



30-year return forecasts (2018–47)

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Executive Summary



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Schroders Economics Group produces thirty-year return forecasts, on an annual basis, for a range of asset classes. Here we outline the methodology used, which is based on a series of building blocks and estimates of risk premia, and surmise the key conclusions from our analysis. This year, we also take a look back at the evolution of our forecasts over time. Sadly the process has not yet been running thirty years, but we do now have ten sets of forecasts to compare.

This year, we generally revise expected fixed income returns higher as monetary policy edges closer to normalisation. By contrast, equity forecast returns see downward revisions as valuations march higher and long term growth edges lower. Historically, it is notable that expectations for fixed income returns have generally trended lower over the last 10 years, no doubt in part thanks to global QE. Equities are slightly more mixed, but the relentless upward march of valuations has eroded expected future returns in many cases.

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This section contains our forecasts and methodology for cash, bonds, credit, equities, and real estate, along with a look at the historic evolution of most of those forecasts.

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Long-run asset class performance: 30-year return forecasts (2018–47)

Cash

One of the key building blocks for our long-run forecast is our assumption regarding the returns on cash, which are almost entirely driven by movements in key policy rates (such as the Bank of England base rate, or the Federal Funds rate).

Real cash returns likely to be largely negative in the near term, owing to the deleveraging process

Table 1: Real cash returns assumption (% per annum)

	US	UK	Eurozone	Japan
De-leveraging phase	n/a	-1.6	-1.5	-1.3
Long run	0.9	0.3	0.2	-0.5
Overall (2018–47)	0.71	0.16	0.08	-0.57

Source: Schroders Economics Group, January 2018.

The methodology we use is a multi-stage approach – in the initial stage we forecast the real return on cash to remain negative, as the de-leveraging of both private and public sector balance sheets in the developed world keeps monetary policy extremely accommodative, and negative real rates remain an attractive way of ameliorating the debt burden. However, we would note that this year we believe the deleveraging phase in the US to be largely complete, with rates now entering the second stage.

The second stage of our cash forecast is a normalisation in cash rates, before we reach the third and final stage, with positive real cash rates. This terminal value of real cash returns is based on an historic average, to which we make adjustments to reflect our views going forward about the strength of trend growth. This year, we are one step further through the deleveraging process, pushing rates marginally higher. The overall effect is to push sterling and euro cash rates into positive real territory, joining the US, while Japan continues to offer negative returns, unchanged from last year.

Table 2: Real cash forecast returns

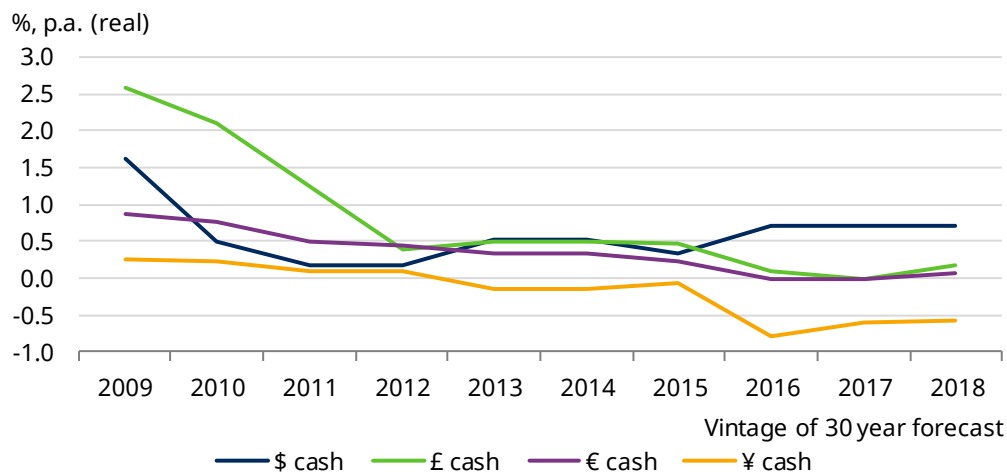
% p.a.	Currency	Yield	Nominal return	Inflation	Real return
Cash					
USD	USD	2.7	2.8	2.0	0.7
GBP	GBP	2.3	2.4	2.2	0.2
EUR	EUR	1.8	1.9	1.8	0.1
YEN	JPY	0.4	0.6	1.1	-0.6
G4 cash	<i>Local</i>	2.2	2.2	1.9	0.3

Source: Schroders Economics Group, January 2018.

Looking back over history (chart 1), our forecasts for cash rates have generally drifted lower over time. Given the changing stances of central banks, and the persistently weaker growth and inflation picture we have seen post crisis, that is perhaps unsurprising. Still, we seem to have stabilised over the last two to three years, and with normalisation underway the downward drift may well be finished.

