

# 2026 Capital Market Assumptions

## Effective May 17, 2026

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# Our Purpose

## To provide you information regarding

- our capital market assumptions framework and process
- our 2026 capital market assumptions update
- estimated impact on your clients' financial plans
- your transition path forward

## So that you are well-positioned to help clients effectively address

- investment risk
- sequence-of-return risk

## In the context of their life goals and financial plan.

Sources for this document include J.P. Morgan, Wealthcare, Bloomberg, S&P, Merrill Lynch, ICE, Russell, HFR, Callan, BEA, BLS, Blackrock, Voya

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# Executive Summary

1. We have changed our process for **initial return assumptions** (first 10 years of simulation) to leverage J.P. Morgans non-core valuation-based assumptions. We use JPM's real return assumptions with our inflation assumption.
2. We are updating **our normative return assumptions** (years 11+ in the simulation process) this year. We haven't updated our Normative CMA for several years. We now have more data and have 100 years of data for Large Cap stocks.
3. **Our inflation assumptions have changed modestly.** Our initial inflation assumption has been lowered from 2.85% to 2.80%. Our inflation assumption for years 11+ was lowered from 2.40% to 2.30%.
4. For **initial real** assumptions, expected returns rose for U.S. Large Cap stocks (from 3.9% to 4.2%) and also rose for bonds (from 1.3% to 1.9%). Cash fell 0.9% to 0.6%. For **normative real** assumptions, there was no change for stocks while bonds and cash fell by 0.10% each.
5. We added one new asset class: Precious Metals.
6. Impact on plans was neutral on average, with 90+% of plans seeing a confidence impact from -2% to +2%.
7. The effective date for the new assumptions is on May 17th.
  1. Clients currently on 2024 assumptions will be updated to 2025
  2. Advisors can migrate clients on 2025 assumptions to 2026 as part of their normal planning cycle.

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# CMA Modeling Framework

# Two Tier Modeling Framework:

## What, Why and How

### 1. What: Initial to Normative Process

- a) Initial:
  - i. Valuation Approach
  - ii. 1<sup>st</sup> 10 years of simulation
- b) Normative:
  - i. Risk Premium Approach
  - ii. Years 11 and beyond of the simulation

### 2. Why: Helps you better manage sequence risk and produce more plausible plans

- a) Starting valuations can have significant impact on subsequent 10-year equity returns
- b) Starting yields can have significant impact on subsequent 10-year fixed income returns

### 3. How: Connecting Initial and Normative Conditions

- a) Initial Conditions
  - i. *Capture starting valuations* (short run *initial* “disequilibrium” relative to the long run *normative* “average equilibrium”)
  - ii. Moves from initial valuation conditions to normative fair-value conditions over 10-years, amortizing the repricing effect over the 10-year period.
  - iii. *End with fair-valuations*
- b) Normative Conditions:
  - i. *Start with fair-value valuations*
  - ii. Captures long-run historical experience adjusted for:
    - Historical vs expected long-run inflation
    - Historical vs expected long-run growth

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# Two Tier vs One-Tier

## Initial-to-Normative vs Normative-Only vs Initial-Only

### Initial-to-Normative

1. More plausible plans
2. Addresses sequence risk
3. Works for any length plan
4. Annual update cycle can force plan adjustments
5. Annual update requires more communication/explanation

### Normative-Only

1. Less plausible plans
2. Does not address sequence risk
3. Best for very long-term plans
4. No annual update forcing adjustments (we update approximately every 5 years)
5. No annual communication/explanation requirements regarding annual CMA updates

### Initial-Only\*

1. Less plausible plans
2. Addresses sequence risk
3. Best for plans shorter than 10 to 15 years
4. Annual update cycle can force plan adjustments
5. Annual update requires more communication/explanation

\* Not an option with GDxp, but other planning tools (e.g. Right Capital) offer valuation-based assumptions (JPM) as a single tier.

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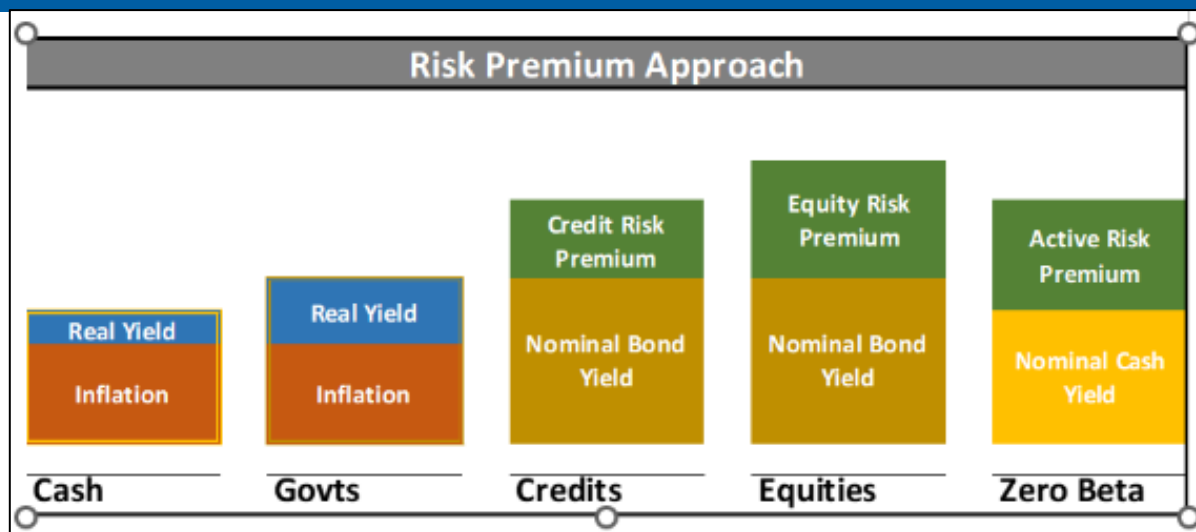
# Modeling Framework – Initial Conditions

- 1. J.P. Morgan-based asset classes:** We rely on JPM's valuation-based modeling framework (aligned with ours) to produce real expected returns for the next 10 years for all common asset classes, then we create additional Wealthcare-only asset classes via roll-ups (equities) and interpolations (fixed income) of JPM's available asset classes.
  - a) Common:** 18 common assets classes
  - b) Roll-ups:** 10 additional Wealthcare-only equity asset classes by combining JPM asset classes via "roll-ups." For example, we combine JPM small-cap and mid-cap to create a Wealthcare smid-cap asset class capturing both index weightings and cross correlations.
  - c) Interpolated:** 11 additional Wealthcare-only fixed income classes (4 government, 1 credit, 1 gov/credit, 5 munis)
- 2. Non-JPM asset classes:** For certain asset classes groups where JPM does not provide a full basis for modeling, we model directly. These include: Gold, Silver, Precious Metals, Crypto/Bitcoin, Managed Futures.
- 3. Active asset classes:** We model 9 active asset classes corresponding to where active management is used in our portfolio models. Active asset classes use the passive asset classes as a base, then add extra risk and cost and an expected information ratio to produce active asset class risk and return assumptions. The result is higher risk than passive asset classes with similar expected returns as any expected alpha is modeled to be offset by certain extra cost.

