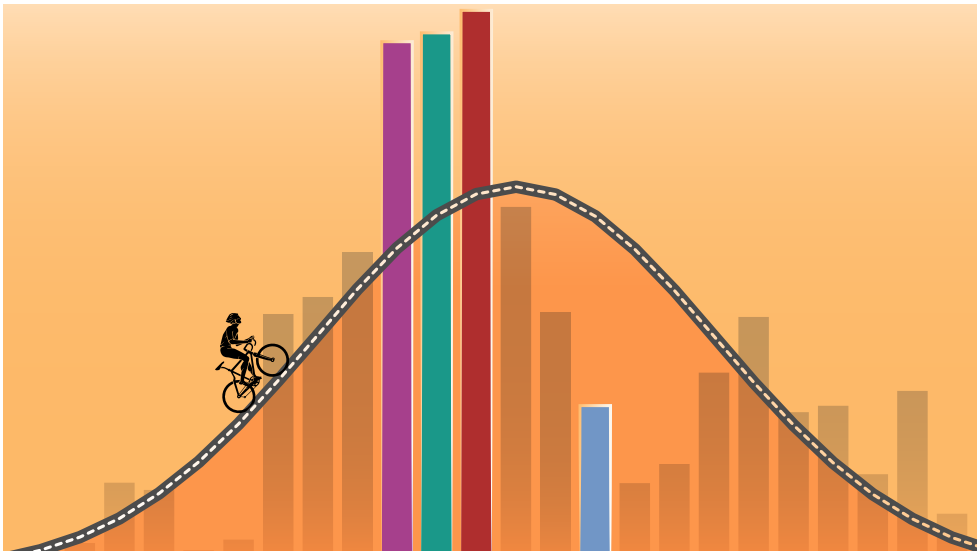
GLOBAL STRATEGY PAPER NO. 75

Building Long-Term Returns: Our 10-Year Forecasts



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We expect global equities to deliver solid long-term returns despite elevated valuations. Our forecast of 7.7% per annum (in USD) sits close to the historical median, supported by structural drivers such as nominal growth, profitability, and shareholder distributions.

Our modelling uses a common framework across regions, adapted to local specifics. We apply a building-block methodology where total return equals earnings growth plus valuation change plus dividend yield, with assumptions derived from top-down models incorporating local drivers and index composition.

Earnings growth remains the primary engine of performance. We expect global earnings — including buybacks — to compound at roughly 6% annually. Dividends provide the rest of the return, while we expect valuations to ease modestly from current highs.

Regional outlooks highlight some dispersion:

- **United States:** +6.5%, driven entirely by earnings and modest dividends (while buybacks compensate for the valuation drag).
- **Europe:** +7.1%, half driven by earnings and half driven by shareholder return.
- **Japan:** +8.2%, underpinned by EPS growth of 6.0% and policy-led improvements in payouts.
- **Asia ex-Japan:** +10.3%, aided by ~9% EPS growth and 2.7% dividend yield, partly offset by valuation de-rating.
- **Emerging Markets:** +10.9%, led by strong EPS growth in China and India.

Diversify beyond the US, with a tilt towards Emerging Markets. We expect higher nominal GDP growth and structural reforms to favour EM, while AI's long-term benefits should be broad-based rather than confined to US Technology.

FX matters: a declining USD could lift USD-translated returns and favour non-US equities. Historically, dollar weakness has coincided with non-US outperformance, adding an extra layer of opportunity for globally diversified portfolios.

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

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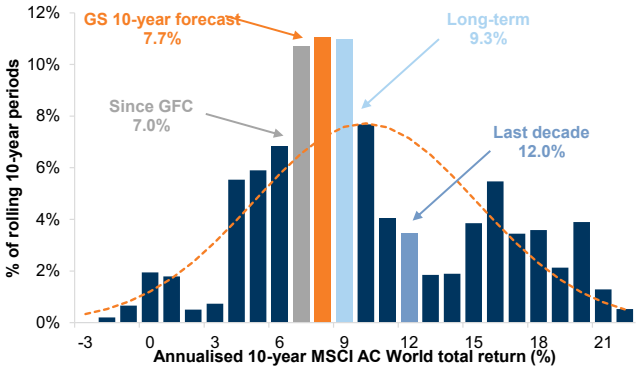
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Global Equity 10-Year Return Forecast

We introduce long-term equity forecasts to complement our economists' projections. While cyclical forces will periodically influence markets, the drivers that we expect to dominate over this horizon are structural: trend nominal growth, profitability and margin behaviour, starting valuations and the policy backdrop.

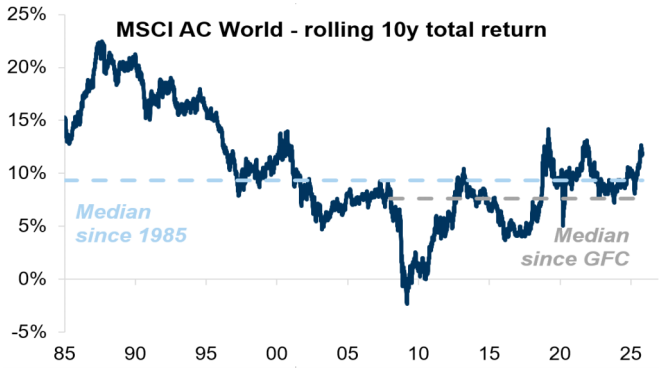
We expect global equities to deliver a 10-year total return of 7.1% per annum in local currency, which translates into 7.7% in USD (based on our FX Strategists' USD path) (Exhibit 1).

Exhibit 1: We expect global equities to deliver a 10-year total return of 7.7% in USD
MSCI AC World: 10-year annualised total return since 1985



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 2: Recent returns have been comparatively high compared with the historical median
MSCI AC World: 10-year annualised total return since 1985



Source: Datastream, Goldman Sachs Global Investment Research

Our modelling for all regions uses a common framework, adapted to local specifics. We use a building-block methodology in which total return equals earnings growth plus the change in valuation plus the dividend yield. Both fair valuation multiples and long-term earnings growth are derived using top-down models that incorporate specific local drivers and index composition.

Our base case of 7.7% annualised total return (in USD) sits in the 35th percentile of the historical distribution of rolling 10-year returns since 1985. For context, the long-run average is close to 9.3%, although outcomes have been regime-dependent (Exhibit 2). For example, the average since 2000 is also 7.7% and the post-GFC era saw exceptional dispersion with strong technology-led US performance, weaker returns in Europe and in Japan amid sluggish growth and deflation risks, and higher volatility across Emerging Markets.

In this section, we aggregate our regional base cases into a single global outlook (Exhibit 3), setting the stage for the detailed regional analyses that follow:

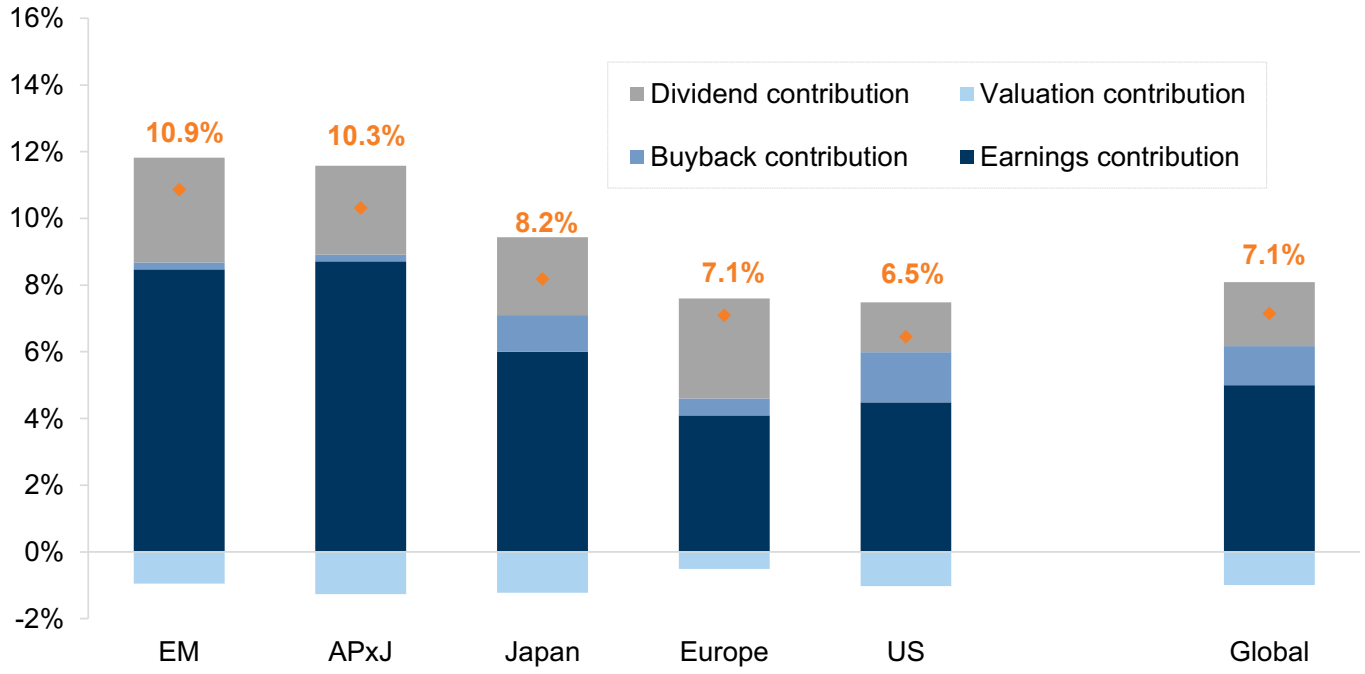
- **United States:** We expect an annualised return of +6.5%, driven primarily by EPS growth, with valuations trending lower and dividends remaining modest.
- **Europe:** We expect an annualised return of +7.1%, supported by balanced contributions from earnings and shareholder distributions, including a ~3% dividend yield.
- **Japan:** We expect an annualised return of +8.2%, underpinned by EPS growth of

6.0% (including buybacks) and policy-led improvements in dividends and buybacks.

- **Asia ex-Japan:** We expect an annualised return of +10.3%, supported by EPS growth of around 9% (in local currency), a dividend yield of 2.7%, and partially offset by a valuation de-rating.
- **Emerging Markets:** We expect an annualised return of +10.9% driven by strong EPS growth, especially from China and India. We also see improving shareholder returns supported by policy reforms.

The above regional returns are expressed in local currency. Our FX team expects the USD to depreciate. This should lift our global total return by about 0.6% per annum. The timing matters: they expect the depreciation to be front-loaded (over the next 12 months), with a subsequent drift thereafter, implying that currency gains—or losses—may be front-loaded.

