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How the Wealth Was Won: Factor Shares as Market Fundamentals

(co-authored with Daniel L. Greenwald and Martin Lettau)

Abstract

We provide novel evidence on the driving forces behind the sharp increase in equity values over the post-war era. From the beginning of 1989 to the end of 2017, 23 trillion dollars of real equity wealth was created by the nonfinancial corporate sector. We estimate that 54% of this increase was attributable to a reallocation of rents to shareholders in a decelerating economy. Economic growth accounts for just 24%, followed by lower interest rates (11%) and a lower risk premium (11%). From 1952 to 1988 less than half as much wealth was created, but economic growth accounted for 92% of it.