What Drives Very Long-Run Cash Flow Growth Expectations?
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Executive Summary

Our paper offers a large-scale analysis of professional forecasters' terminal growth rate (TGR) expectations—their beliefs about the very long-run growth that firms will sustain "until infinity." Using a new dataset that combines over 41,000 TGR forecasts, we document four key findings about long-run expectations, contrasting them with better-studied short-run beliefs. The analysis draws from both quantitative expectations and qualitative belief discussions, enriched with demographic data for more than 2,500 forecasters across 46 countries.

1. TGR Expectations Are Distinct and Economically Meaningful

TGR expectations capture fundamentally different information from short- or medium-term growth forecasts, such as the IBES long-term growth (LTG) series. While IBES reflects three- to five-year outlooks, TGR beliefs represent expectations for a firm's growth far into the future. The two series show only weak correlation, and LTG values are typically 10 percentage points higher than TGR, confirming their different time horizons.

Additionally, TGR expectations are strongly predictive of firms' actual long-run earnings growth (over 5–13 years), outperforming short-term or medium-term forecasts in predictive regressions. TGR expectations also decline with firm age, consistent with a life-cycle view: analysts are more uncertain about young firms' potential and gradually adjust their expectations as firms mature.

2. TGR Beliefs Are Not Contaminated by Expected Returns

A key concern in the broader expectations literature is whether analysts reverse-engineer cash flow expectations from current prices. We provide new evidence against this by leveraging the full structure of analysts' valuation models, including their subjective return forecasts. We find no meaningful statistical relationship between expected returns and TGRs that would suggest mechanical adjustments to fit prices. These findings bolster the view that TGR beliefs are authentic and not distorted by belief "fitting."

3. Individual Forecasters Drive TGR Variation

While firm-specific characteristics explain most variation in short-run expectations, individual analyst characteristics dominate for TGR beliefs. Fixed effects for individual forecasters account for over 50 percent of the explained variation in TGR expectations—more than twice their explanatory power for short-run forecasts. This suggests that long-run beliefs are more subjective and shaped by persistent individual heterogeneity.

Demographics (e.g., age, race, geographic location) explain a sizable share of the cross-sectional variation in analyst-level TGR beliefs, much more than previously found for other populations

like US retail investors. This stronger role for demographics likely reflects the diversity of the global sample and the "stickiness" of long-run beliefs.

Moreover, we find evidence of local extrapolation—analysts' TGR expectations for foreign firms reflect recent macroeconomic performance in their home countries, even when the firm's country has unrelated economic conditions. This pattern holds most strongly for culturally and geographically distant firm-analyst pairs and supports a heuristic-based view of belief formation.

4. Disagreement Stems from Emphasis, Not Topics Considered

Using topic modeling on analysts' belief discussions, we show that TGR belief differences do not arise from considering different topics but from assigning different weights to shared themes. Analysts discussing the same firm at the same time emphasize different aspects—especially around macroeconomic and geographic issues—driving belief heterogeneity. These emphasis patterns vary more between geographically distant forecasters, again suggesting that local context shapes how analysts form long-run expectations.

Conclusion

Our paper demonstrates that long-term growth expectations are fundamentally different from short-term beliefs in both content and formation. Unlike short-term forecasts, which are more anchored in firm fundamentals, TGR beliefs are shaped by analysts' personal experiences, backgrounds, and local environments. This makes them more subjective and susceptible to extrapolation and differential attention. The findings have broad implications for macro-finance models, highlighting the need to account for individual heterogeneity and contextual influences in belief formation at long horizons.