

Insights

Long-Term Asset Class Forecasts: Q4 2024

Our longer-term asset class forecasts are forward-looking estimates of total return and risk premia, generated through a combined assessment of current valuation measures, economic growth, inflation prospects, sustainability considerations, yield conditions as well as historical price patterns. We also include shorter-term return forecasts that incorporate output from our multi-factor tactical asset allocation models. Our latest forecasts are now available. Read more to learn about the process we use to arrive at our return forecasts for the major asset classes.

For a copy of the latest quarterly investment commentary from the Investment Solutions Group, please reach out to your State Street representative.

25 October 2024

Share



Download



Print



Inflation

The starting point for our nominal asset class return projections is an inflation forecast. We incorporate both estimates of long-term inflation and the inflation expectations implied in current bond yields. US Treasury Inflation-Protected Securities (TIPS) provide a market observation of the real yields that are available to investors. The difference between the nominal bond yield and the real bond yield at longer maturities furnishes a marketplace assessment of long-term inflation expectations.

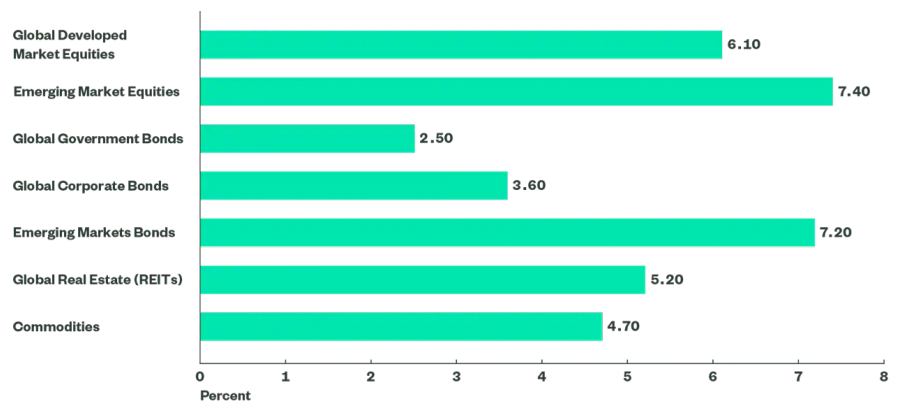
Cash

Our long-term forecasts for global cash returns incorporate what we view as the normal real return that investors can expect to earn over time. Historically, cash investors have earned a modest premium over inflation but we also take current and forward-looking global central bank policy rates into consideration in formulating our cash forecast.

Bonds

Our return forecasts for fixed income are derived from current yield conditions together with expectations as to how real and nominal yield curves will evolve relative to historical precedent. We then build our benchmark forecasts from discrete analysis of relevant maturities. For corporate bonds, we also analyse credit spreads and their term structures, with separate assessments of investment grade and high yield bonds. We also take into account the default probability for high yield bonds in the foreseeable future.

Figure 1: Forecasted Long-Term Annualised Return (10+ Years)



Source: State Street Global Advisors Investment Solutions Group as of 09/30/2024. Forecasted returns are based upon estimates and reflect subjective judgements and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision-making. The forecasted returns are not necessarily indicative of future performance, which could differ substantially.

Equities

Our long-term equity market return forecasts combine estimates of real return potential, derived from historical and current dividend yields, forecasted real earnings growth rates, expected share issuance or buyback yield, and potential for expansion or contraction of valuation multiples. Our way of estimating real earnings growth rates incorporates forecasts of GDP levels. Across both developed and emerging markets, variations in labour, capital and productivity levels result in region-specific differences in the GDP estimates, allowing for more region-appropriate forecasts for both developed and emerging market equities.

Another important feature of our equity forecasts is that they include elements of sustainability through leveraging State Street Global Advisors' R-Factor scores. Improvements in a country's aggregated and normalised R-Factor scores are used to incrementally reduce its risk expectations within the forecast and the other way around.

Smart Beta

Smart Beta forecasts are developed using MSCI World index forecasts as a starting point and adding expected alpha and beta adjustments as appropriate.

Private Equity

Our long-term forecast for private equity is based upon past performance patterns of private equity funds relative to listed equity markets and our extrapolation of these performance patterns on a forward basis. According to several academic studies^{1,2,3} the annual rate of return of private equity funds over the long term appears to be largely in line with that of listed equities after appropriate adjustments for leverage are made. Private equity funds seem to have been outperforming relative to listed equities before fees, but generally in line with them (on a leverage-adjusted basis) after fees.

REITs

Real Estate Investment Trusts (REITs) have historically earned returns between bonds and stocks due to their stable income streams and potential for capital appreciation. Hence, we model it as a blend of two approaches. The first approach is to apply the average historical spread of the yields over Treasuries to forecast the expected return. The second approach is to account for inflation and long-term capital appreciation with the current dividend yield.

Commodities

Our long-term commodity forecast is based on our forecasts for US inflation and the US Dollar Index. Since the exposure to commodities is primarily held through the Futures market, rolling the futures would be a source of return. For this, we use the long-term roll return along with the latest positioning of commodities futures. We also consider that collateral held for maintaining the exposure to futures shall generate a return.

