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OUTLOOK

Capital market assumptions: See what’s changed

Feedback

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February 20, 2025

Over the next 20 years, we believe stocks and bonds should continue providing solid annualized returns for investors, although equity gains may be muted compared to the preceding two decades. In our newly released 2025 capital market assumptions (CMAs), we outline why we anticipate average annualized returns to be in the mid- to high-single digits for stocks and for low- to mid-single digits for bonds over a 20-year horizon.

Our expectations for equities this year are slightly lower relative to last year, as valuations have expanded. In bond land, our estimates are unchanged to slightly lower than last year, because starting yields are modestly lower.

The macroeconomic backdrop has shifted over the past year, although it is broadly in line with our expectations. The U.S. Federal Reserve, European Central Bank and several other central banks are firmly on the path of easing

monetary policy. Benchmark interest rates are declining. Elections were held in about 70 countries around the world in 2024, and incumbents lost in several of them, most prominently in the U.S. and the U.K. The global economy is relatively healthy, but policy changes, including potential conflicts on tariffs and trade, could dampen growth in many countries.

On the fiscal front, governments are facing rising spending pressure from areas like infrastructure, defense and their aging populations. While contributing in some ways to higher productivity in the economy, persistent fiscal deficits are also raising public debt burdens, leading us to expect interest rates that are higher than what we have seen in the prior two decades.

We expect the U.S. economy to grow by a 2.3% annualized rate over the long term and for inflation to average 2.25% annualized. The U.S. is likely to continue to lead the global economy. The U.S. economy thrives in an enviable position due to its robust entrepreneurial culture, deep capital markets that fund both startups and mature companies, a synergy between academia, research institutes and business, immigration policies that attract global talent, and a flexible labor market.

Feedback

U.S. economic growth continues to outpace peers

	Long-term real GDP estimates (%)		Long-term inflation estimates (%)	
	2025	2024	2025	2024
United States	2.3	2.3	2.3	2.3
Emerging markets	3.2	3.0	2.4	2.4
Japan	0.8	0.5	1.8	1.5
Eurozone	1.3	1.3	2.0	2.0
United Kingdom	1.3	1.0	2.3	2.3

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Source: Capital Group. Estimates as of September 30, 2024.

Many governments and companies around the world are making efforts to increase their productivity and boost long-term growth prospects. Of note, improvements in corporate governance in Japan and a focus on profitability over the past couple of years have been well-documented. And Japan's stock market has made sharp gains, as investors have recognized those changes and the resulting improvements in corporate profitability.

South Korea has made similar strides, and we are seeing a gradual shift in approach in several European countries.

We have pegged our estimates for Europe's economy by 1.3% in aggregate, recognizing that there will be heterogeneity within the region. We expect Japan's GDP to expand by 0.8% and for emerging markets economies to grow by a 3.2% annualized rate.

As other countries catch up, relative to the U.S., we expect the U.S. dollar to give up some of its current strength relative to other currencies, and we expect it will depreciate at an annualized rate of 0.5% over the next two decades. In the near term, our economists expect the dollar to maintain its strength given the leading technological edge of the U.S., the higher productivity of its economy and its higher interest rates relative to other developed economies.

Rising debt burdens in the U.S. and several other major economies remain a watch item for us. The economic regime of the first two decades of the 21st century, where monetary policy was the primary policy lever, has given way to an environment with a more active role for fiscal policy. This will likely lead to higher interest rates than those of the prior two decades and greater frictions between monetary and fiscal policy, although we do not expect rates to shoot up to excessive levels.

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Equity returns trimmed after strong gains and increased market concentration

Over the past two years, global equities have enjoyed a remarkable surge, causing us to temper our estimates relative to last year. We now expect equity returns in the mid- to high-single digits. Further gains will have to come from earnings growth and less from an expansion of multiples. Overall, we expect price-to-earnings (P/E) multiples to contract in most regions, with modest expansion in emerging markets.

Equities return estimates

20-year geometric expected returns (%)	2025 estimates	2024 estimates
U.S. equity	6.3	6.9
Non-U.S. developed markets equity	6.0	6.7
Emerging markets equity	6.8	7.6

Source: Capital Group. The 2025 estimates are as of December 31, 2024, with valuations as of September 2024. The 2024 estimates are as of December 31, 2023, with valuations as of September 2023.

