S&P 500 Returns: A Tale of Two Eras – And Why the Next Decade May Feel Very Different

Mark Seymour
Director Fixed Income

The S&P 500 has been one of the most reliable wealth-creation machines in history. Over the past 66 years, it has delivered double-digit nominal returns in one stretch and solid single-digit gains in another. Yet dig beneath the surface and the story changes dramatically. What drove those returns was never the headline GDP number alone – it was the quiet interplay of productivity, corporate profit share, inflation, dividends, and valuation multiples. Today, that same mix points to surprisingly modest prospective returns over the next ten years… unless a true productivity revolution (think Elon Musk's Optimus robots and AI scaling at warp speed) finally arrives.

Two Very Different Eras: 1960–1990 vs 1990–Early 2026

Look at the numbers side by side (see the table below for the full decomposition):

1960–1990

- Real GDP grew a healthy 3.2% a year, powered by 2.1% productivity growth (the post-war productivity miracle).
- But almost none of that growth reached corporate bottom lines. Profit share and margins contracted sharply – from peaks near 8–11% down toward 4–5% by 1990. Strong unions, oil shocks, and high inflation (5.1% average) meant labour captured the productivity gains while companies fought rising costs.
- Real earnings growth? Effectively 0.0%.
- The only real help came from a steady 3.5% average dividend yield and almost no valuation change (Shiller PE drifted gently from 18.3 to 17.1).
- Result: nominal total return 8.5%, real return 3.2%. Solid, but nothing spectacular once inflation bit.

1990–Early 2026

- Real GDP slowed to 2.6%, productivity to 1.95%.
- But margins exploded – from ~5.5% to 13.5%. Globalisation, tech scaling, lower taxes, and the shift to high-margin software and platforms delivered a massive +1.5% annualised profit share boost.
- Real earnings growth jumped to 3.5%.
- Dividends fell to 1.9%, but valuations soared (Shiller PE from 17.1 all the way to 39.0) – the classic 1990s–2020s re-rating.
- Result: nominal total return 10.6%, real return 7.9%. The golden era investors still reminisce about.

The contrast is stark. In the first period, productivity was strong but profit share collapsed. In the second, profit share soared and valuations expanded even as productivity slowed. Real earnings – the true engine of stock returns – was the difference.

Looking Ahead: Constructive Drivers, But Poor Math

The next ten years start from a very different place. The Shiller PE sits at ~39 – one of the highest levels in history. That single fact creates a heavy valuation headwind. Even if the underlying economy and corporate America remain constructive, the numbers today point to modest – or even negative – real returns unless something extraordinary happens.

Here are the three scenarios based on the same drivers we've tracked historically:

Bear Case (most painful path) Real GDP 1.4%, productivity 1.5%, margins compress back to ~10.5% (tariffs, reshoring, and limited automation). Real earnings shrink –1.0%. Dividends 2.0%. Shiller PE derates to 20.0.

- Nominal total return –3.7%, real return –5.6%. A lost decade reminiscent of the 1970s.

Base Case (most probable) Real GDP 1.9%, productivity 1.8%, mild margin contraction to ~12.5%. Real earnings +1.0%. Dividends 2.0%. Shiller PE falls to 32.5.

- Nominal total return 3.2%, real return 1.2%. Barely keeps pace with inflation – hardly exciting after the post-1990 boom.

Bull Case – The "Elon World" Scenario Real GDP 2.4%, productivity surges to 2.4% (AI and humanoid robots deliver the long-awaited total-factor-productivity boom). Margins expand further to ~14.5%. Real earnings +3.1%. Dividends 2.0%. Shiller PE rises to 45x.

- Nominal total return 8.8%, real return 6.7%. This is the optimistic path many AI bulls are pricing in – exactly the kind of productivity-plus-margin tailwind that powered the 1990–2026 period.

Why Returns Look Poor Despite Constructive Views

The uncomfortable truth is that today's starting valuation does most of the damage (see Figure 1: Shiller PE Ratio). The Shiller PE Chart tracks valuation multiples from 1870 through the present and into the 2030 forecast, revealing that the current level near 39 stands among the highest in more than 150 years of data. Its relevance is clear: such elevated starting valuations have historically preceded periods of lower or even negative real returns through mean-reversion and multiple contraction, creating a powerful headwind that can overwhelm even strong underlying drivers like productivity and margins.

