**Northern Trust | The Next 5 Years: What Investors Can Expect**

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Each year, we undertake a comprehensive review of our 5-year outlook, culminating in investment themes and asset class forecasts that underpin our portfolio construction process. We are in an atypical environment for investors, where recent strong equity returns are paired with sharply lower interest rates, slowing growth in an unpredictable trade war.

Our new outlook calls for decent risk asset performance but subdued fixed-income returns over the next five years. Against this backdrop, 6 key themes have emerged. Let's explore 3 of those themes here.

The first key theme is global growth restructuring. Global politics and technological developments are shifting the economic model and slowing growth. There's an increased risk of recession during this restructuring period before we experience the benefits of a more resilient economic model postrestructuring.

Investors also must keep an eye on the unpredictable trade war between the US and China, leading to our next theme, called "irreconcilable differences." The world's two economic superpowers have opposing views on the best economic model and the role that each should play in global affairs. And we do not expect this issue to be resolved over the next 5 years.

Without inflation to fight, central bankers are looking for ways to remain relevant, including coordinating with fiscal policy, a theme we call "monetary makeover." Central bankers will increasingly be subservient to political leaders who don't want to risk anything but low interest rates in the face of recession risk and waning consumer demand globally.

Here's how we see these themes translating into asset class returns. Low but positive fixed-income returns will persist, as yield curves globally will test investor expectations for what's possible. Lower rates will support high-yield fundamentals, as companies will have an easier time paying interest and rolling over debt. Investors must continue their search for yield.

Global equity returns will be below long-term historical averages, a consequence of the slow growth environment. Valuations could move slightly lower but will likely stay in a higher range supported by low interest rates and milder economic cycles. Investors should expect just a modest return premium from the emerging markets versus developed markets.

Real asset returns will be largely in line with equities, though investors should look for interest rate-exposed asset classes to be highly valued. Global listed infrastructure can provide some downside mitigation to the investment portfolio and act as an alternative to global real estate.

Finally, we continue to recommend private equity and hedge funds to enhance risk-adjusted portfolio returns. For private equity funds, we see a 2% premium over global equities. Investors should be selective with hedge funds, as alpha on average has been steadily shrinking over the past three decades.

What does this mean for investors? All in all, our 5-year forecasts call for a 4.7% annualized return for a portfolio invested in 60% of global equities and 40% in US investment-grade bonds versus a realized 5.2% annual return over the past 5 years. It's enough to beat out stubbornly low inflation but represents a moderate return outlook after a decade of much stronger returns.

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To get our full set of forecasts and insights across asset classes, download our 5-year outlook at capitalmarketassumptions.com.