BlackRock

Investment perspectives
August 2026

Tailoring return estimates for U.S. taxable investors

Our capital market assumptions include tax-aware return estimates, giving taxable U.S. investors a view of potential post-tax returns to help inform strategic asset allocation.

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Summary

- **Tax-aware capital market assumptions (CMAs) help taxable U.S. investors build portfolios around the returns they may keep after tax**. They help make comparisons across assets more relevant for taxable investors. BlackRock's CMAs include tax-aware estimates, available on our website for professional investors only. They sit alongside our existing CMAs, still relevant for tax-exempt investors like pension and sovereign wealth funds. A total portfolio approach starts with an investor's desired outcome and judges each investment by what it contributes to the entire portfolio. For taxable investors, that requires more than relying only on pre-tax return assumptions or traditional asset-class labels**.**
- **Higher bond yields have made the cost of ignoring tax more meaningful.** Taxable fixed income typically delivers much of its return as interest that is taxed as it is received, so higher yields increase the tax drag. Broad, low-turnover equity exposure can retain more of its return because a larger share may remain unrealized and tax can be deferred, although that advantage may be smaller for higher-turnover strategies.
- **Pre-tax assumptions can give taxable investors an incomplete picture.** CMAs and strategic allocations are typically expressed before tax. That may work for tax-exempt investors, but taxes can change how assets compare and, in turn, the portfolio choices those assumptions support.
- **Post-tax returns depend on how an investment makes money and when tax is paid**. Income, realized gains and unrealized appreciation can be taxed differently. The investment horizon and what happens to assets at the end — for example, whether they are sold, donated or held for estate transfer — can also affect the result, and therefore how attractive one asset looks relative to another.
- **Our tax-aware CMAs build these effects into expected returns from the start.** They separate returns into income, realized gains and unrealized appreciation, apply the relevant modeled tax treatment through time and calculate post-tax outcomes under different end-of-horizon assumptions, rather than applying one broad tax adjustment after the portfolio has been built.
- **Using after-tax assumptions can lead to better expected portfolio outcomes without taking more risk.** In the illustrative comparison, both portfolios target 10% risk, but the portfolio built using post-tax CMAs has an expected post-tax return of about 8.3%, versus about 7.7% for the portfolio built using pre-tax CMAs — roughly half a percentage point higher.
- **Tax efficiency may vary across different strategies, but we think taxable investors should focus more on risk-adjusted, post-tax returns.** Investments with a higher tax cost can still improve the portfolio if they offer enough return or diversification. Labels like public, private, equity or debt miss the full picture: turnover, distributions, the investment vehicle and the way returns are generated can all affect what the investor ultimately keeps.

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Why tackling tax matters

Today's higher yields on corporate and government bonds compared with the decade preceding the pandemic mean tax matters even more today. Taxable fixed income typically delivers most of its return as interest income that is taxed as it is received. As higher yields feed through to portfolio income, the tax drag can rise. See the left chart. When bond yields were near-zero, the tax on interest income was smaller. Higher yields mean the effect is larger and can fall unevenly across assets, so pre-tax and post-tax comparisons could point portfolios in different directions. We think sticky inflation, bloated government deficits and investors demanding more reward for the risk of holding long-term bonds are lifting yields. We don't see those pressures easing – yields may stay high. It will remain a pertinent issue for taxable investors, and we think that makes tax-aware capital market assumptions (CMAs) vital. Equity returns differ. While they include dividends and realized gains, a greater share of returns for "low-turnover" equities that are usually bought and held for long periods is the unrealized gain from rising prices. Those gains could be deferred until the asset is disposed.

Another reason why tax-aware return estimates are key: Investors are rethinking long-term portfolio construction through a total portfolio approach (TPA). That means setting objectives for the whole portfolio, looking through asset-class labels to the underlying economic drivers and judging each exposure by what it contributes. For taxable investors, the relevant objective is the wealth retained after tax. Yet CMAs and strategic asset allocations are typically expressed before tax. That may work for tax-exempt institutions, but it gives taxable investors an incomplete starting point. It changes how assets compare and also the allocation decisions those CMAs support.