Cash forecasts driven lower over time as “new normal” arrived

Chart 1: Evolution of 30-year cash forecasts



Source: Schroders Economics Group, January 2018.

Inflation

Our inflation forecasts follow a multi-stage approach, using our forecasts for the first two years, Oxford Economics forecasts for the following eight, and our own forecast for the latter twenty where we assume a terminal rate.

Overall, we are assuming that inflation rates remain under control with central banks generally meeting their targets over the forecast period (an exception is Japan which is expected to struggle to get inflation to 2% on a sustainable basis). This implies that central banks retain their credibility such that inflation expectations remain inline with their targets and that policymakers do not alter these targets significantly.

Sovereign bonds

Our return assumption on sovereign debt builds on the return we have for cash, adding a term premium to forecast the returns to longer maturity (10-year) bonds. As with our cash methodology, we estimate the maturity premium from historical averages (in this case twenty years) and make an adjustment to reflect our own views. Using the historical average maturity is a sensible base, as there is a maximum steepness a yield curve can reach before the carry and roll becomes too attractive for investors to ignore, thus encouraging them to buy long-dated bonds and flatten the curve again. We apply a 20 to 40% discount to the historic steepness of the yield curve for all countries. This is to reflect the view that yield curves are likely to be flatter going forward than they have been since the early 1990s, as a result of loose monetary policy and a weak growth outlook.

We have altered our view on the UK and eurozone (for which we use German bunds) somewhat this year. In the UK, following Brexit, the expected reduction in migration will limit the UK's flexibility to respond to sudden changes in demand, and so should steepen the Phillips curve. This would therefore increase the chances of higher inflation, resulting in a higher term premium demanded by investors. In the eurozone, the expected tighter policy given a tighter labour market and increasing inflationary pressures in Germany is not coming through. With a greater weight assigned to the rest of the eurozone by the European Central Bank, rate hikes will take longer to occur, resulting in a steeper yield curve than previously assumed, as investors demand a higher premium for inflation risk.

Table 3: Cash, sovereign bonds and linkers

2018–47 (% p.a.)	US	UK	Eurozone	Japan
3 stage model	0.7	0.2	0.1	-0.6
Cash real return	0.7	0.2	0.1	-0.6
Inflation	2.0	2.2	1.8	1.1
Nominal cash return	2.8	2.4	1.9	0.6
Bond maturity premium	1.1	0.7	0.8	0.6
Bond return	3.9	3.1	2.7	1.2
Inflation insurance premium	0.5	1.0	n/a	n/a
Inflation linked bonds	3.4	2.1	n/a	n/a

Source: Schroders Economics Group, January 2018.

For the UK and US, we also forecast the returns on inflation-linked government debt, by applying a discount to the returns on the nominal bonds. It is to be expected that inflation linked bonds offer a lower return than nominal, owing to the insurance they offer against rising prices. The reason for the greater yield discount applied to UK linkers than US TIPS is due to technical market reasons, related to the relative liquidity of the two markets¹ and the structure of the market. Note that we are assuming no difference in duration with nominal bonds.

Table 4: Sovereign bonds and linkers forecast returns

% p.a.	Currency	Yield	Nominal return	Inflation	Real return
US Treasury bond	USD	3.9	3.9	2.0	1.8
UK Gilt	GBP	3.1	3.1	2.2	0.9
Eurozone (Germany)	EUR	2.7	2.7	1.8	0.9
JGB	JPY	1.2	1.2	1.1	0.0
Australia	AUD	3.4	3.4	2.5	0.9
Hong Kong	HKD	3.9	3.9	2.0	1.8
Singapore	SGD	2.8	2.8	1.7	1.1
G4 bond	<i>Local</i>	3.1	3.1	1.9	1.2
Inflation-linked					
Barclays 7–10 year IL Gilts	GBP	2.1	2.1	2.2	-0.1
Barclays 7–10 year TIPS	USD	3.4	3.4	2.0	1.3

Source: Schroders Economics Group, January 2018.

Government bonds have seen limited changes this year compared to last, with the exception of the UK and eurozone, as a result of the change in our assumption around the steepness of the yield curve. A steeper curve means higher returns to longer dated government securities in those markets.

