ROBECO
The Investment Engineers

5-YEAR EXPECTED RETURNS **SUMMARY**

The Great Rewiring

SUMMARY (10 min. read) ● Emerging and developed market equities are seen returning the most ● Three dimensions seen to the Great Rewiring: trade, capital and production ● Usual base, bull and bear cases and climate forecasts, plus four special topics

2027
2031

Humankind has always been able to adapt to adversity, thanks to our brains being wired to reorganize themselves in the face of disruption. We're now at a similar point in the global economy, where the age of efficiency is gradually giving way to an age of plasticity, the 16th edition of our five-year Expected Returns says. This is bringing 'The Great Rewiring', and like human neural pathways, it will create new routes – literally in trade – when circumstances change.

It's bringing a historic shift, prompted in part by geopolitical fragmentation, and the rise of artificial intelligence, our outlook for 2027-2031 says. For much of the past three decades, investors operated in a world optimized for efficiency. Globalization expanded supply chains, labor remained abundant and capital flowed freely across borders. Firms organized production according to comparative advantage, while financial markets increasingly rewarded specialization, scale and concentration.

Today, that economic architecture is changing as we are moving from a 'just-in-time' efficiency to a 'just-in-case' resilience. Geopolitical fragmentation such as the closure in 2026 of the Strait of Hormuz, through which one-sixth of the world's energy supplies pass, exemplifies this well. The global economy is creating new pathways to circumvent these chokepoints, not least in a surge of investment in renewable energy sources to reduce reliance on fossil fuels in the first place.

"The economic architecture is changing from a 'just-in-time' efficiency to a 'just-in-case' resilience"

It's still a Renaissance

"Last year we argued that the world was entering a 'Stale Renaissance': a period in which extraordinary technological progress coexisted with a drag from elevated economic policy uncertainty," says Peter van der Welle, strategist with Robeco Investment Solutions and Expected Returns co-author. "This year we remain firmly committed to the Renaissance part of that thesis, but are now inclined to nuance the 'stale' element."

"What has changed is our understanding of the cyclical implications of the capex underway to facilitate the AI revolution, as well as the resilience of the global economy in light of the huge supply disruption to the global oil market, plus the aftermath of the highest US tariffs since the 1930s. This resilience stems from the ability to adapt and rewire in spite of emerging chokepoints."

Core asset class predictions

For asset class returns, this 'Great Rewiring' means that equities are again the most favored, followed by real estate. We expect emerging market equities to deliver the highest five-year annualized returns of 8.0% in euros, followed by developed market stocks returning 7.0%. Listed real estate is also seen delivering 7.0%, with the most positive outlook for Real Estate Investment Trusts (REITs) since 2014.

Table 1: Our 5-year Expected Returns forecasts for the major asset classes

	5-year annualized return			
	EUR	**USD**	**JPY**	**GBP**
Fixed income				
Domestic cash	3.00%	4.25%	1.50%	4.00%
Domestic government bonds	3.25%	5.00%	2.75%	5.75%
Developed global government bonds (hedged)	4.00%	5.25%	2.50%	5.00%
Emerging government debt (local)	5.50%	6.25%	3.25%	6.00%
Emerging government debt (hard)	4.00%	5.25%	2.50%	5.00%
Global investment grade credits (hedged)	3.75%	5.00%	2.25%	4.75%
Global corporate high yield (hedged)	4.25%	5.50%	2.75%	5.25%
Equity				
Developed market equities	7.00%	7.75%	4.75%	7.50%
Emerging market equities	8.00%	8.75%	5.75%	8.50%
Listed real estate	7.00%	7.75%	4.75%	7.50%
Commodities	5.00%	5.75%	2.75%	5.50%
Consumer prices				
Inflation	2.50%	3.00%	2.00%	2.75%

Expected performance is no guarantee of future results. The value of your investments may fluctuate. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. Returns are geometric and annualized. Source: Robeco, September 2026.

In fixed income, the highest five-year annualized returns are seen at 5.5% coming from emerging market debt (EMD) denominated in local currency. EMD in hard currency is seen returning 4.0%. Developed global government bonds (hedged) are also seen delivering 4.0%, while domestic government bonds are forecast to return 3.25%. In credits, global corporate high yield bonds (hedged) are forecast to return 4.25%, while their investment grade counterparts are seen delivering 3.75%.

Commodities, whose returns are heavily influenced by conflicts and the value of the US dollar, are expected to return 5.0%. Domestic cash is forecast to return 3.0%, putting it slightly above the predicted inflation rate of 2.5% for a European investor, as the neutral real policy rate will drift higher.

There's no free lunch

"Equity valuations remain elevated, particularly in the US, but strong earnings growth prospects justify some of this optimism," says Laurens Swinkels, Head of Solutions Research at Robeco and co-author of the report.

"Although we expect valuation multiples to compress over the coming five years, earnings growth should still support solid returns for equity investors. Higher bond yields have improved expected returns, but they are not a free lunch: they reflect greater uncertainty about inflation and public finances."

"Climate policy continues to influence the pricing of financial assets. While US climate policy rollbacks may support carbon-intensive assets, they are also expected to lead to higher projected climate-related damages over time."

The three dimensions of the Great Rewiring

The Expected Returns authors argue that the 'Great Rewiring' occurs along three closely related dimensions that will have ramifications for future asset returns:

- First, trade is being rewired as firms diversify supply chains and governments increasingly value security alongside efficiency. The world is not deglobalizing, but instead it is reorganizing, creating more dispersion in cross-regional trade volumes.

- Second, the role of capital is being rewired, as we have arrived at a major inflection point from a consumption-led economy toward a more investment-led one. The physical economy is on the rise; the asset-light economic model may start to lose ground in the next five years.

