

changed, as central banks attacked inflation with higher interest rates, as a strong reminder of why investors need to resist the temptation of chasing performance and why portfolio diversification remains as important as ever.



[Greg Davis](#)

Vanguard President and Chief Investment Officer

Equities

U.S. equities have contributed to much of the overall market performance since the global financial crisis. In a high interest rate environment, rising stock valuations, and high earnings in the U.S. allowed a broadly diversified U.S. equity portfolio to return almost twice as much as a comparable international portfolio over the past decade.

U.S. equities continue to be a strong performer, but the drivers of that outperformance over the last decade are seeds for more muted performance over the coming one. With stretched valuations and a slowdown in earnings growth, we are forecasting annualized returns of 3.7%–5.7% in the U.S. equity market over the next decade. Investors should be cautious about U.S. equities, considering the expensive valuations and lower expected growth. By comparison, we are forecasting 8.9% annualized over the next decade for international equities because of the multidimensional growth, lower volatility, cheaper valuations, and higher potential for growth.

Fixed income

Historically, bonds have served as a stabilizer for a portfolio because there's usually less volatility than in equities. Over the past decade or so, investors shied away from bonds in favor of cash and cash equivalents. Bonds serve separate and distinct purposes. Over the long term, high-quality bond funds have tended to outperform cash against stock volatility and higher yield potential than cash. While replacing bonds with cash may

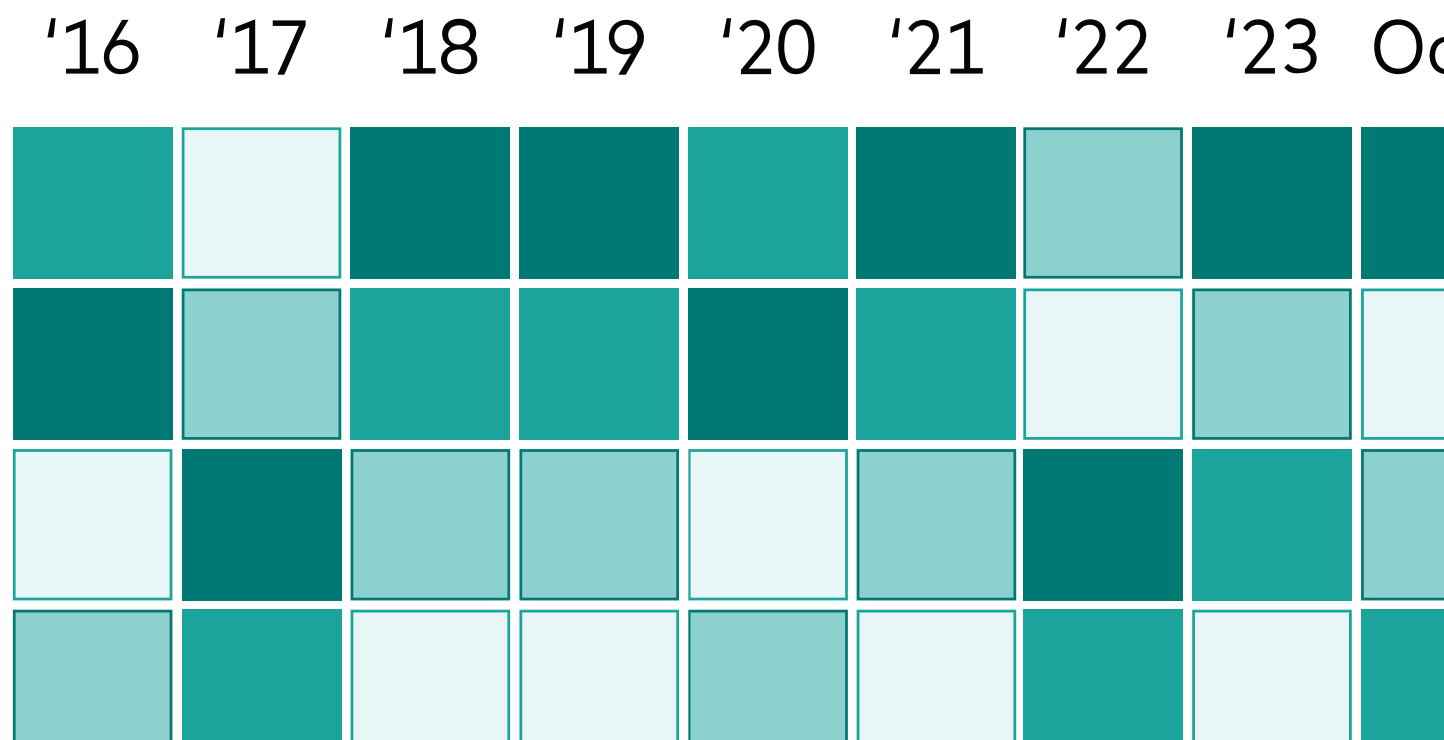
had maintained your target bond allocation.