Exhibit 3: Emerging Markets and Asia to deliver the strongest returns globally
10-year fwd annualised total return in local currency - GS forecast



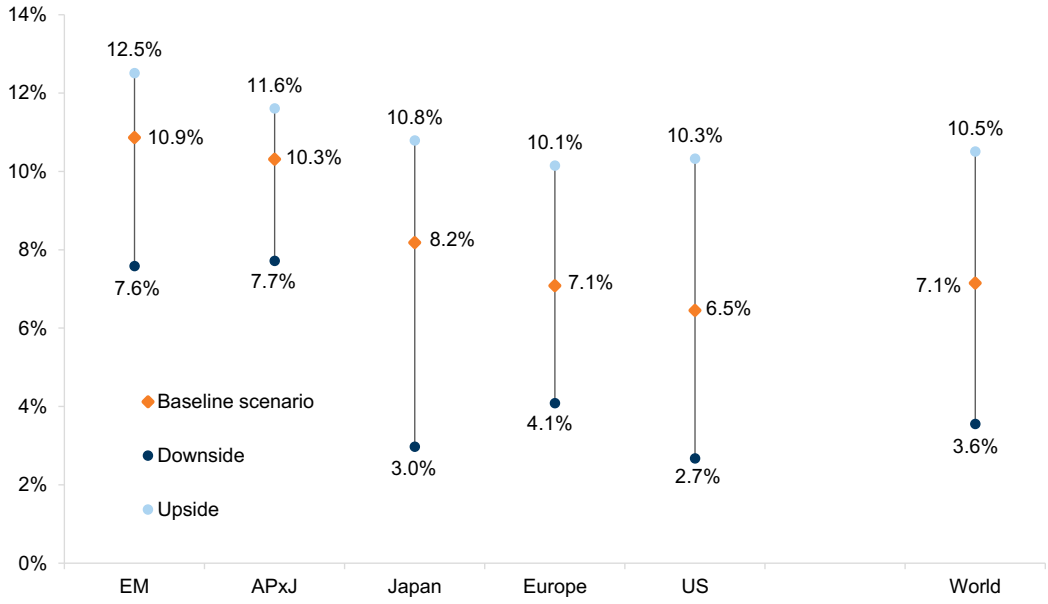
Source: Goldman Sachs Global Investment Research

Our baseline assumes broadly favourable conditions without incorporating extreme shocks or blue-sky optimism. We exclude large, persistent disruptions such as deep recessions or major geopolitical crises, and we do not explicitly model AI productivity or revenue gains, although this is implicit as we use our economists' long-term GDP forecasts in our modelling and these include some technology-driven growth. Against this backdrop, we frame two alternative scenarios to capture the range of plausible outcomes. The upside scenario implies annualised returns of around 10.5%, supported by faster nominal growth, selective margin expansion where achievable, tighter risk premia and mild valuation re-rating. Conversely, the downside scenario points to annualised returns of 3.6%, reflecting sub-trend growth, margin compression towards historical norms, wider spreads and valuation de-rating alongside a less supportive

policy environment.

Exhibit 4 illustrates how our baseline forecast sits within this distribution of outcomes. The first observation is that the US baseline lies at the middle of the range, reflecting both the downside risks from elevated current valuations and market concentration as well as the potential for the US equity market to consolidate its role as the global hub for growth innovation and the preferred listing venue for high-quality companies. By contrast, Asia's baseline forecast already sits near the upper bound of the distribution, leaving limited room for further gains even under optimistic assumptions. The upside scenario for MXAPJ is only about one percentage point above the baseline, which, combined with higher volatility and persistent (geo)political uncertainty, underscores why investors typically demand a higher risk premium to allocate capital to the region. Finally, Europe presents a balanced risk profile. Here, the distribution of outcomes appears genuinely two-sided, with meaningful potential for both positive and negative surprises depending on the trajectory of growth, policy integration and corporate behaviour.

Exhibit 4: Our baseline assumes broadly favourable conditions without incorporating extreme shocks or blue-sky optimism
10-year forward local return in local currency - GS forecast

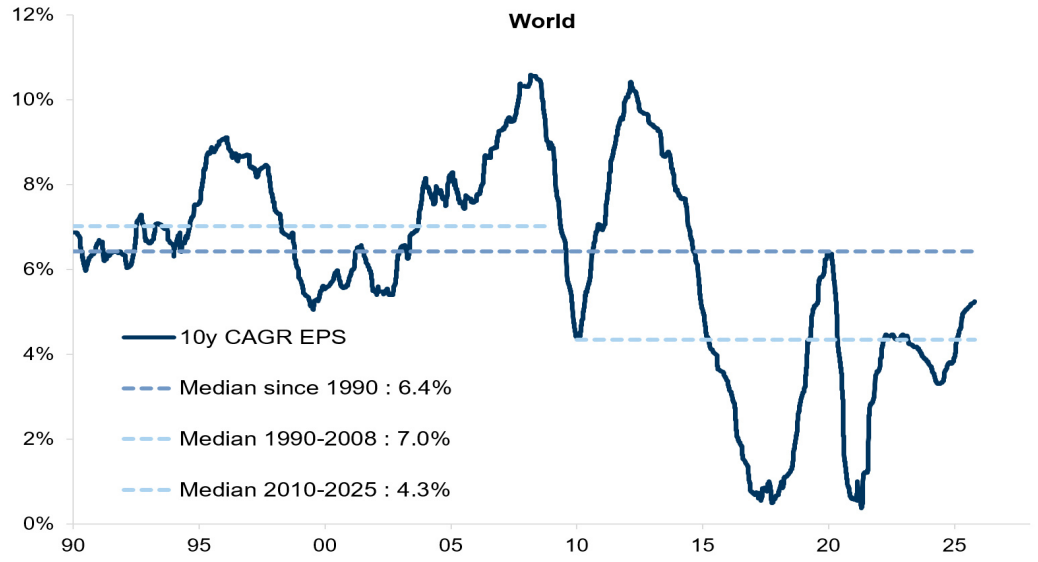


Source: Goldman Sachs Global Investment Research

The building blocks:

- **Earnings: +6.2% per annum.** Region by region the profiles differ, but in the round we assume top-line growth broadly tracks global nominal GDP and developed-market margins remain stable from already elevated levels (Exhibit 5). Upside risks centre on stronger-than-assumed AI-related productivity gains; downside risks include classic mean-reversion in margins as firms face de-globalisation frictions, higher effective tax rates to finance public deficits, structurally higher capex and interest burdens, and rising labour shares.

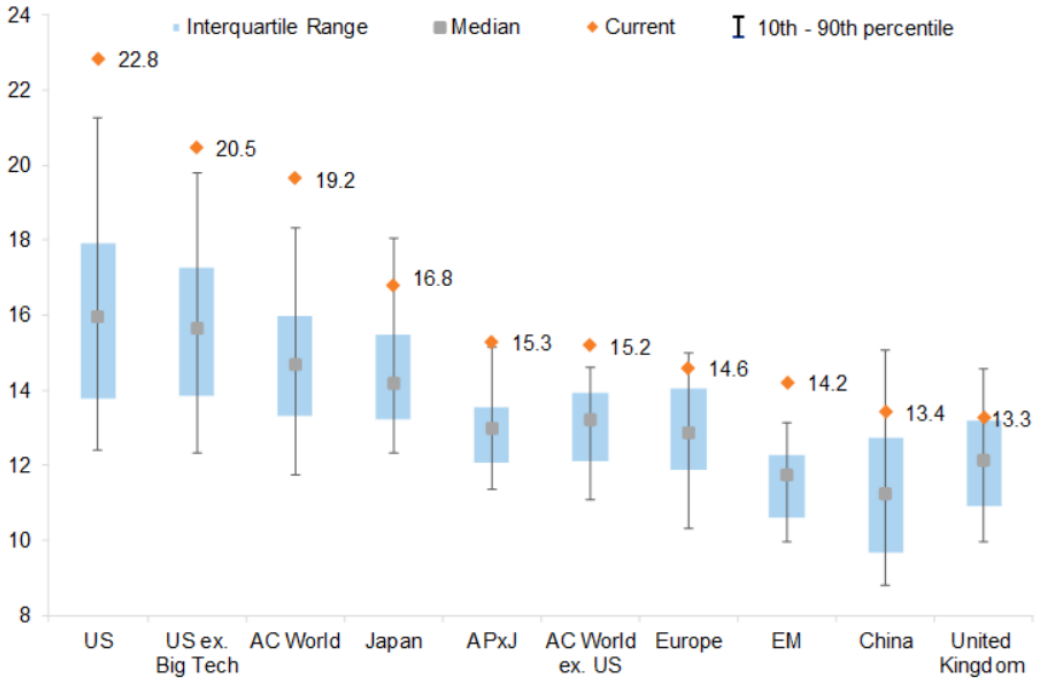
Exhibit 5: We forecast a c. 6% contribution from earnings to global total returns in the next 10 years, in line with the long-term median of 10-year EPS growth
EPS growth in USD



Source: Datastream, Goldman Sachs Global Investment Research

- **Valuations: -1 pp per annum.** Valuations start from elevated levels of roughly 19x forward earnings (Exhibit 6), and we assume they will be slightly lower over the decade. In practice this implies that earnings outpace price by around 10% cumulatively over the horizon (approximately one percentage point per year of valuation drag), a conservative stance given the starting multiple.

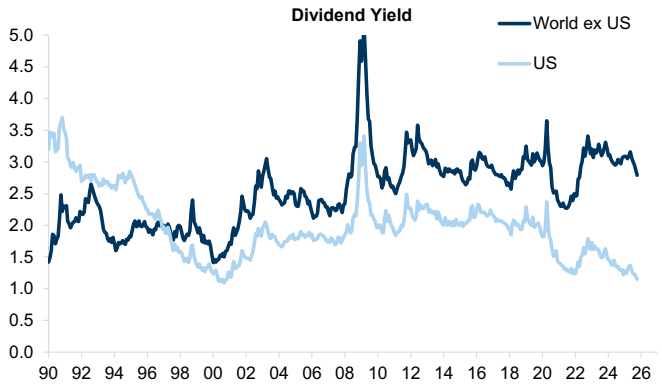
Exhibit 6: Global valuations currently are at an elevated level of roughly 19x forward earnings
12m fwd P/E multiple. MSCI Regions, STOXX 600 for Europe and S&P 500 for USA. Data since 2003



Source: FactSet, Goldman Sachs Global Investment Research

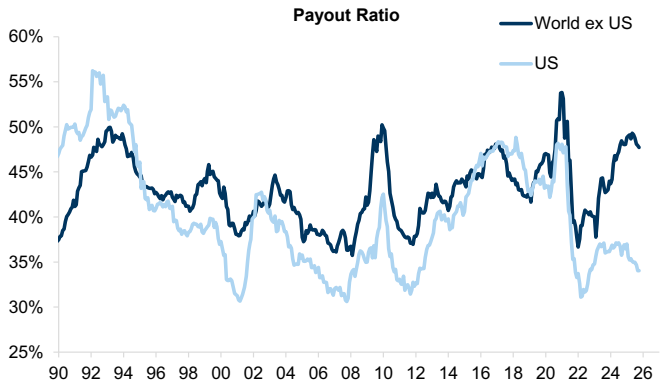
- **Shareholder: 2% dividend yield.** While regional payout cultures vary, the dividend component is historically steady in aggregate (Exhibit 7 and Exhibit 8) and remains a key pillar of long-horizon equity returns.

