Life | Pensions | **Investments**

2024

Great Expectations:
Returns by asset class

more INVESTED

"In this review, we share the outputs from our modelling process around what we believe will be the key themes supporting higher expected returns by asset class over the medium to long term."

Darragh O'Dowd
Head of Multi-Asset Solutions

A summary follows on the next page.

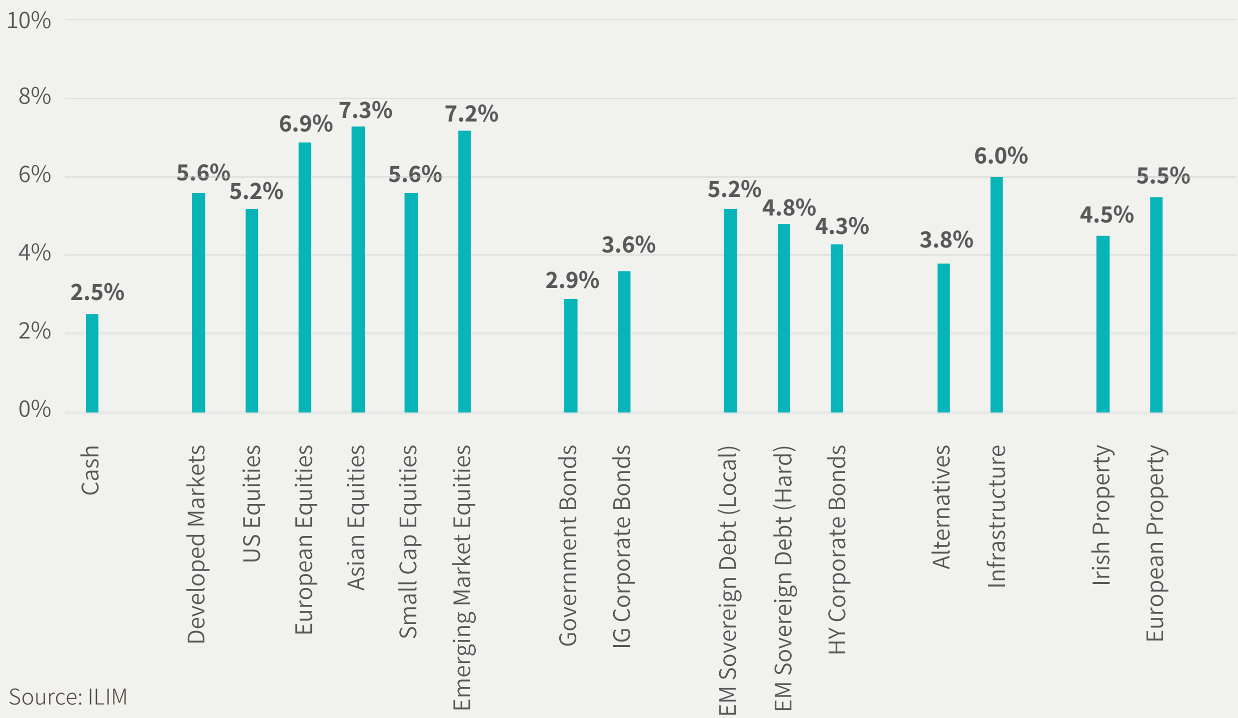
Look out for our other videos over the coming weeks with more sector-focused insights for 2024.

Great Expectations: Returns by asset class Summary

Expected returns remain attractive

We have recently reviewed our long-term expected returns. Many of the factors that drove markets last year, such as the impact of generative AI and falling inflation, remain supportive, and there's also more confidence now over the economic backdrop, with the recessionary fears that existed a year ago having receded. Therefore, we believe that 2024 offers a good entry point for investors with longer time horizons.

Long-term expected returns (p.a.)



Source: ILIM

Key take-aways

- After strong returns for most asset classes in 2023, expected returns remain attractive both in absolute terms and relative to cash.
- Geopolitical risks are likely to persist, given the numerous elections in 2024, but this may yet provide opportunities for those investors who can look through potential short-term volatility.
- Equities remain the most attractive asset class long-term while, within fixed income, yields remain elevated compared to the last decade, pointing to their strong return potential also.
- Expected returns for both Irish and European property have risen, and remain high for Alternatives, pointing to the continued value of having exposure to these asset classes within a diversified portfolio.

Great Expectations: Returns by asset class
Summary

What is underpinning these great long-term expectations?

