



Sun Life
Global Investments
INSTITUTIONAL

CAPITAL MARKET ASSUMPTIONS & KEY MARKET THEMES



Executive summary

At Sun Life Global Investments, our purpose remains clear - to help Canadians achieve lifetime financial security and live their most meaningful lives. Supporting this purpose, we are excited to share our **2026 Capital Market Assumptions (CMAs)**. This provides our latest 10-year forecasts and forward-looking insights that serve as valuable inputs for investment decision-making in Sun Life Granite Funds and Sun Life ETF+ Portfolios.

Annually, the Multi-Asset Solutions (MAS) Team conducts a thorough analysis of market conditions and future prospects to recalibrate and derive their CMAs and reassess where opportunities lie for the next 10 years. The CMAs reflect a concise view from the MAS Team and best-in-class global asset managers, leveraging our multi-manager approach to offer a comprehensive outlook on global markets. This report presents their 2026 findings from a 10-year forward looking analysis, including key market themes and the methodology used for these insights.

Key findings

<p>1</p>  <p>Increased volatility in public equities and U.S. high yield bonds and bank loans</p>	<p>2</p>  <p>Upward revisions in long-term return expectations for most equity markets, except for Canadian equities</p>	<p>3</p>  <p>Continued improvement in global direct real estate expected returns</p>	<p>4</p>  <p>Lower long-term return forecasts for commodities following a strong run in 2025</p>
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Market outlook

SETTING THE SCENE FOR THE ROAD AHEAD

Recent market developments are shaped by converging factors. This includes five key themes identified at the start of 2026:

1. **U.S. as an outlier in a world of pausing central banks:** While global policy easing cycles reach their floor, the U.S. Federal Reserve is expected to maintain a cutting bias amid a cooling U.S. labour market and the nomination of a potentially more dovish Fed chair. This could remain a key anchor for risk assets, supporting high valuations and a weakening U.S. dollar.
2. **AI investment faces its ROI moment:** Following extraordinary capital spending on AI infrastructure, markets are likely to increasingly differentiate between companies that can translate AI adoption into higher revenues, lower costs or improved productivity than those that are not.
3. **Persistent K-shaped dynamics reshape macro and markets:** Market divergences are emerging across multiple dimension: firm size, income cohorts, AI beneficiaries versus sectors facing stretched consumers, and deregulation winners versus tariff-sensitive industries. These disparities are driving uneven growth, preferential capital access and market concentration.
4. **Distinct investment themes in a multipolar world:** A more fragmented global order is reshaping trade relationships and creating differentiated investment opportunities across regions and sectors. Portfolios that are broadly diversified across geographies and themes stand to benefit.
5. **Divergence makes active management matter again:** With rising dispersion of returns, and clearer winners and losers across regions, sectors, and companies, the environment is becoming more favourable for active managers.

While the MAS Team expects these themes to play out and impact asset valuations over 2026, they also maintain a longer-term perspective to establish strategic asset allocations for our managed solutions.



Capital market assumptions key themes

Cash rates and inflation

Following our upward revision for cash rates and inflation during last year's CMAs (which reflected more persistent price pressures relative to the pre-pandemic era and central banks' need for a slightly positive neutral real rate), we maintain our long run estimate of inflation at 2.25% and the cash (risk-free) rate at 2.75%.

U.S. vs. non-U.S. equity

While this theme played out in 2025, we continue to expect **ex-U.S. developed markets to outperform U.S. equities over the next 10 years**. Although we have marginally increased our return expectation for U.S. equities compared to last year, expected returns for emerging markets and international equities have increased modestly. Conversely, following Canadian equities' return of more than 30% in 2025, our long-term expectations for the asset class have decreased by 0.7% to 5.4%.

Emerging markets vs. developed markets equities

We anticipate **higher returns from emerging markets equities compared to developed markets equities**, reflecting their higher equity risk. Emerging markets present opportunities such as higher economic growth rates, better demographics (a younger population and growing middle class), lower asset valuations, potential for governance/reforms and technological improvements. Risks to consider include political instability, regulatory changes, currency volatility, and less developed financial markets.

Core fixed income (investment grade)

Long-run expected returns for **core Canadian and U.S. bonds remain largely unchanged, with Canadian bonds expected to modestly underperform U.S. bonds**. Higher yields and a higher neutral policy rate support the stronger total return outlook for U.S. bonds.

Capital market assumptions key themes (continued)

Private fixed income

Private fixed income, and to a lesser extent Canadian commercial mortgages, **return forecasts increased** to 5.6% and 4.7%, respectively, due to higher illiquidity premium assumptions. We continue to expect higher returns from these private asset classes compared to core Canadian bonds.

