

What Does Asset Class Mean?

This refers to a group of financial instruments that have similar financial characteristics and behave similarly in the marketplace. We can often break these instruments into those having to do with real assets and those having to do with financial assets.

What Does This Heat Map Indicate?

As you look at the chart, one thing should jump out—the lack of a consistent leader. While large-cap stocks have had a nice run over recent years, they have not always been the leader. Six different asset class groups have held the top spot over the past seven years: intermediate-term bonds (2015), mid-cap stocks (2016), emerging markets stocks (2017), short-term bonds (2018), large-cap stocks (2019 and 2021) and small-cap stocks (2020). While there is always a temptation to make predictions, returns often end up being different than expectations. Diversification reduces the risk of being wrong by increasing the odds of being allocated to the right asset class group at the right time.

Keep in mind that your goals and tolerance for risk should drive your allocation decisions, not recent performance data or expectations of what will happen next. Stocks provide long-term growth of capital while bonds—particularly when held to maturity—provide preservation of capital.

FIGURE 1. Annual Returns for Each Asset Class Group (2012–2021)

The figure below shows the annual returns for each of the asset class groups used in the AAI Asset Allocation Models. The asset class groups are sorted in descending order of return (left to right) for each calendar year. As you can see, the best-performing asset class frequently changed from year to year, demonstrating the benefits of diversification.

2021	Large-Cap Stocks 28.7%	Mid-Cap Stocks 24.5%	Small-Cap Stocks 17.7%	International Stocks 11.4%	Emerging Markets Stocks 0.9%	Short-Term Bonds -0.9%	Intermediate Bonds -2.6%
2020	Small-Cap Stocks 19.0%	Large-Cap Stocks 18.3%	Emerging Markets Stocks 15.1%	Mid-Cap Stocks 13.1%	Intermediate Bonds 8.2%	International Stocks 8.1%	Short-Term Bonds 4.0%
2019	Large-Cap Stocks 31.3%	Small-Cap Stocks 27.2%	Mid-Cap Stocks 25.6%	International Stocks 21.9%	Emerging Markets Stocks 20.1%	Intermediate Bonds 6.3%	Short-Term Bonds 3.6%
2018	Short-Term Bonds 1.4%	Intermediate Bonds 1.0%	Large-Cap Stocks -4.5%	Small-Cap Stocks -9.4%	Mid-Cap Stocks -11.5%	International Stocks -13.3%	Emerging Markets Stocks -14.7%
2017	Emerging Markets Stocks 31.2%	International Stocks 25.3%	Large-Cap Stocks 21.7%	Small-Cap Stocks 16.1%	Mid-Cap Stocks 15.7%	Intermediate Bonds 1.6%	Short-Term Bonds 0.4%
2016	Mid-Cap Stocks 20.2%	Small-Cap Stocks 18.2%	Large-Cap Stocks 11.8%	Emerging Markets Stocks 11.5%	Intermediate Bonds 1.2%	International Stocks 1.1%	Short-Term Bonds 1.1%
2015	Intermediate Bonds 1.5%	Large-Cap Stocks 1.3%	Short-Term Bonds 0.5%	International Stocks -0.9%	Mid-Cap Stocks -2.6%	Small-Cap Stocks -3.8%	Emerging Markets Stocks -15.5%
2014	Large-Cap Stocks 13.5%	Mid-Cap Stocks 9.4%	Small-Cap Stocks 7.4%	Intermediate Bonds 4.3%	Short-Term Bonds 0.7%	Emerging Markets Stocks 0.4%	International Stocks -5.7%
2013	Small-Cap Stocks 37.6%	Mid-Cap Stocks 32.9%	Large-Cap Stocks 32.2%	International Stocks 21.6%	Short-Term Bonds -0.1%	Intermediate Bonds -3.1%	Emerging Markets Stocks -5.2%
2012	International Stocks 18.9%	Emerging Markets Stocks 18.6%	Small-Cap Stocks 18.0%	Mid-Cap Stocks 17.2%	Large-Cap Stocks 15.8%	Intermediate Bonds 2.7%	Short-Term Bonds 0.7%