Press Release

Credit Suisse Global Investment Returns Yearbook 2019

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Published by the Credit Suisse Research Institute, in collaboration with London Business School professors, the Credit Suisse Global Investment Returns Yearbook has evolved into a reference volume providing respected long-run return data and risk premium estimates for 23 national stock and bond markets. The 2019 edition of the Yearbook is published today including a new, dedicated chapter on emerging markets (EMs) and frontier markets (FMs).

From the past to the future

2018 was the worst year for returns from global equities since the Global Financial Crisis with a decline of 9%.

International confrontations over global trade have brought into focus a source of market and economic risk that few investors have had to contemplate before.

Put in the context of the 119 years of history in the Yearbook and an equity risk premium over the period of just over 4%, it underlines how rewarding – and anomalous – the post-Crisis decade has been for equity investors.

Equities remain the best long-run financial investment globally ahead of bonds and bills and have enjoyed a real or inflation adjusted rate of return of just over 5%.

Over the long run most currencies weakened against the US dollar, and only a couple (for example, the Swiss franc) proved perceptibly stronger than the US dollar.

Over the very long run since 1900, emerging markets (EMs) have underperformed developed markets (DMs). But this underperformance dates back to the 1940s. Since 1950, EMs have beaten DMs by just over 1% per year. They have underperformed DMs over the last decade, but solely due to the exceptional performance of the USA.

In the book, Professors Elroy Dimson and Paul Marsh and Dr Mike Staunton of London Business School examine the industrial transformation that has taken place since 1900, alongside the parallel transition in markets as countries have moved from emerging to developed status. The authors also assess the returns and risks from investing in equities, bonds, cash and currencies in 23 countries and three different regions. They also examine factor investing and the profitability of different investment styles.

Emerging Markets:

Today's emerging markets (EMs) and frontier markets (FMs) make up 55% of the world's GDP at purchasing power parity, versus 37% for developed markets (DMs). EMs and FMs are home to 59% of the planet's population, compared with just 13% for DMs. The remaining 28% of the world's population live in countries with no, or small, underdeveloped, equity markets.

Over the last 40 years, today's EM countries have almost doubled their share in world PPP GDP from a quarter to almost a half. Meanwhile, the DM share has fallen from just over 60% to 37%.

EM share of world GDP at market exchange rates nearly doubled from 1980-2018 from 18% to 35%. There was a corresponding fall in the DM share. By the end of 2018, EMs and FMs together accounted for nearly 40% of world GDP compared with 57% for DMs and just 4% for the rest of the world.

But while EMs and FMs together account for 55% of world PPP GDP, some 40% of world GDP at market exchange rates and 68% of the world's population, their combined weighting in global equity indexes is still remarkably small, at around 12%. DMs account for virtually all of the remainder (88%). Furthermore, although the EM plus FM share has grown from a negligible 2% in 1980 to 12% today, there has been no progress over the last 11 years. In 2007, their combined share was 12.4%, while today, it is 12.2%.

From 2007-2018 DMs outperformed EMs by 52% (driven largely by US outperformance). The greater number of IPOs and seasoned offerings within EMs was insufficient to overcome this underperformance headwind.

EMs had a poor year in 2018, with a return of –14%, underperforming DMs by 7%. Over the previous two years, they outperformed. Despite underperforming over the last 11 years, since 2000 they have outperformed by 2.4% per annum.

China:

Just as developed markets are dominated by the huge US equity market, China is far the largest EM. Its weight in the EM indexes has grown rapidly from just 3% in the early 2000s to 30% today.

By the end of 2018, Chinese equities had an aggregate full-cap value of some USD 10 trillion.

Despite China's outstanding economic growth, global investors in Chinese stocks have received returns just in line with other EMs or DMs. Meanwhile, domestic Chinese A-shares have underperformed.

There have been large divergences between share price indices in China. Dependent on which index is followed, the benchmark for stock market performance varies greatly and investors have struggled to select the best measure.

The negative factors that have contributed to the Chinese market's past poor performance are set to be reversed, as China continues to open up and reform its financial system including the expansion of A-share inclusion into leading index series.

China will, and should, remain an EM until it resolves international investors' concerns over its markets and access to them. Investors need markets to be categorized in ways that reflect investability and accessibility.

Select highlights:

From a long-term historical and global perspective, the equity premium is smaller than was once thought.

The credit premium clearly depends on the quality of the bond and the likelihood of default, but for long-term high-grade US corporate bonds, the historical premium has been 0.68% per year.

Factor investing is backed up by long run evidence, but there are extended periods when particular styles underperform. Since the Global Financial Crisis, the value style has been the hardest hit with value investors experiencing a lost decade.

Size, value, income, momentum and volatility have an important impact on portfolio returns. As "factor effects" they will continue to exist and should be monitored by all investors.

There is a much greater deployment of technology in investing, the prevalence of distribution platforms and in particular the rapid growth of the exchange traded fund (ETF) industry to the point that it is reported that there are now more ETFs than stocks.

Looking ahead, expected returns on all asset classes are likely to be low as the authors' research shows that when real interest rates are low, as they are today, subsequent returns tend to be lower.

The authors predict that the margin by which equities are likely to outperform cash in future will be lower than the 119-year historical premium of 4.2% per year. Their long run estimate is 3½%.

Even with a lower future equity premium of 3½%, equities are still expected to double relative to cash over a 20-year period.

The Credit Suisse Research Institute's Richard Kersley said: "Delving into an in-depth long run analysis of investment returns is an important and necessary step for anyone who wants to take heed of past performance as an indicator of what the future may hold. We're delighted to use the expertise and deep subject knowledge of our expert authors to provide a comprehensive study charting 119 years of investment returns analysis. With 2018 proving a year of immense market volatility, it is more important now than ever to contextualise recent market performances against a wider historical background."

The authors, Elroy Dimson, Paul Marsh and Mike Staunton, added: "We are excited to extend the Yearbook's coverage to include emerging markets with a long stock market history. We are committed to providing long-term evidence on global markets and to addressing issues that are crucial for today's investors. Given the dynamics behind current population trends, emerging markets can only grow in relative importance and investors should recognize the opportunities and risks. EMs are likely to offer a more bumpy ride for investors than developed markets, but our research underlines the importance of a diversified portfolio."

The countries included in the Yearbook represented 98% of the global equity market in 1900 and still represent 90% of the investable universe at the start of 2019. The report also includes three regional indexes for equities and bonds denominated in common currency.

The Global Investment Returns Yearbook consists of five main sections, the first four focusing on long-run asset returns, risk and risk premiums, emerging markets and factor investing, while the fifth contains individual assessments on the 23 countries and three regions which remain core to the Yearbook.

The Global Investment Returns Yearbook 2019 Summary is available:
https://www.credit-suisse.com/ch/en/about-us/research/research-institute.html

Charts and analysis:
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As well as its highly ranked degree programmes, the School offers award-winning executive education programmes* to business leaders from around the world.

With a presence in five international cities – London, New York, Hong Kong, Shanghai and Dubai – the School is well positioned to equip students from more than 130 countries with the tools needed to operate in today's business environment. The School has more than 40,000 alumni, from over 150 countries, which provide a wealth of knowledge, business experience and worldwide networking opportunities.

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