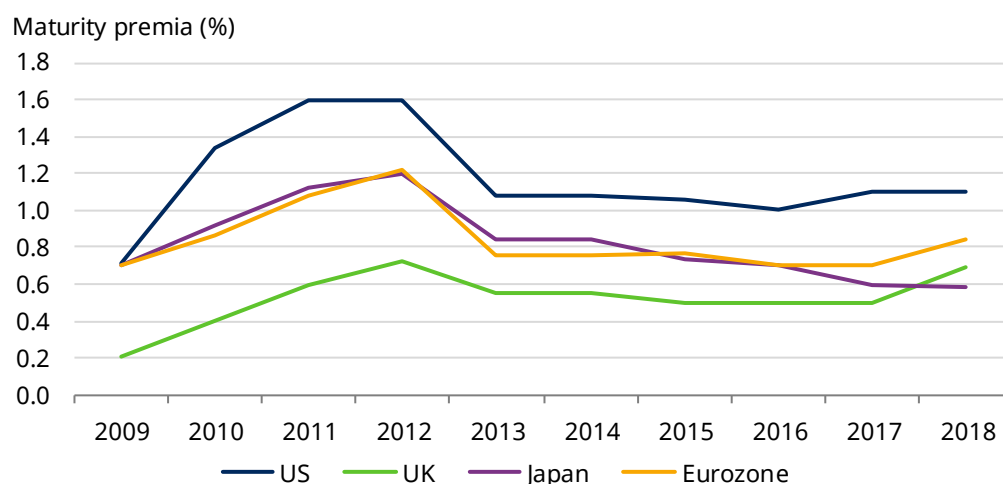
Our forecasts for maturity premia today are somewhat higher than in 2009, though this masks a rising and falling path in the interim. One exception is the eurozone,

¹UK linkers make up a bigger share of the total Gilt market (roughly 20%) than TIPS do of the Treasury market (less than 10%). Thus, *relative to their main market*, TIPS are less liquid than UK linkers, and thus have a price discount (e.g. lower prices, thus higher yield and smaller differential between nominal and TIPS yield).

Sovereign debt should outperform cash, but returns still muted

where the forecast premium is lower today than in 2009. Recall that our maturity premia are calculated off historical averages; these averages were depressed in 2009 by the financial crisis, but began to rise as markets started to price in a normalisation. We took the view in 2013 that yield curves were likely to be flatter than historical averages would indicate (with a lower terminal rate likely), and so increased the adjustment we made. This reflected, in part, growing concerns around the possibility of secular stagnation as both growth and inflation remained stubbornly below pre-crisis levels.

Chart 2: Evolution of maturity premia over time



Source: Schroders Economics Group, January 2018.

Credit and EMD bonds

Our credit returns are forecast using the risk premium or excess return of credit (both investment grade and high yield) over sovereign bonds for the respective market. The two key drivers of credit's excess return are the changes in spreads and the expected loss through defaults, both of which are closely linked to the economic cycle. For this reason, we combine regression analysis of spread changes and default losses with our long run US growth forecast to predict the excess return of US high yield and investment grade credit over Treasuries. Using regression analysis again, we exploit a historical relationship and use the excess returns of US credit to estimate the excess returns of UK and European credit over UK Gilts and German Bunds respectively.

Finally, we also estimate the relationship between US high yield (HY) and emerging market debt (EMD) spreads and use this to drive the EMD spread projection, whilst also assuming a historic ratio holds for EMD defaults and US HY defaults.

Table 5: Credit – Investment grade (IG) and high yield (HY)

2018–47 (% p.a)	US IG	US HY	UK IG	Euro IG	Euro HY	\$EMD
Spread	1.5	5.4	0.8	0.8	5.6	3.7
Default loss	0.1	3.6	0.1	0.1	3.6	1.6
Return over 10-year govt.	1.4	1.8	0.8	0.7	2.0	2.1
10-year govt. return	3.9	3.9	3.1	2.7	2.7	3.9
Nominal return	5.3	5.7	3.8	3.4	4.8	6.0

Source: Schroders Economics Group, January 2018.

UK and Eurozone credit benefits from higher expected bond returns

Spreads to government bonds are largely unchanged from last year, but as a result of changes to the UK and eurozone bond forecasts, total returns from these credit markets are now forecast to be higher than previously.