- Third, production itself is being rewired. The next phase of the AI-led productivity renaissance will be led by firms that manage to transform and redesign production processes around it. We believe that AI will predominantly augment labor instead of displacing it.

The rise of the middle power

The world's mid-sized powers could be the main beneficiaries, rather than traditional superpowers such as the US and China. "The winners of the next five years are likely to be economies that maximize adaptability while minimizing the efficiency losses that adaptation requires," Van der Welle says.

"We expect to see the rise of the 'middle power', as while superpowers compete, they compound their own problems. Our research suggests the world is not reorganizing into neat poles. Geopolitical ambiguity abounds."

"Many countries do not want to choose sides and are positioning themselves as connector countries between superpowers. As great-power rivalry intensifies, middle powers have increasing incentives to deepen economic ties with one another."

A rejuvenated economic expansion

For asset allocation, this new dynamic is important, as regime transitions tend to broaden opportunities, the report says. "The age of plasticity is likely to reward a wider range of return drivers, especially in emerging markets," Van der Welle says.

> *"Bull markets end when too much capital chases too few profitable opportunities"*

"Rather than asking which single region, sector or factor will dominate, investors may increasingly benefit from building portfolios capable of adapting to a broader distribution of outcomes. The next five years remain supportive for risk-taking as we are not as late in the business cycle as is widely held. We could see this expansion replicate the length of the Great Expansion from 2009-2019."

"Bull markets don't die of old age and this one, measured from its Covid-induced recession trough, is only six years old, or two years below the average bull market duration. More often, bull markets end when too much capital chases too few profitable opportunities."

Base, bull and bear cases

As with prior editions, our macroeconomic predictions are divided into three scenarios – a base, bull and bear case.

- **Base case: The 'Great Rewiring' (50% probability)**
  The Great Rewiring causes a rejuvenated expansion. This is ultimately a story of a successful value transfer from AI enablers to AI adopters. Yet, it comes at a cost of higher inflation and technological unemployment. The rewiring of trade encourages resilience rather than efficiency, the rewiring of capital raises investment intensity, and the rewiring of production lifts productivity through automation, new task creation, and the augmentation of labor.

- **Bull case: The 'Luminous Renaissance' (15% probability)**
  The Great Rewiring proves substantially more successful than anticipated in raising trend GDP growth and delivering benign disinflation. This scenario sees the global economy experience a genuine productivity renaissance reminiscent of the late 1990s. The key difference is that AI proves more transformative than previous digital revolutions because it accelerates not only automation but also its own diffusion.

- **Bear case: The 'Synaptic Decay' (35% probability)**
  The Great Rewiring stalls before its benefits can be realized. The economy continues to incur the costs of adaptation while failing to capture the expected gains from AI. What begins as a deflationary overcapacity story as the AI bubble implodes gradually morphs into more troubling stagflation. Inflation remains structurally elevated as government deficits continue to rise, and the global economy loses connectivity faster than it gains adaptability.

Their effects on expected returns...

Each case has implications for our forecasts for asset returns. In the bull case, returns for equities could rise to as much as 11.5% for developed markets and 11.25% for emerging markets. But these drop to negative returns of -1% and -4.25% respectively in the bear case.

There is also a large bandwidth between bull and bear cases for EMD, with positive returns rising to 6.25% in hard currency and 4.0% in local currency in the bull case, but with gains clipped to 1.5% and 0.75% respectively in the bear case.

> *"The age of plasticity naturally implies that investors should remain vigilant about tail risks"*

...and their tail risks

"The coming five years are unlikely to resemble the previous five," says Van der Welle. "The age of plasticity naturally implies that investors should remain vigilant about tail risks, both to the upside as well as to the downside of our base case."

"At its most successful, the 'Great Rewiring' becomes a 'Luminous Renaissance': a world in which capital deepening unlocks a new wave of accelerating productivity and earnings growth while moving inflation back to central bank targets."

"At its most fragile, it descends into 'Synaptic Decay': a world in which rupture severs economic connections faster than new ones can be formed, triggering an implosion of the AI capex boom, a US recession and ultimately leaving a stagflationary environment that undermines sovereign bonds as well as equities."

Climate change implications

As in previous years, we include a chapter on the effects of climate change on likely future asset class returns. This comes against a backdrop where the global climate keeps warming, reaching new heat records every year and the attendant damage, while some governments have scaled back commitments to achieving net-zero emissions.

Both climate policy and physical climate risks influence firm value, but regulatory changes often have a more immediate effect on market valuations, whereas physical risks tend to materialize over longer horizons through damages, disruptions, and adaptation costs.

This year we highlight how significant US climate policy rollbacks have reduced the financing penalty for high-emission companies, while Europe maintains stricter climate policies. Carbon pricing schemes, especially the EU's ETS, continue to influence markets, despite political challenges.

Transition and physical climate risks can be difficult to quantify but may modestly reduce expected returns over the next five years, though they could have substantial long-term economic consequences. Across asset classes, emerging market debt appears to be most vulnerable.

Four special topics

With each edition of Expected Returns, we additionally offer analysis on four special topics of particular interest to investors, but with a unique twist on each one. This year we cover facets of renewable energy, emerging markets, private credit and 3D investing.

1. **Chokepoints and energy security 2.0**: How the Middle East conflict has redefined reliably securing power supplies in favor of renewables.

2. **Emerging markets: A world of different destinies**: Exploring the diversity of differing countries, from the tech-heavy to the resource rich.

3. **Private credit: Opportunity, risk and selectivity in a maturing market**: What was once a more specialized source of financing, has become a multi-trillion-dollar asset class.

4. **Beyond sustainability: Generalized 3D investing**: Adding any investor-specific dimension to modern portfolio construction.

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