
Capital market assumptions survey: response summary

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In January, Addepar, in partnership with the London School of Economics, launched a second round of surveys about managers' capital markets assumptions (CMA). We asked about expectations for short-term and long-term returns, macroeconomic outcomes and recessionary risk. Between January 5 and 31, 2023, 91 investment professionals representing 16,630 portfolios and \$300 billion in assets responded.

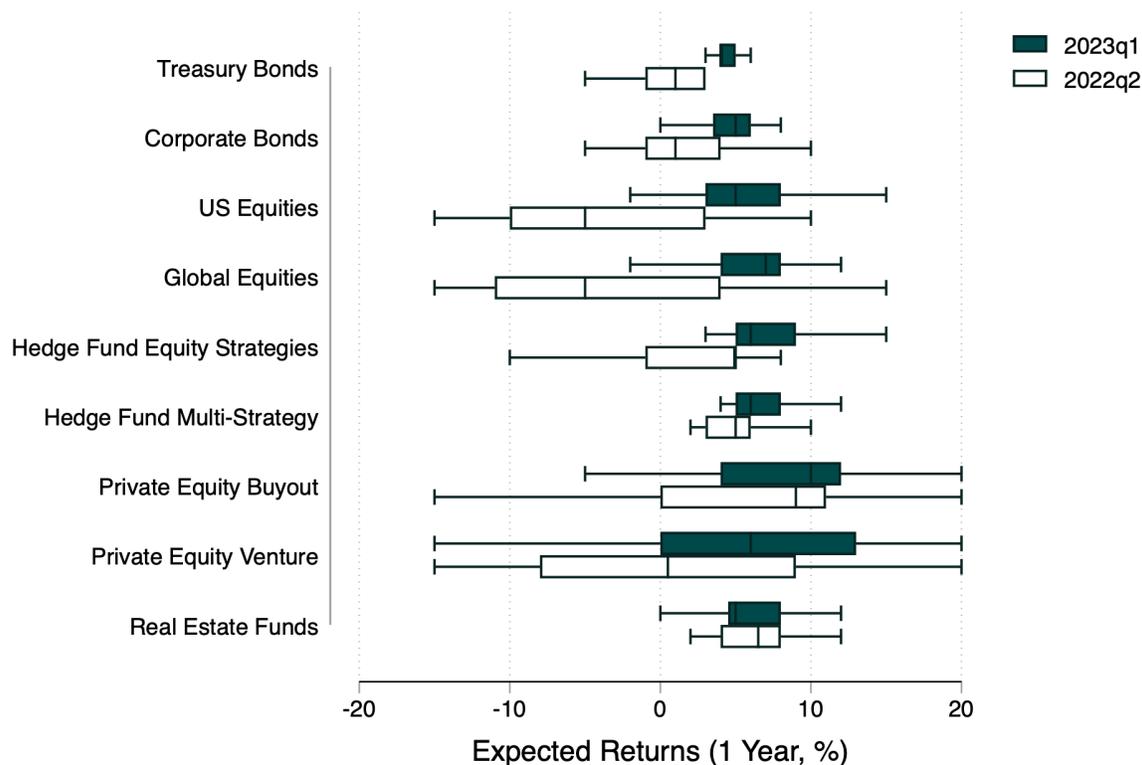
Key takeaways

- Short-term asset class return expectations increased between mid-2022 and early 2023, particularly in public equities and fixed income.
- Expectations over the long term show substantial opportunities for outperformance, especially in private equity and venture capital.
- Bonds and hedge funds are seen as the best diversifiers in a severe recession.
- Respondents see inflation and growth subsiding substantially from current levels within a year and near-term chances of recession increasing from the previous survey.
- On net, more respondents plan on increasing exposure to public market assets while holding exposure to private markets fixed.

Capital market assumptions are a critical part of strategic portfolio construction, because they provide a basis for expectations of both returns and risk. While many sources of capital market assumptions exist, there are differences in institutional and individual approaches to portfolio management, and information about the trajectories of economies and markets is constantly evolving.



