

Investors 'facing diminished returns' over next decade

EDWARD WEST

KwaZulu-Natal Editor

INVESTMENT returns are likely to be much lower over the next decade than in the past 10-15 years and it is going to become more difficult for investors to generate inflation-beating returns, according to Coronation Fund Managers senior portfolio manager Louis Stassen.

The past quarter has not been good for global equity markets as concerns about the durability of the global recovery surfaced after the complacency of last year's rally.

The debt crisis in Europe and

worries about double-dip recession and a slowdown in China added to falling investor sentiment.

Globally, emerging markets fell 9% in dollar terms in the quarter, while the South African equity market fell more than 7%. This raised concern about what investors can expect in future.

Sanlam Private Investments director of investment Alwyn van der Merwe said yesterday one reason why he agreed that the long-term outlook for local equities was weak was because the local economy and South African resource shares would not be boosted by a fast-growing China, as they had been in the past 10 years.

He said the developed economies might surprise on the upside in the long term.

Referring to the weak long-term outlook, Mr Stassen said: "Some clients claim it's just the asset managers hedging their bets or low-balling their clients," but the fact of the matter was that "we all got a bit complacent in the last 10 years" as equities had been supported by above-average earnings growth and bond and property investments were supported by a significant structural rerating.

Speaking at a function in Durban, Mr Stassen said the all share index had produced a real return of more than

17% in the past decade, versus a 110-year average of 7%. The all bond index returned above-inflation growth of about 6% in the past decade, versus a 110-year average of about 2,5%.

The bond market had rerated by 1,4% a year for the past 10 years, which was not sustainable, he said.

Property had generated an inflation-beating return of more than 17% in 10 years, far above its long-term average of about 7%. Cash had returned more than 3,5% over 10 years, while the long-term average was probably in the region of 2%.

One equity sector that did show potential over the long term, in spite of

the volatility in world markets at present, was global equity. Mr Stassen said international shares had generated a negative 5,5% return per year over the past 10 years (in dollar terms), compared with a long-term historical average real return of about 7%.

Charles de Kock, a senior portfolio manager at Coronation Fund Managers, said global economic growth was certainly levelling off, but fears of a double-dip recession were likely to prove exaggerated.

Mr de Kock said there were signs that the South African economy was levelling off.

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