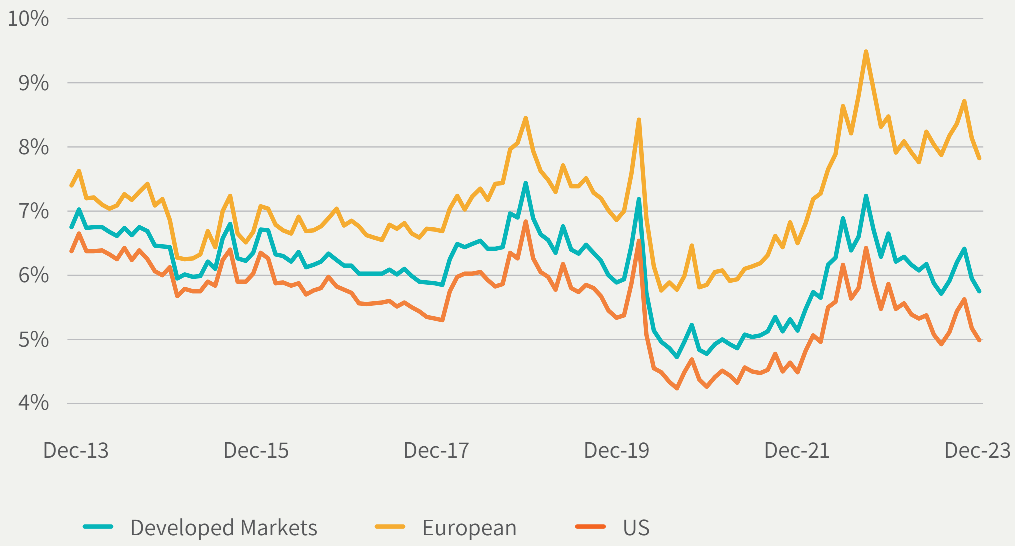
Equities

We acknowledge there are some near-term risks in relation to company margins and earnings. Overall, however, we still believe equities offer a good entry point now and the potential for strong returns over the next five to 10 years, supported by the current benign economic environment as well as advancements in AI which we believe will provide an uplift to economic growth long-term.

Within developed markets, European equities look to have strong potential for returns over the long term given their more attractive yields and valuation levels.

Jump to video

Earnings yields



Source: Factset, ILIM
Developed Markets = MSCI World (31/12/2013 – 31/12/2023)
US = MSCI USA (31/12/2013 – 31/12/2023)
European = MSCI Europe (31/12/2013 – 31/12/2023)

Great Expectations: Returns by asset class
Summary

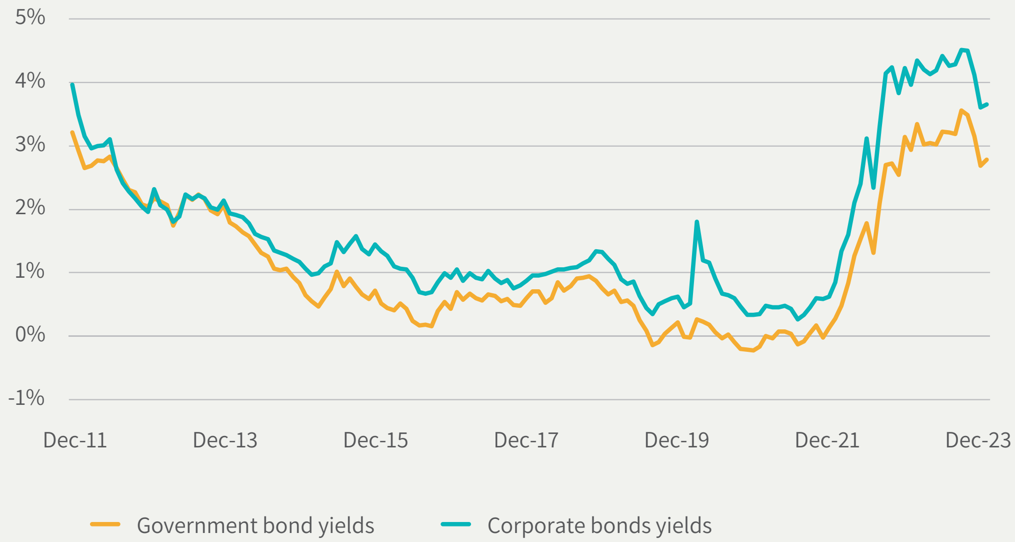
Fixed income

Within fixed income, yields on both government and corporate bonds remain high when compared to the previous decade, pointing to the potential for both attractive returns from carry as well as capital gains if yields fall.