A total portfolio approach also means judging each asset by its contribution to the portfolio's post-tax outcome, rather than its standalone tax cost. An asset with a hefty tax could still improve portfolios if its expected return or diversification offsets the tax drag. We think tax efficiency should be integral to portfolio construction, not an isolated allocation rule.

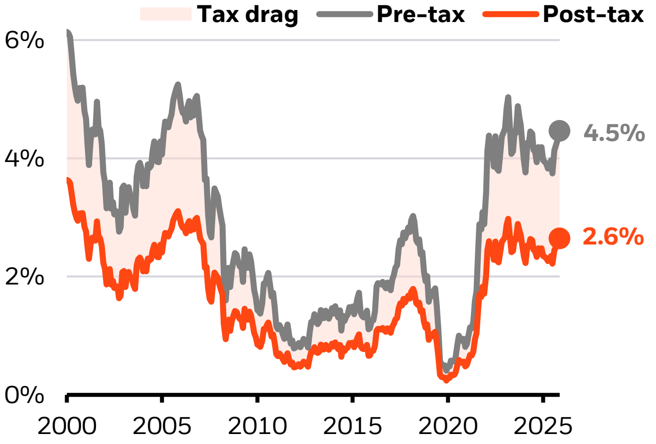
Tax outcomes follow economics, not asset-class labels. Tax costs depend on how returns are generated and realized, and there are three main types: income, realized capital gains and unrealized gains from rising prices. These types of return cut across traditional "public" and "private" market labels. Some assets on either side of that divide could be taxed similarly, just as assets within those categories may have very different tax profiles. How often the asset is traded, how its gains are distributed and the investment vehicle used to own that asset also affect the tax bill. The illustration below on the right shows how looking through asset-class labels reveals different tax features across public and private assets. For taxable investors, that means going beyond labels when comparing expected returns and building portfolios.

To produce tax-aware CMAs, we start with the pre-tax simulations used in our existing CMAs. For each simulated period, we separate income, realized gains and unrealized appreciation, apply the assumed tax rates and track the investor's tax basis. We calculate expected post-tax returns under two end-of-horizon cases. Under "*Liquidate*," remaining gains are realized and taxed. Under "*Estate/Donate*," no terminal capital-gains tax is applied to remaining unrealized appreciation. This way, investors can gauge how tax can affect outcomes across different horizons and end-of-horizon cases.

These are modeled outcomes, not a universal answer. They vary with assumptions on tax, investment horizon and treatment of assets at the end of that horizon.

Higher bond yields widen the tax drag

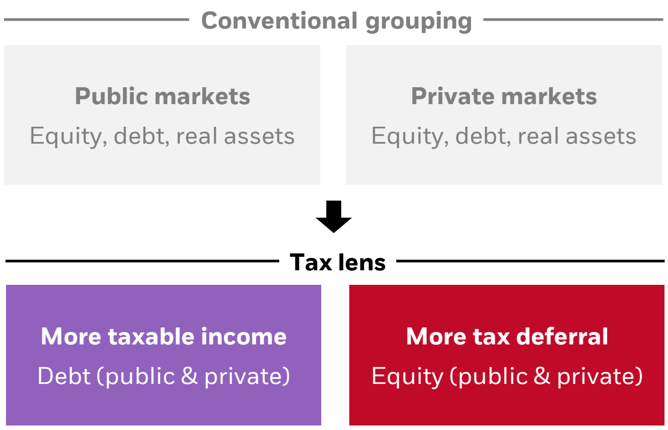
Pre- and post-tax U.S. Treasury yields, 2000-2026



This chart is intended for informational purposes only and does not constitute investment advice. The figures shown relate to past performance. Past performance is not a guarantee of future returns. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Source: BlackRock Investment Institute, August 2026, with data from Bloomberg. Note: The chart shows the yield to maturity of the Bloomberg U.S. Treasury Index before and after applying the modeled 40.8% federal tax rate to interest income. The analysis excludes state and local taxes and investor-specific circumstances. Indexes are unmanaged and cannot be invested in directly.

Breaking up conventional buckets

Proposed asset grouping by tax treatment



For illustrative purposes only. Source: BlackRock Investment Institute. Other exposures, including active equity, hedge funds and real estate, may have mixed or strategy-dependent tax characteristics, depending in part on turnover and realization patterns.

