Academic Brief

A GUIDE FOR ACADEMICS

Exponential Wealth: Centuries of Stock and Bond Returns

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For academics, *Exponential Wealth: Centuries of Stock and Bond Returns* provides a long-run empirical foundation for studying capital market returns, risk premiums, index construction, and expected-return formation. The book updates the *Stocks, Bonds, Bills, and Inflation*® (SBBI®) tradition with new CRSP-based Ibbotson Equity and Bond Indices for 1926–2025 and places the US record in broader historical and global context.

Drawing on stock and bond market data from 1926 and earlier, this CFA Institute Research Foundation book brings together chapters by leading authors who interpret the evidence and present new research. Its publication marks the 50th anniversary of Roger Ibbotson's 1976 articles with Rex Sinquefield on "Stocks, Bonds, Bills, and Inflation" and the 100th anniversary of the dataset. For scholars, the book offers both a continuation of a foundational data tradition and a platform for new research on returns, premiums, market history, and forecasting.

For academics, the book is both a dataset contribution and a research platform. It raises questions about survivorship, macro-consistency, nonstationarity, total-return estimation, return decomposition, and the empirical foundations of asset pricing.

Use this brief to

- identify research questions raised by the book.
- understand how the new Ibbotson Equity and Bond Indices extend the SBBI tradition.
- evaluate methodological issues in long-run return data.
- connect historical returns to asset pricing theory and expected-return models.
- locate chapters most relevant to empirical asset pricing, financial history, index construction, and forecasting.

Who Should Read This Book?

This book is intended for academics and researchers in empirical asset pricing, financial history, investment management, index construction, risk modeling, and long-horizon return forecasting. Asset pricing researchers will find evidence on equity, size, horizon, credit, liquidity, and inflation-related premiums. Financial historians will find cross-century and cross-country evidence on how institutions, wars, inflation, regulation, and market closures shape realized returns. Quantitative researchers will find return data and interpretation, information about

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index methodology, and discussions of macro-consistency, replicability, forecasting, and the crafting of capital market assumptions.

Why This Book Matters Now

Exponential Wealth updates the long-running SBBI record. It also asks important questions about the data behind that record: Is the US market history typical, or is it unusual, reflecting survivorship or success bias? Is the last century of market results typical or unusual? How should return indices be built? Which risk premiums are likely to last, and which may be tied to one particular period or market environment?

The numbers are the book's ground-level contribution. The book shows that $1 invested in US large-cap stocks from 1926 to 2025 grew to $14,751. The same $1 grew to $32,425 in small-cap stocks, $117 in long-term Treasury bonds, and $25 in 30-day Treasury bills. These outcomes are stated in nominal terms because inflation caused an 18-to-1 increase in the price level; as a result, each of the ending wealth values was divided by 18 to arrive at the amount of real wealth produced.

Moreover, the book shows that these outcomes depend on how researchers measure total returns, handle the option to reinvest, account for survivorship, and choose starting and ending dates. Section 3 broadens the evidence to non-US markets and periods before the most recent century, underscoring the need for global and historical comparison.

The Book Contributes in Two Ways

Contribution Type	What the Book Adds
Dataset contribution	A new database of 1926–2025 US equity and Treasury bond returns, plus global and pre-1926 data, as well as returns for commodity futures, and detailed information on Japan, China, and other markets
Methodological contribution	A framework for evaluating long-run return data through total-return estimation, index construction, survivorship, macro-consistency, replicability, nonstationarity, and forecasting uncertainty

Key Research Questions

Exponential Wealth raises four research questions that can guide future scholarship:

1. **First, is the US equity premium a generalizable phenomenon or a success-biased outcome?** The book documents the extraordinary success of US equities over the last century. It then places that record in broader context by comparing it with global markets, earlier US evidence, and centuries of financial market evolution. This analysis raises questions about survivorship, country selection, market continuity, and whether the US experience can support general theories of the equity premium.
2. **Second, what index construction rules produce useful and informative indices?** The answers depend on what an index will be used for. Choices about market-cap weighting, total-return estimation, constituent selection, reconstitution, delisting, and size segmentation are among the issues that need to be addressed when constructing or choosing an index.
3. **Third, which historical premiums are enduring (i.e., economically sound), and which are transitory (i.e., sample-specific)?** The book connects realized premiums to demand-side explanations, including the popularity asset pricing model. This framing helps researchers distinguish durable expected premiums from temporary anomalies and patterns that appear only in particular samples.
4. **Fourth, how should forecasts combine historical evidence, current market prices, and the statistical properties of expected-return distributions?** The book compares parametric and bootstrap approaches. It addresses such issues as the lognormal distribution, higher moments, the Johnson family of distributions, and moving block versus circular block bootstrap methods. The central forecasting question addressed in the book is how researchers should translate long-run historical evidence into forward-looking expected returns without simply extrapolating the past.

