

# U.S. Asset Class Returns, 2000–2009

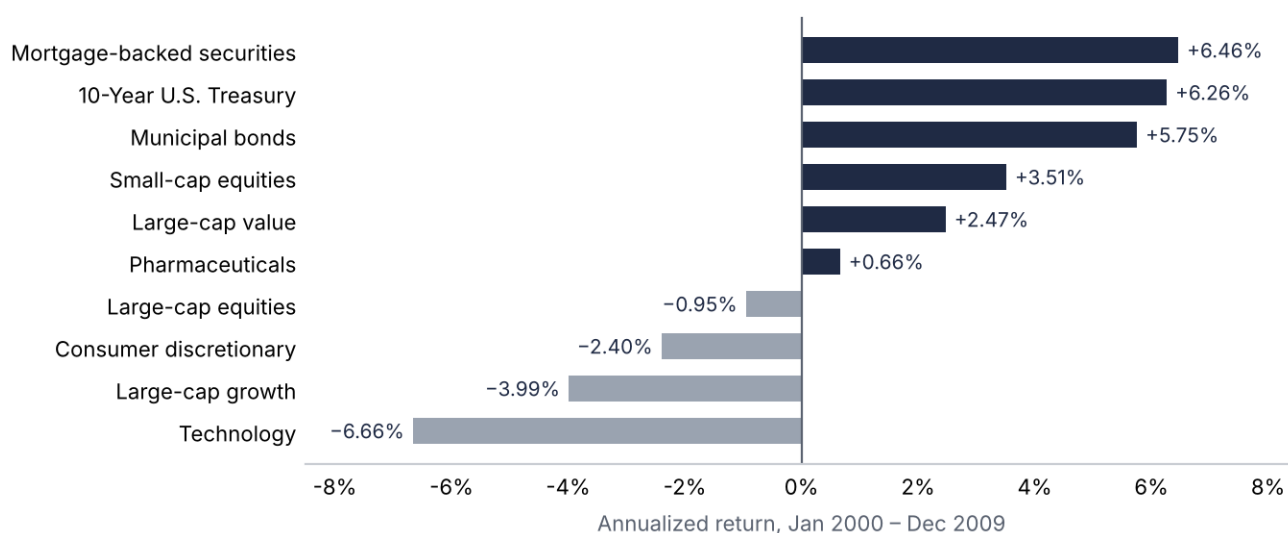
Annualized total returns with income reinvested, January 1, 2000 – December 31, 2009. Nominal unless stated.

Several features of today's market — heavy index concentration in a small group of mega-cap technology companies, valuations premised on a transformative technology (artificial intelligence today, the internet then), and an unusually wide valuation gap between growth leaders and the rest of the market — echo the final leg of the late-1990s technology bull market, which makes the decade that followed a useful reference for how leadership, valuations and asset-class returns can reset.

| Category                          | Benchmark                         | CAGR     | Real CAGR* | Cumulative | Volatility† | Worst year      | Confidence |
|-----------------------------------|-----------------------------------|----------|------------|------------|-------------|-----------------|------------|
| <b>Mortgage-backed securities</b> | Bloomberg U.S. MBS Index          | +6.46%   | +3.84%     | +86.9%     | 2.7%        | +2.6% (2005)    | High       |
| <b>10-Year U.S. Treasury</b>      | 10-yr Treasury bond, total return | +6.26%   | +3.64%     | +83.5%     | 9.2%        | −11.1% (2009)   | High       |
| <b>Municipal bonds</b>            | Bloomberg Municipal Bond Index    | +5.75%   | +3.15%     | +74.9%     | 4.5%        | −2.5% (2008)    | High       |
| <b>Small-cap equities</b>         | Russell 2000                      | +3.51%   | +0.96%     | +41.3%     | 23.3%       | −33.8% (2008)   | High       |
| <b>Large-cap value</b>            | Russell 1000 Value                | +2.47%   | −0.05%     | +27.7%     | 20.0%       | −36.9% (2008)   | High       |
| <b>Pharmaceuticals</b>            | S&P 500 Pharmaceuticals           | ≈ +0.66% | ≈ −1.82%   | ≈ +6.8%    | ≈ 18.2%     | ≈ −20.0%        | Moderate   |
| <b>Large-cap equities</b>         | S&P 500                           | −0.95%   | −3.39%     | −9.1%      | 21.1%       | −37.0% (2008)   | High       |
| <b>Consumer discretionary</b>     | S&P 500 Consumer Discretionary    | ≈ −2.40% | ≈ −4.80%   | ≈ −21.6%   | ≈ 25.0%     | ≈ −34.7% (2008) | Moderate   |
| <b>Large-cap growth</b>           | Russell 1000 Growth               | −3.99%   | −6.35%     | −33.4%     | 25.2%       | −38.4% (2008)   | High       |
| <b>Technology</b>                 | Nasdaq-100 (price return)         | −6.66%   | −8.96%     | −49.8%     | 35.5%       | −41.9% (2008)   | High       |

