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**Amundi**  
ASSET MANAGEMENT

# Asset Class Return Forecasts

## Quarterly Update

Medium and Long-Term Return Forecasts | Q2 - 2021

Finalised in April 2021

With vaccination programs worldwide well underway, the spotlight has shifted now to the nature of the economic recovery. The combination of the fiscal packages in the pipeline together with the impending release of pent-up demand has brought forth the possibilities of economies overheating. In response, monetary authorities remain vigilant providing grounds for steady growth in the shadow of the uneven and lingering pandemic risk.

In many ways, the markets have anticipated the recovery as evinced by a sharp increase in rates over the last months. US has led the way, with a recovery projected to be the strongest in decades and a sharp steepening of the curve, with the Fed committed to not raising rates in the short term. ECB has followed suit in maintaining the cautionary stance. While concerns remain due to hiccups in the vaccination programs within EU, inflation expectations have crept up as well. Compared to Q1, sovereign bonds reflect the increased term premium across all regions in our investment universe resulting in higher expected returns.

The prospects in the credit sector remain as last quarter, where spreads are set to slightly tighten across all regions and ratings. We maintain a watchful eye on the uncertainties of the default risk particularly in the HY sectors. While equity index have continued to trend higher supported by EPS growth readings, we anticipate some marginal improvements with expectations in the range 5% to 7%.

In the table below we present the simulated forward-looking statistics over the 10-year horizon (expected returns, volatility, and CVaR) compared with historical statistics calculated on 20-year sample. Here CVaR and max drawdown represent the expected and historical shortfall respectively.

| Assets in local currency             | 10 yr Simulated Expected Returns | 10 yr Simulated Volatility | 10 yr Simulated CVaR 95% | 2000-2020 Historical Returns (annualised) | 2000-2020 Volatility (annualised) | 2000-2020 Max Drawdown |
|--------------------------------------|----------------------------------|----------------------------|--------------------------|---|-----------------------------------|------------------------|
| <b>Government Bonds</b>              |                                  |                            |                          |   |                                   |                        |
| US Bond                              | 1.6%                             | 4.4%                       | 7.7%                     | 4.2%                                      | 4.7%                              | 6.5%                   |
| UK Bond                              | 0.5%                             | 7.3%                       | 14.8%                    | 5.2%                                      | 6.2%                              | 8.6%                   |
| Japan Bond                           | 0.3%                             | 3.7%                       | 7.4%                     | 1.7%                                      | 2.1%                              | 4.8%                   |
| EMU Bond All Maturity                | 0.0%                             | 4.4%                       | 8.7%                     | 4.6%                                      | 4.0%                              | 5.8%                   |
| <b>Credit Investment Grade</b>       |                                  |                            |                          |   |                                   |                        |
| Euro Corporate IG                    | 0.6%                             | 3.7%                       | 6.6%                     | 4.3%                                      | 3.6%                              | 7.2%                   |
| US Corporate IG                      | 2.6%                             | 4.7%                       | 7.4%                     | 5.6%                                      | 5.7%                              | 16.1%                  |
| <b>Credit High Yield &amp; EMBI</b>  |                                  |                            |                          |   |                                   |                        |
| Euro Corporate HY                    | 1.6%                             | 12.2%                      | 27.0%                    | 6.3%                                      | 11.3%                             | 37.7%                  |
| US Corporate HY                      | 2.9%                             | 10.4%                      | 23.1%                    | 7.4%                                      | 9.3%                              | 33.2%                  |
| EM Hard Currency Debt*               | 4.6%                             | 8.5%                       | 21.5%                    | 8.1%                                      | 8.6%                              | 21.8%                  |
| <b>Equities</b>                      |                                  |                            |                          |   |                                   |                        |
| US Equity                            | 6.0%                             | 17.0%                      | 38.2%                    | 7.9%                                      | 15.0%                             | 51.1%                  |
| Euro zone Equity                     | 6.2%                             | 19.6%                      | 50.3%                    | 3.3%                                      | 18.0%                             | 56.2%                  |
| UK Equity                            | 6.6%                             | 15.2%                      | 32.0%                    | 4.4%                                      | 13.9%                             | 40.3%                  |
| Japan Equity                         | 5.1%                             | 19.9%                      | 39.5%                    | 3.6%                                      | 17.8%                             | 57.4%                  |
| Pacific ex-Japan Equity              | 6.7%                             | 20.1%                      | 44.0%                    | 7.4%                                      | 13.9%                             | 49.6%                  |
| Emerging Markets Equity              | 7.0%                             | 19.0%                      | 39.8%                    | 10.6%                                     | 16.7%                             | 51.9%                  |
| <b>Real and Alternatives*</b>        |                                  |                            |                          |   |                                   |                        |
| EU Real Estate                       | 4.5%                             | 10.0%                      | 22.2%                    | 7.5%                                      | 3.1%                              | 10.7%                  |
| EU Private Equity                    | 8.2%                             | 23.6%                      | 56.2%                    | 5.7%                                      | 26.8%                             | 77.1%                  |
| US Real Estate                       | 5.6%                             | 11.5%                      | 32.8%                    | 8.1%                                      | 4.6%                              | 23.9%                  |
| US Private Equity                    | 8.3%                             | 23.1%                      | 54.1%                    | 5.4%                                      | 29.8%                             | 77.3%                  |
| Global Infrastructure                | 6.0%                             | 11.8%                      | 24.1%                    | 13.7%                                     | 11.9%                             | 13.8%                  |
| Global Private Debt (Direct Lending) | 5.4%                             | 9.6%                       | 22.7%                    | na  | 3.7%                              | na                     |