Table 6: Credit and EMD bond forecast returns

% p.a.	Currency	Yield	Nominal return	Inflation	Real return
Credit					
US IG	USD	5.3	5.3	2.0	3.2
US HY	USD	5.7	5.7	2.0	3.6
UK IG	GBP	3.8	3.8	2.2	1.6
Euro IG	EUR	3.4	3.4	1.8	1.6
Euro HY	EUR	4.8	4.8	1.8	2.9
EMD	USD	6.0	6.0	3.1	2.7
Asian Credit (JACI Index)	USD	5.2	5.3	2.4	2.8

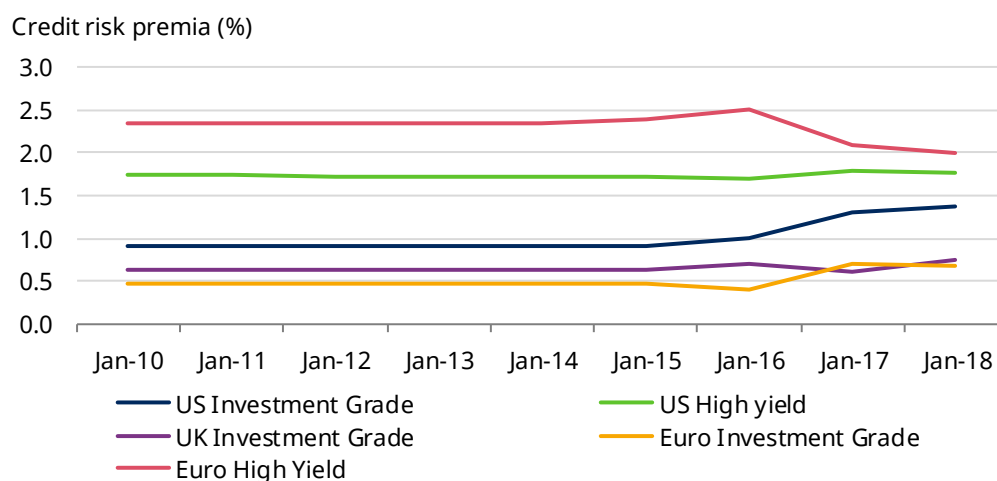
Source: Schroders Economics Group, January 2018.

For Asian credit we adopt a similar approach to that taken for European credit, and build a regression of Asian HY vs. US HY, and Asian IG vs. US IG. We then use these two results to build a composite forecast for the JACI index, which is a 70:30 split between investment grade and high yield credit. Returns on Asian credit are somewhat lower than their US counterpart, a result of tighter spreads for Asian credit, in line with recent history.

Our credit risk premia forecasts have been remarkably stable over time, in large part because until 2016 we used historical data from the pre-crisis period as the basis for our regression analysis, which generates the premia. In 2016 however we changed this, adding post-crisis data to the regression. It seemed that the “distortions” caused by the crisis to the relationship were permanent, and so should be included in the analysis. This caused a slight repricing of credit risk, with rising risk premia for all credit assets excluding European high yield.

Credit risk premia creeping up post crisis

Chart 3: Evolution of credit risk premia over time



Source: Schroders Economics Group, January 2018.

Equities

Our equity return assumptions use a Gordon's growth model approach, in which returns are generated through the initial dividend yield and the growth rate of dividends (via earnings growth). Earnings are assumed to grow in line with

productivity, forecasts for which are made on a GDP per “working capita” growth (i.e. growth in GDP/working age population, rather than GDP/total population).

While this forecast for productivity is the basis for our earnings and dividend growth assumptions, we make adjustments for areas where earnings and trend productivity have not tended to grow in line. This is the case in the emerging markets, where productivity gains have historically not translated fully into earnings growth, hence we scale earnings growth downwards, and Europe where earnings growth has tended to exceed productivity growth (hence an upward scaling).

Equity return forecasts have received nearly universal downgrades again this year, with the exception of Japan. The drivers for this downgrade are split between downward revisions to long run productivity and higher valuations generating weaker dividend yields. Revisions in most markets were modest and UK small cap is predicted to be the best performer over 30 years of the markets we forecast, with a 6.4% real return per annum. Second and third place go to emerging markets equities and Pacific ex Japan. The regional GDP and productivity growth continues to give both an edge over the more mature market rivals. However, as a word of caution, volatility tends to be higher in emerging markets and small cap indices, so we would most definitely advise against using these numbers to make short term investment decisions.

Table 7: Equity forecast returns

% p.a.	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
Equity markets						
US	USD	1.9	3.3	5.3	2.0	3.2
US small cap	USD	1.4	5.1	6.6	2.0	4.5
Japan	JPY	1.8	2.6	4.4	1.1	3.3
UK	GBP	3.6	3.6	7.3	2.2	5.0
UK small cap	GBP	3.0	5.5	8.7	2.2	6.4
Switzerland	CHF	2.9	2.6	5.6	1.2	4.3
Europe ex.UK	EUR	2.6	3.2	5.9	1.7	4.2
Eurozone	EUR	2.6	3.4	6.1	1.8	4.2
Singapore	SGD	3.0	2.9	6.0	1.7	4.3
Pacific ex.Japan	USD	3.4	4.6	8.2	2.6	5.4
Emerging markets	Local	2.7	6.3	9.2	3.1	5.9
Global (AC) Equity	Local	2.2	3.7	5.9	2.1	3.8

Source: Schroders Economics Group, January 2018.