\* Real CAGR deflated by CPI-U, December 1999 (168.3) to December 2009 (215.9):  $215.9 / 168.3 = 1.283$ , or 2.52% per year. Real =  $(1 + \text{nominal}) / 1.0252 - 1$ . † Standard deviation of the ten calendar-year total returns (small-sample dispersion; not comparable to volatility annualized from monthly data, e.g. S&P 500 ≈ 16% monthly-based vs. 21.1% here). ≈ Moderate confidence: figures not independently reconciled to index-provider data.

## Ranking by annualized return



## Growth of \$100

| Category                   | Nominal | Real  |
|----------------------------|---------|-------|
| Mortgage-backed securities | \$187   | \$146 |
| 10-Year U.S. Treasury      | \$184   | \$143 |
| Municipal bonds            | \$175   | \$136 |
| Small-cap equities         | \$141   | \$110 |
| Large-cap value            | \$128   | \$100 |
| Pharmaceuticals            | \$107   | \$83  |
| Large-cap equities         | \$91    | \$71  |
| Consumer discretionary     | \$78    | \$61  |
| Large-cap growth           | \$67    | \$52  |
| Technology                 | \$50    | \$39  |

## Observations

**A large-cap growth decade lost, not an equity decade lost.** The S&P 500 compounded at –0.95% (–9.1% cumulative), while the Russell 1000 Value returned +27.7% and the Russell 2000 +41.3%. The 6.5-point annual spread between large-cap value and growth is the defining feature of the period.

**High-grade bonds dominated on both return and risk.** MBS, 10-year Treasuries and municipals each compounded at 5.7–6.5% with a fraction of equity dispersion. MBS posted no negative calendar year; the worst was +2.6% in 2005. Starting yields of roughly 6–6.6% on the 10-year, followed by a secular decline, supplied both carry and price gains.

**Technology bore the full cost of the 2000 valuation peak.** The Nasdaq-100 price index fell from 3,707.83 to 1,860.31, a ratio of 0.502, or –6.66% per year. A +54% rebound in 2009 left it about half its starting level.

**Real returns sharpen the picture.** With CPI at 2.52% per year, every equity category except small caps lost purchasing power; large-cap value roughly broke even (–0.05% real). Pharmaceuticals were flat in nominal terms (+0.66%) but declined about 1.8% per year in real terms, ending near \$83 in real wealth per \$100 invested.

## Methodology and notes

**Benchmarks.** One index per category is used throughout. Results are benchmark-dependent: a 7–10 year Treasury index or a long (22+ year) municipal index produces higher figures than those shown, and the S&P National Municipal Bond Index returned 5.71% (+74.2% cumulative) versus 5.75% for the Bloomberg Municipal index.

**Technology.** The Nasdaq-100 figures are price returns. Total return with dividends reinvested is modestly less negative; the index yielded well under 1% for most of the decade.

**Consumer discretionary.** Shown as a sector, not as a proxy for cyclicals as a whole. A broad cyclical basket would differ materially over this decade: energy and materials benefited from the commodity cycle, while financials suffered heavily in 2007–08. Figures in this row are approximate.

**Pharmaceuticals.** Sub-industry results depend on the index constituents used; figures are approximate.

**Method.**  $CAGR = (\Pi(1 + r_t))^{1/10} - 1$  on calendar-year total returns, with cumulative return  $= \Pi(1 + r_t) - 1$ . Figures compiled from historical index return series and should be reconciled with provider data (FTSE Russell, S&P Dow Jones Indices, Bloomberg) before client or publication use. Past performance does not guarantee future results.