

Introducing the CMA Survey

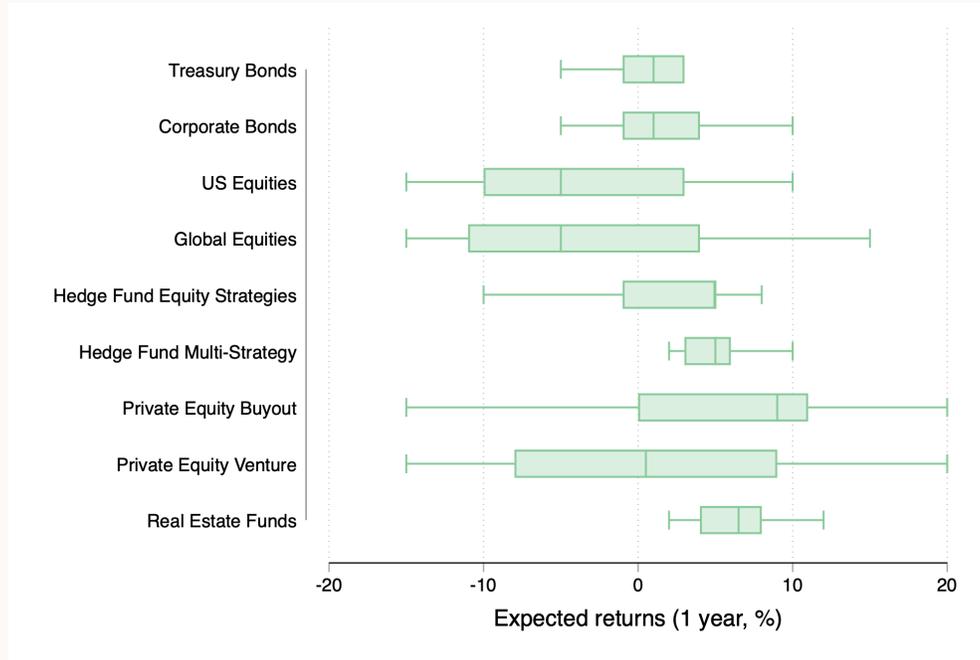
In May, Addepar in partnership with the London School of Economics launched a new initiative to periodically survey managers' capital markets assumptions. In the surveys, we asked for respondents' expectations for short-term and long-term returns, macroeconomic outcomes, and recession risk. Between mid-May and late June, 35 investment professionals representing 1,970 portfolios and \$92 billion in assets responded to the survey. In this note, we summarize the main findings from the initial survey round.

Capital market assumptions are a critical part of strategic portfolio construction, as 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 trajectory of economies and markets is constantly evolving.

In the first round of responses to Addepar's CMA Insights Survey, we see both a reflection of near-term uncertainty and risk, combined with plentiful long-term opportunities. The current market environment highlights the importance of active asset allocation and a considered, long-term strategic perspective.



