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TIME TO RECALIBRATE RETIREMENT EXPECTATIONS

By Sonia du Plessis, Certified Financial Planner®, Brenthurst Wealth Stellenbosch

Predicting the future might be a fool's errand, but that doesn't mean you shouldn't be planning your financial future. Especially in the context of the highly anticipated global recession and how this may affect investment returns in the coming years.

It's useful to look at historical market returns to get an idea of what we can expect, however, that seems less reliable given some of the fundamental shifts we've seen in the past three years. Globalisation, for instance, has gone from being a driving force of the world's economy to a major hiccup, as countries look inward to onshore their supply chains.

How this unfolds and how the global economy recovers will be crucial for investors who are saving towards their retirement. **The big question is whether the models and projections we previously relied on are still relevant. If not, then it's time to re-evaluate your portfolio and determine whether it still meets the requirements of your retirement plan.**

LOOKING TO THE PAST TO PLAN FOR THE FUTURE

Historical market returns are a simple tool we use to guide our expectations of what we can expect in the future.

TAKE A LOOK AT THE S&P 500 AND JSE ALL SHARE INDEX OVER THE PAST 20 YEARS:

	5 years	10 years	20 years
S&P 500 Total Return USD	10.4%	12.8%	9.8%
FTSE/JSE All Share Total Return ZAR	0.8%	1.6%	10.4%

as at 31/10/2022

Source: Morningstar Direct

The roughly 10% compound annual growth over 20 years has long been a fair assumption to use for your long-term projections when designing your retirement plan. And whilst it's tempting to look at the higher returns achieved over the most recent 5- and 10-year periods, don't be deceived into relying on those numbers for your long-term strategy.

WHAT THE EXPERTS PREDICT FOR THE NEXT 10 YEARS

If you want to get a more realistic picture of what we can expect in the coming years, look no further than the projections of some of the US's largest fund managers. The likes of **BlackRock, Grantham Mayo Van Otterloo and Morningstar Investment Management** were recently asked to predict market returns for the next 10 years.

As you'd expect, the projections between the various fund managers vary somewhat. The over-riding conclusion, however, is that returns are projected to be much lower over the upcoming 10-year period than they were over the previous 10-year period.

	10-year expected nominal return from U.S. large-cap equities	10-year average expected return from European / developed market large-cap equities	10-year average expected return from emerging-markets large-cap equities
BlackRock	**7.1%**	**8.3%**	**9.0%**
Morningstar Investment Management	**5.8%**	**8.8%**	**10.1%**
Research Affiliates	**6.3%**	**11.8%**	**11.7%**

*All return assumptions are nominal (non-inflation adjusted)

WHAT THIS MEANS FOR YOUR RETIREMENT PLANNING

While it's important to digest and understand these projections, this is not a signal to up-end your portfolio. Or, rather, the projections alone aren't reason enough to have to re-evaluate your portfolio composition.

However, factors such as the domestic economy and inflation and rising life expectancies could give you some reason to reassess and rebalance your retirement plan.

How you choose to do that, and the reasons for doing that, will differ from one person to the next. It's unreasonable to expect that your circumstances, goals and ambitions are the same as your neighbour's or a colleague's.

These very personal circumstances are at the heart of what your retirement plan entails and how it's going to allow you to retire comfortably.

Reassessing your plan and your portfolio is something you definitely need to do from time to time. Preferably together with a financial advisor who understands your goals and is able to give you qualified advice on how best to respond to markets and global economic conditions.

These occasional reassessments will give you the affirmation that your plan is still on track, whilst giving you the opportunity to tweak components that need recalibration.

These are conversations that we expect to have with clients in the coming months as the world drags itself through the inevitable recession. In fact, those in the know say we're already in the recession, which means that we're probably already making our way out of it. However, it's unlikely to happen this year, and probably won't happen next year either, but there are glimmers of hope that 2024 will see us emerge from this challenging period.

By riding out the downcycle, we're all likely to emerge better off once the upcycle kicks in again. Until then, it's important not to panic and to keep your eyes on your long-term goals. And only if needed, make adjustments that can help you emerge stronger.

ADVISOR PROFILE SONIA DU PLESSIS, Certified Financial Planner® and head of Brenthurst Stellenbosch

Sonia heads up the Stellenbosch office and has been in the financial services industry since 2001. She won the inaugural title of Top Financial Advisor in SA at the 2019 Intellidex Top Private Banks and Wealth Manager Awards. Sonia is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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