In short: the S&P 500 isn't broken. The drivers (productivity, profit share, dividends) can still be constructive. But starting from a Shiller PE of 39 means the next decade will feel very different from the last three. Unless we get the Elon-style robotics and AI revolution that finally lifts productivity and margins simultaneously, investors should temper expectations. The golden era of effortless double-digit real returns may be behind us – or it may be waiting for the robots to arrive.

The table that follows summarises every driver and the resulting returns for easy reference:

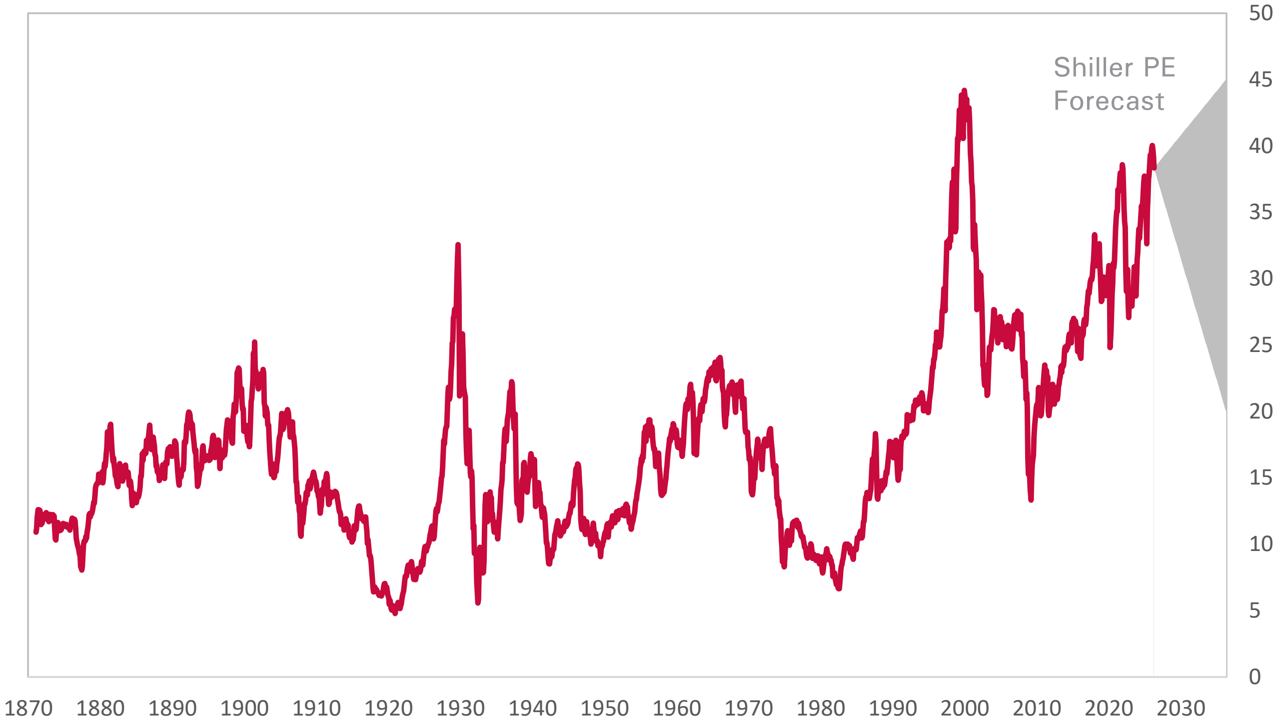
Bottom line: watch productivity and margins more than headline GDP. The next ten years will be decided by whether corporate America can once again capture a rising share of a growing economic pie – or whether today's lofty valuations force a painful reset. The Elon-world bull case is the one scenario where optimism and reality finally align.