Exhibit 1: 1-Year Expected Returns¹

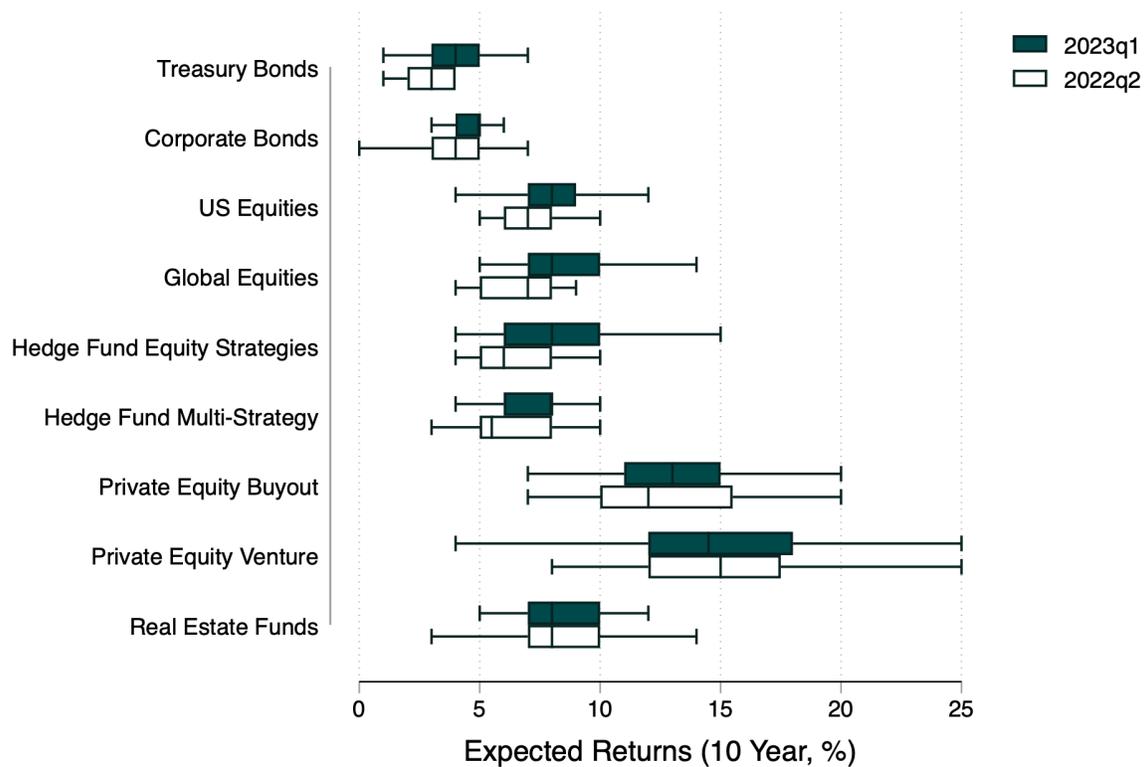


Near-term uncertainty. In the first survey round six months ago, respondents' expectations for the coming year featured low median expected returns and substantial disagreement. In the latest survey round, the median expected returns for the coming year are higher for all asset classes surveyed except for real estate. We believe this reflects the resolution of some aspects of underlying uncertainty, particularly inflation and market corrections, while others — such as geopolitical and recession risk — remain. Exhibit 1 shows the median and interquartile range for expectations over a one-year horizon, by asset class, in the latest survey, compared to those in the round conducted in Q2 2022. This change in short-run expectations is most pronounced in public equities and fixed income. (Outliers are excluded from the charts.)

¹ See Methodology section at the bottom of the note for an explanation of box plots.



