



# ASSET ALLOCATION

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## 2015 Capital Market Assumptions for Major Asset Classes

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We review our framework for constructing estimates of long-term expected returns for major asset classes. We focus on the forward-looking real returns on stock markets and government bonds, but also discuss expectations for long-only smart beta and long/short style premia portfolios.

Besides updating our estimates, we review our methodology, highlighting the limited predictability of future yield curve changes and analyzing mean-reversion tendencies in U.S. asset class valuations. Despite some evidence of multiyear mean reversion, our base case assumes no change in real bond or equity yields.

Our current estimate for U.S. stocks' long-run real return is near 4%, lower than in European and emerging markets. Our current estimate for U.S. 10-year government bonds' long-run real return is near 0.5%, higher than in other major bond markets. From a historical perspective, these expected returns are among the lowest seen in the past century, especially when taken together.

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