

**KAsset**



# **CAPITAL MARKET ASSUMPTIONS 2026**



POWERED BY **J.P.Morgan**  
ASSET MANAGEMENT



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# Foreword







## Foreword

The **2026 KAsset Capital Market Assumptions (KCMA)** represents the second edition of our forward-looking framework developed collaboratively by Kasikorn Asset Management (KAsset) and J.P. Morgan Asset Management (JPMAM). Building on the successful foundation established in the inaugural edition, this publication refines our long-term projections across macroeconomic variables, asset class returns, volatility and correlations over a 10–15 year horizon, with a continued focus on Thailand's unique structural characteristics.

This year's KCMA reflects a more measured assessment of Thailand's long-term growth potential. We revise our assumptions to account for slower capital formation, an accelerating decline in the labor force and more modest productivity gains. At the same time, heightened global geopolitical and policy uncertainty - ranging from trade fragmentation and shifting industrial policies to fiscal and regulatory unpredictability - has increased the range of potential macroeconomic outcomes and altered the behavior of financial markets. These developments underscore the importance of reassessing traditional diversification frameworks and adopting more resilient portfolio structures.

In response, the 2026 KCMA places greater emphasis on income generation, capital discipline and diversification beyond traditional stock-bond allocations. Our analysis highlights the increasing role of dividends in Thai equity returns, the stabilizing function of high-quality fixed income and the growing importance of alternative assets in mitigating portfolio volatility. We introduce the "60/40-Plus" framework as a practical evolution of conventional asset allocation, designed to enhance resilience in an environment where historical correlations can no longer be taken for granted.

On behalf of Kasikorn Asset Management, we are pleased to present the 2026 KAsset Capital Market Assumptions. In an era defined by structural constraints and heightened uncertainty, we believe disciplined assumptions, diversified portfolios, and a long-term perspective remain the cornerstones of sustainable investment success. We look forward to continuing our partnership with investors as they navigate an increasingly complex global and domestic investment landscape.

A handwritten signature in dark ink, appearing to read "Win Phromphaet". The signature is fluid and cursive, with a large initial "W" and a stylized "P".

Win Phromphaet, CFA  
Executive Chairman  
Kasikorn Asset Management





II

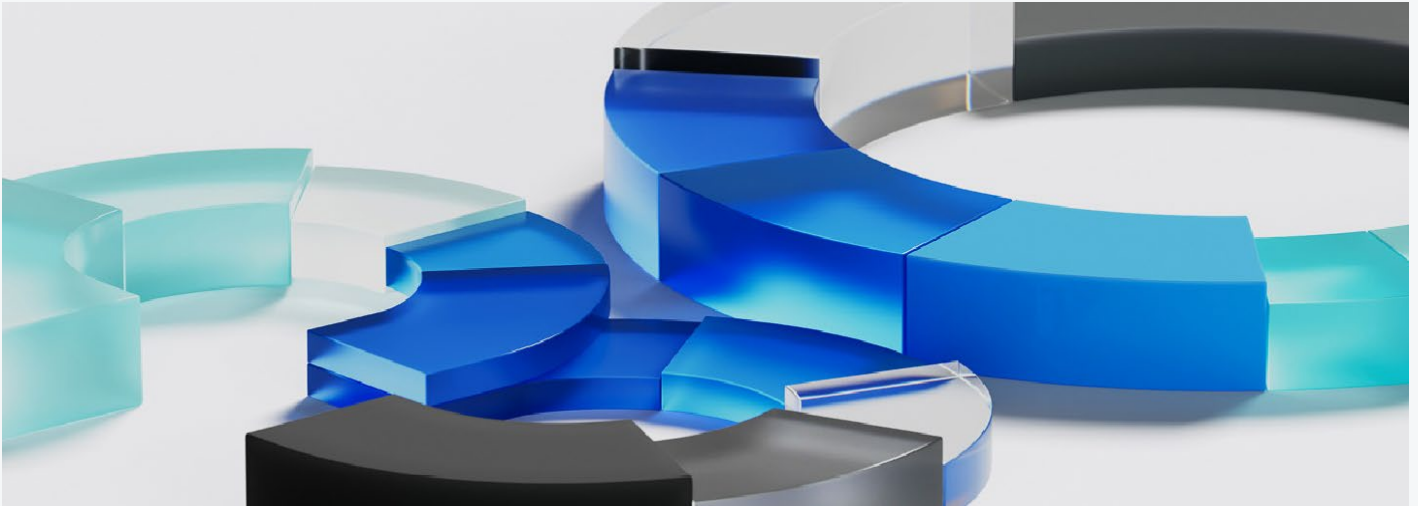
# 2026 Long-Term Capital Market Assumptions

by  
J.P. Morgan  
Asset Management



# 2026 Long-Term Capital Market Assumptions

## Executive summary | Shifting landscapes and silver linings



### In brief

- In the 30th edition of our Long-Term Capital Market Assumptions (LTCMAs), we explore how shifting economic landscapes, marked by rising economic nationalism and fiscal activism, create both challenges and silver linings for investors.
- Labor constraints weigh on U.S. trend growth, modestly narrowing the U.S. vs. rest of world growth advantage, but do not preclude cyclical economic strength or solid asset returns. We expect investment to be front-loaded and believe technology adoption will provide a near-term boost to profits and a longer-term boost to productivity.
- Even after a year of strong equity market gains, asset returns hold up. Profitability offsets valuations for global stocks and higher term risk premia push up bond return forecasts. Our forecasted return for a simple USD global 60/40 stock-bond portfolio holds steady at 6.4%.
- We have high conviction in the profitability of U.S. corporates but acknowledge the impact of high valuations and a weakening dollar. Currency provides a tailwind to international stocks for USD-based investors and renews the focus on FX hedging for non-USD-based investors. Global stocks roughly double over our forecast horizon, given strong investment and resilient profits.
- Higher inflation volatility is a feature of our economic outlook and pushes up our forecasted returns for high-quality bonds. Given higher starting yields and steeper curves, we project the best outlook for intermediate treasuries since the global financial crisis. Credit holds up, with better riskless returns offsetting tight spreads.
- As the investment cycle picks up, so too does the scope to harvest alpha. Private financial assets and hedge funds are well placed to benefit, while real assets offer compelling returns, given rising inflation volatility. For example, a 30% diversified alternatives allocation in a “60/40-Plus” portfolio pushes returns to 6.9% and improves the Sharpe ratio by a quarter.
- The economic landscape is shifting palpably. But, in our view, much of what worries investors today will ultimately pale beside the silver linings we see breaking through over the long run.

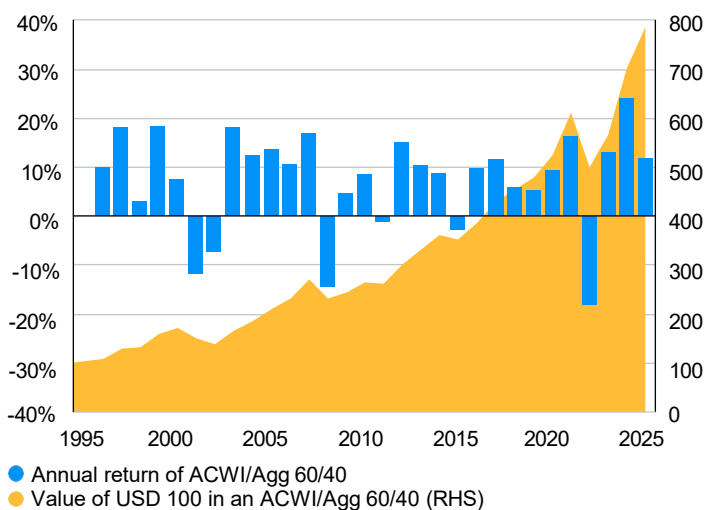


## Executive summary

This year marks the 30th edition of our Long-Term Capital Market Assumptions (LTCMAs). The last 30 years brought the internet, the dot-com bubble, the birth of the euro, the ascent of China, the global financial crisis (GFC), quantitative easing (QE), the pandemic and the dawn of artificial intelligence (AI). Over this journey, global bonds annualized total returns of 4.3% each year, and global stocks 8.3%; USD 100 invested in a USD 60/40 stock- bond portfolio in September 1995 is worth USD 785 today<sup>1</sup> (**Exhibit 1**).

### A steady exposure to stocks and bonds has stood the test of time over the last three decades

**Exhibit 1: Growth of 60/40 over 30 years, and average returns through the period**



Source: Bloomberg, J.P. Morgan Asset Management; data as of September 30, 2025.

Such strong market performance, despite periodic shocks, commands attention as we consider how the global economy may evolve in the next decade. Economies and markets have a way of adapting to change and adversity over the long run – potentially creating new secular trends. For this reason, we title this year's edition "Shifting landscapes and silver linings."

We believe the healthier foundations to the global economy described in last year's edition,<sup>2</sup> such as robust corporate balance sheets and greater willingness to invest, remain in play. Still, recent political events are shifting the landscape, with a trend toward economic nationalism and increasing barriers imposed on trade and migration. All else equal, these trends potentially constrain global growth, but they are also quickly galvanizing offsetting positive forces – creating silver linings. Two of these forces were already a feature of our projections last year, but this adversity is accelerating the themes we highlighted.

First, trade uncertainty and slowing globalization mean surplus countries have no choice but to invest locally to boost their economies. Fiscal activism – a theme central to our projections last year – has been turbocharged.

Second, a less abundant labor supply as populations age and migration slows will force companies to turn to technological solutions to maintain both production levels and profit margins.<sup>3</sup> This will in turn accelerate the adoption of AI and other technologies.

Accounting for these silver linings over our 10- to 15- year forecast horizon, global growth holds up even as we project a modest erosion of the U.S. vs. rest of world (RoW) growth advantage. Greater reliance on fiscal policy inevitably stokes deficit fears, but this will likely manifest mainly in steeper yield curves and higher term risk premia – in turn boosting bond returns.

Strong year-to-date equity returns mean higher starting valuations for stocks.<sup>4</sup> Nevertheless, with capex and fiscal spending rising, and margins resilient, our return forecasts for global equities are little changed from last year. When combined with our bond forecast, the return outlook for a simple USD 60/40 global stock-bond portfolio holds steady at 6.4%.<sup>5</sup> For a 60/40+ portfolio, which includes a 30% allocation to diversified alternatives, we project a return of 6.9% and an improvement in the Sharpe ratio of 25% compared with a simple 60/40. And while investors' allocation to alternatives will inevitably vary widely, the inclusion of even a small allocation can make portfolios more resilient.<sup>6</sup>

<sup>1</sup> ACWI and U.S. Aggregate bonds total return index from September 1995 to September 2025, annually rebalanced.

<sup>2</sup> The 2025 Long-Term Capital Market Assumptions explored how higher starting valuations and yields reflected an increasing optimism that the low investment, low inflation and low growth era of the 2010s is behind us.

<sup>3</sup> Given profit-maximizing incentive for firms, as the labor supply tightens and the marginal cost of wages goes up, the return on investment in technology increases, all else equal.

<sup>4</sup> MSCI ACWI forward P/E rose from 18.0x on September 30, 2024 to 19.3x on September 30, 2025.

<sup>5</sup> Annualized average expected return over our 10- to 15-year time horizon.

<sup>6</sup> See Grace Koo, Jared Gross, Gabriela Santos, et al., "Changing portfolio construction in shifting landscapes," *2026 Long-Term Capital Market Assumptions*, J.P. Morgan Asset Management.

## Shifting landscapes and silver linings

**Economic nationalism trims growth in some regions, boosts fiscal response in others**

Some assume that the shift toward more nationalistic economic policies, most evident in the U.S., might weigh heavily on global trend growth. Trade frictions tend to reduce productivity over time, as international competition spurs both knowledge transfer and innovation.

