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2019 Capital Market Assumptions for Major Asset Classes

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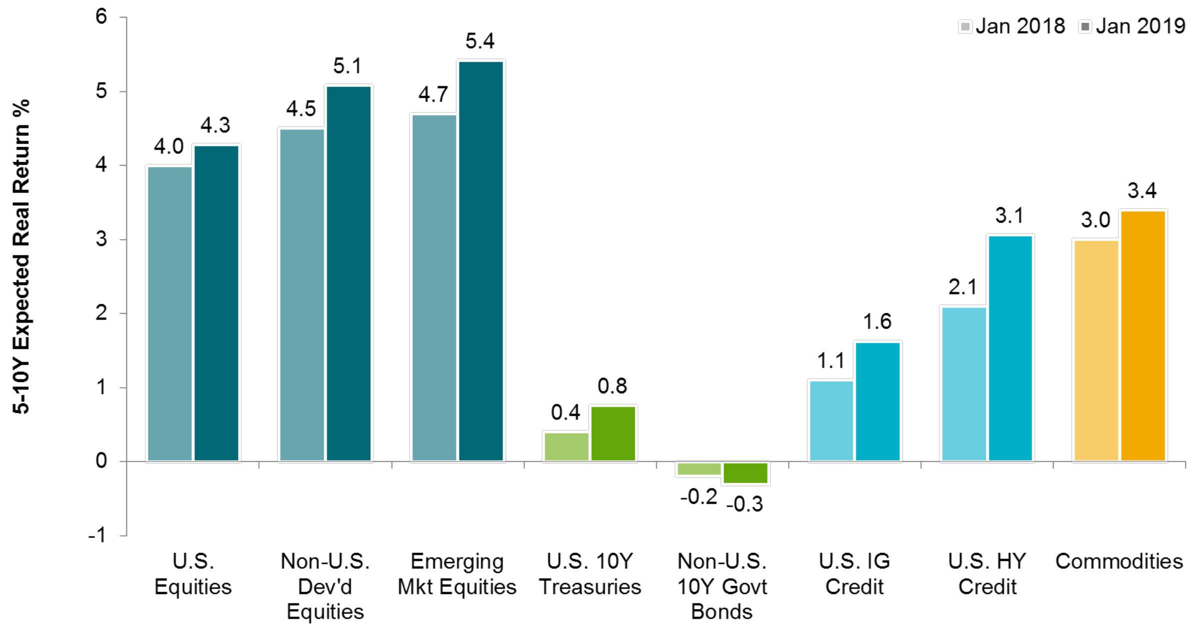
This article updates our estimates of medium-term (5- to 10-year) expected returns for major asset classes. It also includes a section on estimating expected returns for private equity and real estate. Selected estimates are summarized below. The year 2018 saw cheapening across many asset classes, and compared to last year expected returns are somewhat higher for equities, U.S. Treasuries and credit. However, from a historical perspective, nearly all long-only investments still have low expected real returns. The expected real return of the traditional U.S. 60/40 portfolio is 2.9%, compared to a long-term average of 5% (since 1900[1]).

Exhibit 1: Medium-Term Expected Real Returns for Liquid Asset Classes



Source: AQR; see Exhibits 3-6 for details. "Non-U.S. Developed Equities" is cap-weighted average of Euro-5, Japan, U.K., Australia, Canada. "Non-U.S. 10Y Govt. Bonds" is GDP-weighted average of Germany, Japan, U.K., Australia, Canada. Estimates are for illustrative purposes only, are not a guarantee of performance, and are subject to change. Not representative of any portfolio that AQR currently manages.

[1] Based on historical real yields for U.S. large-cap equities and 10-year Treasuries; methodology and sources described in Appendix of the paper.

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