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U.S. equities

Under our CMAs framework, we foresee earnings growth to become a larger part of returns over the next 20 years, especially as U.S. equities have experienced vast price appreciation and multiple expansion. We now estimate annualized returns of 6.3%, down from last year's estimate of 6.9%.

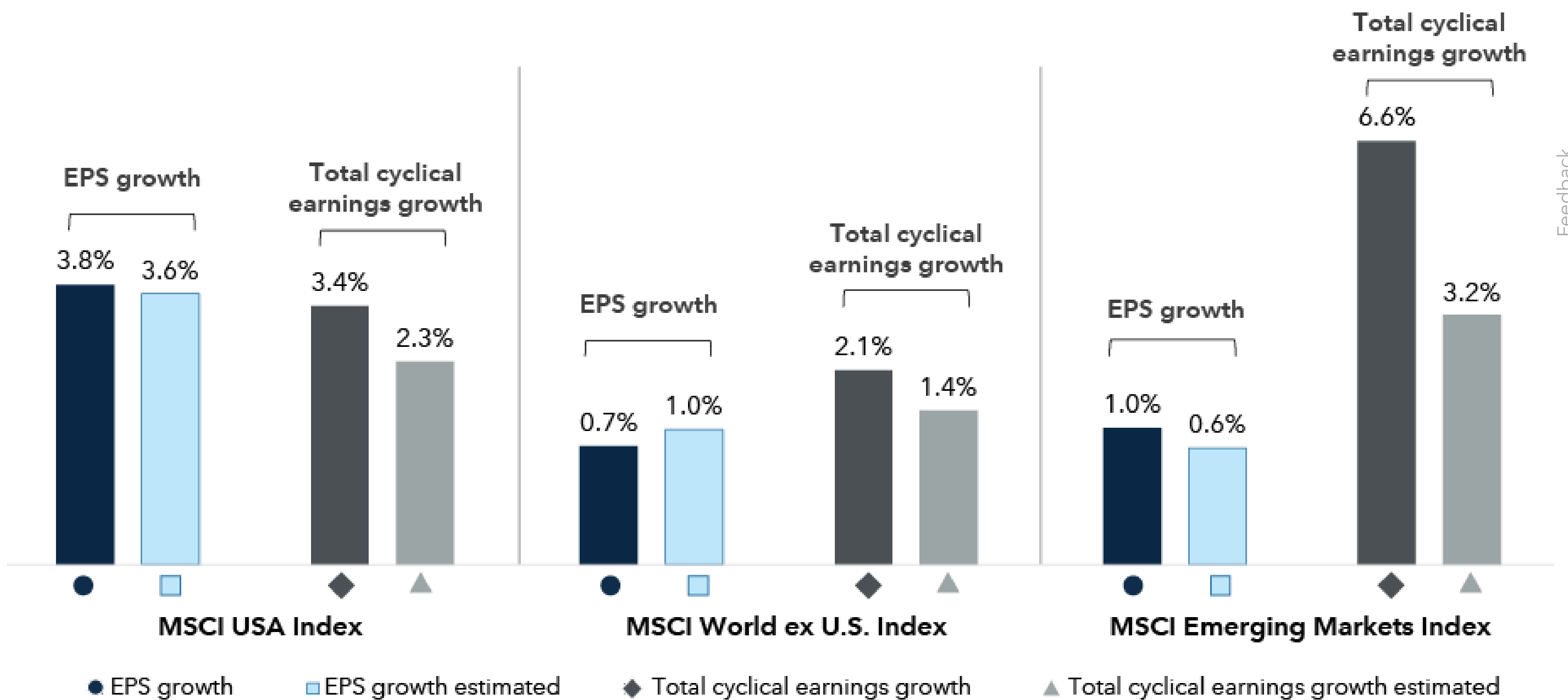
Widely known as the Magnificent Seven, this subset of large tech companies has posted stronger profits and share growth versus the broader market, while they hold significant weightings in various indices.

In addition to looking at traditional valuation metrics, we also utilize cyclically adjusted P/E ratios, in which we consider cyclical earnings growth over a 10-year period. When looking at extended periods of market gains, in addition to the traditional mean reversion framework, we utilize a fundamentally oriented valuation framework that can help avoid the dangers of being stuck in a value trap.