But tighter immigration control may well exert a greater drag on growth, and it is a feature that we expect to endure in many regions beyond any single administration. Many economies are suffering from decades of declining fertility rates, which are limiting population growth. Higher rates of inward migration might have both supported growth and eased the fiscal pressures that societies with aging populations bear. However, this economic solution faces political challenges, with migration increasingly proving pivotal in shaping electoral outcomes.

But two positive developments come into play. In the face of trade hostility, regions that relied on others to buy their exports are forced to generate greater domestic demand. Goods-exporting nations such as Germany and Japan have little option but to deploy policies to stimulate domestic consumption and investment, potentially redistributing demand geographically; China, too, may yet need to follow similar policies to boost domestic demand.

In addition, the market inefficiencies arising from trade friction are forcing firms to invest in new technologies in response to scarcer labor and natural resources. Accounting for offsetting forces, our global growth forecast is unchanged at 2.5%. However, in a redistribution of growth, the U.S. forecast falls by 20bps, to 1.8% (**Exhibit 2**), while expected growth rises in other regions.

We acknowledge that a rebalancing of global demand could prove disruptive. Economic nationalism that accelerates investment in productivity-enhancing technology could create or exacerbate political strains. The sections of society most supportive of protectionism and least supportive of migration are often those that also feel left behind by technological advances.

This tension between technological advancement and political regression is a source of economic volatility that may push up the cost of capital and increase the risk of capital misallocation over our forecast horizon.

In today's deeply interconnected global economy, policies that lurch quickly toward economic nationalism may precipitate episodes of acute volatility. In such cases, inflation may act as a brake, forcing governments to soften policies that push too far or too fast toward isolationism.

**Our 2026 assumptions see mostly steady growth and modestly higher inflation****Exhibit 2: 2026 long-term capital market macroeconomic assumptions (% annual average)**

|                   | Real GDP |      |         | Inflation |      |        |
|-------------------|----------|------|---------|-----------|------|--------|
|                   | 2026     | 2025 | Change* | 2026      | 2025 | Change |
| Developed markets | 1.7      | 1.7  | 0.0     | 2.3       | 2.2  | 0.1    |
| United States     | 1.8      | 2.0  | -0.2    | 2.5       | 2.4  | 0.1    |
| Euro area         | 1.5      | 1.4  | 0.1     | 2.0       | 2.0  | 0.0    |
| Japan             | 0.9      | 0.9  | 0.0     | 1.7       | 1.5  | 0.2    |
| United Kingdom    | 1.5      | 1.5  | 0.0     | 2.2       | 2.2  | 0.0    |
| Australia         | 2.2      | 2.3  | -0.1    | 2.7       | 2.6  | 0.1    |
| Canada            | 1.7      | 1.8  | -0.1    | 2.2       | 2.2  | 0.0    |
| Sweden            | 2.1      | 2.1  | 0.0     | 2.2       | 2.2  | 0.0    |
| Switzerland       | 1.6      | 1.5  | 0.1     | 1.2       | 1.3  | -0.1   |
| Emerging markets  | 3.7      | 3.6  | 0.1     | 3.0       | 3.2  | -0.2   |
| China             | 3.6      | 3.6  | 0.0     | 1.6       | 2.1  | -0.5   |
| India             | 5.9      | 5.9  | 0.0     | 4.5       | 4.5  | 0.0    |
| Brazil            | 2.1      | 2.1  | 0.0     | 4.7       | 4.4  | 0.3    |
| Korea             | 2.1      | 2.1  | 0.0     | 1.9       | 2.0  | -0.1   |
| Taiwan            | 1.8      | 1.8  | 0.0     | 1.5       | 1.5  | 0.0    |
| Mexico            | 2.1      | 2.2  | -0.1    | 3.9       | 3.7  | 0.2    |
| South Africa      | 2.1      | 2.1  | 0.0     | 4.9       | 5.4  | -0.5   |
| Turkey            | 3.1      | 3.1  | 0.0     | 13.3      | 13.6 | -0.3   |

Source: J.P. Morgan Asset Management; estimates as of September 30, 2025. Composite GDP and inflation numbers for developed markets, emerging markets and global aggregates are calculated by assigning weights to individual economies proportional to projected nominal GDP over the forecast horizon. This year, we remove Russia from our LTCMA, and thus show EM and Global composite GDP and inflation numbers excluding Russia for both 2025 and 2026. \*Change represents the change calculated from rounded 2026 and 2025 estimates. Due to these rounding conventions, there may be some minor discrepancies for users accessing the unrounded data.

## Executive summary

## Fiscal activism and corporate investment

Fiscal activism<sup>7</sup> – a theme central to our forecasts since the pandemic – moves further into the forefront of the current economic landscape. The pandemic, together with a general weariness of austerity, particularly in Europe, started in the early 2020s to reverse a decade of fiscal retrenchment. 2025 brought a notable upward inflection in fiscal activism. We expect it will drive economic momentum over the next few years and leave a lasting impression on risk premia and asset returns over the next decade.

As governments increase their spending commitments, we expect corporations to follow suit. History suggests that government spending is more likely to attract private investment than crowd it out. Given the estimated USD 4.6 trillion of cash<sup>8</sup> on the balance sheets of large firms globally, an acceleration in fiscal spending and capex supports both our growth forecasts and projections for company profits.

In the U.S., fiscal spending remains elevated, and well-publicized efforts to slash government spending have delivered little so far.<sup>9</sup> New tax cuts are largely an extension of existing policy and look to be mainly funded by anticipated import duties, acting therefore as a capital transfer rather than a true boost to growth. Thus, we do not expect fiscal policy to fully offset the downgrades to U.S. growth that come from lower labor force growth due to demographic changes and immigration policies.

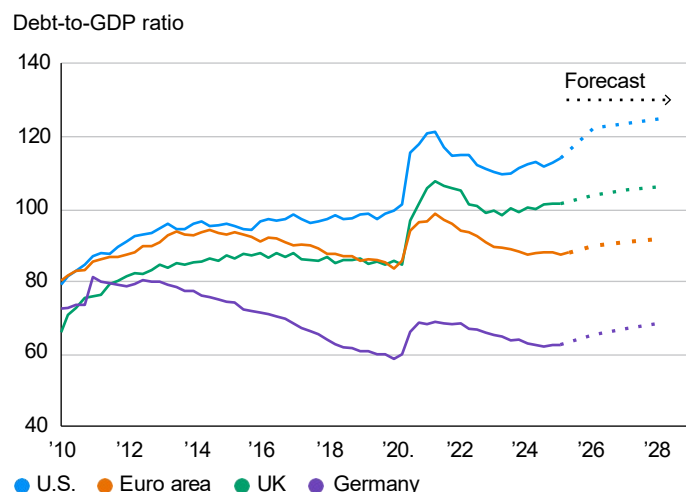
In the euro area, the speed and scale of fiscal activism have been remarkable. Last year, European fiscal activism prompted us to upgrade our European growth forecasts. But this year, European Union (EU) policymakers threw off their self-imposed fiscal shackles – particularly Germany's "debt brake" policy<sup>10</sup> – as governments urgently sought to generate domestic demand and fund regional defense.

A meaningful fiscal package in Germany, higher EU defense investment and a significant unspent war chest from the NextGen fund will push EU fiscal commitments sharply higher in the next few years. As a result, we once again upgrade our growth outlook for the euro area, raising our forecast to 1.5%. In a region beset by unfavorable demographics, and increasingly hesitant over immigration, this uplift in trend growth is significant. It halves the U.S.-Europe growth differential, from 60bps to 30bps (**Exhibit 2**).

In other regions, too, we expect that fiscal activism will feature strongly, whether through direct government investment or further incentives for corporate capex. While higher investment has the potential to support growth, it is not without its risks – particularly for already indebted regions. While debt-to-GDP projections do not account for any GDP boost that may arise from higher investment (**Exhibit 3**), fiscal activism clearly raises concerns about debt sustainability.

## Fiscal commitments push up debt-to-GDP across the globe, but some regions have more fiscal space than others

**Exhibit 3: Debt-to-GDP trajectories of major economies, given fiscal commitments**



Source: Bank for International Settlements, Eurostat, IMF, LSEG Datastream, J.P. Morgan Asset Management; data as of August 31, 2025. Debt refers to gross debt at face value. Dotted lines represent IMF forecasts.

<sup>7</sup> We define fiscal activism as a willingness for governments to use fiscal tools such as taxes and investment spending to stimulate the economy.

<sup>8</sup> Source: FactSet, aggregate cash in MSCI ACWI index; data as of August 2025, based on MSCI ACWI.

<sup>9</sup> Through July, Politico estimated contract savings of around USD 1.4 billion, not including savings from personnel cuts that were made along with other "rescissions," which we estimate at USD 45 billion; the Department of Government Efficiency (DOGE) initially targeted USD 2 trillion.

<sup>10</sup> Germany's Schuldenbremse (debt brake) was a constitutional rule limiting the federal structural budget deficit in normal times to 0.35% of GDP annually and generally prohibiting state-level borrowing. The debt brake was rescinded in 1Q 2025 by the outgoing administration.

## Shifting landscapes and silver linings

Higher debt and deficit levels will manifest themselves mostly through higher term risk premia and currency adjustments. Our cycle-neutral yield forecast for the 10-year U.S. Treasury (UST) moves up 20bps this year, to 4.1%, with the term premium between cash and the 10-year increasing 10bps, to 120bps. As a result, our return forecast for the 10-year UST rises 40bps, to 4.6% (**Exhibit 4A**).

We expect higher term risk premia and stronger bond returns across developed nations. The average Sharpe ratios over our full investment horizon rise meaningfully, especially for long-maturity bonds. Still, we are mindful that realized risk-adjusted returns could vary significantly from one year to the next, given our expectations of elevated inflation volatility. Investors relying on bonds alone to hedge portfolio risks would be prudent to consider inflation hedges as well as growth hedges in their asset mix.

Ongoing inflation volatility and a shrinking U.S.-RoW growth advantage also weigh on the dollar. For some time, we have viewed USD as overvalued. While the greenback has fallen significantly in 2025, we believe it remains about 10% overvalued in trade-weighted terms (**Exhibit 4B**). To be clear, we do not think that a softer dollar signals a reversal of U.S. exceptionalism. Instead, we anticipate a gradual decline in USD as global capital moves steadily to take advantage of more geographically dispersed opportunities.

### The dollar is set to weaken further, with JPY and CNY having the greatest scope to appreciate

**Exhibit 4B: Key 2026 LTCMA currency assumptions**

|      | Current spot | 2026   | 2025   | Change | Change % |
|------|--------------|--------|--------|--------|----------|
| AUD* | 0.6588       | 0.70   | 0.71   | -0.01  | -0.7%    |
| BRL  | 5.3342       | 6.50   | 6.66   | -0.16  | -2.4%    |
| CAD  | 1.3934       | 1.24   | 1.18   | 0.06   | 5.1%     |
| CHF* | 1.2502       | 1.36   | 1.31   | 0.05   | 3.8%     |
| CNY  | 7.1224       | 5.46   | 6.05   | -0.59  | -9.8%    |
| EUR* | 1.1644       | 1.26   | 1.29   | -0.03  | -2.3%    |
| GBP* | 1.3429       | 1.45   | 1.48   | -0.03  | -2.0%    |
| JPY  | 152.38       | 118.34 | 113.52 | 4.82   | 4.3%     |
| MXN  | 18.36        | 24.20  | 28.00  | -3.80  | -13.6%   |
| SEK  | 9.4150       | 8.19   | 8.41   | -0.22  | -2.6%    |

Source: J.P. Morgan Asset Management; estimates as of September 30, 2024 and August 2025. \* USD as base currency except where indicated (\*).