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# Normative Conditions

## Inflation, Real Yields and Risk Premiums



### 1. Inflation estimated based on:

- Market price for inflation expectations
- Fed policy
- Long-term experience

### 2. Real yields estimated based on:

- Relationship to real growth
- Expectations for long-term growth (Fed, productivity, labor force)
- Long-term experience

### 1. Credit and Equity Risk Premiums based on:

- Long-term experience
- Secular/structural impacts on future growth (demographics, AI...)

### 2. Active Risk Premium based on:

- Fundamental Law of Active Management
- Plausible sustainable information ratios
- Additional cost of active management
- Expected level of active risk

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# Two Tier vs One-Tier

## S&P 500 & Inflation at Different Horizons

| S&P 500         | Initial-Only | Normative-Only | Initial-to-Normative |
|-----------------|--------------|----------------|----------------------|
| 10-Year Horizon | 7.0          | 9.1            | 7.0                  |
| 30-year         | 7.0          | 9.1            | 8.4                  |
| 50-year         | 7.0          | 9.1            | 8.7                  |

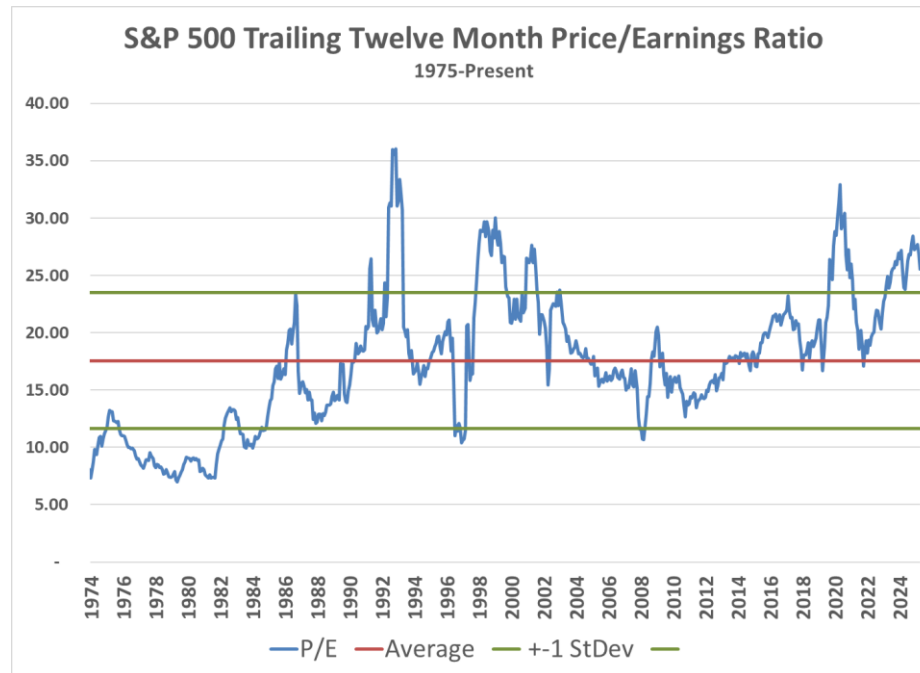
| Inflation       | Initial-Only | Normative-Only | Initial-to-Normative |
|-----------------|--------------|----------------|----------------------|
| 10-Year Horizon | 2.8          | 2.3            | 2.8                  |
| 30-year         | 2.8          | 2.3            | 2.5                  |
| 50-year         | 2.8          | 2.3            | 2.4                  |

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# Valuation Impacts

S&P 500 & 10-Year Treasuries

# Stocks are Expensive using Historical Average P/E



❑ This chart suggests the fair value P/E is around 17.5 vs 25.6 as of 3/31/2026, or **46% overvalued**

❑ Trailing P/E does not account for inflation regime

Source: Shiller. Wealthcare

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# Trailing P/E Ratio vs Inflation Regime

100 Years ending December 2024

| Inflation > | Inflation <= | Avg PE |
|-------------|--------------|--------|
| -100%       | 1.5%         | 19     |
| 1.5%        | 2.5%         | 20     |
| 2.5%        | 3.5%         | 20     |
| 3.5%        | 4.5%         | 16     |
| 4.5%        | 5.5%         | 16     |
| 5.5%        | 9.5%         | 13     |
| 9.5%        | 100%         | 9      |
| -100%       | 100%         | 17     |

- ❑ Table shows average P/E ratios are higher when inflation is lower.
- ❑ With inflation in the 1.5% to 3.5% range a normative P/E ratio around 20 is more plausible than the long-term average of 17.
- ❑ The P/E was 25.6 as of 03/31/2026. This is still an **overvaluation of more than 25% based on the table**

Source: Shiller. Wealthcare

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# U.S Stocks are Expensive on Shiller's Cyclically Adjusted PE Ratio (CAPE)

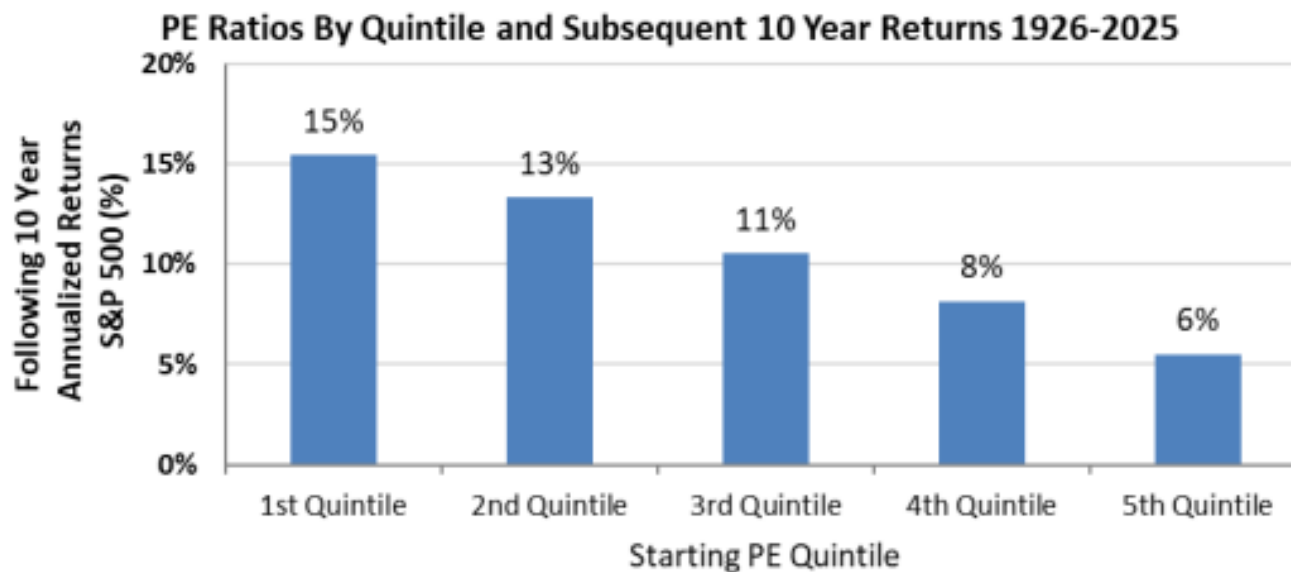
S&P Composite CAPE Valuation  
1880 - Present



