THE GLOBE AND MAIL

REITs and utilities are the champion asset classes of the past 20 years

ROB CARRICK PERSONAL FINANCE COLUMNIST

PUBLISHED SEPTEMBER 3, 2019

Through all the stock market ups and downs of the past 20 years, the best-performing asset classes for Canadian investors have been real estate investment trusts and the utility sector.

It's almost shocking how much better these two sectors have done in comparison with much riskier corners of the market.

REITs produced average annual total returns of 11.8 per cent for the 20 years to July 31, according to data published by PWL Capital (the firm's monthly data tables are a great online resource). Utilities gained an annualized 9.4 per cent. The only other asset class with comparable 20-year gains was the U.S. REIT market, at 10.2 per cent on an annualized basis.

Falling interest rates are a big part of the story here – they have created an ideal environment for income-paying stocks that offer higher yields than bonds. The broader stock market has also benefited from falling rates, but not so dramatically as REITs and utilities.

Both of these sectors are consistent winners – their 20-year dominance isn't based on a couple of blowout years. Canadian REITs had one- and five-year gains of 14.6 per cent and 8.8 per cent, respectively. Utilities made 20 and 8.8 per cent over those same periods, while the S&P/TSX Composite Index made 3.1 and 4.4 per cent. The annualized 20-year gain for the S&P/TSX was 6.9 per cent, while the S&P 500 in U.S. dollars made 6.2 per cent.

The strong results from REITs and utilities are particularly interesting in light of the results from asset classes that supposedly offer the potential for high returns in exchange for high risk. Emerging markets have a 20-year annualized return of just under 7 per cent. Small-cap stocks in the Canadian market have a 20-year return of 4.4 per cent, while U.S. small caps delivered gains of 7.2 per cent.

REITs and utilities have been leaders yet again on a year-to-date basis, which isn't a surprise when you look at how bond yields have been falling. Both sectors are vulnerable to rising rates, but that doesn't seem to be a problem right now.

https://www.theglobeandmail.com/investing/markets/inside-the-market/article-reits-and-utilities-are-the-champion-asset-classes-of-the-past-2/