

7 Year Asset Class Real Return Forecasts

December 23, 2019

by John Thorndike
of GMO

Emerging market value stocks are the most attractive asset class for two reasons, explains GMO's John Thorndike.

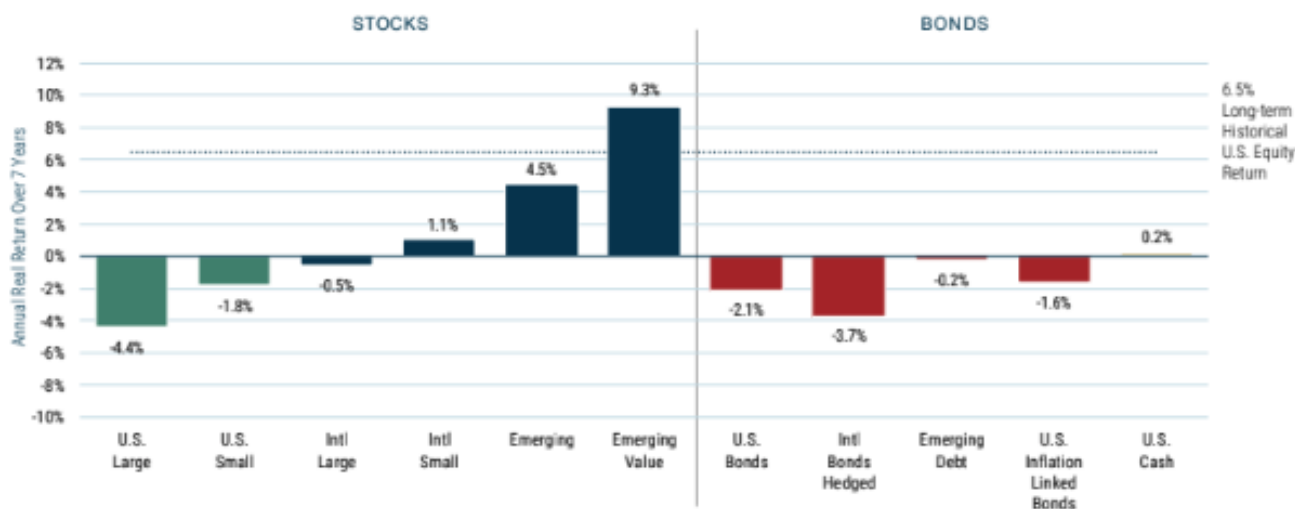
“First, emerging market stocks broadly are priced to deliver decent absolute returns,” says Thorndike. “Second, value stocks within emerging markets look particularly cheap.

“Of course, value stocks always look cheap relative to the broad market; that’s how value stocks are defined. Today, these stocks trade at a wider discount than they have historically, and wider than we think is warranted by their fundamentals. If broad emerging markets can indeed deliver the 4.5% real return that we forecast and EM value stocks can trade at a normalized discount to broad emerging markets, then EM Value stocks look poised to deliver nearly double-digit real returns.

“When we look around the world and see many asset classes priced to lose money in real terms, the prospect of earning a 9-10% return from EM Value stocks becomes all the more interesting for investors with the flexibility and patience to concentrate in this unloved segment of global markets.”

7-YEAR ASSET CLASS REAL RETURN FORECASTS*

As of November 30, 2019



Source: GMO

*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

Proprietary information—not for distribution. For Institutional Use Only. Copyright © 2019 by GMO LLC. All rights reserved.

GMO