Earnings growth

Earnings per share (EPS) growth is estimated to average 3.6% in the U.S., 1.0% in developed markets outside the U.S. and 0.6% in emerging markets. Over the past decade, EPS growth has been stronger in the U.S. and Japan than at any time since 1969. It should not be surprising that EPS expansion has been the greatest among growth stocks, given the prevalence of share buybacks by companies for their extensive use of stock options in total employee compensation.

Earnings growth is expected to drive future returns for equities



Source: Capital Group, MSCI. Data as of September 30, 2024. Estimates are 20-year forward figures and the non-estimated are 10-year trailing figures.

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Non-U.S. developed markets

European stocks have powered ahead even as domestic economies have struggled with anemic growth, the lingering effects of the 2022 energy shock, political turmoil and policy uncertainty. Return expectations for this group are estimated at 6.0% versus 6.7% last year. The overhang of potential tariffs, trade tensions and slower exports to China continue to weigh on prospects. Earnings growth has also been more muted in Europe.

Japan

We expect Japanese equities to benefit from regulatory improvements including better corporate governance, wider profit margins and higher return on invested capital, and return on equity. These developments have boosted Japanese EPS, which have grown 6.9% over the past decade. As these trends continue, we estimate a 7.0% annualized return over 20 years, supported by meaningful appreciation of the yen against the dollar.

Emerging markets

Emerging markets (EM) are one of the most attractive areas in public stock markets, with strong economies such as India. Meanwhile, China's growth rate remains positive, although it has slowed. Economic growth estimates for EM are higher and valuations remain supportive, which should translate to higher expected returns. For EM, we're estimating returns of 6.8%, down from 7.6% in last year's CMAs.

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However, weak corporate governance in many countries, capital markets that are still maturing, low labor participation, unstable infrastructure, contentious politics and high family ownership of corporations can prevent the flow of wealth creation from accruing to public stock markets.

Fixed income outlook: Brighter days ahead

Overall, the outlook is bright for long-term fixed income investors, with return expectations for bonds in the low- to mid-single digits. We believe return opportunities in fixed income over the coming two decades will be higher than what was realized in the prior 20 years, while our expectations for global equities are lower than the prior two decades.

That said, most of our fixed income return expectations have decreased slightly since last year as starting yields are modestly lower across rates and credit markets globally (as of September 30, 2024) and spreads have compressed meaningfully.

Global rates

Ongoing concerns about the stickiness of certain inflation components and the potential for inflationary fiscal policy could result in higher policy and cash rates for some time. Although questions over the sustainability of high U.S. public debt could cap how high bond yields rise before potentially triggering various forms of government intervention.

Over a 20-year horizon, we expect the U.S. Treasury yield curve to normalize toward its historical median and for the Treasury yield curve to be slightly steeper overall than our 2024 estimate. We have pegged our estimate for the 10-year U.S. Treasury yield at 3.9% over a 20-year horizon.

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Global central banks have made good progress at mitigating and reversing inflationary trends. We expect higher interest rates to persist across major markets amid relatively robust economic growth. Overall, our expectations for 10-year yields for the eurozone, Japan and Switzerland are less than 3%, while 10-year rates for the U.K., Australia and Canada are clustered around 4%.

Estimates for fixed income asset classes

20-year geometric expected returns (%)	2025 estimates	2024 estimates
U.S. Treasury intermediate term	4.0	4.0
U.S. TIPS	4.1	4.2
U.S. aggregate	4.6	4.7
U.S. high yield	6.2	6.5
Emerging markets debt (USD)	7.0	7.1
U.S. corporate	5.3	5.5
Cash (USD)	3.4	3.3

Source: Capital Group. The 2025 estimates are as of December 31, 2024, with valuations as of September 2024. The 2024 estimates are as of December 31, 2023, with valuations as of September 2023.

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U.S. corporate credit

We expect U.S. investment grade (IG), BBB/Baa and above, corporate spreads to widen and remain above their historical median, reflective of an asset class that has experienced lengthening duration and a higher proportion of BBB-rated bonds in the index. Slightly wider spread assumptions are partly a function of a steepening rates curve and its impact on the long-duration asset class. IG credit has also historically captured a large percentage of starting yield. The option-adjusted spread (OAS) has compressed meaningfully for both the Bloomberg U.S.