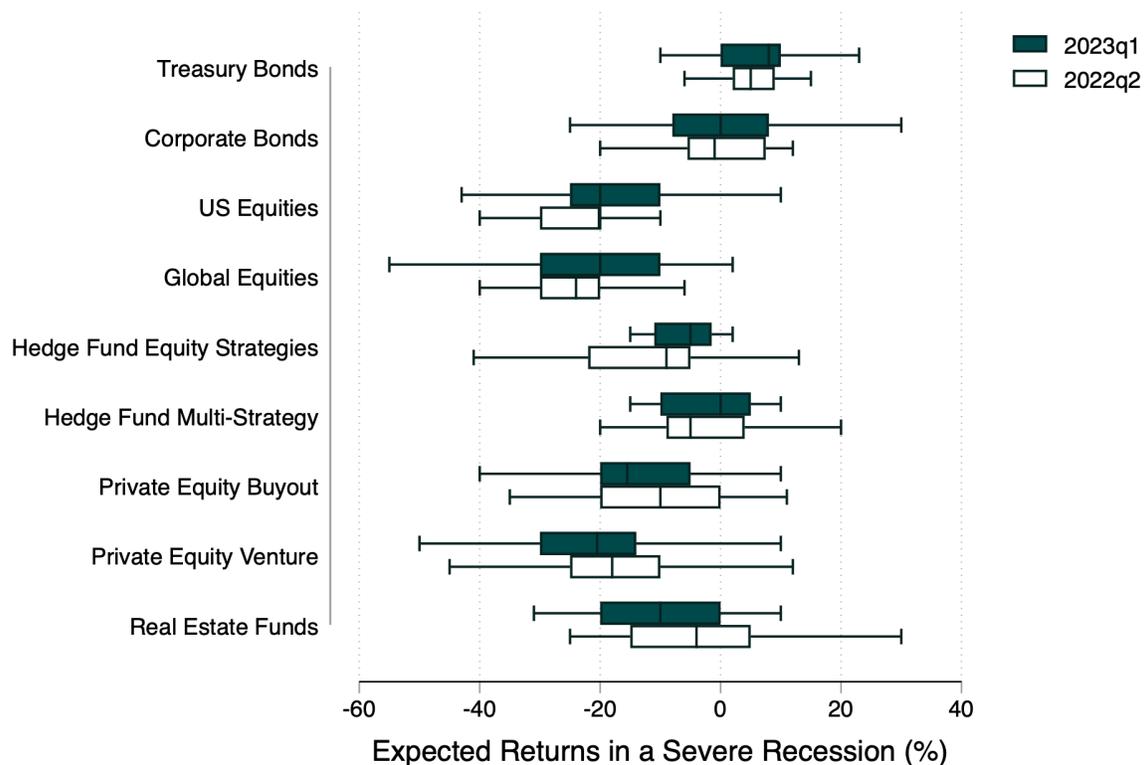
Exhibit 2: 10-Year Expected Returns



Long-term growth. Investors' expectations over a 10-year horizon continue to include substantial opportunities for outperformance, particularly in private equity and venture capital (Exhibit 2). Here, there have been much smaller adjustments in the distribution of investors' expectations at the median relative to short-term expected returns. Keep in mind, most respondents participated in only one survey round, so there may also be aspects of selection bias driving differences in the results. In both survey rounds, investors agree more closely on the likely long-run performance of most asset classes, with substantial dispersion, as is to be expected, around the highest expected performance opportunities.