How tax skews returns

Tax can alter expected returns by different amounts. The chart on the left illustrates why, using three of the various assets used in our modeling. See the Appendix for more. The bars show 20-year pre-tax returns with modeled post-tax returns under the *Estate/Donate* and *Liquidate* assumptions detailed in the appendix. The fixed-income exposures shown produce similar post-tax results in both cases – much of their return is taxed as current income. The broad, low-turnover equity index modeled here retains a larger share of its pre-tax return, reflecting lower assumed federal rates on qualified dividends and long-term gains, along with deferred tax on unrealized appreciation. That's why the relevant post-tax assumptions depend on an investor's expected disposal plan. Assets with more deferred appreciation may compare more favorably in an *Estate/Donate* scenario than under liquidation. Using an assumption that does not match the investor's disposal plan could affect asset comparisons and the resulting portfolio choices. Tax is embedded in return estimates, rather than a simple adjustment.

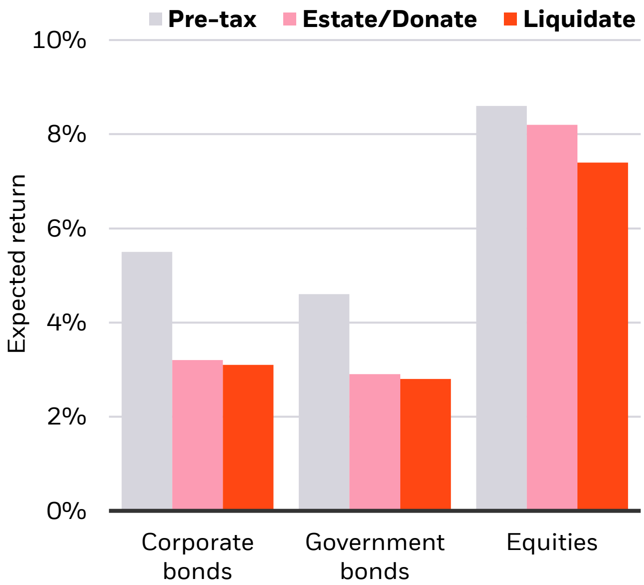
Tax also affects the range of portfolio outcomes. Under *Estate/Donate*, taxes on relatively stable income, like coupons and dividends, mainly act as a recurring drag on returns, so periodic volatility changes little for most assets. Strategies with large realized gains during the asset's lifespan can see a bigger change in volatility, as tax can dampen stronger returns when gains are realized. Under *Liquidate*, the same ongoing taxes apply, with an additional tax on remaining unrealized gains at the end. This has little effect on volatility over the full path but narrows the range of outcomes for post-tax wealth at the end of the investment horizon.

These examples do not provide a standalone ranking of which assets taxable investors should own. Tax efficiency is one input into portfolio construction. Investments may also differ in how returns are generated, realized and taxed. Turnover, distributions and the vehicle used can also change the tax profile of an investment. Taking this approach does not identify one asset mix for every taxable investor. It should also account for the available asset universe, risk model and portfolio constraints. The table on the right shows that using the returns an investor may retain can produce a different – and in this case higher **–** expected post-tax portfolio outcome; it does not prescribe a universal allocation change.

The table compares two portfolios with the same 10% risk target: one constructed using pre-tax CMAs and one using post-tax CMAs. Both are then evaluated under the same modeled post-tax assumptions. The portfolio constructed using pre-tax CMAs has a slightly higher expected pre-tax return, about 9.2% versus 9.1%, but a lower expected post-tax return, about 7.7% versus 8.3%. In other words, in this illustrative comparison, the portfolio constructed using post-tax CMAs has an expected post-tax return roughly half a percentage point higher. That's similar to the excess return investors seek through active management. The potential gains are captured by tax-aware allocation rather than selecting top-performing managers, which is a different challenge. Tax losses can be harvested and used to offset gains elsewhere – another tool available to taxable investors through various strategies we'll unpack in future publications.

Disposal shapes post-tax returns

Illustrative pre- and post-tax returns, 20-year horizon



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, August 2026. Note: The chart shows expected geometric returns for selected asset classes over a 20-year horizon before tax and under the modeled Estate/Donate and Liquidation assumptions. Under *Estate/Donate*, no terminal capital-gains tax is applied to remaining unrealized appreciation. Under *Liquidate*, remaining unrealized appreciation is realized and taxed at the end of the horizon. See the appendix for assumptions and limitations.