Long Horizon Risk

We believe that over the long term, prices are anchored to some sort of a slow-moving, fundamentals-anchored process, while in the short term, these same prices cycle quasi-randomly around such anchors. Thus, the returns on most financial assets can be effectively separated into a long-term component linked to economic fundamentals and a transient part linked to “excess volatility” or other noise. Such property of asset returns rhythms nicely with the investors’ need to balance strategic portfolio optimality with the short-term risk control. With that in mind, we expanded our Long-Term Return Forecasts to include long-horizon risk estimates alongside ordinary, short-horizon ones.

Figure 2: Asset Class Return Forecasts

Asset Class	Benchmark	Short Term 1 Year (%)	Intermediate Term 3-5 Years (%)	Long Term 10+ Years (%)	Long-Horizon Risk (Std Dev) (%)	Long-term Risk (Std Dev) (%)
Global Equities (ACWI)	MSCI ACWI	6.5	6.5	6.2	4.7	14.6

US Large Cap	S&P 500	6.5	6.1	6.0	4.7	15.8
US Mid Cap	S&P MidCap 400	6.4	6.3	6.2	5.1	19.0
US Small Cap	S&P Small Cap 600	6.7	6.6	6.5	5.4	20.7
Europe	MSCI Europe	6.7	7.5	7.3	4.6	14.4
Euro	MSCI Euro	6.0	7.2	6.9	5.4	17.2
Developed Pacific	MSCI Pacific	3.5	5.1	4.9	5.4	15.3
Australian Equities	MSCI Australia	4.6	7.2	7.3	4.5	14.6
New Zealand Equities	MSCI New Zealand	2.2	5.4	5.1	4.3	15.3
Canadian Equities	S&P/TSX 60	7.0	6.9	6.8	4.1	14.4
Global Value Tilted	MSCI World Value Weighted	6.1	6.0	5.9	5.1	15.8
Global Quality Tilted	MSCI World Quality	6.5	6.4	6.3	3.9	13.8
Global Momentum Tilted	MSCI World Momentum	7.5	7.4	7.2	5.3	15.3
Global Minimum Variance	MSCI World Minimum Vol	6.7	6.7	6.5	3.3	10.7
Emerging Markets (EM)	MSCI EM	7.7	8.0	7.4	5.8	16.8
EM Asia	MSCI EM Asia	7.1	7.4	6.7	6.1	18.1
EM EMEA	MSCI EM EMEA	8.9	9.3	8.9	5.9	17.3
EM Latin America	MSCI EM Latin America	12.6	13.1	13.0	5.4	18.9
Global Government Bonds	BofA Global Government Bond Index	2.6	2.5	2.5	1.2	4.3
Global Corporate	Barclays Global Aggregate Corporate	3.9	3.4	3.6	2.3	8.5
Canadian Government bonds	FTSE Canada Non-Agency Bond	3.0	2.6	2.7	1.3	5.1
Canadian Corporate bonds	FTSE Canada All Corporate Bond	3.7	3.3	3.4	1.4	5.0
Canadian Universe bonds	FTSE Canada Universe Bond	3.3	2.8	2.9	1.3	5.4
Non-US Government Bonds	Citi WGBI NonUSD	2.0	1.9	2.0	1.3	4.3
Non-US Corporate Bonds	BofA Merrill Lynch Global Large Cap Corporate Ex/Barclays Global Agg x — Corporate	3.4	3.1	3.1	3.1	12.0
US Government Bond	Barclays US Aggregate Government	4.0	3.8	3.6	1.4	5.2
US Investment Grade Bond	Barclays US Agg Bond	4.1	4.0	3.9	1.4	5.0
US High Yield Bond	BofA US High Yield	5.8	4.6	4.8	3.3	9.6
US TIPS Bond	Barclays US Treasury Inflation Protected Notes (TIPS)	3.2	3.4	3.4	1.7	6.8
US Long Treasury STRIPS Bond	Barclays Treasury US STRIPS 20Y+	6.5	4.6	4.2	5.8	25.2
Euro Government Bonds	BofA Euro Government	2.6	2.4	2.4	1.7	5.8
Euro Corporate Bonds	BofA Merrill Lynch Euro	3.1	2.7	2.7	1.6	5.1