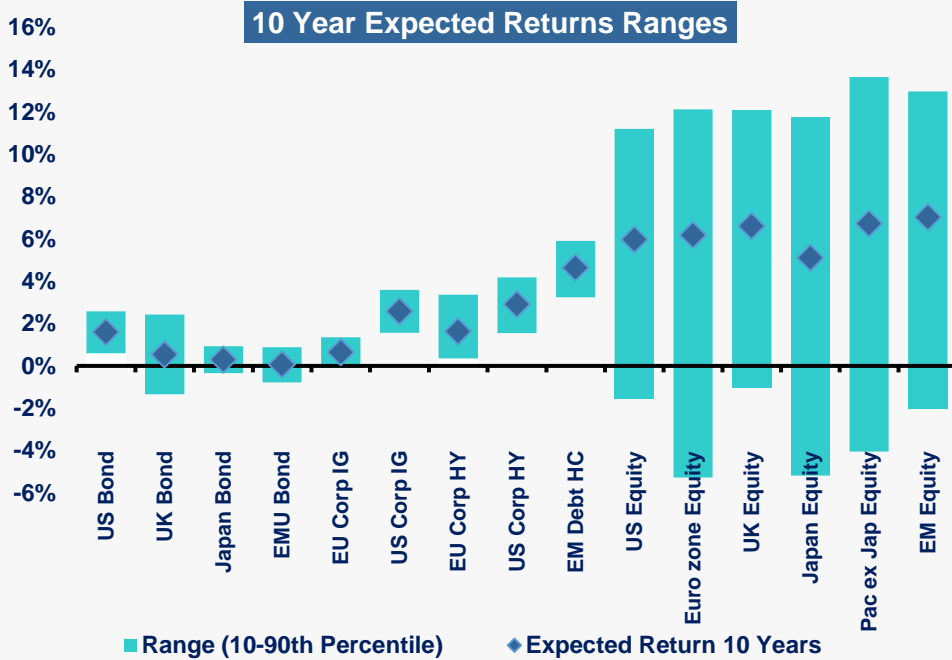
\*Historical figures on real and alternatives calculated on a quarterly sample.

Source: Amundi Asset Management CASM Model, Amundi Asset Management Quant Solutions and Research Teams, Bloomberg. Data as of 20 April 2021 Macro figures as of last release. Data updated as of 31 March 2021. Figures shown are in local currency. Returns on credit asset are comprehensive of default losses. Regarding real assets, the table represents the modelling of core (moderate risk) real estate and direct lending on the private debt side. **The expected returns do not consider the potential alpha, generated by portfolio management that can be significant above all for real and alternative assets.**

Forecasts for annualised returns are based upon estimates and reflect subjective judgments 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 forecast returns are not necessarily indicative of future performance, which could differ substantially.**

1 For professional investors only.

Asset Class Return Forecasts



Slight **general upgrade** on the expected 10-year returns versus last quarter.

