

## Asset Class Projected Returns

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The beginning of the year is a good time to review expected returns of the various asset classes. Research Affiliates (RA) publishes their 10-year expected returns and makes them available to the public for free. As of 11/30/2025, the table below has RA's nominal expected returns, annualized for the next 10 years. In the United States, they expect the current inflation rate of 3.0% to decline slightly and average 2.6% for the next ten years.

Asset Class	Expected Return	Expected Volatility
US large cap growth	1.5%	17.1%
US large cap value	4.4%	15.0%
US small cap	7.4%	20.1%
Developed ex US large cap	8.0%	16.0%
Emerging Markets	7.7%	19.5%
Global REITs	6.0%	16.7%
US Aggregate Bonds	4.7%	4.3%
US Treasury Long Bonds	4.4%	12.3%
US High Yield Bond	4.8%	8.2%
Emerging Markets-Local Currency Bonds	6.9%	10.9%
Commodities	5.4%	14.7%

The forecasts by Research Affiliates reflect a world without any dramatic changes – steady economic growth without any major wars, or sovereign debt defaults, or currency devaluations by the major countries. Their forecasts also reflect a reversion to the mean for valuation levels. Thus, US equity large cap stocks have lower forecasted returns than foreign equities due to the higher current valuation levels for US equities.

The bond market forecasts reflect the current level of interest rates without any significant change in interest rate levels. US high yield bonds have a yield of 7.2%, but with an expected credit loss of -3.4% per year. Emerging market local currency bonds have a yield of 6.4% plus an additional 0.5% expected currency gain and a small expected credit loss of 0.1%.

Research Affiliates does not provide any forecasts for precious metals prices. After a strong 2025 for precious metals, price forecasts for 2026 continue to reflect optimistic expectations.

Goldman Sachs expects central bank gold purchases to average 70 tonnes per month for 2026, slightly higher than the past 12-month average. Their base case is for gold to close at the end of 2026 with a price of \$4,900 per ounce.

UBS, a Swiss bank, has a base case gold price forecast of \$4,800 by the end of 2026. However, they say that any increase in political or economic turmoil surrounding the US midterm elections could push the price of gold higher to \$5,400.

The dynamics for the price of silver are a bit different due to a much higher portion of its demand coming from industrial use compared to gold. 2025 was an outstanding year for silver. The price of iShares Silver Trust (SLV), the largest ETF that holds silver bullion, rose by 158.3% year-to-date as of December 30.

The outlook for silver in 2026 remains strong for several reasons: 1) the physical supply/demand balance remains favorable; 2) new mine development is a slow process; 3) all-solid-state battery technology will be an important new source of demand for silver; and 4) investor demand is likely to remain strong.

The Silver Institute publishes estimates of global supply and demand for silver. For 2025, physical supply consists of 835 million ounces from mine production and 193.2 million ounces from recycling. Industrial and jewelry demand are estimated to be 943.9 million ounces, with photovoltaics representing 195.7 million ounces of the total. Net physical investment in coin and bullion amounts to 204.4 million ounces and net investment in exchange traded products represents another 70 million ounces. When investment demand is included, the net deficit to supply is 187.6 million ounces.

Approximately 70% of silver production comes from mines that are developed for other minerals and silver is simply a byproduct. There are mines that are developed specifically for silver as its primary objective, but mine development takes many years for exploration, permitting, and infrastructure development before it can start production.

Samsung has developed an all-solid-state battery (ASSB) that is designed to outperform conventional lithium-ion batteries for electrical vehicles. ASSB technology offers roughly double the energy density, enabling up to 600 miles of range on a single charge for electrical vehicles, 9-minute fast charging, a 20-year lifespan, and improved safety

due to the non-flammable solid electrolyte. Since lithium-ion batteries use less than one ounce of silver and ASSBs use about one kilogram (35.27 ounces), ASSB technology represents a significant new source of industrial demand for silver. Samsung is scaling up for mass production and expects to provide ASSBs for premium electrical vehicles in 2027. In 2025, industry analysts estimate that 20 million electrical vehicles were sold on a global basis. If 20% of those vehicles used ASSB technology, it would require 140 million ounces of silver.

Beginning January 1, 2026, China will implement export controls on refined silver. Chinese companies that seek to export silver must get export licenses and meet stringent requirements that can only be met by some larger refining companies. China is the second largest miner of silver after Mexico. Because of its significant refining capacity, it is estimated that China controls 60-70% of refined, exportable silver from global mining operations.

In the meantime, silver inventories at the major depositories will not provide much relief. The largest depository/exchanges have the following amounts of silver.

- LBMA (London Bullion Market Association) has 874 million troy ounces as of Nov 30.
- COMEX has 451 million troy ounces (registered and eligible) as of late December.
- Shanghai Futures Exchange (SHFE) has 25.6 million troy ounces as of Dec 29.

Shanghai silver inventory levels are at a multi-year low and there is a persistent premium paid over the COMEX price. A good portion of the silver held in depositories is owned by exchanged-traded funds such as the iShares Silver Trust (SLV) which currently has 524.2 million ounces. SLV shares can be tendered for silver bullion but only by larger shareholders because the minimum tender amount would be valued at about \$3.5 million at the current market price. Investors that hold silver bullion will be willing to sell some of their silver for industrial purposes, but it will likely require higher prices.

If you have any questions or comments, please contact me.

Best Wishes for a Happy and Prosperous New Year!

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