In Asia, China dominates the return expectations thanks to high productivity growth expectations. Asian equities generally are forecast to outperform most developed market (DM) equity markets on a 30 year horizon as a consequence of differences in productivity growth.

EM should outperform most of DM, but small cap UK equities look attractive

Table 8: Equity forecast returns – Asia

% p.a.	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
Equity markets						
Asia ex.Japan	USD	2.8	5.6	8.6	2.4	6.1
Taiwan	TWD	4.2	3.8	8.2	1.2	6.9
Korea	KRW	1.5	4.9	6.6	2.0	4.5
China	CNY	3.4	6.8	10.4	2.8	7.4
India	INR	1.3	9.3	10.7	4.2	6.2
Hong Kong	HKD	2.1	5.2	7.4	2.0	5.3
Singapore	SGD	3.0	2.9	6.0	1.7	4.3

Source: Schroders Economics Group, January 2018.

Equity risk premia

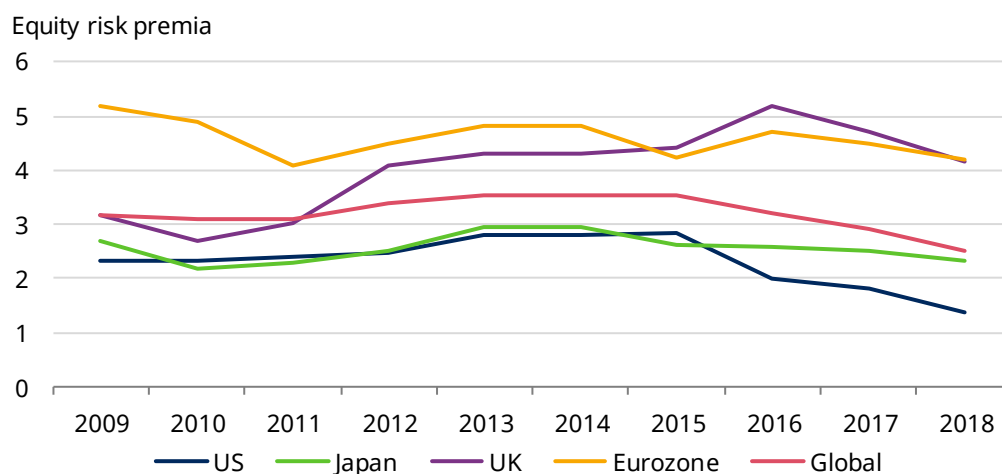
Unlike maturity premia and credit risk premia, we do not explicitly forecast or assume an equity risk premia. Rather, it is the difference in forecast returns between equities and bonds, both of which are forecast without reference to the other. Drivers of any change in the equity risk premia then must be one of four factors: a change in expected returns on bonds, a change in long term growth forecasts, a change in demographic projections, or a change in equity valuations.

On a longer history, equity risk premia has risen in the UK and held broadly stable in Japan, whilst falling in the US and Europe. Beginning with the latter, based on charts 1 and 2 (cash returns and maturity premia) it is hard to argue that bond returns have been the primary driver, though they may have played some role in the US. Demographic projections are also little altered; they tend to be very slow moving. Instead, the two key factors here are the rise in equity valuations, which reduce the starting dividend yield, and a change in growth expectations which pushes down productivity forecasts and hence dividend growth. Compared with 2009, the US has seen the biggest downward revision in long term GDP expectations, from 2.7% per annum to 1.7%, which helps explain the larger reduction in equity risk premium.

By contrast, revisions to the UK have been much smaller, from 1.7% p.a. to 1.4%. But this would still lead to downward revisions to the equity risk premium, all else being equal. A look at chart 1 though helps explain where some of the uplift in the UK has arisen: long term cash forecasts, and hence bond return forecasts, have fallen sharply. Finally, Japan's stability does not have one main driver. It is a mix of smaller growth revisions, downward revisions to the cash rate (chart 1) and a reduction in the maturity premium (chart 2).

Equity risk premia changes have multiple drivers

Chart 4: Evolution of equity risk premia over time



Source: Schroders Economics Group, January 2018. Risk premia measured against local sovereign. Global measured vs. US.

Real estate

Our long term real estate return forecasts are provided by the Schroders Real Estate team. The forecast consists of several components (table 9) but in similar fashion to other assets include an income and a capital growth component. Expected yields, much like dividend yields in equity markets, are under pressure thanks to higher valuations. This has resulted in a fall in expected returns overall compared to our 2017 forecast.