Aggregate Index and the Bloomberg U.S. Corporate Index since 2023, and our return expectations for those indexes are 4.6% and 5.3%, respectively.

We believe high yield spreads and defaults should remain below historical medians, because we expect the asset class to continue moving higher in quality and lower in duration. The risk of defaults hasn’t dissipated entirely, but the big shift in leveraged buyout financing from high yield to leveraged loan and private markets has contributed to a decline in default rates. We expect this trend to continue, given private equity’s strong preference for prepayable debt over callable bonds, which is characteristic of high-yield markets. Our estimates for U.S. high yield are 6.2% annualized returns, 30 basis points lower than last year.

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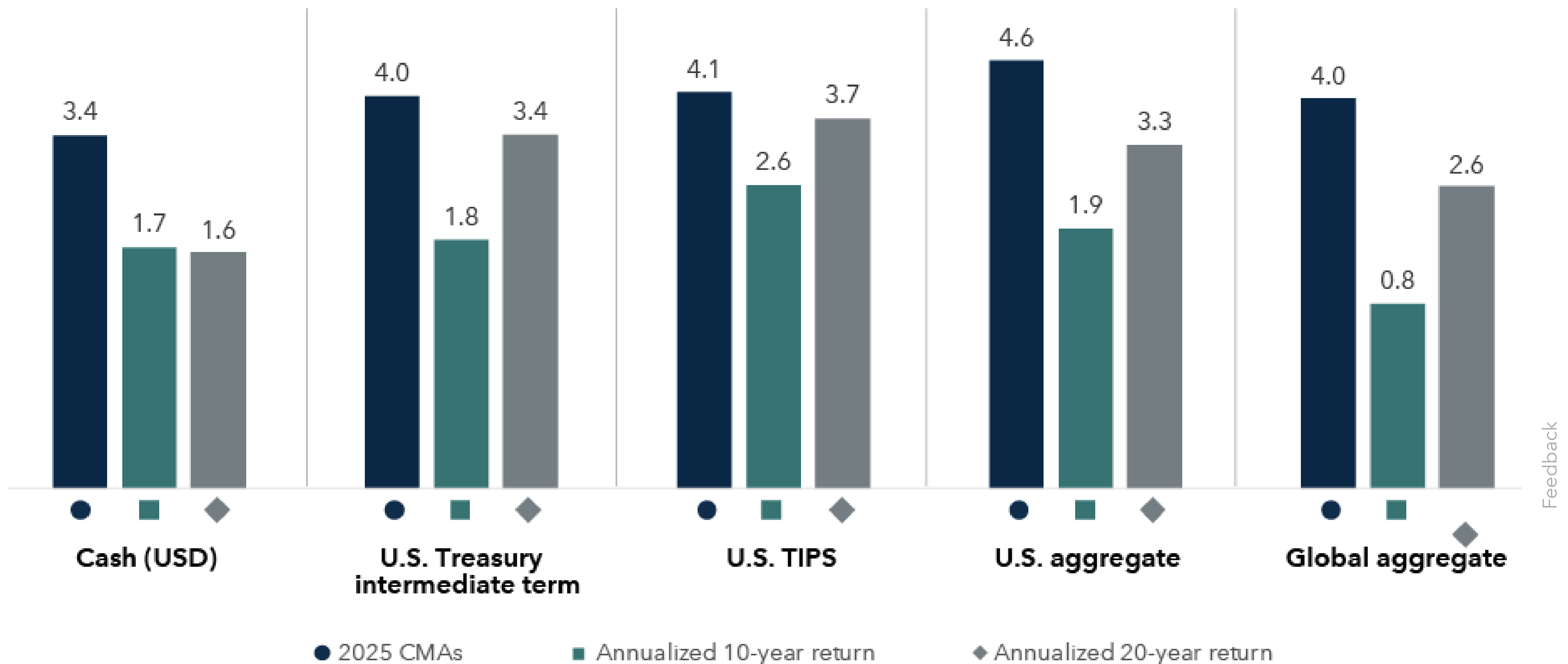
Bonds may produce higher returns relative to history



Source: Capital Group. All asset classes reflect asset class proxy benchmarks used in CMAs in U.S. dollars. TIPS = Treasury Inflation-Protected Securities. See CMAs analysis methodology notes on important disclosures slide. See Asset classes and benchmark index definitions page for asset class proxy benchmark information. Past results are not predictive of results in future periods. Data as of September 30, 2024.