Importantly, we believe that fixed income assets, government bonds in particular, can more effectively fulfil the traditional role of diversification and capital preservation within a multi-asset portfolio with the correlation between equities and fixed income assets likely to be lower going forward compared to the last 18 months.

Moving out the risk spectrum of fixed income and considering asset classes such as emerging market debt and high yield bonds, we see higher carry and higher expected returns.

Bond yields



Source: Factset, ILIM
Government Bond Yields = ICE BofA Euro Government Yields (31/12/2011 – 31/12/2023)
Corporate Bond Yields = ICE BofA Euro Corporate Yields (31/12/2011 – 31/12/2023)

Jump to video

Great Expectations: Returns by asset class
Summary

Alternatives

Our view is that expected returns for alternatives will continue to benefit from the high returns on assets into which these managers and strategies tend to invest like equities, bonds and in particular cash.

There are also tailwinds specific to different asset classes within alternatives. For example, we expect insurance-linked bonds to continue to perform well as demand for reinsurance remains high.

Also, allocations to real assets such as infrastructure will continue to offer strong income, inflation and diversification benefits for investors and benefit from the long-term trend towards cleaner and greener energy projects.

Jump to video

Great Expectations: Returns by asset class
Summary

Property

In property, our expected return has risen on the back of the more attractive yields we are seeing particularly within the European property market where assets have repriced materially. The stabilisation of, and a possible fall in, interest rates from here is also likely to support valuations going forward.

We continue to see property as an important diversifier, based on its strong and robust income return component.

We also believe a premium will persist for more sustainable properties, which is reflected in the management of our Irish and European property portfolios, and should ensure their continued attractiveness to both occupiers and investors.

Jump to video

Great Expectations: Returns by asset class
Summary

What factors do you think will drive global growth looking forward over the next 10 years or so?

We continue to believe that three key factors will drive global and stock market growth over the long term:

> Firstly, technological and automation advancements, including advancements in generative AI, which underpinned performance within the equity market last year;

> Secondly, environmental and infrastructure initiatives that support global decarbonisation and the move to net-zero; and

> Thirdly, transformative changes in health and society aimed at supporting growing populations, demographic bulges and longevity.

Importantly, we think these drivers will likely be supported by the continuation of loose fiscal policy compared to other non-recessionary periods in the past.

What other trends do you see growing, and which trends that we have seen over recent years will end over the next five to 10 years?

> The future path of inflation will be important. While risks remain from tight labour markets and challenged supply chains, automation will continue to act as a disinflationary force and will, we believe, help to ensure a normalisation of inflation over the medium term. This will ease the upward pressure on yields and help both equity and bond markets.

> The evolution of monetary policy and how it's used by authorities will be interesting to see. We believe that, over the longer-term, authorities will be more judicious in their use of monetary policy. This will mean both higher interest rates and volatility going forward than we have become accustomed to over the last 10 years.

Great Expectations: Returns by asset class
Summary

What do these expected returns mean for investors and how do they impact multi-asset portfolios?

- We use these expected returns to review and position our portfolios appropriately for our investors.
- Investors should expect to achieve strong returns over the long term.
- And this applies across the entire risk spectrum of funds (from low risk to high).

We look forward to keeping you informed on our latest thinking as the year unfolds.

Darragh O'Dowd
Head of Multi-Asset Solutions

more **INVESTED**

This is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

ILIM may manage investment funds which may have holdings in stocks commented on in this document. Past performance may not be a reliable guide to future performance. Investments may go down as well as up. Funds may be affected by changes in currency exchange rates. Irish Life Investment Managers Limited is regulated by the Central Bank of Ireland.

Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

Contact us

Phone (01) 704 1200
Fax 01 704 1918
Website www.ilim.com
Write to Irish Life Investment Managers, Beresford Court, Beresford Place, Dublin 1

Irish Life Investment Managers is regulated by the Central Bank of Ireland. Irish Life Investment Managers Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the "SEC"). Irish Life Investment Managers Limited holds an International Adviser Exemption in Manitoba and Ontario pursuant to NI 31-103. This material is for information only and does not constitute an offer or recommendation to buy or sell any investment and has not been prepared based on the financial needs or objectives of any particular person. It is intended for the use of institutional and other professional investors.