Table 9: Real estate forecasts

Component (% p.a.)	UK	European
Future income return	4.7	4.6
Potential income growth already in portfolio	0.25	0.25
Rental growth	2	2
Depreciation	-2	-0.75
Refurbishment capital expenditure	-0.7	-1.25
Adjustment for depreciation and modernisation	1.7	1.25
Stamp Duty and Trading Fees	-0.75	-0.75
Nominal Total Return	5.2	5.4

Source: Schroders Real Estate, January 2018.

Accounting for currency moves

To ease comparison, we also attempt to incorporate the impact of currency on asset returns. To do this, we utilise uncovered interest parity theory. Here, an interest rate differential implies an offsetting exchange rate movement, such that holding dollars, sterling or euros yields the same return. So if sterling cash yields a lower interest rate versus the dollar, it must be that sterling is expected to appreciate versus the dollar by an amount which makes up the difference. To keep our forecasts internally consistent, we use our cash rate forecasts as our interest rates for this purpose (equivalent to assuming a one year hedge is put on and rolled each year for 30 years). Applying this to a selection of the assets we forecast returns shown in the table below.

Investors seeking the highest dollar returns would be drawn to UK small caps in equity, US high yield in credit, European property, and US Treasuries in the bond universe. US high yield just pips its European equivalent to top credit returns.

Adjusting for currencies reinforces findings for dollar investors

Table 10: Nominal common currency returns 2018–2047 (% p.a.)

UIP basis	USD	GBP	EUR
Cash	2.8	2.4	1.9
Government bonds (10y)			
US Treasury bond	3.9	3.5	3.0
UK gilt	3.5	3.1	2.6
JGB	3.3	2.9	2.5
Eurozone (Germany)	3.6	3.2	2.7
Inflation-linked			
Barclays 7–10 year IL gilts	2.5	2.1	1.6
Barclays 7–10 year TIPS	3.4	3.0	2.5
Credit			
US Investment Grade	5.3	4.9	4.4
US High yield	5.7	5.3	4.8
UK Investment Grade	4.2	3.8	3.3
Euro Investment Grade	4.3	3.9	3.4
Euro High Yield	5.6	5.2	4.8
Real estate			
UK Commercial	5.9	5.5	5.0
EUR Commercial	6.3	5.9	5.5
Equity markets			
US	5.3	4.9	4.4
US small cap	6.6	6.3	5.8
Japan	6.6	6.2	5.7
UK	7.7	7.3	6.9
UK small cap	9.1	8.7	8.3
Europe ex.UK	6.8	6.4	5.9
Eurozone	7.0	6.6	6.1
Pacific ex.Japan	8.2	7.8	7.3

Source: Schroders Economics Group, January 2018.

Summary

Equities still on top, though credit has caught up in the US

Despite moving a step closer to normalisation, our forecasts suggest that the long run real returns on cash remain poor, with negative returns still on offer in Japan. The US and some Asian markets do offer a positive return, but even risk averse investors might shy away from a maximum return of 0.9% per annum.

We would expect longer dated sovereign debt to outperform cash over thirty years, but returns in real terms are still likely to be disappointing, and Japan still fails to deliver a positive return. The current valuations of bonds considered “safe assets” are unattractive and suggest low returns, despite a recent increase in yields.

Of the riskier assets, we expect credit, property and equities to outperform sovereign bonds, though some credit investors will likely prefer the US market, as IG credit in the UK and Europe is set to underperform Treasuries. Equities remain the asset class offering the greatest potential for returns. On a regional basis, we believe most equities will deliver an attractive return (both real and nominal) though in the US high yield credit is forecast to outperform the equity market, which has the lowest forecast returns of the equity markets we cover. UK small cap equities, followed by emerging markets and Pacific ex Japan, offer the highest returns.

Emerging market equities, however, are more prone to periods of crisis than their developed peers, and we would expect the more generous potential return to compensate greater volatility and sharper drawdowns. Meanwhile, the deflationary environment explains the relative underperformance of both the Japanese cash and JGB markets.

Appendix

Asia cash forecast methodology

For our Asia cash forecasts, we base our projections on the US real cash rate, adjusted for working population growth versus the US. We assume that as the proportion of working population shrinks, household income per capita decreases. Households are then assumed to save more to smooth out future expenditure, in line with the permanent income hypothesis, exerting downward pressure on the real savings rate (table 11).