Euro Corporate Bonds	BofA Merrill Lynch Euro Corporate	3.1	2.7	2.7	1.9	3.1
Euro High Yield Bonds	BofA Euro High Yield	4.6	4.1	4.3	4.0	10.6
Australian Government Bonds	BofA Merrill Lynch Australia Government	3.7	4.1	3.9	1.6	5.6
Australian Corporate Bonds	BofA Merrill Lynch Australia Corporate	4.5	4.8	4.5	1.2	3.6
New Zealand Government Bonds	BofA Merrill Lynch New Zealand Government	3.4	3.8	4.0	1.6	5.1
Japanese Government Bonds	Citi Japanese GBI JPY	0.2	0.2	0.5	0.8	3.1
Japanese Corporate Bonds	BofA Japan Corporate	0.3	0.4	0.9	0.4	1.4
UK Government Bonds	Citi UK GBI GBP	4.9	4.7	4.5	2.4	8.9
UK Corporate Bonds	BofA UK Corporate	5.3	5.2	4.9	2.5	8.8
Emerging Markets Bonds	JPM EMBI Plus	5.2	6.0	7.2	3.1	9.9
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed	4.3	5.2	5.2	6.5	17.9
Commodities	Bloomberg Commodity	1.5	4.7	4.7	5.8	16.9
Hedge Funds	HFRI Fund of Funds Composite Index	5.0	4.6	4.5	2.2	5.5
Private Equity	Burgiss Private Equity	7.7	7.9	7.8	7.5	11.0
Core Private Credit	Burgiss Private Senior Debt			6.3	4.6	7.7
Opportunistic Private Credit	BURGISS PRIVATE DISTRESSED DEBT			11.1	6.9	11.0
Direct Real Estate — US	Burgiss Real Estate			7.1	9.3	11.1
US Cash	BofA 3 Month T-Bill	4.1	2.9	2.8	0.5	0.7
UK Cash	JPM UK Cash Index	4.2	2.7	2.5	0.6	0.8
EMU Cash	JPM EUR Cash Index	2.8	2.1	2.0	0.5	0.6
Canada Cash	JP Morgan Cash Index Canada (3 M)	3.1	2.7	2.7	0.4	0.5
Australia Cash	JP Morgan Cash Index Australia (3 M)	3.9	2.6	2.4	0.6	0.8
New Zealand Cash	JP Morgan Cash Index New Zealand (3 M)	4.0	2.9	2.7	0.7	0.8
US Inflation	—	—	2.0	2.0	—	—
UK Inflation	—	—	2.2	2.2	—	—
EMU Inflation	—	—	1.9	2.0	—	—
Canada Inflation	—	—	2.0	1.9	—	—
Australia Inflation	—	—	2.0	2.3	—	—
New Zealand Inflation	—	—	2.0	2.0	—	—

Source: The forecasted returns are annual arithmetic averages based on State Street Global Advisors' Investment Solutions Group September 30, 2024 forecasted returns and long-term standard deviations. The forecasted performance data is reported on a gross of fees basis. Additional fees, such as the advisory fee, would reduce the return. For example, if an annualised gross return of 10% was achieved over a five-year period and a management fee of 1% per year was charged and deducted annually, then the resulting return would be reduced from 61% to 53%. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in the local (or regional) currency presented. It does not take into consideration currency effects. The forecasted performance is not necessarily indicative of future performance, which could differ substantially. Please reach out to your representative in case of any further questions on our forecasts or methodologies.

Note: Forecasts apply to the listed primary benchmarks and other asset class benchmarks as long as they are substantially similar.

Note: Private asset forecasted returns are Net of Fees, Public asset forecasted returns are Gross of Fees.

Footnotes



Disclosure



Share



Download



Print



More on Long-Term Asset Class Forecasts

View All Long-Term Asset Class Forecasts

Issued by State Street Global Advisors, Australia Services Limited (AFSL Number 274900, ABN 16 108 671 441) ("SSGA, ASL"). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia · Telephone: 612 9240-7600 · Web: www.ssga.com.

SSGA, ASL is the Responsible Entity and the issuer for the State Street Managed Funds, which are unquoted, and the SPDR® ETFs which are quoted on the AQUA market of the ASX or listed on the ASX. SSGA ASL is the AQUA Product Issuer for the CHESS Depositary Interests (or "CDIs") created over interests in the SPDR® S&P 500® ETF Trust ("SPY") which were first quoted on the AQUA market of the ASX on 13 Oct 2014. State Street Global Advisors Trust Company (ARBN 619 273 817) is the trustee of, and the issuer of interests in, the SPDR® S&P 500® ETF Trust, an ETF registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940 and principally listed and traded on NYSE Arca, Inc. under the symbol "SPY".

This material is general information only and does not take into account your individual objectives, financial situation or needs and you should consider whether it is appropriate for you. You should seek professional advice and consider the product disclosure statement, available at ssga.com, before deciding whether to acquire or continue to hold the Funds. Target Market Determinations can also be found at ssga.com. This material should not be considered a solicitation to buy or sell a financial product or security.

Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss.

Risk associated with equity investing includes stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

SPDR®, Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC, ASX® is a registered trademark of the ASX Operations Pty Ltd], these trademarks have been licensed for use by S&P Dow Jones Indices LLC and licensed for use for certain purposes by State Street. MSCI indexes are the exclusive property of MSCI Inc. ("MSCI"). MSCI and the MSCI index names are service mark(s) of MSCI or its affiliates and have been licensed for use for certain purposes by State Street. The products referenced herein are not sponsored, endorsed, sold or promoted by any of these third party entities and none of these entities bear any liability with respect to the products or make any representation, warranty or condition regarding the advisability of buying, selling or holding any products issued by SSGA, ASL.

There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA ASL's express written consent.