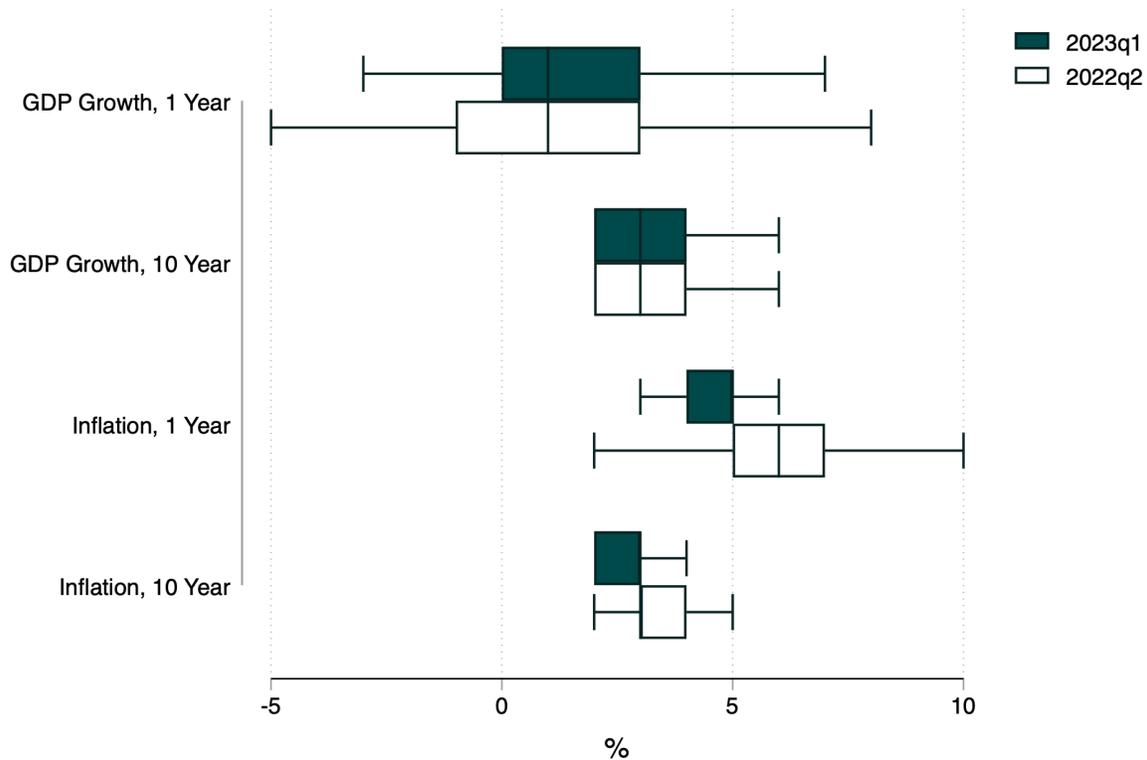
Exhibit 3: Returns During Severe Recession



Risk and hedging. In both survey rounds, we asked respondents about their expectations of asset-class performance in a severe recession (Exhibit 3). This gives a sense of the respondents’ potential downside risk and diversification expectations across asset classes. Respondents continue to expect bonds and hedge funds to provide the best diversification benefit, with small changes in the distributions consistent with different managers having responded to different rounds of the survey.