Exhibit 1: 1-Year Expected Returns¹

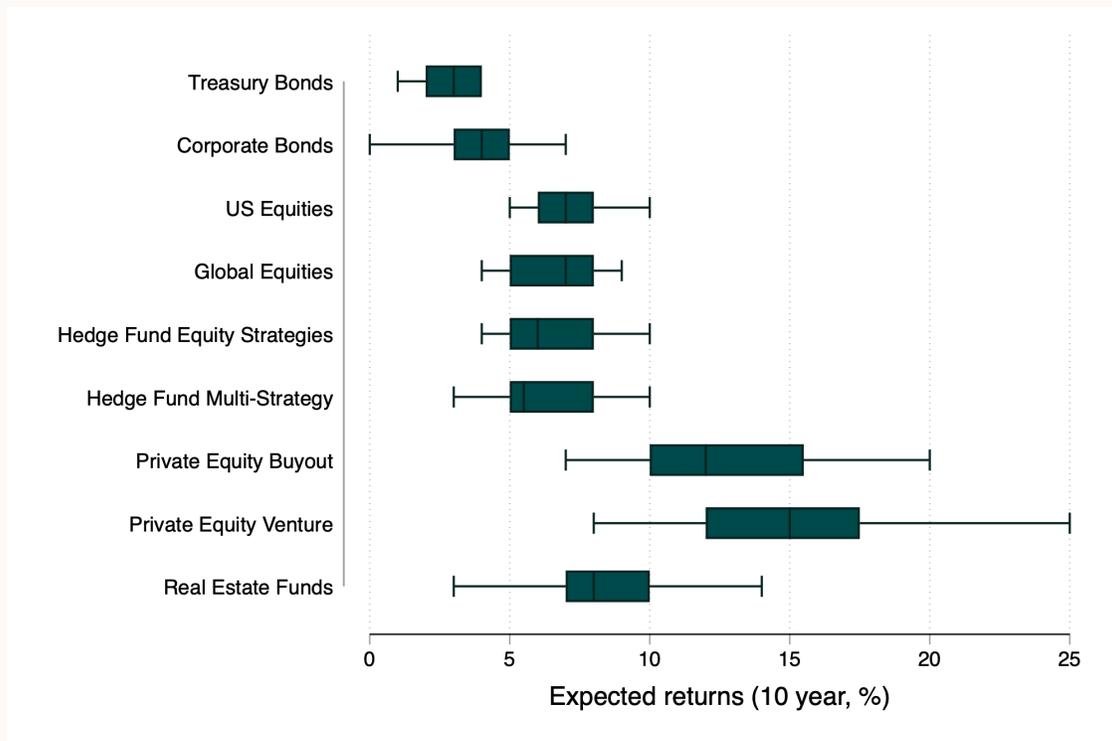


Near-term uncertainty. Survey respondents' expectations over the next year feature substantial disagreement. We believe this reflects underlying uncertainty about the evolution of short-term market dynamics, which face considerable headwinds from inflation, geopolitical risk, the recent reversal of historically high equity prices, and the potential for recession. Exhibit 1 shows the median and interquartile range for expectations over a one-year horizon, by asset class. This dispersion is most pronounced in public and private equities. (Outliers are excluded from the charts.)

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



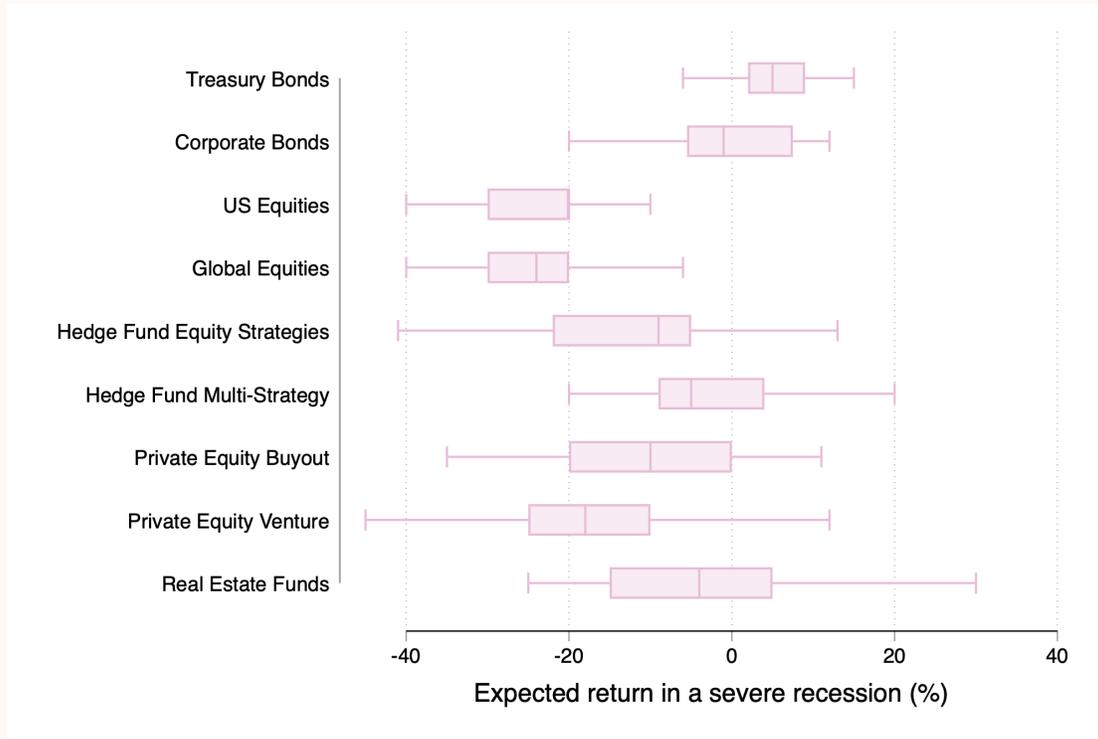
Exhibit 2: 10-Year Expected Returns



Long-term growth. Despite uncertainty over the near-term outlook, investors' expectations over a 10-year horizon see substantial opportunities for outperformance, particularly in private equity and venture capital (Exhibit 2). Here 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.