The combination of trade friction and fiscal dominance has inflationary undertones. This will likely drive persistent demand for inflation-resistant assets, such as gold, real estate, infrastructure and transportation. Although gold prices surged over 45% in 2025, persistent inflation volatility and increasing demand from both investors and central banks point to further upside. We forecast annual returns of 5.5% for gold, up 100bps from last year.

### Fixed income returns pick up, given higher starting yields and an increase in term risk premia that reflects higher inflation volatility

**Exhibit 4A: Fixed income returns table**

|                         | USD                                    |                      | GBP                                    |                      | EUR                                    |                      | JPY                                    |                      |
|-------------------------|--|----------------------|--|----------------------|--|----------------------|--|----------------------|
|                         | Cycle-neutral Yield (%) / spread (bps) | 2026 expected return | Cycle-neutral Yield (%) / spread (bps) | 2026 expected return | Cycle-neutral Yield (%) / spread (bps) | 2026 expected return | Cycle-neutral Yield (%) / spread (bps) | 2026 expected return |
| 2026 assumptions        |  |                      |  |                      |  |                      |  |                      |
| Inflation               | 2.50%                                  |                      | 2.20%                                  |                      | 2.00%                                  |                      | 1.70%                                  |                      |
| Cash                    | 2.90%                                  | 3.10%                | 2.50%                                  | 2.70%                | 2.30%                                  | 2.30%                | 1.60%                                  | 1.40%                |
| 10-year bond            | 4.10%                                  | 4.60%                | 3.50%                                  | 4.80%                | 3.40%                                  | 4.00%                | 2.30%                                  | 2.10%                |
| Long Bond Index*        | 4.50%                                  | 5.20%                | 3.60%                                  | 6.30%                | 3.70%                                  | 4.80%                | 2.60%                                  | 3.80%                |
| Investment grade credit | 5.5%/150bps                            | 5.20%                | 5.1%/175bps                            | 5.30%                | 4.5%/145bps                            | 4.00%                | 2.8%/75bps                             | 2.40%                |
| High yield              | 8.3%/475bps                            | 6.10%                |  |                      | 6.9%/395bps                            | 5.30%                |  |                      |
| Emerging market debt**  | 7.8%/380bps                            | 6.30%                |  |                      |  |                      |  |                      |

Source: J.P. Morgan Asset Management; estimates as of September 30, 2025. \* EUR: 15y+ index; JPY: JGB Bond Index; GBP: 15y+ index; USD: 20y+ index.

\*\* EMD hard currency debt.



## Executive summary

Real estate returns rise 10bps for core U.S. and 30bps for core Asia but dip 70bps in core Europe. Higher riskless rates constrain exit valuations, but in general the asset class benefits from attractive starting yields and better financing costs. Long-term lease agreements hedge against interest rate volatility, while the positive gearing of real estate to inflation provides a compelling means of

building greater robustness into multi-asset portfolios (**Exhibit 5**). We also note that even with Sharpe ratios for high-quality fixed income improving this year, assets such as real estate, infrastructure and transportation continue to offer investors very compelling risk-adjusted returns that sit well above those for public market assets.

## Our 2026 return expectations for real assets and financial alternatives reflect both shifting landscapes and silver linings

**Exhibit 5: LTCMA expected returns (leveraged,\* net of fees, %), 2026 vs. 2025**

| Real assets                      | 2026 | 2025 | Financial alternatives            | 2026 | 2025 |
|----------------------------------|------|------|-----------------------------------|------|------|
| Private real estate equity (USD) |      |      | Private equity (USD) <sup>†</sup> |      |      |
| U.S. core                        | 8.2  | 8.1  | Cap-weighted composite            | 10.2 | 9.9  |
| U.S. value-added                 | 10.1 | 10.1 | Private equity - small cap        | 10.1 | 10.1 |
| European core                    | 6.9  | 7.6  | Private equity - mid cap          | 9.9  | 9.8  |
| European value-added             | 9.0  | 9.7  | Private equity - large/mega cap   | 10.2 | 9.8  |
| Asia-Pacific core                | 8.4  | 8.1  | Private debt (USD)                |      |      |
| REITs (USD)                      |      |      | Direct lending                    | 7.7  | 8.2  |
| U.S. REITs                       | 8.8  | 8.0  | Venture capital (USD)             |      |      |
| European REITs                   | 6.7  | 8.7  | Venture capital                   | 8.5  | 8.8  |
| Asia Pacific REITs               | 8.1  | 7.8  | Hedge funds (USD)                 |      |      |
| Global REITs**                   | 8.7  | 8.0  | Equity long bias                  | 5.5  | 5.0  |
| Commercial mortgage loans (USD)  |      |      | Event-driven                      | 5.2  | 4.9  |
| U.S.                             | 6.2  | 6.4  | Relative value                    | 5.7  | 5.0  |
| Global infrastructure (USD)      |      |      | Macro                             | 4.1  | 3.8  |
| Core                             | 6.5  | 6.3  | Diversified <sup>††</sup>         | 5.3  | 4.9  |
| Global transport (USD)           |      |      | Conservative <sup>‡</sup>         | 4.0  | 3.4  |
| Core                             | 7.9  | 7.8  |                                   |      |      |
| Global timberland (USD)          |      |      |                                   |      |      |
| Global timberland                | 6.3  | 5.3  |                                   |      |      |
| Commodities (USD) <sup>°</sup>   |      |      |                                   |      |      |
| Commodities                      | 4.6  | 4.3  |                                   |      |      |
| Gold                             | 5.5  | 4.5  |                                   |      |      |

Source: J.P. Morgan Asset Management; estimates as of September 30, 2024 and September 30, 2025.

\* All return assumptions incorporate leverage, except for commodities, where it does not apply.

\*\* The global composite is built assuming the following weights: roughly 70% U.S., 10% Europe and 20% Asia Pacific.

° The 2026 commodity projections do not account for execution/management fees consistent with a passive benchmark.

† The private equity composite is AUM-weighted: 65% large cap and mega cap, 25% mid cap and 10% small cap. Capitalization size categories refer to the size of the asset pool, which has a direct correlation to the size of companies acquired, except in the case of mega cap.

†† The Diversified assumption represents the projected return for multi-strategy hedge funds.

‡ The Conservative assumption represents the projected return for multi-strategy hedge funds that seek to achieve consistent returns and low overall portfolio volatility by primarily investing in lower volatility strategies such as equity market neutral and fixed income arbitrage. The 2026 Conservative assumption uses a 0.70 beta to Diversified.

## Shifting landscapes and silver linings

On balance, we see the increase in fiscal activism as a positive force. Nevertheless, aside from the potential inflationary impact, we are mindful of two further risks: capital misallocation and constrained national budgets.

Pressure on public finances – alongside the incentive to develop national champions in fields like technology – will likely nudge governments to enact policies that encourage the private sector to do the investing for them, either through the tax code or through co-investment. Involving the corporate sector not only addresses questions of whether governments can be trusted to direct investment wisely, but it also brings in another source of capital.

Governments are particularly focused on how they can support companies that are leading technological advancement. Despite lack of consensus in Washington, there is momentum toward some form of industrial policy – for example, subsidies for key industries such as semiconductors recently enhanced in tax legislation. In both the U.S. and China, policymakers have zeroed in on “winning the AI race.” In Europe, governments continue to concentrate on the potential for energy-saving technologies.

Although the pace at which corporate capex is accelerating has not yet matched the jump in fiscal commitments, we see signs that it is picking up. Research and development capitalization and domestic manufacturing incentives<sup>11</sup> in the U.S., and over €600 billion in investment commitments from the German corporate sector,<sup>12</sup> are, in our view, just the start of a powerful corporate capex wave.

### The race for technology supremacy moves from adoption to deployment

Government incentives for capex are neither a new economic tactic nor the only reason for firms to boost investment today. There are many examples of capex incentives, from Canada’s Accelerated Capital Cost Allowance for Clean Tech<sup>13</sup> in 2018, to India’s Production Linked Incentive Scheme<sup>14</sup> in 2020, to the UK’s Super-Deduction for Plant and Machinery<sup>15</sup> in 2021. Programs like these boosted capex and supported the investment component of GDP.

Aside from schemes that governments dream up to incentivize capex, technology adoption remains by far the strongest force driving corporate investment today. The fear of losing out to competitors focuses CEOs’ minds like little else. Former IBM CEO Ginni Rometty captured the sentiment: “Artificial intelligence will not replace humans, but those who use AI will replace those who don’t.” Put differently: If your firm is not at the cutting edge of deploying AI, somebody else’s is.

In our view, we are still early in the AI adoption cycle. Companies are making investments, and the U.S. tech giants are today’s chief beneficiaries. The U.S. looks likely to remain the global leader in technology origination. While China has a burgeoning tech sector, we believe that geopolitical rivalries and security concerns will reinforce the competitive moat for U.S. tech firms throughout our 10- to 15-year forecast horizon.

But as we move from tech adoption (where innovations gain traction) to widespread tech deployment (where innovations are widely used in business) the pattern will evolve. Earnings from firms that provide the technologies will ultimately normalize, while cost savings and new revenue streams in other sectors that leverage the technology will begin to accrue. If history is a guide – based on the experience of the adoption of the mainframe in the 1970s – the process will play out over the next decade. But the timeline could compress if the pace of AI innovation continues to accelerate.<sup>16</sup>

In equity markets, we expect the AI theme to manifest in profit margin resilience.<sup>17</sup> In the early part of our forecast horizon, we think tech leaders will maintain their current supersized margins. But these will likely normalize later in our forecast horizon as deployment of AI enables new winners in other sectors to emerge. So, despite a rally in stocks this year and a lower U.S. growth forecast, our optimism over investment spending and technology adoption leaves our U.S. equity forecast unchanged at 6.7%. And as the move from tech adoption to tech deployment broadens to other sectors, concerns over index concentration are expected to dissipate.

<sup>11</sup> Within the recent One Big Beautiful Bill Act in the U.S., we estimate that tax incentives for R&D and domestic manufacturing amount to approximately USD 700 billion.

<sup>12</sup> In July 2025, 61 German firms committed to invest €631 billion in an initiative called “Made for Germany.”

<sup>13</sup> Canada introduced temporary enhanced write-offs for clean energy equipment in 2018, allowing assets to be fully expensed in the first year.

<sup>14</sup> India launched the USD 26 billion production-linked incentive scheme in 2020 initially to boost mobile phone and API production, before it was expanded to key strategic sectors, including pharmaceuticals, autos and renewables.

<sup>15</sup> Running from 2021 to 2023 allowed firms investing in new and unused plants and machinery to claim a 130% first-year allowance in lieu of the usual writing down allowance.

<sup>16</sup> See Michael Albrecht and Stephanie Aliaga, “The transformative power of generative AI,” J.P. Morgan Asset Management, September 2023.

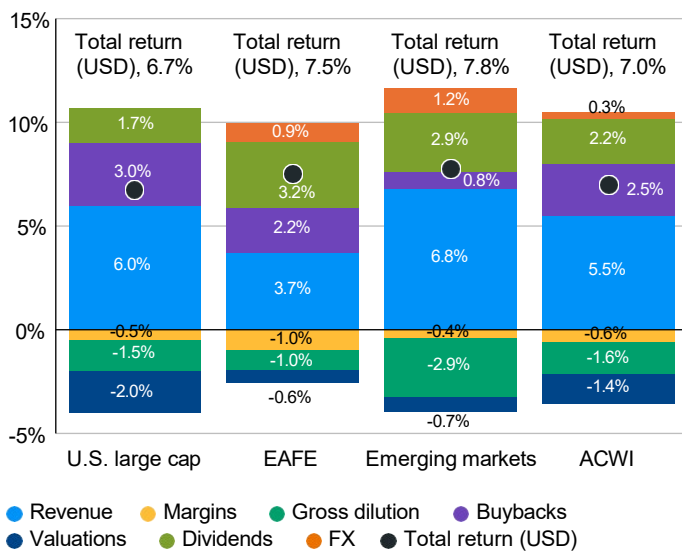
<sup>17</sup> See Tim Lintern, Sean Daly, Michael Feser, et al., “Resilient profits, higher yields,” *2026 Long-Term Capital Market Assumptions*, J.P. Morgan Asset Management.