- CAPE does adjust for inflation
- Data goes back ~150 years
- Only dotcom bubble was more expensive than last few years
- More expensive than 1929

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# Valuation and Subsequent 10 Year Returns

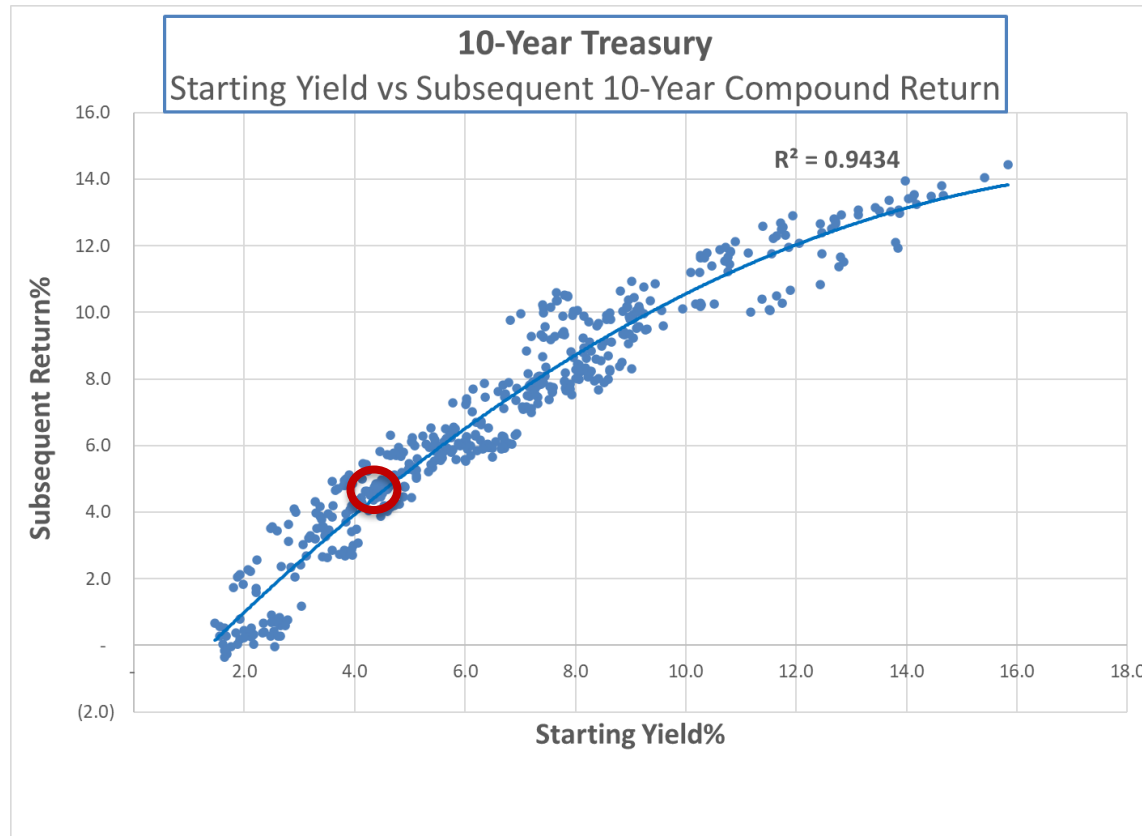


This chart is based on the Shiller Cyclically-Adjusted P/E Ratio

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# Best Estimate of Expected Return is Yield

The yield you buy drives the return you earn



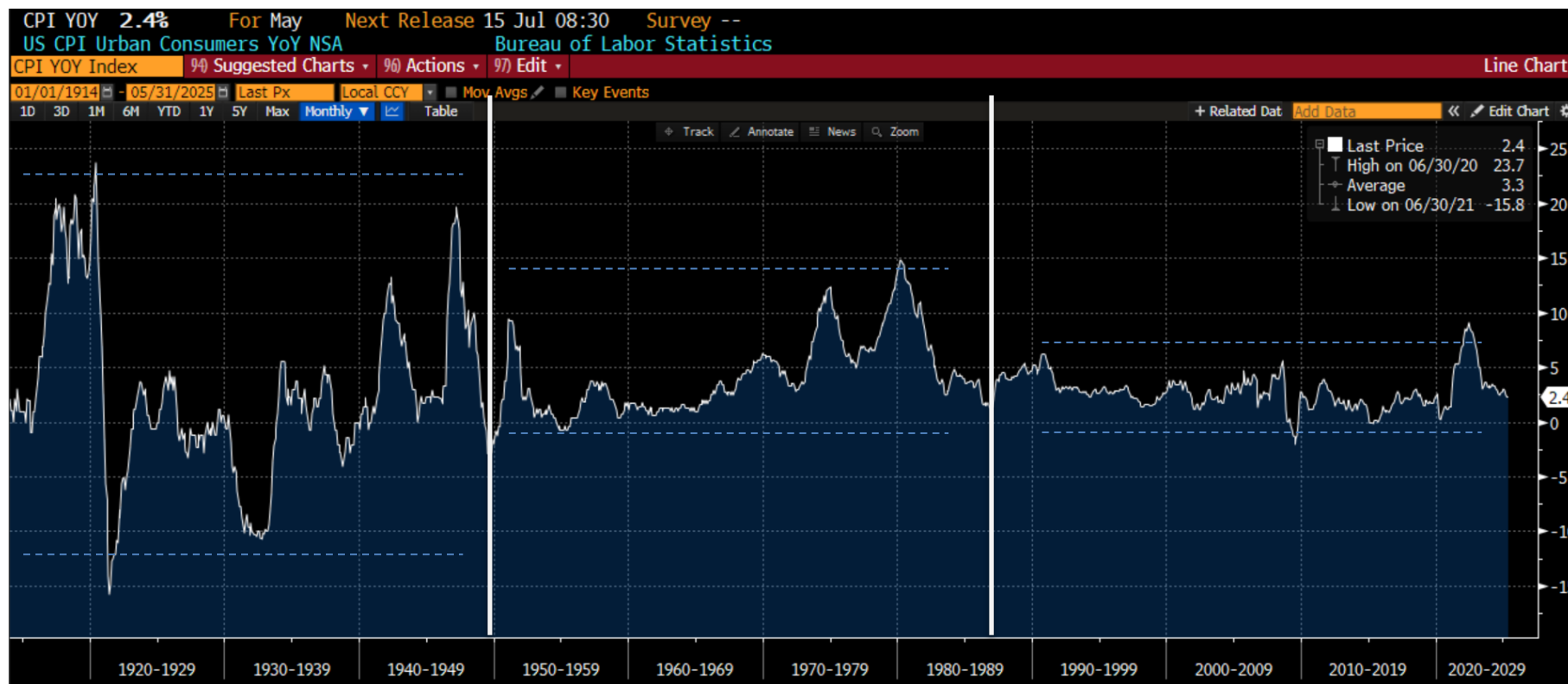
The on-the-run 10-Year Treasury yield is currently ~4.3%

