

News Release

Wilmington Trust Releases Seven Year Capital Markets Forecast

Focus on non-core fixed income bonds, large-cap U.S. stocks, emerging equity markets

Wilmington, Del., Feb. 7, 2012 – Many investors underestimate the risks of financial assets often described as “safe” —a mistake that could prove costly in the coming years. A projection of anemic returns on investment-grade bonds, cash, and some other assets, owing in part to a meaningful expected rise in interest rates and tepid Gross Domestic Product (GDP) growth of 2.6%. These are central conclusions of a new economic and financial market outlook from Wilmington Trust Investment Advisors, Inc. (WTIA), the newly named investment advisory and asset management arm of M&T Bank Corporation.

WTIA’s Capital Markets Forecast 2012-2018 anticipates annualized total returns of roughly 2.0% on investment-grade bonds, both taxable and tax-exempt. Such a result would be far below what investors have earned on these bonds in recent decades, as the general decline in interest rates pushed bond prices higher. WTIA expects the yield of the 10-year U.S. Treasury note to more than double, from roughly 2.0% at the start of 2012 to 4.8% by 2018. Moreover, WTIA forecasts the rate of U.S. inflation at 2.3%, annualized, meaning that investment-grade bonds are expected to lose purchasing power over the group’s seven year horizon. Also identified as relatively unattractive are inflation-hedging assets, including inflation-linked bonds (ILBs) and commodity- and real estate-related securities. Their annualized returns are forecast to be in the 1-5% range.

“The concept of ‘safe assets’ and ‘risky assets’ assets can be misleading,” said Rex Macey, WTIA’s chief investment officer. “A large number of investors may be underestimating the risks of bonds held as core positions in their portfolios. We expect falling bond prices to offset much of the income that investment-grade bonds pay in the coming years, leading to weak total returns.”

WTIA favors some categories of bonds, such as high-yield municipals, high-yield corporates, floating-rate notes, and emerging market debt. As a class they can offer higher yields and less interest rate sensitivity than investment-grade issues, though they are likely to be more sensitive to market shocks or economic downturns. These bonds are forecast to deliver annualized returns in the 6–8% range. The group also favors large-capitalization U.S. stocks (with expected annualized returns of about 8.5%) and developed international and emerging equity markets (expected returns north of 10%) due to expected strong dividend growth. Investment-grade bonds and cash retain places in the firm’s asset allocation strategies, however, as they are expected to remain far less volatile than equities.

About the Investment Strategy Team

Each year, Wilmington Trust’s Investment Strategy Team undertakes a multi-year forecast of financial market performance. In preparing the forecast, the team is concerned primarily with valuations and global economic scenarios. Implicit in its approach is the idea that extreme evaluations tend to revert, over extended periods, toward long-term, historical averages. In making tactical asset allocation recommendations, the Investment Strategy Team considers not only its impressions about valuations and forecasts for longer-term market performance, but also shorter-term trends in securities prices.

Ultimately, its tactical recommendations reflect the collective judgments and expectations of team members. The Investment Strategy Team aims to deliver higher-than-benchmark total returns for investors with varying appetites for risk. The forecast underscores the importance of diversification among a variety of asset classes, including global equities, nominal bonds and cash, inflation-hedging assets, and hedge strategies.

About Rex Macey

Macey, CFA, CIMA, CFP, is a member of Wilmington Trust's Investment Strategy Team and Investment Research Team. He holds an MBA from the University of North Carolina's Kenan-Flagler Business School and bachelor's degree from Vanderbilt University. He is an instructor for a CFA review course sponsored by the Atlanta Chapter of the CFA Institute. He chairs the editorial advisory board for *Investments & Wealth Monitor*, a bi-monthly publication of the Investment Management Consultants AssociationSM (IMCA®). He has twice received IMCA's Stephen L. Kessler Writing Award for editorial excellence, most recently in 2010.

About Wilmington Trust

Wilmington Trust is owned by M&T Bank Corporation (M&T). On Jan. 10, 2012, MTB Investment Advisors, Inc. (MTBIA), an indirect wholly owned subsidiary of M&T, changed its name to Wilmington Trust Investment Advisors, Inc. (WTIA). The new investment advisory entity brings together 160 investment strategists, portfolio managers, research analysts, and securities traders, as well as compliance officers and operations staff, who previously operated in other units of Wilmington Trust and M&T Bank.

WTIA provides clients with access to market-leading investment advisory and asset management expertise including equity, fixed income, and alternative strategies. WTIA had over \$14 billion of assets under management at Dec. 31, 2011, and it also oversees the investment processes of its affiliates, Wilmington Trust and M&T Bank, which had \$44 billion of assets under management at Dec. 31, 2011.

Wilmington Trust provides Wealth Advisory Services for high-net-worth clients throughout the United States and Europe, and Corporate Client Services for institutional clients throughout the world. Wilmington Trust has offices in Arizona, California, Connecticut, Delaware, Florida, Georgia, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, Pennsylvania, South Carolina, Texas, Vermont, the Cayman Islands, the Channel Islands, London, Dublin, Frankfurt, Luxembourg, and Amsterdam. For more information, visit wilmingtontrust.com.

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Journalists may obtain a copy of Wilmington Trust's [2012–2018 Capital Markets Forecast](#), which includes detailed analysis of potential risk and returns of various asset classes and historical performance data on Wilmington Trust's investment strategies, from the media contacts shown above.

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