## Executive summary

Our global equity forecasts dip slightly this year, with our MSCI ACWI forecast declining 10bps to 7.0% in USD terms. The appreciation of USD and multiple expansion this year push developed market forecasts down. Still, the return forecasts continue to be supported by balance sheet resilience and attractive dividends. In local currency terms emerging market (EM) forecasts dip modestly after a strong performance in 2025. But a better outlook for some EM currencies, notably CNY, boosts EM returns in USD by 60bps, to 7.8% (**Exhibit 6**).

**A better revenue and margin outlook balances richer multiples, giving support to our equity forecasts despite the rally in 2025**

**Exhibit 6: Contributions to equity return forecasts for key indices**



Source: Bloomberg, FactSet, J.P. Morgan Asset Management forecasts; data as of September 30, 2025.

For investors, the message is clear: U.S. equities continue to offer the clearest exposure to technology adoption and hence remain the core of equity portfolios. But the return pickup available in other regions – together with the likely transition from technology adoption to technology deployment in the next decade – supports international diversification.

This transition will have implications for private asset markets. Private equity (PE) and private credit have technology sector exposures of 36% and 25%, respectively. As primary market activity increases in the latter part of the current business cycle, we expect the PE industry to start to recycle USD 2.7 trillion of dry powder into new investments.

The investment opportunities available in tech deployment support alpha trends for private capital. However, investors confront an offsetting force – the opening of private markets to new sources of capital through secondaries and other vehicles. As more capital moves into private markets, it likely depresses the median manager's alpha over time, making the alpha capture from top-quartile managers an ever more important component of PE returns.

The seismic changes wrought by tech deployment on business practices will also create winners and losers across publicly traded stocks and credits. Competition for capital, together with disruption across many sectors, makes a fertile ground for active alpha. Hedge funds stand to be significant beneficiaries of these trends, and we raise our median manager return forecasts by between 30bps and 70bps across the various hedge fund strategies this year.

### Portfolio resilience in a shifting landscape

Technology deployment remains our greatest source of optimism over the next 10 to 15 years. Equally, though, it can be a destabilizing force in a more febrile policy environment. Investment in technology supports growth in the near term through the investment channel and in the long term through productivity enhancement. At the same time, increased productivity risks leaving parts of society behind as the rewards accrue more to capital than to labor. Nevertheless, as labor force growth slows across the world or even turns negative, a focus on productivity is essential to maintain growth.

Disenfranchised pockets of society and the echo chambers now available via social media will remain breeding grounds for discontent answered, opportunistically, by populists. This polarization creates economic uncertainty and stokes economic nationalism. We see these forces completing a certain circularity among protectionism, fiscal activism and technological advance. This is driving convergence in GDP growth rates between the U.S. and other developed markets, but equally increases inflation volatility.

We expect the next 10 to 15 years to mark a period of significant change among sectors, across geographies and within companies. Historically, such conditions have tended to favor those able to allocate capital globally and actively, and across a wide opportunity set of assets.

## Shifting landscapes and silver linings

Key risks to an optimistic view include erosion of institutional credibility and misallocation of capital. Institutional credibility is the cornerstone for reserve assets, and although we expect developed market central banks to remain powerful economic forces, we acknowledge that their independence may have passed its high-water mark. With investment rising, there is risk of misallocation – if investment stokes demand instead of building supply, it risks fueling higher inflation rather than better trend growth. To manage these risks, portfolio construction in the next decade will need to account for inflation and rate shocks, as well as economic (growth) shocks.

While we are acutely aware of the economic downside of protectionism and isolationism, we see some silver linings. The sheer scale of investment from governments and companies alike is a powerful offset to an aging workforce and increased trade frictions. Our return

forecasts embed a continuation of a degree of U.S. exceptionalism. Leadership in technology and deep R&D capability across industries support U.S. equities despite high valuations. However, shifting trade policy weighs further on an already declining dollar. For U.S. investors, this may renew impetus for international diversification, while non-USD based investors may need to revisit FX hedging decisions.

Risk-adjusted returns for equities pick up for U.S. and emerging markets but dip for developed markets ex-U.S. Persistently elevated inflation has translated to steeper curves and higher term-risk premia. As a result, ex ante Sharpe ratios for high-quality bonds are up meaningfully. Nevertheless, this rise merely brings bond Sharpe ratios closer to their long-run average as the low yield world of the 2010s fades further into the rearview mirror (**Exhibits 7A and 7B**).

### Risk-adjusted returns for high-quality bonds improve, given higher starting yields and steeper curves, but Sharpe ratios for real assets continue to lead the pack

Exhibit 7A: Sharpe ratios

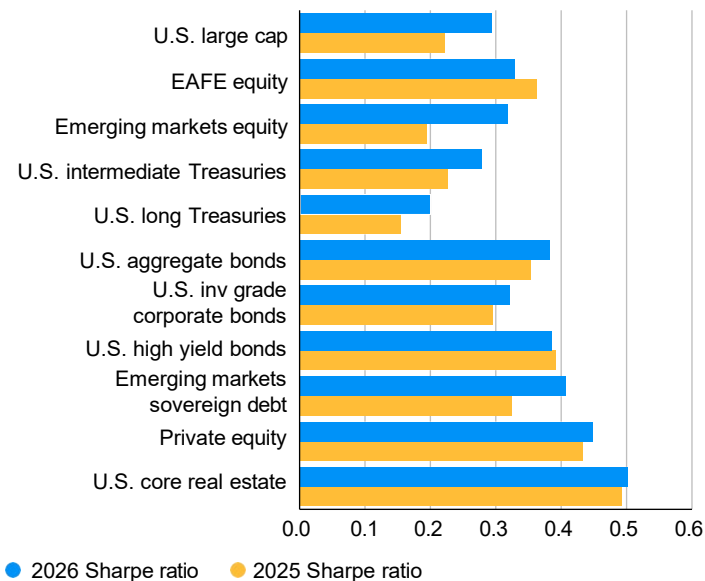
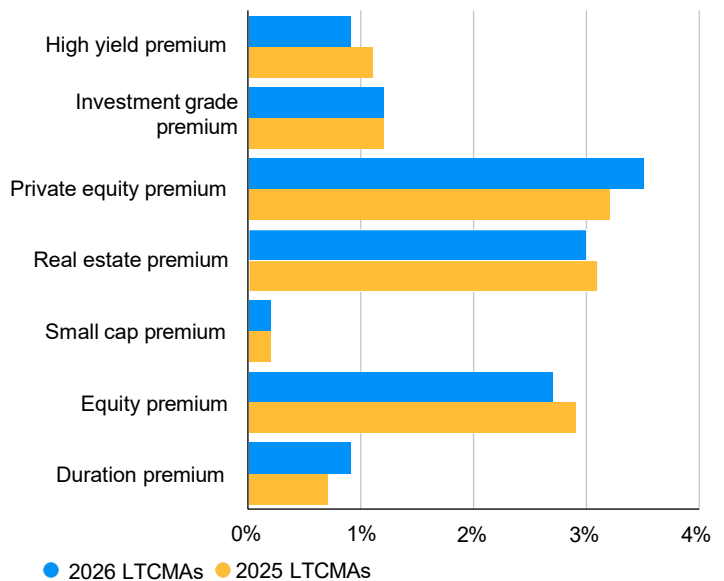


Exhibit 7B: Return uplift (premia)



Source: J.P. Morgan Asset Management; data as of September 30, 2025.



## Executive summary

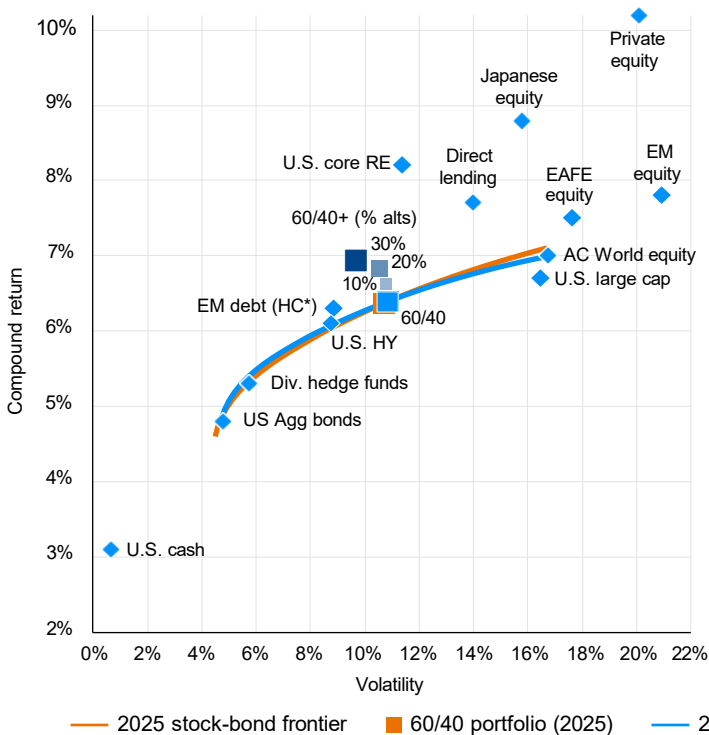
When mapped as an efficient stock-bond frontier, we see the curve flatter than last year, given better bond returns and broadly stable equity returns offsetting one another to leave the 60/40 portfolio forecast unchanged. The flattening of the curve is consistent with a maturing economic cycle and may prompt asset allocators to increase strategic fixed income allocations at the margin. Allocators will be encouraged to see a variety of diversifying asset classes with return forecasts north of the efficient frontier (**Exhibits 8A and 8B**).

Strategic asset allocation continues to evolve. The traditional 60/40 stock-bond portfolio is perhaps better thought of as “60/40-Plus” where some share of the liquid asset holding is reallocated to private market assets. In practice, the precise allocation to private assets varies depending on investor profile, overall assets and liquidity needs, but in general the inclusion of private assets improves portfolio robustness.

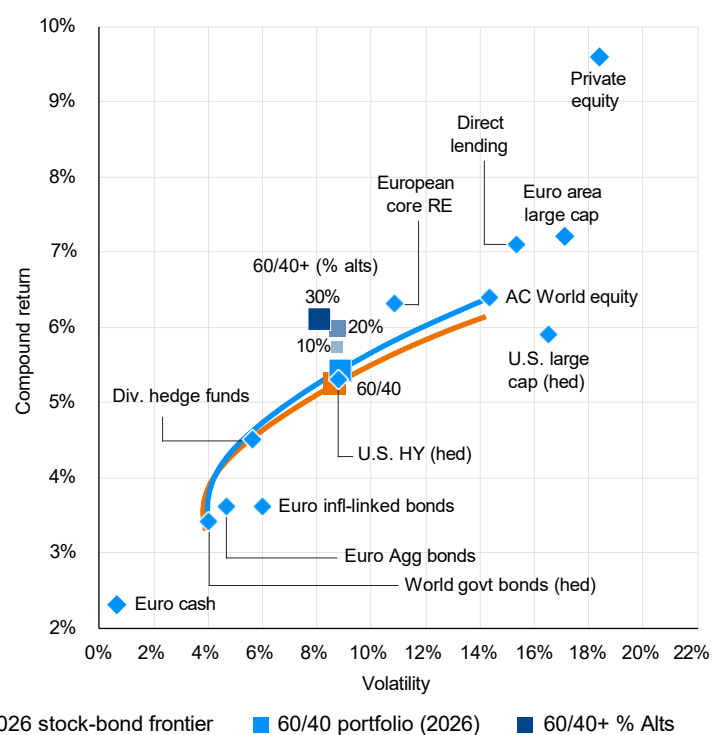
For investors of all risk tolerances, this presents a wide range of options for designing portfolios that are resilient to the shifting landscape and, at the same time, able to capture the silver linings that lie ahead in the coming decade.