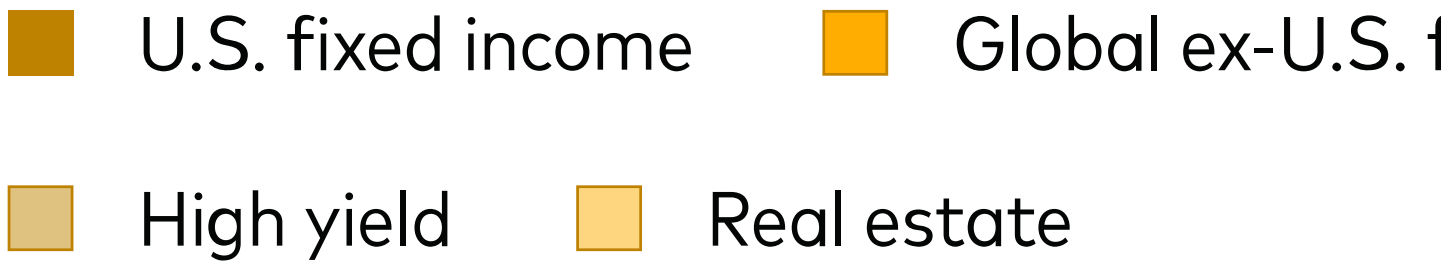
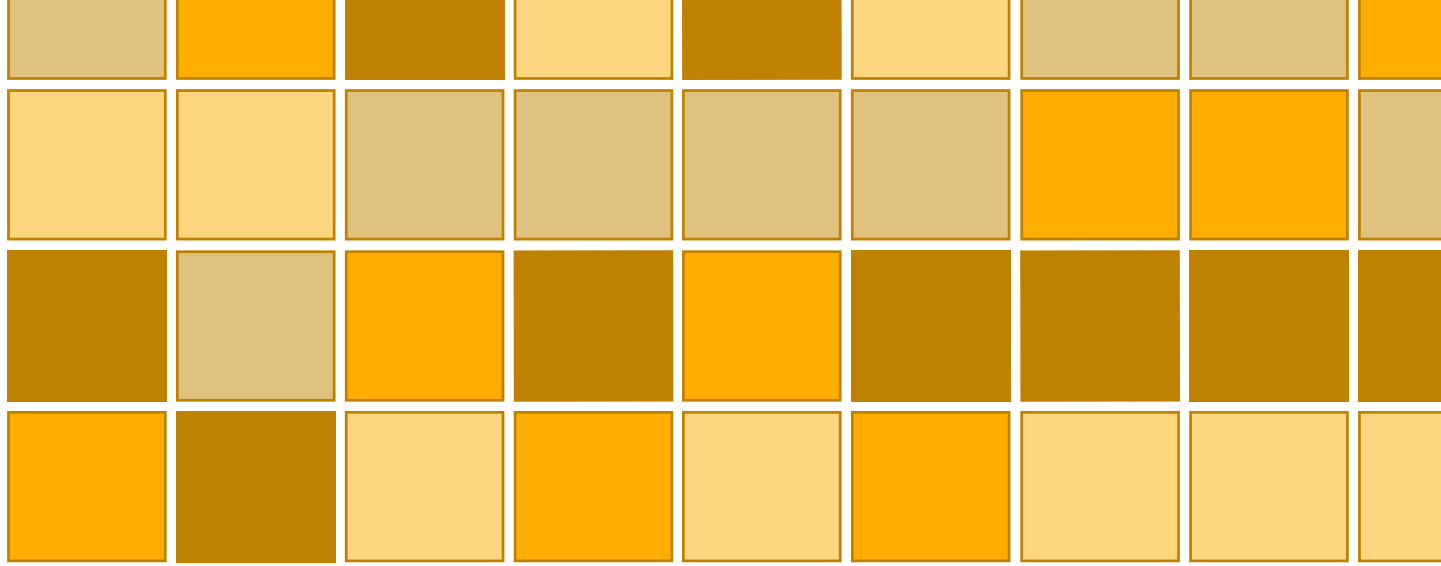
The current economic and market environment is primed to tempt investors to consider forgoing target returns. But across and within asset classes, we can't account for everything, such as how an AI-led geopolitical events could affect returns. Market leadership is not guaranteed, and chasing returns can lead to unnecessary volatility and risk. Our research shows that a balanced mix of diversified assets, combined with a conscious approach to investing, can help improve investors' chances of achieving their long-term goals if they stay the course.

Returns ranked from highest to lowest

Annual returns

Equities





Notes: Sub-asset classes include large-capitalization equity as measured by the Standard & Poor’s 500 Index, small-cap equity as measured by the Russell 2000 Index, developed ex-U.S. equity as measured by the FTSE Developed ex-North America Index, emerging markets equity as measured by the FTSE Emerging Index, U.S. fixed income as measured by the Bloomberg U.S. Aggregate Bond Index, global ex-U.S. fixed income as measured by the Bloomberg Global Aggregate Bond Index, high-yield fixed income as measured by the Bloomberg Global High Yield Bond Index, and real estate as measured by the FTSE/EPHEX Real Estate Index.

Sources: Vanguard and FactSet, as of December 31, 2023.

Past performance is no guarantee of future returns. The performance of an index is not an exact indicator of the performance of a particular investment, as you cannot invest directly in an index.

Related links:

- [Reasons for caution about U.S. equity valuations](#) (article, issued February 2024)
- [Vanguard Capital Markets Model® forecasts](#) (research, issued February 2024)
- [Vanguard’s Principles for Investing Success](#) (research, issued November 2023)
- [Are bonds a good investment right now?](#) (article, issued October 2023)
- [Making the case for international equity allocations](#) (article, issued May 2023)

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