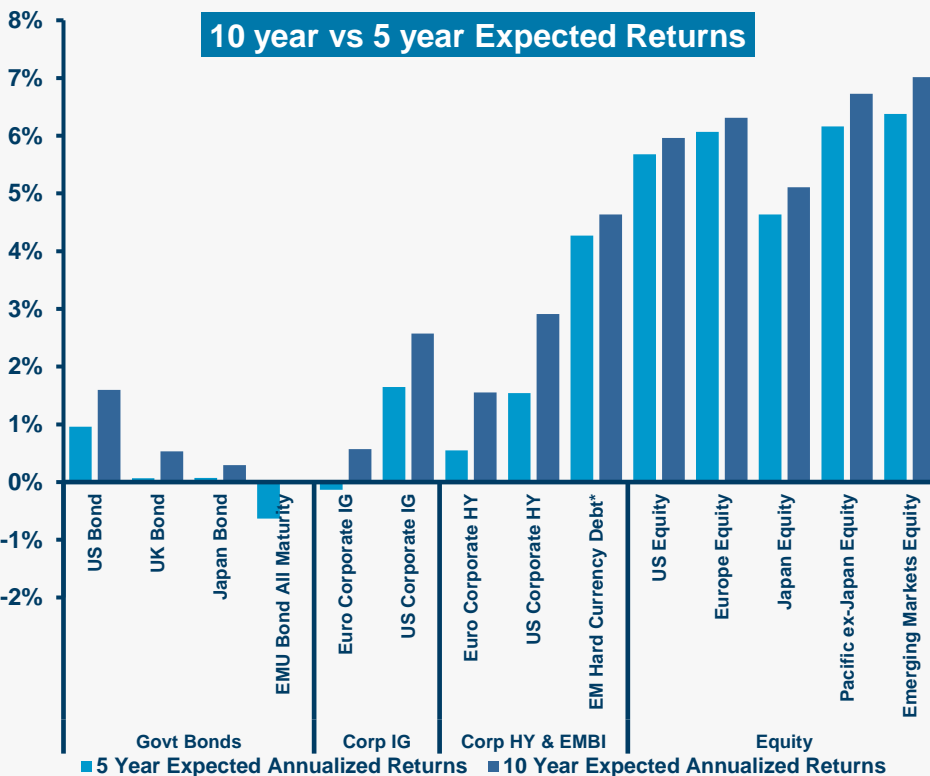
Expected returns on **government** are again in the **positive region across all the regions**, while keeping **regional differences** between more and less dynamic regions.

Moving from government to **credit**, asset returns consolidate the **preference vs government**.

**On equities, we confirm** they can deliver **normalized returns** on 10 yr horizon.

In the chart, we represent the ranges for the expected returns at 10 yr horizon where we excluded the tail scenarios.

*Over the long-term, we confirm the low trend observed for all macro and financial variables. Despite some temporary pick-up, we are outlining a convergence to a weak growth potential, slightly lower when compared to the past, while inflation remains under control around central bank targets (even if showing some more dynamism in the short to medium term). This will imply some downside adjustments to equilibrium yields and the earnings growth trend.*



Monetary authorities have reiterated the intention of maintaining the low rates in the near future, notwithstanding the interest rate market evolution which **resulted in steeper curve and higher yields** by registering **inflationary expectations and volatility**.

Thanks to higher starting level for yields, the normalization of interest rates will be less painful and we can **expect returns to move back in the positive territory on the 10 year horizon** across the regions.

The picture on **credit is almost unchanged** vs last quarter from a **valuation standpoint**, while some **improvements** are factored in on **default rates**.

**Improving valuations also for equity. Expected returns are quite homogenous** from a medium and long term perspective, as an evolution towards a more neutral stance is predominant.

Source: Amundi Asset Management CASM Model, Amundi Asset Management Quant Solutions and Research Teams, Bloomberg. Data as of 20 April 2021. Macro figures as of last release. **Data updated as of 31 March 2021.** Equity returns based on MSCI indices. Reference duration are average figures. Figures shown are in local currency. Returns on credit asset are comprehensive of default losses.

