



# PORTFOLIO CONSTRUCTION

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## Capital Market Assumptions for Major Asset Classes

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This article updates our estimates of medium-term expected returns for major asset classes, and also includes an analysis exploring the historical accuracy of yield-based return estimates, compared to reasonable alternatives.

*How have our return estimates changed since last year?*

- Most estimates have fallen slightly over the past year
- For equities, higher valuations are partly offset by slightly higher growth estimates
- Bond return estimates are little changed since last year, with U.S. Treasuries seeing a small reduction due to a flatter yield curve
- Credit return estimates are somewhat lower due to tighter spreads

*How accurate are yield-based return forecasts?*

Using over a century of data, we find that yield-based forecasts have been more accurate than alternative methods for a 10-year horizon. But we also show that 10-year outcomes can stray far from forecasts, and that naïve statistical measures such as correlations may be unreliable guides to predictive power. The results support our view that such estimates are more useful for setting appropriate medium-term expectations than for aggressive tactical allocation decisions.

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