Mortgage-backed securities

As the Fed unwinds its quantitative easing program, agency mortgage-backed securities (MBS) could see higher demand from certain investors who are more price sensitive. Against this backdrop, we expect the OAS for agency MBS to widen modestly. We expect agency MBS annualized returns of about 4.5%, lower than last year.

The commercial mortgage-backed securities (CMBS) market has experienced significant devaluation since the COVID-19 pandemic, but the Federal Reserve's dovish rhetoric brought some stability, reducing refinancing risk and leading to spread compression in 2024. The CMBS market is expected to continue healing, with rates and spreads improving, particularly for high-quality assets. Despite the challenges, CMBS is projected to have strong returns in securitized markets over the next few years. The market's recovery is anticipated to be front-loaded, with yield and spread normalizing over the next five years.

Emerging markets debt

Our return expectations are 7.0% per annum for dollar-denominated debt and 6.8% for local currency EM debt. The outlook for EM debt, both sovereign and corporate, will likely be negative if tariffs weigh on global growth. Manufacturing exporters are likely at more risk than commodity producers. A more positive scenario is also plausible if tariffs are modest, inflation remains well contained, U.S. growth remains robust, and the Fed can deliver gradual rate cuts.

Stock-bond dynamics

In regard to risk-return dynamic and portfolio construction, we take a broader look at which asset classes may produce an expected return, compared to their respective risk profile.

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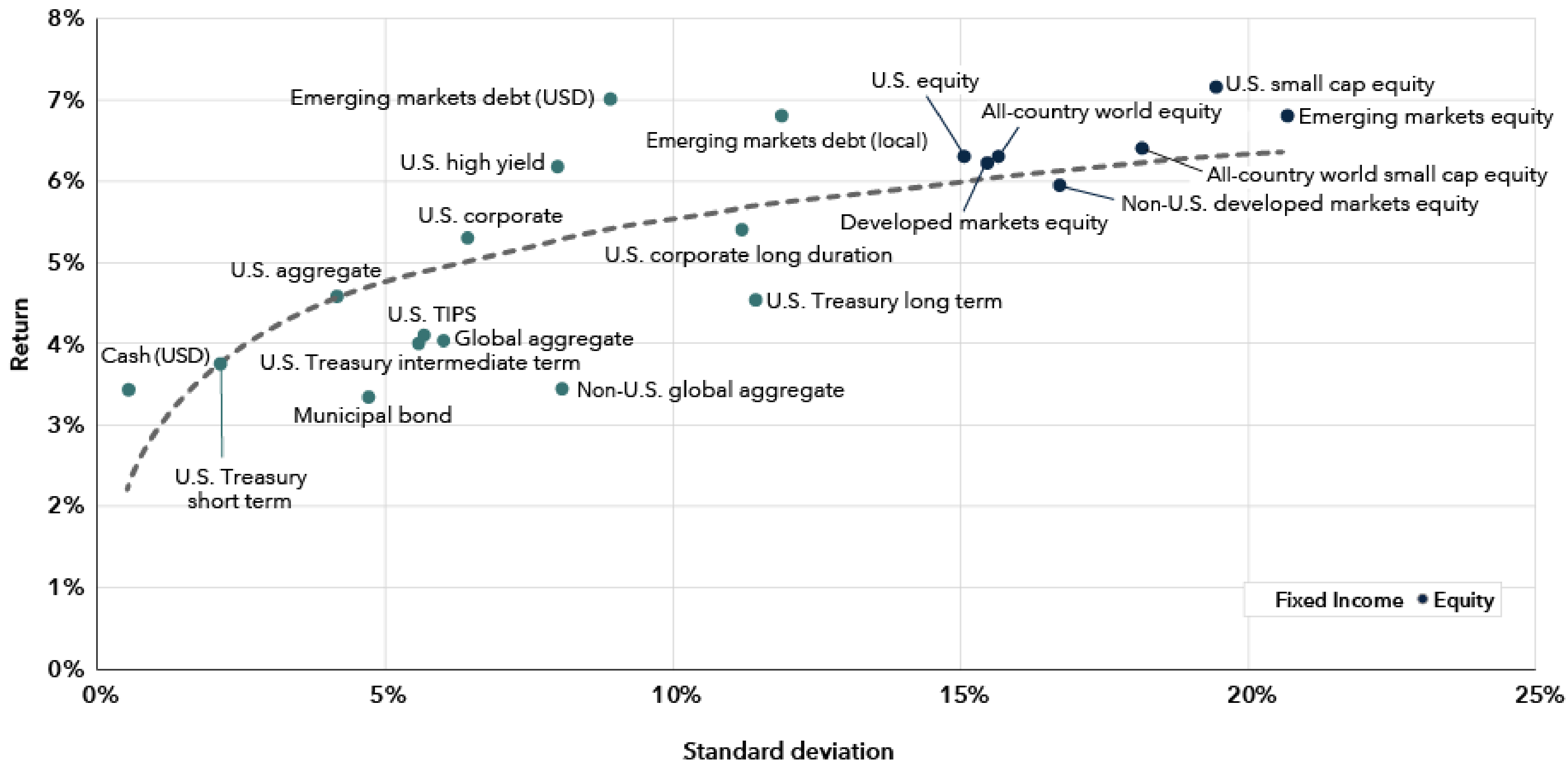
The risk-return chart below shows the spectrum of equity and fixed income asset classes available for asset allocators to build diversified portfolios.