**The USD stock-bond frontier flattens modestly, reflecting a gradually maturing cycle, but returns for a 60/40 stock-bond portfolio hold steady. Adding an alternatives allocation in a 60/40-Plus portfolio can meaningfully boost risk-adjusted returns.**

**Exhibit 8A: USD stock-bond frontiers and 60/40 portfolios based on 2026 vs. 2025 LTCMAs for risk and return (%)**



**Exhibit 8B: EUR stock-bond frontiers and 60/40 portfolios based on 2026 vs. 2025 LTCMAs for risk and return (%)**



Source: J.P. Morgan Asset Management; data as of September 30, 2025. \* HC = Hard currency.

Note: 60/40 refers to 60% ACWI/40% U.S. aggregate bonds for USD; 40% world government bonds (hedged) for EUR. In the chart 60/40+ in USD refers to a portfolio with 40% ACWI, 30% US Agg, 7.5% private equity, 7.5% real estate, 7.5% real assets, 4.5% private credit and 3% hedge funds. Allocations to alternatives will vary meaningfully, given investor goals and risk tolerances. Different options are discussed in Grace Koo, Jared Gross, Gabriela Santos, et al., “Changing portfolio construction in shifting landscapes,” 2026 Long-Term Capital Market Assumptions, J.P. Morgan Asset Management.

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# KAsset Capital Market Assumptions (KCMA)

by  
Kasikorn Asset  
Management



## In brief

- We revise Thailand's long-term real GDP growth assumption to 2.1% from 2.4%, reflecting a combination of weaker capital investment, an aging population and slowing productivity momentum.
- Capital spending is losing momentum. Limited fiscal space and rising recurring costs, paired with deficit reduction plans, are constraining public investment and dampening private sector activity.
- Demographic challenges are intensifying. With deaths now exceeding births, the shrinking workforce weighs on long-term growth. Policy measures, such as raising the retirement age, may provide support, but their impact will take time to materialize.
- Inflation remains mild, with our long-term forecast revised to 1.2% from 1.3%. Subdued domestic demand continues to offset global cost pressures, keeping inflation at the lower end of the target range.

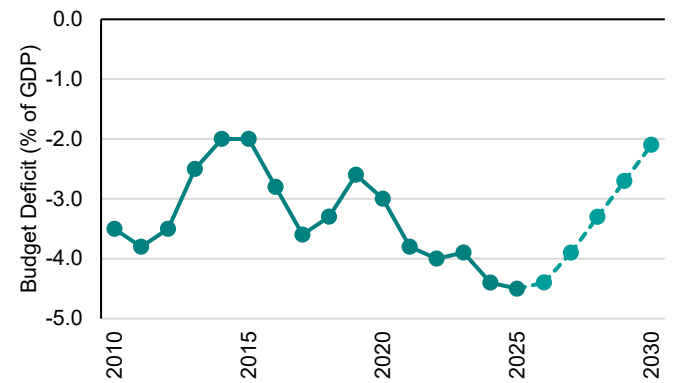
## GDP: Growth constrained by structural headwinds

We have lowered our long-term real GDP growth assumption for Thailand to 2.1% over the next 10 - 15 years, down from 2.4% previously. This revision is driven by slower capital expenditure and a modest decline in total factor productivity (TFP) growth, both of which weigh on the country's long-term growth prospects.

We expect capital service growth to average 2.0% per year, down from our previous estimate of 2.5%. Investment is being limited by reduced fiscal space, tighter controls on quasi-fiscal activity and persistent uncertainty around policy continuity. Furthermore, progress on large-scale development plans has lagged expectations, reflecting reduced visibility on implementation timelines.

Government capacity to sustain long-term investment is also increasingly constrained by higher recurring spending on wages, subsidies and social transfers. These pressures are amplified by rising public debt service costs and an aging population. The 2026 - 2030 medium-term fiscal framework, which targets a deficit reduction to below 3% of GDP by 2029, signals a shift toward fiscal consolidation (**Exhibit 1**). While these measures support long-term fiscal discipline, they inevitably limit flexibility for capital expenditure. Consequently, we expect softer public sector spending to dampen private investment activity and broader economic growth.

## Exhibit 1: Thailand's budget deficit to GDP



Source: Kasikorn Asset Management, Thailand's Ministry of Finance.

## Labor supply: Demographics accelerate workforce decline

Thailand's investment challenges are compounded by adverse demographic trends. Data from 2024 reveals that the country is now experiencing more deaths than births, with the number of newborns falling to a 70-year low.

A key indicator is the total fertility rate (TFR), the average number of children a woman is expected to have over her lifetime. A TFR of 2.1 is generally required to maintain a stable population, but Thailand's current TFR stands at just 1.0, less than half the replacement level. This is significantly lower than rates in the U.S. (1.6), UK (1.4), Germany (1.4) and Japan (1.2). As a result, Thailand's population is projected to decline by approximately 1 million people every two years on average, shrinking the labor force and amplifying long-term growth challenges.

Thai policymakers are responding with increased attention to aging issues. Authorities are revisiting proposals to extend the civil service retirement age from 60 to 65, a measure that could help mitigate labor force decline. Beyond retirement reform, policymakers are exploring broader initiatives, including selective migration, efforts to raise female labor participation and re-employment programs for older workers. However, meaningful results will take time. Without effective implementation, the contracting labor force will continue to constrain growth potential.

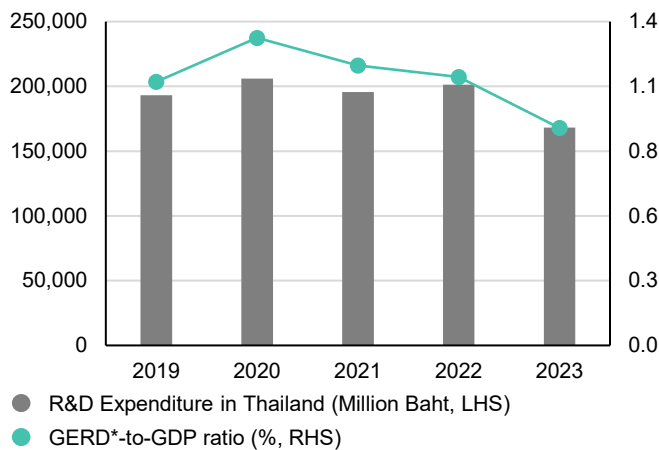


## Total factor productivity: R&D shortfalls and innovation gaps

We have lowered our TFP growth projection by 10bps to 0.9%, reflecting rising risks to Thailand's ability to convert investment into meaningful productivity gains. This revision is supported by disappointing trends in digital competitiveness, the research and innovation ecosystem and readiness for the AI-driven economy. The 2025 World Digital Competitiveness Ranking highlights a drop in Thailand's digital competitiveness, driven by a sharp decline in technology performance, slow adoption of AI and advanced technologies, low R&D investment, gaps in both regulation and skills and a lack of innovation-driven firms.

Crucially, national R&D spending contracted by 16.5% in 2023, falling from 1.3% of GDP in 2020 to just 0.94% (**Exhibit 2**). Although government funding is expected to drive R&D, budget constraints remain a major hurdle. Furthermore, a fragmented innovation ecosystem, bureaucratic complexity, weak collaboration between the public and private sectors continue to stifle technology-driven growth. As a result, Thailand's shift toward technology-intensive investment is proceeding more slowly than expected, supporting our lower productivity assumptions.

**Exhibit 2: Thailand's R&D expenditure**



Source: Kasikorn Asset Management, National Research Council of Thailand.

\* GERD is Gross Domestic Expenditure on Research and Development.

## Inflation: Subdued domestic demand offsets new cost pressures

We have revised our long-term inflation forecast for Thailand to 1.2%, down from 1.3%. This adjustment reflects persistent structural and demographic factors that suppress domestic demand.

While global trends such as rising protectionism and economic nationalism are fragmenting trade patterns and adding to supply chain volatility, domestic inflation remains anchored. For Thailand, these global shifts could translate into higher costs and increased sensitivity to external price shocks, particularly in energy and intermediate goods. At the same time, China's deflationary pressures are increasingly being exported to ASEAN, as excess industrial capacity and weak domestic demand in China push down manufactured goods prices across the region. This adds a further source of downward pressure on Thailand's inflation outlook. As such, we expect inflation to remain anchored within the Bank of Thailand's 1%-3% target range over the long term.

Thailand's outlook is weighted down by a combination of slower capital formation, an aging workforce and muted productivity gains. Policy initiatives that expand labor participation, enhance innovation capacity and improve investment execution will be critical to sustaining growth. Without sustained reform, Thailand risks a prolonged period of structurally lower potential growth. However, consistent execution and coordinated policy could help stabilize performance and preserve competitiveness through the coming decade.

## In brief

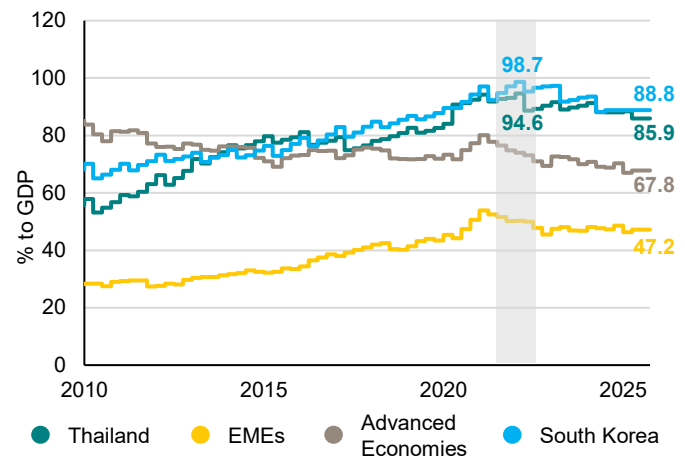
- Our fixed income assumptions are anchored by macroeconomic projections of lower potential growth and persistently low inflation.
- We have cut our cycle-neutral real cash rate assumption downward to 0.2% from 0.6%, reflecting a slower trend in GDP growth driven by an aging demographic, high household debt and fiscal constraints.
- The 10-year cycle-neutral real yield assumption is adjusted downward to 2.4% from 2.9%, in line with a softer long-term growth outlook, partially offset by rising public debt levels.
- Corporate creditworthiness remains robust, particularly within the investment-grade segment. We expect corporate bonds to continue delivering solid risk-adjusted returns.

## Household debt: Persistent constraint on long-term growth

Thai household debt has remained elevated above 80% of GDP since the pandemic, creating a significant structural headwind. According to the Bank of International Settlements (BIS), a household debt-to-GDP ratio above 60% tend to weaken short-term consumption, while levels exceeding 80% can drag on long-term economic growth. In response, the Bank of Thailand (BOT) has implemented deleveraging measures to bring household balance sheets back below this risk threshold since 2023 (**Exhibit 3**).

However, these efforts present a significant policy trade-off. While the recent decline in household debt has been aided by government interventions, such as loan restructuring, lower interest costs and temporary repayment suspension, it is also being driven by a slowdown in credit growth, particularly among small and medium-size enterprises (SMEs). This slowdown, while supporting financial stability, may also weigh on broader economic growth.

