

DUFF & PHELPS

2020 SBBI[®] Yearbook
Stocks, Bonds, Bills, and Inflation[®]

U.S. Capital Markets Performance by
Asset Class 1926–2019

Exhibit 6.8: Total Returns, Income Returns, and Capital Appreciation Returns of the SBB[®]
Asset Classes; Summary Statistics of Annual Returns (%)
1926–2019

	<u>Geometric Mean (%)</u>	<u>Arithmetic Mean (%)</u>	<u>Standard Deviation (%)</u>	<u>Serial Correlation</u>
Large-Cap Stocks				
Total Return	10.2	12.1	19.8	0.00
Income	3.9	3.9	1.6	0.91
Capital Appreciation	6.1	7.9	19.1	0.00
Small-Cap Stocks (TR)	11.9	16.3	31.5	0.06
Long-term Corp Bonds (TR)	6.1	6.4	8.5	0.01
Long-term Gov't Bonds				
Total Return	5.5	6.0	9.8	-0.16
Income	4.9	4.9	2.6	0.96
Capital Appreciation	0.4	0.8	8.8	-0.27
Inter-term Gov't Bonds				
Total Return	5.1	5.2	5.6	0.15
Income	4.3	4.4	2.9	0.96
Capital Appreciation	0.6	0.7	4.4	-0.17
U.S. Treasury Bills (TR)	3.3	3.4	3.1	0.92
Inflation	2.9	2.9	4.0	0.64

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In general, risk is rewarded by a higher return over the long term. For example, Exhibit 6.8 shows that over the 1926–2019 time horizon small-cap stocks were the riskiest asset class with a standard deviation of 31.5%, but also provided the greatest rewards to long-term investors, with an arithmetic mean annual return of 16.3%. Comparably, the risk (as measured by standard deviation) of large-cap stocks was significantly lower at 19.8%, and the reward (as measured by arithmetic average annual return) of large-cap stocks was correspondently lower at 12.1%.

U.S. Treasury bills, with a standard deviation of 3.1%, were nearly riskless and had the lowest arithmetic mean annual return at 3.4%.

Inflation-Adjusted Series Summary Statistics

Inflation-adjusted basic series summary statistics are presented in Exhibit 6.9. Note that the real rate of interest is close to zero (0.5%) on average. For the 94-year period, the geometric and arithmetic means are lower by the amount of inflation than those of the nominal series.