U.S. equities stand out among major equity asset classes, when looking at risk-adjusted returns on an absolute basis. Within fixed income, U.S. high yield and EM debt across local and U.S.-dollar-denominated are expected to have an attractive combination of high returns and low standard deviation.



Source: Capital Group. As of December 31, 2024, with valuations as of September 30, 2024. All assumptions are for market asset classes only and are reviewed at least annually. These figures represent the views of a small group of investment professionals based on their individual research and are approved by the Capital Market Assumptions Oversight Committee. They should not be interpreted as the view of Capital Group as a whole. As Capital Group employs The Capital System™, the views of other individual analysts and portfolio managers may differ from those presented here. They are provided for informational purposes only and are not intended to provide any assurance or promise of actual returns. They reflect long-term projections of asset class returns and are based on the respective benchmark indexes or other proxies and therefore do not include any outperformance gain or loss that may result from active portfolio management. Note that the actual results will be affected by any adjustments to the mix of asset classes. All market forecasts are subject to a wide margin of error.

Read important disclosures

Feedback

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Glossary

Capital market assumptions: Long-term projections of the future performance of asset class returns based on their respective benchmark indexes

that incorporate analysis and observations.

Duration: The measurement of the sensitivity of the price of a bond or debt instrument to the change in interest rates. The higher the duration, the more a bond's price will drop as interest rates rise (and the greater the interest rate risk).

Magnificent Seven: The seven largest contributors to returns in the S&P 500 in 2023. The companies are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Mean reversion: The assumption that an asset's price will tend to converge with its average price over time, despite long-term variations.

Multiple: A way of assessing the value of a company by comparing it to peers, usually by a ratio. This helps to quantify a company's health and find investment opportunities.

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Option-adjusted spread: A yield-spread calculation used to value securities with embedded options.

Price-to-earnings (P/E): The ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

Standard deviation: A statistical measure of dispersion of the observed return that depicts how widely a stock or portfolio's returns varied over a certain period of time. When a stock or portfolio has a high standard deviation, the predicted range of performance is wide, implying greater volatility.

Value trap: A stock that appears to be valued attractively but ultimately fails to provide outsized gains for investors.

Yield curve: An illustration of the yields on similar bonds across various maturities. An inverted yield curve occurs when yields on short-term bonds are higher than yields on long-term bonds. Yield curve steepening occurs when long-term rates rise more than short-term rates, or short-term rates fall more than long-term rates.

Asset classes and benchmark index definitions

All indexes are unmanaged.

Cash (USD): The **FTSE 3-Month U.S. T-Bill Index Series** is intended to track the daily performance of three-month U.S. Treasury bills. The indexes are designed to operate as a reference rate for a series of funds.

U.S. Treasury short term: The **Bloomberg 1–5 Year U.S. Treasury Index** measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of one to five years.

