Great expectations: Are SA investors being unrealistic?

Expectation is said to be the root of all disappointment. This seems to be the case for South African investors lately, who are looking for future earnings that are significantly higher than the majority of their global counterparts.

Image source: Getty/Gallo

This is despite the fact that most local respondents failed to achieve their investment objectives over the past five year, says Doug Abbott, Schroders South Africa country head.

The latest Schroders *Global Investor Study*, which surveyed over 25,000 investors across 32 countries

“The research shows that over the next five years, South African investors expect to make an average annual total return (income and capital growth) of 13.8%, which is more than 3% higher than global investors’ expectations (10.7%). These relatively high expectations are despite the fact that six-in-ten (59%) South Africans feel they didn't achieve their investment objectives over the past five years, which is higher than global investors (51%).”

Widening gap

Abbott suggests that the expectations being exhibited by local investors are due to the good long-term returns that South Africans have been able to achieve from equity markets, historically, and the need to achieve returns that can beat higher inflation rates than developed markets.

Unfortunately, he says that globally and in South Africa, investors may need to manage their expectations, as future returns may not match their expectations. He points to Schroders' latest predictions of 10-year returns to 2028, compared to returns over the 10 years to 2018, which show that future returns from market indices on a global level may be limited.

"After almost a decade of strong stock market returns, which has seen many investors become used to good returns from global equities in particular, our return expectations for the next 10 years show that stock market indices' returns are likely to be lower than those experienced in the past decade. In the US, the equity market is predicted to weaken from 13.9% a year on average to 7% a year, while in the UK and European markets, equity returns are expected to lessen from 8.8% and 9.5% to 4.6% and 5.1%, respectively.

The implication of this widening gap between expectations and reality is simple, says Abbott. "Expectations need to be reassessed, but there are still attractive opportunities for investors who take the right approach. We believe that factors such as asset allocation, access to multiple sources of return, active stock selection and risk management will be critical in meeting the goals of investors over the next decade," he concludes.