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# Inflation

# 110+ Years of Inflation History

Source: Bloomberg



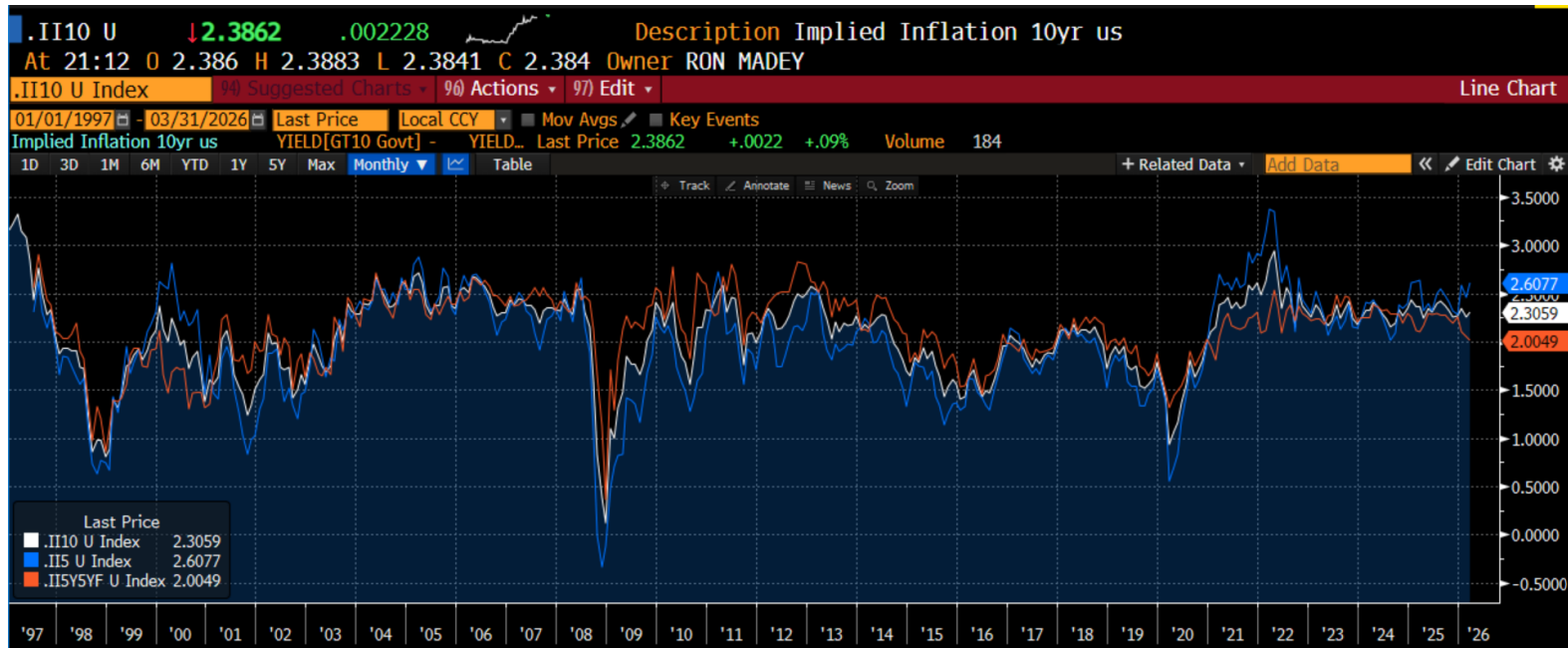
Date Range: 1914-1950  
 CPI YOY AVG: 2.7%

1950 – 1986  
 4.3%

1986-2024+  
 2.8%

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# 28+ Years of TIPS-based Market Implied Inflation Estimates



As of 03/31/26

- Market expected average inflation for the next **5** years: 2.61
- Market expected average inflation for the next **10** years: 2.31
- Market expected average inflation for years **6 thru 10** : 2.00

Source: Bloomberg

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# 10-Year Implied Inflation vs Actual CPI YOY%



- ❑ Any time bottom panel is green (above zero) TIPs are in a positive carry position vs the 10-year Treasury.
- ❑ For the five years ending 03/31/26, TIP has outperformed IEF by 2% annually

Source: Bloomberg

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# Inflation Assumptions vs Observed Indicators

| Inflation Measure                              | 2026 Observations (as of) |           |
|--|---------------------------|-----------|
| PCE Inflation                                  | 3.0 (Feb)                 |           |
| Core PCE Inflation                             | 2.8 (Feb)                 |           |
| Fed long-term PCE target                       | 2.0                       |           |
| Historical average CPI (Mar 1926 to Mar 2026)  | 3.0%                      |           |
| Historical median CPI Less PCE (1960-2024)     | 0.4%                      |           |
| Current CPI Inflation                          | 3.3(Mar)                  |           |
| Current Core CPI Inflation                     | 2.6 (Mar)                 |           |
| Wealthcare initial inflation assumption        | 2.8                       |           |
| Wealthcare normative inflation assumption      | 2.3                       |           |
| 5-year TIPS forecast                           | 2.6(Mar),                 | 2.7 (Apr) |
| 5-year TIPS forecast, 5 years forward          | 2.0 (Mar),                | 2.1 (Apr) |
| 10-year TIPS forecast                          | 2.3 (Mar),                | 2.4 (Apr) |
| 30-year TIPS forecast                          | 2.2(Mar),                 | 2.3 (Apr) |
| Umich Survey 1-year Inflation expectations     | 3.8(Mar),                 | 4.8 (Apr) |
| UMich Survey: 5-10-year inflation expectations | 3.2 (Jun),                | 3.4 (Apr) |

Source: Bloomberg, Federal Reserve, U.S. Treasury, Bureau of Labor Statistics. Bureau of Economic Analysis, Wealthcare, .

