



# ALTERNATIVE THINKING

---

## 2021 Capital Market Assumptions for Major Asset Classes

Q1 2021

This article updates our estimates of medium-term (5- to 10-year) expected returns for major asset classes. It also includes a section on the stock-bond correlation. Selected estimates are summarized in Exhibit 1. After a volatile 2020, both equity and bond expected returns ended the year lower. The expected real return of a U.S. 60/40 portfolio is just 1.4%,<sup>1</sup> a fraction of its long-term average of nearly 5% (since 1900).

### About the Portfolio Solutions Group

The Portfolio Solutions Group (PSG) provides thought leadership to the broader investment community and custom analyses to help AQR clients achieve better portfolio outcomes.

*We thank Alfie Brixton, Thomas Maloney, Nick McQuinn and Jason Mellone for their work on this paper. We also thank Pete Hecht, Antti Ilmanen and Kris Laursen for their helpful comments.*

---

[ 1 ] Based on historical real yields for U.S. large-cap equities and 10-year Treasuries, using a simpler methodology that allows long-term historical comparisons; methodology and sources described in Appendix.

AQR Capital Management, LLC, ("AQR") provide links to third-party websites only as a convenience, and the inclusion of such links does not imply any endorsement, approval, investigation, verification or monitoring by us of any content or information contained within or accessible from the linked sites. If you choose to visit the linked sites, you do so at your own risk, and you will be subject to such sites' terms of use and privacy policies, over which AQR.com has no control. In no event will AQR be responsible for any information or content within the linked sites or your use of the linked sites.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. The views and opinions expressed herein are those of the author and do not necessarily reflect the views of AQR Capital Management, LLC, its affiliates or its employees. This information 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. Past performance is not a guarantee of future results.

Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index.

### Index Definition:

The **S&P 500 Index** is the Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices

Diversification does not eliminate the risk of experiencing investment loss.

Certain publications may have been written prior to the author being an employee of AQR.

This material is intended for informational purposes only and should not be construed as legal or tax advice, nor is it intended to replace the advice of a qualified attorney or tax advisor.

AQR Capital Management is a global investment management firm, which may or may not apply similar investment techniques or methods of analysis as described herein. The views expressed here are those of the authors and not necessarily those of AQR.