Asset Allocation

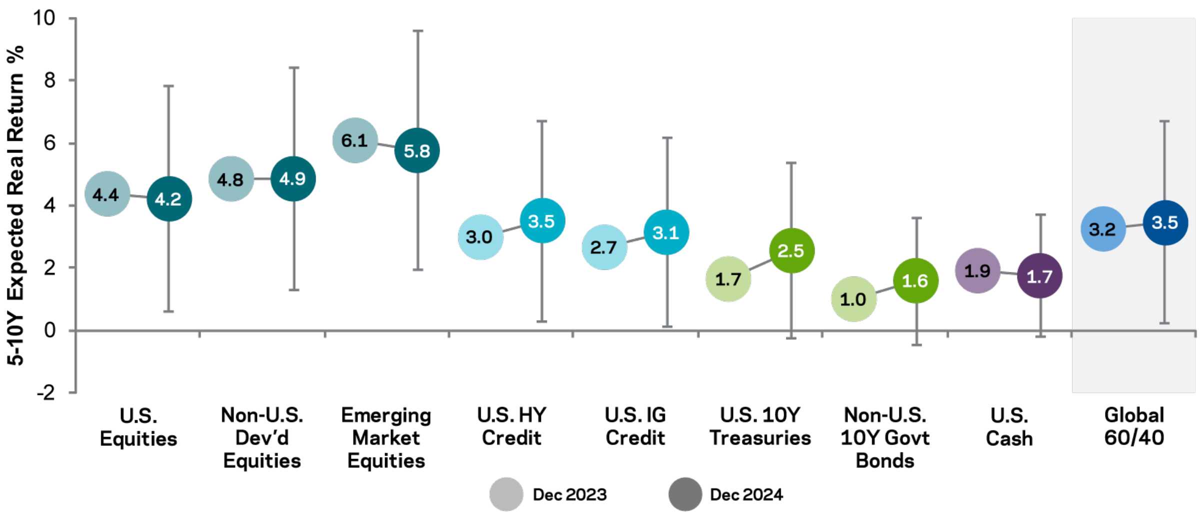
2025 Capital Market Assumptions for Major Asset Classes

January 16, 2025

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 govt. 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.

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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