

MARKET COMMENTARY

Fig. 1: Equity risk premium; US Equities versus Treasuries



Source: Bloomberg, Mill Creek.

Back in 2012, I coauthored a report titled, “Stocks (over bonds) for the long run” which made a simple point: at the time, investors should expect far better returns for stocks than bonds over the next decade.¹ Realized returns validated our assertion: the S&P 500 outperformed US Treasuries by 12% per year over the preceding 7- and 10-year periods. Around 2016, Wall Street started using the acronym TINA, meaning “There is No Alternative,” in reference to the dominance of stocks over bonds, but it was TINA all along.

Our 2012 article was not based on a speculative crystal ball forecast. At the time, the gap between the expected earnings yield on stocks (earnings divided by price) and the yield on an inflation-adjusted 10-year Treasury bond (Fig. 1) was the highest it had been since the early 1980s, implying that the expected return differential between stocks and bonds was higher than it had been since the 80s. This measure is known as the “equity risk premium (ERP).” For context, this way of measuring the ERP also indicated in 1999 and 2000 that stocks would underperform bonds over the preceding 10 years.

Today, the ERP implies something much more mundane than in 1999 or 2012. This finding is good news for diversified investors. Bond yields (nominal and inflation-adjusted) have risen back to pre-financial crisis levels, the return differential between stocks and bonds has reverted to a level closer to the longer-term average, and bonds can once again play an important role in portfolio construction.

¹ A revised version of the article was eventually published under a [different title in the Journal of Investing](#) in 2014. Like monetary policy, academic publishing also has long and variable lags.

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This week's contributor: Michael Crook, CAIA

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