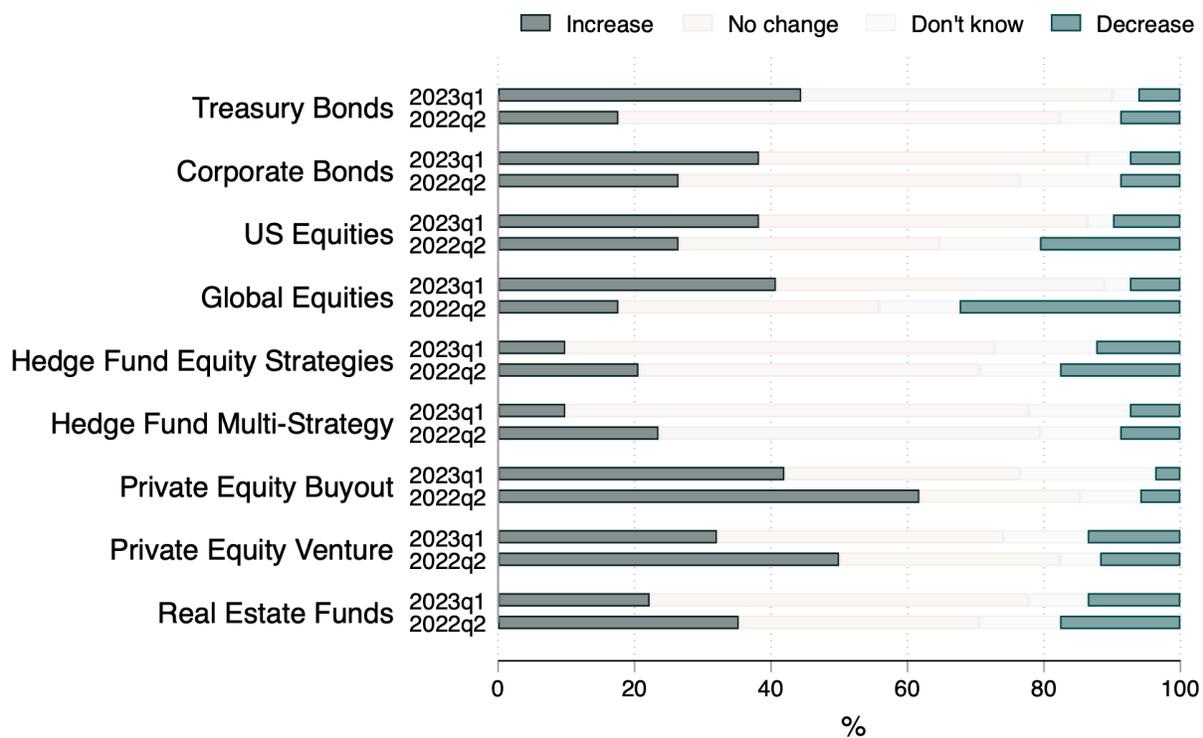
Exhibit 4: Macro Outlook



Overall macroeconomic outlook. Per Exhibit 4, expectations of nominal GDP growth reflect slightly less downside risk over the next year, because respondents expect nominal GDP growth between zero and three percent, and inflation expectations have moderated slightly to between four and five percent. Relative to the earlier survey round, there's less dispersion in expectations for the short term and in inflation expectations for the long term. There's also a continued pattern of greater dispersion over expectations for the near term versus the long term. Over the next 10 years, respondents expect growth to recover and inflation to return to a lower level. Interestingly, the market is pricing inflation (break-even inflation or the difference between nominal and TIPS yields) to normalize at 2.3%, and inflation expectations of survey respondents align well with this.



Exhibit 5: Portfolio Changes



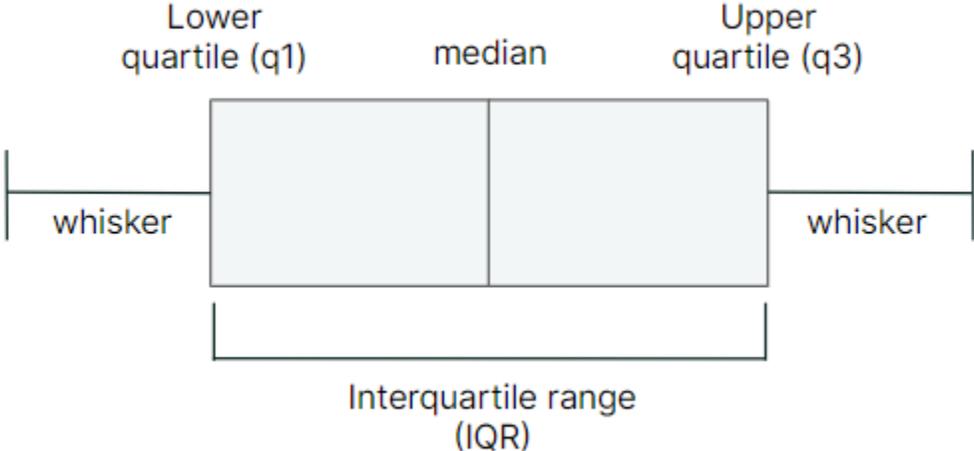
Planned portfolio changes. As Exhibit 5 shows, in many asset classes, more respondents are now planning to increase their portfolio allocations to bonds and public equities over the near term. The opposite is true of hedge funds, private equity and real estate, where a larger share are not planning any changes. In multi-strategy hedge funds and venture capital, a growing share either are planning to decrease their allocations or do not know.

Stay tuned. We'll continue to run the Capital Market Assumptions survey on a periodic basis. In the coming months, we'll send instructions for participating in the third installment.



Methodology

Box plots are generated as per the chart below:



*Whiskers span data points within 1.5 IQR of the nearer quartile.



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