Exhibit 7: We forecast a 2% dividend yield globally, over the next 10 years



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 8: In the past 5 years, we observed a divergence between the US and Global payout ratio

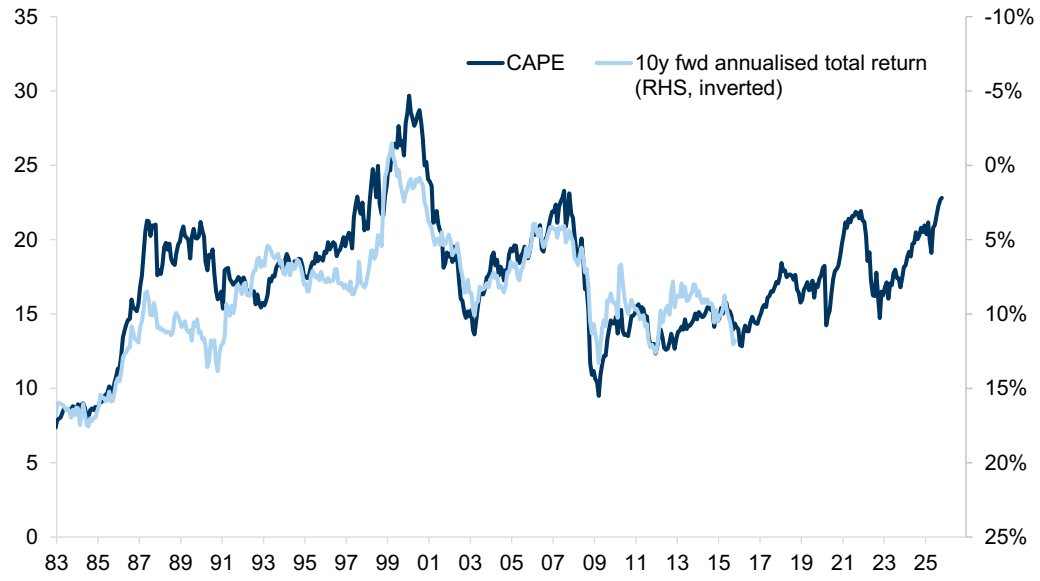


Source: Datastream, Goldman Sachs Global Investment Research

Bringing all elements together, we expect global equities to deliver a modal 10-year total return of 7.7% per annum. This figure is notably higher than a classic Cyclically Adjusted Price-Earnings (CAPE) approach would imply. Historically, CAPE has explained around 70% of subsequent 10-year returns (R^2), making it a useful but incomplete predictor. At present, the global CAPE stands at approximately 23x (Exhibit 9), placing it in the 90th percentile relative to history. Based on this metric alone, the implied annualised nominal return over the next decade would be below 5%.

Valuation, however, is not the whole story. While elevated multiples typically signal lower forward returns, we argue that today's valuations can be partly justified by structurally higher margins and improved return on equity. These factors reflect changes in index composition and persistent efficiency gains, which mitigate the risk of single-digit returns suggested by CAPE in isolation. In other words, valuation remains a headwind, but it does not dominate the outlook.

Exhibit 9: Our 10-year total return forecast of 7.7% is notably higher than a classic Cyclically Adjusted Price-Earnings (CAPE) approach would imply
World Shiller P/E and MSCI All Country World 10y forward total returns annualised



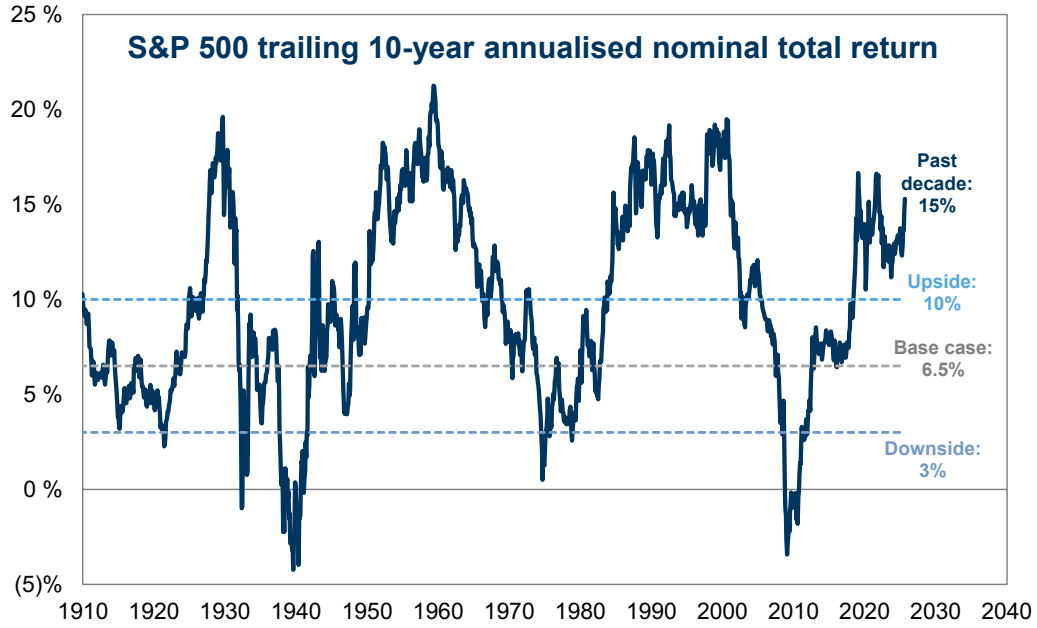
Source: Datastream, Goldman Sachs Global Investment Research

Five key messages: (1) We expect global equities to deliver solid long-term returns despite elevated valuations, with our modal forecast of around 7.7% per annum sitting close to the historical median. **(2)** Earnings growth remains the primary driver of performance, as we expect global earnings—including the impact of buybacks—to compound at roughly 6% annually. **(3)** The remainder of returns would come from dividends, as valuations are likely to ease from current highs. **(4)** Elevated US valuations argue for diversification, with a tilt towards Emerging Markets, where higher nominal growth and improving market structures modestly favour EM over DM. This outlook will also depend on how Artificial Intelligence reshapes the equity landscape, with long-term benefits expected to be broad-based rather than confined to US technology. **(5)** FX matters: a declining USD could lift USD-translated returns and has historically coincided with non-US equity outperformance.

US Equity 10-Year Return Forecast

We forecast an average annual S&P 500 total return of 6.5% during the next 10 years, with upside and downside scenarios indicating a range of 3% to 10%. Relative to the distribution of S&P 500 10-year returns since 1900, this base case 6.5% return would rank in the 27th percentile. Adjusting for our economists' estimated average inflation rate of 2.2%, our forecast would indicate a real return of 4%, ranking in the 33rd percentile vs. history.

Exhibit 10: We forecast an annualised nominal total return of 6.5% for the S&P 500 during the next decade



Source: Goldman Sachs Global Investment Research

The building blocks of our base case 6.5% return forecast consist of 6% annualised earnings per share growth, a 1% annualised decline in valuations, and a 1.4% average dividend yield. While valuations have been the major determinant of the variation in returns from decade to decade, earnings have been the primary driver of the returns themselves. For example, since 1990, EPS growth has accounted for 8 percentage points of the 9% annualised nominal S&P 500 price return. We expect earnings will remain the primary driver of equity returns during the next 10 years.

Exhibit 11: Building blocks of our 10-year return forecasts and scenarios

	Upside	Base case	Downside
Earnings			
10Y sales CAGR (%)	5	5	5
Net profit margin at end of period (%)	15	13	11
Earnings 10Y CAGR (%)	7	5	3
Average net buyback yield (%)	2	1	1
10Y EPS CAGR (%)	9	6	4
Shareholder return			
Average 10Y dividend yield (%)	1.6	1.4	1.3
Valuation			
NTM P/E (current = 23x)	23	21	17
Annualized 10Y valuation change (%)	0	-1	-3
S&P 500 annualized 10Y total return (%)			
Nominal	**10**	**6.5**	**3**
Percentile rank since 1900	*56*	*27*	*7*
Real	**8**	**4.3**	**1**
Percentile rank since 1900	*58*	*33*	*16*

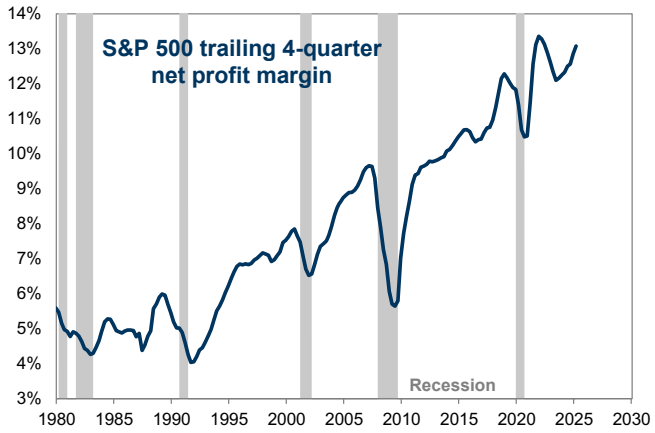
Numbers may not add due to rounding and due to interaction terms between valuation multiples and earnings.

Source: Goldman Sachs Global Investment Research

Our central earnings forecast is based on our economists' GDP and inflation forecasts, and embeds corporate revenue growth roughly in line with nominal GDP growth. Modest USD weakening during the next decade should also be a small tailwind for revenues. Our base case earnings forecast assumes no major change to the S&P 500 net profit margin during the next decade.

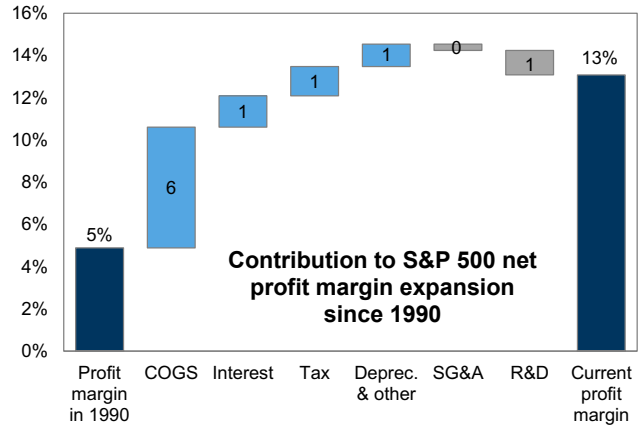
The S&P 500 net profit margin and ROE currently stand near record highs, and many of the tailwinds to corporate profitability in recent decades are unlikely to boost profits to a similar extent going forward. Since 1990, the S&P 500 net profit margin has expanded from 5% to 13% today. Of that 820bp increase, we calculate that 570bp has been attributable to higher gross margins, which are partially a consequence of the integration of global supply chains; 290bp has been attributable to falling interest rates and corporate tax rates, neither of which appears likely to decline as substantially during the next decade.