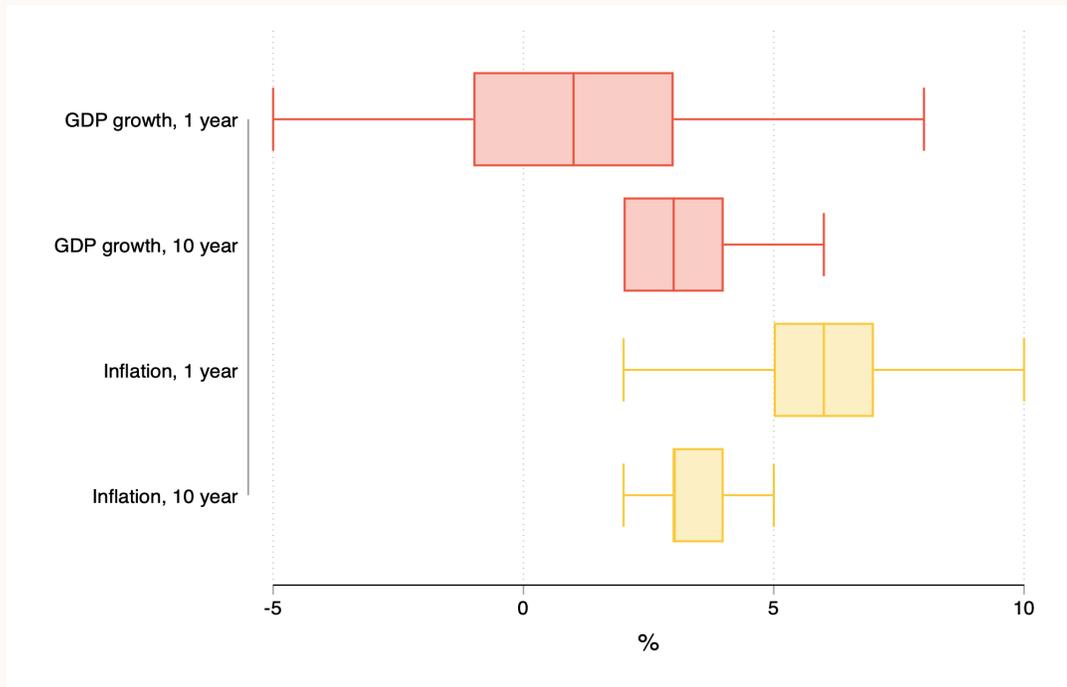
Exhibit 3: Returns During Severe Recession



Risk and hedging. We also asked respondents about their expectations of asset class performance in a severe recession (Exhibit 3). This gives a sense of the potential downside risk and diversification expectations across asset classes. Respondents expect bonds and hedge funds to provide the best diversification benefit. One might note that correlations between equities and bonds have risen significantly recently and were also quite correlated during late 70s to early 80s when inflation was similarly high. If this trend is to persist through a recession, it may dampen the diversification benefits of holding bonds as a hedge against an equity drawdown.



