Warning, traditional risk-return frameworks may not capture all aspects of risk, especially in late cycle (e.g., illiquidity risk).

Even long-term investors need to consider prevailing conditions when they invest, as the entry point affects returns.

**2019 LTCMA FORECASTS**

<table>
<thead>
<tr>
<th>THE RACE FOR RETURNS LEADERBOARD</th>
<th>ALTERNATIVES are a bright spot, supported by fee reduction and improved alpha trends.</th>
<th>GLOBAL EQUITY returns are unchanged, but with some regional divergence.</th>
<th>BOND RETURN FORECASTS are a little higher this year, notably in the U.S.</th>
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<tbody>
<tr>
<td>EMERGING MARKET EQUITY</td>
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<td>PRIVATE EQUITY</td>
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<td>EMERGING MARKET SOVEREIGN DEBT</td>
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<td>ALL COUNTRY WORLD EQUITY</td>
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<td>U.S. HIGH YIELD BONDS</td>
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<td>U.S. AGGREGATE BONDS</td>
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<tr>
<td>U.S. CASH</td>
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PORTFOLIO INSIGHTS

**WE REMAIN SECULAR OPTIMISTS BUT ARE ALSO CYCLICAL REALISTS.**

Our secular growth outlook is stable and risks are broadly balanced.

Many economies are operating above trend and with limited slack.

Asset valuations are inflated.

Cyclical headwinds are getting stronger, even for long-term investors...

Cyclical headwinds are leading investors to look outside core assets to find returns.

2.50% UNCHANGED 10-year global real GDP forecast

Demographic drag on growth

Technology-led pickup in productivity

Secular risks are broadly balanced

Cyclical headwinds are building

Leading to downward pressure on returns.
Late-cycle markets represent a discontinuity and investors need to **adapt their approach**.

**PORTFOLIOS MAY BE PROFOUNDLY AFFECTED**

- **Expected return for U.S. 60/40 stock/bond portfolio is up**
  - 5.25% (driven by higher bond returns)
  - 5.50%

**GLOBAL MARKETS**

**POLICY NORMALIZATION**

As U.S. policy normalization is more advanced, U.S. bond Sharpe ratios exceed stocks (in other regions the opposite is true).

Sharpe ratios are valuable tools, but may not capture all risks.

**PORTFOLIOS ALLOCATIONS ARE REFLECTING LATE-CYCLE DYNAMICS**

- **2019 SHARPE RATIO**
  - U.S. stocks = 0.24
  - U.S. government bonds = 0.42

**END OF CURRENT CYCLE**

**RETURN TO EQUILIBRIUM**

**MANAGING OUTSIDE THE MEAN WILL HELP LONG-TERM INVESTORS IN LATE CYCLE AND BEYOND**

Late-cycle markets represent a discontinuity and investors need to **adapt their approach**.

**TRADITIONAL INVESTMENT APPROACH**

- Average return expectations and normalized risk-return profiles

**DISCONTINUITY IN THE MARKET – NEW TOOLS REQUIRED?**

- Anticipate a discontinuity and ensure all elements of risk are appropriately rewarded

**PORTFOLIO INSIGHTS**

- **Beyond this current cycle, managing outside the mean will help investors prepare for potential changes to the nature of the cycle itself.**

- **Focus on active investment around SECULAR THEMES such as technology.**

- **Understand when norms of the past no longer apply to the future.**

- **Consider the most likely dislocations today to become the SECULAR THEMES OF TOMORROW.**

- Including:
  - Taming of the business cycle
  - Rising levels of public debt
  - Changing roles of public and private markets