Exhibit 12: S&P 500 net profit margin is near an all-time high



Source: Compustat, Goldman Sachs Global Investment Research

Exhibit 13: Drivers of long-term S&P 500 margin expansion

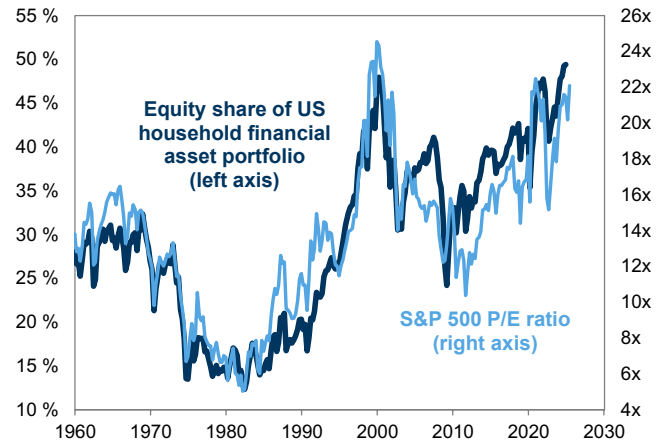


Source: Compustat, Goldman Sachs Global Investment Research

Our valuation forecast is anchored by a macro model incorporating 10-year Treasury yields, inflation, and corporate ROE. The model is similar to those previously discussed by our colleagues in global markets and asset allocation, and embeds GS long-term forecasts for interest rates and inflation, including a nominal 10-year US Treasury yield of 4.5% in 2035.

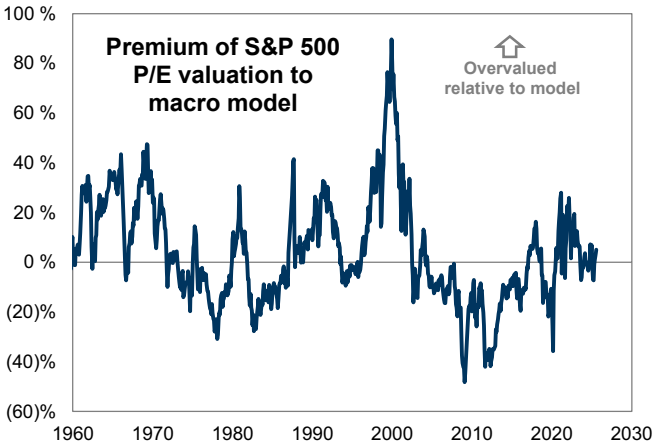
As in our earnings forecast, our baseline valuation scenario assumes roughly no change in corporate profitability during the next decade. In our model, this would support a forward P/E multiple of 21x in 10 years, a decline of 10% (1% annualised) from the 23x multiple today. While valuations are very high today relative to history, multiples have generally trended higher during the last several decades. Through the lens of our model, this trend can largely be explained by the trend lower in interest rates and higher in corporate profitability. Going forward, without a dramatic increase in interest rates and/or sharp decline in corporate profitability, we think it likely that US equity valuations will remain above long-term averages.

Exhibit 14: The S&P 500 P/E ratio and household equity allocations are currently high relative to history



Source: Federal Reserve, Goldman Sachs Global Investment Research

Exhibit 15: The S&P 500 P/E multiple is close to modeled fair value

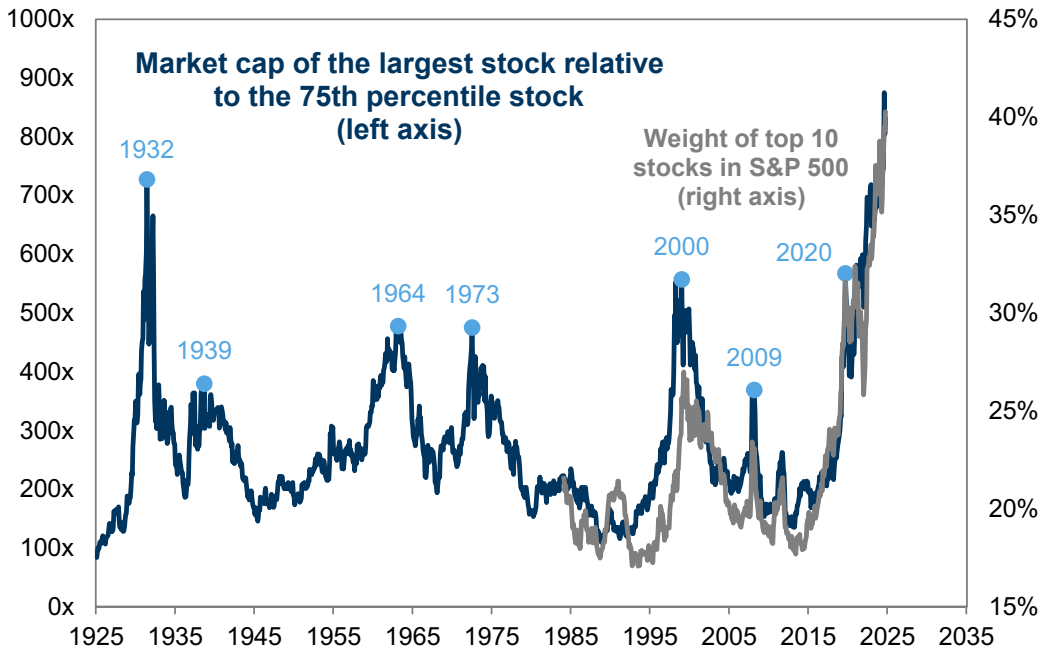


Source: Goldman Sachs Global Investment Research

Our forecasts for dividends and the net buybacks embedded in our EPS growth forecasts assume payout ratios in line with historical averages. We model a 40% buyback payout ratio and 30% dividend payout ratio, in line with payouts during the last 15 years. This 70% total shareholder return payout for the S&P 500 would be consistent with the average since 1950.

Extreme current US equity market concentration increases the uncertainty around the long-term equity market forecast. The extraordinary earnings strength and elevated valuations of the largest US firms have helped boost the earnings growth, multiples, and returns of the aggregate US equity market in recent years. If these companies maintain their dominance, equity market returns during the next decade will likely surpass most forecasts, as they have during the past decade. In contrast, if the profitability and/or valuations of the largest companies falter, unless another cohort of "superstars" emerges, returns for the broad market will likely be hampered as today's largest stocks fall back to earth.

Exhibit 16: US equity market concentration is extremely elevated



Source: Compustat, CRSP, Kenneth R. French, Goldman Sachs Global Investment Research

From a macro perspective, the key upside risk to our profit growth forecasts is from AI, either because AI results in stronger economic and revenue growth than is currently embedded in our economists' GDP forecasts, or because companies manage to use the technology to meaningfully expand profit margins. A continued rise in the equity market weight of the technology sector, which carries profit margins twice that of the rest of the S&P 500 (26% vs 13%) would also create arithmetic upside to the profit margin of the aggregate index. In our upside scenario, continued profit margin expansion in line with the 35-year trend would boost average EPS growth to 9% rather than 6%.

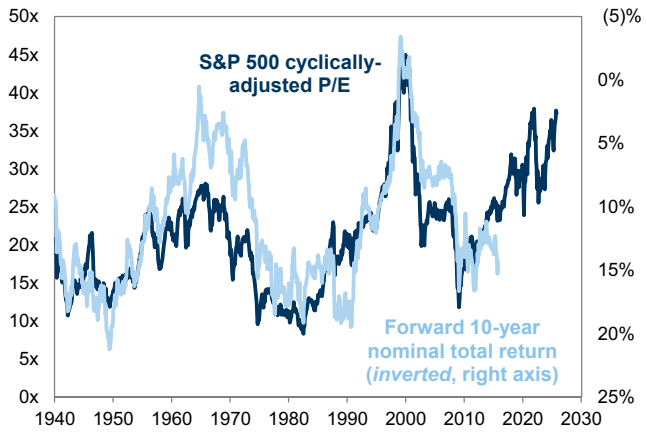
If earnings growth and profitability surprise to the upside of our central forecasts, valuations likely will as well. Our upside earnings scenario would be consistent with a

modeled P/E multiple of 23x, although history shows that the multiple frequently overshoots "fair value" and periods of overvaluation can persist for years. From a flows perspective, a continued increase in the US household financial asset portfolio allocation to equities would also pose long-term upside risk to equity valuations. Conversely, our earnings downside scenario would also be consistent with lower valuations and lower equity allocations.

In contrast, margin compression is the primary driver of our downside scenario in which annualised EPS growth registers 4%. Among other factors, this could be caused by a reversal of the recent exceptional profitability and market weights of "superstar" US technology firms. In a scenario where the market weight and profit margin superiority of the Information Technology sector were to revert to their averages between 1970 and 2015, this would drive a decline in the aggregate S&P 500 profit margin to 11% from the current 13%.

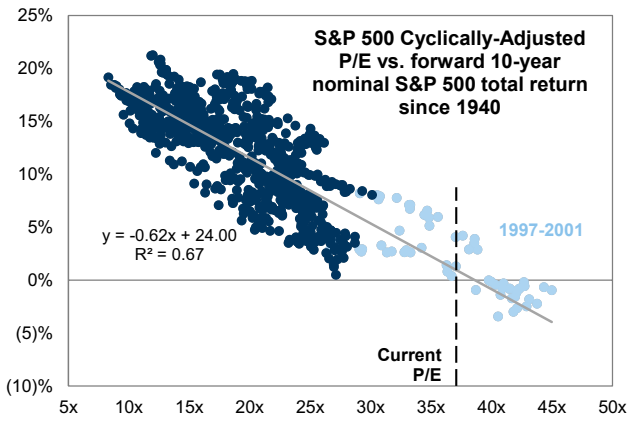
The historical univariate relationship between valuations and forward returns would point to returns in the low single digits, close to those in our downside scenario. Above-average valuations have historically signaled below-average returns, and we expect the same outcome will prove true during the next decade. In the past, following valuations near current levels, nominal 10-year annualised US equity total returns have ranged from 0% to 4%.