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# Inflation Commentary

- Real returns drive confidence in your plans
- Real returns are not modeled directly in the sim engine.
  - Nominal returns are applied to assets while inflation is applied to cash flows
  - Not all cash flows grow with inflation.
    - Spending is typically indexed to inflation
    - Many fixed income payments (pension benefit, annuities...) are not
    - Retiree plans can be more negatively impacted by rising inflation
- If you change the initial default inflation, or specify cash flow inflation different than the default, you will change the real returns modeled in your plan as nominal returns in the system don't change with your inflation adjustment. Raising inflation lowers real returns and confidence, and vice versa
- *In a test of about 2,000 plans in the Comfort Zone, a 0.25% decrease in initial default inflation increased confidence by 1.4 confidence points on average.*

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# Core Assumptions

# Wealthcare's Core Return Assumptions

|                | 2025    |           |               | 2026    |           |               | Change  |           |               |
|----------------|---------|-----------|---------------|---------|-----------|---------------|---------|-----------|---------------|
|                | Initial | Normative | 50 Year Blend | Initial | Normative | 50 Year Blend | Initial | Normative | 50 Year Blend |
| <b>Nominal</b> |         |           |               |         |           |               |         |           |               |
| Large Cap      | 6.8     | 9.2       | 8.7           | 7.0     | 9.1       | 8.7           | 0.2     | (0.1)     | 0.0           |
| 10-Year        | 4.2     | 4.6       | 4.5           | 4.7     | 4.4       | 4.5           | 0.5     | (0.2)     | 0.0           |
| Cash           | 3.8     | 3.3       | 3.4           | 3.4     | 3.1       | 3.2           | (0.4)   | (0.2)     | (0.2)         |
| Inflation      | 2.9     | 2.4       | 2.5           | 2.8     | 2.3       | 2.4           | (0.1)   | (0.1)     | (0.1)         |
| <b>Real</b>    |         |           |               |         |           |               |         |           |               |
| Large Cap      | 3.9     | 6.8       | 6.2           | 4.2     | 6.8       | 6.3           | 0.3     | 0.0       | 0.1           |
| 10-Year        | 1.3     | 2.2       | 2.0           | 1.9     | 2.1       | 2.1           | 0.6     | (0.1)     | 0.1           |
| Cash           | 0.9     | 0.9       | 0.9           | 0.6     | 0.8       | 0.8           | (0.3)   | (0.1)     | (0.1)         |

**Normative:** Inflation lowered slightly. Stocks, bonds and cash all down slightly in nominal returns. Stocks are neutral in real terms while bonds and cash slightly down.

**Initial:** Inflation lowered slightly. Equity and bonds are higher in both nominal & real returns. Cash nominal & real returns lower.

Source: J.P Morgan, Wealthcare

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# Comparator Analysis

## Ten Year Horizon\*

| 2025 thru 2034 | JPM | Callan | Blackrock | KKR  | Average | WC/JPM | JPM less Average |
|----------------|-----|--------|-----------|------|---------|--------|------------------|
| Large Cap      | 6.7 | 7.3    | 5.2       | 6.2  | 6.4     | 7.0    | 0.6              |
| Agg Bonds      | 4.8 | 4.8    | 4.1       | 4.2  | 4.5     | 5.1    | 0.6              |
| Cash           | 3.1 | 3.0    | 3.8       | 3.4  | 3.4     | 3.4    | -                |
| Inflation      | 2.5 | 2.5    | ~2.8      | ~2.5 | 2.6     | 2.8    | 0.2              |

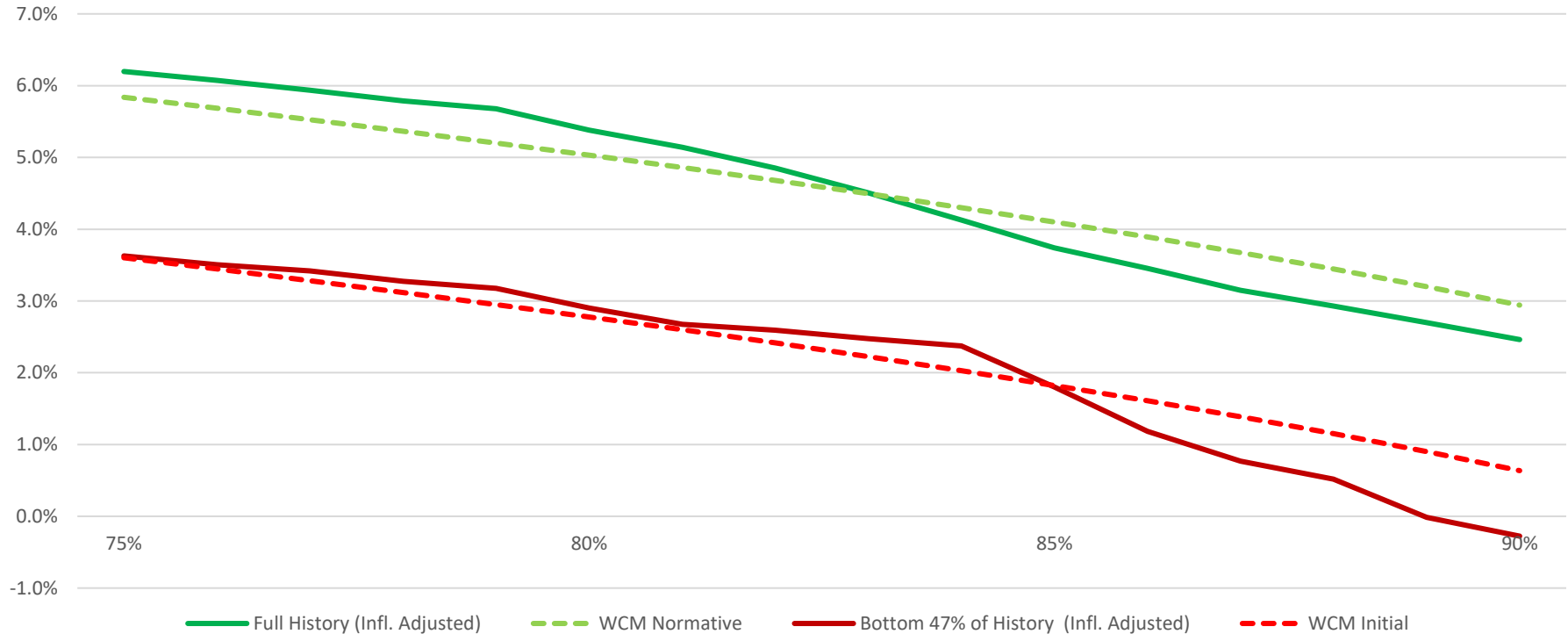
- JPM/WC higher on stocks and bonds on average, but lower than Callan by 0.30% for stocks
- Blackrock and KKR inflation assumption derived from published non-CMA report research.

