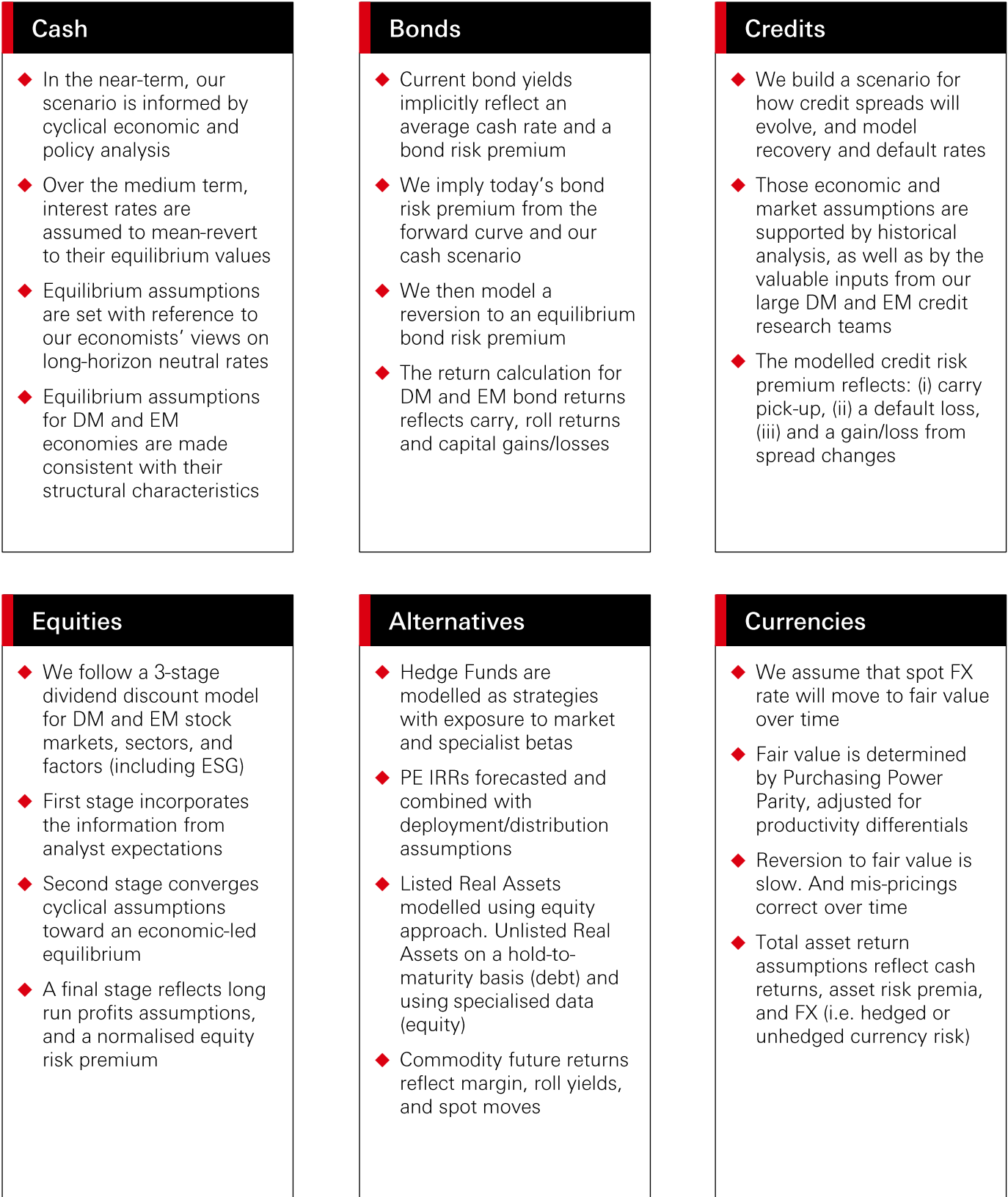
Under normal economic and market conditions, the more risk we take, the greater the return. But over the market cycle, the implied rewards (or risk premium) to each asset class can vary materially. This means that, in real time, the bars in Figure 18 will move up and down; sometimes risk will be over-rewarded, and at other times, under-rewarded.

This framework provides a disciplined way to assess the changing market odds across our investable universe. It can help asset allocators to tilt investment portfolios through time, in favour of more attractively-priced asset classes and away from less-attractive ones.

We currently estimate expected returns for 300+ asset classes, including developed and emerging economies, alternative assets, and currencies. Figure 19 explains some key details. Further information on our approach is available.

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Figure 19 – Expected returns framework



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