How does ‘greater predictability’ benefit my investments?

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Key Takeaways

- Rising house prices can make saving for a future property purchase a moving target.
- Investing can help grow capital alongside savings contributions, but shorter holding periods leave less room to weather market losses.
- Defined return strategies aim to narrow the range of potential outcomes by giving up some potential gains in exchange for a degree of downside protection, helping investors plan towards financial goals.

In many developed countries, non-homeowners aspire to become homeowners in the future. In the United Kingdom, 20% of non-homeowners are currently saving for a deposit[1]. 12% of households in metropolitan France said they were putting money aside for a future property purchase[2]. In Germany, 39% of savers identified the purchase or renovation of owner-occupied housing as their financial goal, according to a representative study.[3]

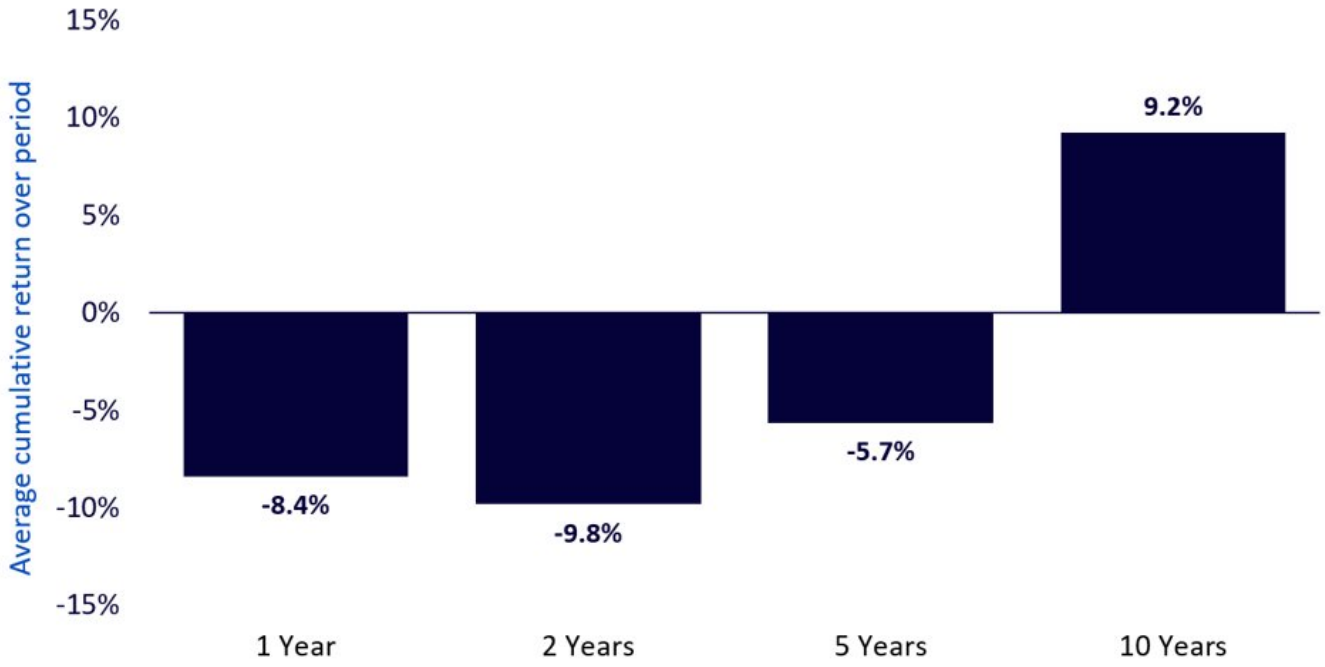
At the same time, home price-to-income ratios have increased significantly across OECD countries[4], including the eurozone and the United Kingdom, over the past decade, making saving for homeownership a runaway target, as house prices inflated faster than salaries could keep up. This implies that savings alone may not be enough to finance a house, and that capital growth from investing takes on a critical role. On the other hand, this means that the margin for error when investing for capital growth over the medium term has become even slimmer.

The pitfalls of investing over the short-to-medium term

Less certainty around investment outcomes makes investing capital more difficult. Intuitively, the more variation there can be in a future outcome, including to the downside, the more precautions we take. In other words, the less we are willing to put on the table.

Figure 1 shows, for different time horizons, the average return of the Euro Stoxx 50, a benchmark for European equities, for returns below the median. In other words, if the outcome were in the bottom half of historical returns, what return could I expect?

Figure 1: In the worst half of outcomes, what is the expected return?
Euro Stoxx 50 average return when below the median return.



Source: Bloomberg Finance L.P., from March 1998 to September 2026. We average the cumulative net total return of the Euro Stoxx 50 Index in Euro of those returns that are below the median for the respective time horizon. **Historical performance is not an indication of future performance and any investments may go down in value.**

For 1, 2, and 5 years, the average return below the median was negative. The median divides the outcomes into two equally sized groups, and as such, there is a flip-of-a-coin chance of ending up in either the upper or the lower half. The chart shows that, historically, only over a longer time horizon (10 years) did the average return in the weaker half of outcomes turn positive.