**Exhibit 3: Household debt-to-GDP by country**



Source: International Monetary Fund, Kasikorn Asset Management.

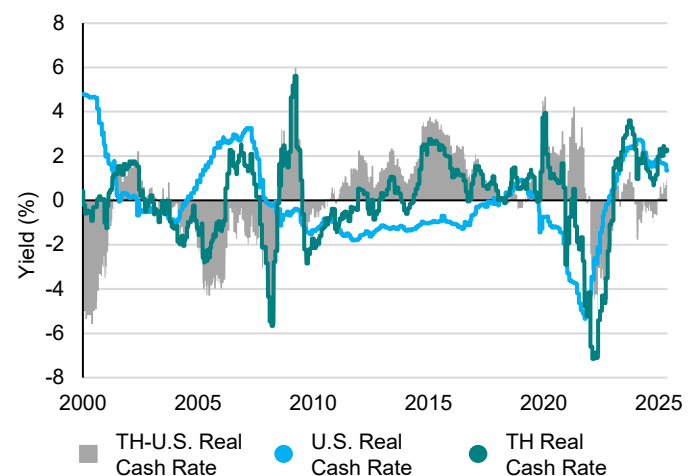
## Cash rates: Structural headwinds drive real rates lower

We have lowered our estimate for the real cash rate to 0.2%, down from 0.6%, to reflect the reduction in our trend GDP growth forecast to 2.1%, from 2.4%. This decline is largely structural, attributed to a combination of an aging population, fiscal constraints and persistently high household debt.

While lower trend growth implies a reduced equilibrium real rate relative to the 2010s average of 0.4%, we believe the real rate must remain slightly positive. Given Thailand's structural vulnerabilities, specifically high household debt, a positive real rate is necessary to restrain excessive borrowing and mitigate systematic financial risk.

With inflation projected at 1.2%, supported by global trade fragmentation and energy transition costs, yet offset by aging population and price pressure from China, our nominal cash rate assumption settles at 1.4% (**Exhibit 4**).

**Exhibit 4: Thai vs. U.S. historical real cash rate**



Source: Bank of Thailand, Federal Reserve Economic Data, Kasikorn Asset Management.

## Fiscal constraints limit public investment

Thailand's fiscal space is shrinking, weighing on long-term investment prospects. As of September 30, 2025, public debt stood at 64.8% of GDP, edging closer to the statutory ceiling of 70%. This trajectory has raised concerns regarding potential credit rating downgrades. Notably, Moody's and Fitch have revised Thailand's credit rating outlook from Stable to Negative amid heightened economic and fiscal risks.

When combined with declining tax revenues resulting from a shrinking workforce, these debt levels significantly limit the fiscal space available for growth-enhancing public investment (**Exhibit 5**).

**Exhibit 5: Thai public debt to GDP**



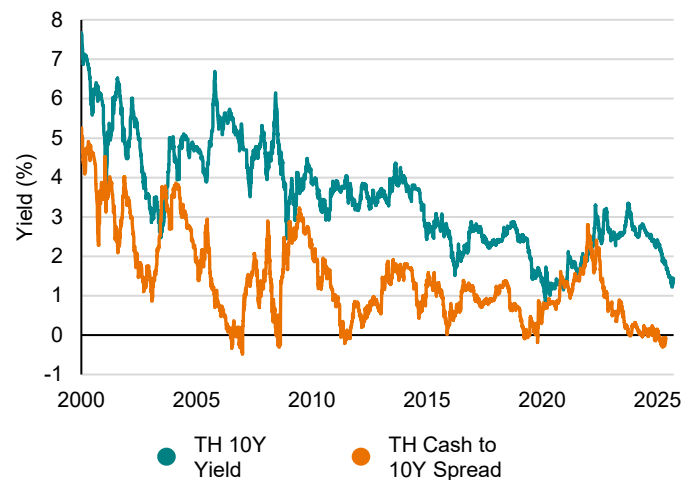
Source: Public Debt Management Office, Kasikorn Asset Management.

## 10-Year government bond: Balancing growth and debt risks

The outlook for the term premium is defined by competing forces. On one hand, Thailand's slowing potential growth is exerting downward pressure, narrowing the spread between the policy rate and 10-year bond yields. On the other hand, rising public debt levels may exert upward pressure as investors demand greater compensation for fiscal risks. However, we view that the recently approved Medium-Term Fiscal Framework (2026-2030) has reduced the likelihood of debt ceiling exceeding 70%.

We believe the interaction between slower potential growth and elevated debt will anchor the term premium around its historical average of 100bps, unchanged from previous assumptions and consistent with the 2010s average of 102bps. Adding this to a nominal policy rate of 1.4%, we expect the 10-year Thai government bond yield to remain close to 2.4% in a neutral cycle (**Exhibit 6**).

**Exhibit 6: 10-year Thai government bond yield and spread**



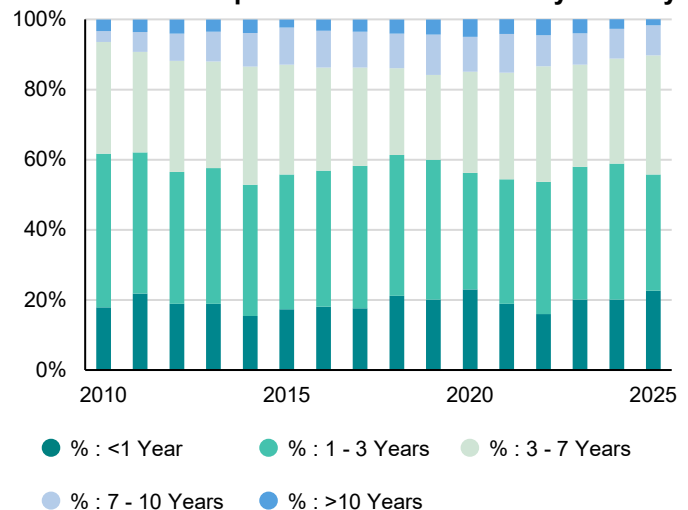
Source: Kasikorn Asset Management, Thai Bond Market Association.

## Corporate bonds: Spreads stabilize at historical levels

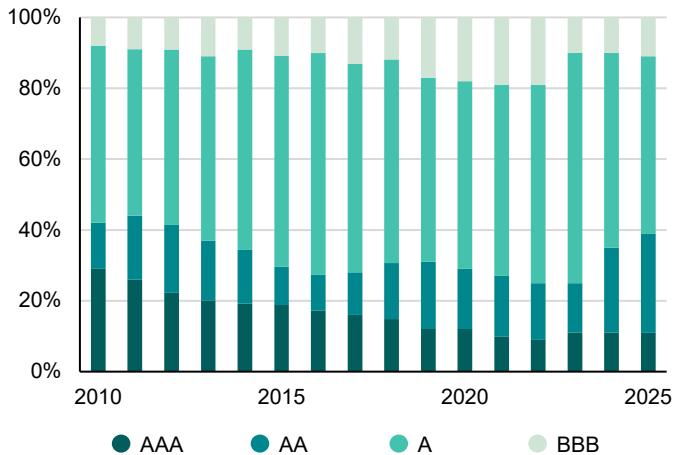
The Thai corporate bond market has proven to be quite resilient. Issuances typically maintain maturities between one and seven years despite interest rate shifts, resulting in a relatively stable maturity profile. We have seen some evolution in market composition, however. The AA-rated segment has expanded in recent years, largely driven by large corporate mergers, which has resulted in a slight tightening of credit spreads.

Although market growth is limited by the mature nature of domestic companies, corporate balance sheets remain robust. This financial strength provides a solid buffer against lower economic growth, supporting our view that corporate bond spreads will stabilize near historical levels at 0.8% (**Exhibits 7-9**).

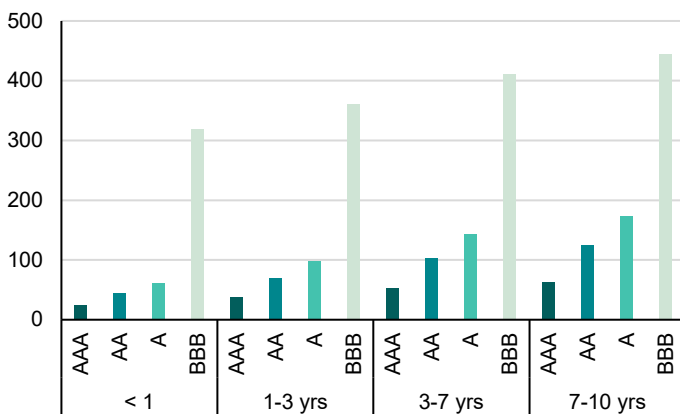
**Exhibit 7: Thai corporate bond breakdown by maturity**



Source: Thai Bond Market Association, Kasikorn Asset Management.

**Exhibit 8: Thai corporate bond breakdown by credit rating**

Source: Kasikorn Asset Management, Thai Bond Market Association.

**Exhibit 9: Thai corporate bond breakdown by current credit spread**

Source: Kasikorn Asset Management, Thai Bond Market Association.  
Data as of September 30, 2025.

**Thai fixed income: Modest yields in a neutral cycle**

We expect Thai fixed income assets to deliver returns in the range of 1.4%-2.9% under a neutral cycle. Performance will be primarily driven by lower-than-historical policy interest rates and steady term premiums, reflecting persistent challenges in both the public and household sectors.

We anticipate the normalization period will likely extend to three years for both short- and long-term rates, as the Thai economy begins a gradual recovery following the initiation of BOT rate-cutting cycle toward the lower bound of the policy range.

**USD/THB outlook: Fundamentals support baht appreciation**

We anchor our USD/THB forecast to a purchasing power parity (PPP) framework, assuming that the price differentials in goods and services between the U.S. and Thailand are the primary driver of long-term USD/THB movements.

Our projection indicates that Thailand's GDP per capita growth rate will outpace the U.S. by 0.4%, while the domestic inflation rate is expected to remain 1.2% lower than the U.S. level. Based on our analysis, we apply a factor of 0.5 to the growth differential and a factor of -1.0 to the inflation differential. Consequently, combining these structural forces, we forecast a nominal annualized appreciation of THB against USD of 1.45%.



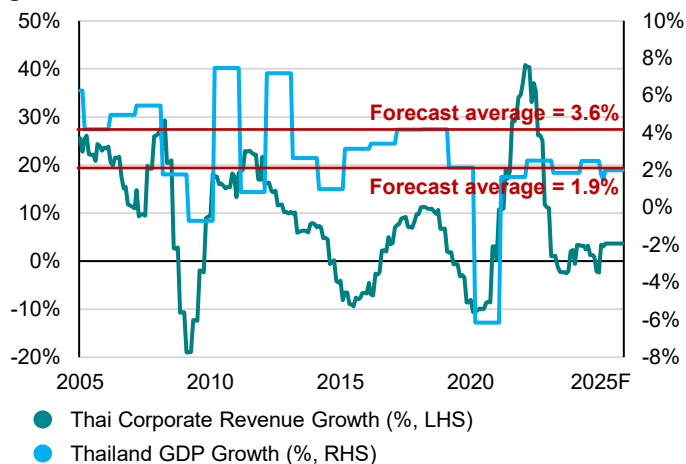
## In brief

- We view dividends as the primary driver of total returns for Thai equities, with our forecast long-term total return at 5.2%. In an economic regime defined by sluggish growth and structural headwinds, the Thai equity market offers a defensive haven for investors seeking reliable income.
- Revenue multipliers are weakening, with the historical relationship between corporate revenue and GDP growth decoupling, projected to fall from 1.7x to 1.1x due to intensifying competition and a market dominated by “old economy” sectors.
- Valuation remains suppressed, but dividend payout ratios are rising. While we expect forward P/E multiples to hover around 13.0x, we forecast the dividend payout ratio to rise to 73.0% from 69.3% over the next decade.
- Yield opportunities are available in specific sectors. We see resilient yields of 5%-8% in Banking and Energy, supported by capital discipline and cost efficiency. Meanwhile, the Utilities sector is positioned for a long-term yield transformation as the heavy capex cycle concludes.

