

LONG TERM ASSET RETURNS 2018

UK asset returns since 1899

We analyse returns on equities, gilts and cash from end-1899 to end 2017. Index-linked gilt returns are available from 1982, while corporate bonds begin in 1999. To deflate the nominal returns, a cost-of-living index is computed using Bank of England inflation data from 1899 to 1914 and the Retail Price Index, calculated by the Office of National Statistics, thereafter.

FIGURE 1

Real investment returns by asset class (% pa)

	2017	10 years	20 years	50 years	118 years*
Equities	8.4	3.2	3.2	5.5	5.1
Long dated Gilts	-1.9	4.0	3.6	3.1	1.3
Corporate bonds	0.7	3.6			
Long dated Index-linked	-1.7	4.0	3.9		
Cash	3.9	-1.9	0.3	1.2	0.7

* Entire sample

Source: Barclays Research

Figure 2 illustrates the performance of equities against gilts and cash for various holding periods. The first column shows that over a holding period of two years, equities outperformed cash in 80 out of 117 years; thus, the sample-based probability of equity outperformance is 68%. Extending the holding period out to ten years, this rises to 91%.

FIGURE 2

Equity performance

	Current Age				
	2	3	4	5	10
Outperform cash	80	82	84	86	99
Underperform cash	37	34	31	28	10
Total number of years	117	116	115	114	109
Probability of equity outperformance	68%	71%	73%	75%	91%
Outperform gilts	80	86	86	83	84
Underperform gilts	37	30	29	31	25
Total number of years	117	116	115	114	109
Probability of equity outperformance	68%	74%	75%	73%	77%

Source: Barclays Research

The importance of reinvestment

Figures 3 and 4 show how reinvestment of income affects the performance of the various asset classes. Figure 3 shows £100 invested at the end of 1899 without reinvesting income; the second is with reinvestment. One hundred pounds invested in equities at the end of 1899 would be worth just £203 in real terms without the reinvestment of dividend income; with reinvestment, the portfolio would have grown to £34,758. The effect on the gilt portfolio is smaller in absolute terms, but the ratio of the reinvested to non-reinvested portfolio is over 600 in real terms.

FIGURE 3

Today's value of £100 invested at the end of 1899 without reinvesting income, £

	Nominal	Real
Equities	17,444.08	203.71
Gilts	62.90	0.73

Source: Barclays Research

FIGURE 4

Today's value of £100 invested at the end of 1899, income reinvested gross, £

	Nominal	Real
Equities	2,976,377.61	34,758.11
Gilts	41,451.00	484.06
Cash	20,630.55	240.92

Source: Barclays Research

FIGURE 5

Today's value of £100 invested at the end of 1945, without reinvesting income, £

	Nominal	Real
Equities	10,933	288
Gilts	69	1.81

Source: Barclays Research

FIGURE 6

Today's value of £100 invested at the end of 1945, gross income reinvested, £

	Nominal	Real
Equities	238,690.07	6,294.26
Gilts	8,900.82	243.71
Cash	6,317.81	166.60

Source: Barclays Research

FIGURE 7

Today's value of £100 invested at the end of 1990, gross income reinvested, £

	Nominal	Real
Equities	997	466
Gilts	875	409
Index-linked Gilts	690	322
Treasury Bills	303	142

Source: Barclays Research

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FIGURE 8

Real investment returns (% pa)

	2017	10 years	20 years	50 years	92 years*
Equities	18.2	6.0	5.0	5.6	6.7
20y Government Bond	4.1	4.5	4.5	3.6	2.6
TIPS (15y plus)	7.2	4.0			
Long Corporate Bond	9.8	6.1	4.8		
Cash	-1.3	-1.3	-0.26	0.7	0.4

* Entire sample

Source: Centre for Research into Security Prices (CRSP), Barclays Research

Figure 8 provides real annualised returns over various time horizons. US equities posted a strong performance, benefitting from a range of domestic drivers, as well as the broader global growth backdrop. Expectations of US tax reform, deregulation and higher infrastructure spending all provided a bullish backdrop.

The strong growth picture reinforced this as a tight labour market and improved corporate earnings also provided support despite the more hawkish Fed and some residual concerns regarding the late stage of the business cycle and elevated valuations.