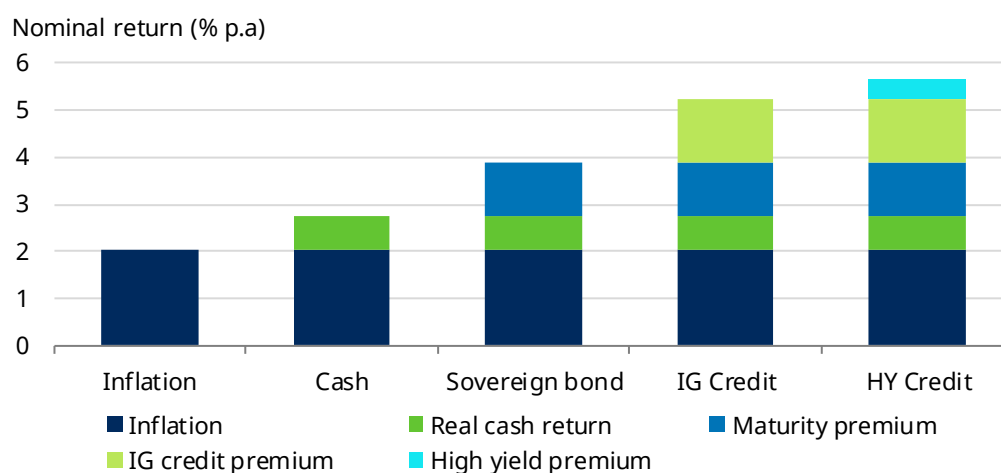
Table 11: Real cash forecast returns for Asia

% p.a.	Currency	Yield	Nominal return	Inflation	Real return
Cash					
TWD	TWD	1.3	1.3	1.2	0.1
KRW	KRW	2.0	2.0	2.0	0.0
CNY	CNY	3.2	3.2	2.8	0.4
INR	INR	5.2	5.2	4.2	0.9
HKD	HKD	2.8	2.8	2.0	0.7
SGD	SGD	2.0	2.0	1.7	0.4
AUD	AUD	3.2	3.2	2.5	0.7

Source: Schroders Economics Group, January 2018.

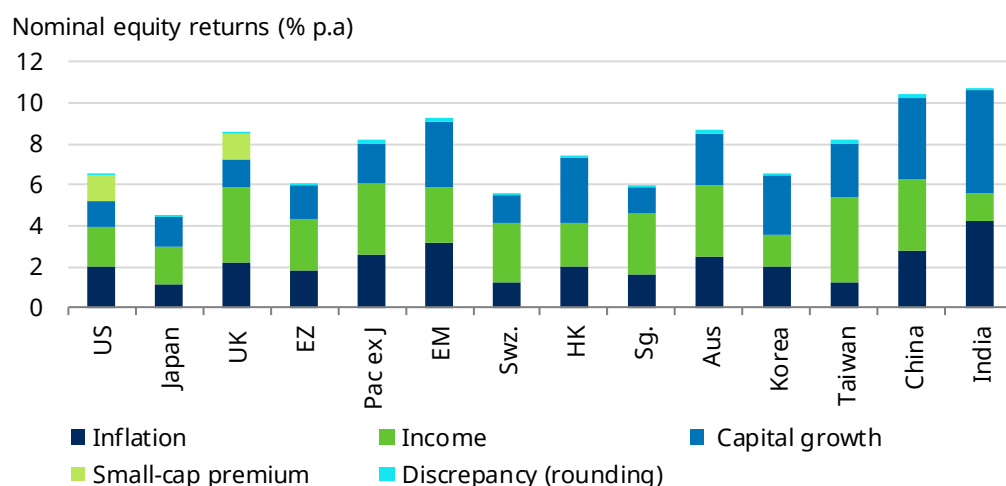
As a result, many of the forecasts come in below the US number, as nearly all the economies covered have a slower working age population growth forecast than the US, particularly in Korea and Taiwan. The big exception is India, where the population is set on a more rapid growth trajectory, pushing up the cash rate versus the US.

Chart 5: US nominal asset returns – build up approach



Source: Schroders Economics Group, January 2018.

Chart 6: Nominal equity returns breakdown



Source: Schroders Economics Group, January 2018.