Non-investment grade and emerging markets fixed income

We continue to forecast **non-investment grade (speculative grade) to outperform IG due to higher starting yields. We expect stronger returns from emerging markets debt**, and to a lesser extent from U.S. high-yield bonds, compared to core IG bonds. However, the projected return differential has continued to narrow due to elevated valuations and tighter credit spreads since last year's CMAs.

Listed real assets

We included broad commodities in last year's modelling as another diversifying asset class due to its lower correlation to traditional assets and its inflation protection potential. Our **commodities return long-term forecast was revised lower** from 5.2% to 3.5%. Following a strong performance in 2025, return expectations for the broad commodities has become more measured. Despite this, we continue to view broad commodities as a valuable contributor to portfolio diversification and inflation protection. **Projected returns for listed global Real Estate Investment Trusts (REITs) and infrastructure were little changed.**

Global direct real assets (private assets)


Global direct real estate longer-term return expectations have **continued to improve**. This follows the reset in private market valuations caused by higher interest rates after the pandemic's record low-interest-rate environment. Global direct infrastructure returns have remained unchanged from last year's CMAs.

Liquid alternatives

We continue to view liquid alternatives primarily as **diversification providers** rather than return generators in terms of portfolio construction. Liquid alternatives have lower expected returns but low and often negative correlations to traditional equities, helping to provide diversification and downside protection during periods of market stress.

Key changes since the 2025 CMAs:

- Increased volatility forecasts in public equities and lower quality credit, mostly due to the inclusion of data from the Great Financial Crisis in the modelling.
- Except for Canadian equities, upward revisions to equity market long-term return expectations, particularly emerging markets.
- Continued improvement in global direct real estate expected returns supported by ongoing valuation resets in the private markets.
- Lower long term return forecasts for commodities following a strong run in 2025. We still believe broad commodities offer great value in contributing to diversification and inflation protection.

Directional changes*	
<p>UPWARD REVISIONS</p> 	<ul style="list-style-type: none"> • 10-year expected volatility for public equities and lower quality credit (e.g., high-yield and bank loans) • 10-year expected returns for emerging markets equity, global direct real estate and private fixed income
<p>DOWNWARD REVISIONS</p> 	<ul style="list-style-type: none"> • 10-year expected returns for commodities and Canadian equity

*Compared to last CMAs in 2025

10-Year Asset Class Expected Returns, Volatility and Correlations

Asset Class	Expected Returns (%)	Expected Volatility (%)	Correlations																		
			Canadian equity	U.S. equity	International equity	Emerging markets equity	Global developed REITs	Global listed infrastructure	Canadian bonds	Canadian commercial mortgages	Private fixed income (IG)*	U.S. bonds	U.S. high yield bonds	Emerging markets debt	U.S. bank loans	Commodities	Global direct real estate	Global direct infrastructure	Liquid alternatives**	Cash	Inflation
Canadian equity	5.37	15.75	1.0																		
U.S. equity	5.40	13.34	0.7	1.0																	
International equity	7.19	14.97	0.7	0.8	1.0																
Emerging markets equity	8.09	17.61	0.8	0.6	0.8	1.0															
Global developed REITs	6.87	18.30	0.7	0.7	0.8	0.6	1.0														
Global listed infrastructure	5.97	13.19	0.7	0.7	0.8	0.7	0.8	1.0													
Canadian bonds	3.79	5.01	0.1	0.2	0.2	0.2	0.3	0.2	1.0												
Canadian commercial mortgages	4.70	3.35	0.0	0.1	0.1	0.1	0.3	0.2	0.9	1.0											
Private fixed income (IG)*	5.60	4.90	0.3	0.3	0.3	0.4	0.5	0.4	0.9	0.8	1.0										
U.S. bonds	3.86	4.58	0.0	0.0	0.1	0.1	0.3	0.2	0.9	0.8	0.8	1.0									
U.S. high yield bonds	5.02	9.49	0.8	0.6	0.7	0.8	0.7	0.6	0.2	0.2	0.6	0.2	1.0								
Emerging markets debt	5.50	9.77	0.7	0.5	0.6	0.7	0.6	0.6	0.5	0.5	0.7	0.6	0.9	1.0							
U.S. bank loans	4.41	10.03	0.8	0.5	0.5	0.7	0.5	0.4	0.0	-0.1	0.3	-0.1	0.9	0.7	1.0						
Commodities	3.47	24.84	0.6	0.2	0.3	0.3	0.2	0.3	-0.4	-0.4	-0.2	-0.4	0.4	0.1	0.5	1.0					
Global direct real estate	5.84	7.73	-0.3	0.0	0.1	-0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.4	-0.3	-0.4	-0.1	1.0				
Global direct infrastructure	7.12	16.53	-0.1	0.1	0.1	0.0	0.3	0.2	0.4	0.4	0.4	0.4	0.0	0.2	-0.2	-0.3	0.4	1.0			
Liquid alternatives**	3.09	16.31	-0.4	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.1	-0.3	-0.2	-0.6	-0.5	-0.5	-0.1	0.4	0.1	1.0		
Cash	2.75	0.82	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.1	0.2	0.1	0.1	-0.2	0.0	-0.2	-0.1	0.0	0.1	0.0	1.0	
Inflation	2.24	1.68	0.2	-0.1	0.0	0.0	0.0	0.1	-0.4	-0.4	-0.2	-0.3	0.1	-0.1	0.3	0.6	0.0	-0.3	-0.1	-0.1	1.0