Exhibit 17: Above-average valuations have historically signaled below-average returns



Source: Robert Shiller, Goldman Sachs Global Investment Research

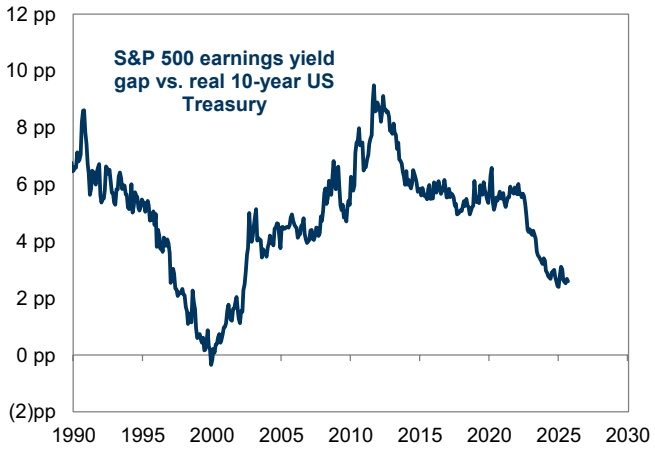
Exhibit 18: The historical relationship between valuations and returns signals poor return prospects today



Source: Goldman Sachs Global Investment Research

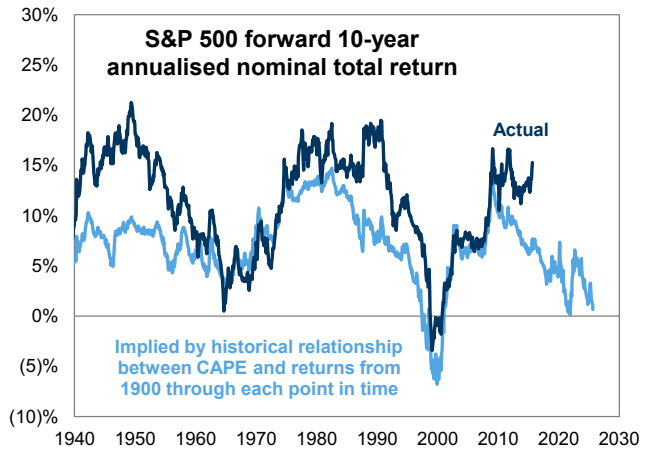
There are a number of challenges with relying solely on the relationship between historical valuations and subsequent long-term returns. One challenge is that current valuations have only been experienced during two previous episodes, during the Dot-Com Bubble and briefly in 2021. The latter of those episodes has occurred too recently to know how the subsequent decade will unfold, although S&P 500 returns have annualised roughly 10% during the four years since then. While elevated valuations in the late 1990s preceded very poor 10-year returns, there are many differences between the market then and today, including lower current interest rates that signal a wider equity risk premium. In addition, the relationship between valuations and forward returns has frequently under-predicted actual returns historically.

Exhibit 19: The equity risk premium today is wider than it was during the late 1990s



Source: Goldman Sachs Global Investment Research

Exhibit 20: 10-year US equity returns have often exceeded those predicted purely by valuations



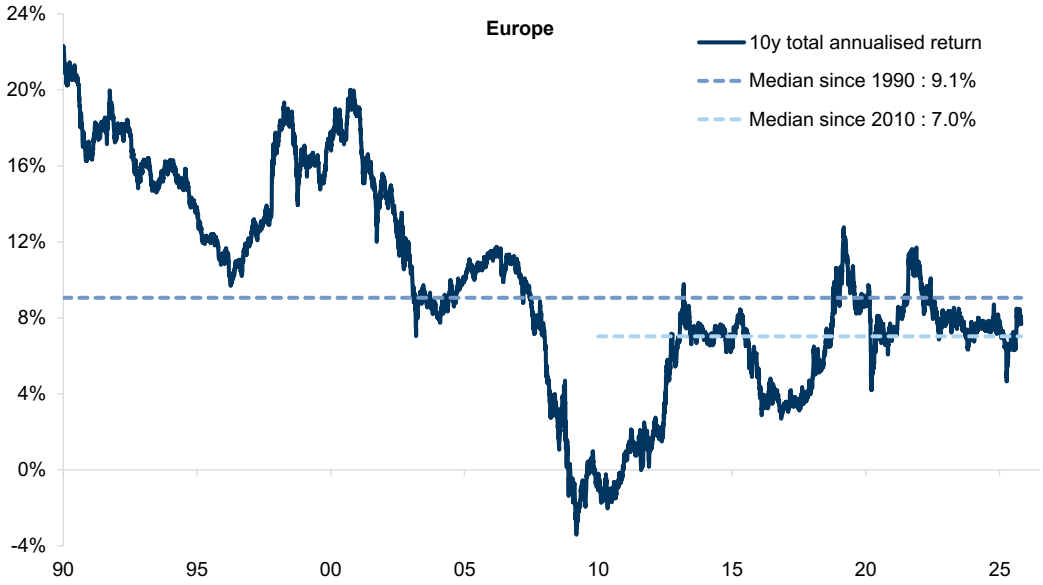
Source: Robert Shiller, Goldman Sachs Global Investment Research

Europe Equity 10-Year Return Forecast

Annualised Total Return: 7.1% in EUR (or 7.5% in USD). We expect European equities to deliver an annualised total return of 7.1% over the next decade, based on our building block framework (Exhibit 21). This forecast places the outlook in the 27th percentile of the index's historical distribution of rolling 10-year returns since 1990. For context, the historical median stands at 9.1%, although this has declined to 7.0% in the post-Global Financial Crisis era.

Our baseline assumes broadly favourable conditions—excluding major shocks such as recessions or geopolitical disruptions—yet remains balanced as it does not incorporate additional upside from AI-driven productivity gains or structural policy shifts, including deeper EU integration. To capture the range of potential outcomes, we also model upside and downside scenarios around this baseline, resulting in projected annualised returns of 10.1% and 4.1%, respectively.

Exhibit 21: Our building block model forecasts that European equities will deliver an annualised total return around 7% over the next decade
STOXX Europe 600 (EUR) when available



Source: Datastream, Goldman Sachs Global Investment Research

1. Earnings Growth: +4.6% CAGR

Our long-term earnings growth estimate is built on two pillars:

- Sales growth in line with nominal, sales-weighted GDP (SW-GDP).
- Stable net margins.

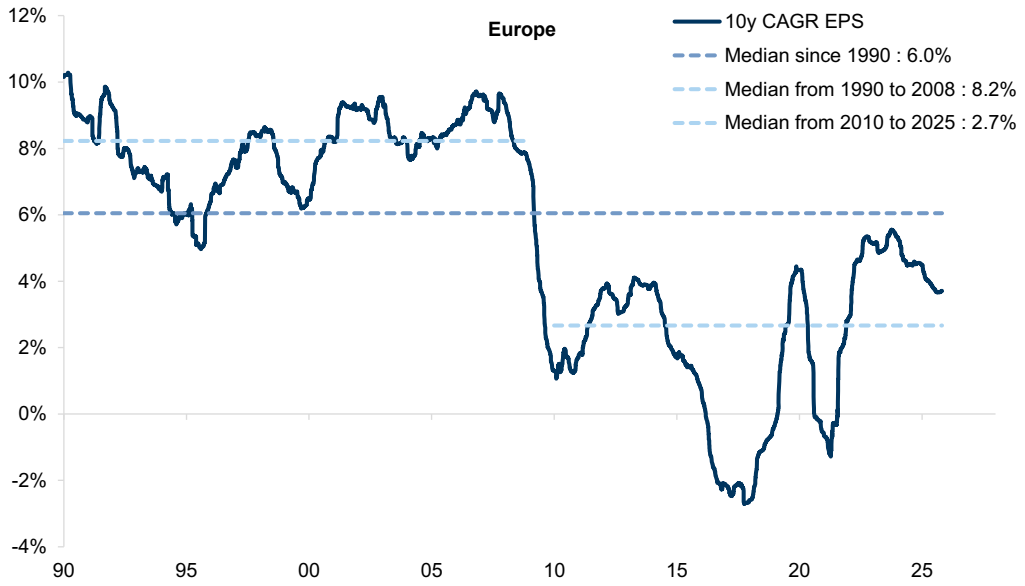
European corporates are highly international: the STOXX 600 index derives only 40% of its revenues from Europe, with 26% from North America, 19% from Asia-Pacific, and 15% from other Emerging Markets. This global footprint means that European GDP alone is not a sufficient proxy for index growth; instead, we use a sales-weighted GDP approach, reflecting the true revenue mix.

Our economists' forecasts suggest real SW-GDP growth of around 2% CAGR over the next decade, with inflation also expected to average 2.1%—in line with central bank targets. This combination yields nominal sales growth of 4.1% per annum.

We assume net margins remain stable. European net margins are currently just below 10%, sitting in the 80th percentile relative to history (since the mid-1990s). While margins are already elevated, structural shifts—such as a greater index weight in more efficient, higher-productivity companies—support the case for sustained higher profitability. Consensus expectations are even more optimistic, anticipating some margin expansion, but we prefer to remain conservative in our base case.

Adding a conservative 0.5pp for buybacks (reflecting the recent pick-up in net buyback yield to 1.1% over the last five years, versus a median of just 0.1% since 2000), we arrive at an EPS growth forecast of 4.6% CAGR for 2025–2035 (Exhibit 22). This is lower than the median 10-year growth since 1990 (6.0%) but higher than the post-GFC EPS growth (2.7%).

Exhibit 22: We forecast 4.6% EPS CAGR for the next 10 years
STOXX Europe 600 (EUR)



Source: Datastream, Goldman Sachs Global Investment Research

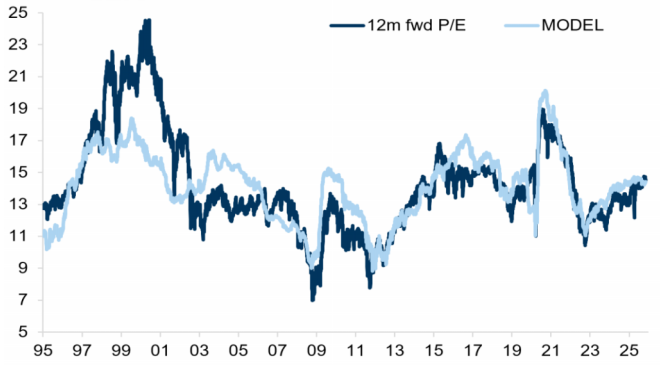
2. Valuation: down from 14.6x to a 13.9x Forward P/E

We model valuation using four key inputs (Exhibit 24):

- **Growth:** Europe's real sales-weighted GDP q/q anualised, as outlined above.
- **Risk:** The average of BTP-Bund and OAT-Bund spreads, with long-term forecasts from our Rates team.
- **Inflation:** The distance from the 2% target, based on US Core CPI, with long-term convergence expected by our economists.
- **Index Composition:** The relative earnings weight of Growth vs. Value sectors, currently in line with historical norms.

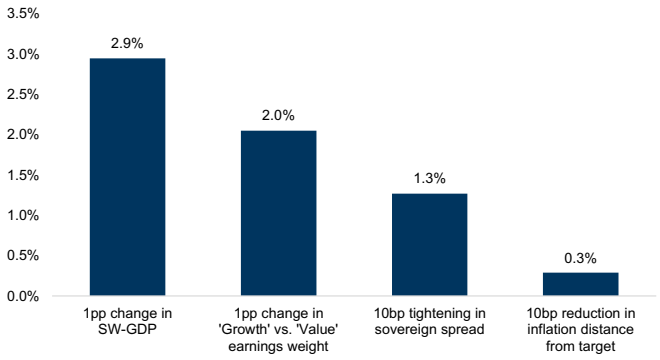
Under these assumptions, our model returns a forward P/E of 13.9x, slightly lower than the current market level of 14.6x (Exhibit 23). This should knock 0.5pp per year off our total return forecast over the next 10 years.