## Revenue growth: Shifting multipliers

Against a backdrop of sluggish macroeconomic conditions, unfavorable demographics and elevated household debt, Thai corporates are struggling to find new growth drivers. Historically, these companies demonstrated a strong multiplier effect, where revenue generation tracked at 1.7x the country's GDP growth. However, we see this relationship weakening significantly over the coming years.

**Exhibit 10: Thai corporate revenue growth and GDP growth**

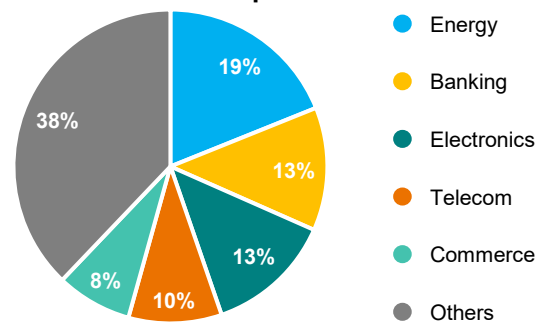


Source: Kasikorn Asset Management, Office of the National Economic and Social Development Council.

Over the next decade, we project this multiplier to decline to just 1.1x, equivalent to approximately 3.6% annual revenue growth. We see two key factors driving this deceleration. First, competitive pressure is mounting for several sectors. Listed retailers and manufacturers face an influx of low-cost goods, particularly from Chinese producers leveraging e-commerce platforms. While this may benefit consumers in the short term, it compresses profit margins for local firms and constrains long-term revenue growth potential.

Second, the composition of the Thai equity market presents a structural headwind. “Old economy” sectors such as banking, energy and ICT comprise over 80% of the Stock Exchange of Thailand (SET) market capitalization. These mature industries face natural limits on domestic growth. In contrast, the Technology sector, which typically drives innovation and multiple expansion, makes up only 13% of the index. Consequently, technological advancements are unlikely to be sufficient to offset the drag from dominant legacy incumbents.

**Exhibit 11: SET market capitalization breakdown**



Source: Kasikorn Asset Management, Stock Exchange of Thailand.

## Margins & earnings: A divergent recovery

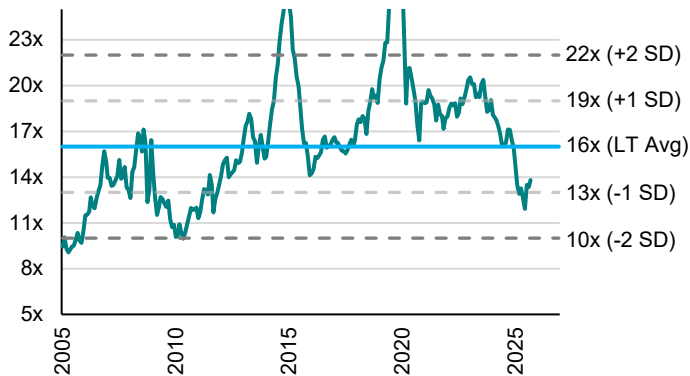
As the market recovers from pandemic lows, profit margins are improving but remain below their 20-year historical average of 6.9%. Beneath the surface, we anticipate significant divergence. Sectors aligned with global structural shifts, such as Electronics, which benefit from the global AI story, Telecommunications leveraging rising data demands and Health Care supported by aging demographics, are positioned for margin expansion. Mature sectors, conversely, face stagnation.

As a result of weak revenue growth and flat margin assumptions, we expect earnings per share (EPS) growth to settle at 2.2% over the next decade, below the historical average of 5.3%. A supporting factor is the reduction in net share dilution, which we project will slow to 2.5% from 3%. Cash-rich mature sectors will have limited need for large-scale capex. Instead of raising equity, we expect them to focus on capital management through share repurchases.

## Valuation & dividends: The yield advantage

Given tepid fundamentals and a higher risk premium resulting from political and structural challenges, valuations are likely to remain compressed. We expect the forward price-to-earnings (P/E) multiple to decline to 13.0x, approximately one standard deviation below the post-2005 average. This valuation de-rating suggests limited potential for capital appreciation.

**Exhibit 12: SET forward P/E multiple**

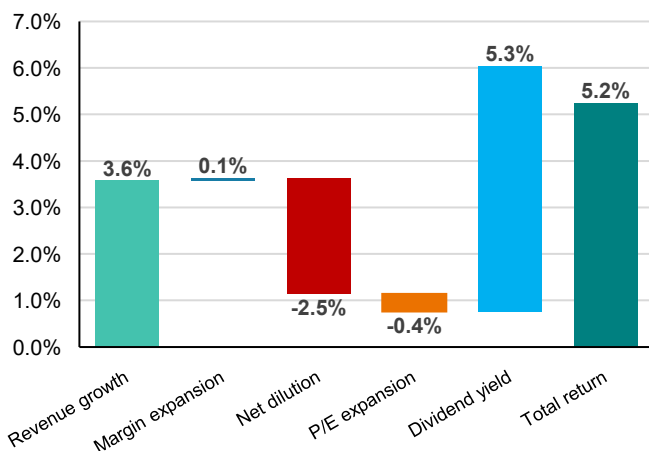


Source: Kasikorn Asset Management, Kasikorn Securities.

Despite the lack of clear growth drivers, Thai equities offer a clear advantage: dividend yield. We forecast that Thai corporates will increase their dividend payout ratios to 73.0%, from 69.3%, over the coming decade. This trend is anchored by banks, energy and telecom companies that, having passed their peak investment phases, maintain sound financial positions and ample cash reserves.

For investors, Thai equities are well positioned to benefit from higher dividend yields rather than capital appreciation. This solidifies the Thai market's role as a defensive haven and income generator rather than a growth engine.

**Exhibit 13: Thai equity forecasted total return decomposition, THB terms**



Source: Kasikorn Asset Management.

## Banks: High yields through discipline and cost efficiency

We anticipate that most Thai banks will sustain dividend yields of 5%-8% over the medium- to long-term. Although loan growth is expected to be modest, tracking GDP at 1.0x-1.5x, due to low GDP expansion as well as temporary compression of net interest margins from rate cuts, we still expect earnings and dividends to remain resilient.

Banks are leveraging technology adoption to drive cost efficiency, with a 1 percentage point improvement in cost-to-income ratio potentially boosting EPS by 1%-3%. Furthermore, banks' balance sheets are strengthening. Credit costs are expected to fall under the Bank of Thailand's debt restructuring, with coverage ratios rising from 150%-180%. We also see growth in non-interest income, driven by wealth management fees and investment gains, rising to one-third of total revenue. With robust CET-1 ratios of 16%-19%, well above regulatory requirements, banks have ample room for active capital management. We expect payout ratios to drift upward from 40%-50% today to 60%-70% over time, supporting sustained high single-digit to low-teen returns on equity and stable shareholder returns through periods of market volatility or stagnant growth.

## Property: Selective opportunities amid headwinds

The property sector continues to offer attractive yields of 5%-7%, even as it navigates significant structural challenges. With GDP growth projected at 2.1% and household debt exceeding 90% of GDP, residential demand faces headwinds.

However, we see resilience in select market leaders. Developers with net debt-to-equity ratios below 1.0x are well positioned to consolidate market share and improve revenue growth. While residential margins have been pressured, commercial property profitability is recovering, driven by better space utilization and urbanization trends resulting in an increase in mall traffic. As such, market leaders' gross profit margin has risen to above 50% in the past two years, from a 10-year average of 49%.

Current dividend payout ratios average 52%, and we believe this is sustainable, potentially rising to 55% as companies prioritize shareholder returns in a low-growth environment.

Given the strong financial discipline and market positioning, we expect select market leaders to sustain high dividend yields, making them compelling choices for Thai equity investors seeking stable returns.

## Energy: Capex discipline unlocks cash flow

We project that large energy corporations will deliver some of the market's most attractive dividend yields, ranging from 5% to 8%, driven by a strategic shift toward capital discipline in response to persistently low oil prices. Industry leaders are prioritizing balance sheet health and cash flow generation. Notably, PTT Group has slashed its multi-year capital expenditure budget by nearly 40% while simultaneously executing cost-saving and revenue enhancement initiatives valued at over THB 100 billion.

Revenue stability is further reinforced by the sector's exposure to natural gas, particularly through PTTEP (PTT Exploration and Production). Given that gas prices tend to exhibit lower volatility than oil, this structural advantage supports consistent dividend payouts in the THB 8.00-8.50 per share range. These distributions are backed by solid fundamentals, including steady sales volume growth of approximately 3% per year and competitive unit costs hovering around USD 30 per barrel.

Looking downstream, efficiency remains a key driver for returns. With gross refining margins stabilizing between USD 5 and USD 6 per barrel, and operational efficiency ranking among the best in the region, refiners are generating robust free cash flow necessary to support both deleveraging and sustained dividend payments in the years ahead.

## Utilities: A future dividend heavyweight

The Thai Utilities sector continues to present a compelling investment opportunity. Currently, the sector offers a modest yield of 2.9%, reflecting a period of intensive capital investment by large-cap companies. However, as this accelerated capacity comes online, we anticipate a structural shift in cash flow generation.

Our forecast, anchored by existing investment pipelines, suggests the sector's average dividend yield could rise to 7.2% by 2035. As capital expenditure requirements naturally taper, we expect the payout ratio to expand from 59% in 2025 to 65% in 2035, supported by a robust 79% growth in the earnings base.

While potential new investments in renewable energy, particularly to support data center demand, could alter this timeline, the long-term trajectory points toward stronger income generation, reinforcing the sector's appeal to yield-focused investors.

## In brief

- To navigate market uncertainty, we introduce the “60-40-Plus” framework. Moving beyond the traditional 60/40 stock-bond allocation to include alternative assets enhances portfolio resilience against economic shocks.
- We also address risks arising from policy uncertainty. Risk arising from tariff increases and interest rate shifts may drive instability in stock-bond correlations. While global and domestic bonds remain essential portfolio diversifiers, their effectiveness can be limited during periods of heightened economic uncertainty.
- Incorporating alternative assets into a traditional 60/40 portfolio can boost risk-adjusted returns and improve the Sharpe ratio, offering greater adaptability for all investors with varying risk profiles.

## Overview: Navigating volatility

Our 2026 outlook anticipates high inflation volatility, an environment that underscores the critical importance of diversifying further into alternative assets. In this section, we present our projections for volatility and correlations over a 10- to 15-year investment horizon and discuss their implications for portfolio construction.

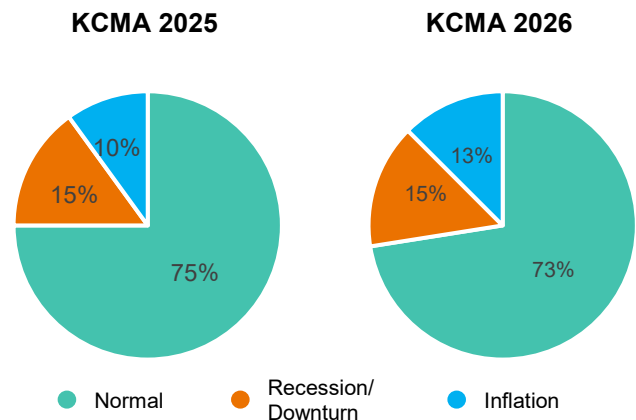
## KCMA volatility and correlation assumptions

We have recalibrated our economic scenario weights relative to 2025 KCMA (**Exhibit 14**) to reflect persistent inflation uncertainty. In the 2026 KCMA, we increase the probability of a higher inflation regime by 2.5 percentage points, raising it from 10% to 12.5%.