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# Wealthcare's 2026 Capital Market Assumptions

## Effect of Core Risk Assumptions

Comfort Zone Percentile Returns -- 10-year Horizon

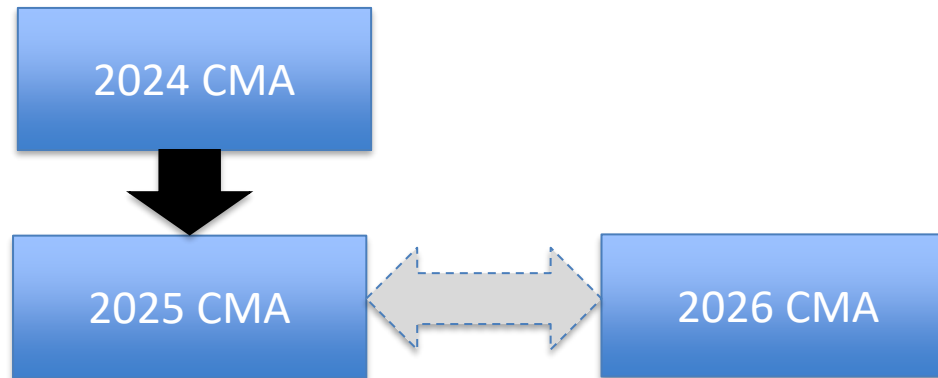


- Analysis of historical periods (from 1926) for percentile returns from full history and for bottom 47% of the history.
- Bottom 47% was chosen b/c it has a 7.0% median geometric return – matching the WCM assumption.

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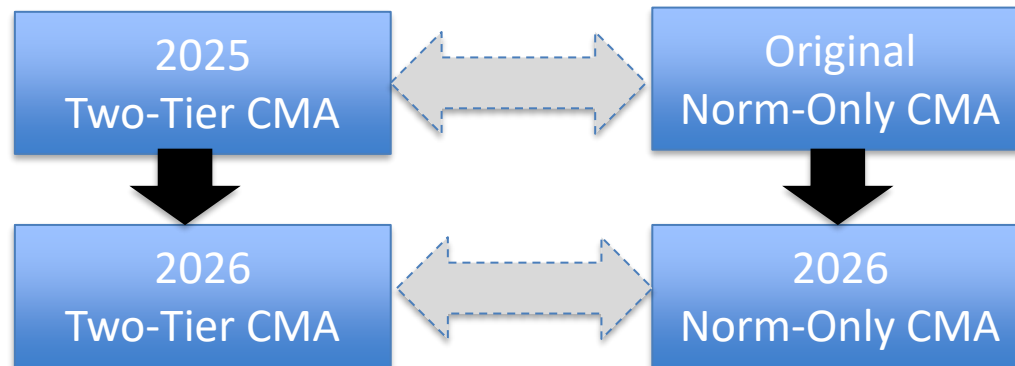
# Financial Plan Confidence Impact

# CMA Transition Path for Most Advisors



- ❑ As of May 17th, plans that are on the 2024 assumptions will be moved to 2025 assumptions (*black arrow*)
- ❑ Advisors control the timing of when to transition to the 2026 assumptions (*gray arrow*)
- ❑ **Rule is that you must always be on either the current assumptions or the previous year's assumptions.**

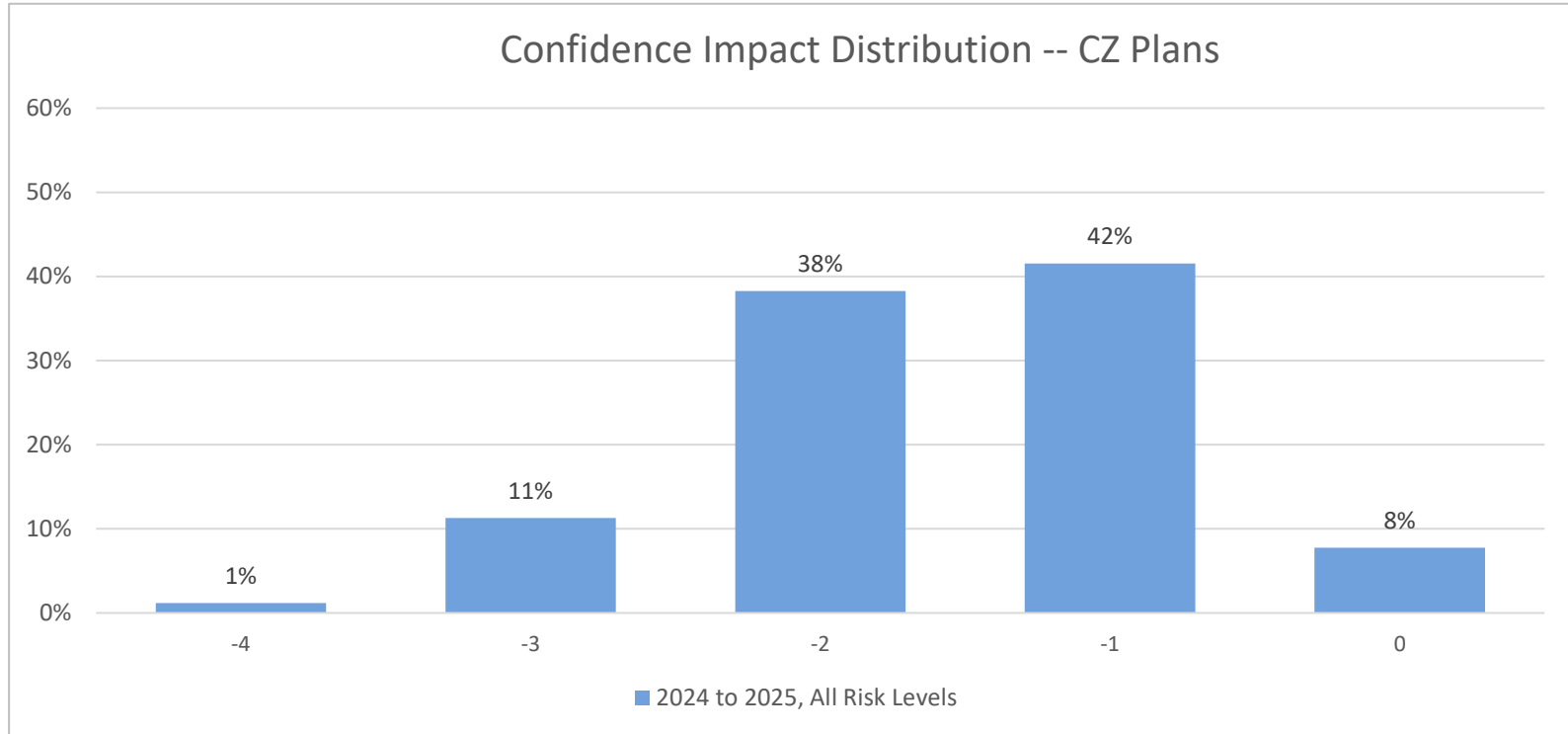
# CMA Transition Path for Advisors w/ Access to Normative-Only CMA



- ❑ As of May 17th, all plans will be moved to 2026 assumptions of the same type (*black arrows*): Two-Tier to 2026 Two-Tier and Normative-Only to 2026 Normative-Only
- ❑ Advisors may still swap between Two-Tier and Normative-Only assumptions (*gray arrows*)
- ❑ **Rule is that you must always be on the current assumptions, but you choose which clients' plans will use Two-Tier assumptions and which will use Normative-Only assumptions**