Exhibit 23: Our European model returns a 12m forward P/E slightly lower than the current one for STOXX 600
STOXX Europe 600 (EUR) when available



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 24: Our European valuation model consists of sensitivities to four inputs
% Change in 12-month forward SXXP P/E based on multi-linear regression model back to 1995

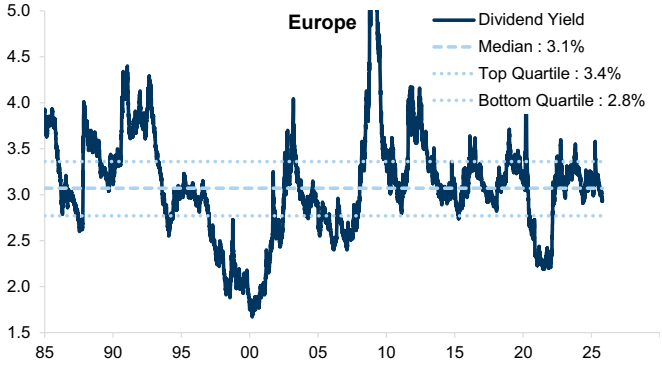


Source: Datastream, Goldman Sachs Global Investment Research

3. Shareholder Yield: 3.5% p.a. (3.0% Dividend + 0.5% Buyback)

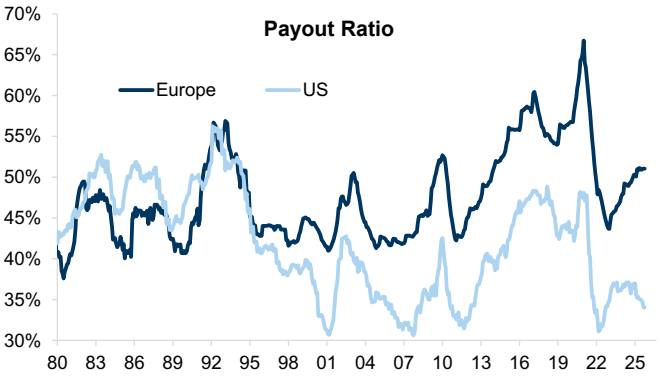
Dividends remain the cornerstone of European equity returns. We assume a stable dividend yield of 3%, in line with the long-term median since 2000. The distribution of dividend yields in Europe is notably tight (Exhibit 25 and Exhibit 26), with the 10th and 90th percentiles at 2.4% and 3.6%, respectively.

Exhibit 25: We assume a stable dividend yield of 3% over the next 10 years
STOXX Europe 600



Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 26: Since the late 1990s, Europe has had a higher dividend payout ratio than the US



Source: Datastream, Goldman Sachs Global Investment Research

Shareholder distributions remain a critical driver of long-term returns, and buybacks—though technically captured only once through their impact on EPS by reducing share count—signal the same corporate intent as dividends: returning cash to shareholders. When we combine dividends, assumed at around 3%, with buybacks of roughly 0.5%, we find that in Europe these distributions account for half of the expected total return of approximately 7% over the next decade.

Buybacks are becoming a more meaningful component of shareholder yield. While the

median net buyback yield since 2000 has been just 0.1%, the average over the past five years has risen to 1.1%. For our forecast, we take a conservative stance and assume a 0.5% buyback yield. Dividends and buybacks act as 'communicating vessels': if buybacks remain elevated, dividend yields may settle slightly lower, and vice versa. At the same time, we expect companies to allocate more capital to growth initiatives—such as CAPEX, R&D, and M&A—which could moderate buyback activity in the medium term.

Taken together, we forecast a total shareholder yield of around 3.5% per annum. This stable and substantial contribution underscores the importance of payout policies as a structural component of European equity returns.

4. Currency Basis: EUR/USD Adds 0.4% p.a. to USD Returns

Returns are expressed in local currency (EUR). Our FX strategists expect EUR/USD to move from 1.15 currently to 1.21 over the next decade, implying an additional 0.4% per year from currency appreciation. This results in an estimated annualised total return of 7.5% in USD terms for European equities. Notably, the FX team expects EUR/USD to reach 1.25 in the next 12 months, before trending down towards 1.21 by 2035. This means that currency gains (and losses) may be front-loaded, with a subsequent reversal.

5. Outlook, Scenarios, and Key Risks

In our base case, we forecast a total annualised return for European equities of 7.1% in EUR terms (and approximately 7.5% in USD), underpinned by 4.6% EPS CAGR, a 3.5% shareholder yield, and stable valuations (Exhibit 27).

Scenario Analysis:

- **Upside Scenario:** If Europe achieves greater integration—through a deeper investment and savings union, an AI-driven productivity boost, or cheaper energy—EPS growth could accelerate to 6.6% CAGR, supported by stronger nominal growth and approximately 1pp margin expansion. Valuations could re-rate to 15.4x, while shareholder yield rises to 4.0%. Under these assumptions, total returns would surpass 10% per annum.
- **Downside Scenario:** If Europe slips back into a sluggish growth regime similar to 2010-2019, EPS growth could slow to 1.9% CAGR, reflecting a volatile GDP trajectory and margins compressing by 150bp, reverting towards historical averages. Valuations could de-rate to 13.4x, and shareholder yield could decline to 3.0%. In this scenario, total returns would fall to around 4% per annum.

Exhibit 27: Ability to maintain or expand margins a key determinant of next-decade returns
European equities 10-year returns Scenario Analysis

	Downside	Base-case	Upside
Earnings			
Sales 10y CAGR (%)	3.6	4.1	4.6
Net profit margin change (bp)	-150	0	100
Earnings 10y CAGR (%)	1.9	4.1	5.6
Net buyback yield (%)*	0.0	0.5	1.0
EPS 10y CAGR (%)	1.9	4.6	6.6
Shareholder return			
Dividend yield (%)	3.0	3.0	3.0
Net buyback yield (%)*	0.0	0.5	1.0
Total shareholder return	3.0	3.5	4.0
Valuation			
NTM P/E (start)	14.6	14.6	14.6
NTM P/E (end)	13.4	13.9	15.4
Valuation change 10y ann. (%)	-0.9	-0.5	0.5
Return			
Price return 10y CAGR (%, EUR)	1.1	4.1	7.1
%ile rank (since 1990)	*16%*	*33%*	*55%*
Total return 10y CAGR (%, EUR)	4.1	7.1	10.1
%ile rank (since 1990)	*16%*	*27%*	*54%*
Total return 10y CAGR (%, USD)	4.1	7.5	10.9
%ile rank (since 1990)	*12%*	*38%*	*60%*

*Buybacks are shown twice in this exhibit for illustrative purposes. Technically, they affect returns only through EPS, which flows directly into price performance. However, because buybacks are often discussed alongside dividends as part of shareholder distributions, we display them separately here. In the final calculation, buybacks are included only once—within price return—while dividends are added to price return to derive total return.

Source: Datastream, Goldman Sachs Global Investment Research

Asia Equity 10-Year Return Forecast

We forecast a 10.3% annualised local currency total return over the next 10 years for the MSCI Asia Pacific ex-Japan Index (MXAPJ). This ranks in the 82nd percentile of the index's historical distribution of rolling 10-year returns since its inception in 1987. The historical mean is 7.5%, with a 2.6% standard deviation. As discussed below, our forecast assumes favourable conditions across dimensions including AI and corporate reform, and excludes major risks such as recession, domestic policy shifts, or geopolitical disruptions. Accordingly, for upside and downside scenarios around this baseline, we apply +0.5 s.d. and -1.0 s.d. assumptions, resulting in upside/downside annualized returns of 11.6% (94th percentile) and 7.7% (57th percentile), respectively.

For **China**, which comprises 29% of the MXAPJ index, we forecast 10.4% annualised total returns over the next 10 years, ranking in the 70th percentile of historical 10-year annualised returns. Using similar +0.5 s.d. and -1.0 s.d. assumptions, the upside and downside annualised returns are 12.9% and 5.4%, respectively.

For **Japan**, we forecast **8.2% annualised 10-year returns**, placing it in the **79th percentile** of its return distribution. The upside and downside returns are 10.8% and 3.0%, respectively, using the same standard deviation assumptions.

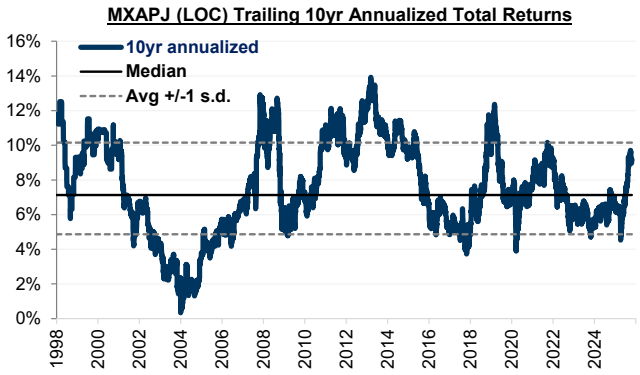
Exhibit 28: Our 10-year annualised total returns for Asian equity markets are towards the high end of their historical distribution, driven by AI benefits and corporate reform

	10-Year Annualized LOC Total Returns	MXAPJ	MSCI China	Japan
(Since 1988)	**Historical Median**	7.5%	8.1%	2.1%
	1 s.d. move	+/- 2.6%	5.0%	5.2%
(Baseline Forecast)	**GS Next 10Y Forecast**	**10.3%**	**10.4%**	**8.2%**
	(Percentile)	*82%*	*70%*	*79%*
(Upside Scenario)	**Baseline + 0.5 s.d.**	**11.6%**	**12.9%**	**10.8%**
	(Percentile)	*94%*	*77%*	*92%*
(Downside Scenario)	**Baseline - 1 s.d.**	**7.7%**	**5.4%**	**3.0%**
	(Percentile)	*57%*	*33%*	*62%*

Note: MSCI China Index history begins in 1993.

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 29: Asian regional equities have averaged 7.5% 10-year LOC total returns since inception, with a 2.6% standard deviation.



Source: FactSet

Key Drivers of Our Return Forecasts

1. Earnings Assumptions

Over longer timeframes, earnings are the largest component of equity returns. For 10-year growth assumptions, we begin with our top-down earnings growth forecasts for the next two years (14% regional CAGR) and then estimate trend growth for years 3–10 using historical earnings-to-GDP betas and our economists' GDP projections through 2035. This results in a baseline EPS growth estimate of 8.3%, consistent with the 10-year historical average, based on weighted regional GDP assumptions of 5.0% nominal / 3.3% real. We then adjust this up by 40bp to 8.7%, reflecting (a) AI-driven capex/adoption (Korea, Taiwan, Japan, China), (b) structural reforms enhancing ROE (China, Korea, Japan), and (c) sector composition shifts towards new economy sectors (tech, internet, capital goods).