This adjustment is driven by a marked increase in U.S. inflation volatility, which has global influence, compared with last year (**Exhibit 15**). Consequently, we anticipate both higher expected volatility and cross-correlation among major asset classes, which may reduce portfolio stability in the future.

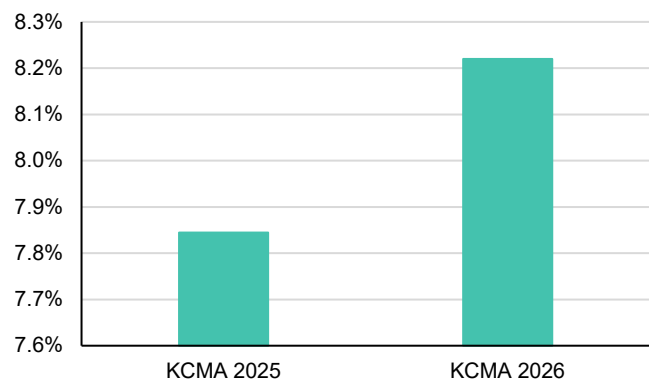
Amid this heightened uncertainty, the correlation between domestic stocks and bonds has shifted from negative to positive (**Exhibit 16**). This relationship may remain unstable for some time, depending on the trajectory of macroeconomic conditions.

**Exhibit 14: Economic scenario weights**



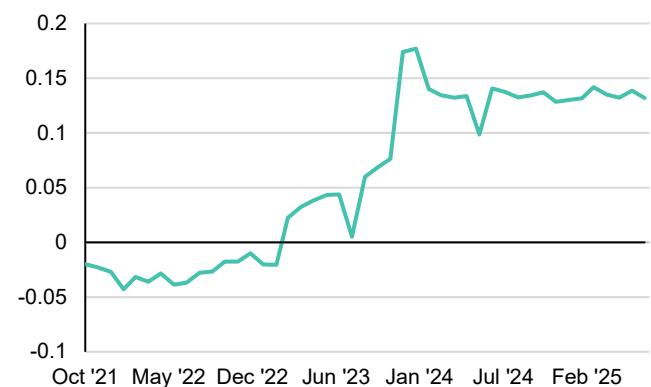
Source: Kasikorn Asset Management.

**Exhibit 15: U.S. inflation volatility projection**



Source: Kasikorn Asset Management.

**Exhibit 16: Domestic stock-bond correlation, realized, 15-year rolling**



Source: Kasikorn Asset Management.

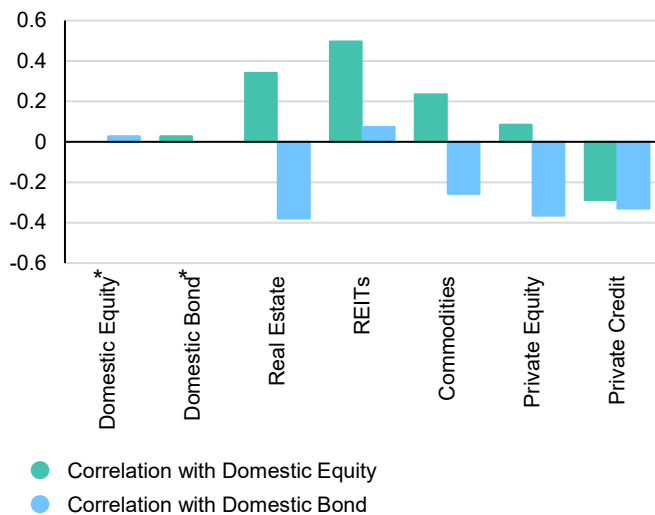


## 60/40-Plus: Diversifying the traditional 60/40 portfolio

As stock-bond correlations become more positive and unstable, the traditional 60/40 portfolio faces diminished diversification benefits and potentially higher volatility. In response, we advocate for a more resilient approach, the “60/40-Plus” portfolio.

The 60/40-Plus portfolio is designed to reduce overall portfolio volatility and mitigate drawdowns during negative supply shocks, periods when both equities and fixed income assets may decline simultaneously. By incorporating a broader range of asset classes, specifically alternatives, investors can enhance diversification beyond public markets (**Exhibit 17**).

### Exhibit 17: Correlation to domestic equity and domestic bond



Source: Kasikorn Asset Management.

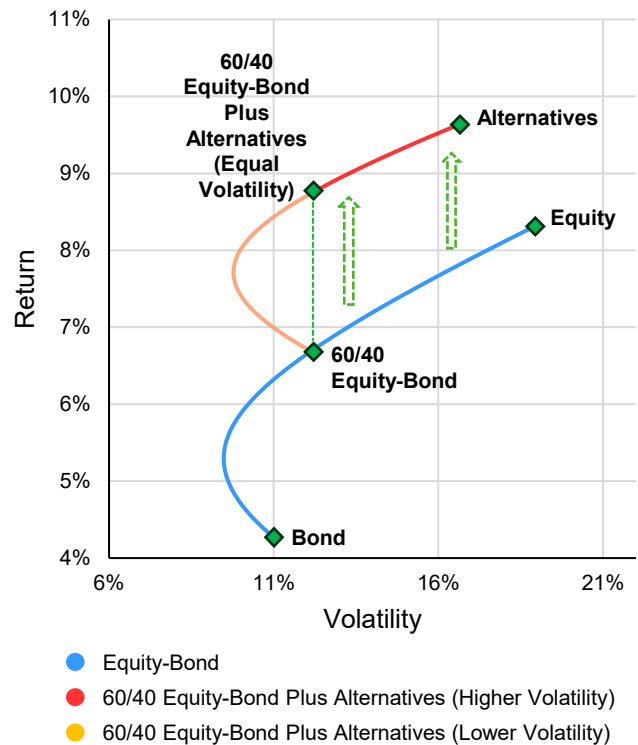
\* Note that asset class correlation with itself will be 1 and is excluded in the chart.

## 60/40-Plus: Alternatives as a new diversifier

Expanding the asset universe can enhance returns, lower volatility and reduce drawdowns. As illustrated in our efficient frontier analysis (**Exhibit 18**), adding alternative assets shifts the frontier upward, indicating the potential for superior returns compared to a traditional mix.

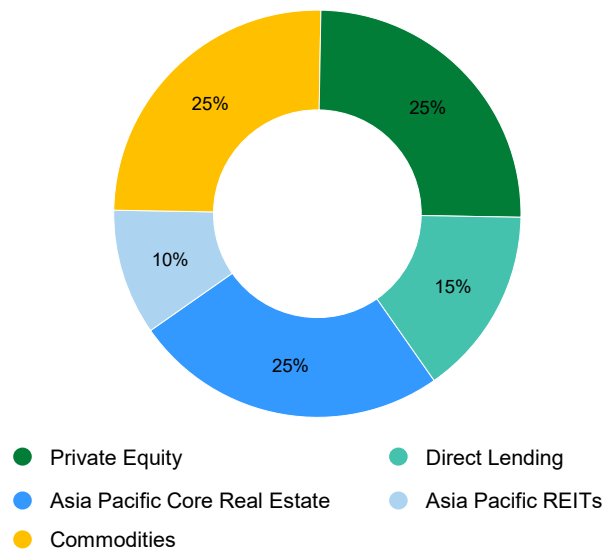
This structure offers investors a range of strategic options tailored to different risk preferences, ranging from low volatility combinations to higher return seeking strategies. Within the alternatives allocation, we believe a diversified mix of asset classes delivers the most favorable risk-adjusted outcomes (**Exhibit 19**).

## Exhibit 18: Theoretical 60/40-Plus portfolio: Enhancing the traditional 60/40 portfolio by incorporating alternative assets



Source: Kasikorn Asset Management.

## Exhibit 19: Diversified alternatives portfolio weights

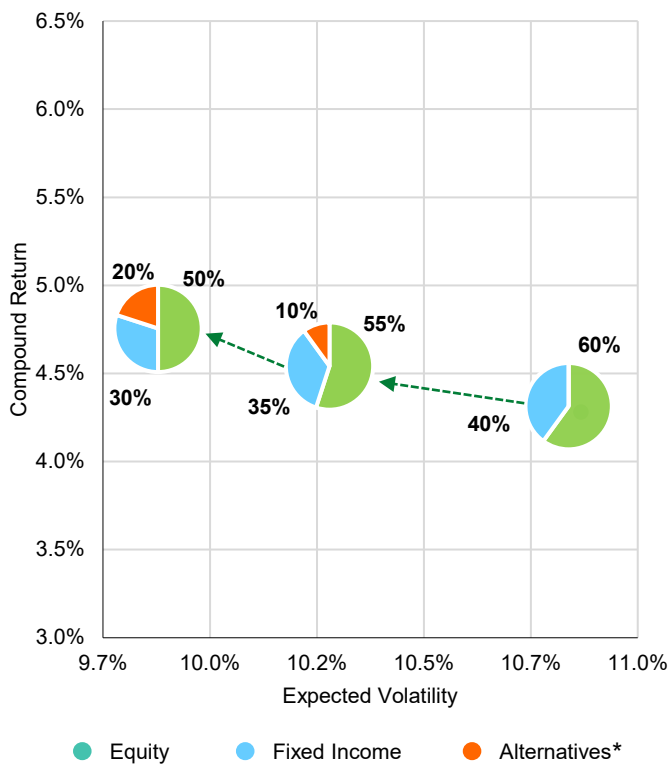


| Forward-looking portfolio matrix | Diversified alternatives |
|----------------------------------|--------------------------|
| Compound Return                  | 6.3%                     |
| Volatility                       | 13.8%                    |
| Sharpe Ratio                     | 0.35                     |

Source: Kasikorn Asset Management.

Constructing a portfolio with alternatives investments as an additional diversifier results in benefits for domestic portfolios (**Exhibit 20**). This approach provides investors with the flexibility to better align their investment strategies with their risk preferences and adapt to various market conditions.

**Exhibit 20: Projections for domestic portfolio returns and volatility**



| Forward-looking portfolio matrix | 60/40 Portfolio | 55/35/10 Portfolio | 50/30/20 Portfolio |
|----------------------------------|-----------------|--------------------|--------------------|
| Compound Return                  | 4.3%            | 4.5%               | 4.8%               |
| Volatility                       | 10.9%           | 10.3%              | 9.9%               |
| Sharpe Ratio                     | 0.26            | 0.30               | 0.33               |

Source: Kasikorn Asset Management.

\* Diversified alternatives allocation includes Asia Pacific Core Real Estate, Asia Pacific REITs, Direct Lending, Commodities and Private Equity, as per Exhibit 19.

## Resilient portfolios for uncertain markets

The economic and geopolitical landscape is evolving, and portfolios must evolve with it. Compared to the past two decades, investors should prepare for heightened U.S. inflation volatility and incorporate these scenarios alongside traditional growth shock considerations.

With asset relationships becoming less stable, asset allocators need to rethink portfolio construction for the next decade. By moving beyond the traditional 60/40 toward a 60/40-Plus framework, investors can strengthen overall resilience and adapt to the ever-changing market regime.

The 60/40-Plus domestic portfolios achieve higher returns and lower volatility, supported by the negative correlation of Thai investment-grade corporate bond (BBB up), enhancing the Sharpe ratio by approximately 12% to 14%, respectively.

# IV

## Acknowledgments

# Acknowledgments

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