We see single-digit and below-average returns from equities as global economies muddle through global growth restructuring. Valuations are at a more reasonable level but they could move slightly lower in the later stages of the economic expansion.

Downward pressure on interest rates should continue, driven by stuckflation and prompting a monetary makeover. All said, we think bond returns will remain low — due to the low-yield starting point — though still mostly positive. Real assets should be in line with equities, as low interest rates support global real estate and listed infrastructure.

5-YEAR ASSET CLASS RETURN OUTLOOK

Equities

Slow growth takes its toll.

Returns will be below long-term historical averages — a consequence of the slow growth environment.

5.7% DEVELOPED MARKETS

6.1% EMERGING MARKETS

Fixed Income

Low but positive returns will persist.

Slow growth, low inflation and the lack of impactful monetary policy will steepen yield curves and drive interest rates to the lower end of their post-financial crisis range.

5.8% Global

6.0% Europe

7.4% UK

4.5% Canada

5.7% U.S.

5.7% Australia

2.6% Canada

3.0% U.S.

2.2% United Kingdom

1.2% Europe

0.2% Japan

2.2% Australia

6 KEY THEMES

Here are the key themes we believe will shape the investment landscape in the next five years:

Global Growth Restructuring
A shifting economic model — due to geopolitical and technological developments — will slow growth.

Irreconcilable Differences
The fractious U.S.-China relationship will produce a cascade of geopolitical, economic and market changes.

Stuckflation 4.0
Muted growth in global demand and timid policy responses suggest stuckflation is here to stay.
Real Assets

Returns will remain in line with equities, but will continue to offer various portfolio benefits. Credit risk exposure will provide a tailwind to global real estate and listed infrastructure, while slower growth and potential regulatory headaches cause a slight headwind for natural resources.

Alternatives

Size and skill will continue to matter.

Over the past 20 years, the median manager below $1.5 billion generated a 2.3% greater return than the median manager above $5 billion.

About Northern Trust Asset Management

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives. Entrusted with $983 billion in assets,1 we understand that investing ultimately serves a greater purpose and believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That’s why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect, and transparency.

1 Assets under management as of September 30, 2019.

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Northern Trust Asset Management
CAPITAL MARKET ASSUMPTIONS

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