Intra-regional differences are significant, which therefore calls for a granular approach to framing long-term forecasts. **India** is likely to post the highest growth at 13% CAGR, driven by strong economic fundamentals and demographic tailwinds. **Taiwan** and **Korea** (both 10% EPS CAGR) will likely see earnings growth bolstered by AI capex, shareholder reform (mainly Korea), and strategic sectors including defence, nuclear, and shipbuilding (Korea). **China** has the capacity to deliver 12% growth over the next three years, driven by AI capex/adoption, rising external market share (the going-global theme), and anti-involution (reduction of excess capacity and corresponding margin pressure). Earnings growth may then taper to 5% by 2035, averaging 8% over 10 years. Smaller ASEAN markets such as the **Philippines** and **Indonesia** have the capacity to deliver 9% growth, supported by robust domestic demand and industries that in some cases are partly shielded from external competitive pressure. Developed markets such as **Australia, Hong Kong,** and **Singapore,** as well as **Japan**, are likely to deliver 6-7% earnings growth, largely in line with historical and DM averages.

2. Valuation Assumptions

Given our forecasts of higher US 10-year yields, moderately lower US equity valuations, moderating Asian economic growth, and stronger Asian exchange rates vs. USD, our macro model indicates the **MXAPJ index P/E multiple may revert to its 10-year average of 13.5x**, down 13% (or -1.2% annualised) from the current elevated 15.3x (+1.4 s.d.). **China**'s valuation is less extended, so we expect little change over 10 years. **Japan** may see moderate P/E compression of 1% per annum over the next decade to 14.5x, moderately above its long-term average, from a high current starting point of 16.3x (+1.3 s.d.).

3. Shareholder Yield

Cash returns to shareholders through dividends and stock buybacks are likely to be a more important source of return over the next 10 years, given an increasing focus by regulators and listed companies on improving profitability and shareholder returns. We **model an increase in payout ratios** across EM Asia, from 38% (well below DM averages) to 44% by 2035, implying a ~2.7% dividend yield for the region. The **net buyback yield** is likely to be +0.2%, led by DMs (Japan, Australia, HK, Singapore) and improvements in Korea and China. Most EM Asian markets continue to show negative net buyback yield (i.e. net issuance). **China, Korea,** and **Japan** are likely to lead in both dividend and buyback improvements, supported by policy initiatives.

4. Currency Change

Our currency strategists remain bearish on USD and expect Asian currencies to appreciate over the next decade towards our estimate of fundamental fair value. **A weaker USD is mostly favourable for Asian equities**, not only through the translation effect into USD total returns, but through earnings, valuation, and portfolio flow channels. Given uncertainty regarding the extent to which currencies may trend towards fair value and how fair value itself may change, we prefer to focus on local currency total returns, noting that currency appreciation could add 2%-3.5% annual upside to MXAPJ and Japan's respective USD total returns.

Exhibit 30: Earnings are the main driver of our 10-year annualised return forecasts, supplemented by improving shareholder returns

	10yr Forecast (Annualized)								
	EPS Growth (%)	Fair fPE (X)	Valn Change (Ann.%)	Buyback Yield (%)	LOC Price Return (%)	Dividend Yield (%)	LOC Total Return (%)	FX vs. USD (%)	USD Total Return (%)
MXAPJ	8.7%	13.5	(1.2%)	0.2%	**7.6%**	2.7%	**10.3%**	2.1%	**12.6%**
China	7.6%	13.0	(0.1%)	0.4%	**7.9%**	2.6%	**10.4%**	3.2%	**14.0%**
Japan	6.0%	14.5	(1.2%)	1.1%	**5.9%**	2.3%	**8.2%**	3.5%	**12.0%**

Note: MSCI China's EPS growth and LOC returns are based on CNY pricing

	Current	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Index Level / Year-End Target											
MXAPJ (USD)	721	805	895	985	1,085	1,185	1,295	1,405	1,525	1,655	1,800
MSCI China (LOC)	88	100	115	128	141	154	168	182	197	213	230
TPX (JPY)	3,313	3,600	3,870	4,120	4,370	4,620	4,870	5,120	5,370	5,610	5,850
Index Return (Annual)											
MXAPJ (USD)		12%	11%	10%	10%	9%	9%	8%	9%	9%	9%
MSCI China (LOC)		14%	15%	11%	10%	9%	9%	8%	8%	8%	8%
TPX (JPY)		9%	8%	6%	6%	6%	5%	5%	5%	4%	4%

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 31: Earnings growth varies widely across Asia but is likely to average 9% for MXAPJ over the coming decade.

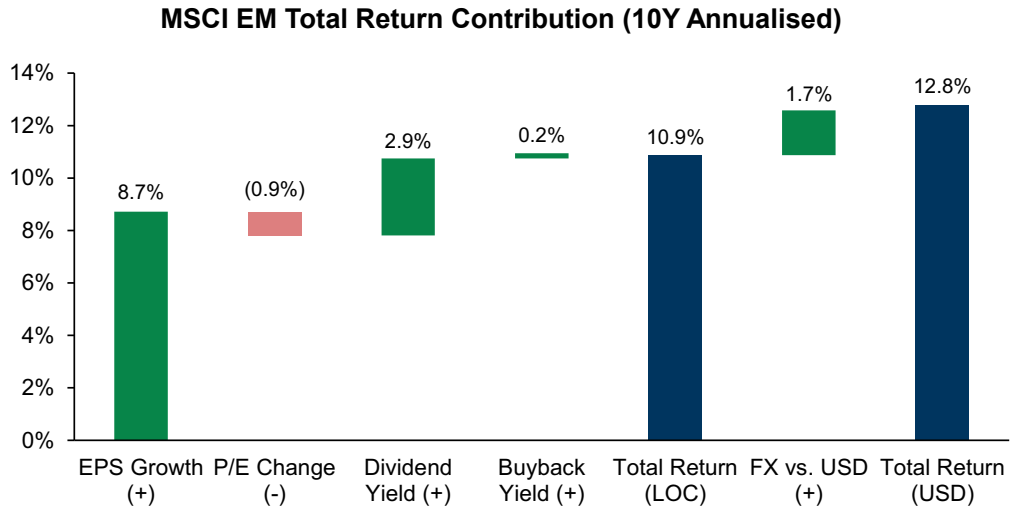
	GDP Growth (CAGR)		EPS Growth (CAGR)		
MSCI Market	**Nominal (26-35E)**	**Real (26-35E)**	**Past 20Y (2006-25)**	**Past 10Y (2016-25)**	**Next 10Y (26-35E)**
Australia	5.3%	2.8%	3%	6%	**6%**
China	4.9%	3.6%	11%	7%	**8%**
Taiwan	2.7%	2.2%	8%	11%	**10%**
Korea	3.8%	2.1%	8%	10%	**10%**
Hong Kong	4.7%	2.6%	6%	5%	**6%**
Singapore	2.8%	2.1%	7%	8%	**6%**
India	11.1%	6.7%	12%	12%	**13%**
Indonesia	6.8%	4.9%	10%	8%	**9%**
Malaysia	4.9%	4.4%	5%	2%	**5%**
Thailand	2.6%	2.1%	6%	6%	**6%**
Philippines	8.0%	5.8%	9%	8%	**9%**
MXAPJ	**5.0%**	**3.3%**	**7%**	**8%**	**9%**
Japan	**1.7%**	**0.5%**	**5%**	**8%**	**6%**

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

EM Equity 10-Year Return Forecast

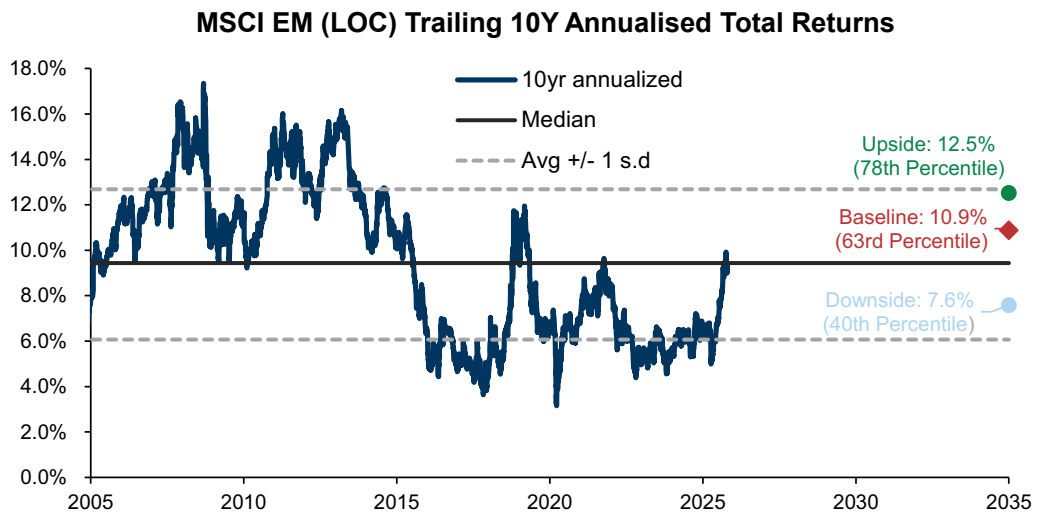
MSCI EM: 10yr annualised (local) total returns: + 10.9%, highest among the key regions. We forecast 10.9% annualised local currency total returns over the next 10 years for the MSCI EM index (MXEF), which is highest among the key regions (vs. US, Europe, JP and APxJ). This ranks in the 63rd percentile of the index's historical distribution of rolling 10-year returns over the past three decades. As we discuss below in further detail, our EM equity return forecast methodology is largely consistent with that of our Asia strategy colleagues given the large market cap overlap. We incorporate the forecasts for the EM Asian markets and combine those with non-Asian EM forecasts for EM Europe, LatAm, South Africa and Middle East equity markets. Incorporating the FX changes, we forecast 12.8% annl. total returns in USD terms.

Exhibit 32: We forecast 10.9% annualised local currency total returns over the next 10 years for the MSCI EM index (MXEF) ...