U.S. Treasury intermediate term: The **Bloomberg 5–10 Year U.S. Treasury Index** measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of five to 10 years.

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U.S. Treasury long term: The **Bloomberg 10–20 Year U.S. Treasury Index** measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of 10 to 20 years. The Bloomberg 20+ Year U.S. Treasury Index measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of 20 years or more.

U.S. TIPS: The **Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index** consists of investment-grade, fixed-rate, publicly placed, USD-denominated and non-convertible inflation-protected securities issued by the U.S. Treasury that have at least one year remaining to maturity and $250 million par amount outstanding.

U.S. aggregate: The **Bloomberg U.S. Aggregate Bond Index** represents the U.S. investment-grade fixed-rate bond market.

U.S. corporate: The **Bloomberg U.S. Corporate Investment Grade Index** represents the universe of investment-grade, publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements.

U.S. corporate long duration: The **Bloomberg U.S. 20+ Year AAA-A Corporate Bond Liquid Index** measures fixed-rate, taxable corporate bonds with at least 20 years remaining to maturity. It includes USD-denominated securities issued by U.S. and non-U.S. industrial, utility and financial issuers with an index rating of at least AAA and at least $750 million par amount outstanding and excludes subordinated debt.

U.S. high yield: The **Bloomberg U.S. Corporate High Yield Index 2% Issuer Cap** covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

Non-U.S. global aggregate: The **Bloomberg Global Aggregate ex-USD Index** measures the performance of global investment-grade bonds, excluding the United States. This multicurrency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.

Global aggregate: The **Bloomberg Global Aggregate Bond Index** measures the performance of global investment-grade bonds. This multicurrency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.

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Emerging markets debt (USD): The **J.P. Morgan Emerging Market Bond Index (EMBI) Global Diversified** is a uniquely weighted emerging markets debt benchmark that tracks total returns for USD-denominated bonds issued by emerging market sovereign and quasi-sovereign entities.

Emerging markets debt (local): The **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** covers the universe of regularly traded, liquid fixed-rate, domestic-currency emerging markets government bonds to which international investors can gain exposure.

Municipal bonds: The **Bloomberg Municipal Bond Index** is a market-value-weighted index designed to represent the long-term investment-grade tax-exempt bond market.

U.S. equity: The **MSCI USA Index** is a free-float-adjusted, market-capitalization-weighted index that measures the U.S. portion of the world market. Results reflect dividends gross of withholding taxes.

U.S. small-cap equity: The **MSCI USA Small Cap Index** is a free-float-adjusted, market-capitalization-weighted index that measures the performance of the small-cap segment of U.S. markets.

Developed markets equity: The **MSCI World Index** is a free-float-adjusted, market-capitalization-weighted index that measures equity market results in developed global markets, consisting of 23 developed market country indexes.

All-country world equity: The **MSCI All Country World Index (ACWI)** is a free-float-adjusted, market-capitalization-weighted index that measures equity market results in global developed and emerging markets, consisting of more than 40 developed and emerging markets country indexes.

All-country world small-cap equity: The **MSCI All Country World Small Cap Index** is a free-float-adjusted, market-capitalization-weighted index that measures equity market results of smaller capitalization companies in both developed and emerging markets. Results reflect dividends net of withholding taxes.

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Non-U.S. developed markets equity: The **MSCI World ex USA Index** is a free-float-adjusted, market-capitalization-weighted index that measures equity market results in global developed markets, consisting of 22 of 23 developed market country indexes, excluding the United States.

Emerging markets equity: The **MSCI Emerging Markets Index** is a free-float-adjusted, market-capitalization-weighted index that measures equity market performance of emerging markets.

Agency mortgage-backed securities: The **Bloomberg U.S. Mortgage-Backed Securities** Index measures a market-value-weighted index that covers fixed-rate, publicly placed, dollar-denominated obligations issued by the U.S. Treasury, U.S. government agencies, quasi-federal corporations, corporate or foreign debt guaranteed by the U.S. government, and the mortgage-backed pass-through securities of Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association.

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Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

While not directly correlated to changes in interest rates, the values of inflation linked bonds generally fluctuate in response to changes in real interest rates and may experience greater losses than other debt securities with similar durations.

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