Table 12: Long-run return assumptions (2018–47)

	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
Cash						
\$ cash	USD	2.8	n/a	2.8	2.0	0.7
£ cash	GBP	2.4	n/a	2.4	2.2	0.2
€ cash	EUR	1.9	n/a	1.9	1.8	0.1
¥ cash	JPY	0.6	n/a	0.6	1.1	-0.6
Australia	AUD	3.2	n/a	3.2	2.5	0.7
Hong Kong	HKD	2.8	n/a	2.8	2.0	0.7
Singapore	SGD	2.0	n/a	2.0	1.7	0.4
G4 cash	<i>Local</i>	2.2	n/a	2.2	1.9	0.3
Government bonds (10y)						
US Treasury bond	USD	3.9	n/a	3.9	2.0	1.8
UK gilt	GBP	3.1	n/a	3.1	2.2	0.9
Eurozone (Germany)	EUR	2.7	n/a	2.7	1.8	0.9
JGB	JPY	1.2	n/a	1.2	1.1	0.0
Australia	AUD	3.4	n/a	3.4	2.5	0.9
Hong Kong	HKD	3.9	n/a	3.9	2.0	1.8
Singapore	SGD	2.8	n/a	2.8	1.7	1.1
G4 bond	<i>Local</i>	3.1	n/a	3.1	1.9	1.2
Inflation-linked						
Barclays 7–10 year IL gilts	GBP	2.1	n/a	2.1	2.2	-0.1
Barclays 7–10 year TIPS	USD	3.4	n/a	3.4	2.0	1.3
Credit						
US Investment Grade	USD	5.3	n/a	5.3	2.0	3.2
US High yield	USD	5.7	n/a	5.7	2.0	3.6

	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
UK Investment Grade	GBP	3.8	n/a	3.8	2.2	1.6
Euro Investment Grade	EUR	3.4	n/a	3.4	1.8	1.6
Euro High Yield	EUR	4.8	n/a	4.8	1.8	2.9
\$EMD	USD	6.0	n/a	6.0	3.1	2.7
Property						
UK Commercial	GBP	4.7	0.5	5.2	2.2	2.9
EUR Commercial	EUR	4.6	0.8	5.4	1.8	3.5
Equity markets						
US	USD	1.9	3.3	5.3	2.0	3.2
US small cap	USD	1.4	5.1	6.6	2.0	4.5
UK	GBP	3.6	3.6	7.3	2.2	5.0
UK small cap	GBP	3.0	5.5	8.7	2.2	6.4
Europe ex.UK	EUR	2.6	3.2	5.9	1.7	4.2
Eurozone	EUR	2.6	3.4	6.1	1.8	4.2
Japan	JPY	1.8	2.6	4.4	1.1	3.3
Switzerland	CHF	2.9	2.6	5.6	1.2	4.3
Singapore	SGD	3.0	2.9	6.0	1.7	4.3
Pacific ex.Japan	USD	3.4	4.6	8.2	2.6	5.4
Emerging markets	Local	2.7	6.3	9.2	3.1	5.9
MSCI World	Local	1.9	2.9	4.9		3.1
Global (AC) Equity	Local	2.2	3.7	5.9	2.1	3.8
Global (AC) Equity Risk Premium			<i>v. G4 bonds</i>	2.7		2.5
			<i>v. G4 cash</i>	3.7		3.4

Source: Thomson Datastream, Schroders Economics Group. January 2018.

Note: UK Index-linked returns use RPI inflation for the nominal return.

Table 13: Long-run return assumptions for Asia (2018–47)

Asian Assets	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
Equity markets						
Asia ex.Japan	USD	2.8	5.6	8.6	2.4	6.1
Taiwan	TWD	4.2	3.8	8.2	1.2	6.9
Korea	KRW	1.5	4.9	6.6	2.0	4.5
China	CNY	3.4	6.8	10.4	2.8	7.4
India	INR	1.3	9.3	10.7	4.2	6.2
Hong Kong	HKD	2.1	5.2	7.4	2.0	5.3
Singapore	SGD	3.0	2.9	6.0	1.7	4.3
Australia	AUD	3.4	5.1	8.7	2.5	6.1

Asian Assets	Currency	Yield	Capital gain	Nominal return	Inflation	Real return
Cash						
TWD	TWD	1.3	n/a	1.3	1.2	0.1
KRW	KRW	2.0	n/a	2.0	2.0	0.0
CNY	CNY	3.2	n/a	3.2	2.8	0.4
INR	INR	5.2	n/a	5.2	4.2	0.9
HKD	HKD	2.8	n/a	2.8	2.0	0.7
SGD	SGD	2.0	n/a	2.0	1.7	0.4
AUD	AUD	3.2	n/a	3.2	2.5	0.7
Government bonds (10y)						
Hong Kong	HKD	3.9	n/a	3.9	2.0	1.8
Singapore	SGD	2.8	n/a	2.8	1.7	1.1
Australia	AUD	3.4	n/a	3.4	2.5	0.9
Credit						
Asian Credit (JACI Index)	USD	5.3	n/a	5.3	2.4	2.8

Source: Thomson Datastream, Schroders Economics Group, January 2018.

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