Jeffrey Frye - Thu, 2/13/2025 - 12:07

Last year at this time, we were talking about how well traditional investment portfolios had done in 2023. After a truly disastrous performance in 2022, the stock market came roaring back in 2023, and the bond side held its own. Long-term performance averages seemed reliable again, and investors regained their confidence. So how did traditional investment portfolios do in 2024? As it turns out, they did quite well. Roughly speaking, the investment performance for traditional investment portfolios in 2024 was a repeat of the robust performance in 2023. Let’s take a look at some of the details.

For the year ending on December 31, 2024, the S&P 500 Index closed at $5,881.63; in comparison, the closing price on December 31, 2023, was $4,769.83. That translates into a 23.31% price increase for the year as a whole, and it compares to a return of 24.23% for 2023. On the bond side, the Bloomberg US Aggregate Bond Index was 1.7% in 2024, compared to a return of 5.53% in 2023 (formerly known as the Barclays US Aggregate Bond Index).

The stock performance is quite impressive by itself, but it’s important to look at performance statistics in the context of how they play out in the real world. We typically envision a theoretical portfolio that is fully invested, where the stock component and the bond component are equalized at 50% each. Admittedly, this is a highly simplified model, but this dumbed-down version leads us to more conservative outcomes, if anything, than otherwise would be the case. With the theoretical 50%/50% blend, the combined investment return for 2024 was 12.51%, compared with a combined investment return of 14.88% for 2023.

Here's a table showing the investment returns for the two indices over the past 25 years. The annual returns for stocks and bonds swing dramatically, especially in the case of stocks. The absolute worst investment performance for the S&P 500 was 2008, which saw a return of negative 37%, whereas the best return for stocks was in 2013 at (positive) 32.39%. On the bond side, the worst performance for the Index over the past 25 years was in 2022, with a return of negative 13.01%, while the best performance was in 2000 with a (positive) return of 11.63%.

Yearly Investment Performance 2000-2024

Year	S&P 500	Bloomberg Barclays Aggregate	Portfolio Consisting of 50% Each
2000	-9.11%	11.63%	1.26%
2001	-11.89%	8.43%	-1.73%
2002	-22.10%	10.26%	-5.92%
2003	28.68%	4.10%	16.39%
2004	10.88%	4.34%	7.61%
2005	4.91%	2.43%	3.67%
2006	15.79%	4.33%	10.06%
2007	5.49%	6.97%	6.23%
2008	-37.00%	5.24%	-15.88%
2009	26.46%	5.93%	16.20%
2010	15.06%	6.54%	10.80%
2011	2.11%	7.84%	4.98%
2012	16.00%	4.22%	10.11%
2013	32.39%	-2.02%	15.19%
2014	13.46%	5.97%	9.72%
2015	1.25%	0.55%	0.90%
2016	12.00%	2.65%	7.33%

2017	21.70%	3.54%	12.62%
2018	-6.24%	0.01%	-3.12%
2019	28.88%	8.72%	18.80%
2020	16.26%	7.51%	11.89%
2021	26.89%	-1.54%	12.68%
2022	-19.44%	-13.01%	-16.23%
2023	24.23%	5.53%	14.88%
2024	23.31%	1.7%	12.51%

All this is to say that, after the disastrous performance of major asset classes in 2022, we had two very strong investment performances in 2023 and 2024. Does this mean that we can still say with confidence that a traditional investment portfolio – whether it be for a private foundation, for an endowment, or for a charitable remainder trust – can count on a long-term average investment return assumption of 6%, or 7%, or higher? This is where we usually turn to looking at the averages of investment returns over multiple years – starting with increments of the last 5 years and building up to the average return over the last 25 years.

The inclusion of the investment performance numbers from 2024 actually make the average 5-year returns lower than the average returns for 5 years ending in 2023. The S&P 500 Index had an average return of 14.25% for years 2020-2024, compared to an average return of 15.36% for years 2019-2023. On the bond side, the 5-year average return ending in 2024 was a paltry 0.04% compared to the average return of 1.44% for the 5 years ending in 2023. That means the average blended return for 5 years ending in 2024 was 7.14%, compared to 8.40% for the 5 years ending in 2023.

This naturally begs the question, are we losing ground here? No, not really. The numbers go in both directions. The average blended return for the 10 years ending in 2024 was 7.22%, compared to 6.95% for the 10 years ending in 2023. The average blended return for the 15 years ending in 2024 was 8.20%, compared to 8.45% for 15 years ending in 2023. The average blended return for the 20 years ending in 2024 was 7.17%, compared to 6.92% for 20 years ending in 2023. And last but not least, the average blended return for the 25 years ending in 2024 was 6.44%, compared to the average blended return for 25 years ending in 2023 at 6.34.

Average Investment Performance

Years	S&P 500	Bloomberg Barclays Aggregate	Portfolio Consisting of 50% Each
Average for 5 years 2020 to 2024	14.25%	0.04%	7.14%
Average for 10 years 2015 to 2024	12.88%	1.57%	7.22%
Average for 15 years 2010 to 2024	13.86%	2.55%	8.20%
Average for 20 years 2005 to 2024	11.18%	3.16%	7.17%
Average for 25 years 2000 to 2024	8.80%	4.07%	6.44%

Remember that these numbers are based on a very simple investment portfolio where the equity side is only 50% of the value, and the equities themselves are equivalent to the S&P 500 Index. Anybody can establish an investment account and purchase mutual funds that clone the S&P 500 and the Bloomberg Aggregate bond index.

Keeping that in mind, we return to our perennial question: Does the 25-year history of our most widely quoted stock and bond indices allow us to say with confidence that we can maintain an investment portfolio that sustains a 5% withdrawal rate? The 5% withdrawal rate matches the minimum withdrawal rate of standard charitable remainder trusts, as well as the mandatory 5% distribution rate of private foundations. Endowments don't have to abide by any minimum required spending rate (at least, not yet!), but 5% seems to represent a middle-of-the-road withdrawal rate. Here we are saying that with the most over-simplified investment approach, we can achieve a 25-year average return of 6.44%. And that's with price-only returns on the stock side, meaning that we're leaving out 1-2% of income in the form of dividends each year. So for trusts and endowments, even the paint-by-numbers blend of stocks and bonds will achieve success, and a well-qualified investment manager could achieve a minimum long-term average return north of 6%, which allows for a 5% withdrawal rate as well as a small amount of income each year to be reinvested in principal.

While the average withdrawal rate for charitable gift annuity pools is above the 5% mark, a fundamental premise of running a successful gift annuity program is that a portion of the principal can be invaded to make the higher payout rates. The American Council on Gift Annuities considers a residuum of 50% or more (relative to the original gift amount) to be a successful gift annuity. The argument could be made that charitable gift annuities should not be "going under" if the asset manager can earn 6% average return per annum and the sponsoring charitable organization can invade up to 50% of the original principal as needed.

In the end, of course, there are no guarantees. There will be good years and there will be bad years. All investment processes involve a certain degree of risk. But the average annual investment performance of our most-quoted stock and bond indices over the last 25 to 30 years should serve as a pretty solid foundation upon which to build. No one knows what 2025 will bring, but there have been examples of 3 or 4 strong years in a row for the stock market in our recent past. We can only hope for a pleasant repeat of that. May the tide continue to rise.

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