



CIO Special

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Long-term Capital Market Assumptions: our latest forecasts

Key messages

- Normalized yield environment after years of quantitative easing is likely to support fixed income.
- Growth and income return potential is interesting across risk assets.
- Modest decline in overall return forecasts is due to tighter valuations compared to last year.

The return outlook for the next decade

Long-term capital market assumptions (LTCMA) for asset class returns form a vital component of some systematic long-term asset allocation approaches. This long-term view provides an institutional approach to quantify forecasts, reflecting a full market cycle to potentially capture the risk premium available for each asset class. Stable long-run returns can be helpful in establishing more stable long-term asset-allocation targets. For investors wanting to pursue robust returns at therefore required risk levels, a suitable asset allocation may be useful, considering the investors currency as well as systematically managing downside risks. This report highlights significant developments to the 10-year forecasts since our last review.

Persistent inflationary pressures have been a core driver of central bank policies, and one of the key factors impacting financial markets in the aftermath of the pandemic. Consequently, nominal yields are at relatively high levels and sovereign bond curves so far remain either flat or inverted across several developed market economies.

Although still elevated, interest rate volatility has eased from its high levels of recent months, indicating to some extent that market participants are aligning their views on the likely future monetary policy path with those of the central banks. However, the speed and size of coming central bank rate adjustments remain a potential swing factor. In this context, the neutral level of real interest rates in this transition will be closely watched, particularly with regards to its impact on calculations of fair value across asset classes.

Following the fastest hiking cycle in history, most market participants have for some time been anticipating a shallow recession, but evident labour market robustness has supported global growth. In addition, artificial intelligence developments have increased market expectations on economic growth and productivity, helping offset the drag from a shrinking demographic base. However, such changes will take time to materialize and will only be fully visible in the long-run.

Such changes to the macroeconomic environment, accompanied by monetary policy intended to fight persistent inflationary pressures, are in line with higher nominal and real yields across developed economies into the next decade. This return to a more "normal" yield environment after years of suppressed rates due to quantitative easing, is supportive of the long-term return outlook for fixed income markets, given the higher carry opportunity provided by this asset class. Nevertheless, valuations across risk assets have tightened over the last year, contributing to modestly lower long-term return expectations than in our previous forecasts. Of course, there are many "known" and "unknown" unknowns that could impact these forecasts, not least geopolitical developments.



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Figure 1: Select 10-year return forecasts, annualized in local currency

	Return forecasts (per annum) 2024-2033
U.S. Equities (MSCI USA)	6.2%
Europe Equities (MSCI Europe)	6.4%
UK Equities (FTSE 100)	8.0%
Japan Equities (MSCI Japan)	4.4%
EM Equities (MSCI EM)	6.9%
U.S. Treasuries (Bloomberg Barclays U.S. Treasury)	4.0%
EUR Treasuries (Bloomberg Barclays Euro Treasury)	2.3%
U.S. Corporates (Bloomberg Barclays U.S. Corporate)	4.7%
U.S. High Yield (Bloomberg Barclays U.S. High Yield)	5.7%
EUR Corporate (Bloomberg Barclays Euro Aggregate Corporate)	3.3%
EUR High Yield (Bloomberg Barclays Pan-European High Yield (Euro))	5.5%
EM USD Sovereigns (Bloomberg Barclays Emerging Markets USD Sovereign)	7.3%
Broad Commodities (Bloomberg Commodity)	5.7%

Source: DWS Investments UK Limited, Deutsche Bank AG. Data as of December 31, 2023.



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The [Bloomberg Barclays Emerging Markets USD Sovereign](#) index includes fixed and floating-rate USD denominated debt issued by sovereign, quasi-sovereign, and corporate issuers.

The [Bloomberg Barclays Pan-European High Yield](#) index measures the market of non-investment grade, fixed-rate corporate bonds.

The [Bloomberg Barclays U.S. Corporate Bond](#) index measures the investment grade, fixed-rate, taxable corporate bond market.

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The [FTSE 100](#) index tracks the performance of the 100 major companies trading on the London Stock Exchange.

[High yield \(HY\)](#) bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

The [MSCI Europe](#) index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

The [MSCI Japan](#) index is designed to measure the performance of the large and mid cap segments of the Japanese market.

The [MSCI USA](#) index is designed to measure the performance of the large and mid cap segments of the U.S. market.

[U.S.](#) is the designation for the United States.

[USD](#) is the currency code for the U.S. dollar.



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