**Forecast and fair values up to 3 year horizon provided by Research team (macro, yields, spread and equity).** Forecasts for annualised returns are based upon estimates and reflect subjective judgments 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 forecast returns are not necessarily indicative of future performance, which could differ substantially.**

## Asset Class Return Forecasts

In the following table, we present our annualised return forecasts across different asset classes, calculated as the average of simulated returns, on different forward-looking horizons (at 5 and 10 years). We also report historical figures for annualised returns and volatility calculated on the last 20 years, a sample including the two big crises (GFC and Covid -19).

| Assets in local currency       | Reference Index | Duration | Average Annualised Expected Returns |                          | 2001-2021 Historical Returns (annualised) | 2001-2021 Volatility (annualised) |
|--------------------------------|-----------------|----------|-------------------------------------|--------------------------|---|-----------------------------------|
|                                |                 |          | 5 year Expected Returns             | 10 year Expected Returns |   |                                   |
| <b>Cash</b>                    |                 |          |                                     |                          |   |                                   |
| Euro Cash                      | JPCAUEU3M index | 0.3      | -0.6%                               | 0.0%                     | 1.6%                                      | 0.5%                              |
| US Cash                        | JPCAUS3M index  | 0.2      | 0.4%                                | 1.4%                     | 2.0%                                      | 0.5%                              |
| <b>Government Bonds</b>        |                 |          |                                     |                          |   |                                   |
| US Bond                        | JPMTUS Index    | 6.4      | 1.0%                                | 1.6%                     | 4.2%                                      | 4.7%                              |
| UK Bond                        | JPMTUK Index    | 11.6     | 0.1%                                | 0.5%                     | 5.2%                                      | 6.2%                              |
| Japan Bond                     | JPMTJP index    | 10.0     | 0.1%                                | 0.3%                     | 1.7%                                      | 2.1%                              |
| Emu Bond - Core                | JPMTWG index    | 7.6      | -1.1%                               | -0.5%                    | 4.1%                                      | 4.1%                              |
| Emu Bond - Semi Core (France)  | JPMTFR index    | 8.0      | -0.8%                               | -0.2%                    | 4.5%                                      | 4.3%                              |
| Italy Bond                     | JPMTIT index    | 6.9      | -0.3%                               | 0.5%                     | 5.3%                                      | 5.8%                              |
| Spain Bond                     | JPMTSP index    | 7.2      | -0.3%                               | 0.3%                     | 5.1%                                      | 5.2%                              |
| EMU Bond All Maturity          | JPMGEMUI Index  | 7.5      | -0.6%                               | 0.0%                     | 4.6%                                      | 4.0%                              |
| Barclays Global Treasury       | BTSYTRUU Index  | 8.0      | 0.5%                                | 0.8%                     | 4.5%                                      | 6.5%                              |
| <b>Credit Investment Grade</b> |                 |          |                                     |                          |   |                                   |
| Euro Corporate IG              | ER00 index      | 5.2      | -0.1%                               | 0.6%                     | 4.3%                                      | 3.6%                              |
| US Corporate IG                | C0A0 index      | 7.2      | 1.6%                                | 2.6%                     | 5.6%                                      | 5.7%                              |
| Barclays Euro Aggregate        | LBEATREU Index  | 6.7      | -0.5%                               | 0.1%                     | 4.3%                                      | 3.4%                              |
| Barclays US Aggregate          | LBUSTRUU Index  | 5.8      | 1.2%                                | 2.0%                     | 4.5%                                      | 3.4%                              |
| Barclays Global Aggregate      | LEGATRUU Index  | 6.9      | 0.7%                                | 1.3%                     | 4.6%                                      | 5.5%                              |
| <b>Credit High Yield</b>       |                 |          |                                     |                          |   |                                   |
| Euro Corporate HY              | HE00 index      | 3.6      | 0.5%                                | 1.6%                     | 6.3%                                      | 11.3%                             |
| US Corporate HY                | H0A0 index      | 4.1      | 1.5%                                | 2.9%                     | 7.4%                                      | 9.3%                              |
| <b>Emerging Market Debt</b>    |                 |          |                                     |                          |   |                                   |
| EM Hard Currency Debt*         | JPGCCOMP Index  | 6.9      | 4.3%                                | 4.6%                     | 8.1%                                      | 8.6%                              |
| EM-Global Diversified**        | JGENVUUG Index  | 5.3      | 4.8%                                | 5.4%                     | 6.2%                                      | 11.8%                             |
| <b>Convertible Bond</b>        |                 |          |                                     |                          |   |                                   |
| Europe Index (Eur Hedged)      | UCBIFX20 Index  |          | 2.2%                                | 2.6%                     | 4.6%                                      | 8.8%                              |
| <b>Equities</b>                |                 |          |                                     |                          |   |                                   |
| US Equity                      | NDDLUS Index    |          | 5.7%                                | 6.0%                     | 7.9%                                      | 15.0%                             |
| Europe Equity                  | NDDLE15 index   |          | 6.1%                                | 6.3%                     | 4.3%                                      | 15.2%                             |
| Euro zone Equity               | NDDLEMU Index   |          | 6.0%                                | 6.2%                     | 3.3%                                      | 18.0%                             |
| UK Equity                      | NDDLUK Index    |          | 6.3%                                | 6.6%                     | 4.4%                                      | 13.9%                             |
| Japan Equity                   | NDDLJN Index    |          | 4.6%                                | 5.1%                     | 3.6%                                      | 17.8%                             |
| Pacific ex-Japan Equity        | NDDLXJ Index    |          | 6.2%                                | 6.7%                     | 7.4%                                      | 13.9%                             |
| Emerging Markets Equity***     | NDLEEGF index   |          | 6.4%                                | 7.0%                     | 10.6%                                     | 16.7%                             |
| World Equity                   | NDDLWI index    |          | 5.7%                                | 6.0%                     | 6.4%                                      | 14.2%                             |
| AC World Equity                | NDLEACWF Index  |          | 5.8%                                | 6.1%                     | 6.6%                                      | 14.2%                             |