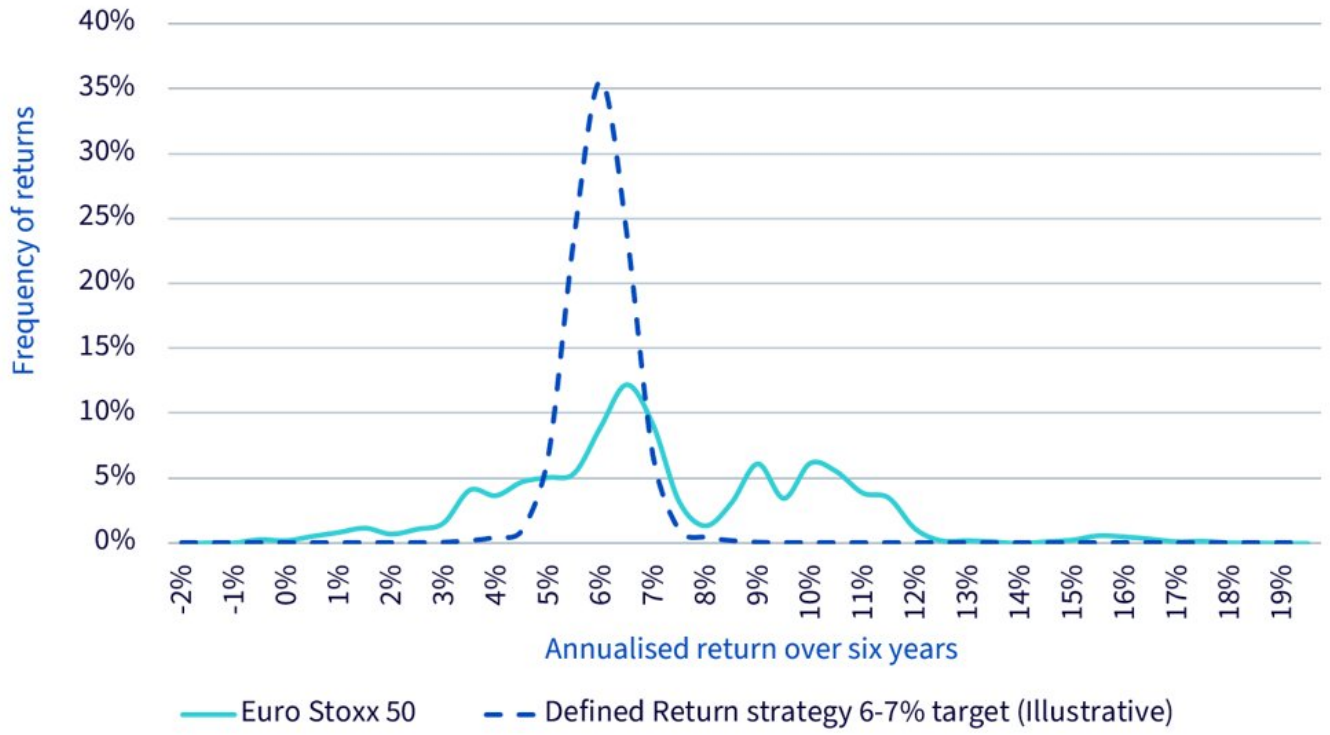
But is there a way we can still benefit from the equity market, aiming for a more predictable range of outcomes around a target return, when the time horizon is shorter?

Investing with limited room for errors

Defined returns investing is an approach where derivatives are used to reshape the return distribution. More precisely, the aim is to narrow the range of possible outcomes, such that investors have greater certainty about what is going to happen with their investment.

Figure 2 shows an illustrative example of how the frequency of outcomes for an equity investment over 6 years could be remodelled when following a defined returns strategy. The higher the line above a point on the x-axis, the more often we historically observed the return stated on that axis.

Figure 2: Defined return investing reshapes investment outcomes



Source: WisdomTree, Bloomberg Finance L.P., from 11 April 2013 to 29 May 2026. The chart contains simulated data for illustrative purposes only. **You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

Practically, and generally speaking, these strategies give up some participation in market rallies and buy a degree of protection against market downturns. In other words, returns are compressed around a target return, giving greater certainty that this target will be achieved.

At this point, it becomes clear that there is no free lunch. Giving up equity participation during strong market runs can create opportunity costs from missing out on these gains. On the flip side, the purchased protection might not fully protect against very large market downturns. Investors with a very long time horizon might be better off investing in a market cap-weighted benchmark, as they have enough time to weather temporary losses. Downside protection is conditional, and capital and target returns are not guaranteed.

Conclusion

Saving for a big purchase can be a headache when the goalposts are shifting further away every year. Investing can help to grow capital alongside savings contributions but comes with significant pitfalls when the holding period is limited. Defined return investments aim to provide a risk-mitigated approach that yields more certainty over the medium term and allows investors to participate in markets despite not being long-term investors.

Investors give up some potential gains in rising markets in exchange for conditional downside protection. This protection does not guarantee capital, and substantial losses remain possible during severe or sustained market falls. Target returns are not guaranteed, and investors should consider whether the strategy's investment horizon and risks fit their financial goals and ability to bear losses.

[1] Source: Financial Conduct Authority (2025). Financial Lives 2024 survey: Mortgages—selected findings.
[2] Source: INSEE (2026), Note de conjoncture.
[3] Source : Verband der Privaten Bausparkassen (2026), Sommerumfrage 2026.
[4] Source: OECD Data Explorer, 2015-2025.

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