Academic Toolkit

The toolkit below maps the book's findings to the categories of professionals described earlier. With it, researchers can use *Exponential Wealth* to focus on their area(s) of interest.

Research Area	Use the Report to	Research Question
Empirical asset pricing	Examine equity, size, horizon, credit, liquidity, and popularity-related premiums.	Which premiums persist across markets, regimes, and samples?
Financial history	Study how wars, inflation, regulation, market closures, and institutions shape returns.	How do political and institutional regimes affect market survival and realized returns?
Index construction	Evaluate methods of calculating total return and return components, constituent rules, reconstitution, and weighting.	Which index designs are investable, replicable, and macro-consistent?
Return decomposition	Determine contribution of income, real growth, inflation, valuation changes, riskless rates, and risk premiums to total return.	What components of return actually drive long-run wealth creation across markets?
Risk modeling	Analyze drawdowns, skewness, kurtosis, and tail behavior.	Do standard models understate downside risk or regime dependence?
Forecasting	Compare bootstrap and parametric models, and assess the use of US vs. global data to make forecasts.	How should historical evidence be translated into expected returns?

What Does This Book Deliver?

Exponential Wealth provides a roadmap from measurement to evidence, from evidence to historical comparison, and from historical comparison to expected-return modeling.

Section 1: Measurement Foundations for Long-Run Return Research

The opening section establishes the core measurement concepts behind long-run wealth creation: total return, compounding, reinvestment, inflation adjustment, and the existence of risk premiums. It also introduces an important distinction between pure measures of market return and that which the investor can keep.

Section 2: A Newly Constructed 1926–2025 US Equity and Bond Database

This section sets forth a reconstructed 100-year US dataset for equity and Treasury returns. It covers size-based equity indices, return distributions, bubbles and crashes, Treasury yield-curve methodology, bond return decomposition, and the equity risk premium.

Section 3: Global and Long-Period Historical Enhancement of the Empirical Record

This section expands the data and interpretation across countries, asset classes, and centuries. It includes pre-1926 US and international evidence, global markets since 1900, the London market starting in 1870, commodity futures, Japan, China, and description and critiques of global indices. Its main academic value is comparative: It helps researchers ascertain whether US-based conclusions are robust to nonstationarity, market survival, institutional change, country selection, and cross-country return dispersion.

Section 4: Expected-Return Theory and Forecasting Methods

The concluding section links historical evidence to forward-looking models. It includes the popularity asset pricing model, parametric forecasting with and without higher moments, bootstrap forecasting, and adjustments of historical data to form inputs for the future. The section sets forth a preferred 2026–2050 US equity total return forecast of approximately 8.0% nominal and 5.6% real, with wide dispersion around these means.

Potential Research Agenda

The book identifies several areas where data on long-run capital market returns, and interpretations and discussions thereof, can support and provide inspiration for future academic research. These areas are especially relevant for scholars studying asset pricing, financial history, index construction, risk premiums, and expected-return modeling. The data and book chapters encourage researchers to assess whether historical conclusions are robust across markets, regimes, and datasets or indices. Researchers are also encouraged to develop and critique forecasting methods.

Bottom Line

Exponential Wealth is both an update of the returns collected and analyzed in the SBBI tradition and a collection of articles from distinguished scholars on the topics of US and international market results, diverse asset classes, and longer periods of history. It also sets forth forecasts of future returns. Its scholarly value lies in motivating researchers to confront issues that include, but are not limited to, survivorship, index design, macro-consistency, nonstationarity, and the limits of extrapolating the US experience when drawing conclusions about the rewards from long-term investing.

Related Content on the CFA Institute Research and Policy Center

The following CFA Institute resources extend the book's themes of particular interest to academics: US exceptionalism, equity risk premium estimation, long-horizon forecasting, and financial market history.

- ***Stocks for the Long Run? New Evidence, Old Debates***

  Best paired with the book's discussion of pre-1926 US evidence, US exceptionalism, survivorship, and whether modern US equity returns are generalizable.

- ***Revisiting the Equity Risk Premium***

  Relevant to research on the equity risk premium, premium persistence, and expected-return estimation.

- **"Estimating Long-Term Expected Returns"** (*Financial Analysts Journal* article)

  Best paired with Section 4's discussion of long-horizon forecasting, capital market assumptions, and the translation of historical evidence into expectations.

- ***Stocks for the Long Run Revisited: Dividends and "The Return Nobody Got"***

  Useful for research on total-return measurement, reinvestment, return decomposition, and the gap between market returns and investor experience.

- ***The Performance of the 60/40 Portfolio: A Historical Perspective***

  Useful as an applied companion for researchers studying strategic allocation, stock–bond correlation, and historical portfolio outcomes.

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Find *Exponential Wealth: Centuries of Stock and Bond Returns* and more on the CFA Institute Research and Policy Center website: https://rpc.cfainstitute.org.

Read the full book