



# Asset Allocation

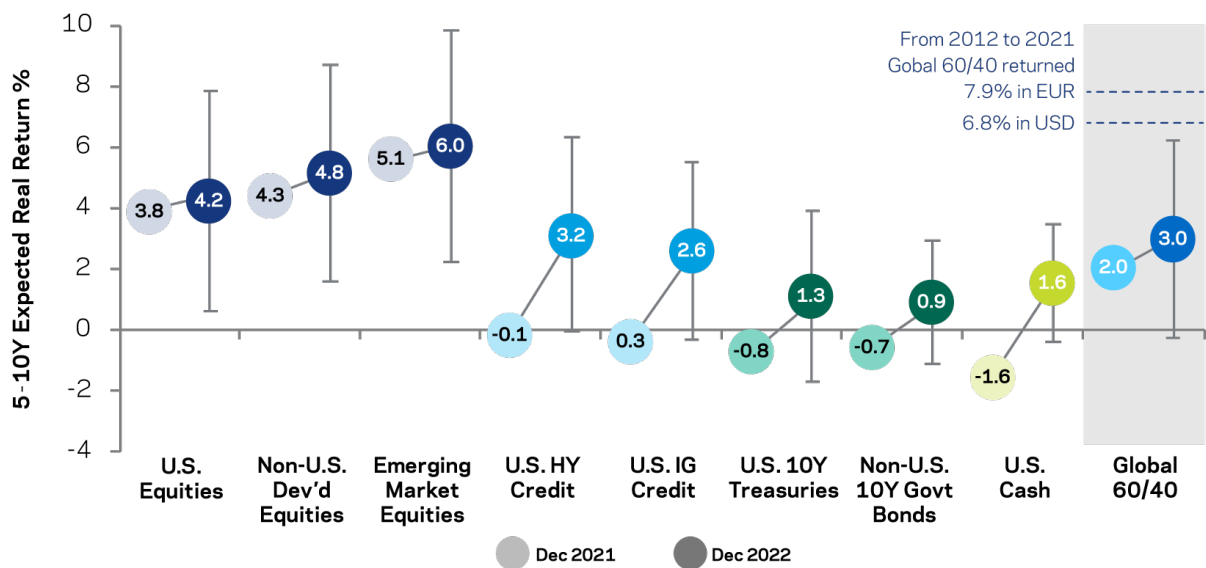
## 2023 Capital Market Assumptions for Major Asset Classes

January 23, 2023

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 2022 expected returns moved slightly higher for equities, and sharply higher for bonds and cash. The expected real return of a 60/40 portfolio increased to 3%, near its decade high but still well below the long-term average of nearly 5% (since 1900<sup>1</sup>, and even further below realized returns of the previous decade.

The article also includes two focus topics: one highlighting the case for emerging market equities, and the other assessing the impact of large interest rate rises on various risk premia—some of which appear compressed at the start of 2023.

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



Source: AQR; see Exhibits 3-5 for details. Estimates as of December 31, 2022. "Non-U.S. developed equities" is cap-weighted average of Euro-5, Japan, U.K., Australia, Canada. "Non-U.S. 10Y gov. bonds" is GDP-weighted average of Germany, Japan, U.K., Australia, Canada. Error bars cover 50% confidence range, based on historical analysis (see Appendix for details) and adjusted for current expected volatilities. These are intended to emphasize the uncertainty around any point estimates. Realized returns are for January 1, 2012 to December 31, 2021, based on 60% MSCI World and 40% Bloomberg Barclays Global Treasury Index. 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] Historical comparison is based on a simpler methodology than main estimates, due to data availability; methodology described in Appendix.

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