Historical US & International Asset Returns

Over the following pages we now look at the data section where we examine long-term US returns going back to the start of the 19th century (where possible). In addition we look at various international returns for equities and bonds back as far as we have data. For many countries this stretches back deep in the early 1900s and for some countries the data goes back over 200 years. We show returns in nominal and real terms and for the international section convert all returns into dollars for comparison sake. We also show returns annualised within each decade and also by 50 year buckets. Additionally we then detail returns from certain starting points, including the post 1971 period and the period between 1900 and the end of 1970 which corresponds to the analysis discussed earlier in this study. With these different starting points we can hopefully see cyclical, secular and very long-term trends.

First the US. Figure 76 and Figure 77 show why we invest in assets over the medium to long-term. Using data going back over 200 years, it is quite clear that history tells us that storing cash under the mattress has been a recipe for wealth erosion through history in all but the most exceptional international circumstances.

Over the entire sample period, US Equities outperform Corporate Bonds, which outperform Government Bonds, which outperform cash, which interestingly has generally outperformed the Commodities analysed in this section. Over the last 100 years (since end 1917, where we have data for the widest selection of assets), Equities outperform 10yr and 30yr Governments by around +5.2% p.a., Corporates by +4.2% p.a. and T-bills (cash proxy) by +6.8% p.a. (on a nominal basis). They also outperform Gold by 6.1% p.a., Oil by 7.7%, and US housing (prices only) by 6.5% p.a. Indeed in real terms, over the past 100 years all of the analysed commodity series with the exception of Gold have seen negative returns with the Commodity index down -1.4% p.a. - Gold and Housing have returned just +1.2% p.a. and +0.8% p.a. respectively in real terms. Over the same period Equities have provided +7.2% p.a., 10 year Treasuries +2.2% p.a. and Corporate Bonds +3.1% p.a. Over recent years, assets like housing and commodities have been used as a portfolio alternative to equities and bonds. History suggests that over the long run such a strategy is unlikely to produce superior results, especially relative to equities. Their lack of income make it difficult for them to compete with traditional assets. Buy-to-let housing would be an exception to this but there is no long-term time series available to analyse this.

Since 1800, US equities have only had two negative decades in nominal terms. The 1930s (-0.5% p.a.) and the 2000s (-0.9% p.a.). There have been three in real terms (1910s: -2.8%, 1970s: -1.5%, 2000s: -3.4%).

In nominal terms three of the best five decades for equities since 1800 have occurred in the last four decades (including this current decade not yet complete). However this period also included the worst decade (the 2000s).

Interestingly 10 year Treasuries and corporate bonds have never seen a negative return decade in nominal terms. However in real terms 6 out of the 12 decades since 1900 have seen a negative return from 10 year Treasuries, including four successive decades from the 1940s. After this the last 4 decades have seen stunningly positive real returns for bonds though with each decade seeing average annual returns between +2.4%-7.3% above inflation. That said with each decade we have seen these annualized returns decline and as we