EM sovereign index are EMBI Global Diversified and EM-GBI Global diversified: \* Hard Currency USD, \*\* USD Unhedged, including the USD currency expectation towards EM currencies. EM Local starting date is 31/12/2002. \*\*\* EM equity starting date is 29/12/2000.

Source: Amundi Asset Management CASM Model, Amundi Asset Management Quant Solutions and Research Teams, Bloomberg. Data as of 20 April 2021. Macro figures as of last release. **Data updated as of 31 March 2021.** Equity returns based on MSCI indices. Reference duration are average figures. Figures shown are in local currency. Returns on credit asset are comprehensive of default losses.

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## Cascade Asset Simulation Model (CASM)

This medium- and long-term return forecast report is intended to provide some guidance for investor expectations. The time horizon under consideration is 10 years, a timeframe deemed to be appropriate and during which long-term trend factors and issues can reasonably be expected to play out, and therefore, market returns should accurately reflect this information. We use a Monte Carlo methodology in order to generate possible changes in different risk factors for the time horizon considered, representing the future states of these factors under objective measures. The model is then used to price the instruments in line with these factor scenarios.

In order to determine possible interest rate scenarios, we analysed the changes in the major economic DM regions and EM aggregate. We used a cascade-style modelling technique to simulate the different term structures, using risk factors such as the GDP cycle, inflation, real rates and slope for each of the economic regions in question.

Moving into spread-related assets (EM bonds and corporate bonds), we focused on implied volatility, quality, default and recovery rates, together with economic cycles, to estimate a

forward-looking path for EM bonds (hard currency), EU corporate (IG and HY) and US corporate (IG and HY).

Our framework on equity focuses on earnings growth and price earnings, as a determinant of capital gains and dividend yields, to represent the income effect; these variables are analysed together with the macroeconomic pillars of the model (the economic and inflation cycle).

Our medium/long-term model, known as CASM, is updated on a quarterly basis to incorporate new starting points, the change in our short-term outlook and medium term expectations along with long-term trends, the significance of which is verified on an annual basis.

Our CASM model focuses on key factors, which drive this change over the medium to long-term; the resulting forecasts look at the comparison between current and medium to long-term readings for the key factors included in the model.

Note that these are simulated figures only and may not represent actual asset class returns. Actual returns are based on many factors, and may vary substantially from modelled ones.

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