

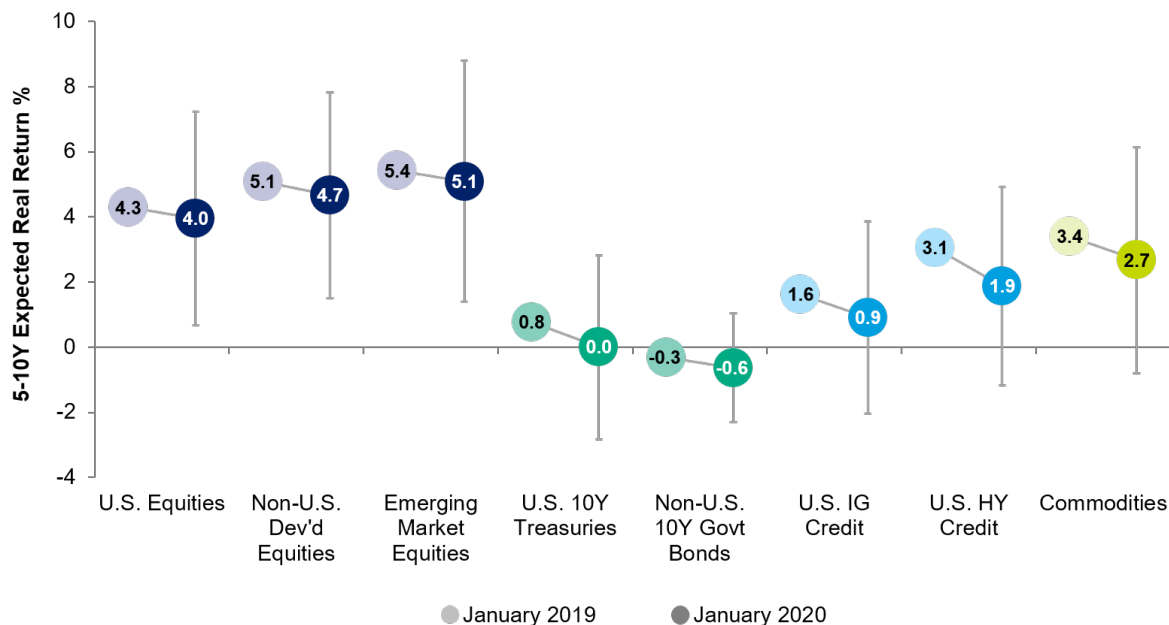
# ALTERNATIVE THINKING

## 2020 Capital Market Assumptions for Major Asset Classes

January 29, 2020

This article updates our estimates of medium-term (5- to 10-year) expected returns for major asset classes. It also introduces a section on estimating expected returns for cash. Selected estimates are summarized below. The year 2019 saw a reverse of 2018's cheapening, with expected returns falling for both equities and (especially) bonds. The expected real return of the traditional U.S. 60/40 portfolio is just 2.4%, around half its long-term average of nearly 5% (since 1900<sup>1</sup>).

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



Source: AQR, Consensus Economics, Bloomberg and Barclays. Estimates as of December 31, 2019. Error bars cover 50% confidence range, based on analysis from Alternative Thinking Q1 2018 and adjusted for current expected volatilities. These are intended to emphasize the uncertainty around any point estimates. Not only are the return forecasts uncertain, but also any measures of forecast uncertainty are debatable. Forecasting requires humility at many levels. 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.

### U.S., Non-U.S. Developed and Emerging Market Equities

Source: AQR, Consensus Economics and Bloomberg. Estimates and methodology subject to change and based on data as of December 31, 2019. "Non-U.S. Developed Equities" is cap-weighted average of Euro-5, Japan, U.K., Australia and Canada. "Euro-5" is a cap-weighted average of large-cap indices in Germany, France, Italy, Netherlands and Spain. Each estimate is the average of two approaches, based on earnings and payouts (both dividends and buybacks) respectively. See main article for details.

### U.S. 10Y Treasuries and Non-U.S. 10Y Govt Bonds

Source: Bloomberg, Consensus Economics and AQR. Estimates as of December 31, 2019. Roll-down return is estimated from fitted yield curves and based on annual rebalance. "Non-U.S. 10Y govt. bonds" is GDP-weighted average of Germany, Japan, U.K., Australia, Canada.

### U.S. IG Credit and U.S. HY Credit

Source: Barclays, Bloomberg, AQR. Estimates as of December 31, 2019. OAS and duration data is for Barclays U.S. Corporate Investment Grade (IG) Index and Barclays U.S. Corporate High Yield (HY) Index. Index durations are 7.9 years and 3.1 years respectively.

### Commodities

Long-run average return of an equal-dollar-weighted portfolio of commodity futures.

### **About the Portfolio Solutions Group**

*The Portfolio Solutions Group (PSG) provides thought leadership to the broader investment community and custom analyses to help AQR clients achieve better portfolio outcomes.*

*We thank Nick McQuinn, Ashwin Thapar and Dan Villalon for their work on this paper. We also thank Gregor Andrade, Matt Chlewich, Jeff Dunn, Jeremy Getson, Antti Ilmanen, Pete Hecht, Kelvin Lee, Thom Maloney, Toby Moskowitz, and Harsha Tummala for their helpful comments, and Rachel Lee, Sarah Schroeder, Nitin Krishna, and Derek Jansma for their excellent research assistance.*

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[ 1 ] Based on historical real yields for U.S. large-cap equities and 10-year Treasuries, using a simplified methodology that allows long-term historical comparisons; methodology and sources described in Appendix.

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