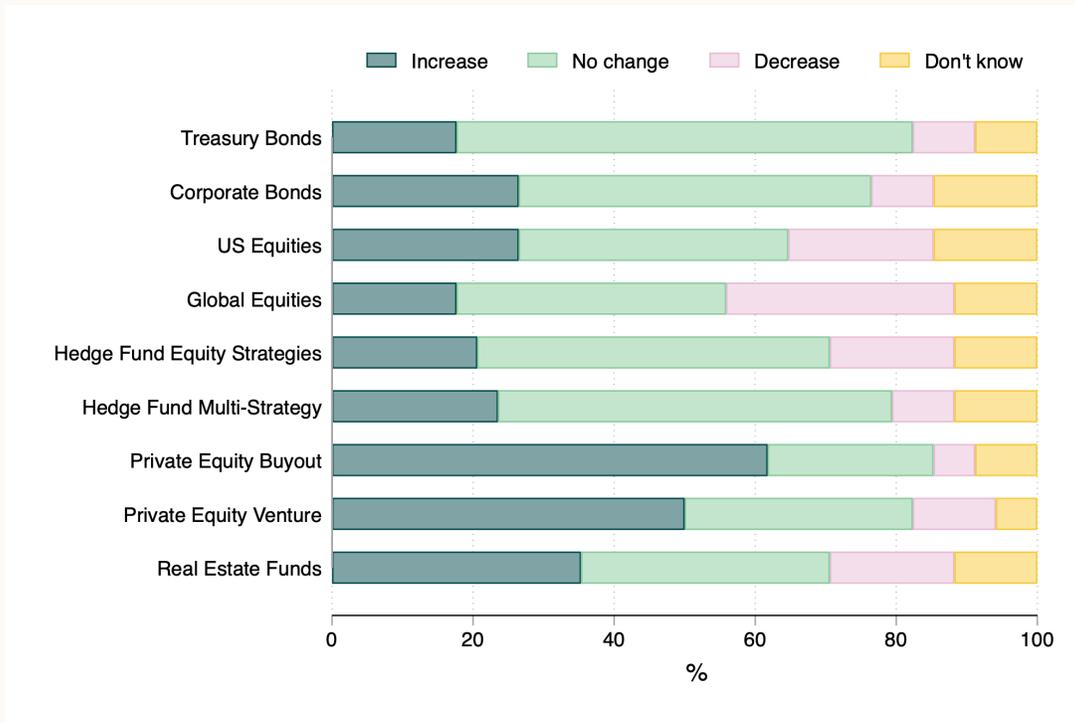
Exhibit 4: Macro Outlook



Overall macroeconomic outlook. Per Exhibit 4, over the next year respondents expect nominal GDP growth of between negative one and three percent, and inflation of between five and seven percent. As with return expectations, there is substantially more dispersion over expectations in the near term versus the long term. Over the next ten years, respondents expect both 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 2.4%, somewhat below the range of expectations of survey respondents.



Exhibit 5: Portfolio Changes

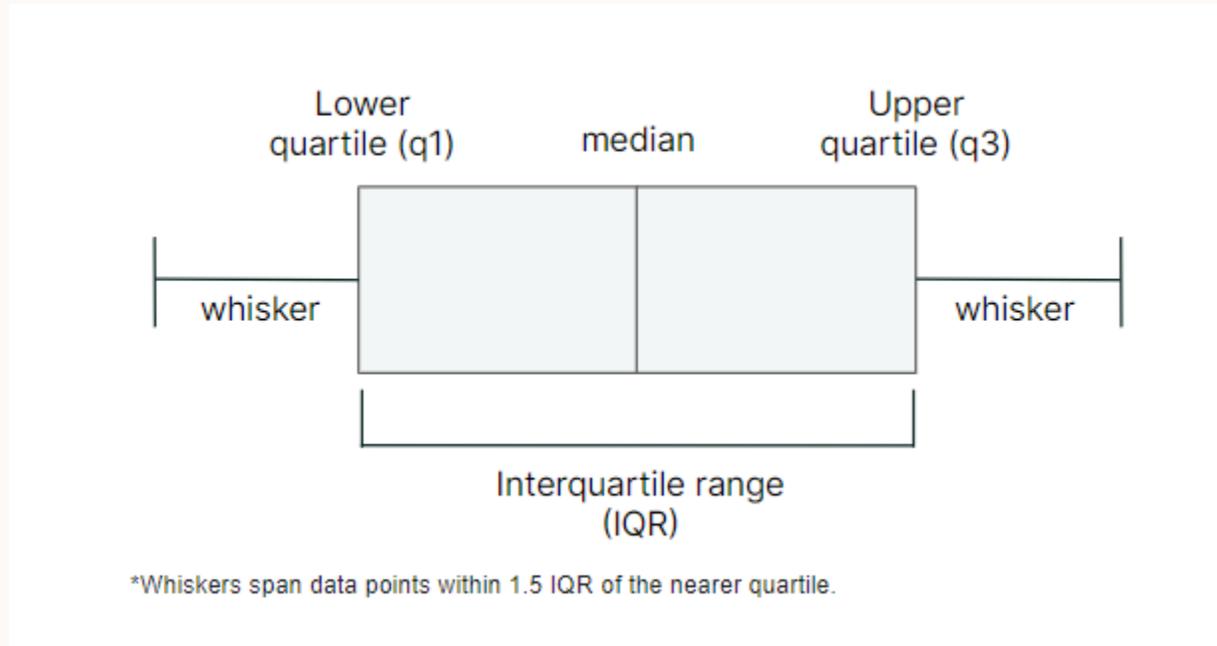


Planned portfolio changes. As Exhibit 5 shows, in many asset classes, the majority of respondents are not planning to change their portfolio allocations over the near term. Surprisingly, many are planning to reduce exposure to global equities. There remains substantial interest in increasing exposure to private equity funds in particular, which may reflect buying opportunities in the coming months.

Stay tuned. Going forward, we will continue to run the Capital Market Assumptions survey on a periodic basis. In the coming months we will send instructions for the second installment.

Methodology

Box plots are generated as per chart below:





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