Where’s the global economy heading?

What will the real return be for stocks & bonds over the next 10 years?

Lara de la Iglesia: “What real rate of return do we see for stocks and bonds in the coming decade?”

Andrew Patterson: Nominal returns, particularly here in the United States, on the equity side, [are] likely to be very muted. When I say muted, we’re talking about a central tendency of around 3% to 5%, compared with a historic average of closer to 9% to 11% on an annualized basis. Right, and that’s over the next ten years. To say that we won’t have years that outperform, that could reach double-digit returns, or years that will underperform with negative returns in the year, we can’t say with precision when that will occur. But on an annualized ten-year outlook, our views on the U.S. equities is much more guarded maybe than it would have been in the past.

One of the things to consider as well, though, is the real return aspect of that. So what do these returns look like after inflation? Inflation, for the most part, is likely to be lower than people may have become accustomed to in the past. Particularly here in the United States, inflation of 3%, 3.5%, 4%, much higher than that even in the 1980s was the norm. So some investors, depending on their horizon, may have become accustomed to that.

Going forward, that would not be our base case. Our base case would be for inflation somewhere closer to the Fed’s target and likely a little bit below 2%, right? So on a real return basis, again, this is just back-of-the-envelope math, this isn’t the most precise estimate, you would remove that inflation estimate from those nominal returns so you get real returns. Considering 3 to 5 nominal, you’re looking at 1 to 3 real. Again, even on a real return, a far cry from returns investors may have become accustomed to over the last several years. But we think it’s important to be very forthcoming about those projections so that investors can make the appropriate asset allocation decisions.

Lara de la Iglesia: Okay, all right. Well, let’s—

Peter Westaway: Can I just add something to that, Lara?

Lara de la Iglesia: Yes, sure.

Peter Westaway: I was just going to say, the low-return environment that Andrew’s alluding to and this very accommodative monetary policy environment that we’ve been living through, that Qian was focusing on, those two things are related to each other because, in a way, what’s happening is, policymakers have been deliberately stimulating markets by buying assets, pushing down risk premia, pushing up the price of risky assets to try and encourage firms and households to spend money. But that period is now over, and in a way, we’re now moving into a period where we have to give that back. And so I think the depressed returns looking forward are very much a consequence of the unwinding of those stimulative policies. That’s an inevitability, I think.

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Meet the speakers

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