# Confidence Level Impact Testing

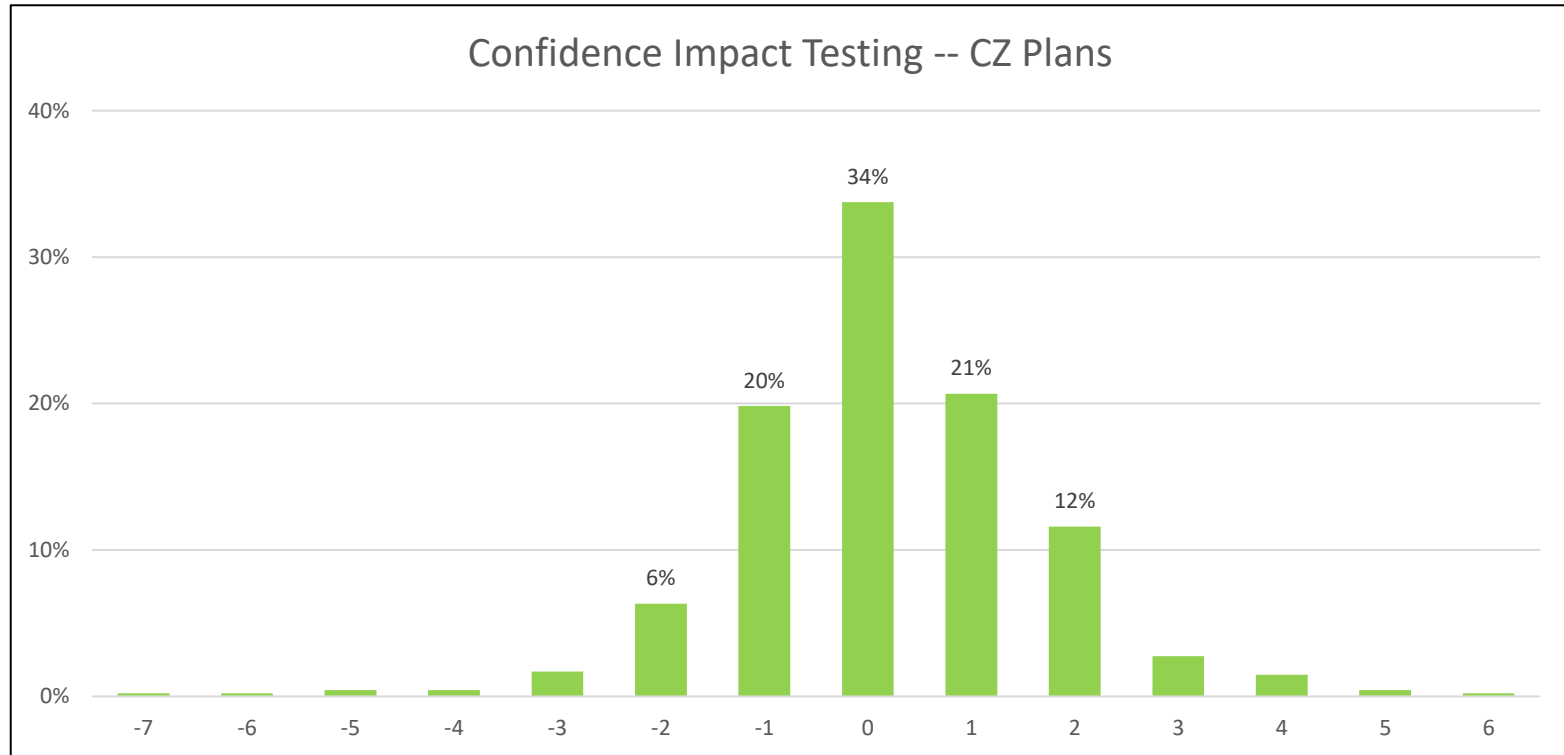
Range of Impact (Two-Tier: 2024 CMA → 2025 CMA)



☐ 88% of plans have a confidence change no worse than minus 2 points.

# Confidence Level Impact Testing

Range of Impact (Two-Tier: 2025 CMA → 2026 CMA)

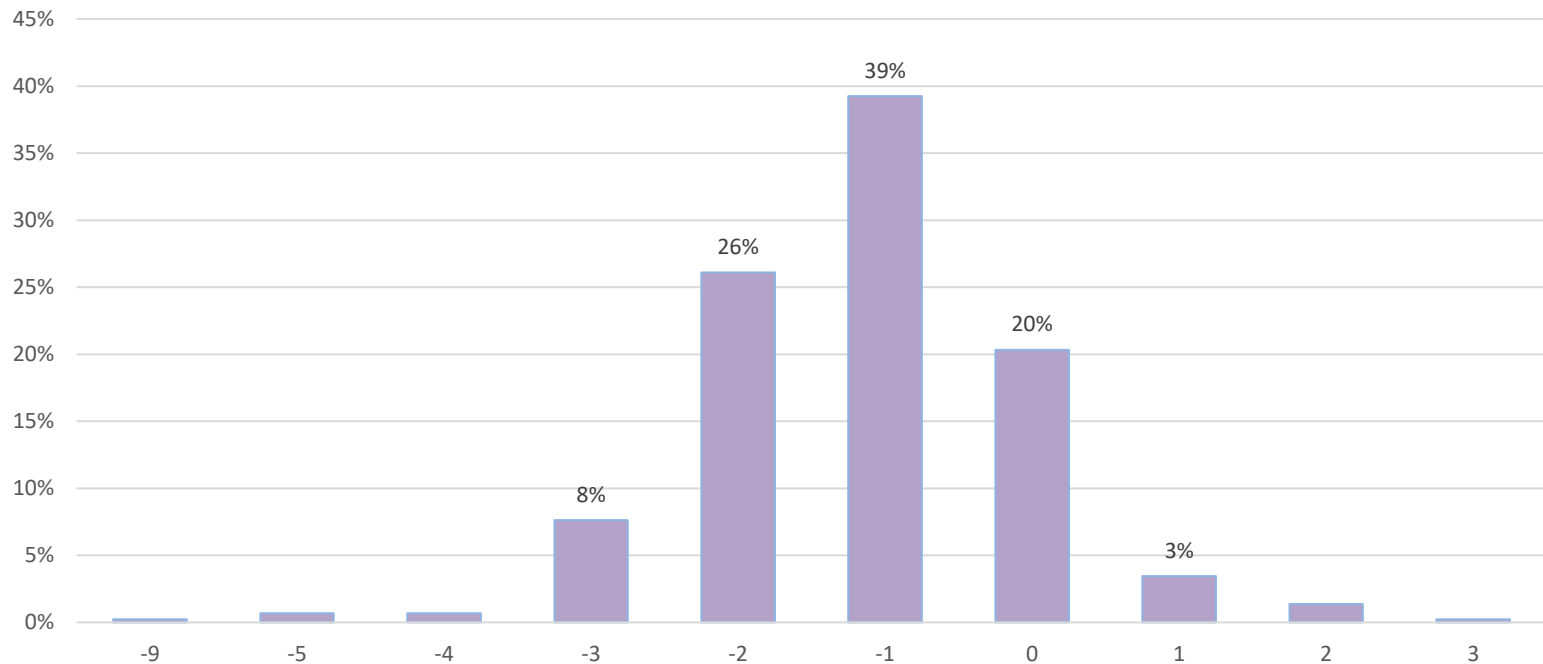


- Impact is neutral: more than 90% of plans had an impact in the range of -2% to +2%.