*IG = investment grade

**Liquid alternatives represented by systematic trend following

Directional changes compared to prior CMAs*

- Increased return expectations
- Reduced return expectations
- No change

Largest changes in strategic return assumptions:



Largest increases in emerging markets equity, direct global real estate and private fixed income



Largest decreases in commodities and Canadian equity

Source: SLGI Asset Management Inc. Data as of September 30, 2025. Data in CAD. Asset return expectations are gross of fees, forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. They are not necessarily indicative of future performance, which could differ substantially. Correlation is a statistical method of measuring the strength of a linear relationship between two variables. The correlation between two variables can assume any value from -1.00 to +1.00, inclusive. Past performance does not guarantee future results. For representative indices used, please see page 10, Disclosures. *The last CMAs were in 2025.

Methodology

Sun Life Global Investments' MAS team derives its long-term CMAs once a year during the annual strategic allocation modelling review. The MAS team collaborates with Sun Life International Investment Centre (IIC) in these efforts. The IIC is an independent investment research engine for the Sun Life group of companies, including Sun Life Global Investments. With a vast network of over 100 global asset manager relationships, the IIC provides valuable research to support external manager selection and oversight as well as strategic asset allocation modelling.

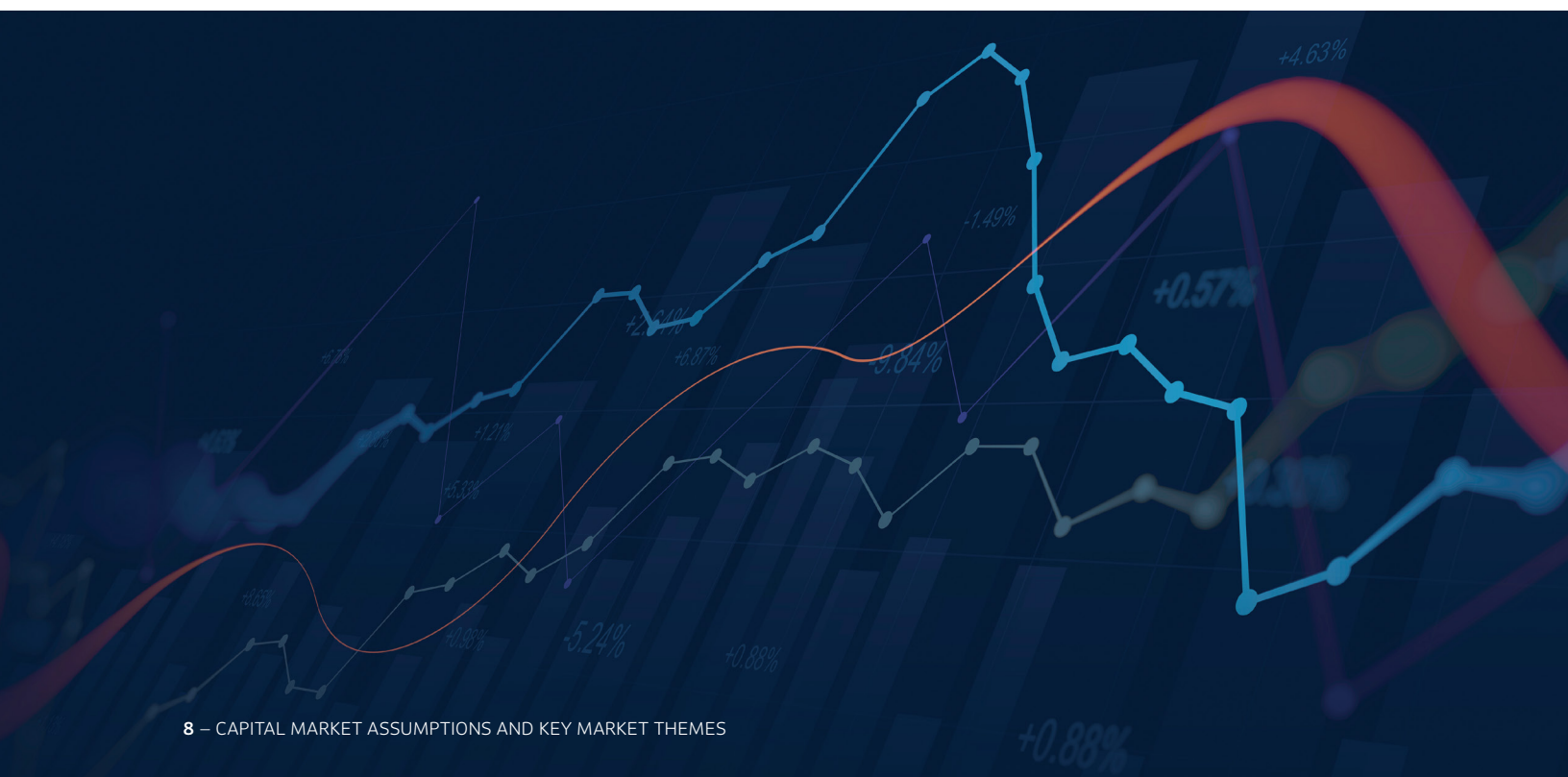
These annualized expected returns are for a broad set of core and specialty asset classes that make up our diversified investment universe. Our long-term strategic forecasts span the next 10 years.

