Inflation-Adjusted U.S. Treasury Bill Returns (Real Riskless Rates of Return)

Overview

Treasury bills returned 3.7 percent compounded annually over 1926–2005, in nominal terms, but only a 0.6 percent compound annual return in real (inflation-adjusted) terms. [See Graph 4-11.] Thus, an investor in Treasury bills would have barely beaten inflation over the 80-year period.

Construction

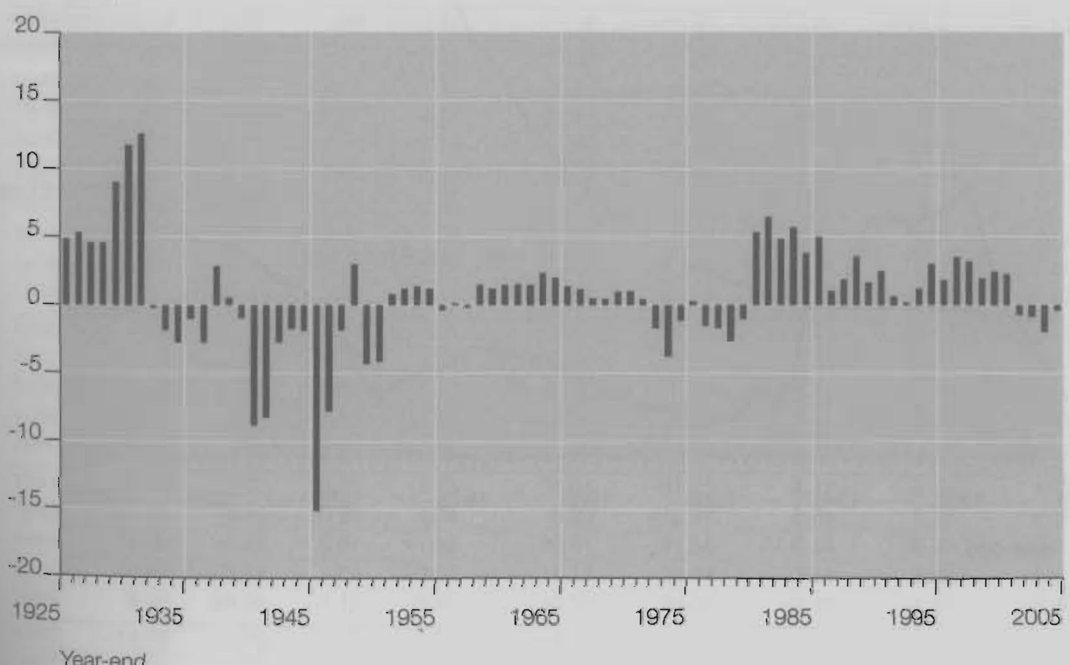
The real riskless rate of return is the difference in returns between riskless U.S. Treasury bills and inflation. This is given by:

$$\frac{(1+\text{Treasury Bill TR})}{(1+\text{Inflation})}-1 \qquad (16)$$

Graph 4-10 shows the levels, volatility, and patterns of real interest rates over the last 80 years.

Graph 4-10

Annual Real Riskless Rates of Return
(in percent)



Returns on the Derived Series

Annual returns for the 10 derived series are calculated from monthly returns in the same manner as the annual basic series. Table 4-1 presents annual returns for each of the 10 derived series. Four of the derived series are risk premia and six are inflation-adjusted total returns on asset classes.