# Confidence Level Impact Testing

Range of Impact (Normative-Only: Current CMA → 2026 CMA)

Confidence Impact Testing -- CZ Plans



- Impact is largely neutral but skewing slightly negative: 86% of plans had an impact in the range of -2% to 0% and 97% of plans had an impact from -3% to +1%.

# Implementation

# Path Forward--Most Advisors

- Target implementation is May 17th.
- Existing clients that are not on 2025 assumptions by the release date will be updated to 2025 assumptions and you will control when to adopt 2026 assumptions as you meet over the next year.
- New clients will get the 2026 assumptions.
- Each advisor with 20 or more active Plans-of-Record will receive confidence scores for their plans using their current CMAs and the 2025 & 2026 CMAs.
- Training on CMA swapping within GDX360 will be provided.
- Questions/comments/insights/feedback? Please contact us

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# Path Forward—Normative-Only Advisors

- Target implementation is May 17th.
- Existing clients will be updated to 2026 CMA of version they are currently on: Two-Tier or Normative-Only.
- Each advisor will receive confidence scores for their Plans-of-Record using their current CMAs and the 2026 CMAs
- Training on CMA swapping within GDX360 will be provided.
- Questions/comments/insights/feedback? Please contact us

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# CMA Detail

# Wealthcare's 2026 Capital Market Assumptions

## Fixed Income Nominal Returns Assumptions

|                      | Initial | Normative | 50 Year Blend |
|----------------------|---------|-----------|---------------|
| 10 year Govt Bond    | 4.7%    | 4.4%      | 4.5%          |
| 7-10 year Govt Bond  | 4.6%    | 4.3%      | 4.4%          |
| TIPS                 | 4.6%    | 4.1%      | 4.2%          |
| Aggregate Bonds      | 5.1%    | 4.3%      | 4.4%          |
| Intermed. Govt/ Corp | 4.6%    | 4.1%      | 4.2%          |
| High Yield Bonds     | 6.4%    | 6.1%      | 6.1%          |
| Cash                 | 3.4%    | 3.1%      | 3.2%          |
| Munis                | 4.1%    | 3.8%      | 3.9%          |
| High Yield Munis     | 5.6%    | 4.8%      | 5.0%          |

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# Wealthcare's 2026 Capital Market Assumptions

## Domestic Equity Nominal Return Assumptions

|                        | Initial | Normative | 50 Year Blend |
|------------------------|---------|-----------|---------------|
| Large Cap Equities     | 7.0%    | 9.1%      | 8.7%          |
| Large Cap Value        | 7.9%    | 8.7%      | 8.5%          |
| Large Cap Growth       | 5.9%    | 8.8%      | 8.2%          |
| Mid Cap                | 7.3%    | 9.9%      | 9.4%          |
| Mid Cap Value          | 8.2%    | 9.8%      | 9.5%          |
| Mid Cap Growth         | 6.2%    | 9.7%      | 9.0%          |
| Small/Mid Cap Equities | 7.3%    | 10.0%     | 9.5%          |
| Small Cap              | 7.2%    | 10.3%     | 9.7%          |
| Small Cap Value        | 8.1%    | 11.0%     | 10.4%         |
| Small Cap Growth       | 6.1%    | 9.4%      | 8.7%          |
| Total Domestic Equity  | 7.1%    | 9.4%      | 8.9%          |

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# Wealthcare's 2026 Capital Market Assumptions

Nominal Returns Assumptions for Foreign Equities, Real Assets, and Alternatives

|                        | Initial | Normative | 50 Year Blend |
|------------------------|---------|-----------|---------------|
| Foreign Equity         | 8.0%    | 9.4%      | 9.1%          |
| International Equity   | 7.8%    | 9.1%      | 8.8%          |
| Emerging Market Equity | 8.1%    | 9.6%      | 9.3%          |
| REITs                  | 9.1%    | 8.9%      | 8.9%          |
| Commodities            | 4.9%    | 4.0%      | 4.2%          |
| Hedge Funds            | 5.6%    | 5.4%      | 5.4%          |
| Private Equity         | 10.5%   | 10.4%     | 10.4%         |

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# Wealthcare's 2026 Capital Market Assumptions

## Nominal Returns Assumptions for the Newer Asset Classes

|                 | Initial | Normative | 50 Year Blend |
|-----------------|---------|-----------|---------------|
| Silver          | 5.8%    | 3.4%      | 3.9%          |
| Gold            | 5.8%    | 3.5%      | 3.9%          |
| Precious Metals | 5.4%    | 3.0%      | 3.5%          |
| Cryptocurrency  | 7.9%    | 4.1%      | 4.8%          |

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# Wealthcare's 2026 Capital Market Assumptions

## Core Risk Assumptions-Initial Conditions CMA

|                  | Initial<br>2025 | Initial<br>2026 | Change |
|------------------|-----------------|-----------------|--------|
| Large Cap Stocks | 16.3            | 16.5            | 0.2    |
| 10-Year Treasury | 6.0             | 7.8             | 1.8    |
| Cash             | 1.8             | 0.7             | (1.1)  |

- Initial risks for Treasuries have been increased, while Cash has decreased.
- Initial risks for equities are nearly unchanged.
- Lower risk will tend to increase confidence, all other things being equal.

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# Wealthcare's 2026 Capital Market Assumptions

## Core Risk Assumptions-Normative CMA

|                  | Normative<br>2025 | Normative<br>2026 | Change |
|------------------|-------------------|-------------------|--------|
| Large Cap Stocks | 17.6              | 16.0              | -1.6   |
| 10-Year Treasury | 6.5               | 6.5               | 0.0    |
| Cash             | 1.6               | 1.6               | 0.0    |

- Normative risks for fixed are unchanged
- Normative risks for equities have been reduced
- Lower risk will tend to increase confidence, all other things being equal.

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# Wealthcare's 2026 Capital Market Assumptions

## Core Correlation Assumptions

|           | Large Cap | 10-Year | Cash |
|-----------|-----------|---------|------|
| Large Cap | 1.00      | 0.07    | 0.01 |
| 10-Year   | 0.07      | 1.00    | 0.13 |
| Cash      | 0.01      | 0.13    | 1.00 |

- Initial and Normative tiers use the same correlation table

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