

ASSET ALLOCATION

2024 Capital Market Assumptions for Major Asset Classes

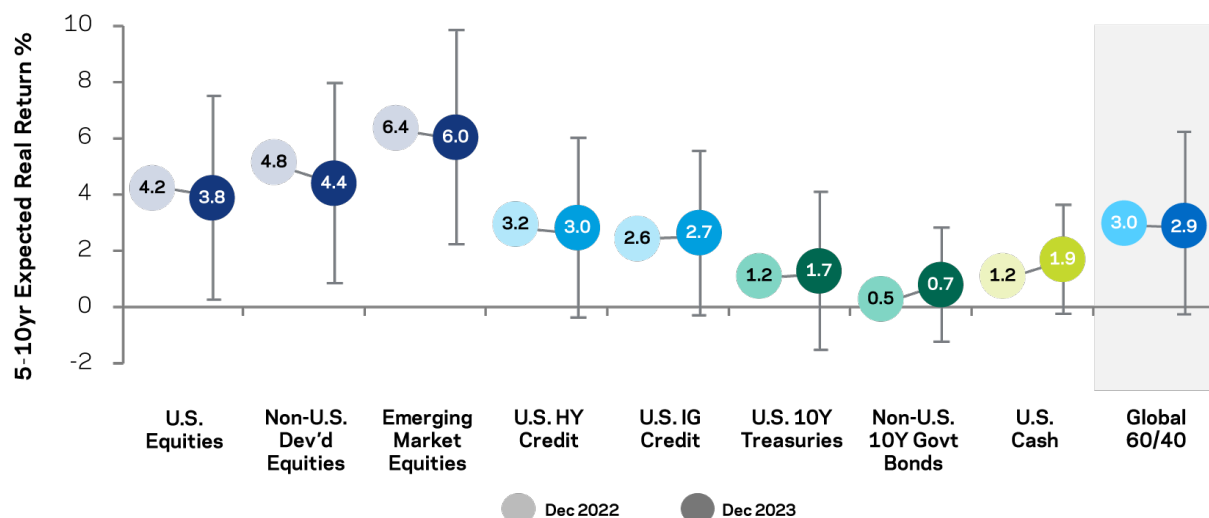
January 16, 2024

AQR Alternative Thinking 2024 Issue 1

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 1990.

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, 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. 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.

We thank Alfie Brixton, Pete Hecht, Antti Ilmanen, Thomas Maloney and Nick McQuinn for their work on this paper.

This document is not intended to, and does not relate specifically to any investment strategy or product that AQR offers. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own view on the topic discussed herein.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance. Diversification does not eliminate the risk of experiencing investment losses.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Diversification does not eliminate the risk of experiencing investment losses.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.