



Asset Allocation

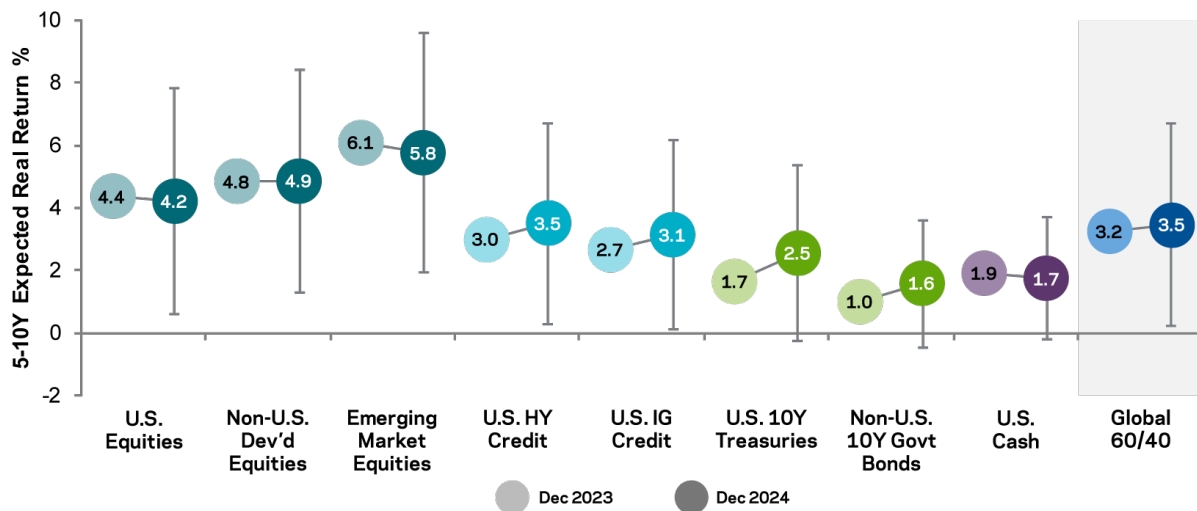
2025 Capital Market Assumptions for Major Asset Classes

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This article updates our estimates of medium-term (5- to 10-year) expected returns for major asset classes. Selected estimates are summarized in **Exhibit 1**. In 2024, equity markets rallied for a second consecutive year but our expected returns – based on current valuations – continue to imply risk premia are compressed. The expected real return of a global 60/40 portfolio has risen to 3.5%, driven by bonds. This is around 1.5% higher than the all-time low reached in 2021, but still well below the long-term U.S. average of nearly 5% since 1900.

The article also includes a discussion on **corporate earnings growth**: the market consensus is for more strong growth to come – especially in the U.S. But what is a reasonable medium-term forecast for allocators?

Exhibit 1: Medium-Term Expected Real Returns Summary



Source: Bloomberg, Consensus Economics and AQR; see Exhibits 3-9 for details. Estimates as of December 31, 2024. "Non-U.S. developed equities" is cap-weighted average of Euro-5, Japan, U.K., Australia, Canada. "Non-U.S. 10Y gov't. bonds" is GDP-weighted average of Germany, Japan, U.K., Australia, Canada. Global 60/40 is 60% global developed equities, 40% global developed government bonds. Previous year's estimates are calculated using current methodology. Error bars cover 50% confidence range, based on historical analysis (see Appendix), and are intended to emphasize uncertainty around 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.

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