Source: Goldman Sachs Global Investment Research

Exhibit 33: ... which ranks in the 63rd percentile of the index's historical distribution of rolling 10-year returns over the past three decades; Our upside/downside scenarios point to 8-13% 10-year annualised local total returns



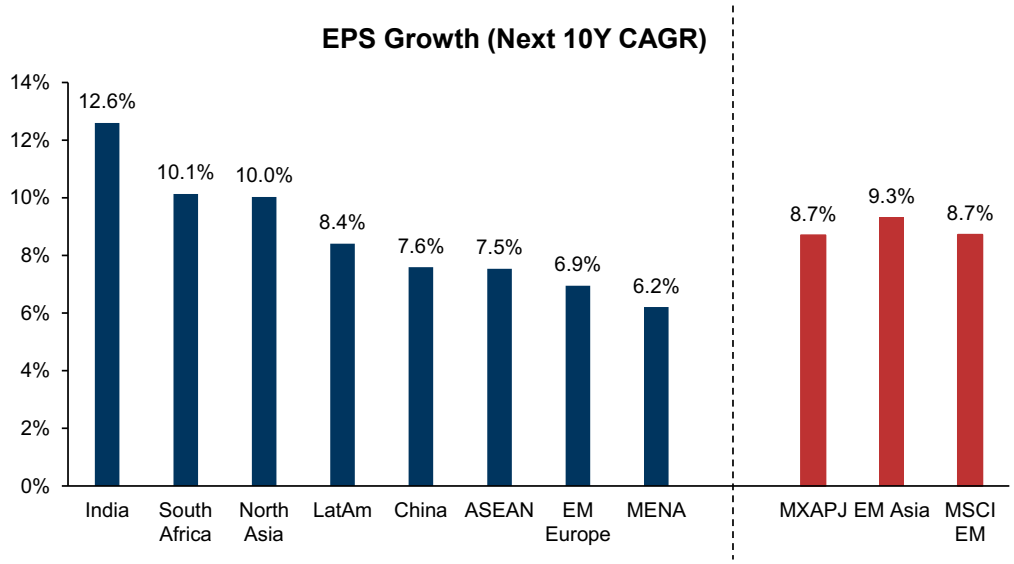
Source: FactSet, Goldman Sachs Global Investment Research

Earnings are the main driver of our EM long-term return forecast: We forecast that earnings will be the dominant driver of our long-term equity return forecast. Our expected annualised EPS growth of 8.7% over the next 10 years accounts for roughly 80% of our total returns. For earnings projections, we estimate top-down EPS growth forecasts for the next two years (17%/13% in CY2026/27), and then forecast the outer years based on historical earnings-to-nominal GDP betas and our economists' GDP projections through 2035. On a weighted average basis, this gives us a baseline EPS growth assumption of 8.1% (in line with the 10-year average of 8% and historical long-term average of 9% since 2007) and an implied 1.2x beta to the EM Nominal GDP CAGR.

To better reflect the changing AI landscape and recent structural reforms in markets not captured in those historical models, we apply adjustments to baseline earnings numbers. These include potential benefits from AI-driven capex/adoption (faster in North Asia, followed by China, and with lower adoption rates in most non-Asian markets), structural reforms that could enhance ROE (particularly in China, Korea) and GCC Capex outlays aiming at economic diversification in the MENA region away from oil, which could boost growth. This lifts our 10-year EPS growth forecast by about 60bp annually to 8.7%.

In terms of key MSCI EM sub-regions, India is likely to post the highest EPS growth at 12.6% CAGR over the next decade (on the back of strong structural growth and demographic tailwinds), followed by South Africa at 10.1%, North Asia at 10.0% (boosted by tech), while EM Europe (6.9%) and MENA (6.2%) are likely to post the lowest growth given lacklustre Euro area economic growth, the lack of an AI boost to corporate earnings and headwinds from structurally lower oil prices (vs. the previous decade) in the case of MENA.

Exhibit 34: Within EM sub-regions, India is likely to post the highest earnings growth followed by South Africa and North Asia, while EM Europe and MENA are likely to post the lowest EPS growth over the next decade



Source: FactSet, Goldman Sachs Global Investment Research

Moderate valuation de-rating based on our baseline macro forecasts: To estimate the 'fair value' multiple, we rely on our P/E macro model for EM ex-China and combine this with our expectations for China. Our P/E macro model incorporates EM economic growth and EM vs. US growth differentials, EM 10-year rates, the US Dollar path, commodity prices (a blend of oil, gold and copper prices) and US equity valuations (as a proxy for global risk appetite). Under our base case macro assumptions, lower US equity valuations, moderating EM growth and narrowing EM vs US growth differentials suggest a lower multiple through 2035, partly offset by a weaker Dollar, lower EM rates and a higher non-oil commodity price forecast (which helps gold-exposed stocks in South Africa and copper-exposed LatAm markets such as Peru and Chile). This points to a 12.8x 'fair P/E' by 2035 (12.7x for EM ex-China and 13x for China). While our 'fair value' exit P/E is about 1PE point higher than the 20-year average/median of 11.6x/11.7x, it implies a 9% P/E de-rating from the current high starting point of 14.1x and a -1% annualised valuation de-rating impact.

Exhibit 35: Our MSCI EM ex-China P/E macro model points to a gradual de-rating based on our baseline macro forecasts



Source: FactSet, Goldman Sachs Global Investment Research

Improving shareholder returns supported by policy reforms: We forecast about a 2.9% average annualised dividend yield over the next 10-years in MSCI EM, improving from the expected yield of 2.5% this year to about 3.2% by 2035. Our assumptions reflect a moderate increase in payout ratios (mostly in Asia, where policymakers are encouraging companies to pay higher dividends as part of broader corporate governance reform initiatives). Our modelling implies that the MSCI EM payout ratio in aggregate will improve from an expected 38% this year to 43% by 2035 but remain below DM averages in most places. We expect a modest improvement in buyback yields in EM from the current 0.1% to 0.2%, largely driven by policy reforms in Korea and China.

FX turns from a historical drag for EM returns to a likely boost over the next decade: Our FX strategists think the US dollar is about 15% overvalued right now and expect an appreciation in many EM currencies over the next decade. Based on their recently published long-term forecasts, we expect about a 1.7% weighted average FX appreciation for the MSCI EM index. The weighted average FX appreciation in EM is slightly smaller than in Asia and China, as we have already seen large FX moves in EM Europe and LatAm, and most of MENA is pegged to USD. That said, it's still a meaningful contributor to USD index returns because FX has historically been a net drag to USD performance (about 1%) in the past two decades for MSCI EM. So a nearly 2% FX tailwind over the next decade would mean a 3pp positive delta in total USD returns for MSCI EM vs. history.

Strong baseline returns, but higher downside than upside risks: Pulling together all the key drivers described above, we expect 10.9% total returns for MSCI EM in local currency and 12.8% in USD terms. In terms of MSCI EM index levels (quoted in USD), our annual forecasts imply MSCI EM could reach 3,270 by end-2035. As we have already incorporated the potential benefits from AI adoption/capex and corporate reforms into our expectations, we think downside risks to our base case are higher, due to external and domestic macro shocks (growth/recession risks, Fed and local policy shifts, and

renewed geopolitical tensions), than upside risks from faster reforms or AI boost. As such, we incorporate +0.5 s.d. and -1.0 s.d. assumptions around our local total return baseline, similar to the Asian forecasts. These point to upside/downside annualised returns of 12.5% (78th percentile) and 7.6% (40th percentile), respectively.

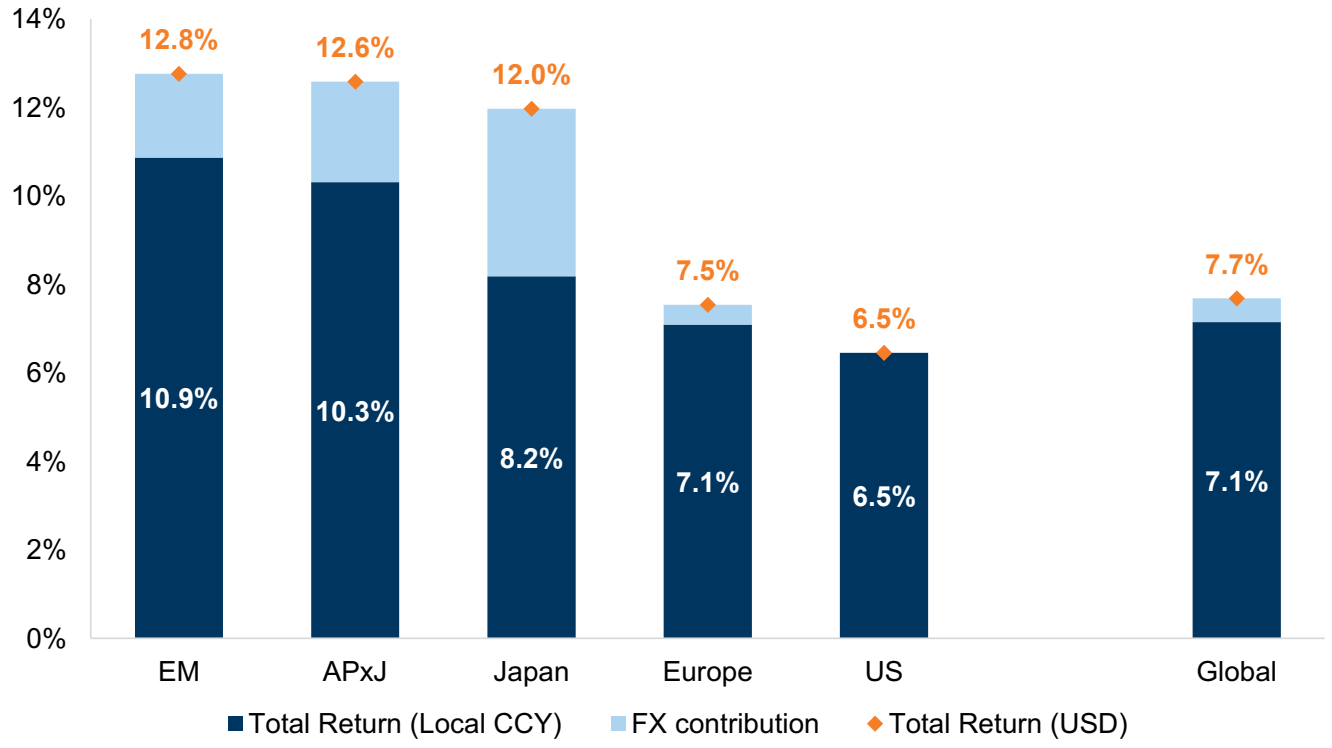
Appendix

Exhibit 36: Price level targets - local currency, unless otherwise stated

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
S&P 500	7600	7900	8300	8600	9000	9400	9800	10200	10700	11100
STOXX 600	600	625	650	675	705	730	760	790	825	855
TOPIX	3600	3870	4120	4370	4620	4870	5120	5370	5610	5850
MXAPJ (USD)	805	895	985	1085	1185	1295	1405	1525	1655	1800
MSCI China	100	115	128	141	154	168	182	197	213	230
MSCI EM (USD)	1565	1715	1855	2010	2185	2370	2570	2790	3025	3270

Source: Datastream, Goldman Sachs Global Investment Research

Exhibit 37: 10-year fwd annualised total return in USD - GS forecast



Source: Goldman Sachs Global Investment Research

Disclosure Appendix

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