
JPMorgan Dials Down Its Return Expectations

By Editor Test *Wed, Dec 16, 2009*

Expected returns for both domestic and international large-cap stocks were lowered to 7.5% a year for the S&P 500 and to 7.75% for MSCI EAFE.

JPMorgan Asset Management lowered its expected long-term (10-15 years) returns for equities and fixed income while boosting the real estate outlook, Stu Schweitzer, global markets strategist, said in a client conference call last week, according to *Pensions and Investments Online*.

Expected returns for both domestic and international large-cap stocks were lowered by 1.5 percentage points, to 7.5% a year for the S&P 500 and to 7.75% for MSCI EAFE. Emerging markets equity was trimmed only 75 basis points to 9.5%.

In bonds, the expected returns for the Barclays Capital U.S. Aggregate fixed-income benchmark was reduced one percentage point to 4.5%, while the expected return for U.S. high-yield bonds—which have experienced a 50% return this year—was reduced 3.5 percentage points to 7.5%.

In contrast, real estate—currently near 1993 valuations—is expected to produce equity-like returns. REITs are expected to return 7.75%; U.S. direct real estate, 8%; and U.S. value-added real estate, 9.25%.

Meanwhile, the median expected return for private equity is 8.5%. Directional hedge funds are expected to return 7%; non-directional, 5.5%; and fund of funds, 6.5%. Hedge funds are attractive if investors can get into top-quartile funds with low volatility, Mr. Schweitzer said.

Mr. Schweitzer warned that global monetary policy—except for the European Central Bank—will focus more on economic growth than on controlling inflation. He added that yields curves likely will steepen more than expected, reducing bond returns.

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