



The Northern Trust Predictions

Stockholm (HedgeNordic) - What rates of return can investors expect to earn on equities, bonds, private equity or hedge funds in the next five years? According to Northern Trust's five-year investment outlook, on a global basis, investors should expect equity returns in the range of mid-single digits and low-but-positive fixed-income returns.

According to Northern Trust's Capital Market Assumptions five-year outlook, the global economy will experience an average annualized growth of 2.2 percent in real terms over the next five years, along with controlled inflation and accommodative monetary policy. Northern Trust predicts that interest rates will remain low, and inflation will continue to be minimal due to a combination of muted global growth and timid policy responses.

Issued on an annual basis, the Capital Market Assumptions report displays long-term asset class return expectations and informs the investment decisions and asset allocation recommendations made by Northern Trust. According to the latest release, "equity returns are expected to be muted by historical standards, due to slower growth and modest margin and valuation pressures."

Northern Trust expects developed markets to return 5.7 percent annually. The highest average annualized equity return is forecast for Latin American emerging markets at 8.9 percent, compared with expectations of 6.1 percent for the overall

emerging markets. The expected return for emerging markets represents a material reduction from last year's forecast of 8.3 percent, and represents a mere 0.4 percent return premium to developed markets. The lowest estimates are for Canada and Japan; both expected to deliver 4.5 percent annually.

Real asset returns are expected to be mainly in line with equities, with natural resources expected to deliver an average annualized return of 6.1 percent and real estate and global listed infrastructure expected to return 6.3 percent and 5.8 percent, respectively. In the alternatives space, Northern Trust expects the private equity sector to deliver an annual return of 7.7 percent. Hedge funds, meanwhile, are expected to return 3.7 percent annually. The hedge fund return forecast reflects a combination of expected alpha (0.5 percent) and expected returns from risk exposures (3.2 percent).

The forecasts for all asset classes are informed by six themes that Northern Trust believes are shaping the investment landscape for the coming years. Each of the six themes listed below helps explain Northern Trust's long-term outlook:

- 1 | GLOBAL GROWTH RESTRUCTURING** — A shifting economic model – due to geopolitical and technological developments – will slow growth.
- 2 | IRRECONCILABLE DIFFERENCES** — The fractious U.S.-China relationship will produce a cascade of geopolitical, economic and market changes.
- 3 | STUCKFLATION 4.0** — Muted growth in global demand and timid policy responses suggest stuckflation is here to stay.
- 4 | EXECUTIVE POWER PLAY** — Solid growth has pacified power grab concerns, but leaders are at risk of overplaying their hands.
- 5 | MONETARY MAKEOVER** — Stuckflation has left central banks without a North Star and seeking relevance as their independence is challenged.
- 6 | STAKING OUT CLIMATE RISK** — Climate risk regulatory impacts will slowly build, but with high dispersion and sporadic embracement.

The executive summary of [Northern Trust's Capital Market Assumptions five-year outlook](#) can be downloaded below:



CAPITAL MARKET ASSUMPTIONS

FIVE-YEAR OUTLOOK: 2019 EDITION



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