FIGURE 9

Value of \$100 invested at the end of 1925 without reinvesting income

	Nominal	Real
Equities	17,946	1,303
20y Govt Bonds	135	10

Source: CRSP, Barclays Research

FIGURE 10

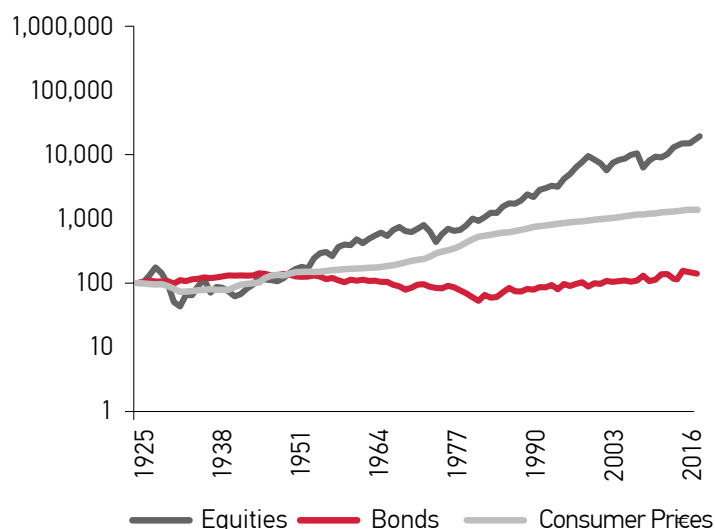
Value of \$100 invested at the end of 1925 with income reinvested gross

	Nominal	Real
Equities	546,032	39,647
20y Govt Bonds	14,288	1,037
Cash	2,063	150

Source: CRSP, Barclays Research

FIGURE 11

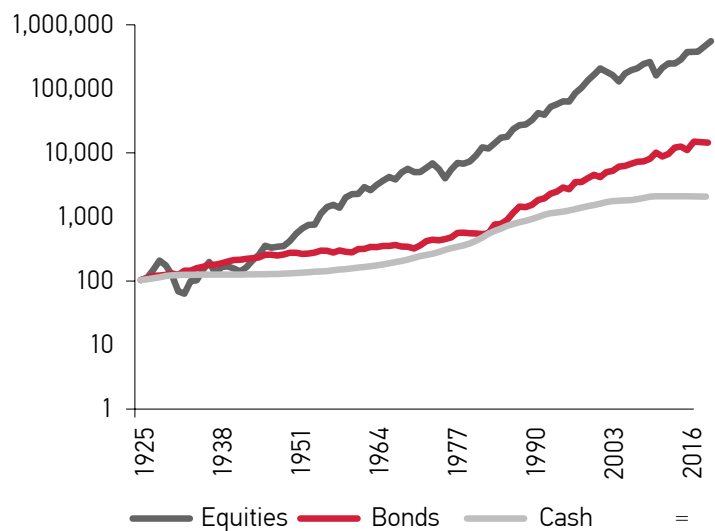
Barclays US price indices in nominal terms



Source: CRSP, Barclays Research

FIGURE 12

Barclays US total return indices in nominal terms with gross income reinvested



Source: CRSP, Barclays Research

IN SUMMARY

A strange phenomenon has gripped the world economy in recent years. A new leap in technological innovation, spurred by advances in machine learning and robotics, is generating fears of a jobless future. Yet every major economy appears to be producing millions of jobs, pushing unemployment rates down to historical lows. Moreover, wage growth and overall inflation have remained puzzlingly low, despite rock-bottom jobless rates. Technology is reshaping the global workforce, not eliminating it.

The effects of advances in technology are typically thought of as microeconomic in nature, affecting market structures and pricing behaviour. But evidence is mounting that these micro effects now aggregate to meaningful and lasting macroeconomic consequences, possibly explaining why our traditional macro models struggle to explain the 'puzzles' behind weak output growth, low productivity, muted wage increases and subdued inflation.

This may require adjusting the theories that guide our economic analysis and advice on monetary policy, public finance and development strategies.

Despite tremendous hype over the potential for crypto technologies in money and finance - specifically, blockchain and distributed ledger technology - we see little likelihood of widespread adoption in any area in the near future.

Crypto currencies may have a home in lowtrust corners of the global economy, but broader adoption of crypto technologies faces critical challenges and strong incumbents. Crypto currencies are a new form of 'asset' with no intrinsic value or promised stream of cash flows. As a result, Financial and Economic theory give no guidance for fundamental valuation or expected price behaviour.