This article updates our estimates of medium-term (5- to 10-year) expected returns for major asset classes. Selected estimates are summarized in Exhibit 1. In 2023, expected returns fell for equities but increased further for bonds and cash, following larger increases in 2022. This implies slimmer equity risk premia. The expected real return of a global 60/40 portfolio held steady at 3%, near its decade high and near the historical average since 1990, but still well below the longer-term U.S. average of nearly 5% since 1900.

The article also includes some thoughts on estimating expected returns and risk for private credit, the boom asset class of 2023 (spoiler: you need to haircut the yield, just as for listed credit). We conclude with a feature by Antti Ilmanen, Principal and Global Co-Head of the Portfolio Solutions Group, on the key decisions that underpin any capital market assumptions framework.

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

Source: Bloomberg, Consensus Economics and AQR. Estimates as of December 31, 2023. “Non-U.S. developed equities” is cap-weighted average of Euro-5, Japan, U.K., Australia, and Canada. “Non-U.S. 10Y govt. bonds” is GDP-weighted average of Germany, Japan, U.K., Australia, and Canada. Global 60/40 is 60% global developed equities, 40% global developed government bonds. Error bars cover 50% confidence range, based on historical analysis and adjusted for current expected volatilities. These are intended to emphasize the uncertainty around any point estimates. 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.

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

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