When deriving our CMAs, we first start with historical return, risk and correlation data for the asset classes that make up our diversified investment universe. From these baseline parameters, an initial set of long-term, forward looking return assumptions are estimated for a global portfolio using the Black-Litterman model. Second, we survey multiple leading global asset managers for their long-term return expectations. This method of polling multiple sources offers several benefits: it represents a consensus or "market" view and allows us to identify and account for the degree of consensus or dispersion around that market view. The surveyed managers use different methodologies and models to arrive at their long-term CMAs. Key inputs include historical data and forward-looking expectations, and these may be overlaid by professional judgement.

The average of these historical returns and global asset managers surveyed forecasts are then subjected to our degree of confidence for each asset class. For specific asset classes, we utilize proprietary higher conviction forecasts.

Once our views and confidence levels are imposed, Black-Litterman modelling is run to determine our long-term CMAs – which balances markets' views with our own. Empirically, we have found that the Black-Litterman model tends to generate markets assumptions that are conducive to practical portfolio construction.

Long term CMAs do not change dramatically year over year, but they do shift from time to time. We examine the changes in CMAs and adjust our optimization accordingly.



Multi-Asset Solutions Team

The MAS Team is devoted to fund manager selection, oversight, and building solutions that deliver the best possible retirement outcomes for Canadian investors. Through optimizing allocations to asset classes, glidepath design, broad diversification, and their proven multi-manager approach, they are the investment engine for Sun Life Granite Target Date Funds, Sun Life Granite Target Risk Funds and other Sun Life Global Investments solutions.

A dedicated group of analysts and investment professionals support the MAS Team and provide ongoing research on new managers, investment strategies and market exposures.



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Disclosures

Indices representing each asset class:

Canadian equity	S&P/TSX Composite
U.S. equity	S&P 500 CAD
International equity	MSCI EAFE CAD
Emerging markets equity	MSCI EM CAD
Global developed REITs	FTSE EPRA NAREIT Developed CAD
Global listed infrastructure	S&P Global Infrastructure CAD
Canadian bonds	FTSE Canada Universe Bond
Canadian commercial mortgages	SLF Mortgages*
Private debt	SLF PFI*
U.S. bonds	Bloomberg US Aggregate Bond Hedged to CAD
U.S. high-yield bonds	Bloomberg US High Yield Ba/B 2% Issuer Capped Hedged to CAD
Emerging markets bonds	JPM EMBI Global Diversified Hedged CAD
U.S. bank loans	Morningstar LSTA US Leveraged Loan Hedged to CAD
Commodities	S&P GSCI CAD
Global direct real estate	MSCI Global Quarterly Property Index (Unfrozen) CAD
Global direct infrastructure	EDHEC Infra 300 index CAD
Liquid alternative (systematic trend-following)	SG Trend Index CAD
Cash	FTSE Canada 91 Day T-bill
Inflation	CAN Total CPI CAD

*SLF proprietary benchmark



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