Table 1: S&P 500 Returns Decomposition – Historical Periods and 10-Year Forecasts

S&P 500 Returns	Period	Years	Inflation	Real GDP	Productivity growth	Margin impact	Real earnings growth	Average DY	Shiller PE initial	Shiller PE final	Change in PE	Total return	Real return
Historic	1960 to 1990 (high inflation & margin contraction)	30	5.1%	3.2%	2.1%	-2.1%	0.0%	3.5%	18.3	17.1	-0.2%	8.5%	3.2%
	1990 to 2026	36	2.5%	2.6%	2.0%	1.5%	3.5%	1.9%	17.1	39.0	2.3%	10.6%	7.9%
Forecast	Bear (tariffs, reshoring, and limited automation)	10	2.0%	1.4%	1.5%	-2.5%	-1.0%	2.0%	39.0	20.0	-6.5%	-3.7%	-5.6%
	Base	10	2.0%	1.9%	1.8%	-0.8%	1.0%	2.0%	39.0	32.5	-1.8%	3.2%	1.2%
	Bull (AI and humanoid robots deliver the total-factor productivity boom)	10	2.0%	2.4%	2.4%	0.7%	3.1%	2.0%	39.0	45.0	1.4%	8.8%	6.7%

Source: Northstar, Iress & Shiller PE Ratio data sourced from Multpl.com:https://www.multpl.com/shiller-pe

Chart 3: Shiller PE Ratio



Source: Shiller PE Ratio data sourced from Multpl.com:https://www.multpl.com/shiller-pe

CIS DISCLOSURES

Boutique Collective Investments (RF) (Pty) Ltd ("BCI") is a registered Manager of the Boutique Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002 and is a full member of the Association for Savings and Investment SA.

Collective Investment Schemes in securities are generally medium to long term investments. The value of participatory interests may go up or down and past performance is not necessarily an indication of future performance. The Manager does not guarantee the capital or the return of a portfolio. Collective Investments are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees, charges and maximum commissions is available on request. BCI reserves the right to close the portfolio to new investors and reopen certain portfolios from time to time in order to manage them more efficiently. Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge. Performance fees will be calculated and accrued on a daily basis based upon the daily outperformance, in excess of the benchmark, multiplied by the share rate and paid over to the manager monthly.

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax.

Boutique Collective Investments (RF) Pty Ltd retains full legal responsibility for the third party named portfolio.

Although reasonable steps have been taken to ensure the validity and accuracy of the information in this document, BCI does not accept any responsibility for any claim, damages, loss or expense, however it arises, out of or in connection with the information in this document, whether by a client, investor or intermediary. This document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of BCI/the Manager's products.

Income funds derive their income from interest-bearing instruments in accordance with Section 100(2) of the Act. The yield is a current yield and is calculated daily.

A feeder fund is a portfolio that invests in a single portfolio of collective investment schemes, which levies its own charges and which could result in a higher fee structure for the feeder fund.

THE FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT, 2002

Northstar Asset Management Proprietary Limited is an authorised financial services provider in terms of the Financial Advisory and Intermediary Services Act 2002. All information contained in this document should not be construed, or relied upon, as advice. If you require financial and/or investment advice, please engage the services of an independent financial adviser.

INFORMATION AND CONTENT

The information and content (collectively 'information') accessible in this document are provided by Northstar as general information about the company and its products and services. Northstar does not guarantee the suitability or potential value of any information or particular investment source. Any information in this document is not intended nor does it constitute financial, tax, legal, investment, or other advice. Nothing contained in any service or any other content in this document constitutes a solicitation, recommendation, endorsement or offer by Northstar. Nothing contained in any service or any other content in this document constitutes a solicitation, recommendation, endorsement or offer by Northstar. Illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only; returns or benefits are dependent on the performance of underlying assets or other variable market factors; there are risks involved in buying or selling a financial product; past performances are not necessarily indicative of future performances; and no guarantees are provided.

NORTHSTAR ASSET MANAGEMENT

Northstar Asset Management (Pty) Ltd
Registration No. 1996/001423/07 | FSP number 601
Suite 1A, Madison Place, Alphen Office Park, Constantia Road,
Constantia PostNet Suite #784, Private Bag X16, Constantia 7848
Tel +27 (0)21 810 8400 | Fax +27 (0)21 794 2885
info@northstar.co.za | www.northstar.co.za

DISCLAIMER

The Management of portfolios is outsourced to Northstar Asset Management (Pty) Ltd, (FSP) Licence No. 601, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (No. 37 of 2002). Please be advised that there may be representatives acting under supervision. The manager retains full legal responsibility for the co-named portfolios. Legal Information http://northstar.co.za/page/legal-information/