Potential to improve portfolio outcomes

Illustrative portfolio outcomes

	Conventional portfolio	Tax-aware portfolio	Difference
Assumptions	Pre-tax	Post-tax	**Tax lens**
Risk target	10%	10%	-
Pre-tax return	9.2%	9.1%	-0.12 pp
Post-tax return	7.7%	8.3%	**+0.53 pp**

Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, August 2026. Note: The chart compares portfolios constructed using 20-year pre-tax and post-tax capital market assumptions, subject to the same investment universe, constraints and 10% risk target. Pre-tax returns are shown before tax; post-tax returns for both portfolios are evaluated over the same 20-year horizon under the modeled Estate/Donate assumptions. Results are illustrative and do not represent any actual portfolio.

Appendix

Tax assumptions: Post-tax estimates assume a U.S. taxable individual subject to the highest federal tax rates as of June 30, 2026, including the 3.8% Net Investment Income Tax where applicable. The modeled rates are 40.8% for ordinary income and short-term capital gains, 23.8% for qualified dividends and long-term capital gains, and 33.4% for income eligible for the Section 199A deduction. Tax rates are assumed to remain constant over the investment horizon.

Disposal assumptions: Under *Estate/Donate*, income and realized gains are taxed during the investment horizon, but no terminal capital-gains tax is applied to remaining unrealized appreciation. Under *Liquidate*, the same ongoing taxes apply, and remaining unrealized appreciation is realized and taxed at the end of the investment horizon. Cost basis is tracked through time. These outcomes are modeled bookends; an investor's actual disposal and tax outcome may fall between them.

Items outside the scope of the analysis: The analysis does not incorporate state or local taxes, alternative minimum tax, estate or gift taxes, wash-sale effects, capital-loss carryforwards, asset location, entity-level tax considerations, or investor-specific deductions and circumstances. It also does not capture all asset-specific tax features. Results are forward-looking analytical estimates under stated assumptions and do not constitute tax advice or represent individual tax-filing outcomes.

Selected asset post-tax CMAs (20-year horizon)

The table below reports pre-tax and post-tax geometric returns under both estate and liquidation assumptions, together with the implied tax haircut, for a selected subset of curated assets at the 20-year horizon. Returns for private market assets are shown net of fees.

Asset	Pre-tax return	Post-tax return		Haircut	
		Estate/Donate	Liquidation	Estate/Donate	Liquidation
Bloomberg U.S. Credit	5.5%	3.2%	3.1%	2.2%	2.3%
BBG Government Index	4.6%	2.9%	2.8%	1.7%	1.8%
Core Real Estate	6.9%	5.6%	5.1%	1.4%	1.8%
Hedge Funds (global)	7.2%	5.3%	5.1%	2.0%	2.1%
Private Equity — Buyout	11.8%	10.3%	9.8%	1.4%	1.9%
MSCI Developed — U.S.	8.6%	8.2%	7.4%	0.4%	1.2%
MSCI EM ex-China	9.5%	8.7%	8.0%	0.7%	1.4%
Infrastructure Equity	9.8%	8.8%	8.2%	1.0%	1.6%

Source: BlackRock Investment Institute, August 2026. Note: These are illustrative estimates based on the stated tax assumptions; results vary by investor circumstances, asset characteristics, and investment horizon. This information is not intended as a recommendation to invest in any particular asset class or strategy or product or as a promise of future performance. Note that these asset class assumptions are passive, and do not consider the impact of active management. All estimates in this document are in US dollar terms unless noted otherwise. Given the complex risk-reward trade-offs involved, we advise clients to rely on their own judgment as well as quantitative optimisation approaches in setting strategic allocations to all the asset classes and strategies. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. If the reader chooses to rely on the information, it is at its own risk. This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice. The outputs of the assumptions are provided for illustration purposes only and are subject to significant limitations. "Expected" return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. The model cannot account for the impact that economic, market, and other factors may have on the implementation and ongoing management of an actual investment portfolio. Unlike actual portfolio outcomes, the model outcomes do not reflect actual trading, liquidity constraints, fees, expenses, taxes and other factors that could impact future returns.

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